A Brief History of the CBI’s Answering Practices
Surveys – Functions, Findings and Innovations

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Overview and Objectives

- Brief history
- Functions
- Findings
- Innovations
- The future
Brief history [i]

- Answering practices surveys carried out on a periodic basis
- Qualitative and postal
- Significantly positive response rates – firms like to talk about their motivations
- The tradition goes back to 1967
- Conducted where possible every 5 years
- Breaks have occurred when survey fatigue/burden has been communicated by samples
Brief history [ii]

- Applied across CBI business Surveys – the latest being:
  - Service Sector in Sept 2007
  - Manufacturing Industrial Trends in April 2008
  - Distributive Trades in November 2008
  - Financial Services in September 2009
Functions [i]

• A research tool to understand the subjective motivations of survey respondents

• To enrich the quality of our survey interpretation by understanding how respondents themselves interpret concepts/factors

• To detect and capture changes in the way respondents answer and respond to specific questions – Such as *capacity* in manufacturing

• To modify the tool to react to changes within the structure and environment of the specific economic activity of participants

• As a spot-check for verifying the corporate level and consistency of respondent

• As a research tool to test respondent opinion of changes in methodology
Functions [ii]

• To satisfy external public scrutiny concerning the veracity of our data

• To share with key institutions – Bank of England, European Commission and OECD

• To provide academic institutions with a granular perspective

• To share with the harmonized EU programme
Findings – what the surveys can tell us?
How respondents answer the question on optimism

- Compared to 3 months ago
- On a current basis
- Combination of the two
Volume of business – Service Sector Survey

Most important measures of volume of business

- Value of income
- Number of transactions
- Subjective assessment
- Other
- Number of hours billed
Statistical issues 1 – Industrial Trends Survey

Reasons why answers are not adjusted for seasonality

- Seasonal factors not significant
- Seasonality impossible to measure
- Other

% respondents not adjusting for seasonality
Statistical issues 1 – Chart Notes

• Statistical issues: concerned the method of measurement used by respondents, covering the issues of seasonality, timing, indifference bands and units of measurement.

• This question asks about seasonality (There are three parts to this question; the chart shows the last part).

  • Confirms previous findings that a majority (59%) do adjust for seasonal factors.

  • Most of those adjusting (71%) do it subjectively.

  • Of those who do not adjust for seasonality, the most popular reason given (26%) was that seasonal factors are not significant.

  • Answers to a separate question specific to prices revealed that only 6% experience significant difficulties accounting for seasonality because they only change their prices once a year (Q10, on the results sheet provided).

• These responses suggest the ITS is not significantly affected by seasonality.
Interpretation of complex concepts 2 - Industrial Trends Survey

Benchmark for ‘normality’

<table>
<thead>
<tr>
<th>Average rank (total order books)</th>
<th>Past level/historical average</th>
<th>Average growth rates</th>
<th>Budgeted plans/forecasts</th>
<th>Capacity of plant/company</th>
<th>Other</th>
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</table>

% respondents

- **Total order books**
- **Export order books**
ITS respondents’ methods of comparing order books to ‘normal’ little changed since last survey

- Most popular method used:
  - Comparison of order books with a past level/historical average (84%)  
  - Comparison of order books with budgeted plans/forecasts (70)

- Of those who compare order books with a past level/historical average, 73% said that their assessment of normality changes over time. But only 34% of these (21% of all replies) stated that their assessment has changed over the last 12 months (very similar to the proportion in 1998).

- These results reaffirm the messages from previous Answering Practices Surveys: perceptions of normality change over the medium- to long-term, so the order books questions should be treated with caution but the fact that only a minority of respondents (21%) stated that their assessment of normality has changed over the last 12 months suggests that significant changes in the order books balance over the short-term probably do reflect changes in actual order book levels.
EC questions – Retail Trends Survey

Interpretation of ‘trend over the past three months’

% respondents

- Retail
- Wholesale
- Motor Trades

- Beginning to end of the 3 month period
- Past 3 months compared to previous 3 months
- Past 3 months compared with same 3 months a year ago
- Some combination all three
- Other
The European Commission’s own questions embedded within the DTS survey refer to sales volumes, orders placed upon suppliers, prices and employment. They ask respondents to describe the trend over both the past three months and the next three months (in contrast to the CBI’s own questions, which tend to ask about year-on-year trends).

It is clear that most respondents in all three sub-sectors (68% of retailers, 80% of wholesalers and 47% of motor traders) answer these questions in terms of the change between the past three months and the same three month period a year ago. This suggests that the EC’s questions are interpreted in broadly the same way as the DTS ones that ask for a year-on-year comparison.

However, a considerable number of motor trades (40%) answer with respect to the change between the past three months and the previous three months.
Reacting to observations of external conditions and the way sectors change their business models
This APS therefore offered the chance to assess how those surveyed define key phrases like “normal financial market conditions”, “short” and “medium” term, as well as to keep things topical and wake them up with an opinion question.

In the FSS, Q21 asks how soon respondents expect “normal” financial market conditions (in terms of volatility/liquidity/credit margins) to resume. So Q13 of this APS asks “What does your view of ‘normal’ financial market conditions reflect”?

This was pretty evenly divided between financial market conditions prevailing before August 2007 (35%) financial market conditions no longer perceived to be abnormal (i.e. not too unruly, liquidity not too tight, credit spreads not too high) (32%), and financial market conditions that are perceived to be sustainable in a post credit-crunch era (33%). Nobody defined normal as the financial market conditions prevailing before the era of cheap and easy money (i.e. before 2001).

Firms in the APS define short term as being under 6 months, 72%, and medium term as beyond one year, 74%.
Q13 Question 21 asks how soon you expect ‘normal’ financial market conditions (in terms of volatility/liquidity/credit margins) to resume. What does your view of ‘normal’ financial market conditions reflect?
• Among Building Societies there was a definite preference for the ‘sustainable’ option (80%)
The financial market conditions that prevailed pre-credit crunch (i.e. before Aug 2007)

The financial market conditions that prevailed before the era of cheap and easy money (i.e. before 2001)

Financial market conditions that are no longer perceived to be abnormal (i.e. not too unruly, liquidity not too tight, credit spreads not too high)

Financial market conditions that are perceived to be sustainable in a post-credit crunch era

Other
Interpretations of complex problems – Industry survey
Interpretation of complex concepts 3

Proportion using values/revenues as an approximation for volumes

% respondents
Interpretations of complex problems – Industry survey – taking into account improvements in quality of output/product specification
Interpretation of complex concepts 4

Proportion taking account of improvements in quality of output/product specification

Yes

No

Don't know

% respondents
The future [i]

• Next cycle of Answering practices surveys

• Services – Sept 2012

• Industry – April 2013

• Retail, wholesale and motor trades – Nov 2013

• Financial – Sept 2014

  • With an online archive of all current CBI answering practices material – in 2012
The future [ii]

- CBI to undertake a detailed examination of each questionnaire

- Focus groups to explore new particular sector conditions and characteristics

- Examining any new harmonized questions – ie Services Survey – new Capacity question

  - What do services firms consider when defining ‘present resources’ – is it solely labour or are other factors taken into account such as capital equipment?

  - When answering the ‘if so, by how much’ option, do firms use the current level of capacity as their base for answering or provide an absolute percentage?

- Examining how firms would increase their volume of activity if demand increased

- What financial support(if any) firms would need for any increased activity
The future [iii]

• Learning from the excellent ‘survey on the surveys’ carried out by other institutes – some particularly rich food for thought

• The CBI is very grateful to DG Ecfin and the OECD for supporting and promoting the concept of answering practices activity to other institutes and past OECD colleague Ronny Nillson’s support

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• And very special thanks to my trusted statistical expert Alan Joy
Thank you very much for listening and I look forward to presenting the results of the next cycle of surveys in years to come.