Users of Services Producer Price Index (SPPI) data

The Services Producer Price Index (SPPI) provides a measure of inflation for the UK service sector. It is constructed from a statutory quarterly survey which measures changes in the price received for selected services provided by UK businesses to other UK businesses and government. Individual SPPIs are available which provide information on price change for a selection of service industries. These individual price indices are also aggregated together to create a service industry SPPI with limited coverage (it does not provide full coverage of the service sector).

ONS National Accounts

The National Accounts use SPPIs as deflators to remove the effects of price change from turnover data to produce a measure of output. SPPIs are used to produce the Index of Services and also the output measure of Gross Domestic Product (GDP).

Bank of England

The Bank of England use SPPI for monitoring the general level of inflation in the economy and as part of the monetary policy making process.

HM Treasury

HM Treasury use the SPPI to monitor inflation trends and to help form a view on inflationary pressure in the UK economy.

Ministry of Defence

The Ministry of Defence use a selection of SPPIs to advise on the escalation of long-term service procurement contracts.

Crown Commercial Service (Cabinet Office)

The Crown Commercial Service use SPPIs to monitor price change and advise on the escalation of service contracts in their role of ensuring value for money in all commercial relationships across government.

Department of Business, Innovation and Skills (BIS)

SPPI data is used by BIS to improve individual and overall service sector deflation, providing more reliable constant price indices to monitor short and longer term changes in service industries. This is done at both the UK and regional level.

Eurostat

Eurostat use a selection of UK SPPIs in the construction of an aggregate of service sector inflation for all EU member states. The UK deliver these SPPIs under the Short Term Statistics (STS) regulation and the requirement for this data reflects the fact that service industries make up a large proportion of the economic output of European countries.
Her Majesty’s Revenue and Customs (HMRC)

HMRC use SPPI data to construct a time series of air fare data for use in an Air Passenger Duty (APD) forecasting model. This model is used to forecast total receipts for up to 5 years in advance and is used by HM Treasury at Budget and Pre-Budget reports. The forecast also feeds into the monthly estimates of the main public sector finance statistics issued by HM Treasury and ONS.

Individual users

Private companies use SPPIs to monitor price movements for services, negotiate contracts and compare their own business to national averages. Other users of SPPI data include Local Government, universities and the media.

Strengths and limitations for users

Use: Deflation in National Accounts

Strengths:

- **Concepts** – SPPIs provide an actual measure of price change which provides a conceptually better deflator than other measures eg salaries which are often used as alternatives.
- **Methods** – SPPIs are constructed using internationally comparable methods and classifications.
- **Sustainability** – The SPPIs are available in their current format for the foreseeable future and any substantial changes to methods or coverage can only be made following consultation with users.

Limitations:

- **Timeliness** – The SPPI figures are released approximately 8 weeks after the end of the quarter to which they relate. For the Index of Services, since it is more timely than SPPI, a forecast of the SPPIs has to be used for deflation.
- **Frequency** – The SPPI is produced quarterly but the Index of Services is produced monthly. This means that a monthly index must be derived from the existing quarterly SPPI which can be used for deflation.
- **Coverage** – The SPPI covers only sales of services to UK businesses and government and does not cover the entire service sector. Ideally, for National Accounts’ purposes the SPPI would cover all service transactions for the entire service sector.
- **Revisions** – While revisions are kept to a minimum, scheduled revisions are carried out for SPPI and the latest two quarters are marked as provisional. Any revisions made to SPPI would need to be reflected in the Index of Services and GDP.
Use: Contract escalation

Strengths:

- **Independence** – SPPIs are produced in an open and transparent way and are independent of any parties entering into a contract.
- **Methods** – SPPIs are constructed using internationally comparable methods and classifications.
- **Sustainability** – The SPPIs are available in their current format for the foreseeable future and any substantial changes to methods or coverage can only be made following consultation with users.

Limitations:

- **Rebasing** – The SPPI is rebased every five years – this involves updating the index weights and re-referencing the index so that the index values equal 100 over a different period (currently 2010=100). This means that whenever a rebased series is produced, users will need to link the new data to the old series in order to maintain a continuous dataset.
- **Revisions** – While revisions are kept to a minimum, scheduled revisions are carried out for SPPI and the latest two quarters are marked as provisional. This means that any contract payments made using these values may need to be revisited as the values are revised.

Use: Monitoring inflation

Strengths:

- **Methods** – SPPIs are constructed using internationally comparable methods and classifications.
- **Sustainability** – The SPPIs are available in their current format for the foreseeable future and any substantial changes to methods or coverage can only be made following consultation with users.

Limitations:

- **Coverage** – The SPPI covers only sales of services to UK businesses and government so does not reflect output inflation for sales to the entire economy (ie consumer sales and exports). Also, the aggregate SPPI does not cover the entire service sector so can only be used to monitor inflation in particular areas of the economy.
- **Time series** – since some SPPI development is relatively recent, only short runs of time series data exist for some indices. This makes it impossible to monitor trends in inflation for these industries over long periods of time.

How are we doing?

If you have any comments on the content of this document or any suggestions for additions, please let us know. You can contact us via email: sppi@ons.gsi.gov.uk