

Meeting of the 2016/2017 Bureau
Geneva, (Switzerland), 14-15 February 2017

For discussion and
recommendations

Item III (b) of the Provisional
Agenda

CES WORK ON CONSUMER PRICE INDICES

Note by the Secretariat in consultation with Eurostat, ILO, IMF, OECD and the World Bank

This paper provided an overview of the CES work on consumer price indices (CPIs) and emerging issues in this area. The Bureau was invited to discuss work in the area of CPIs and consider the establishment of a Steering Group to guide the Secretariat's future work on CPIs (terms of reference provided in document ECE/CES/ BUR/2017/FEB/5/Add.1.

I. BACKGROUND

1. At its meeting in October 2016 the Bureau of the Conference of European Statisticians (CES) discussed CES work on consumer price indices (CPIs) and emerging issues on the various uses of the CPI. The Bureau noted that today CPIs are used for a variety of purposes and policy applications, in addition to the traditional purpose of measuring the cost of living of households. The Bureau asked the Secretariat together with partners to prepare a paper for the February 2017 Bureau meeting about the ongoing work and emerging developments in relation to CPIs in view of the issues raised by the Bureau.

2. Section II of this document provides an overview of the CES work on CPIs. Section III explains how the work is organised. Section IV includes a proposal to the Bureau to establish a Steering Group on CPIs to guide the Secretariat's future work.

II. WORK ON CONSUMER PRICE INDICES

A. Brief history and milestones of the work on CPIs

3. UNECE is mainly involved in work on price statistics through the Expert Group on consumer price indices. The group was established 40 years ago and had its first meeting in 1978, jointly organized by UNECE and the International Labour Organisation (ILO). Since then, the meetings have been organized every second year in Geneva in close collaboration with ILO. The Expert Group meetings provide an important forum for CPI compilers to exchange experience and good practices in CPI compilation and for contributing to the development of international recommendations and guidelines on CPI.

4. In most countries CPIs were first compiled for compensation of wage earners for the loss of purchasing power caused by inflation. The main users of the CPI were workers and employers' organizations and ministries of labour. The ILO, therefore, provided the natural forum to discuss CPI methodology and develop international guidelines. The first

international standards for CPIs were adopted in 1925 by the Second International Conference of Labour Statisticians (ICLS). Subsequently, the standards were revised and adopted by ICLS resolutions in 1947, 1962, 1987 and 2003.¹ The 1987 ICLS resolution was followed by the publication *Consumer Price Indices. An ILO Manual* (ILO, 1989), which provided guidance to countries on the practical implementation of the standards.

5. After the publication of the 1989 ILO manual, it became clear that a number of key methodological issues and problems needed further work and research. During this period controlling inflation had become a priority in many countries and some introduced inflation targeting as part of their economic policy. This increased the interest in CPI as a general measure of inflation in addition to its role as a measure of the cost of living.

6. In 1996, the *Boskin Report* to the United States (US) Senate Finance Committee² concluded that the US CPI overstated the change in the cost of living by 1.1 percentage points on annual basis, due to different types of substitution bias and failure to adjust for the effects of quality changes and new products. The report also concluded that the upward bias had a significant influence on the federal budget through increasing social and pension payments adjusted with the US CPI (leading to over-compensating the beneficiaries) and through lowering tax revenue because of income tax brackets being linked to CPI. The report spurred new and extensive interest in CPI compilation, gave rise to additional work and research in the area, and the adoption of new standards by ICLS in 2003.

7. On this background, the meeting of the Group of Experts on CPIs in 1997 recommended an update of the 1989 ILO Manual to reflect developments in methods and practices. Based on this recommendation the Inter-secretariat Working Group on Price Statistics (IWGPS) was established in 1998 to coordinate the update of the manual. As a result of this work, the *Consumer Price Index Manual. Theory and Practice* was published in 2004 (ILO, 2004). The UNECE Secretariat was actively involved in servicing a number of expert meetings and making substantial contributions to the update of the manual.

8. In 2009, the *Practical Guide to Producing Consumer Price Indices* (UNECE, 2009) supplemented the above-mentioned *Consumer Price Index Manual. Theory and Practice*. UNECE actively contributed to the development of the Guide with substantial input and facilitating consultations with countries. The draft Guide was presented to the 2008 meeting of the Group of Experts on CPIs for discussion and soliciting comments and proposals from the participants. The Guide was produced under the auspice of the IWGPS as a supplementary handbook to the 2004 CPI Manual, focusing on practical implementation issues and the needs of CPI compilers in countries with less developed statistical systems.

B. Recent CES activities on CPIs

9. The 2014 meeting of the Group of Experts on CPIs focused on practical implementation issues and included eight workshops followed by plenary sessions on CPI

¹ The 1925 standards referred to cost of living indices rather than CPIs. Later standards of the ICLS distinguished between a *fixed basket index* designed to measure the change in the cost of purchasing a given basket of consumer goods and services, and a *cost of living index* designed to measure the change in the cost of maintaining a given standard of living, or level of utility. The Tenth ICLS in 1962 decided to adopt the general term consumer price index to embrace both concepts.

² Boskin, Michael J., E. Dulberger, R. Gordon, Z. Griliches, and D. Jorgenson: *Toward a More Accurate Measure of the Cost of Living, Final Report to the Senate Finance Committee*. 1996

methodologies and practices. CPI experts from countries and international organizations conducted the workshops (e.g. IMF and CIS-STAT). The workshops addressed the following topics: calculation of elementary price indices; calculation of higher-level price indices; treatment of seasonal products; quality adjustment: hedonic price indices; core inflation measurement; scanner data; quality management; and the Price Index Processor Software.

10. The plenary sessions discussed substantial topics on price collection methods; difficult to measure products and services (e.g. telecommunication and housing); index calculation formulas; and management. In addition, an issue paper prepared by IWGPS on a possible update of the 2004 CPI Manual was presented. The participants unanimously supported to initiate an update of the manual and provided a number of comments and suggestions to take into account. The IWGPS subsequently agreed to establish a technical expert group to update the manual.

11. The 2016 meeting of the Group of Experts on CPIs discussed the following substantive topics: scanner data and Big Data; synergies between CPIs and PPPs; methods for calculation of elementary and higher-level price indices; difficult to measure products and services; CPIs for different population groups, income groups and geographic areas; and house price indices. In addition to this, a first draft outline of the update of the 2004 CPI Manual was presented for information and to solicit comments and proposals. The participants suggested the following topics to be included on the agenda for the 2018 meeting of the Group of Experts on CPIs: services in the CPI; new data sources; use and communication of CPIs; methodological issues; and updating of the CPI Manual. The participants also asked UNECE to organize a special session for countries with economies in transition.

12. In recent years, the joint UNECE/ILO Group of Experts on CPIs have been attended by 100-110 participants. In addition to experts from CES member countries, on the invitation of ILO, experts from NSOs in Asia and the Pacific, the Middle East, Africa and South America attended the meetings. Experts from international organizations and many researches also participate. Representatives from central banks, e.g. the European Central Bank, representing a key user perspective, also often participate in the meetings. The reports and recommendations of the meetings of the Group of Experts on CPIs, including proposals for topics for future work, are submitted to IWGPS.

C. Coordination with the Intersecretariat Working Group on Price Statistics

13. UNECE participates in the work of IWGPS to ensure good coordination of work. The institutional members of IWGPS are Eurostat, ILO, IMF, OECD, UNECE and the World Bank. The chair of IWGPS rotates among the member organizations. Since 2014, OECD has chaired the group. IWGPS reports to the United Nations Statistical Commission.

14. According to its terms of reference, IWGPS aims to develop international standards and recommendations in price statistics and support their implementation. Price statistics include consumer price indices, producer price indices, export-import price indices, real estate price indices and other price statistics that are required.

15. IWGPS coordinates the work of international organizations in implementing best practices, sharing information on training and technical assistance and in using resources

efficiently and avoid duplication of efforts. Thus, for example, IWGPS coordinates the organization of meetings of the Ottawa City Group on Price Indices and the joint UNECE/ILO Group of Experts on CPIs, and ensures the necessary linkages with other relevant work, such as the International Comparison Program (ICP) and the Voorburg City Group on Services Statistics.

16. In 2015, IWGPS established a technical expert group (TEG-CPI) to update the 2004 CPI Manual. The main purpose of the update is to reflect methodological and practical developments over the previous decade, evolving user needs, and to provide clear and more prescriptive recommendations wherever possible. IMF chairs TEG-CPI, which also includes CPI experts and compilers from a broad group of countries in different regions of the world, as well as experts and researchers from international organizations and academia. TEG-CPI reports to IWGPS who is responsible for the overall management and final approval of the updated manual. The draft update will be sent for global consultation to countries and relevant international organizations tentatively in 2018 and will then be submitted to the United Nations Statistical Commission for endorsement.

D. Coordination with the Ottawa Group on Price Indices

17. UNECE is a member of the Steering Committee of the Ottawa Group on Price Indices. The Ottawa Group was established in 1994 to provide a forum for specialists to share experience and discuss research on crucial problems of measuring price change. The Group meets every second year, interchanging with the meetings of the Group of Experts on CPIs. The focus of work is on applied research, particularly, though not exclusively, in the area of CPIs. The Group reports to the United Nations Statistical Commission.

18. The Steering Committee ensures the continuity and evolution of the Group's activities and coordination with other international activities on price statistics, such as the Expert Group on CPIs and IWGPS. The Steering Committee comprises representatives of NSOs, academics and other experts in the field of price statistics, a representative of the Group of Experts on CPIs, a representative of IWGPS, and representatives of the agencies that host the recent and upcoming meetings of the Ottawa Group. The Australian Bureau of Statistics provides the secretariat of the Group. The membership of the Steering Committee is reviewed at each Ottawa Group meeting.

19. The next meeting of the Ottawa Group will take place in May 2017 in Germany, hosted by the German Bundesbank. The topics proposed for the agenda include compilation of property price indices; new data sources; calculation methods; price statistics for multiple user needs; and quality adjustment methods. The topics discussed by the Ottawa Group and the CPI Expert Group are to some extent overlapping. However, the Ottawa Group puts more weight on research and emerging issues, while the Expert Group tends to give more weight to practical implementation.

III. THE ORGANIZATION OF UNECE WORK ON PRICE INDICES

20. Until 2009, the organization of the meetings of the Group of Experts on CPIs was guided by an Organizing Committee consisting of experts from countries and international organizations, according to agreed terms of reference. However, when the terms of reference expired in 2009, the Bureau decided not to extend the terms of reference, but that work

should be guided by an informal Organizing Committee composed of countries and organizations.

21. Hence, since 2010 the meetings have been organized jointly by UNECE and ILO in cooperation with an informal Organizing Committee. The Organizing Committee for the 2014 meeting comprised France, Georgia, Israel, Luxembourg, Switzerland, United States (Chair) and OECD. The organizing committee for the 2016 meeting included Australia (Chair), Canada, Italy, Netherlands, South Africa, United Kingdom, CIS-STAT and the World Bank.

22. In several areas of UNECE work, a Steering Group is formed to guide the organization of regular meetings of Groups of Experts and lead the methodological work in the area. The Secretariat proposes to the Bureau the establishment of a Steering Group on CPIs to guide the CES work in the area of price statistics. The Steering Group should help ensure the relevance of the activities and topics discussed at the Expert Group meetings, vis-à-vis the needs of CES member countries. This would be similar to the organization of CES work on national accounts, which since 2009 has been guided by a Steering Group established by the Bureau.

23. Document 5/Add.1 includes the draft **terms of reference for a Steering Group to guide CES work on price statistics**. The countries and organizations that participated in the organization of the 2014 or 2016 meetings of the Group of Experts on CPIs have expressed interest to become members of the Steering Group. The Secretariat will also reach out to ensure representation from countries in the EECCA region.

* * * * *