

## **New Module to Forecast New Weights for CPI**

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### **Abstract:**

**The Problem:** As the CPI (Consumer Price Index) needs the weights to be constructed (consumer baskets), The Palestinian Central bureau of Statistics (PCBS) and the official statistics usually obtained those weights from the Household Expenditure and consumption survey (PECS), While conducting (PECS) is very expensive to the official Statistics, in addition that the experts recommended that PECS should conducted no more than 3 years, which leave the Consumer price index with the old weights for three years, that makes the CPI not reflecting the Prices accurately, especially for the changes in the Palestinian Economy and the significant changing in the consumer behavior. So what we propose here is a new module to construct a system of weights, which will provide a new weight without going to a field survey and additional costs which will allow the employee in the field of consumer price indices to use Pachee index (which needs new weights every year) in advance instead of Laspeyer index which changes the weights every 3 . (i.e.: reliable CPI)

**The aim** of this paper is to construct new weights (which means for a new quantity as well) for the groups of the Palestinian consumption baskets based on the price change, the National Gross Income and the weight from the previous year.

The idea is to forecast new weights based on the assumption that is the household consumes two types of goods (necessary and luxury goods) and assume that the household does not change the consuming behavior for the quantity of the necessary goods but for the luxury goods Also, the change in the value of the necessary goods is due to the changes in prices, while the luxury goods value changes based on the savings remaining after expending on necessary goods by the consumer. At the same time, the income is changing; so, the model will construct new weights based on changing in the two variables (price change and the income change) given the classification of the goods (necessary groups, luxury groups). The results (new construction of the weights) yield from the new model will be compared with the actual data of each consecutive year within the available data.

Key Word: CPI, GNI, Luxury goods, necessary goods, consumer basket weights