SPPI for Banking Services in Canada

24th Voorburg Group Meeting

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Oslo, Norway
September 14th to 18th, 2009
## User Needs

<table>
<thead>
<tr>
<th>Users</th>
<th>Purposes</th>
<th>Needs</th>
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<tbody>
<tr>
<td>SNA</td>
<td>Deflate output</td>
<td>- Implicit fees on loans (mortgage &amp; non-mortgage) and deposits</td>
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<tr>
<td></td>
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<td>- Explicit fees</td>
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<td></td>
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<td>- Booked in Canada</td>
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<td>BoC, Finance, Industry</td>
<td>Inform Financial Regulation</td>
<td>- SPPIs by product line (e.g. mortgage loans, small business loans,</td>
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<td>Canada, Others?</td>
<td>Productivity Research</td>
<td>deposits, brokerage services, investment banking, securitization, etc)</td>
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<td></td>
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<td>- SPPIs by type of financial firm (Schedule I, II, III banks, Credit</td>
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<td>Unions, etc)</td>
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<td>- Booked worldwide</td>
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<td>Producer Price Division</td>
<td>Aggregate PPI to measure overall</td>
<td>- Indexes for NAICS and eventually NAPCS</td>
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<td></td>
<td>producer price trends</td>
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**Table:**
- **Users:** SNA, BoC, Finance, Industry Canada, Others?
- **Purposes:** Deflate output, Inform Financial Regulation, Productivity Research
- **Needs:** Implicit fees on loans (mortgage & non-mortgage) and deposits, Explicit fees, Booked in Canada, SPPIs by product line, SPPIs by type of financial firm, Booked worldwide, Indexes for NAICS and eventually NAPCS
Development Objectives (1)

- Produce an SPPI for 5-digit NAICS 52211 Banking

- Would like to produce SPPIs at 6-digit NAICS;
  
  - 522111 Personal and Commercial Banking Industry
  
  - 522112 Corporate and Institutional Banking Industry
Development Objectives (2)
SPPIs by product line

Table 1: Product Lines

<table>
<thead>
<tr>
<th>Product Lines</th>
<th>Schedule I</th>
<th>Schedule II</th>
<th>Schedule III</th>
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<tbody>
<tr>
<td>Personal loans for non-business purposes</td>
<td>In scope</td>
<td>In scope</td>
<td>Not in scope</td>
</tr>
<tr>
<td>Other non-mortgage loans</td>
<td>“</td>
<td>“</td>
<td>“</td>
</tr>
<tr>
<td>Residential mortgage</td>
<td>“</td>
<td>“</td>
<td>“</td>
</tr>
<tr>
<td>Non-residential mortgage</td>
<td>“</td>
<td>“</td>
<td>“</td>
</tr>
<tr>
<td>Demand and notice deposits</td>
<td>“</td>
<td>“</td>
<td>“</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>“</td>
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Issues (1)

- What is the appropriate choice of a reference rate for risky loan assets?

- Should it be the risk free rate or should it comprise rates containing some risk premium, such as the securities rate?
Issues (2)

- What is the appropriate choice of reference rate for fixed-term deposits?

- Would the medium-term risk free government bond rates be more suitable than the securities rate?
The experimental banking SPPIs calculated to date exhibit a great deal of volatility. This effect can make trends in our indexes more difficult to identify.

Does it make sense to smooth the series, and if so, how?
Key players and products lines have been quite stable throughout the period under review.

We are considering updating the basket (product lines and their weights) every 5 years. Is this sufficient for this industry?
Issues (4)

- What about quality change?

- We are studying quality change for banking services,
  - Can we qualify it? (ABMs, internet banking, longer hours, …)
  - Can we quantify it? (hedonics, production cost, …)
  - Can we adjust for it? (implementation)