

FEATURE

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Services Producer Price Index (experimental) – fourth quarter 2006

SUMMARY

The experimental Services Producer Price Index (SPPI) measures movements in prices charged for services supplied by businesses to other businesses, local and national government. This article shows the effects some industries are having on the top-level SPPI. It continues the quarterly feature previously published in *Economic Trends*. 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. 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 rose by 3.0 per cent in the year to the fourth quarter of 2006. This is based on a comparison of the change in the top-level Services Producer Price Index (SPPI) on the net sector basis.

Figure 1 shows how the percentage change for the top-level SPPI (net sector) compares with the retail prices index (RPI) all services sector, and the producer price index (PPI) for all manufactured goods (net sector).

The top-level results, on both gross and net sector bases, are shown in Table 1. In 2006 Q4, the top-level SPPI (net sector) rose by 0.5 per cent compared with the previous quarter.

Figure 2 depicts the SPPI annual growths for both the net and gross sector time series. The annual growth for the SPPI net sector fell to 3.0 per cent in 2006 Q4, down from 3.2 per cent in 2006 Q3. The gross

SPPI growth fell to 2.9 per cent in 2006 Q4 down from 3.1 per cent in the previous quarter. The difference in the annual growth between the gross and net sector SPPI is 0.1 per cent this quarter.

Industry-specific indices

Tables available on the National Statistics website contain the data for the 34 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. Comparing Q4 2006 with Q4 2005, some key points to note are:

- property rental prices rose by 4.0 per cent, reflecting strong market conditions across the industry, as reported by the Investment Property Databank

Figure 1
Experimental top-level SPPI compared with the RPI and PPI

Percentage change, quarter on same quarter a year earlier

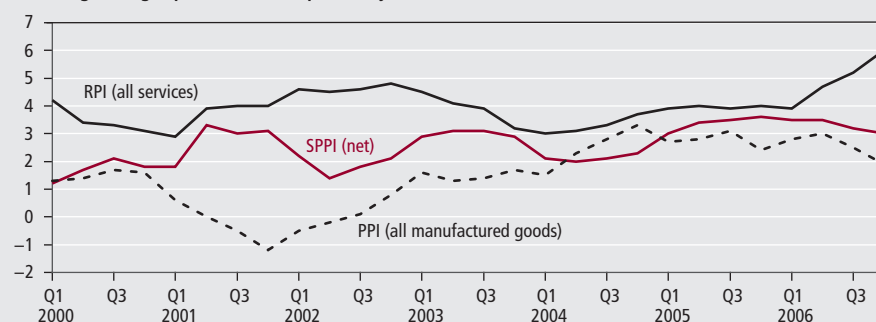


Figure 2
Experimental top-level SPPI

Percentage change, quarter on same quarter a year earlier

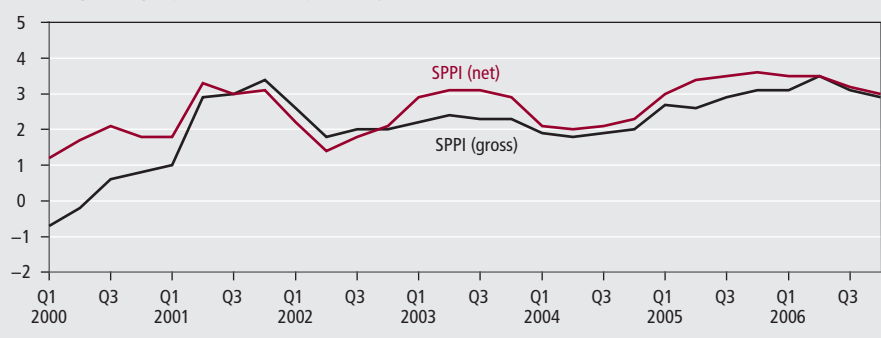


Table 1
Top-level SPPI results

	SPPI quarterly index values, 2000=100		Percentage change, quarter on same quarter a year earlier	
	Gross sector	Net sector	Gross sector	Net sector
2000 Q1	100.0	99.5	-0.7	1.2
2000 Q2	99.9	99.8	0.1	1.7
2000 Q3	100.0	100.2	0.7	2.1
2000 Q4	100.1	100.5	0.7	1.8
2001 Q1	100.7	101.3	0.7	1.8
2001 Q2	102.5	103.1	2.6	3.3
2001 Q3	102.8	103.2	2.7	3.0
2001 Q4	103.3	103.6	3.1	3.1
2002 Q1	103.3	103.6	2.7	2.2
2002 Q2	104.4	104.6	1.9	1.4
2002 Q3	104.9	105.0	2.1	1.8
2002 Q4	105.4	105.8	2.1	2.1
2003 Q1	105.7	106.5	2.3	2.9
2003 Q2	107.0	107.9	2.4	3.1
2003 Q3	107.4	108.3	2.4	3.1
2003 Q4	107.8	108.8	2.3	2.9
2004 Q1	107.6	108.7	1.7	2.1
2004 Q2	108.9	110.0	1.8	2.0
2004 Q3	109.4	110.6	1.8	2.1
2004 Q4	109.9	111.3	1.9	2.3
2005 Q1	110.5	112.0	2.7	3.0
2005 Q2	111.7	113.7	2.6	3.4
2005 Q3	112.5	114.5	2.9	3.5
2005 Q4	113.3	115.3	3.1	3.6
2006 Q1	113.9	115.9	3.1	3.5
2006 Q2	115.6	117.7	3.5	3.5
2006 Q3	116.0	118.2	3.1	3.2
2006 Q4	116.6	118.8	2.9	3.0

- banking services prices rose by 11.9 per cent, generated by the underlying interest on outstanding loan balances, and increases in balances as reported by the Bank of England
- sewerage services prices rose by 8.3 per cent, following rises reported by OFWAT
- freight transport by road prices rose by 1.1 per cent, following general increases in the cost of fuel and price reviews across the industry
- business telecommunications prices fell by 1.3 per cent, as reported by Ofcom

Next results

The next set of SPPI results will be issued on 23 May 2007 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, the redevelopment of an index for business telecommunications and the introduction of an index for banking services (together with more general information on the SPPI) are available at www.statistics.gov.uk/sppi

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TECHNICAL NOTE

- 1 The experimental Services Producer Price Index (SPPI) replaces the former Corporate Services Price Index (CSPI). It measures movements in prices charged for services supplied by businesses to other businesses, local and national government. It is not classified as a National Statistic.
- 2 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 National Statistics website also contain gross sector indices which include transactions within the corporate services sector.
- 3 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.
- 4 SPPI inflation is the percentage change in the net sector index for the latest quarter compared with the corresponding quarter in the previous year.
- 5 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.
- 6 A number of external data sources are currently used in the compilation of the SPPI, as follows:
 - Bank of England – banking services
 - Investment Property Database (IPD) – property rental payments
 - Office of Communications (Ofcom) – business telecommunications
 - Office of Water Services (OFWAT) – sewerage services
 - Parcelforce – national post parcels
 - Office of Rail Regulation (ORR) – business rail fares
 - Yew Tree – maintenance and repair of motor vehicles
- 7 The business telecommunications index has undergone the final stages of quality assurance and has been reintroduced this quarter with data revised back to 1998. For further details, please see the article 'A Redeveloped Services Producer Price Index for Business Telecommunications', available on the National Statistics website at:
www.statistics.gov.uk/downloads/experimental/Updatedbusinesstelecomsindexarticle.pdf
- 8 The top level net and gross series have been subject to revisions back to 1998. This has been due to the redevelopment of the business telecommunications index.