



Information Paper

Price Index of Domestic Final Purchases

Australia

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PREFACE

This paper introduces experimental index numbers for a new economy-wide *Price Index of Domestic Final Purchases*. It represents the last major element of the system of price indexes articulated in *Information Paper: An Analytical Framework for Price Indexes in Australia* (Cat. no. 6421.0) released in February 1997. The focus of this system of indexes is on the economy-wide analysis of inflation.

The experimental Domestic Final Purchases index is intended to complement other available indexes, in particular the *Stage of Production Producer Price Indexes*, the *Wage Cost Index* and the *Export Price Index*.

The system of complementary indexes, including those in this publication, is designed to enhance the means of studying price transmission processes in the Australian economy by providing analysts with measures which are presented from the perspectives of both producers and purchasers.

Considerable user consultation was undertaken in 1997 following the release of the analytical framework information paper, and then again after the release in 1999 of *Information Paper: Producer Price Index Developments* (Cat. no. 6422.0) which contained experimental Stage of Production producer price indexes.

The ABS is keen to continue the consultation process and to obtain users' reactions to the developments described in this paper, particularly on the issues raised in Section 12.

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
APMI	Price Indexes of Articles Produced by Manufacturing Industry
BKP	Business Capital Purchases
CPI	Consumer Price Index
DFD	Domestic final demand
DFP	Domestic Final Purchases
f.o.b.	free on board
GCP	General Government Consumption Purchases
GDP	Gross domestic product
GKP	General Government Capital Purchases
GOS	Gross operating surplus
HCP	Household Consumption Purchases
HKP	Household Capital Purchases
IPI	Import Price Index
n.e.c.	not elsewhere classified
NPISH	Non profit institutions serving households
SNA	System of National Accounts
SOP	Stage of Production
TNTS	The New Tax System

INTRODUCTION

The ABS has traditionally published separate consumer, producer and international trade price indexes, each relating to a particular segment of economic activity.

Information Paper: An Analytical Framework for Price Indexes in Australia (Cat. no. 6421.0) presented a proposal to enhance the analytical value of this information through drawing the series together, augmenting them with new data, and presenting them as a system of indexes designed to support the study of inflation.

This system is based on a *market transactions* approach which excludes transactions at prices that are not market determined, along with notional transactions such as the national accounts imputed dwelling rent.

Following extensive user consultation, the ABS commenced constructing the new indexes proposed in the analytical framework paper. This present information paper releases experimental index numbers for the new economy-wide *Price Index of Domestic Final Purchases*, representing the last major element of the system of indexes.

The *Wage Cost Index* (introduced in 1998), *Producer Price Indexes for Selected Service Industries* and *Stage of Production Producer Price Indexes* (both introduced in 2000), together with the long standing *Export Price Index*, represent the other major elements of the system of indexes, providing complementary views of the economy.

This paper describes the conceptual basis of the Domestic Final Purchases (DFP) index, and each of its components, and outlines its relationship to other price indexes, including the newly developed Stage of Production producer price indexes and the Consumer Price Index.

The DFP index has been constructed as an experimental measure, with the index items and weights derived from an analysis of detailed 1994–95 input-output tables. The use of the input-output system as the weighting data source provides the potential for regular chaining of the index once in production mode.

Index series have been compiled on a quarterly and annual basis commencing with September quarter 1996 and are presented in tables 9.1 and 9.2. An analysis of the new index and comparisons with other related indexes are then provided.

The compilation of the experimental indexes largely involved drawing on price data used in existing ABS price indexes. In the case of capital purchases, there may be data quality limitations associated with the use of proxy price series for some items which are not on the correct pricing basis.

SECTION 1

BACKGROUND

1.1 The ABS *Information Paper: An Analytical Framework for Price Indexes in Australia* (Cat. no. 6421.0), provided an assessment of the existing range of separate consumer, producer and international trade price indexes, each being a partial indicator relating to a particular segment of economic activity.

1.2 The paper also outlined a new, integrated statistical framework for a system of price indexes designed to support the analysis of inflation. Specific proposals were presented for the development of a system of price indexes which included broad economy-wide measures based on a *market transactions approach*. This approach involved the exclusion of transactions at non-market determined prices, along with notional transactions (see paragraphs 2.3–2.6).

1.3 Following consultation with users, the ABS commenced a development program to construct the proposed system of indexes. During 2000, two new indexes were released: *Producer Price Indexes for Selected Service Industries, Australia* (Cat. no. 6423.0)¹ and *Stage of Production Producer Price Indexes, Australia* (Cat. no. 6426.0)¹. These indexes, together with the *Wage Cost Index, Australia* (Cat. no. 6345.0), introduced in 1998, and the long standing *Export Price Index, Australia* (Cat. no. 6405.0)², represent the key elements described in the information paper.

1.4 This present information paper introduces the results of developmental work undertaken on the remaining major element of the system of price indexes: an economy-wide measure entitled *Price Index of Domestic Final Purchases*.

1.5 An experimental quarterly time series is presented, along with a description of its conceptual basis and an analysis of its relationship to other price indexes.

1 To be published in *Producer Price Indexes, Australia* (Cat. no. 6427.0) from June quarter 2001.

2 To be published in *International Trade Price Indexes, Australia* (Cat. no. 6457.0) from June quarter 2001.

SECTION 2

CONCEPTUAL BASIS OF THE PRICE INDEX OF DOMESTIC FINAL PURCHASES

SCOPE

2.1 The scope of the DFP index reflects purchases by Australian residents (i.e., Australian households, governments and businesses). As such, it includes prices of imported items but excludes prices of exported items. Prices of imports are included because they represent a source of inflationary pressure on the domestic economy. For example, a large proportion of motor vehicles purchased by households is imported and their price fluctuations affect the rate of inflation in Australia. On the other hand, prices received for exports are excluded because, while they affect the incomes received by Australian residents, they do not have a *direct* bearing on their inflationary experiences.

2.2 The index is confined to *final* market purchases, i.e., it excludes all intermediate purchases. This avoids the issue of multiple counting of price impacts which would result if prices of transactions at various intermediate stages of production were included along with final transaction prices. Note that measures of price changes for intermediate purchases (at basic prices) are provided by the Stage of Production (SOP) producer price index (see Section 8).

MARKET TRANSACTIONS APPROACH

2.3 The ABS has adopted a *market transactions* approach to the development of the DFP index. This approach is based on the premise that inflation in an economy is a phenomenon peculiar to the operation of markets — that is, inflation is a consequence of buyers and sellers interacting in the market place (the interplay of demand and supply factors) to determine transaction prices.

2.4 As the scope of the DFP index is confined to actual markets, *notional transactions* such as the national accounts imputed dwelling rent are out of scope.

2.5 Further, transactions in goods and services provided at prices which are *non-market determined* are excluded. Goods and services which may have non-market determined prices include those provided to households by general government and non profit institutions serving households at prices that are not economically significant. They may also include goods and services provided by the business sector at prices that are either heavily subsidised, or regulated, by government.

2.6 The process of differentiating between market determined prices and non-market determined prices is complex. It is discussed further in Section 3 where items deemed to have non-market determined prices are identified and their treatment in the experimental DFP index is described.

VALUATION BASIS

2.7 The DFP index is based on the purchasers' perspective, with a *purchasers' price* valuation basis that reflects the amount paid by the purchaser inclusive of taxes on products, wholesale and retail trade margins and transport costs. This is in contrast to the Stage of Production producer price index which captures *basic prices*.

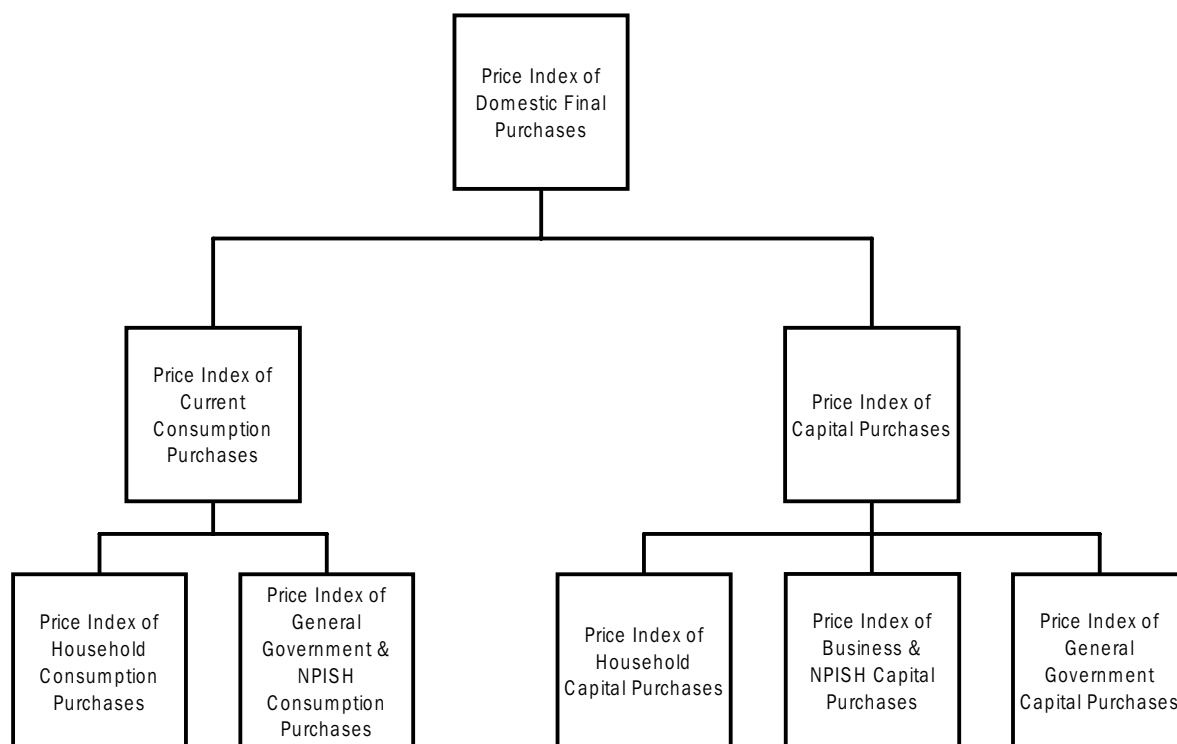
BROAD STRUCTURE AND
CLASSIFICATION

2.8 The structure of the economy-wide DFP index is shown in diagram 2.1. There are separate component indexes for consumption purchases and capital purchases. Each of these indexes is then further disaggregated, resulting in the following component price indexes:

- Household Consumption Purchases;
- General Government Consumption Purchases;
- Household Capital Purchases;
- Business Capital Purchases; and
- General Government Capital Purchases.

2.1

PRICE INDEX OF DOMESTIC FINAL PURCHASES



2.9 Ideally, separate component indexes for non profit institutions serving households (NPISH) consumption purchases, and NPISH capital purchases, would have been compiled. However, because of the lack of availability of the necessary separate data, NPISH activity has been included with the general government sector for consumption and with the business sector for capital. In both cases it represents a very minor proportion of the index weight.

2.10 The 1993 System of National Accounts (SNA) identifies two of the typical types of outlays made by the general government sector as the free provision of collective services such as public administration and defence, and the provision of goods and services to individual households free or at prices that are not economically significant (SNA 4.60, 4.104). Similarly, NPISH typically provide goods and services to households free or at prices that are not economically significant (SNA 4.64).

BROAD STRUCTURE AND
CLASSIFICATION *continued*

2.11 The free provision of goods and services to households by general government cannot be valued directly because there is no price associated with these activities. Therefore the Australian national accounts measure of government final consumption expenditure values these transactions on the basis of the expenditure on inputs — that is, at cost. This approach forms the basis for constructing the General Government Consumption Purchases component of the DFP index. It is the purchase prices of these inputs (labour and intermediate materials) that are regarded as the final market transactions as these prices represent the final point at which these products are traded at market determined prices. This is discussed further in paragraphs 3.10, 3.11 and Section 4.

2.12 Goods and services provided by general government to households at prices that are not economically significant are not included in the Household Consumption Purchases index, as their prices are regarded as not market determined (see paragraph 3.9). Rather, the associated input purchases are regarded as the final market transactions, and their prices feed into the General Government Consumption Purchases index along with the prices of the inputs associated with the free provision of goods and services.

ITEMS AND WEIGHTS

2.13 Underlying the broad-level index structure presented in diagram 2.1 above, the DFP index comprises more detailed items with their respective weights. These items and weights are sourced from the Australian input-output system. The experimental DFP index presented in Section 9 has items and weights derived from an analysis of detailed input-output tables relating to the year 1994–95. The resultant relative weights of the main DFP components are presented in table 2.2 below. Once the DFP index is in production mode, there is the potential for frequent chaining to maintain up to date weighting patterns.

2.2

RELATIVE WEIGHTS OF DFP COMPONENTS (%)

Component	Relative Weight %
Consumer	72.8
Household	48.9
Government	23.9
Capital	27.2
Business	19.9
Household	4.4
Government	3.0
	100.0

COMPARISON WITH THE
NATIONAL ACCOUNTS
CHAIN PRICE INDEXES

2.14 Annually-reweighted chain Laspeyres price indexes are published in the Australian national accounts for *gross domestic product* (GDP) and its main expenditure components. They comprise the price measures used to derive the volume estimates, weighted together in a similar way to the chain volume indexes.

COMPARISON WITH THE
NATIONAL ACCOUNTS
CHAIN PRICE INDEXES
continued

2.15 Conceptually, the scope of the DFP index is most closely aligned with the chain price index for *domestic final demand* (DFD) presented in the national accounts framework, as opposed to the *gross domestic product* chain price index which excludes imports and includes exports.

2.16 However, there are several differences between the DFP index and the national accounts DFD chain price index, which can ultimately lead to substantial variation in these series over time. The major differences are:

- The DFD chain price index includes imputed rental payments for owner-occupied dwellings as an item of household final consumption expenditure. These notional transactions are excluded from the DFP index as its scope is confined to actual market transactions.
- Due to a current lack of available price series produced by the ABS, the DFP index does not cover the finance industry or gaming, and does not have price series for imports of services. The national accounts use a range of methods and sources, including non ABS price series, to represent prices in these sectors of the economy.
- Transactions at non-market determined prices are *included* in the national accounts chain price index for household final consumption expenditure whilst they are explicitly *excluded* from the Household Consumption Purchases component of the DFP index which is confined to market transactions.
- For market property rental and costs associated with the transfer of ownership of property, volume estimates for the national accounts are derived directly by revaluing quantities. *Implicit price deflators* are then calculated by dividing the relevant current price estimate of these expenditure components by the volume estimate. These implicit price deflators then contribute to the aggregate DFD chain price series, in comparison to the directly measured price series used in compiling the DFP index. This can result in both quarterly and longer-term differences in the comparable components of the respective series, which in turn can affect the comparability of the aggregate series.
- The national accounts index is subject to revision as more complete and accurate information becomes available. For example the data underlying the weights is subject to annual revision and improved pricing methodologies (once established) may be backcast through the series. This is consistent with the primary purpose of chain price indexes published with the national accounts — to aid in interpreting the historical series of chain volume estimates. On the other hand the DFP index is non-revisable, as the underlying weights are fixed (until the next reweight) and any improved (or new) price series developed by the ABS are implemented for future series.

2.17 The DFP index will also be more timely than the national accounts chain price index. Once in production mode, it is planned to release the DFP index each quarter around the same time as the Consumer Price Index (CPI) — that is, about four weeks after the end of the reference period — while the national accounts are generally released about nine to ten weeks after the end of the reference period.

SUMMARY OF THE
CONCEPTUAL BASIS

- 2.18 The DFP index:
- is based on a *market transactions* approach;

SUMMARY OF THE
CONCEPTUAL BASIS*continued*

- reflects purchases by Australian residents and therefore *includes* prices of imported items and *excludes* prices of exports;
- is confined to *final* transactions, i.e. excluding intermediate purchases, which avoids the issue of multiple counting;
- is based on the purchasers' perspective, so has a *purchasers' price* valuation basis;
- has an economy-wide scope, embracing both current consumption and fixed capital formation;
- is broken down into component indexes for consumption and capital purchases;
- draws on the input-output system for its structure and weights and thus has the potential for frequent chaining to maintain up-to-date weights; and
- forms part of a broader system of price indexes providing alternative, complementary views of price change at different points in the production and distribution chain.

SECTION 3

PRICE INDEX OF HOUSEHOLD CONSUMPTION PURCHASES

MARKET DETERMINED PRICES

3.1 Section 2 outlined the DFP index model within the broader market transactions analytical framework. The DFP model comprises an aggregate, economy-wide DFP index along with its major component indexes. The largest component of the experimental index is the *Price Index of Household Consumption Purchases* (HCP), with a weight of 49% of the total DFP index (see table 2.2).

3.2 As a purpose-built inflation measure, the DFP index is confined to market transactions and therefore excludes transactions with non-market determined prices — that is, prices that are not determined through the interaction of buyers and sellers in the market place. National accounts imputed dwelling rent transactions are also out of scope.

3.3 The identification of transactions with non-market determined prices is not always straightforward. To assist in the process, four categories of transactions with households which may have prices that are not market determined have been identified, namely:

- goods and services provided by general government and NPISH at prices that are not economically significant³;
- goods and services provided by the business sector with prices that are heavily subsidised by government funding;
- goods and services provided by the business sector with prices that are regulated by government; and
- government taxes and charges paid by households.

3.4 Items with non-market determined prices can be described as those whose price changes are not determined by the influence of market forces or heavily influenced by demand and supply factors. While some goods and services provided by the business sector have high levels of taxes or charges attached to them, their actual transaction prices may still be determined in the market place — for example, petrol. Such goods and services will therefore be included in the HCP index. Further investigations will be undertaken into developing an experimental *underlying* HCP index which could exclude the effects of fiscal policy (see Section 11).

3.5 The four categories of transactions that may have non-market determined prices (see paragraph 3.3) relate to consumption purchases by households. In developing the HCP index structure, it was therefore necessary to carefully assess each item with the potential to be included and make an on-balance judgement as to whether or not its price is currently market determined. Particular attention was given to evaluating the expenditure classes in the following CPI Groups: Housing, Health, Transportation, Communication and Education; as well as parts of the Recreation (domestic holiday travel and accommodation) and Miscellaneous (child care) Groups.

3 Free provision of goods and services provided by general government is covered in Section 4.

MARKET DETERMINED

PRICES *continued*

3.6 The results of this analysis are provided in paragraphs 3.8–3.22 below. For each of the four categories of transactions, a list is given of CPI expenditure classes assessed as having non-market determined prices. Any expenditure class containing both market and non-market determined prices has been split to isolate the non-market element. The treatment of these non-market expenditure classes (or parts) in the experimental DFP index is then described.

3.7 During the process of user consultation on the content of this paper, particular attention will be placed on seeking views on the list of items identified as having non-market determined prices.

Case 1

Goods and services provided by general government and NPISH at prices that are not economically significant.

3.8 The 1993 SNA identifies one of the typical outlays made by the general government and NPISH sectors as the provision of goods and services to households at prices that are not economically significant (SNA 4.60 and 4.104). Prices are said to be not economically significant when they do not have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy (SNA 4.24(b)). Under the market transactions approach adopted for the DFP index, such transactions would clearly be considered to have non-market determined prices.

3.9 In line with this principle, the following CPI expenditure classes have been assessed as including, at least in part, prices of goods and services provided by the general government and NPISH sectors at non-market determined prices:

- Pre-school and primary education (part)
 - provided by general government and NPISH;
- Secondary education (part)
 - provided by general government and NPISH;
- Tertiary education;
- Child care (part)
 - provided by NPISH; and
- Rents (part)
 - relating to government owned dwellings.

3.10 The non-market determined prices within each of the above expenditure classes have been *excluded* from the HCP index. However, the associated purchases of the inputs used in the production of these non-market goods and services represent the final point at which products are traded at market determined prices. The providers of the non-market goods and services are therefore regarded as the final purchasers and their input prices are within the scope of the General Government (and NPISH) Consumption Purchases index — this is known as *input pricing*.

3.11 An example of where input pricing is appropriate is for public education services. Prices paid by households for education services provided by the public education system are considered to be non-market determined due to the very high levels of government subsidies. The cost of inputs into the public education system — for example, compensation of employees and intermediate inputs — represents the final point at which products are traded at market determined prices. Prices of these inputs

Case 1 continued

are therefore included in the DFP measure for General Government Consumption Purchases (see Section 4).

Case 2

Goods and services provided by the business sector (private and public) with prices that are heavily subsidised by government funding.

3.12 Medical services provided to households by private medical practitioners which are bulk billed, resulting in no direct charge to the householder but payment by Medicare to the practitioners based on the scheduled fee, are excluded from the HCP index. However, the payment of the scheduled fee by Medicare is covered by pricing the inputs in the General Government Consumption Purchases index.

3.13 Purchases of Pharmaceutical Benefits Scheme (PBS) prescription drugs have been assessed, in general, as being so heavily subsidised by government as to have non-market determined prices. Accordingly, they are excluded from the HCP index, but are input priced in the General Government Consumption Purchases index.

3.14 In summary, parts of the CPI expenditure classes from the CPI Health Group that have been excluded from the HCP index are:

- Health and medical services (part)
 - provided by private medical practitioners and bulk billed;
- Optical services (part)
 - provided by optometrists and bulk billed; and
- Pharmaceuticals (part)
 - relating to Pharmaceutical Benefits Scheme (PBS) prescription drugs.

3.15 The remainder of the items in the CPI Health Group are assessed as having market determined prices and are included in the HCP index.

3.16 The other major service covered in the CPI provided by the business sector but heavily subsidised by government is urban transport. Accordingly the CPI expenditure class 'urban transport fares' has been excluded from the HCP index. However the inputs to urban transport are priced in the General Government Consumption Purchases index.

Case 3

Goods and services provided by the business sector (private and public) with prices that are regulated by government.

3.17 There are a number of cases where prices of goods or services are subject to some form of control by a regulator, and not subject to competition. For example, in the supply of electricity to households, price increases have to be approved by an independent regulator in some states.

3.18 For such items, an assessment was made as to whether the level of regulation of an item's prices, and the lack of competition in its supply, meant that its prices are non-market determined — that is, not determined through the interaction of buyers and sellers.

3.19 The following CPI expenditure classes have been assessed as currently having non-market determined prices and are therefore excluded from the HCP index and the aggregate DFP index:

Case 3 continued

- Electricity;
- Gas and other household fuels (part)
 - gas;
- Water and sewerage;
- Postal; and
- Domestic holiday travel and accommodation (part)
 - domestic train fares.

3.20 The markets for some items currently subject to regulation may be deregulated in the future, for example the domestic electricity market. Such items will be kept under review and, following deregulation, will be included in the component HCP index and the aggregate DFP index at the time of a future index reweighting.

*Case 4**Government taxes and charges paid by households.*

3.21 The CPI includes a number of government taxes and charges paid by households to general government which are clearly non-market determined. Therefore these are excluded from the HCP index and the aggregate DFP index.

3.22 The following CPI expenditure classes are excluded:

- Property rates and charges; and
- Other motoring charges (part)
 - drivers' licence fees; and
 - motor vehicle registration.

COMPARISON WITH THE
CONSUMER PRICE INDEX

3.23 The HCP index differs from the CPI in the following ways:

- payments for goods and services which are purchased by households at non-market determined prices — for example public education and electricity — are excluded from the HCP index;
- the HCP index weights are based on input-output tables (which use a variety of data sources) rather than Household Expenditure Survey data;
- the weighting source for the HCP index provides the potential for reweighting more frequently than the CPI;
- the geographic scope covered by the weighting source of the HCP index extends beyond the CPI target population of capital city households to include the total household sector; and
- expenditure on the acquisition of new dwellings by owner occupiers is treated as household capital expenditure and is not included in the HCP index. Rather, it is incorporated in a separate component of the DFP index; the Household Capital Purchases index.

3.24 In tables 9 and 10 of the quarterly publication *Consumer Price Index, Australia* (Cat.no. 6401.0), a special price index series called "Market goods and services excluding volatile items" is presented. This series comprises the All Groups CPI excluding the volatile items (the Fruit, Vegetables and Automotive fuel expenditure classes) and the following expenditure classes:

- Electricity;
- Gas and other household fuels;
- Water and sewerage;

COMPARISON WITH THE
CONSUMER PRICE INDEX
continued

- Property rates and charges;
- Hospital and medical services;
- Optical services;
- Dental services;
- Pharmaceuticals;
- Other motoring charges;
- Urban transport fares;
- Postal;
- Preschool and primary education;
- Secondary education;
- Tertiary education; and
- Child care.

3.25 There is a substantial overlap between this list of exclusions and those identified in paragraphs 3.9, 3.14, 3.19 and 3.22 as having non-market determined prices for the purpose of constructing the experimental DFP index.

3.26 The main differences are attributable to the fact that the analysis for DFP index purposes was undertaken at a more detailed level of aggregation. In cases where a CPI expenditure class was identified as containing components with market determined prices as well as components with non-market determined prices, the expenditure class index was split with the former components included in the HCP index and the latter components excluded.

3.27 The other main differences are that the dental services expenditure class is included in the HCP index but excluded from the special CPI series (the entire Health group is excluded), and parts of the rents and domestic holiday travel and accommodation expenditure classes have been excluded from the HCP index but included in the special CPI series.

3.28 It is planned to use information gained during the user consultation process (see paragraph 3.7) to assist in fully reconciling the approaches taken to identify items with non-market determined prices in both the CPI and the HCP index.

SECTION 4

PRICE INDEX OF GENERAL GOVERNMENT (AND NPISH) CONSUMPTION PURCHASES

4.1 The other component index relating to *consumption* purchases is the *Price Index of General Government Consumption Purchases*, with a weight of 24% of the total DFP index (see table 2.2).

4.2 The General Government Consumption Purchases index represents all government input purchases (labour and intermediate materials) associated with the free provision of goods and services to households. Under the market transactions approach to the DFP index, it is the prices of these purchases of inputs that are considered to be the final market transactions as they represent the final point at which products are traded at market determined prices. That is, the providers of the free goods and services to households are regarded as the final purchasers. For example, the transactions in the free provision of, say, defence and public health services, are not market transactions as, by definition, they are not provided at market determined prices.

4.3 As indicated in Section 3, in cases where general government provides goods and services to households at prices that are not economically significant — for example, public education — these items have been categorised as having non-market determined prices and are *excluded* from the Household Consumption Purchases index. Rather, the associated input purchases are regarded as the final market transactions and their prices feed into the General Government Consumption Purchases index, along with the prices of the inputs associated with the free provision of goods and services.

4.4 Goods and services provided by the business sector which are heavily subsidised by government funding — for example, urban transport — have been categorised as having non-market determined prices and are excluded from the Household Consumption Purchases index. As with goods and services provided by government at prices that are not economically significant, the inputs to these goods and services are regarded as the final market transactions and their prices also feed into the General Government Consumption Purchases index.

4.5 The General Government Consumption Purchases index is based on input price indexes, similar to those used to deflate government final consumption expenditure in the national accounts. The public sector component of the Wage Cost Index is the main contributor, along with series from existing producer and other relevant price indexes constructed by the ABS which are used to represent purchases of other inputs.

4.6 The Wage Cost Index data for the current quarter will not be available in time for inclusion in the DFP index when in production mode — rather, it will be necessary to lag the data one quarter. For consistency, this treatment has been adopted for the compilation of the experimental series.

4.7 As noted in paragraph 2.9, it has not been possible to construct a separate consumption purchases index for NPISH because the required data were not available. In general, NPISH provide goods and services to households at prices that are not economically significant, and hence not market determined. It would therefore make sense to price the inputs of these goods and services in the same manner as described above for general government consumption. Consequently, the major goods and services provided by NPISH have been identified (e.g. Catholic schools) and included in the General Government Consumption (and NPISH) Purchases index. They represent a very minor proportion of the index.

SECTION 5

PRICE INDEX OF HOUSEHOLD CAPITAL PURCHASES

5.1 There are three separate *capital* purchases component indexes, each relating to a mutually exclusive sector of the economy. The first one, relating to the household sector, is the *Price Index of Household Capital Purchases*, with a weight of 4% of the total DFP index (see table 2.2).

5.2 The Household Capital Purchases index covers purchase of residential buildings by households for the purpose of owner occupation. House prices are represented by the series used for the CPI expenditure class 'house purchase', while prices of other residential buildings (i.e., town houses, apartments, etc.) are based on a newly established producer price index.

5.3 Under national accounting conventions, items such as motor vehicles and white goods, which are treated as capital items if purchased by a business, are included as part of household final consumption expenditure when purchased by households. Therefore, these items are included in the Household Consumption Purchases component of the DFP index, rather than the Household Capital Purchases component.

SECTION 6

PRICE INDEX OF BUSINESS (AND NPISH) CAPITAL PURCHASES

6.1 The second *capital* purchases index relates to the business sector, covering both private and public businesses (both corporated and unincorporated), and NPISH. As noted in paragraph 2.9, a separate capital purchases index for NPISH cannot be calculated because of a lack of data. The Business Capital Purchases component index has a weight of 20% of the total DFP index (see table 2.2).

6.2 The compilation of the experimental Business Capital Purchases index largely involved drawing on price data used in existing ABS price indexes which are often not on the conceptually correct pricing basis for the DFP index.

6.3 For purchases of domestically produced machinery and equipment, price series collected for the *Price Indexes of Articles Produced by Manufacturing Industry* (APMI) have been used. Being an output index, the pricing basis of the APMI index is *basic prices* rather than *purchasers' prices* as required under the conceptual basis of the DFP index. It has been broadly assessed that, in general, these proxy series would provide a reasonable representation of changes in the prices experienced by business final purchasers who, in fact, often buy direct from manufacturers.

6.4 In relation to purchases of imported machinery and equipment, price series from the *Import Price Index* (IPI) were assessed as to their suitability for inclusion in the Business Capital Purchases index. The pricing basis of the IPI, i.e. *free-on-board* (f.o.b.) country of origin, is far removed from the DFP ideal conceptual basis, i.e. purchasers' prices. Therefore it was concluded that new collections needed to be established for the major import items to obtain price series on the required pricing basis. These new series, representing approximately 42% of the total value of imported machinery and equipment, have been included in the experimental DFP index from September quarter 1999. Prior to this, IPI series have been used. For the remaining, less important items of machinery and equipment, it has been necessary to use available IPI series over the full span of the experimental Business Capital Purchases index .

6.5 The Business Capital Purchases index covers purchases of the output of the construction industry. Prices of building construction, and road and bridge construction, are directly represented in the index. At this stage, coverage does not extend to other forms of construction (e.g., telecommunications infrastructure, electricity generation and distribution).

6.6 In summary, there may be data quality limitations with the experimental Business Capital Purchases index associated with the use of proxy price series from the APMI and IPI, and the incomplete coverage of the construction industry.

SECTION **7**

**PRICE INDEX OF GENERAL GOVERNMENT
CAPITAL PURCHASES**

7.1 The third *capital* purchases index covers the general government sector, and has a weight of 3% of the total DFP index (see table 2.2).

7.2 As for the Business Capital Purchases index, the compilation of the General Government Capital Purchases index largely involved drawing on price data used in the compilation of existing ABS indexes which are often not on the correct pricing basis for the DFP index. The same issues as described in paragraphs 6.3 and 6.4 in relation to machinery and equipment purchases in the business sector measure also apply to the general government index. In addition, there are similar coverage limitations of general government purchases of construction industry output as outlined in paragraph 6.5 for the business sector. Therefore, similar conclusions have been reached about possible data quality limitations with the General Government Capital Purchases experimental index as described for the Business Capital Purchases index in paragraph 6.6.

SECTION 8

RELATIONSHIP BETWEEN DOMESTIC FINAL PURCHASES INDEX AND STAGE OF PRODUCTION PRODUCER PRICE INDEX

8.1 The scope of the DFP index is confined to *final transactions*, viewed from the purchasers' perspective and thus valued at purchasers' prices. It takes a *demand side* view of economic activity and its scope is broadly analogous to the national accounts *domestic final demand* expenditure measure.

8.2 The Stage of Production (SOP) producer price index, another key element of the system of price indexes articulated in *Information Paper: An Analytical Framework for Price Indexes in Australia* (Cat. no. 6421.0), complements the DFP index. The SOP index takes a producer's view and captures transactions in intermediate commodities as well as final commodities, but at an earlier pricing point — that is, it records basic prices. The SOP index takes a *supply side* view of the economy, and its scope relates to both domestic supply (industry output) and imports.

8.3 The SOP index comprises three separate, but non-aggregated, indexes based on a categorisation of flows according to their economic destination on a sequential basis along the production chain (see *Stage of Production Producer Price Indexes, Australia* (Cat. no. 6426.0)⁴). Thus, Preliminary (Stage 1) commodities are used in the production of Intermediate (Stage 2) commodities which are used, in turn, in the production of Final (Stage 3) commodities.

8.4 Diagram 8.1 provides a summary of a comprehensive model designed to bring together, and relate, data relevant to the study of the price transmission process. It incorporates the main aggregates from the input-output framework.

8.5 On the supply side, industry output is reflected in the SOP producer price index for each of the three stages, and decomposed into imported and domestically produced components. Compensation of employees (wages) and taxes on products, are important additional sources of inflationary pressure. Also, gross operating surplus (GOS) is affected by the extent to which businesses change their profit margins to either absorb increased costs or to take advantage of buoyant conditions. The rate of inflation experienced by purchasers is influenced by such changes. The *ABS Wage Cost Index, Australia* (Cat. no. 6345.0) provides a data source for the price of labour; however, the measurement of changes in the rate of GOS is more problematic.

8.6 On the demand side, the DFP index and its main consumption and capital components are shown.

8.7 Some of the potential price transmission linkages are identified in diagram 8.1, with solid lines joining relevant components of each of the stages of the existing SOP index and the experimental DFP index. Broken lines introduce the other relevant cost elements of the model.

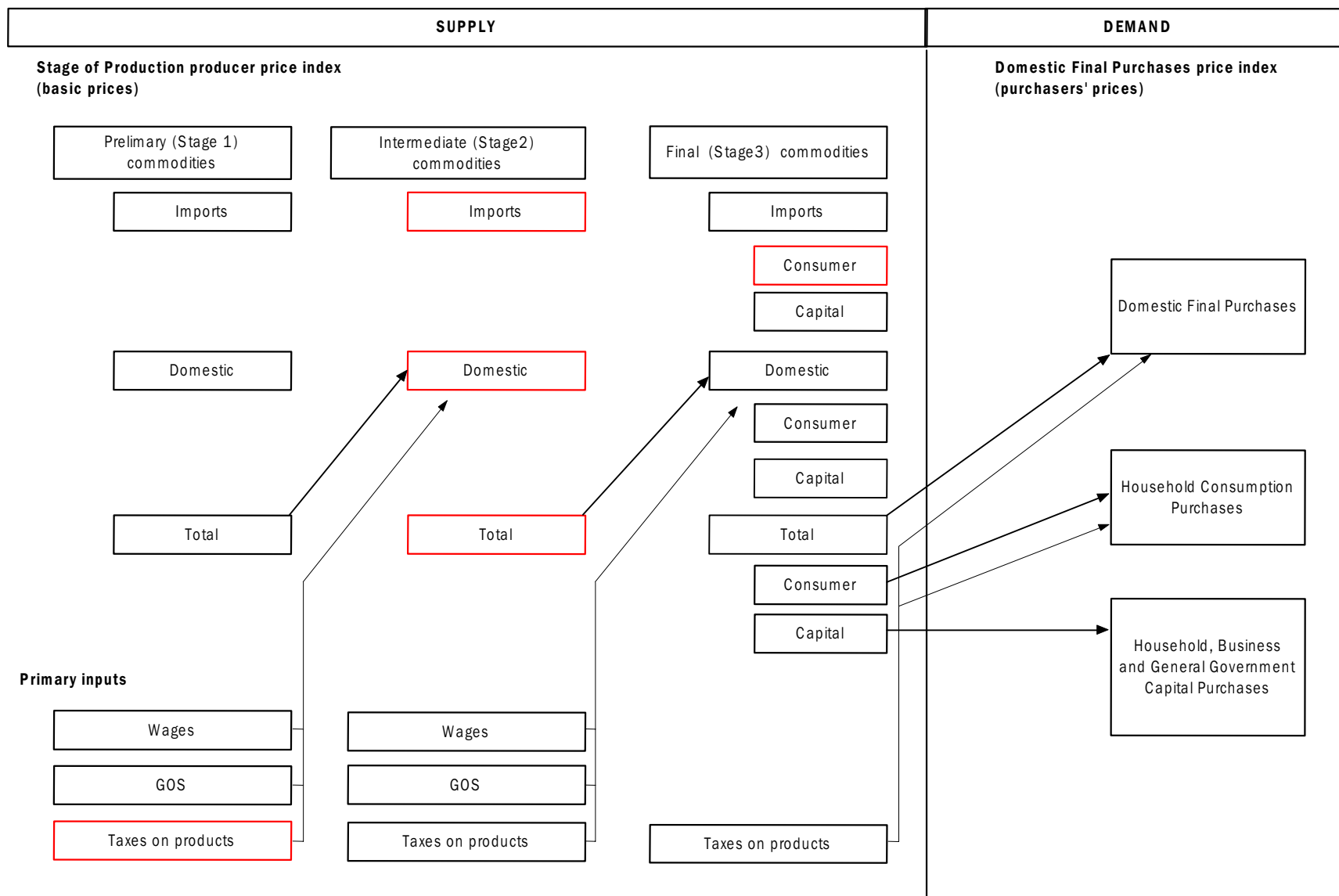
4 To be published in *Producer Price Indexes, Australia* (Cat. No. 6427.0) from June quarter 2001.

8.8 Relating and analysing the available data within the framework of this model provides the potential to increase the understanding of how the inflationary process is operating and to identify upstream inflationary pressures on a timely basis. There are, however, limitations on such analysis due to lack of data (e.g., on GOS), incomplete coverage (e.g., of service industries, in particular wholesale and retail industry margins in the SOP indexes and some construction industry output prices for both the SOP and DFP indexes), the use of proxies (e.g., for some of the capital items in the DFP index) and the need to lag some data because it is not available on a sufficiently timely basis (e.g., the elements of the Wage Cost Index used in the Government Final Consumption Purchases index component of the DFP index).

8.9 The model will also be valuable for internal ABS use, for example to assist in identifying major data gaps and prioritising new collection activity to help fill those gaps. It will also support data confrontation and reconciliation exercises to improve data quality.

8.1

RELATIONSHIP BETWEEN THE DFP AND SOP INDEXES



SECTION 9

EXPERIMENTAL DOMESTIC FINAL PURCHASES
INDEXINDEX NUMBERS AND
PERCENTAGE CHANGES

9.1 Table 9.1 contains experimental quarterly and annual index series for the DFP index in total and for each of its main components. The index numbers have been compiled on a reference base of September quarter 1996 = 100.0 and are presented for the period September quarter 1996 to December quarter 2000. Table 9.2 presents the corresponding quarterly and annual percentage changes.

9.1 DOMESTIC FINAL PURCHASES(a), Index Numbers(b)

	CONSUMER			CAPITAL			TOTAL	
<i>Period</i>	<i>Household</i>	<i>Government</i>	<i>Total</i>	<i>Household</i>	<i>Business</i>	<i>Government</i>	<i>Total</i>	
INDEX NUMBERS								
1996-97	100.7	100.3	100.6	100.2	99.3	100.2	99.5	100.3
1997-98	101.6	101.5	101.6	102.0	100.7	102.5	101.1	101.5
1998-99	102.7	104.0	103.1	105.1	102.5	103.6	103.0	103.1
1999-00	104.7	107.4	105.6	111.6	103.2	104.8	104.7	105.4
1996								
September	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
December	100.6	100.1	100.5	99.9	99.1	100.2	99.4	100.2
1997								
March	101.1	100.4	100.8	100.3	99.0	100.2	99.3	100.4
June	101.1	100.5	100.9	100.6	98.9	100.4	99.3	100.5
September	101.2	100.6	101.0	101.4	99.6	101.4	100.1	100.7
December	101.4	101.2	101.3	101.7	100.4	102.4	100.8	101.2
1998								
March	101.8	101.6	101.7	102.3	101.3	102.9	101.6	101.7
June	102.2	102.4	102.3	102.8	101.7	103.4	102.0	102.2
September	102.3	102.7	102.5	103.5	102.8	104.1	103.1	102.6
December	102.5	103.7	102.9	104.4	102.9	103.5	103.2	103.0
1999								
March	102.8	104.2	103.3	105.8	102.7	103.2	103.2	103.3
June	103.2	105.4	103.9	106.7	101.6	103.4	102.6	103.6
September	103.9	106.1	104.6	108.6	101.9	103.9	103.1	104.2
December	104.0	107.1	105.0	111.5	102.7	104.5	104.2	104.8
2000								
March	105.1	108.0	106.0	112.9	103.4	104.8	105.1	105.8
June	105.9	108.6	106.8	113.6	105.0	106.0	106.5	106.7
September	110.1	109.8	110.0	123.5	103.4	104.6	106.7	109.1
December	110.3	110.9	110.5	123.8	104.9	105.5	107.9	109.8

(a) Experimental series.

(b) Reference base: September quarter 1996=100.0.

9.2 DOMESTIC FINAL PURCHASES(a), Percentage Change

	CONSUMER			CAPITAL			TOTAL	
<i>Period</i>	<i>Household</i>	<i>Government</i>	<i>Total</i>	<i>Household</i>	<i>Business</i>	<i>Government</i>	<i>Total</i>	
PERCENTAGE CHANGE FROM PREVIOUS YEAR								
1996-97	..	..	..	..	..	..	..	..
1997-98	0.9	1.2	1.0	1.8	1.5	2.3	1.6	1.2
1998-99	1.1	2.5	1.5	3.0	1.7	1.1	1.8	1.6
1999-00	2.0	3.3	2.4	6.2	0.7	1.2	1.7	2.2
PERCENTAGE CHANGE FROM PREVIOUS QUARTER								
1996								
September	..	..	..	..	..	..	..	..
December	0.6	0.1	0.5	-0.1	-0.9	0.2	-0.6	0.2
1997								
March	0.5	0.3	0.4	0.4	-0.1	—	-9.0	0.3
June	0.1	0.2	0.1	0.2	-0.1	0.2	-8.6	0.1
September	—	0.1	0.1	0.8	0.8	0.9	0.8	0.2
December	0.2	0.6	0.3	0.3	0.8	1.0	0.7	0.4
1998								
March	0.4	0.4	0.4	0.6	0.9	0.5	0.8	0.5
June	0.4	0.7	0.5	0.6	0.4	0.5	0.4	0.5
September	0.1	0.4	0.2	0.7	1.1	0.7	1.0	0.4
December	0.2	0.9	0.4	0.8	0.1	-0.5	0.1	0.3
1999								
March	0.3	0.5	0.4	1.3	-0.2	-0.3	—	0.3
June	0.4	1.1	0.6	0.9	-1.0	0.2	-0.6	0.3
September	0.7	0.7	0.7	1.8	0.3	0.4	0.5	0.6
December	0.1	1.0	0.4	2.7	0.8	0.6	1.1	0.6
2000								
March	1.0	0.8	1.0	1.3	0.7	0.3	0.8	0.9
June	0.8	0.5	0.7	0.6	1.5	1.1	1.3	0.9
September	3.9	1.1	3.0	8.7	-1.6	-1.3	0.2	2.2
December	0.3	1.0	0.5	0.2	1.5	0.9	1.2	0.7

.. not applicable

— nil or rounded to zero (including null cells)

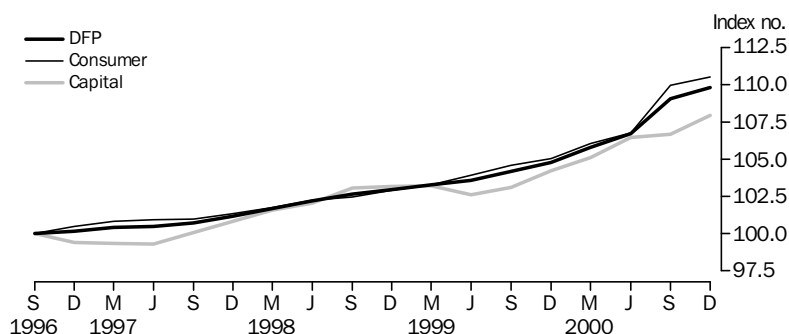
(a) Experimental series.

SECTION 10

ANALYSIS OF DOMESTIC FINAL PURCHASES INDEX AND COMPARISON WITH OTHER RELATED PRICE INDEXES

COMPARISON OF DFP INDEX COMPONENTS

10.1 DFP TOTAL, CONSUMER AND CAPITAL INDEXES (a)



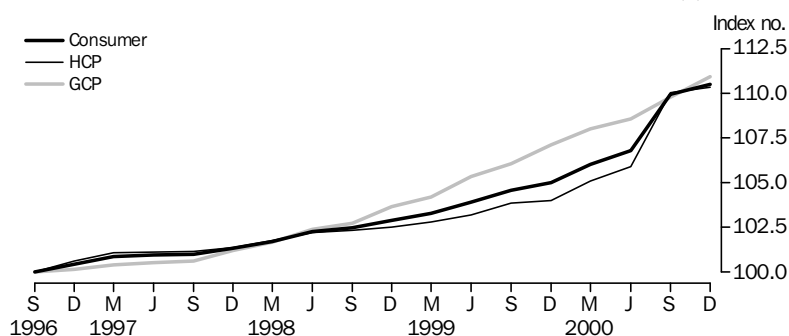
(a) Experimental Series

10.1 Over the 18 quarters from September 1996 to December 2000, the total DFP index rose 9.8%. In this time, the consumer component rose 10.5%, while the capital component rose 7.9%. The total DFP index is mostly influenced by the consumer series, as it contributes 73% of the weight.

10.2 The consumer series rose steadily over the period, with the 3.0% increase between the June and September quarters in 2000 primarily due to the introduction of the new tax system (TNTS). In contrast the capital series was relatively flat or declining for the periods of September quarter 1996 — June quarter 1997 and September quarter 1998 — June quarter 1999. It generally rose more steeply than the consumer series for periods other than these, with the exception of the June quarter 2000 to September quarter 2000 movement, as the capital series was not significantly affected by the introduction of TNTS in comparison to the consumer series.

COMPARISON OF THE DFP INDEX CONSUMER COMPONENTS

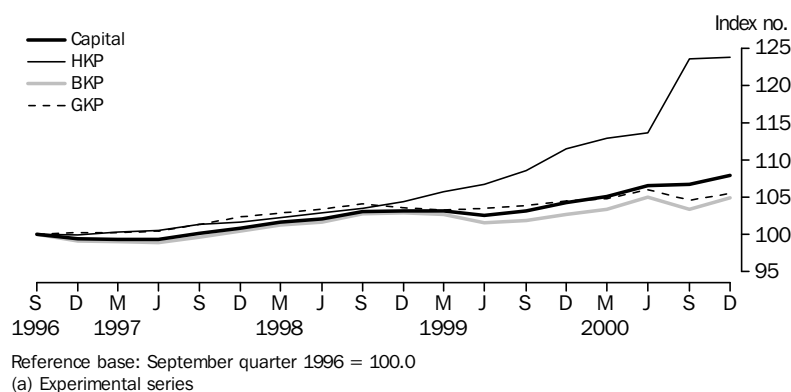
10.2 COMPARISON OF THE DFP INDEX CONSUMER COMPONENTS (a)



(a) Experimental series

COMPARISON OF THE
DFP INDEX CONSUMER
COMPONENTS *continued*

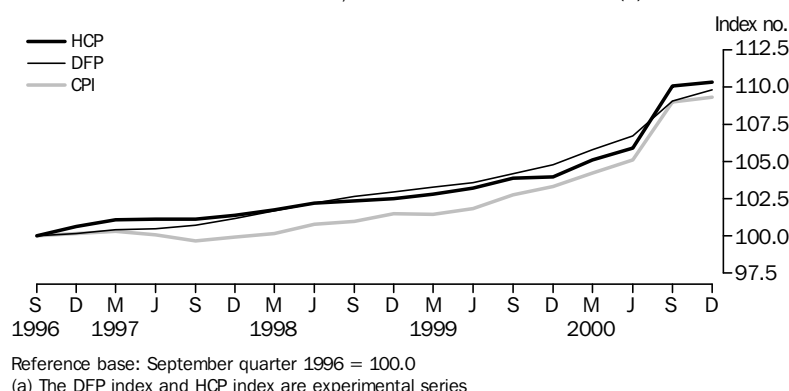
10.3 The Household Consumption Purchases (HCP) index, which rose 10.3% over the 18 quarters from September 1996 to December 2000, is the main influence on the DFP index consumer component as it has a weight of 67%. Both show the impact of TNTS in their movements between the June and September Quarters in 2000, with the HCP index rising 3.9% and the DFP consumer component rising 3.0%. The General Government Consumption Purchases index rose fairly steadily over the 18 quarters, finishing 10.9% higher than in September quarter 1996.

COMPARISON OF THE
DFP INDEX CAPITAL
COMPONENTS**10.3** COMPARISON OF THE DFP INDEX CAPITAL COMPONENTS (a)

10.4 The DFP index capital component initially fell 0.7% between September quarter 1996 and June quarter 1997, then rose steadily until September quarter 1998 before remaining relatively flat until September quarter 1999. From then on it increased steadily to finish 7.9% above the level in September quarter 1996.

10.5 The Household Capital Purchases (HKP) index has shown the greatest rise over the analysis period of 23.8%. Approximately two thirds of this increase occurred between June quarter 1999 and September quarter 2000 due to strong demand in the housing sector prior to the implementation of the TNTS, coupled with the impact of TNTS. This period of strong growth in the HKP index is noticeable in the total DFP capital index, despite its weight being only 16%.

10.6 The Business Capital Purchases (BKP) index and General Government Capital Purchases (GKP) index show similar movements over the period and together have exerted most influence on the total DFP capital index (the BKP index has a weight of 73% and the GKP 11%). Both of these indexes showed slight falls with the implementation of TNTS, which was primarily due to the removal of the Wholesale Sales Tax having an impact on particular industries which were not previously entitled to a full rebate.

COMPARISON OF THE
DFP INDEX AND THE CPI**10.4** COMPARISON OF THE CPI, DFP INDEX AND HCP INDEX (a)

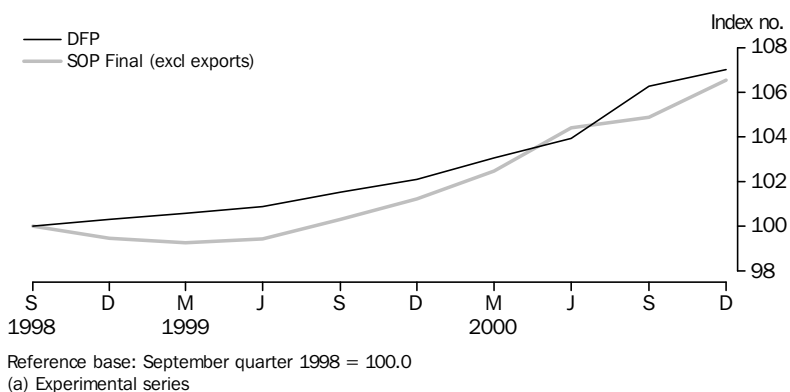
10.7 Both the DFP index and the CPI are compiled on a purchaser's price basis, however the DFP index scope is final purchases by Australian residents in *all* sectors of the economy, whereas the scope of the CPI is restricted to metropolitan private households. The Household Consumption Purchases (HCP) component of the DFP index is closest in concept to the CPI. There are, however, a number of conceptual differences between the HCP index and the CPI as summarised in paragraph 3.23. Most important is the exclusion of transactions at non-market determined prices from the HCP index.

10.8 The HCP index rose by 10.3% from September quarter 1996 to December quarter 2000, compared with a 9.3% increase in the CPI. The deviation in these series between September quarter 1996 and September quarter 1997 was driven by a substantial fall in mortgage interest charges, with this component of the CPI falling by 26% and having a -1.8% impact on the total CPI. Mortgage interest charges were removed from the CPI in September quarter 1998 and replaced by the house purchase series. The HCP index does not contain either of these series, with house purchases being covered in the Household Capital Purchases component of the DFP capital index. For the remaining period there are minor differences between movements in the HCP index and the CPI reflecting the general conceptual differences between the two series.

10.9 The September quarter 2000 movement is slightly higher for the HCP index (3.9%) than for the CPI (3.7%). This mostly reflected the exclusion from the HCP index of transactions involving non-market determined prices, which are included in the CPI. The price changes for these transactions tended to be slightly smaller on average. Examples of CPI September quarter 2000 items with small or negative price changes which are excluded (all or in part) from the HCP index are: hospital and medical services (0.4%); education (0.2%); postal services (2.8%); water and sewerage (1.5%); pharmaceuticals (-0.3%); and child care (-15.1%).

COMPARISON OF THE DFP INDEX AND THE SOP FINAL COMMODITIES INDEX

10.5 COMPARISON OF THE DFP INDEX (a) AND SOP FINAL STAGE INDEX



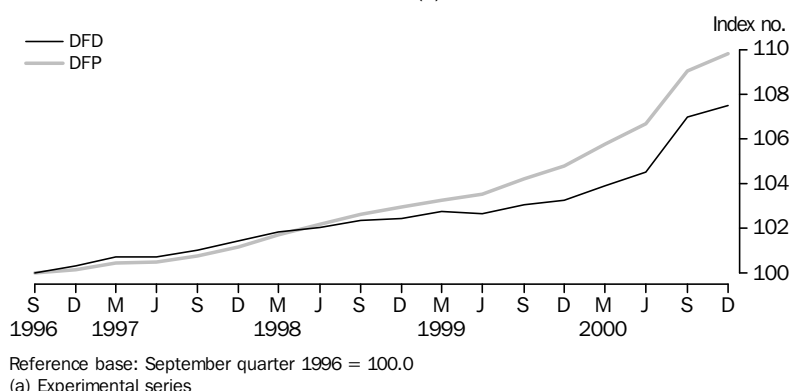
10.10 From September quarter 1998 to December quarter 2000, the SOP final stage (excluding exports) index rose 6.5%, compared to a rise of 7.0% for the DFP index. These indexes are both economy-wide in scope, with the SOP index representing industry output at basic prices and the DFP index final demand at purchasers' prices. As such the SOP final stage index might be expected to be a lead indicator of the DFP index. However the restricted time series that is currently available limits the extent to which this can be analysed. Performing this kind of analysis when longer time series become available should aid in understanding price transmission effects in the economy.

10.11 The SOP final stage index has been affected by the large fluctuations in oil prices, which fell from September quarter 1998 to March quarter 1999 before rising dramatically to December quarter 2000; and the large depreciation in the Australian dollar between the December quarters of 1999 and 2000. The smaller, steadier, rises in the DFP index over the period (other than in September quarter 2000 when the DFP index was affected by the introduction of TNTS) may indicate the ability of final distributors to absorb the impact of these types of price fluctuations by expanding and contracting margins, especially in the short term. At present the SOP indexes do not cover wholesale and retail trade margins which would be needed to provide conclusive evidence of this.

10.12 The impact of TNTS is noticeably different between the two indexes. The DFP index is heavily influenced by the impact of TNTS on the Household Consumption Purchases component which accounts for half of the total index weight. In contrast TNTS had no effect on the consumption component of the SOP final stage index as this is measured at basic prices, and as such excludes taxes such as the Goods and Services Tax.

COMPARISON OF THE
DFP INDEX AND THE
NATIONAL ACCOUNTS
DFD CHAIN PRICE INDEX

10.6 COMPARISON OF THE DFP INDEX (a) AND DFD INDEX



10.13 Both the DFP index and the domestic final demand (DFD) chain price index, published in *Australian National Accounts: National Income, Expenditure and Product* (Cat. no. 5206.0), are economy-wide price measures compiled on a purchasers' price basis. The DFP index is designed as an inflation analysis tool and is therefore limited to market transactions, while the DFD chain price index covers all transactions as it is essentially a by-product of the chain volume estimates presented in the Australian national accounts. There are also a number of other conceptual differences between the two measures as discussed in paragraph 2.16.

10.14 The two indexes move similarly from September quarter 1996 to June quarter 1998, but from that point the DFP index begins to trend higher than the DFD chain price index. The overall movement for the DFP index between September quarter 1996 and December quarter 2000 was 9.8% compared to 7.5% for the DFD chain price index. There are four major contributing factors to this difference, three of which relate to conceptual differences and the other to a difference in pricing practice. Together these factors, which are summarised below, account for approximately 90% of the overall difference in the two series over the period covered.

- The DFP index uses a pure price series from the CPI to represent expenditure on dwelling rents. The comparable series for the DFD chain price index, which has a much higher weight as it includes owner occupied dwellings in its scope, is an implicit price deflator derived from national accounts volume and current price estimates of expenditure on dwelling services. These series differ markedly, with the DFP index dwelling rents series showing considerably stronger growth, particularly in the period following June quarter 1998.
- The weights used in the DFD chain price index are more contemporary than those in the experimental DFP index, which are based on 1994–95 input-output values. As such, the weight given to computers is greater in the DFD chain price index, due to computer volumes generally increasing more rapidly than other volumes over time. As the quality adjusted price series for computers has fallen considerably from September quarter 1996 to December quarter 2000 (slightly over 50%), the downward impact of this is more substantial on the DFD chain price index than on the DFP index.

COMPARISON OF THE
DFP INDEX AND THE
NATIONAL ACCOUNTS
DFD CHAIN PRICE INDEX

continued

- The experimental DFP index has used a different price series for software than the DFD chain price index. The latter uses a price series essentially based on off-the-shelf software, whereas the DFP index uses a combination of this series and a computer consultancy price series adjusted for improvements in hardware performance to represent the significant amount of own account and custom built software used by businesses. Consequently the resultant price series for software behave differently over time, with the DFD chain price series falling considerably more than the series used in the DFP index. The impact of this difference is concentrated in 1999, when the computer consultancy services price series rose sharply due to the high demand for these services associated with year 2000 (Y2k) compliance requirements. The ABS is interested in obtaining feed-back from users on the approach preferred.
- The DFP index does not cover the finance industry, for which the major component of output is financial intermediation services indirectly measured. For the DFD chain price index, an implicit price deflator is derived from the national accounts current price and volume estimates for this component. This implicit price deflator has been on a downward trend from September quarter 1996 to December quarter 2000, and thus adds to the overall difference with the DFP index.

10.15 The divergence in these two economy-wide price indexes over the period reflects the difference in purpose, coverage and construction of the DFP index in comparison to the DFD chain price index. This also illustrates the different interpretations that can be made on inflationary pressures in the economy through analysing each of the measures.

SECTION 11

FURTHER INVESTIGATIONS

11.1 As data from the input-output system will be used for weighting purposes, there is the potential for frequent chaining of the DFP index once in production mode. The optimum frequency of chaining the DFP index will be assessed.

11.2 The ABS plans to undertake investigations into the development of an experimental *underlying* HCP price index, as foreshadowed in *Information Paper: An Analytical Framework for Price Indexes in Australia* (Cat. no. 6421.0). The approach proposed is to apply the *specific adjustment method* to the HCP index to exclude the effects on prices of fiscal policy decisions, and to remove the effects of seasonal factors and volatility.

SECTION 12

CONSULTATION WITH USERS AND FUTURE RELEASE PLANS

12.1 The ABS welcomes views on the developments described in this paper and would appreciate comments on any aspects of the work undertaken to date, as well as plans for future developments.

12.2 After consulting with users, agreed changes will be implemented and it is intended to release the DFP index as a regular quarterly publication. This is expected to occur from early 2002, at which time the experimental series presented in this paper would be revised. We will advise users of our plans in the "Notes" section of the ABS publications *Consumer Price Index, Australia* (Cat. no. 6401.0), *Producer price Indexes, Australia* (Cat. no. 6427.0) and *International Trade Price Indexes, Australia* (Cat. no. 6457.0).

12.3 During the consultation process, we would particularly appreciate users' reactions to the following:

- the approaches adopted in compiling the experimental DFP index, especially the appropriateness of those goods or services assessed as having non-market determined prices, and the way they have been treated in the index;
- the broader system of indexes that has been developed and its potential for analysing inflation (as described in Section 8); and
- plans to investigate the development of an *underlying* HCP index.

12.4 Comments and queries can be directed to:

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Director, Producer Price Indexes
Australian Bureau of Statistics
PO Box 10
BELCONNEN ACT 2616

Telephone: Canberra 02 6252 6170
Facsimile: Canberra 02 6252 7060
Email: richard.mckenzie@abs.gov.au

GLOSSARY

Basic prices	The value of a commodity at basic prices is equal to its value when it leaves the producer, before the application of indirect taxes (less subsidies) and trade and transport margins.
Business sector	This sector comprises corporations and unincorporated enterprises which may be defined as legal entities, created for the purpose of producing goods or services for the market, that may be the source of profit or other financial gain to its owner(s). Businesses may be public or private, financial or non-financial.
Chain index	A continuous index number series formed by linking new index series, which reflect a changed weighting pattern, to previous index series, on a regular and frequent basis (e.g. annually).
CPI	A general indicator of the rate of change in prices paid by households for consumer goods and services.
Economically significant prices	Economically significant prices are prices which have a significant influence on both the amounts producers are willing to supply and the amounts purchasers wish to buy.
Fixed-weighted index	An index in which the weighting pattern is fixed for the life of each index series.
Free on board (f.o.b.)	A method of valuation of internationally traded goods where the goods are valued at the port of export. Any imports or custom duties that may be imposed in the country of destination are excluded as are any transport costs from the frontier of the exporting country.
General government	The general government sector comprises institutional units which, in addition to fulfilling their political responsibilities and their role of economic regulation, produce principally non-market services (possibly goods) for individual or collective consumption and redistribute income or wealth.
Goods and Services Tax	An ad valorem tax applied to supplies (goods and services produced or delivered) by registered suppliers engaged in taxable activity. The legislated rate of GST is 10%.
Gross fixed capital formation	Gross fixed capital formation is measured by the total value of producers' acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non-produced assets realised by the productive activity of institutional units. Formerly known as gross fixed capital expenditure.
Government final consumption expenditure	A national accounts measure which reflects current expenditure by general government bodies on services to the community.
Household Expenditure Survey (HES)	A sample survey conducted to determine the expenditure patterns of private households. Data from the HES is used as a primary source of information for the estimation of expenditure weights in the CPI.
Implicit price deflator	The relationship, expressed as an index number, between the current price values and constant price values of broad national accounting aggregates.
Indirect taxes	Taxes assessed on producers, on the production, sale, purchase, or use of goods and services.
Institutional units	Fundamental economic units which are capable of owning assets and incurring liabilities on their own behalf. They can engage in the full range of transactions.

Laspeyres price index	A price index in which the fixed weights used represent the relative importance of index items in the weighting base period.
Linking	The technique used to join a new index series which reflects a changed weighting pattern to the previous index series to form a continuous series. The technique ensures that the resultant linked index reflects only price variations (i.e. the introduction of the new items and weights does not of itself affect the level of the index). Also referred to as chaining.
Non profit institutions serving households (NPISH)	Institutions which are principally engaged in the production of non-market services for households and whose main resources are voluntary contributions by households.
Price index	An indicator used to measure the proportionate changes in the prices of a specified set of goods and services.
Producer price indexes	Producer price indexes measure the prices of commodities moving between sectors of the domestic and international economy. Prices may be measured in either basic prices, purchasers' prices or free on board.
Public corporations	Institutional units, subject to the control of government units, which aim to cover their operating expenses by selling their output or by engaging in financial transactions such as borrowing and lending.
Public sector	The public sector comprises general government and the public sub-sector of the business sector.
Purchasers' prices	The value of a commodity at purchasers' prices is equal to its basic price plus indirect taxes (less subsidies) and margins (e.g. wholesale, retail, freight).
Pure price change	The change in the price of an item after removing any variation in price attributable to a change in quality or quantity.
Reference base	The period in which a price index is given a value of 100.0. The DFP index is currently on a reference base of September quarter 1996.
Scope (of a price index)	The conceptual boundaries of the price index in terms of goods and services represented, and of the population group and geographical areas to which it relates.
The New Tax System (TNTS)	Package of changes to the taxation and social welfare system including the introduction of GST and the changes to business taxation announced in response to the review of business taxation.
The System of National Accounts (SNA)	SNA describes a coherent, consistent and integrated set of macro economic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules.
Transaction prices	The prices actually paid by purchasers to acquire goods and services.
Weight	The measure of the relative importance of an item in the index regimen. Weight can be expressed in either quantity or value terms. Value weights are used in the DFP index.
Weighting base period	The period to which the fixed weights relate. The weighting base period for the DFP index is 1994–95.

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