Note on COVID-19 and the first estimates of Purchasing Power Parities (PPPs) for 2020.
(17 June 2021)

Background

The objective of Purchasing Power Parities (PPPs) is to enable the comparison of price and volume levels of GDP and its components across participating countries[1].

These comparisons are made from the expenditure side of GDP, which identifies the components of final demand: consumption, investment and net exports. To calculate PPPs for the expenditure side, it is necessary for each country participating in the comparison to provide a set of national annual purchasers' prices and a detailed breakdown of national expenditures.

This note informs on the impact of the COVID-19 pandemic on the price collection for PPPs during 2020 and on the estimation of 2020 expenditures used in the calculation of the first estimates of 2020 PPPs.

Price collection

Prices in the context of the Eurostat PPP program are collected through specific price surveys conducted in each country participating in the comparison. Different surveys are used for collecting prices for consumer goods and services, capital goods (equipment goods and construction) and collective services.

The consumer goods price surveys are organised following a rolling survey approach. This comprises a cycle of six surveys, which takes three years to complete. The approach involves continuous price collection with the product lists for around one third of household final consumption expenditure being priced each year.

With the outbreak of the COVID-19 pandemic in March 2020 and the following restrictions of movements, most countries faced some difficulties to collect prices for the PPP surveys carried out in 2020, in particular for the two consumer goods surveys collecting prices for services, furniture and health.

In most countries, physical visits to shops or service providers for collecting prices were not allowed. Statistical institutes made significant efforts to collect the prices in alternative ways (e.g., by telephone, by e-mail, from websites or by using transaction data). In this way, countries have succeeded to collect a sufficient number of prices to guarantee reliable results.

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[1] For 2020, the Eurostat PPP exercise covers 37 countries (EU Member states, EFTA countries, candidate countries, potential candidate countries and the UK).

Expenditures weights and national accounts data

National accounts expenditures are essential for the estimation of PPPs. They are used as weights to aggregate PPPs up to GDP and are ultimately deflated by the PPPs and expressed as real (PPP-based) expenditures.

Under normal circumstances, the expenditures weights used for the first estimates of the PPPs for year t are based on the expenditure pattern of GDP from year t-1, scaled to the values of the expenditures of the main components of GDP for year t, as provided by the national accounts. That is, had 2020 been a typical year, 2019 GDP expenditure data would have formed the basis for the calculation of PPPs for 2020, taking into account only changes between the main GDP components in 2020.

The COVID-19 pandemic had a significant impact on both level and structure of GDP and in particular of household consumption expenditures in 2020. For this reason, it was decided not to use 2019 GDP expenditure weights for the first calculation of PPPs for 2020.

For household consumption expenditures, detailed estimates for 2020 were provided by national statistical institutes for the purpose of the Harmonised Index of Consumer Prices (HICP, please refer to this document for more information). The same data have been used to establish the breakdown of household consumption expenditure for the purpose of the first estimates of PPPs for 2020. The structure of other main GDP components (gross fixed capital formation and government final consumption) are based on data for 2019.

The second estimates of 2020 PPPs will be released in December 2021. At that point, updated and detailed national accounts data for 2020 will be available for all components and will be used in the calculations.