



3rd ICP 2011 Technical Advisory Group Meeting

Paris, 10-11 June 2010

DRAFT MINUTES

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I. Introduction

The Third Meeting of the ICP Technical Advisory Group was hosted by the OECD in Paris on 10-11 June 2010. It was attended by 28 participants as shown in Annex 2.

Martine Durand, Chief Statistician and Director of the Statistics Directorate at OECD, welcomed the participants and delivered the opening speech. She expressed the importance of the ICP, particularly for the work of the OECD, but also for general economic analysis worldwide. It is important to draw on the lessons from the 2005 ICP to improve the outputs from the 2011 round.

Oystein Olsen, Chair of the ICP Executive Board, spoke about the importance of PPPs for comparing the economic situation in countries and especially for poverty analysis. He also emphasised the importance of the TAG's research agenda for improving the PPPs. The linking procedure is a critical part of obtaining global PPPs and it is important to ensure the changes being proposed in the 2011 must be soundly based. Mr. Olsen announced that Mr. Erwin Diewert has resigned from his position as chair of the TAG and that Fred Vogel accepted to act as a chair in the interim period until a new chair has been appointed by the Executive Board. Erwin Diewert will continue as member of TAG.

He also proposed the following procedure for appointing a new TAG chair:

- In the near future, potential candidates will be identified, in a communication with the World Bank/the Global Office.
- A proposed person will then be appointed by the Executive Board in the next meeting in October.

Misha Belkindas, DECDG, World Bank said that the ICP is the most complicated statistical project which with that he has ever been involved. It is a massive coordination effort to achieve a successful conclusion. He stressed the importance of making decisions on the procedures to be adopted for the 2011 ICP so that the project can move forward according to the timetable. The next TAG meeting will be held in Washington in October in association with an Executive Board meeting, and an ICP Users meeting (as part of World Statistics Day). As was the case for the 2005 round, funding is an issue for the 2011 ICP. Discussions are being held with several potential donors to assist in funding the regional activities required to expand the number of countries participating in 2011, including the Caribbean and Pacific Islands. Special thanks to the OECD for hosting the TAG meeting were also expressed.

II. Agenda, Objectives of the Meeting, Expected Results

Michel Mouyelo-Katoula, ICP Global Manager, proposed that the minutes from the February 2010 TAG meeting be adopted (accepted). The main objectives of the current meeting are to make decisions on government outputs, housing, survey framework, construction and the proposed approach for education. A paper that has been prepared on possible new methods to estimate PPPs between ICP benchmarks will also be discussed. A number of other agenda items are for information/discussion but no decisions are expected at this time (machinery and equipment, estimating basic heading values and the global core list).

A number of the research agenda topics have been finalised and several more will be resolved during this meeting. Areas in which research will need to continue are for education, health, water and energy.

III. Main Conclusions of the Meeting

A. Measuring Government Outputs

Derek Blades presented the list of government occupations proposed for pricing in the 2011 ICP. Items to be collected are basic pay, cash allowances, income in kind and employers' social contributions. The details requested relate to entry level, 5 years experience and 10 years experience (not consistent with the OECD/Eurostat). The comparison is based on compensation per hour worked.

Nada Hamadeh presented the proposed list of occupations and the questionnaire showing details of the data items required.

Following discussions, the TAG agreed that:

- It is important for consistency to be maintained between the 2005 and 2011 ICP rounds to the extent possible. The effects of changes in methodology that improve the PPPs should be quantified if possible.
- Countries should be asked to report all their data in respect of calendar year 2011.
- The proposed questionnaire on government expenditures is consistent with the principles defined in SNA93 and similar to that used for the 2005 data collection.
- The six military occupations included in the 2005 ICP round should be included in the 2011 questionnaire, but with conscripts excluded. Unlike the compensation for the other occupations, the compensation for the military occupations will not be adjusted for hours worked.
- OECD-Eurostat collect data on average wages for each occupation while the proposal for other regions is to collect three data points (entry level, 5 year and 10 year). The data for the three points will be averaged so they can be compared with the OECD-Eurostat average data.

B. Productivity Adjustment for Government Services

Alan Heston presented some background on the productivity adjustment that was introduced in some regions in the 2005 ICP round. The key question is whether priced services provide a good approximation to the "prices" underlying corresponding non-market services.

Productivity adjustments were applied in three of the six regions in the 2005 ICP, which led to some inconsistencies between less developed countries in the regions which did not have productivity adjustments and those that did. Different results are obtained when the productivity adjustments are applied within a region compared with when they are applied to countries without a regional dimension applied. Analysis showed that the results obtained without regions applied are superior to those based on applying productivity adjustments within regions and then linking.

The TAG agreed that:

- In regions other than OECD-Eurostat, data for the input approach will be required for all government consumption. However, an output approach will also be implemented for education and possibly for health if the methods are developed to a sufficient extent and are approved by the TAG. The final PPPs for 2011 will be based on the output approach if the data quality is satisfactory, with the input approach being used as a fall-back option. Productivity adjustments will be required when input methods are used.
- Data should be collected to assist in making productivity adjustments. Ideally, the data would relate to capital stock and number of employees for general government (preferably classified by function) but more broadly based capital stock data would be used as a fallback option.
- The proposal to estimate the productivity adjustments world-wide and then allocate the globally-based results across regions should be implemented. A set of guidelines will be prepared for discussion with each affected region.

C. Housing

Five papers were presented by Derek Blades, Nada Hamadeh, and Alan Heston. They dealt with: how dwelling services will be treated in ICP 2011, the estimation of expenditure on dwelling services by the user cost approach, the actual rent questionnaire detailing the specifications to be priced, the volume questionnaire detailing the quantity and quality data required, and the draft chapter on dwelling services for the ICP book.

During the discussion, the following points were agreed:

- All countries should price the actual rent questionnaire and complete the volume questionnaire.
- PPPs for actual rents will be calculated using the prices reported in the actual rent questionnaire. PPPs for imputed rents estimated by the rental equivalent approach will also be calculated using the prices reported in the actual rent questionnaire.
- Countries unable to estimate imputed rents by the rental equivalent approach should estimate imputed rents by the user cost approach. Such countries are those with less than 25 per cent of dwellings rented or with most of the rented dwellings occupied by expatriates or employees paying subsidized rents or with rented dwellings that are not evenly distributed over the country or dwelling types. (Both approaches are in line with SNA 1993 and SNA 2008 with the rental equivalent approach being the preferred option though applicable only in countries with developed rent markets.)
- PPPs for imputed rents estimated by the user cost approach will be obtained indirectly using the volumes calculated with the quantity and quality data reported in the volume questionnaire. This is the direct volume approach.
- Adoption of the user cost approach requires countries to include the estimates in their official national accounts. Countries may be reluctant to do this and some may not apply the user cost approach. The direct volume approach will still be used for these countries on the understanding that the volumes will be sound and the PPPs weak because expenditures are incorrectly imputed.
- The adoption of the user cost approach should be one of the aims of the ICP long-term efforts to improve countries' expenditure estimates. A session on the approach should be included in the ICP national account workshops proposed for 2011.

- As defined for the ICP, user cost is the sum of intermediate consumption, other taxes on production, consumption of fixed capital and real net operating surplus (nominal operating surplus less nominal holding gains). It would be desirable to also include risk premiums, if feasible.
- Data collection should be conducted early in 2011 to allow sufficient time for validation and follow up with countries.
- Number of persons per room (or number of rooms per person) should be adopted as a fourth quality indicator. Consideration should be given to weighting the quality indicators. (Number of bathrooms per dwelling was recommended as a quality indicator.)
- The inter-regional quality of the quality indicators should be verified. Definitions should be harmonized both within and across regions. For example, what is understood by “private toilet”.

D. Survey Frame Work

The draft chapter for the ICP book covering survey framework was presented by Fred Vogel to the TAG primarily for information. The chapter dealt with topics such as the conceptual framework for price collection, the use of structural product descriptions (SPDs) to define product specifications, the classification of products by importance (products are either important or less important instead or representative or unrepresentative). Because weights are not available for products within a basic heading, the classification by representative or important provides a form of weighting. The “representative or non representative” classification includes criteria about expected expenditure shares and the price level. The “important or less important” classification is based only on criteria related to expected expenditure shares. It was agreed that the classification is meant to provide a form of weighting of the products within a basic heading, and that expenditure shares were the most critical criteria.

The survey framework also provides guidelines for determining the number of products to be priced, the number of price observations to be made, and the sampling and classification of outlets. Also presented was a classification of basic headings by heterogeneity. The idea behind the classification was to ensure that each of the product groups comprising a basic heading was covered when drawing up regional product lists. There was little discussion on either of the presentations, although TAG could not agree on whether all product groups in a basic heading should be covered in regional product lists. It was argued that only the important product groups making up a basic heading needed to be included. The counter argument was that this viewpoint was that of an individual country and not of a region. Regional coordinators have to accommodate the fact that the importance of product groups within a basic heading can vary from country to country.

E. Construction and Civil Engineering

There were two papers covering construction: one enumerating the lessons learnt from the BOCC approach employed in ICP 2005, the other demonstrating how the new approach proposed for ICP 2011 would be applied in practice by means of a worked example. BOCC involved pricing a mixture of inputs (input prices) and composite components (an intermediate output price). The price ratios for inputs and components

were averaged to provide unweighted PPPs for a “system” such as site work, substructure, superstructure, and interior partitions. The system PPPs were subsequently weighted and aggregated to provide weighted PPPs for residential buildings, non-residential buildings and civil engineering works. However, the resulting PPPs were not at output prices, but were based on a mixture of input and intermediate output prices. Moreover, countries were not able to provide the system weights required. The new approach proposes to price only material inputs and to aggregate their price ratios using weights obtained from input-output tables to derive PPPs for intermediate consumption. The PPPs for intermediate consumption would then be grossed up to PPPs for gross output with factors taken from the production accounts of participating countries. The PPPs would be at proxy output prices, but for total construction and not by type of structure or other construction.

During the discussion, which focussed on the new approach, the following points were agreed:

- The new approach is promising, but needs further elaboration. The decision as to whether or not to adopt it for ICP 2011 should be made at the TAG meeting in October after the consultant has reported back on the points raised during the discussion. (During this part of the discussion, the question “why are we adopting an input price approach when in other comparison resisting areas we are trying to move to an output price approach?” was asked, but not fully addressed.)
- The new approach relies on the availability of input-output tables. The consultant should ascertain not only the availability of input-output tables but also that the input-output tables that are available contain the expenditures required.
- As it is a given that not all countries will have input-output tables, the consultant should also explain how expenditures for these countries will be derived. Something more sophisticated than straight replication of the weights of neighbouring countries should be considered.
- How imports are allocated in the input-output tables should to be looked into by the consultant. Large discrepancies will be introduced into the grossing up factors if some countries have allocated their imports to user industries and others have not.
- The material inputs that will be priced are only a part of intermediate consumption. Perhaps more inputs such as the hire of equipment, water and electricity can be included and priced? Even so, the overall PPPs for material inputs will need to be grossed up to intermediate consumption. (Comment: does the grossing up take place with individual products and individual product PPPs or with aggregated PPPs?) The grossing up factors will have to come from input-output tables and their availability needs to be confirmed.
- The factor for grossing up intermediate consumption contains compensation of employees. It would be better if labour inputs were also priced and PPPs calculated for compensation of employees. If this is done, there would be more price ratios underpinning the PPPs for gross output and grossing up factors would be smaller referring only to gross operating surplus and taxes.
- The weights of the industry groups do not need to be distributed across the items priced for them as is currently done in the worked example. In other words, the industry groups should be treated as basic headings. PPPs for industry groups should be calculated as unweighted averages of their price ratios. The unweighted PPPs for

industry groups should then be weighted and aggregated to provide weighted PPPs for total material inputs.

- The consultant should investigate possible ways of applying the new approach to estimate PPPs for residential buildings, non-resident buildings and civil engineering works.
- BOCC used SPDs to define product specifications for inputs and components. The new approach should consider using SPDs to define the specifications for material and labour inputs. It should also adopt the BOCC approach whereby specifications for material inputs included three levels of quantities in order to capture changes in unit prices resulting from bulk buying and the different scales of construction projects.
- Eurostat and the OECD apply the bill of quantities approach to obtain PPPs for construction. If the new approach is adopted for the ICP, linking between Eurostat-OECD countries and ICP countries will be achieved through having a subset of Eurostat-OECD countries apply the new approach as well as the bill of quantities approach.

F. Machinery and Equipment

1. Presentation by Richard Dibley

Dibley judged the 2006 machinery and equipment list to be overly general and skewed towards construction equipment and to US brands. Further there was no textile machinery in the list. In his presentation, Dibley used as his framework the 17 basic headings used by the EU, whereas the 2005 ICP only had 8 basic headings which may account for some of the perceived lack of coverage.

In recent years there have developed some universal specs in part because multinational corporations have been increasingly penetrating markets in other countries. Dibley outlined a plan to start with 2009 EU survey specifications, recognizing and expecting these to be modified or replaced as a result of a Pilot survey to be started the end of 2010 and analysis completed in Spring, 2011.

Dibley noted there were headings where there might be no brands, though there existed generic specifications, an example being storage tanks that are typically fabricated locally. In other basic headings there may be generic specs as well as branded specs.

Dibley proposed to undertake a Pilot Survey in Asia and Africa in order to test the specifications and to modify or add new specs in moving towards a final list. He noted that in IT headings the changes in product and brands were so rapid that these specs should be developed closer to the time of country surveys than for other headings.

2. Discussion Points

- Price variability. It was noted that the presentation did not treat price or PPP variability as a criteria for choice of items or SPD characteristics. Since the survey framework for consumption items had been approved, was there any reason the same criteria should not be applied to machinery and equipment? The discussion was in favor of making the survey framework clear by taking into consideration the degree of PPP and price variability in suggesting the number of products to be priced and the number of price observations. The characteristics suggested in the

SPDs and should be recorded along with the item price to record any departures of the collected price from the specification.

- The discussion supported the need to choose IT items as close to the survey dates as possible.
- The discussion noted that the 2005 ICP had only 8 basic headings and many countries could not supply expenditures or prices for many of these 8 headings. Further the ICP was considering even fewer headings. This needs to be taken into consideration as the final list is developed.
- The question was raised as to choice of location for the pilot surveys. Should Country or Region be the criteria? An advantage of purposeful selection of countries is that it can cover more varied markets and brands, and also focus on important sub-regions as well as regions. A report on the framework for the Pilot Survey will be made available for the next TAG and Regional Coordinators meeting in October.

G. National Accounts Guidelines for ICP 2011

1. Presentation by Paul McCarthy

Goal is to provide a step-by-step approach to giving the estimates for national accounts and population early priority in ICP 2011 data collection. As a guide to proposed country Tables and questionnaires, a pilot survey was carried out in Oman, Lebanon, Kenya, Ethiopia and Hong Kong.

- Questionnaire on **Estimation of BHs for the 2005 ICP** asked for data sources, temporal adjustments, BH breakdown methods, and the like. Details were available for 4 of the 5 countries, and all found it very time consuming exercise.
- Application of **Commodity Flow and Use Tables** in breakdown of GDP supply or use at purchasers' prices. Countries supported Supply-Use-Tables as a long-term goal but thought it unlikely to be fully developed by 2011.
- **Important products:** The pilot countries that could identify important products, usually did not have unit values. So consistency of prices and value aggregates not guaranteed but could serve as a guide to commodity flow and choice of items. Can countries generate prices for domestically produced and imported items from Basic prices and taxes, subsidies and related distribution charges? Pilot countries could not do it so this questionnaire can really be applied in countries with Supply-use Tables.
- **Check on real expenditure evolution.** To be done by Regional Offices. Use GM of 2005 prices to deflate BH expenditures to notional expenditures in both 2005 and 2011. See if growth plausible in BH in terms of notional quantities between years and "price escalation", and whether related BHs have very different growth rate.
- **SNA 93 Compliance Check:** Check handling of defense, cost of capital charges for government, mineral rights, and computer software, etc. Only tested in Hong Kong, which complies.
- **Validation check List.** A list of checks on expenditures and prices that can be used in validating country submissions.

2. Some Discussion Points

- Tension between avoiding unnecessary jumps in data between 2005 and 2011 and the need to change for example, situations where the estimated expenditure on a BH in 2005 was clearly wrong. Conclusion of TAG was to document such cases but make the change.
- Lengthy discussion of military expenditures, conscription, country willingness to supply estimates and PPPs. South America wants military expenditures as a BH as well as wage comparisons. TAG concluded to include item but recognize that a number of countries will not supply information.
- Question raised about whether there would be special workshops on getting housing expenditures right. Answer, housing would be done in workshops including all national accounts.
- All 5 mission reports will remain with the Bank.
- With regard to 1993 SNA, question raised about consistent treatment of (NPISH) across countries. TAG recommended that non-profit expenditures on education, health and social services be recorded separately where possible. Otherwise, they will be distributed across the expenditure headings.

H. Global Core List

1. Presentation by Michel Mouyelo-Katoula

- Plan is to integrate regional comments on the items per BH by next RC meeting. Question of what if any SPD parameters would be recorded with price.
- It was agreed that core items would be grouped into important and less important but questions on how exactly this would be formulated remain.
- Another important question was whether regions should include core prices in their own regional BH PPP calculations. The apparent conclusion was yes they should with the 'important and less important' notation.
- The TAG recommendation to regions is to retain the core list coding of item characteristics in their regional lists. However, unless there were a common monitoring in place of all regional lists by the global office, it would not be possible to effectively validate relevant prices across the regions; in other words the core list prices need to be validated globally and not just region by region.
- Most regions will have sub-regions in 2011, and some items will be sub-region specific, and there will be a regional core. The Global Office and TAG should propose a standard method for integrating sub-regions into regions, and of course regions into the world, if possible by the RC and TAG meetings in October. The EU and OECD have such a mechanism in place for their different sub-regions for 2011, but other regions have not yet established a method.

I. October Meetings

Michel Mouyelo-Katoula presented an overview of the upcoming October meetings (18-21 October 2010), including the Executive Board meeting, the ICP Conference, the TAG meeting, and the Regional Coordinators meeting. TAG members are invited to attend the meetings and to recommend five/six people to be invited including ICP users and interested parties. Michel noted that Albert Keidel has proposed a tentative concept note

for the ICP conference, and that the note will be circulated to TAG members soon. The ICP Conference will include an open session for users to ask questions.

It was suggested that prior meetings be held with major users to prepare for and focus the conference discussions on what is relevant to ICP users. Conference materials should be prepared carefully ahead of time. One suggested topic for the conference is PPP's for the production side, which is used for productivity analysis of various industries. A suggested speaker for this topic is Bart Van Ark.

It was noted that the agenda for the TAG meeting is heavy as it includes discussion and decision on construction, education, and health, as well follow-up on equipment, housing and government. The agenda will also include discussion on aggregation and linking. Thus, it is suggested to have a two-day meeting instead of a one-day meeting. If this is not possible, then priority would be given to decision items, and time permitting, other issues can be discussed.

J. Education

David Sprague and Carina Omoeva from the Academy for Educational Development (AED) joined the meeting via video-conference. Carina Omoeva presented AED's paper on developing an output-approach method for measuring Education PPPs.

The TAG, though it welcomed the adoption of an output approach for Education, had comments regarding the methodology proposed by AED that were not discussed in length due to the shortage of time. It was agreed that a follow-up meeting take place around the end of June in Washington, DC between AED experts, some TAG members, and the ICP Global Office to continue discussions on the methodology and approach.

It was agreed that the new approach is promising but needs further work. The decision as to whether or not to adopt it for ICP 2011 should be made at the TAG meeting in October 2010.

K. Price Levels and Economic Growth

Martin Ravallion joined the TAG via video conference, and presented his paper entitled "Price Levels and Economic Growth: Making Sense of the Revisions to PPPs". The following technical points were raised:

- The use of different aggregation methods can have effects on the convergence of per capita GDP at PPPs. However, the Dynamic Penn Effect (DPE) does not rely on convergence.
- 1993 is not a good benchmark year to anchor this work. The issue is the limited participation of countries in 1993.
- PPPs are not base-country invariant across time, so it would be interesting to examine the same with different base countries, other than the US. The inflation aspect of the model is also not base-country invariant.

It was noted that a paper on this topic is under preparation by some TAG members, and that it will be sent to Martin.

1. Conclusions

It was concluded that the TAG should try to improve existing methodologies while trying to maintain comparability across time.

L. Annex 1: Agenda of the TAG Meeting (Paris, 10-11 June 2010)

Day 1: Thursday, 10 June 2010

<i>09:00-09:30</i>	<i>Check-in & Coffee</i>
<i>09:30-10.30</i>	Welcome & Opening Remarks Special remarks Adoption of the agenda, Objectives of the Meeting and Expected Results
<i>10:30-11:00</i>	Status Report on Methodological Development
<i>11:00-13:00</i>	Measurement of Government Outputs Productivity Adjustment for Government Services
<i>13:00-14:30</i>	<i>Lunch Break</i>
<i>14:30-15:30</i>	Housing, including rental surveys
<i>15:30-16:45</i>	Survey framework
<i>16:45-18:00</i>	Construction and Civil Engineering

Day 2: Friday, 11 June 2010

<i>09:30-11:00</i>	Education
<i>11:00-12.00</i>	Machinery and Equipment
<i>12:00-13:00</i>	Proposed guidelines for breaking down GDP expenditures into basic headings
<i>13:00-14:00</i>	Presentation of the global core list
<i>14:00-15:00</i>	Preparing for the October 2010 events <ul style="list-style-type: none">• <i>ICP Users' conference</i>• <i>TAG meeting</i>
<i>15:00-16:30</i>	Making sense of the PPP changes between ICP rounds
<i>16:30-17:00</i>	Closing session

M. Annex 2: List of Participants

TAG

Frederic Vogel (acting Chair)
Luigi Biggeri
Alan Heston
Francette Koechlin
Paul Konijn
Tom Andersen Langer
Paul McCarthy
Prasada Rao
Martin Ravallion (via video conference)
Sergey Sergeev
Jim Thomas
Kim Zieschang

Executive Board

Oystein Olsen (Chair)
Misha Belkindas
Martine Durand

Global Office

Michel Mouyelo-Katoula (Global Manager)
Yuri Dikhanov
Nada Hamadeh

Observers

Derek Blades
Richard Dibley
Thomas Columkill Garrity
Robert Hill
Jim Meikle
Carina Omoeva (via video conference)
Gary Reid
David Roberts
Paul Schreyer
David Sprague (via video conference)