



OECD SHORT-TERM ECONOMIC STATISTICS WORKING PARTY
(STESWP)

Country comments:
Use of aggregated services producer price indices (SPPI)
in short-term economic statistics

Paper prepared by Seppo VARJONEN and Richard McKENZIE
Statistics Directorate, OECD

Submitted to the Working Party under item 12 of the draft agenda

Meeting:
25-27 June 2007

Franqueville Room
OECD Headquarters, La Muette, Paris
Starting at 09.30 a.m. on the first day

**STESWP 2007 – Country comments on OECD paper:
Use of aggregated services producer price indices (SPPI)
in short-term economic statistics**

STESWP delegates are therefore requested to consult with their price experts and provide written comment on the following issues:

- (i) Has the aggregation of 3/4-digit SPPIs to broader level aggregates been considered within your organization and if so has this involved discussion with potential national users?
- (ii) If not already undertaken, would your agency be willing to attempt such aggregations and consult with users on their possible usefulness or needs in this area?
- (iii) If not, what do you perceive as the barriers preventing such aggregations (e.g. lack of coverage)?
- (iv) Does your organization consider that aggregated SPPIs are likely to have some value in their own right as national macro-economic indicators of inflation or inflationary pressures?
- (v) Would your organization support the collection and aggregation of SPPI data by the OECD to be published as an experimental index?
- (vi) Alternatively, would your organization support the development of guidelines by the OECD in conjunction with national experts on recommended practice for the aggregation of SPPIs with a view to their collection and dissemination by the OECD?
- (vii) Does your organization support the role of STESWP to take the initiative in the above activity? Obviously, this would be co-ordinated with the Voorburg Group and Eurostat.

Austria

1) Not yet.

2) In principle, on a voluntarily basis, yes provided that the indices to be aggregated on country level are of good quality, the coverage is satisfactory and weighting information for the aggregation are available. Furthermore due to the current situation in Austria and the resulting minimal coverage of SPPIs we will not be able to provide aggregates at the moment and the near future.

3) It seems that in order to produce aggregates e.g. at the NACE 2-digit level the full coverage of sub-indices for this 2-digit is necessary. This is not the case for most of the respective 2-digits at this moment. With the successive filling of gaps an overall index is going to make sense.

4) In principle yes but it depends on which level such aggregations are done. Price indexes measuring price changes in individual service branches are highly demanded by branch-specific service producers, price indexes measuring inflation across service sector(s) are not (yet) facing much interest. However this issue needs extensive discussions with external users.

5) In principle yes but we are not sure being able to provide you with appropriate weight information. Weights (turnover) will be derived from SBS information which are only available with a time lag of 2 years.

6) Yes

7) Yes

Bank of Italy

While the meeting document is primarily addressed to data producers, as I final user I fully support the stimulus it implicitly provides in intensifying efforts towards progress in coverage and international comparability of national services producer prices indices, both at sector and aggregate level. Indeed, improving quality of disaggregate data is a first step in producing reliable aggregate data, as it basically comes from the two alternative options suggested in the document as a way to aggregate statistics. From this standpoint, I think that the issue of aggregation comes second with respect to the priority of achieving reliable data for the largest set of service sectors. In the view of a central banker the availability of a reliable aggregate service producer price index, that again hinges on good quality in disaggregate data, is very important not only for the direct monitoring of inflationary pressures, but also as an input in the analysis of productivity in a larger and larger part of the economy. Properly deflating the service production registered at current prices is a key priority to gauge the potential in growth and competitiveness in advanced countries, and any move in higher quality of service deflator, in terms of coverage and international comparability, is very welcome as much as for producer price indices. I find that this facet of the issue, namely the link to productivity, is sometimes understated in the meeting document, which touches anyway on a very sensitive argument in prompting an aggregation exercise in line with the needs of potential users.

As a user myself, I will not contribute on the institutional procedure that would lead to an aggregate index, while I fully support both the genuine stimulus to better understanding the barriers preventing the aggregation of sector data and the idea to go through them by an experimental exercise for the time being; in view of a more demanding target to develop in perspective a wider and balanced set of information about services producer prices, the provision of guidelines to larger coverage and better comparability may help a lot.

I think that it is useful that this Working Party is somehow involved, at least to disseminate the main findings in this field, which I see very challenging for *both* inflation *and* productivity monitoring.

Bank of Belgium

Services producer price indices are a key factor to ameliorate the quality of the volume estimates in the national accounts. The NBB supports any progress that could be made in this area.

But the NBB is not involved in the production of these indices and can not answer to the questions.

China

1. National Bureau of Statistics of China has not considered the aggregation of SPPIs yet.
2. As I perceive, the barriers preventing such aggregation is probably the lack of coverage.

Czech Republic

- (i) The individual price indices of the representatives are already grouped to make aggregate indices for groups and an aggregate index for the whole set of the representatives. There are no strong requests from users concerning aggregations therefore any discussions are not planned within few months, even years.
- (ii) The answer above
- (iii) Among the barriers belongs a lack of coverage. A predicative ability will certainly increase with gradual development in the coverage of SPPIs.
- (iv) The indices in a hierarchy of individual groups of SPPIs with their weights expressed in % are available for the public (customers). The importance of aggregation is clearly orientation.
- (v) We are favor of the option (alternative) to support the development of guidelines by OECD.
- (vi) The answer above
- (vii) Both STESWP and Voorburg Group and Eurostat would have the main role during preparatory processes.

European Central Bank

- (iv) Definitively yes.
- (v) No strong views, but given that most European data are currently lacking, we consider the current benefit of this as rather limited
- (vi) Given that European countries are bound by the STS regulation, we suggest that this issue is - for European countries - first discussed in the Eurostat fora. Following this, it may be very beneficial to exchange views and experiences at the OECD level.
- (vii) We suggest that the OECD agrees the further strategy with Eurostat in order to avoid overlaps for work of European countries.

Hungary

1. The development of the Hungarian SPPI is currently in the early phase; the data collection began in the second half of the last year as a pilot project conducted by an external organization and from 2007 onwards SPPIs were incorporated in the annual statistical data collection programme as regular data collection. The principal user of the new SPPIs will be the national accounts statistics as a deflator of services and as input data for supply-and-use tables. Thus they

mainly require detailed level data (3/4 digit level NACE economic activity level indices and product level indices according to CPA breakdown). SPPIs in appropriate quality will be available from 2009 at earliest so broader level aggregates and users other than national accounts will be considered at that time.

2. The professional organizations of our data providers and the data providers themselves have already expressed interest in obtaining aggregate indices about the price movements in their economic branch or even higher aggregate levels but as we've mentioned above SPPIs in appropriate quality are currently not available.

3. In our opinion it is only worth compiling higher level aggregates (or even an overall index for the whole service economic branch) if the SPPI coverage is broad enough. In the first round we intend to develop the SPPIs for those 20 economic branches which is required by the STS regulation. Two or three years from now on we intend to extend the SPPI coverage to those economic branches which are of primary importance for compiling national accounts. An overall producer price index for the services will be available in that time when the coverage is deemed to be extended enough.

4. Referring to the previous point we believe that an overall SPPI can be considered as a macro-economic indicator of inflationary pressure in that time when its coverage will be broad enough. The National Bank of Hungary that conducts an inflation targeting monetary policy will probably express its interest in that time.

5. The STS regulation makes requirements for us in compiling and transmitting SPPI data for the Eurostat so data collection and compilation process must be performed by our NSI.

6. The Methodological Guide referred in the STESWP document has already given us very useful guidance in the methodological development of the SPPIs. In order to obtain EU or OECD level aggregates we believe that further methodological reconciliations are needed. Our principal legal source derives from the STS regulation so we'll have to follow its potential amendments in the future as well.

7. In our opinion the cooperation among the Eurostat, the OECD and the Voorburg Group in the methodological development of SPPIs is satisfactory and we believe that the current reconciliation forums will be appropriate in the future as well.

ISTAT

Comments about the specific issues submitted for consideration by STESWP participants:

(i), (ii) and (iii) All the issues concerning the possibility of aggregating service producer price indices to broader levels of aggregation are far too premature in Italy where the development of surveys on SPPI has just started with a very limited coverage that excludes any possibility of useful aggregation.

(iv) On the basis of our limited experience, the availability of indicators measuring the evolution of the output prices of selected service sectors would be an important contribution to the analysis of specific aspects of the inflationary process. However the most important target remains the availability of price indices to deflate measures of service activity.

(v)-(vi) Between the two approaches proposed, we express a (moderate) preference for the second one. In particular, a central issue is that the incomplete coverage both across sectors and across countries is likely to imply important difficulties in working out a system of weights for aggregating the available indices. In order to overcome those difficulties, information and guidance provided by each country is crucial, while the necessary set of common guidelines should be developed by the OECD.

(vii) Istat supports the role of STESWG in developing experimental work on the collection and aggregation of SPPIs indexes.

Korea

(i), (ii), (iii)

The Bank of Korea has already compiled aggregated SPPIs since 1995 when the Korea PPI broadened its universe to the service sector. Calculation of the aggregated index is made the modified Laspeyres formula expressed as a weighted arithmetic average method using fixed weights for the base period. The weight represents its shipment value expressed as a permillage of the total shipment value of the universe. The shipment values of other items not selected as representative items are imputed to the similar items selected as representative in the process of weight calculation.

(iv)

We consider aggregated SPPIs meaningful as national macro-economic indicators of inflation or inflationary pressures. Although they don't cover all service sectors and the coverage rate is not perfect, they include most parts in service activity and we think their function as indicators of inflation is satisfactory. In addition, there are no alternative indicators that show the price level in domestic primary market in services now. So we think there's no problem to use the aggregated SPPIs as inflation indicators and we try to improve the quality such as broadening coverage etc.

(v), (vi), (vii)

We support both questions. We follow the PPI manual of the IMF and the guidelines of Voorburg group. We can offer the Korea SPPI data to OECD and support the work of aggregation by OECD. We also support the development of guidelines by OECD in case its contents is in the same direction of IMF and Voorburg group.

Luxembourg

Luxembourg has not yet implemented output prices in the service sector and several derogations to the amended short term statistics regulation have been accorded. It is foreseen to implement this output price index before 2009/2010. In January 2007, the development work has been restarted and it is planned that the methodological work will be accomplished by the end of the current year. The series that will be produced are at a first stage those that have to be provided

according to the amended short-term statistics regulation. Some results will be compiled at a four-digit level, others at a three or two-digit level or even as a sum of several four or three-digit level results.

An aggregation to broader level aggregates will be technically possible and can be useful to compile national accounts volumes. Nevertheless, it will be impossible to produce a 'total service producer price index' for lack of coverage in a certain number of branches. Luxembourg encourages OECD to develop guidelines for the practical aggregation of the series and will support the collection and aggregation of SPPI data. Of course, STESWP should take the initiative in accordance with the Voorburg group and Eurostat in order to start these works.

Netherlands

- (i) Yes. The issue will be on the agenda of the next meeting of the Advisory Board for Price Statistics on 20 June.
- (ii) Yes.
- (iii)
- (iv) Yes.
- (v) Yes.
- (vi) Yes.
- (vii) Yes.

Norway

Statistics Norway has for the moment published only a few SSPIs and we have not yet considered how to construct a CSPI. We have not been in contact with potential national users outside National Account. Potential users could be Bank of Norway, Ministry of Finance and different branch organizations.

Statistics Norway have published the following SPPIs within Section I and K of NACE: Freight Transport by road (I), Car rental (K), Architectural services (K) and Industrial Cleaning (K). We expect to publish SPPIs within Sea and Coastal water transport (I), Air Transport (I), Telecommunications (I) and Legal Services (K) before the end of 2007.

If these plans are fulfilled we will have the following coverage rates, measured by turnover, by the end of 2007:

Area I:	75 Percent
Area K:	7 Percent
Area I +K:	40 Percent

For Section K and overall we think that lack of coverage is a barrier. By the end of 2007 only 7 percent of Section K is covered. A CSPI at this time and at least one year ahead will primarily show the development within Section I. Lack of resources might be another barrier. Especially when it comes to Section K, we have to use all available resources, to be able to fulfil the STS-regulation by 2010. Nevertheless, we would like to participate as actively as possible in the process of developing guidelines and methodology within this area.

Statistics Norway regards a CSPI as most useful as national macro-economic indicators of inflation. In a CSPI it will nevertheless be important to distinguish between Business-to-Business and Business-to-Consumers. Such an index will complement the CPI when it comes measuring the inflation.

We would like to contribute to the data collection where it is possible. We assume that the data collected by now for each SPPI should be used in the CSPI. As mentioned earlier, we are not yet in a position where a CSPI for Norway will be of much value, but we are positive to contribute with the data we have got so far. We strongly support that written common guidelines should be developed

and as mentioned earlier we will contribute actively in this process. As long as the work is coordinated with the Voorburg Group and Eurostat, we support that STESWP can take initiative to start developing common guidelines.

A last remark: We think that a secondary formal purpose of CSPI should be developing a volume index within business services. Especially the National Accounts would approve that.

Poland

The Polish Programme of Statistical Surveys in the scope of price statistics was based principally on the needs of data users.

The SPPI indices currently available in Poland relate only to service activities within the scope of the Section I of NACE rev 1.1. The price information gained in the survey is aggregated to the 1-digit level of NACE. Thus price indices shown in publications relate not only to 3- or 4-digit levels but also to divisions (2-digit level) and to the Section I in total.

At present, in the CSO of Poland price data for business services does not exist. Thus it will not be possible to compile aggregated price indices for Poland according to the proposals presented in the document as Alternative 1 and Alternative 2. It is planned to start data collection for business services (74 NACE) and computer services (72 NACE) at the beginning of 2008.

Answers to questions

- Has the aggregation of 3/4-digit SPPIs to broader level aggregates been considered within your organization and if so has this involved discussion with potential national users?

The CSO of Poland already performs aggregation of 3/4-digit SPPIs to higher level aggregates. We carry on discussion with potential national users too. Among other things, we take into account needs of national accounts, individual recipients, reporting units, CPI statistical team.

- Does your organization consider that aggregated SPPIs are likely to have some value in their own right as national macro-economic indicators of inflation or inflationary pressures?

The aggregated SPPIs may be very interesting variable for macroeconomic analysis, included inflationary pressures (the same like industry and construction producers prices).

- Would your organization support the collection and aggregation of SPPI data by the OECD to be published as an experimental index?

In our opinion aggregation of SPPI data can be performed by the OECD but in consultation with countries.

- Alternatively, would your organization support the development of guidelines by the OECD in conjunction with national experts on recommended practice for the aggregation of SPPIs with a view to their collection and dissemination by the OECD?

In the scope of the service prices statistics the biggest problem is to get appropriate initial data. The principles for compiling the aggregated SPPIs seem to be generally known. Hence we do not perceive the need of development of guidelines by the OECD on recommended practice for the aggregation of SPPI. Alternatively it may be advisable just to determine the scope of individual aggregates in order to achieve a comparable data across countries.

Slovenia

Our comments on the issues:

i, ii, iii and iv:

In Slovenia we are in the process of collecting data and prices for different producer services. At the moment we are preparing collected data for calculating indices and developing the methodology. For now we have not discussed with our national accounts experts or any other potential users what the SPPI could be used for except for deflation.

At this stage we can not tell if the broader level of the aggregation of 2-digit SPPIs will be possible; it depends if the coverage of each service will be good enough to publish indices at a lower level.

For now our aim is to prepare data to publish the aggregate index for SPPI. In the future we are planning to expand our samples of reporting units which are reporting prices for services and to collect as many different prices for services that publishing at a lower level will be possible.

v, vi and vii:

On the last three issues we are not in a position to give a comment because they are not in our competence. They should be discussed and decided at a higher level of our organization.

(Price Statistics Sector)

Spain

The aggregation of SPPIs in the short term statistics has not been considered in INE-Spain due to the lack of coverage. It is the main barrier for aggregations. Nevertheless, INE is planning to propose different aggregations and consult them with the users.

We think that the SPPI aggregates at different levels make easier the dissemination. Specially, hierarchical dissemination by activity could be useful: from the price index for the whole service sector until 3/4-digit SPPIs, passing by sectorial aggregations, as we disseminate the turnover of services.

Spain could support the collection and aggregation of SPPI to be published as an experimental index, although we would prefer that the OECD in conjunction with national expert develop guidelines on recommended practice before the OECD starts with the collection and dissemination. All these tasks should be done in coordination with Eurostat.

Sweden

i) There is a demand for more aggregated SPPI:s and in particular an index for the total serviceproduction. we are planning to calculate such and index even though we "only" cover

approximately 42 % of the service production. In the total service production some services are included which may not be considered as services by the users of such an index. For example the trade margin and the living inowner occupied housing.

ii) See the above answer.

ii) Lack of coverage

iv) Yes

v) Yes

vi) Yes

vii) Yes

Switzerland

(i)

- We always assumed that we would aggregate SPPIs to higher level as soon as enough SPPIs would be available on deeper level. Thus we make sure that the highest levels are representative.
- We didn't discuss yet this problem with potential users.
- For the medium term, Switzerland intends to publish a Producer Price Index for the entire national economy (agriculture, industry, energy, construction, services).

(ii) Yes

(iv)

- Yes, we are convinced of it
- Since the sectors of the services are very relevant to the national economy, it is compelling that these price *indices enter into the measurement of the inflation*.

(v) Yes, under the circumstances described in answer (i)

(vi) Yes.

(vii)

- Yes,
- Since Switzerland produces so far only a few SPPIs, this initiative is quite early from its point of view. But it's certainly important to clarify as soon as possible the methodological issues.

United States

- (i) The U.S. PPI has been researching the aggregation of service producer prices to higher levels of aggregation. We began this research in the mid 1990s when we first had about 40% coverage of services. There was a joint Australian/US paper on aggregation including services presented at the 1999 Voorburg meeting in New Zealand. Since that time, we have also developed many different proposals. At several meetings during the past year with BEA, CRIW, NBER, FESAC, BRAC etc, we have asked for user feedback on the usefulness of service industry aggregation. We have received some specific comments on desired aggregations, such as disease based medical expenditure producer price indices. There was also user demand for more detailed service producer price indices. Many users also felt they wanted to react to proposed aggregation rather than specify their needs.
- (ii) See (i) above
- (iii) One of the largest obstacles to alternative aggregations is lack of accurate weights for alternative aggregations. Lack of coverage is also an issue for some aggregations.
- (iv) Yes, we see aggregated SPPIs (and detailed SPPIs also) as important macro- and micro-economic indicators in their own right. While the use of SPPIs as deflators for national accounts is important, SPPIs are also important measures in that they have uses other than national accounts.
- (v) We see OECD's collection of indices from member and non-member countries as potentially useful. We would want national experts to have input to the process. There are many questions to be asked (and answered) and data issues to be resolved prior to the publication of these experimental indices but having direct representation on a task force or committee that is working on this process would provide resources for resolving those questions and issues, and allay most of those concerns.
- (vi) We would support the development of guidelines as long as U.S. PPI representatives (national experts) would be on the task force or committee that is developing the guidelines.
- (vii) Although we would support the development of this initiative, it is unclear that STESWP is the appropriate group to take on this role. It appears that a separate group with a focus more on price statistics as a national economic indicator would be a better group to take on this initiative. However, if the membership of STESWP could be updated to include the appropriate national price experts, then it may be feasible.

Canada

In 2005-06, Statistics Canada (Prices division) undertook the development and production of price indices for approximately 30 business services categories over a five-year period. The first goal of this initiative is to fill a data gap affecting the production of real term statistics in the Canadian System of National Accounts. The goal is also to provide users, notably the Bank of Canada who monitors inflationary pressure, with the detail and its aggregates. Aggregates will be released as soon as coverage in a given group will reach 80%.

The initiative on prices is mainly to help improve productivity measures.

Statistics Canada feels there are several international groups involved in the development of services price indices. Statistics Canada wonders what value OECD-STESWP would add to the current international initiatives.