

**Economic and Social
Council**

ECONOMIC COMMISSION FOR EUROPE

STATISTICAL COMMISSION

CONFERENCE OF EUROPEAN STATISTICIANS

**Report of Joint UNECE/ILO meeting on CPIs
7 May 2008, Geneva**

Agenda

1. Welcome and administrative matters
2. Introduction to the CPI Manual and to the Practical Guide to Compiling CPIs: a supplementary handbook to the CPI Manual
3. Presentation and discussion of the CPI Manual and the Handbook
4. Conclusion of the meeting

Participants

Experts on price indices from national statistical offices in the following countries attended the meeting: Algeria, Angola, Anguilla (U.K.), Azerbaijan, Bangladesh, Bosnia & Herzegovina, Brunei Darussalam, Chile, China, Côte d'Ivoire, Croatia, Ethiopia, Georgia, Ghana, Iraq, Jamaica, Jordan, Kenya, Republic of Korea, Lesotho, Lithuania, Mexico, Morocco, Netherlands Antilles, New Zealand, Qatar, Russia, Saint Lucia, South Africa, Thailand, Ukraine, United Kingdom, Vietnam and Zimbabwe. Also Afristat attended.

Item 1: Welcome and administrative matters

UNECE and ILO opened the meeting and welcomed the participants. The meeting is organised for developing countries and countries with economies in transition. It concentrated on presentations and discussions of the practical part of the *CPI Manual*, and the forthcoming *Practical Guide to Compiling Consumer Price Indexes: A supplementary handbook to the International Manual on CPIs*. The discussions focused on practical problems and experiences to provide input to the revision of the CPI Manual and to the supplementary handbook.

The meeting adopted the provisional agenda. **Valentina Stoevska** (ILO) chaired the meeting.

The proceedings of the meeting and draft chapters of the supplementary handbook are available from the webpage www.unece.org/stats/documents/2008.05.cpi2.htm

Item 2: Introduction to the *CPI Manual* and to the *Practical Guide to Compiling CPIs: a supplementary handbook to the CPI Manual*

Valentina Stoevska (ILO) reported on the status on the revision of the electronic version of the *CPI Manual*. Errors/mistakes have been identified and corrected for almost all chapters. The ILO webpage contains the original version, errata and the latest corrected version. The electronic version is available on www.ilo.org/public/english/bureau/stat/guides/cpi/index.htm.

She also presented the results of the joint UNECE/ILO survey on the *CPI Manual* carried out in 2007 on behalf of the IWGPS, and thanked countries for their participation. The majority of respondents has evaluated the various chapters of the manual favourably, judged all chapters useful and found that the topics discussed were relevant for CPI compilation. However, it is also clear from the comments that there is a need for 1) more practical guidelines and examples to be included in the future revisions of the manual, 2) supplements to the manual which will address practical matters in more detail, and 3) supplementary handbooks on specific issues. A report of the survey results was made available as a room document; the final report is available from the meetings website mentioned above.

David Fenwick, ONS, UK, informed about the work on the supplementary handbook. It is targeted at developing countries and will focus on practical and implementation issues relevant to the compilation of the CPI in developing countries. Initial work began in early 2007 and is being managed by ONS with funding from the UK's Department for International Development.

Drafts have been circulated to a number of NSOs in developing countries, mainly in Africa, to obtain feedback. A near-ready to print draft of the *Handbook* should be available by the end of 2008. UNECE has offered to publish the *Handbook* in English, which will be made available free of charge. ILO may be in position to arrange for translation and printing of the French version of the *Handbook*. The publication aims to be about 200 pages.

It is the intention to include with the *Handbook* a CD-Rom containing spreadsheets with numerical examples of how to implement various compilation methods and how to calculate indices for particular difficult types of goods or services, and, if possible, an electronic copy of the CPI Manual. An electronic version of the *Handbook* will be made available on Internet. No funds are currently available for additional training material and for the holding of training events on the *Handbook*, but this could be looked at later. Dissemination and use of the handbook would be discussed at a later date.

The meeting expressed strong support of the *Handbook* as a complementary practically oriented publication to the *CPI Manual*. The following general comments were made:

- A number of statistical offices in African countries have been involved in the production of the *Handbook*, and also the African Development Bank is involved. It was suggested that also countries or organizations in South America should be involved
- Methods that are not feasible in developing countries should be excluded or given less prominence in the *Handbook*
- It is important to ensure consistency between the *CPI Manual* and the *Handbook* on methods and recommendations. Consistency with the ILO resolution was also mentioned
- The *Handbook* should provide recommendations of best practice, with illustrative and practical examples
- The possibility of having feedback opportunities on the electronic version of the Handbook was required

Item 3: Presentation and discussion of the *CPI Manual* and the *Handbook*

Scope and Uses of the CPI

Chp. 2 and 3 of the *CPI Manual*; Chp. 2 and 3 of the *Handbook*

Presented by Valentina Stoevska, ILO

The treatment of owner-occupied housing (OOH) raised several questions. One of the main problems seems to be the availability of relevant data for weights and prices, and how to obtain and process such data. The treatment of land and, for example, (local) property taxes, was also mentioned as difficult areas that should be addressed.

The compilation of regional indices and indices for different population (income) groups were mentioned as issues for inclusion in the *Handbook*. It was suggested that the *Handbook* should provide guidelines on how to select goods and services for different income groups.

Neither the *CPI Manual* nor the *Handbook* explains the practical consequences of basing the CPI on a Cost of Living approach compared to a fixed basket, or inflation, approach. It would be useful to have the main issues listed. Some developing countries adopt an inflation targeting monetary policy and there is thus a need for a measure of inflation (or core inflation) that may deviate from the official CPI.

There are different practices in the way second-hand goods, used cars, for example, own account consumption and subsidized goods or services are treated in countries. Thus, the *Handbook* should recommend good practices and give examples. Recommendations for treatment of durables were also mentioned.

Price collection

Chp. 6 of the *CPI Manual*; Chapter 6 of the *Handbook*

Presented by Nicholas Nsowah-Nuamah, Ghana Statistical Service, Ghana

While in principle the CPI should cover the whole geographical area, this is often not possible for practical and resource reasons. In some countries prices are only collected in (main) urban areas. How can the all-country CPI be derived on this basis? Can the price development in the rural areas be assumed to follow that of the urban areas, or can some adjustment procedures be recommended?

More guidance on central price collection through e.g. internet, e-mail, telephone, or through other public agencies would be useful as this may save time and resources. Bargaining prices are common in many countries and constitute a severe problem in the collection and recording of prices. More recommendations and practical examples on how to deal with these problems were suggested.

It is sometimes difficult to collect prices from the same outlet over time because the outlets are mobile and moves. Another problem concerns goods that disappear from the formal market and reappear on the informal market. This may occur in economies in rapid transition or, for example, in periods of hyper inflation. The *Handbook* should provide guidance on what to do in such instances. Guidelines on how to determine price collection periods might also be helpful.

It is difficult to organize the collection, processing and dissemination, especially with different price collection periods, and often it is difficult to undertake a thorough editing/validation of prices and still meet the deadline. Thus, recommendations or good examples of organization were called for.

Substitution, quality changes and new products

Chp. 7 and 8 of the CPI Manual; Chp. 7 and 8 of the Handbook

Presented by Irina Goryatcheva (RosStat)

It was suggested that the chapters, or the CD-Rom, should also include material that could be used for documentation purposes and/or training of new staff. The objective of following the same quality when the specification changes possesses major problems. The idea of following the “price determining characteristics” was not clearly understood, and it was proposed that the *Handbook* should include further explanation of how to identify the price determining characteristics. The quality adjustment carried out by some NSO has been questioned by users, and it would be helpful to have some guidelines or recommendations on how to prevent such cases. Monitoring and documentation of quality adjustments and guidelines on when to introduce new products were also mentioned as important issues.

Index computation, chain linking and re-weighting

Chp. 9 of the CPI Manual; Chp. 10 of the Handbook

Presented by Carsten Boldsen Hansen, UNECE

An example of how to aggregate into and over regions/cities into the all country CPI might be useful, including illustration of the use of different types of weights (expenditure, population, GDP). For weighted elementary aggregate indices the *Handbook* recommends the “replication”-method. It might be useful to show first how explicit weights are introduced in the calculation formulas. The presentation of calculation of higher-level indices is rather complex and difficult to understand. It may be useful to (a) underline the 2-stage procedure (elementary indices and higher-level indices), (b) to have a clear distinction between individual prices and aggregates, and (c) to simplify the notation whenever possible (for example, use $P_{0;t}$ for elementary indices, rather than p_t/p_0). The *Handbook* should also provide guidance on price-updating of weights or using the original weights.

Expenditure weights and their sources

Chp. 4 of the CPI Manual; Chp. 4 of the Handbook

Presented by John Morris, Statistics New Zealand

The availability and timeliness of data sources varies much among countries which should be reflected in the *Handbook*. An inventory of country practices was suggested for inclusion in the *Handbook*, or the CD-Rom. **David Fenwick** (ONS) incurred participants to provide ideas, documents and practical examples to this end.

Other sources, e.g. trade statistics or national accounts supply and use tables can be used as benchmarks when assessing the weights obtained from household surveys. Guidance on how to obtain information on foreigners' consumption was requested. It was suggested that figure 4.1 from the *CPI Manual* – or a similar illustrative figure – should be included in the *Handbook*. In general, more figures and diagrams should be used to complement or replace the explanations in the text; often a figure or diagram can provide an intuitive understanding of a difficult issue.

Sampling

Chp. of the CPI Manual; Chp. 5 of the Handbook
Presented by Carsten Boldsen Hansen, UNECE

Sampling is resource demanding, require careful management and has direct effect on the quality of the CPI. Although probability sampling often is not possible in practice, and perhaps not cost-efficient, it has a prominent place in the *Handbook*. More guidance on judgemental and cut-off sampling might be useful. Practical examples of “weighted average influence” of elementary aggregate indices as a rough guide to sampling of prices might also be useful. The relation to respondents and the response burden are also relevant issues in the design of the sample.

Treatment of special cases

Chp. 10 of the CPI Manual; Chp. 9 of the Handbook
Presented by David Fenwick, ONS

The *Handbook* should provide concrete examples of good practices for the treatment of seasonal products, based on both a fixed and variable weights approach. The problem with changing models in clothing was also mentioned as an important problem; the combination of seasonality and quality changes, such as for clothing, possess a particular difficult problem.

In some cases extremely volatile prices may cause the CPI to show an unrealistic development. However, volatile prices should be included, provided they are not due to errors or misreporting. Nevertheless, the possibility of smoothing such series may be an option, and a practical example could be useful. Guidelines and practical examples on how to treat telecommunication services, mobile phones and bundled products (goods/services) were also suggested.

Errors and bias

Chp. 11 of the CPI Manual; Chp.12 and 13 of the Handbook
Presented by Carsten Boldsen Hansen, UNECE

Errors and biases are important to minimize, but difficult to measure. The definition of some concepts , e.g. elementary aggregate bias and its distribution into formula bias and lower-level substitution bias, could be made clearer. A list of issues in priority according to their likely impact on overall error or bias of the CPI might be useful as this may give guidance on how to allocate resources. It was mentioned that in some cases, the language could be made simpler, also in other chapters.

Organization and management

Chp. 12 of the CPI Manual; Chp. 15, 16 and 18 of the Handbook

Presented by Djoret Biaka Tedang, AFRISTAT

In general the chapters on organization and management were found to be very useful and well written. It was underlined that good organization and management is a prerequisite for improving the quality of the CPI and the efficiency in the production of the statistics. It is important that the *Handbook* provides recommendations and practical examples that can be adapted to the conditions in different countries. It was also mentioned that it would be useful to have (more) material that could be used for the training of staff and price collectors.

Publication, dissemination and related issues

Chp. 13 of the CPI Manual, and Chp. 11 and 14 of the Handbook

Presented by David Fenwick, ONS

The chapters deal with the various issues related to publication and dissemination. The importance of transparency was underlined, for example in connection with release under embargo or pre-release access to particular users (journalists, for example). The chapters also deal with user relations. Some participants found that it would be useful to have (more) material in terms of practical examples on how, and in which form, to provide relevant information (data and metadata) to the users.

CPI/ICP Integration

Annex 4 of the CPI Manual and Chp. 17 of the Handbook

Presented by Patrick Kelly, Statistics South Africa

The chapter in the *Handbook* was found to give a good introduction to the ICP. There are difficulties in integrating CPI and ICP caused by the different objectives of the two indices, but there are also benefits and synergies that may be exploited by coordination or integrating the activities of the two programmes. The *Handbook* should include examples or guidance on how to integrate CPI and ICP. It was suggested that the relation between the ICP and the national accounts should be given more space.

Item 4: Conclusion of the meeting

The chair concluded the meeting and thanked the participants for the very useful feedback in terms of comments and suggestions on *CPI Manual* and the *Handbook*. The questions of how to promote the Handbook and support the implementation in practices were also raised. To this end it was suggested that regional training courses or workshops should be organized. It was realised that such activities would depend on the availability of funding.

Participants were encouraged to send further comments or suggestions for the *Handbook* to David Fenwick (david.fenwick@ons.gsi.gov.uk). Comments on the *CPI Manual* can be send to Valentina Stoevska (Stoevska@ilo.org)