



EFFECTS OF NEW GOODS AND PRODUCT TURNOVER ON PRICE INDEXES

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The paper



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- Authors observe: 35% of the value of sales is for new products
 - How does entry and exit of varieties and new products affect price indices?
 - Or rather: given that price measurement mainly relies on comparing prices of existing products, what is the bias caused by ignoring entry?
 - And if entry is recognised how should this happen?
 - Study focuses on price differentials between old and new products
 - Monthly scanner data for food and daily products



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- *New good* if the product exists in period t but not in period $t - y$
 - *Old good* if the product does not exist in period t but exists in period $t - y$
 - *Continuing good* if it exists in both periods
 - Decomposition of unit value index:
 - Laspeyres index of continued products
 - Substitution effect among continued products
 - Price effect of product turnover



3 comments



Comment 1

- Very clear paper
- Carefully derived relations and estimates
- Nothing to add on this front!



Comment 2

- UVI is decomposed into:
 - Laspeyres price index
 - substitution effects
 - turnover–new goods effects
- Laspeyres price index corresponds roughly to official methodology
- **What is the recommendation for CPI compilers?** Move to UVI to capture substitution and turnover effects?



Comment 3

- Products in study = food, daily necessities and cosmetics
- Theory used for price measurement very well adopted to this type of products – **many varieties, small modifications**
- ‘**Big ticket items**’ of new products or important quality change **likely elsewhere**: ICT, health, consumer durables,...
- **Can the approach be used there as well?**



I enjoyed reading this paper!

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