Approach to Comparisons of Housing Expenditures - 2017 ICP in Asia and the Pacific

A Linked Rental and Volume Approach with Additional Quality Adjustments

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Executive Summary

Comparisons of housing expenditures within ICP have always been challenging. The case of the Asia-Pacific region is particularly challenging due to diversity in the composition of the participating economies ranging from high-income economies such as Brunei, Hong Kong, China and Singapore to low-income economies like Cambodia, Lao, People’s Democratic Republic and Nepal. The participating economies include some of the largest and most populous economies of the world, viz., People’s Republic of China, India and Indonesia. The region also includes economies like Hong Kong, China and Singapore which are models for high density living which are in sharp contrast to economies like Bhutan, Cambodia and Lao, People’s Democratic Republic. Housing comparisons posed insurmountable problems in the 2005 and 2011 rounds of the ICP in Asia and the Pacific finally requiring the region to adopt the sub-optimal solution of using the reference volume approach.

For the 2017 ICP in Asia and the Pacific, the regional coordinating agency at the ADB has adopted a multi-pronged approach to resolve the issues and problems encountered in the compilation of PPPs and real expenditure for dwelling services.

- First and primary focus for the 2017 has been on improvements in national accounts data. As countries strive towards implementing the 2008 SNA, participating countries were encouraged to examine the methodology for compilation of housing services expenditure in the national accounts with focus on the use of rental approach and treatment of owner occupied housing.
- The second area for improvement is rental data with the aim of obtaining meaningful PPPs from rental data. Towards this goal, improvements were introduced in the survey framework including: changes to the dwelling specifications; better coverage and representativity of rental data; and enhancing quality of rental data through rigorous data quality.
- Finally, resources were devoted to improvements in data required for the implementation of direct quantity approach. Identification of quality indicators in addition to the standard indicators electricity, water and toilet was given priority. Data supplied by the countries is supplemented with data from international databases such as the WASH database.

Despite the high degree of commitment and cooperation from the participating economies and improved rental and housing quantity data, application of the recommended rental and direct volume approaches to housing comparisons within the ICP failed to produce meaningful results. An in-depth evaluation of the estimated purchasing power parities, price level indices, per capita real expenditures and the ratio of housing expenditure to total household expenditures revealed that the traditional rental and quantity approaches fail to account for enormous differences in quality of dwellings across the participating economies in the Asia-Pacific region. This problem is considered to be similar to the problem encountered in the 2005 and 2011 comparisons of wages and salaries in the region which led to the introduction of productivity adjustments introduced in the 2005 round of ICP in Asia and the Pacific.

Taking a cue from the success of productivity adjustments in the 2005 ICP round which are now adopted by the ICP Global Office as a standard approach for comparisons of salaries and government compensation, the ADB has developed a new approach involving additional adjustments for quality differences in dwellings.

Steps involved in the new ADB approach for housing comparisons are:

- Quality Adjustment for Rental PPPs using relative real per capita expenditure differentials
- Quality Adjustment for Indirect PPPs from direct Quantity approach using urbanization rates
• Linking the rental and direct volume based comparisons: (i) identify good and reliable rental PPPs and indirect PPPs from direct quantity approach; (ii) identify economies for linking and filling gaps in PPPs; and (iii) use geometric average of the rental and volume based PPPs after quality adjustment.

A comparative assessment of results from the new approach confirms that it is vastly superior to both the rental approach and the direct volume approach to housing expenditure comparisons. The results also suggest that there could be further refinements but as it stands it represents a major improvement over the current approaches to the problem. The new ADB approach indeed provides a way forward in resolving the complexities associated with real housing expenditure comparisons in Asia and the Pacific.