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**UPDATING OF THE CPI MANUAL**

Supporting paper submitted by Mr. Peter Hill\*

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\* This paper has been prepared by Mr. Peter Hill, at the invitation of the Secretariat. Paper posted on Internet as received from the author.

# Updating the CPI Manual<sup>1</sup>

By Peter Hill

## *Why update the CPI Manual?*

The first question to address is whether it is necessary to revise and update the CPI Manual. However, the question should be not whether to update the CPI Manual but how, and how soon. Sooner or later the Manual will have to be revised to take account of advances in economic and statistical theory and improvements in the data collection and processing methods used by national statistical offices. The computing facilities at the disposal of retail outlets as well as statistical offices are continually improving. This has repercussions on the data collection, transmission and processing methods used by statistical offices. The cumulative effect of these developments over the space of five or ten years can be considerable. It is better to have procedures in place for gradually updating the Manual in a rational and efficient manner than to be overtaken by events that require a large number of revisions to be made simultaneously and possibly hurriedly and in an uncoordinated way. The process of updating and revising has to be careful and deliberate and is inevitably slow. It may take years to agree upon and incorporate updates. Even if the process is started now it is likely to be several years before the first revisions or updates are agreed and published and even more years before changes are implemented.

## *The two versions of the Manual*

The Manual exists in electronic forms as well as in a printed form. It is available on the Internet and on CD. In the Foreword to the 2004 CPI Manual it is stated:

“The IWGPS views the Manual as a ‘living document’ that it will amend and update to address particular points in more detail. This especially true for emerging discussions and recommendations made by international groups reviewing the CPI, such as the International Conference of Labour Statisticians (ICLS), meetings of the International Working Group on Price Indices (the ‘Ottawa Group’) and the Joint UNECE/ILO Meeting on Consumer Price Indices.”

It has always been envisaged, therefore, that updates would be made as soon as a convincing case has been made for them and they have been approved by the IWGPS. The revision process can be incremental with updates being made sequentially as soon as they been agreed and approved.

However, it is also clear that this kind of incremental revision can apply only to the electronic version. It is not possible to print a revised version of the printed

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<sup>1</sup> Note: The opinions expressed in this paper are those of the author. They do not necessarily reflect the views of any of the working groups or international agencies mentioned in the paper.

Manual every time an update is made. The publication of a second edition, or updated version, of the printed Manual would presumably not take place for some years. It would depend on factors such as the demand for the printed version and the number of copies sold and the number still held in stock as well as the extent of the any revision and updates that have been made.

It should be understood, therefore, that the process of updating and revision refers to the electronic version of the Manual in the first instance. The process need not be delayed or influenced too much by the fact that the printing of an updated version, or second edition, of the Manual may have to wait some years. An update of the printed version is likely to be a major operation that cannot be undertaken lightly or frequently. A second edition can be viewed as providing an opportunity to bring together a series of already approved *ad hoc* revisions or updates in a coherent and consistent way. It could provide the endpoint for a round of revisions. The target date on which it is planned to print a second edition of the Manual may introduce a deadline into the revision process, but it could be as much as 10 years after the publication of the original Manual.

It is also necessary to take account of links with the PPI Manual. It would be desirable for second editions of both Manuals to be produced at the same time. It is likely that any revisions or updates of the CPI Manual will have implications for the PPI Manual, and *vice versa*. There could be two ongoing processes of updating being undertaken in parallel. The two processes would have to be closely linked and their coordination would have to be managed by the IWGPS, as in the production of the original Manuals.

### *Managing the revision process*

The responsibility for approving revisions of the Manual lies with the IWGPS. This means that ultimately it rests with the various International Agencies who are represented on IWGPS. The IWGPS may invite experts who are not on the staff of the International Agencies to participate in its discussions, but the authority remains with the agencies.

There are at least two ways of organising the revision process. One is to create a new expert group whose task is to review the contents of the Manual as a whole and to make recommendations for changes and improvements. This is essentially the model employed when the revision of the 1968 SNA, or System of National Accounts, was undertaken in the late 1980s. It grew into a mammoth, and costly, operation with a series of expert group meetings throughout the world over a period of roughly five years. The entire SNA Manual was rewritten from cover to cover with many major changes of substance to the system itself. One reason for the scale of the operation was that too much time was allowed to elapse, nearly 20 years in fact, from the publication of the Manual in 1968 to the starting of the revision process. This is clearly a mistake to be avoided. Of course, in those days there was no electronic version and an incremental revision to an electronic version was not a possibility. Another difference between the SNA and CPI Manuals is that the SNA is essentially an inter-dependent system of accounts such that changing any one part of the system can trigger off a string of consequential changes elsewhere in the system. This is not necessarily the case for the CPI Manual.

It does not seem to be appropriate or necessary to follow the SNA model by creating a new expert group to review the CPI Manual as a whole. The alternative approach is to encourage statistical offices and individual experts to make proposals for change where they see the need to do so. In that case, a procedure is needed to receive, review and evaluate proposals for change. Proposals for change can be made directly to the IWGPS which can either accept or reject them or refer them to other groups for their opinions and advice.

Given the existence of the Ottawa group, there does not appear any necessity for the IWGPS to create a new standing group of experts to receive and evaluate proposals and to offer advice to the IWGPS. In practice, experts appointed to a new group would be likely to be already members of the Ottawa group anyway. The IWGPS can also appoint consultants to advise on particular proposals or even to draft proposals. The IWGPS can also refer proposals to the Ottawa Group if it wishes. Moreover, the Ottawa Group itself can make proposals. Proposals involving substantial changes are likely to have been discussed in the Ottawa Group before being submitted to the IWGPS, but this may not always be the case.

National Statistical Offices may submit proposals directly to the IWGPS but they also have the opportunity to submit papers to the UNECE/ILO meetings. Individual experts in Statistical Offices or Universities may also submit papers to the Ottawa Group. It is also possible that proposals may be based on papers or articles published in academic journals.

In general, proposals should originate spontaneously out of on-going research or experience accumulated in Statistical Offices, international agencies, research institutes or Universities. There does not appear to be any need to solicit or invite individuals or expert groups to make proposals.

### *Individual authors and chapters*

Many authors contributed to the drafting of the CPI Manual. In general, each chapter has its own individual author or pair of authors. Authorship is explicitly acknowledged in the Introduction to the Manual.

At some point of time, it may be appropriate for the IWGPS to ask the authors of certain chapters whether they consider that the chapters for which they were responsible need to be updated or revised. If so, they could also be asked whether they wished to undertake the necessary redrafting themselves.

However, the IWGPS, and the agencies they represent, retain responsibility for the contents of the Manual as a whole. They have to consider how the contents of individual chapters relate to the rest of the Manual. If necessary, they have the authority to reject proposed changes, even those made by the original authors. Conversely, they have the authority to make changes to existing chapters that have not been proposed by the original author or authors.

## *Handbooks*

After the publication of the 1993 Manual on the System of National Accounts, a Manual that is as large and complex as the CPI Manual, it was decided to create a series of supplementary Handbooks dealing with specific topics. The same strategy might be employed with the CPI Manual. As they are not formerly part of the Manual, Handbooks can adopt a flexible approach and explore possibilities, or alternatives, not considered in the Manual itself. Handbooks can serve quite different kinds of purpose. For example:

- They can be intended to be used primarily for purposes of training or instruction. Handbooks can be introductory and elementary texts that focus on a particular topic or group of topics. They are meant to supplement and complement certain chapters of the Manual.
- Handbooks can address the needs of particular categories of readers, such as compilers in statistical offices with limited resources or which are located in countries with atypical economies.
- Handbooks can address outstanding issues on which there still no consensus and which remain controversial.
- They can address issues created that may not be dealt with in sufficient detail in the Manual.

There are several topics that might be suitable for Handbooks. Handbooks do not need to be of the same length. They could range from about 20 to 100 pages. Of course, they would be made available on the ILO website and it might not even be necessary to print all of them. A list of possible handbooks is given below.

### *An Introduction to CPIs*

The handbook would be purely instructional. It would be as short as possible. It could be aimed at users as well as compilers.

### *Consumption of own production*

The treatment of the consumption of goods and services that households produce for their own use. There are no prices to be observed or collected. They range from agricultural products and foods produced by subsistence farming to housing services produced for own consumption by owner occupiers.

### *Purchasing via the Internet*

The handbook would examine the problems created by the increasingly popular practice of purchasing goods via the Internet.

*The treatment of seasonal products*

This is a traditional topic but one which might merit a special handbook of its own.

*The use of hedonics for quality adjustment*

There are two possibilities. One is to report on the latest developments in this field. The other is to provide an introductory elementary text for readers who are not familiar with the subject.

*The use of scanner data*

The use of scanner data on prices and sales generated at electronic points of sale.

*CPIs under high inflation*

The Handbook can examine the problems that may arise when the rate of inflation is very high, say over 10% per month.

*The use of chain indices*

The Handbook can examine and explain the consequences of chaining both at the level of an elementary aggregate and for the CPI as a whole.

*CPIs and the ICP (the International Comparisons Program).*

About 150 countries are participating in the World Bank's 2006 ICP program, one of whose objectives is capacity building and the strengthening of CPIs. The ICP has developed a large list of Structured Product Descriptions and Product Specifications which are intended for use for CPIs as well as by the ICP.

The ICP has also developed its own software which can be used for CPI purposes. This could also be a possible topic for a Handbook.

The above list of possible Handbooks is meant to be only illustrative. The list of potential topics is quite large. The IWGPS could engage consultants to write the Handbooks. Another possibility would be to ask a national statistical office to take on the drafting of a handbook, especially when a statistical office has acquired a lot of experience and expertise in a particular area.

*Summary and conclusions*

It should be possible to revise and update the CPI Manual using existing working groups and expert groups without creating a new expert group for the

purpose. When a national statistical office, expert group or individual expert, sees the need for some improvement, whether a change to some part of the Manual or an extension to the Manual, it can submit a proposal to the IWGPS. If appropriate, the IWGPS can refer the proposal to one or more experts for evaluation, to the Ottawa group or for open discussion at large meetings such as the ECE/ILO meeting.

Once a change is agreed and approved by the IWGPS, it can be implemented by making the appropriate adjustments to the Manual and revising the electronic version of the Manual. Revisions and updates can be made incrementally.

A target date can be set for producing a revised version, or second edition, of the printed version of the Manual. It would integrate all the incremental changes made up to that point of time. The timing may depend on other factors such as the demand for and sales of the printed version. There obviously would have to be sufficient demand for a second edition to justify it. A possible target date for a second edition would be 2010.

In any case, it may be desirable to produce a series of handbooks that would supplement the main Manual. The handbooks may or may not imply changes to the Manual.