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Using Engel curves to estimate CPI bias in a small, open, inflation-targeting economy

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Abstract

The Consumer Price Index (CPI) bias for New Zealand is calculated by estimating the

food Engel curve. The CPI bias is calculated by estimating the level of CPI-bias in the New Zealand economy. In 2001 the CPI-bias was 0.5% annually. This bias is similar to the CPI-bias in a similar era. Thus, the CPI-bias is less than the CPI-bias in the 1970s. This justifies the use of the CPI-bias in the 1970s. It is not the

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¹ Examples include Australia (Edwards, [1997](#)), France (Lequiller, [1997](#)) and the United Kingdom (Fenwick, [1997](#)). Similarly, the New Zealand Government Statistician claimed that 'The CPI in the United States is not updated as frequently as in New Zealand. ... I do not believe that the level of bias estimated in the Boskin report for the US. CPI is relevant to New Zealand' (Morris, [1997](#), p. 50). Similarly, the Reserve Bank of New Zealand note 'Statistics New Zealand appears to be more thorough than many foreign statistical bureaus in trying to account for these biases' (Ebert, [1994](#), p. 25).

² A chronology of New Zealand's financial market reforms is given by Boyle and Eckhold ([1997](#)).

³ The Boskin Commission estimated commodity substitution bias of 0.15 percentage points out of a total annual bias of 1.1 points. This was comparable to the outlet bias of 0.1 points and smaller than the formula bias of 0.25 points and the bias due to quality change and new products of 0.6 points.

⁴ Here the CPI failed to capture rising costs of housing services in a credit-financed house price boom.

⁵ This provides the basis of the Almost Ideal Demand System (AIDS) of Deaton and Muellbauer ([1980](#)). Results when a quadratic in log income is used are also described in the following.

⁶ New Zealand does not have a spatial price index, so a model which relies on cross-sectional variation in relative food prices could not be utilized.

⁷ These data were collected by the New Zealand Government Statistician in 1984. The data were on a March year basis and micro data from the 1984 Survey of Consumer Expenditure.


⁸ The Granger causality test with real per capita GDP as the dependent variable and the GDP deflator with an exchange rate as the independent variable.



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