

Minutes of the 6th meeting of the Technical Expert Group for updating the manual on CPI (TEG-CPI) (London, 19-21 March 2002)

The 6th meeting of the TEG-CPI was hosted by the ONS-UK. The meeting was chaired by Mr. D. Fenwick (UK) and attended by Mr. J. Astin (Eurostat), Mr. J. Karlsson (UN/ECE), Ms. F. Maitland-Smith (OECD), Mr. P. Hill (editor), Mr. K. Zieschang (IMF), Mr. P. Haschka (Austria), Mr. Y. Finkel (Israel), Mr. J. Greenless (USA), Mr. C. Bolden Hansen, (Denmark), Mr. M. Silver (UK), Mr. B. Balk (Netherlands), Ms. V. Stoevska and Mr. E. Hoffmann (ILO),

The purpose of the meeting was to review the draft chapters of the CPI Manual, provide authors with comments, and agree on the plan for finalizing the work.

The meeting started with an initial session discussing general issues such as the structure of the manual, comments made at the 33rd session of the UN Statistical Commission held in New York, 5-8 March 2002, and a general overview of the progress. Thereafter followed a detailed review of the draft chapters.

After briefing participants about the discussions at the UNSC session the chairman suggested that the structure and chapter ordering should be reviewed once again to accommodate the concerns expressed at various meetings that the manual to many users would come across as too theoretical for their needs. Following extensive discussions about the structure and content of the manual, as well as consultations with the TEG-PPI members who were meeting in parallel sessions, there was a general agreement that a better balance between operational and theoretical chapters could be achieved by: (1) elaborating the operational chapters more on issues that are particularly relevant for developing countries, e.g. price collection from outlets without permanent address and bargaining prices; (2) simplifying and shortening the theoretical chapters to the extent possible; (3) move theoretical chapters to the end of the manual; and (4) providing an introductory overview of all the issues discussed in the Manual with detailed references to how these were discussed in both the operational and the theoretical chapters respectively. The new chapter sequencing is attached to this report.

An issue concerning the prescriptive (or otherwise) tone of the text throughout was raised. There is a lack of consistency on this: sometimes the manual says that CPI compilers "should" or "should not" do a certain thing; elsewhere there is no recommendation. It was suggested that the editor should go through the whole text searching for "shoulds" etc and getting an overview. Then some general rules need to be applied. The meeting agreed that there are a few points where a clear "should" or "should not" is advisable. But there are many other topics where, because of a lack of consensus, such a prescription is impossible. However in the interest of the practitioners in developing countries an effort should be made to establish some firm advice.

It was also agreed that references for all chapters be listed at the end of the manual due to the considerable overlap between the chapters.

The authors are expected:

- provide the final version of the text by the end of May 2002
- to change the numbering and cross-references according to the new numbering of the chapters
- to check that the text is not too prescriptive and consistent with other chapters
- to check whether the quotations and bibliographical references are correct. .

The final versions of the chapters will be placed on the CPI web site as soon as they become available and members of TEG-CPI will be informed of the updates regularly.

Several options for the final format of the printed version of the Manual was discussed in light of the fact that it is likely to consist of at least 500 pages in the same format as the SNA-93 publication. Publication of one single book was expected to be preferable from users' point of view as well as the most cost-effective option.

It was agreed that following its publication it would be likely that some chapters of the Manual might need to be reviewed and updated (with more examples added) more frequently than some others, especially theoretical chapters. The electronic version of the manual will facilitate this task.

During the detailed review of the draft chapters the chapters that were recently submitted and needed most discussion were discussed first. The referees and the editor gave an overview of chapters and the authors responded. Then the chairman invited comments from participants. A joint session with TEG-PPI discussing chapters 7 and 8 was held in the afternoon 19 March.

The recommendations from these discussions can be summarized as follows (old chapter sequence and numbering):

Chapter 1: INTRODUCTION and

Chapter 2: THE USES OF CONSUMER PRICE INDICES

Recommendations: to be finalised once the final decision about number and ordering of the chapters has been made.

Chapter 3: BASIC INDEX NUMBER THEORY,

Chapter 4: THE AXIOMATIC AND STOCHASTIC APPROACHES,

Chapter 5: THE ECONOMIC APPROACH,

Recommendations: to be split in 2 chapters: Economic approach and Aggregation issues

Chapter 6: PRICE INDICES USING AN ARTIFICIAL DATA SET

Recommendations: Mr.Diewert will renumber paragraphs of the formula edited versions.

Chapter 7: ELEMENTARY INDICES AND QUALITY CHANGE

Recommendations: to be split in 2 chapters: Elementary indices and Quality change and hedonics. The most important points to be summarised by Mr.Silver and incorporated in Ch.10 by Mr. Hill. The new chapters will be reviewed and subedited by Mr.Diewert and Mr.Balk. It was suggested that this chapter should not be too prescriptive.

Chapter 8: SEASONALITY, DURABLES AND OTHER CONCEPTUAL ISSUES

Recommendations: to be split in 2 chapters: (a) Seasonal products and (b) Durables and user costs. The new chapter on durables should be consistent with what is said in ch.11: Concepts, coverage and classifications. Terminology should also be harmonised. It was recommended that SNA terminology be being used. The most important points are to be summarised by Mr.Diewert and incorporated in Ch.10 by Mr. Hill. The new chapters will be subedited by Mr.Silver and Mr.Balk. A general filing was that for some sections there is no correspondence between technical treatment and discussion of operational issues and practices.

Chapter 9: THE SYSTEM OF PRICE INDICES

Recommendations: Initial draft is to be revised. A short summary is to be prepared by the author and incorporated in Ch.10 by Mr.Hill.

Chapter 10: AN OVERVIEW OF CPI COMPILATION

Recommendations: This draft has to be revised and expanded with summaries of chapters 7-9.

Chapter 11: CONCEPTS, COVERAGE AND CLASSIFICATIONS

Recommendations: Discussions focussed on treatments of consumption from own production, remunerations in kind. Social transfers in kind, home produces services etc. It was suggested that transaction be listed to:

- those that are outside the scope of CPI
- those that are inside the scope and potentially eligible for inclusion but are difficult to be measured.

Also it should indicate which transactions should be included for a specific purpose of the CPI and under which circumstances. A possible contribution from African region on the treatment of consumption from own production could be included in this chapter. There will be some re-drafting of the section on classifications.

Chapter 12: SAMPLING ISSUES

Recommendations: Mr.Zieshang will edit the December 2000 draft.

Chapter 13: PRICE COLLECTION

Recommendations: This chapter has been in circulation for long time and therefore was not reviewed. Cross-references to the chapter on organisation needed ????. This chapter should also include few paragraphs on secondary sources of price data and copy of the BLS checklist as an annex. Mr.Greenlees will provide Mr.Fenwich with few lines on secondary sources of data. To address problems of developing countries ILO will contact selected countries in the African and S. American regions to obtain descriptions of their collection practices especially from the outlets without permanent address and of bargaining prices.

Chapter 14: TREATMENT OF QUALITY CHANGES

Recommendation: Differences between fashion and quality changes should be described and cross-referenced to Ch.19. Terms like utility should be clarified, included in glossary and possibly changed to “usefulness” to avoid confusion. Other terms that need further clarification are ‘substitution’ and ‘replacement’. The exposition of hedonics should say what information the estimates can be based on and how it can be obtained. It was suggested that this chapter also address the problem of temporarily missing prices in transition economies. This could also be covered and cross-referenced in ch.16.

Chapter 15: ITEM SUBSTITUTION, SAMPLE SPACE AND NEW GOODS

Recommendations: The term “Meta information system” should be explained. Definition to be submitted to Mr.Silver.

Chapter 16: BASIC INDEX CALCULATIONS

Recommendations: This chapter duplicates what was said elsewhere but pulls everything together providing an overview of the CPI calculation. It was suggested that the chapter draws attention to the need to create as homogeneous elementary aggregates as possible; otherwise whatever formula is used its undesirable proprieties will be exaggerated.

It was proposed that this chapter includes a definition of elementary aggregates. Peter Hill expressed some concern about the definition 'elementary aggregate'. Mr.Greenless will provide one.

Discussion followed on the need to clearly explain the respective roles of the different types of weights (expenditure, quantity, probability). . The need to stress that there are always some implicit weighting, depending on the formula used for computing elementary aggregate indices, even when there are no explicit weights.

***Chapter 17: WEIGHTS AND THEIR SOURCES and
Chapter 18. CHAIN LINKING AND REWEIGHTING***

Recommendations: Proposed to combine Ch.17 and what is left of chapter 18 in one chapter.

Chapter 19: THE TREATMENT OF SPECIFIC PRODUCTS

Recommendations: The logical structure of this chapter and the sequence of the examples were discussed at some length. It was recommended that the introduction of this chapter should clearly state that there are no consensus and no easy solutions for the treatment of specific items; the examples provided are only illustrative and in no case could be recommended as representing best practices nor are they being applied universally. This is one of the chapters that are open-ended. New examples can always be added.

It was suggested to introduce the SNA language on the treatment of owner- occupied housing and timing of transactions.

The section on clothing should be harmonised and made consistent with the theoretical chapter on seasonal items. Ms.Maitland-Smith will check the section on clothing and Mr. Bolden Hansen will check the sources for tables 18.1 and 18.2.

The section on financial services is too detailed and too theoretical. Given the small weight attached to these services in almost all countries there is no need for this detailed discussion. US BLS could provide few paragraphs on the reasons for exclusion of financial services from the US CPI.

Insurance is also a difficult conceptual and practical issue. Due to the measurement problems only second best solution can be applied. Major rewriting of this section was required. Other views on the treatment of insurance should also be included. Ms. Maitland-Smith will provide material from the OECD Task Force on treatment of premiums from the SNA point of view. Eurostat guidelines should also be mentioned.

There is close relationship between this chapter and Ch.7 and the authors should make sure that changes in any of them are accordingly incorporated in the other.

A possible contribution from African or South American region on the bargaining prices could be included in this or Ch.13.

Chapter 20: ERRORS AND BIAS

Recommendations: It was felt that the section on bias is very much N. American and W. European oriented. To remove this flavour it was suggested to change the terminology used for classifying the types of bias, taking out the estimated percentages of bias in the U.S. CPI presented in the Boskin report, and to include other type of bias that are not discussed in that report. In order to preserve the logic in the existing presentation it was recommended that components of bias that are particularly relevant for developing countries, like wrong application of modified Laspeyres formula and the treatment of temporary missing items, be slotted under section on Formula bias. Proposals to include something on representativity bias, outliers, undercoverage of items and outlets, weighting bias were also made. References to the Eurostat guidelines on treatment of prices and bias (ES compendium) and US paper on inaccurate weights as source of bias should be made. Section on sampling errors

in selection of locations and outlets should be elaborated with particular emphasis on overcoverage. It was suggested that a distinction in terminology between imprecision and non-sampling error should be made. It was suggested that paragraph 6 on overcoverage be moved under sampling errors. Mr.Greenless and Mr.Balk will revise the sections on bias and errors respectively.

Chapter 21. ORGANIZATION AND MANAGEMENT

Recommendations: none

Chapter 22: PUBLICATION AND DISSEMINATION

Recommendations: none

Chapter 23: GLOSSARY

Recommendations: to be finalised by Mr.Hill.

ANNEXES:

Annex 1: HICP

Recommendations: A version of the short handbook on HICP, to be published by Eurostat, to be submitted to Mr.Hill for comments. References for those interested in more details to be included.

Annex 2: COICOP

Recommendations: The version adopted by the UN Statistical Commission at its 30th session in March 1999 to be reproduced. Ms.Maitland-Smith will check the differences between this and version of COICOP used by Eurostat.

Annex 3: Resolution on CPI

Recommendations: New resolution to be included when adopted.

Annex 4: ICP and CPI

Recommendations: It was suggested that Mr.Rao should be asked to check whether the June draft is consistent with the discussions at the ICP meeting held in Washington DC, March 2002.

Work plan. The following schedule was agreed by TEG-CPI.

- end May: final versions of the chapters to be submitted to the editor, circulated and posted to the web site;
- end June final comments on the final drafts by members of TEG-CPI, submitted to the authors and the editor;
- end September technical editing by Mr. Hill completed
- end December (provisional) stylistic and copy editing completed
- 15 January 2003 page formatting completed

(provisional)

- end January 2003 Final draft to be approved by TEG-CPI and IWGPS and submitted to Statistical Commission for information.
- 1st March 2003 Electronic (web) release