

August 30, 2002

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 Voorburg Group Meeting at Oerebro in September 2001, we have concentrated on revision work of the WPI from 1995 base to 2000. From 2001 through 2002, our most important goal is the revision of the WPI.

□.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 has been decided on September 2001. 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 has also been released at the same time. Please contact us for more information, as the available information at the statistics corner of the Bank of Japan website (http://www.boj.or.jp/siryo/siryo_f.htm) is currently in Japanese only.

The following are the contents of papers of our final plan for the index revision (issued in September 2001), and details of this plan (issued in July 2002).

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 will increase the number of price data from 4,902 to 8,265 (at mid of June 2002).

(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) Change of commodities to reflect the structural change in Japanese economy

We will change the selected commodities of the index series in the CGPI to reflect the structural change in Japanese economy. The number of newly introduced commodities in the CGPI will be 135, and abolished commodities in the CGPI will be 128. The total number of selected commodities in the CGPI will be 1,407.

(4) Expansion of the application of hedonic regression method

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 alleys from the index of January 1990 on 1990 base. From the index compilation of January 2001, this method has been expanded to the application for videocameras and camcorders, while abolished that for mainframe computers and magnetic disk alleys. The estimation has been revised every six months, and the new equations have been disclosed immediately since February 2001.

We will expand this method for network-servers (PC servers and UNIX servers) in the CGPI.

4). 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.) We will release details of chain-weighted index in the CGPI in this autumn.

(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.

5). Introduction of preliminary index and change of monthly release date

We currently release the results of WPI on the 6th business day of every month. To fill with not only reducing the burden of reporting companies but improving the accuracy of the index, from the beginning of January 2003, we will release the preliminary index of the CGPI in advance and revise it one month later, and delay the present monthly release date by a few days.

2. Release of working papers for the CSPI

We have released two working papers relating to service price index last year. They are compiled by the papers prepared for the 16th Voorburg Group Meeting last year with some modifications.

The paper "Corporate Service Price Index (CSPI): Telecommunications Services" is the first paper issued in October 2001.

The paper "QUALITY ADJUSTMENT OF SERVICE PRICES The Results of Quality Adjustment of the Corporate Service Price Index in 2000 and Future Implications for Handling Service Prices" is the second paper issued in November 2001.

Both papers are available at the Working Paper Series of the Research Papers corner on our website (http://www.boj.or.jp/en/ronbun/ronbun_f.htm).

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