VOORBURG GROUP 2004

PROGRESS REPORT; KOREA

1. The main achievements

i. Development of the Construction Price Index

KICT (Korea Institute for Construction Technology; http://www.kict.re.kr) has recently developed a Construction Price Index and has released the figures monthly since Jan 2004. The time series goes back to 2000. The Construction Price Index covers building construction and civil engineering, and has 17 items; residential & non-residential buildings, roads, subways, sewage, water supply, electric facilities etc. The weight system is based on the input structure of the construction industry from the I-O tables 2000 year. PPI and unit labor costs are used as the main price data. So the Construction Price Index does not directly reflect market prices, but is quite close to the standard costs of the construction industry.

ii. The Revision of the Service PPI

The Bank of Korea completed the revision of service PPI (2000 base year index) in July 2003. The number of the items of the service PPI increased to 77 from the 75 of the 1995 base year index; 7 items were dropped and 9 newly introduced. Subway fares and local bus fares were omitted because they have the characteristics of personal services and are also included in the CPI system (compiled by KNSO). On the other hand, courier services, credit card member-shop commission, car rental services, internet access services, computer repair services and guard & security services were newly included. The weight of the service PPI in the total PPI system (weight total 1,000) went up to 294.2 from the 231.8 of the 1995 base year index. The output value of I-O table 2000 year was used as the universe of service PPI.

No of items and weight of service PPI

	No of items		Weight	
	1995	2000	1995	2000
Commodities	874	846	768.2	705.8
Services	75	77	231.8	294.2
PPI total	949	923	1,000.0	1,000.0

iii. Introduction of ICT Grouping PPI

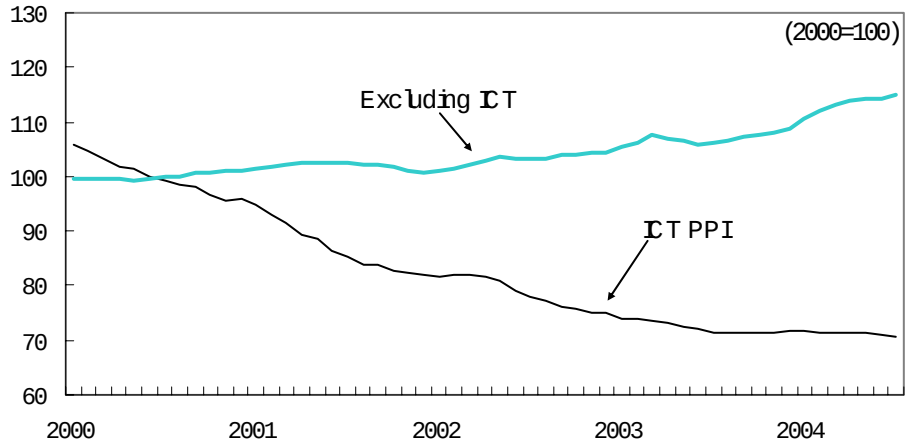
The Korean PPI system has basic groupings in accordance with the KSIC (Korean Standard Industrial Classification) and the newly adopted ICT grouping in the 2000 base year index. The guide lines for ICT classification come from the OECD ICT classification system. The weight of the ICT group doubled to 160.0 in 2000 from 86.1 in 1995 and makes up 16% of the PPI weight system. The number of ICT items increased also to 82 in 2000 from 65 in 1995. The major ICT items are mobile phone services (weight 18.7), computer programming services (weight 14.5), TFT-LCD(weight 10.8), MOS-memory(weight 10.5), personal computers(weight 10.3) and mobile phones(weight 9.3).

The ICT group in PPI system

	No of items		Weight	
	1995	2000	1995	2000
Commodities	55	68	54.6	100.8
Services	10	14	31.5	59.2
Total	65	82	86.1	160.0

The price movements of the ICT group show a steady downward pattern because of the large increase in their productivity and the rapid development of ICT technology. The rapid growth of ICT industry gives it more influence on domestic price movements and has made an annual contribution of a 0.87%p decrease in the PPI and a 0.25%p decrease in the CPI since 2000.

The trend of ICT PPI



KAIT (Korea Association of Information & Technology; http://www.kait.or.kr) has published a monthly ICT bulletin since 1977 which contains basic ICT statistics including production, domestic sales, export & import, no of companies, employees, telecommunication facilities, no of subscribers, etc. The monthly ICT bulletin encompasses not only ICT commodities but also ICT services and has more detailed its own classification system. So it gives very useful data for compiling the PPI.

***iv*. Short Term Indicators**

KNSO (Korea National Statistical Office; http://www.nso.go.kr) has published a service industry activity index monthly since 1999 that explains the economic conditions of the service industry using an activity index. The service activity index is compiled on the basis of production and includes wholesale & retail trade, hotels & restaurants, transportation, post & telecommunication, financial institutions & insurance, real estate renting & leasing, business activities, education, health & social work, recreational cultural & sporting activities and other community services and repair & personal service activities.

KAIT publishes the above mentioned monthly ICT bulletin explaining the economic conditions and activities of the ICT industry, and also supplying valuable ICT statistical data.

2. The main issues and challenges

The elementary service statistics published by KNSO, the annual report on the survey of service industry, are not enough to make up the universe of service PPI. So the basic trade data for the universe of service PPI comes from the output value of the I-O tables, a very vast and long-range work, which is compiled very late compared to other statistics. So the revision of the PPI was finished one and a half years after the revision of the CPI. KNSO is trying to expand the coverage of the survey of the service industry, but some service industries, i.e. financial intermediation, public administration and defense, remained un-surveyed so far.

The statistics of the service industry survey are collected on the base of KSIC classification system. But KSIC is not detailed enough to establish the items of service PPI. Now KCPC is under development by KNSO, but the progress of KCPC development is well far behind schedule, because of budgetary constraints and technical problems. The CPC system is not directly applicable to the Korean economy,

because the economic environment is very different from Western countries.

Non-profit services, i.e., public administration & defense, health & social work, do not have a correct price concept. And some profit service industries such as wholesale & retail trade, financial intermediation, broadcasting, research & development also lack a proper concept of price. So it is impossible to survey prices and to compile the price index in these service industries. What is the correct concept of price in these service industries? This is a very difficult problem that we must solve comrades.

Usually many service industries have diversified service products according to user differing from the commodity industry that produces pre-designed forms of regular products by machine. Service products are traded in a variety of discount practices, for example hotel charges varies according to the time of the day (cheap late at night), the day of the week and the request of the customer (negotiation). Bond underwriting commissions dropped in the 2000 base year index, because the rate of commission varies in every trade depending on the bargaining strength of the issuer despite the existence of standard commission rates of list. So it is very difficult to survey a representative price of the service and to measure the correct price changes. This is the reason why service PPI has more specifications than dose the commodity index. More budgetary assist and manpower is needed to enhance the quality of the service PPI, but the reality of price statistics seems to be on the other side.

3. Future topics of interest

A more detailed service product classification system than ISIC is needed in the work of compiling service PPI. And a correct concept of price in some services must be established for the development of the service PPI. But all this will take time. The development of a special method of price survey such as model pricing, average pricing, or large size price sampling for some service products is needed to enhance the quality of service PPI.