

IMF Working Paper
Research Department

Updating Inflation Weights in the UK and Germany during COVID-19
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ABSTRACT: The COVID-19 pandemic altered consumption patterns significantly in a short period of time. However, official inflation statistics take time to reflect these changes in the weights of the CPI consumption basket. Using credit card data for the UK and Germany, we document how consumption patterns changed and we quantify the resulting inflation bias. We find that consumers experienced a higher level of inflation at the beginning of the pandemic than what a fixed-weight inflation (or the official-weight) index suggests and a lower inflation thereafter. We also show that weights can differ among age groups as well as between in-person and online spenders. These differences affect the purchasing power of the population heterogeneously. We conclude that CPI inflation indexes based on frequently updated weights can provide useful inputs to assess changes in the cost of living and, if shifts in consumption patterns prove persistent, determine the need to introduce new official weights and inform monetary policy.

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WORKING PAPERS

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