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STESEG TASK FORCE ON SHORT-TERM INDICATORS FOR SERVICES

OVERVIEW OF ACTIVITY OF THE SHORT-TERM INDICATORS FOR SERVICES TASK FORCE

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OVERVIEW OF ACTIVITY OF THE SHORT-TERM INDICATORS FOR SERVICES TASK FORCE

Background

The Short-Term Indicators for Services Task Force (STISTF) was formed as an outcome of the June 2002 STESEG meeting. The STISTF was asked to pursue a number of broad themes related to indicators for the services sector. The taskforce is currently represented by fifteen members from outside the OECD: fourteen members from thirteen OECD Member countries, and a staff member from the IMF. Six members are from the statistical offices of non-European OECD Member countries (Australia, Canada, New Zealand, Mexico, and USA) and eight members are from European countries (Belgium, Czechs republic, Denmark, France, Germany, Hungary, Iceland, and UK).

Work program for 2003

The initial task the group was to develop a work program to pursue specific issues related to the broad themes identified at the June 2002 meeting. Thus, OECD prepared a note, i.e. Short-Term Indicators for Services Task Force – Initial views on activities” [see Annex 1], which outlines a range of possible issues and work can be covered by STISTF such as an elaboration of issues, STISTF outputs, areas where STISTF members wish to contribute, organisation of future work and timeframe until the 2003 STESEG meeting. Based on feedback from the task force members on the document [see Annex 2 “Summary on summary of taskforce discussion on developing work program by taskforce members”], it was agreed that the taskforce would cover supply and demand indicators for short-term services activities. The focus of the task force work until June 2003 was issues related to monthly and quarterly indices of services production for the entire services sector (or as broad as possible). Work will be extended to short-term demand indicators for services from the second half of 2003.

The task force agreed on three priority areas of work related to the short-term index for services production (ISP), which are summarised in Table 1 below. The taskforce first collected information on national practices with respect to monthly ISP and other relevant indicators based on a questionnaire prepared by OECD. The contribution of each task force member was very useful to understand the present situation of member countries with respect to short-term services production indicators. UK, Korea, Finland and Canada provided input on their services production activities; Hungary, Mexico, Iceland, and USA for services turnover. OECD prepared a note which illustrates or compares national practices of the OECD Member countries to compile monthly services production index by summarising national contributions. The note can be used as a basis for the remaining work of the task force on services production activities indicated in Table 1.

Table 1: Summary of taskforce work program, outputs and status on short-term services production activities

Work program		Output and status
Tasks	Detailed Activities	
1. Identification of the most common practices of OECD Member countries to compile monthly or quarterly ISP	<ul style="list-style-type: none"> - Identify OECD Member countries that publish monthly or quarterly ISP. - Identify their practices in the following areas: <ul style="list-style-type: none"> - activity coverage - frequency - measurement at constant prices - weighting method - balancing adjustment to National Accounts - data sources - types of indices - levels of aggregation - Identify the most common practices in these areas. 	<ul style="list-style-type: none"> - OECD to produce a note summarises national practices with respect to the compilation of ISP. - OECD to produce a questionnaire to collect information on national practice. - Member countries provided input to be used to complete the questionnaire, i.e. UK, Korea, Mexico, Hungary, Iceland, and USA
2. Recommendation for the most suitable variables used to measure various service activities in the short-term	<ul style="list-style-type: none"> - Identify variables currently used by OECD Member countries to compile ISP by broad ISIC activities. - Compare each variable [including its metadata?] to identify any differences. - Recommend a variable (also its metadata) for each broad ISIC activity for discussion amongst TF Members and participants at June 2003 STESEG meeting. 	Will be launched from July 2003 and led by a member from UK.
3. Harmonisation or standardisation of definitions or titles for key variables in short-term service production (and possibly demand)	<ul style="list-style-type: none"> - Identify key variables. - Collect existing definitions or titles for the variables from international standards and/or national publications. - Identify discrepancies, problems or limitations with respect to key variables identified and existing definitions/titles collected. - Recommend new definitions or titles for discussion amongst TF Members and participants at June 2003 STESEG meeting. 	Will start from July 2003

Lessons from experiences and plans for future work

The taskforce discussions were very productive in determining specific tasks and priorities for the task force as the members actively expressed their initial views. Although various activities were allocated amongst members according to their interests, the group became somewhat less active after agreeing on the work program. As a result, it took much longer and was more difficult than expected to collect the requested information. Therefore, part of the work with respect to services production will have to be carried out after the 2003 STESEG meeting.

A possible explanation for the less active participation of taskforce members may be due to the fact that only a small number of OECD countries currently publish such statistics, and there is still learning curve for some taskforce members on the issues related to services indicators. At the same time, the only means of discussion to date has been e-mails or the EDG. Thus, prior to the 2003 STESEG meeting, several members of STISTF will meet face-to-face for the first time for a half a day. At the meeting taskforce members are expected to share frank views on task force activities and to draw more practical plans to accomplish remaining tasks outlined in Table 2. The possibility of holding a one day meeting of the task force at the end of 2003 or beginning of 2004 will be discussed. Conclusions from the meeting will be presented at the 2003 STESEG meeting for further discussion.

Table 2: A tentative schedule for the STISTF in the second half of 2003 and 2004

Dates	Tasks
25 June 2003	Task force meeting: members from Belgium, Canada, Denmark, Iceland, New Zealand, UK, and IMF will attend.
July 2003 – June 2004	Tackle remaining tasks on the compilation of short-term index for services production, i.e. <ul style="list-style-type: none"> - identify the most common or optimal practices of the OECD; - recommend the most suitable variables used to measure various short-term services activities; - harmonise or standardise definitions or titles for key variables of short-term service production (and possibly demand).
During 2004	<ul style="list-style-type: none"> • Prepare a document that can be used as a basis for a guideline to compile short-term index for services production activities; • Launch work on demand indicators for services sector.

Annex 1: Short-Term Indicators for Services Task Force – Initial views on activities

1. The Short-Term Indicators for Services Task Forces (STISTF) was created from recommendations flowing out of the June 2002 STESEG meeting. This note outlines a range of possible issues and work to be covered by STISTF for the 2003 meeting of STESEG, tentatively scheduled for 26-27 June 2003, and perhaps beyond. The note is intended primarily as a starting point for active discussion by task force members. To this end, your comments are required **by close of business Friday, 31 January 2003**. A detailed programme of work and the distribution of tasks amongst task force members will be developed by the OECD following receipt of views and preferences via the electronic discussion group (EDG) that has been set up for the task force (and in which you are now enrolled). A complete list of STISTF task force members and their email addresses is provided in the EDG.

a. ELABORATION OF ISSUES

2. STESEG participants in June 2002 agreed that the main priority for STISTF concerned the need to extend the range of indicators available for services, in particular, production or output indicators for this sector [see Annex for more information on STESEG priorities on this topic]. This section presents a set of general issues to be discussed in STISTF.

- The breadth and heterogeneity of the service sector presents a problem in determining priorities and identifying what short-term service activities the task force can realistically cover in the short and long terms. For example, should the focus be on:
 - the compilation of an overall index for total services production or indices based on a small number broad ISIC Rev. 3 categories similar to those used for industry (e.g. mining and quarrying; manufacturing; production and distribution of electricity, gas and water);
 - recommendations for specific ISIC Rev. 3 service sector categories G to O. If so, which ones?
 - exclusively market services or a combination of market and selected non-market services;
 - some other broad criteria such as knowledge based services or non-financial services.
- To what extent should STISTF exclusively cover:
 - production indices
 - demand indices; or
 - other sectors such as employment or labour?
- Which variables should be used to measure output for different service activities, e.g.:
 - those currently used to compile the corresponding sectors of quarterly GDP as much as possible; or
 - deflated turnover depending upon the timeliness or representativeness, etc.

- Should STISTF attempt to identify a set of “standard” definitions or titles for key variables in short-term services, for example, “turnover”, “sales”, “index of service production”, “demand indicators”, “production indicators”, “output indicators”, “services prices”? If yes, are there any other terms that need harmonisation? Obviously, such definitions would need to come from existing international standards where they exist. However, there will be instances where STISTF may need to develop new definitions based on current national use.
- Should STISTF identify and provide concise information on the various uses of short-term output indicators for services to highlight their importance in relation to say industry production indicators, e.g. for short-term economic analyses and as input to the compilation of quarterly GDP? Are there any issues specific to the various uses?

3. There are also a broad range of practical issues to compile short-term indicators for services production where STISTF could conceivably outline a set of recommendations, or at least identify best practice among OECD Member countries. For example:

- frequency – compilation of monthly or quarterly indicators
- measurement at constant prices:
 - use of approaches currently used to compile the corresponding sectors of quarterly GDP as much as possible; or
 - use of alternative approaches (i.e. extrapolation of base period data by physical quantity indices and deflation of current value indices) as appropriate;
- time series method: interpolation, extrapolation, now-casting, seasonal adjustment, etc:
 - use of methods currently used to compile monthly production indices for industry as appropriate; or
 - to consult STESEG task force on benchmarking for recommendation.
- weighting method: to use the share of the relevant basic activity in total value added (GDP) in the base year.
- balancing adjustment to quarterly or annual National Accounts
- data sources:
 - use sources currently used to compile the corresponding sectors of quarterly GDP as much as possible; or
 - use administrative records or official surveys of business as appropriate.
- use of finer disaggregation of specific service sectors to achieve comparability, etc, between ISIC Rev. 3 and NACE Rev. , e.g.:
 - for G (distributive sector):
 - Division 51, Groups 52.2 and 52.3: 3-digit level
 - Others: 4-digit level
 - for other categories: 2-digit level
- recommendations on the use of sampling.

Issues: Do STISTF members have any views or preferences on the relative priorities for the above issues, i.e. what issues should be addressed first for further discussion (and perhaps endorsement) at the 2003 STESEG meeting, and issues that should perhaps be covered subsequent to this meeting?

4. In dealing with these issues care will need to be taken to ensure that STISTF takes note of and utilises the work of other forums. The key ones identified to date are:

- Joint OECD-Eurostat task force on PPIs for services. There are a number of issues common to both STISTF and the PPI services project. Contact has already been established with the other task force to ensure the delivery of complementary and consistent outputs;
- work undertaken by the OECD Meeting of National Accounts Experts and associated task forces on the identification of output for the services sector, etc. In particular, work by these groups on the measurement of financial and other service outputs;
- Voorburg Group activities. Main work in recent years has focused on PPIs for services.

Issue: Do STISTF members know of other groups or forums we should contact or at least be aware of?

b. STISTF OUTPUTS (tentative)

5. Given the breadth of work entailed in covering all of the issues outlined above, it will be essential to identify a number of short and long term outputs. For the **short-term** (i.e. the period leading up to the June 2003 STESEG meeting) possible outputs could comprise:

- A brief document outlining definitions of key terminology based on existing international guidelines and recommendations (e.g. SNA, ISIC, other UN) where available recommended definitions (based on current national concepts) where not.
- A document summarising current national practices used across the OECD to compile short-term indicators for services sectors on production side (as well as demand side, if possible). This document would flesh out the background paper presented at the 2002 STESEG meeting.
- A separate document (perhaps) presenting selected examples of best practice used by (a number of) OECD Member countries in specific areas of interest to the task force, e.g. in particular, those covering some of the issues outlined in para. 3 above. These could subsequently be disseminated via the internet.
- A brief preliminary STISTF report summarising discussions of task force members on the issues regarding short-term indicators for services and on the formulation of specific recommendations for the compilation of short-term output measures for services sector and recommendations for future work.

These outputs would be presented at the various forums outlined in para. 4 above.

6. In the **longer term**, i.e. following the June STESEG meeting, a more substantial document or publication could be prepared that would include:

- Definitions of key concepts and terminology using existing international standards where available and those recommended by STESEG where not. This segment would also draw in relevant work of other forums such as those identified in para. 4 above.

- Current national practices of OECD Member countries in the compilation of short-term output indicators for services.
- Information on the use of short-term output indicators for services by analysts and their significance vice similar indicators for industry.
- Recommended best practice in the compilation of short-term output indicators for services.

7. This document/publication would utilise papers, etc, prepared for the 2003 STESEG meeting. The document would form the basis of metadata disseminated by the OECD for additional output indicators for services to be published in the monthly Main Economic Indicators (MEI) publication.

c. AREAS WHERE STISTF MEMBERS WISH TO CONTRIBUTE

8. STISTF members are invited to volunteer to pursue any of the issues identified in paras. 2 and 3 above or to take the lead in the preparation of any of the short-term outputs identified in para. 5 above. To enable the development of a more detailed work program to produce the outputs indicated above, would you please indicate your preference from the list below:

- brief specific contribution on any of the issues outlined in paras. 2 and 3 above.
- preparation of any of the following outputs for the June 2003 STESEG meeting:
 - brief paper outlining definitions of key terminology;
 - document summarising current national practices used across the OECD to compile short-term indicators for services on the production side (as well as demand side if possible);
 - identification of best practice in selected OECD Member countries including your own;
 - brief preliminary STISTF report summarising task force work to end June 2003.

9. Alternatively, task force members may indicate their preference for involvement only through their providing comments through EDG and/or meeting(s).

d. ORGANISATION OF FUTURE WORK

10. As mentioned previously, the EDG created for each of the STESEG task forces will be the principle vehicle for exchanging views, comments, providing feedback, etc. If practicable, though unlikely, an informal meeting(s) of (at least some) task force members could also be held over the next 6 months. To determine whether or not this would be feasible, could you please provide an indication of any conferences you may be attending in Europe over the next five months?

e. TIMEFRAME

11. The following table proposes a timeframe for the work of the task force for which comment is also invited.

Task	Participants	Deadline
1. Feedback on the proposed work plan for the TF	All TF members	31 Jan 2003
2. Finalisation of the initial scope for the work of the TF	TF chair	14 Feb 2003

3. Indication from TF members on the work they could undertake within the list of inscope topics.	All TF members	28 Feb 2003
4. Skirmish by TF members on previous (or concurrent) work done within their organisations on topics of interest to the TF. Provide an outline of this work or distribute relevant papers to the TF.	All TF members	31 Mar 2003
5. Preparation of rough, first draft papers by TF members (from commitments made in 3.) to facilitate TF chair including the issues in the summary paper for the June STESEG meeting.	TF members contributing papers	30 April 2003
6. Presentation of final papers for the June STESEG meeting.	TF chair and TF members contributing papers	31 May 2003

Annex 2: Summary of task force discussion on developing work program by taskforce members

A brief summary of the contents of feedback from taskforce members on the OECD note, “Initial views on activities” [see annex 1] is given below.

General views

Czech Statistical Office (CZSO) thinks that the list of issues proposed for the Services TF is very good and includes all the topics and problems that CZSO are interested in. CZSO fully agree with the proposed timeframe.

Iceland Statistics (ISL) has nothing to add and believes that Iceland will gain something from the task force.

Statistics New Zealand (SNZ) supports the proposed areas of investigation. SNZ is currently considering options for extending the range of sub-annual economic indicators (supply side) to selected services areas

Statistics Belgium (CB) thinks that this is extremely important and interesting task, because it pioneers into uncharted territory and attempts to establish international standards based on best practices, wherever possible. CB recommends the task force to collect necessary information based on a well-structured questionnaire which should be developed by an expert.

Hungarian Central Statistical Office (HCSO) has only a few years of experience for comprehensive quarterly economic survey for the services sector. HCSO estimate gross value added from an integrated questionnaire which collects turnover, production value, purchase value of goods resold, value of own account capitalised production, stocks, as well as investments and employment data. The survey’s main purposes are to provide data for quarterly GDP compilation and to satisfy Eurostat’s needs.

Mexican statistical office (INEGI) in general agrees with the initial views on activities. INEGI thinks STISTF should pay special attention to delimit the Service Sector categories and to decide on the kinds of services indicators to be covered.

UK (ONS) suggests restricting the scope to indicators that should be used as proxies for short-term movements in gross value added (GVA) of the service sector. Production, demand or employment indices should be considered only in their role as the most appropriate proxy for short-term GVA. As regard to the coverage of the service sector, ONS recommends to define in two levels: broad overview and detailed service sector [see coverage for details].

Statistics Canada (SC) thinks that greater priority should be given to the following areas (in decreasing order of priority; see contents and coverage for details):

- identification of a set of “standard” definitions or titles for key variables in short-term services;
- supply and demand indicators;
- variables to be used to measure output for different service activities.

Contents

CZSO is interested in topics listed in paragraphs 2 and 3 of the initial views note.

SNZ would be particularly interested in the development work to:

- identify variables that should be used to measure output for different service activities;
- identify a set of "standard" definitions or titles for key variables in short-term indicators;
- study practical issues in the compilation of short-term indicators for services production.

HCSO thinks that task force should focus on:

- supply indicators in the first place and demand indicators only as a complementary approach;
- coverage of indicators and standard definitions of variables.

INEGI recommends paying special attention to identify a set of definitions used to compile services production.

US Census Bureau (US) prefers to give priority to a discussion of:

- coverage of service sector activities;
- identification of variables that should be used in measuring output;
- standardization of definitions. In the case of turnover, for example, it would appear that countries are using somewhat different definitions. The US thinks that it would be useful to discuss the nature of these differences and the implications, if any, in their use for international comparison. Whenever definitions cannot be standardised, the nature of the differences needs to be documented.
- exploration of the development of demand as well as production indicators of service industry activity. For the purpose of quarterly surveys, the collection of information on new contracts awarded and contracts canceled for some industries are considered by the US. The US thinks that these may be useful indicators for future industry activity. It would be interesting to hear other countries' thoughts on this area of development.

ONS thinks that the task force should attempt to identify:

- variables to be used to measure output for different service activities. The most appropriate and practical measure should be considered for each industry. In some cases this is likely to be deflated turnover, in other cases it may be a volume indicator. It is important that criteria are established for assessing which are the most appropriate indicators for each industry. ONS do not think, as a general rule, that the indicator used for estimating quarterly GDP (or GVA) for the service sector should differ from the indicator used for monthly GVA. So, if deflated turnover is considered appropriate for monthly GVA it should also be used for quarterly GDP (output/production approach)

- a set of standard definitions. Each member will be familiar with their own definitions and some may have different definitions for the same term. The most obvious terms are mentioned in the discussion note but no doubt others will come to light.

With regard to practical issues, ONS feels that weighting is relevant. However, other issues (i.e. frequency, sources of information, time series method, balancing adjustment, and sampling, are either less important or out of scope of the task force.

SC views that the following topics should be discussed in STISTF (in decreasing order of priority):

- a set of standard definitions. For example, although “turnover” is used extensively in the current work of the Short-Term Economic Statistics Expert Group (STESEG), and defined in the SNA 1993, it is not used at all by SC. An agreed definition would definitely facilitate international comparisons. SC notes that the document “A Review of Concepts and National Experience in the Compilation of Demand Indicators and Output Indicator”, prepared by the Secretariat for 2002 STESEG meeting is an excellent starting point;
- supply and demand indicators should be covered exclusively. Other areas such as labour and capital are either already the focus of other international instances, or are generally not available sub-annually.
- variables should be used to measure output for different service activities. This area is of interest both for SC’s work programme and for international comparison. Given that there is very little to be found on this topic in current international standards, it would be a worthy focus for the task force.
- SC can only cover a limited but significant subset of service industries.

SC offers the Canadian experience on practical issues, as all the issues appear in the derivation of monthly GDP by industry for Canada.

- frequency. Although GDP by industry was first derived quarterly in the 1950s, its frequency was changed to monthly in 1970. This frequency is required by our main users for monitoring the state of the economy as frequently as possible around turning points in the business cycle.
- data sources and constant prices. In Canadian experience, it was found that many data sources that were used to derive the quarterly estimates of GDP by industry were also available monthly. It is much preferable to use the same sources of data and deflation techniques for both the monthly and quarterly estimates. Otherwise, the generally diverging estimates need to be reconciled, unnecessarily burdening the production process. However, not all data sources can be expected to be available monthly. This is the case for Canada, where somewhat less than 11% (in value for 1997) of the components of GDP by industry are not available monthly. In those cases, the quarterly and annual (in very few cases) estimates are distributed monthly using benchmarking methods.
- weights. To aggregate the various components into a “global” indicator of economic activity, SC is required to use the share of the relevant activity in GDP. These shares, however, should be derived from Input-Output tables, or, failing that, from annual estimates of GDP by activity obtained from more extensive data sources.

- time series methods, balancing adjustments and sampling: should be deferred to other task forces or out of scope of the task force's interests.

Coverage of service activities

HCSO thinks that an output indicator should cover the following ISIC Rev. 3 categories:

- Section G: Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods;
- Section H: Hotels and restaurants;
- Section I: Transport, storage and communication;
- Section K: Real estate, renting and business activities;
- Division 93: Other service activities.

At the same time, it should cover further groupings such as exclusively market services and non-financial services.

US, with regard to coverage issues in developing indicators of service sector activity, considered a number of factors in the early phases of planning for the proposed Quarterly Services Survey, i.e.:

- information and technology-intensive industries;
- industries sensitive to changes in the business cycle; and
- those whose inclusion would result in improvements in estimating GDP and other composite measures of economic activity.

In subsequent consultation with the Bureau of Economic Analysis, Federal Reserve Board, and the Bureau of Labor Statistics the latter consideration was given the highest weight. The preference of these agencies was that Census Bureau also gives priority to producing aggregated data at a sector or sub-sector level in lieu of selected industry data across all service sectors. The US would certainly be interested in hearing other countries' experience, with STESEG perhaps developing some recommended guidelines.

The ONS suggests that the task force defines the coverage of the service sector at two levels:

- **broad overview. This should cover the entire service sector including market and selected non-market services. This aspect of the work should endeavour to document the approach to measuring short-term movement of GVA. The ONS is currently carrying out a four-year review of data sources and methods for estimating short-term movements in gross value added, and comparisons with other countries across the service sector would be of interest.**
- **detailed study of service sector. It is only practical to carry out detailed discussion and investigation into a limited number of specific short-term service activities. While the ONS is interested in detailed discussion of any service industry, some areas of interest are:**
 - Div 64: Telecommunication;

- Div 65: Financial intermediation;
- Div 66: Insurance & pension funds;
- Div 79: Real estate including own property & letting of own property;
- Div 72: Computer & related activities;
- Divs 75, 80, 85: Short term indicators for Defence, education and Health.

SC can only cover a limited but significant subset of service industries. This subset should include those service industries for which the currently available information is limited and which are barely covered by already existing international standards. These are:

- Sector H: Hotels and Restaurants.
- Division 63: Supporting and auxiliary transport activities; activities of travel agencies.
- Division 64: Post and telecommunications (excl. National post activities).
- Division 71: Renting of machinery and equipment without operator and of personal and household goods.
- Division 72: Computer and related activities.
- Division 73: Research and development.
- Division 74: Other business activities.
- Sector O: Other community, social and personal service activities.

However, SC recommends that the task force considers the upcoming revision to ISIC which is likely to result in major changes, as well as the compatibility of its recommendations with other industry classifications, such as the North American Industry Classification System.

SC feels that the task force should concentrate exclusively on market activities. For many service industries, it will already be difficult to define and obtain appropriate indicators of their market activities without increasing the response burden. SC does not anticipate that the task force will *define* specific groups of industries for which internationally comparable statistics would be published in terms of specific grouping of service activities. However, given the forthcoming modifications to ISIC, this approach might be used to categorize service industries in order to simplify the selection of sub-annual indicators.

Canada is unique in having a comprehensive monthly measure of valued added by industry, including the service sector in its entirety, tied to the international standard set forth in SNA 1993. Because of this, Canada's interest is mainly in improvements to the current measure, notably for areas where monthly output indicators are lacking. In the longer term, SC could see the task force address the issue of how to measure sub-annually the activity of the public sector, Sectors L (Public administration), M (Education), and N (Health and social work), as this area's treatment in international standards is generally too focussed on its financial management and positions.