

## Price index no longer fits all

Letter to the Editor, The Australian Financial Review, 25<sup>th</sup> March 2004, p75

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Economic consultant Barry Hughes ("Why price indices matter", Opinion, March 24) raises a very interesting debate, at a macro level, on the confusion surrounding the measurement of price changes.

There are also micro-level issues surrounding the consumer price index that should be debated:

- Does the CPI adequately capture changes in service levels and product specifications? Airfares have gone down, but so have service levels. Personal computer prices have fallen, while processing speeds

and the amount of storage space have increased.

- Does the CPI measure the right basket of goods? Financial services costs (e.g. fees and charges on bank accounts and credit cards) are not included in the 14th Series CPI, a reason (perhaps) banks never seem to stop raising their prices?

- Finally, one CPI no longer fits all. The CPI is designed to be a "general measure of price inflation for the household sector as a whole". Households are not homogeneous: the basket of goods an old-age

pensioner buys is completely different from that of a 21-year-old renting an inner-city apartment, which is again entirely different from the purchases of a couple with 2.4 children, a cat and a dog who live in suburbia.

These issues may not seem important in the macro policy-setting environment that Hughes talks about, but they are vital issues in corporate decision-making.

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