OECD SHORT-TERM ECONOMIC STATISTICS EXPERT GROUP (STESEG)

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Session I:
Short-Term Economic Statistics and the Current Crisis – The International Perspective

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STESEG delegates are invited to consider the questions in the final section of this paper in preparation for Session I of the agenda.

Session I: Short-Term Economic Statistics and the Current Crisis – The International Perspective

The OECD Perspective

Note

This brief paper draws heavily on:

- The paper written for the Committee on Statistics, Meeting 10-11 June 2009, Implications of the Crisis for Statistics: Towards an OECD Work Plan. STD/CSTAT(2009)1;

- Articles contributed to the newly established 'Statistical narratives' webpage on the OECD Statistics Portal - www.oecd.org/statistics/statisticalnarratives; and,

- Notes from the various meetings of the internal group 'OECD Horizontal Group on Statistics for Financial, Economic and Social Crises'.

Introduction

A number of initiatives on the international stage are underway (or are being investigated) to address the statistical implications of the crisis. These include the *Action Plan of the European Statistical System* on the accounting consequences of the financial turmoil, and the *Inter-Agency Group on Economic and Financial Statistics* which gathers international organisations such as the IMF, the OECD, the World Bank, Eurostat, the European Central Bank and the Bank of International Settlements. At the OECD, the Statistics Directorate has engaged statisticians and policy analysts within the organisation and beyond, through workshops and roundtables on specific topics to try and identify possible directions of future work. The Statistics Directorate has also published some short articles on the crisis. However none of these efforts have been targeted directly at the field of short-term economic statistics but of course this is seen as one of the most affected areas in regards to actual statistics.

The Crisis

In essence a number of commentators see the following pattern:

- Large growth in the unregulated banking sector in the last 10 years, the emergence of large mortgage refinancing operations, and mismatched maturity profiles between assets and liabilities;
- An overextended household sector which had built-up large amounts of debt, particularly mortgages, based on the premise of an ever increasing property market – leading to unsustainable private consumption;
- The United States being the first country affected causing the crisis to spread rapidly through financial market contagion; and,
- Globalisation – highlighting national policy inadequacies by so quickly allowing the crisis to move through international markets and into the real sector.

Of course there were other factors in play such as where countries were in the business cycle, very low interest rates, undervalued exchange rates, and large international capital flows (e.g. the size of China and Japan's international reserve assets).

No one has mentioned or indicated (that I am aware of) that a lack of, or a delay in, the release of official statistics played a role in the crisis or the speed that it spread. However, there has been some discussion at the international level that statistics (either new measures or the release speed) could have shed more light on the nature and duration of the crisis.

The OECD (Statistics Directorate) Response

Horizontal Group on Statistics for Financial, Economic and Social Crises

In April 2009 the then Director of the Statistics Directorate, Enrico Giovannini, communicated with OECD directorates about forming a group on the crisis with the first meeting being held on Wednesday 7 May.

The following box introduces the Group.

Box 1.

Over the last two months several meetings have been organised to discuss the role of statistics to improve the monitoring of the current financial, economic and social crises, as well as to underpin effective policies to address them. In particular:

- In mid-February 2009, a brainstorming meeting was organised by the Statistics Directorate on "Statistics to understand past, current and future crises: New ideas and proposals for the OECD";
- The Statistical Policy Group (SPG) discussed the results of the brainstorming and made some proposals for future work, including the need to maximise the timely dissemination of statistics produced by the Secretariat;
- In March 2009, two workshops were organised on the state of social statistics and of trade/globalisation statistics, as well as new needs linked to the management of the crisis.

During these meetings, good ideas were expressed to improve the current state of OECD statistics to better describe economic and social phenomena. Moreover, the "OECD crisis web-site" has been enriched with interesting data and charts. The Statistics Directorate has also been working to develop new visualisation tools to better communicate short-term economic indicators.

To facilitate internal coordination of various strands of statistical work related to the crisis, a Horizontal Group was established. The main aims of this Horizontal Group are:

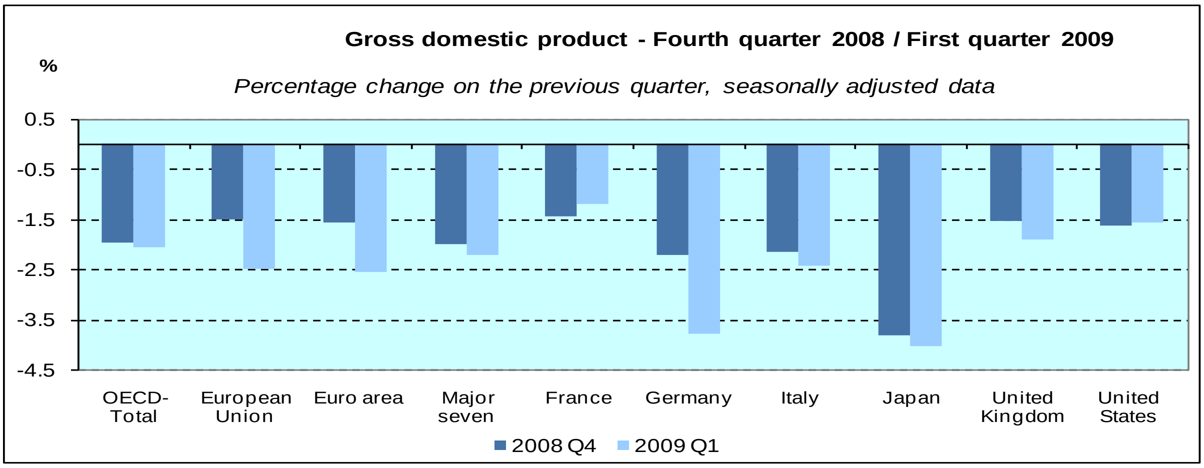
- to discuss the most appropriate actions to be undertaken (in the short and medium term) to improve the production and dissemination of relevant and timely statistics for the monitoring of current crises;

- to identify external private data sources whose acquisition would improve the OECD capacity of analysing financial, economic and social phenomena;
- to contribute to the preparation of the report that was submitted to the Committee on Statistics, and to oversee its implementation;
- to identify ways to speed up the release of statistics, especially relevant for the monitoring of the crisis.

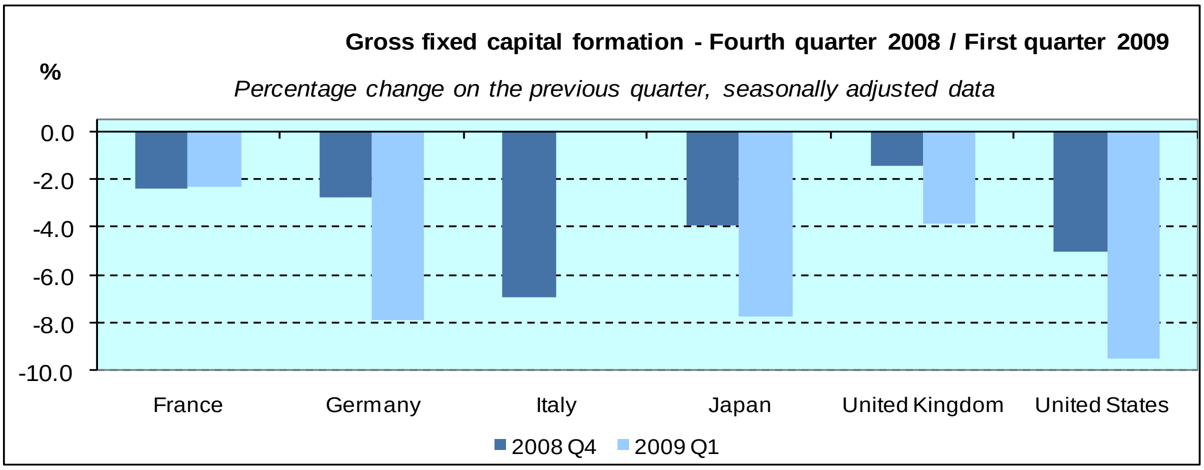
The outcomes of the first meeting of the Horizontal Group were mostly of an internal nature. One concrete output of the Horizontal Group was the creation of a statistics crisis slideshow 'The Financial Crisis in Numbers' for the June 2009 OECD Ministerial Council Meeting held at the OECD. This is worth viewing for its focus on pulling together short-term economic statistics and their relation to the crisis: http://www.slideshare.net/OECD/the-financial-crisis-in-numbers?type=presentation. The slideshow aims to take the viewer through the 'crisis story' using captions and graphs, here the first two and sixth slide:

Figure 1.

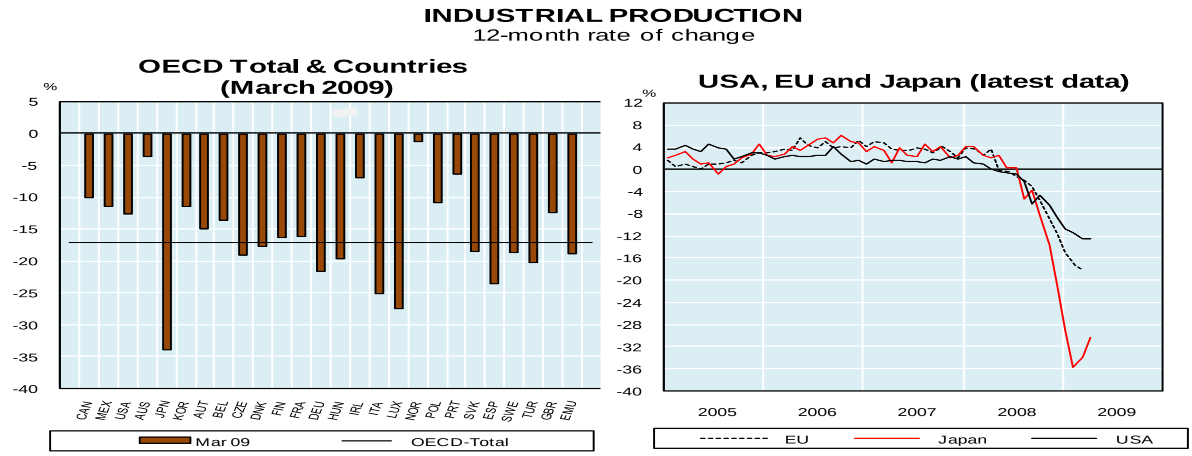
The fall in GDP gathers speed in the first quarter of 2009 in most countries except France and the US



… driven by the decline in gross fixed investment, especially in Germany, Japan and the US



Industrial production continues plunging in all OECD countries except in the United States (stabilisation) and Japan (rebound)



A second concrete outcome from the Horizontal Group was the agreement that the 2010 'OECD Factbook' special chapter would focus on the crisis, and in particular short-term statistics. The outline suggested that the statistics presented should: i) rely on both annual and infra-annual data (with a preference for infra-annual); ii) use both OECD and non-OECD (but recognised and reliable) sources; iii) provide, as much as possible, a comparative assessment of conditions in various fields.

Statistical Narratives

The crisis encouraged the creation of a webpage that brings together short articles published by the Statistics Directorate focusing on the crisis. The page has the following introduction:

This new webpage from the OECD Statistics Directorate "Statistical Narratives" is intended as a repository for short statistical notes using the wealth of OECD statistics. The aim of these articles is to build knowledge from statistics, as well as give users a sense of what statistics are available from the OECD. www.oecd.org/statistics/statisticalnarratives

The first such article covered Consumer Confidence, box 3 gives an overview. The initiative behind this article was to put a short-term indicator like Consumer Confidence into a more long-term perspective allowing the reader to understand just how deep and fast this crisis had affected consumers' confidence.

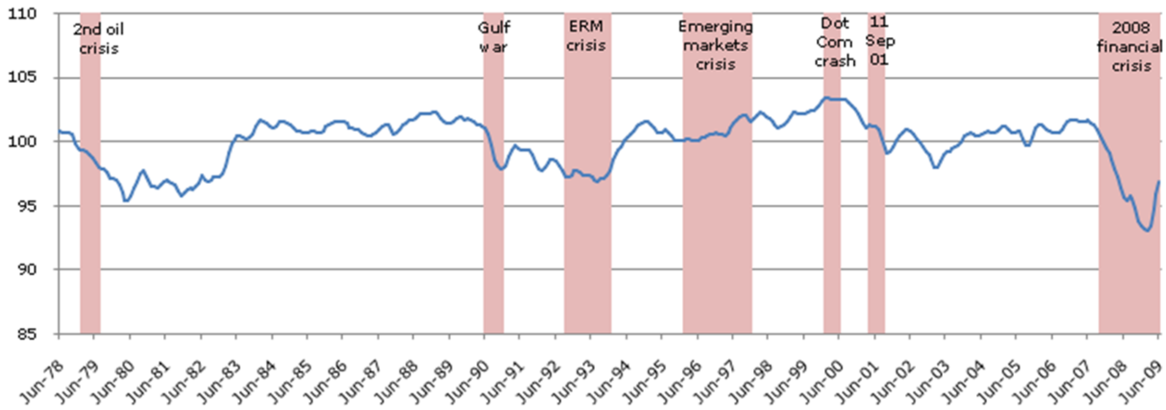
Box 2.

Consumer confidence indicators in recent months have pointed to a marked improvement in sentiment since the historic lows recorded towards the beginning of 2009. Whilst encouraging, some caution is needed as confidence remains low by historic standards. This is shown in the following graphs for the major seven OECD member countries and the country grouping "OECD Area", which put consumer confidence indicators in a historical context.

The charts indicate that the low point in confidence across the OECD was reached in the first quarter of 2009, with tangible signs of improvement since then. The indicator for the OECD Area for example has risen for 4 consecutive months following 20 months of decline. Consumer confidence remains fragile, and in some countries, such as Japan and Germany, the improvement is more recent and marginal. However, given the importance of trade flows for economic growth in both countries, increased confidence levels in trading partners may lead to a more significant improvement of consumer confidence in the near future.`

It is too early to say whether this indicates a durable change in consumers' perceptions. It is possible for example that the recent increases merely reflect a more sober assessment of the state of the crisis and a realisation that some of the more speculative doomsday scenarios now seem unlikely. It is possible that consumer confidence will merely stabilize at historically low levels rather than return soon to positive territory. In many ways anecdotal, consumer confidence indicators are beginning to echo the encouraging messages seen in other areas, such as the OECD's composite leading indicator.

OECD Area



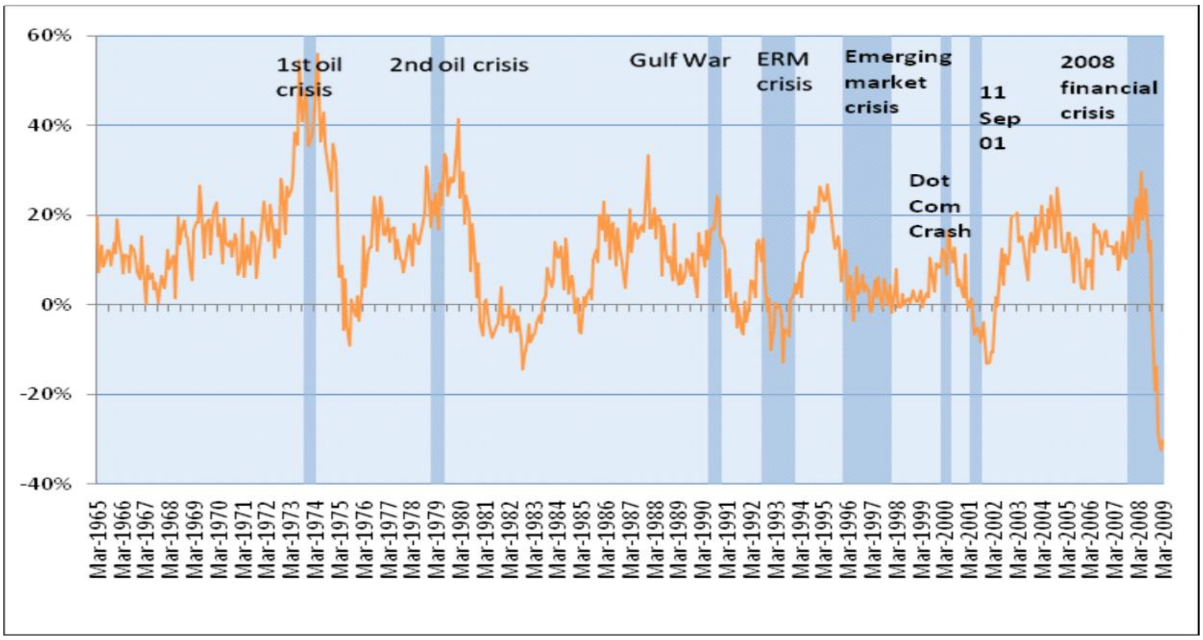
The other article covering short-term economic statistics was released in early July 2009 titled: *The Great Synchronisation: What do high-frequency statistics tell us about the trade collapse?* This article (summarised in box 3) asked 'what is driving the unprecedented collapse in global trade flows?' It wanted to show the reader that the magnitude of the global decline reflects greater synchronisation of trade flow downturns across countries and the possibility that globalisation has brought the world into sync.

Box 3.

A recent column, by Barry Eichengreen and Kevin O'Rourke (2009), provided evidence that trade flows have fallen sharper during this crisis than the Great Depression. The graph below corroborates these findings. It depicts total trade year-on-year growth rates using monthly trade statistics for 23 OECD member countries, January 1965 to March 2009. Although there have been periods of sharp and sudden trade declines in the past, the one that took place at the end of 2008 is unique. After more than six years of positive trade growth, trade turnover turned negative in October 2008, reaching a record low of -33% in February 2009. The magnitude of the current trade crisis stands out in comparison with previous drops in trade flows – previous crises averaged 13 months and -2% growth, with the worst negative growth rates registering at -14% in October 1982.1 The average negative growth rate between October 2008 and March 2009 was -21.22%.

Such drops in nominal trade values are rare events. Of the 531 months under analysis (from January 1965 to March 2009, inclusive), trade turnover is negative only for 15% of the months. What stands out from the data is the magnitude and duration of the current drop, as the five months since October 2008 are top five most negative trade growth rates since January 1965 (the first three months of 2009 hold the top three positions). The remarkable degree of synchronisation emerges rather neatly. There have been episodes of synchronised trade declines, namely following the dot.com crisis and September 11, but by end-2008 suddenly more than 90% of OECD countries exhibit simultaneously a decline in exports and imports exceeding 10%. It is the synchronised and large drop in international trade in every OECD country that explains the collapse in world trade.

Trade: Year-on-year monthly growth rates, January 1965 to March 2009



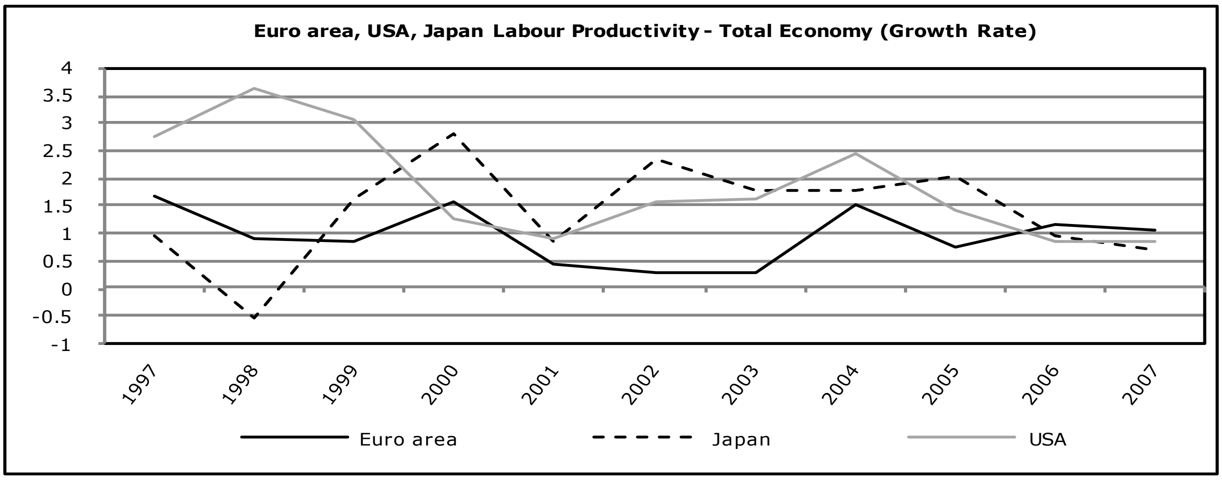
The final article focused on showing how a more structural indicator, labour productivity, that traditional has a long delay period before publication could have given a clear indication that not all was well with basic economic fundamentals in the years before the crisis. Box 4 gives a brief overview of the article.

Box 4.

Analysis of the current crisis tends to see a domino-like sequence of events triggered by the US sub-prime crisis in August 2007. But structural data from the real economy clearly show that the causes were not only financial. Labour productivity growth – how much is produced per worker (at the activity level only Total Employment data is available for all countries) - was already slowing well before the crisis broke. In particular, the US construction sector had displayed worsening productivity from early 2002/2003.

The graph below shows a downward convergence in annual labour productivity growth (measured in percent) for the total economy in the US, Europe and Japan before the start of the crisis. US labour productivity growth at the total economy level had been weakening since 2004.

This brief analysis suggests that rather than the deterioration in the real economy being only caused by the financial crisis, the data support a more complex relationship. Economic historians will revisit these complex relationships in the future, but at least the lesson that should be learned is how important it is to have timely and reliable information about productivity.



Committee on Statistics (CSTAT)

As previously stated, a paper on statistics and the crisis was presented at the 2009 CSTAT meeting in Geneva. This paper is currently being revised in the light of comments made at the discussion by CSTAT country delegates. The original paper can be sourced here: STD/CSTAT(2009)1

While not focused specifically on short-term economic statistics, the paper does present some interesting implications for statistics related to the crisis and suggest some actions for the Statistics Directorate and other OECD directorates. Figure 2 presents a table detailing a range of effects of the crisis on various institutional sectors and could provide suggestions as to how this group could take this topic forward. The Secretariat plans to use this table in its website as a tool to provide access to various types of statistics related to the crisis.

Another clear outcome from the Horizontal Group and one that has been reflected in the CSTAT paper is the use of short-term economic data to provide a better understanding of households. The paper titles this 'Monitoring social conditions: towards a "social watch" system'. Some of the conclusions outlined in the paper can be summarised as:

- Making better use of administrative data, information from administrative sources may allow tracking the number of housing re-possessions, non-performing loans and over-indebted households.
- Using information available from monthly and quarterly labour force surveys on various measures of labour market slack (e.g. unemployment, discouraged workers, involuntary part-timers), working hours and earnings, and possibly exploring the possibility to include in these surveys simple questions of income and material conditions.
- Using information from consumer sentiment surveys (which typically include questions on households' own financial conditions) and expanding these surveys to include a broader range of questions (e.g. material deprivation).

While these can be seen more as social statistics, or not usually covered by national statistics offices, clearly there is some overlap with short-term economic statistics.

Figure 2.

Different dimensions and effects of the crisis

Crisis area	Institutional sector			
	Financial sector	Non-financial sector	Households	Government
Financial effects	Losses on assets, liquidity risks, solvency risks lower securitization, lower credit rating	Losses in financial wealth (pensions and savings), losses in non-residential property, lower credit rating, credit crunch	Losses in financial wealth (pensions and savings), losses in residential property (real estate), credit crunch	Higher transfers to financial institutions, higher public debt, higher stakes in financial firms, easier monetary policies
Economic effects	Income losses, lower demand and profits, currency runs and related losses	Income losses, lower demand and profits, lower investment, higher inventories, lower foreign trade, currency runs and asset losses	Job losses, income losses, lower confidence, lower consumption, lower remittances, currency runs and asset losses	Higher public expenditure for bailouts, support to non-financial institutions and households, currency runs and related losses
Social effects		Increase in bankruptcies, lower innovation and investment, lower entrepreneurship	Higher poverty, loss of firm specific human capital, higher vulnerability	Higher social transfers
Sustainability (long-term) effects	Losses in economic and financial capital, lower trust and confidence, lower attention to environmental threats and green/social investment	Losses in economic and financial capital, lower trust and confidence, loss of firm-specific human capital, greater strains in capital/labour relations	Lower spending in education, lower tolerance and trust, greater social dysfunctions, lower attention to environmental threats, lower charitable donations	Higher public debt and bond yields, claims to reconsider mix in pension portfolios, strains on public pensions, lower infrastructure investment, less attention to environmental threats, lower foreign aid

STESEG and the Crisis

This short paper has attempted to give STESEG delegates an understanding of what the OECD Statistics Directorate has been doing to date regarding statistics and the crisis. As can be seen, while some actions have covered short-term economic statistics, most have not.

The questions for STESEG delegates now are:

> Do you think that there is a place for STESEG to become involved in short-term economic statistics and the crisis?
>
> What form would this involvement take?

STESEG members are invited to consider these questions in preparation for Session I of the agenda.