

International Working Group on Price Indices

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Statistics Norway

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Note on selected difficult areas of consumer price indices

Introduction

The consumer price index-series for Norway goes back to 1959. Before this Statistics Norway published a cost-of-living index covering consumption in wage-earners households. When the consumer price index (CPI) was introduced the scope of the index was expanded to all private households in the population. The oldest cost-of-living index dates back to 1901.

From August 1982 the Norwegian CPI is a Laspeyres chain index with yearly links. The monthly index on the basic level - also called microindex - is computed as an arithmetic mean of the prices.

The weights of the CPI are calculated as an unweighted average of the expenditure shares in the last three years - 3-years moving average - obtained from the annually expenditure survey from Statistics Norway. The weights are changed at August every year. From August 1995 to July 1996 the weights are obtained from the 1992, 1993 and 1994 expenditure surveys.

The CPI - its total or sub-indices - is used for indexation of wages, pensions and contracts. The index is also used as a general measure of inflation, in price-analysis (price-models) and as a deflator in the national accounts.

The four selected areas that are covered in this note have the total sum of weight of 5,7 percent. So, if not each individual group is very important in our CPI its total is almost half the weight of food.

Group	per mill
1 Insurance	27
2 Gambling	12
3 Financial services	1
4 Public fees depending on income	17

Insurance's

The items and weights of insurance's in our CPI are:

Item	per mill
I.1 Insurance (not furnishing), dwelling, holiday house	6
I.2 Insurance of household property	3
I.3 Insurance of transport equipment	17
I.4 Accident insurance	1

The weights are derived from the expenditure survey and are gross premiums paid by households. We do have the same problem as many other countries when it comes to itemise the different types of insurance's. Very often households have a policy packet that includes all types of insurance's and the price of each individual insurance depends on the size of the insurance packet. This is a problem both when constructing weights and doing price surveys.

For insurance on dwelling and household property we use results from our quarterly survey on rents. For housing prices are collected on dwellings let out for rent. The rent includes capital cost, insurance, water charges and other charges. We have no capacity to exclude insurance from the total rent paid by household Owner occupied dwellings and their corresponding insurance premiums are assumed to have the same price change as premiums paid by household living in rented dwellings.

For calculating the price change of insurance of transport equipment we collect prices for hull insurance and liability insurance which are the two main policy types. One of the biggest problems we face in this area is that the insurance companies are calculating tariffs per policy-holder using information about

- age of car-driver
- marital status
- place of residence (urban or rural area)
- age of car
- type of car (standard model or more GT.-models)
- place of parking in nights (in a garage or outdoor)
- bonus class

We use information from the four companies dominating the market. Each company calculates a tariff for an average policy-holder both for hull insurance and liability insurance. Next we calculate a weighted average for the country based on market shares of the insurance companies.

Gambling

The items and weights of gambling in CPI are:

Item	per mill
G.1 Lotteries and pools	8
G.2 Other gambling expenses	3
G.3 Accident insurance	1

The weights are derived from the expenditure survey. We have no price survey for this group, so the price change is set to be like a relevant aggregate (3 digit level of consumption group).

Financial services

Financial services are excluded from the CPI. The weight derived from the latest expenditure survey was 1 per mills of the total expenditure. There has been a shift in policy in the financial market for the last three years in favour of being more cost efficient. In this context this means to let the user of a financial service pay more than earlier.

Public fees which depends on income

It is just payment for some few public services in our CPI that depends on income. Nevertheless the price movements for these few have been of great focus in media. Partly

because the fees are paid by the socio-economic groups in the society which per definitions have the weakest economy - parents of small children and elderly people. This is also some of the few prices decided directly by politicians in the county council. Prices in public day care centers are decided by the county council and is the same for the whole county (municipality). In Norway it's a fifty-fifty distribution between counties which let the prices depends on income or not.

Item	per mill
P.1 Children's day care (kindergarten)	14
- <i>public day care</i>	10
- <i>private day care</i>	4
P.2 Home help services (mostly for elderly)	3

For children's day care we have a price survey in January and august every year. Prices are collected from private and public kindergartens and the computation is done separately. Private kindergartens decide the prices themselves and normally the prices are not depended on income. Some private kindergartens have prices depending on the child's age, mainly because it is more expensive to take care of children under three years of age than over because of statutory provisions. In the CPI we only use prices for children over three years of age. Before computation we convert the prices to a standard of one child, staying for eleven months and exclude food. The index for private day care is calculated as an unweighted average of the converted prices.

The index for public day care of children is also calculated on the basis of some converted prices. First we convert the prices to a standard of one child over three years of age, staying for eleven months and exclude food. For each county having prices depending on income we calculate one single price for day care using information about the income distribution for the country as a whole. Then the index for public day care is calculated as a weighted average of the converted prices. For this computation we use information about the degree of cover for public day care in different parts of Norway. The same process is repeated for children under three years of age.

The index for home help services is calculated much the same way as for day care of children, using information about income distribution when weighting prices.