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Technology shifts reflected in 'shopping basket'

DVD recorders, satellite navigation (satnav) systems and digital (DAB) radios are among 20 items included for the first time in the "shopping basket" the Office for National Statistics (ONS) uses to measure inflation.

Changes in food consumption patterns also feature in the new basket, with broccoli and olive oil replacing Brussels sprouts and vegetable oil.

ONS collects about 120,000 prices every month for a "basket" of about 650 goods and services. The change in the prices of those items is used to compile the two main measures of inflation: the Consumer Prices Index (CPI) and Retail Prices Index (RPI). The Bank of England uses the CPI as its inflation target while the RPI is used to calculate increases in pensions and other state benefits.

The contents of the basket are reviewed every year, and changes can be made for a number of reasons. Some items enter the basket because spending on them has reached a level that demands inclusion to ensure that the basket represents consumer spending. Some are included to make collection easier or to improve coverage of particular categories.

Similarly, items are dropped for a variety of reasons. For example, diamond solitaire rings replace gemstone cluster rings for the simple, and unromantic, reason that it is easier to collect prices for them.

Among consumer technology items, spending on satnav systems has now reached a level that demands their inclusion. DAB radios, sales of which have grown steadily in recent years, replace radio/CD/ cassette players, on which expenditure has fallen.

The growing popularity of flat-panel TVs is illustrated by the inclusion of a second, smaller type in the basket, replacing portable TVs, while old-style deeper widescreen TVs drop out.

Digital cameras have been included in the basket since 2004. This year digital processing - now readily available at many shops and supermarkets - is included for the first time in place of mail order developing.

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Recordable DVDs replace blank VHS tapes and video cassette recorders drop out of the basket, reflecting falling spending as households switch to DVD recorders. Pre-recorded video tapes, in the basket since 1991, are replaced by a second pre-recorded DVD item, allowing these to be split into films and others. Around 77 per cent of households have a mobile phone and the growing market for services such as ringtones brings downloads into the basket this year.

The growth of digital TV is also reflected in the new basket. Most digital TV providers now waive the installation fee for a subscription to satellite or cable TV, and this item is removed from the basket.

Changes to the basket are often made to improve coverage of a sector where spending has increased. ONS tracks consumer spending, and uses survey results to ensure that items on which people spend most have the biggest share of the basket. Each is assigned a proportion, or "weight" of the index. The “weight” of each category in both the CPI and the RPI is adjusted every year to take account of these changes, giving more prominence to areas whose “weight” is rising.

Today’s article includes the new RPI “weights”. Following rises in the past year of gas and electricity prices, the basket weight for fuel and light rises from 3.3 per cent to 3.9 per cent, though this is still well below the 1987 level of 6.1 per cent.

Over the last decade, the long-term decline in prices of food and clothing & footwear are reflected in a fall in their weights from 16.7 per cent and 7.4 per cent respectively to 10.5 per cent and 4.4 per cent,.

In general, weights for services have increased in recent years, while those for goods have decreased. This shift in spending patterns has been reflected in a greater emphasis on services in the composition of the basket.

Changes to the basket to improve coverage also include credit card charges and mortgage arrangement fees (financial services), probiotic drinks (“functional” foods) and electric fans (household/electrical appliances) while toothbrushes join toothpaste in personal care/chemists’ goods. Some low-weighted items, including brie, children’s Wellington boots and non-designer sunglasses leave the basket altogether.

ONS also keeps under review the places where goods and services are bought, to ensure coverage across a range of outlets. This year, fizzy drinks from vending machines and meals on trains, ferries and planes join the basket.

BACKGROUND NOTES

1. Changes to the 2007 basket of goods and services include:

CPI Division	New Items	Items Removed	RPI Group
Food & non-alcoholic beverages	Olive oil; pro-biotic drink; courgettes; broccoli	Vegetable oil; brie; Brussels sprouts;	Food
Clothing & footwear		Child's Wellington boots; men's leather boots	Clothing & footwear
Housing, water, electricity, gas & other fuels	Shower head		Housing
Furniture, household equipment & maintenance	Electric fan		Household goods
Health		Sunglasses	Personal goods & services
Transport	Satellite navigation systems		Leisure goods
Communication	Mobile downloads		Household services
Recreation & culture	Recordable DVD; small flat panel TV; digital radio; digital processing	Portable TV; VHS video player; blank VHS cassette; pre recorded video cassette; widescreen TV (<i>non flat panel</i>); 35mm compact camera; portable radio/CD/cassette player; mail order film developing; installation fees for digital TV; outdoor plant pot; car CD auto-changer	Leisure goods and services
Restaurants & hotels	Vending machine “fizzy” drinks; “on board” catering (ie rail, sea and air)		Catering
Miscellaneous goods and services	Toothbrush, diamond solitaire ring Credit card charges; mortgage arrangement fees		Personal goods & services Household services

2. This year's updating is described in an article published by ONS today at <http://www.statistics.gov.uk/cci/article.asp?ID=1746>. The February 2007 inflation data to be released tomorrow will be based on the new basket.
3. The consumer prices index (CPI) is the main United Kingdom measure of inflation for macroeconomic purposes, while the uses of the retail prices index (RPI) include indexation of pensions, state benefits and index-linked gilts. The shopping basket used to calculate both the CPI and RPI is identical in most respects, although there are some differences in specific areas such as the coverage of owner-occupier housing costs. These differences in coverage and also methodology are described in 'The New Inflation Target: the Statistical Perspective', available on the National Statistics website: www.statistics.gov.uk/StatBase/Product.asp?vlnk=10913.
4. The review of the shopping basket draws on the ONS Expenditure and Food Survey, other published ONS data, and detailed analyses presented by market research companies, in trade journals and press reports. Developments in the retail environment are also reported by the price collectors, helping to ensure that the goods and services that the average household spends its money on are appropriately represented in the basket.
5. The expenditure weights that are used to calculate the overall cost of the CPI and RPI baskets are also revised each year. In line with usual practice, CPI class weights were updated with effect from the January 2007 index, and RPI section weights are revised with effect from the February 2007 index, at which point the weights for the unpublished detailed (item) indices are also revised. These changes to the published CPI and RPI weights will be described in an article to be published on the National Statistics website in April 2007
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