Introduction of Consumer Price Index

1. What is the Consumer Price Index (CPI)?

Consumer Price Index (CPI) is a measure of the average change over time in the level of retail prices purchased by households nationwide for a fixed 'basket' of goods and services that is derived from the results of a Household Expenditure Survey (HES) with reference to base year. Thus, the CPI is mainly to measure changes in price and does not take into consideration the changes in general cost of living such as change in quantity or quality of the goods and services purchased.

2. What does the term "basket" mean?

The "basket" represents a mix of consumer products purchased by the typical household. It is a set of quantities of goods and services that household purchase for day-to-day living. No two households are exactly alike in their spending habits. Each household purchases a different combination of goods and services for consumption. Therefore, the CPI "basket" is based on actual household expenditure data that is derived from HES which includes those goods and services which are important in terms of the size of expenditure made on them by households.

3. What goods and services does the CPI cover?

All type of goods and services purchased by household for consumption as follows:

- i. Food and Non-Alcoholic Beverages
- ii. Clothing and Footwear
- iii. Housing, Water, Electricity, Gas & Other Fuels
- iv. Furnishings, Household Equipment & Routine Household Maintenance
- v. Health
- vi. Transport
- vii. Communication
- viii. Recreation & Culture
- ix. Education
- x. Restaurants and Hotels
- xi. Miscellaneous Goods & Services

The CPI does not include savings or investment items such as stock and bonds or real estate.

4. Whose buying habit does the CPI reflected?

The CPI reflects the average spending pattern of the majority of households in Brunei Darussalam.

5. Why the CPI is important?

The CPI is used for a variety purposes, as it measure the average change in price of the consumption of goods and services over time. It is most widely used as a measurement of the rate of inflation and also used as a deflator of other economic series such as a deflator of the value of the consumer's dollar to find its purchasing power and the conversion of gross domestic Product (GDP) from current price values to constant price values.

6. What is meant by purchasing power?

Purchasing power measures how much of goods and services can be bought for the wages and salaries earned. When prices rise due to higher inflation rate, the purchasing power of money is reduced and consequently, there will be a reduction of range of goods and services that can be bought by household with the same amount of money.

7. Is the CPI a cost-of-living index?

No. Although CPI and cost of living index both measure the changes in price of goods and services that are purchased by households. The CPI does not reflect the changes in buying or consumption patterns that consumers would make to adjust to relative price changes that are needed to maintain a certain standard of living. The CPI is an index of price change only. Meanwhile, a cost of living index would go beyond this as it also take into account changes in other governmental or environmental factors that affect consumers' well-being.

8. How is the CPI calculated?

The CPI calculation has three steps (simple step):

- Find the cost of the CPI basket at base period prices.
- Find the cost of the CPI basket at current period prices.
- Calculate the CPI for the base period and the current period.

$$\text{CPI} = \frac{\text{Cost of CPI basket at current period}}{\text{Cost of CPI basket at based year}} \times 100 = \text{Price Index}$$

9. Why the CPI does not reflect the prices I see?

This is because it is important to understand that the CPI measures the changes in price of a fixed basket of goods and services purchase by the average household nationwide (i.e majority household in Brunei Darussalam), not of any specific family or individual. It is unlikely that any individual experience will correspond precisely with the index.

10. What is inflation and how does it relate to CPI?

The CPI is often used as a general measure of inflation. It is not an exact record of individual households' spending, but it gives a good idea of how price increases affect household spending, and the change in money's 'buying power' because of inflation. Inflation rate is the percentage increase in the price level from one year to the next. It is computed as the percentage increase in the level of prices between two time periods (usually over a period of 12 months).