ASSESING THE EFFECTS OF GEOGRAPHICAL EXPANSION OF
CONSUMER PRICE INDEX ON INFLATION IN UGANDA

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ABSTRACT

This study details the effects of increasing Consumer Price Index (CPI) geographical coverage on inflation in the country. The study looked at the level of significance of Headline inflation and its related components, before and after geographical coverage increment. A comparison of analytical results obtained with two different CPI coverage, inflation numbers with Fort Portal Centre included in the computations and inflation numbers without Fort Portal Centre. The study applied Student's t-test for the comparison of two means assuming unequal variance. The before and after study indicated that Monthly Headline inflation is significantly different across the two data sets (P (T<=t) two-tail = 0.0096 is less than 0.05). In addition, the monthly core inflation is significantly different across the two inflation trends (P (T<=t) two-tail = 0.0003 is less than 0.05). However, the study showed that the monthly inflation of Food Crops and related items is not significantly different across the two inflation trends, P (T<=t) two-tail = 0.1361 is greater than 0.05). Similarly, the monthly Energy, Fuel and Utilities Inflation is not significantly different between the two inflation trends (P (T<=t) two-tail = 0.1361 is greater than 0.05). The result of Food Crops indicated that the expansion did not have any effect on the group's CPI trends in the region. Thus the price changes in the two urban centres in Food Crops are the same and this could be because of the same climatic conditions of the western region. However, a further comparison of the two centres of Mbarara and Fort Portal, gave a clear distinction of the inflation trends in the separate urban towns. The significant difference in the Core inflation indicated that the group items in different urban centres have unique prices and thus more urban towns should be brought on board in CPI computation to further improve on the accuracy of inflation estimates in the country. Since the study revealed that there were changes in headline inflation due to expansion of coverage, the Uganda Bureau of Statistics should continue expanding the coverage of CPI items especially in the far eastern part of the country which is not uniquely represented in the national CPI. The EFU inflation trends were not affected by expansion of coverage due to the fact that Utilities Such as Water and electricity have a uniform price throughout the country thus emphasis in expansion should be put on improving the core Inflation trends which is mostly used by policy makers in the country. This research has filled the gap of the effects of geographical coverage of CPI and its effects on Inflation trends in Uganda. This study sets itself apart from generic economic researches that have been done before because; it combines the tools of econometrics, mathematics and statistics to analyse a statistical phenomenon: inflation before and after geographical expansion. Due to the fact that these results of the rebased CPI are only reflecting the urban expenditure patterns of Uganda, it is recommended that a study be carried out including the rural expenditure patterns. This research recommends that Uganda Bureau of Statistics (UBOS) should begin the process of computing Rural Inflation trends in the country which will give a clear view of a complete picture of how inflation trends behave in the country.