

Title: Measuring the Services of Durables and Owner-Occupied Housing

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Abstract (394 words):

This paper provides an update to the chapter on the treatment of durables in the Consumer Price Index Manual (2004). The most important durable is housing, which typically accounts for approximately 20% of total consumption services. A large fraction of total housing services consists of the services of Owner Occupied Housing (OOH). The main approaches to measuring the services of OOH are (i) the acquisitions approach; (ii) the rental equivalence approach and (iii) the user cost approach. Two other approaches are sometimes used: (iv) the opportunity cost approach and (v) the payments approach. A main purpose of this paper is to present the main approaches to the treatment of OOH and to discuss the benefits and costs of the alternative approaches. The paper also discusses the problems associated with forming imputations for the services of “ordinary” consumer durable goods. When a durable good (other than housing) is purchased by a consumer, national Consumer Price Indexes typically attribute all of that expenditure to the period of purchase, even though the use of the good extends beyond the period of purchase. This is known as *the acquisitions approach* to the treatment of consumer durables in the context of determining a pricing concept for the CPI. However, if one takes a cost of living approach to the Consumer Price Index, then it may be more appropriate to take the cost of using the services of the durable good during the period under consideration as the pricing concept. There are two broad methods for estimating this imputed cost for using the services of a durable good during a period:

- If rental or leasing markets for a comparable consumer durable exist, then this market rental price could be used as an estimate for the cost of using the durable during the period. This method is known as *the rental equivalence approach*.
- If used or second hand markets for the durable exist, then the imputed cost of purchasing a durable good at the beginning of the period and selling it at the end could be computed and this net cost could be used as a estimate for the cost of using the durable during the period. This method is known as *the user cost approach*.

In this paper, we summarize advantages and disadvantages in these three methods and looks at the particular problems associated with measuring the services of housing.

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