



First meeting of joint OECD – EUROSTAT Task Force  
for the revision of the  
**Methodological guide for developing producer price indices for services**

Paris, 14 & 15 April 2011

### **Minutes**

The Task Force (TF) for the revision of the *Methodological guide for developing producer price indices for services* (SPPI Guide) is a joint OECD / Eurostat TF which aims to capitalize on the recent experiences of OECD and EU countries in the field of service producer prices statistics (SPPI) in order to revise the SPPI Guide published in 2005 (<http://www.oecd.org/dataoecd/44/40/36274111.pdf>) and to complete a new version by the end of the year 2012.

#### **1. Opening of the meeting and introductory remarks**

The meeting was chaired by Nadim Ahmad (OECD). Paul Schreyer (OECD) & Thomas Jaegers (Eurostat) welcomed the participants. They emphasised the importance of bringing together experiences from EU and non-EU OECD countries in the field of service producer prices statistics (SPPI) and stressed the fact that the primary purpose of the Guide, which was conceived as a “living document”, was to reflect practical experiences across countries and that allowed it to serve as a practical tool to motivate the development of indices across countries.

#### **2. Mandate of the Task Force**

Nadim Ahmad summarised the key objectives in the draft mandate and opened the floor for agreement on the final mandate.

The following additions were noted:

- ~ Incorporate guidance on the aggregation of the overall SPPI / SPPI for Total service industries;
- ~ Add guidance on changing the index reference period of SPPIs and the use of chain-linking methods;
- ~ Introduce an explicit acknowledgement that a key objective of the Guide is to produce SPPIs comparable across countries.
- ~ Recognize synergies with the Voorburg Group (VG) and make explicit acknowledgement of the work and papers produced by the VG, incorporating these in the Guide where possible (including direct links to the Voorburg Group website);
- ~ Agree that the OECD and Eurostat will take responsibility for drafting the methodological chapters: chapter 1, 2, and 3. For chapter 3 that is based on country

practices, TF members agreed to provide materials on their experiences in order to update the different boxes.

Subject to these amendments being made, the TF agreed on the Mandate.

### **3. Methodological issues on SPPIs**

The objective of the session was to discuss the main issues arising in the revision of the SPPI Guide in particular those to Chapter 1- General aspects of SPPI compilation, Chapter 2 – Main pricing methods for SPPI and Chapter 3 – Practical aspects of the development process.

Six main topics were discussed:

#### **1) Treatment of Outsourcing, off-shoring and subcontracts**

The members of the TF considered treatment of outsourcing, off-shoring and subcontracts as a sensitive and difficult issue in the field of SPPI in the sense that these types of transactions are not in most cases subject to a specific treatment, and **there was tentative support for the addition of a new sub-section in the Guide to cover these issues.**

David Friedman (United-States) noted that the concept of Factoryless Good Producers does have an impact on the definition of wholesale trade that would need to be considered in any a potential new chapter on Wholesale Trade.

Concerning the treatment of Goods for Processing whose treatment has changed in the 2008 SNA, TF members felt that it was premature to have practical guidance that could be incorporated.

#### **2) Quality adjustment methods**

The TF members agreed that quality adjustment is an important issue for SPPI. However they stressed that the Guide must reflect country practices rather than the theoretical point of view on quality adjustment methods. In that sense it was agreed that it would not be necessary to develop the theoretical concepts and that references to other manuals<sup>1</sup> would be sufficient; noting of course the importance of consistent terminology.

David Friedman stressed that even if it is not possible to provide examples of country practices in the Guide in relation to quality adjustment, it would be useful to include some commentary on the challenges and/or issues faced by TF member countries.

André Loranger (Canada) mentioned that two papers on Quality Adjustment were presented in the last Voorburg Group meeting and could be considered as inputs for the new Guide: the first, on [Air transport](#) by Christopher Jenkins (United-Kingdom) and Christian Puchter (Austria) and the second, on [Rental and Leasing](#) by Alain Gallais (France) and André Loranger (Canada).

---

<sup>1</sup> On Quality Adjustments, see Jack Triplett, *Handbook on Hedonic Indexes and Quality Adjustments in Price Indexes*, 2006, OECD.

On Hedonics, the TF members mentioned that there are no plans to develop such Quality adjustment methods in the Framework of SPPIs except in the United-States. The US has two hedonic quality adjustment models in place for Beer, Wine & Liquor Retail and for Security Guards & Patrol Services. Research has started on the potential for a hedonic quality adjustment model for Hotels and Motels. The US also noted that creation of hedonic models is very labour intensive, which is one of the reasons for their limited use. **TF members agreed to add boxes on the US experience on Hedonics in the Guide.** The US members also mentioned that they are using innovative methods on quality adjustment in Nursing Care Facilities and for Hospitals that involve the use of secondary sources rather than hedonics.

### 3) **Weighting schemes**

As mentioned during the discussion on the Mandate, TF members agreed to incorporate some guidance on the aggregation of the overall SPPI, on changing the index reference period of SPPIs and the use of chain-linking methods.

### 4) **SPPI by destination**

TF members agreed to add specific guidance on designing SPPI by destination of output (BtoB, BtoC, BtoAll and BtoE) for the relevant industries.

David Friedman mentioned that, although the concept of SPPI by destination of output as defined in Europe is not feasible in the US, they recently began publishing Alternate Aggregation Structures, on an experimental basis, that reflect price changes for goods, services, and construction sold to all portions of final demand and intermediate demand, based on information from the U.S. Bureau of Economic Analysis' Input/Output Accounts. The final-demand segment tracks price change for commodities—goods, services, and construction—sold by producers to all portions of final demand (personal consumption, capital investment, government, and export).

### 5) **Pricing methods**

#### ~ *Margin prices*

TF members agreed that the existing pricing methods classification could be extended to include the case of margin prices (for wholesale and retail trade in particular) under “Price observed” category (see *Issues paper on SPPIs*, figure 1).

#### ~ *Treatment of FISIM*

David Friedman and André Loranger suggested that a section on FISIM pricing method could be included under the new category for margin pricing.

Nadim Ahmad (OECD) noted that any decision on the addition or otherwise of FISIM would necessary need to wait until after the final recommendations of the International Task Force on FISIM have been made (July 2011).

#### ~ *Use of CPI as proxies*

Regarding the use of CPIs as proxies, **TF members agreed that it will be sufficient to add a footnote to the relevant pricing method** (Direct use of prices of repeated services).

A number of examples exist concerning the use of CPIs as proxies for SPPIs. As for France, Alain Gallais specified that when CPIs exist and are of good quality, it's not necessary to make twice the price collection and support then the use of CPIs as proxies for some service industry. David Friedman mentioned that the US does not use CPIs as proxies; this seems like more a concept that is more relevant for countries that will focus on SPPI by destination of output.

**TF members agreed that the new Guide should include a section outlining countries' practices on the use of CPIs as proxies for SPPIs.** Dorothee Blang (Germany) proposed also to add guidance on how CPIs can be used for BtoC indices.

#### 6) Other issues

Yeonsuk Park (Korea) added that more guidance on price collection should be incorporated in the new Guide.

### 4. Compilation issues on SPPIs

Discussion of this session focused on compilation issues relevant to the revision of Chapter 3 – Practical aspects of the development process.

4.1. André Loranger presented a paper on *Issues related to initializing new respondents in a price survey* (Catherine Draper & André Loranger, Statistics Canada). The paper describes a new process currently being implemented at Statistics Canada for initializing new sample units with limited budget and resource constraints while ensuring that high quality requirements are met. The issues presented in the paper apply to all SPPI surveys but are based mainly on the Agency's experience with its distributive trades price surveys. The paper also highlights how the creation of a specialized initialization unit for introducing new sample units will improve the quality of the SPPI measurement program by:

- Standardizing the methodology for introducing new sampling units;
- Using experienced price specialists;
- Using a process tailored to the respondents;
- Targeting respondents and products;
- Decreasing the number of follow-up calls.

#### **Task Force members agreed to incorporate the Canadian experience in the Guide.**

However, they stressed that the Guide would need to acknowledge that the process might not be suitable for all countries because of cost burdens or geographical reasons and that it might be more appropriate therefore for the Guide to include some form of minimum requirement guidance.

4.2. Hina Kikegawa made a presentation on *Issues related to ad hoc / continuous quality adjustments*. The presentation highlighted the need for "continuous" quality adjustments necessary for services which provide capital flows based on the case of office space rentals. TF members generally recognized that the topic she raised should be considered in the editing process, however, some regarded the example she showed may not be an appropriate one. TF members agreed that the choice of example should be discussed further in the next meeting.

### 5. Specific Service Industries

### 5.1. Eurostat experience on SPPIs

Thomas Jaegers presented Eurostat's experiences on SPPIs and reminded participants that SPPI are part of Eurostat's short-term business indicators. In 2005 output prices for services became a mandatory requirement in EU countries for a range of service industries that were covered by the first edition of the SPPI Guide. As requested by the regulation, European countries produce mainly BtoB indices; however, not all countries produce SPPIs for all activities in particular for data processing, legal and accounting services, and employment activities.

The presentation highlighted the main SPPI key statistical concepts (coverage, data sources, collection frequency, sampling, missing value, and pricing methods) used by European countries and stressed the importance of using common definitions but not necessarily common methods across countries. Thomas Jaegers stressed that one of the objectives of the new SPPI guide might be to present different types of best practices for each service industry covered in the new Guide and to explain why a particular method works for a particular service industry.

### 5.2. Specific service industries in the 2006 SPPI Guide

The objective of the session was to provide background information on the service industries selected in the 2006 SPPI guide based on the: size of industries; speed of technical change; and national accounts requirements.

For each service industry, the session focused on the consequences of the use of ISIC 4 / NACE 2 as reference classifications and on whether the guidance provided requires updating. Presentations were made by the OECD "*Specific service industries in the 2006 SPPI Guide*", Hina Kikegawa (Japan) "*Model pricing methods in air passenger transportation service PPI*" and Yeonsuk Park (Korea) "*Method of pricing computer programming services in Korea*".

The following 19 service industries were discussed:

1. **Freight transport by road including furniture removal (4923 ISIC 4 / 49.41 & 49.42 NACE 2)**
  - ~ TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods, distinction between short and long distance (Alain Gallais France) and international transportation (Marcel Spanjaard, Netherlands).
  - ~ The main author is still to be chosen.
  
2. **Sea and coastal water transport (501 ISIC 4 / 50.10 & 50.20 NACE 2)**
  - ~ Classification changes impact on the SPPI coverage: ISIC 4 / NACE 2 introduce a distinction between passenger and freight water transport while the SPPI Guide covers only freight water transport.
  - ~ Guidance on passenger water transport which includes the use of CPI as proxies and the use of a separate survey could be added in the new Guide. However on this issue, Ulf Jonstad (Sweden) mentioned that the Swedish SPPI covers freight water transport only.
  - ~ Regarding the treatment of tramp shipping, Dorothee Blang (Germany) mentioned that they stopped this collection a few years ago.

- ~ Yeonsuk Park (Korea) added that some guidance on the use of exchange rate conversions should be added.
- ~ Alain Gallais (France) noted the possible addition of a reference to the Baltic Dry Index that is an index of global ocean freight costs, calculated on the price of transportation of several commodities (coal, metal and agricultural commodities) across 26 international maritime areas.
- ~ The TF members agreed on the need to **revise** this section.
- ~ **Ulf Jonstad (Sweden) volunteered to do the country practice write-up.**

### 3. Air transport (51 ISIC 4 / 51 NACE 2)

- ~ Classification changes impact on the SPPI coverage: ISIC 4 / NACE 2 introduce a distinction between passenger and freight air transport.
- ~ TF members agreed on the need to **revise** this section in order to mainly take into account the distinction between business and leisure travelers.
- ~ Hina Kikegawa (Japan) made a presentation on *Model pricing methods in air passenger transportation*. **TF members agreed that this presentation could be considered as a contribution for the new edition of the Guide.**
- ~ **Christian Puchter (Austria) agreed to contribute on quality adjustment methods.**

### 4. Warehousing and storage (5210 ISIC 4 / 52.10 NACE 2)

- ~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.
- ~ The main author is still to be chosen.

### 5. Cargo handling (5224 ISIC 4 / 52.24 NACE 2)

- ~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.
- ~ The main author is still to be chosen.

### 6. Post and courier activities (53 ISIC 4 / 53 NACE 2)

- ~ The TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods, and the consequences of the liberalization of postal services.
- ~ The main author is still to be chosen.

### 7. Telecommunication (61 ISIC 4 / 61 NACE 2)

- ~ Classification changes impact on the SPPI coverage and imply a **large revision**.
- ~ Some specific issues were discussed: distinction between business services and household consumption, methods for capturing the price of bundled service products, and methods for quality adjustment.
- ~ **Alain Gallais, Ildikó Hamvayné Holocsi (Hungary), Hina Kikegawa and Pam Davies (United-Kingdom) volunteered to do the country practice write-up.**
  - **Mobile phone: Hina Kikegawa and Pam Davies**
  - **Use of CPI as proxies: Pam Davies**
  - **Satellite and other communication: Ildikó Hamvayné Holocsi**

- **Multiple play: Alain Gallais (to confirm)**
- **External trade service telecommunication: Alain Gallais**
- **Model prices method: Hina Kikegawa**

#### **8. Computer programming, consultancy and related activities (62 ISIC 4 / 62 NACE 2)**

~ Classification changes impact on the SPPI coverage: some specific service sectors have moved across sections when compared with the previous ISIC/NACE systems. Division 62 of ISIC 4 *Computer programming, consultancy and related activities* does not include the following ISIC 4 sectors, parts of which were all previously covered under the same classification heading, Division 72 in ISIC 3:

1. Publishing activities including Software publishing (5820 ISIC 4 / 58.2 NACE 2);
2. Programming and broadcasting activities (60 ISIC / 60 NACE 2);
3. Data processing, hosting and related activities (6311 ISIC 4 / 63.11 NACE 2);
4. Repair of computers and peripheral equipment (9511 ISIC 4 / 95.11 NACE 2).

~ Classification changes and new economic developments imply a **large revision** of section 62 of ISIC 4 / NACE 2 and the inclusion of sections 58, 60 and 63 of ISIC 4 / NACE 2 in the new Guide.

~ Concerning section 62, Yeonsuk Park (Korea) made a presentation on *Method of pricing computer programming services in Korea* based on a new method that defines virtual software projects on the basis of size and quality. A software project's size is estimated by using "Function points" that quantify the functionality requested by and provided to the users. This project is based on Korean government regulation. TF members agreed that this presentation could be an interesting example of country practices for computer programming but may not be readily applicable to other countries (government regulation) and that further consideration would be needed to see if it should be included in the Guide.

~ **David Friedman volunteered to do a country practices write-up for Internet Publishing and Broadcasting and Web Search Portals (519130 NAICS) and Software publishing (5820 ISIC 4 / 511210 NAICS).**

~ The main author for Programming and broadcasting activities (60 ISIC / 60 NACE 2) and Data processing, hosting and related activities (6311 ISIC 4 / 63.11 NACE 2) is still to be chosen.

#### **9. Real estate activities with own or leased property (6810 ISIC 4 / 68.1 & 68.2 NACE 2)**

~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.

~ The main author is still to be chosen.

#### **10. Legal activities (6910 ISIC 4 / 69.1 NACE 2)**

~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.

~ The main author is still to be chosen.

**11. Accounting, bookkeeping and auditing activities; tax consultancy (6920 ISIC 4 / 69.20 NACE 2)**

~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.

~ The main author is still to be chosen.

**12. Activities of head offices; management consultancy activities (70 ISIC 4 / 70 NACE 2)**

~ ISIC / NACE 2 classification systems provide a breakdown including Activities of head offices. Given the difficulty in defining this activity, **the TF members agreed that Activities of head offices is out of the scope of SPPI.**

~ In consequence, the TF members agreed that this section requires **no revision** except classification changes and overview of national methods.

~ The main author is still to be chosen.

**13. Architectural and engineering activities and related technical consultancy (711 ISIC 4 / 71.1 NACE 2)**

~ The TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods, and distinction between pure engineering and bundled services including resale of goods (Alain Gallais).

~ The main author is still to be chosen.

**14. Technical testing and analysis (7120 ISIC 4 / 71.2 NACE 2)**

~ The TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods, index calculation for product vs. industry SPPI, and distinction between primary and secondary activity (Ildikó Hamvayné Holocsi).

~ The main author is still to be chosen.

**15. Advertising (7310 ISIC 4 / 73.1 NACE 2)**

~ The TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods, and quality adjustment methods.

~ The main author is still to be chosen.

**16. Market research and public opinion polling (7320 ISIC 4 / 73.2 NACE 2)**

~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.

~ The main author is still to be chosen.

**17. Employment activities (78 ISIC 4 / 78 NACE 2)**

~ ISIC 4 / NACE 2 provide a more detailed breakdown including:



- Activities of employment placement agencies (7810 ISIC 4 / 78.10 NACE 2)
- Temporary employment agency activities (7820 ISIC 4 / 78.20 NACE 2)
- Other human resources provision ((7830 ISIC 4 / 78.30 NACE 2)
- ~ The TF members agreed that this section requires **minor revisions** concerning: classification changes (move to ISIC 4 / NACE 2), overview of national methods and treatment of top model agency (Alain Gallais).
- ~ Dorothee Blang (Germany) mentioned that the treatment of ‘Other human resources provision’ is an issue and some specific guidance could be included.
- ~ The main author is still to be chosen.

#### 18. Security and investigation activities (80 ISIC 4 / 80 NACE 2)

- ~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.
- ~ The main author is still to be chosen.

#### 19. Cleaning activities (812 ISIC 4 / 81.2 NACE 2)

- ~ The TF members agreed that this section requires **no revision** except classification changes and overview of national methods.
- ~ The main author is still to be chosen.

#### 20. Other issues

- ~ Specific issues in terms of measurement and quality adjustment arise in the case of bundled transportation and communication services. **TF members agreed that it would be interesting to incorporate a specific section in the new guide on the treatment of bundled services. Contributors are not yet named.**
- ~ David Friedman suggested the addition of a concordance tables for classification systems: **the OECD agreed to add references to NAICS and ANZIC in the new Guide.**

### 5.3. New specific service industries for the 2011 SPPI Guide

This session considered the scope for extending the detailed guidance provided in the Guide to additional sectors where methodologies and compilation practices are already well established.

For supporting discussion, André Loranger (Canada) prepared two papers: *SPPI for distributive trade (Catherine Draper & André Loranger, Statistics Canada)* and *Price indexes for the professional service industries, issues and challenges (André Loranger & Mark Ruddock, Statistics Canada)*.

#### 1. Wholesale and retail trade

The paper on SPPI for distributive trade presented by André Loranger (Canada) is an important contribution for the addition of Wholesale and Retail trade in the new Guide. David Friedman supported the approach and the TF agreed to add this service industry to the Guide.

#### 2. Professional service industries

The paper presented methodological cross-cutting issues for professional service industries including Accounting (NAICS 5412 / ISIC 6920), Machinery & Equipment rental leasing (NAICS 532420 / 7730 ISIC), Informatics professional services (NAICS 5415 / ISIC 6201, 6202, 6209), Consulting engineering (NAICS 5413 / ISIC 7110) and Management consulting (NAICS 5416 / ISIC 70 et 74). The objective was to describe 1) the review of the pricing methodology used for these indices (initially based on the measurement of changes in the price of the labour input over time); 2) the various measurement issues and data quality concerns identified during this review (e.g. indexes do not capture changes in labour productivity, accrual principal of price recording is not followed); 3) presented the alternative pricing method proposed initially for the management consulting services and that would be suitable for use in measuring prices of both the Informatics and Engineering industries in the future.

TF members agreed that the paper provides the basis for inclusion in the Guide.

3. *Proposals for new service industries (still to be discussed at the next meeting):*
  - ~ **Waste Management: Denis Gac;**
  - ~ **Accommodation: Ulf Jonstad;**
  - ~ **Publishing of books & periodicals: Denis Gac;**
  - ~ **Software publishing (NAICS 511210 / 5820 ISIC 4): David Friedman;**
  - ~ **Internet Publishing and Broadcasting and Web Search Portals (NAICS 519130): David Friedman;**
  - ~ **Financial activities: Hina Kikegawa, Pam Davies and David Friedman;**
  - ~ **Insurance activities: Marcel Spanjaard and David Friedman;**
  - ~ **Health service industries: David Friedman;**
  - ~ **Research and development: Ruth Vizner (Israel).**

## **7. Conclusions of the meeting**

In discussions during the meeting there was a recognition that it would be optimal to capitalise as far as possible on the work already undertaken by the VG and in this sense a clarification of the working relationship between the TF and the VG would be constructive. The OECD agreed to contact the chair of the VG to achieve this clarification and to gain approval for the use of VG papers in the Guide. And André Loranger also suggested that the SPPI Guide should be added as an agenda item to the forthcoming VG in Newport.

## **8. Date of the next meeting**

The next meeting of the Task Force will be hosted by the ONS in Newport (United-Kingdom) on 26 & 27 September 2011. The OECD and Eurostat agreed to circulate an agenda by the end of June.