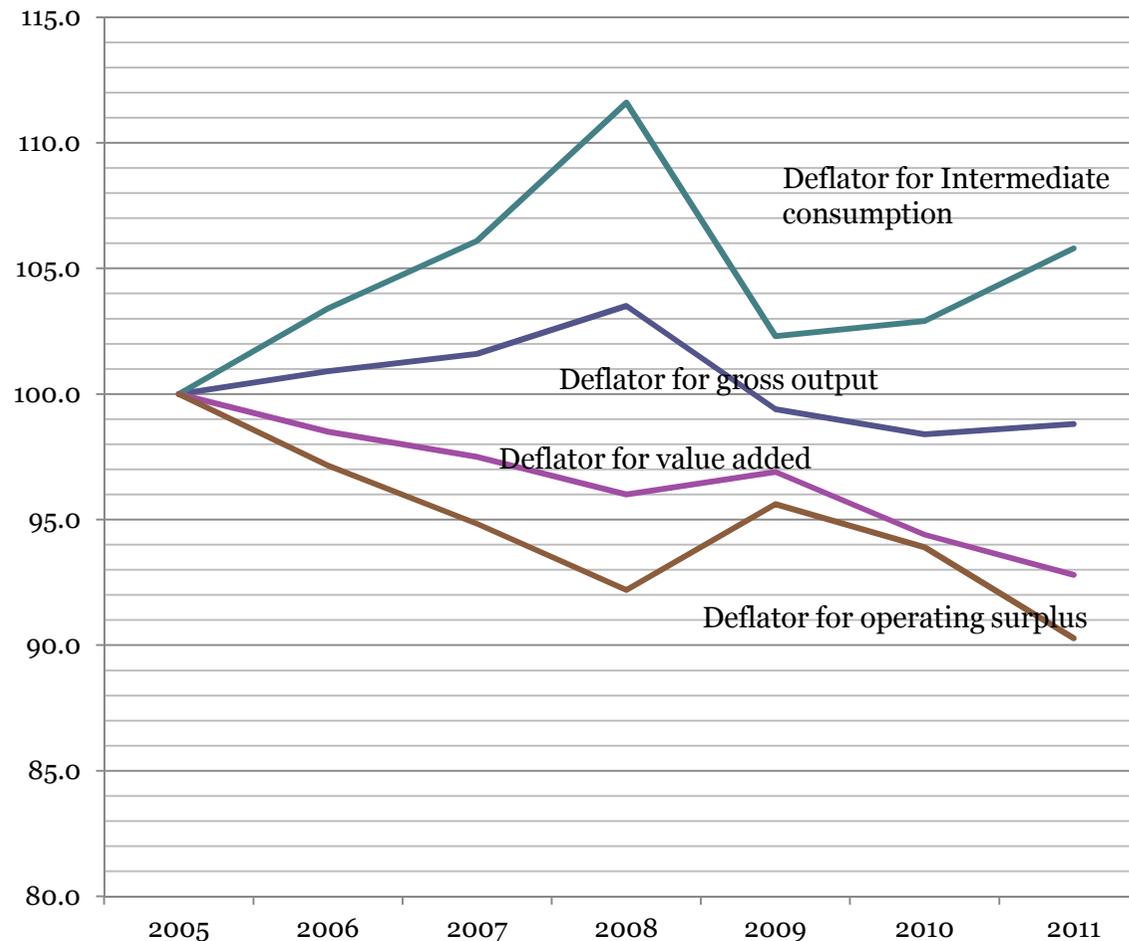


Some comments on “Effects of Offshoring and Country Substitution on Measurement of Prices and Productivity”

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Deflators for “Industry” (in the sense of SNA 1968, that is, largely, the market producers in the sense of SNA 2008)



Source: Annual Report on National Accounts and Rengo Wage Report

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- From the figure above, we learn the following facts:
 - Output deflator is relatively stable in this period;
 - However, **deflator for intermediate input has undergone a large fluctuation** (perhaps due to fluctuations in energy prices, material prices as well as exchange rates);
 - The value added deflator and the deflator for operating surplus have decreased by 10 points in just 6 years(2005 to 2011).
 - Note that operating surplus deflator is the price index that is used to calculate the **real interest rate** for a particular group of producers as borrowers.



The importance of indices of intermediate input prices

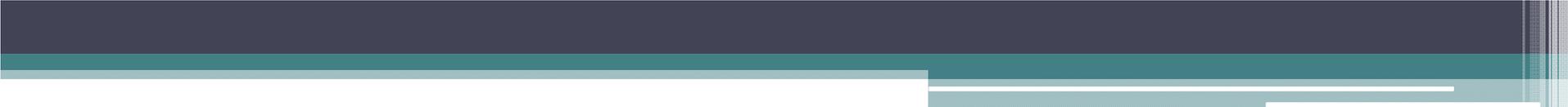
- In order to understand the price situation encountered by a particular group of producers, it may be important to monitor the movement of intermediate input prices as well as output prices.
- Note that intermediate inputs include imports.
- So, if it is necessary to rely on import price indices to construct a price index of intermediate inputs, you may encounter the problems the authors have addressed in this paper.

“Offshoring” as a challenge

- One of the two focuses of the paper, “offshoring” may be considered to be a problem of coordination between IOPI (input output price index) and MPI, though another focus, country substitution, looks like just a quality adjustment problem within MPI .
- Offshoring appears as a problem of “new products” in the context of the compilation of MPI but in the context of intermediate input price indices, it is just a change of source (from domestic products to imports).

“Offshoring” as a challenge(cont’d)

- The authors showed that by using unit value indices you can bound the country substitution and offshoring bias. The main reference should be Diewert and Nakamura (2010) .
- The solution shown in the paper looks like that within the framework of MPI. For example, they write, “Price changes associated with shifts in sourcing from local to offshore production must be treated like changes in the price of an imported item in the extended import price index.”



Developing IOPI type of price index

- However, taking it into account that the problem encountered should be understood to be that of coordination within the SNA's system of price and quantity measures, developing IOPI type of price index (with some conciliation data) seems to be more favourable.



Questions

- 1) Factor price equalisation works or not? Some researchers in economics in Japan think that this type of pressure from low wage countries has pushed down nominal (as well as real) wages in Japanese manufacturing industry, thus resulting in deflation.

Questions(cont'd)

- 2) In 2008 SNA, goods sent abroad for processing from economy X to economy Y for processing without changing ownership, after which they are returned to economy X, are not shown as either exports of goods from X to Y or subsequently as exports of goods from Y to X. (...) only the agreed processing fee is shown as an export of service from Y to X.