

## Introduction

This volume contains the revised and lightly edited versions of most of the papers presented at the Third Meeting of the International Working Group on Price Indices, the so-called Ottawa Group. The meeting took place from 16 through 18 April 1997 at Statistics Netherlands in Voorburg. The terms of reference state the purpose of this Group as

“to bring together, in a forum, specialists from different countries to exchange ideas on crucial problems of measuring price change. The conference will focus on reasons of inadequacies in price indices, particularly in consumer price indices, and on methods used to reduce them. Without avoiding theoretical issues, the emphasis will be on applied research. Advantages and disadvantages of proposed solutions should be examined with concrete examples whenever possible.”

The Group had its first meeting in November 1994 at Statistics Canada in Ottawa, and its second meeting in November 1995 at Statistics Sweden in Stockholm. The third meeting was chaired, the first day by Bert M. Balk, the second day by Leendert Hoven, and the third day by Jacob Ryten. On the second day there was a roundtable discussion on the Boskin Report, chaired by Ralph Turvey.

In addition to the papers gathered in this volume there were at the meeting a few other presentations. I list them here:

- Australian Bureau of Statistics, “An Analytical Framework for Price Indexes in Australia” (presented by Keith Woolford)
- Luigi Biggeri and Ignazio Drudi, “Estimation of the CPI for Different Types of Households”
- Bohdan J. Schultz, “Decomposition of the Divergence between Price Indices associated with Alternative Baskets”
- Luigi Biggeri and Ignazio Drudi, “Estimation of the CPI Variance due to the Quotations Prices and the Weighting System”
- François Lequiller, “Does the French Consumer Price Index Overstate Inflation?”
- W. Erwin Diewert, “On the Stochastic Approach to Index Numbers”.

The first one is available as an official ABS Information Paper (1997, catalogue no. 6421.0). Biggeri and Schultz were, for various reasons, unable to submit complete or revised versions of their papers. The paper by Lequiller has in the meantime appeared as part of *Bias in the CPI: Experiences from Five OECD Countries*, edited by Louis Marc Ducharme (Prices Division, Statistics Canada, September 1997, catalogue no. 62F0014MPB, no. 10); a longer, French version was published in *Économie et Statistique*, no. 300, 1997. Diewert’s paper was already published in the Proceedings of the Second Meeting of the Ottawa Group (Stockholm, 1995), and a revised version is due to appear in *The Economic Journal*.

The remaining papers were regrouped into five, rather broad categories. Thus we start with five papers on inflation measurement. Next come five papers on various measurement issues. The third section contains a considerable number of papers on the use of scanner data for the compilation of consumer price index numbers. As can be seen, this is an emerging area of research, full of prospects for further exploration. The fourth section is an evergreen, with five papers on the problem of accounting for quality change. We close with a small section on European issues.

The lively discussions at the meeting resulted in a large number of topics for further research. It is not amazing that almost all of these topics can be classified with help of the scheme set out in the Boskin Report. Without aiming at completeness I present the following inventory:

- *Elementary aggregate bias*: the use of geometric indices in relation to traditional sampling; the use of superlative indices on scanner data; the use of Constant-Elasticity-of-Substitution (CES) type indices.
- *Higher level commodity substitution bias*: the use of superlative and CES type indices; the disentangling of substitution, preference change, income change, population change, etc.; the relation between the objective of an index (measuring changes in the cost of living, or inflation, or ...) and its bias; the interrelation with other bias components.
- *Outlet substitution bias*: the appropriate level for the use of unit-value index numbers; can scanner data be used to obtain rough estimates for quality differences between types of outlets?
- *Quality change and new goods bias*: ways of measuring the phenomenon of ‘variety increase/ decrease’; has quality change bias a definite sign?; the treatment of disappearing commodities; the treatment of durables other than houses; pros and cons of the various techniques for quality change adjustment in relation to data availability.
- *Seasonality*: the problem of bias in relation to monthly and yearly, provisional and definitive index numbers.

With respect to most of these topics research is under way, and the next meeting, the agenda of which is already shaping up, will undoubtedly show many interesting and inspiring results. Nevertheless, a number of participants expressed the desire to arrive at a sort of international division of labour. Also, some expressed the wish to work jointly towards a sort of manual that eventually could replace the well-known 1989 ILO manual, written by Ralph Turvey. Such a manual could lead to a better public appraisal of what CPI compilers are doing. There is no doubt that these ideas will be discussed further at the next meeting.

The Group was invited by John S. Greenlees to held its Fourth Meeting in April 1998 at the US Bureau of Labor Statistics in Washington DC. The format of the meeting will be essentially unchanged, but with a smaller number of papers and more time for in-depth discussions. A ‘bureau’ was established, consisting of the past and the future organizers and two other members selected by them. This ‘bureau’ draws up the agenda and decides on the papers to be presented. In addition to normal paper sessions, there will be a more informal session devoted to specific problems facing individual countries. The ‘bureau’ will also report to the United Nations Statistical Commission.

With respect to the terms of reference, the Second Meeting decided that the area of interest of the Group be restricted to consumer price indices. The Third Meeting relaxed this somewhat, by expressing that the Group’s emphasis will be on intertemporal price indices. It was further decided that the size of the Group will be kept approximately constant.

In my capacity of past organizer I thank all participants for their contributions. I hope that this volume will act as a source of inspiration for further research. Finally, I thank Marcel Isbrücker for his help in preparing this volume.

9 December 1997

Bert M. Balk