Session IV. ICP Research Agenda

PPP Research Agenda
Background

ICP 2011 COMPARED TO ICP 2005

- More countries
- Improved methodology—Linking, etc.

DILEMMA

- Comparability between benchmarks as methodology improves
- 6 year gap requires extrapolation between benchmarks
- Large differences between extrapolated and benchmark PPPs
FOC Recommendations

FINAL CONCLUSIONS AND RECOMMENDATIONS

- No major changes in methodology—focus on improving data quality.
- Reduce time between benchmarks—move to rolling survey approach.
- Form Technical Advisory Task Force(s) to develop and monitor a technical research agenda.
Technical Research Agenda

OBJECTIVES

- Support a work plan resulting in benchmark estimates for 2017, based on a transition to the rolling survey approach, published in 2019.
- Take into consideration interim regional updates, and produce a global annual time series for 2012-2016 by 2018.
- Provide input for a final work plan that integrates interim surveys and methods for extrapolation/interpolation to produce a PPP time series and support rolling survey methodology.
- Improve data quality while maintaining comparability.
Priority Area I. PPP time series
Item 1. Moving to a rolling benchmark/survey approach

**BACKGROUND**

- The rolling survey approach involves spreading the price data collection over a three-year time period around the reference year. PPPs for the basic headings not based on the reference year are to be extrapolated to the reference year.

**AREAS TO EXAMINE**

- Determine frequency of data collection by major aggregates for rolling survey approach.
- Examine how to link PPPs from regions with different data collection timetables.
- Assess quality of national account deflators/CPIs by component.
- Assess extrapolation methods for use between benchmarks until full rolling method is implemented.
Item 2. Linking interim regional updates

BACKGROUND

- The ICP regions are conducting interim updates between the global 2011 and 2017 comparisons. These updates need to be linked to be useable.

AREAS TO EXAMINE

- Effect of different timing of regional surveys 2012-16
- Degrees of GDP coverage
- Changes in regional composition
- Differences in coverage of global core list
- Methodological differences across regions
Item 3. Building PPP time series for interim period

BACKGROUND

- Need to produce PPPs for the interim period (2012-2016) in 2018. PPP time series will need to be built on the basis of the 2011 benchmark and interim updates.

AREAS TO EXAMINE

- Assess availability of CPI components and National Accounts deflators.
- Examine consistency of CPI weights with national accounts weights.
- Suggest capacity-building steps to ensure CPI and national account deflators consistency over time and comparability across countries.
- Consistency between 2011 benchmark and interim updates.
Item 4. Fine tuning global linking procedures

BACKGROUND

- Global Core and CAR effective but many exceptions: CIS bridge, dual participation, singleton countries, some linked indirectly separately from global comparison, sparse data for some countries.

AREAS TO EXAMINE

- Conduct in-depth review of global core list for frequency of prices being reported and their variability.
- Develop strategy to determine countries/regions to be included in the first/main CAR aggregation [2-stage linking].
- Review core prices provided by CIS countries, evaluate consistency with other regions and possibility of direct linkage.
- Develop strategy for special participation cases.
Priority Area II. Comparison-resistant areas
Item 5. Improving housing estimates

BACKGROUND

- ICP uses rents and dwelling stock data to estimate housing PPPs and real expenditures. In some instances, using these data did not lead to satisfactory results and housing PPPs were imputed.

AREAS TO EXAMINE

- Assess quality of existing input data and evaluate additional indicators of housing quality.
- Assess imputation methods for missing housing data.
- Investigate slight modifications to existing methods for housing to better account for quality differences.
- Investigate “user cost” and other methods to estimate housing expenditures.
Item 6. Improving construction estimates

BACKGROUND

- EU-OECD: Bills of quantity. CIS: modified version. Other regions: PPPs based on input prices for materials, labor, and equipment hire. Resource mixes used to weight input prices to construction basic headings. No mark-ups or professional fees were used.

AREAS TO EXAMINE

- Review frequency and variability of input prices.
- Identify data gaps and design gap-filling methods.
- Evaluate productivity adjustment for labor.
- Evaluate and improve resource mixes (weights) by country.
- Review with experts availability and quality of data such as mark-ups and professional fees.
Item 7. Improving estimates for government services

BACKGROUND

- PPPs based on employee compensation adjusted for productivity; uneven data quality and data gaps.

AREAS TO EXAMINE

- Examine occupations priced, data gaps and gap-filling procedures.
- Examine source data for:
  - Capital stocks—comparability and variability across countries
  - Labor—consistency across countries
- Evaluate variability of productivity adjustment factors within and between regions.
- Review how productivity adjustments were applied within regions and for linking, and effects of the adjustment factors not being used in some regions on the global results.
Priority Area III. PPP reliability and quality
Item 8. Assessing reliability of PPPs

**BACKGROUND**

- FOC review of data quality—assess sources of data variability at each level of estimation.

**AREAS TO EXAMINE**

- Define “minimum set of data” for participation in global comparison.
- Examine variability in basic heading PPPs before and after linking—identify outliers.
- Examine variability in basic heading expenditure shares—identify outliers.
- Analyze effect of outlier countries on regional and global results—strategy for identifying “weak links”.
Item 9. Explaining PPP changes between benchmarks

BACKGROUND

- Significant changes in PPPs that occurred between 2005 and 2011, compounded by changes in methodology, make it difficult to compare the benchmarks directly.

AREAS TO EXAMINE

- Assess changes in regional PPPs with changes in CPIs and GDP deflators.
- Evaluate effect of indexing methods (Laspeyres vs. multilateral methods).
- Examine methodological differences in linking—re-run 2005 with CAR, etc.
- Examine GDP component PPPs most consistent and least consistent with deflators/CPIs.
Priority Area IV. PPP/CPI integration
## Item 10. Harmonizing ICP and CPI Activities

### BACKGROUND

- Reduce data collection burden, make CPI and ICP prices more consistent and comparable to improve extrapolations and importance classification.

### AREAS TO EXAMINE

- Assess areas where harmonization of activities will create synergies.
- Conduct case study to evaluate the use of SPDs to better define CPI item specifications.
- Review use of CPI weights for “importance” classification.
### Item 11. Estimation of sub-national PPPs using CPI data

#### BACKGROUND
- Considerable effort underway to estimate price levels at the sub-national level using available CPI information. This contributes both to the sustainability of the ICP in countries and to closer alignment of the ICP and CPI processes.

#### AREAS TO EXAMINE
- Analyze Asian and African experiences—provide guidelines to countries.
- Analyze temporal consistency of CPI with sub-national and poverty PPPs.
- Expand work on sub-national and poverty PPPs to more countries.
Priority Area V. PPP applications and innovations
Item 12. PPPs for international poverty lines

BACKGROUND
- By construction, ICP produces PPPs relevant for the entire economy. It is important to investigate if PPPs can be made more pertinent for poverty estimates.

AREAS TO EXAMINE
- Separate/sub-set basket of consumption goods/services for poverty?
- Use weights for PPP aggregation based on expenditure patterns of the poor?
Item 13. Exploring alternative sources of price data

BACKGROUND

- Information technology offering new opportunities for data collection using smart phones.

AREAS TO EXAMINE

- Assess quality of data from alternative sources using ICP validation methods.
- Compare alternative sources prices with ICP/CPI price levels.
Conclusions

- The technical agenda concentrates on data analysis to improve data quality.
- Methodological developments need to be designed to measure their impact on ICP results.

Thank you