Trade in Services Deflators

Rhys Humphries
Lead Analyst, Deflator Development
Office for National Statistics

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Motivation

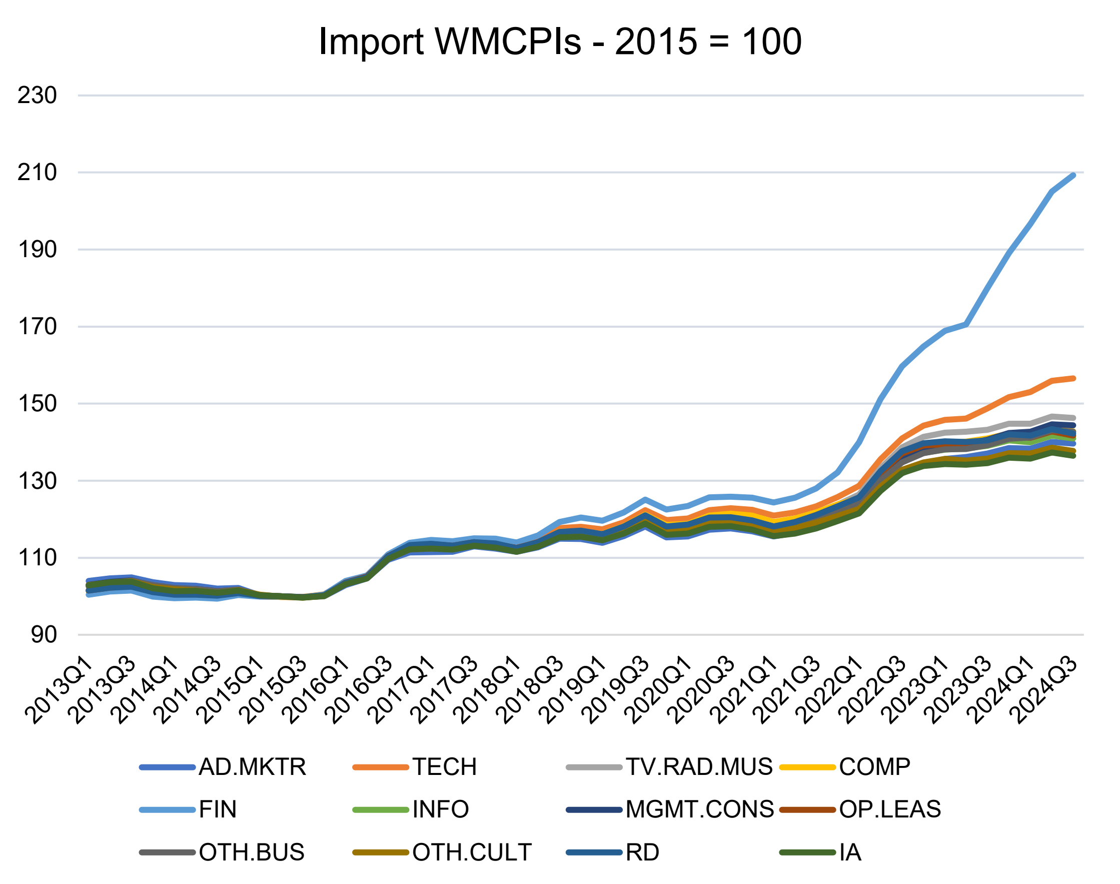
Background to ONS Trade in Services review

> By March 2028: Deflators for Trade in Services reviewed, and improvements identified for iterative implementation, to ensure trade estimates are accurately adjusted for inflation.

Economic Statistics Plan, 23 June 2025

Updated international guidance:

SNA 2025, BPM7, MSITS 2026



International guidance and practical challenges

The measurement problem

Import and export prices for services are rarely available

Customised services

Output and quality are hard to hold constant

Sparse transactions

Few firms, entry and exit, missing observations

No direct price index

Compilers must choose a sustainable proxy

The practical task is to preserve the price signal while limiting mismatch and complexity.

International guidance points to a hierarchy

The wording differs across SNA25, BPM7 and MSITS26 but some principles are consistent

1 Service-specific or bespoke method

2 Direct import or export price index

3 Closest product-level price proxy

4 Consider exchange rate movements

Guidance also recognises that practical constraints often require second-best solutions.

Proxy choice involves unavoidable trade-offs

Foreign price measure

Preserves supplier-country conditions

May be broad, consumer-focused or difficult to maintain

Domestic product deflator

Preserves service and production-process specificity

May miss foreign cost pressures and export market pricing

Bespoke method

Can align closely with the transaction

Raises development and system complexity

Exchange rates are a separate measurement choice

The same proxy can imply different traded prices

Domestic or foreign price proxy → **Currency exposure**
Sterling share
Euro share
US dollar share
→ **Proxy for the sterling transaction price**

Without currency-of-invoice data, the size and form of the adjustment must be assumed.

UK practice today

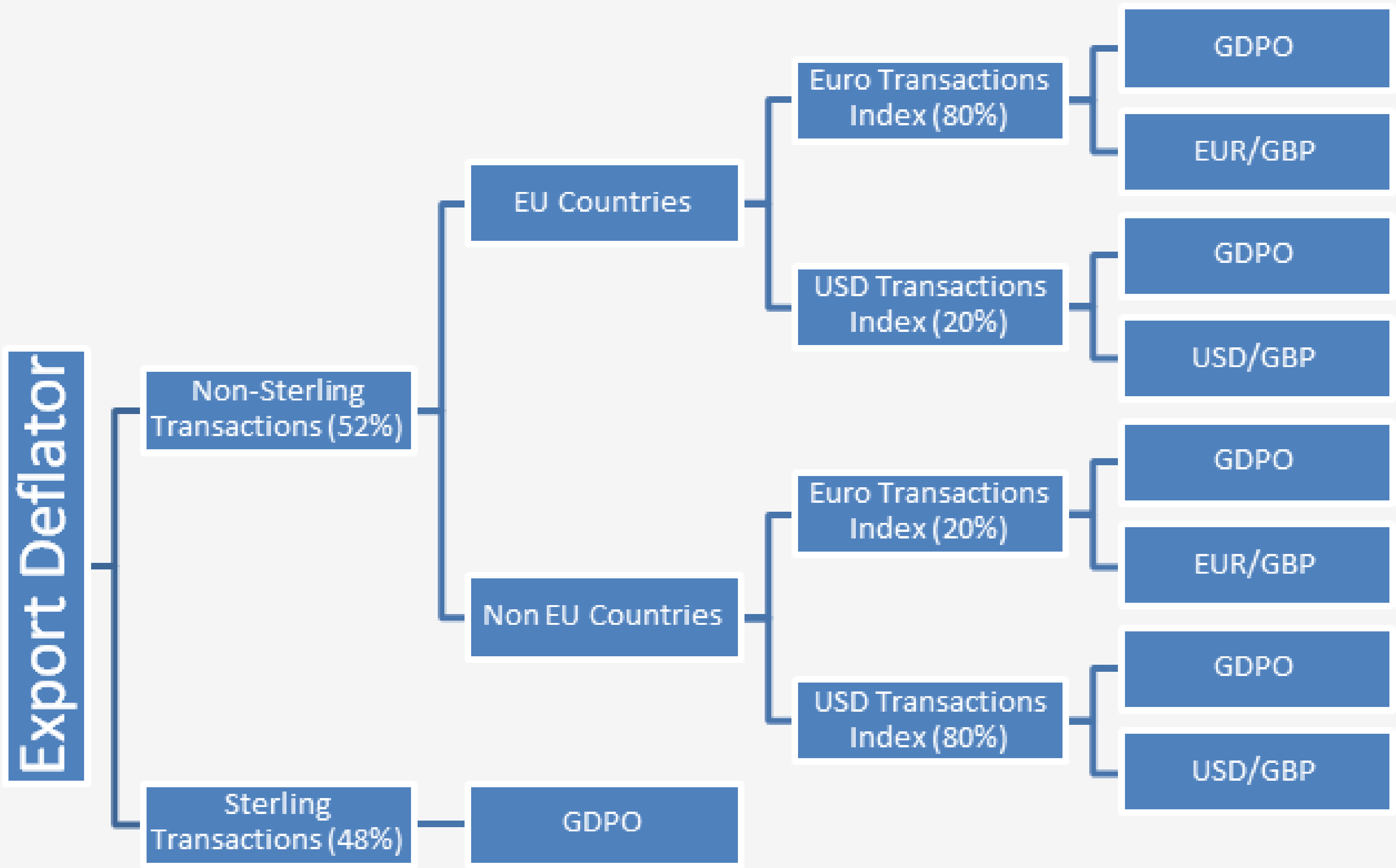
Current methods mix three broad approaches

Imports

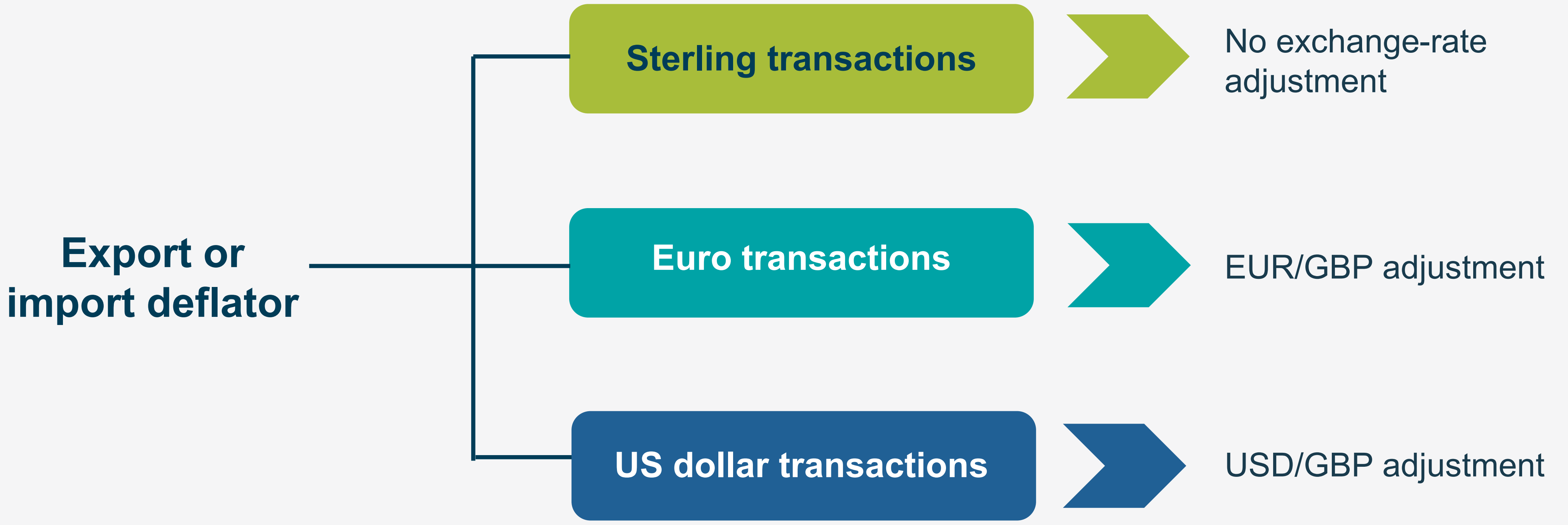
Exports

Key issue: service specificity and exchange rate treatment vary across otherwise similar services.

High level illustration of Export WM deflator aggregation



The current exchange rate adjustment method approach is structured based on currency of invoice



Main limitation: services currency shares are proxied using information from trade in goods.

Developing the UK approach

The emerging framework favours consistency and product match

1. **Use a bespoke method**

   Where guidance or strong direct evidence supports it

2. **Use a domestic product deflator**

   Practical default for both imports and exports

3. **Apply exchange-rate treatment**

   Consistently across comparable services

4. **Allow evidence-based exceptions**

   For representative foreign or direct price measures

Proposal under development: a practical "default" rather than a claim that domestic and traded prices are identical.

The main evidence gaps are empirical

Proxy performance

Benchmark domestic and foreign proxies against direct trade prices where available.

Currency and pass-through

Improve evidence on invoice currency and how exchange-rate effects vary by service.

International evidence

Share product-level indices, metadata and cross-country benchmarking results.

Questions for the Voorburg Group

1. How do you deflate imports and exports of services without direct price indices?
2. Have domestic and foreign proxy approaches been compared empirically?
3. Which product-level SPPIs could support international benchmarking?
4. What evidence exists on invoice currency and exchange-rate pass-through?