

THE STATISTICAL PROGRAMME COMMITTEE
in co-operation with the
COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS

Short-term Statistics on Services
Proposals for improving the availability of monthly and quarterly data
for the Euro zone and the EU as a whole

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Executive summary

In the 4th Progress Report on statistical requirements in EMU, the Economic and Financial Committee (EFC) invites the Statistical Programme Committee (SPC), in co-operation with the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), to develop proposals for improving the availability of monthly and quarterly data on service activities.

In response, the SPC and CMFB have identified priorities for the development of short-term statistics in the services sector. While the services sector contributes some 70% of euro zone and EU GDP, availability of euro zone/EU aggregate statistics at monthly or quarterly frequency is rare, with the exception of information on retail trade. First data will become available under EU regulations in the forthcoming years, but gaps remain. The SPC and CMFB strongly support the proposal to reinforce short-term statistical information on services. A proposal and timetable for studies and implementation is set out in this document and covers in particular statistical information on output, prices and the labour market.

1. Introduction

In the 1998 report on information requirements in EMU, the Monetary Committee highlighted the need for progress in the development of a sound statistical basis for the services sector, and in particular “the cyclically sensitive service industries”. The EFC, in its 4th Progress Report on the implementation of the Monetary Committee's Report, reverted to this subject and concluded:

"Yet, timely, comparable and high-frequency statistics on [services] are scarce in relation to those on the industrial sector. (...) Though some work is underway at the national level, it is essential to co-ordinate objectives and efforts in order to achieve early results with good coverage at the EU level. The SPC (Statistical Programme Committee), in co-operation with the CMFB, is therefore invited to develop proposals ... on what action should be taken to improve the availability of monthly and quarterly data on service activities."

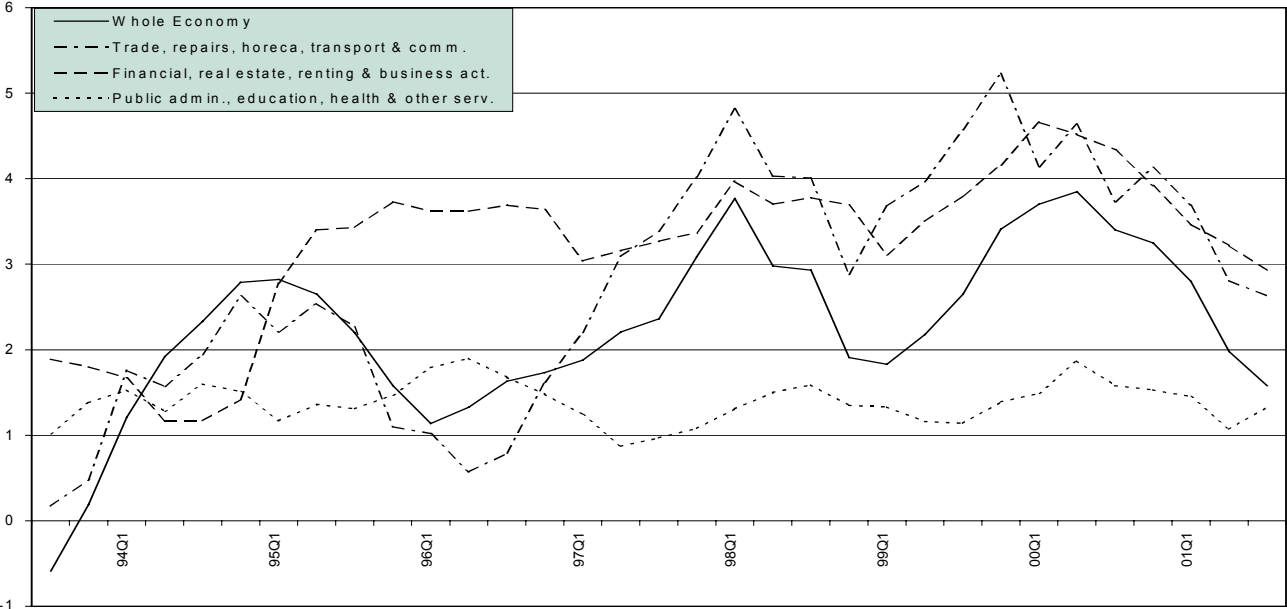
This note is drafted in response to the request of the EFC. It is focussed on short-term statistical information and has been compiled from two comprehensive documents discussed by the SPC

and CMFB, reflecting the producer and user view respectively.¹ The discussions in the two Committees have shown that the assessment and priorities of producer and potential user of short-term statistics in the service sector are very similar.

2. Why are short-term statistics needed for the service sector?

Almost 70% of the GDP for both the euro zone and the EU is produced by activities which are classified as services. The services sector comprises a wide and heterogeneous set of activities and it cannot be expected that the statistical requirements are the same for all types of services. By convention, a split between market and non-market activities is often adopted, though this distinction is not always clear-cut. *Market services* include distributive trade, hotel and restaurant, transport and communication, and financial services as well as real estate, renting and other business activities. *Non-market services* include public administration and defence, education, health, and other services. Market services account for more than two-thirds of the total value added of all services. According to national accounts – the only currently available area-wide estimates - the output of market services shows a cyclical pattern similar to the movement of overall GDP (more pronounced for trade, transport and communication than for financial intermediation, real estate, renting and other). The non-market output is less variable (see chart 1). The significant share in GDP, the considerable growth contribution and the short-term variability are the reasons why short-term economic statistics for the service sector are to be improved.

Chart 1: Value added for the euro zone (constant prices, ECU/euro, annual percentage changes)



¹ See: The Evolution of Short-Term Service Statistics, European Commission (Eurostat), 16 April 2002, and Short-Term Statistics on Services for the Euro area, Committee on Monetary, Financial and Balance of Payments Statistics, 25 March 2002.

3. Which statistical information is required?

For the purposes of economic and monetary policy it is essential to have a methodologically sound and consistent information system that produces relevant information in a timely fashion. *Price statistics* on services are particularly important for monitoring the price dynamics within the euro zone at producer and consumer level. Producer prices may also be used as a deflator for the part of the services output sold to businesses, or more generally, the deflation of services turnover and the calculation of output and GDP. Short-term *output measures* for, in particular, market services are essential for the analysis of the economic cycle. Short-term information on turnover (nominal and deflated) in the retail trade sector provides an indicator of household consumption and may provide a useful indicator of activity in other market services sectors. Most of the information required refers to market services, but *labour variables* (e.g. employment and wages) are desirable for the non-market sector, too. For the purpose of short-term analysis all data should be at *monthly or at least quarterly frequency* and produced in sufficiently timely manner.

A more comprehensive set of services statistics would also comprise *indicators on business sentiment and expectations*, the development of gross wages and salaries, hours worked and, where appropriate, a leading indicator (e.g. new contracts).

4. Current situation and SPC/CMFB proposals for action

The complete implementation of existing regulations concerning short-term services, briefly described at the end of this section, is the first priority. The further recommendations for the improvement of statistics on services follow a two-step procedure; by 2003 and 2004 (2005 for labour costs) further studies on the feasibility and methods for compiling service statistics are planned. Thereafter, decisions on a higher coverage of service statistics in EU statistical regulations are to be made. Careful consideration must thereby be given to the development of new short-term statistics which are nevertheless reliable to meet the user needs for timely and high frequency statistical data. A summary table of the proposed main developments for short-term statistics on services is given in the annex.

- **Activity and/or output for market services, in current prices and constant prices**

Current situation: Existing national accounts estimates are highly aggregated (3 service groups) and suffer from a lack of primary statistics available to compile the estimates. No monthly or quarterly short-term indicators exist, with the exception of monthly retail trade turnover. By end-2003 the first short-term statistics will be released under existing regulations, but the coverage of the service sector will remain partial. No provisions exist for short-term indicators in constant prices (volumes).

Proposed action: Next steps are to analyse the feasibility of a set of further improvements and a final proposal for amendment of the short-term statistics regulation in spring 2003. The proposed changes are (a) the improvement of timeliness (release earlier than 90 days after the quarter), (b) the collection of data on market activities currently not covered by the short-term statistics regulation, in particular those foreseen as areas for pilot studies in the initial Council Regulation and (c) monthly instead of quarterly information for turnover.

- **Prices of business and consumer services**

Current situation: Output price statistics for business services do not exist and are not covered by any statistical regulation. Prices for services to consumers are covered by HICPs.

Proposed action: Considerable methodological work is necessary before area-wide output price indices for business services can be published. This work should start immediately and will be closely co-ordinated with the OECD in order to benefit from the work done in major non-EU countries. The work proposed includes (a) the scope of service price statistics, (b) the collection of existing methodological concepts and best practices, (c) the definition of the basic concepts for EU-wide statistics, (d) the proposal for a legal basis and (e) implementation. A Task Force will begin its work in autumn 2002 and is expected to present results by end-2003. A proposal for the short-term statistics regulation to cover output prices for services will be made in 2004. First European aggregates would be available from 2006.

- **Labour cost and wage developments for market and non-market services**

Current situation: No data on wages and labour costs exist or are planned in the short-term statistics regulation. The existing labour cost index data is incomplete and highly aggregated.

Proposed action: In the field of short-term statistics a decision about the introduction of statistics on gross wages and salaries for market services will be made in March 2003 in the context of the revision of the short-term statistics regulation. This revision should take into account the required level of detail by branches as well as possible interdependencies and overlaps with other statistics. For non-market services labour cost information will become available from 2007 (see end of this section).

- **Employment measures for market and non-market services**

Current situation: No short-term information on employment in the service sector exists (nor information on hours worked, see also end of this section for national accounts). In 2003 short-term employment statistics will be released for a number of service branches, but the coverage will remain partial (gaps in the market services, no coverage of non-market services). For employment measures in the non-market services, aggregate national accounts exist and, from 2005, European results from the Labour Force Survey will be available (see end of this section).

Proposed action: For employment in market services the same action as for turnover is proposed. A final decision on its implementation via the short-term statistics regulation will be taken in 2003.

The following **regulations including short-term statistics on services**, some of which yet in draft form, shall be implemented with priority:

- the short-term statistics regulation with information on nominal turnover and employment for selected market services in 2003;
- the draft amendment to the ESA95 regulation with value added, employment, compensation and hours worked from quarterly national accounts for three major service groups, to be released within 70 days after the quarter from 2003;

- the draft regulation on labour cost statistics including improved labour cost indices with a coverage of market services in 2003 and non-market services by 2007, to be released within 70 days after the quarter;
- the regulation on continuous labour force surveys with quarterly results for employment by branches by 2005, to be released within 90 days after the quarter.

5. Resources and re-balancing

The development of good quality short-term statistics in the service sector is a challenge for the statistical authorities. Considerable methodological developments are necessary to produce reliable information on, in particular, prices and output. New surveys may be necessary for producing at least some of the statistical variables, if other (administrative) sources are not available or appropriate. This will increase the response burden of the economy. It will also require that sufficient resources are available to statistical producers to be able to meet these tasks. These initiatives for better statistics on services reflect the much-increased importance of this sector in the economy (and so for explaining economic developments) and will also lead to a re-balancing in priorities in comparison to statistics in the industrial sector.

Annex:

Summary of main developments for European short-term statistics on services		
Statistical Regulation	Action	Schedule
1. Turnover (nominal)		
Short-term statistics	Release of first quarterly results according to the current regulation at t+90	by end 2003
	Release after t+60	by end 2004
	Expand coverage to other market services	under study
	Explore the possibilities for a monthly index at t+30	under study
2. Output prices		
Short-term statistics	Methodological work, feasibility studies	2002-2003
	Cast into regulation	2004
	Implementation, release of output prices and deflated turnover	from 2006 (for European results, individual MS earlier)
3. Labour costs and wages		
Short-term statistics	Coverage for market services	under study
Labour Cost Index	Implementation for NACE H-K	by end-2003
	Feasibility studies for NACE L-O	by end-2005
	Implementation for L-O (subject to result of action 4)	2007
4. Employment		
Short-term statistics	Release of quarterly results according to the current regulation at t+90	by end-2003
	Release after t+60	by end-2004
	Expand coverage to other market services	under study
5. Other developments		
National accounts	Release existing quarterly results (value added, employment, compensation) for three main service aggregates at t+70 (draft Regulation)	by 2003
	Release new quarterly hours worked results for three main service aggregates at t+70 (draft Regulation)	by 2003
Labour Force Surveys	Release new quarterly results for employment by branches at t+90 (draft Regulation)	2005