

INTERSECRETARIAT WORKING GROUP ON PRICE STATISTICS (IWGPS)

Minutes of the 3rd meeting of the Technical Expert Group for updating the Manual on Consumer Price Indices (TEG-CPI) (Washington D.C., 5-6 February 2001)

1. The 3rd meeting of the TEG-CPI was organised and hosted by the IMF. The meeting was chaired by Mr. David Fenwick (UK) and attended by Mr. S. Young (ILO), Mr. K. Zieschang (IMF), Mr. P. Arknecht (IMF), Mr. B. Schultz (Statistics Canada), Mr. E. Diewert (Canada), Mr. Y. Finkel (CBS-Israel), Mr. J. Greenlees (BLS-USA), Mr. M. Silver (BLS-USA), Mr. P. Hill (UK), Mr. B. Balk (CBS-Netherlands), Mr. Prasada Rao (World Bank), Mr. Yonas Biru (World Bank), and Mr. M. Pesut (UN/ECE).
2. The draft agenda for the meeting was adopted.
3. Mr. Fenwick reminded participants that the purpose of this TEG-CPI meeting was to go through draft chapter of the new CPI Manual, provide authors with comments, and agree on the future time table and action plan. The main focus would be Part 1 as it was critical that the latter was finalised because it strongly influenced the drafting of Part 2. Each chapter would be reviewed in turn for overall structure, linkages with other chapters, satisfying the general user need and major technical issues. Detailed drafting points should be sent separately to the authors.
4. Mr. P. Hill (editor of the new Manual) also noted that a thorough review of drafted chapters is now necessary, since a large number of chapters have been drafted. He also thought that it would be useful to review the responsibilities of authors, reviewers and the editor, as well as which parts of the Manual are still outstanding. He mentioned that it might be useful to prepare an executive summary for each chapter in Part I towards the end of drafting because of the size and volume of the new manual. In his view, the ordering of chapters 3, 4 and 5 in the present outline was questionable and suggested discussion on this issue. Finally, he expressed his view on the role and responsibilities of the editor. He thought that editor should not be overloaded with material needing extensive redrafting and rewriting (this should be responsibility of authors and reviewers). He viewed his editor role as someone who should ensure completeness, coherence, consistency, ordering and logical sequence of text and chapters and minimise duplication.
5. In the ensuing discussion several participants stressed a dual role of the new Manual. The new Manual will have at least two audiences – it should represent a reference source for CPI theoreticians and a practical guidebook and manual for practitioners, especially for those from less advanced statistical offices. Therefore, several participants thought that a high degree of readability must be ensured and maintained throughout the Manual in order to preserve readership.
6. Participants also suggested that a preface should be drafted providing a concrete guidance to readers at the very beginning of the Manual, and it was agreed not to have an executive summary. Since the Manual is already split in two parts, theoretical and practical, several participants noted that a strong link between two parts should be established. For that purpose, it was accepted that both part one and two should start with a short introduction which should ensure coherence between two parts. It was also noted that part two is likely more important as the main purpose of the Manual is to be a practical guide for CPI compilation, calculation and dissemination. Chapter 6 was in view of many participants the most crucial part of the Manual and it should provide a good bridge between part 1 and 2.
7. Participants agreed that part III of chapter 1 should be expanded to give an early indication why such a structure of the manual was chosen and what elements of the structure were included (why and where). Chapter 6 will also ensure that the link between two parts of the manual is firm and provide an overall overview of CPI compilation and guidance to practical issues. **(Mr. P. Hill will complete this task).**

Title

8. **It was agreed that part I title should read: Concepts of CPI and part II title: CPI Measurement (or Practical Issues in CPI Measurement)**

Chapter 1 and 2

9. After introduction by the author, participants commented on the text and suggested some additions in reference to the part dealing with COL approach and COLI. **Mr. J. Greenlees will draft and send text to Mr. P. Hill for inclusion in Ch. 1. Mr. Hill will amend the text of Ch. 1 accordingly.** Chapter 1 or Chapter 2 should further include an index finder for problems in layman's language.
10. It was also suggested that section on deflators, explaining issues and use of CPI as deflator should go to Ch. 2. In addition, participants also agreed that an addition to the text on revision, policies of revising CPI and pros and cons of revisions should be added. Also, participants agreed that term **index linking should be avoided in the text (the term "indexation" or "adjustment" was suggested).** (Mr. J. Greenlees will send draft text for inclusion in this chapter)
11. After an extensive discussion on the section on main use and the choice of index, it was suggested that a more neutral and less prescriptive text should introduce users to the advantages and disadvantages of using a different index numbers. The text should present implications of using different kinds of indices for policy purposes and clearly state policy implications of each choice. It was suggested that, as this chapter opens discussion on uses and purposes of CPI and extends beyond solely theoretical questions, forward references and linkages to the second part chapters should be introduced where appropriate.

Chapter 3

12. **Participants agreed that the more appropriate sequence of chapters 3,4 and 5 would be to order them in the following way: Ch. 3, followed by Ch.5 and then Ch.4.**
13. Participants agreed that text needs to be somewhat reduced (the use of annexes was one possibility), and a summary provided linking theory (part I) and practice (part II). After lengthy discussion about ordering of parts of the Ch. 3, it was agreed that the chapter would be divided into three major sections plus the numerical annex. Each section would have its own numbering of paragraphs and equations. Parts A (Introduction), B (Decomposition) and C (symmetric) should be brought together with conclusions and summary of issues in tabular form. They should be followed by parts G+F (stochastic and axiomatic approaches), H+I (economic approaches), D+E (time series aspects). A summary of the numerical examples and calculations in the Annex could be used in the text to illustrate the issues. **It was agreed that Mr. B. Balk would review the text according to suggestions.**

Chapter 4

14. The revised text of the chapter was presented. This chapter will be included in both CPI and PPI Manual.. One suggestion was to extend section 4.4 (stock market price index). The other suggestion was to make reference to Ch 2 on uses of indices and to highlight relation of CPI to other indices and their links. **Mr. K. Zieschang will revise chapter accordingly.**

Chapter 5

15. It was agreed that this chapter should include the following elements:
 - elementary indices/aggregates;
 - new and disappearing products;
 - seasonal products;
 - quality change;
 - treatment of durables;
 - within country cross-spatial comparisons;
 - national versus domestic treatment of commodities (harmonised index);
 - missing prices.

Mr. M. Silver will provide input for part on quality change (conceptual issues – practical will be included in the part II); Mr. P Rao will provide short input on regional and inter-regional spatial

indices in spatial comparisons (for annex to Ch.5). Chapter 5 should be completed by 15 March 2001. Mr. E. Diewert will prepare the overall draft.

Schedule of deliverables for Part I

16. Participants agreed that a “zero” draft of the Manual should be ready by November 2001 and that authors should aim to provide revised drafts taking on board comments by 1 April in time for re-circulation before the 4th TEG-CPI meeting. **The 4th TEG-CPI meeting, scheduled for 23-24 April 2001 in Geneva** will review the status of drafting of the Manual with particular focus on chapters in Part II. Another TEG-CPI meeting is planned to take place along with the Joint ILO-UN/ECE meeting on Consumer prices (Geneva, 31 October – 2 November 2001). A meeting of South East Asian countries in Singapore (June 2001) will be another opportunity to discuss drafted chapters of the Manual and their particular relevance for developing countries. Authors of chapters in the Part II should not wait the final drafts of Part I chapters but make every effort to submit their drafts for the April TEG-CPI meeting in Geneva as indicated above. **Mr.P.Hill will re-circulate guidance on layout as it was observed that many authors were not following the agreed format.**

Chapter 15

17. The draft of this chapter will be soon finalised **partly by Mr. J. Greenless with the assistance of Mr. M. Silver.**

Chapter 13

18. It was agreed that conceptual issues of treatment of seasonal adjustments would be **included in Ch. 5 (Mr. E. Diewert)**. Seasonal adjustment and trend analysis will be added as an annex to this chapter (**to be drafted by Mr. Y. Finkel**). **Mr. Y. Finkel** will also draft part 4 of Ch. 13. Since Mr. M. Silver had already drafted text on quality change and appearance and disappearance of products/establishments, it was agreed that **Mr. M. Silver would finalise text for part 2 and 3 of this Chapter and, together with Mr. J. Greenless part 1 of Chapter 13**. Mr. J. Dalén text will be used to cover theoretical issues for part 2 of Ch. 13. It was also agreed that **Ch. 13 would be moved forward and come after Ch. 9**, to form a block with Ch. 8 and Ch. 9.

Chapter 17

19. It was agreed that reference to types of presentation of CPI, especially seasonal adjustments, should refer to annex on treatment of seasonality (Ch. 13). In addition, reference to core inflation should be added, avoiding prescriptive suggestions giving examples how it is done in various countries and emphasising that there is no single measure of core inflation. Relation between the choice of measure of core inflation and various concerns of policy makers should be also mentioned. It was suggested that text on core inflation from PPI manual could be consulted in this connection. It was also noted that a brief reference should be made to meta-data and quality of disseminated CPI. **Mr. T. Griffin could complete this task.**

Annex V

20. After an introduction by the author and comments from participants it was agreed that this annex should more emphasise similarities and synergies in price collection between CPI and PPI on procedural level without to much focus on PPP. It was also pointed out that annex should concentrate on spatial comparisons (regions within the country) and different methods of doing it. Also, conceptual similarities between spatial and time comparisons should be elaborated. It was further suggested that some consideration should be given to what could be standard checklist of collected variables across countries and a scope of comparability between standard checklist for CPI (CPI area designed samples) and PPI (list designed samples) compilations, as well as synergies with household expenditure weights. **Mr. P. Rao will redraft text of the annex according to comments and making use of Mr. K. Zieschang’s paper. The redraft will be submitted by June 2001.**

Chapter 8

21. This chapter is viewed as a critical part of the Manual as it represents a pointer to many issues discussed later. It should therefore be used as a main departing point for pointing to issues discussed later in the Manual. The main concern of participants was that in its present form chapter does not offer views on practical side of the sampling and related issues. Furthermore, it was felt that although it provides an excellent underpinning of theoretical issues it is not very user-friendly and some sampling issues are not as developed as they should be.

Therefore, it was suggested that **BLS (Mr. A. Dorfman and Mr. M. Silver)** would provide input dealing with practical concerns in sampling (sampling costs, measuring accuracy, etc.). **Mr. B. Balk will then edit Chapter accordingly** and address the issues which were not sufficiently highlighted in the original text. **Mr. S. Young will e-mail his proposed revision to others at the meeting to whom it had not been circulated** (i.e. Messrs Diewert, Zieschang, Silver, Greenlees and Balk).

Chapter 9

22. It was agreed that it would be necessary to incorporate comments from developing countries on the text. ILO is seeking information from Afristat and it expects that during the June meeting of South East Asian countries in Singapore, more comments from developing countries could be obtained on some issues particularly relevant for their economies (products in consumption basket; collection of prices from informal markets; parallel economies; private vs. government markets; barter trade; etc.). **Mr. D. Fenwick** will incorporate some concrete proposals into his text. **It was also agreed that terms product and item should be used throughout the Manual.**

Chapter 10

23. Participants agreed that editor should revise terminology used throughout this Chapter (especially the use of term "item") and shorten first two pages. It was also felt that Chapter need further reviewing by experts in the field related to practical issues. **Mr. K. Zieschang will review this Chapter and expand sections mentioned in discussion** (sample size, limitations, underreporting, etc. in household budget surveys). More generally it was recognised that the **Glossary of Terms would need to be re-visited. It was agreed that Mr.P.Hill would do this and ensure standardisation throughout the manual.**

Chapter 16

24. This Chapter, which talks about organisation and management of the CPI procedures, brings about important relations in collaboration between the field and central office (which kind of work is carried out in central office, flow of information between organisational elements, etc. It should also present a range of options in organisation of data collection and clearly point out in the introduction that presented cases should be something that countries should aspire to achieve rather than present issues with prescriptive connotation. It could also include reference to controversial issue of international benchmarking. It is expected that some input for the text may come after June meeting in Singapore. **Mr. D. Fenwick will revise chapter accordingly.**

Chapter 11

25. Participants agreed that the text could be reduced avoiding overlap with the text in Ch. 6. A text could also be made more useful for practitioners by introducing practical examples of index calculations. It was noted that text could represent a layman's guide for theoretical application in practical index work. It was further agreed that **Mr. P. Hill would use parts of the text for Ch. 6. Mr. K. Zieschang will approach Mr. R. Lowe (who is preparing a chapter for PPI manual) and see with him how the remaining text and software for calculating CPI (developed by IMF) could be integrated into this Chapter.** It was proposed that example developed for this chapter could follow the software which could be supplied on a diskette together with the Manual.

Chapter 12

26. Participants agreed that the remaining parts of Ch 11 and Ch. 12 could be merged, but sections on elementary calculations and aggregations should be split. These two chapters should provide guidance and practical insight calculation of CPI and link calculation steps with previous elements of the theory. A particular reference was made to index revisions and problems associated with it (updates of weights and baskets). The text should not be too prescriptive as is the case now with mild inclination towards recursive methods of index calculation.

Chapter 14

27. It was noted that drafts of part II and part III of the Chapter are coming in March. Part X of the Chapter was drafted and presented at the meeting. For the rest of the text it was noted that it should offer and present options for practically using the theory introduced in Chapter 5. The Chapter should discuss generic problems

related to specific products and present real cases and best practices with practical advice on how to deal with practical calculations. A feedback will be expected from developing countries dealing with treatment of specific products. **Mr. Y. Finkel will provide draft of the text for this Chapter in time for the next TEG-CPI meeting even if Chapter 5 is not circulated on time.**

Schedule of deliverables for Ch. 6 to Ch. 18

28. **It was agreed that all chapters, both revised drafts of the Part I and all chapters for the Part II should be submitted by 1 April 2001. The next TEG-CPI meeting is planned to take place in on 22-23 April (7-8 May) 2001 in Geneva.** It would be important to have drafted text of both parts of the Manual for the meeting in June 2001 in Singapore.
29. **Participants also agreed to the proposal to have another TEG-CPI meeting in Geneva in November 2001, along with the Joint ILO-UN/ECE meeting on CPI (31 October – 2 November 2001).**
30. It was noted that the total volume of new Manual may be around 500 pages, or even more, and that it may be also reproduced on a CD-ROM.