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Consumer price index disaggregated by components: food and drink prices

Technical box extracted from:

Inflation Report no.4, November 2012 [1]

Both in the international practice and in the Republic of Moldova, to allow a better understanding of the inflationary process, the CPI was disaggregated into four categories: regulated prices, fuel prices, core inflation and prices of food and drinks. The latter is one of the main categories, and this is confirmed by the Chart no.1 (the categories of goods included in the list of foodstuffs, alcoholic and soft drinks can be found on the official website of the National Bureau of Statistics in Annex no.1 to the Methodology for the calculation of the core inflation index).

Chart no.1. The evolution of CPI subcomponents' shares

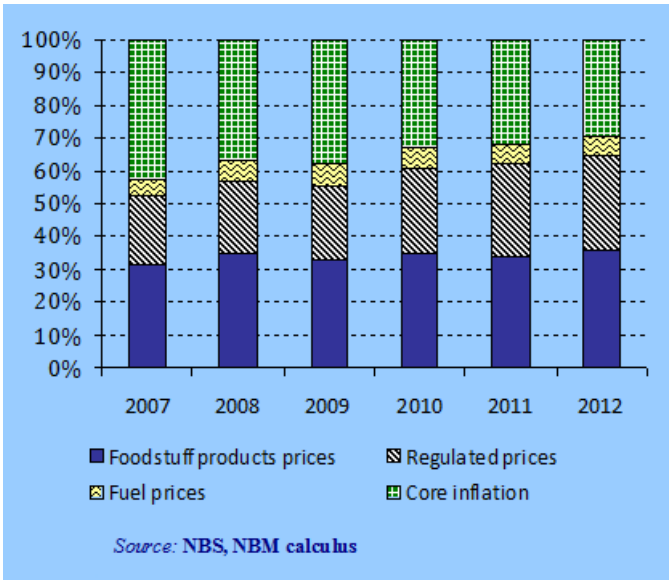
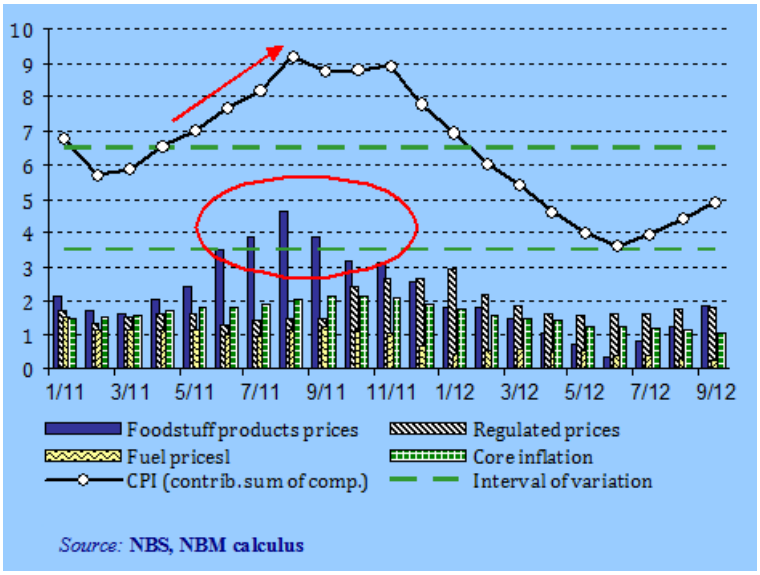


Chart no.2. The evolution of annual inflation and subcomponents' contribution



The Chart no.2 shows that over the last two years the annual inflation left the variation range for a period of three quarters. At the same time, according to the information presented, it can be seen that this situation was generated by a pronounced influence of food prices during this period, due to the drought recorded in the summer of 2011. The impact of rising food prices on the overall inflation was also boosted by the large share of food in the CPI basket.

It should be noted that the monetary policy instruments cannot directly affect food prices because they are goods with an inelastic demand. Thus, as the share of these products will be larger, the ability of monetary policy to influence the overall inflation will decline.

The analysis of the table presenting the shares of foodstuff in total CPI for 2012 contributes to shaping the idea that the share of foodstuff in the CPI basket of the Republic of Moldova is impressive compared to other countries with similar regimes of monetary policy.

Country	Share, %
Great Britain	11.2
CzechRepublic	15.0
New Zealand	18.8
Moldova	**35.9**
Romania	37.2

Considering the above, a special attention in the process of forecasting within the NBM is drawn to food prices forecast. Thus, for the most accurate forecasting, the NBM uses data from external sources such as Consensus Forecast, the FAO - Food and Agriculture Organization of the United Nations and other sources. At the same time, both the domestic and the Black Sea region weather conditions have a considerable influence on the evolution of food prices, which affect the regional prices.

Non-monetary factors such as unpredictable weather conditions over a long period, exacerbated by the uncertainty of natural disasters occurrence (droughts, floods, frosts, etc.), and other factors entail risks in the inflation targeting process of the National Bank of Moldova by a possible deviation of the actual inflation from the expected one.

See also

Tags
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food prices [3]
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subcomponents' contribution [7]
contribution [8]

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