



Introduction: the New Price Index Manuals

Presentation Points
PPI Manual Conference



Introduction

☉ Price Index Manuals

- ☐ CPI and PPI measure rates of change in prices of goods and services bought and sold by *consumers* and *producers*.
- ☐ Manuals serve needs of compilers as well as other users
- ☐ No set of simple rules or procedures will be sufficient
- ☐ Manuals provide both the “how” as well as the reasons “why”



Background to Present Revision

- ❖ “Standard” index methods date back 80-90 years (Mitchell and Knibbs)
- ❖ Index number theory has advanced to give us better information on target index formula
 - ❑ Fixed basket and symmetric averages of standard formulas
 - ❑ The stochastic (statistical estimator) approach
 - ❑ The test or axiomatic approach
 - ❑ The economic approach
 - ❑ The Fisher, Walsh, and Törnqvist indices emerge as “best”



Background to Present Revision

- Concerns with current index methods
 - Standard Laspeyres index is not always used
 - Weight period and base price period differ
 - In practice, Lowe and Young indices are used
 - Different formulas are used at different stages
 - Unweighted at the elementary (first stage) level
 - Weights usually applied during aggregation to higher levels
 - Such indices are of lesser quality than the target indices (Fisher, Walsh, or Törnqvist)



Background to Present Revision

- Treatment of quality change and new goods
 - Few attempts to make quality adjustments
 - New goods only added with weight updates
- Treatment of seasonal products
 - Seasonal price changes distort month-to-month price movements
 - Standard approaches may not be adequate to handle seasonal products



Background to Present Revision

- ❖ Limited number of service items in CPI and PPI
 - ❑ Most CPIs have limited coverage of service items
 - ❑ Most PPIs limited to industrial activities
 - ❑ Growth sectors are in services, which may be difficult to measure
- ❖ Different indices may be needed for different users, e.g.,
 - ❑ Different population coverage for CPIs
 - ❑ Output versus input PPIs
 - ❑ Standard versus analytical indices



Background to Present Revision

- Efforts to address index methods concerns
 - Formation of “Ottawa Group” in 1994
 - Voorburg Group expanded to include activities on PPI for services
 - Establish IWGPS in 1998 to revise the two price statistics manuals:
 - ILO CPI Manual (published 1989)
 - UN PPI Manual (published 1979)



Organization for the Revision

- Seven International Agencies concerned with inflation and inflation policies:
 - ILO, IMF, ECE, OECD, World Bank, Eurostat, and UNSD
 - Core Group serving on IWGPS
- CPI and PPI Manuals closely linked
 - Technical expert groups on both CPI and PPI
 - National statistical offices and academic experts also serve on TEGs



Acknowledgements

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- ⊕ CPI and PPI Manual seminar participants



Overview of the draft PPI Manual

- ✚ Sequence of chapters
 - ▣ Chapters 1-13 focus on compilation
 - ▣ Chapters 14-22 provide concepts and theory
 - ▣ Glossary of terms
 - ▣ Bibliography



Overview of the PPI Manual

Foreword

Preface

Reader's guide

- 1. Introduction to PPI methodology**
- 2. Background, purpose, and uses of PPIs**
- 3. Coverage and classifications**
- 4. Weights and their sources**
- 5. Sampling issues in price collection**
- 6. Price collection**
- 7. Treatment of quality change**
- 8. Item substitution, sample space, and new goods**
- 9. PPI calculation in practice**
- 10. Treatment of specific products**
- 11. Errors and bias in the PPI**
- 12. Organization and management**

13. Publication, dissemination, and user relations

14. The system of price statistics

15. Basic index number theory

16. The axiomatic and stochastic approach

17. The economic approach

18. Aggregation issues

19. Price indices using an artificial data set

20. Elementary indices

21. Quality change and hedonics

22. The treatment of seasonal products

Glossary

Bibliography

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Overview of the PPI Manual

- ✚ Alternative reading plans:
 - Not all readers will want to read all chapters
 - The Preface, Chapters 1-3, and Chapter 14 are meant for all readers
 - Chapters 4-13 are primarily for compilers, although many users will have interest in selected topics, particularly chapter 11
 - Chapters 15-22 will be of special interest to economists and students of economics although many compilers will find chapters 15 and 19 of special interest



Overview of the PPI Manual

✚ Substantial Bibliography

- ▣ *Manual* has just one list of references in a bibliography at the end
- ▣ Represents up-to-date sources of theory and practice for price indices



Where to Find Draft Manual Chapters

✚ CPI Manual on ILO website:

www.ilo.org/public/english/bureau/stat/guides/cpi/index.htm

✚ PPI Manual on IMF website:

www.imf.org/external/np/sta/tegppi/index.htm

✚ Manuals are “living” documents to be updated periodically.