

August 31, 2001

Progress Report

The Bank of Japan compiles three price indexes: the Wholesale Price Index (WPI), the Corporate Service Price Index (CSPI), and the Input-Output Price Index of Manufacturing Industry by Sector (IOPI). Since the previous Voorburg Group Meeting at Madrid in September 2000, we have mainly worked on the revision of the WPI from 1995 base to 2000. From 2001 through 2002, our most important goal is the revision of the WPI. Other activities, including what we have done and what we will achieve in the future, focus mainly on ways to ensure that the increasingly complex economy is reflected in the price indexes and on further disclosure concerning contents of price indexes.

I. Revision of the WPI from 1995 Base to 2000 in December 2002

The plan for this index revision is the largest one in 20 years. The total design of this revision will be decided this Fall. The revised index will be published by the end of 2002. Some of the plan for improving the accuracy of the index and for reducing the burden of reporting companies will be undertaken before the release of the revision. Please contact us for more information, as the available information at the download corner of reports and research papers of the Bank of Japan web site (http://www.boj.or.jp/down/siryodo/siryodo_f.thm) is currently in Japanese only.

The following are the contents of the paper of our detailed plan for the index revision asking for comments from the public (issued in May 2001).

1. Renaming the “Wholesale Price Index” the “Corporate Goods Price Index”

Since the share of surveying the price data of the wholesale stage is only 30 percent while that of the producer stage is 70 percent, and since that of the producer stage will become higher from now on due to changes in distribution structure, it is no longer appropriate to use the name “Wholesale Price Index.” The new name will be the “Corporate Goods Price Index.”

2. Strengthening the deflator function—minor change in principle of stage for price survey

On the condition that the supply-demand conditions of transactions among companies are keenly reflected in the prices of both wholesale and producer stages, we intend to select the producer stage to increase its share on surveying the price data from the 2000 base index, while we select the wholesale stage on the current 1995 base

index. This will help to strengthen the deflator function of this index.

3. Measures to cope with the diversification of products and their prices

(1) Expansion of the number of price data

To cope with the diversification of products and their prices that reflect customized needs and that are accelerated by the development of information technology, we are trying to further increase the number of price data.

(2) Careful adoption of average prices as price data

Where transaction conditions are highly segmented, products are made-to-order, or actual prices are reflected in the rebate but not the nominal prices, it is hard to capture the true price development by surveying the nominal price data under strictly fixed conditions. We will partially introduce averaged price data (sales divided by sales quantities) with the fixed quality as far as possible.

(3) Adoption of provisional transaction prices as price data

In Japan, some material producers engage in the practice of trading products in advance and determining those prices a couple of quarters later. In this case, the WPI reflects the price change at the time of determining the contract prices. However, before they determine the contract prices, they sometimes use the provisional transaction prices. By reflecting these provisional prices, the index can reflect the price change more quickly and more accurately. This effect will appear typically when crude oil prices change drastically and influence the prices of related products.

(4) Introduction of new commodities to the index

We will introduce new commodities to reflect the progress of information technology in Japan's economy.

4. Introduction of periodically retroactive index revision

We will introduce periodically retroactive index revision to the WPI (CGPI) as well as the CSPI. This revision has partially started in the telecommunications services of the CSPI in October 2000, as mentioned below.

5. Introduction of reference index

(1) Introduction of chain-weighted index as reference index

The bipolarization in profitability and popularity among industries and among products even in the same industry is moving ahead rapidly in Japan's economy. The level of each price index and the transaction volume differs drastically according to item. In these situations, the more time passes from the base year, the more the Laspeyres index deviates from the true price developments. To supplement such a weakness of the Laspeyres index, we will introduce a chain-weighted index as a reference index. (The main index will continue to adopt the Laspeyres index.)

(2) Introduction of index excluding the consumption tax as reference index

The government introduced the consumption tax in 1989 and raised the rate in 1997. For analyzing the supply-demand conditions of the economy, it is convenient to see price index developments after excluding the impact of the consumption tax. This index will be introduced as a reference index.

6. Reduction of the burden of reporting companies—abolition of ten-day index

This will start in February 2002 when the index of January 2002 is released, in advance of the release of the index revision.

II. Other Activities since the Last Meeting

1. Study on conceptual issues regarding price index: Report to the Bank of Japan Workshop on Price Stability (April through September 2001)

See the Working paper series 01-05 (currently, in Japanese only) and 01-06 released by the Research and Statistics Department at the corner of research papers of the BOJ web site (http://www.boj.or.jp/en/ronbun/ronbun_f.htm) for details.

The Bank of Japan Workshop on Price Stability has been and will be held from April through September 2001 for exchanging views and thereby deepening understanding among participants of a wide range of issues concerning price stability as well as their implications for monetary policy. The April session treated the conceptual issues concerning measurement of prices. Hideo Hayakawa, director of the Research and Statistics Department, and Tomoo Yoshida discussed conceptual problems regarding quality adjustment, nonlinear pricing, and the impact of diversification of products on utility of users in the current innovative and diversified economies. They then raised the question of whether the stability of the ideal deflator is equal to the price stability from the viewpoint of monetary policy. The Price Statistics Division introduced actual quality adjustment methods adopted in the WPI and the CSPI, estimated the impact of quality adjustment on price indexes, and discussed their difficulties and basic stance to tackle them.

2. Improvement of accuracy of price indexes

(1) Change of the application of hedonic regression method in the WPI (February 2001)

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The hedonic regression method for quality adjustment in replacing price data in the WPI was originally used for personal computers, mainframe computers, and magnetic disk alloys from the index of January 1990 on 1990 base. From the index of January of this year on 1995 base released in February 2001, this method has been expanded to the application for video cameras and camcorders, while abolished that for mainframe computers and magnetic disk alloys.

The estimation has been revised every six months, and the new equations have been disclosed immediately since February 2001.

(2) Retroactive index revision of telecommunications services in the CSPI (October 2000)

See the “Announcement of a retroactive revision in the group Communications” at the reports and statistics corner of the BOJ web site (http://www.boj.or.jp/en/siryu/siryu_f.htm) for detail.

As a first step for the periodically retroactive index revision, partial retroactive index revision has been undertaken

for the telecommunications services of the CSPI, when the index of September 2000 was released in October 2000.**3.**

Enlarging disclosures regarding price index compilation

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(1) Disclosure of replacements of price data in WPI and CSPI every quarter (February 2001)

In the past we disclosed the results of replacements of price data (number of replacements, and applied quality adjustment methods) both in the WPI and the CSPI every year. Since the beginning of 2001 we have started disclosing them every quarter.

(2) Release of the revised list of price samples of WPI (March 2001)

We released the revised list of all price samples included in the Domestic WPI, the Export Price Index, and the Import Price Index in February 2001 to disclose the changes of price data. This list shows the contents of each sample (without disclosing the name of the reporting companies).

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