

Glossary

Accrual accounting

Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished; this means that flows which imply a change of ownership are entered when ownership passes, services are recorded when provided, output is entered at the time products are created and intermediate consumption is recorded when materials and supplies are being used.

Some services are special in the sense that they are characteristically supplied on a continuous basis. Examples are operating leasing, insurance and housing services (including those of owner-occupied dwellings). These services are recorded as provided continuously over the whole period the contract lasts or the dwelling is available.

Acquisition and selling prices

Acquisition and selling prices refer to a data type in a price survey. The difference between the two allows for calculation of a margin price. The acquisition price is the cost to purchase a good or a service from the supplier excluding any taxes and rebates while the selling price is the cost to the purchaser excluding any taxes and transport charges.

Aggregate

A set of transactions relating to a defined flow of goods and services, such as the total output produced by resident establishments in a given period, or the total purchases of intermediate inputs made by resident establishments in a given period. The term “aggregate” also is used to mean the value of the specified set of transactions.

Aggregation

The process of combining or adding, different sets of transactions to obtain larger sets of transactions. The larger set is described as having a higher level of aggregation than the sets from which it is composed. The term “aggregation” also is used to mean the process of adding the values of lower-level aggregates to obtain higher-level aggregates. It also is used to mean the process by which price indices for lower-level aggregates are averaged, or otherwise combined, to obtain price indices for higher-level aggregates.

Ancillary activity

A supporting activity undertaken within an enterprise in order to create the conditions within which the principal or secondary activities can be carried out.

Base period

The base period generally is understood to be the period with which other periods are compared and whose values provide the weights for a price index. However, the concept of the “base period” is not a precise one and may be used to mean rather different things. Three types of base periods may be distinguished:

1. The price reference period, that is, the period whose prices appear in the denominators of the price relatives used to calculate the index; or
2. The weight reference period, that is, the period usually a year, whose values serve as weights for the index. However, when hybrid expenditure weights are used in which the quantities of one period are valued at the prices of some other period, there is no unique weight reference period; or
3. The index reference period, that is, the period for which the index is set equal to 100.

The three reference periods may coincide but frequently do not.

Basic price

The basic price is the amount receivable by the producer from the purchaser, for a unit of service produced as output, minus any taxes on services payable, and plus any subsidies receivable by the producer as a consequence of its production or sale. The basic price includes any applicable discounts, rebates, and surcharges that may apply to customers. It excludes any transport charges invoiced separately by the producer.

Billable hours (Billable working hours)

The number of hours used to produce a good or service billed to the client. Revenue for the service divided by billable hours results in a unit value (also known as realised hourly rates and fee income per grade of worker). Billable hours are used in pricing methods based on working time.

Bundle (bundling of services)

Bundling is also referred to as package tie-in and tends to occur when one product is sold in combination with another as a requirement for the sale.

Bundling of products may be a source of economies or efficiencies for the producer, part of which may be reflected in a lower composite price for the buyer than if all the different products were supplied or bought separately. However, bundling may also make it difficult for firms to enter different product segments of the market.

The competition implications of bundling, including that of tied selling generally, are complex and need to be evaluated on a case by case basis adopting a rule of reason approach.

Business enterprise

An enterprise is a term in the commercial world used to describe a project or venture undertaken for gain. It is often used with the word "business" as in "business enterprise". Usually, by extension, it refers to the business entity carrying out the enterprise and is thus synonymous with "undertaking", "company" or "firm".

Chain indices

Chain indices are obtained by linking price (or volume) indices for consecutive periods; the short-term movements which are linked are calculated using weighting patterns appropriate to the periods concerned.

Chain linking

Joining together two indices that overlap in one period by rescaling one of them to make its value equal to that of the other in the same period, thus combining them into a

single time series. More complex methods may be used to link together indices that overlap by more than period. Also known as “chaining”.

Charge-out rate

The price charged per unit in pricing based on working time methods. Normally this is an hourly rate charged to a client for services and designed to recover all costs of providing the service.

Component pricing

Component pricing is a pricing method that divides a service into a number of key output sub-components of which one or more are then priced separately.

Contract pricing

Contract pricing is a pricing method that uses real transaction prices when the same producer for the same client repeats the services across survey periods. Prices of contracts are agreed for more than one period when the contract is signed or renewed.

Data type in the survey

Typical data surveyed by a compiler from a respondent: real transaction price, list price, revenue and amount sold, acquisition and selling prices, percentage fee and related value, expert estimate, and input data. The pricing method transforms these data into prices ready for standard PPI compilation procedures.

Deflation

The division of the value of some aggregate by a price index - described as a “deflator” - to revalue its quantities at the prices of the price reference-period or to revalue the aggregate at the general price level of the price reference period.

Double-deflation

A method whereby gross value added at constant prices is derived by subtracting the value of intermediate inputs at constant prices from the value of output at constant prices. The method is feasible only when the values at constant prices are additive such as those calculated using a Laspeyres’ formula (either fixed-base or for estimates expressed in the previous year’s prices).

Derived prices

A price that is not observed but rather calculated based on other variables. When developing margin price indexes for wholesale trade services and retail trade services, the margin price is derived from variables such as cost of goods sold and gross sales.

Direct use of prices of repeated services

Direct use of prices of repeated services refers to a pricing method that represents the ideal of using real transaction prices or, less preferably, list prices, of the same service product in successive survey periods.

Domestic production

GDP (Gross Domestic Production) is intended to be a measure of the value created by the productive activity of resident institutional units. Although for the kinds of technical reasons just given, it may not be identical with the sum of the gross values added of resident producers it nevertheless consists mainly of the latter.

It should be noted, however, that GDP is not intended to measure the production taking place within the geographical boundary of the economic territory. Some of the production of a resident producer may take place abroad, while some of the production taking place within the geographical boundary of the economy may be carried out by non-resident producer units. For example, a resident producer may have teams of employees working abroad temporarily on the installation, repair or servicing of equipment. This output is an export of a resident producer and the productive activity does not contribute to the GDP of the country in which it takes place. Thus, the distinction between resident and non-resident institutional units is crucial to the definition and coverage of GDP. In practice, of course, most of the productive activity of resident producers takes place within the country in which they are resident. However, producers in service industries which typically have to deliver their outputs directly to their clients wherever they are located are increasingly tending to engage in production in more than one country, a practice which is encouraged by rapid transportation and instantaneous communication facilities. Geographical boundaries between adjacent countries are becoming less significant for mobile service producers, especially in small countries bordered by several other countries.

Elementary aggregate

This is the lowest level of aggregation for which value data are available and used in the calculation of the SPPI. Elementary aggregates consist of relatively homogeneous sets of goods or services. Their values are used as weights when averaging the elementary price indices associated with them to obtain indices for higher level aggregates. They also may serve as strata from which the products selected for pricing are sampled.

Enterprise

An enterprise is an institutional unit in its capacity as a producer of goods and/or services. From the European point of view, the enterprise is the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit. The enterprise thus defined is an economic entity which can therefore, under certain circumstances, correspond to a grouping of several legal units.

Establishment

An establishment is an enterprise or part of an enterprise that is situated in a single location and in which only a single (non-ancillary) productive activity is carried out or in which the principal productive activity accounts for most of the value added. Establishments are sometimes referred to as local kind-of-activity units (local KAUs).

Expert estimate

An expert estimate refers to a data type in a survey where a price is based on the potentially subjective judgment of an expert in the responding company who completes the survey. The estimate can reflect different types of units, for instance only components of an entire service, or prices per working time and per product.

Exports

Exports of goods and services consist of transactions in goods and services (sales, barter, or gifts or grants) from residents to non-residents.

Family tree

A family tree in SPPI is a classification of services. In most cases, the classification comes from a specific survey in a particular services sector or from an industry representative organisation.

Fictitious service

A fictitious service is a service that is devised for a price survey only and used in model pricing.

Final consumption

Final consumption consists of goods and services used up by individual households or the community to satisfy their individual or collective needs or wants.

Gross Domestic Product (GDP)

GDP is the standard measure of the value of final goods and services produced by a country during a period. GDP can be measured in three different ways: expenditure measure, income measure and production measure.

Globalisation

The term globalisation is generally used to describe an increasing internationalisation of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries.

Amongst other things this gives rise to increased mobility of capital, faster propagation of technological innovations and an increasing interdependency and uniformity of national markets.

Gross sector output

Gross sector output is the sum of the sales of output of the establishments in the sector including the sales of output among themselves, to other sectors in the economy, and within the sector.

Hedonic method

The hedonic method is a regression technique used to estimate the prices of qualities or models that are not available on the market in particular periods, but whose prices in those periods are needed in order to be able to construct price relatives. It is based on the hypothesis that the prices of different models on sale on the market at the same time are functions of certain measurable characteristics and so regression methods can be used to estimate by how much the price varies in relation to each of these characteristics.

Hourly charge-out rate

The term refers to the price of one hour of work by an employee of the producer that contributes to the production or provision of a service.

Imports

Imports of goods and services consist of transactions in goods and services (purchases, barter, or receipts of gifts or grants) from non-residents to residents. The treatment of exports and imports in the System of National Accounts is generally identical with that in the balance of payments accounts as described in the Balance of Payments Manual.

Industry SPPIs

An SPPI for an industry is compiled based on prices of all outputs of sampled establishments belonging to the industry concerned including prices of secondary activities.

Input data

A data type in the survey which corresponds to the prices of all (or a number of) input components needed to make a set amount of output. The profit margin is always to be included as an important input component. Input data can be taken from respondent records based on real transactions or be estimated by an expert.

This practice is best known from the pricing method pricing based on working time which multiplies an hourly wage with a coefficient to include overhead costs and mark-up to arrive at an hourly charge-out rate. The other pricing method using this data type in the survey is model pricing.

Strictly speaking, the input prices can be taken from a list, estimated by an expert or calculated as an average from real transactions. However, an input price is set apart as it is not an output price, unlike every standard data type in the survey.

Intra-enterprise transfer price

The value assigned on a per unit or per shipment basis to goods or services transferred from one establishment of an enterprise to another. It may or may not be economically significant. However, it is not a market price since ownership of the good or services does not change hands.

Kind-of-activity unit

A kind-of-activity unit (KAU) is an enterprise, or a part of an enterprise, which engages in only one kind of (non-ancillary) productive activity or in which the principal productive activity accounts for most of the value added.

List prices

List price refers to a data type in a price survey. The price of a product is quoted from the producer's price lists, catalogue, Internet site, etc.

Local kind of activity unit (LKAU)

See "Establishment"

Loss leader

Loss-leader selling is a marketing practice of selling a good or service at a loss in order to attract customers to buy other products at regular prices. Although this practice is illegal in some jurisdictions, in others it is viewed benevolently as a promotional device that has the pro-competitive effect of increasing total sales.

Local unit

A local unit is an enterprise, or a part of an enterprise, which engages in productive activity at or from one location.

Margin (trade)

A trade margin is the difference between the actual or imputed price realised on a good purchased for resale (either wholesale or retail) and the price that would have to be paid by the distributor to replace the good at the time it is sold or otherwise disposed of.

Margin (transport)

A transport margin consists of those transport charges paid separately by the purchaser in taking delivery of the goods at the required time and place.

Margin pricing

Margin pricing is a pricing method that applies where the value of the service can be measured as the difference between the observed *acquisition and selling prices* of a given product.

Market prices

Market prices for transactions are the amounts of money willing buyers pay to acquire something from willing sellers.

Mark-up

The mark-up is an amount added to the cost price to determine the selling price.

Model pricing

Model pricing refers to a pricing method that is typically applied in cases where the service provided is unique. The approach specifies a standardised service product (“model”) which is not transacted in the survey period but is sufficiently representative of the type of service provided; survey respondents are asked to provide a price quote for this standardised service product.

Net sector output

Net sector output refers to the sum of the sales of output of the establishments in the sector to other sectors of the economy. It is calculated as gross sector output for the sector less the sales of the sector’s output within the sector.

Non-probability sampling

The selection of a sample of producers and products is non-random but based on expert knowledge of judgment. Non-probability sampling is also known as “non-random sampling”, “purposive sampling” and “judgmental sampling”.

Non-resident

A unit is non-resident if its centre of economic interest is not in the economic territory of a country.

Output

Output consists of those goods or services that are produced within an establishment that become available for use outside that establishment, plus any goods and services produced for own final use.

Output PPI

Output producers price indices seek to measure the change in the trading price of products sold by domestic producers on the domestic market and the non-domestic market.

Percentage fee and related values

Percentage fee and related values refer to a data type in a price survey. They are data on both the value of a good or service, and percentage fee from which an actual fee (price) can be calculated. The percentage fee could in practice be taken from a list, estimated by an expert or calculated as an average from real transactions. The related value refers to an underlying good or other product to which the service relates.

Percentage fee method

The percentage fee method is a pricing method that calculates the value of the service as the product of the percentage fee and value of the product to which the fee relates.

Period prices

Period prices are an estimate of the price across a given period and so is an average price for the period.

Point-in-time prices

Point-in-time prices prevail on a particular day of the month.

Producer Price Index (PPI)

PPI is a measure of the change in the prices of goods and services either as they leave their place of production or as they enter the production process.

PPS

Probability proportional to size is a sampling procedure whereby each unit in the universe has a probability of selection proportional to the size of some known relevant variable. In the case of establishments, size is usually defined in terms of employment or output.

Price

The price of a good or service is the value that will purchase one unit of that good or service.

Price index

A price index is a measure reflecting the average of the proportionate changes in the prices of a specified set of goods and services between two periods of time.

Price observation

The price collected or reported for a sampled product or item.

Price reference period

The price reference period is the period with which prices in the current period are compared.

Price relative

A price relative refers to a product surveyed within the business enterprise for which a micro index has been estimated. The micro index is made up of one of several price quotations for similar services.

Pricing mechanism

Corresponds to charging arrangements put in place by economic operators.

Pricing method

Pricing method is a procedure put in place by compilers to make price data eligible to be entered in an index. The pricing method is largely determined by the characteristics of the data available to the compiler.

Pricing point

The pricing point is the moment in the production or distribution process to which the price refers. For an output PPI, the pricing point is generally where the product leaves its place of production - hence, farm gate or factory gate price.

Principal activity

The principal activity of a producer unit is the activity whose value added exceeds that of any other activity carried out within the same unit (the output of the principal activity must consist of goods or services that are capable of being delivered to other units even though they may be used for own consumption or own capital formation).

The "principal activity" is identified by the "top-down" method as the activity which contributes most to the total value added of the entity under consideration.

Probability sampling

The random selection of a sample of producers and/or products from a universe of activity in which each producer and/or product has a known non-zero probability of selection.

Producer's price

A producer's price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any VAT, or similar deductible tax, invoiced to the purchaser; it excludes any transport charges invoiced separately by the producer.

Product SPPIs

Product based SPPIs are created from samples of products and so should, in theory, be compiled on the basis of output information at product level from each establishment.

Productivity

Productivity is understood as a change in working time in the provision of the same service product in two periods. Change in productivity may be a result of improved labour or capital productivity or of the switch in the use of labour and capital.

Products

Products, also called "goods" and/or "services", are the result of production; they are exchanged and used for various purposes: as inputs in the production of other goods and services, as final consumption or for investment.

Product specification

The (service) product specification is a detailed list of the characteristics that identify an individual sampled (service) product. Its purpose is to ensure the consistency of the price collection through time. The specifications cover both the (service) product and the transaction.

“Pure” price change

The change in the price of a good or service whose characteristics do not change over time. When some characteristics do change, that is to say a change in quality occurs, the “pure” price change is the price change remaining after eliminating the contribution of the change in quality to the observed price change.

Quality adjustment

The process - or the result of the process - of estimating what the market price of a replacement product would be if it had the characteristics of the product it replaces and with whose price its price is to be compared.

The process requires estimating the market value of any differences in the price-determining characteristics of the two products and adjusting - by addition, subtraction or multiplication by a coefficient - the observed price of the replacement product.

The adjustment is made in order that the price comparison between the two products reflects “pure” price change only.

Real transaction price

Real transaction price refers to a data type in a price survey. It is the price of a service actually paid in the market, taking the form of a receipt, bank statement or electronic database; it represents the actual price paid (inclusive of any discounts, surcharges or rebates) for an individual transaction that can be observed repeatedly.

Representative item

A representative item is a product selected for pricing within an elementary aggregate because of its significance in terms of turnover.

Resident

An institutional unit is resident in a country when it has a centre of economic interest in the economic territory of that country.

Revenue

The value of output sold. The value of invoiced sales of goods or services supplied to third parties during the reference period. The term is often used interchangeably with “sales” and “turnover”.

Revenue and amount sold

Revenue and amount sold refer to a data type in a price survey. They allow for calculation of an average price over a large number of transactions. These data may be used in several pricing methods (unit value, component pricing, model pricing, and hourly charge-out rates). The revenue corresponds to the value of output sold or the value of invoiced sales of goods or services supplied to third parties during the reference period; the amount sold is a measure of the quantity of homogeneous services.

Re-weighting

It is the introducing of a new set of weights into the index.

Sampling frame

The sampling frame is the list of the units (producers of services) in the universe from which a sample of units is to be selected. The sampling frame provides the details required to pick the sample, such as turnover, size, and main industry. The business register is the main sampling frame used in SPPIs although it may be supplemented by other sources as structural surveys or industry representative organisations.

Secondary activity

A secondary activity is an activity carried out within a single producer unit in addition to the principal activity and whose output, like that of the principal activity, must be suitable for delivery outside the producer unit.

A secondary activity is an activity carried out within a single producer unit in addition to the principal activity and whose output, like that of the principal activity, must be suitable for delivery outside the producer unit. The value added of the secondary activity must be less of than that of the principal activity, by definition of the latter. The output of the secondary activity is a secondary product. Most producer units produce at least some secondary products.

Service industry

The terms service industry(ies), service sector(s) or simply service(s) are generally used to refer to economic activities covered by Sections G to M of ISIC Rev. 4, and the units that carry out those activities.

Services

Services are outputs produced to order and which cannot be traded separately from their production; ownership rights cannot be established over services and by the time their production is completed they must have been provided to the consumers; however as an exception to this rule there is a group of industries, generally classified as service industries, some of whose outputs have characteristics of goods, *i.e.* those concerned with the provision, storage, communication and dissemination of information, advice and entertainment in the broadest sense of those terms; the products of these industries, where ownership rights can be established, may be classified either as goods or services depending on the medium by which these outputs are supplied.

Spot (market) price

Spot price is a generic term referring to any short-term sales agreement as opposed to prices in a long-term contract. It generally refers to a single provision of an uncustomized service, reflecting current (efficient) market conditions.

Sub-contractor

A sub-contractor is a person or firm contracted by a main contractor or employer to carry out work or deliver services, labour or materials as part of a larger project.

Subsidy on product

A subsidy on a product is a subsidy payable per unit of a good or service produced, either as a specific amount of money per unit of quantity of a good or service or as a

specified percentage of the price per unit; it may also be calculated as the difference between a specified target price and the market price actually paid by a buyer.

Tax on product

A tax on a product is a tax that is payable per unit of some good or service, either as a specified amount of money per unit of quantity or as a specified percentage of the price per unit or value of the good or service transacted.

Time-based method

Time-based method refers to a pricing method where the price is directly or predominantly based on prices for a set amount of time's work (*e.g.* one hour's work) charged by the service provider.

Transaction

A transaction refers to the buying and selling of a product on terms mutually agreed by the buyer and seller.

Transfer price

A price adopted for bookkeeping purposes used to value transactions between affiliated enterprises integrated under the same management at artificially high or low levels in order to effect an unspecified income payment or capital transfer between those enterprises.

In the case of trade between a unit and another unit abroad of the same enterprise group, the invoiced price may well be a transfer or disposal price whose evolution may not always reflect the price changes for a client not within the same enterprise group

Unit price

The price of the product is expressed per some quantity unit of that product.

Unit value method

The unit value method is a pricing method that constructs a price index based on observed revenue and quantity data (unit value price). The unit value method as defined in this *Guide* is limited to cases where price observations refer directly to service output.

Unit value “mix” problem

Unit values “mix” problem refers to bias in price index construct by using unit value method that may attribute to changes in the mix of heterogeneous service products.

Unit value price

The price is calculated by dividing revenues from sales of services by quantity of delivered services.

Value added – gross

Gross value added is the value of output less the value of intermediate consumption; it is a measure of the contribution to GDP made by an individual producer, industry or sector; gross value added is the source from which the primary incomes of the SNA are generated and is therefore carried forward into the primary distribution of income account.

Value added – net

Net value added is the value of output less the values of both intermediate consumption and consumption of fixed capital.

Value added tax (VAT)

A value added tax (VAT) is a tax on products collected in stages by enterprises; it is a wide-ranging tax usually designed to cover most or all goods and services but producers are obliged to pay to government only the difference between the VAT on their sales and the VAT on their purchases for intermediate consumption or capital formation, while VAT is not usually charged on sales to non-residents (*i.e.* exports).

Weights

Weights are a set of numbers used to weight price relatives, or elementary price indices, when these are averaged to obtain price indices or higher-level indices.

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