BUSINESS SERVICE PRICE INDEX

OFFICE OF ECONOMIC ADVISOR
MINISTRY OF COMMERCE AND INDUSTRY
GOVERNMENT OF INDIA
NEW DELHI
INTRODUCTION

• India’s GDP growth since the 90’s has been led by services sector
• Service sector growth has increased from 8.0% in 2012-13 to 9.1% in 2013-14 and further to 10.6% in 2014-15.
• Service sector accounted for 31.7% of GVA at factor cost at current prices during the period 2011-12 to 2013-14
• Currently India estimates Wholesale Price Index which covers only goods and not services
• However the Consumer Price Index in India covers some services like housing, education, health etc. but at B to C and not B to B level.
• Decision to include service sector prices in WPI/ PPI in India taken in principle
• Currently development of business service sector price indices is at an experimental stage
• Efforts are on to include both B to B and B to C services
CURRENT STATUS OF DEVELOPMENT OF BUSINESS SERVICE PRICE INDEX IN INDIA FOR INCLUSION IN WPI/PPI

• Decision to cover ten broad business services initially in India
  1) Railways
  2) Air Transport
  3) Road transport
  4) Port
  5) Postal
  6) Telecommunication
  7) Banking
  8) Insurance
  9) Trade
  10) Business Services
CURRENT STATUS OF DEVELOPMENT OF BUSINESS SERVICE PRICE INDEX IN INDIA FOR INCLUSION IN WPI/PPI

• So far five business service indices have been compiled on an experimental basis
  1. Rail
  2. Air transport
  3. Banking
  4. Postal
  5. Telecom
• Fixed base Laspeyres’ method has been used in all cases as is currently being done for Wholesale Price Index estimation
All indices are expected to be integrated as per the following framework:
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<th>RAILWAY SERVICE PRICE INDEX</th>
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<tbody>
<tr>
<td><strong>Base Year</strong></td>
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<tr>
<td><strong>Frequency</strong></td>
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<tr>
<td><strong>Components</strong></td>
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<tr>
<td><strong>Price of freight service</strong></td>
</tr>
<tr>
<td><strong>Weight for freight service</strong></td>
</tr>
<tr>
<td><strong>Price for passenger service</strong></td>
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<tr>
<td><strong>Weight for passenger service</strong></td>
</tr>
<tr>
<td><strong>Data availability so far</strong></td>
</tr>
<tr>
<td><strong>Data sources</strong></td>
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</tbody>
</table>
RAILWAY SERVICE PRICE INDEX

Weighting diagram of RSPI

Weighting of Freight
- Coal: 43.08%
- Raw Material-S.P: 4.27%
- Iron & Steel-S.P: 4.60%
- Iron Ore: 5.08%
- Cement: 7.65%
- Foodgrains: 9.73%
- Fertilizers: 3.91%
- Mineral Oil (P.O.L): 8.80%
- Others Goods: 12.88%

Weighting of Passenger
- Sub Urban: 18.02%
  - 1st Class: 1.06%
  - 2nd Class: 16.97%
- Non Sub Urban: 81.98%
  - AC 1st Class: 0.11%
  - AC II Tier: 1.34%
  - AC III Tier: 1.91%
  - First Class: 0.33%
  - AC Chair Car: 0.62%
- First Class (1.06%)
- AC 1st Class (0.11%)
- AC II Tier (1.34%)
- AC III Tier (1.91%)
- First Class (0.33%)
- AC Chair Car (0.62%)
## BANKING SERVICE PRICE INDEX

<table>
<thead>
<tr>
<th>Base Year</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Monthly</td>
</tr>
<tr>
<td>Components</td>
<td>Direct services (for which bank charges fees, commissions and brokerages) and Intermediation services (accepting deposits and giving loans and advances)</td>
</tr>
<tr>
<td>Price of Direct service</td>
<td>Fees, commissions, brokerages charged by the banks</td>
</tr>
</tbody>
</table>
| Price for Intermediation services | Loan price = Interest rate received on loans reference rate  
Deposit price = Reference rate Interest rate paid on deposits  
Weighted average yield to maturity (YTM) of Central Government securities with residual maturity between 1 and 5 years be used as a reference rate. |
The weighting diagram used for the intermediation services is calculated as the average of the amount outstanding as on 31st March 2004 and 31st March 2005 and for the direct services, it is calculated on the basis of total income from these services during the year 2004-05.

<table>
<thead>
<tr>
<th>Data availability</th>
<th>April 2004 to April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Sources</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>Base Year</td>
<td>2004-05</td>
</tr>
<tr>
<td>-----------</td>
<td>---------</td>
</tr>
<tr>
<td>Frequency</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
| Components | • Postal Services related to letters  
• Postal services related to Parcels  
• Post Office counter services  
• Other services |
| Price | Since the tariffs/charges are weight sensitive and/or distance sensitive all the tariffs/charges classified by different categories within a service have been treated as different entities e.g. an envelope with weight up to 20 grams has been treated as a separate entity than an envelope in excess of 20 grams. |
## POSTAL SERVICE PRICE INDEX

<table>
<thead>
<tr>
<th>Weighting diagram</th>
<th>Weights assigned on the basis of estimated revenue of each item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data availability</td>
<td>April 2005 to May 2014</td>
</tr>
<tr>
<td>Data source</td>
<td>Department of Posts</td>
</tr>
</tbody>
</table>
Postal SPI (100%)

Postal related to letter (34.35%)

Postal Service related to parcel (4.88%)

Other services (19.62%)

Post office counter service (41.15%)

National (32.92%)

International (1.43%)

National (40.80%)

International (0.35%)
### TELECOM (CELLULAR) SERVICE PRICE INDEX

<table>
<thead>
<tr>
<th>Base Year</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Monthly</td>
</tr>
<tr>
<td>Components</td>
<td>Telephone call and Short Messaging Service</td>
</tr>
<tr>
<td>Price of Call</td>
<td>Average Subscriber Outgo per Outgoing Minute</td>
</tr>
<tr>
<td>Weight of call</td>
<td>Weights to the item call have been assigned on the basis of the share of the estimated revenue of calls to the total revenue generated in call and SMS categories.</td>
</tr>
<tr>
<td>Price of SMS</td>
<td>Derived as the average revenue per subscriber per SMS</td>
</tr>
<tr>
<td>Weight of SMS</td>
<td>Weights to the items SMS have been assigned on the basis of the share of the estimated revenue of SMS item to the total revenue generated in call and SMS categories.</td>
</tr>
</tbody>
</table>
**TELECOM (CELLULAR) SERVICE PRICE INDEX**

<table>
<thead>
<tr>
<th>Final weighting diagram</th>
<th>The index is first compiled at the item level, for both GSM &amp; CDMA services. Then, the GSM &amp; CDMA services are combined by allocating the weight to GSM &amp; CDMA categories on the basis of estimated revenue in the base year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data availability</td>
<td>April 2009 to December 2014</td>
</tr>
<tr>
<td>Data source</td>
<td>Telecom Regulatory Authority of India</td>
</tr>
</tbody>
</table>
TELECOM (CELLULAR) SERVICE PRICE INDEX

WEIGHTING DIAGRAM

Telecom SPI (100%)

GSM (89.69%)

CALLS (90.62%)

SMS (9.38%)

CDMA (10.31%)

CALLS (97.93%)

SMS (2.07%)
## AIR SERVICE PRICE INDEX

<table>
<thead>
<tr>
<th>Base Year</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
| Components | • Passenger services  
• Freight services |

<table>
<thead>
<tr>
<th>Price of freight service</th>
<th>Unit price is arrived by dividing total monthly revenue earning for a selected airline by total monthly Tonne Km. for the airline.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight of freight service</td>
<td>Weights are assigned to the routes based on Passenger Km</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price for passenger service</th>
<th>Unit price is arrived by dividing total monthly revenue earning in a route of the selected Airline by total monthly passenger Km of the route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight of passenger service</td>
<td>Weights are assigned to the routes based on Tonne Km.</td>
</tr>
</tbody>
</table>
### Weighting diagram

For developing composite index, the weights for passenger and freight services are arrived by dividing the revenue earned in these services by total revenue earned by both services put together respectively.

### Data availability

April 2011 to February 2013

### Data sources

Director General of Civil Aviation
AIR SERVICE PRICE INDEX

- Air Service Price Index (Composite)
- Freight Index
- Passenger Index
A. Insurance Service Price Index
   a) Life insurance
   b) General insurance

B. Port Service Price Index
   a) Port related charges
      i. Bulk handling and storage charges
      ii. Container handling and storage services
   b) Vessel related charges
      i. Port and dock charges
      ii. Pilotage and towage fees
      iii. Berth hire charges
   c) Miscellaneous charges
      i. Dry docking charges
      ii. Cranage
      iii. Quay dues
      iv. Anchorage charges
      v. Craft hire charges
      vi. Salvage and underwater repairs
C. Road Transport Service Price Index
   a) Freight

D. Trade Service Price Index
   a) Wholesale trade except of motor vehicles
   b) Retail trade (except of motor vehicles)
   c) Repair of personal household goods
   d) Maintenance and sale of motor vehicles

E. Business Service Price Index
   a) Renting of machinery and equipment
   b) Computer relating services
   c) Research and Development
   d) Other Business activities
      i. Legal
      ii. Book keeping, accounting and auditing
      iii. Tax consultancy
      iv. Advertising
CHALLENGES

1. Conceptual and methodological complexities relating to definition of price of service, for instance in case of insurance and trade.

2. Data flow is very restricted- mostly confined to public sector.

3. Issues relating to data flow from private sector companies, for instance, private courier services:-
   i. No data readily available for private sector
   ii. No mechanism to collect the data as no statistical frame for service sector industry exists
   iii. Annual survey of service sector indices on the anvil

4. Consideration for use of statutory provision to make it compulsory for firms to respond with price statistics

5. Turnover statistics on services sector not readily available in a consistent manner leading to problems in fixing weighting diagram.
THANK YOU

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