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PRICE STATISTICS PROGRAMME GROUP

Corporate Services Price Indices – Strategic Development Plan

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INAUGURAL MEETING TO BE HELD ON

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CORPORATE SERVICES PRICE INDICES – STRATEGIC DEVELOPMENT PLAN

BACKGROUND

1. Development of service sector price indices began in the early 1990's as an adjunct to the familiar PPI system for estimating prices in the production sector. Initial efforts concentrated on price collection in a small number of "simple" industries where collection methods used were very much those already in place for the PPI. The first inquiries were voluntary and went to around 150 companies in five industries.
2. In 1995 ONS BSG began a more serious investment in the development of service sector prices by setting up a proper branch structure (Corporate Services Price Index branch) and employing a professional economist and other staff resources to take things forward. The range of industries tackled has increased substantially since then and a range of price collection methodologies are now employed to cope with the problems of defining prices in the more "difficult" industries, many of those providing professional services for instance.
3. Development of the UK approach to service sector prices has not been in isolation; every opportunity has been grasped to take advantage of the advances made by other countries in this field. The ABS, StatsCanada and the US Bureau of Labour Statistics have all made significant contributions to knowledge and have experience like the UK of the problems of live data collection.

PROGRESS TO DATE

4. The aim is to develop price indices for *corporate* services, i.e. those services provided to other businesses or intermediate users rather than the end user or consumer. To that end the current expectation of the total scope of the fully developed CSPI is that it will eventually cover industries in the following sections of SIC(92):
 - a) Small part of G: Wholesale & Retail Trade
 - b) H: Hotels & Restaurants
 - c) I: Transport, Storage & Communication
 - d) J: Financial Intermediation
 - e) K: Real Estate, Renting & Business Activities
 - f) Small part of M: Education
 - g) N: Health & Social Work
 - h) O: Other Community, Social & Personal Service Activities
5. Coverage will only be partial in most SIC sections because of the intermediate/final user split, but in a number of sections it will be particularly low. In section G low coverage results because a high proportion of output is destined for final consumers and in section M because only a very small proportion of educational activity is provided by businesses for exclusive business use.

6. Around 50% of the eventual intended coverage of the CSPI has so far been achieved in that 12 series are being regularly published in the (monthly) PPI publication MM22 and a further 12 series are made available quarterly as part of an experimental top-level CSPI release to government users only. The remaining 50% of the intended coverage splits fairly evenly between those series where trial data collection has already started and those series where development has not yet begun. The latter group includes key areas such as banking and insurance services.
7. The service sector is relatively poorly developed statistically by comparison with production and a key feature of this under-development is the almost complete lack of a statistical infra structure. In terms of classification detail SIC(92) is almost vestigial in the service sector and this is one of the major reasons why CSPI branch has had to expend considerable effort in developing classifications or “family trees” at below the highest level for individual industries.
8. A second aspect of under-development is the lack of a service sector equivalent to the production sector PRODCOM survey that provides much of the structural information used to build the PPI system. This lack of specific information leads not only to more poorly based weighting factors within industries, but also to poorer Input/Output data which will be used eventually in the computation of higher level indices. As a result CSPI industry level indices are more heavily dependent on the quality of turnover information provided by respondents to the survey than the equivalent PPI series.
9. Although these problems have made development more difficult than it might have been, to a great extent pragmatic solutions have made the situation bearable. Of greater concern are the practical effects arising from the conceptual problems associated with the actual methods of price collection. Practical difficulties arise especially in the area of professional services such as architecture or legal services and stem from the possibility of allowing for productivity or quality changes, dealing with one-off services and representativeness.
10. CSPI has sought to cope with many of these difficulties by developing the concept of “model” contracts for regular re-pricing by contributors. However, CSPI, as well as the ABS and StatsCanada, have experienced significant resistance from contributors to this approach, causing the latter institutions to change their approach completely in some industries.
11. The goal for CSPI is the provision of price indices, which are fit for their purpose as deflators and as indicators of corporate sector inflation. In order to achieve this aim and to overcome as far as possible the perceived difficulties and shortcomings outlined above, a strategic plan has been drawn up which covers the development of the CSPI over the next three years or so.

MAIN ELEMENTS OF STRATEGIC PLAN

12. The main elements of the strategic plan set out below seek to satisfy two medium term objectives:
 - a) To make available to all users reliable quarterly price indices covering all the relevant sub-sectors of corporate services by end-2001.

- b) To begin regular publication of an ONS First Release covering overall price movements in corporate services by end-2001. (Note: This does not preclude publication much earlier on an experimental prototype partial basis.)

13. The nine main strands in the plan are:

(a) Development of reliable price collection mechanisms for the remaining industries

Banking and financial intermediation and insurance services are important industries where development work has not yet started. Many of the professional service industries, such as legal services and architecture, also remain to be successfully developed.

(b) Quality assurance of all developed industries and those currently under development

A quality assurance protocol has been drawn up which will be used to re-examine each developed industry to ensure that the relevant price indices are reliable, representative and do not place undue burdens on contributors.

(c) Re-assessment of weighting schemes

Lack of structural information limits the quality of the weights used both in calculating industry level and higher level indices. Improvements in the sub-industry level weights should be a by-product of the QA process and investigations into the use of gross sector weights in addition to the net sector weights currently used will be carried out for the higher level indices.

(d) Establishment of CSPI database and improvements to the robustness and efficiency of data capture

Until now the quarterly CSPI has shared the IS system used for the monthly PPI. Plans are in hand to create a separate CSPI database and to introduce improvements to the data capture and manipulation systems, which cater for the specific requirements of CSPI data.

(e) Development of CSPI compilation system

The current system for generating results, especially at higher levels, is weak and needs considerable improvement to reach a standard acceptable for regular, wide publication of results.

(f) Establish bi-annual publication of experimental top-level CSPI data in Economic Trends

Extension of the current practice of providing users within government regular sight of an experimental top-level index to external users via a six monthly article in Economic Trends, beginning in February 2000.

(g) Design and market testing of CSPI First Release format and content together with release and revisions protocols

Developing and trialling a CSPI First Release format with internal and external users and devising dissemination and revisions policy.

(h) Research and development of price collection mechanisms for professional services

Taking into account international practices and experience, producing reliable price collection mechanisms for dealing with the problems arising in the professional services industries.

(i) Examination of the methodology underlying the collection and compilation of the indices

This will hopefully serve the twin purposes of identifying any serious weaknesses in the current arrangements to allow remedial work to take place and providing the basis for a methodological description, which can be made available to users. ONS' Methods and Quality division will be involved in this work.

14. A summary of the strategic plan is at Annex A, which shows current estimates of the timescales for the completion of the main elements of it. Annex B lists those industries, which have already been more or less fully developed and appear regularly in either the PPI MM22 or the CSPI experimental quarterly release. The dates from which data has been collected by CSPI branch are shown and will be used as one of the principal bases for determining the order in which QA activity is carried out.
15. Annex C lists those industries currently being developed or where development has not yet started. Priorities are the development of banking and insurance and finding acceptable solutions to the problems associated with professional services.

DEVELOPING AND MONITORING THE OVERALL PLAN

16. The next step is to develop a separate sub-plan for each main theme in the strategic plan, identifying the key activities and products and clarifying interactions and dependencies between themes. In terms of monitoring tools, the following seem appropriate:
 - (a) Initial planning document for each theme, produced as work is about to start.
 - (b) Progress reports at say 6 month intervals.
 - (c) Final report on completion of main theme.
17. In addition to the monitoring information, key products in draft form will be made available for quality assuring and comment as they are created.

18. The strategic plan as laid out above will form a key part of the project initiation document since the development of CSPI will be handled by formal project control methods overseen by a project board. An important role of the inter-departmental Price Statistics Programme Group will be to ensure that users' views and needs are taken properly into account in this process.
19. In the light of the proposed development of a monthly Index of Services a re-evaluation of the resources required for the currently planned quarterly CSPI may be necessary.

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