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PPPs: Progress Report

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I INTRODUCTION

The aim of this report is to evaluate the measures taken or planned by Eurostat to improve the quality of the PPP work, most importantly the reform of the European Comparison Programme ("ECP Reform"); and to briefly reflect other development activities which aim at increasing the quality of national PPPs and introducing regional PPPs. Thus it reflects the discussions held at the 30th and 33rd SPC meetings in September 1998 and May 1999. The main emphasis is on factual description of the ECP reform (Paragraphs 1 to 7) and on evaluation of the progress achieved so far (paragraphs 8 to 20) because it is by far the most important element in the overall plan to increase the quality of the PPPs. The implementation of this reform is, however, only one element of the development plan: other activities to be implemented in the near future are presented briefly in paragraphs 21-30. This document is to inform the members of the SPC of the progress made, underlining though that the reference period is relatively short and that some of the expectations of the ECP Reform have not fully materialised yet.

II ECP REFORM - FACTUAL DESCRIPTION

1. The ECP Reform, which was launched in January 1999 after 2 years intensive planning, reorganised the price collection for final private household consumption by:

- Creating three groups with group-specific product lists with a certain amount of overlapping products; and
- Introducing a series of survey-specific meetings
 - ✓ Between Eurostat, OECD and the three Group Leaders (Statistics Finland, Statistics Austria, ISTAT) to ensure a harmonised approach to the forthcoming survey in all participating countries (**Planning meetings**) and to establish a sufficient overlap between the three group product lists (**Overlap meetings**);
 - ✓ Between the Group Leaders and Group Members with Eurostat's and OECD's participation to finalise the draft group product lists (**Group meetings**).
- Reshaping the work of the Working Group on Purchasing Power Parities to concentrate on discussing the methodological and more general issues but not to deal with product definitions or the minutiae of individual price surveys.

The ECP Reform is the most important individual development activity concerning the Purchasing Power Parities and its successful implementation and consolidation of the new working methods are crucial for the whole price programme and for the quality of the overall results.

2. The additional work carried out by the Group Leaders (approximately 9 person years altogether) is funded under the terms of a specific contract from DG REGIO (Regional Policy) for the part that relates to the EU Member States and from the Eurostat Phare Programme concerning the work done in relation to the Candidate Countries. This funding amounts in total to about 700,000. Eurostat wishes to place on record its appreciation of the commitment and professionalism of the three NSIs concerned. Without their contribution, the ECP Reform could not have happened.

3. Prices collected for PPP purposes are also used for calculation of Correction Coefficients for EC staff salaries. Therefore prices for products in all three group lists need to be collected in Brussels, and a representative of the Belgian Ministry of Economic Affairs attends the Planning meetings and Overlap meetings.

4. Securing the homogeneity of the work of all participating countries is of vital importance. Eurostat continues to co-ordinate the ECP as a whole and issues appropriate guidelines. It also remains, as before, the guardian of the methodological development, in close collaboration with OECD. It gives all necessary technical help within the limits of its resource capabilities and provides the appropriate informatics tools to the NSIs and the Group Leaders to check and report the price data and to validate them. Eurostat also assists in the preparation of the survey material by providing comprehensive glossaries of the definitions in all 24 languages of the participating countries. An electronic documentation centre "CIRCA" is used for easy distribution of documents and information to all participating countries and OECD. It is Eurostat's intention to allow public access to certain parts of this website, with the agreement of the Working Party.

5. Eurostat prepares a detailed annual timetable for the PPP work to assist the planning of the capacity allocation by all participants and to secure timely supply of data and calculation and publication of the results.

6. Eurostat continues to publish the survey results and the aggregate annual results only after prior approval (explicit or implicit) of NSIs.

7. The three Group Leaders established teams to co-ordinate the PPP work within their respective Groups and to prepare the price surveys and to validate the observed price data. This was done in the course of 1999 and all teams have now gained experience. The Group Leaders make missions to Group Members to study the markets and thus help to secure the relevance of the products.

III ECP REFORM - EVALUATION SO FAR

8. The primary objective set for the ECP Reform was to improve the quality (including the timeliness) of the results by placing more responsibility for the surveys on Member States and through more efficient ways of working. As a result Eurostat could allocate more resources to co-ordinate the ECP as a whole, take better care of methodological development and analyse more thoroughly and disseminate the results more quickly. These objectives are still valid and experience should be assessed against this background.

(a) Timeliness of the results

9. The ECP Reform was launched in January 1999 and the first price survey was completed in summer 1999. In spite of the very tight deadlines set, the price collection and primary checking was by and large done and prices delivered to the Group Leaders within the time limit indicated in the timetable.

10. Clearly the time allocated for the 1999 pre-survey work and for the validation of the price data by the Group Leaders turned out to be unreasonably short. This was taken into account when establishing in December 1999 the survey schedule for the year 2000 and in the current planning of the 2001 timetable. In case of the first survey of 1999 the time allocated for pre-survey work was only 2 months but already 4 months for the second survey of 1999 and 4-5 months for the first survey of 2000.

11. More attention is now being paid to the timeliness of the work both by Eurostat, the Group Leaders and the Group Members. Meeting the deadlines of the price collection by the NSIs is both an achievement and a proof that there was quite some room for tightening as anticipated. It also underlines the effectiveness of the co-ordination by the three Group Leaders. The price collection itself has been finalised within the agreed 3 months which is less than the half of the time taken before. On the other hand, the time for validation by the Group Leaders, 3 months, turned out to be too short for the first survey of 1999, which at the end required 6 months due to the fact that the validation and preparation of the following survey overlapped. It was subsequently agreed between Eurostat and the Group Leaders that 5 months is needed for validation of the survey results before submitting them to Eurostat. However, even 5 months is less than the half of the time taken for validation of the 1998 surveys.

12. Timely publication of the overall annual results is important. Eurostat has to pay more attention to effective and timely dissemination of the results and make them available also electronically. As far as the individual survey results are concerned, they have been published only once, for the Food and beverages survey of 1995 which were published early 1997. At the PPP Working Party meeting in May 2000, it was agreed to re-start publication of individual survey results immediately after the results have been approved by the NSIs. It is hoped that this can begin with the results of the second survey of 2000. Concerning the results of the future annual GDP volume comparison, the aim is to have them published before the summer recess in the second year

after the reference year, based on the data available by the end of April of the second year (mainly the most up-to-date GDP figures). In the past, the publication has tended to be delayed for various reasons: the annual results of 1995 and 1996 were published jointly in April 1999 and the results of 1997 were published in November 1999. The 1998 annual results are expected to be published in October 2000. Similarly, the publication of the preliminary annual results have been delayed from the targeted end of January, and concerning the 1998 preliminary results they were published only in April 2000. Obviously, more discipline is needed both by the NSIs and by Eurostat to respect the cut-off dates (such as the end of April for the final annual results).

(b) More effective way of working and more responsibility to the Member States

13. The Group Leaders together with the Group Members have now prepared 4 price surveys (99-1, 99-2, 00-1 and 00-2), co-ordinated 3 price collections (99-1, 99-2 and 00-1) and validated the data of 2 surveys (99-1 and 99-2). The Group Leaders have devoted a lot of effort to the work and the co-ordination of the Groups' work functions well. The Group Members seem to appreciate to work in smaller groups and to participate more actively than in the past in the preparation of price surveys; the pre-survey work has certainly become more productive. The fact that the draft group lists are firstly discussed up to a certain degree by all Group Leaders during their preparation and secondly looked at jointly before the finalisation at four successive meetings by the Group Leaders, Eurostat and OECD, has increased both the relevance of the product lists and the quality of product definitions in general. Recently introduced standardised (separately for each survey) definition structures will make the work even more effective.

14. The co-ordination between the Group Leaders needs to be made even more active to further improve the overlap and at an earlier stage. It has been agreed recently that more consultations between the Group Leaders are needed during the validation period to achieve the maximum quality of the comparison between all 31 countries (Turkey has recently joined the group).

15. To make the price collection more focused it was intended that the overall length of the product list was to be reduced. This aim has materialised quite well at the level of the Group Members but because of the need to keep a sufficient number of group specific products in the lists, the product lists covering all three Groups is about the same length as before. However, at the level of each individual NSI the product list is reduced by some 50 %, from the level of about 600 products on average to 300 products or less and thus more effort than before could be devoted to pricing each individual product. In fact, the trend continues and the size of the group specific product lists is approaching the level of 200. This relates closely to the discussion on the number of Basic Headings and products within each Basic Heading (see paragraph 22).

16. The main purpose of the Group meetings is to decide the content of the proposed Group Product List on the basis of the pre-survey work. This did not work as well as expected in the case of the two 1999 price surveys when in fact a lot of preparatory work was done and detailed product-level discussions held during and after the Group meetings. On the other hand, the Group meetings could by and large finalise the group product lists for the first price survey of 2000, thus making the

work of the Overlap meeting really effective. This reflects both the increased experience and the fact that more time was available.

17. The feared lack of overlap of the group lists (important to secure effective comparison between all 31 countries) has turned out not to be a serious problem, especially after each Overlap meeting where certain amendments have been agreed to strengthen the overlap. In 99-1, roughly 50% of the products were common to 2 or 3 groups and about 30% were common to all three groups. The figures for 99-2 and 00-1 surveys are 65% and 45%; and 40% and 20% respectively. It is to be noted that these are ex-ante figures before the actual price collection.

18. It is essential from the point of view of quality and effectiveness of the work that all participants use the same informatics tools to ensure that identical working methods are applied when producing input for calculation of the survey results. Eurostat regrets that the full set of tools have not been available: they will be ready for use in autumn 2000. Eurostat encourages the more active use of CIRCA as an effective communication tool.

19. It is crucial for a successful price comparison that local price collectors have the product definitions readily available in their own language. Since full textual translation into 24 languages is impractical, a new approach using simplified headings for specifications, in conjunction with a glossary of terms in all languages, has been adopted. This is a clear improvement as compared to the situation in the past, where only a small number of full translations were provided. The use of glossaries started already in case of the 99-1 price survey. Understandably this was experimental and the glossary and translation was available too late to be effective. Since then the content and timeliness of the glossaries has improved and the glossary for the 00-2 price survey was available already at the beginning of March 2000.

20. As a whole, the support given by Eurostat for the survey preparation reached the level aimed at during the preparation of the second price survey of the current year.

<p>The views above were by and large endorsed by all participating countries during the recent meeting of the Working Party on Purchasing Power Parities on 23-25 May 2000.</p>
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IV FURTHER ACTIONS TO IMPROVE QUALITY

21. Even though the ECP Reform is now successfully implemented, there are various important areas where further development is in progress or planned: optimisation and reduction of the number of Basic Headings and number of products; strengthening the overall foundation of the PPP work by adopting a Regulation; more effective dissemination of the results; use of more modern and effective data collection methods and of centrally available data sources; "now-casting" of the results; putting in place appropriate quality monitoring routines; optimisation of the sequence and content of the price surveys; and last but not least production of regional PPPs. Furthermore, some of these activities could be effectively contracted to carefully selected external organisations, thus

releasing the limited in-house capacity more for co-ordination and dissemination. Progress on these development plans is outlined in the following paragraphs.

22. The necessity to migrate to a COICOP-based PPP classification led to consider a more general optimisation of the number of Basic Headings (BH) and of products. This was thoroughly discussed during the Working Group meeting on 23-25 May 2000 and Eurostat's proposal to introduce a BH structure which is based on COICOP 3-digit classification (a reduction of the number of Basic Headings from the present 219 to around 120 as far as private consumption is concerned) was adopted as a general approach, while allowing for a more detailed classification where justified. The Working Group also saw obvious merits in having fewer but better selected products for which more prices than at present would be collected. Thus the existing resources allocated for the price surveys would not be reduced but focused more precisely to increase the overall quality of the results.

23. The Working Group reiterated unanimously its support for a Regulation of the European Parliament and of the Council on PPPs and saw it as an important quality measure, presenting many useful ideas as to the content of the Regulation. This issue is discussed in more depth in Doc. EEA CPS 2000/38/7. Eurostat has already begun to draft the outline of an eventual regulation to help speed up the work of a Task Force to be set up in October 2000 to prepare a Commission proposal for the regulation (assuming that the SPC takes a favourable view).

24. The Working Group also agreed to Eurostat's proposal to publish regularly the results of the individual price surveys. This should take place as soon as possible after the results are available. Complementing the publication of annual results which will continue to concentrate on GDP volume comparisons, publications of the survey results will concentrate on price level comparison including comparison at the level of individual products where appropriate. A standard content of such publications, which would make the publication more rapid, was discussed at the recent Working Group meeting.

25. Eurostat has contracted a pilot project to collect price data using bar code scanner sources. The results will be available towards the end of the year and need to be analysed carefully, but it is quite possible that much higher numbers of price quotations and a wider geographical sample could be secured, together with more accurate information on market penetration of specific products. This could make such a method quite attractive, depending, however, on the costs involved. The costs must be seen in perspective because the same data could be used both for PPPs and for monitoring the functioning of the Internal Market, consumer policies etc. Also other centrally available data sources must be evaluated, such as the internet, multinational retailers, international or national consumer and trade organisations, monopolistic suppliers and also the Commission itself.

26. Traditionally, PPPs are calculated annually and published for the year $t-2$. For example the PPPs and volume comparison of 1998 are published in 2000. It is obvious that for various users such data, though interesting, are simply too old. Therefore it is important to develop appropriate methods to update the annual results using commonly available indices (such as HICPs) and make them

available possibly on a quarterly basis, matching the quarterly GDP estimates. OECD has for a considerable time updated and published results using appropriate indices, even though the results relating to the European countries are mostly based on the results produced by Eurostat. Eurostat should be able to publish its own updated results.

27. It is impossible to evaluate the improvement of quality without appropriate yardsticks, which should be put in place as soon as practicable (discussed already at SPC in September 1999). Such evaluation needs to cover preparation of the price surveys, price collection and validation, calculation of the results and publication, as well as progress on the various development projects within Eurostat.

28. Traditionally, price surveys for private household consumption have been done over a three-year cycle. On the other hand, prices of equipment goods and construction work have been collected annually. More effective allocation of resources of both Eurostat and participating countries might speak in favour of revamping the whole survey cycle. The results of the pilot project on bar code scanner sources as well as of use of other centrally available sources (see paragraph 25) will possibly have significant implications to the future survey cycle. Availability of appropriate indices for updating of the results, and newly emerging needs (to supply relevant data for evaluation of public procurement regime; and to strengthen the data base for short-term indicators) might require maintaining at least the present frequency. Various alternatives will be carefully analysed by Eurostat.

29. It is Eurostat's intention to produce Regional PPPs by 2004 (at present, Regional PPPs are implicitly assumed to be the same as national PPPs in order to "deflate" Regional GDPs for allocation of Structural Funds). The preparations will include identification and evaluation of alternative methods to achieve regional PPPs at reasonable costs. The availability of relevant data in all participating countries (including all Candidate Countries) must be analysed early enough so that necessary data sources will be in place. Some additional costs, potentially substantial, cannot be avoided and the funding must be secured as well. Preparations in close co-operation with DG REGIO and DG ECFIN will start towards the end of the year. Eurostat accepts, however, the expressed view of the SPC that the first priority is the improvement of the existing national PPP results, and most of its development work is aimed at this objective.

30. The ECP Reform has shown that many activities such as validation of price data and calculation of the results can be effectively done outside Eurostat without putting quality in danger. With this in mind, Eurostat has recently launched a call for tenders covering a wide range of work on price statistics, including PPPs. The work includes: preparation of product lists, validation of the observed prices, calculation of the survey results and the annual results; methodological development and "now"-casting", more effective use of CPI databases for PPPs, use of PPPs for temporal analysis; preparation of publications; development of new estimation methodology for capital goods prices; and finally thorough analysis of centrally available data sources to reduce the need for traditional surveys in retail outlets. Thus many of the activities referred to above

(paragraphs 21 to 29) might be contracted to external experts, Eurostat of course always retaining overall responsibility.

V CONCLUSION

31. A great deal has been achieved since the implementation of the ECP Reform at the beginning of 1999 in terms of improving the quality of PPPs. Eurostat is particularly pleased to inform the Committee that the new organisation of the price collection under the ECP has proved to be a true success story. However, there remains a large amount of work to be done before it can be said that the PPPs have reached a fully acceptable level of quality. In particular, continued attention needs to be paid to the timeliness of various activities and appropriate quality indicators should be put in place to allow an evaluation of the progress made. On the other hand the planned outsourcing of various essential development tasks to external experts will both release the existing Eurostat resources for overall co-ordination and planning, and speed up the finalisation of these tasks.
