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Strongly seasonal commodities

Technical box extracted from:

Inflation Report no. 3, August 2013 [1]

The Consumer Price Index (CPI) is a measure that characterizes and provides an estimate of the evolution of prices of goods bought and tariffs for services used by the population for living needs in a given period (current period) compared to a previous period (reference period). Analyzing the structure of goods and services included in the CPI basket, a product category that is characterized by a specific behavior can be distinguished. Thus, these products are known in international practice as *strongly seasonal commodities*. Typically, the strongly seasonal commodities are not available for purchase in certain seasons of the year (early potatoes, cherries, strawberries, berries, melons and water melons, etc.). The existence of the strongly seasonal commodities generates a number of issues related to their observation. Thus, the international practice provides several ways of observing these products.

In 2013, the National Bureau of Statistics has decided to implement a new procedure, which is accepted internationally, for reflecting the prices of strongly seasonal commodities to the detriment of that applied until 2013. Key aspects of this procedure are:
1. Fixed weights during the year – according to this procedure the strongly seasonal commodities should be treated during the year the same manner as the other products.
2. Price imputation – according to this procedure, during the months when the analyzed product disappears from the market, as the price of observation shall be used the price recorded in the previous month. This process can be reflected in the following manner:

$$\hat{P} = P_{m-1}$$

, where

$\hat{P}$

- imputed price, and

P_{m-1}

- price in the previous month.

Here is an example created with artificial data that will elucidate the impact of changes in the reflection

procedure of strongly seasonal commodities.

Chart no. 1. Price level developments fgor strongly seasonal commodities (lei)

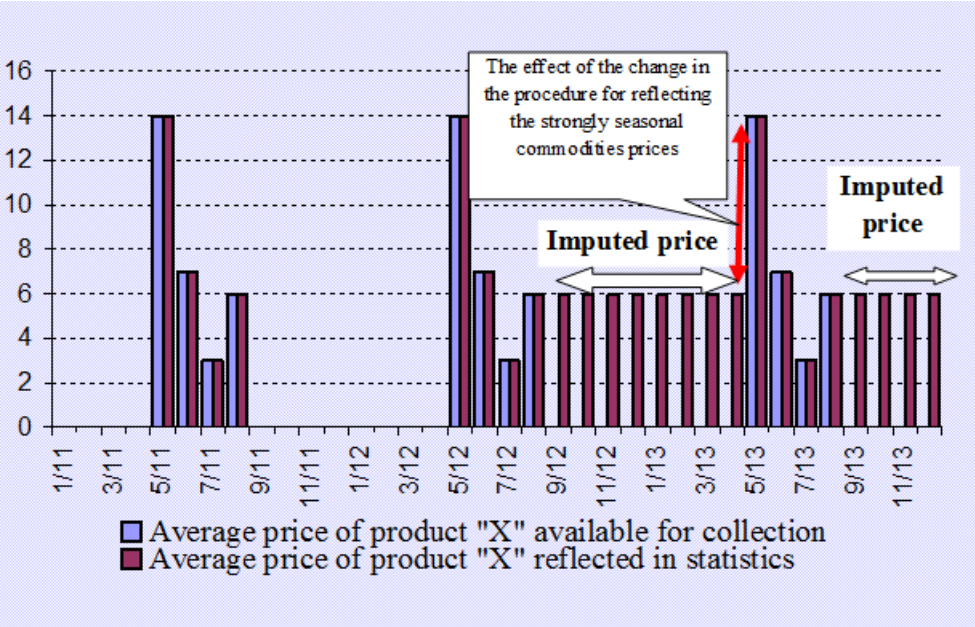
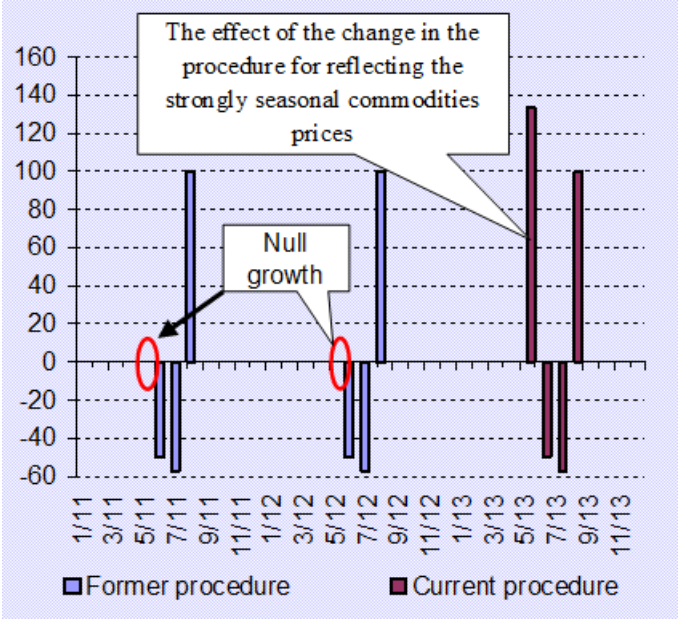


Chart no. 2. Evolution of monthly prices growth rates shown in chart no. 1 (%)



According to the previous procedure, once the seasonal product appeared on the market (in our case in May), the NBS considered it as a new product. Therefore, the monthly growth rate for that product was not calculated, assigning it a zero rate (Chart no.2), due to the lack of a basis for comparing the price of the previous month (Chart no.1). However, since 2013 (with the application of the new procedure), it has been used the price imputation for the strongly seasonal commodities for the months when these are not available for collection (Chart no.1). Thus, this procedure has contributed to the creation of a basis of comparison for the month of appearance of strongly seasonal commodities and, respectively, to the calculation of the monthly growth rate. Since the imputed price is much lower than the initial price, the monthly growth is significant (Chart no.2), which has also contributed to the acceleration of the inflation rate in May. Therefore, this growth is not an increase in inflationary pressures, but a statistical effect.

See also

Tags

CPI [2]

seasonal effect [3]

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