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THE MEASURING OF PRICES IN THE SERVICES SECTOR IN PORTUGAL

Supporting paper submitted by Instituto Nacional de Estatística, Portugal¹

ABSTRACT

The paper discusses some aspects of the work that is being done in the field of measuring of prices in the service sector in Portugal. It is based upon the experiences on the price collection in other sectors and in other countries. The implementation of this new indicator takes into account the results of the joint Eurostat/OECD Task Force on prices in the services sector and will be implemented step by step, starting with some of the priority branches. However, there are some important points concerning the definition of prices for services that have not yet culminated in a final decision from the Task Force, such as the inclusion or not of VAT and the scope of the services supplied - either to the final consumers and enterprises or only to the enterprise. The last issue is a strong restriction to the indicator. The implementation of prices in the telecommunications sector raises an additional problem; there are some contracts with “package of minutes” independently of the network used, for which the price differs.

INTRODUCTION

1. The services sector represents around 61.2%² of the total of value added in Portugal. Nevertheless, the production of statistical data for services is considerably weak. Considering the importance of this sector and the perspective of growth in the future, statistical information in this field is becoming much more relevant.

¹ Paper prepared by Humberto Pereira.

² Excluding Public Administration, Financial Services, and Health and Education services, this share decreases to 36.5%.

2. However, the services sector is one of the most complex sectors in the economy. Not only because there isn't an acknowledgment of the sector such as in industry (where the collection of short term data started in 70's last century), but also because the special kind of economic relations between consumers and providers of services are also a problem to produce the prices in services sector index.
3. The schedule of collecting data and methodological definitions for prices in the services sector is, like other processes in short-term statistics, being developed since 2000 in Portugal. As an example, Instituto Nacional de Estatística – (INE-Portugal) started collecting data for turnover, number of persons employed and wages and salaries in services after the methodology was defined and approved. From 2005 on, the collection of data for prices in services sector will start and the methodological work has already begun.
4. The data on prices in services is quite important since it can be used as a deflator for turnover. Completing this data is difficult because in the services sector there are less homogeneous products than in industry. The absence of standardized products brings an additional problem to deciding on a methodology for this indicator – the products (services) are, in most cases, adapted to the specific needs of each consumer.

Characterization of the statistical operation on prices in service sector

Methodology

5. To implement an indicator like the present one, it is necessary to select a sample of units and products (services). Such a procedure will follow three possible approaches, as listed below.
 - i) The first approach followed can be the selection of the most representative units (enterprises) in each branch. After some personal contact with the selected enterprises, it is possible to define the representative sample of products (services). During such contacts, certain rules for price definition should be settled, such as the transmission of quality changes, the commercial conditions for a given transaction, rebates and guarantees. These prices and any other relevant information mainly about changes in the specifications should be reported by the selected units to INE-Portugal in each period. Such personalized contacts have an additional purpose, obtaining from the enterprises a good cooperation in order to solve problems like delays in data transmission, ensure data quality and turning informers into statistical users too. The use of a pricing model when necessary and possible under certain situations should also be considered.
 - ii) For specific branches, the price index should be obtained by a proxy of the price of the transaction – a kind of unit value index, using the income, labor costs and the quantity of services, hours, etc. Nevertheless, this method should be avoided as much as possible and only used when specific price indices seem to be similar to the unit values indices.
 - iii) Data that already exists for prices could be used under certain circumstances, as is the case for the Tourism services sector. However, this approach will only be adopted if, after a cost/benefit analysis, it is concluded that the information is of desirable quality, bearing in

mind the principles and the specific methods for compiling price indices for the services sector.

6. The choice of the method will also take into consideration the specific features of the different branches and the specific reality of the enterprises. According to each case, the method which grants the better performance (accuracy and timeliness) will be adopted.

7. The data collection system will be designed preferably, like in all the other short term indicators that INE-Portugal is producing now, using the available advanced technologies such as Internet and e-mail.

Connection with the joint Eurostat/OECD Task Force

8. In 2002, a joint Eurostat/OECD Task Force was created to discuss the specific problem of the price index for the services sector. In the beginning, Portugal had the possibility to participate in that work which was quite useful for the implementation process of the project in our country.

9. Despite suspending the participation on the Task Force meetings, the Portuguese team involved in the implementation of this indicator has always been in touch with the other Task Force members. Therefore, it was decided in INE-Portugal that all the methodological options should be, as much as possible, aligned with the Task Force conclusions. Thus, all the documents that were produced by the Task Force are being used and taken into account in our decision process.

10. On the other hand, the way in which the price index will be implemented in Portugal will respect the priority list defined by the Task Force. At the present time, some work is being done for telecommunications and post services, and the transport sector will follow. In the next months, the work for the publicity sector will start.

Implementation schedule

11. The methodological work has already started. During the second quarter of 2004, the methodological work for telecommunications and transports should be concluded. In the second half of 2004, the contacts with enterprises will be established and the definition and sample selection - "products" to be priced - will be concluded. The price collection will start in the first half of 2005, with the first quarter as the reference period. The first dissemination of price indices for the services sector with the base year in 2005 is foreseen for the first half of 2007.

SOME ISSUES IN DEBATE

Services provided to enterprises versus services to all consumers

12. In the framework of the Amendment of the Short-Term Statistics Regulation, the definition of the indicator "prices in services sector" states: "The output price variable covers services delivered to consumers that are enterprises or persons representing enterprises". Thus, services provided to households and other consumers included in other institutional sectors other than enterprises should be excluded.

13. Some documents produced by the joint Eurostat/OECD Task Force do not specify if only enterprises are included or not. Moreover, in some cases it seems that all enterprises and consumers in general are included. INE-Portugal can agree that, for certain branches, the split between consumers in general (including households) and enterprises may not be so easy, but from the INE-Portugal point of view, in this phase where the methodological work is being prepared by the Member States, this question should be clear enough. Otherwise some work could be lost.

14. For INE-Portugal, the core of what was agreed in the frame of the regulation revision should be respected, despite the difficulties that may be found in the implementation process. Nevertheless, the most important point actually is that, without a clear and undoubted position of the joint Eurostat/OECD Task Force on this subject, there are some problems that can be created in the implementation of this important new indicator, mainly on the grounds of harmonized results.

Inclusion or not of VAT

15. In general terms, Short-Term Statistics indices concerning prices exclude VAT from the concept of price³. The existence of VAT in the price, in principle, does not affect the price movements and therefore does not have any impact on the index. However, if by governmental decision, the VAT rate is changed, there will be an impact on the index⁴. One solution to avoid this problem is discounting the tax variation in new prices or recalculating the old prices considering the new tax rate when that policy may occur. In this case, the VAT rate is considered to be quite stable in time but it can change and affect the price series. On the other hand, from the National Accounts point of view, the inclusion or not of VAT in price is not a problem if there are solutions to treat the situation – however, it is useful that the inclusion or exclusion should be applied in a uniform way to all branches and products.

16. Despite what was mentioned previously, it is true that for certain branches the inclusion of the VAT in the price collected could be difficult, but a rule must be defined for all situations and exceptions must be avoided because there is always a risk, for some “products” in the same branch, of VAT being included for some and excluded for others. Otherwise, the comparison and the analysis of price movements can not be made for the reason that two different concepts of price exist.

17. Again on this point, decisions from the joint Eurostat/OECD Task Force are needed as soon as possible, since some difficulties may arise in the definition and implementation of the new indicator, especially in schedule commitments.

³ This definition is in line with the concept of market price of the output (supply side).

⁴ If the concept of price is the acquisition price (demand side) and the user has no possibility to recover the VAT from the Tax Administration.

Specific problems in telecommunications

18. In the Portuguese market of mobile telephone service, the price of communications differs from origin network and destiny network. This means that, for a given phone call, the user pays differently according to each call made within the same network or beyond the network of origin.

19. Some users can have contracts that include a package with some many minutes of free calls. Those packages are free independently of the call being performed within or beyond the original network. On the other hand, the fixed telephone service also offers different prices depending on the network on which the communication is established.

20. To compile the index for communication services, it is planned to use specific consumption standards, taking into account the different characteristics of the calls, such as within or beyond network, tariff plan, period of the day, since they are important in price-determining and in price behaviour. This first approach will follow the average income of telecommunications enterprises for each representative consumption pattern (price by minute) which corresponds to the unit value approach. Alternatively, the average price for each consumption pattern could be used, whenever it is possible to obtain the weights for each one. In some cases, as in Portugal, a part of the phone calls are made using the minutes package; in this case it will be included in the compilation process as a fixed price call paid independently of being made or not. Thus, the gross income of each unit will include not only the income from that package, but also the income resulting from the calls made outside the package. The number of minutes to obtain the average income (to obtain the unit value) will include only the total minutes effectively used from the package and the total minutes outside the package. In that sense, a rational use of the minute's package may affect the price paid by each client because the price of connecting to other mobile networks is only different outside the minutes' package. In general terms, in the Portuguese index, the fact that in some cases the subscription fee may give the opportunity of making phone calls and the inclusion of a pack of conversation time can affect the price paid in each period will be taken into account.

CONCLUSION

21. Compiling price indices for services is crucial, given the relevance of this sector in the economy. This data completes the existing price information system nowadays restricted to industry. Services' price indices are a useful indicator as deflator of the turnover index in services and also for National Accounts information needs. Additionally they provide important information for short-term analysis.

22. The Services Sector is more complex and heterogeneous than the Industry Sector. In most cases, the product sold by a production unit is adapted to the specific needs of the customer or it is simply unique and will never be sold again. These difficulties are recognized by all countries working on the development of short-term statistics.

23. Although INE-Portugal is trying to adopt particular solutions according to the Portuguese enterprises characteristics, no major decisions, especially in the methodological domain, tend to be any different from those agreed by the joint Eurostat/OECD Task Force. It is important to have a consistent indicator and therefore it is necessary that similar solutions be

implemented for all the activity branches of services sector and in most of the countries engaged in the development of this indicator. This is an important issue on the grounds of harmonisation.

24. Finally, INE-Portugal feels that it is necessary to benchmark and continue the efforts in cooperation with other National Statistical Institutes. Undoubtedly this cooperation will produce benefits and better statistics in the future.

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