What is an Important Product?

Derek Blades

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Representative products

- In ICP 2005 price collectors were asked to identify “representative” products among all the products for **household private consumption expenditure**.

- For other major headings in the ICP Expenditure Classification, all goods and services were assumed to be “representative”.

Why does it matter?

- The calculation of PPPs is more accurate if the PPPs between any two countries are only calculated using prices for items that are “representative” in one or both of the two countries.

- Prices for products that are not representative in either country are not used to calculate bilateral PPPs.
Defining “Representative” was Difficult

- A “representative” product was one whose price was typical of the “price level” in each Basic Heading.

- For ICP 2005, countries in some regions found it difficult to decide which products within a given Basic Heading were “representative”.

- As a result “representativity” was not taken into account in calculating PPPs except for OECD-Eurostat countries.
Important Products

- For ICP 2009 it is proposed that the term “representative” will be replaced by “important”.

- Within each Basic Heading for Household consumption expenditure, countries will be asked to say whether each product is **IMPORTANT** or **LESS IMPORTANT**.
What is an Important Product?

- We have agreed that countries cannot be asked to provide expenditure weights below the BH level.

- Therefore countries almost certainly do not know the expenditure weight for any product.

- But if they did have the expenditure weight would it be LARGE or SMALL?
Not an Exact Science

• Deciding whether a product is “important” or “less important” cannot be done precisely.

• The country statistician is being asked to GUESS whether an expenditure weight would be relatively LARGE or SMALL within a Basic Heading.

• Sometimes the guess will be easier than at other times. But the statistician is asked to make that guess for all products for which prices are collected.
LARGE and SMALL within a BH

• Note that “Large” and “Small” relate to the BH.

• A product that has a “Large” expenditure share within a given BH may still be “Small” in total household consumption expenditure.

• **Example:** Expenditure on the BH “Wine” might be quite small in many countries but this does not mean that all the specified wines should be treated as LESS IMPORTANT. There will be one or more types of wine where expenditure is “Large” relative to other types. These will be marked as “IMPORTANT”.
Heterogeneous Basic Headings

- Some BHs contain several different types of goods. In deciding what items are IMPORTANT or LESS IMPORTANT it is necessary to consider each type separately.

- **Example:** the BH “Garments” includes clothing for men, women and children. It is best to consider expenditure shares separately for each type.

- “Woman’s T-shirt, v-neck, short sleeve, 100% cotton” could be marked as IMPORTANT if its share is large for women’s clothing although it is small within “Garments”.

How to Decide if a Product is Important? (1)

- **Rule 1. Is it in the CPI?**

  - If a product is the same as, or similar to, a good or service included in the CPI. IT IS IMPORTANT.
How to Decide if a Product is Important? (2)

• **Rule 2. In-House Knowledge.** The price collector/national accountant may know if a product is IMPORTANT (i.e. Large expenditure share in the BH) from her/his own knowledge.

• **Example:** In this country, cheddar cheese is sold in almost all grocery stores. IT IS IMPORTANT. Brie cheese is only sold in a few “specialty” shops. IT IS LESS IMPORTANT.
Rule 3. **Ask an expert.** The expert will usually be the shopkeeper.

**Example:** There are two products for breakfast cereals – “Kellogg's All-Bran, family size” and “Country Store Muesli, 500 gram”. Ask the shop-keeper if either is a “big seller”.

The answer might be “both are” (both IMPORTANT), “neither” (both LESS IMPORTANT) or only one is (one is IMPORTANT, the other is LESS IMPORTANT).
How Countries Should Proceed

• For each Basic Heading, consider the full list of products.

• For some products the country may have no price because the product is not available. Ignore these products.

• For the products which are available, go through the list and mark each one as “Important” or “Less Important” using one of the three rules above.

• For a given Basic Heading, a country may decide that
  – all products are IMPORTANT – very rare
  – no product is IMPORTANT – very rare
  – some products are IMPORTANT and others are LESS IMPORTANT – the usual case.

• Note that PRICES should be collected for both IMPORTANT and LESS IMPORTANT products.
Important products should generally have a relative price level near or below 1 with the more specialty items (less important products) being relatively more expensive. Importance cannot be finalized until data collection is complete, thus countries need to price both categories.

<table>
<thead>
<tr>
<th>Product</th>
<th>National prices converted into the currency of A using the basic heading PPPs</th>
<th>International price (Geomean)</th>
<th>Relative prices (National price divided by the international average price)</th>
<th>Rel STD</th>
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<td></td>
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<td>B</td>
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