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| <b>Indicator (definition)</b>                         | <b>Comparative price levels of final consumption by private households including indirect taxes (EU-27=100):</b><br>Ratio between the respective Purchasing Power Parities (PPPs) and the market exchange rate for each country. |
| <b>Eurostat Unit</b>                                  | Remuneration and pensions; Purchasing Power Parities   |
| <b>Other Commission DGs</b>                           | Economic and financial affairs; Internal market and services   |
| <b>European Statistical System Working Group (WG)</b> | WG on Purchasing Power Parities  |
| <b>Date</b>   | December 2010  |

**1. Overall assessment of accuracy and comparability** (Description of quality grades under the following link: [http://circa.europa.eu/Public/irc/dsis/structind/library?l=/general\\_information/quality\\_profiles/annex\\_enpdf/EN\\_1.0\\_&a=d](http://circa.europa.eu/Public/irc/dsis/structind/library?l=/general_information/quality_profiles/annex_enpdf/EN_1.0_&a=d))

A     
 B     
 C     
 Indicator to be Developed

Data is collected from reliable sources applying high standards with regard to the methodology. Restrictions in comparability over time are related to the construction of the indicator as such rather than to shortcomings with regard to data production and are well documented and explained.

### 2. Objective and relevance of the indicator:

Comparative Price Level Indices (PLIs) are spatial indices that are used for cross-country comparison of price levels. PLIs show the extent of price level differences and they tell which countries are more expensive to live in.

Comparative price levels are the ratio between Purchasing power parities (PPPs) and market exchange rate for each country. PPPs are currency conversion rates that convert economic indicators expressed in national currencies to a common currency, called Purchasing Power Standard (PPS), which equalises the purchasing power of different national currencies and thus allows meaningful comparison. The ratio is shown in relation to the EU average (EU-27 = 100). If the index of the comparative price levels shown for a country is higher/lower than 100, the country concerned is relatively expensive/cheap as compared with the EU average.

The indicator serves primarily for the measurement of nominal price differences between economies at a certain point in time. It is used for economic research and policy analysis requiring comparison between countries.

### Restriction of the indicator's relevance and other characteristics which may lead to restrictions in using it in monitoring and reporting

The indicator is constructed primarily for spatial comparison and not for comparison over time. Nevertheless, for many analytical purposes, it is important to observe the evolution of PPPs and PLIs. Usage of these series for inter-temporal comparisons is limited as PPPs time series capture both price and price structure changes.

Sampling of items and price collection for PPPs are not specifically designed to capture the pure price level change over time but price differentials between countries over space.

Given the error margins related to PLIs, attention has to be paid in interpreting the relative position of a country in time. Also, PLIs should be used with caution, because, except within the euro area, they are influenced by exchange rate fluctuations.

Inclusion of non-tradable goods limits pertinence of the indicator for policy monitoring.

The indicator is indexed to the EU average (EU-27=100) what may cause difficulties to use the indicator in statistical analysis. Rescaling of the indicator following enlargement has to be taken into account when comparing it with previous releases.

### 3. Data availability:

(t<sub>1</sub>: earliest reference year available; t<sub>2</sub>: latest reference year available in December 2010)

|                | Member States           | Candidate and Acceding Countries | US and Japan | EEA-EFTA <sup>1</sup> |
|----------------|-------------------------|----------------------------------|--------------|-----------------------|
| t <sub>1</sub> | 1995: All Member States | 1995: IS, TR<br>2003: HR, MK     | 1995: JP, US | 1995: NO, CH          |
| t <sub>2</sub> | 2009: All Member States | 2009: IS, HR, MK, TR             | 2009: JP, US | 2009: NO, CH          |

*Break in series in 2005 for Member States, Candidate countries and EEA countries.*

#### 4. Overall accuracy

High



PPPs are calculated by Eurostat in strict collaboration with the OECD in the framework of the European Comparison Programme (ECP) whose aim is to make annual volume comparison of the main national accounts aggregates.

Accuracy of the indicator is ensured during the harmonisation of the compilation process. Prices are collected by the National Statistical Institutes of each country, under the co-ordination of Eurostat. Eurostat is responsible for developing the methodology and procedures employed, in collaboration with the participant National Statistical Institutes, and assume final responsibility for the results which are published. Accuracy is restricted in so far as the PPPs methodology establishes that the surveys are carried out mainly in the capitals of the countries and at the specific month fixed by Eurostat. As a consequence of that, it is necessary to apply spatial and temporal coefficients in order to arrive at the national and annual average prices, which enter the PPP calculations. While harmonisation of methods and data revisions since 1999 have considerably decreased its size still a roughly estimated +/-5% error margin should be allowed for the indicator at aggregated level (which can be considered to be even higher at disaggregated levels).

The reason is that PPPs are statistical constructs rather than precise numbers. The error margins surrounding PPPs depend on the reliability of the expenditure weights and the price data as well as the extent to which particular goods and services selected for pricing by participating countries truly represent the price levels in each country.

Restricted



(sources, errors, methodology, etc.)

#### 5. Comparability across countries

High



The comparability across countries can be ranked as high because the PPPs and thus also PLIs have specifically been designed for this particular purpose. Guidelines concerning the preparation and production of input data are prepared and updated by Eurostat in co-operation with the participant countries and international organisations to harmonise the methods and to achieve comparable data. Minor spatial comparability problems may arise due to the differences in the representativity of the products priced according to a common European item list with regard to the national consumption pattern. PPP methodology requires to give priority to comparing "like with like" between countries rather than to representativity of all the items for a single country. These problems are, however, small at highly aggregated levels, i.e. also for this particular indicator that covers the whole range of consumer goods and services.

Restricted



#### 6. Comparability over time

High



Restricted



Comparative price levels provide a means of observing the movement of price levels over time, but they have to be used with caution. First, they

<sup>1</sup> While being a member of the EFTA, Liechtenstein has complete or partial exemptions from several statistical requirements due to its size. Thus, Liechtenstein is excluded from this overview as most of the data for structural indicators are missing.

are influenced by exchange rate fluctuations. Second, independently of exchange rates, they are volatile.

Giving priority to a good cross-country comparison at certain point of time leads, unfortunately, inevitably to limited use over the time. PPP samples are planned to maximise comparability of items across countries at a given point in time - not over time. Because PPP samples change over time, the comparison over time should be avoided.

Besides as the indicator is calculated by dividing the PPP by exchange rate, these types of comparisons depend on the development of the exchange rate. For countries outside the euro area this needs to be taken into account and may make such comparisons in times of erratic exchange rate even meaningless.

**7. Development perspective for improving the quality of this indicator (including as far as possible an indication of the burden on Member States and respondents.)**

**8. Contribution to the coherence of the set/potential to qualify for an integrated policy analysis**

#### **Relevant European legislation**

At the beginning Purchasing Power Parities were not governed by a legal act (data was provided under a gentlemen's agreement).

Regulation (EC) No 1445/2007 of the European Parliament and of the Council of 11 December 2007 establishing common rules for the provision of basic information on Purchasing Power Parities and for their calculation and dissemination

European Parliament legislative resolution of 26 April 2007 on the proposal for a regulation of the European Parliament and of the Council establishing common rules for the provision of basic information on Purchasing Power Parities and for their calculation and dissemination (COM(2006)0135 - C6-0100/2006 - 2006/0042(COD))