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# Quality Change for Services Producer Price Indexes (SPPI)

**Voorburg Group 2013  
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# Results of consultations with Ottawa Group

- Presented Andre's 2012 VG paper to Ottawa Group May 1<sup>st</sup>, 2013



## Goals

1. Consult with price experts to obtain further opinions and guidance on quality adjustment of SPPIs
2. Opportunity for interaction between Voorburg Group and Ottawa Group

# Services Producer Price Indexes

- SPPIs are the output PPIs of services industries.  
*“The principal conceptual basis for the output PPI is the fixed input-output price index (FIOPI). The output PPI thus aims to measure an output price index constructed on the assumption that inputs and technology are fixed.” PPI manual, 7.44*

# Questions

1. Are there service industries for which a consumer utility approach would be a better conceptual basis for quality adjustment?
2. Where in the System of National Accounts would we account for the conceptual source of the discrepancy between CPI-based deflators of final demand and PPI-based deflators of service industry outputs?
3. Is the underlying good part of the distributive trade service? Should the changes in the quality of the good sold be included when quality adjusting the distributive trade service?

## Feedback

- Very positive feedback that the two groups need to work together on difficult issues.
- Quality adjusting services is also challenging for the CPI.
- Follow SNA concepts and stick to one or the other.
- Be careful using purchaser prices when adjusting for quality changes. (SPPIs should measure basic prices not purchaser prices)

## Feedback (2)

- Some support for a consumer utility approach
  - Difficulty reconciling different value of service from a consumer and producer perspective
  - Common output would be different with the two measures
- Further example to work through:
  - Quality change of more addictive cigarette:
    - quality improvement to the manufacturer but, possible decline in quality to consumer
  - Using the Air Transport example, reconfiguration in seating would be a decline in quality to existing passengers. New pricing could open up the market to new customers who can now afford the new price.



# Possible future steps