

## TECHNICAL NOTES

### Consumer Price Index

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#### 1. Concepts and Definitions

##### 1.1 Understanding the CPI

The Consumer Price Index (CPI) measures the average change over time in the prices paid by households for a fixed "basket" of goods and services. This basket reflects the average consumption patterns of the majority of households in Brunei Darussalam, derived from the Household Expenditure Survey (HES).

The CPI is strictly a measure of price inflation; it is not a direct measurement of the general cost of living.

##### 1.2 Economic Applications

The CPI serves two primary functions:

- Inflation measurement: It is the standard indicator for tracking the rate of inflation.
- Economic deflator: It is used to convert economic series, such as Gross Domestic Product (GDP), from current price values (nominal) to constant price values (real).

##### 1.3 Scope and Classifications

The basket follows the United Nation's Classification of Individual Consumption According to Purpose (COICOP). It covers final household consumption expenditures with the following exclusions:

- Housing: Imputed rentals for owner-occupied housing.
- Geographic: Expenditures made abroad.
- Non-consumption: Donations, remittances, loan repayments, and real estate purchases.

##### 1.4 Goods Categorisation and Services

Items within the CPI are categorised by the type of goods, according to their durability, and services:

- Durable goods: Products used repeatedly over long periods (e.g., furniture, vehicles).
- Semi-durable goods: Products with a shorter expected lifetime and lower value than durables (e.g., clothing, footwear, toys).
- Non-durable goods: Single-use items (e.g., food and beverages).
- Services (e.g., education, health, and personal services).

## 1.5 Calculation Methodology (Chained Index)

While the base year establishes the weights for the basket, the CPI utilises the chained index method for monthly calculations.

- Price relatives are computed by comparing the current month's average prices to the previous month (rather than the base year).
  - The ratio of current-to-previous month prices is then multiplied by the index value of the previous month.
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## **2. Measuring CPI Changes**

### 2.1 Calculating CPI Changes

The CPI report tracks three specific types of price movements:

1. Year-on-year (YoY): Percentage change between the current month and the same month of the previous year.
2. Month-on-month (MoM): Percentage change between the current month and the preceding month.
3. Period-on-period (PoP): Percentage change between a year-to-date average (e.g., January – June) and the same period in the previous year.

### 2.2 Understanding “Contribution to Change”

The contribution to change identifies which specific goods or services are the primary drivers of the overall index movement for a particular month. Essentially, it assigns contributors of inflation by looking at two factors:

- Price movement: How much did the price of a specific item change this month?
- Spending importance (Weight): How much of a typical household budget is spent on that item?

Since different items have different weights, a small price increase in a high-spending category (e.g., Transport) will have a much larger impact on the total CPI than a large price jump in a low-spending category (e.g., movie tickets). The contribution is the result of combining these two factors to show exactly how much a single category pushed the total index up or down.

### 2.3 Annual Inflation Rate

The annual inflation rate is defined as the percentage change between the annual index of the reference year and that of the previous year. The annual index represents the average of the monthly indices recorded from January to December.

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### **3. Statistical Conventions**

#### **3.1 Rounding Rules**

To ensure clarity while maintaining data integrity:

- **Publication:** Indices and percentage changes are published to one decimal place.
  - **Small Digits:** Significantly small non-zero digits are rounded to one significant figure.
  - **Precision:** All internal computations for percentage changes and contributions are performed using unrounded index values to prevent rounding errors.
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### **4. Base Year**

#### **4.1 Current Reference**

The CPI basket and weights are periodically updated to ensure the basket accurately reflects current consumption habits. The current data is based on the Household Expenditure Survey 2015/2016.