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## **Machinery and Equipment: Concept Note**

*Paper for Session 3*

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## I. Background (2005 ICP)

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The Global Office hired as a consultant (Steve Burdette) to prepare SPDs for equipment. Initially, the intention was to use these for pricing purposes by letting the countries to conform to rather loose specifications. After reviewing the SPDs it was then agreed that the criteria needed to be more specific. For example, the SPD for air conditioners could have been used to get the price of any air conditioner ranging from a small window unit to what cools the World Bank buildings. After many discussions the consultant was asked to provide more detailed specifications. The more detailed specifications relied heavily on manufacturer and brand names. In some cases, he identified alternate products, similarly to the EU methodology, making several items out of a product.

There was no pre-survey as the specifications were not available until 2006. The specs were sent to the regions with the goal to price as many as possible. The review of prices from many countries showed that many prices were submitted because a price could be found even though there were no transactions in 2005 related to those equipment items.

Once the prices were collected, the consultant reviewed them across the countries in each region to determine if the products priced were comparable. If they were, the price were to be used, if not the price was deleted. This was how the process of splitting was handled, more of a triage approach. However, most countries submitted prices for a large number of products, so this was not a problem. This was also done for the EU ring countries. So, the price comparison at the end came down to an expert review of what was comparable.

None of the specs were ready until early 2006 which meant 2006 prices would be submitted. However, few countries could have collected equipment prices while undertaking the main survey on consumption items in 2005.

The specs were not precise however, only an expert could determine what additional characteristics should have been added. The products contained many *North American* brands with many based on the Caterpillar brand. The assumption was that much of the equipment is imported, thus would be available in other countries. Also the products provided were generally *too large*--even though there was an attempt to price smaller items. Thus, the process contained a great deal of subjectivity.

## II. Considerations for 2011

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1. We believe that in developing methodology for 2011 more consideration should be given to the EU approach: (1) smaller products, (2) more carefully described using the product/item approach. We do not intend to entertain hedonic regressions in a systematic way because too many observations are required (except for where one cannot go without – office equipment and computers). However, the EU list is *too large*; we need to concentrate on a more compact list (possibly using the core list approach on the 2005 list). By and large, however, the EU and ICP approaches are quite similar, with Eurostat-OECD pricing more products, and the ICP approach requiring more expert judgment for alternate/substitute products. We intend to thoroughly review the ICP 2005 equipment list, harmonize and streamline it, and update its specifications, especially to reflect recent technological changes.
2. There should be an effort to *harmonize* the EU/OECD, CIS, and ICP equipment lists - or at least find a common core that everyone price to improve the linking process.
3. Tighter integration with National Accounts: the number of basic headings may need to be reviewed, as it was found impractical to collect expenditures on many of them.
4. The objective of the next survey will be to collect prices for identical or at least equivalent items (only representative items need to be priced). The issue of representativity should be given special attention as non-representative items may jeopardize the comparison. Prices should be actual prices observed in economic transactions.
5. The origin of equipment (countries of origin) should be taken into consideration. The list of items must reflect to the extent possible the variety of sources were countries import their items from.
6. Addressing the issue of price determining factors. The price differentials for the same items across different countries should be contrasted against tariffs, tax policies, transportation costs, etc. Thus, some additional information needs to be collected to complement prices for validation and analysis purposes.
7. We will recommend regional coordinators to hire regional equipment experts who will validate the prices collected and carry out relevant analysis before submitting cleaned data to the Global Office.
8. Price collection should take place in 2011.