

## Producer Price Indices for Services

### *Why develop price statistics for services?*

In OECD countries, services account for the largest share of GDP. However, statistics on services are still partially underdeveloped when compared to statistics on goods producing industries.<sup>1</sup> This is particularly true for producer price indices where price indices for goods by far outnumber available price indices for services. There are several reasons for this asymmetric coverage of price indices. One is simply that goods historically played a more important role than services and this has shaped statistical systems. Another reason is that developing service price indices is a difficult and expensive task. Service output may be hard to identify on purely theoretical grounds, and even more difficult to measure reliably. For example, services may be unique and have to be treated like new products (e.g. various consultancy services) or they can be tailored or bundled in different ways for different users. All this implies complexity and high costs for price measurement.

### *What are service producer price indices (SPPIs)?*

Service producer price indices (SPPI) are intended to trace price movements that reflect the supply and demand conditions in the service markets, with a view to facilitate the analysis of macro-economic conditions and to monitoring inflationary pressures. Importantly, they are also used as deflators in national accounts to convert the value of service output into volume measures.<sup>2</sup> Volume measures of service output of various periodicities are essential for economic analysis. Producer price indices for services are also useful to the business community in evaluating particular markets.

### *Why a methodological Guide for developing producer price index for services (SPPI Guide)?*

The aim of the SPPI Guide is to aid countries in developing producer price indices for services. The Guide is intended to complement the Producer Price Index Manual (PPI Manual), which discusses index theory and provides general guidelines to be applied in the compilation of price indices - but does not include extensive discussion of producer price indices for particular service industries or products.<sup>3</sup> In addition, many services have very specific features and require individual discussion. Also, the methods used to arrive at constant quality pricing are often complex and depend on the particular service industry and product. It is for all these reasons that a separate Guide on measuring producer price indices for services has been developed.

### *Why a new edition of the SPPI Guide?*

The first edition of the SPPI Guide was developed by a joint expert group between 2002 and 2004 and published in 2005. The present edition was prepared by a joint OECD-Eurostat Task Force established in 2011, which has overseen the revision and the update of the 2005 edition of the SPPI Guide.

The first edition of the SPPI Guide provided some conceptual guidance on producer price indices for services along with documentation of country practices. Since its publication, significant progress has been made by a number of countries in developing new SPPIs in sectors not covered in the first edition, providing strong motivation for an update and revision of the Guide. Moreover, in 2005 output prices for services became a mandatory requirement in EU countries. Indeed, since 2008 Eurostat publishes service producer price indices for all Member States on a quarterly basis. These statistics belong to Eurostat's set of Principal European Economic Indicators. These developments, as well as the updates of the 2008 System of National Accounts (SNA) and the international classification systems (ISIC Rev. 4), provided an excellent momentum for updating the SPPI Guide, thus allowing countries to capitalise on new developments and to take into account the impact of the revisions of the SNA and the international classification systems.

*The new SPPI Guide: Enhancing a global and comprehensive methodological SPPI framework*

The main objectives of the 2011 Task Force were to enhance the methodological background of the 2005 *SPPI Guide* and to provide a common methodology for service prices. The general methodological principles are presented in the first three chapters of the *Guide*:

*Chapter 1 (General aspects of SPPI compilation)* presents methodological information on the core measurement issues of SPPIs that the compiler will have to deal with when starting compilation. It provides discussions on the definition, uses and scope of SPPIs; product and industry SPPIs; the price concept underlying SPPIs; the appropriate statistical units; the international classifications; the identification of service products; the sample frame and weights; and the treatment of quality changes.

*Chapter 2 (Main pricing methods for SPPI)* seeks to help the compiler to develop a better understanding of the variety of pricing methods used. It characterises the various approaches within a broad conceptual framework that facilitates understanding and international comparability by providing links between the various pricing mechanisms used by service providers and the methods used by index compilers to measure price changes.

*Chapter 3 (Practical aspects of the development process)* addresses practical aspects related to the collection of prices and aims to describe all necessary steps to set up a price collection system.

The focus in these three chapters is on issues that are typical for services. The recommendations made in these chapters can also be applied to services that are not explicitly covered in the chapter on individual industries.

*The new SPPI Guide: Relying on material developed by the Voorburg Group on Services Statistics*

Although the *SPPI Guide* devotes some space to concepts and methodology, its main purpose remains to propose practical solutions for the development of new SPPIs and for the quality improvement of existing ones. To achieve this objective, the intention of the 2011 Task Force was to also rely on material already produced by the Voorburg Group on Service Statistics<sup>4</sup> in order to enlarge the scope of the 2005 *SPPI Guide* by including a broad spectrum of service industries.

### *The new SPPI Guide: Enlarging the scope and the range of service industries covered*

The 2005 *SPPI Guide* provided guidance on “business to business” (BtoB) service industries, *i.e.* those services that are mainly aimed at uses other than household consumption, and for which the development of price indices was considered most urgent. Selection criteria were the size of industries and the speed of technological change that is likely to affect price measurement. An important objective of the revision of the *SPPI Guide* was to extend the coverage by including other types of service industries, in order to produce business to all (BtoAll) indices and to consider the possibility of having subdivisions of SPPIs by destination of output (*e.g.*, BtoB, business to consumer (BtoC), and business to export (BtoE)).

Reflecting its broader coverage and scope, the new *SPPI Guide* provides, in its second part, guidance for 31 service industries. This guidance is based on the premise that the service activities of a particular industry are relatively similar in different countries and therefore practices adopted in one country may be applicable in others. Consequently, the guidance draws heavily on the experience of countries already producing SPPIs and tries to identify best practices across a wide range of countries. Ideally, this information will lead to similar approaches across countries and increase the comparability of the resulting indices. When comparable SPPIs are used for deflation in the national accounts, this should also result in an enhanced comparability of volume changes in the production of services.

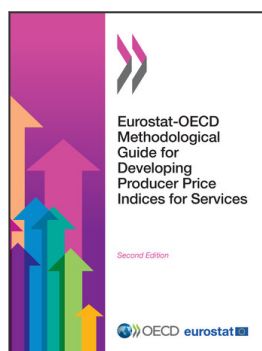
### *How to compile SPPI for 31 specific service industries?*

*Chapters 4 to 13* are based on country practices and describe feasible solutions for a set of 31 service industries. For each service industry, the relevant activities and possible classification issues are described. Furthermore, methodological aspects regarding the compilation of an SPPI are explained. The list of service industries covered in chapters 4 to 13 and the structure of the presentations are shown pages 91 to 93.

## Notes

1. The European Union regulation on short-term statistics provides an illustration of this: only 10 of the 38 STS indicators cover retail trade, repair and other services, 17 concern industries and 11 construction.
2. Producer price indices are the preferred measure for deflation in Eurostat’s Handbook of Price and Volume Measures in National Accounts. In some market sectors (*e.g.* banking, insurance) and most non-market services (*e.g.* education) the calculation of producer price indices is particularly problematic due to the lack of observable prices. Calculations of volumes therefore often have to rely on second best methods which are described in the handbook.
3. Some examples on the compilation of SPPI can be found in chapter 10 of the *PPI Manual*.
4. The Voorburg Group has been the leading international forum for establishing an internationally recognised methodology for developing producer price indices for

service industries since the late 1990's. Indeed, the Voorburg group aims to develop internationally comparable methodologies for measuring the deflated or constant dollar outputs of the service industries focusing on classification, output measures and price indices. To fully achieve this primary objective, the Voorburg Group aims to *i*) develop new concepts, methods and best practices; *ii*) maintain and improve the knowledge base, and *iii*) disseminate best practices and knowledge transfer. More information can be find on Voorburg Group website: <http://www.voorburggroup.org/>



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