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Evaluation of the Joint Harmonised EU Programme of Business and Consumer Surveys

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LIST OF ACRONYMS

BCI	Business Climate Indicator
BCS	Joint Harmonised EU Programme of Business and Consumer Surveys
CSO	Central Statistics Office (Ireland)
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
DG ENTR	Directorate-General for Enterprise and Industry
DG MARKT	Directorate-General for Internal Market and Services
EBCI	European Business Cycle Indicators
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ESI	Economic Sentiment Indicator
ESRB	European Systemic Risk Board
EU	European Union
GDP	Gross Domestic Product
GVA	Gross Value Added
MEI	Main Economic Indicators
NACE	Nomenclature des Activités économiques dans la Communauté
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics (the United Kingdom)
PMI	Purchasing Managers' Index
UN	United Nations

EXECUTIVE SUMMARY

This is the Final Report of the *Evaluation of the Joint Harmonised EU Programme of Business and Consumer Surveys*. The evaluation was commissioned by the Directorate-General for Economic and Financial Affairs (DG ECFIN) in June 2011. The work was undertaken by GHK Consulting in association with DIW Berlin.

BACKGROUND AND CONTEXT

The Joint Harmonised EU Programme of Business and Consumer Surveys (BCS programme) was launched by the Commission in 1961. The programme consists of a series of harmonised tendency surveys (also referred to as opinion surveys) carried out on a monthly or quarterly basis across all EU Member States and candidate countries. Tendency surveys collect information on the current situation of businesses and consumers and about their plans and expectations for the near future. As official statistics (GDP and employment data, for example) are released with a delay and frequently subject to revisions, tendency surveys are a key source of information on the current state of the economy (and specific sectors) and its short term prospects. Information from these surveys is also used for forecasting reference macroeconomic variables and for analysing turning points in the business cycle.

The programme presently covers six sectors: Consumers; Industry; Construction, Services; Retail Trade; and, Financial Services. The survey data is aggregated to construct confidence indicators for each of these sectors and for the economy as a whole.

The surveys are carried out nationally by partner institutes according to a common broad methodological approach, a common timetable and a common set of questions. It is possible, and indeed it frequently happens, that the surveys carried out nationally by the partner institutes include additional questions beyond the harmonised ones. Moreover, partner institutes have the flexibility to determine operational parameters such as sampling approaches, sizes and survey modalities.

Partner institutes are selected on the basis of a call for proposals¹. The surveys are jointly financed by the EU and partner institutes at a national level (which could be Ministries, National Statistical Offices, Central Banks, Economic Research Institutes, Business Associations and Private Companies). Partner institutes receive between 10 per cent and 50 per cent of the cost of a survey from the European Commission depending on the additional burden the harmonised questions represent. The partner institutes retain the copyright on the data they collect and are free to publish their set of national data for free or at a cost. Indeed, a number of partner institutes separately publish, under their own 'brand', the survey results on a national basis often with additional questions and regional detail.

Within the framework of the programme, the European Commission actively facilitates information exchange and knowledge sharing between partner institutes by organising annual workshops and by setting-up working groups to explore specific methodological or operational issues.

¹ The Financial Services Survey is exceptionally carried out by a single contractor selected via an open tendering process.

Within the Commission, the programme is managed and implemented by Unit A4.2 (Business and consumer surveys and short-term forecast, ex-Macroeconomy of the euro area, surveys and databases) in DG ECFIN. As an ongoing activity of the Commission, there is formal requirement to periodically evaluate the programme. It was previously evaluated in 2005.

The overall aim of the present evaluation was to assess user needs and their appreciation of the harmonised surveys; and, to provide recommendations for improvement. To achieve this, quantitative and qualitative evidence was drawn from a number of sources: desk research; an online survey of partner institutes; an online survey of national policy makers and administrative users; and, interviews with Commission officials, the European Central Bank (ECB); the Organisation for Economic Cooperation and Development (OECD); partner institutes; research institutes and companies; businesses; and, media representatives.

EVALUATION FINDINGS AND CONCLUSIONS

The main findings and conclusions of this evaluation are as follows:

Identification of users and patterns of use

- **BCS programme has a diverse user base.** Within the Commission, BCS products are extensively used by various Directorates-General namely: DG ECFIN; DG Enterprise and Industry (DG ENTR); DG Employment, Social Affairs and Inclusion (DG EMPL); DG Internal Market and Services (DG MARKT); and, Eurostat. External users include: the ECB; OECD; National Central Banks; National Ministries and Departments; National Statistical Offices; Research Institutes; Academia; Businesses and their representatives such as Industry/ Trade Associations and Chambers of Commerce; Private Research Companies; Financial Institutions; and, the Media.
- **Patterns of use vary across different categories of users.** At a very basic level, BCS data are used to obtain an overview of the current state of the economy (or specific sectors) and its short term outlook. More sophisticated uses include nowcasting/ forecasting, business cycle and turning point analysis.
- The evaluation found evidence to demonstrate **that BCS data regularly feeds into policy making** (particularly, monetary policy making) **and business decision making** (decisions relating to asset allocation and investments). The end-use of BCS products for policy making purposes however, is not always visible or obvious as BCS data tends to inform policy making rather than be explicitly referred to in policy documentation.
- **All BCS products are used**, though some products are used more intensively and widely than others. The Consumer and Industry Surveys (and the corresponding Confidence Indicators) are the most frequently and widely used products. New products such as the Financial Services Survey and the Flash Consumer Confidence Indicator are used to a very limited extent due to non-availability of country level data and relatively low levels of awareness of their existence among users.

- **BCS products are typically, used in conjunction with alternative survey products** to corroborate evidence (by cross-checking survey results) and to add to the depth of the analysis (by combining unique questions from multiple sources). The Purchasing Managers Index (PMI) was found to be the most commonly used alternative product although it is not regarded as a substitute for BCS products for the reasons previously mentioned. Internal users within the Commission tend to prefer BCS over PMI; however, private sector users tend to rely more on PMI as the primary source of information while using BCS as a complementary or secondary source.

Meeting users' needs and expectations

Overall, the BCS Programme is well aligned with users' needs and expectations. However, there are some issues requiring attention. These are as follows:

Relevance: the programme is not considered relevant by users who are specifically interested in data for Ireland (due to lack of data for the period 2008 to 2011). The relevance of some components of the programme is greatly reduced by their limited sectoral coverage (Flash Indicator is only available for the consumer sector) or non-availability of country level data (Flash Indicator and the Financial Services Survey).

Timeliness: a number of users expressed frustration that the BCS data are released later than the Flash PMI and the national surveys (in some cases).

Comparability: the two main concerns expressed by the users are (a) a relatively short time series for the Services and the Financial Services survey; and, (b) non-homogeneity of approach across partner institutes e.g. the reference period for the questions being different across countries (six months instead of three months).

Methodology: some methodological approaches were criticised by the users notably, the use of DAINTEs for seasonal adjustment; the practice of assigning equal weights to all questions in the construction of indices; and the phrasing of survey questions which in their present form, seek to elicit information regarding intended behaviour as opposed to the actual behaviour of economic agents.

Interpretability: users have expressed demands for more guidance on how to interpret survey questions as well as survey answers.

Transparency: BCS surveys are quite transparent in terms of the information available on DG ECFIN's website notably, comprehensive metadata by sector and country; a methodological user guide; press releases; list of partner institutes; and, contact details. However, users are often not aware of the existence of this information and, in some cases, have requested for further information.

Accessibility: a number of external users and even some internal users consider that the visibility and accessibility of the survey products could be greatly improved. Some users expressed a preference for data to be made available in alternative formats (.CSV or access database).

Frequency: some users would like the European Business Cycle Indicators (EBCI) and Investment Survey to be produced on a monthly basis, and the question on *capacity utilisation* to be asked on a monthly basis

New needs arising from the financial and economic crisis

The financial and economic crisis has reinforced the importance of early warning signals. Due to greater economic uncertainty and instability, there is a greater urgency to access data in a timely manner. For many users, the crisis has shifted emphasis from EU or Euro-area level to a country level analysis. In this context, some users expressed a wish for more guidance on how to interpret survey results and conduct cross-country comparisons in periods of economic uncertainty and instability. Other users would like to see new questions added to the surveys to elicit specific information on factors affecting business and consumer sentiment during a particular period (e.g. events such as the Japanese tsunami or announcements relating to interest rate changes). The crisis has also generated more interest in certain sectors such as construction (sporadically quoted notably by one desk officer) and most prominently, the financial services sector. It has also reinforced the need for more information on the financial situation of households.

Assessment of EU added value of the programme

The main added value of the programme is that it generates harmonised data which enables cross-country comparisons and the construction of EU/ Euro-area indicators. Furthermore, the programme promotes capacity building and knowledge sharing among partner institutes.

A vast majority of the users stated that their work would be adversely affected if the programme were to cease to exist as it would reduce the evidence base available for analysis. The programme is considered a unique source of information by many users in terms of its coverage and length of the time series.

Moreover, EU co-financing is considered critical by many partner institutes. More than half of the partner institutes (23 out of 42 respondents) would not be able to carry out the harmonised surveys without EU co-financing; sixteen partner institutes would have to downsize the programme and only three would be able to run the programme as usual.

Comparison with alternative survey products notably, the PMI

The relative strengths of BCS products as compared to the PMI are: its wider sectoral and geographical coverage; availability of data for sub-sectors; longer time series; larger sample sizes; and, methodological transparency.

The perceived strengths of the PMI are as follows: the Flash PMI is released earlier than the BCS data; PMI data is considered easier to interpret by users; and, a number of private sector users were of the opinion that the questions are phrased better (i.e. they are more factual in that they explore what actually happened as compared to the BCS which focuses more on intentions or expectations). BCS questions are more forward looking than the PMI questions. Paradoxically, despite the backward looking nature of its questions, the PMI was found to have superior forecasting properties.

An econometrics-based comparison of the forecasting properties of the BCS and the PMI was carried out within the framework of this evaluation. The main results of this analysis are as follows:

- The overall Economic Sentiment Indicator performs quite well if investment or GDP growth is considered. However, PMI measures perform even better;

- The composite indicators are usually better than the individual questions in the survey. The best performing questions are: *production expectations* in the Industrial Survey and *expectations with regard to the general economic situation* in the Consumer Survey;
- In contrast, self-constructed composite indicators are more accurate than EU measures and the PMIs for predicting private consumption and industrial production. The gains are often substantial, if a pre-selection of the individual questions is involved. Therefore, the aggregate is constructed not from all but, only from the best performing questions. The latter are determined in time the forecast is made. Hence, data-driven techniques should be selected to obtain the weights of the individual ingredients;
- Some changes were noted in the forecasting accuracy of the indicators during the economic crisis. PMI measures demonstrated an improvement in forecasting performance, while the Economic Sentiment Indicator's performance worsened during the crisis; and,
- Real time data have only minor effects on the results.

The scope for cost savings

The evaluation did not find any compelling reasons for discontinuing survey products that are less used. On the other hand, there is a case to be made for improving the usability of the surveys that are relatively less used by improving their visibility, expanding their coverage and/or improving the survey questionnaires.

There might be scope for reducing costs by improving efficiency across some partner institutes. However, this issue lies outside the scope of this evaluation.

Recommendations for Improvement

The recommendations of this evaluation are as follows:

Improving relevance

DG ECFIN should expand the geographical coverage of the Financial Services Sector to produce country level results. In doing so, due consideration should be paid to the fact that the economic importance and size of this sector varies considerably across Member States (Priority: High).

Improving methodology

DG ECFIN should continue to maintain its focus on driving methodological improvements and harmonisation:

- DG ECFIN should set-up working groups to consider the feasibility of introducing the specific methodological changes proposed by users such as the weighting scheme. (Priority: High).
- DG ECFIN should collect feedback from partner institutes regarding their experience of using ad-hoc questions, notably in terms of their views on the readability of the results. As a second step, DG ECFIN should reflect on the process by which these ad-hoc questions could be defined. DG ECFIN should also evaluate the feasibility of adding additional harmonised questions e.g. access to finance (Priority: Medium).
- DG ECFIN should re-evaluate the use of DAINTRIES as the methodology for seasonal adjustment (Priority: Medium).

Improving transparency and interpretability

In response to user needs, DG ECFIN should publish normalised data (Priority: High).

In the spirit of transparency, all national questionnaires should also be published on DG ECFIN's website (Priority: High).

DG ECFIN should develop a set of reference documents for interviewers, respondents and users to promote common understanding of key concepts and definitions and to facilitate the interpretation of survey questions and answers (Priority: High).

DG ECFIN should conduct meta-surveys of partner institutes' answering practices and encourage partner institutes to carry out more surveys of surveys (Priority: High).

DG ECFIN should publish the percentages of positive and negative respondents at an aggregate EU and Euro area level (Priority: Medium).

Improving knowledge

DG ECFIN should set aside a budget for specific research projects such as academic studies on the reliability of BCS indicators in tracking reference macroeconomic variables and research utilising micro data. Joint research projects involving collaboration between partner institutes should be encouraged (Priority: Medium).

Improving visibility and accessibility

DG ECFIN should proactively improve the visibility of the programme by publicising the results of the survey more widely and by using a range of communication channels to reach out to potential users (Priority: Medium).

DG ECFIN should consider re-structuring its website to make it more user-friendly (Priority: Medium).

DG ECFIN should consider providing the survey data in alternative formats such as .CSV (Priority: High).

Finally, it is important that DG ECFIN is adequately resourced both financially and in terms of human resources, to deliver high quality survey products.

1 INTRODUCTION

This is the Final Report of the *Evaluation of the Joint Harmonised EU Programme of Business and Consumer Surveys*. The evaluation was commissioned by Unit A4.2 (Business and consumer surveys and short-term forecast, ex-Macroeconomy of the euro area, surveys and database) of the Directorate-General for Economic and Financial Affairs (DG ECFIN) in June 2011. The work was undertaken by GHK Consulting in association with DIW Berlin.

The Final Report details the work undertaken and the evidence collected within the framework of this evaluation; it sets out the conclusions reached in response to each evaluation question; and, makes a series of recommendations for improving the survey programme so that it is better aligned with user needs.

1.1 Aims and Objectives of the Evaluation

The European Commission's evaluation standards² require all ongoing activities of the Commission³ to be periodically evaluated (i.e. every six years). The *Joint Harmonised EU Programme of Business and Consumer Surveys* was previously evaluated in 2005⁴ and the present study meets the requirement to carry out an evaluation in 2011. Aside from the formal obligation to evaluate, the Commission was also keen to use this opportunity to take stock of the programme, to review users' needs (in order to identify any new or unmet needs) and, to identify areas for improvement. To this end, the evaluation focused on the following issues:

- Identification of users and patterns of use;
- Assessment of user needs and their appreciation of the survey products;
- Consideration of any new information needs arising from the financial and economic crisis;
- Assessment of EU added value of the programme;
- Comparison with alternative survey products; and,
- Determining the scope for cost savings by identifying survey products that are unused.

The results of the evaluation will feed into a Communication from the Commission on the functioning of the *Joint Harmonised EU Programme of Business and Consumer Surveys*.

1.2 Evaluation Methodology and Approach

The evaluation utilised quantitative and qualitative evidence drawn from desk research, online surveys and semi-structured interviews. These three research methods taken together provide the evaluative evidence for the principal findings and recommendations contained in this Report. Each of these methods is described below.

² SEC(2007)213 - *Responding to Strategic Needs: Reinforcing the use of evaluation*. Available at: http://ec.europa.eu/dgs/secretariat_general/evaluation/docs/eval_comm_sec_2007_213_en.pdf

³ Specifically those activities which are addressed to external parties such as spending programmes and legislation

⁴ European Evaluation Consortium, 2005. *Evaluation of Business and Consumer Surveys. Final Report*. ECFIN/196/2004/385636. http://ec.europa.eu/economy_finance/evaluation/pdf/bcs_en.pdf [accessed on 29.03.2011]

1.2.1 Desk Research

Desk research encompassed the following activities:

Elaboration of the intervention logic: documents such as the legal basis for the programme, methodological user guide, BCS annual workshop documents etc. were used to (a) map the programme content and its evolution over time; and, (b) elaborate the intervention logic of the *Joint Harmonised EU Programme of Business and Consumer Surveys*⁵. The study team also mapped the human and financial resources, technical infrastructure and organisational processes involved in the delivery of the BCS programme.

User identification: the previous evaluation of the *Joint Harmonised EU Programme of Business and Consumer Surveys* and information gathered from incoming enquiries was used to identify potential and actual users of the survey products.

Comparative assessment: a key element of the desk top research was to compare the BCS products with the Purchasing Managers Index (PMI) using a number of parameters such as web visibility, coverage, reliability, cost, timeliness, actual forecasting/ nowcasting properties and usage.

Literature review: academic research, economic reports, briefings and other material utilising BCS products were reviewed to understand how the BCS programme contributes to macroeconomic surveillance, forecasting and policy making. Select academic and grey material examining the reliability of business and consumer confidence surveys in predicting reference macroeconomic variables (such as employment, industrial production, consumer spending), nowcasting/ forecasting economic output and observing business cycles was also reviewed by the study team.

1.2.2 Online Surveys

Two online surveys were carried out to build the evidence base for the evaluation:

- *Online survey of partner institutes:* the purpose of this survey was to collect the views of the partner institutes on the relevance, usefulness and quality of the business and consumer surveys; and, the management and organisation of the BCS programme. 42 out of 49 partner institutes responded to this survey (survey response rate = 86 per cent);
- *Online survey of national policy makers and administrative users:* this survey was targeted to relevant national ministries/ departments (such the ministry of finance/ treasury department, ministries responsible for industrial growth, employment etc.), National Central Banks and National Statistical Offices. In total, 95 organisations were invited to participate in the survey. The survey was conducted in three languages and consisted of questions on actual/ potential users' perceptions of the relevance, usefulness and added value of the survey programme as well as suggestions for improvement. Responses were received from 38 organisations (response rate of 40 per cent) representing 23 Member States (one respondent chose not to specify their country). While the survey results are not considered statistically significant due to the limited number of respondents, when reviewed in conjunction with desk research and stakeholder interviews, the survey data provides useful insights into users' requirements, expectations and satisfaction levels.

⁵ An intervention logic is a set of hypothetical cause and effect linkages that describe how an intervention is expected to attain its global objectives. These hypothesised cause and effect relationships provide the basis for attributing changes observed in the real world to an intervention.

Table 1:1 Breakdown of Responses to the Online Survey of National Policy Makers and Administrative Users

User category	No. of Respondents
Ministries	15
Central Banks	19
National Statistics Offices	4
Total	38

1.2.3 Semi-structured Interviews

To provide additional context, a series of semi-structured interviews were conducted with DG ECFIN officials involved in the delivery of the programme and select partner institutes who agreed to participate in follow-up interviews. Additionally, face to face/ phone interviews were conducted with a range of users to gather information on usage patterns; to better understand their requirements and expectations; and, to collect feedback on the strengths and weaknesses of the *Joint Harmonised EU Programme of Business and Consumer Surveys*. Table 1:2 provides an overview of the semi-structured interviews carried out in the context of this evaluation.

Table 1:2 Overview of Semi-structured Interviews carried out as part of the Evaluation

Stakeholder Group	Coverage	No. of Interviews	Interview Mode
Data producers	DG ECFIN BCS Team	6	Face to face
	Partner Institutes	12	Phone
Data users - internal	DG ECFIN Forecasting Team	2	Face to face
	DG ECFIN Country Desks	14	Face to face
	Other DGs: DG EMPL; DG ENTR; DG MARKT; Eurostat	9	Face to face
Data users - external	ECB	1	Face to face
	OECD	1	Face to face
	Financial institutions	16	
	Research institutes/ Academic institutions	13	Phone
	Data providers*	3	Phone
	Media	3	Phone
	Trade associations	2	Phone
	Total number of interviews carried out		81

*These are Economist Intelligence Unit; Thomson Reuters; IHS Global Insight

1.3 The Structure of this Report

This Report continues in the following sections:

- Section 2 provides an overview of the Joint Harmonised Programme of Business and Consumer Surveys;
- Section 3 presents the detailed findings of the evaluation; and,
- Section 4 sets out the conclusions and recommendations emerging from this evaluation.

The main report is supplemented by a Technical Annex which is structured as follows:

- Annex 1: Overall methodological framework for the evaluation;
- Annex 2: List of interviewees;

- Annex 3: Synthesis of the interviews with internal Commission users;
- Annex 4: Results of the online surveys;
- Annex 5: Synthesis of the interviews with private sector users and research institutes;
- Annex 6: Synthesis of the follow up interviews with partner institutes;
- Annex 7: Online content analysis;
- Annex 8: Comparing the forecasting properties of BCS and PMI;
- Annex 9: List of documentation assembled and reviewed.

2 THE JOINT HARMONISED EU PROGRAMME OF BUSINESS AND CONSUMER SURVEYS

This section of the report provides a detailed description of the *Joint Harmonised Programme of Business and Consumer Surveys* by way of background information and context for the evaluation findings reported in section 3.

2.1 Origins and Evolution of the Programme

The *Joint Harmonised EU Programme of Business and Consumer Surveys* (BCS programme) was initiated by the Commission in 1961⁶. The first harmonised survey, covering the industrial sector, was launched in 1962. Since then, both the sectoral and geographical coverage of the surveys have expanded considerably. The programme presently covers six sectors (Table 2:1). The geographical coverage of the programme has been regularly extended to include all Member States as well as candidate countries. In January 2007, the programme encompassed the 27 Member States of the European Union and one candidate country, Croatia. Another candidate country, Turkey, was integrated into the programme from May 2007 onwards. Former Yugoslav Republic of Macedonia was added to the programme in May 2008.

Table 2:1 Sectoral Coverage of the Joint Harmonised EU Programme of Business and Consumer Surveys

Sector	Survey Start Year
Industry*	1962
Construction	1966
Consumers	1972
Retail trade	1984
Services	1996
Financial services	2006

* The survey was extended to include questions on firms' investment plans in 1966

Source: DG ECFIN (2007) *The Joint Harmonised EU Programme of Business and Consumer Surveys: User Guide*. Brussels: European Commission

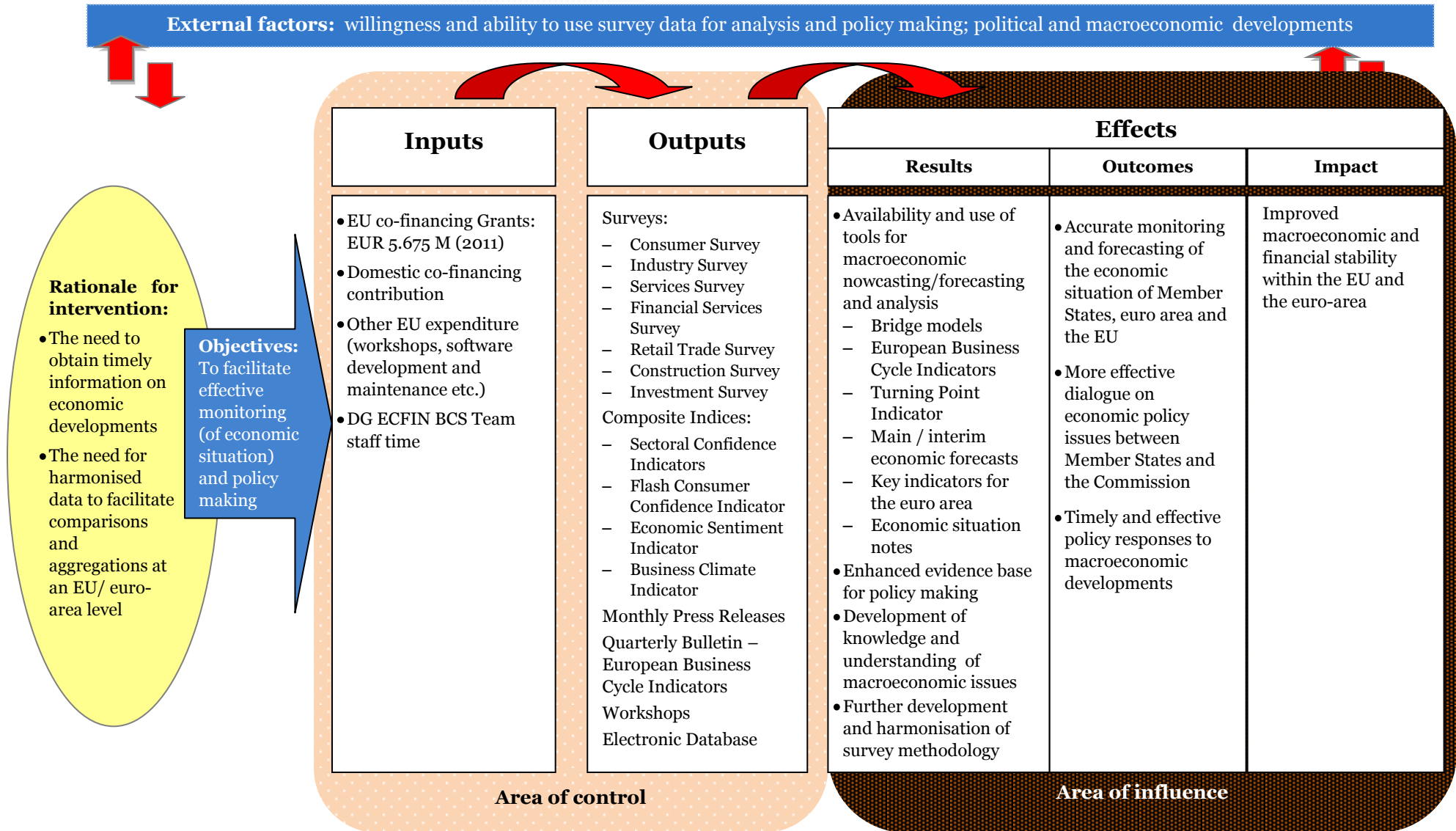
The implementation of the programme is governed by Commission Decision C(97)2241 of 15 July 1997 which sets out the objectives and scope of the programme.

2.2 Intervention Logic of the Programme

Figure 2:1 illustrates the intervention logic of the *Joint Harmonised Programme of Business and Consumer Surveys*. It is followed by a description of the individual components of the logic model namely inputs, outputs, results, outcomes and impacts.

⁶ DG ECFIN (2006) *European Economy, Special Report No 5 / 2006: The Joint Harmonised EU Programme of Business and Consumer Surveys*. Brussels: European Commission.

Figure 2:1 Logic Model for the Business and Consumer Survey Programme



2.2.1 **Rationale: The need for a Joint Harmonised EU Programme**

The *raison d'être*⁷ for the *Joint Harmonised Programme of Business and Consumer Surveys* is as follows:

- *The need for 'early warning signals'*: tendency or opinion surveys collect qualitative ('soft') data on the current situation of businesses and consumers; their perceptions of the economic conditions; and, their intentions and expectations for the immediate future. As 'hard' data on the current state of economic activity - usually measured by GDP - are only available with a lag of 30 to 90 days (sometimes, even more), tendency surveys are a key instrument for gauging the current state of the economy and the direction in which it is headed. Information from these surveys has proved of particular value in forecasting turning points in the business cycle⁸. Moreover, as practice shows, the first release of GDP data often undergoes (substantial) revisions made by statistical agencies as more complete information becomes available. Tendency survey data, on the other hand, are typically not subject to revisions. Furthermore, the range of information covered by business and consumer surveys also goes beyond variables normally captured by official statistics. For example, qualitative information is typically collected for variables which are difficult or impossible to measure by conventional methods, such as capacity utilisation and views on the overall economic situation.
- *The need for harmonised data*: after World War II, the first business and consumer tendency surveys were launched at a national level. But, these had varying characteristics (different periodicity, scope and questions) which prevented cross- country comparisons and EU level/ Euro-area aggregation. Conducting the surveys in accordance with a common methodology, in particular a harmonised questionnaire, leads to a better comparability of the data between different Member States and enables the construction of meaningful aggregated business cycle indicators for the Euro area and the EU.

2.2.2 **Objectives of the BCS Programme**

In the context of the above needs, the primary objective of the BCS programme is to produce harmonised data in order to facilitate:

- Effective monitoring of the current economic situation and short-term prospects, both at a national and at EU and Euro area level; and,
- Timely and effective policy making in response to (and in anticipation of) macroeconomic developments.

A secondary objective of the programme is to support the creation of capacity to undertake such surveys, especially in smaller Member States and candidate countries.

2.2.3 **Inputs**

The surveys are jointly financed by the EU and partner institutes at a national level (which could be: Ministries; Statistical Institutes; Central Banks; Economic Research Institutes; Business Associations; and, Private Companies).

⁷Informed by a review of the following Commission documents:

C(97)2241 - Communication de M. de Silguy à la Commission sur le programme commun harmonisé des enquêtes de conjoncture de l'Union européenne

COM(2000) 770 final - Joint Harmonized EU Programme of Business and Consumer Surveys

COM(2006) 379 final - Joint Harmonized EU Programme of Business and Consumer Surveys

⁸ OECD (2003) *Business Tendency Surveys: A Handbook*. Paris: Organisation for Economic Co-Operation and Development.

Partner institutes receive between 10 per cent and 50 per cent of the cost of a survey from the European Commission depending on the additional burden the harmonised questions entail. The national co-financing of surveys can come from public contributions, membership fees, sponsorships and/ or data sales.

The Commission supports the activity of the partner institutions on the basis that the main benefits of harmonisation (comparability, aggregation) accrue mainly at an EU and Euro-area level rather than at the level of the Member States. EU grants are intended to cover the incremental costs that arise from the inclusion of additional harmonised questions or the addition of new sectors and branches in the surveys and/or the change of certain questions from a non-harmonised type to a harmonised one.

Table 2:2 provides details of the cost of conducting the surveys and the means through which they are financed including EU grants . The total cost of running the programme is in the range of EUR 15 million to EUR 16 million per annum, of which roughly a third is financed by the Commission. The total amount of EU co-financing committed for the period 2011/12 is EUR 5.7 million (including cost of the Financial Services Survey).

Table 2:2 Cost of conducting the Surveys and Funding Sources, 2005-2010*

	2005	2006	2007	2008	2009	2010
Total cost of the Surveys	16,576,912	16,047,092	16,592,215	15,714,918	15,126,895	15,602,129
Funding Sources:						
Revenue**	210,498	180,801	253,019	202,486	167,186	149,480
Own Contribution of Partner Institute	11,948,775	11,388,912	11,075,140	10,230,209	9,667,973	10,000,965
Contribution by other organisations	173,511	230,741	280,996	340,254	341,254	333,839
EU Grant	4,244,128	4,246,638	5,000,052	4,941,970	4,950,482	5,117,844
Average EU co-financing rate	26%	26%	30%	31%	33%	33%

Excluding cost of the Financial Services Survey

***Refers to revenue generated by the partner institute by sale of survey data*

Source: GHK calculations based on DG ECFIN data.

The additional inputs that go into the programme are as follows:

- Commission resources devoted to the management of the programme: the core BCS team presently comprises a Head of the Sector, three economists, 1.5 statistical assistant posts (which includes an IT assistant post) and a finance and contracts assistant;
- Costs relating to the development and maintenance of the IT tool and organisation of annual workshops and other events; and,
- Commission overheads.

2.2.4 Outputs

The main outputs of the BCS programme are as follows:

- The **survey datasets** and the **confidence indicators** based on these datasets (Table 2:3);
- **Monthly press releases** on the penultimate working day of each month providing a brief (half-page) and factual overview of the key messages emerging from the survey results and quarterly publication of the note on the European Business Cycle Indicators;
- **Annual workshops** with partner institutes to discuss methodological issues and to address any issues related to the BCS programme. The annual workshop also provides a forum to exchange views and share best practice on how to conduct business and consumer surveys and on how to interpret the results.

Table 2:3 Description of ECFIN's Business and Consumer Surveys

Survey	Frequency	Description	Confidence Indicators based on Survey Data
Consumer survey	Monthly Some information is collected on a quarterly basis	Entirely qualitative Collects information on households' assessments of their current financial situation and expectations for the next 12 months, spending and savings intentions, and their perception of current and expected economic situation and inflation.	Consumer Confidence Indicator Economic Sentiment Indicator Flash Consumer Confidence Indicator
Retail trade survey	Monthly	Entirely qualitative Business managers are asked about their assessment of recent developments in their business situation, of the current level of stocks, and their expectations about a number of economic variables such as production, new orders and employment	Retail Trade Confidence Indicator Economic Sentiment Indicator
Industry survey	Monthly plus some information collected on quarterly basis (Investment survey of manufacturing sector is conducted twice a year)	Mainly qualitative questions relating to assessment of recent trends in production, of the current levels of order books and stocks, as well as expectations about production, selling prices and employment. Quantitative information is collected on two variables : capacity utilisation and the number of months of production assured	Industrial Confidence Indicator Business Climate Indicator Economic Sentiment Indicator
Services survey	Monthly plus some information collected on quarterly basis	Entirely qualitative. As of July 2011, questionnaire includes quantitative question on capacity utilisation (quarterly) Collects information on managers' assessment of their recent business situation, and of the past and future changes in their company's turnover and employment.	Services Confidence Indicator Economic Sentiment Indicator

Survey	Frequency	Description	Confidence Indicators based on Survey Data
Financial services survey	Monthly plus some information collected on quarterly basis	Entirely qualitative Collects information on managers' assessment of their recent business situation, and of the past and future changes in their company's turnover and employment.	Financial Services Confidence Indicator
Construction survey	Monthly plus some information collected on quarterly basis	Mainly qualitative Collects information on managers' assessment of their business activity, factors limiting production, order books etc. Includes one quantitative question on the number of months of production secured	Construction Confidence Indicator Economic Sentiment Indicator
Investment survey	Bi-annual: March/April ("spring survey") and October/November ("autumn survey")	In spring, managers are asked about the percentage change in investment of their company from year t-2 to year t-1 and from year t-1 to t. In autumn, they are asked about the percentage change in investment of their company from year t-1 to year t and from year t to t+1. The autumn survey also contains a question on the type of investment (replacement, extension of production capacity, technical progress, other) planned in years t and t+1, as well as a question on the factors driving investment (demand, profitability, technical factors, others) planned in years t and t+1.	N/A

Note: A quarterly World Economic Survey was also carried out in the framework of the programme until 2007. The survey was conducted by the Centre for Economic Studies (CES) and Ifo Institute for Economic Research with support of the Commission. It was based on a panel of worldwide economic experts (1000 in over 90 countries) and provided information about international economic trends. The Survey was used to construct the World Economic Climate Indicator. The survey was discontinued in response to the recommendation of the previous evaluation.

Source: DG ECFIN, 2007. *The Joint Harmonised EU Programme of Business and Consumer Surveys, User Guide*. Available at:

http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/userguide_en.pdf

2.2.5 Results

The survey outputs are used by the Commission services for economic surveillance, producing short-term forecasts and the analysis of business cycle developments. Additionally, the BCS data is used by a range of external users including the ECB, national policy makers, business associations, chambers of commerce, regional governments, banks, financial institutions, and a range of private companies⁹. The BCS data is used by these organisations to track cyclical movements in a specific sector of the economy, or the economy as a whole. Relative changes in business and consumer sentiment are used to monitor economic developments at the Member State, EU and Euro-area level, and in particular reveal turning points in the economic cycle¹⁰. Section 3 of this Report provides

⁹ European Evaluation Consortium, 2005. *Evaluation of Business and Consumer Surveys. Final Report*. ECFIN/196/2004/385636. http://ec.europa.eu/economy_finance/evaluation/pdf/bcs_en.pdf [accessed on 29.03.2011]

¹⁰ *ibid*

further information on the users of BCS products and the purposes for which they use the survey data .

In the case of candidate countries and smaller Member States, the BCS programme also has an important capacity building effect i.e. it creates the capacity within partner institutes to conduct business and consumer tendency surveys.

2.2.6 Outcomes

It would be reasonable to assume that the information and analysis derived from the BCS data contributes to:

- More accurate monitoring and forecasting of the economic situation of Member States, euro area and the EU;
- More effective dialogue on economic policy issues between Member States and the Commission; and,
- Timely and effective policy responses to macroeconomic developments.

At a broader level, the use of BCS products by research and academic institutions also contributes to the development of macroeconomic theory and empirical evidence.

2.2.7 Impact

In theory, the BCS programme - through the chain of results and outcomes described above – can be expected to contribute to macroeconomic and financial stability within the EU and the Euro-area. It must however, be emphasised that there are other factors which are far more significant than the BCS programme that ultimately determine macroeconomic stability. BCS products are part of a much wider evidence base that informs policy. Furthermore, policy making itself is subject to many influences such as political considerations, budgetary constraints etc. The link between the programme and macroeconomic impact is indirect and one that cannot be verified.

2.3 Delivery Mechanisms

This section elaborates the processes involved in: the selection of partner institutes; implementation of the surveys; treatment and further manipulation of data by DG ECFIN and the dissemination of survey products.

2.3.1 Selection of Partner Institutes

Partner institutes are selected on the basis of a call for proposal for carrying out harmonised business and consumer surveys. Theoretically, the call should result in the most competitive offer or proposal being selected in each country and for each survey. However, in practice DG ECFIN usually receives one offer per country. In the case of Ireland, no offer was received and consequently, data are not available for the period 2008 to 2011.

The cooperation between the Commission and partner institutes is formalised in the form of a framework partnership agreement covering a period of three years. Within the aegis of these framework partnership agreements, the Commission signs specific grant agreements on an annual basis (see Box 2:1).

Box 2:1 Description of a Framework Partnership Agreement

A framework partnership agreement has two levels:

- The first level is the framework partnership agreement (or framework partnership decision) which sets out the conditions governing grants to partners or collaborating institutes for carrying out actions, on the basis of an action plan and jointly agreed general objectives. This first level formalises the relationship of cooperation between the Commission and the partner institute on the basis of the proposal submitted by the latter; it however, does not constitute an obligation for the Commission to award grants.
- The second level is the specific grant agreement (or specific grant decision) which

formalises the award of a grant. The specific agreement is governed by the terms of the framework agreement.

The framework agreement is typically signed for a period of four years; while a specific action grant agreement is typically signed for one year. Renewal of the specific action grant agreement for the following year (within the four year-period covered by the framework agreement) depends on the positive evaluation by the Commission of the action plan or work programme submitted by the host structure. The framework partnership agreement thus avoids the need to organise an annual call for proposals.

2.3.2 **Conducting the Surveys**

The implementation of the surveys is decentralised at a national level except for the Financial Services Survey which is conducted centrally by a contractor. The surveys are conducted in accordance with a common methodology which is set out in a document titled '*Methodological User Guide*'¹¹. The methodology specifies a core set of harmonised questions and a common timetable for carrying out the surveys (Table 2:4). However, certain operational parameters such as sample design, sample size, survey mode, and other methodological considerations are left to the discretion of the partner institutes. Moreover, national questionnaires may include additional questions beyond the harmonised ones or a more detailed sectoral breakdown than the ones set out in the programme. Under the present contractual arrangements, the partner institutes retain the copyright on their data.

Table 2:4 Timetable for Collection and Dissemination of Survey Data

Tasks	Timing
Fieldwork	Weeks 1 to 3 of month N
Transmission of results to the Commission	At least five working days before the end of month N
Release of survey results	Typically second last working day of month N

The business surveys are addressed to managers of firms in relevant sectors (industry, construction, services, retail trade and financial services). The consumer surveys are addressed to private households. More than 160,000 firms and over 40,000 consumers are surveyed each month in the EU, the samples vary in accordance with the size of the country. The decentralised surveys provide data at a national and sub-sectoral level (NACE 2 digit level).

As regards the Financial Services Survey which is carried out centrally, survey data is only available at an EU and Euro-area level. The survey is based on a panel of 1,300 firms located in eleven countries (which represent 85 per cent of the GVA of the financial services sector).

2.3.3 **Processing and Dissemination of Data**

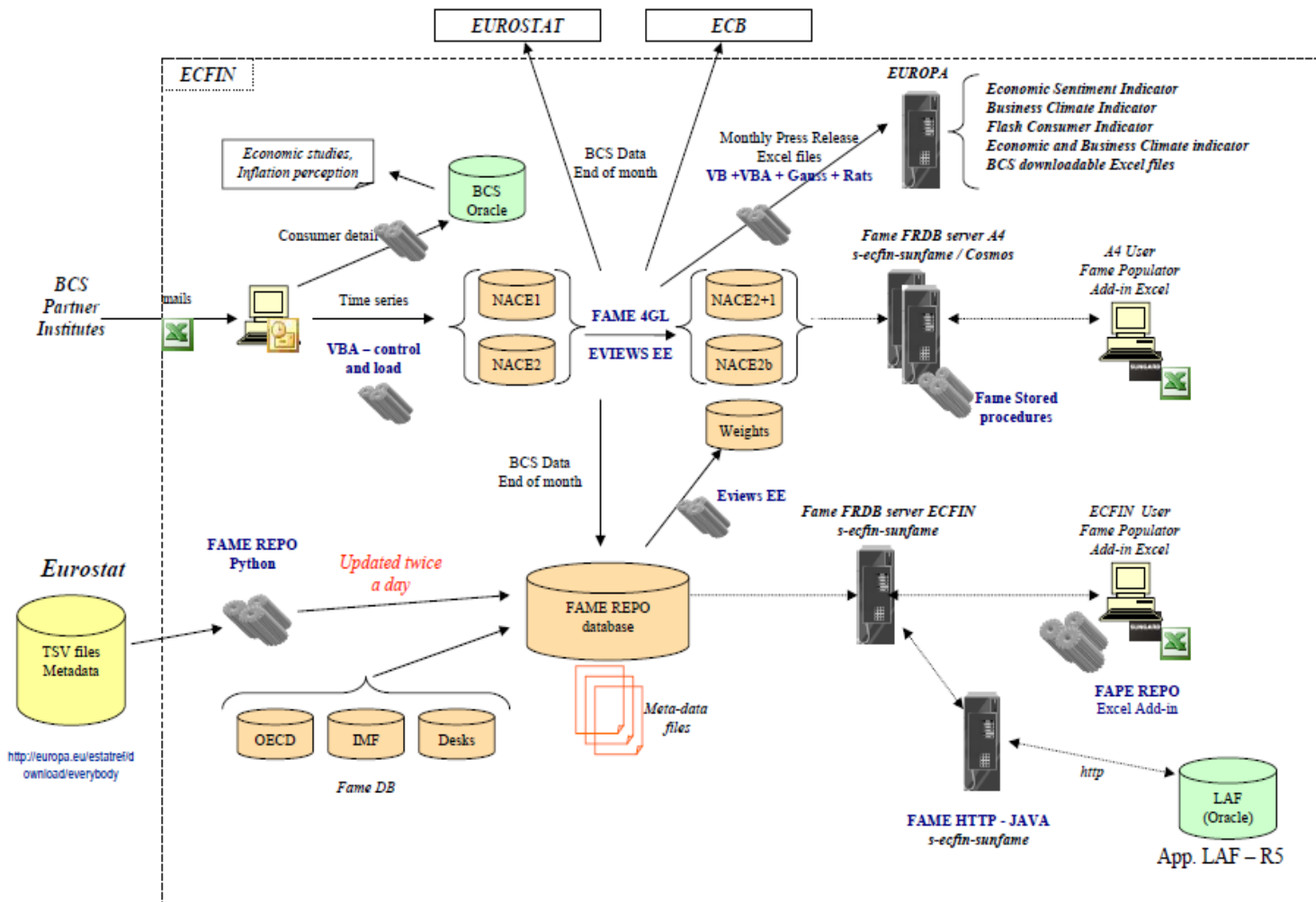
The technical processes used to construct the BCS products are detailed in a document titled '*Business and Consumer Surveys: Technical Documentation*'. This document describes the different levels of the system; the programming code; the architecture of the system; how the user interfaces with the system; and the workflow through the system. The documentation is intended to ensure that the expertise related to BCS programme is institutionalised and is not 'lost' due to staff changes.

Figure 2:2 illustrates the IT architecture in place at DG ECFIN for processing the BCS data. The BCS programme utilises two independent databases: FAME and Oracle. The majority of the data are stored on a FAME database. The consumer data are stored on an Oracle database. The data are stored in three formats: NACE1.1; NACE2 (corresponding to the different nomenclatures in use prior to and with effect from May 2010); and NACE2+1. All

¹¹ DG ECFIN (2007) *The Joint Harmonised EU Programme of Business and Consumer Surveys: User Guide*. Brussels: European Commission

monthly data are stored in NACE2 format since May 2010. The databases are hosted on two Unix servers, which are both backed up twice daily.

Figure 2:2 IT Architecture of the BCS Programme



Source: DG ECFIN (2011) Business and Consumer Surveys: Technical Documentation.

DG ECFIN receives the BCS data in excel sheets by email from partner institutes. Upon receipt of data from all partner institutes, it is loaded to the database and treatments are launched. The treatments are performed automatically (through a Visual Basic interface). These include: aggregation; seasonal adjustment (using DAINITIES methodology); weighting; and the construction of composite indicators. Any issues encountered during the course of these treatments are logged by the system, if a problem or inconsistency is detected, an automated email is sent to the partner institute requesting them to re-send the corrected data. Any significant issues are flagged to the BCS team.

Answers obtained from the surveys are aggregated in the form of 'balances'. Balances (also called net balances) are used to summarise answers to multiple-choice questions in business tendency and consumer opinion surveys. Neutral answers (such as 'normal' or 'same') are ignored and the balance is constructed as the difference between the percentages of respondents giving positive and negative replies (the sum of the percentages of positive, negative and neutral responses being 100).

The Commission calculates EU and Euro-area aggregates on the basis of the national results and seasonally adjusts the balance series. The balance series are used to construct the following composite indicators:

- Sectoral confidence indicators for each surveyed sector derived as an arithmetic means of answers (seasonally adjusted balances) to a selection of questions closely related to the reference variable they are supposed to track (e.g. industrial production for the industrial confidence indicator). These indicators provide information on economic developments in the different sectors;
- The Economic Sentiment Indicator which is derived from the results for the five surveyed sectors. The purpose of this indicator is to track GDP growth at Member State, EU and Euro-area level; and,
- A factor analysis-based Business Climate Indicator, which uses the results of the Industry Survey and is designed to assess cyclical developments in the Euro-area.

The following data is disseminated via DG ECFIN's website and Eurostat (see Box 2:2). It should be noted that under the contractual arrangements with partner institutes, the Commission can only publish balances. Data on non-respondents or respondents frequencies of responses cannot be published at a country-level.

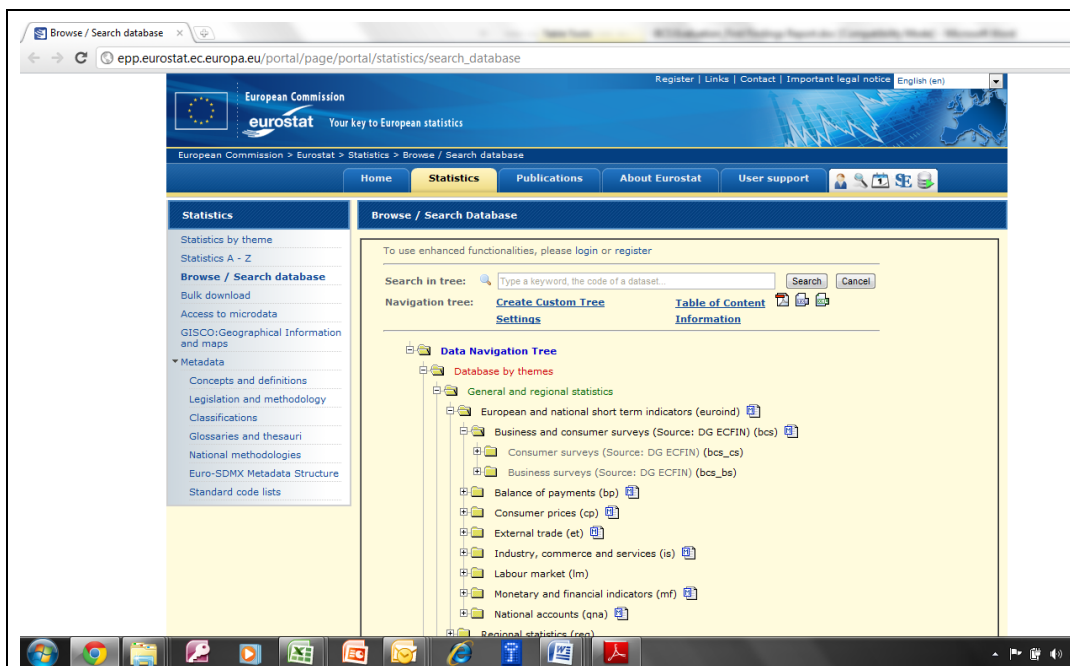
Box 2:2 Dissemination of BCS Products via Eurostat

Eurostat disseminates the BCS products in three ways:

The Euro-IND database

The complete BCS dataset is available via this database. Users can download the data in .CSV format. Available at

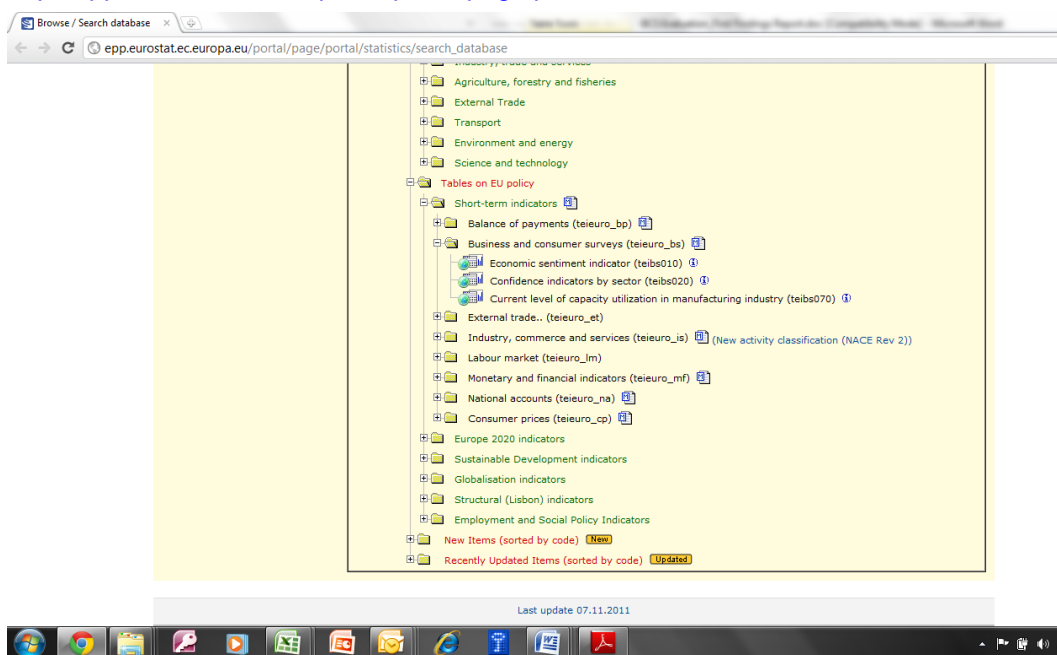
http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database



Synthetic tables

The synthetic tables include the following data: the Economic Sentiment Indicator, sectoral Confidence Indicators, current level of capacity utilisation in manufacturing industry. Available at:

http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database



Publications

In addition, the Economic Sentiment Indicator is also presented in the *Selected Principal European Economic Indicators*. This web-page shows 22 principal indicators for the EU and Euro Area. Available at :

<http://epp.eurostat.ec.europa.eu/portal/page/portal/euroindicators/peeis>

3 EVALUATION RESULTS

This section presents a synthesis of the evidence collected in response to each evaluation question. It is organised around six core themes: (i) assessment of external users; (ii) assessment of internal users; (iii) assessment of European added value and alternative survey products; (iv) new survey products launched in recent years; (v) improving efficiency and effectiveness; and, (vi) methodological spillovers.

3.1 Assessment of External Users

3.1.1 *Who are the current external users of the surveys and what do they use them for (e.g. quantitative or qualitative use, short term forecasting models, prospective studies, etc.)?*

The following categories of potential users were identified during the inception phase of the study on the basis of literature review (e.g. OECD's Handbook on Business Tendency Surveys); existing evaluation evidence; and, enquiries received by DG ECFIN from actual users:

- ECB;
- OECD;
- National policymakers such as National Central Banks (responsible for monetary policy); finance ministries/ treasury departments (responsible for fiscal policy and macroeconomic surveillance); and, other ministries/ government departments dealing with employment and industrial policy;
- Administrative users such as national statistical offices;
- Data providers such as economic research institutes and companies 'selling' information such as economic and financial analysis, forecasting, and market intelligence;
- Media;
- Academia;
- Businesses and their representatives such as industry/ trade associations and chambers of commerce;
- Financial institutions.

The above categories of users were confirmed through subsequent fieldwork, notably the surveys of partner institutes and the users themselves. The fieldwork undertaken in the context of this evaluation, also provided further evidence on the nature, frequency and intensity of use of BCS products among different user groups. Table 3:1 shows the extent to which BCS products are used by the different categories of external users.

Table 3:1 Use of BCS Products by External Users

Survey products	ECB	OECD Statistics Team	Policy makers / NSOs	Research institutes	Financial institutions	Data providers	Trade/ Business associations
Consumer Survey	●●●	●●	●●●	●●	●●	●●	●●
Retail Trade Survey	●●●	●●	●●●	●●	●●	●●	●●
Industry Survey	●●●	●●	●●●	●●	●●	●●	●●
Services Survey	●●●	●●	●●●	●●	●●	●●	●●
Financial Services Survey	●●●		●		●	●	
Construction Survey	●●●	●●	●●●	●●	●●	●●	●●
Investment Survey	●●●		●		●	●	●
Sectoral Confidence Indicators	●*	●●**	●●	●●●	●●●	●●●	●●●
Business Climate Indicator (BCI)	●*		●●	●●●	●●●	●●●	●●●
Economic Sentiment Indicator (ESI)	●*		●●	●●●	●●●	●●●	●●●
Turning Point Indicator	●*		○		○		
European Business Cycle Indicator (EBCI)	●*		●		●		
Specific survey questions	●●●	●●	●●	●●	●●●	●●●	●●
Sub-sectoral data	●●●		●	●	●●	●	●●

*ECB constructs its own confidence indicators but may occasionally use BCS confidence indicators as an external reference and for cross-checking purposes

**OECD uses ECFIN Consumer and Industrial Confidence Indicators to create its own confidence indicators

Relative scale:

- Most intensively/ frequently used
- Moderately used
- Sometimes used/ used to a limited extent
- Rarely used

The ECB is a heavy user of the BCS surveys. It uses all BCS survey data but constructs its own confidence indicators (although BCS confidence indicators are used as external reference by the ECB for cross-checking its own internally derived measures). The ECB also uses BCS data at a sub-sectoral level and is particularly interested in questions relating to *price developments by sector* and *perceived/ expected price developments by consumers*; equally, questions on *developments in output, demand and employment* as well as *capacity utilisation* or more structural information (e.g. *the investment plans of firms*) are considered important by the ECB.

Survey data is used by the ECB for the following purposes:

- Monitoring changes in sentiment and expectations;
- Backcasts/ nowcasts/ forecasts of GDP;
- Business cycle analysis;
- Macroeconomic surveillance;
- Assessment of risks to price stability ;
- Monetary policy making;
- ECB's own research; and,
- Assessment of financial stability.

Within ECB, two main organisational units make regular use of EC survey data:

- DG Economics and within it, two divisions (EU countries and Euro Area Macroeconomic Developments), carry out standard economic analyses (including for instance regular briefing, analytical notes, publications, contribution to speeches etc.) and internal forecasting exercise at a country level and the Euro-area level respectively. They use BCS survey data along with inputs from the National Central Banks.
- DG Research uses BCS survey data in the context of specific research-oriented issues. This might cover, for example, the design of a new composite leading indicator which then gets integrated into a regular ECB product.

BCS survey data feed into a wide set of standard material (tables, charts, analytical notes) provided *inter alia* to the ECB Governing Council, to ECB Senior Management, to ECB users and - e.g. via the ECB Monthly Bulletin - to the public at large. The survey data is also used in the ECB's Monthly Bulletin which consists of three parts:

- An analytical part which contains regular references to latest BCS survey results (e.g. in charts);
- Compilation of specific articles which occasionally use survey data e.g. the January 2004 edition included an article on the ECB's use of opinion survey data;
- A statistical part which has a page dedicated to BCS survey results.

The Monthly Bulletin also contains topic related boxes (e.g. developments in capacity utilisation, labour market developments, NACE 2 revisions etc.).

The OECD combines BCS data with data collected from other countries and publishes it on its website – the Main Economic Indicators (MEI) database¹². For this, the OECD uses survey data and confidence indicators relating to the following sectors: Consumers, Manufacturing, Construction, Retail Trade and Services. The OECD picks

¹² Available at: <http://stats.oecd.org/mei/>

headline indicators (for industry and consumers) from the BCS database (and from other sources for non-EU countries) and transforms them to create the following standardised indicators (Composite Leading Indicators):

- Business Confidence Indicator;
- Consumer Confidence Indicator; and,
- Index of Industrial Production.

The OECD goes into question level detail e.g. *order books*, *employment* etc. but, does not use BCS data for the sub-sectors.

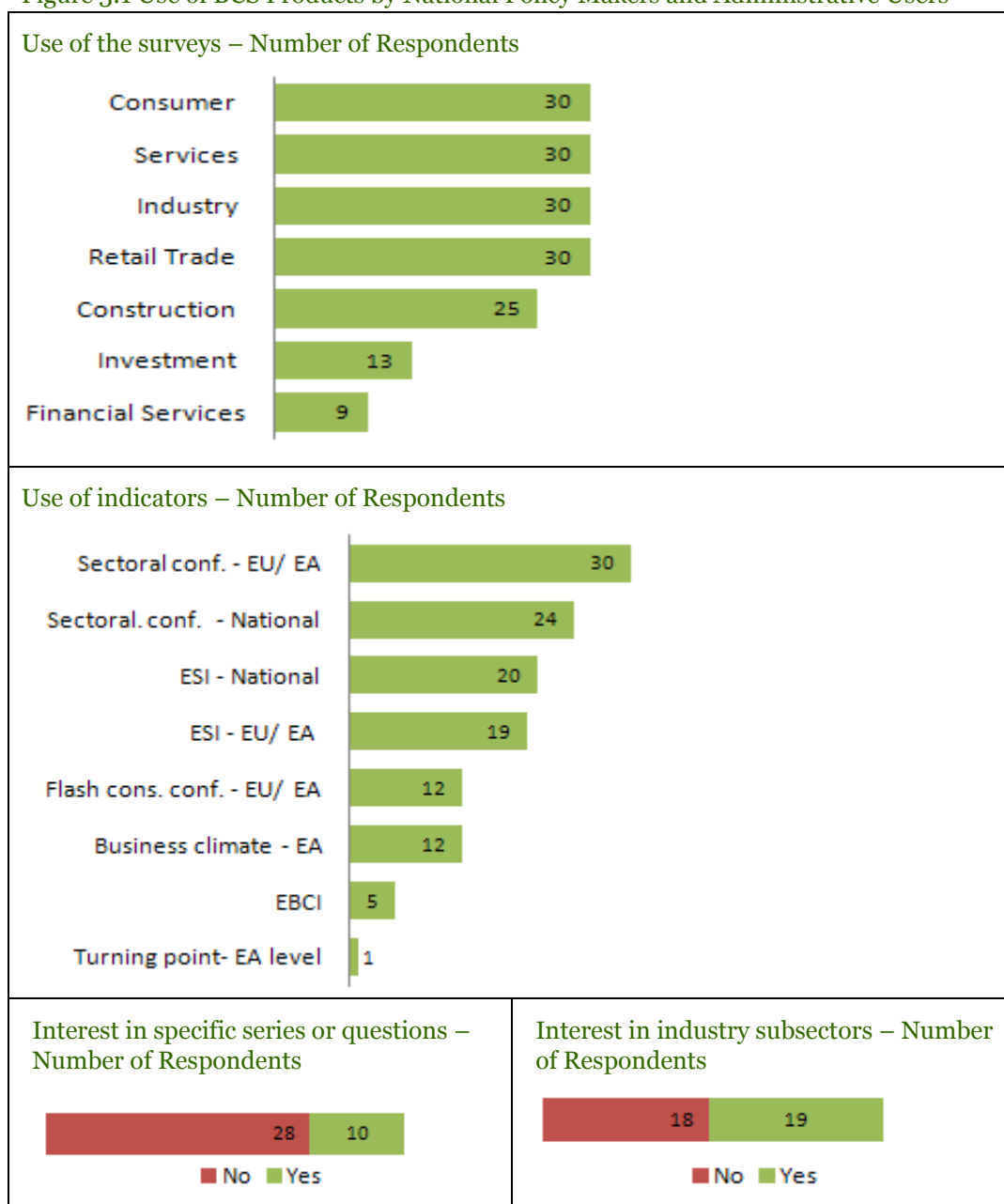
At a national level, policy makers and administrative users who responded to the online survey, reported using one or more BCS products. During the course of subsequent follow-up with non-respondents, three organisations - the Central Statistics Office (CSO) of Ireland, the Office of National Statistics (ONS) in the UK, and Statistics Lithuania - confirmed that they did not use BCS products. The CSO and ONS reported that the BCS products had limited forecasting potential¹³. However, as far as the UK is concerned, the CBI Industrial Trends Survey (the survey carried out in the UK within the framework of the BCS programme) seems to have provided good advance signals of movements in GDP in recent years¹⁴. Furthermore, Statistics Lithuania stated that its role as a National Statistics Office was strictly limited to data compilation

The evaluation found that patterns of use vary among users. Some survey products are more widely used than others (see Figure 3:1). The Financial Services Survey and the Investment Survey are used by a relatively fewer number of users as compared to the Industry and Consumer Surveys. Sectoral confidence indicators are more widely used than the Economic Sentiment Indicator and the Business Climate Indicator; very few respondents reported using the quarterly bulletin on European Business Cycle Indicators and only one respondent reported using the Turning Point Indicator. Almost one in four respondents in this user category (10 out of 38) declared being interested in specific series or questions. The following questions are of particular interest to these respondents: *factors limiting production*, *current orders*, *capacity utilisation*, *expected demand* and *price expectations of consumers*. Over half of the users confirmed their interest in detailed results at a sub-sectoral level (although it is suspected that many respondents have interpreted 'sub-sectors' to mean 'sectors').

¹³ The Central Statistics Office of Ireland signposted the study team to the following research paper examining examines the usefulness of BCS data for short-term macroeconomic forecasting. Goggin, J. (2008) *An Analysis of the Potential of the European Commission Business and Consumer Surveys for Macroeconomic Forecasting*.

¹⁴ Bank of England website:
<http://www.bankofengland.co.uk/education/targettwopointzero/statistics/surveys.htm>

Figure 3:1 Use of BCS Products by National Policy Makers and Administrative Users



Source: GHK online survey of national policy makers and administrative users; total number of respondents to the survey=38

The BCS products are mainly used by national policy makers and administrative users to monitor the current economic situation and to get an advance indication of the direction in which the economy is heading. They are also a frequent input for writing briefs and reports and for macroeconomic modelling / forecasting. Only a limited number of respondents reported making use of the BCS data for policy making purposes.

Table 3:2 Purposes for which BCS Data is used by National Policy Makers and Administrative Users

Product	Purposes for which data is used					
	Monitoring the current economic situation	General Economic Background	Writing Briefs/ Reports	Macroeconomic Modelling / Forecasting	Economic Research	Policy Making
SURVEYS						
Industry	61%	58%	50%	37%	26%	8%
Consumer	58%	63%	50%	37%	24%	8%
Services	55%	58%	45%	29%	16%	8%
Construction	55%	53%	42%	34%	24%	3%
Retail Trade	50%	47%	37%	26%	16%	3%
Investment	26%	26%	21%	16%	11%	5%
Financial Services	21%	21%	16%	5%	5%	8%
Industry Survey	63%	55%	47%	37%	26%	3%
INDICATORS						
Consumer	53%	58%	47%	50%	24%	5%
Economic Sentiment	55%	50%	42%	32%	18%	0%
Retail Trade	58%	55%	37%	26%	21%	0%
Services	58%	53%	39%	26%	18%	0%
Construction	53%	47%	39%	37%	21%	0%
Business Climate	34%	39%	29%	24%	11%	0%
Financial Services	18%	18%	13%	5%	5%	3%
EBCI	11%	11%	3%	5%	3%	0%
Turning Point	3%	5%	0%	0%	3%	0%

Source: GHK online survey of national policy makers and administrative users; total number of respondents to the survey=38

Other users include research institutes (both, public and private), and private sector organisations such as financial institutions, industry associations, media etc. The Business Climate Indicator is the most popular product among these users, followed by the Economic Sentiment Indicator and the Consumer Confidence Indicator. As far as the European Business Cycle Indicator and the Turning Point Indicator are concerned, they are used to a limited extent by a fraction of the interviewees (mainly financial institutions).

Thirteen private sector users (out of 37) confirmed their interest in question level detail. Of these, nine users appear to use question level data quite intensively. These were financial institutions (five), data providers (two), trade associations (two) and research institutes (one). Interest was shown first and foremost in the capacity utilisation question, but also in other questions including financial situation, savings, competitive position, production levels and expectations, orders, employment. Besides, nine users expressed an interest in BCS sub-sectoral data, of which five declared examining it on a frequent basis (two financial institutions, one data provider, one trade association and one research institute).

The Eurozone correspondent at the Financial Times reported using the Economic Sentiment Indicator (on a monthly basis), the Flash Consumer Confidence Indicator, the

Industrial Confidence Indicator and the Consumer Confidence Indicator. Two other Financial Times correspondents interviewed in the context of this evaluation, reported using the PMI only. In one case the reason for non-use of BCS products was lack of awareness and in the second case, PMI was regarded as a superior and 'more respected' product.

Private sector users tend to make qualitative use of BCS products i.e. for writing briefs and reports (both for internal and external use); for monitoring the current economic situation and for getting a general overview of business/ economic conditions.

More sophisticated users such as data producers, large financial institutions and research institutes also put BCS products to quantitative uses such as forecasting, and macroeconomic modelling.

In some cases, particularly among financial institutions, BCS products (and tendency surveys in general) are used to inform business/ investment decisions.

3.1.2 *What are the actual needs of the different users of the surveys and to what extent are they met by the BCS? In particular, are the surveys used to assess business cycles in specific Member States or the EU/Euro-area as whole? Are they used primarily because of their harmonised nature (i.e. to compare business cycles across regions or countries)?*

The vast majority of the users reported that their information needs were being met 'fully' or 'to a large extent' by the BCS products. It should however, be noted that there is an inherent response bias in the findings reported here, as they are based on the responses of current users of the BCS products. Indeed, as mentioned in section 3.1.1, there are users of business and consumer tendency surveys who are not using the BCS products (e.g. CSO, ONS) precisely because these products are perceived to be lacking in some respects.

Users who claimed that their needs were not being fully met, provided the following explanations for their responses:

- Non-availability of data for Ireland (this was cited as an issue specifically by those interested in the Irish economy);
- The practice of publishing only the 'balances'; data on response frequencies underlying the calculation of the balances is not published even though it is available. A couple of users found this to be a major limitation and source of frustration as in their view, 'balances' mask polarisation of responses (i.e. the balance might stay the same but opinion might get more extreme at both ends of the scale) and prevent users from examining developments in particular response categories. This was highlighted as a limitation by the ECB in particular;
- Relatively short time series for the Services and the Financial Services Survey which reduces their usability;
- Data is released slightly later than other survey products (notably, some national surveys and Flash PMI);
- Absence of questions about *new orders* (which is included in the PMI) and *current employment situation* (in addition to employment expectations).

All users were asked to rate (on a five point Likert scale) the extent to which they are satisfied or dissatisfied with the following aspects of the programme:

- Timeliness i.e. timetable for publication of data;
- Comparability over time and between countries;
- Relevance of information collected through the surveys to users' needs and expectations;
- Accessibility i.e. whether BCS products are easily accessible and are available in the forms desired by users;
- Interpretability i.e. whether users are put in a position to interpret data correctly by the way they are presented and via availability of supplementary information such as guidance notes;
- Soundness of methodology;
- Transparency refers to the availability of sufficient information regarding the methodology, metadata, or the way data are processed and collected, and the release dates etc.;
- Reliability i.e. the intrinsic volatility of data and their ability to effectively track reference macroeconomic variables; and,
- Frequency of publication of BCS products.

The feedback collected from the external users is summarised below.

Timeliness

Most external users reported being 'satisfied' or 'very satisfied' with the timetable for the release of BCS products. However, as previously mentioned, a few users were of the opinion that the data could be released slightly earlier than it presently is.

Comparability

Given the long time series of the BCS products and the availability of harmonised data for all Member States (and candidate countries), BCS products were rated highly by external users on this criterion. Although, one 'heavy' and relatively well informed user suspected that a non homogenous approach was being adopted by some partner institutes (for example, some institutes were using six months as the reference period in their questionnaires instead of three months) which was slightly compromising the comparability of survey results. As national questionnaires in English are not available on the Commission's website or on the websites of the partner institutes, this could not be independently verified by the evaluation team.

Relevance

A vast majority of the external users were of the view that the BCS programme is relevant to their information needs and expectations. Two private sector users (a financial institution and a private research company) were of the opposite opinion. In one case, the user was specifically interested in data for Ireland, which is currently not available (although, it will be available 2012 onwards). The private research company, on the other hand, did not consider BCS products to be relevant to their needs due to perceived weaknesses in the survey methodology (elaborated below).

Accessibility

Some users reported being dissatisfied with the accessibility of BCS products and the formats in which data are currently available. To quote one user: '*data are buried in ECFIN's website*'. Moreover, excel datasheets are not considered user friendly and

some users expressed a preference for data to be made available in alternative formats (such as CSV or access database).

Methodology

The more informed and relatively intensive users (such as the ECB and the OECD) expressed some reservations regarding the use of DAINTRIES methodology for carrying out seasonal adjustment. The private research company mentioned earlier was particularly critical of the way survey questions are phrased and the information they seek to elicit. According to the respondent, the survey questions could be re-orientated towards collecting information on actual behaviour as opposed to intended behaviour.

Transparency

Generally speaking, users are satisfied with the availability of metadata (data explaining data). However, a number of users felt that the metadata could be improved to explain what is meant by some of the questions. In this context one user specifically mentioned that the question on *price expectations* (Q.6) in the consumer survey is not clear. In the view of another user: *'information on sample sizes is not easy to find'*.

Interpretability

A number of users requested for guidance on how to interpret survey questions as well as survey results. In this context, the ECB suggested that meta-surveys (survey of surveys) should be systematically carried out by all partner institutes to shed light on cross-country differences and specificities in answering patterns and to facilitate the interpretation of results.

Geographical level of interest

Different user groups use BCS data at different levels of geography depending on their individual or organisational remit/ coverage. For example, national policy makers and administrative users, national industry associations are typically only interested in data for their country (and perhaps EU or Euro-area averages for benchmarking) whereas other users such as the ECB, large financial institutions, research companies and data producers are interested in conducting cross-country comparisons. In this respect, the availability of harmonised data greatly facilitates comparability not just of business cycles but also, of changes in sentiment and general economic outlook/ prospects.

3.1.3 What has been the impact of the financial and economic crisis on users' needs and what are likely to be their future needs?

User feedback suggests that the financial and economic crisis has greatly reinforced the importance of early warning signals such as tendency surveys and confidence indicators. Consequently, survey data is being used more frequently and intensively by users. Moreover, some shifts in user requirements have been noted:

- There is greater urgency to get data in a timely manner;
- Users are placing greater emphasis on country-specific developments and are increasingly examining question-level detail (e.g. specific questions relating to capacity utilisation, financial situation of the households);
- Demand for more guidance on how to interpret the results in an uncertain and unstable environment;
- Demand for information on 'cause' and 'effect' relationships to determine the impact of certain events (e.g. downgrades, tsunamis, interest rate changes) on business and consumer sentiment.

3.2 Assessment of Commission Internal Users

3.2.1 *Who are the internal users of the surveys and for what do they use them for?*

Within DG ECFIN, the surveys are used by the forecasting team, country desks and Unit E1 (Economic analysis of financial markets and financial stability). In addition to DG ECFIN, the following Directorates-General are also known to use BCS products: Eurostat, DG ENTR, DG EMPL and DG MARKT.

Use of individual BCS products

The Economic Sentiment Indicator is the most known and widely used indicator. It is the indicator with which the BCS programme is identified.

Sectoral breakdowns are also particularly valued by internal users. Almost all interviewees reported making use of sectoral confidence indicators. Moreover, all sectoral confidence indicators are used, although some are used more extensively than others. There appears to be an implicit ranking in the use of sectoral confidence indicators: interviewees tend to quote spontaneously the Industry and Consumer Confidence Indicators and, depending on the country covered by a particular desk officer, the Services and the Construction Confidence Indicators. Comparatively, the indicator from the Retail Sector and Financial Services Sector is less frequently cited but nonetheless, considered as useful when asked specifically. The availability of all sectors is seen as essential to adequately reflect the whole economy.

Interviewees are not only interested in aggregate indicators but also in specific questions within each survey. The most interesting questions for internal users are those relating to employment and unemployment expectations.

The BCS programme is considered to be a unique source of information for this data according to many internal users. This data is of particular interest to DG EMPL and they value the availability of this data at a sectoral level. Internal users are also interested in questions relating to *capacity utilisation, production expectations, order books, export order books* and *stocks indicators*. A couple of interviewees expressed a strong interest in the quarterly qualitative question on the *main factors currently limiting production*. As regards the consumer survey, particular attention is being paid to questions on households' *financial situation* and *savings*. A small number of internal users further expressed interest in the question relating to *price expectations*.

In addition, some users declared being more interested in forward looking questions (expectations over the next three months) than in questions asking about the current situation or the situation over the past three months (as hard data is progressively made available). Also, some interviewees tend to rely more on answers to those questions asking about the own situation of the respondent (as they are able to provide more informed answers) instead of broader questions about the general economic situation (the answering patterns to these are considered as too volatile).

From Eurostat's perspective, the most interesting questions are those relating to: *the financial situation of the households; employment expectations of businesses; and, expected output*.

Within DG ECFIN, not a single internal user reported using the sub-sector data. The reasons behind this situation vary. On the one hand, there are those who are aware of the availability of sub-sector level data but, do not use it since they find the information too detailed for their needs. On the other hand, there are those who were not aware of the existence of sub-sectoral data and display a high level of interest in this 'new' information, or regard this information as potentially useful but, would need to

investigate further its usefulness with regards to their own needs. Amongst other DGs, DG ENTR was found to be the only user of industry sub-sector level data, mainly as background information for their monthly publication titled '*Economic Recovery in Industry*'. Even though that level of detail might not be reflected in the publication, they value the availability of detailed information at sub-sector level since it allows for the decomposition of changes in the overall confidence indicator (e.g. identifying whether there are particular sub-sectors that react early to certain economic developments or whether particular sub-sectors are reacting more strongly to certain economic developments). DG EMPL expressed a growing interest in breaking down the answers to the Consumer Survey according to the variables determining the profiles of the respondent (such as Income of the household, age, education) in order to analyse inequality developments even if, as yet, limited use has been made of this data.

The Financial Services Survey is presently being used on a very limited basis. Here again, there is a lack of awareness of its existence and interviewees, once they learn about it, show some interest in the survey. Country desks representing Member States where the financial services sector is an important source of employment or GVA, regard this as a potentially useful survey. At the same time, many interviewees believe that there would be limited scope to use the results of the Financial Services Survey, unless the results are made available at a country level. This was also highlighted as the main shortcoming of the Financial Services Survey in its present format, by the interviewee within unit E1 (Economic analysis of financial markets and financial stability), the only current intensive internal user of the product. DG MARKT tend to use private sources of data as these are better tailored to their needs.

Many interviewees declared not using the Flash Consumer Confidence Indicator, even though they are aware of its existence. Generally speaking, the level of aggregation is perceived as being too high (EU and Euro-area level only) for internal users who have very specific needs (interest in a particular question or country). Concerns have also been expressed that the early publication of a Flash Indicator potentially compromises its reliability. When used, the Flash Consumer Confidence Indicator is merely used to get an early picture of the general economic situation in the EU.

The Turning Point Indicator appears to suffer from low visibility. It may be due to the fact that it is disseminated via the European Business Cycle Indicators publication which many interviewees are not aware of.

Purposes for which BCS data are used

The main uses of BCS products within the Commission are as follows: to obtain a quick overview of the general economic climate, monitoring the current economic situation, writing briefs or more detailed analytical reports and modelling/forecasting.

The forecasting team prepares the following 'outputs' using BCS data:

For internal use:

- *Economic situation of the Euro-area and the EU* – this is an internal publication for DG ECFIN staff. It provides an overview of recent economic developments
- *Background notes/ briefings* for bilateral meetings between the Commission and Member States.

For internal use as well as external dissemination:

- *Forecasts* – DG ECFIN produces two types of forecasts - interim forecasts and main economic forecasts

- Interim forecasts - these small scale forecasts are produced in February and September. They contain projections of GDP growth and consumer price inflation for the Euro-area and the EU; and narrative for seven large Member States (France, Germany, Italy, the Netherlands, Poland, Spain and the UK).
- Main economic forecasts (the spring and autumn forecasts) - these two bigger forecasting exercises use inputs from the 27 country desks, third country desks, the forecasting unit and the BCS unit. The main forecast document has three sections: economic developments and prospects at country level (these may or may not use BCS data); a thematic chapter on specific topics (the use of BCS data depends on the topic); and, a horizontal chapter on economic developments at a global, EU and Euro-area level (which uses both BCS and PMI data)
 - *Key indicators for the Euro-area* – this is produced monthly. It describes the economic situation of the Euro-area using a combination of hard and soft data. This publication goes to the 17 finance ministers of the Euro zone and is also available on DG ECFIN's website.

The forecasts produced by DG ECFIN are used to inform the assumptions relating to the Stability and Growth Pact. They were also used for the bank stress tests which assessed European banks' ability to absorb losses in the face of economic shocks (i.e. how a fall in GDP of 4 per cent to 6 per cent might affect the banks).

The three most important inputs for the forecasting team are:

- The descriptive analysis of BCS results;
- Excel sheets of BCS data; and,
- European Business Cycle Indicator.

As far as the country desks are concerned, BCS products are used by analysts to form an opinion about the general economic situation. At a glance, the Economic Sentiment Indicator provides an indication of the health of the whole economy at an EU level, in the Eurozone and in particular countries. According to the interviewees, the use of BCS products is not always visible but, they are still an important piece of information - among a wider evidence base - to inform opinions.

Secondly, BCS products feed into the more formal continuous monitoring of the economic situation. They are included in various types of briefings (graphs in monthly or quarterly monitors). Within desk offices, those briefings are mainly for internal use, to keep the hierarchy and other colleagues informed about the latest developments in the countries. Briefings can also be addressed to external specialised bodies, e.g. in the case of DG ECFIN E1, to the Economic and Financial Committee or European Systemic Risk Board. Other DGs frequently publish fact sheets or reviews which are quite intensively based on BCS products. These include: *The Economic Recovery in Industry* which refers to the Industrial Confidence Indicator and its components (DG ENTR); the monthly *Labour Market Fact Sheet* (DG EMPL); and, *EU Employment and Social Situation Quarterly Review* which uses data on sectoral employment intentions and unemployment expectations (DG EMPL).

Thirdly, half of the desks interviewed used BCS products as inputs into their bridge models. Typically, the Economic Sentiment Indicator is included, possibly complemented by another sectoral confidence indicator or a specific question. In general, the desks that are not using BCS for nowcasting/ forecasting have bridge

models built exclusively on hard data. The reason for including only hard data can either be a high degree of scepticism towards the predictability power of soft indicators or some form of path dependency (once a model has been adopted, there is little incentive to amend it, for issues of comparability over time). In other cases, desks either use the BCS products exclusively or in conjunction with other survey products. While desks from smaller countries have not developed bridge models and their forecasting exercise is less grounded in econometrics, BCS products were still reported as feeding into the economic projections albeit on a qualitative basis.

Ultimately, the monitoring and forecasting work provides for an informed policy debate and sets the stage for better policy advice and policy making, it forms part of the evidence base on which recommendations are grounded. For example, DG ENTR illustrated how it conducted sectoral analyses in the context of the *European Recovery Plan* (using BCS data as inputs) to identify sectors most affected by the downturn and undergoing restructuring. Within DG ECFIN, BCS data are used as part of the country surveillance work i.e. to assess the credibility of the country's own budget estimations and to anticipate whether the Maastricht criteria will be respected.

The "Euro-indicators and statistical methodology" team within Eurostat uniquely uses BCS data for various experimental exercises relating to nowcasting GDP and its components, constructing proxy indicators of economic activity and turning points, for example.

3.2.2 What are their actual needs in terms of surveys and to what extent does the BCS Programme meet these needs? To what extent does the programme contribute to ECFIN's enhanced country surveillance mission?

The needs explicitly mentioned by the internal users are for access to timely and reliable data. The feedback collected from the internal users on specific aspects of the BCS programme (including timeliness and reliability) is summarised below.

Timeliness

Internal users are either 'satisfied' or 'very satisfied' with the timing of the release of BCS data. Timeliness was recognised as one of the main added value of the BCS products as these are published much earlier than hard data.

Some country desks however, pointed out that the partner institute in their country publishes the same data one or two days earlier than DG ECFIN, which undermines the visibility of BCS products. They also suggested that it would be helpful if the BCS data were made available on the exact same date or earlier.

Comparability

Internal users are satisfied with the comparability of BCS products over time and across countries. Overall the availability of a long time series is particularly valued by internal users and cross-country comparability is seen as the *raison d'être* for an EU programme. However, the adoption of a non-homogenous approach across partner institutes (who have considerable leeway on operational parameters) was cited as an issue by Eurostat in this context. Moreover, Eurostat was of the opinion, that tendency surveys are not entirely comparable over long time periods as the structure of the economy changes over time.

Relevance

BCS products are widely seen as relevant or very relevant by internal users, but the degree of relevance varies according to the activity carried out and the availability of

other complementary / alternative products. BCS products are critical inputs for the forecasting team. However, BCS products are considered a 'moderately important input' by the country desk officers. There are two reasons behind this:

- BCS products are seen as very useful for one particular use (e.g. short term forecasting) which represents only one part of the job of the interviewee; or,
- BCS products are used in conjunction with other sources of data (mainly hard data, but also other national survey products).

Reliability

BCS products are considered to be reliable: most internal users reported being 'satisfied' or 'very satisfied' with this aspect of the programme. BCS data was considered to be particularly reliable for short-term forecasting by some users. For some other users, the predictive power of soft indicators is still an open debate but, this aside, all a priori rely on the ability of BCS products to track the reference variables as they do not question the approach and methodology adopted by DG ECFIN.

It was however, pointed out that all BCS products do not track the reference macroeconomic variables in the same effective way. To some extent, the predictability power depends on the country, indicator and question. For example, DG ENTR highlighted that from their experience, some components, notably *production expectations*, seem to track the business cycle better than the aggregate Industrial Confidence Indicator which also includes questions on *stocks* and *order books*. It was also mentioned that the results from the Financial Services Survey are still very volatile since the survey is relatively young. The predictability power of this indicator is expected to improve over time, following a similar pattern/ learning curve as the other surveys.

Eurostat stated that the predictability power of BCS is not homogenous. In their view, the BCS data 'works well' for some countries (e.g. France and Italy) and not so well for other countries (e.g. the United Kingdom).

Accessibility

The views of internal users were divergent on this aspect of the programme: around half of the internal users reported being satisfied with the way BCS data are disseminated while around one third expressed opposite views.

Levels of satisfaction with accessibility seem to vary according to patterns of use. Basic / 'light' users (mainly desk officers) who look at the headline indicators and a limited number of questions are simply accessing the data via the .PDF press releases. A few interviewees even admitted, that they access their country data via the website of the National Statistics Office (where it is the partner institute) as a matter of habit or in order to save time (explaining that this way they can download the BCS data and other national data as well as detailed analytical overviews tailored to their needs in 'one click').

Advanced/ 'heavy' users, who typically process the data to make it fit for their own needs, are generally dissatisfied with the current ways through which data are accessible. This is especially true for those who access the data either via the Excel sheets on DG ECFIN's website compared to those using the EcoWin database, supplied by an external data provider as an add-in to Excel.

The specific issues flagged by users are as follows:

- The Excel sheets are not considered user friendly and they do not facilitate data processing. For example, users are unable to prepare pivot tables in these Excel sheets. To manipulate the data, users often create formulae which need to be updated when the name of a particular variable changes in the Excel sheets provided by DG ECFIN (according to some users, they have faced this problem a couple of times). Intensive users strongly favour having the data available for download in .CSV format.
- Moreover, on DG ECFIN's website, data are not accessible in a comprehensive manner. Finding a way through the "Download Time Series" page is not an easy task. For example, data for the Financial Services Survey and the Investment Survey has to be downloaded separately as it is not available under the "all surveys" package. In addition to being time-intensive, it also reduces the visibility of the data and as a result, a number of users simply do not know about the existence of certain products. Sub-sectors seem to suffer from a similar problem. The link to download sub-sectoral data for business sectors is at the bottom, somewhat hidden at the very end of the webpage. It is not consistent with the way sub-sectors for the Financial Services Survey and the Consumer Survey are presented (they are available directly under the sectoral headline). In addition, the title 'sub-sector' is not self-explanatory when talking about profiles / categories of respondents in the case of the consumer survey.
- It seems that the publication of BCS results on Eurostat partially addresses the above shortcomings. On Eurostat, the data is available in .CSV format and the Eurostat Euroind database is relatively more straightforward to use thanks to its data navigation tree. But on the one hand, many interviewees are not aware of this possibility as it is not advertised on DG ECFIN's website. On the other hand, neither the sub-sector level data nor the Investment Survey are available on the Eurostat website. Consequently, Eurostat provides a truncated view of the range of BCS products on offer, which potentially reinforces the low levels of awareness of sub-sectoral data and the Investment Survey. Having the full dataset available in .CSV format is considered as a high priority issue by intensive internal users.

DG EMPL and Eurostat expressed interest in having access to detailed data showing response frequencies, the profiles of the respondents and micro data. Additionally, DG ENTR would appreciate if DG ECFIN were to publish normalised data.

Methodology

Many interviewees admitted that they have not investigated the 'nuts and bolts' of the methodology and thus, felt that they were not well placed to comment on it. The implicit assumption is that the surveys are based on a sound methodology.

A few interviewees however, made the following specific comments regarding the methodological aspects of the programme:

- *Seasonal adjustments.* Two interviewees suggested that the DAINTRIES method has its shortcomings as a methodology for seasonal adjustments compared to TRAMO/SEATS, for example and the use of this methodology should be reviewed by DG ECFIN. At the same time, one of them also

highlighted the importance of following a consistent methodology to permit comparability of data over time.

- *Weighting.* One user questioned the approach of assigning equal weights to individual questions in the construction of confidence indicators. In their view, a higher weighting should be assigned to the question on *production expectations* as compared to the questions relating to *stocks* and *order books* (given the superior forecasting power of the question relating to *production expectations*).

Transparency

Most internal users are satisfied with the level of transparency exhibited by the programme. Generally speaking, internal users know that the information is available somewhere. But, only intensive users have made the effort to go through the user guide and fully appreciate that the methodology is extensively documented. In view of practical constraints (time, human resources), reviewing the user guide, which is rather technical in nature, is not considered necessary by basic users. This however, prevents the basic users from making better use of the available data. All users would welcome the availability of 'easily digestible' information on the methodology and metadata, directly attached to the data.

Interpretability

Users were relatively less satisfied with this aspect of the programme. Basic users would like to receive more guidance on how to interpret the data. According to them, even the .PDF press releases are currently designed for people who are familiar with the survey. For example, one interviewee suggested that explanatory notes could be added below the tables. Even the more intensive users would generally welcome the availability of snapshots of key information. A specific request was made by one user for more guidance on how to interpret the balance at time (t) from the country (i) in relation to the long-term average from the country (i), and above all how to interpret the balance at time (t) from the country (i1) with the balance (t) of the country (i2), considering both countries do not have the same long term average. In other words, users would appreciate more guidance on (a) interpreting the balances over time in relation to the long-term average for a particular country; and (b) drawing cross-country comparisons.

Some users raised very specific issues. For example, DG EMPL would like to have a confirmation that, in the case of the Consumer Survey, questions have been answered by the head of the household and not for example, by a member of the family who might not be in a position to comment on the financial situation of the household. They assume that these types of issues are appropriately dealt with but, would like to know the details of how such issues are addressed. For these types of very specific requests, it was suggested to create a more formal help desk via which experts on the data/surveys could be contacted for advice (even though exchanges do take place informally with the BCS team at DG ECFIN).

Frequency of publication of data

Internal users value the high frequency with which BCS products are published: all interviewees are either 'satisfied' or 'very satisfied' with the frequency of publication of data and are in favour of a *status quo*. It was confirmed that increasing the frequency of the monthly surveys could potentially make the data too volatile and noisy.

One issue was however, raised regarding the Investment Survey: a few users declared that they do not know when to expect the results of this bi-annual survey and that having

monthly, quarterly and bi-annual questions confuses them. Moreover, in practice, the quarterly questions do not correspond to real quarters, which further adds to the confusion. It was suggested to better publicise the dates of release of data and to align the quarterly questions with real quarters.

Eurostat suggested that the Investment Survey should be published more frequently; in their view, its low frequency currently undermines its use.

New information requirements of internal users

Since the outbreak of the recent economic and financial crisis, interest in more frequent updates regarding the economic situation has risen. New publications have been introduced or the frequency of existing publications has been increased. This, in turn, has increased the importance of the BCS data – which are generally, well rated in terms of frequency of publication and timeliness. More intensive use is being made of existing survey data. Desks from countries that have received IMF and EU support (i.e. programme countries namely, Ireland, Portugal and Greece) have a particularly strongly need for closer monitoring. In the case of these countries, new briefings are required on a fortnightly basis and BCS products are a crucial source of information. Along the same lines, DG EMPL reported how closer attention is being paid to unemployment issues since the crisis and how BCS products are an indispensable source of up-to-date data.

Beside this increase in frequency of analysis of BCS data, the focus of the analysis has somewhat changed and some BCS products are now increasingly followed. Notably, a couple of analysts pointed out that the predictability power of previously widely relied upon non-BCS indicators has diminished. It was mentioned that macro level indicators such as the output gap have become less reliable and that interest in micro-level data / bottom up approaches has risen. More precisely, the types of BCS questions for which interest has risen include questions relating to *capacity utilisation* (business surveys) and *savings and financial situation of households* (consumer survey).

In addition, the way one BCS indicator namely, *unemployment expectations over the next 12 months*¹⁵, behaves in terms of tracking the reference macroeconomic variable (i.e. actual unemployment rates) has changed since the crisis. DG EMPL noticed significant over-optimism from the consumers' side while before the crisis, their expectations used to coincide quite well with actual rates.

In terms of shift in sectoral focus, some Desk Officers reported paying more attention to the construction sector as it was found to track well the health of the financial sector and the economy. It was also assumed that there was a case to more closely follow the Financial Services Survey but, this was not really happening in practice because of its low visibility, non-availability of country level results and a relatively short length of the time series.

It was also highlighted that since the crisis, DG ECFIN's work is now skewed more towards policy analysis than pure forecasting. This has created the need for qualitative information, for example, on barriers to investments and exports. While there is scope for BCS programme to address this new need, the potential so far, has not been fully exploited as questions currently related to these issues, both in the investment survey and in the form of quarterly questions, seem to still suffer from a low level of awareness internally.

¹⁵ The specific question in the consumer survey is as follows: How do you expect the number of people unemployed in this country to change over the next 12 months?

In addition, in the light of rising inequalities in the EU since the crisis, DG EMPL is increasingly focusing on social analysis. Beyond increasing the focus on country-level data, it is becoming increasingly relevant to look at the results of the Consumer Survey in a more detailed manner, to identify possible differences in answering patterns from various social groups. That level of detailed analysis is potentially permitted with the BCS data but it is somewhat constrained by the accessibility of data (see below).

To sum up, among internal users, the crisis has not triggered the emergence of radically new data requirements as far as tendency surveys are concerned but, it has increased the frequency with which BCS data are looked at, expanded the angles from which they are looked at and fostered the need for deeper, more detailed analysis.

3.3 European Added Value and Alternative Survey Products

3.3.1 *Is there a need for a joint harmonised EU programme that is managed by the European Commission? What is the value added of carrying out the BCS programme at the EU level?*

There is overwhelming support among internal and external users alike for a Joint Harmonised EU Programme. From their perspective, the *Joint Harmonised EU Programme of Business and Consumer Surveys* facilitates comparisons between European countries and the aggregation of data at the EU or Euro-area level.

Impact of discontinuation of the programme on users of harmonised data

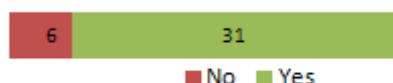
If the BCS programme were to cease to exist, internal users widely share the view that their work would be adversely affected and that the market could not be relied upon to provide this data. To some extent, a transition strategy could be put in place whereby the BCS data would eventually be replaced by alternative sources but, the following concerns were raised:

- It would create a break in series and consequently, models that currently use BCS data would become outdated;
- Alternative products might not be as comprehensive in terms of their sectoral/ geographical coverage;
- In smaller countries, BCS programmes might be significantly downsized or completely disappear without EU co-financing while the EU and other Member States clearly have an interest in knowing about the latest economic development in those countries;
- If national sources are to be used, harmonisation would decrease and it would be close to impossible to have any EU level analysis;
- The quality / reliability of the alternative indicators would have to be assessed;
- It would create dependency on external organisations; and,
- Internal capacity, resources and skills would be lost.

Similarly, external users also think that their work would be adversely affected, even if they would find a way to cope with the loss of BCS data. The discontinuation of the programme would be particularly inconvenient for institutional users such as the ECB and the OECD who, in absence of the programme, would have to collect the national data from individual countries.

Figure 3:2 Impact of Discontinuation of BCS Programme on National Policy Makers and Administrative Users

Q: Would it adversely affect your work if harmonised data from business and consumer surveys were no longer available?



Source: GHK online survey of national policy makers and administrative users; total number of responses = 37

Importantly, it would reduce the number of tools available to understand the current economic situation. It would cause significant disruption to the work of intensive users who would need to revise the content of their research programmes or re-calibrate their macroeconomic models. Some interviewees also fear that, by using alternative products, some levels of detail and the possibility to make cross-country comparisons would be lost. The BCS programme is considered a unique source of survey data in terms of its coverage, reliability, quality and length of the time series.

Impact of discontinuation of the programme on partner institutes

As far as the partner institutes are concerned, more than half of the partner institutes declare that they would not be able to carry out the BCS surveys without EU co-financing. Only three partner institutes stated that they would be able to run the survey programme as usual. The remaining would have to downsize the programme by adjusting the sample size and/or reducing its scope.

It appears that the dependence on EU co-financing has increased in recent years. In the previous evaluation it was reported that the lack of EU co-financing would result in the discontinuation of activities in only 16 per cent of the cases.

Figure 3:3 Impact of Discontinuation of the Programme on Partner Institutes

Q: Would you be able to continue to carry out your national surveys in absence of EU co-financing?



Source: GHK online survey of partner institutes; total number of responses = 42

3.3.2 What alternative survey products exist? In particular, how does the PMI compare with the Business and Consumer Surveys in terms of coverage, reliability, cost, timeliness, actual forecasting/nowcasting properties and usage?

A common observation across all categories of users is that they tend to use BCS data in conjunction with other survey data such as the PMI. Most users do not exclusively use BCS products. They look at other products as complementary sources of information. The most often quoted alternative product is the PMI. One unit within DG ECFIN reported that they rely more on PMI / IFO for their forecasting exercise. But, the PMI has the major shortcoming that it is not available for smaller economies such as Estonia, Latvia or Lithuania. Besides, the UK desk reported that they carried out a comparative analysis of the short –term forecasting properties of the ESI versus the

PMI: the ESI was found to have better forecasting properties than the PMI and is now, on this basis, the only indicator used for modelling purposes.

The national indicators produced by the partner institutes are not really seen as alternative products. Internal users are aware that the existence of those national versions is to some extent conditional upon EU financing. However some Desk Offices still prefer to use the national version of the BCS data because of habit / path dependency (previous work experience within the national administration), higher visibility of the national indicator in the media and earlier availability. According to one user, these surveys ask additional questions which are not available through the harmonised BCS dataset. As such, the national surveys are considered a complementary source of information for certain questions, sectors and regional breakdown.

Other indicators, used on a less frequent basis by internal users include: the OECD indicators, ZEW Indicator and indicators produced by National Central Banks. The national administrative users additionally, mentioned the EuroCOIN™.

The main alternative products cited by the private users are the PMI, the OECD leading indicators, the IFO. For financial data, the ECB's Bank Lending Survey was quoted. Compared to internal users, the interviewees from the private sector are more inclined to track indicators focused on other parts of the world (US, Asia).

According to the users, the relative strengths of the BCS programme vis-à-vis alternative products are as follows:

- Wider country coverage, which makes BCS more relevant for carrying out comparative analysis of developments in particular Member States and even allows users to create their own multi-country index from the data for relevant groupings (e.g. for the Baltic countries);
- More comprehensive sectoral coverage;
- Unique questions e.g. *capacity utilisation*;
- Longer time series¹⁶;
- Harmonised methodology across Europe;
- High quality and reliability; and,
- Free access.

Fewer interviewees have elaborated on the weaknesses of the BCS products:

- Lack of detailed industry data at the 3-digit level (this issue was raised by an industry association);
- Accessibility issues;
- Lack of overview of timetable for release of new data (no automatic message signalling updates is sent to users, for example).

Some interviewees highlighted the specific strengths of the PMI:

- Better coverage of countries outside the EU;
- Slightly better timeliness;

¹⁶ The longest series available on the Commission website date from 1985 when a major restructuring of the surveys took place making comparisons with previous data pointless.

- PMI questions are framed better i.e. they are more factual in nature (rather than asking for opinions and plans);
- Greater predictability power, although views are mixed on this issue and it depends on which reference variable one focuses on. An interviewee from a financial institution explained that the PMI tracks quarter on quarter growth rates more effectively than the BCS; whereas, the BCS data provide a better year on year comparison.

It is indeed true that the PMI questionnaire is more fact based as compared to the BCS questionnaire. The PMI questionnaire is entirely backward looking with a shorter reference period of one month. The monthly BCS questionnaire (Industry Survey) in comparison, contains four forward looking questions and is based on a longer reference period.

Table 3:3 Comparison of BCS Industry Survey Questionnaire with PMI Questionnaire

BCS Industry Survey Questionnaire*	PMI Questionnaire ¹⁷
Current Order Books Q1. Do you consider your current overall order books to be... <i>+more than sufficient (above normal); - not sufficient (below normal); = sufficient (normal for the season)</i>	New Orders Index (0.30) Q1. Please compare the state of your new orders (in units) this month with one month ago <i>Lower; Higher ; Same</i>
Output Q2. How has your production developed over the past 3 months? It has... <i>+ increased; - decreased; = remained unchanged</i>	Output Index (0.25) Q2. Please compare your production/output this month with the situation one month ago <i>Lower; Higher ; Same</i>
Employment Expectations Q3. How do you expect your firm's total employment to change over the next 3 months? It will... <i>+ increase; - decrease; = remain unchanged</i>	Employment Index (0.20) Q3. Please compare the level of employment at your unit this month with the situation one month ago <i>Lower; Higher ; Same</i>
	Suppliers' Delivery Times Index (0.15) Q4. Please compare your suppliers' delivery times (volume weighted) this month with one month ago. <i>Slower; Faster; Same</i>
	Stocks of Purchases Index (0.10) Q5. Please compare your stocks of purchases (in units) this month with the situation one month ago. <i>Lower; Higher ; Same</i>
Current Export Order Books Q4. Do you consider your current export order books to be... <i>+more than sufficient (above normal); - not sufficient (below normal); = sufficient (normal for the season)</i>	New Export Orders Index Q6. Please compare the state of your new export orders (in units) this month with one month ago. <i>Lower; Higher ; Same</i>
Stocks of Finished Good Q5. Do you consider your current stock of	Stocks of Finished Goods Index Q7. Please compare your stocks of finished

¹⁷ <http://www.rbc.com/newsroom/pdf/0103-12-pmi-rpt.pdf>

BCS Industry Survey Questionnaire*	PMI Questionnaire¹⁷
finished products to be... <i>+ too large (above normal); adequate (normal for the season); - too small</i>	goods (in units) this month with the situation one month ago. <i>Lower; Higher ; Same</i>
Production Expectations Q6. How do you expect your production to develop over the next 3 months? It will... <i>+ increase; - decrease; = remain unchanged</i>	Backlogs of Work Index Q8. Please compare the level of outstanding business in your company this month with one month ago. <i>Lower; Higher ; Same</i>
Selling Prices Q7. How do you expect your selling prices to change over the next 3 months? They will... <i>+ increase; - decrease; = remain unchanged</i>	Output Prices Index Q9. Please compare the average price that you charge per unit of output (volume weighted) this month with one month ago <i>Lower; Higher ; Same</i>
	Input Prices Index Q10. Please compare the average price of your purchases (volume weighted) this month with the situation with one month ago <i>Lower; Higher ; Same</i>
	Quantity of Purchases Index Q11. Please compare the quantity of items purchased (in units) this month with the situation one month ago. <i>Lower; Higher ; Same</i>

*Monthly Questionnaire

As part of the evaluation, the forecasting performance of BCS was compared with that of the PMI (see Annex 9 for full details). Specifically, the capability of the indicators to forecast the contemporaneous development of the target variable was investigated. The latter is defined in terms of the year-on-year change in private consumption in the case of the Consumer Confidence Indicator, or the year on year real growth rate (GDP or industrial production), when other indicators are considered. The forecasting performance of the indicators was tested for the entire Euro-area.

The forecasting accuracy was investigated by an analysis of past forecast errors in an 'out-of-sample' exercise. This mimics the actual situation the forecaster is confronted with. The forecasts were conducted in a recursive manner. The relationship between the confidence indicators and the target variable was estimated over a first subsample. The subsample ends well before the end of observations. The forecast was repeated for the next period. As the actual values of the target time series were already known, a forecast error could be derived. Then, the estimation subsample was extended by one observation and the process was repeated until the end of the sample. The analysis was done within a rolling and an expanding window. The former may be better suited in periods of structural breaks. However, the results appear to be very robust to this choice. Real time information on the confidence indicators was also included. However, the differences to the non-real time forecasts can be neglected in each case.

The main results of this exercise are as follows:

- The overall Economic Sentiment Index performs quite well if investment or GDP growth is considered. However, PMI measures perform even better;

- The composite indicators are usually better than the individual questions in the survey. The best performing questions are: *production expectations* (Industrial Survey) and *expectations with regard to the general economic situation* (Consumer Survey);
- In contrast, self-constructed composite indicators are more accurate than EU measures and the PMIs for predicting private consumption and industrial production. The gains are often substantial, if a pre-selection of the individual questions is involved. Therefore, the aggregate is constructed not from all, but only from the best performing questions so far. The latter are determined in time the forecast is made. Hence, data-driven techniques should be selected to obtain the weights of the individual ingredients;
- The forecasting accuracy of the indicators has changed during the economic crisis. PMI measures demonstrated an improvement in forecasting performance while the Economic Sentiment Indicator's performance worsened during the crisis;
- Finally, real time data have only minor effects on the results.

3.4 New survey Products Launched in Recent Years

3.4.1 ***To what extent are users of the BCS aware of the Financial Services Survey? For what reason do they use it? Are their actual needs met?***

The use of Financial Services Survey is presently quite limited both among internal and external users. The main reasons for this are as follows:

- Geographical coverage - data are only available at an EU and Euro-area level whereas, users are increasingly interested in monitoring developments at a country level since the financial crisis;
- Lack of track record - the relatively short time series of data (five years). According to some users: *'it does not even cover a single business cycle'*;
- Poor visibility – a number of users interviewed were not even aware of the existence of this survey and showed interest when mentioned.

Overall, the survey is regarded as a useful addition to the programme in principle and is expected to be used more intensively in future as more and more users become aware of its existence and as a sufficiently long time series becomes available.

Unit E1 has been identified as the most intensive user of the Financial Services Survey. It uses the survey data to monitor the current state of the financial markets and expected developments. The survey data also features in documents, reports and briefings prepared by Unit E1, notably:

- An internal chart book which is attached as an annex to briefings / speeches prepared high level Commission officials;
- The weekly credit market pulse which is a selection of financial news and hard data. It includes one chart with the Economic Sentiment Indicator and the Financial Services Indicator. This publication is sent by email to internal users (including high level officials);
- Financial Stability Table provided to the Economic and Financial Committee; and,
- Analytical reports submitted to the European Systemic Risk Board (ESRB).

Unit G1 (Analysis of Financial Market Issues) of DG MARKT tends to rely more on alternative products such as data and research produced by Bloomberg, Fitch, major banks and the Euro-area Bank Lending Survey carried out by the ECB.

3.4.2 How does the Financial Services Survey compare to ECFIN's other business surveys in terms of scope, reliability and usability?

The Financial Services Survey was launched relatively recently, in 2006. Unlike other surveys, it is carried out centrally by a single contractor selected through an open tender procurement process. DG ECFIN bears the full cost of the survey. The survey is produced on the basis of 400 to 500 responses received from firms spread across eleven Member States and the results are only published at an EU and Euro-area level. The geographical scope of the Financial Services Survey is therefore, more limited than other business surveys the results of which are available at a country level. From the users' perspective, non-availability of country level data and the relatively short time series of the data (five years) undermines the utility of the Financial Services Survey. In this context, some users specifically mentioned that the Financial Services Survey could usefully include question on banks' expectations regarding inter bank lending rate and liquidity in the financial markets. These would provide an advance indication of availability of finance for lending by the banks.

As regards its reliability, it should be noted that the survey was introduced in a highly volatile context (in the midst of the financial crisis) which means that the 'normal' reading of the survey results is not available for reference. It is understood that DG ECFIN together with the contractor in charge of the Financial Services Survey are currently examining whether sample sizes are large enough to produce representative country level results. The results of this analysis will be available in first half of 2012.

3.4.3 Does the different contractual agreement that characterises this survey (tender based with one single contractor) affect the output, in terms of i) efficiency and ii) reliability of the results?

The centralised approach has its pros and cons. Its main advantages over the grant based co-financing model would be as follows:

- It would give DG ECFIN full control over the methodological (e.g. change in questionnaire) and operational aspects (e.g. change in timetable) of the programme. Under the grant based co-financing model, achieving methodological or operational changes is a difficult, time consuming and uncertain process as it involves lengthy negotiations and consensus building among partner institutes. As a result, the programme has a tendency to be supply driven and is rather slow to respond to user requirements. Under the centralised approach, DG ECFIN can be proactive in responding to users' needs.
- It would ensure full harmonisation of the questionnaire across different countries. Under the present approach, the use of a non-homogenous approach across partner institutes was cited as an issue by some users.
- DG ECFIN would own the full copyright of the data and would be able to publish components of balances and have access to micro data.
- It would provide greater certainty as regards country and sectoral coverage. Under the grant based co-financing model, participation in the programme is voluntary which creates uncertainty and adversely affects the reliability of the programme. For example, no offer was received from Ireland in the 2007 call

for proposals and consequently, there is no data for Ireland for the period 2008 to 2011.

- Operational efficiencies at DG ECFIN would be achieved as only a limited number of contractors (one per survey) would need to be managed.
- Possibly, greater visibility as DG ECFIN could devote more resources to raising awareness of the survey programme.

The biggest disadvantage of such an approach however, is that it would create a break in the series and long established tradition of cooperation with partner institutes. The decentralised approach has important secondary benefits in terms of capacity building and knowledge spill overs, which would be lost in a centralised approach.

Moreover, the centralised approach would entail a higher expenditure by DG ECFIN as it would have to cover the full costs of conducting the surveys (Table 3:4). It would also lead to some duplication of effort with the countries that would continue to conduct their own national surveys in absence of EU co-financing.

Table 3:4 'Back of the Envelope' Calculation of the Costs of Conducting Surveys under the Centralised Approach

Sector	No. of Sub-sectors	No. of Countries	Minimum Sample Size	Average Cost per Unit	Annual Survey Costs
Financial Services*	3	11	500	540	270,000
Industry	24	30	21,600	100	2,169,231
Construction	3	30	2,700	140	378,744
Services	37	30	33,300	82	2,739,327
Retail Trade	7	30	6,300	107	672,293
Investment	13	30	11,700	30	356,658
Consumers	N/A	30	35,000	93	3,240,047
	87		111,100	1,093	9,826,300

Assumptions: Minimum sample size = 30 firms in each subsector in each country

Average (EU level) cost per unit derived as follows = total cost of conducting the survey ÷ sample size

Annual survey costs = Sample Size X per Unit Costs

**The above table shows actual costs*

3.4.4 Are survey users aware of the existence of the Flash Consumer Indicator launched in 2010? Do they consider this new indicator useful?

The awareness and use of the Flash Consumer Confidence Indicator is rather limited. While users value the availability of more timely information they are concerned about a potential trade-off in terms of reliability and quality. Moreover, the Flash Consumer Confidence Indicator is not available at a country level which reduces its usefulness from the users' perspective.

3.5 Improving Efficiency and Effectiveness

3.5.1 **Are there areas of activity related to the BCS Programme which could be seen as negative priorities, e.g. susceptible to be curtailed without seriously impairing the economic analysis of the business cycle?**

Survey participants and interviewees were asked to comment on the areas of the programme that could be removed or curtailed in scope (frequency, sample sizes, sectoral coverage). More than half of the respondents among national policy makers and administrative users preferred not to answer this question. Ten respondents clearly said this should not be an option. Only three persons supported this action. One of them specifically mentioned the Business Climate Indicator and the Turning Point Indicator as the elements that could be curtailed.

Similarly, most private sector users and internal Commission users were reticent to name specific products since they regard all products as relevant and useful. When pressed, some of them logically pointed out to the products that are the least used namely, the Financial Services Survey and the Investment Survey. However, just because these products are not being widely used does not imply that they are unnecessary; indeed, the evaluation evidence suggests that the extent of use depends on a product's visibility and its characteristics. It could be argued that instead of discontinuing these products, the Commission should improve the visibility and quality of these products by addressing the specific issues raised by users.

3.5.2 **Conversely, are there areas where coverage should be improved or expanded?**

The following suggestions were made by the users for expanding the coverage of the programme:

Geographical coverage:

- Producing the Flash Consumer Confidence Indicator and the Financial Services Survey at a country level; (wide support among users);

Sectoral coverage:

- Extending the concept of the Flash Consumer Indicator to create Flash Indicators for all sectors (wide support);
- Expanding the coverage of the programme to the real estate sector (sporadically quoted);
- Improving the coverage of the Services and the Financial Services Survey (have longer time series) by back-calculating historical data (Eurostat);

Changes to the questionnaire:

- Expanding the use of the *capacity utilisation* question to all surveys and on a monthly basis (wide support);
- Including specific questions on *new orders* (as opposed to orders), *employment situation* (as opposed to only expectations), *access to finance by businesses and expectation of changes in input prices* (sporadically quoted);
- Adding questions *regarding expectations of changes in liquidity conditions and inter bank lending rate* in the Financial Services Survey (quoted a number of times);

- Including a section in the survey for ad hoc questions to collect information on specific events and concerns similar to approach adopted by the ECB in its Bank Lending survey (quoted a number of times);
- Reformulating questions to collect information on actual behaviour instead of intended behaviour (quoted a number of times);
- Including questions regarding the impact of weather in the Construction Survey (sporadically quoted);
- Adding questions to the Consumer Survey to obtain detailed information on households' price expectations relating to certain categories of products e.g. energy, housing, food (sporadically quoted).

3.5.3 *Is the current way of presenting and communicating survey results efficient and effective? Where are the priorities (or major needs) in terms of improvement: in the quality of surveys or rather in the communication of results?*

In the main, users are satisfied with the ways in which the survey results are presented and communicated. Most interviewees did not express any interest in sophisticated visualisation tools. They often mentioned having their own internal tools and templates for presentation purposes.

Users however, put forward several suggestions when asked if the presentation and communication of results could be improved:

- The more sophisticated and experienced users within the Commission requested for normalised data to be made available. This request was made by DG EMPL, DG ENTR, a few Desk Officers and Eurostat. Additionally, more intensive users such as the ECB, Eurostat and DG EMPL requested for the publication of response frequencies. Some partner Institutes also highlighted that this information would be of interest to their users.
- A couple of users (DG EMPL and one private sector user) suggested that the presentation of the data should be changed to include the figures with two decimal places (0.00) rather than the current format;
- Providing an indication of when responses were received e.g. 70 per cent of the responses were received between the 10th and the 15th of the month. This would enable users to understand the impact of specific events on sentiment (e.g. the March 2011 earthquake in Japan);
- In the interviews with internal users, ECB and private sector users, requests for more methodological transparency on the way data are gathered and processed came out very clearly and sometimes were one of the main suggestions for improvement;
- Providing BCS team's contact details together with the press releases (sporadically suggested by some users);
- Providing clear explanations in case of need for retroactive revisions (quoted a number of times);
- Maintaining consistency in the way excel files are arranged as data is imported directly in forecasting models by some users (strongly supported by internal users: DG EMPL, desk officers);
- Presenting the survey results together with the appropriate 'hard' data, if possible (sporadically quoted);

- Building a presentation tool with the option to filter data by country or by subsector, for example (sporadically quoted);
- Conducting meta-surveys of answering practices such as the one undertaken by the CBI-UK, more systematically and widely. This suggestion was specifically made by the ECB;
- A number of users mentioned the need to improve data visibility on DG ECFIN's website and generally improving the accessibility of the data. Users specifically requested for availability of data in more user friendly formats e.g .CSV which could feed into automated programmes;
- One interviewee suggested making all indicators available via Thomson Reuters' Datastream database (currently, the Turning Point Indicator is outside the scope of datastream); and,
- Private sector users suggested the need for more marketing and promotion activities to raise awareness of the surveys.

It cannot be categorically stated that the improvements in quality of surveys should be prioritised over communication of results or vice versa. Some issues relating to survey quality (methodological improvements relating to weighting, formulation of questions etc.) are as important as some communication issues relating to methodological transparency and interpretability of survey results. Section 4 of the Report prioritises the suggestions made by the users.

3.5.4 *Should DG ECFIN's BCS team invest further in the economic analysis and interpretation of survey data with a view to facilitate the assessment of the business cycle by both external and internal users*

The current level of interpretation and analysis is also regarded as sufficient as interviewees are mainly interested in the data itself. A couple of interviewees however, mentioned how they would welcome short text highlighting the principal changes and main country level differences each month. Some users were of the opinion that the micro data is a potential 'goldmine' to be exploited. A point reinforced by the ECB at the BCS annual workshop. It is definitely worth exploring how this data could be better utilised to improve the overall understanding and analysis of the business cycle.

Finally, a number of users would value more guidance on how to interpret data (both, questions and answers).

3.5.5 *Is there room for savings on the programme's overall costs? In particular, could efficiency be improved by modifying the programme's contractual arrangements and outsourcing some of the coordinating tasks carried out in DG ECFIN (including financial management)?*

As indicated in section 3.4.3, a switch to centralised approach based on appointing single contractors for each survey would entail a higher expenditure as domestic co-financing would not be available under this option and DG ECFIN would have to fund the full costs of the surveys. Although outside the scope of this evaluation, it is worth highlighting here that the cost structure of the surveys varies hugely across countries. The cost variations could partly be explained by the differences in sample sizes and the costs relating to acquisition of data (for creating business panels) across countries. But, the previous evaluation suggested that there is scope for improving the efficiency of the surveys in some countries. A detailed assessment of the cost of conducting the surveys by individual partner institutes however, is more suitably addressed through an audit.

Table 3:5 Total Cost of Conducting the Surveys in 2010, EUR

Country	Construction	Consumer	Industry	Investment	RetailTrade	Services	Grand Total
AT	271,843	1,002,814	498,897	345,266	187,047	416,397	2,722,265
BE	1,364,932	2,365,573	3,262,171	1,163,070	1,603,880	2,070,255	11,829,880
BG	167,927	372,827	315,203	167,708	253,959	239,999	1,517,622
CY	155,946	469,077	230,643	57,232	250,415	314,447	1,477,761
CZ	151,385	360,705	281,238	62,264	107,113	193,960	1,156,665
DE	1,482,879	1,224,461	2,794,732	1,257,133	1,661,455	1,913,214	10,333,874
DK	479,245	781,460	469,977	229,779	237,521	354,183	2,552,164
EE	170,793	339,075	205,897	86,670	182,562	247,197	1,232,194
EL	311,087	619,123	760,305	228,921	531,535	467,575	2,918,546
ES	345,977	1,129,327	1,091,573	414,256	280,668	433,723	3,695,524
FI	356,886	2,054,768	968,557	349,869	266,265	541,117	4,537,464
FR	1,494,073	2,723,807	2,624,309	1,265,856	1,607,660	1,959,113	11,674,819
HR	99,066	262,185	123,844	30,962	74,303	142,407	732,767
HU	345,415	548,971	463,329	104,504	342,950	370,004	2,175,173
IE	41,659	657,716	244,250	84,269	82,797	82,362	1,193,052
IT	588,900	1,312,604	2,606,887	554,634	882,286	1,497,260	7,442,571
LT	62,332	500,606	77,768	16,469	68,503	66,572	792,251
LU	41,279	449,786	114,274	17,183			622,522
LV	108,601	261,669	195,296	53,282	126,250	165,128	910,225
MK	54,460	57,210	114,330	35,930	86,530	81,180	429,640
MT	103,551	439,893	276,099	17,978		246,817	1,084,338
NL	262,828	913,171	1,365,072	349,156	321,082	717,361	3,928,669
PL	490,824	546,901	557,454	131,895	652,392	551,250	2,930,717
PT	301,736	1,700,313	457,994	323,475	274,619	359,714	3,417,851
RO	355,863	427,130	480,394	79,242	392,840	408,539	2,144,008
SE	183,190	1,106,412	689,020	190,653	416,424	517,152	3,102,851
SI	228,201	301,278	264,102	38,169	275,966	225,944	1,333,660
SK	230,495	652,977	273,614	38,081	229,920	248,070	1,673,157
TR		339,328	297,361	48,109	296,503		981,301
UK	330,463	1,474,801	985,132	362,567	692,144	558,129	4,403,236
Total	10,581,837	25,395,969	23,089,723	8,104,581	12,385,588	15,389,070	94,946,767
Minimum	41,279	57,210	77,768	16,469	68,503	66,572	429,640
Maximum	1,494,073	2,723,807	3,262,171	1,265,856	1,661,455	2,070,255	11,829,880

Source: DG ECFIN

3.6 Methodological Spillovers

3.6.1 *What has been the influence, if any, of the ECFIN surveys on methodological developments and approaches, in particular at the level of other international institutions (OECD, UN) and Member States?*

Influence on International Institutions

Since 1991, the OECD's Statistics Directorate has worked in cooperation with the European Commission to develop the joint harmonised methodology as the basis for promoting a common standard in the field of business and consumer surveys. The cooperation was triggered when the transition economies commenced accession talks with the EU; in parallel, these countries also approached the OECD regarding membership. The OECD and the European Commission looked at existing capacity for conducting business and consumer surveys in these countries and worked with partner institutes in applying a harmonised methodology.

Some other satellite projects were also initiated with EU funding to promote harmonisation:

- One hub in Former Soviet Union countries – some of these countries operate the harmonised methodology (e.g. Ukraine) but over time, OECD lost contact with these countries;
- UN Regional Economic Commission for Latin America and the Caribbean (ECLAC);
- UN Regional Economic Commission for South East Asia.

In 2006, ECLAC was the only functioning regional commission (it met on a bi-annual basis); the others had terminated. This was due to the fact that EU funding had ceased and the OECD only provided expertise. According to the OECD, recent attempts to revive the focus on harmonisation have been unsuccessful.

A by-product of the cooperation between OECD and the European Commission was two methodological guides:

- OECD handbook on business tendency surveys; and,
- DG ECFIN methodological guide on business and consumer surveys.

A key constraint to promoting further methodological developments in this area is that opinion surveys do not fall under any standard statistical framework. These are typically carried out by research institutes, chambers of commerce etc. on a voluntary basis. Given these constraints, it is widely believed that the European Commission and the OECD are best placed to promote harmonisation through the use of soft approaches such as coordination and cooperation.

Influence on Member States

Close to one third of partner institutes recognise that the BCS programme has influenced the methodological approaches adopted for other surveys that they produce. The spillovers relate to the following aspects: formulation of survey questions, sampling method, seasonal adjustment method (DAINTIES), method to compute indicators, weighting methodology. Overall, the BCS programme is seen as inducing gains in methodological rigour as well as an increased awareness about international comparability issues.

4 CONCLUSIONS AND RECOMMENDATIONS

This section of the Report sets out the conclusions and recommendations emerging from the evaluation.

4.1 Conclusions

The main conclusions of this evaluation are as follows:

Identification of users and patterns of use

- **BCS products have a diverse user base.** Within the Commission, BCS products are used intensively by DG ECFIN, DG ENTR, DG EMPL, Eurostat and to a lesser extent, by DG MARKT. External users include the ECB, OECD, National Central Banks, national ministries and departments, national statistical offices; research institutes; academia; businesses and their representatives such as industry/ trade associations and chambers of commerce; private research companies; financial institutions; and, media.
- **Patterns of use vary across different categories of users.** At a very basic level, BCS data is used to get an overview of the current state of the economy (or specific sectors) and short term outlook. More sophisticated uses include nowcasting/ forecasting and business cycle analysis.
- The evaluation found evidence to demonstrate **that BCS data regularly feeds into policy making** (particularly, monetary policy making) **and business decision making** (decisions relating asset allocation and investments).
- **All BCS products are used** though some products are used more intensively and widely than others. The Consumer and Industry Survey (and the corresponding confidence indicators) are the most widely used products. However, the evaluation found that users typically use a range of survey products (e.g. BCS, PMI, national/ sectoral) to corroborate evidence and to add to the depth of the analysis. New products such as the Financial Services Survey and the Flash Consumer Confidence Indicator are used to a very limited extent due to non-availability of country level data and low levels of awareness among users.
- **There is potential for greater exploitation of data** via use of micro data and components of balances.

Meeting users' needs and expectations

Overall, BCS Programme is well aligned with users' needs and expectations. However, there are some issues requiring attention:

Relevance: the programme is not considered relevant by users who are specifically interested in data for Ireland. The relevance of some components of the programme is greatly reduced by their limited sectoral coverage (Flash Consumer Confidence Indicator) or geographical coverage (Flash Consumer Confidence Indicator and the Financial Services Survey).

Timeliness: a number of users expressed frustration that the BCS data is released later than the national surveys and the Flash PMI (which receives a lot of publicity in the press).

Comparability: the two main concerns expressed by users here were (a) the relatively short time series for the Services and the Financial Services Survey; and, (b) non-

homogeneity of approach across partner institutes e.g. reference period being different across countries (six months instead of three months).

Methodology: some methodological approaches were criticised by the users notably, the use of DAINTEs for seasonal adjustment; the practice of assigning equal weights to all questions in the construction of indices; and the phrasing of survey questions which in their present form, seek to elicit information regarding intended behaviour as opposed to the actual behaviour of economic agents.

Interpretability: users would like more guidance on how to interpret survey questions as well as survey answers.

Transparency: the BCS surveys are quite transparent in terms of the information available on DG ECFIN's website notably, comprehensive metadata by sector and country, methodological user guide, press releases list of partner institutes and contact details. However, users are often not aware of the existence of this information and in some case, have requested for further detail.

Accessibility: a number of external users and even some internal users consider that the visibility and accessibility of the survey products could be greatly improved. Some users expressed a preference for data to be made available in alternative formats (.CSV or access database).

Frequency: some users would like the quarterly bulletin on the European Business Cycle Indicators and the Investment Survey to be produced on a monthly basis; and, the *capacity utilisation* question to be asked on a monthly basis.

New needs arising from the financial and economic crisis

The financial and economic crisis has reinforced the importance of early warning signals. It has not fundamentally changed users' needs but, some shifts in user requirements have been noted:

- Demand for more timely data;
- Greater emphasis on country-specific developments and question-level detail (e.g. specific questions relating to *capacity utilisation*, *financial situation of households*);
- More interest in certain sectors notably, financial services;
- Demand for more guidance on how to interpret the results; and,
- Demand for information on 'cause' and 'effect' relationships i.e. impact of certain events on business and consumer sentiment (e.g. downgrades, tsunami, interest rate changes).

Assessment of EU added value of the programme

The main added value of the programme is that it generates harmonised data which enables cross-country comparisons and the construction of EU/ Euro-area indicators. Furthermore, the programme promotes capacity building and knowledge sharing among partner institutes.

A vast majority of the users stated that their work would be adversely affected if the programme were to cease to exist as it would reduce the evidence base for analysis. The programme is considered a unique source of information by users in terms of its coverage and length of the time series.

EU co-financing is also considered critical by many partner institutes. More than half of the partner institutes (23 out of 42 respondents) would not be able to carry out the BCS surveys without EU co-financing; sixteen partner institutes would have to downsize the programme; only three would be able to run the programme as usual.

Comparison with alternative survey products notably, the PMI

The relative strengths of BCS products as compared to the PMI are its wider sectoral and geographical coverage; availability of data for sub-sectors; longer time series; larger sample sizes; and, methodological transparency.

The perceived strengths of the PMI are that the Flash PMI is released earlier than BCS data; it is considered easier to interpret by users and a number of private sector users were of the opinion that the questions are phrased better i.e. they are more factual compared to BCS which focuses more on opinions, intentions or expectations.

As regards the forecasting properties of BCS, the overall Economic Sentiment Index performs quite well if investment or GDP growth is considered. On average, it is more accurate than the self-constructed alternatives that are calculated by different aggregation methods. However, several PMIs are able to produce an even lower forecast error.

In contrast, self-constructed composite indicators are more accurate than EU measures and the PMIs for predicting private consumption and industrial production. The gains are often substantial, if a pre-selection of the individual questions is involved. Therefore, the aggregate is constructed not from all, but only from the best performing questions so far. The latter are determined in time the forecast is made. Hence, data-driven techniques should be selected to obtain the weights of the individual ingredients.

The composite indicators are usually better than the individual questions in the survey. The best performing questions are the *production expectations* in the Industrial Survey and *expectations with regard to the general economic situation* in the Consumer Survey.

Some changes were noted in the forecasting accuracy of the indicators during the economic crisis. PMI measures demonstrated an improvement in forecasting performance while the Economic Sentiment Indicator's performance worsened during the crisis

Finally, real time data have only minor effects on the results.

The scope for cost savings

The evaluation did not find any compelling reasons for realising cost savings by discontinuing survey products that are less used. On the other hand, there is a case to be made for improving the usability of the surveys that are relatively less used by improving their visibility, expanding their coverage and/or improving the questionnaire.

There might be scope for reducing costs by improving efficiency across some partner institutes. However, this issue lies outside the scope of this evaluation.

4.2 Recommendations for Improvement

The recommendations contained in this section take into account the specific suggestions for improvement made by the users and some initial considerations on the feasibility of addressing these suggestions (Table 4:1).

Table 4:1 Recommendations for Improvement

Suggestion made by users	Frequency with which this suggestion was made	Resources / risks involved	Potential gains	Feasibility/ priority
Improving Relevance				
Producing flash indicators at country level and for all sectors	Rather High	High	Moderate	Not feasible. It is not possible to accelerate the publication process and there would be drawbacks in changing the dates of the fieldwork. The Consumer Survey is the only sector where this is possible, and indeed a Flash Consumer Indicator is already available (since January 2010). On the contrary, it is much more complicated for business surveys – need to wait for the answers of large companies to get a representative sample. A feasible alternative would rather be for DG ECFIN doing further work on the identification and construction of leading indicators.
Publishing the results of the Financial Services Survey at a country level	Rather High	Moderate	High	High priority DG ECFIN should make a decision based on the analysis of the reliability and robustness of the survey results at country level and possibly publish results only for the Member States where the financial services sector is significant
Improving the coverage of the Services and Financial Services data (have longer time series) by back-calculating historical data	Low	High	Limited	Not feasible. Back-calculating historical data for estimating confidence in the financial services is not possible.
Expanding coverage of the programme to the real estate sector	Low	High	Moderate	Low priority . Some aspects of the real estate sector are already covered in the Construction and the Services Surveys.
Improving methodology				
Make use of ad hoc questions (in any survey) to collect information on specific events and concerns (similar to the ECB Bank	Moderate	High	High	Medium priority. As a first step, the experience of partner institutes with using ad-hoc questions could be collected – notably in terms of their views on the readability of the results. As a second step, the way forward would be to reflect on the process by which these ad-hoc questions would be defined

Suggestion made by users	Frequency with which this suggestion was made	Resources / risks involved	Potential gains	Feasibility/ priority
Lending survey)				
Reformulating questions to collect information on actual behaviour instead of intended behaviour	Moderate	High	Uncertain	Not feasible. It would result in a break in the series, while the improvement in the forecasting properties of the BCS products would be uncertain. Besides, some users continue to express an interest in forward looking questions.
Including specific questions on new orders (as opposed to orders), employment situation (as opposed to only expectations), access to finance by businesses and expectation of changes in input prices (including detailed by certain categories of products);	Low	Average	Limited	Low/medium priority. There is a need to keep the questionnaire short in order to obtain high response rates.
Including questions relating to inter-bank lending rate and liquidity conditions in the Financial Services Survey	Moderate	Medium	Medium	Medium priority. The added value of DG ECFIN asking these questions (instead of the ECB) is unclear.
Reconsidering the use of Dainties	Moderate	High	Uncertain	Medium priority. Drawbacks of this are too high (break in series) – also in view of conclusions of earlier task force. A feasibility study should be launched.
Reconsidering the weighting strategy for the construction of indicators	Moderate	High	High	High priority. Particularly in view of the comparative analysis of forecasting properties of BCS and PMI
Improving frequency				

Suggestion made by users	Frequency with which this suggestion was made	Resources / risks involved	Potential gains	Feasibility/ priority
Expanding the use of the capacity utilisation question (to all surveys and on a monthly basis)	Rather High	Moderate	Low	Not feasible. The question has already been introduced in the services sector (in addition to the industry sector), while it is not meaningful for the other sectors.
Increasing the frequency of the investment survey	Moderate	Very High	Limited	Medium priority. A quarterly frequency could be envisaged. Alternatively, DG ECFIN could explore the possibility of adding a couple of questions on investments in the Industry quarterly survey.
Publishing percentages of positive and negative respondents (instead of balances only)	High	High	High	Medium priority DG ECFIN could publish these figures at the aggregate level (EU and Euro area). On the contrary, at country level there are copyright issues. This issue was also raised in the previous evaluation. In response, DG ECFIN set up a task to try to address the copyright issues. However consensus could not be achieved among partner institutes.
Publishing normalised data	High	High	High	High priority.
Publishing national questionnaires	Low	Low	Moderate	High priority. A relatively easy action to take forward and would help address concerns re use of non-harmonised questionnaires
Promoting more transparency on the methodology (including how it is implemented) and metadata	High	High	High	High priority. First steps could be taken, however, the overall recommendation requires time to be implemented. The relevant action should be spread over several years.
Providing DG ECFIN team's contact details on press releases	Moderate	Moderate	Moderate	Low priority. Feasibility and opportunity costs should be checked. Data protection and practical issues need to be checked with the spokesperson services.
1)Conducting surveys on partner institutes answering practices	Moderate	High (especially in terms of	High	High priority.

Suggestion made by users	Frequency with which this suggestion was made	Resources / risks involved	Potential gains	Feasibility/ priority
2) Ask institutes to carry out more surveys of surveys on their respondents.		budget resources)		
Improving knowledge				
Providing access to anonymous consumers micro data	Moderate	High	High	Generally not feasible. There are copyright issues. However, there is room for the EC to exploit these data through out-sourced studies.
Commissioning research projects and academic studies	Moderate	High	High	Medium priority.
Dissemination of data in a user friendly format which can feed into automated analysis programmes (e.g. CSV format). Improvement of the Excel file (maintaining consistency, etc.)	Rather High	Moderate	High	High priority.
Building a presentation tool with the option to filter data – e.g. by country, by subsector; Presenting the survey results together with the appropriate "hard" data	Low	High	Uncertain (most people have their own tools)	Low priority. To be reviewed in the context of a feasibility study
Improving data visibility and	Moderate	Moderate	High	

Suggestion made by users	Frequency with which this suggestion was made	Resources / risks involved	Potential gains	Feasibility/ priority
accessibility on DG ECFIN's website				Medium priority. To be reviewed in the context of a feasibility study.
Increasing visibility of the programme, Undertaking more marketing and promotion activities	Rather High	Moderate	High	Medium priority.

On the basis of the above analysis, the recommendations of this evaluation are as follows:

Improving relevance

DG ECFIN should expand the geographical coverage of the Financial Services Sector to produce country level results. In doing so, due consideration should be paid to the fact that the economic importance and size of this sector varies hugely across Member States (Priority: High).

Improving methodology

DG ECFIN should continue to maintain its focus on driving methodological improvements and harmonisation:

- DG ECFIN should set-up working groups to consider the feasibility of making other methodological changes proposed by users such as the weighting scheme. (Priority: High).
- DG ECFIN should collect feedback from partner institutes regarding their experience with using ad-hoc questions– notably in terms of their views on the readability of the results. As a second step, DG ECFIN should reflect on the process by which these ad-hoc questions would be defined. DG ECFIN should also evaluate the feasibility of adding additional harmonised questions e.g. access to finance (Priority: Medium).
- DG ECFIN should re-evaluate the use of DAINTRIES as the methodology for seasonal adjustment (Priority: Medium).

Improving transparency and interpretability

In response to user needs, DG ECFIN should publish normalised data (Priority: High).

In the spirit of transparency, all national questionnaires should also be published on DG ECFIN's website (Priority: High).

DG ECFIN should develop a set of reference documents for interviewers, respondents and users to promote common understanding of key concepts and definitions and, to facilitate the interpretation of survey questions and answers (Priority: High).

DG ECFIN should conduct meta-surveys of partner institutes' answering practices and encourage partner institutes to carry out more surveys of surveys (Priority: High).

DG ECFIN should publish percentages of positive and negative respondents at an aggregate EU and Euro area level (Priority: Medium).

Improving knowledge

DG ECFIN should set aside a budget for specific research projects such as academic studies on the reliability of BCS indicators in tracking reference macroeconomic variables and research utilising micro data. Joint research projects involving collaboration between partner institutes should be encouraged (Priority: Medium).

Improving visibility and accessibility

DG ECFIN should proactively improve the visibility of the programme by publicising the results of the survey more widely and by using a range of communication channels – see Box 4.1 (Priority: Medium).

DG ECFIN should consider re-structuring its website to make it more user-friendly (Priority: Medium).

DG ECFIN should also consider providing the survey data in alternative formats such as .CSV (Priority: High).

Finally, it is important that DG ECFIN is adequately resourced both financially and in terms of human resources, to deliver high quality survey products.

Box 4:1 Potential Measures for Enhancing Visibility of the BCS Programme

Communication efforts should be oriented towards emphasising the comparative advantages of the BCS: long time series, geographical coverage, methodological transparency, availability of sub-sectoral data.

A special mailing list could be created targeting actual and potential users notably, Central Banks, government departments, generalist and specialised media, research institutes, industry confederations, business analysts, data vendors and academic community.

Headline analysis of sectoral/ sub-sectoral results could be disseminated to business associations based in Brussels for wider circulation to their members.

Many partner institutes use mailing lists and press releases to disseminate their results at a national level at least, as far as not for profit institutes are concerned. A link to DG ECFIN website could be included in these emails and national press releases.

Additionally, invitations to subscribe to an EU-wide mailing list could be sent to all national subscribers of partner institutes' mailing lists.

DG ECFIN should encourage the partner institutes to disseminate information on the BCS programme. Most partner institutes do mention the EU programme on their websites, but they do not always include a link to DG ECFIN's website.

Incentives to release the data in the media on the same day as DG ECFIN could be introduced to create a European "buzz" in the media.

DG ECFIN could contact the most popular business cycle analysis-related websites (ministries, research institutes, etc.) both at the Member State and EU levels for them to include a link to the database. To identify the weakest links to target as a matter of priority, a backlinks-checking, i.e. a comprehensive review of all the websites that refer to the BCS programme, could be undertaken.

Discussion forums and user communities could be created on online networks such as Linked-in, ning or facebook

To enhance the visibility of the analytical work carried out with the BCS data, the EBCI publication could be advertised in the [Business and Consumer Surveys](#) section.

To raise internal awareness, short training sessions could be organised on "getting the most out of BCS data".

Optimisation of DG ECFIN surveys in search engines so that they appear among the first hits in a typical Google search. Search engine optimisation (SEO) techniques can involve title tags, XML site maps, multi-lingual meta tags, the use of W3C Compliant Code and simpler URLs.

The European Commission – DG ECFIN and beyond - could also increase the visibility of the BCS programme on its publications and newsletters.