

Statistical bulletin

# Services producer price inflation, UK: July to September 2014

A suite of individual price indices providing information on price change for a limited range of service industries. Each SPPI captures quarterly changes in the price received for services provided by UK businesses to other UK businesses and Government.



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# 1 . Key points

- Estimated annual inflation in the UK service sector, as measured by the Services Producer Price Index (SPPI), continues to run at a relatively low level in quarter 3 of 2014.
- The aggregate SPPI rose 1.5% in the year to quarter 3 of 2014, compared with a rise of 1.3% in the year to quarter 2 of 2014.
- Between quarter 2 and quarter 3 of 2014 the aggregate SPPI rose 0.4%, compared with an increase of 0.3% between quarter 1 and 2.
- Professional, Scientific & Technical Activities, Transportation & Storage and Accommodation & Food made the greatest upward contributions to the annual rate of inflation in the aggregate SPPI.

## 2 . What is Services Producer Price Inflation?

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').

The primary use of the SPPI is as a deflator in the UK National Accounts. However, it is also important as an inflationary measure to inform monetary policy and to account for inflation in long-term service procurement contracts. For more information on the use made of the SPPI please see the separate document [Users of Services Producer Price Indices data \(67.2 Kb Pdf\)](#).

The figures presented in this Statistical Bulletin are considered provisional for the latest two quarters (quarter 2 and 3 of 2014) and maybe revised as late data is received.

None of the indices presented in this Bulletin are seasonally adjusted.

### Coverage of SPPI

The service sector currently accounts for around 78% of the UK economy based on its weight in Gross Domestic Product (GDP). ONS does not currently produce an SPPI for every industry in the service sector and so the aggregate SPPI is a partial, best estimate, of the overall inflation to UK businesses in the service sector. Currently, ONS estimates that the SPPIs presented in this statistical bulletin represent 55-60% of the total service sector at industry level. As resources allow, ONS will continue to review the existing SPPIs and expand coverage through developing SPPIs for new industries. As such, the aggregate SPPI will change composition from time to time but will always remain ONS' best estimate of inflation in the UK service sector. The fact that coverage may change over time should be considered by users when deciding which indices best meet their needs.

### Newly developed SPPIs

A development project to increase the industrial coverage of the SPPI, took place between 2009 and 2012 and has resulted in the development of eight new SPPIs. These are:

- Accountancy services
- Legal services
- Architectural services
- Engineering services
- Cargo handling services
- Advertising services
- Business management consultancy
- Storage and warehousing.

Since their development, these indices have been published as experimental series in a separate [article](#). Since the 2013 Q4 release, these indices are no longer published separately but instead are included in this release and make up part of the aggregate SPPI. The inclusion of these new indices has changed the composition of the aggregate SPPI, increasing the coverage of the service industry and improving the measure. Further information about the impact of adding these new indices to the aggregate can be found in the 2013 Q4 Statistical Bulletin.

All of the statistics contained in this release are official statistics. However, since these newly developed series have not yet undergone a full assessment against the Code of Practice for Official Statistics by the UK Statistics Authority they cannot currently be labelled as National Statistics.

### 3 . Summary

In quarter 3 of 2014, movements in the aggregate Services Producer Price Index (SPPI) were as follows:

- Annual inflation rose 1.5%, compared with a rise of 1.3% in quarter 2 of 2014.
- The main upward contributions to the annual rate came from Professional, Scientific & Technical Activities, Transportation & Storage and Accommodation & Food.
- Between quarter 2 and quarter 3 of 2014 the aggregate SPPI rose 0.4%, compared with an increase of 0.3% between quarter 1 and 2 of 2014.
- The main upward contribution to the quarterly rate came from Professional, Scientific & Technical Activities.

Annual inflation of the aggregate SPPI currently stands at 1.5% and has remained at around 1% since quarter 3 of 2010. Between mid 2005 and mid 2008, prices of the services captured by the aggregate SPPI rose steadily from an annual rate of 1.3% in quarter 2 of 2005 to a peak of 3.7% during quarters 1 and 2 of 2008. Annual inflation fell rapidly at the end of 2008 with the aggregate SPPI deflating (prices falling below the level of the same quarter a year earlier) at a rate of 1.6% by quarter 3 of 2009 (Figure A).

**Table A: Aggregate Services Producer Price Index**

United Kingdom

			Percentage change
		Year	Quarter
2012	Q3	1.5	0.2
	Q4	1.5	0.4
2013	Q1	1.5	0.4
	Q2	0.8	-0.2
	Q3	0.8	0.2
	Q4	1.3	0.9
2014	Q1	0.8	-0.1
	Q2	1.3	0.3
	Q3	1.5	0.4

Source: Office for National Statistics

Notes:

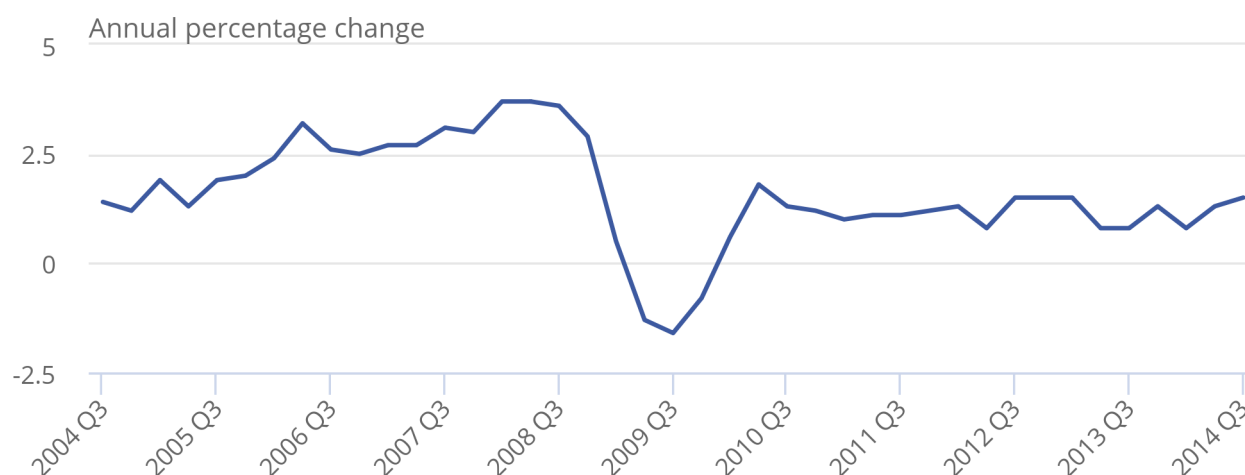
1. The aggregate SPPI is calculated on a gross sector basis
2. The aggregate SPPI is an aggregate of the individual industry level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. It does not provide full coverage of the service sector
3. Not all of the industry level SPPIs used to construct the aggregate SPPI are National Statistics

## Figure A: Aggregate Services Producer Price Index

United Kingdom

### Figure A: Aggregate Services Producer Price Index

United Kingdom



Source: Services Producer Price Index (SPPI) - Office for National Statistics

#### Notes:

1. The aggregate SPPI is calculated on a gross sector basis
2. The aggregate SPPI is an aggregate of the individual industry-level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. It does not provide full coverage of the service sector
3. Not all of the industry-level SPPIs used to construct the aggregate SPPI are National Statistics

## 4 . Annual inflation

The aggregate Services Producer Price Index (SPPI) increased by 1.5% in the year to quarter 3 of 2014, up from a rise of 1.3% in the year to quarter 2 of 2014.

Of the ten sections (as defined by the [Standard Industrial Classification](#)) that are combined to form the aggregate SPPI, eight showed price increases.

The main upward contributions to the annual rate of the aggregate SPPI came from Professional, Scientific & Technical Activities, which increased by 2.0% in the year to quarter 3 of 2014 (up from a rise of 1.3% in the year to quarter 2 of 2014), Transportation & Storage, which increased 1.4% (down from an increase of 1.7% in the year to quarter 2 of 2014) and Accommodation & Food, which rose 4.1% in the year to quarter 3 of 2014 (down from an increase of 8.2% in the year to quarter 2 of 2014). Only Water Supply, Sewerage & Waste Management and Information & Communication showed decreases in the annual rate of inflation (Table B and Figure B).

**Table B: Annual growth rate to quarter 3 2014 (percentage change, latest quarter on corresponding quarter of previous year)**

United Kingdom

Section	Percentage change
Water Supply, Sewerage & Waste Management	-0.2
Repair & Maintenance of Motor Vehicles	2.7
Transportation & Storage	1.4
Accommodation & Food	4.1
Information & Communication	-0.2
Real Estate Activities	2.9
Professional, Scientific & Technical Activities	2.0
Administrative & Support Services	1.0
Education	1.5
Other Services	1.1
Aggregate SPPI	1.5

Source: Office for National Statistics

Notes:

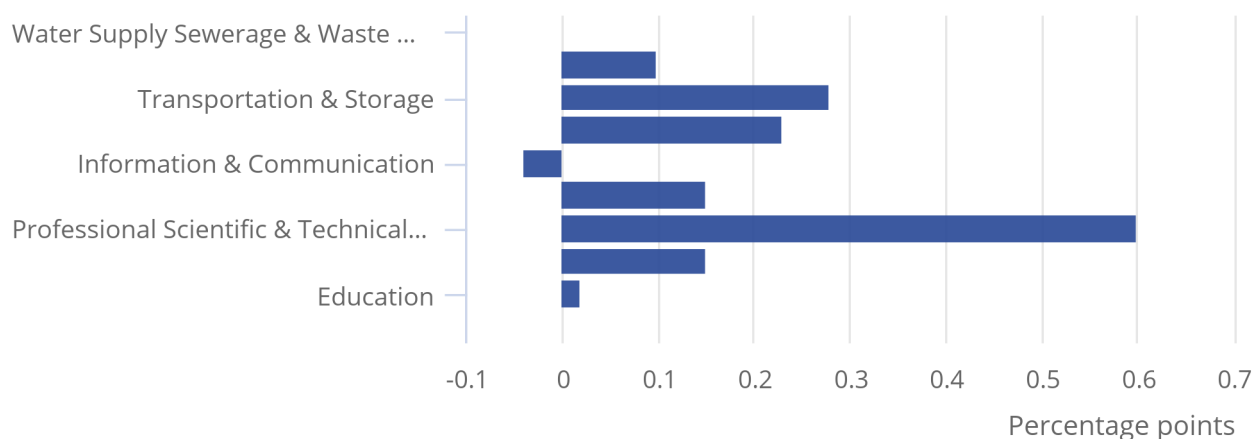
1. The section-level SPPIs are an aggregate of individual industry level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. They do not provide full coverage of the service sector
2. Not all of the industry level SPPIs used to construct the section-level SPPIs are National Statistics

**Figure B: Contribution to annual growth rate (1.5%), quarter 3 2014**

United Kingdom

**Figure B: Contribution to annual growth rate (1.5%), quarter 3 2014**

United Kingdom



**Source: Services Producer Price Index (SPPI) - Office for National Statistics**

**Notes:**

1. The section-level SPPIs are an aggregate of individual industry-level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. They do not provide full coverage of the sections listed
2. Not all of the industry-level SPPIs used to construct the section-level SPPIs are National Statistics

The main upward contribution to the aggregate SPPI came from Professional, Scientific & Technical Activities where prices increased by 2.0% in the year to quarter 3 of 2014. This was the result of an increase in the prices charged by UK business for Engineering and related services. Engineering and related services prices increased by 2.9% in the year to quarter 3 of 2014, compared with an increase of 2.6% last quarter (Figure C).

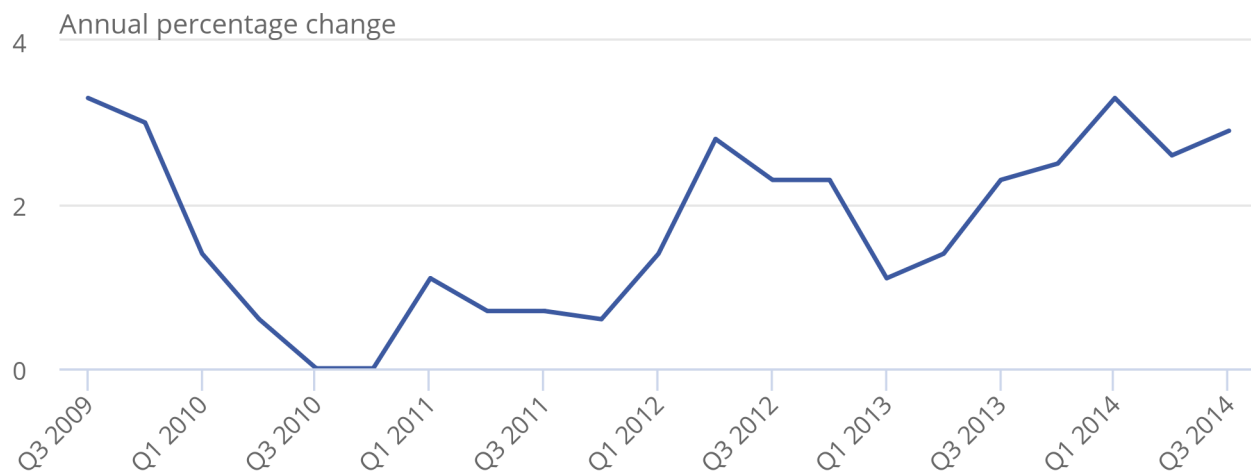
Two other notable contributions to the annual aggregate SPPI rate came from Transportation & Storage and Accommodation & Food which increased by 1.4% and 4.1% respectively in the year to quarter 3 of 2014. The increase in Transportation & Storage was caused by increases in Business Air Fares, 3.8% down slightly from an increase of 4.5% in the year to quarter 2 2014, Commercial Vehicle Ferries, 13.1% a slightly smaller increase than 14.2% in the year to quarter 2 2014 and National Post, 4.6% unchanged from the year to quarter 2 of 2014. The increase in Accommodation & Food was caused by an increase in Hotel prices, which rose by 5.7% in the year to quarter 3 of 2014, a significantly smaller increase compared with 12.9% in the year to quarter 2 2014 (Figure D).

**Figure C: Services Producer Price Index for Engineering & related services**

United Kingdom

**Figure C: Services Producer Price Index for Engineering & related services**

United Kingdom



Source: Services Producer Price Index (SPPI) - Office for National Statistics

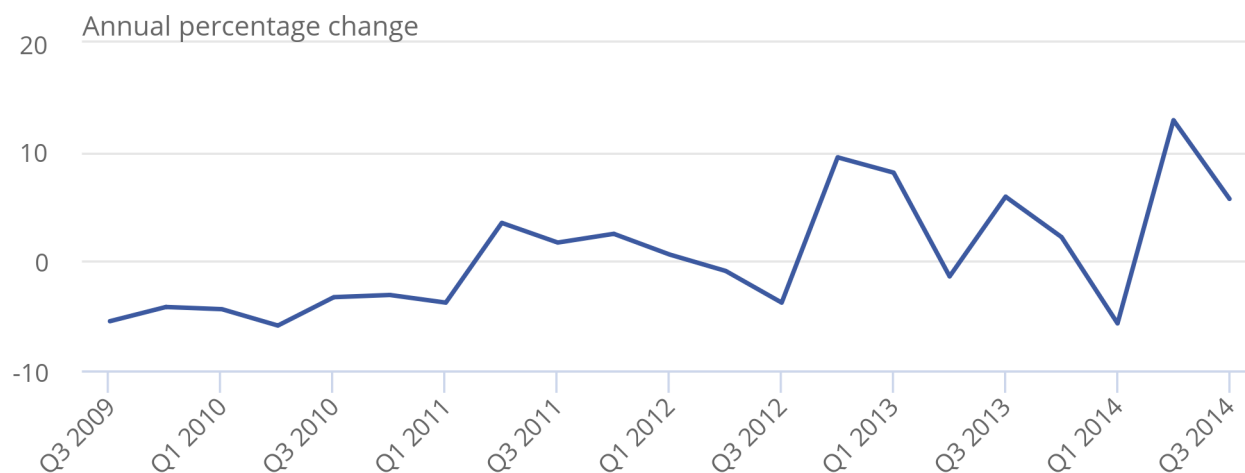


**Figure D: Services Producer Price Index for Hotels**

United Kingdom

**Figure D: Services Producer Price Index for Hotels**

United Kingdom



Source: Services Producer Price Index (SPPI) - Office for National Statistics

## 5 . Quarterly inflation

The aggregate SPPI increased by 0.4% between quarter 2 and quarter 3 of 2014, up from a rise of 0.3% between quarter 1 and quarter 2 of 2014.

Seven of the ten sections increased this quarter with the main contribution to the quarterly rate from Professional, Scientific & Technical activities, which increased by 0.9% (Table C and Figure E).

**Table C: Quarterly growth rate to quarter 3 2014 (percentage change, latest quarter on previous quarter)**

United Kingdom

Section	Percentage change
Water Supply, Sewerage & Waste Management	-0.9
Repair & Maintenance of Motor Vehicles	0.4
Transportation & Storage	0.2
Accommodation & Food	-1.3
Information & Communication	0.3
Real Estate Activities	1.0
Professional, Scientific & Technical Activities	0.9
Administrative & Support Services	-0.1
Education	0.0
Other Services	0.4
Aggregate SPPI	0.4

Source: Office for National Statistics

Notes:

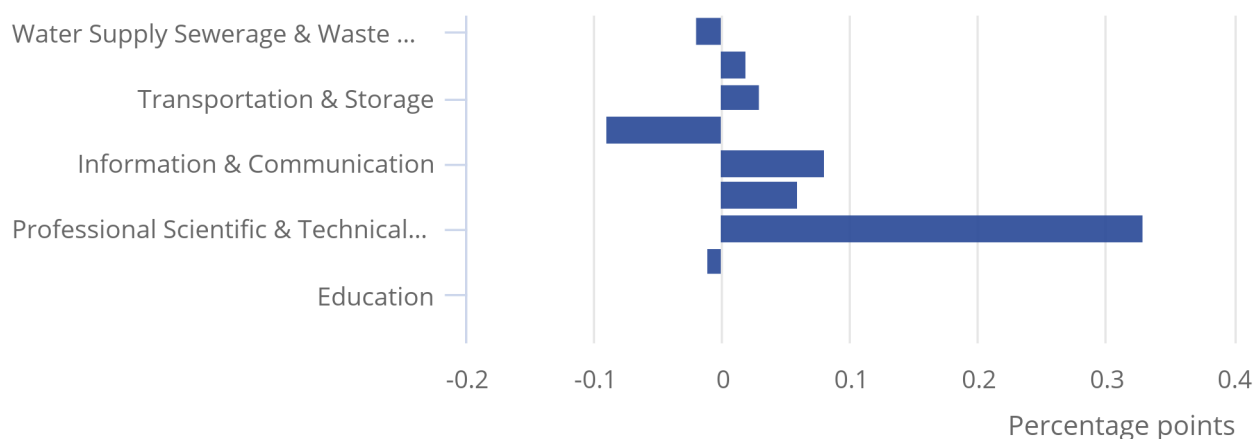
1. The section-level SPPIs are an aggregate of individual industry level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. They do not provide full coverage of the service sector
2. Not all of the industry level SPPIs used to construct the section-level SPPIs are National Statistics

**Figure E: Contribution to quarterly growth rate (0.4%), quarter 3 2014**

United Kingdom

**Figure E: Contribution to quarterly growth rate (0.4%), quarter 3 2014**

United Kingdom



**Source: Services Producer Price Index (SPPI) - Office for National Statistics**

**Notes:**

1. The section-level SPPIs are an aggregate of the individual industry-level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. They do not provided full coverage of the sections listed
2. Not all of the industry-level SPPIs used to construct the section-level SPPIs are National Statistics

Professional, Scientific & Technical Activity prices increased by 0.9% between quarter 2 and quarter 3 of 2014, compared with a fall of 0.1% last quarter. The main contribution to the current quarterly rate came from an increase in prices for Advertising Services, which rose 3.3%, compared with an increase of 0.9% between quarter 1 and quarter 2 of 2014 (Figure F).

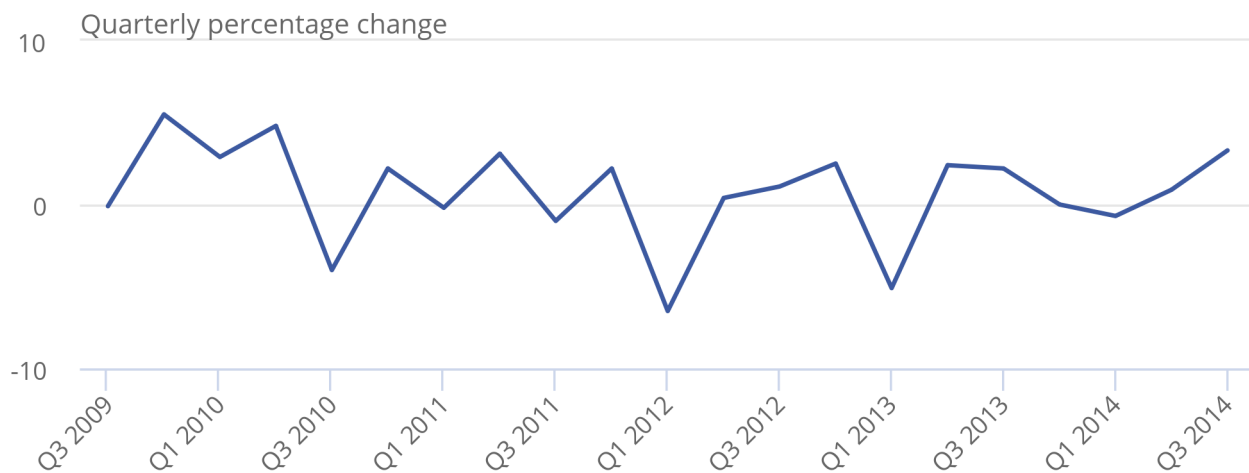
Another notable rise was within Real Estate Activity where prices increased by 1.0% between quarter 2 and 3 of 2014, compared with a smaller increase of 0.8% between quarter 1 and 2 of 2014. The main contribution to the current quarter came from Estate Agent Activity prices, which rose by 2.1% in quarter 3, up slightly from a rise of 1.7% last quarter (Figure G). This is the largest increase for Estate Agency Activities since quarter 3 of 2006 when prices rose by 2.4%.

## Figure F: Services Producer price Index for Advertising Services

United Kingdom

### Figure F: Services Producer price Index for Advertising Services

United Kingdom



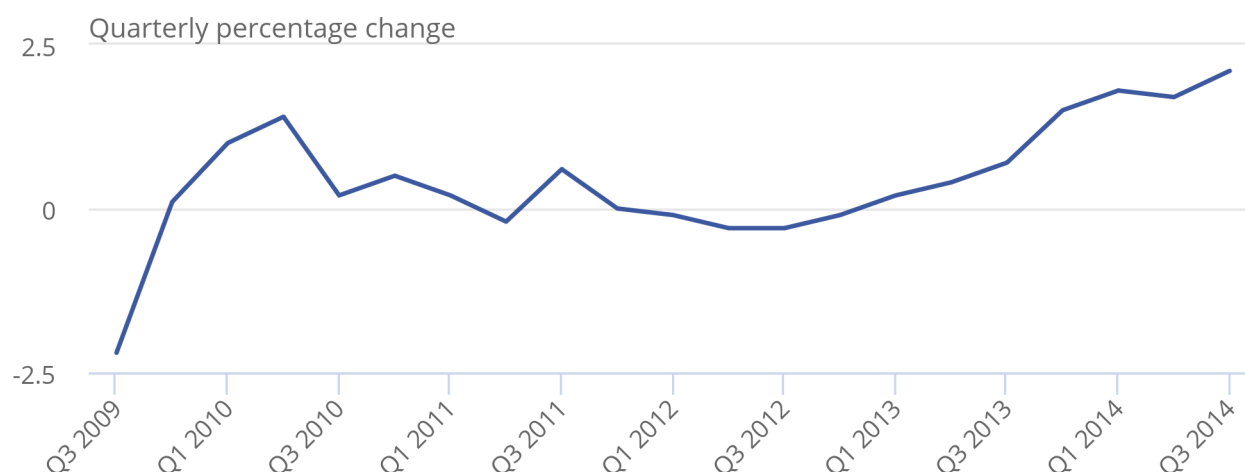
Source: Services Producer Price Index (SPPI) - Office for National Statistics

**Figure G: Services Producer Price Index for Estate Agent Activities**

United Kingdom

## Figure G: Services Producer Price Index for Estate Agent Activities

United Kingdom



Source: Services Producer Price Index (SPPI) - Office for National Statistics

## 6 . Net sector aggregate

At the aggregate level, both a net and gross sector Services Producer Price Index is produced. The prices used to construct both of these indices are the same but different weights are used to construct the net sector index compared with the gross sector.

### Summary of net sector movements

In quarter 3 of 2014, movements in the net sector aggregate SPPI were as follows:

- Annual inflation rose 1.4%, unchanged from quarter 2 of 2014.
- Between quarter 2 and 3 of 2014 quarterly inflation rose 0.3%, compared with an increase of 0.4% between quarter 1 and 2 of 2014.

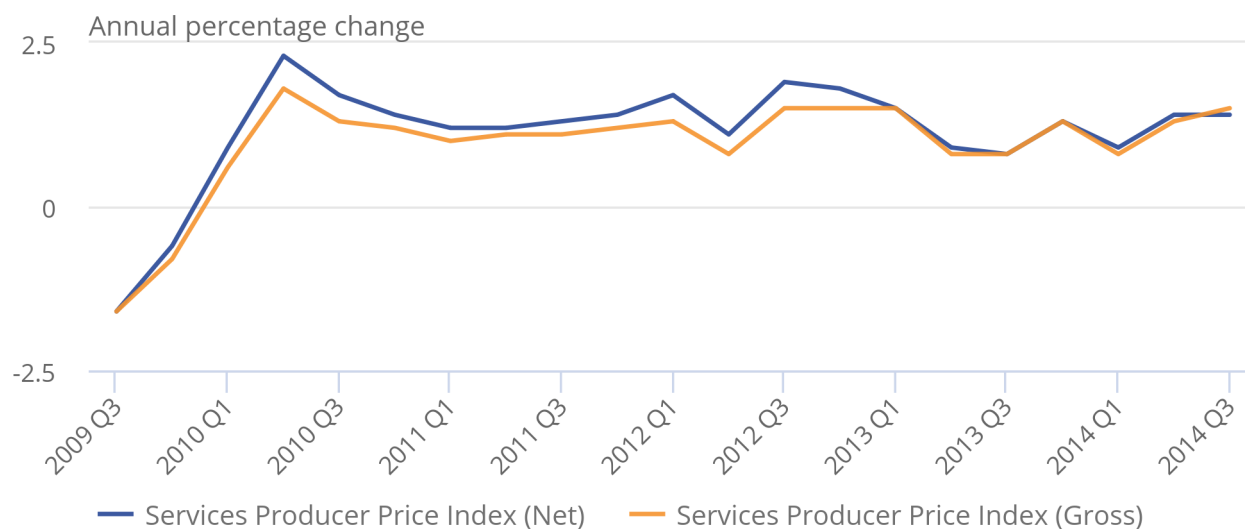
Generally, the movements of the net sector aggregate SPPI are similar to those of the gross sector index with the net sector aggregate tending to inflate at a slightly higher rate than the gross sector index (Figure H).

## Figure H: Aggregate Services Producer Price Index (Net & Gross)

United Kingdom

### Figure H: Aggregate Services Producer Price Index (Net & Gross)

United Kingdom



Source: Services Producer Price Index (SPPI) - Office for National Statistics

#### Notes:

1. The aggregate SPPI is an aggregate of the individual industry-level SPPIs (excluding Financial Intermediation) published in the SPPI Statistical Bulletin. It does not provide full coverage of the service sector
2. Not all of the industry-level SPPIs used to construct the aggregate SPPI are National Statistics

## 7. Background notes

### 1. How are we doing?

We are constantly seeking to improve this release and welcome feedback from our users to help us achieve this. If you have any comments on the format, layout or content of this release please let us know. We would also be interested in knowing how you use these data to inform your work. Please email us: [spipi@ons.gsi.gov.uk](mailto:spipi@ons.gsi.gov.uk)

## 2. Feedback on the previous Services Turnover Survey 2010

The Services Turnover Survey (STS) is a survey of businesses in the service sector that is carried out every two to three years. The survey collects annual turnover for sales made to other businesses and government and provides a break down for individual service products. The data collected by the STS is used to update the weighting scheme used in the quarterly Services Producer Price Indices (SPPI), as a framework for the development of new SPPIs and in the future, it will be used as a sampling frame for SPPI which will allow rotation of the SPPI sample.

Estimates of business-to-business turnover at industry level and at a more detailed service product level were published for the [2010 STS](#) we would appreciate any feedback on the content and presentation of the publication. We are also interested in knowing if you use the STS data in your work. Please email us: [sppi@ons.gsi.gov.uk](mailto:sppi@ons.gsi.gov.uk).

## 3. Coverage of SPPI

The SPPI is a measure of inflation for the UK service sector; however prices are not collected from Northern Ireland for any of the service industries which are collected as part of the quarterly survey. This is because the Statistics of Trade Act which makes the SPPI survey mandatory does not extend to Northern Ireland. The omission of prices from Northern Ireland means that the SPPI makes the assumption that prices received by companies in Northern Ireland change at the same rate as prices in the rest of the UK.

## 4. Re-assessment by the UK Statistics Authority

SPPI has recently undergone a routine re-assessment by the [UK Statistics Authority](#) against the [Code of Practice for Official Statistics](#). The final [assessment report](#) is now available.

## 5. Finding SPPI data

All of the data included in this Statistical Bulletin, alongside data for the full range of SPPIs, is available in the associated [Reference Table \(444.5 Kb Excel sheet\)](#) or can be downloaded from the [Time Series Dataset](#) for SPPI. Each SPPI has two unique identifiers: a 10-digit index number which relates to the [Standard Industrial Classification](#) code appropriate to the index; and a 4-character alpha-numeric code which can be used to find series when using the Time Series Dataset for SPPI. [SPPI records \(75.5 Kb Excel sheet\)](#) which show higher, lower or equal to movements, are also available to view or download.

## 6. Article about rebasing the PPI and SPPI onto 2010=100

As previously announced, ONS has been taking forward the rebasing of PPI and SPPI onto a 2010=100 basis. SPPI has been published on a 2010=100 basis, which was first released on 26 February 2014. A parallel run has been conducted to compare 2010=100 index values with 2005=100, analysing trends in the process. This parallel run will form an assessment of the impact of rebasing. An article Services Producer Price Index Rebasing (2010=100) describing the results of this assessment is published alongside this release. If you have any questions or queries regarding the impact of rebasing on SPPI data, please contact [SPPI](#).

## 7. Quality and Methods

A [Quality and Methodology Information \(QMI\)](#) paper is available for the SPPI which describes how the statistics presented in this Statistical Bulletin are produced and provides information on the quality of the statistics. Detailed information on the methods used to compile the SPPI is available in the [SPPI Manual \(241.6 Kb Pdf\)](#).

## 8. Guidance for users

The SPPI is calculated on a 'Business to Business' basis. This means that only transactions between UK businesses and other UK businesses or government are included. Sales made to customers outside of the UK or to members of the public are excluded.

Index numbers shown in this Statistical Bulletin are on a gross sector basis unless otherwise stated. This means that they include transactions between UK service sector businesses and all other UK businesses and government.

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. Since SPPIs exclude VAT, they are not affected by the increase in the standard rate of VAT to 20% from 4 January 2011.

## 9. Gross and Net Sector series

All figures presented in this statistical bulletin are calculated on a gross sector basis unless otherwise stated.

**Gross Sector Output (GSO) series** - calculated using weights based on sales to UK businesses and government from all transactions within the UK. This index reflects the 'service sector' inflation experienced by all UK businesses.

**Net Sector Output (NSO) series** - calculated using weights based on sales to UK businesses and government outside of the service sector. For example, sales of legal services to a UK manufacturing company would be included, but sales to an accountancy company (another service provider) would be excluded. This index gives a measure of inflation that is specific to non-service sector businesses.

**GSO weights** - For most industries, sales from the Services Turnover Survey (STS) are used to determine their weight into the aggregate SPPI. Where STS data is unavailable, data from the Annual Business Survey is used as a proxy. In order to make the ABS data more comparable to the STS data, an adjustment factor is applied to remove sales attributed to non-service provision. These sales values are then used to calculate the industry weights.

**NSO weights** - Net Sector weights are calculated by taking the Gross Sector sales data and adjusting them to represent only sales to businesses outside the service sector. This adjustment is made using data from the National Accounts Supply and Use Tables. These tables allow for the calculation of a ratio for each industry that approximates the proportion of sales to non-service sector businesses. This ratio is applied to the Gross Sector sales to give an approximation of the Net Sector sales. The resulting calculated sales are then used to weight the industries into the Net Sector aggregate SPPI.

## 10. Data sources

The SPPI is compiled using the results of a mandatory survey carried out under the Statistics of Trade Act (1947). To keep the burden on respondents to a minimum, alternative data sources are used to compile the indices wherever possible. Currently six SPPIs are compiled using external data sources, these data sources are:

- Property rental payments – Investment Property Databank (IPD)
- Business telecommunications – Office of Communications (Ofcom)
- Financial Intermediation (Banks) – Bank of England (BoE)
- Sewerage services – Office of Water Services (Ofwat)
- Business rail fares – Office of Rail Regulation (ORR)
- National post parcels – Parcelforce.



## 11. SPPI coverage

ONS does not produce an SPPI for every industry in the service sector and so the aggregate SPPI is a partial, best estimate, of the overall inflation to UK businesses from the service sector. Similarly, the indices published at Section level do not provide full coverage and are the best estimate that can be made of those particular service activities using the data available. As resources allow, ONS will continue to review the existing SPPIs and expand coverage through developing SPPIs for new industries. As such, the aggregate SPPI will change composition from time to time, but will always remain ONS's best estimate of overall inflation to UK businesses from the service sector. The fact that coverage may change over time should be considered by users when deciding which indices best meet their needs.

## 12. Revisions

SPPI follows the ONS [policy](#) for revisions and corrections and will show significant revisions but suppress minor changes to avoid unnecessary inconvenience to users. Indices for the most recent two quarters are regarded as provisional and may be revised as later data become available.

For this Statistical Bulletin, reference table 1R highlights revisions to movements in price indices previously published in last quarter's Statistical Bulletin.

## 13. European comparability

The UK is required to produce a number of the SPPIs included in this statistical bulletin under the [Short-Term Statistics Regulation](#). As a result, all EU countries must publish equivalent series on a comparable basis. Further information about SPPI at an EU level, and access to data for all EU countries is available on the [website](#).

## 14. Publication policy

The complete run of data in the tables of this bulletin are also available to view and download in other electronic formats free of charge using the [Office for National Statistics Datasets and Reference Table service](#) (if you want the data associated with this bulletin click into Download data in this release option). Users can download the complete release in a choice of zipped formats or view and download their own selections of individual series.

## 15. Following ONS

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National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

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## 16. Details of the policy governing the release of new data are available by visiting [www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html](http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html) or from the Media Relations Office email: [media.relations@ons.gsi.gov.uk](mailto:media.relations@ons.gsi.gov.uk)

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs;
- are well explained and readily accessible;
- are produced according to sound methods; and
- are managed impartially and objectively in the public interest.

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.