

INTERSECRETARIAT WORKING GROUP ON PRICE STATISTICS (IWGPS)

Minutes of the 4th meeting of the Technical Expert Group for updating the Manual on Consumer Price Indices (TEG-CPI) (Geneva, 25-26 June 2001)

The 4th meeting of the TEG-CPI was hosted by the UN-ECE. The meeting was chaired by Mr. David Fenwick (UK) and attended by Mr. J. Astin (Eurostat), Ms. L. Bratanova (UN/ECE), Ms. M. Dupre (ILO), Mr. J. Karlsson (UN/ECE), Ms. F. Maitland-Smith (OECD), Mr. P. Hill (UK), Mr. M. Pesut (UN/ECE), Mr. Prasada Rao (World Bank), Mr. B. Schultz (Statistics Canada), Ms. V. Stoevska (ILO) and Mr. S. Young (ILO)

The minutes from the 3rd meeting and draft agenda for the meeting were adopted.

The purpose of this TEG-CPI meeting was to go through the draft chapters of the new CPI Manual, provide authors with comments, and agree on the future time table and action plan. The agenda of this meeting consisted of an initial session discussing general issues such as the structure of the manual, dissemination formats, etc., followed by a detailed review of the draft chapters.

General issues

The dual role of the new Manual was discussed once again. It was recognised that the manual would have at least two audiences – it should represent a reference document on CPI theory and practice for all compilers and users of CPIs and a practical guidebook and manual for practitioners not only from developing countries but also from developed countries. Therefore, several participants thought that a high degree of readability must be ensured and maintained throughout the Manual in order to preserve readership. It was also noted that Part II is likely to be more important (at least for less advanced statistical offices) as for many the main purpose of the Manual would be a practical guide for CPI compilation, calculation and dissemination.

It was agreed that theoretical sections were needed for general understanding. However, as these sections are quite long and very technical it was suggested *that Part I of the manual should have an executive summary/short introduction at the very beginning (similar to Ch.10 for the second part of the manual)*. This summary should explain the role of chapters 3-9 in the manual and emphasise the need for compilers to have a grasp of basic index number theory and concepts. *(Mr. P. Hill will complete this task).*

The need to establish a strong link between the two parts, theoretical and practical, was pointed out once again. This will be done during editing.

Contents of the Part II of the manual

It was agreed that the basic structure of the manual, i.e. Part I – Theory, and Part II – Practice, is good. Part II can be to some extent self-standing, and should provide a comprehensive and practical guide to CPI compilation. It was agreed that more examples are needed in Part II, perhaps with generic examples in the text and more detailed numerical examples (spreadsheets) in

an electronic annex. *TEG-CPI members were requested to submit examples. These should include any appropriate ones from IMF training material.*

Updating of the manual

It was agreed that in the future Part II might need to be reviewed and updated (with more examples added) more frequently than Part I. Further clarifications of the principles may also be needed. The electronic version of the manual will facilitate this task. The fact that the manual will be disseminated in electronic form also means that length is not necessarily an issue, although printed versions of Parts I and II will also be produced, of course. It was pointed out that at the moment many NSOs do not have access to CD-ROM readers (in Africa, for example).

Ottawa Group meeting

Mr. Fenwick reported on the main conclusion of the Ottawa Group Meeting. The TEG decision to split of the manual in 2 Parts: conceptual and practical part was endorsed by the Group.

Feedback from Singapore meeting

ILO and OECD reported on the main conclusions of the recent CPI meeting in Singapore, and the draft report of the meeting was circulated. An appropriate balance between the theoretical and practical part was requested. The manual should include the relevant background material on index number theory but its presentation should be simplified. Part 2 must cover issues relevant to developing countries and must be accessible and understandable to this audience. The manual should be practical, user-friendly and the options proposed applicable in developing countries. It should include the key choices available to practitioners, and spell out the consequences of those choices. The manual should also spell out practices to be avoided and reasons for that (for example arithmetic mean of price ratios).

More guidelines on specific problems and numerical examples to illustrate the principles were requested.

After hearing these views, the TEG decided that two or three countries, like India, Hong Kong, Mexico should be invited to review part II of the manual in order to ensure that the Manual is relevant and applicable to their situations. They should also be asked for ready-made examples from their practices that would be appropriate for the Manual. ILO will complete this task.

Eurostat raised the question of closing-down outlets, a common problem everywhere but more frequent in transition countries. This issue has not been properly treated in the manual. The same applies to the special procedures to be followed in case where the annual inflation is 100% and more.

The draft ILO Resolution on CPIs will be discussed at the ILO Meeting of Experts at the end of October 2001, and will be finalised at the XVII ICLS in 2003. The TEG said that it was essential to ensure that the revised version of the Resolution would be fully compatible with the manual. It was agreed that the terminology used in the draft may need tightening and also needs to take account of the draft glossary of terms.

References

The number of references was discussed. As the numbers vary greatly between chapters, it was initially proposed to ask some authors to reduce considerably the number of references but it was

eventually concluded that such a reduction would serve no useful purpose and could deprive many readers of access to important additional sources of information that may be useful for both compilers and users of CPIs.

Future working plan

The publication target is spring 2002. ***-The target is to have all chapters, refereed, and sent to the editor (Peter Hill) by end of August, so that an initial editing can be completed by mid October. All examples should be submitted by end of September*** with the possibility of adding some more examples later. The next TEG meeting is scheduled for 31 October. Another meeting may be needed in February 2002. There was a suggestion that a TEG meeting could be held in Lux back-to-back with the HICP WP meeting on the 6th February 2002.

PART I - THEORY

Ch.1 & 2

Comments received from BLS will be incorporated by the author who will also check the cross-references.

Chapters 3, 4, 5 and 6 – Index number theory

Everybody agreed that some material on index number theory is needed and that it should be presented in a reader friendly manner. ***The most important points in Ch3 (statement and algebra) should be summarised in Ch.1.*** Ch.1 should explain the need for index compilers to have some knowledge of basic index number theory and Mr.Hill will take account of this when revising Ch.1.

It was agreed that ***the format of the equations in these and other chapters-needs to be harmonised.*** Since this will not be a trivial task, it was suggested that ***the UNECE, OECD, ILO and Eurostat investigate the possibility of sharing the work. Peter Hill will provide model/template formulae.***

One of the participants suggested that the question of universe and sample should be discussed somewhere in these chapters.

Chapter 7 and 8 – Elementary indices and quality change, and, Seasonality, durables, etc.

These two important chapters are still outstanding. ***Mr.Diewert is currently working on them. Mr.Silver may also provide some material.***

The content and elements to be included in these chapters were discussed at some length. They affect the drafting of ch.15 on Basic index calculation. The chapters should cover lower level substitution. The practical consequences of using different formulae should be illustrated.

Chapter 9 – The system of price indices

OECD explained that there was a generally negative reaction to this chapter in Singapore which seems to be due to some misunderstanding of its purpose. Although it was explained to participants in Singapore that the intention of the chapter is to explain the relationship between the CPI and other price indices within the general a system of macro-economic indicators, many participants interpreted it quite differently as being prescriptive about the need to comply with

SNA93 concepts and terminology, with no recognition of the long history and wide range of uses of CPIs. In order to take care of the concerns expressed in Singapore, some revisions may be needed to make the purpose of the chapter more explicit and to make it quite clear that there is no intention of trying to impose SNA concepts on CPIs. The chapter can cross refer to Ch. 11 which will explain in detail exactly how and why the coverage of CPIs differs from total household consumption in the SNA and also the difference between domestic and national concepts of consumption.

Mr. K. Zieschang will be asked to revise chapter.

PART II - PRACTICE

Chapter 10 – Overview of CPI compilation

Peter Hill expressed some concern about the adequacy of the terminology used. There may be a need for another concept in addition an ‘elementary aggregate’ as currently defined to describe the lowest heading in the consumption classification for which expenditure weights are available. The concept would correspond to that of a ‘basic heading’ in PPP work.

TEG-CPI members should make proposals by email about the terminology to be used for the classification structure.

It was proposed that paragraph 8 be extended. Mr.B.Schultz will make formal comments on this chapter to Mr.Hill.

Chapter 11 – Concepts, coverage and classification

This chapter will be jointly drafted by Mr.Hill and Ms.Maitland-Smith and submitted to Mr.Astin for refereeing between 8-20 August. The refereed version is expected to be available at the end of August.

This chapter will refine the definition of consumption in terms of acquisition, payment and use. The relationship between the coverage of the index and the consumption categories of the SNA will be explained. The dependence of coverage on the main uses is already explained in part I and Ch. 10. -Following a discussion on the treatment of illegal/‘undesirable’ goods and services, it was agreed that the manual should be prescriptive on the point that CPIs should have a comprehensive coverage, although recognising that users may choose to construct their own aggregates from CPI sub-indices. It was also noted that terms such as ‘core’ and ‘underlying’ inflation may be unhelpful, as they mean different things to different users, and can open the door to political manipulation, although it was recognised that several compilers had requested that the manual give guidance on these issues.

Chapter 12 – Sampling issues

The revised text was welcomed although there were several suggestions for further changes:

- A diagram summarising the relationships between the dimensions of sampling – commodities, outlets, time;
- Caveats about the difficulties in calculating variances;
- More explicit recognition that, in fact, price changes should be sampled, not prices per se;
- Discussion of whether PPS sampling amounts to weighting by quantity or value.

Detailed drafting points should be sent separately to the Ms.Stoevska and Mr.Hill. Mr.Hill will put all comments together and contact Mr.Dalen.

Chapter 13 – Price collection

The February version has been revised. The issues/problems raised at the Singapore meeting were described and it was agreed that the chapter needs to pay more attention to situations in developing countries. UNECE and ILO agreed to contact selected developing countries to obtain descriptions of their collection practices. Mr.Schultz will provide the author with some material (in French) on price collection in a developing country. Other sources are IMF mission reports on price collection and BLS training courses. OECD will also provide some material on price collection. *Examples were requested for the end of July at the latest.*

It was pointed out that the discussion on the use of broad and narrow specification should be at the beginning of the chapter.

Chapter 14 – Weights and sources of weights

Several issues were raised which need clarification:

- Is the term ‘modified Laspeyres’ used in a consistent way in the Manual, and is it in fact a helpful term?
- A discussion of the differences between, and implications of, quantity and value weights is needed.
- Distinction between weight and index base period.

Chapter 15 – Basic index calculation

It was agreed that the emphasis of this chapter might be shifted. Following the drafting of chapters 3 and 10, some of the material in chapter 15 now seems repetitive, and could be somewhat reduced. But the material on treatment of missing prices should be supplemented with numerical examples, as this is an area where compilers have requested detailed guidance.

Mr.Zieschang will revise and submit this chapter by the end of August.

Ch.16 - Chain linking and reweighting

Cross-references to basic index calculation are needed. Terminology should also be clarified.

Ms.Stoevska will revise terminology for this and Ch.14..

Chapter 17 and 18 – Quality change

It was proposed that the original extensive chapter be split.

OECD repeated the requests from Singapore for guidance on what is considered quality change and what isn't (to include a discussion of fashion), and for guidance on quality adjustment strategies with an in-depth discussion of the pros and cons of the different methods and the conditions under which they might be suitable/unsuitable. It was suggested that, for the benefit of users/critics reading the manual, it should be explained that the assessment of quality change involves subjective factors and can be particularly difficult for services.

It was agreed that Mr. Silver be asked to revise the text.

After a long discussion *it was decided that these chapters (17 and 18) be placed after Ch.13 on Price collection and before Ch.15 on Basic index calculation.* With this change Ch.14 (Weight

and source of weights) becomes Ch .17 and Ch.16 (Chain linking and reweighting) becomes Ch.18. *Mr.Hill will find out what are the consequences of this change for the PPI manual.*

Chapter 19 – Treatment of specific products

Progress has been slow with this chapter, and the only drafts available relate to housing, clothing and footwear, and financial services. The general draft submitted under this chapter is looking at specific problems rather than at specific products, which may not be satisfactory. *More practical guidelines on specific products are needed (transport, telecommunication, packages of meals, airfares, package holidays, tariffs, second-hand goods, health and education, cars).*

Input from developing countries is needed to ensure that issues particular to them are covered. *ILO and UNECE agreed to contact NSOs for methodological material and examples. OECD agreed to contact the Baltic NSOs, and also to ask IMF for materials from their CPI training course. Eurostat can also make available the materials from its Task Forces on different groups.*

More details about the treatment of seasonal item are needed.

Chapter 20 - Quality of CPIs (Errors and Bias)

Two papers prepared for this chapter should be integrated. It will be appreciated if BLS can do this.

Chapter 21 – Organisation and management

It was agreed that the material on ISO9000 and standards generally is too extensive, and that more is needed on the training of price collectors. *Certain NSOs, in particular Poland, will be asked to supply training materials.*

Chapter 22 – Publication and dissemination

The manual currently does not cover the calculation of quarterly/annual average indices and prices, and it was agreed that chapter 22 might be expanded to cover such presentational issues. Other issues that should be covered are. Preliminary and final result, revised and non-revisable CPIs, analysis of inflation. *Eurostat will submit a paper on pros and cons for presentation of CPI for a month over the same month of the preceding year.*

Chapter 23 - Glossary

Some terms and definitions should be more elaborated or expanded (e.g. acquisition). The list could be shortened to cover only general terms.

Annexes

HICP

Updated version of the summary paper on HICP published a few years ago will be provided by Eurostat. References for those interested in more details will be included.

COICOP

The version adopted by the UN Statistical Commission at its 30th session in March 1999 will be attached.

Draft resolution on CPI

It will be submitted when finalised.

ICP and CPI

The draft on ICP has gone through without any changes. It was suggested that the title be shortened by dropping ICP from the title. It addresses the principal issues and there is no need for any editorial changes.