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April 2002

Euro-zone annual inflation down to 2.4%

EU15 down to 2.2%

Euro-zone annual inflation fell from 2.5% in March to 2.4% in April¹ 2002, **Eurostat - the Statistical Office of the European Communities in Luxembourg** - reports today. A year earlier the rate was 2.9%.

EU15 annual inflation fell from 2.3% in March to 2.2% in April 2002. A year earlier the rate was 2.6%.

EEA annual inflation was 2.2% in April 2002.

Inflation in Member States

In April² highest annual rates were in **Ireland** (5.0%), the **Netherlands** (4.2%) and **Greece** (4.1%); lowest rates were in **Germany** and **Austria** (1.6% each) and **Belgium** (1.7%).

Compared with March 2002, annual inflation fell in nine Member States, rose in three and was unchanged in two. Compared with April 2001, the biggest relative falls were in **Germany** (2.9% to 1.6%), **Belgium** (2.9% to 1.7%) and **Austria** (2.6% to 1.6%); the only relative rises were in **Ireland** (4.3% to 5.0%), **Greece** (3.7% to 4.1%), **Spain** (3.6% to 3.7%) and **France** (2.0% to 2.1%).

Lowest 12-month averages³ up to April 2002 were in **France** (2.0%), **Luxembourg** (2.1%), **Germany** and **Austria** (2.2% each); highest were in the **Netherlands** (4.9%), **Ireland** (4.3%) and **Portugal** (4.0%).

USA and Switzerland

Annual inflation rose from 0.5% to 1.1% in **Switzerland** and from 1.5% to 1.6% in the **USA**. These indices are not strictly comparable with **EU** harmonised indices.

Annual inflation (%) in April 2002 - in ascending order

D	A	B	L	F	EU15 ²	S	DK	Euro-zone	I	FIN	P	E	GR	NL	IRL
1.6	1.6p	1.7	1.9	2.1p	2.2p	2.2	2.3	2.4p	2.5p	2.6	3.5	3.7	4.1	4.2p	5.0

Inflation rates in %, measured by HICPs

Table 1

	Annual rates					12 Month Average Rates ³	Monthly rates
	<u>Apr 02</u> Apr 01	<u>Mar 02</u> Mar 01	<u>Feb 02</u> Feb 01	<u>Jan 02</u> Jan 01	<u>Apr 01</u> Apr 00	<u>Apr 01-02</u> Apr 00-01	<u>Apr 02</u> Mar 02
Belgium	1.7	2.5	2.5	2.6	2.9	2.4	0.1
Germany	1.6	1.9	1.8	2.3	2.9	2.2	0.0
Greece	4.1	4.4	3.8	4.8	3.7	3.9	0.8
Spain ⁴	3.7	3.2r	3.2	3.1	3.6r	2.9	1.4
France	2.1p	2.2	2.2	2.4	2.0	2.0p	0.5p
Ireland	5.0	5.1	4.9	5.2	4.3	4.3	0.7
Italy	2.5p	2.5	2.7	2.4	2.9	2.4p	0.7p
Luxembourg	1.9	1.7	2.2	2.1	2.7	2.1	0.5
Netherlands	4.2p	4.3	4.5	4.9	5.5	4.9p	0.7p
Austria	1.6p	1.7	1.7	2.0	2.6	2.2p	0.4p
Portugal	3.5	3.3	3.3	3.7	4.6	4.0	0.9
Finland	2.6	2.6	2.5	2.9	2.8	2.6	0.4
Euro-zone (MUICP)⁴	2.4p	2.5	2.5r	2.7	2.9	2.5p	0.5p
Denmark	2.3	2.5	2.4	2.5	2.6	2.3	0.4
Sweden	2.2	3.0	2.7	2.9	3.0	2.9	0.3
United Kingdom	n.a.	1.5	1.5	1.6	1.1	n.a.	n.a.
EU15 (EICP)⁴	2.2p²	2.3	2.3	2.5	2.6	2.3p²	0.5p²
Iceland	7.7	9.1	9.5	9.8	4.4	8.3	-0.1
Norway	-0.1	0.4	0.4	0.9	3.6	1.7	0.0
EEA (EEAICP)⁴	2.2p²	2.3	2.3	2.5	2.6	2.3p²	0.5p²

Source: Eurostat

n.a. = not available

p = provisional

r = revised

Table 2

Euro-zone MUICP	Weight used in 2002 ⁴	Annual rates					12 Month Average Rates ³	Monthly rates
		<u>Apr 02</u> Apr 01	<u>Mar 02</u> Mar 01	<u>Feb 02</u> Feb 01	<u>Jan 02</u> Jan 01	<u>Apr 01</u> Apr 00	<u>Apr 01-02</u> Apr 00-01	<u>Apr 02</u> Mar 02
00 All-items	1000	2.4p	2.5	2.5r	2.7	2.9	2.5	0.5p
01 Food	164.2r	3.4p	4.3	5.2	5.9r	4.7r	5.2	0.2p
02 Alcohol and tobacco	39.7r	3.9p	3.7	3.7	4.4	2.9	3.3	0.7p
03 Clothing	80.0r	2.4p	2.2r	2.7	2.2	1.1r	1.4	1.9p
04 Housing	150.0r	1.3p	1.3r	1.1r	1.2r	4.4	2.2	0.2p
05 Household equipment	79.2	1.8p	1.8r	1.9	2.0	1.7r	1.9	0.2p
06 Health	39.0	2.6p	2.3	2.0	1.8	1.1r	1.5	0.5p
07 Transport	151.6r	1.6p	1.2	0.5	0.7r	3.0	0.8	1.3p
08 Communications	24.9r	-0.8p	-1.1r	-1.3	-1.4	-2.9	-1.9	0.1p
09 Recreation and culture	94.7	1.4p	2.0r	1.7	1.7	1.6	1.8	-0.7p
10 Education	9.4	4.0p	4.1r	4.0r	3.9r	2.9r	3.4	0.0p
11 Hotels and restaurants	90.3	4.4p	4.6	4.3	4.2	3.1	3.7	0.6p
12 Miscellaneous	77.0	3.1p	3.3r	3.4r	3.4	2.9r	3.2	0.3p
All-items excl. energy	913.6r	2.7p	2.9	3.0	3.1	2.4r	2.8	0.3p
-excl. energy, FoodAlcTob*)	709.7r	2.4p	2.5	2.5	2.4	1.9	2.2	0.3p
-excl. tobacco	977.3	2.3p	2.4	2.4	2.6	2.9r	2.4	0.5p
Energy	86.4r	-0.5p	-1.5	-2.8	-1.8r	7.8	-0.2	2.0p
FoodAlcTob*)	203.9r	3.6p	4.2	4.8r	5.6	4.3r	4.8	0.3p

Source: Eurostat

*) FoodAlcTob = Food, alcohol and tobacco

p = provisional

r = revised

BACKGROUND NOTES

Measures of inflation

The *annual rate* measures the price change between the current month and the same month of the previous year. This measure is responsive to recent changes in price levels but can be influenced by one-off effects in either month.

The 12-month average rate³ overcomes this volatility by comparing average Harmonized Indices of Consumer Prices (HICPs) in the latest 12 months to the average of the previous 12 months. This measure is less sensitive to transient changes in prices.

The monthly rate compares price levels between the two latest months. Although up-to-date, it can be affected by seasonal and other effects.

HICPs designed for international comparison

HICPs are harmonized inflation figures required under Article 121 of the Treaty of Amsterdam (109j of Treaty on European Union). They are designed for international comparison of consumer price inflation. The focus is on quality and comparability among the indices of different countries as well as on their relative movements.

Price changes as measured by the HICPs, the Monetary Union Index of Consumer Prices (MUICP), the European Index of Consumer Prices (EICP) and the European Economic Area Index of Consumer Prices (EEAICP) are used as measures of inflation in the Member States, in the euro-zone, in the European Union, and in the European Economic Area.

The MUICP is used by, among others, the European Central Bank (ECB) as a main indicator for monetary policy management for the euro-zone⁵.

The HICP is computed as an annual chain index allowing weights to be changed each year. HICP aggregates are calculated as weighted averages of the HICPs using the weights of the countries and sub-indices concerned. The weight of a country is its share of the household final monetary consumption expenditure in the euro-zone total. For the MUICP this is expressed in euro, for the EICP and the EEAICP it is expressed in purchasing power standards. The MUICP is treated as a single entity within the EICP and EEAICP starting from 1999.

Additional information

More information⁶ on HICPs can be obtained from the monthly publication *Statistics in focus*, Economy and Finance, Harmonized indices of consumer prices. About 100 MUICP, EICP, EEAICP and HICP sub-indices with corresponding weights are available on Eurostat's database NewCronos through Eurostat's Data Shop network.

Future release dates

Provisional publication dates for the coming months are:

Index for	MUICP flash estimates	News release on MUICP, EICP and Member States
May 2002	31 May 2002	18 June 2002
June 2002	28 June 2002	17 July 2002
July 2002	31 July 2002	19 August 2002

- 1) The MUICP flash estimate for April 2002, published on 30 April 2002, was 2.2%. The 0.2 difference between the flash estimate and the actual figure is due to a combination of rounding effects - in the flash estimate and the actual MUICP - and a higher than expected increase of the sub-indices for clothing and tobacco mainly in Spain.
- 2) Data for the UK for April 2002 were not available in time for publication. Due to this fact, EU15 (EICP) and EEA (EEAICP) were calculated using Eurostat estimates. Missing data for the UK will be integrated in the Eurostat databases as soon as they are available.
- 3) Measure used to determine price stability in Convergence reports of 1998 and 2000 by the Commission to the Council.
- 4) INE has, in compliance with the Regulations on revisions and on the treatment of sales prices, revised the Spanish HICP indices from January 2001 to March 2002 and item weights in order to reflect the usual chain-link in December 2000. These revisions have also affected euro-zone, EU-15 and EEA rates, in particular the MUICP in February 2002.
- 5) See ECB press release, 13 October 1998.
- 6) For technical notes on HICPs see: Eurostat news release 21/97, 5 March 1997, *Harmonizing the way EU measures inflation* and Eurostat Memo 8/98, 4 May 1998 *New monetary union index of consumer prices (MUICP)*, Eurostat Memo 02/00, 18 February 2000 *Improved EU Harmonized Index of Consumer Prices: Extended coverage and earlier release dates for the HICP*. Further details can be found in *Compendium of HICP reference documents - (2/2001/B/5)*. All are available on Eurostat's Internet server.

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ANNEX: EURO CHANGEOVER EFFECTS

The rate of change in the euro-zone HICP between the 4th quarter of 2001 (Q4/01) and the 1st quarter of 2002 (Q1/02) was 0.8%. This was higher than the corresponding rates for the two previous quarters but lower than the rate for Q2/01.

The contribution to the 0.8% total of the effect of the changeover to euro notes and coins most likely falls within the same range of 0.0% to 0.16% that was estimated for the month-on-month change between December 2001 and January 2002, as published by Eurostat in February 2002.

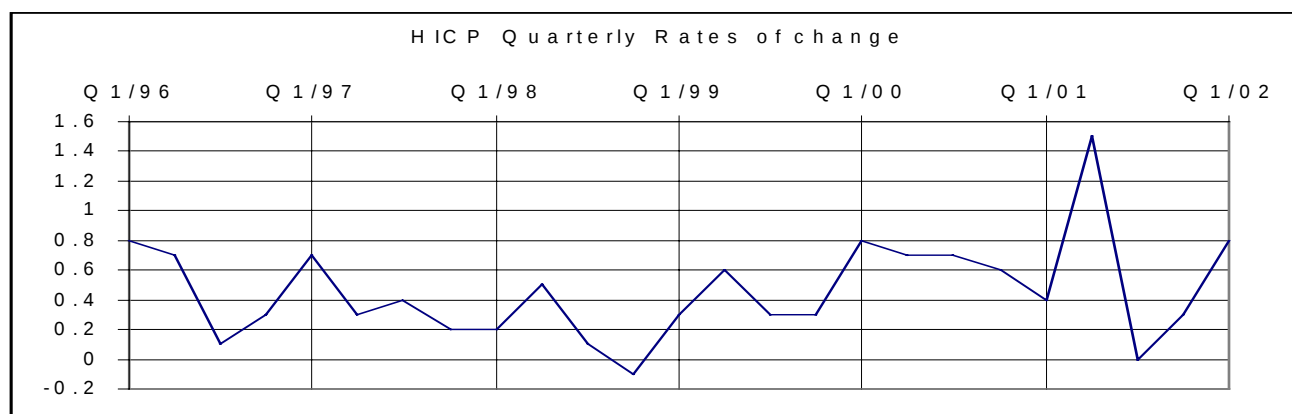
The overall price increase for most item groups can, according to Eurostat's analysis, be explained by a normal inflation pattern and by some special non-euro factors – in particular bad weather affecting fruit and vegetable prices, increased energy prices, and some significant tax increases on tobacco. These factors can explain as much as 0.64%.

Assessments at the most detailed level of the remaining HICP components for Q1/02 highlight some unusual price changes - and therefore the possibility of changeover inflation - mainly for a range of services such as those provided by restaurants and cafes, some health-related services and some repair services.

Analysis of 1st Quarter 2002

Quarterly rate of change

The quarterly rate of change¹ for the euro-zone HICP is shown in the table below. The rate for Q1/02 is similar to the rates in 2000 but somewhat higher than the rates for the 1st, 3rd and 4th quarters of 2001. The rate for Q2/01 is, on the other hand, almost twice the current rate.



¹ It should be noted that the seasonal pattern in 2001 has changed compared with earlier years because of full harmonization regarding the inclusion of sales prices in the HICP.

Euro-zone HICP Quarterly rate of change in %									
	2000				2001				2002
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
00 All-items	0.8	0.7	0.7	0.6	0.4	1.5	0.0	0.3	0.8
01 Food	0.9	0.7	-0.1	0.7	2.1	2.6	0.1	0.3	2.0
02 Alcohol and tobacco	0.8	0.2	0.3	0.4	1.3	0.9	0.4	0.4	2.1
03 Clothing	-1.3	1.7	-1.3	1.9	-3.6	4.5	-3.1	4.7	-3.5
04 Housing	1.4	1.0	1.7	1.5	0.4	0.5	0.5	-0.3	0.4
05 Household equipment	0.2	0.4	0.2	0.4	0.4	0.8	0.2	0.6	0.3
06 Health	0.6	0.6	0.3	0.3	0.1	0.5	0.3	0.3	0.9
07 Transport	1.7	1.2	1.5	0.2	-0.6	1.8	-0.8	-1.2	0.9
08 Communications	-1.1	-2.2	-0.4	-0.9	-0.8	-0.7	0.0	-0.3	-0.3
09 Recreation and culture	0.3	-0.1	1.3	-0.6	1.2	0.0	1.0	-0.3	1.1
10 Education	0.7	0.2	0.5	2.0	0.3	0.1	0.5	2.6	0.7
11 Hotels and restaurants	0.9	1.0	1.3	-0.5	1.0	1.3	1.4	-0.3	1.9
12 Miscellaneous	0.9	0.3	0.4	0.5	1.0	0.9	0.6	0.7	1.2
All-items excl. energy	0.4	0.5	0.3	0.4	0.6	1.3	0.2	0.6	0.8
-excl. energy, FoodAlcTob*)	0.3	0.5	0.4	0.3	0.2	1.0	0.3	0.7	0.5
Energy	4.3	2.5	4.3	2.0	-1.7	2.6	-1.7	-3.3	0.4
FoodAlcTob*)	0.9	0.6	0.0	0.6	1.9	2.3	0.2	0.3	2.0

*) FoodAlcTob = Food, alcohol and tobacco

Euro-changeover inflation

In practice it is not possible for price index compilers to put a precise figure on the impact of the changeover. There is no way to say what inflation would have been if the euro changeover had not taken place. Even at the lowest level of detail, there are many factors - regular, irregular, random and systematic ones - which overlap with potential changeover effects, and there are a multitude of potential changeover effects which may amplify each other or cancel out.

Eurostat's first analysis of the euro changeover effects, published on 28 February 2002 (annex to News Release N° 23/2002), focused on the month-to-month changes between December 2001 and January 2002. This has now been extended to include data for the first three months of 2002. The approach has again been to identify regular and special non-euro factors affecting the HICP in the period surrounding the changeover. The sources of the remaining factors have been assessed in order to identify a "grey zone", which can serve as the basis of an estimate of the 'most likely range' for the impact of the euro changeover on prices in the all-items HICP.

In more detail two approaches have been followed

1. Eurostat has used statistical techniques to identify those HICP sub-indices showing a price change for the Q1/02 which is outside what the past data would predict.
2. To complement the first analysis, Eurostat has analysed the detailed HICP sub-indices to identify those expenditure groups showing for Q1/02 the highest quarterly price increases since the beginning of the HICP series in 1995.

Product group analysis

Tables 1 and 2 contain a list of item groups that show effects which cannot immediately be attributed to regular or to special non-euro factors, such as tariff and tax changes, weather and general volatility of price for energy products.

The "contribution" is a weighted difference between the expected and the actual value for the item group.

The results below are very similar to those published in February 2002 by Eurostat, where the euro changeover effect was estimated as most likely falling between 0.0% and 0.16% of the change between December 2001 and January 2002. The 3rd column shows the likely contribution to the monthly rate between December 2001 and January 2002 and the 4th column shows the likely contribution to the quarterly rate between Q4/01 and Q1/02. The list of item groups and their contributions have been modified but this is to be expected as more data has become available.

Table 1: Decomposition of euro-zone inflation: Components that have a contribution higher than 0.01 rate points for either the month-on-month or the quarter-on-quarter rate of change

	Source	Contribution Dec01 – Jan02	Contribution Q4/01 – Q1/02
1111	Restaurants, cafes, and the like	+0.07	+0.05
06	Health	-	+0.03
0411/2	Rents	+0.02	+0.02
0933	Gardens, plants, and flowers	+0.01	+0.01
0112	Meat	-0.01	-
1211	Hairdressing salons and personal grooming establishments	0.00	+0.01
0111	Bread and cereals	0.00	+0.01
	Remaining items (see table 2)	+0.07	+0.03
	Total “unusual” price increases	+0.16	+0.16

Table 2: Decomposition of euro-zone inflation: Remaining items with a significant effect but which have each a contribution less than 0.01 rate points.

Source	Contribution Dec01–Jan02	Contribution Q4/01 – Q1/02
0114 Milk, cheese and eggs		(+)
0118 Sugar, jam, honey, syrups, chocolate		(+)
0213 Beer		(+)
0311 Clothing materials		(+)
0314 Cleaning, repair and hire of clothing	(+)	(+)
0520 Household textiles	(+)	
0531_2 Major household appliances whether electric or not and small electric household appliances	(-)	(-)
0540 Glassware, tableware and household utensils	(+)	
0712_34 Motor cycles, bicycles and animal drawn vehicles	(+)	(+)
0723 Maintenance and repair of personal transport equipment	(+)	(+)
0732 Passenger transport by road	(+)	
0734 Passenger transport by sea and inland waterways	(+)	
0735 Combined passenger transport		(+)
082_30 Telephone and telefax equipment and telephone and telefax services	(+)	
0911 Equipment for the reception, recording and reproduction of sound and pictures		(-)
0914 Recording media		(+)
0915 Repair of audio-visual, photographic and information processing equipment		(+)
0923 Maintenance and repair of other major durables for recreation and culture	(+)	(+)
0942 Cultural services	(+)	
10X0 Education	(+)	
1112 Canteens	(+)	
1120 Accommodation services	(+)	
1252 Insurance connected with the dwelling	(+)	(+)
1255 Other insurance		(+)
1262 Other financial services n.e.c.	(+)	

Upward contributions are shown with a (+) and downward contributions with (-), while blank cells are not statistically significant.

Euro-zone sub-indices showing the highest increases in the first quarter of 2002 since 1995

Table 3 shows the 22 euro-zone sub-indices with the highest monthly or quarterly rate of change since the HICP began in 1995 for, respectively, January 2002 or Q1/02. It also shows their impact, i.e., how much the HICP all-items rate is higher or lower as a consequence of including this item group in the HICP.

Table 3: Euro-zone sub-indices showing record rates of change for January 2002 or Q1/02 in descending order of impact on quarterly all-items inflation

	Weight per 1000	Dec01-Jan02		Q4/01-Q1/02	
		Rate in % (if highest ever)	Impact in rate points on monthly rate	Rate in % (if highest ever)	Impact in rate points on quarterly rate
0117 Vegetables	15.7	13.6	0.21	14.3	0.21
1111 Restaurants, cafés and the like	67.0	1.2	0.06	2.0	0.09
0220 Tobacco	22.8	3.3	0.07	3.5	0.06
0933 Gardens, plants, and flowers	6.4			5.0	0.03
0723 Maintenance and repair of personal transport equipment	23.7	0.7	0.01	1.5	0.02
1211 Hairdressing salons and personal grooming establishments	12.0	1.1	0.01	2.1	0.02
1253 Insurance connected with health	4.5	-	-	3.1	0.01
0621/3 Medical and paramedical services ^{°)}	9.5	0.9	0.00	1.6	0.01
0630 Hospital services ^{°)}	6.5	1.4	0.01	1.6	0.01
0432 Services for the maintenance and repair of the dwelling	9.6	0.6	0.00	1.3	0.00
1240 Social protection ^{°°)}	8.7	1.1	0.01	1.3	0.00
1255 Other insurance	2.4	2.0	0.00	2.6	0.00
0724 Other services in respect of personal transport equipment	10.3	-	-	1.1	0.00
0622 Dental services ^{°)}	7.2	1.3	0.01	1.1	0.00
0314 Cleaning, repair and hire of clothing	1.8	0.8	0.00	1.5	0.00
1252 Insurance connected with the dwelling	2.3	1.1	0.00	1.3	0.00
0923 Maintenance and repair of other major durables for recreation and culture	0.0	4.2	0.00	4.3	0.00
0612/3 Other medical products, therapeutic appliances and equipment ^{°)}	4.0	0.5	0.00	0.7	0.00
0914 Recording media	4.1	-	-	0.4	0.00
0551/2 Major tools and equipment and small tools and miscellaneous accessories	4.6	0.1	0.00	0.4	0.00
0735 Combined passenger transport	5.7	1.4	0.01	-	-
0915 Repair of audio-visual, photographic, and information processing equipment	0.9	0.9	0.00	-	-

^{°)} Since January 2000

^{°°)} Since January 2001

The above analysis seems to confirm consumers' perceptions - that they faced significant price increases since the euro changeover in January 2002 for some types of goods and services - are well-founded. The item groups with record monthly rates in January 2002 are to a large extent the same as those item groups with record rates for the 1st quarter of 2002. However the impact of these price increases on the all-items index has not been sufficiently large to influence the all-items inflation in a marked way.

Consumers form their own views of inflation by comparing the prices they pay over time for the same goods. They usually focus in the short term on their most frequent and most important purchases. With the euro changeover experience still fresh, consumers' opinions on euro-changeover inflation can therefore be expected to depend heavily on their experience of the prices for the small goods and services they buy repeatedly.

So where the prices of some purchases in cafes and restaurants have increased more than usual, consumers are well aware of that. What is not so easy for the individual consumer to take into account is that there have been price changes, both up and down, for other (less frequent) purchases. For every increase in the price of a cup of coffee, for instance, which may well be due to the euro-changeover, it would take only a small decrease in the price of computers or refrigerators to balance this out in the HICP. It is only by looking at comprehensive price statistics that the full picture may be seen.

First analysis of the April 2002 data

A first analysis of the latest available data in the allowable time did not reveal any significant differences compared to the results of the first quarter 2002. A comparison of the first four months of 2002 with the last four months of 2001 rather suggests some minor rearrangements in the list of sub-indices (see tables 1 and 2 above) likely to be the subject of euro cash effects.

It indicates that the estimated euro changeover effect is likely to persist for some time yet for those sub-indices.

The MUICP flash estimate for April 2002, published on 30 April 2002, was 2.2%. It underestimated the actual figure of 2.4% by 0.2 rate points. The difference between the flash estimate and the actual figure is due to a combination of rounding effects - in the flash estimate and the actual MUICP - and a higher than expected increase of the sub-indices for clothing and tobacco mainly in Spain.

Compared to March, the euro-zone month-to-month inflation rate in April is 0.5%, slightly lower than the month-to-month rate of 0.6% in March.

Fuels for transport with a 4.5% inflation rate have by far the largest upward impact on the month-to-month inflation, together with liquid fuels for heating of houses. The impact is a measure of how much the HICP all-items rate is higher (or lower) as a consequence of including this item group in the HICP. Garments with an inflation rate of 1.9% and shoes & other footwear with a 2.4% inflation rate also have an important upward impact on monthly inflation (following the end of the sales period in Spain and Portugal).

Table 4: MUICP sub-groups with highest positive impacts on month-to-month inflation, in descending order of impact

Code	Description	Weight in 1/1000	Inf. Rate in %	Impact in rate points
0722	Fuels for transport	36.5	4.5	0.14
0312	Garments	59.4	1.9	0.08
0321_2	Shoes & other footwear	16.3	2.4	0.03
0453	Liquid fuels	6.6	4.6	0.03
0116	Fruit	11.8	2.2	0.02
1120	Accommodation services	15.8	1.7	0.02
0220	Tobacco	22.7	0.9	0.01
0611	Pharmaceutical products	11.8	1.1	0.01
0520	Household textiles	6.8	1.0	0.003
0941	Recreational & sporting services	10.1	0.8	0.002
0213	Beer	6.2	0.9	0.002

Motor cars with an inflation rate of 0.1% and gardens, plants & flowers with -2.5% have a downward impact on month-to-month inflation. The highest downward impact on month-to-month inflation comes from package holidays with a -4.1% inflation rate. Vegetables with an inflation rate of -1.2% also have an important downward impact, while fruit still has an upward impact.

Future analysis

The analysis so far has covered the period surrounding the euro changeover in January 2002 but Eurostat will continue to monitor the development of the HICP in order to assess further possible euro effects.