

## Session 7 - ILO Activities on CPIs

**Chair:** John Greenlees, US Bureau of Labor Statistics

### Summary of session

The speaker at this session was Valentina Stoevska of the International Labour Organization (ILO). She began with a brief summary of the situation with respect to the forthcoming ILO Manual on CPIs. The bulk of her presentation consisted of a review of the draft Resolution on CPIs to be approved at the 17th International Conference of Labor Statisticians (ICLS) meeting in late November 2003.

- **Manual on CPIs**

Work on the Manual was directed by the Inter-secretariat Working Group on Price Indices formed in late 1998, with the assistance and advice of a Technical Expert Group. Both of these Groups contain Ottawa Group members, and the Manual was discussed at the 2001 Canberra meeting. Approximately half of the 23 chapters are theoretical in nature, with the remainder being devoted to practical aspects of CPI construction. Ms. Stoevska indicated that all chapters were expected to be finalized by the end of June 2003, and that it was expected to be printed in early fall. The latest versions of the chapters are on the ILO web site, and this electronic version is planned to be a “living document” that could be reviewed and updated as needed. Ms. Stoevska also noted that an IMF annex on structured product descriptions has been added to the Manual, along with an annex comparing how prices are used in CPIs and PPIs.

- **Draft Resolution on CPIs**

According to Ms. Stoevska, usual ILO practice would imply that work on a Manual would be preceded by adoption of a Resolution on CPIs at an ICLS. In this instance, however, the Resolution to be approved at the 17th ICLS meeting will benefit from the material prepared for the Manual. The ICLS meeting may also lead to some revisions or additions to the manual contents.

The present Resolution on CPIs dates from 1987. So its updating was recognized as a necessity according to recent methodological and computational developments. The proposed new Resolution was drafted in 2001 and discussed at an ILO Expert Group meeting in the fall of that year. No attempt was made to develop an Ottawa Group position on the Resolution. Rather, the discussion was aimed at providing comments that the ILO could use in developing the final form of the Resolution.

The Resolution has several purposes, notably to specify the elements of best practice in producing CPIs and to reduce incompatibilities among the series produced by different statistical agencies. It is useful to provide guidelines, particularly to developing countries. As presented at this Ottawa Group session, the Resolution has 17 sections, comprising 84 paragraphs.

The sections are:

- Preamble
- The nature and meaning of a consumer price index (CPI)
- The uses of a consumer price index
- Scope of the index
- Acquisition, use or payment
- Basket and weights
- Sampling for price collection
- Index calculation
- Elementary aggregates
- Upper level indices
- Price observations
- Collection
- Replacements
- Quality changes
- Accuracy
- Dissemination
- Consultations and integrity

In addition, there are four annexes, on Terminology and definitions; Quality adjustment methods; Types of errors; and the COICOP classification structure.

The session response to the Resolution was generally positive. Several participants congratulated the ILO and commented favorably on the content and wording. Nevertheless, a lively discussion ensued throughout the allotted time period, with numerous comments and questions presented on specific elements of the Resolution.

The Chair led with several comments. Both he and another participant argued that paragraph 15 of the Resolution should not attempt to match the acquisition, use, and payment measurement approaches to the primary purposes of the index. For example, the Chair did not agree that the “acquisition” approach is necessarily the most appropriate for an index intended to be used as macroeconomic indicator.

There were several other comments concerning the section on acquisition, use and payment in the paragraph 17 context of owner-occupied housing. Two participants pointed out that for the acquisitions approach, the relevant weight is net acquisitions, not the value of new dwellings acquired, and that the value of alterations and additions should be included. Another argued that the rental equivalence technique should be mentioned specifically.

The Chair also mentioned the issue of index revisions and corrections, which the Resolution argues against. He noted that revisions are inherent in the new U.S. superlative index. He further noted that many users would prefer to see a CPI that is revised whenever any error is found in previous data and also whenever methodological changes are made in the index.

Two participants argued that paragraph 26 should not imply that five years is the optimal interval for revising expenditure weights in a CPI. Rather, the paragraph should state that weights should be revised “at least” every five years. The manual should not be seen as arguing against more frequent review or updating of weights.

Several participants suggested that the Resolution, for example in paragraphs 2, 3, and 43, is too limiting when it contrasts a fixed-weight approach with a cost-of-living index (COLI) approach. It was argued that reflecting consumer substitution in the index is not just a COLI concept. A Divisia index could also be justified without adopting a COLI framework, and this will become more feasible as more price and quantity data become available for index construction.

Among the other specific comments, one participant noted a possible inconsistency between the draft Manual, which does not recommend the inclusion of own consumption in the scope of the index, and paragraph 16 of the Resolution. Another argued for inclusion of a discussion of metadata on quality adjustment, and for a paragraph discussing chaining and hedonic methods as alternatives to matched-model approaches in high-turnover sectors of the index. Another participant argued that sample imprecision is, in fact, recognized as a type of error in statistical science, contrary to the wording in the Resolution's glossary. An apparent inconsistency in paragraph 43 was also noted with respect to whether elementary aggregates could be weighted. Finally, one participant argued that the wording for the selection of quality adjustment methods should be revised to include the direct comparison approach and to avoid support for explicit but subjective approaches (paragraph 67 and annex 2).

In addition to the discussion concerning the contents of the Resolution, the session also generated a number of general comments and questions. Two participants suggested that the Manual should be mentioned in the Resolution. Another, while approving of the plan to update the Manual over time as a living document, asked for further explanation of how the ILO would handle the distinctions between the paper and electronic versions of the Manual. It was also argued by one participant that the Resolution needed less technical language, since in contrast to the Manual it should have more of a layman's orientation.

One participant, although indicating that the Resolution was very good, said that it failed to give clear guidance on several issues, notably on sources of weights (paragraph 23), treatment of seasonal items (paragraph 30), and weighting within elementary aggregates (paragraph 43). Similarly, another argued that the most difficult methodological issue concerns the treatment of services and durable goods, and that the Resolution discusses that issue only in theoretical terms. Ms. Stoevska, in her response to the discussion, recognized the difficulty in meeting the needs of both developed and less developed nations, especially given that often there is no single approved method for dealing with specific issues.

There were several stimulating comments about what role the ILO Resolution can play in view of the dynamic, sophisticated state of price measurement theory and practice at the present time, as represented in the wealth of material in the Manual. One participant stated that the Resolution, although excellent, could be thought of as a "monument of a past era" when there was much less literature on price indexes, and that to provide guidance to all countries in one Resolution was impossible. Another agreed that the Resolution should give less emphasis to the numerous complex methodological issues facing practitioners. Rather, the focus should be on regulating relationships between governments and statisticians, in particular providing a strong defense of the independence of statistical agencies.