BANK FOR INTERNATIONAL SETTLEMENTS

Seventh Irving Fisher Committee Conference on Central Bank Statistics

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Opening Remarks

Good morning ladies and gentlemen. It is my pleasure to welcome you all to the seventh biennial conference of the Irving Fisher Committee on Central Bank Statistics.

I would like to extend a special welcome to Muhammad Ibrahim, Chairman of the IFC, to all the members of the IFC Executive Committee, and to all presenters at the conference.

We at the BIS are very pleased with the continued strong support for the biennial IFC conference, which today brings together close to 150 participants who will collectively contribute around 50 papers to the forthcoming IFC Bulletin. I would also like to congratulate the nine contestants for the IFC's Best Paper by a Young Statistician Award.

Of course, we welcome the opportunity to see so many representatives of the central banking statistical community here in Basel and I trust that you have many good reasons to feel at home here, not only because your Secretariat is located in Basel, but also because the BIS is the global forum for central bank cooperation.

New indicators for financial stability analysis

The focus of today's conference is particularly apt: "Indicators to support Monetary and Financial Stability Analysis: Data Sources and Statistical Methodologies". In the wake of the global financial crisis, it is indeed the right time to revisit the data sets we need for financial and monetary stability purposes.

Indeed, the increasing involvement of central banks in macroprudential policy will certainly bring new data requirements, in addition to those required for supporting monetary policy. Data collections, processing and analysis will all need to adapt accordingly. The specific topics of the various sessions indicate the richness of new initiatives. These include new indicators for financial stability analysis; new statistical techniques and methodologies, particularly the use of surveys by central banks; and ventures into new domains such as those related to household finance. I very much look forward to the summaries of your deliberations that will be included in the next IFC Annual Report to Governors.

Financial stability is a field where the IFC has already made substantial contributions towards improving statistics of interest to central banks. I need only cite your 2008 workshop on securities statistics, which resulted in the joint BIS, ECB and IMF Handbook on Securities Statistics. Likewise, your work on housing price statistics led to the Handbook on Residential Property Price Statistics and further initiatives by the BIS on global property prices. And it was at the IFC conference in mid-2008 that the idea was first floated of identifying possible data gaps as revealed by the global financial crisis. This, in a sense, foreshadowed the launch of the Data Gaps Initiative by the G20, the Financial Stability Board and the IMF.

As monetary stability is no less important, I find it highly appropriate that the first session of this conference is devoted to "New monetary policy indicators". No topic could be more topical, given the vigour of the current debate about the supposed threat of deflation. But no debate can be productive, especially at the policy level, unless the supporting data are sound. In this light, measures of inflation and inflation expectations are surely an appropriate focus for an intensive review by central bank statisticians – and I would like to raise the question here if the IFC might not play a catalytic role in that process. Let me start by revisiting the intricacies of inflation measurement.

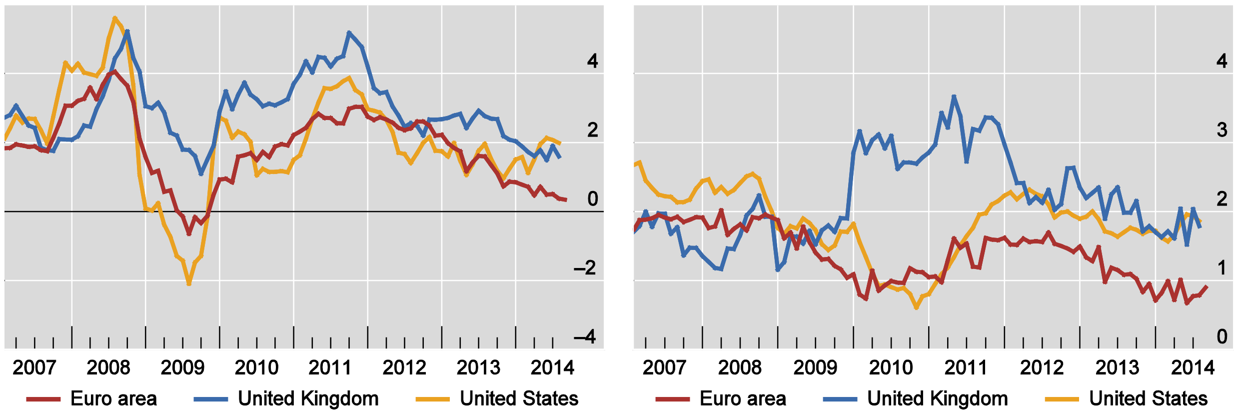
Measure of inflation (CPI)

Inflation has been on a downward trend in the major advanced economies since its 2011 peak (Graph 1), especially in the euro area, where headline inflation (CPI) is only slightly positive. But underlying inflation ("core inflation") has been more stable: the recent decline in headline inflation is mainly a reflection of falling commodity prices, which as we know are quite volatile.

Inflation in selected advanced economies

Twelve-month changes, in per cent — Graph 1

Headline inflation — Core inflation[1]



[1] Excluding food and energy.

Sources: Datastream; OECD; national data.

This shows that inflation data need to be interpreted with care and that conclusions made in haste are likely to mislead. In fact, the measurement of inflation was one of the very first topics to be discussed by the IFC. I am referring to your workshop on "CPI measurement" in 2006, which was chaired by Jan Smets of the National Bank of Belgium. Reliable CPI measures are, of course, of critical importance to monetary policymakers.

The workshop's participants reached agreement on a number of points:

- First, that CPI measures should be reliable, timely and comparable (internationally and over time).
- Second, official CPI numbers needed improvement. The publication of an official CPI Manual would contribute to this end.
- Third, the treatment of owner-occupied housing was a particular area where improvement was needed. In Europe it is still not included in the Harmonised Consumer Price Index, but I

understand that there is at least official agreement on the methodology to correct this in the future. The current weight of housing costs in the CPIs of the euro zone is as low as 6.2% (see Table 1), which is hard to justify.

Weighting of housing rent expenditure in the CPI for selected countries[1] Table 1

Countries	Actual rents	Owner-occupied housing[2]	Total
EU 28	5.8	-	5.8
Euro area	6.2	-	6.2
France	7.1	-	7.1
Germany	10.2	-	10.2
Italy	2.7	-	2.7
Japan	3.1	15.6	18.7
Spain	2.9	-	2.9
Turkey	5.4	-	5.4
United Kingdom	7.0	-	7.0
United States	7.0	23.9	30.9

[1] CPI stands for the Harmonised Index of Consumer Prices (HICP) for the EU countries and Turkey, Consumer Price Index for All Urban Consumers (CPI-U) for the United States and Consumer Price Index for Japan. [2] Not part of the CPI basket in the EU countries and Turkey; imputed rent for Japan; owners' equivalent rent of residences for United States.

Sources: Eurostat; national data.

- Fourth, dealing with quality adjustments was seen as a major challenge for CPI compilers but particular methods such as hedonic treatments are becoming more widely accepted.
- Fifth, keeping track of new products and outlets, as well as accounting for substitution effects, were important elements for consideration.
- Sixth, research by central banks indicated a positive bias in official CPI measures at that time. But there was quite a degree of uncertainty about the size of this bias and this issue could be revisited.
- Seventh, central banks rightly looked at a range of inflation measures, including core inflation and inflation expectations.
- Finally, it was noted that a big challenge remained in terms of communicating CPI measures to the general public. More transparency would help. Ultimately, more credible CPI measures would strengthen the credibility of monetary policy.

These were very important findings. They were discussed by the BIS's Governors in 2007 and I ask myself if they might not now be of renewed relevance to the IFC, especially in this period of low inflation.

It's striking how many of the main questions raised in the 2006 workshop remain open today. For example, one might touch on the following issues:

- Has the comparability of CPI measures really improved? I note that there is a new international initiative to complement the CPI Manual with more normative methodology for CPI measurement. Indeed, the current Manual avoids being overly prescriptive, which therefore limits the comparability of current CPI measures across jurisdictions.

- When will the issue related to the weight of housing in the CPI be addressed? Improved house price statistics should go hand in hand with improvements in Europe of the way house prices and rental costs feed into the harmonised consumer price indices on which monetary policy decisions are based.
- Is there still a measurable bias in official CPI statistics?
- Has the public understanding of CPI measures improved? As you know consumer surveys reveal a large gap (6% in some cases[1]) between inflation as measured by the statisticians and inflation as perceived by the public. In other words, the general public may view price trends very differently from financial market participants who complain that "inflation is too low". And, needless to say, if the central bank itself starts to express concerns that inflation is too low, it may find it difficult to convince the public of its case.

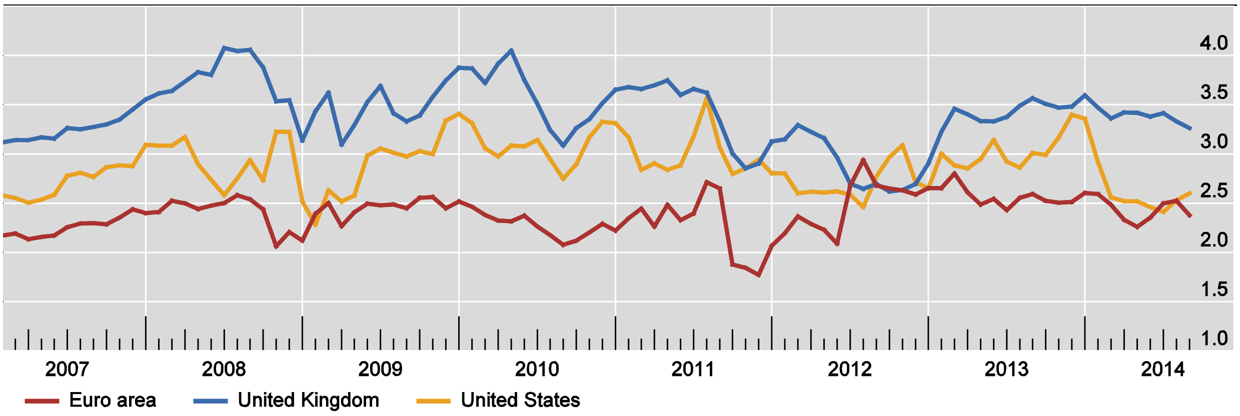
Measures of inflation expectations

Inflation expectations are another source of potential misunderstandings and, here too, central bank statisticians can play a useful part in cautioning against overhasty interpretations. And this is particularly important in the case of the two main market indicators of inflation expectations, which are the breakeven inflation rates derived from index-linked bonds, (see Graph 2) and inflation swaps (see Graph 3).

Breakeven inflation rates (index-linked bonds)[1]

In per cent

Graph 2



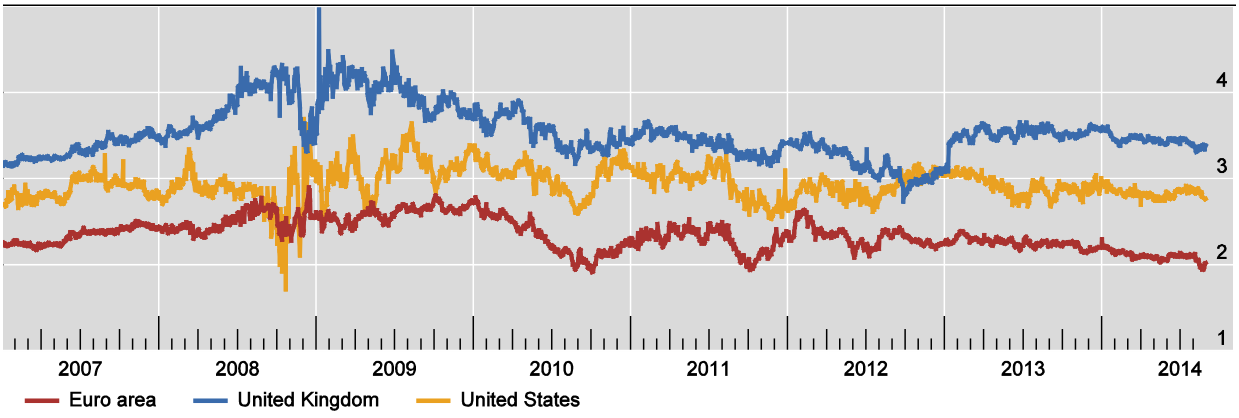
[1] Five-year, five-year forward breakeven inflation rates; monthly averages.

Sources: Bloomberg; Consensus Economics; BIS calculations.

[1] See Institut National de la Statistique et des Études Économiques (INSEE), "L'inflation telle qu'elle est perçue par les ménages", Analyses, no 5, July 2012.

Inflation swaps[1]

In per cent | Graph 3



[1] Five-year, five-year forward inflation swap rates.

Source: Bloomberg; BIS calculations.

Suggestions are heard from many quarters, particularly in financial markets, that these indicators are now signalling imminent deflation in the euro zone. And the proposed response to this purported threat is that that the monetary authorities should embark on a further round of quantitative easing.

Yet these fears are almost certainly overblown from a historical perspective. As the graphs show, long-term inflation expectations appear to be relatively well anchored, having hovered at around 2–2½% in the euro zone (depending on the selected indicator) and 2½–3½% in the United States ever since the financial crisis. In the short run, though, it's true that these indicators can be quite volatile. Central bank statisticians could therefore help to explain to a wider audience how these data should be approached.

The same caution could be applied to consumer surveys on price expectations. In the euro zone, for instance, the latest indicators in August show that inflation expectations are on a moderating trend. But, looking at the long-term behaviour of this indicator (see Graph 4, covering the period 2004–14), it is hard to see any evidence for a deflationary spiral.

Consumer survey-based inflation expectations in the euro area[1]

Net balances, in per cent | Graph 4

[1] Price trends over the next 12 months; European Commission (DG-ECFIN) Consumer Survey.

Sources: Datastream; European Commission.

Again, central bank statistical experts could help the public and market participants to arrive at a balanced and well supported view of the actual risks to price stability. And here might I conclude with a mention of the great economist for which your committee is named? As the originator of the debt deflation concept, Irving Fisher would surely have approved of any statistical initiatives that, one way or the other, can inform the debate around price stability.

Let me close by wishing you every success in your discussions today and tomorrow. And we look forward to seeing you here again in two years' time.

Thank you for your attention.