ARTICLE

Simon Woodsford
Office for National Statistics

Services Producer Price Indices (experimental) – Fourth quarter 2009

SUMMARY

The experimental services producer price indices (SPPI) are primarily a suite of individual price indices that provide information on price change for a limited range of service industries. Each SPPI captures quarterly changes in the price received for services provided by UK businesses to other UK businesses and Government. These selected price indices are also aggregated together to create an aggregate SPPI with limited coverage. This aggregate SPPI is not representative of the whole service sector. This article shows the effects some industries are having on the aggregate SPPI. The data produced are used internally by the Office for National Statistics as a deflator for the Index of Services and the quarterly measurement of Gross Domestic Product (GDP). The index is also used by HM Treasury and the Bank of England to help monitor inflation in the economy.

Prices of business-to-business services fell 0.7 per cent in the 12 months to the fourth quarter of 2009. This is based on a comparison of the change in the aggregate services producer price index on the net sector basis.

Figure 1 shows how the percentage change for the aggregate SPPI (net sector) compares with the producer price index (PPI) for all manufactured goods (net sector).

The aggregate SPPI results, on both gross and net sector bases, are shown in Table 1. In the fourth quarter of 2009, the aggregate SPPI (net sector) rose 0.2 per cent from the previous quarter.

Figure 2 depicts the aggregate SPPI annual percentage change for both the net and gross sector time series. The 12 month net aggregate SPPI fell 0.7 per cent in the fourth quarter of 2009, compared with a fall of 0.9 per cent in the third quarter of 2009.

The gross aggregate SPPI fell 0.1 per cent in the fourth quarter, compared with a similar fall in the previous quarter.

Industry-specific indices

Tables available on the ONS website contain the data for the 31 industries for which indices of services producer prices are currently available. The weights for each industry index are shown at both gross and net sector levels. The largest downward effect to the net sector aggregate SPPI over the past 12 months came from property rentals, largely due to current competitive market conditions. Property rentals also had the largest downward effect on the aggregate SPPI (net sector) quarter on quarter percentage change.

Other notable downward contributions came from freight forwarding and construction plant hire.

These downward movements were

Figure 1
Experimental aggregate SPPI compared with the PPI

Percentage change, quarter on same quarter a year earlier

Source: Office for National Statistics

Table 1
SPPI results

	SPPI quarterly index values, 2005=100		Percentage change, quarter on same quarter a year earlier	
	Gross sector	Net sector	Gross sector	Net sector
2000 Q1	91.6	89.3	-0.9	1.0
2000 Q2	91.4	89.4	-0.1	1.4
2000 Q3	91.5	89.7	0.4	1.8
2000 Q4	91.6	90.0	0.4	1.6
2001 Q1	92.1	90.8	0.5	1.7
2001 Q2	93.6	92.2	2.4	3.1
2001 Q3	94.0	92.3	2.7	2.9
2001 Q4	94.2	92.5	2.8	2.8
2002 Q1	94.3	92.5	2.4	1.9
2002 Q2	95.2	93.3	1.7	1.2
2002 Q3	95.9	93.9	2.0	1.7
2002 Q4	96.1	94.4	2.0	2.1
2003 Q1	96.4	95.0	2.2	2.7
2003 Q2	97.1	95.8	2.0	2.7
2003 Q3	97.4	96.1	1.6	2.3
2003 Q4	97.9	96.6	1.9	2.3
2004 Q1	97.2	96.2	0.8	1.3
2004 Q2	98.6	97.7	1.5	2.0
2004 Q3	98.5	97.8	1.1	1.8
2004 Q4	98.8	98.3	0.9	1.8
2005 Q1	98.9	98.7	1.7	2.6
2005 Q2	99.8	99.8	1.2	2.1
2005 Q3	100.4	100.5	1.9	2.8
2005 Q4	100.9	101.0	2.1	2.7
2006 Q1	101.4	101.3	2.5	2.6
2006 Q2	102.7	103.0	2.9	3.2
2006 Q3	102.7	103.0	2.3	2.5
2006 Q4	103.1	103.8	2.2	2.8
2007 Q1	103.9	104.4	2.5	3.1
2007 Q2	105.3	105.8	2.5	2.7
2007 Q3	105.6	106.3	2.8	3.2
2007 Q4	106.0	106.8	2.8	2.9
2008 Q1	107.3	107.9	3.3	3.4
2008 Q2	108.3	109.3	2.8	3.3
2008 Q3	108.7	109.9	2.9	3.4
2008 Q4	108.9	109.9	2.7	2.9
2009 Q1	108.3	108.9	0.9	0.9
2009 Q2	108.4	109.0	0.1	-0.3
2009 Q3	108.6	108.9	-0.1	-0.9
2009 Q4	108.8	109.1	-0.1	-0.7

Source: Office for National Statistics

Figure 2

Experimental aggregate SPPI

Percentage change, quarter on same quarter a year earlier

Source: Office for National Statistics

partially offset by upward contributions, especially from advertising placement, maintenance of motor vehicles and sewerage services as reported by the Office of Water Services (Ofwat).

Next results

The next set of SPPI results will be published on 26 May 2010 on the National Statistics website at www.statistics.gov.uk/sppi

Further information

All SPPI tables and articles on the methodology and impact of rebasing the SPPI and the re-development of an index for business telecommunications (together with more general information on the SPPI) are available at www.statistics.gov.uk/sppi.

A Summary Quality Report for the SPPI can be found at: www.ons.gov.uk/about-statistics/methodology-and-quality/quality/qual-info-economic-social-and-bus-stats/quality-reports-for-business-statistics/summary-quality-report-for-services-producer-price-indices.pdf

CONTACT

✉ elmr@ons.gsi.gov.uk

TECHNICAL NOTE

1. The experimental Services Producer Price Indices (SPPI) replaced the former Corporate Services Price Index (CSPI). The SPPIs are primarily a suite of individual price indices that provide information on price change for a limited range of service industries. Each SPPI captures quarterly changes in the price received for services provided by UK businesses to other UK businesses and Government. These selected price indices are also aggregated together to create an aggregate SPPI with limited coverage. This aggregate SPPI is not representative of the whole service sector. It is not currently classified as a National Statistic.
2. Following the assessment of the SPPI as National Statistics in the autumn of 2009, the UK Statistics Authority report determined that the SPPI can be designated as National Statistics subject to the implementation of a number of requirements to improve compliance with the Code of Practice for Official Statistics. A link to the published report is attached:

www.statisticsauthority.gov.uk/assessment/assessment-reports/assessment-report-25---assessment-of-services-producer-price-indices.pdf

One of the requirements relates to how the top-level SPPI figure is described in publications. At present, there is potential for users to misinterpret the top-level SPPI figure as covering the whole service sector when in fact, the figure is an aggregate of the component SPPIs currently published in this Statistical Bulletin (currently 32 individual SPPIs covering approximately 52 per cent of the services sector). The UK Statistics Authority recommended that the partial coverage of the top-level SPPI should be made clearer in publications.

As a result, the description of the top-level SPPI on the front page of this Statistical Bulletin has been amended to 'the aggregate of selected Services Producer Price Indices'. Throughout the rest of this bulletin it is referred to as 'aggregate SPPI'. Please note that this change is merely a change in the manner of presentation of the aggregate SPPI, and does not indicate a change to data sources, coverage, or methodology.

3. Unless otherwise stated, index numbers shown in the main text are on a net sector basis. These relate only to transactions between the corporate services sector and other sectors. Detailed tables available on the ONS website also contain gross sector indices which include transactions within the corporate services sector.
4. Indices relate to average prices per quarter. The full effect of a price change occurring within a quarter will only be reflected in the index for the following quarter. All index numbers exclude VAT and are not seasonally adjusted.
5. SPPI inflation is the percentage change in the net sector index for the latest quarter compared with the corresponding quarter in the previous year.
6. Grants from the European Commission helped ONS to begin developing the SPPI. Funding of approximately 600,000 euros was awarded between 2002 and 2005. This has now ceased.
7. A number of external data sources are currently used in the compilation of the SPPI, as follows:

Investment Property Database (IPD) – property rental payments

Office of Communications (Ofcom) – business telecommunications

Office of Water Services (OFWAT) – sewerage services (prices are updated annually at quarter 2)

Parcelforce – national post parcels (prices are updated annually at quarter 2)

Office of Rail Regulation (ORR) – business rail fares (prices are updated annually at quarter 1)

Bank of England (BOE) – financial intermediation (Banks)

8. Following a quality review by ONS in January 2007 a decision was made to withdraw the Banking SPPI from publication. As a result the index has been re-developed and was re-introduced in Q3 2008. Under the re-development, the quality of the data collection and processing has been improved and the number of products included in the index has increased. However, the new index is not regarded as proxy for all Financial Intermediation services within the Standard Industrial Classification (SIC) 65. It has not therefore been included in the top-level SPPI. The services measured are classified to SIC 65.12/1, and are published as a separate index known as the "SPPI for Financial Intermediation (Banks)".

9. SPPI policy is to show significant revisions, but to suppress minor changes to avoid unnecessary inconvenience to users. Indices for the most recent two quarters are regarded as provisional and can be changed as later data become available. The National Statistics website contains information on the SPPI revisions policy:

www.statistics.gov.uk/about/methodology_by_theme/revisions_policies/default.asp