

From [Asymmetric Information](#) No.26, July 2006, P.19:

CPI up 1.5% in the June quarter 2006! [SB]

On 17 July the June quarter CPI result was announced. There was an increase in the price level of 1.5%. Each quarter a figure is given, but it is just an estimate. We are never told how accurate that estimate might be. Was it really 1.5%? Might it be 1.4% or 1.6%? How confident can we be that the “right” prices have been observed?

I mention this because, out of curiosity, I conducted a small experiment at my local supermarket. Every few days over a period of 55 days, when I remembered, I noted down the price of 1kg blocks of Edam cheese at the Palmerston North Pak ‘n Save. There are five different brands on sale, although sometimes one or two brands are unavailable. Only Anchor had the same price every time. The others fluctuated (up and down) by sometimes about 20%. I also noted different prices in other supermarkets, and presumably prices vary over the country.

Of course, fluctuations may average out over a large number of products, but even so, the resulting indices may not reflect the true real spending power of our money. Should we be collecting data on the lowest observed price for an item? If people choose to stockpile when the price is low, over what time period should we be observing? Are

	Day	Anchor	Dairymaid	Mainland	Rolling Meadow	Valumetric
18-May	1	7.84	6.38	na	na	na
22-May	5	7.84	7	10.38	5.98	7.99
27-May	10	7.84	7	10.38	5.98	7.99
6-Jun	19	7.84	5.98	9.28	7.16	8.57
12-Jun	25	7.84	5.88	9.28	7.16	8.57
15-Jun	28	7.84	5.88	9.28	7.16	8.57
20-Jun	33	7.84	6.98	10.22	na	8.76
26-Jun	39	7.84	6.98	10.01	na	8.76
4-Jul	48	7.84	6.48	10.01	na	7.99
8-Jul	52	7.84	6.98	10.01	na	7.99
11-Jul	55	7.84	7.85	10.01	5.88	7.99

prices equally volatile at all times? Moreover, if people only buy when the price is low, fruit and vegetables are in season, or items are on special, should we have the same bundle of goods all year round, or should we have “equivalent” “seasonally adjusted” bundles of goods?

There is also one point for teachers of economics to note. Some textbooks still talk about menu costs and shoe-leather costs associated with inflation. Does this make any sense if prices are generally moving up and down all the time? To what extent might a small upward trend in the overall level of prices result in an increase in the volume and magnitude of price changes and resulting uncertainty?

Perhaps someone from Statistics NZ can explain how these issues are addressed.

