

NEWS FROM THE FESUG

The National Statistician and the National Accounts

October 6 saw the third in the new series of seminars at which the National Statistician, Karen Dunnell, speaks on a statistical theme (the two previous ones were on crime and population statistics). Sponsored jointly by the ONS and the Financial and Economic Statistics User Group (FESUG), the seminar (Measuring the UK Economy 2008 - The National Statistician's Perspective) was timed shortly after the release of second quarter data; these incorporated a number of revisions and methodological changes and are consistent with the Blue and Pink Books due to be published electronically on October 24 and in paper on November 21. After crossing a small picket line from the Public and Commercial Services Union, handing out leaflets describing ONS as an "organisation in crisis", (see www.pcs.org.uk/en/office-for-national-statistics-group/ons-campaigning-resources/can-an-organisation-in-crisis-accurately-measure-the-uk-economy), attendees were able to hear presentations from both **Karen** and **Geoff Tily** (National Accounts Coordination, ONS)

Karen's presentation started with some general remarks underlining the comprehensiveness of official statistics (to quote one recent controversial example ONS retail sales statistics are based on a survey of around 5,000 businesses of all shapes and sizes

whereas other quoted figures are based on samples of less than 100 mainly large businesses) but also underlining the complexity of measuring the UK economy and some of the measures ONS take to ensure coherence. She then looked at the recent slowdown in the economy. Until Q1, 2008 the UK had famously enjoyed over 15 years of consistent economic growth averaging 3 per cent a year; however growth in Q2 2008 was zero (and in Q3 was -0.5 per cent).

Of the four main sectors of the economy (agriculture, manufacturing, construction and services) only manufacturing output declined in real terms in the four quarters ending Q2, 2008 compared to the previous four quarters but, because of its size, the largest contribution to the slowdown of the economy came from the services (concentrated in investment). Karen then went on to compare the slowdown in the first half of 2008 with two recent periods (2001-02 and 2004-05) when growth had slowed, although not, obviously, as sharply as recently.

Geoff Tily explained that the data set published on September 30 completed the first phase of the modernisation of the national accounts. They incorporated annual benchmark survey data, supply-use balancing for 2004-2006 and the introduction of the full method of

Financial Intermediation Services Indirectly Measured or FISIM. FISIM was introduced into National Accounts methodology to deal with the fact that banks make much of their money from interest rate differentials (ie they lend money at higher interest rates than they borrow it). Previously FISIM had only been partially applied in the UK; the introduction of the full method has brought small upward revisions to GDP figures from 1961. FISIM is complex and its application requires the determination of a "pure" risk-free rate of interest; it has also now been applied to financial intermediaries other than banks since this has become increasingly important as banks have securitised loans. With concepts like these to handle official statisticians are hardly to be envied when they try to assess data for the current period of financial turmoil.

This note covers only briefly two substantial papers; for fuller versions see Karen Dunnell, Measuring the UK Economy 2008 - the National Statistician's perspective; and Ross Meader and Geoff Tily, Overview of National Accounts and Balance of Payments: Blue Book and Pink Book 2008, **Economic and Labour Market Review**, October 2008 www.statistics.gov.uk/cci/article.asp?ID=2056 and ID2055 respectively.

Jill Leyland

EDITORIAL

MONEY AND PRICES ARE JUST STATISTICS: THEY DEPEND ON FAITH, BELIEF, TRUST AND CONFIDENCE IN THEM?

Our paper money, which still includes (in very small print) the words "I promise to pay the bearer on demand the sum of five (or whatever) pounds" but otherwise is intrinsically worthless, relies on public trust to be effective and usable as a medium of exchange. Societies have depended on this kind of promise for centuries. Transactions are denominated in currency units but the majority of transactions are now based on 'paper' or electronic instruments which in number and value vastly exceed the amounts of notes and coins in circulation and possess only the value which 'the market' places on them. This fluctuating value reflects the degree of trust/confidence they engender and could in today's parlance be described as 'virtual'.

It seems ironic that having spent a year on the detailed mechanics of getting a Statistics Act onto the statute book, one

major purpose of which is to originate a system of governance for government statistics which could/would/should improve public trust and/or confidence - using the terms loosely and interchangeably, we are witnessing and having to live with collapsing trust/confidence in the national and international allegedly governed/regulated financial systems.

Luckily for statistics producers, there are no frequently 'dip-sticked' equivalent units of fluctuating confidence/trust in official statistics, other than periodic surveys, but the example of a recent headline "ONS admits inaccuracy of its retailing statistics" does not augur well. But then all survey-based statistics have margins of error. With money, no-one ever dreams of admitting/ describing the published numbers as having margins of error, let alone apologising for the serious real consequences for people of getting the numbers wrong.

NEWS FROM BERR

THE MARKET FOR PUBLIC SERVICES

On 10 September **Deanne Julius**, Chairman, Chatham House, who had chaired a BERR review of the Public Services Industry (PSI), gave the Society an outline summary of two BERR reports by Oxford Economics* commissioned to inform the review. The industry is defined as those organisations supplying services to the public on behalf of Government or to the Government itself.

The first report provides statistics on the size and recent growth of the PSI in the UK. It estimated that PSI sales amounted to £79.4mn in 2007/8; the largest categories were health, social protection, defence and education. Annual growth averaged 5.4% in real terms from 1995/6 to 2007/8 which resulted in its share of GDP increasing from 4.2% in 1995/6 to 5.7% in 2007/8. Future annual growth to 2010/1 was forecast to slow to 3.4%. Direct, indirect and induced impacts of PSI gave rise to a value added contribution to GNP of £88bn and supported over 2.3 million jobs in 2007/8.

Sources used include the HM Treasury's Public Expenditure Statistical Analyses (PESA) and ONS Input-Output Supply and Use Tables. The division of the figures into goods and services was not possible for PESA but was attempted for the Input-Output data.

The second report gives similar estimates for a selection of other countries: the US, France, Spain, Sweden and Australia and more briefly, India; data sources in other countries are broadly comparable to those in the UK.

* **The Public Services Industry in the UK and The Market for Public Services: International Comparisons**, Department for Business, Enterprise and Regulatory Reform, July 2008. Available on www.berr.gov.uk.

NEWS FROM THE RSS

UKSA SPEAKERS AT RSS CONFERENCE

At the Annual Conference of the Royal Statistical Society at Nottingham on 4 September, **Sir Michael Scholar**, Chairman of the UK Statistics Authority, spoke about several main themes: setting up the Authority; scrutiny – assessment, designation & monitoring reports and Parliament; involving users and experts in the Authority's work; and the Authority's mission. A press release of his talk is available on the UKSA website.

Richard Aldritt, Head of Assessment, UKSA gave a personal view on the new draft Code of Practice, which was at that time still open for comments as part of the consultation process. He indicated that its provisions were not necessarily as 'cut and dried' as they might seem. For example, Principle 2.3 "Investigate and document the needs of users of official statistics and the types of decisions they inform, and the key areas of emerging demand and unmet need. Take these into account in the planning process and report the results. The Code tells us to look at the documentation of user needs – it does not tell us at what point to be happy with what we find." Later he asked "How will we know if the public good is being served by the planning process? Answer: ask the users."

Principle 6.2 "Producers of statistics should provide full and helpful commentary on the relevance and reliability of statistics in relation to the range of potential uses. Does this say much about relevance and reliability? Does it say anything at all about uses? How many uses can one realistically name?" The full text of his talk is available on the UKSA website.

The consultation closed on 30 September.



NEWS FROM HM REVENUE & CUSTOMS INTRASTAT REDUCED COVERAGE

Intrastat is the name given to the collection of trade-in-goods data on the movement of goods between EU Member States.

Intrastat data are collected from around 33,500 VAT-registered businesses in the UK; these businesses represent the top traders within the EU in value terms, enabling the survey to collect 97 per cent by value for both arrivals (imports) and dispatches (exports) trade in accordance with EC legislation.

In 2007, HM Revenue & Customs undertook a consultation with UK Intrastat data providers and data users on proposals to reduce the burden on its data providers; the results were published on 17 December 2007 – see link:

<http://www.uktradeinfo.com/index.cfm?task=news&target-newsid=574&startrow=1&searchdata=consultation>.

A revised Intrastat Regulation is currently being considered by the European Council and the European Parliament.

The most significant change to the regulation is to reduce the coverage rate from 97 per cent to 95 per cent for arrivals, in order to reduce administrative burdens on business. The number of UK arrivals traders required to submit Intrastat declarations is expected to decrease by approximately one third. The simplification is most likely to be applied from January 2010.

The reduction in Intrastat data collection is not expected to have a major impact on the quality of UK data on trade within the EU. Although a small number of commodity codes will disappear from the data collected, the impact on data quality at aggregate level and at country level is likely to be minimal as the missing trade is estimated. A project reviewing the Below Threshold trade estimates in order to prepare for the change is currently being completed.

Customs and International Trade Statistics, HM Revenue & Customs Trade Statistics Helpdesk 01702 367485

NEWS FROM HM REVENUE & CUSTOMS INTRASTAT SURVEY

HM Revenue & Customs will be carrying out a postal survey of EU Trade-in-goods statistics users as part of the regular review of the Intrastat Survey. To provide wider coverage, if any Intrastat (EU trade) data users who are not on the usual contact lists wish to put themselves forward for possible selection for the survey please email uktradeinfo@hmrc.gsi.gov.uk with your name and postal address or write to

Trade Statistics Customer Services
HM Revenue & Customs
Alexander House 3SC,
21 Victoria Avenue
Southend-on-Sea SS99 1AA



Your details will not be used for any other contact. All responses to the survey will be treated in strict confidence, and will not be separately identified in the review.

A NEW NATIONAL ECONOMIC COUNCIL - DÉJÀ VU?

Gordon Brown has announced the setting up of a National Economic Council to provide a new approach to co-ordinating economic policies across Government and to help people and businesses deal with current economic uncertainties. It will be a full Cabinet Committee, replacing the current Economic Development Committee. Chaired by the Prime Minister heading a team of 16 other Ministers, it will meet 'frequently' with a remit to assess:

- the implications of the ongoing challenges in the financial markets for the wider economy globally and nationally;
- the latest developments in global commodity markets and their impact on the UK economy;
- our objective to promote sustainable and secure energy supplies;
- the impact of global economic developments on the skills and employment that the UK needs;
- the remaining barriers to entrepreneurship, innovation, and the opportunities for small business growth;
- our housing and planning needs; and
- the impact across every part of the UK.

The Committee will be supported by

(a) A Senior Officials' Working Group, to be chaired by jointly the Cabinet Secretary and the Permanent Secretary, HM Treasury. Other members will include the permanent secretaries of all departments whose Ministers serve on the Council. The remit of this group will be to assess and evaluate the challenges facing the UK economy in the light of global developments and to recommend short, medium and long-term policy responses to the Economic Council.

(b) A National Economic Council Secretariat. Senior staff from the Cabinet Office and HM Treasury will act jointly as the Secretariat to the Council and the Senior Officials Working Group to provide the analysis and papers for their consideration.

(c) A Regional Economic Council will be established to ensure that the issues and concerns of each region are heard and acted upon across Government. The Regional Economic Council will bring together Regional Ministers with RDA chairs and representatives of business and trade unions to meet quarterly chaired by the Chancellor and the Secretary of State for Business, Enterprise and Regulatory Reform. A Regional Council made up of the Regional Ministers will meet weekly chaired by the Chancellor of the Duchy of Lancaster.

d) Business Ambassadors

A network of 17 named Business Ambassadors will be established to support the Government overseas. Business and University leaders will work with the Government to promote the UK's excellence internationally and highlight trade and investment opportunities. They will focus on helping to promote exports and inward investment opportunities and helping small and medium-sized enterprises (SMEs), which sometimes face greater barriers than larger businesses to accessing global markets.

Who remembers the National Economic Development Council and Office which existed for similar purposes from 1962 to 1992 though structured somewhat differently? (I do, I was there until not long before it was abolished. Ed.)

NEWS FROM UKSA

RETAIL SALES INDEX VOLATILITY

There has recently been some media coverage of month-on-month changes in GB retail sales volumes for May and June. ONS published Background Notes in June, July and September on the results of its investigations of their figures. In October UKSA published its first Monitoring & Assessment Note on these figures in which it agreed with ONS's conclusion that "estimates ...of retail sales in May (and the subsequent decrease in June) reflected the actual changes in the turnover reported by businesses."

It notes and regards as good practice that "ONS published detailed comparisons of the Retail Sales Index (RSI) with British Retail Consortium's (BRC) Retail Sales Monitor. These comparisons conclude that the two sets of statistics differ mainly because of the recent growth in sales by small and medium businesses; these are largely excluded from the BRC sample in contrast to the ONS's use of a comprehensive and representative sample."

However it makes two suggestions for improvement: First, that estimates of RSI levels or change should be accompanied by guidance to users on the accuracy of the published figures. It recognises the difficulties in calculating estimates of sampling variability for complex series of this kind but "even an informal indication of reliability...would minimise misinterpretation."

"Second, the presentation of various estimates of change in retail sales could be improved to make their usability and interpretation clearer to users. For example, it believes that some users place too much reliance on month-to-month changes; in a highly volatile situation, such monthly trends are not good guides to longer term trends."

ASSESSMENT & MONITORING REPORTS

THE UK Statistics Authority released in October a list of its planned Assessment & Monitoring Reports for 2008-09: No 1 Draft Code of Practice consultation document; No.2 Results of consultation and finalised Code; No.3 Statistics not currently included in 'National Statistics'; No.4 Progress with improving migration statistics; No.5 Arrangements for longer term planning of official statistics to meet society's needs; No.6 The communication of measures of inflation (and consumer prices); No.7. Barriers in trust in relation to crime statistics; No.8 Adequacy of environmental statistics to inform public debate and government policy.

NEWS FROM ONS

SIC IMPLEMENTATION

The plan to implement the transition to SIC 2007 was described in an article by **John C Hughes** in **BSUG News 38**, November 2007. A longer, more detailed piece on the subject by the same author appeared in **Economic & Labour Market Trends**, August 2008, which includes a summary table of the changes in numbers of headings between SIC 2003 and SIC 2007.

	National Statistics			of which	
	SIC 2003	SIC 2007	Difference	Manufacturing	Other
Sections	17	21	4	0	4
Subsections	16	0	-16	-14	-2
Divisions 2-digit	62	88	26	1	25
Groups 3-digit	224	272	48	-8	56
Classes 4-digit	514	615	101	-12	113
Sub-classes 5-digit	285	191	-94	-29	-65
Total	1118	1187	69	-62	131

EDEN PROJECT ON BUSINESS SURVEYS

The ONS has launched a project to implement a new approach to the editing and validation of business surveys. The new approach takes users' needs as its starting point and feeds these into the editing and validation process. The process also allows expectations for the data, based on current events or previous patterns, to be taken into account when the data are edited.

The Eden Project takes its name from Eden Brinkley of the Australian Bureau of Statistics (ABS). He visited ONS towards the end of 2007, with his colleague Lynne Bismire, to give a series of workshops and seminars on the work ABS had done on their editing and validation of business statistics. Applying a new approach in the ABS improved the timeliness and efficiency of surveys, while maintaining data quality for users. Following on from the visit, ONS has started the Eden Project to take forward similar work for the UK.

The new approach to editing and validation has two key elements:

1. User requirements for the results of a survey are a key element of the process. Consultation with key users identifies the level of detail for which fully validated information is required. This will be a combination of industrial detail, variables, regional breakdown, etc. Once the key results are identified, editing rules are implemented that will identify those company

returns that will have an impact on those figures. These will be investigated, while other returns that do not have an impact will not be edited. The impact of a company will be based on its weight within the results and its returned value compared to its expected value (see below).

2. When deciding whether a company's return should be edited, its value is compared to an expected value that takes into account previously returned data, seasonal effects and any "real world" events that may impact. For companies with no previous data, expected values can be constructed using administrative information, such as VAT returns, and information from similar companies.

The project has two workstreams planned for 2008/09. The first is running a pilot on the Retail Sales Inquiry (RSI) to test the feasibility of the approach for the UK and the second is carrying on with the preparatory work on the Annual Business Inquiry 2 (ABI2), started during the ABS visit. From 2009/10 the new approach to editing will be rolled out across all business surveys over a period of around four years.

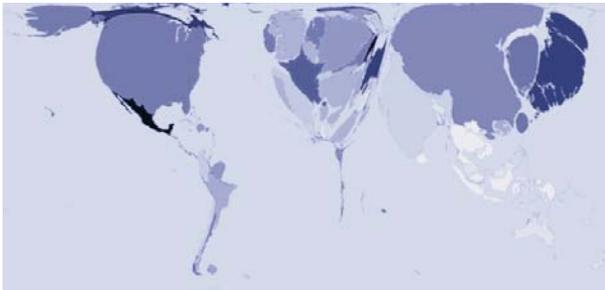
More information will be made available as the project progresses through the ONS website and publications. Further details can be obtained from the project manager, David Freeman, e-mail: david.freeman@ons.gsi.gov.uk

PRODUCER PRICE INDICES: TRIENNIAL REVIEW

The Office for National Statistics is conducting a regular triennial review of the producer price indices (PPIs) it publishes, including trade prices and service sector producer prices. Standing instructions on the control of statistical surveys require that regular quarterly surveys to businesses are reviewed every three years. The aim of a triennial review is to ensure that control is exercised in the most cost effective way and that authorised surveys are conducted in such a way as to obtain the information needed while imposing the minimum burden on respondents. PPIs are widely used by financial analysts and by commercial users, especially for the indexation of contracts. As well as general questions on the uses made of these series, ONS is asking two additional questions in this review: PPIs will be reclassified onto a new Standard Industrial Classification (SIC) in 2010. Users are asked about the appropriate level of published detail under the new SIC. It is proposed that the trade price indices, covering imports and exports, should also be reclassified to the new SIC. Users are being invited to supply their views on this proposal. In order that their views can be taken into account, users of PPIs are invited to apply for a questionnaire from ian.richardson@ons.gov.uk or Brian Edwards on 01633 455332. Responses are welcome before 31 December 2008.

THE ATLAS OF THE REAL WORLD

An interesting new collection under the above title by Mark Newman and Danny Dorling has recently been published. It contains nearly 600 world maps where territories are re-sized according to the subject of interest and can be viewed on a website called 'Worldmapper'. An example illustrating growth in world wealth is shown below.



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BLINDED BY SCIENCE

"Statistical models have proved almost useless at predicting the killer risks for individual banks and worse than useless when it comes to the risks of the financial system as a whole. How could so many smart people have got it so wrong?"

This salutary quotation from the editorial of **New Scientist**, 27 September 2008 approached the global credit from a more technical perspective than the rest of the media.

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FUTURE SBE MEETINGS

Wednesday 26 November 2008
CIPFA, 3 Robert Street, London WC2 (6.0pm)

Following the AGM
THE OUTLOOK FOR OIL PRICES
JEFFREY CURRIE, Goldman Sachs

Wednesday 11 February 2009
Annual Dinner, Institute of Directors
LUCAS PAPADEMOS, Vice President, European Central Bank

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