

11th CEIES Seminar EU Short Term Economic Indicators: Meeting New Needs

Part 1 - Current situation

The producers' view

**Presentation of Mr. Gunter Schäfer, Eurostat D3
«The Short-term Statistics (STS) Council Regulation»**



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THEME 1
General
statistics

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A great deal of additional information on the European Union is available on the Internet.
It can be accessed through the Europa server (<http://europa.eu.int>).

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The Short-term Statistics (STS) Council Regulation

Gunter Schäfer
Eurostat D3

1. Objectives of the STS Regulation

The importance of short-term statistics has grown in recent years with the development of the single European Market and the implementation of the European Monetary Union. These developments as well as structural changes in the importance of the economy with an ever-increasing importance of the service sector compared to the industrial sector created the need for a new system of short-term business statistics. The Council Regulation 1165/98 was decided by the European Council in May 1998 and went into force in June 1998. It replaced a previous much less comprehensive legal framework dating back from the 1970s. The European Monetary Institute (EMI) responsible for the preparation of the Monetary Union has had a significant influence on the design of the new Regulation.

The analysis of the business cycle for the entire European Union and the Monetary Union for the purpose of economic and monetary policy needs European-wide aggregated statistics. Europe has generally chosen to obtain such European aggregates by combining national statistics. European-wide single surveys are rare exceptions.

The STS Regulation created an ambitious European-wide legal framework for short-term statistics at a moment when a large variety of national short-term statistics already existed. Each Member State had its own system of monthly and quarterly business statistics. As a general rule, the larger the Member State, the more elaborate the respective system was, and today still is. However, the structure of the short-term statistics followed largely national patterns and was shaped by very different national regulations that reflected the perception of the statistical short-term needs by individual governments, National Statistical Institutes (NSIs) and the National Central Banks of the Member States. Despite existing driving forces for harmonisation, such as international statistics from the OECD and the IMF, as well as the general need for international comparisons with other countries, the variations between the national statistics were often too large to allow the simple aggregation to European-wide statistics.

Differences between national short-term statistics in the European Union existed in terms of:

- The set of short-term indicators available, only the index of production is prepared by all Member States;

- the definitions applied to the indicators, for example, the question of whether to calculate a producer price index inclusive or exclusive of excise duties may result in huge differences in case of rapid changes in prices as currently witnessed with petrol prices;
- the reference period deemed necessary for adequate analysis, i.e. quarterly or monthly indices;
- the delay for the availability of the index, variations from a few weeks after the reference period up to some month exist between Member States;
- the scope of useful intermediate aggregates, such as “capital goods” for industry or the different types of shops in retailing although the NACE Rev. 1 classification is now the generally accepted activity classification;
- differences in observation units, base years, etc.
- conventions in the treatment of data, e.g. control of statistical quality.

The STS Regulation has created a regulatory framework in which to launch a process of successive harmonisation of European short-term statistics. In doing so, the STS Regulation follows the tradition of other statistics regulations, such as the Structural Business Statistics (SBS) Regulation.

2. Contents of the Regulation

The STS Regulation is divided into a general part that specifies topics of general importance for the Regulation, such as quality, weight system to be applied, transition periods and derogations, reports to be prepared, etc.

The indicators, their coverage, potential approximations, reference periods and delays are specified in four annexes:

Annex A: INDUSTRY		
Production		
Turnover	Domestic turnover	Non-domestic turnover
New orders received	Domestic new orders	Non-domestic new orders
Number of persons employed	Hours worked	Gross wages and salaries
Output prices	Output prices of the domestic market	Output prices of the non-domestic market
Annex B: CONSTRUCTION		
Production	Production of building construction	Production of civil engineering
New orders received	New orders received for building construction	New orders received for civil engineering
Number of persons employed	Hours worked	Gross wages and salaries
Construction costs	Material costs	Labour costs
Building permits: number of dwellings	Building permits: square metres of useful floor area or alternative size measure	
Annex C: RETAIL TRADE AND REPAIR		
Turnover	Number of persons employed	Deflator of sales
Annex D: OTHER SERVICES		
Turnover	Number of persons employed	

The reference period for industry is the calendar month with the exception of the social indicators that are required "at least" on a quarterly basis. Construction indices are generally quarterly. The retail trade and repair indicators are foreseen as monthly data for the turnover and the deflator of sales and quarterly for the employment indicator. The indicators for other services are requested on a quarterly basis.

The STS Regulation allows for a number of approximations, mostly limited in time, such as "number of employees" instead of "number of persons employed".

With a few exceptions, the indicators specified in the STS Regulation are requested as indices starting from a defined base year. Absolute numbers are only asked for building permits.

The STS Regulation has a comprehensive coverage based on NACE Rev. 1 for industry down to at least the two-digit level of detail. For construction, it is further subdivided in certain areas according to the classification of buildings (CC). In retail trade and repair, the NACE Rev. 1 classification is supplemented by a number of groupings according to types of shops. The category "other services" covers a large part of the services foreseen in NACE Rev. 1: Division 50 (sale maintenance and repair of motor vehicles), Division 51 (wholesale trade), Section H (hotels and restaurants), Section I (transport, storage and communication), Division 72 (computer and related activities) and Division 74 (other business activities).

An important concept of the STS Regulation is the Main Industrial Groupings (MIGs) in the industry part for which national aggregates are requested. However, the Regulation leaves the exact definition to complementary implementation regulations.

The STS Regulation foresees an implementation within 5 years after its coming into force. Thus by mid 2003 the full range of data should legally be available. Member States may be granted derogations for this intermediate period of time.

3. *The STS Council Regulation as framework for complementary Commission Regulation*

The STS Regulation is explicitly an evolutive framework rather than a set of very detailed final guidelines. In its article 17, it refers to implementation regulations in order to clarify open details. The following measures are explicitly mentioned:

- the use of particular units;
- the updating of the list of variables;
- the definitions and the appropriate forms of the transmitted variables;
- the frequency of compilation of the statistics;
- the levels of breakdown and aggregation to be applied to the variables;
- the transmission deadlines;
- the criteria for the measurement of quality;
- the transition periods and derogations granted during the transition period
- the institution of pilot studies.

A continuous Working Party that consists of delegates from the Member States and Eurostat monitors the progress in the implementation and prepares the supplementary implementation regulations.

In a first wave, the STS Working Party proposes four implementation regulations:

- the specification of the Main Industrial Groupings (MIGS);
- the definition of variables;
- the derogations granted to Member States;
- the format for the transmission of data.

Well-elaborated draft versions of these Regulations already exist and will pass during the next months through the so-called Community Comitology procedure to become accepted Commission Regulations in early 2001.

Of particular importance for the future harmonisation of the indicators on a European scale is the definition of variables. The currently proposed draft focuses on the complementary nature of the STS Regulation with the Structural Business Statistics (SBS) although other definitions, such as the OECD definitions have been taken into account as far as possible.

Further implementation regulations will have to follow during the next years in order to achieve the original objectives of the STS Regulation. A first priority will be a regulation on the criteria for the measurement of quality.

4. *Practical application of the STS Regulation*

The STS Regulation is a compromise achieved in negotiations between Member States and the European Commission. Statements of requirements by the European Monetary Institute (EMI) dating from 1995/96 were greatly influencing its drafting but were not fully determining its contents. The reason for its strengths but also its shortcomings can be traced to this origin of the Regulation.

The NSIs themselves that have to deliver the data specified by the Regulation participated in its drafting. The departments and persons that have been responsible for many years for the national short-term statistics have been directly involved in the negotiations for the majority of NSIs. Thus, sound practical expertise has been drawn together in the drafting process. As a consequence, the STS Regulation exhibits a high degree of competence and practical knowledge. This high level of quality is clearly visible in the detailed statistical requirements, such as the specifications of the statistical units and the coverage of economic activities by the various indicators. Not all indicators apply equally to all Divisions of NACE Rev. 1. For example, the “new orders received” indicator only makes sense for certain industries that are used to work on order rather than in continuous production mode.

However, the important role of the Member States in the drafting of the STS Regulation has also had a restrictive impact. Not all requirements of the EMI have been taken up to their full extent. Some indicators, such as import prices have been left out of the Regulation and for other indicators the observation period and the timeliness specified in the Regulation do not fully reflect the initial statements of the requirements for monetary policy.

In the drafting negotiations, the NSIs had certainly been aware of the issue of resources. Not in all cases has the considerable enlargement in the scope of the short-term statistics, which has a direct impact on the number and volume of national surveys, been matched by a corresponding increase of resources available for the collection of these statistics.

As a consequence, the implementation of the STS Regulation takes longer than desirable in view of the urgency, with which these statistics are required for European economic policy making. The five years period foreseen as the maximum delay has been interpreted by many Member States as the normal delay for a compliant implementation. More than two years after the Regulation went into force, the data availability allows the compilation of reliable European aggregates only for a minimum of the specified indicators. Some indicators, in particular, those that concern the non-domestic markets and the indicators for the service industries are currently only covered by very few Member States.

The strong need for a faster implementation has been realised by the ECOFIN Council in June 1999. It asked for a complete implementation of the annexes A to C of the STS Regulation and considerable progress for business cycle sensitive service industries until the end of 2001. The ECOFIN Council reiterated its request in 2000 but realising that this objective may not be feasible to its full extent, demanded concrete urgent actions in order to achieve significant progress at least for priority indicators. A list of such actions per Member State has been compiled in co-operation with the ECB. It covers, beside STS also other statistical domains important for the analysis of the economic cycle, such as quarterly national accounts. The list of urgent actions defines some pragmatic priorities that may help to achieve a maximum effect with limited efforts by the Member States.

The list is currently analysed by the Member States for its feasibility. Eurostat has requested a detailed planning for the various actions. This planning will provide some important indications on the medium term availability of STS data. Further input for the planning process is available from updated derogation requests by the Member States that give concrete time limits for the different indicators.

Although the progress is slower than politically desirable, the application of the STS Regulation has already shown important achievements. The key indicators of production, domestic output prices and deflated turnover of the retail trade are regularly published by Eurostat on a monthly basis. Other indicators have seen improvements in quality. Moreover, the practical co-operation between Eurostat, the Member States and the ECB has significantly improved. The speed of transmission and the transparency of the planning of the index compilation, e.g. in terms of the availability of national indicators, are examples of this improvement. Eurostat continues to give the practical co-operation and quality assurance a high priority.

5. Requirements for further developments of short-term statistics

Since the period when the STS Regulation has been conceived and its exact terms have been defined, the European economic situation and monetary policy have fundamentally changed. The EURO has created new challenges that could not have been foreseen to their full extent some years ago.

Today, the European statistics and, in particular, short-term statistics have moved into the focus of attention by economic analysts and the international press. Their judgement can often be summarized as “too little too late” wanting to imply that the range of available indicators and their timeliness would not match the importance of these indicators for economic and monetary policy.

The range of comparable indicators in the US and the speed for their preparation are assumed by such comparisons to be a suitable gauge also for European statistics. The European Statistical System cannot

match in particular the short time delays achieved in the US. Although, most economic analysts recognise that the European political and economic situation is fundamentally different from that of the US, they assume that the unfavourable comparison exhibits some truths and shows needs for improvements.

In a paper titled “Statistical requirements of the European Central Bank in the field of general economic statistics” that has been issued in August 2000, the ECB greatly contributed to the clarification of its needs. This paper puts the discussion on weaknesses of the short-term statistics and other statistical domains back on a rational level.

In fact, a preliminary analysis carried out by Eurostat revealed that the STS Regulation needs a revision of some of its terms. The article 17 of the STS Regulation that has been mentioned above, opens the scope for an adaptation of the short-term statistics to these requirements. The details of the needs for change will be discussed with the Member States and the ECB in the coming months.

The STS Regulation already proposes pilot studies for a further evolution of the Regulation. Eurostat aims at employing this provision as the means for improvements in key areas in the near future.