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# Retail Price Indexes (RPIs) for Small Island Economies - Case Studies - Draft

Prepared for the Norfolk Island Regional Council  
as part of the project to develop a quarterly RPI  
for Norfolk Island

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# 1. Introduction

This note, containing some preliminary observations, has been prepared to assist with a project to help the Norfolk Island Regional Council recommence price inflation monitoring on Norfolk Island.

Between 1990 and 2011, Norfolk Island had its version of the Australian consumer price index (CPI), known as the retail price index (RPI), as required under the Retail Price Index Act 1983 (NI) (clause 2(1)).<sup>1</sup>

However, after 2011, the measurement of the RPI metric ceased for various reasons, particularly data issues. Subsequent attempts to reinstate and maintain an updated RPI were hampered by measurement issues and complexities relating to measurement of changes in quality and service standards for the basket of goods underlying the RPI.

The box below presents an overview of the measurement of the CPI in Australia. However, as well as Norfolk Island having a significantly smaller population and economy than the Australian mainland, the ABS has access to significant data and staffing resources in developing the CPI as the box makes evident, which are unlikely to be available to Norfolk Island Regional Council (NIRC). This strongly suggests the need for a simpler more tractable approach for Norfolk that would enable NIRC to reinstate and maintain an RPI for the island.

## *Measurement of the CPI in Australia*

In mainland Australia, the CPI is a measure of the average change over time in the prices paid by households for a fixed basket of goods and services.

The index is calculated by taking price changes for each item in the predetermined basket of goods and averaging them based on their relative weight in the whole basket.

The CPI basket is based on actual household expenditure data, which is principally derived from the Household Expenditure Survey conducted by the ABS. The HES collects detailed information about the expenditure, income, assets, liabilities and household characteristics from a sample of just under 8,000 households resident in private dwellings in the eight capital cities. In addition to the HES, market expenditure and sales data is routinely monitored and applied to ensure the price samples continue to be representative below the published level of data.

The basket contains representative items actually acquired by households. The actual items priced for the CPI basket are determined based on a number of factors. Items must be representative of purchases made by the CPI population group; must be identifiable and specific commodities or services (e.g. a 420g can of baked beans, or adult general admission to a football game); and are not excluded because of moral or social judgements.

The ABS invests considerable effort to ensure the quality of the CPI. Each quarter, almost 900,000 separate price quotations are used in the calculation of the CPI, with data being collected by trained and experienced ABS staff and other sources such as transactions and administrative data for a representative range of goods and services that Australian households acquire. The changes in price of these goods and services are combined with actual expenditure data of Australian households to calculate the overall price change in the quarter.

For practical reasons, the basket cannot include every item bought by households, but those it does include are carefully selected to represent the range of goods and services actually acquired

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<sup>1</sup> Clause 2(1) of the Retail Price Index Act 1983 states: "The Minister shall ensure that a retail price index, designed by a statistician qualified and experienced in prices statistics is compiled for each period ending on the last day of March, June, September and December."

by households. Selection is made only after obtaining detailed information about the buying habits of households, such as varieties and brands. The items selected should be representative, so that the index will reflect the price changes for a much wider range of goods and services than is actually priced.

Source: <https://www.abs.gov.au/websitedbs/d3310114.nsf/home/consumer+price+index+faqs>

To inform the development of such an approach, this paper examines the approach of smaller island economies in relation to the basket of consumption goods and mechanism for measuring inflation.

In particular, we have selected three small island economies as particularly relevant to the Norfolk Island experience:

- St Helena
- Cook Islands
- Falkland Islands

These three economies are particularly relevant as case studies because, like Norfolk Island, they are smaller 'satellite' economies with a relationship to a larger economy (the UK in the case of St Helena and the Falklands, and NZ in the case of the Cook Islands), they are relatively small in terms of their economic size and their total population (St Helena is particularly comparable to Norfolk in this respect), and they are relative isolated, as is Norfolk.

## 2. Case study 1: St Helena

### 2.1. Background

Saint Helena Island is a British overseas territory in the South Atlantic Ocean. It is located off the coast of west Africa - more precisely, about 1,950 kilometres west of the coast of south-western Africa, and 4,000 km east of Rio de Janeiro in South America.

St. Helena is small, about 122 km<sup>2</sup> (maximum of 17 km long and 10 km wide). The capital and port is Jamestown, the only town among the settlements on the island, and about one-sixth of the population lives in Jamestown. As of February 2021, the total population of St. Helena was 4,439 persons.



Source: <https://www.britannica.com/place/Tristan-da-Cunha-island-group>

St. Helena is part of the British overseas territory of St. Helena, Ascension and Tristan da Cunha; but both Ascension Island and the island group of Tristan da Cunha are more than 1000 km away.<sup>2</sup> St. Helena, Tristan da Cunha, and Ascension share the same governor, attorney, Supreme Court, and Court of Appeal but have separate legislatures.

### *Economy*

Less than one-third of the island is suitable for farming or forestry. The principal crops are corn (maize), potatoes, and green vegetables, and poultry, sheep, goats, cattle, and pigs are raised.

Fish and coffee are St Helena's two main commodity exports, with a total value of around £0.35m to £0.4m in each of the years 2017/18 to 2019/20 (roughly 1% of GDP). In 2020/21, there were no exports of fish due to the closure of the St Helena Fisheries Corporation.

The island began developing tourism on a small scale in the late 1990s, and expanded with the introduction of regular scheduled air services from 2017.<sup>3</sup> The value of the export of goods commodities is normally much smaller than the export of services to visitors (i.e. "tourism").

About two-thirds of the colony's budget is provided by the United Kingdom in the form of a subsidy; the remainder is raised from the sale of postage stamps and from customs duties and wharf fees.

Unemployment is a persistent problem, and many residents work abroad, especially on Ascension Island. Annual GDP as of 2019/20 was £39 million.

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<sup>2</sup> <https://www.britannica.com/place/Saint-Helena-island-South-Atlantic-Ocean>

<sup>3</sup> Between October 2017, when the first scheduled air service began, and September 2019, an average of 432 passengers arrived per month, with 314 of those passengers arriving by air. Since October 2017, a total of 3,337 people have arrived by air in the first 12-month period and 4,188 in the second. The increase in the second year follows the introduction of a mid-week flight during the peak period of December 2018 to April 2019.

## 2.2. Inflation index

In St. Helena, inflation is measured using a retail price index (RPI). The overall retail price index is measured quarterly by the St Helena Government (SHG) Statistics Office.<sup>4</sup>

*Estimates of price inflation*



Source: St. Helena in figures

St Helena measures price inflation by collecting the prices of a fixed basket of goods and services each quarter. The latest annual price inflation rate in Q3 2021 is 1.7% - i.e., on average, prices rose by 1.7% between Q3 2020 and Q3 2021.

Prices representing the groups of items in the basket are collected every quarter, and the price of the total basket is compared to the price in the baseline period, the first quarter of 2018. By convention, the value of the basket in the baseline period is scaled to 100, and the RPI values are quoted in relation to that baseline. For example, an RPI value of 120 means that average prices have increased by 20 per cent compared to those recorded in the baseline period.

Most of the goods available in retail outlets on Saint Helena are imported from either South Africa or the United Kingdom; thus, Saint Helena's prices are heavily influenced by price inflation in those two countries, the value of the Saint Helena pound compared with the South African rand, the cost of freight, and import taxes.

### 2.2.1. Basket categories of goods and services and expenditure weights

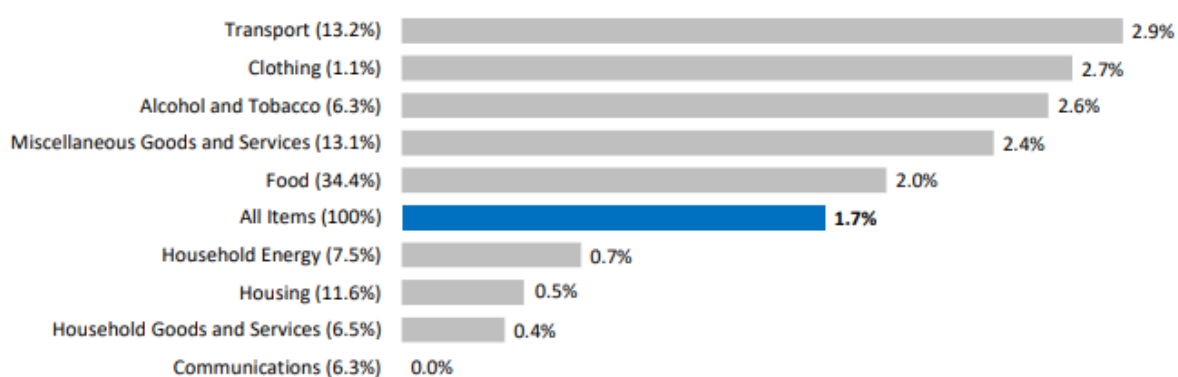
Within the overall inflation rate, St Helena measures inflation for the nine goods and services categories shown below: i.e., transport, clothing, alcohol & tobacco, miscellaneous, food, household energy, housing, household goods and services, and communications.

For each category of goods and services, the share of average household expenditure spent is calculated; these shares, which were calculated in 2017 (the "base year" for the index) are shown in brackets after each category. E.g., food accounts for 34.4% of average household expenditure (the highest weighted basket category) and clothing (the lowest weighted basket category) for 1.1%.

<sup>4</sup> <https://www.sainthelena.gov.sh/st-helena/statistics/statistics-at-a-glance/>



**Annual inflation rate (Q3 2021 compared to Q3 2020)**



The expenditure share data / weights are based on the Household Income and Expenditure Survey, which was last conducted in 2017.

Retail Price Index, Major Groups, St Helena	Weights	Weekly Expenditure (HES 2017) £
Food	34.41%	78.96
Alcohol and tobacco	6.30%	14.43
Housing	11.58%	26.58
Household energy	7.46%	17.13
Clothing	1.12%	2.57
Household goods and services*	6.50%	14.89
Transport	13.20%	30.12
Communications**	6.31%	14.49
Miscellaneous goods and services ***	13.13%	30.30
All items	100.0%	229.48

Notes: \* Prior to 2018, this category excluded household services; \*\* Prior to 2018, this category was called 'services' and included non-communication services; \*\*\* Prior to 2018, this category excluded misc. services.

Sources: See Inflation and 2017 HES excel files, available at <https://www.sainthelena.gov.sh/st-helena/statistics/>

## 2.2.2. Items within the basket categories

As noted above, there are nine basket categories. In total, the index uses 203 representative items to measure price changes under the nine different categories of household spending.

Based on the SHG Statistics bulletins, some items within each category are as follows:

- 'Housing' category: includes the price of water and sewerage
- 'Household Energy' category: includes the price of domestic electricity, one of the highest-weighted items in the index
- 'Transport' category: petrol prices, vehicle purchase component, changes to the vehicle import duty tariff (December 2019).
- 'Alcohol and Tobacco' products: includes the effect of the tariff changes to tobacco products applied in October 2019.
- 'Food': this category includes local eggs and fresh fish products.

### *Dealing with data issues and quality*

If an item of the 'basket' is not available then either the previous price will be carried forward from the previous quarter, or a suitable substitute item will be identified and an adjustment calculation made. Care is taken to ensure that this substitute item represents the item category and that it does not introduce error to the measurement of the RPI.

A full list of the basket and relevant weights is provided below.

<b>2017 category</b>	<b>Weekly HH Expenditure</b>	<b>Weight</b>
<b>1. Food</b>		
Bread, White	£3.39	1.48%
Bread, Brown	£1.64	0.72%
Bread, Rolls	£0.57	0.25%
Bread, Pizza (frozen)	£0.29	0.13%
Bread, Sweet	£0.35	0.15%
Wheat flour	£0.68	0.30%
Corn flour	£0.15	0.07%
Plain breakfast cereal	£1.15	0.50%
Fancy breakfast cereal	£0.54	0.24%
Porridge oats	£0.28	0.12%
Rice	£1.03	0.45%
Dried pasta and noodles	£0.73	0.32%
Canned pasta	£0.24	0.11%
Cream crackers and similar	£0.40	0.17%
Plain biscuits	£0.71	0.31%
Fancy biscuits	£1.07	0.46%
Cake	£1.06	0.46%
Beef: steak and stewing steak	£3.27	1.42%
Minced beef	£0.55	0.24%
Corned beef	£0.97	0.42%
Beef burgers	£0.32	0.14%
Local pork	£3.07	1.34%
Bacon	£2.06	0.90%
Ham	£2.05	0.89%
Pork sausage, fresh or frozen	£1.08	0.47%
Pork sausages, canned	£0.45	0.20%
Other pork	£0.91	0.40%
Whole chicken	£0.25	0.11%
Chicken pieces	£4.47	1.95%
Lamb	£0.79	0.35%
Local tuna	£1.44	0.63%
Other local fish	£0.26	0.12%
Other canned fish	£0.24	0.10%

Canned tuna	£0.50	0.22%
Packaged frozen fish	£0.52	0.23%
Milk, low fat	£2.10	0.91%
Milk, full cream	£1.27	0.55%
Milk, condensed	£0.74	0.32%
Milk powder	£0.59	0.26%
Milk based desserts and drinks (including cream)	£0.49	0.21%
Custard	£0.23	0.10%
Hard cheese	£1.48	0.65%
Sliced and other cheese	£0.47	0.20%
Fresh eggs	£0.61	0.26%
Butter	£0.29	0.13%
Low fat spread and margarine	£1.88	0.82%
Cooking oil	£1.42	0.62%
Apples and pears	£0.37	0.16%
Oranges	£0.48	0.21%
Bananas	£0.49	0.21%
Tomatoes	£0.60	0.26%
Canned fruit	£0.43	0.19%
Dried fruit	£0.33	0.14%
Nuts and seeds	£0.18	0.08%
Other fresh vegetables	£1.58	0.69%
Potatoes and sweet potatoes	£2.16	0.94%
Onion	£0.54	0.23%
Cabbage	£0.36	0.16%
Carrots	£0.51	0.22%
Lettuce	£0.20	0.09%
Pumpkin	£0.23	0.10%
Dried vegetables	£0.11	0.05%
Other canned and bottled vegetables	£0.47	0.21%
Baked beans	£0.50	0.22%
Canned sweetcorn	£0.32	0.14%
Canned tomatoes	£0.32	0.14%
Frozen vegetables	£1.78	0.77%
Crisps and snacks	£1.16	0.51%
Sugar and syrup	£1.35	0.59%
Jam and marmalade	£0.32	0.14%
Chocolate	£1.17	0.51%
Sweets	£0.46	0.20%
Jelly and other confectionery	£0.58	0.25%
Tomato sauce	£0.37	0.16%
Salad dressing, mustard, other sauce	£0.86	0.38%

Peanut butter	£0.39	0.17%
Other spreads	£0.21	0.09%
Stock	£0.24	0.10%
Salt	£0.19	0.08%
Pepper	£0.20	0.09%
Spices	£0.43	0.19%
Other seasoning	£0.40	0.18%
Baby food	£0.09	0.04%
Other prepared food items	£0.49	0.21%
Baking powder	£0.12	0.05%
Coffee	£0.59	0.26%
Red tea	£0.33	0.14%
Black tea	£0.75	0.33%
Other hot drink preparations	£0.35	0.15%
Bottled water	£1.52	0.66%
Fruit juice	£1.35	0.59%
Fruit juice concentrate	£0.50	0.22%
Soft drink	£1.25	0.55%
Cooked food: meal	£1.75	0.76%
Cooked food: pizza	£0.31	0.13%
Cooked food,: rolls or sandwiches	£0.18	0.08%
<b>2. Alcohol and tobacco</b>		
Brandy	£1.09	0.48%
Other spirits	£0.45	0.20%
Wine	£1.56	0.68%
Beer	£3.55	1.55%
Tobacco	£7.78	3.39%
<b>3. Housing</b>		
Housing rent	£3.98	1.73%
Paint and brushes	£0.57	0.25%
Other materials for maintenance and repair of the dwelling	£2.67	1.16%
Services for the maintenance and repair of the dwelling	£1.02	0.44%
Water supply and sewerage	£2.86	1.25%
Insurance connected with the dwelling	£0.49	0.21%
House construction	£6.14	2.67%
Housing loan repayment	£8.87	3.86%
<b>4. Household energy</b>		
Electricity	£14.71	6.41%
Gas	£1.00	0.44%
Firewood	£1.42	0.62%
<b>5. Clothing</b>		
Children's clothes	£0.60	0.26%

Womens clothes: tops, dresses and jackets	£0.39	0.17%
Womens clothes: jeans, trousers and underwear	£0.29	0.13%
Mens clothes: shirts and trousers	£0.26	0.11%
Mens clothes: underwear	£0.16	0.07%
Other clothing, accessories, materials, and uniforms	£0.08	0.03%
Mens shoes	£0.37	0.16%
Women and childrens shoes	£0.42	0.18%
<b>6. Household goods and services</b>		
Furniture and floor coverings	£1.21	0.53%
Lamps and lighting fixtures	£0.32	0.14%
Household linen: bedding, curtains, towels, etc	£0.38	0.16%
Stove	£0.82	0.36%
Refrigerator	£0.98	0.43%
Washing machine	£0.90	0.39%
Other household appliances e.g. solar panels, showers	£0.23	0.10%
Small household appliances	£0.52	0.23%
Glassware, china, and utensils	£0.26	0.12%
Large tools and equipment	£0.32	0.14%
Small tools	£0.29	0.13%
Batteries	£0.13	0.06%
Light bulbs	£0.11	0.05%
Polish and other cleaning products	£0.24	0.10%
Washing powder	£1.76	0.77%
Disinfectant and bleach	£0.35	0.15%
Dish washing detergent	£0.38	0.17%
Household cleaner	£0.32	0.14%
Fabric conditioner	£0.49	0.21%
Air freshener	£0.16	0.07%
Articles for cleaning: scourers, sponges, cloths, brooms and mops	£0.23	0.10%
Kitchen roll	£0.52	0.23%
Firelighters, candles and matches	£0.78	0.34%
Insecticides	£0.20	0.09%
Foil and clingfilm	£0.26	0.11%
Plastic bags and bin liners	£0.23	0.10%
Domestic help	£1.02	0.45%
Gardening	£0.51	0.22%
Television sets and music systems	£0.97	0.42%
<b>7. Transport</b>		
Motor vehicles	£6.47	2.82%
Major parts for motor vehicles	£0.16	0.07%

Minor parts for motor vehicles	£0.45	0.20%
Tyres	£0.14	0.06%
Petrol	£6.17	2.69%
Diesel	£4.75	2.07%
Maintenance and repair of motor vehicles	£0.41	0.18%
Driving license	£0.34	0.15%
Vehicle licence	£1.12	0.49%
MOT testing fee	£0.53	0.23%
Passenger transport by road	£0.97	0.42%
Passenger transport by air or sea: international	£3.11	1.35%
Delivery charges	£0.10	0.04%
Insurance connected with transport	£3.76	1.64%
Car loan repayment	£1.65	0.72%
<b>8. Communication</b>		
Postal services	£0.24	0.11%
Landline telephone service and equipment	£6.04	2.63%
Mobile telephone service, pay-as-you-go	£1.10	0.48%
Mobile telephone service, monthly contract	£0.58	0.25%
Internet broadband service	£6.53	2.85%
<b>9. Miscellaneous goods and services</b>		
Purchased pharmaceutical and other medical products	£0.61	0.26%
Prescribed pharmaceutical products	£0.26	0.11%
Dental services	£0.11	0.05%
Hospital and medical services	£0.27	0.12%
Computers, laptops, and tablets	£0.30	0.13%
Musical instruments and other major durables for indoor recreation	£0.22	0.09%
Games, toys and hobbies	£0.52	0.23%
Equipment for sport, camping and open-air recreation	£0.21	0.09%
Gardens, plants and flowers	£0.38	0.17%
Pet food and pet products	£2.72	1.19%
Veterinary services	£0.19	0.08%
Animal licenses and fees	£0.19	0.08%
Recreational and sporting clubs and services	£0.64	0.28%
Television subscription	£5.72	2.49%
DVD hire, books, games of chance	£0.19	0.08%
Newspapers and periodicals	£0.32	0.14%
Miscellaneous printed matter, including birthday cards	£0.50	0.22%
Accommodation services	£0.59	0.26%
Hairdressing salons and personal grooming establishments	£0.41	0.18%

Soaps, Regular soap and baby soap	£0.59	0.26%
Soaps, Shampoo or conditioner	£0.49	0.21%
Soaps, Shower/bath gel	£0.21	0.09%
Other toiletries, Skin cream	£0.31	0.13%
Other toiletries, Deodorants	£0.35	0.15%
Other toiletries, Other including lip balm	£1.13	0.49%
Toothpastes	£0.39	0.17%
Other personal products, Toilet paper	£1.85	0.81%
Other personal products, Sanitary towels	£0.24	0.10%
Other personal products, Tissues	£0.30	0.13%
Jewellery, clocks and watches	£0.30	0.13%
Other personal effects, including electric appliances for personal care	£1.03	0.45%
Crèche and child care	£2.95	1.29%
Funeral insurance	£0.26	0.11%
Other insurance	£0.16	0.07%
Banking fees and other services	£0.09	0.04%
Other loan repayment	£3.21	1.40%
Chicken or poultry food	£0.33	0.14%
Other animal feed, including pig feed, excluding pets	£0.90	0.39%
Other miscellaneous goods and services	£0.86	0.37%

## 3. Case study 2: Cook Islands

### 3.1. Background

The Cook Islands consists of 15 volcanic island coral atolls in the South Pacific. The islands are geographically scattered; the southern islands, including the main island of Rarotonga, make up 90% of the land area, and 72% of the population resides on Rarotonga.<sup>5</sup> The population was 17,570 persons in 2020 (making it significantly larger than St. Helena),

The economy centres on tourism, accounting for approximately 70% of GDP (pre-COVID). Agriculture, black pearl exports, the sale of fishing licences to foreign fleets, and offshore finance are also key revenue sources. GDP is USD \$299 million or \$16,700 per capita.

The Cook Islands is a self-governed nation in free association with New Zealand.<sup>6</sup> Under the terms of the free association, most Cook Islanders hold New Zealand citizenship and enjoy the right of free access to New Zealand and, by extension, Australia.<sup>7</sup> Monetary union with New Zealand has provided

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<sup>5</sup> <https://pacifictradeinvest.com/explore-our-work/insights/country-profile-cook-islands>

<sup>6</sup> In 1888, the Cook Islands were proclaimed a British protectorate; then in 1901, they were included within the boundaries of the Colony of New Zealand and have had a formal relationship with New Zealand since that time. In 1965, they became a self-governing territory in free association with New Zealand.

<sup>7</sup> <https://www.dfat.gov.au/geo/cook-islands/cook-islands-country-brief>

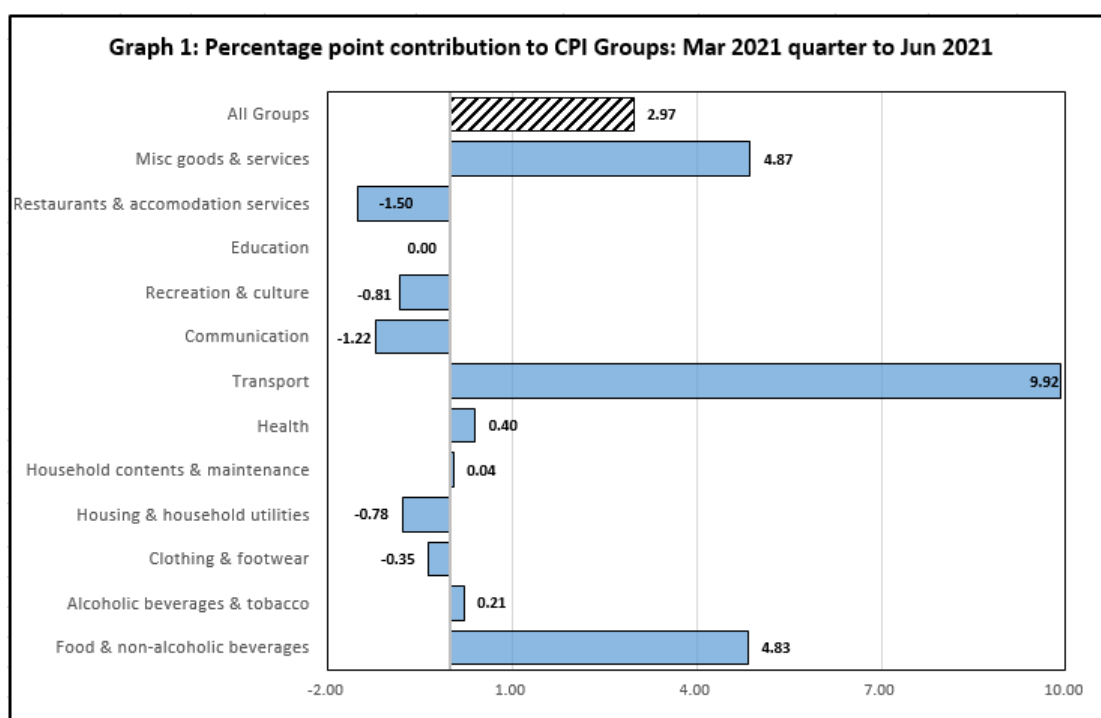
monetary and external financial stability. The Cook Islands also receives substantial support from New Zealand, which results in a comparatively higher GDP per capita than other Pacific Island countries. From 1 January 2020, the Cook Islands moved to high-income status, making it ineligible to receive Official Development Assistance (ODA). It continues to receive non-ODA support from NZ and Australia.<sup>8</sup>

## 3.2. Inflation index

The Ministry of Finance and Economic Management (MFEM) is responsible for the Cook Islands' consumer price index (CPI)<sup>9</sup>. The Cook Islands CPI covers price changes of the basket of goods and services consumed by all households on Rarotonga, the main island.

### *Basket of goods and weights*

There are 12 subgroups of goods - transport; food and non-alcoholic beverages; health; alcoholic beverages and tobacco; restaurants and hotel services; communications; housing utilities; household contents and household maintenance; education; recreation and culture; clothing and footwear; miscellaneous goods and services (also see the figure below). The 'basket' of goods and services were selected based on a Household Expenditure Survey (HES), which was carried out in 2015/16, and prices are collected from selected outlets around Rarotonga and online. The basket of goods and their percentage point contribution of the goods to the CPI are shown below for March to June quarter of 2021.



Source: <http://www.mfem.gov.ck/statistics/133-economic-statistics/consumers-price-index>

The All Groups index covers 199 items, which are priced every quarter. The table below shows the weighting pattern and the relative importance of the items in the basket of goods and services.

<sup>8</sup> <https://www.dfat.gov.au/geo/cook-islands/cook-islands-country-brief>

<sup>9</sup> <http://www.mfem.gov.ck/statistics/133-economic-statistics/consumers-price-index>



Greatest weight is given to the food and non-alcoholic beverages group, followed by transport and then housing & household utilities (water, electricity, gas etc).

The expenditure share data / weights are based on the Household Income and Expenditure Survey, which was last conducted in 2017 (or 2015/16?? - two different sources).

The weighting pattern is based on the Household Expenditure Survey (HES), which was carried out in 2015/16. The base year is 2019.

<b>Retail Price Index, Major Groups</b>	<b>Weights (2019)</b>	<b>No. of items (2019)</b>
Food and non-alcoholic beverages	28.92	80
Alcohol beverages, tobacco and narcotics	10.53	6
Housing, water, electricity, gas & other fuels	13.66	11
Clothing and footwear	3.45	16
Furnishings, household equipment & routine household maintenance	5.39	22
Health	0.36	4
Transport	17.35	15
Communication	7.30	11
Recreation & culture	2.19	9
Education	0.32	3
Restaurants & hotels	6.29	4
Miscellaneous goods and services	4.25	18
All items	100.0	199

A further breakdown into subgroups is shown below, although it is less detailed than the breakdown for St Helena.

<b>Retail Price Index, Major Groups and Subgroups</b>	<b>Weights (2019)</b>
<b>1. Food and non-alcoholic beverages</b>	<b>28.92</b>
Food	26.55
Non-alcoholic beverages	2.38
<b>2. Alcohol beverages, tobacco and narcotics</b>	<b>10.53</b>
Alcoholic beverages	5.76
Tobacco	4.78
<b>3. Clothing and footwear</b>	<b>3.45</b>
Clothing	3.13
Footwear	0.33
<b>4. Housing and household utilities</b>	<b>13.66</b>
Actual housing rentals	3.35
Maintenance and repair of the dwelling	2.59
Miscellaneous services relating to the dwelling	0.17
Electricity, gas and other fuels	7.55
<b>5. Household contents and household maintenance</b>	<b>5.39</b>
Furniture and furnishings, carpets and other floor coverings	0.62
Household textiles	0.20
Household appliances	0.94
Tools and equipment for house and garden	0.92
Goods and services for routine household maintenance	2.71
<b>6. Health</b>	<b>0.36</b>
Medical products, appliances and equipment	0.20
Outpatient services	0.16
<b>7. Transport</b>	<b>17.35</b>
Purchase of vehicles	4.37
Operation of personal transport equipment	8.26
Transport services	4.71
<b>8. Communication</b>	<b>7.30</b>
Postal services	0.06
Telephone and telefax equipment	0.30
Telephone and telefax services	6.94
<b>9. Recreation &amp; culture</b>	<b>2.19</b>
Audio-visual, photographic & information processing equipment	0.63
Other recreational items and equipment, gardens, and pets	0.51
Recreational and cultural services	0.57
Newspaper, books and stationery	0.48
<b>10. Education</b>	<b>0.32</b>
Secondary education	0,19
Tertiary education	0.13
<b>11. Restaurants and accommodation services</b>	<b>6.29</b>
Catering services	5.94

Accommodation services	0.35	
<b>12. Miscellaneous goods and services</b>	<b>4.25</b>	
Personal care	2.38	
Personal effects nec	0.28	
Insurance	1.21	
Financial services nec	0.12	
Other services nec	0.25	

Source: <http://www.mfem.gov.ck/statistics/133-economic-statistics/consumers-price-index>

## 4. Differences between the two islands

The two islands have reasonably similar baskets of goods in terms of the major groups. For both islands, food is the largest category, followed by transport, then housing and utilities and energy (although as noted below energy is separate for St Helena). Both islands use household expenditure surveys to determine weightings for consumption categories. Both surveys were conducted around five years ago or more (around 2016/2017).

Some of the key differences are:

- Cook Islands includes housing and utilities and household energy all in one group, whereas St Helena separates out household energy.
- St Helena includes more groupings within the miscellaneous category -i.e., health, education, recreation and culture and restaurants and hotels, which are separate categories for Cook Islands, are all incorporated under miscellaneous goods for St Helena. resulting in a large weighting for this group (13.31).
- St Helena has fewer categories overall - 9 compared with 12. Again, this is because of its broader miscellaneous category.

St Helena has a much smaller population than Cook Islands - its population is more similar to that of Norfolk Island. Despite this the consumption categories are quite similar, so population size does not seem to influence major consumption groups greatly, although weightings may alter - e.g., if energy is included in housing and household utilities for St Helena, the weight category is 19.04 compared with 13.66 for the Cook Islands, perhaps because of higher fixed costs distributed among a lower population. However, this could also be due to climate differences or transportation cost differences.

Retail Price Index, Major Groups	St Helena (HES 2017)		Cook Islands (HES 2016, base year 2019)	
	Category	Weight	Category	Weight
Food and non-alcoholic beverage	✓	34.41	✓	28.92
Alcohol and tobacco	✓	6.3	✓	10.53
Housing and household utilities (excl. energy)	✓	11.58	x	-
Housing, utilities and energy	-	-	✓	13.66
Household energy	✓	7.46	x	-
Clothing and footwear	✓	1.12	✓	3.45
Household contents and maintenance		6.5	✓	5.39
Transport	✓	13.2	✓	17.35

Health *	x	-	✓	0.36
Education *	x	-	✓	0.32
Recreation & culture *	x	-	✓	2.19
Restaurants and hotels *	x		✓	6.29
Communication	✓	6.31	✓	7.3
Miscellaneous goods and services	✓	13.13	✓	4.25
<b>Total number of categories</b>		<b>9</b>		<b>12</b>

Notes: The \* symbol indicates groups included under Miscellaneous for St Helena

## 5. Case Study 3: Falkland Islands

### 5.1. Background

The Falkland Islands are a British overseas territory in the South Atlantic Ocean. The principal islands are about 480 kilometres east of South America's southern Patagonian coast and about 1,210 kilometres from the northern tip of the Antarctic Peninsula. The archipelago, with an area of 12,000 km<sup>2</sup> comprises East Falkland, West Falkland, and 776 smaller islands.

As a British overseas territory, the Falklands have internal self-governance, and the United Kingdom takes responsibility for their defence and foreign affairs. The capital and largest settlement is Stanley on East Falkland.

The population of around 3,400 people (in 2020) consists primarily of native-born Falkland Islanders, the majority of British descent. The predominant (and official) language is English. Under the British Nationality (Falkland Islands) Act 1983, Falkland Islanders are British citizens.

In 2020, the Islands' GDP was around £133 million.<sup>10</sup> Key revenue streams include income from the fisheries sector, tourism, agriculture, and the retail and service sectors plus income from the investment of Government reserves and pension funds. Apart from defence and foreign affairs, the Falkland Islands are self-sufficient and have not relied on UK aid for many years.

### 5.2. Inflation Index

The Falkland Island has a Retail Price Index (RPI). It is a cost of goods index, which measures the changes in the price of a fixed basket of goods of constant quality. Primarily RPI has national coverage - which means that the index covers the non-business expenditure (and prices) relating to the resident population of the country. The results of the RPI are used to adjust tax and benefit rates, and salaries.

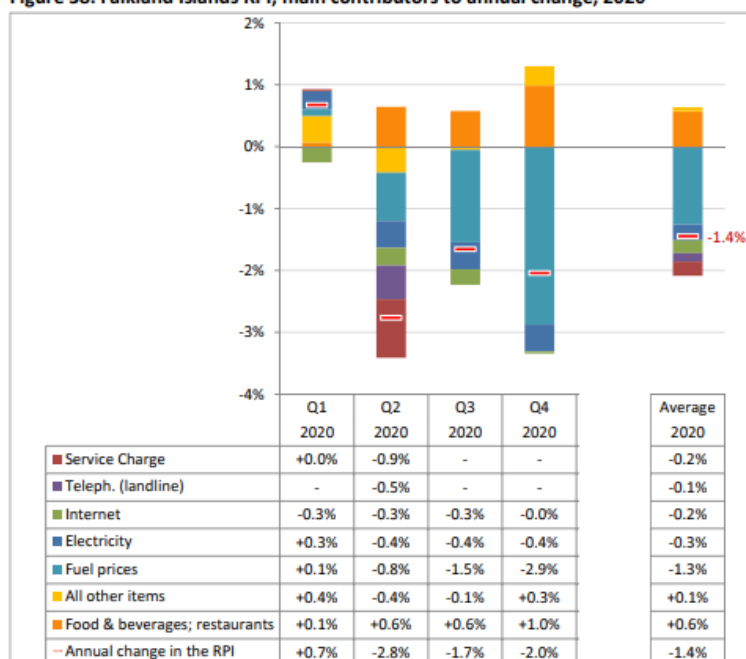
It is based on a basket of 175 goods that is meant to represent the consumption patterns of goods and services of the Stanley population.<sup>11</sup> However, it does not take into account any changes in consumption patterns that may arise from changes in prices. The data collection and calculation of the RPI is undertaken every quarter, and the index measures the cost of the basket relative to the base period. The results are published in the Falkland Islands Gazette, following approval at Standing Finance Committee.

<sup>10</sup> <https://www.fiassociation.com/>

<sup>11</sup> <https://www.falklands.gov.fk/policy/statistics/retail-price-index>

The *State of the Falkland Islands Economy 2020 report* provides the following information on the RPI, which it refers to as the Stanley Retail Price Index, given that the consumption patterns are based on the capital and largest city.

**Figure 38: Falkland Islands RPI, main contributors to annual change, 2020**



Source: Stanley Retail Prices Index; FIG DPED analysis

Other items that had a deflationary impact on the price index include:

- d. Service Charge – whose price has decreased by 24% in 2020, contributing -0.2 percentage points to overall inflation;
- e. internet – whose price has decreased by 36% in 2020, contributing -0.2 percentage points to overall inflation;
- f. landline telephone calls – whose price has decreased by 6% in 2020, contributing -0.1 percentage points to overall inflation.

When all items listed above are excluded from the basket of goods, the average annual change in the RPI is +0.6% (see Figure 39). This growth is almost entirely due to rising prices in food and beverages as well as restaurant services. The price of all the other articles has been relatively stable (+0.1 percentage points on average in 2020).

Based on this relatively high-level publicly available information, it appears that the RPI basket of goods is likely to be similar to those of St Helena and Cook Islands, but more detailed information to confirm this does not appear to be publicly available.

The *State of the Falkland Islands Economy 2020 report* notes that “In the last decade, retail prices in Stanley tended to be more volatile than in the UK. Inflation has moderated in recent years meaning that, at the end of 2020, retail prices were on average 25% higher in the Falkland Islands than in early 2010, compared to 34% higher in the UK.”<sup>12</sup>

Further detail on the RPI is provided below from the *State of the Economy Report*, emphasising it is a cost of goods not cost of living index:

<sup>12</sup>

<http://www.falklands.gov.fk/policy/jdownloads/Reports%20&%20Publications/Economy%20and%20Economic%20Development/State%20of%20the%20Economy%20Reports/State%20of%20the%20Falkland%20Islands%20Economy%202020.pdf>

**Box 14. Is the Stanley RPI a measure of the cost of living in Stanley?**

The Stanley Retail Price Index (RPI) can only be taken as an approximate measure of changes in the cost of living in Stanley. That's because the RPI is actually a *cost of goods index*, not a *cost of living index*.

A cost of living index measures changes in the cost to households of maintaining a given standard of living, allowing for changes in consumption patterns following price changes (i.e. if the price of a good falls, households would often increase their consumption of that good).

A cost of goods index measures changes in the price of a fixed basket of goods of constant quality. It does not take into account any changes in consumption patterns that may arise from changes in prices.

There are some attractions to a cost of living index, which would more closely track the economic circumstances faced by households and how their utility is affected by price changes, but they are extremely difficult to implement in practice, and in particular involve an unacceptable lag before publication.

While cost of living indices are calculated by some statistical agencies, headline inflation indices are overwhelmingly calculated as cost of goods indices, such as the RPI and the Consumer Price Index (CPI).

Source: [Falkland Islands State of the Economy 2020](#)

## 6. Lessons for constructing Norfolk Island's RPI

Based on the case studies, some preliminary observations of relevance to Norfolk Island are as follows:

- A basket of goods comprising 10-12 major groupings of goods / services aligns with common practice for small island economies and appears to be sufficient to represent consumption categories for an economy such as Norfolk Island;
- Major groupings of goods / services within the basket of goods appear to be relatively clear based on the similarities in groupings between the case studies - the main differences relate to whether certain groups are combined or separated out. In general, it is common to cover the following categories: food, alcohol and tobacco, clothing, transport, communications, housing, household utilities, household maintenance and contents, health and recreation;
- Both Cook Islands and St Helena base their expenditure weights on household expenditure surveys. Norfolk Island should examine available data for expenditure weights and consider whether a household survey is feasible.

