

The Dutch PPI for Operational Car Lease

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Dutch Car Lease PPI

Operational car lease: the long term provision of a car of a guaranteed quality.

The most interesting aspect for a price statistician is the form of payment: the monthly fees are constant during the entire lease-term.

Two indices are possible:

- 1) An index of the price levels at which new contracts are closed, the 'New Contract Index'.**
- 2) The true PPI, based on the prices of the entire lease fleet.**



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Option 1. The New Contract Index

The only new prices in the market are those of new contracts, because once set, the monthly fee stays fixed for the entire lease-term.

This monthly fee is the only price; no other prices exist.

Market parties consider as price movement: the change of the price level at which new contracts are concluded.



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Option 2. The true PPI

A true PPI is based on all transactions that take place in the respective periods.

For operational lease, transactions pertain not only to the contracts that are closed in the respective periods but also to contracts from previous survey periods that are still running.

There are true prices related to these older contracts, although the prices are not new and do not change.

Therefore, the PPI has to take all running contracts (the total lease fleet) into consideration.



Dutch Car Lease PPI

Generation of cars	Price level	Contracts running	
		T = 4	T = 6
1	100		
2	100	X	
3	104	X	
4	108	X	X
5	105		X
6	108		X
7	109		



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Option 1. The New Contract Index

Price movement is the change of price of car generation 4 to generation 6

Generation of cars	Price level	Contracts running	
		T = 4	T = 6
1	100		
2	100	X	
3	104	X	
4	108	X	X
5	105		X
6	108		X
7	109		



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Option 2. The true PPI

Comparison of the average price in periods 4 and 6

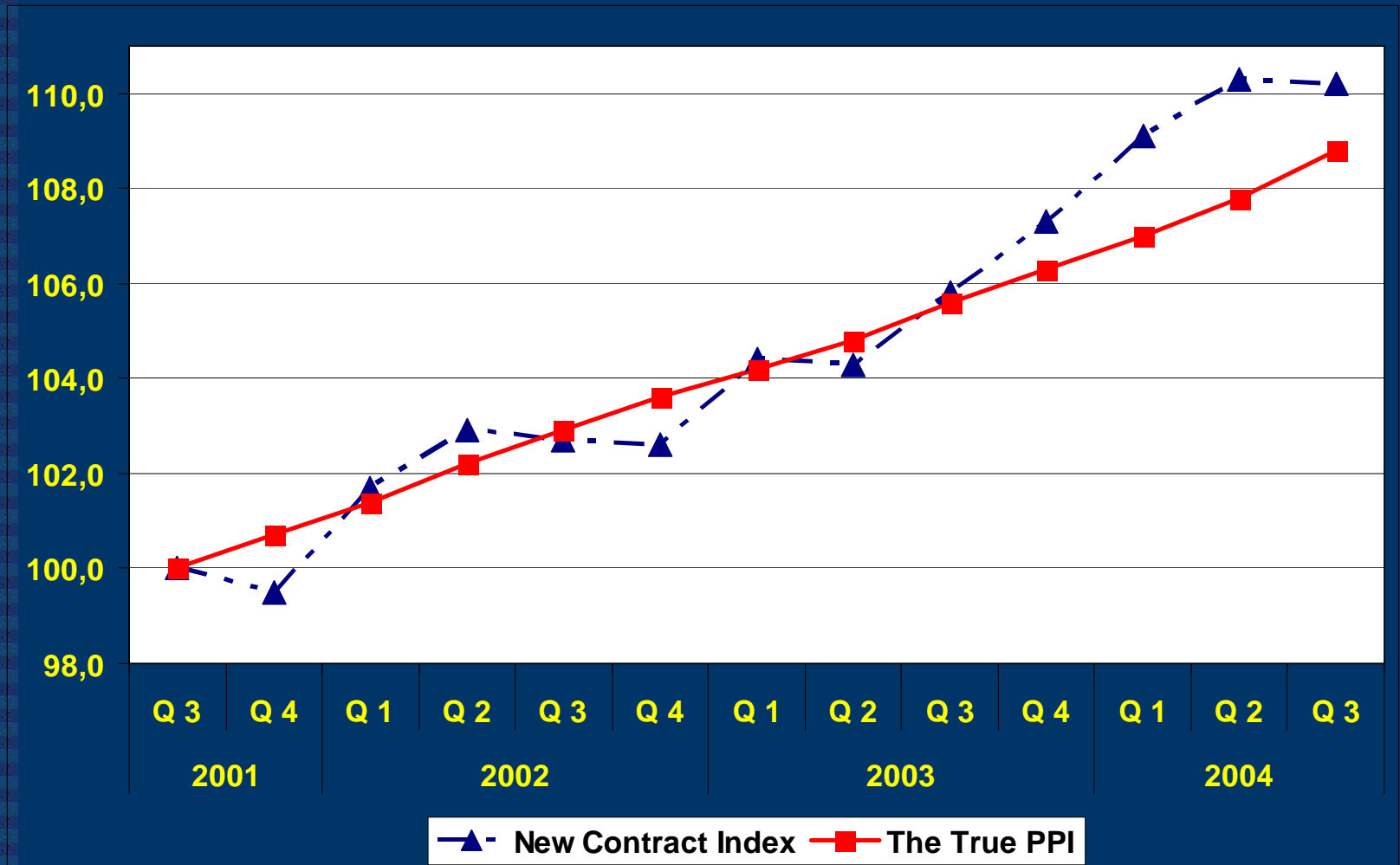
Generation of cars	Price level	Contracts running	
		T = 4	T = 6
1	100		
2	100	X	
3	104	X	
4	108	X	X
5	105		X
6	108		X
7	109		
Average price of all running contracts		104	107

The table shows the price level for each generation of cars and the status of contracts running at two different time periods, T=4 and T=6. The price levels are 100, 100, 104, 108, 105, 108, and 109 for generations 1 through 7, respectively. Contracts are running for generations 2, 3, 4, 5, and 6 at T=4, and for generations 4, 5, and 6 at T=6. The average price of all running contracts is 104 at T=4 and 107 at T=6. Green circles highlight the price levels 108 for generations 4 and 6, with a green arrow pointing from 108 to 108. Cyan circles highlight the average prices 104 and 107, with a cyan arrow pointing from 104 to 107.



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Car lease index (2001q3=100), the two options compared.



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Conclusion

There are two valuable indices, based on different concepts:

- **The New Contract Index is based on the price levels at which new contracts are closed. This index reflects market parties' perception of price movement.**
- **The true PPI is based on the prices paid under all running lease contracts.**

Only the true PPI includes all transactions.

The true PPI agrees with SNA '93, as services enter the index when provided, i.e. continuously during the entire multi-year lease-term.

