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CURRENT STATUS OF THE ECP AND ICP – EUROSTAT COMPARISON

1. Eurostat´s comparison group

Until the beginning of 1999, Eurostat co-ordinated directly the price collection in the 20 countries participating in the Eurostat comparison group. These were the 15 EU Member States, Iceland, Norway and Switzerland as EFTA States; and Cyprus and Poland as Accession Countries. The inclusion in the foreseeable future of another 11 Candidate Countries as part of the overall accession policy of the EC made a review of working methods necessary.

At the beginning of 1999 the management of consumer price surveys for Purchasing Power Parities was completely reorganised ("the ECP Reform"). The participating 31 countries were divided into three groups, each led by a EU statistical institute NSIs (Statistics Austria, Statistics Finland and ISTAT of Italy, the Group Leaders, see Annex 1) which are responsible for the co-ordination of preparation of the price surveys, price collection and validation of prices.

The implementation of the ECP Reform did not imply any methodological changes as to calculation of PPPs or price collection methods, other than the extension to the former ECP Group II countries the methods already used in ECP Group I. For the time being it concerns only collection of prices of private consumption goods and services.

Eurostat continues to be responsible for the overall co-ordination, final calculations and dissemination of the results, as well as taking the lead in methodological development.

It should be borne in mind that although the price surveys are organised within three Groups, the ECP is nevertheless one single survey with overall co-ordination by Eurostat, in collaboration with OECD. The published results relate to all the participating countries as one group.

A close co-operation between the three “sub-groups” is vital for the quality of the overall results. This is secured by a series of survey-specific meetings between Eurostat, OECD and the three Group Leaders: ***Planning meetings*** to ensure a harmonised approach to the forthcoming survey in all participating countries and ***Overlap meetings***, aimed mainly at ensuring sufficient overlap between the three group product lists); and between the Group Leaders and Group Members (***Group meetings***) with Eurostat's and OECD's participation to finalise the draft Group item lists.

After almost three years of the implementation of the ECP Reform and having one survey cycle almost completed the following conclusions can be made:

- the Group Members appreciate to work in smaller groups and to participate more actively than in the past in preparation of the price surveys.

- co-operation between the Group Leaders has increased both the relevance of the product lists and the quality of definitions in general the number of items to be priced has clearly reduced at the group level which makes the work in each country more focused

thorough pre-survey work is necessary to secure the effectiveness of the price collection and the quality of the final results

timeliness of the work has greatly improved and the final survey results are available roughly within 12 months from the start of the pre-survey work.

Eurostat aims at focusing the available resources even better by concentrating on fewer Basic Headings optimising the number of items within Basic Headings (/see Section 2). As to price collection Eurostat studies possibilities to use centrally available data sources such as Internet and bar code scanner databases. A revision of the 3 years survey cycle is to be decided soon as well. It aims at more balanced distribution of both the coverage of the surveys in respect of their contribution to GDP and of the workload between individual consumer price surveys.

2. Reduction of the number of Basic Headings (private consumption)

The introduction of ESA 95 classification starting from 1999 necessitated a review of the Basic Heading structure used for PPP work: the previous CHGS classification had to be replaced by a COICOP based classification. Eurostat felt that the moment is right not only to move to COICOP-PPP classification ("COICOP Level 4") but at the same time to reduce the overall number of Basic Headings by merging those with smaller weights and concentrate price surveys on more important ones. One guiding principle for selecting the appropriate Basic Heading Structure is the availability of harmonised consumer price indices for updating the survey results. The HICP classification (COICOP-HICP) is close to COICOP Level 3 and thus Level 3 is a natural starting point.

To assess the impact on results of the eventual reduction of the number of Basic Headings Eurostat made an analysis of moving from the previous classification with 220 Basic Headings to a COICOP based classification The most detailed Basic Heading structure would be COICOP-PPP ("COICOP Level 4") with 199 Basic Headings. This offered the base line against which to compare the impact of applying COICOP Level 3 classification with 117 Basic Headings. The conclusion was that the impact on the overall results at the total household consumption level of adopting COICOP Level 3 instead of Level 4 is limited.

Comparison of the survey results when using CHGS, COICP Level 4 and COICOP Level 3 Basic Heading classification: results of selected 8 countries (weighted average of differences in % of the results of 7 price surveys)

	COICP 4 / CHGS	COICP 3 / COICOP 4
Denmark	+1.4	+0.5
Netherlands	+0.9	-2.7
Spain	-1.0	-2.0
Austria	+0.8	-1.6
Sweden	+1.5	+1.5
Finland	+0.3	+1.8
Poland	-3.1	+2.5
Iceland	-0.6	+1.5

Eurostat May 2000

At the May 2000 meeting of the PPP Working Party, the reduction of the number of Basic Headings was discussed as a general approach. The agreement was that COICOP level 3 could be used as a starting point, to be further disagregated when justified by heterogeneity of the items, different price ratios and different weight structures , for example. Eurostat was to prepare a revised Basic Heading structure in co-operation with OECD.

Eurostat's starting point for the proposal was the 117 basic headings of COICOP Level 3 while OECD proposed 146. As a result of negotiations with OECD Eurostat came to propose 137 Basic Headings. Following discussion at the Eurostat PPP Working Party in May 2001, a revised version comprising 145 Basic Headings was proposed at the PPP Working Party meeting on 24.10.2001. A final decision is required soon, in order that the new classification can be adopted by agreement, in advance of its inclusion in a forthcoming European Parliament and Council Regulation on PPPs.

3. Optimisation of the number of items to be priced

Eurostat is in favour of a general shortening of item lists because it would bring a lot of practical benefits which are likely improve the quality of the result. It would allow countries more time for market research and pre-survey work, which should result in better-prepared item definitions; to analyse the degree of overlapping; and more time for finding and pricing the smaller number of products (more price quotations in more and better selected outlets). Furthermore it would leave more time available for NSIs to check their results before sending them to Group Leaders, and more time for the

Group Leaders to verify the results within their group and eventually more time for Eurostat to verify the overall data.

Eurostat carried out simulations of the impact of reducing the number of price surveys in spring 2000. The results suggest that even a drastic reduction of the number of items for which prices are collected have only limited impact on the aggregate results. This is particularly true when items used are those which have been priced by a number of countries - which is of course known only after the actual price surveys but a more thorough pre-survey work might help in concentrating on items which are both available and sufficiently representative in most of the countries. Even though the analysis was based on historical data the clarity of the results (even 75 % of items could be dropped without a major impact on the results at Basic Heading level) supports a significant reduction of the number of items.

In practice the implementation of the ECP Reform has already led to reduction of the number of items to be priced within each group and in a given country. More time is allocated for the pre-survey work. As a result, the items for which prices are collected are now less in numbers but more carefully selected and the resources may be allocated for more appropriate selection of the outlets and for reporting more price quotations. At the PPP Working Party meeting in May 2000 Eurostat requested the groups to continue the optimisation of the number of items to be priced.

To harmonise the pre-survey work within each group, Eurostat, OECD and the Group Leaders agree at the Planning Meeting the target number of items to be included for each Basic Heading. This is to take into account the weight of the Basic Heading but also the homogeneity of items and their overall price variation.

4. Splittings

Splitting the reported prices to relate both to the original item definition and to one or more variants of this definition has always been seen to be an essential part of the price data validation.

The splittings are made for two reasons:

> ex ante splittings when the definitions are made intentionally and for the sake of convenience (to reduce the number of definitions) to include splittings. For example, the definition includes a wide range of package sizes or different package material, which are asked to be specified – and to be grouped under variants during the validation process on the basis of this information;
>
> ex post splittings which are done without prior intention but to relate prices to as comparable item definitions as possible. The most common reasons are:
>
> > the item definitions of the reported price deviates significantly from those in the item list and this is clearly explained in the “Remarks” column of the price report. For example, the package size is more than 10 % bigger or smaller, the package is glass instead of plastic, the brand is different etc.

some of the prices collected for the item deviate substantially from the average, hinting to a possibility of another item or variant having been priced.

A splitting has a meaning only if the same new ("split") item can be found in at least one other country but in practice at least in 3-5 countries. The alternative has been to delete the prices concerned. The deletions are checked with the countries affected as well.

From the point of view of the item comparison, the result is that the price variation within the country and between the countries will be lower after splittings or deletions. This is generally seen as an indication of better quality of the results - but based on partial 'reconstruction' of the survey.

To do splittings is the most time consuming part of the data validation. Since 1999 3 months is allocated in the timetable for the data validation - which has been regularly exceeded - and this mainly consist of making splittings.

Eurostat is convinced that the practice has gone clearly beyond reasonable limits. Two extreme cases might give some idea of the magnitude. In case of 96-3 (Health Services) the splittings increased the number of definitions from 600 to about 1.000; and in case of 99-2 (Transport and other goods and services) some thousand splittings were made. Usually splitting increases the number of definitions by some 20 %.

The basic aim of the PPP work is the carry out price comparisons and to calculate reliable deflators at the GDP level. Less important though preferable is to achieve the same level of the accuracy of the results at the Basic Heading level and even more so at the item level. Taking into account the costs of the splitting activity and the probably insignificant impact on the main results the whole activity is questionable. Eurostat believes that the resources would be better allocated when directed for pre-survey work and more careful drafting of item definitions.

Simulations done by ISTAT and Statistics Finland shows that splittings have a very limited impact on the aggregate survey results and in most of the cases this is true also at the Basic Heading level. More analysis on the impact of splittings will be made.

Eurostat tabled the following proposals for the future splitting policy for discussion at the PPP Working Party meeting in May 2001:

No splittings will be made to the final item definitions. Instead, unjustifiable extreme prices will be deleted;

NSIs shall price only the items which are in the final item list but make all necessary efforts to price all items which are available in the markets;

NSIs shall collect sufficient number of prices in cases where different package sizes and types are used, reflecting their respective market shares.

Any negative consequences of this approach could be limited by careful pre-survey work and improved item definitions, which are supported by optimisation of the number of Basic Headings and of items within them. Furthermore, high quality translation of item definitions into national languages is very important.

Eurostat believes that a viable option to splittings is to allow more flexible interpretation of package sizes and types for example than by splittings. If the price collection would concentrate on representative package sizes and types, or other kind of "variants" from the item definitions, the average item price would reflect the average price of the consumption rather than a “pure” average price of an individual strictly defined (split) item. This would mean better consistency with the national accounts than the present practice.

The general conclusion of the meeting was that ex-ante splittings should be avoided in all cases but some room should be left for ex-post splittings not to waste potentially useful and valuable data. Eurostat however will pursue the matter in order to see if a harmonised approach could be found to define the cases where splittings might be justified.

5. Overlap between the three groups

In the present organisational framework each of the three groups prepares a group specific item list for a given survey. The member NSIs will then price the items which are included in their specific group list. However, the price survey itself is not split and the final results relate to the whole group of participating countries. Therefore the item list of each group should include a mixture of both group specific items (to take account of the market similarities within the group) and overlap items (to facilitate comparison of all participating countries)

To achieve a sufficient ex-ante overlap of the Group Lists, i.e. overlap before the actual price collection, has not been problematic. The group item lists agreed at the group meetings have had in most of the cases a reasonable overlap which has been further improved at the Overlap Meetings. The most recent finalised surveys 00-1 and 00-2 price surveys showed already a quite good ex ante overlap: roughly 50% of the definitions were common to 2 or 3 groups. The ex post overlap was even higher, around 60 %, due to splittings which were common to 2 or 3 groups. Furthermore, items in the so called “core list”, i.e. items which are common to all three groups, were well priced in all groups. This proves the quality of the pre-survey work and of the price collection.

6. Construction & equipment goods

The 2000 equipment goods and construction price surveys were carried out largely following the traditional approach except that second hand goods and equipment with smaller capacity were included to better reflect the market situation in Candidate Countries. The results were to be delivered to Eurostat by 31.12.2000. Unfortunately, only part of the price data were delivered by that time.

The 2001 equipment goods and construction price surveys is being done in all participating countries as in 2000. However, as a result of the Call for tenders in 2000 Eurostat contracted Davis Langdon Consultancy/Planco Consulting (UK) Ltd, to organise these surveys in the EU Member States and to report validated results to Eurostat. The contractor chose to replace the traditional Working Group meetings in

July to prepare the respective price surveys by a more direct approach and to discuss bilaterally with the experts in the EU Member States. Eurostat agreed to this obviously more effective method. To fully integrate the three EFTA Countries and the Candidate Countries in these surveys a special meeting was arranged to take into account their particular needs.

Following the contractor´s proposal it was agreed to reduce the item lists by about 50 % as concerns both equipment goods and construction surveys, based on the finding that a reduction of this magnitude has only a limited impact on overall results (the analysis was done on historical data and covered only the EU Member States). Second hand equipment goods were excluded because of obvious difficulties to find comparable items and because of their rapidly diminishing relevance in the Candidate Countries. Renovation projects were left aside as well in the 2001 survey. The results of the surveys should be available by the end of 2001.

The contractor is due to propose alternative method(s) for construction and equipment goods surveys by 31.12.2001.

ANNEX 1

EUROPEAN COMPARISON PROGRAMME (ECP)

MEMBERS OF THE 3 SUB-GROUPS (2001)

Group Leader	**Finland**	**Austria**	**Italy**
Members	Denmark	Belgium	Bulgaria
	Estonia	Czech	Cyprus
	Iceland	Germany	France
	Ireland	Hungary	Greece
	Latvia	Luxembourg	Malta
	Lithuania	Netherlands	Portugal
	Norway	Poland	Romania
	Sweden	Slovak	Spain
	UK	Slovenia	Turkey
		Switzerland	