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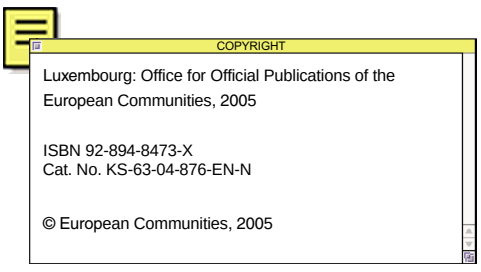
Short-term indicators

Priority assessment, quality, revisions and timeliness

90th DGINS Conference

Paris, 13-14 September 2004



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90th DGINS CONFERENCE

"Short-term indicators: priority assessment, quality, revisions and timeliness"

13th – 14th SEPTEMBER 2004

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Monday, 13th September 2004

9.00 – 9.30 **Welcoming of participants**

9.30 – 9.45 **Opening session**

Nicolas SARKOZY, French Minister of Finance

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Michel VANDEN ABEELE, Director-General, *Eurostat, European Commission*

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1.2 Grégoire BROUHNS, Chairman of the Alternates of the Economic and Financial Committee, Secretary-General – *High Representative of the Belgian Ministry of Finances*
"Short-term macro-economic statistics: The current priority needs of policy makers"

1.3 Eric CHANEY, Managing Director, *Morgan Stanley*
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4.2 Jean CORDIER, Chairman, *Committee on Monetary, Financial and Balance of Payments Statistics*
"EU short-term indicators: How best invest in timeliness and quality?"

Discussant: Nicolas SOBCZAK, Senior Economist, *Goldman Sachs*

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***Chair**:* Michel VANDEN ABEELE, Director-General, *Eurostat, European Commission*

Participants: Donal GARVEY, Director-General, *CSO, Ireland*

Gosse VAN DER VEEN, Director-General, *CBS, Netherlands*

Luigi BIGGERI, President, *ISTAT, Italy*

Jean-Michel CHARPIN, Director-General*, INSEE, France*

12.45 – 13.00 **CLOSING SPEECH**

Jean-Michel CHARPIN, Director-General*, INSEE, France*

Keynote speech - Some thoughts on the way forward

Michel VANDEN ABEELE

Director-General, Eurostat

1. I would like to take this opportunity of addressing the Directors-general of the European statistical system to convey not only my thinking as I come to the end of some 18 months spent at the head of Eurostat but also to put forward some ideas concerning the future development of the European statistical system, together with some proposals which could be implemented by the new management team at Eurostat and by my successor.

   As you know, I was appointed in May 2003, as a result of unforeseen developments, as the Director-general of Eurostat and the Commission has just appointed me to head the European Union delegation to the OECD and Unesco. I will, of course, follow with great interest the statistical work of the OECD.

2. The world of official statistics, which I came to know when carrying out my duties as Director-general, is a world that is both familiar and surprising. It is a familiar world because, as European officials, we are largely dependent on statistical information in order to draft the proposals, commentaries and actions that we put forward to the European Commission. I have had the good fortune, in the various posts I have held, to be both a consumer and user of economic and financial statistics, of development statistics (in particular with regard to the management of the markets for raw materials), of budgetary statistics (especially data referring to GDP and to the financial resources of the European Union), and of customs and fiscal statistics.

   This, then, is a wide range or experience which qualifies me – or so I hope – to set out some thoughts on the way in which the statistics of the European Union are employed as an indispensable input to political decision-making. Some of you will be familiar with the paper (the only paper that I have presented up to now on a statistical topic) I presented on the 22nd of April, during a very interesting conference that took place at the European Central Bank[1]. On that occasion, I took the liberty of making some comments on the use of statistics and on political choices. I believe, and stress, that the statistics prepared under the aegis of the European Statistical System are indispensable for the organisation and development of the European Union. While it may seem self-evident, it is important that this

fact be understood, absorbed and taken on board by the political leaders of the European Union, whether at the level of the Member States or at that of the Commission. I will come back to this point when examining the approaches that I will be putting before you, at the end of my speech, as a guide to future action.

3. But what kinds of statistics are needed - what choices have to be made, given the vastness of the tasks before us? Which statistics are in fact useful? Because we have to recognise that we supply a great deal of data based on obsolete regulations or on habits all too rarely questioned. I completely understand the attitude of statisticians who do not wish to abandon a tool patiently built up over a long period of time, a tool whose worth is based on the existence of long time-series and on the use which could be made of these for both economic and historical research. However, I can think of one recent example: a university professor was recently asked by the European Commission to write the history of the European Coal and Steel Community. As you know, the ECSC Treaty possesses the quite extraordinary distinction of being a treaty for a set period of 50 years, which elapsed in 2002. It was therefore quite legitimate to write its history and to identify - as something of which the European Union can be proud - such aspects as concern the genesis of the European idea in the form of the co-operation between the coal and steel industries and the lessons that could be drawn from it for all action in the future.

You can imagine our astonishment when we realised that the statistical structure which had been patiently built up since 1952, and which indeed had been the subject of one of the first decisions adopted by the Commission in 1958 when it instituted the "external statistical service" [2] that was the forerunner of today's Eurostat, existed only in part and that there were gaps in the directly-accessible information. My staff pointed out that it was still possible to work through the archives as administrative archaeologists, examining in detail the figures that were published when the monthly, quarterly and annual ECSC figures were published. It must, however, be noted that some data had disappeared, particularly of a financial nature. I was astounded at the way this remarkable statistical history underpinning the unification of European had been forgotten.

This demonstrates that statistical series are, like human beings, mortal - and that therefore it is reasonable to question the true usefulness of what we produce. This questioning should be ongoing: for each statistical programme, for every new request, whenever an interesting idea is put forward, we should question the added value of the additional information, the validity

of the statistical data already obtained and the coherence of the existing series. I particularly want to emphasise the need for us to jointly examine our consciences and to put before our political leaders a choice, to be sure a difficult one, of negative priorities. This debate has been running since the beginning of the year and I hope that it can serve as the basis for a number of decisions - courageous ones at that - to be taken when this issue is examined at future meetings of the Statistical Programming Committee.

4. The use of official statistics as a decision-making tool or as a vital part of the knowledge needed by a company must necessarily lead us into what is admittedly a frequently-repeated discussion, that of statistical quality, but also into discussions on the appropriateness and promptness of statistics. What is the value of supplying statistical information on agricultural production with a time lag of a year and a half, or on the numbers of departures and arrivals at airports, two years after the figures were recorded? There are now instruments and indicators published either by professionals or by public or semi-public bodies where the time lag is very much shorter and which supply information critical to policy and commercial decisions. We must carry out a realistic study of the time lag before publication of certain kinds of data, with a view to either abandoning them or of finding ways and means of satisfying the need for their rapid publication and dissemination, bearing in mind the usefulness of key statistical information.

   I am well aware that the value of a statistic is linked to the regularity of its production, the continuity of the time series and its long-term comparability. Nevertheless, it must be recognised that we would be failing in our task if we did not take an objective look at the existence and role of the statistics currently supplied for those users with a virtually immediate need of them.

5. In my introduction, I noted that the world of statistics, or rather the environment in which statisticians live, is a surprising one. I have discovered a number of similarities between statisticians and customs officers. Not only do statisticians and customs officers each comprise an administrative organisation which is generally a very old part of national civil services, often forming part of the Ministry of Finance or of an authority close to the centre of economic decision-making, but in both cases their status is not as fully recognised by the political world as they would wish. How many times have I heard comments to the effect that within national civil services, statistics were not a priority for ministers, how many times have we discussed within the SPC the mismatch between needs and available

resources, the scale of the task and the need to satisfy national and European data requests without our truly being able to convince the political authorities of the real necessity for the human and budgetary resources involved? I heard the very same claim from the national customs authorities with whom my work brought me into contact for a number of years. They, however, had the advantage of being able to lay before their Minister a number of achievements in the fight against fraud or drugs, or in the protection of industrial property and the fight against counterfeiting, or indeed their capacity to supply, again at the level of national civil services, certain resources needed for the functioning of the State. Is it not the case, as some of you have told me, that one can sometimes view the national statistical institutes as the poor relation of the civil service?

6. An additional aspect is the recognition of the international activities of the two administrations, those of statistics and customs. Quite clearly, there is a need for statisticians to meet their counterparts, and the same is true of customs officers. However, I would like to state very clearly that I find something rather excessive in the round of conferences, seminars and colloquia that has become part of the life of our administrations and officials. There is - we shouldn't hide the fact - statistical tourism which, just as is the case with customs tourism, results in the dilution of effort. I am by no means saying that an exchange of ideas should not be encouraged, that we should not compare experience or establish useful contacts to ensure that statistics are understandable, comparable and harmonised. I recognise the full necessity of these international activities. However, we should pay some attention to the risk of the loss of content and resources that is associated with participation in international meetings, whether these are academic, administrative or organisational in nature. In saying that, I am aware that I may shock some people. I also risk questioning the entire acquis communautaire based on the establishment of the networks, comparisons and instruments associated with meetings of statisticians on specific subjects or for the implementation of regulations or agreements at Community level. It is not an assertion but a simple factual observation that, in a period of one year, I received more invitations to speak or to participate in a wide range of fora than in any other post that I have had the honour to hold. This shows that we need to keep some sense of proportion. I regret not having been able to visit the 25 national statistical institutes, I deplore the fact that the shortfall in human and other resources has prevented us from participating, as we did in the past, in a large number of seminars, colloquia and conferences to which we had kindly been invited but I must explain to you that the higher priority we wanted to give to the sound management of Eurostat's activities prevented us from participating as much as we would have liked in

interesting activities. Our absence was, however, not earth-shattering and I am pleased about that. After a period in which we preferred to concentrate on internal activities and on the reorganisation of Eurostat, it is clear that, with the new team in place, we will seek to participate as we did in the past in international activities, while displaying a certain degree of "self-restraint".

7. Another topic I wanted to tackle quite bluntly is a very sensitive one: the independence of statistics from politics. Here, we are all in agreement and floods of eloquence have already been devoted to this theme in the many colloquia I referred to earlier on. The statistical administration must be neutral, it must be independent, it must state the unvarnished truth and it must not be influenced by anyone. Are we, however, certain of that? Have we drawn up the regulations, or indeed the institutional or constitutional systems, that would be necessary to ensure this? In this regard, what is the responsibility of the official in charge of statistics?

8. To my great surprise, I have discovered that we find ourselves, at least in the case of Eurostat, in rather uncharted waters and that we could one day be "at risk". What are we talking about here? The entire body of Community legislation defining the role of European statistics, and more particularly that of Eurostat, assigned to this directorate-general of the European Commission a role that I would describe as exorbitant in comparison to the responsibilities of the director-general of any other directorate-general within the European Commission. Under the decision-making procedures of the Commission, a decision is taken by the College of Commissioners, either after they have debated it, or by means of an approval procedure, known as a "written procedure", or even by powers delegated to a particular commissioner, or to a director-general. In every case in which the Commission takes a decision - supplying a specific figure to be published in a press release is a decision - there is scope for appeal, for a challenge to the decision or for redress. Such options do not exist within Community statistics such as they are currently defined by legislation. In the statistical world as it is structured on a legal level, the decision on the publication of a figure lies with the director-general of Eurostat. I have thought long and hard about this responsibility, which I consider important and essential if one is to ensure that Community statistics, based on information supplied by national civil services (and more particularly by national statistical institutes), remain free of any external intervention or decision. I can assure you that this applies to the work of Eurostat, both now and in the past, but it must be recognised that no action is free of risk and that there is a danger that figures published by

Eurostat may at some time be challenged by a Member State, by some public or private interest, or by a European citizen. After all, the whole body of information that is available and published by Eurostat can serve as the basis for regulations and decisions underpinned by published figures. This is, for example, the case for determining budgetary resources based on the fourth resource (i.e. GDP), for the allocation of structural funds, and more particularly regional funds, for the drawing up of criteria for public expenditure under the stability and growth pact - in short, in a number of eminently delicate cases. I recognise that some sort of challenge cannot be ruled out and obviously I am not eager to see case law established in this field. However, one should be aware of the loneliness and importance of the decision taken by the person responsible for statistics when a figure is published.

9. In using the word "published", I am also raising the issue of how official European Union figures are published. For very many years now, there has been a tradition whereby the task of disseminating Eurostat's statistical information is carried out by means of data accessible on the Internet or in the form of press releases. Eurostat publishes some 150 press releases each year and these are, of course, just the tip of the iceberg of the work that we - Member States and the Commission - carry out jointly; they are, however, considered both by the Member States and by Commission departments as being figures certified by Eurostat. Should we not launch a debate on the kind of publication that is needed? We consider the publication of statistical figures to be so important that it is reasonable to ask whether it would not be worthwhile to structure them as an official publication, in other words to publish them in the Official Journal of the European Communities or - where appropriate - as a formal notification to the Member States, using the system known in other fields of Community action – that is through their Permanent Representations. This approach should be further examined, and it will be within Eurostat so that we are in a position to discuss in future those certainties that we regard as indispensable if this aspect of the independence of the joint-statistics tool is to be maintained.

10. On the subject of publication, I can but mention the quiet revolution that Eurostat has experienced following the decision adopted at the beginning of the year and which takes effect on 1st October 2004, i.e. the publication on the Internet of all our statistical data. To be sure, we will continue to publish, as one would expect of us, a certain number of documents in a printed format or in the form of CD-ROMs obtainable through the networks established by the Publications Office. However, the principle of widespread access to free information has now entered an operational phase and I wish to stress the scale of the work

carried out by all teams in Eurostat so that this objective could be achieved. Official statistics, the statistics published by Eurostat, must not be a profit-making venture. We have a public service to perform and it was in this spirit that the Commission approved the approaches put forward at the beginning of the year and which have taken shape through the implementation, on the first of October, of free dissemination of statistical information, in line with this fundamental principle. Clearly, we still have some problems to resolve and I know that we have caused some turmoil within certain national statistical institutes that have for many years, as was the case for Eurostat in the past, sought to meet some of their funding requirements through the sale of statistical information. We also have to resolve some copyright problems but I think that the approach adopted is a fundamental one, both in terms of the policy choice involved (in other words, to develop a European public statistical service) and in terms of technological change. Every single university researcher or student in Europe now exploits the sources accessible through the Internet to obtain information or to carry out their work.

11. The challenge of what one could call "e-statistics" will inevitably pose the question of the speed with which information is transmitted and the impact of its more widespread availability. Henceforth, statistics are no longer a closed world, nor one open only to insiders. They must be available to enterprises, to European citizens, indeed to the whole world that observes us and seeks to understand us. This implies an unprecedented effort to improve modes of access, to make them more user-friendly. I believe that this is a new and promising field where we should together consider how to create more useful forms of access. Moreover, we must coordinate and rationalise our efforts. Excess information swamps the useful information. This takes us on to a discussion of the needs of those using the statistical tool, and of their access capabilities.

12. If there is any statistical field that currently intersects with the political debate, it is surely the question of monitoring data related to public finances. The recent decisions taken by the Council of Ministers, and prepared by the Economic and Financial Committee, have set out a clear guideline for our future action. The European Union, and more particularly those countries within the euro-zone, cannot conduct mutual monitoring or ensure mutual coherence, unless they have available to them not only a statistical tool which is credible and objective but also irreproachable data. We have an important responsibility here, even more than in other fields, because any error in, or doubt as to the quality of, information has immediate repercussions in terms of monitoring coherence and the way economic policies

(intended to be co-ordinated) are managed. This responsibility derives from the stability and growth pact, as was underlined by the finance ministers at their most recent meetings. It is important for Eurostat to have both the expertise and the resources to provide an acceptable level of certainty when it comes to the figures supplied by the Member States. We are currently considering what means should be employed in order to improve, intensify and strengthen the procedures for checking the figures supplied by national administrations. This affects us all and I reserve the right to make daring proposals to the Commissioner responsible, proposals designed to strengthen our capacity to monitor, even to audit, figures relating to public finances. This can, of course, be done only within the framework of the co-operation that currently exists both with the European Central Bank and with the partners that together form the CMFB. National administration themselves may be called upon to contribute to the establishment of a system of "peer review" in the field of budgetary statistics. Proposals along these lines will probably be put forward in the next few weeks.

13. This highly topical issue takes me to a proposal which I launched during the paper I had the privilege to present to the European Central Bank in Frankfurt last April. Given the heightened interdependence of our joint activities and the fate shared by national administrations (the NSIs in particular) and Eurostat, I consider that it is in everyone's interests to ensure that the discussion on equating available resources with needs be conducted in political terms. Of course, we first have to clean up our own act. We must first assess, in relation to the annual statistical programme and the drafting of the future multiannual statistical programme, what are the real priorities and which fields we can neglect or indeed abandon. However, even beyond this important exercise (which must be carried out jointly, as with every action conducted within the European statistical system through the exemplary co-operation that exists between the partners in the system), it is necessary to brief our political masters on the resources which need to the committed in order to achieve the desired results. Accordingly, I reiterate my proposal that we should be in a position to persuade the relevant ministers - more than likely the Ecofin council ministers - to conduct, after sufficient preparation within the SPC and the Council, a formal debate at the level of the Council on the annual statistical programme. Certainly, we cannot put forward all the measures comprising the annual statistical programme such as we have traditionally discussed them among ourselves, and which then resulted in a Commission decision and an accompanying budgetary decision. It is more a matter of the shared drafting of a document to serve as the basis of a recommendation by the Commission to the Council and the European Parliament with the aim of adopting European statistical priorities on an

annual basis, accompanied by an undertaking on the part of the Member States to commit the necessary resources.

I propose that we begin right now to hammer out, in the fora in which we are all represented, the draft of such a document which could perhaps be put forward for political discussion by the Commission no later than the next Luxembourgish presidency.

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1 "Statistics and their use for monetary and economic policy-making", Frankfurt, 22 and 23 April, 2004.

2 Note de service n° I – 10 mars 1958. Commission. Communauté économique européenne, quoted in "Memoirs of Eurostat", OPOCE, 2003, p. 27.

Theme 1 –
Macro-economics

1.1 European short-term indicators – progress and challenges

Svante ÖBERG

Director General, Statistics Sweden

The establishment and further development of the EMU has created a strong demand for more timely short-term statistics in the EU. Considerable progress has already been accomplished. Two especially important achievements are a new quarterly flash GDP estimate and the turnover index for retail trade and repairs using the European sample approach. The latter implies a radical improvement of timeliness. However, the European short-term statistics are still facing a major challenge to reach the goals set forth in autumn 2001 – to have as timely short-term statistics as the US by around 2006. Five different proposals for more timely statistics are put forward in this paper: to apply the European sample approach more widely, to increase the use of estimation, to agree upon a common release and revision policy, to develop the quality approach further and to compile a specific report on measures to reach the improvements agreed upon. This calls for a further dedicated commitment of the European Statistical System with well-organised and creative development for the sake of more timely short-term economic statistics.

1.1.1 Background

The establishment of the European Monetary Union (EMU) in 1999 generated a strong demand for more timely short-term economic statistics on the European Union and the euro zone. As early as in July 1996 the European Monetary Institute (EMI) presented a statement on statistical requirements as part of the so-called implementation package. In January 1999, the Ecofin Council endorsed a report from the former Monetary Committee on new requirements for economic statistics in the EMU. Furthermore, in June 2000, the Ecofin Council invited the European Commission, in close cooperation with the European Central Bank (ECB), to establish an EMU Action Plan. The aim of this plan was to identify areas where urgent progress was needed. In August 2000 the ECB published a report on "Statistical Requirements of the European Central Bank in the field of general economic statistics". In September 2000, the Ecofin Council decided upon a programme for improvements. One central issue in this programme concerned the coverage and timeliness of short-term economic statistics in the EU.

The Statistical Programme Committee (SPC) decided in September 2000 to set up a task force in order to conduct an intra-EU as well as an EU-US benchmarking study regarding the timeliness of

short-term economic statistics. This study, reported to the SPC in September 2001, clearly showed major drawbacks in the EU timeliness compared with the US short-term economics statistics and revealed the main reasons for the differences. It drew also to the fact that considerable variations in timeliness existed between EU countries. The study showed clearly that the EMU Action Plan, even though quite demanding, would not be sufficient to match the US timeliness and best practices on a worldwide level. The SPC committed itself to strive for EU short-term economic statistics to be as timely as in the US within five years. The Ecofin Council supported this in October 2001 saying that, within a five-year period, the timeliness of European short-term statistics should come close to the timeliness of US short-term statistics.

It was evident that an ambitious improvement process within the ESS was needed and this called for strong leadership. In November 2001 the SPC created a new high-level group, known as the Friends of the Chair (FROCH) Group and chaired by the Director General of Eurostat. The FROCH Group comprises representatives of a number of Member States, the Commission, the ECB and the OECD. One of the most important landmarks of the work so far has been the launching of the Principal European Economic Indicators (PEEIs) in the spring of 2002. The 19 indicators are grouped into five categories: consumer prices, national accounts, business, labour market and foreign trade indicators.

Since then work for improvement has taken place comprising methodological, technical and institutional development work, several pilot projects and other proposals to facilitate the process. Some aspects of this work will be highlighted later in this paper. One of the important results of the work has been to promote the principle "*First for Europe*" emphasising the significance of and the commitment to the compilation of European aggregates.

The political importance of the work has been demonstrated by the invitation from the Barcelona European Council in March 2002 to the Commission and the Council to present a comprehensive report to the European Council in March 2003. The report "Towards improved methodologies for euro zone statistics and indicators", which was put forward to the European Council as requested, highlights the significance of timely and good quality statistics for the European Union and the euro zone.

1.1.2 Progress in timeliness

The work initiated by the FROCH Group and gradually implemented by the National Statistical Institutes (NSI) in co-operation with Eurostat has led to considerable progress for several PEEIs during the past two years.

New timely EU statistics have been published on GDP. The first publication of quarterly flash GDP estimates was launched in May 2003. The release was based on GDP flash estimates from five Member States plus indicators for the GDP development in two more Member States. A press release on the Industrial New Orders Index was published – for the first time – in November 2003. Eight countries contributed to the EU estimate of this indicator. I am very pleased with this achievement because when we started on the journey towards more timely short-term economic statistics it was considered by many National Statistical Institutes (NSIs) to be very difficult to come down to the 70 day target in the regulation and almost impossible to be much more timely.

Major improvements have been achieved regarding the Turnover Index for Retail Trade and Repairs, thanks to initiatives in 2002 and 2003 for better timeliness. These efforts included successful methodological improvements. As a result, the actual delay of the Turnover Index for the EU has been reduced from 60 days to 35 days since the reporting period January 2004, which is quite close to the target delay of 30 days. This has been achieved by using the European sample approach in calculating the index. The basic idea of the European sampling is that by using existing national samples, smaller sub-samples for each country are identified, which, combined, provide a reliable estimate at the European level. A number of Member States started to deliver data based on country-specified European samples during 2003. It is worth mentioning that four Member States succeeded to reduce the delay in 2003 with the same sample size as before. All in all, 12 Member States have supplied data within 30 calendar days from the reference month of January 2004.

Furthermore, new EU statistics have been published on Industrial New Orders and for the Quarterly Labour Cost Index, timeliness has been improved at national level so that it should be possible to reach the target release date for European aggregates in 2005.

Concerning the 14 PEEIs already existing, only four indicators have by now reached the European target delay. For five other indicators, the ESS is at least close to meeting the European target delay. The delay for the 14 PEEIs is on average 53 days and five indicators are not yet available at the European level.

As stated previously, the Ecofin Council supported the objective that within five years the EU short-term statistics should come close to the timeliness in the US. However, when comparing the corresponding US indicators with PEEIs, it is clear that a major difference still exists. The delay of the US indicators is on average 21 days (monthly 20 days, quarterly 23 days), while the delay of the EU´s corresponding indicators is on average 53 days (monthly 43 days, quarterly 74 days). In fact,

only one indicator, the HICP, is published in the EU with about the same delay as the corresponding US indicator.

1.1.3 Other improvements

The proposed amendments to the Regulation on short-term statistics comprise several improvements to the existing Regulation. New proposed variables are import prices and output prices for services. The distinction of the Euro-zone in industrial indicators for the non-domestic markets of turnover, new orders, output prices and import prices is added. The reference period for production in construction is proposed to be changed from "at least quarterly" to monthly. The delays for several short-term statistics indicators are to be shortened according to the timeliness agreed for the PEEIs. The draft Regulation supports a European approach for several indicators and will be a step forward towards achieving a system of short-term statistics that correspond to the requirements of economic and monetary policy.

Timeless has been much in focus in this work, but other improvements have also been dealt with. One important issue is the positive development regarding the *dissemination of short-term statistics*. In terms of the Eurostat concept of Quality of Statistics this has been dealt with under the quality dimension Availability. Especially important was the opening of the euro indicator website in summer 2001 allowing access to a database tailored according to the needs of business cycle analysts and including full sets of metadata. Furthermore, the new dissemination policy of the Commission will lead to even more open dissemination because it is free of charge and will be available to all users in the coming months. This is, of course, most welcomed.

Another issue addressed by the FROCH Group is improved *cooperation between international statistical organisations*, stressing the need to establish a data-sharing model to reduce the burden placed on NSIs that currently supply the same or similar data to different institutions. In this context it is worth mentioning that OECD and Eurostat have launched a joint project to compare the content of the OECD Main Economic Indicators (MEI) and Eurostat´s European and national short-term indicators (Euro-IND) databases. A preliminary work plan with activities, resource requirements and a timetable has been established. This initiative aims at a data-sharing arrangement between OECD and Eurostat and is strongly supported by the NSIs.

When implementing such an arrangement, the highest priority should be given to the following actions: 1) Expanding the comparison project to Quarterly National Accounts Indicators seems to be quite important. 2) Harmonizing time series and metadata should be done, e.g. Industrial Production Index for total industry should always refer to the same NACE classification levels,

which is not always the case at present. 3) Working day adjusted (WDA) and seasonally adjusted (SA) data should always be collected from the NSIs, when available, and used by Euro-IND and MEI to ensure comparability between national and international data. It should also be noted that the data sharing project is related to revision policy issues and to the common dissemination platform.

Another relevant cooperation project between OECD and Eurostat is the Short-Term Economic Statistics Expert Group (STESEG), which was set up in 2002. Initially three task forces were established concerning 1) short-term indicators for services, 2) data presentation and seasonal adjustment and 3) data timeliness and benchmarking. The overall aim of STESEG is to improve the quality (including comparability and timeliness) of short-term indicators by applying recommendations on important issues in the context of short-term economic statistics. At the 2003 STESEG meeting the task force on timeliness and benchmarking set forth a proposal to develop a framework for assisting NSIs in improving the timeliness of their short-term economic statistics (STES). The proposal was accepted by the STESEG and a first version of the STES timeliness framework is now available on the OECD website.

1.1.4 Challenges

The improved timeliness of PEEIs has been a main issue of the FROCH Group. In this process strong commitments for timeliness have been made by Member States to meet the agreed target delays for different PEEIs. However, European short-term statistics are still far from achieving the target delays. Even when accomplished, the EU target delays are still much longer than the delays for short-term statistics in the US. Only some PEEIs can serve as an exception to this general picture. This implies that it is still a major challenge for the European Statistical System (ESS) to reach the goal set forth in autumn 2001 – to have as timely short-term statistics as the US by around 2006. This calls for an intensification and acceleration of the work and I would like to put forward some ideas that would contribute to a substantial improvement.

Firstly, we should make more use of the *European sample approach*, which gave such encouraging results for the Turnover Index for Retail Trade and Repairs. Experience gained in this work involving the use of country-stratified European samples should also be exploited in other areas. My suggestion is to apply this approach to the Turnover Index for Other Services, which is not available at present. Another potential area that comes to my mind is the Industrial Production Index, which is currently being published 7 calendar days later than the target delay. These two indicators would also be a good choice due to the fact that timeliness is given a high priority by

users. Furthermore, referring to the proposed amendments to the STS Regulation, the split into euro area and non-euro area of the non-domestic indicators is suggested for the application of the European sample schemes.

Secondly, I would like to make a plea for *increased use of estimation*. One strategy of releasing timely statistics that has been proved successful in the US is to present statistics in a series of successively more reliable estimates. Preliminary estimates can be released only a couple of weeks after the end of the reference period, based on a data set not fully complete or based partly on other data sources. Statistics are then built up successively as more reliable data becomes available. I would like the EES to consider the advantages of introducing similar release policies. For example in order to ensure timeliness of the employment indicator, a compilation of flash estimates for monthly employment using available monthly statistics should be studied more closely by Eurostat and the FROCH Group. At present, the actual delay of the Quarterly Employment Indicator is very unsatisfactory.

Thirdly, we should agree upon a *common release and revision policy*. When it comes to a common release policy it should not be too difficult to achieve this for the HICP estimates and the GDP flash estimates. The national spread of release dates across the EU of these indicators is rather small. This should facilitate a coordinated release. The spread of release dates for GDP releases with more breakdowns is currently quite wide. However, this spread might come down to the 60 day target accepted by most Member States. Concerning foreign trade indicators, the current release structure appears to be fairly satisfactory and does not seem to require a specific coordination initiative. For most other indicators, the spread of Member States´ release dates is too large to feasibly coordinate the release dates at this stage.

The increased use of estimation, especially when statistics will be successively improved, is also related to the need for a common revision policy. Even today, the need for such a policy is strongly emphasised by the users. Many users find the high frequency of revisions in the European data and the absence of a common European revision policy annoying. During some periods, many European aggregates are revised almost on a daily basis. When the figures of a large country are newly included, the revision could be considerable. This is causing quite a lot of confusion. While the main rationale for revision is to improve the accuracy and thus the overall quality of the data, too many revisions of the EU-aggregates might easily create an image of an unstable system.

Fourthly, we should *develop the quality approach* applied in the improvement work. While timeliness has been much in focus in the work of the FROCH Group, other quality dimensions have

also to be addressed, in particular accuracy. A measurement approach to quality has been discussed with a regular monitoring of PEEIs as the target. A natural point of departure should be the quality concept applied within ESS and comprising as of now six quality dimensions: relevance, accuracy, timeliness and punctuality, accessibility and clarity, comparability and coherence. The approach chosen so far is to launch a pilot quality monitoring system including only a few PEEIs, a limited number of quality indicators, supplementary metadata and some examples of calculations. This work should of course be closely related to the ongoing quality improvement work within the ESS at large. So far the only quality indication on accuracy is one concerning revision. Here I think we should develop and apply more direct measures of accuracy.

Fifthly, as the needed improvements call for intensive work and I think that we also should be able to monitor the development process, I would like to propose that the Member States *compile a report* for the FROCH on the measures they intend to introduce, in order to reach the target delays agreed upon. This would facilitate the process and open up possibilities for national initiatives. It would also emphasise the timeliness challenge and that the *First for Europe* principle should also be met at the national level. This issue and the details of such reports could be discussed in the next FROCH Group meeting.

This proposal naturally covers the whole, enlarged ESS. The new Member States seem encouraging enough to already fulfil the timeliness requirements almost as well as the old ones. However, it seems that seasonal adjustment, inter-temporal coherence and index methodology are areas where some work is still needed in the new Member States. Many of the ongoing quality improvement projects in these countries should be implemented to ensure the quality requested. The report proposed above would also have to address such problems.

1.1.5 Concluding remarks

This paper has shown that considerable progress has been made in improving the coverage and timeliness of the EU/euro zone short-term economic statistics, but also that the work to improve these statistics is still a major challenge to the ESS. It will take a lot of further effort to reach the targets set forth. Moreover, even when this has been accomplished we still face severe drawbacks in many areas compared to the situation in the US. On the other hand, the ESS will be able to provide important timely statistics in some areas where US statistics are lacking.

In conclusion, this calls for a further dedicated commitment of the ESS with well-organised and creative development, both at the EU level as well as at the national one. I sincerely hope that my

colleagues across the ESS can agree to the five proposals I have put forward in this paper for the sake of more timely short-term economic statistics.

Principal European Economic Indicators List:
Comparison of EU/EMU and US delays (in calendar days)

SET	INDICATOR	EU/EMU DELAY TARGET	EU/EMU DELAY SPRING 2002	EU/EMU DELAY SPRING 2004	US DELAY
Set 1:	**Price Indicators**				
1.1.	Harmonised Consumer Price Index: MUICP flash estimate	0	2	0	NA
1.2.	Harmonised Consumer Price Index: actual indices	17	17	17	16
Set 2:	**National Accounts Indicators**				
2.1.	Quarterly National Accounts: flash GDP	45	NA	45	30
2.2.	Quarterly National Accounts: first GDP release with breakdowns	60	70/120	65	30
2.3.	Quarterly National Accounts: Sector Accounts	90	NA	NA	NA
2.4.	Quarterly Government Finance Statistics	90	80 (still annual)	100	NA
Set 3:	**Business Indicators**				
3.1.	Industrial production index	40	48	47	16
3.2.	Industrial output price index for domestic markets	35	33	34	11
3.3.	Industrial new orders index	50	soon	54	26
3.4.	Industrial import price index	45	under development	NA	15
3.5.	Production in construction	45	75	77	30
3.6.	Turnover index for retail trade and repair	30	60	35	13
3.7.	Turnover index for other services	60	soon	NA	NA
3.8.	Corporate output price index for services	60	under development	NA	NA
Set 4:	**Labour Market Indicators**				
4.1.	Unemployment rate	30	30	34	5
4.2.	Job vacancy rate the help wanted index in the US comes close to providing the type of information contained in a job vacancy rate	45	NA	NA	NA 30
4.3.	Employment index	45	70/75	105	5
4.4.	Labour cost index - Employment cost index	70	90	80	25
Set 5:	**Foreign Trade Indicators**				
5.1.	External trade balance: intra- and extra-MU; intra- and extra-EU	45	50	49	43

1.2 Current priority needs of policy makers

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Introduction:

The European EMU in its full form as the euro zone is characterised by its major distinction between an economic and budgetary pillar, which is very decentralised towards the Member States but coordinated at Community level, and a centralised monetary pillar which is the responsibility of the Eurosystem. This **institutional paradigm of the European EMU** will, as we shall see, also leave its mark on the European statistical structure.

In addition, the creation of the **euro zone** represents a **quantum leap in policy makers' perceptions of needs** in terms of short-term macroeconomic statistics both for the zone as a whole and for the individual countries which make up this area. The purpose of this paper is to try and conduct some form of analysis of this quantum leap.

1.2.1 The EMU has increased the need for reliable short-term macroeconomic statistics which are available quickly

Within the euro zone, it is essential that reliable short-term macroeconomic statistics are available quickly, and for the following requirements in particular:

1.2.1.1 **conducting monetary policy** (and the need to consolidate indicators at **euro-zone** level);

1.2.1.2 **implementing the budgetary surveillance framework** (Stability and Growth Pact and the excessive deficit procedure) and

1.2.1.3 coordinating/monitoring economic policies and the policy mix in the euro zone.

Phase III of EMU starting on 1 January 1999 – with the formation of a Monetary Union bringing together 11 of the 15 Member States of the European Union operating under the name of the "**euro zone**" – was quite obviously going to lead to major developments in the field of statistical information.

In this respect, it is instructive to recall the major concerns which beset **policy makers** at the time when the euro zone was formed. All the more so in that these concerns remain valid today even if,

over the course of the years, they have been "added to". To illustrate these, one need only refer to the conclusions of the **Ecofin Council of 18 January 1999** which approved the Report on statistical requirements in the 3rd phase of EMU. This Report had been drawn up by the Monetary Committee and was in some way its swansong before it made way for the Economic and Financial Committee.

The Report begins by explaining how the production of statistical information is **guided by the conduct of monetary and economic policy** within the European Union as a whole and in the euro zone in particular. In so doing, the Report goes on to identify the main (1) users and (2) producers of statistics. It also – and this will be its main achievement –goes on to (3) define work priorities. These three points will be commented upon briefly below but emphasis should be placed here and now on the desire of policy makers in these fields to be as specific and practical as possible. This preoccupation – to focus on detail, too much detail some would say – is a constant which recurs throughout the last fifteen years in the statistical activities of the Ecofin Council.

(1) **The main users of statistics** are of course those responsible for conducting monetary policy on the one hand and economic policy on the other. The responsibilities borne by the two parties are obviously different even though they are required to cooperate and work together. This offers an illustration of the institutional paradigm of European EMU which was mentioned in the Introduction.

- For the conduct of **monetary policy**, the Report emphasises **the ECB's vital interest in the Euro zone** as a whole but also in **each of its Member States** in particular. The ECB also pays attention to the other Member States of the European Union, even though they are not part of the Euro zone.

- For the conduct of **economic policy**, the Report identifies both the Member States and the European authorities, starting with the Ecofin Council, the Euro-11, the predecessor of the current Eurogroup and the Commission.

(2) With regard to the **producers of statistics**, the Report is less innovative as it simply reinforces the practices introduced since the Treaty of Maastricht in 1992.

- When it comes to statistical production in the **monetary sphere**[1], it stresses the role of the national Central Banks (meeting in the ESCB and the Eurosystem as we would now call it) with of course the key role played by the ECB. Whilst the Report does not expand on the way in which this statistical production is organised – for the sake, perhaps, of the independence of the central banks - , attention must at least be

drawn to the key technical role played since 1992 by the Working Group on statistics, which was succeeded by the Statistical Committee when the ECB was created.

- The Report stresses that the statistical needs for conducting monetary policy do not just cover monetary and financial data in themselves (such as money growth or banking and financial markets statistics) but quite clearly extend to economic data, primarily those on prices and costs.

- With regard to statistical production in the **economic sphere**, the Report stresses the role of both the National Statistical Institutes and of Eurostat. On this occasion, the Report points out that whilst the statistical requirements also extend to **the euro zone and the EU** as a whole, the main focus will continue to be on the situation **in each Member State** since "it is at this level that specific political action may have to be taken".

- The Report then highlights the role of the Committee on Monetary, Financial and Balance of Payments statistics (known by its English acronym CMFB), which was established by the Ecofin Council in February 1991. This Committee is a meeting place for statisticians from Eurostat, the ECB, the national Central Banks and the national statistical institutes, and plays a key role in the **harmonisation of European statistics** and in **cooperation** between Member States in this field.

(3) Finally – and this is its main attribute – the Report seeks to define a **priority work programme**.

The priorities revolve around six axes:

- **quarterly national accounts** which form the basic statistical information system for the conduct of economic policy and which, therefore, should be expanded,

- **public finances,** which are considered as "high priority", with particular emphasis on the production of quarterly accounts for the general government sector,

- the **labour market** with particular emphasis on quarterly statistics on employment, unemployment, the active population and labour costs,

- **short-term business indicators** - both quantitative (with special emphasis on the need to increase statistical information on services other than retail trade) and qualitative (confidence indicators),

- the **balance of payments and external trade** with the focus on monthly balance of payments data for the Euro zone as a whole and more detailed quarterly and annual data in these two fields,

- the **provision of information**, by which is meant the publication of data within tight deadlines, keeping to a pre-**determined timetable** and ensuring that they are **easily accessible** for users.

Accompanying the definition of these priorities is an urgent request to be more active in implementing the **European Regulations** on statistics, by dispensing with the numerous derogations obtained by a number of countries in the priority statistical fields.

1.2.2 The strategy for improving macroeconomic statistics, which has been pursued within the European Union, has already started to bear fruit

1.2.2.1 Main stages in the plan to improve European statistics

Since the start of the new millennium, policy makers have sought to accelerate the process of improving European statistics. This impetus stems not just from the requirements linked to the conduct of economic, budgetary and monetary policy, but also from the desire to close the gap in this field which separates Europe from the best standards worldwide and in North America in particular.

This desire to speed things up focussed on **three main areas**: (1) the Action Plan (2000), (2) the Principal European Economic Indicators (2002-2003) and (3) the code of conduct for the excessive budgetary deficit procedure (2003).

(1) The Ecofin Council of 18 January 1999 had asked the Commission (Eurostat) to draw up – together with the ECB – an **Action Plan** on the statistical requirements for EMU. This Action Plan (compiled in cooperation with the national authorities) was presented to the Ecofin Council of 29 September 2000, which adopted it.

In response to the shortcomings revealed by the Economic and Financial Committee (in its 2nd implementation report), the Action Plan will basically (1) cover the **fields**[2] already identified by the Ecofin Council of 18 January 1999 and (2) confirm that priority should be

given to the rapid implementation of the **European Regulations** concerning them. Of particular importance are the **deadlines for transmission** of the statistics concerned. Finally, the Action Plan confirms the principle of action points and the monitoring thereof by **each of the Member States and their National Action Plans.**

(2) The second area for improvement concerns the adoption in spring 2003 of the **Principal European Economic Indicators** (PEEIs). The interest shown here by policy makers is new. These PEEIs reflect the desire to have very high quality key indicators available within short deadlines (although on average longer than those in the USA). They are **aggregate indicators** at both **euro-zone** and EU levels. There are 19 of them, selected on the basis of ECB and DG ECFIN (Commission) opinions and divided across the following five fields (very broadly overlapping with those in the Ecofin Council decision of January 1999):

1. consumer prices (2)

2. quarterly national accounts (4) :

3. business indicators (8);

4. labour market (4)

5. external trade (1).

The justification for these PEEIs – as given in the Communication of the Commission to the European Parliament and the Council on euro zone statistics (27 November 2002, COM (2002) 661(final) – is clear: given that "the Action Plan, although very substantial, might not be enough to match US timeliness and best practices world-wide", it is necessary to focus on some key aggregate indicators (e uro zone/EU) and more challenging target release dates. This initiative is, however, complementary to the implementation of the Action Plan which remains the backbone of the whole exercise.

(3) The concerns of policy makers which underlie the **Code of best practice for the compilation and transmission of data under the Excessive Deficit Procedure** are, by nature, very "specific". The aim is, in effect, to "clarify and rationalise the procedures" at both Member State and Commission level, for compiling and transmitting data on public deficit and debt. The data in question are not just actual data from the last four years but also planned data for the current year. The Code also – and particularly – seeks to resolve

methodological issues relating to how "specific governmental measures" are treated in the accounts, which confirms the decisive role played by Eurostat and, in an advisory capacity, the CMFB.

(4) To complete the picture, it is, finally, necessary to mention the strategy for implementing the Action Plan for the **candidate countries**. In May 2003, the high-level meeting between the ECF and the candidate countries confirmed the principle of the Action Plan, identifying six priority areas. These areas cover the annual national accounts, the harmonised consumer price index, long term interest rates, the balance of payments, external trade and "intra annual" data in the fields of national accounts, public finances, the labour market and business activity.

1.2.2.2 Considerable progress has been made but there is still much to be done

This is basically the main message contained in the ECF's latest evaluation[3] which was approved by the Ecofin Council of 2 June 2004. This message also confirms the conclusions of the latest IMF Article IV mission concerning the Euro zone (May 2004).

The ECF evaluation analyses the implementation of the Action Plan and the PEEIs for the euro zone and for each of the Member States of the European Union.

Without going into great detail here on the implementation of the **Action Plan** and focusing solely on the **euro zone**, it transpires from the evaluation that, without underestimating the progress made, there is still a long way to go before the objectives of the Action Plan are achieved (in terms of indicators and publication deadlines). Practically all the Member States in the euro zone – but some (much!) more than others – still have "a lot on their plate". This situation does nonetheless have more serious consequences for the coordination and surveillance of national economic policies since the shortcomings concern indicators for the three main economies in the zone.

When it comes to the **PEEIs** which, remember, are European aggregates, the primary objective remains their full implementation in 2005. The evaluation reveals that whilst the situation may look positive for 9 of the 19 indicators[4], it is more mixed for 7[5] others and downright negative for the remaining 3[6]. The ECF evaluation does not therefore hide the fact that, unless the authorities show greater commitment, this objective might not be achieved. The Ecofin Council, in its conclusions of 2 June, passed on this message.

As for compliance with the **Code of best practice**, the situation seems to vary from one Member State to another, even if there has been progress. In the euro-zone countries, the issue of classifying certain operations is particularly thorny. The evaluation does, however, identify that in some of the Member States in the euro zone there are still general problems with the quality of the budgetary data.

1.2.3 Economic policy-makers currently have four key concerns regarding short-term macroeconomic statistics

Analysing all these developments since the start of the 3rd phase of EMU, it is possible to identify **four constant key concerns** among policy-makers. On the basis of the latest developments, it is also possible to update the current priorities.

1.2.3.1 The ***relevance*** of the indicators, which is linked to the establishment of priority indicators from the dual perspective of the EU and the **euro zone** (the issue of the extent of the "First for Europe" principle which is the topic of the round-table discussion at the end of this Conference).

Three areas of priority interest today:

- The services sector;
- The labour market (employment, unemployment, number of hours worked and salaries);
- The national accounts by institutional sector (financial/non-financial corporations, general government and households).

1.2.3.2 The ***reliability*** of the indicators, which mainly relates to the integrity of (a) accounting structures (particularly those involved in the government accounts as such) and (b) statistical structures within the EMU in general and the **euro zone** in particular.

One area of priority interest today:

The independence and accountability of data providers (particularly the National Statistical Institutes), especially in connection with the requirement concerning the quality of budgetary data.

1.2.3.3 The ***availability*** of the indicators, which relates to the specific commitments given regarding timeliness (particularly with respect to the deadlines for delivering data) at both European (Commission-Eurostat) and national (Member State) levels and the guarantee to comply with these commitments. This also requires a review of which statistics have genuine priority.

One essential requirement today:

Mobilisation of the requisite human, logistical and, thus, budgetary resources. Work on revising priorities in the field of statistics would help here by releasing available resources.

1.2.3.4 The ***consistency*** of the indicators, which relates to the issue of *the better harmonisation of schedules* for revising and updating the different statistical indicators. The lack of consistency between the different statistics can in fact complicate, or even impede, the work of decision-makers.

The Ecofin Council is aware of the tough challenge facing producers of statistics. In order to make progress in the major areas of concern mentioned above, cutbacks need to be made on requirements in those areas which may be considered less important. In statistical jargon, these are "negative" priorities. In this respect, the Ecofin Council of 2 June asked the Economic and Financial Committee, with the assistance of Eurostat and the ECB, to draw up proposals by June 2005 aimed at setting a new list of priorities (which could involve the discontinuation of certain statistical activities).

As we reach the end of this quick overview, it appears that **two main conclusions** can be drawn:

(1) Ever since the launch of the euro, policy makers meeting within the Ecofin Council have consistently **specified their needs** for macroeconomic statistical information. They have done so in terms of

- objectives (choice of indicators and publication deadlines);
- action plans (with evaluation schedules and procedures);
- and qualitative criteria (reliability, relevance, availability and consistency of the indicators).

(2) Whilst acknowledging the progress made since 1999, the **implementation** of these solutions remains a topic **of major concern**. The conclusions of the Ecofin Council of 2 June 2004 suggest that 2005 will provide the acid test in this respect. These problems with implementation are certainly not confined to the field of macroeconomic statistical information and can be found in other Community fields such as the Lisbon Strategy – clearly one of the flagship policies. In the field of statistical information, this observation should, however, lead to a more thorough **institutional** analysis of the structure and working methods currently in force. In urging the Commission to propose, by June 2005, "European

standards for the institutional set up of statistical authorities", the Ecofin Council of 2 June would seem to be implying this conclusion. It could even advocate a new quantum leap of a more institutional nature than the steps taken in 1999. This, however, is a different matter beyond the scope of this paper – even though the reflections here may have led us in that direction.

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[1] The contribution made by the ECB and the national Central Banks to European statistical production is the subject of an outstanding book just published by the ECB under the name of Peter Bull, "the development of statistics for economic and monetary union", July 2004.

[2] Quarterly national accounts, quarterly public finance statistics, labour market, short-term business statistics and external trade.

[3] These ECF evaluations are drawn up by a statistical sub-committee set up within this body.

[4] (1.2) Harmonised consumer price index: actual indices. (2.1) Quarterly National Accounts: First GDP estimate. (2.2) Quarterly National Accounts: First GDP release with more breakdowns. (2.4) Quarterly National Accounts: Government Finance Statistics. (3.1) Industrial production index. (3.2) Industrial output price index for domestic markets. (3.5) Production in construction. (3.6) Turnover index for retail trade and repair and (5.1) External trade balance: intra and extra for MU and EU.

[5] (1.1) Harmonised Consumer Price Index: MUICP flash estimate. (2.3) Quarterly National Accounts: Household and Company Accounts. (3.3) Industrial new orders index. (3.6) Turnover index for retail trade and repair. (4.1) Unemployment rate. (4.3) Employment and (4.4) Labour cost index.

[6] (3.4) Industrial import price index. (3.8) Corporate output price index for services and (4.2) Job vacancy rate.

1.3 Business cycle analysis needs robust national statistics

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Financial markets and policy-makers share a common compulsive habit: they have become so addicted to high frequency statistical releases that they tend to over-trust and over-interpret them. Mr Jim Dollar hopes that if he pays enough attention to the latest German unemployment figure or the freshest Venice CPI, he will be able to make some decent money. In a different universe, Mr Bill Bighead will jump on the most recent IP data, thinking that these dry statistics could allow him to crush into pieces his political opponents. Both of them use more or less well paid gurus in order to predict and interpret high frequency statistics. Yours truly is just one of them, with some experience in both of these two worlds. Thus it is a great opportunity for me, as a professional business cycle analyst, to address the issue of the quality of national and EU statistics, in front of the producers themselves.

I will address three issues: robustness, comparability, and co-ordination.

1.3.1 Robustness: Hard Data are too soft. Make them harder

For those used to the US statistical universe, "hard data" is associated with quantitative indicators based on large sample surveys implemented by government statisticians. In opposition, soft data refer to qualitative, small sample surveys, such as the monthly consumer confidence survey performed by the US Conference Board or the monthly manufacturing survey prepared by the Institute of Supply Management (ex NAPM). The same distinction should be made about EU statistics, or should it be? I have to confess that the story I tell to customers interested in the mechanics of business cycle analysis is a bit different. It is indeed the other way around in Europe: the "hard data" are the business surveys whereas "real statistics" are coming so late and are subject to such large revisions that they are providing a very soft if not treacherous ground for business cycle analysis purposes. I still remember vividly two painful episodes.

Case # 1 Tax cuts eventually work

The first that comes to my mind was the impact of a large income tax cut package in one of the largest EU economies. That was a few years ago. Skeptics had warned that in a context of macro and fiscal uncertainties, the tax cuts would not work, because taxpayers would save the money

instead of spending it. Then hard data came. In the country I am talking about, retail sales are so volatile and give so little information about actual consumer spending as it is reported in National Accounts that nobody looks at them. So we waited for Q1 GDP data. Consumption, although strong, came very short of expectations. The jury was still out. So we waited for Q2 data. They were terrible. Skeptics had won their case. I had lost mine. However, if the trial had been re-opened a few years later, things would have turned differently. Huge revisions added almost 1.5 p.p. to average consumer spending growth in Q1-Q2. Fifty per cent of the tax cuts had fuelled actual spending; the world was not yet a Ricardo-Barro-Gordon one.

Case # 2 Missed: US style growth in 1999

Back in September 1999, as the global economy was recovering from the angst of the Asian crisis, I was seating in front of a public of skeptical US investors and pressed about GDP growth prospects in the euro area. I took a deep breath and said: 5 %, yes, you've heard correctly, 5 % quarterly annualized (US norm) for the current and next quarters. That is what our quantitative interpretation of business surveys was suggesting. Since the global economy was on the mend, our models did not seem out of the frame. My announcement was welcome with polite smiles and there was only one question: "Do you really mean what you're saying?" More than two months later, Q3 GDPs came out, locating Euroland growth in the 3 % region; Q4 was of the same bottle. Guess what? Today, Eurostat shows 5.0 % for Q3 and 4.4 % for Q4.

Robustness is more important than timeliness

These are two examples among many others; I could have also mentioned monthly industrial production data. We seem to live in the worst of the statistical worlds, a kind of a non-Heisenberg situation where you have neither the time correct (hard data are very slow to come) nor the accuracy (robustness in our case). I know I am going too far and that there is a trade-off between timeliness and robustness. In this framework, however, I would choose robustness without hesitation. Why is that? First, the lack of robustness in key statistics such as National Accounts is harming the credibility of statistics. That is why, for instance, financial markets pay more attention to the IFO index than to the EMU flash GDP. Second, for decision makers who pay attention to high frequency statistics (mainly policy makers), the cost of taking the wrong decision too late, is much higher than the cost of acting on time and taking some risks on the basis of proprietary estimates. This holds both for the central bank and for governments in charge with fiscal policies. In this regard, the 1999 example is quite interesting: governments simply did not realize that they were benefiting from

exceptional cyclical circumstances. I wouldn't go as far as saying that if they had, they would have save more for the rainy days, but I am sure that this has not helped.

Wish # 1: Make national data harder

The logical prescription that follows my observation is that it is more important to invest on accuracy and robustness rather than trying grab a couple of days for the release date. From the limited knowledge I grabbed about statistics when I had the privilege to be an economist with the INSEE, I wonder whether this does not mean to invest more in census surveys and large sample annual surveys, in methodologies and means, at a national level, since this is where the source of information is, in the real world. In other terms, I would be happy to trade the largely useless "flash GDP" for more reliable national accounts, based on more robust fundamental statistics.

1.3.2 Improve the Comparability of National Data

Although great progress has been made on harmonization of national data, a lot has still to be done in order to provide financial markets and the public at large with comparable data across the European Union. The best example is the HICP, which is using the same concepts and offers the same breakdown everywhere in the Union. I will spend a couple of minutes on this example, however, to express some reservations.

HICP: perfect harmonisation, at the expense of economic value

My first reservation is about the treatment of owner-occupied housing costs. If I am not mistaken, they are not included in HICPs, because national views were too much divergent on this issue. This probably introduces biases in cross-country comparisons. My second reservation is that the standard breakdown of the HICP and national HICPs is very much frustrating, from an economic analysis standpoint, because it follows an end-user principle instead of a product one. Trying to estimate an exchange rate pass-through ratio on this basis is very uncertain.

High frequency is OK, Structural statistics are not

From our side of the market, it seems that high frequency indicators, including quarterly national accounts, at least the main aggregates, are reasonably harmonized. However and contrary a popular belief, financial markets are at least as interested in structural parameters as they are in short term indicators. I will take two examples: households' savings rates and assets and liabilities.

Case # 1 Personal savings rates

Long-term equity investors such as pension funds have a secret hope. Because personal savings rates are so elevated in most continental European countries (although not all), in contrast with the US, the UK and even Japan, they are inferring that at some point in time, these savings will be converted into actual consumption. So far, this intuition has not passed the acid test of reality. However, it is still there. The next question is where are the largest pools of savings, on a country basis? The truth is that we are unable to give robust answers to this question because we know that national savings rates are not comparable. It strikes me that the EU Commission review "European Economy", which includes a 235 pages Statistical Annex entirely dedicated to macro data does not even try to show savings rate tables, whereas the OECD does, in spite of well known discrepancies (not only the difference between net and gross savings rate). Although this might sound a bit theoretical, I am wondering whether this difficulty could not be responsible for a mis-allocation of resources.

Case # 2 Assets and Liabilities

Things are even worse for financial accounts, both for flows and stocks. We are often asked to provide international comparisons for the allocation of households' financial wealth and the structure of debt. Answering an apparently simple question such as a breakdown in cash, private equity, equity and fixed income assets is a very demanding task. Things are not better for the other side of the balance sheet. Corporate debt and household debt comparisons across Europe are very hazardous, not even mentioning cross-Atlantic comparisons. Who would buy that German consumers are more indebted than their US counterparts are?

Wish # 2: Adopt fully harmonized concepts for a short list of structural statistics, both for flows and stocks

1.3.3 Co-ordinate Concepts and Calendars

Do markets focus more on national or euro area wide data? I think the answer is probably that traders would focus almost exclusively on euro area wide data if these data were available at the same time or slightly ahead of national data. On the hand, I am not convinced that fund managers, especially long only equity fund managers would have the same reaction. This is why I have insisted on the necessity of more robust and more comparable high frequency and low frequency data. However, there are high frequency data for which the current situation is highly unsatisfactory and could be improved if EMU-wide and (but this is much less important EU) data were released in perfect sync with national data or even slightly ahead of them. Which ones? The answer is

straightforward if one thinks of the EMU economic policy framework inasmuch as it matters for financial markets. At the risk of over-simplifying the picture, my subjective feeling is European bond markets are 80 % focused on future monetary policy (Fed and ECB evenly weighted) whereas equity markets are 80 % focused on GDP growth and profits. As far as monetary policy is concerned, so far, equity markets consider that Fed decisions are more relevant than ECB ones, rightly or wrongly. Hence, we should temporarily take a seat in a fixed income trading room. Let us imagine for one second that the ECB follows some sort of Taylor rule. Then the most important inputs in her reaction function would be prices and real GDP growth. In addition, leading indicators for these two sets of data would be of special interest. Because I believe that the most important thing for quarterly national accounts is to improve their robustness, I will rather focus on prices and leading indicators.

Case # 1 Consumer prices

In my worst nightmares, I would not imagine a situation in which I would read on my screen Brabant industrial production, then the Andalusia one and a couple of days later an estimate for the euro area, soon to be corrected because some major regions were still missing. Even when a final estimate is released, you still have to explain to traders that data are unfortunately not comparable because they are not collected over the same sample of time. Unfortunately, this is what we have to live with as far as CPIs are concerned. I find that situation not only extremely counterproductive and inefficient but also outrageous in terms of the image we are projecting to the rest of the world. It is not even disunited Europe, it is fragmented and autistic Europe.

Case # 2 Monthly business confidence surveys

I know that most business surveys are coming from Institutions other than National Statistical Institutes, such as the Munich based IFO. However, the importance of business surveys is such (recall my first point) that I cannot skip them. In contrast with Purchasing manager Indexes (PMIs), national business surveys rely on relatively large samples and use state of the art statistical methods. Unfortunately, calendars are not coordinated and, for that reason, markets continue to take the IFO survey as a proxy for the euro area, until the PMI indexes are released. For that reason, PMI indexes are gaining market shares in investors' judgment, despite their flaws. Isn't this a typical example of the bad money chasing the good one?

Wish # 3: Tell us when the HICP and national HICPs will be released in a rational and coordinated fashion. Think of releasing the first estimate of the euro area HICP with a simplified breakdown one day before national data.

There are other issues I would have liked to evoke. One particularly important piece of data is totally missing and makes the euro area business cycle analysis an art more than a science: we have no idea of export and import prices for the zone as a whole. Hence, we know nothing about the external trade of the euro area in real terms. However, this would take me too far and I will leave the issue for another seminar.

Theme 1 - Macro Economics – Some comments

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The European Central Bank (ECB) is responsible for the conduct of monetary policy in the euro area, which implies that high-quality euro area statistics are fundamental to fulfil this duty. In this field, considerable improvements have been achieved in the recent past. Yet, the Ecofin Council stated, in its June 2004 conclusions on the EFC Status Report on Information requirements in EMU, that for short-term business statistics, *"the process has not yielded the expected results and more efforts are needed"*. In that context, it is very topical that this year's DGINS conference addresses the priority and quality of short-term economic indicators, which are among the core statistics used by the ECB. The contributions by Messrs. Öberg, Brouhns and Chaney provide a wide range of very interesting views on the ways towards further improvements of European short-term indicators.

This note discusses each of these three contributions in turn and winds up with some general observations on the subject.

Svante Öberg: "European short-term indicators – progress and challenges"

The author, who has been one of the driving forces of the recent development of European short-term economic statistics and indicators, provides an excellent overview and an ambitious outlook to the challenges ahead. Since the establishment of the EMU, comprehensive, reliable and timely short-term indicators for the euro area as a whole have become a prerequisite for the successful single monetary policy and for a better co-ordination of other economic policies between Member States.

Considerable progress has been achieved and the monitoring of the process has been strengthened by setting up the so-called Friends-of-the-Chair (of the Director-General of Eurostat) or FROCH group, with the author as vice-chairman. This group has focused on the most important indicators where urgent progress was (and still is) needed, the Principal European Economic Indicators (PEEIs). Furthermore, the group is giving operational content to the "First-for-Europe principle", which is increasingly advocated by users (e.g. all three contributors to this session, the IMF and the

ECB) as the core guiding principle for short-term economic statistics compiled by the European Statistical System (ESS).

Progress in timeliness of the PEEIs is exemplified by two achievements, namely the new quarterly GDP flash estimate and the advancement by about 30 calendar days of the publication of the monthly retail trade turnover index - thanks to the use of a European sampling approach. Other improvements in the area of short-term statistics should materialise from the closer monitoring of the existing Regulation on short-term business statistics and its proposed amendments. However, in general, European short-term statistics are still far from achieving the target delays. In addition to the monthly euro area balance of payments, monetary and financial statistics and tendency surveys, only a few of the PEEIs are an exception to this general rule (the Harmonised Index of Consumer Prices (HICP), the quarterly GDP flash and the industrial output price index).[2] Moreover, 5 out of the 19 PEEIs, among which the crucial quarterly sector accounts, are not even available at all. Finally, after five years of EMU, matching the timeliness of the US data is still a major challenge for the ESS.[3] Öberg's proposals to remedy this situation are all very sensible.

Whereas the paper leaves little to be desired, its subsequent discussion may focus on the concrete implementation of the First-for-Europe principle, in terms of the perhaps somewhat different role played by large(r) and (very) small countries and possible efficiency gains from a larger degree of specialisation and on the continued trade-off between timeliness and reliability. A possible new benchmark study with the US as required by the Ecofin Council may also take these elements into account.

Grégoire Brouhns: "Short-term macro-economic statistics: The current priority needs of policymakers"

As a member of the EFC and chair of the EFC Alternates, Brouhns is perfectly placed to comment on the situation in short-term economic statistics from a policy user point of view. The author also explicitly values the role of good quality government finance statistics. The creation of the EMU has strengthened the requirements for reliable and timely short-term statistics, not only for the conduct of monetary policy, but also for the implementation of the budgetary surveillance framework and the co-ordinated surveillance of economic policies in the euro area. The author considers that the main message of both the recent Ecofin Council conclusions and the concluding statement of the Spring 2004 IMF mission on euro-area policies is that considerable gaps in short-term economic statistics remain.

The author highlights the main current concerns of policy makers with regard to short-term economic statistics: reliability (including the independence and accountability of the NSIs more generally), relevance, availability and consistency. He points to the "road map" that has been designed by the Ecofin in June 2004 to accomplish new progress in these domains. Again, this outline leaves little to be desired from the discussant's point of view. The discussion may focus on the practical measures that can be taken to alleviate his four concerns, concerning the independence and accountability of NSIs (e.g. would a study of the legal framework of NCBs be useful in this context?), the compilation method for the most urgently needed indicators, the possibility to free resources for European priority statistics and the further alignment of release and revision calendars.

Eric Chaney: "Business cycle analysis needs robust national statistics"

Chaney provides an interesting and thought-provoking contribution concerning the robustness, comparability and co-ordination of national and European statistics from the point of view of a professional business cycle analyst. For instance, the author argues that, contrary to the United States, markets consider the "official" European data to be "soft", due to their late release and substantial revisions, and the qualitative survey results as "hard". From two examples of GDP revisions, he then draws the conclusion that currently improvements in robustness are more important than further advancements of the release calendars.

This leads me to three observations. First, it remains to be substantiated whether revisions of European first (GDP) estimates are generally larger than those of the US. Even when including the more substantial revisions of euro area GDP releases in the first periods after the changeover to ESA95, we cannot confirm this assessment. For recent periods, the revisions have been very small; the mean revision of the Eurostat first GDP estimate from 2001 to 2003 (seasonally adjusted quarter-on-quarter growth rate) has been 0.01 percentage point. Secondly, as said above, a further improvement of the timeliness remains the highest priority for quite a number of PEEIs. Thirdly, the GDP flash estimate would surely benefit from a simultaneous availability of its breakdown by main components, as that would also provide a check on the aggregate itself.

Chaney also refers to the (still existing) lack of comparable and harmonised data across the European Union. He rightly emphasises that even the HICP, although considered as a highly harmonised indicator, still has caveats like the exclusion of the owner-occupied housing costs and very divergent data collection periods.

Lacking harmonisation also concerns structural indicators, in which, according to the author, the financial markets are at least as interested as in short-term indicators. He mentions household

saving ratios, which have also been the subject of a recent ECB study[4], jointly with the OECD, and financial accounts, particularly households' financial wealth and indebtedness. While the ECB attaches great importance and much effort to the compilation of euro area financial accounts, wider international comparisons of financial wealth and indebtedness, unquoted shares and other equity are indeed still fraught with difficulties.

Finally, he rightly points to the urgent need for euro area import and export price indices and for a European co-ordination of release and revision policies. In fact, he reiterates the First-for-Europe principle: European short-term indicators (particularly the HICP and GDP) should be published slightly ahead of, or at least simultaneously with, any constituent national (and sub-national) figure. In his view, such a synchronisation of the releases will finally accomplish that European traders and financial market participants pay most attention to European data and not anymore to the US data.

The above review may already provide some topics for further discussion on this paper with many valuable insights. Let me conclude with a more general assessment of the current situation concerning European short-term indicators.

General view on short-term macro-economic indicators

The vital importance of statistics to support the monetary policy strategy of the ECB was recently reiterated by the President of the ECB, Jean-Claude Trichet: *"We should not underestimate the importance of official monetary, financial and other economic statistics for the ECB's monetary policy. As statistics provide the foundation for economic analysis and policy-making, the availability of trustworthy and timely statistical time-series is a prerequisite for an effective and correct assessment of the monetary and economic situation and future prospects.*"[5]

Generally, there seems to be a wide consensus on the remaining priorities, as is also evidenced by the papers in this session.[6] Fully implementing the approved legal acts under the EMU Action Plan and filling the gaps for the euro area as a whole, particularly for the lacking PEEIs (cf. the 'NAs' in Öberg's table), remains a first priority. The forthcoming legislation on quarterly accounts for institutional sectors will be of crucial importance for the ECB; the same applies to improved short-term indicators. These two improvements should be implemented without delay and without derogations that hinder a timely availability of euro area aggregates. New ways for compiling euro area indicators should also be further explored. Both a European sampling approach and differentiated reporting requirements by country (taking due account of the (higher) relative costs and (lower) relative benefits of very timely indicators for the small[est] countries) deserve a broader application. Furthermore, the use of a common reporting format may significantly reduce the

response burden for multinationals while enhancing the quality of the statistics obtained from them. A recent investigation of the joint ECB/Eurostat Steering Group on Multinationals has confirmed that the availability of harmonised software packages, attuned to the new International Accounting Standards, may play a crucial role in that regard.[7]

Policy mistakes due to incomplete or unreliable statistics can be costly in terms of inflation and growth. In this respect, it is also worth referring to the recent work of a joint Eurostat/ECB initiative on the assessment of output quality in Quarterly National Accounts. They recommend the regular publication of quantitative quality indicators, including revision indicators, in national accounts' press releases. While revisions typically improve the reliability of data, they are also a concern to users. A co-ordinated revision policy, taking into account European policy needs and eliminating the high volatility of (some) euro area aggregates due to successive releases of national results, is highly desirable.

Finally, a further shift towards prioritising the compilation of European statistics is still required. In this regard, reference may also be made to the institutional framework of the European System of Central Banks (ESCB), which is more geared towards statistics for the euro area as a whole. A relevant difference with the European Statistical System (Eurostat and the NSIs) is perhaps that the Governing Council of the European Central Bank decides not only on Regulations, which are binding for reporting agents throughout the euro area, but also on Guidelines, which are binding (only) for the (euro area) National Central Banks. The possible ESS equivalent (e.g. a Commission Regulation) of such an instrument is not (widely) applied by the European Statistical System (ESS). At the European level, the ESS 'gentleman's agreements' and 'recommendations', although useful, do not carry an equal weight when compared with Guidelines of the ESCB. At the national level (e.g. in the United Kingdom), explicit service level agreements have sometimes performed a very useful role and might become an integral part of the ESS as well.

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[1] The contribution of Heinz Dieden and the comments by Werner Bier, Henning Ahnert and Neale Kennedy on an earlier version of this note are gratefully acknowledged.

[2] Understandably, Öberg limits his contribution to those short-term indicators that are compiled by Eurostat on the basis of contributions by NSIs. The euro area monetary and financial short-term indicators (e.g. quarterly financial accounts, monetary aggregates, monthly balance of payments, retail interest rates, securities issues) are compiled by the European Central Bank, on the basis of contributions by National Central Banks (NCBs). The distribution of responsibilities at the European level between the two statistical systems is laid down in a Memorandum of Understanding updated in March 2003.

[3] The table at the end of Öberg's paper nicely shows that, when compared with the US, a large number of indicators for the euro area become available with a delay of one month or more: the breakdowns of the quarterly national accounts,

the industrial production index, production in construction, the unemployment rate, the employment index and the labour cost index.

[4] "Comparison of household saving ratios euro area/United States/Japan"; available at the ECB's web site at http://www.ecb.int/pub/pdf/other/comparisonhouseholdsavingseuusjpnen.pdf.

[5] Jean-Claude Trichet: Euro area statistics and their use for ECB policy-making, speech delivered at the second ECB Conference on Statistics, 22 April 2004.

[6] The ECB's specific requirements in the field of short-term business statistics have recently been confirmed in the Opinion of the ECB on the draft EU short-term statistics regulation; publication in the Official Journal forthcoming. Similar opinions exist for other recent legal acts such as the one on quarterly sector accounts and the one on quarterly financial accounts for the government sector.

[7] "Harmonised reporting rules for multinationals", working document presented at the IMF Balance of Payments Committee in October 2002 (http://www.imf.org/external/pubs/ft/bop/2002/02-21.pdf).

Theme 1 - Macro-economics - Discussion

1. Considerable improvements have already been achieved on short-term macro economic statistics, notably the Principal European Economic Indicators or PEEIs (e.g.: timely quarterly GDP flash estimates are now published, the retail trade turnover index is much timelier). However, as requested by the Ecofin Council meeting on 2 June 2004, more progress is needed: some PEEIs are not yet available; others do not meet the target release dates; matching the timeliness of US data remains a major challenge for most PEEIs. In addition, EU/euro zone data are revised too frequently (due to differing and uncoordinated release calendars and revision practices between Member States), which does not help to make European data a key reference for financial markets and does not facilitate monetary and economic decision-making.

2. Several actions should be undertaken and/or pursued in order to secure further progress. These include extending the European sample approach and increasing the use of estimation. Setting up a common release and revision policy is also a high priority. Moreover, timeliness should be pursued together with other quality aspects, notably the more direct measurement of accuracy and appropriate communication vis-à-vis users in this area. Regular follow-up reports from countries would greatly aid the improvement efforts.

3. Member States and the European Statistical System (ESS) in general should now focus their efforts towards fully implementing the objectives set in various key programmes (notably the Action Plan, the Action Plan for candidate countries of May 2003, the PEEI improvement project and the Code of Best Practice). Areas where progress is most urgent include, in particular, services, the labour market and quarterly national accounts by institutional sector.

4. In order to improve the efficiency of the ESS and accelerate progress, resources should be concentrated on the most important statistical areas through the identification of negative priorities. In addition, a more efficient distribution of work within the ESS should be organised by setting up centres of excellence in the various statistical domains.

5. Enhancing the reliability of statistics is another major requirement particularly for government accounts covered by the Excessive Deficit Procedure and the Stability and

Growth Pact. This requires reinforcing the independence and accountability of National Statistical Institutes by putting in place new and more suitable institutional arrangements.

Theme 2 –
Goods and services market

2.1 Demand, quality, burden: optimisation to balance interests

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Short-term indicators of the market for goods and services provide the most reliable, timely and comprehensive assessment of the current economic situation. The variety of user preferences, decreasing resources and the limited capacity of respondents confront Statistical Offices with the problem of optimising the range of indicators towards an objective function that represents and weights the interests of the individual user-types. The Statistical Offices can make a vital contribution towards minimising the trade-off between quality and workload. With well-organised adequation processes, they can ensure an efficient implementation of information requirements in appropriate statistical measurement schemes. With cost-effective data collection using all available statistical sources and methods, they can safeguard production quality. They can support the quality of interpretation by deriving and presenting user-friendly structured information from the raw statistical material, largely preventing misinterpretation.

2.1.1 Introduction

Short-term indicators of the market in goods and services are among the findings from official statistics that speak most directly to the general public. As indicators of supply and demand in the output markets, they should describe the current position of a national economy in the international context in the most timely, reliable and comprehensive manner, and in categories relevant to decision-making. As they serve as underlying background information for a large number of decisions, these indicators are also subject to particular quality requirements.

The growth of the modern information society has seen a sharp increase in the need for economic indicators. However, scope for expanding the statistics is limited, both on financial grounds and because of the associated burden placed on the companies providing the information [1]. As statistical information is generally offered as a public commodity, not subject to regulation by any pricing mechanism, a growth in demand is not necessarily linked to an increase in resources. The Statistical Offices therefore face the challenge of applying their imagination and specialist knowledge to find a way out of this paradoxical situation. In this, the Statistical Offices should consider their relative benefits and concentrate on their strengths.

2.1.2 The quality concept

"Quality is defined as ´fitness for use´ in terms of user needs" [2]. Quality assurance in the sense of greater user-orientation means first of all devoting more attention to the problem of requirements analysis than has been the case to date. It also means calculations taking sufficient account of the other components of product quality, and optimising process quality in meeting demand.

2.1.2.1 Quality as an optimisation problem

Quality assurance as an optimisation problem faces certain constraints. The goal is either to achieve the highest possible level of quality with given resources and a given burden on companies, or to attain a previously specified level of quality with minimum resources and minimum burden on those providing the information. The latter appears to be the politically preferred option in Germany today.

Diagram 1

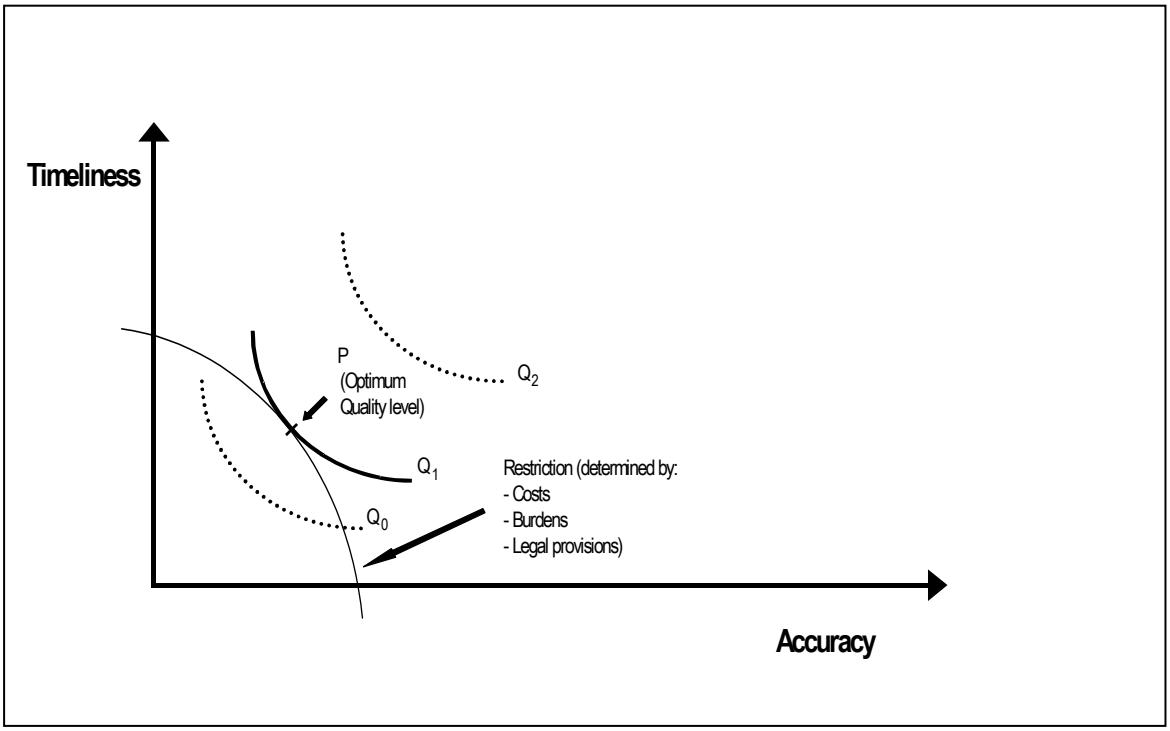


Diagram 1 illustrates this approach, on the simplistic assumption that quality consists of two components only, in this case timeliness and accuracy. Each of the curves in the diagram joins – like the contours on a map – all feasible combinations of timeliness and accuracy that are assigned equal value by the user. Movements along a curve then symbolise the familiar trade-off between timeliness and accuracy. The curve bending in the opposite direction represents the restrictions, determined by available resources, burden on the companies, legal provisions etc. All points on this

curve cover the portfolio of products (expressed as combinations of their quality components) that the Statistical Offices are able to provide under the given conditions, where efficient production can be guaranteed. In terms of the approach to optimisation, the aim is to reach the combination of quality components (P) that leads to the highest achievable level of quality. In reality, the quality of statistical data has very many components, making a straightforward graphical representation impossible. The starting point for this optimisation approach is the analysis of requirements, which means ascertaining the specific objective function.

2.1.2.2 Relevance of official statistics

Statistics have to serve a multitude of different users with different preferences and possible uses. As they are offered as a public commodity, decision processes must be brought to bear in which the various "stakeholders" express their preferences and are able to influence the statistics provided [3]. In order to reconcile divergent interests, all relevant user groups should be involved in efficient and representative decision-making mechanisms to determine the types of statistics to be provided.

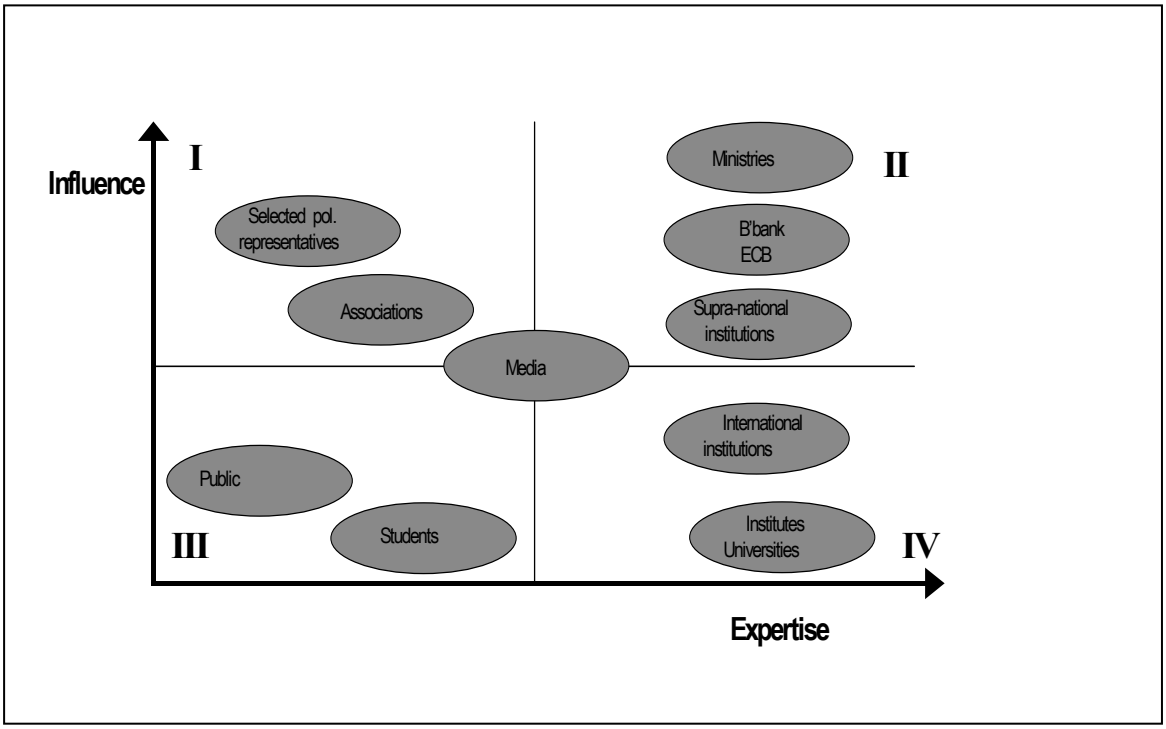
The major user groups for short-term indicators of the market for goods and services, and their priority uses, are:

Table 1: User portfolio

At international level	**At national level**
ECB (priorities: macro-economic aggregations, as early as possible, with the minimum of revisions; comparison with other economic and currency areas)	Bundesbank (macro-economic control values, as timely as possible, with a minimum of revisions)
EU Commission (detailed information on European markets, according to regulatory requirements)	Ministries (current economic situation, as timely as possible)
European Council (not clearly defined, changing)	Federal states and regional bodies (regional data requirements)
European Parliament (not clearly defined, changing)	Trade associations (sector information, as close as possible to the structure of German associations)
European trade associations (sector information)	Economic research institutes / universities (longest possible time series, changing questions)
UN (high-level aggregations only for international comparison)	Media (frequent change, significant indicators)
OECD (high-level aggregations only for international comparison)	
IMF (high-level aggregations only for international comparison)	

Not all users use statistical data in the same way, and not all have the same influence. Susan Linacre has classified various user groups in a portfolio [4]. In the diagram below, relating this approach to users of short-term company statistics, the vertical axis displays the degree to which a given user can influence the priorities for the work programme and the methods of the Statistical Office. The horizontal axis indicates the statistical expertise of the user groups – their ability to interpret complex statistical information.

Diagram 2



The different prerequisites for user types grouped in this way require the Statistical Offices to deal with them on an individual basis. Whereas the users located in quadrant II are able to express and assert their preferences clearly, quadrant I demands a proactive information policy to enable the users to form and to justify sensible preferences even with limited statistical expertise. Users in the two lower quadrants have little direct influence on the contents of official statistical programmes, and special care must be taken not to leave them out of the decision-making process. Their objectives will be incorporated via the process of political representation. The more it is possible to reflect users' questions in statistical concepts, the greater will be the relevance and hence the quality of the statistics.

2.1.2.3 Product quality in detail

In order for economic indicators to fulfil their purpose, the level of detail and accuracy must be supported by a number of other quality indicators. For example, what is the use of a detailed production index, broken down by subject and by region, if it arrives much too late? What is the use of figures whose reliability is questionable because the quality of replies from respondents is uncertain? What new information on the economic situation is provided by an indicator that is estimated from other indicators, so that the economic trend is applied to the indicator purely from the basis for the estimate? And what revision requirement is acceptable with very rapid indicators? This whole bundle of quality dimensions must be optimised in the light of the primary intended use of the data. Particularly in the area of economic indicators, we very quickly reach a situation where one quality criterion can only be improved further at the expense of another. For this reason, the following list is given in order of priority.

2.1.2.3.1 Timeliness and punctuality

As the basis for short-term economic policy decisions, the highest priority for users of economic indicators is assigned to timeliness and punctuality. They should have a major bearing on statistical ways of working and on the mix of methods used. In case of doubt, timeliness and punctuality take precedence over depth of detail.

2.1.2.3.2 Availability and transparency

However, up-to-date data is only useful if it is actually available to users immediately. Optimum distribution mechanisms provide every user with concurrent access to the information, the more so as the information is a significant input to the financial markets, where concurrent availability is of crucial importance. Electronic distribution systems have brought substantial advances in this area. A key role is also played by transparency in the methods of compilation (seasonal and calendar adjustment processes, availability of provisional results etc.), and in the distribution of the information (revision policy, publication schedule).

2.1.2.3.3 Accuracy

Under the heading of accuracy, the main point at issue is the validity of the various indicators, i.e. the question whether they actually measure what they are supposed to measure. Particularly for early indicators like orders received, this point may be critical. Once again: accuracy is not an end in itself, but is oriented towards the use of the indicator in question. Whereas accuracy plays a major role in the monetary policy of the central banks, for most other policy areas information on

the trend of change is sufficient. In the area of economic indicators – as opposed to structural company statistics for example - the familiar trade-off between timeliness and accuracy will tend to come down on the side of timeliness. However, in the quest for the appropriate mix of methods, an assessment of the accuracy of different sources plays a key role. In case of doubt, we should check for example what influence the use of substitution variables to reduce the burden on those required to provide the information has on the accuracy of the results.

2.1.2.3.4 Comparability

While the European Regulation concerning short-term statistics specifies standards and definitions at a European level, the subsidiarity principle leaves it to each country to apply them in a system of its own that comes as close as possible to the historically evolving conditions of its own statistical system. This creates problems, e.g. in assessing the quality of Europe-wide results. In this connection, metadata documentation and the creation of quality reports assume great importance.

Apart from geographical comparability between different countries and economic areas, comparability over time is especially important for economic indicators, because most processes in this area require long time series to be able to draw sensible conclusions.

2.1.2.3.5 Consistency

Statistical findings on the same factors for the same overall sample should be consistent and free from contradictions, even where they come from different sources or different publications. Complete consistency between economic indicators and other statistics is difficult to achieve for reasons of method, with the different quality components addressing different priorities. However, the differences should be reduced to a minimum and documented.

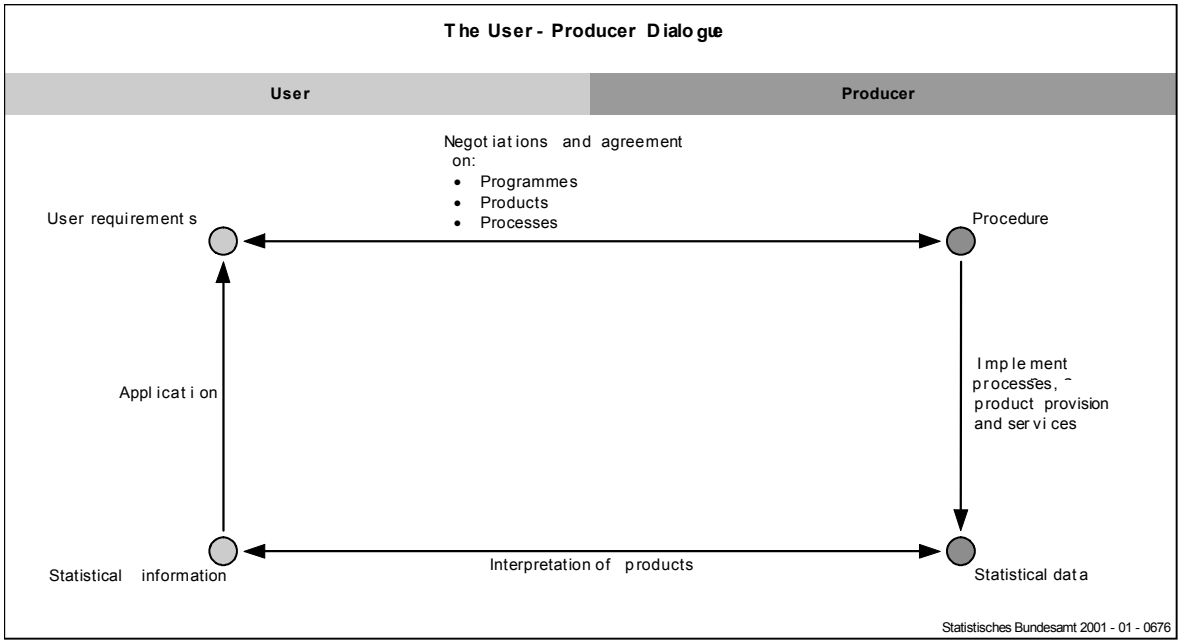
2.1.2.4 Restrictions

Quality costs money and resources, both in the Statistical Offices and in the companies providing the information. Factors affecting this burden are the availability of the variables in the accounting practices of the companies, the number of companies surveyed, the periodicity of reporting and the use of modern communications and information technology (closely connected with operational accounting). The main cost factors for the Statistical Offices are the number of units to be surveyed, ensuring an acceptable response rate and validating the data. This implies a correlation between the costs to the Statistical Offices and the burden on the companies, because a heavy burden causes a lack of acceptance in those required to provide the information. This is reflected in high rates of non-response and increased effort in post-processing.

2.1.2.5 Process quality

The product portfolio for economic statistics must be constantly adapted to continually developing data requirements, by a process of dialogue between producers and users. This dialogue may be outlined as follows:

Diagram 3



Step 1: User and producer, i.e. the Statistical Office, must translate the data requirements into a statistical procedure and conclude a service level agreement to cover it. The agreement to be reached among statistical experts covers a broad consensus on the relevant economic indicators and their quality components. In these negotiations, resources and the burden on data providers must be considered more than has been the case to date.

Step 2: The producer applies the statistical procedure in practice, to obtain statistical data. Here it is important to ensure that the most efficient and painless mix of methods is used to produce the required quality. The specific implementation does not affect the user directly, but should be made transparent to him. Documentation on quality standards, notes on compliance with these standards or even quality competitions may help in this. Once the data has been produced, the user steps back into the dialogue.

In *Step 3*, the "raw material" (data) is refined into the usable product, i.e. into statistical information. Raw data requires a certain user-specific effort to interpret and distribute. The

interpretation of statistical data is an important task for Statistical Offices in at least two respects: (1) Metadata must be provided for the data, and (2) Connections and comparisons between the data and information from other sources (where applicable) must be given.

Finally (*Step 4*), the statistical information is used by the user.

From a user standpoint, the quality of information depends on the quality of the processes specified.

- Adequation quality: How well does the agreed procedure reflect user requirements? Adequation errors arise where key users are not sufficiently involved in the decision-making and consensus process.

- Production quality: How well does the Statistical Office implement the procedure? Errors arise from incorrect use, from poor response rates (burden), deficiencies in resource allocation etc.

- Interpretation quality: How successfully is the data produced provided as useful information to the various users? Interpretation errors arise from poor availability and transparency, but also as a result of misinterpretation of the data by the users ("innumeracy").

2.1.3 Quality of the portfolio of economic statistics

2.1.3.1 What products and services comprise the portfolio?

However different the various users may be in their interests and requirements, it is still possible to identify relatively clearly which variables form the core of the requirement for short-term economic statistics. Here, because the economy is a many-layered phenomenon, the emphasis is not on individual indicators but on the whole system of indicators designed to illuminate the different aspects of the current economic situation.

In general, three types of indicator are required: stable early indicators, presence indicators and late indicators. The most important features for us in this connection are orders received in specified areas as an early indicator of demand, and production and price changes as presence indicators. With respect to trade, a distinction has to be made between wholesale sales, which may serve as an early indicator, and retail sales, which are more of a late indicator of economic growth.

The portfolio of economic statistics in Germany encompasses indicators in all three categories. Most indicators are calculated monthly and, as one would expect of a serious economic analysis, subjected to various adjustment procedures. The data is available in a detailed breakdown by

economic sector, which also allows special samples to be provided to individual users for purposes of sector analysis.

All indicators and services set out so far are related mainly to manufacturing industry and commerce. A decision is currently pending on a suitable expansion of the portfolio to cover the service sector, in the context of the planned Amendment Regulation to the Regulation concerning short-term statistics [6]. For German economic statistics also, which more than fulfil European requirements in terms of statistics on industry and construction, the service sector is largely new territory. A new survey and various pilot studies are already in hand to meet the need to catch up in the service sector.

2.1.3.2 Are there clear priorities and dependencies?

The framework of requirements sketched out above is affected by the relevant legal provisions on statistics, but the implementation of these provisions provides the Statistical Offices with some room for manoeuvre, allowing them to address more closely the different ways in which the results are used. The starting position for the national Statistical Offices may be outlined as follows:

According to the subsidiarity principle, the Council Regulation concerning short-term statistics defines a programme of provision to Eurostat, including the variables, levels of breakdown, periodicity and representativeness, and the production of a quality report; but there is as yet no precise definition of the criteria in the form of a Commission Regulation. Instead, it is expressly stipulated that the costs of the survey should be set against the benefits from the use of the data. Alongside European requirements – particularly for large Member States – there is an internal domestic requirement that must be adequately considered. In this context, the specified indicators can either be offered only for larger aggregations or at a lower level of breakdown by economic sectors or in a more detailed regional breakdown.

Where technical feasibility used to be the main criterion determining the indicators provided, now it is more a question of what can be funded or implemented politically. Given the burden on the respondents and on the Statistical Offices, a change in information requirements cannot be met just by adding new indicators to the old or by simply transferring existing indicators to the hitherto little-understood service sector. Rather, the overall system of indicators must be reviewed. This means asking more than ever what purpose each indicator serves in the overall structure of company statistics and whether the information gained from this indicator justifies the cost of calculation. This raises the question of whether for example a production index is needed at a lower level of breakdown if the companies affected by the required data collection are overburdened, and

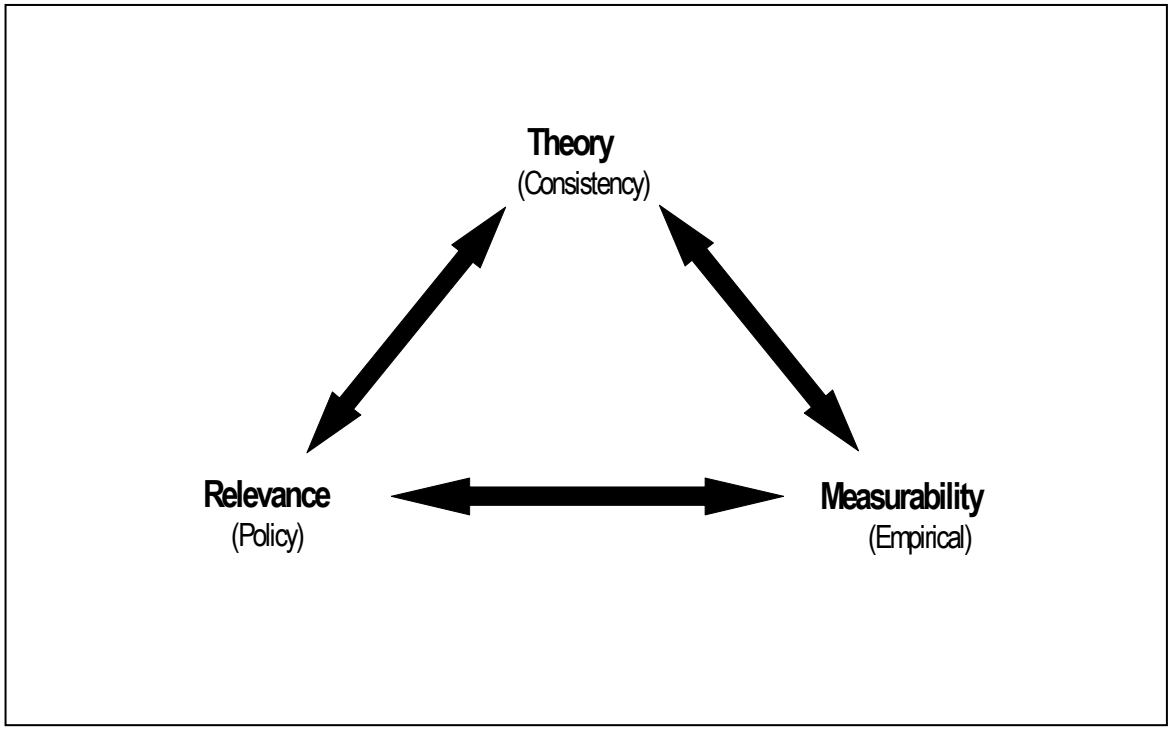
the level of detail already causes excessive delays in timeliness. The strength of official statistics should lie in the fact that they provide a structured system of information that together yields a rounded picture of economic reality directed at users' needs.

Official statistics will only provide a satisfactory range of data if they do not think only in terms of data acquisition but try more than they have so far to learn something about all aspects of the requirements and to incorporate these insights into their thinking[1]. When new indicators are introduced, a readjustment of priorities and dependencies is unavoidable. The highest priority indicators should be so important that users, represented on the relevant technical committees, cannot dispense with them even where their acquisition entails high costs and burdens. In the area of economic statistics, this highest priority information includes fundamental indicators (such as production, prices or sales at a high level of aggregation), which are of great importance for short-term economic policy decisions. Indicators (or more detailed topical and regional breakdowns) at the second level of priority are certainly desirable, but their provision should be weighed against the resulting burden. Here, the result depends not only on the importance of the users but also on their willingness to present their requirements proactively. In this respect, it is questionable for example whether the significance of the figure for "hours worked" in the service sector would justify the high costs that feasibility studies indicate would be caused to those surveyed. Data at the lowest level of priority should only be collected and provided where the additional expense required for a qualitatively satisfactory survey is minimal.

2.1.3.3 Review of the current portfolio in the light of user requirements

The findings from short-term company statistics are aimed at describing the current position of an economy in the economic cycle. For this purpose, a set of indicators and a certain publication practice have proved useful over time, and are accepted by the major users. We can therefore assume that historical trends have resulted in a balance between the aspects of economic analysis (theoretical), measurability (empirical) and relevance to economic policy (political).

Diagram 4



However, it is important to ask from time to time whether this set of indicators still provides an accurate description of economic reality. More recent elements in economic development have been the introduction of the euro, the growth of the service sector, globalisation and the role of knowledge and information in the modern commercial company. The question is to what extent these phenomena affect the relevance of the existing descriptive elements, or to what extent new or additional indicators are required or old indicators become obsolete.

2.1.3.4 Greater freedom through greater efficiency

The trade-off between user requirements, quality and burden should be minimised by means of suitable measures. Here, we can assume that the given situation represents a balance that has developed historically and now approaches the desired optimum. The task of the Statistical Offices lies in maintaining this balance under changing conditions. Care must be taken for example that no imbalances arise, and that new requirements can be addressed by extending the statistics without resource limitations compromising demands in another area. It is important to consider also what is the desired division of roles between Statistical Offices and other information providers such as private research institutes, which may be competing with the official statistics in certain areas but also use their data as key inputs.

2.1.4 Current trends in Germany

2.1.4.1 Master plan for the reform of official statistics

Current political discussions in Germany have shown that the burden on companies has reached an upper limit, and that any extensions will be difficult to implement politically. Short-term statistics in particular are regarded by companies as a great burden, as they come up with new data requirements on a monthly basis. As part of the so-called master plan for the reform of official statistics, the German Statistical Office is attempting to upgrade the whole system of company statistics. This should align results more closely with user requirements, and implement data collection technologies to reduce the burden on companies. The aim of this plan is to guarantee a high quality of data where it is mainly required, while reducing the burden on those providing the information. To return to the picture in section 2.5: the quality of the overall process should be optimised by making improvements at each of the three levels – adequation process, production process and interpretation process. It should be emphasised that no single method can bring success, only the carefully coordinated use of a coherent mix of methods.

2.1.4.2 Quality of the adequation process

The optimisation of the adequation process requires a review of the existing system of company statistics with the aim of fundamental reform. Promising approaches might be:

- Enhanced use of existing data (use of administrative data, transfer from operational accounting systems).
- Replacing data collection with imputation.
- Reduction of random samples.
- Use of primary statistics for instant reports, combination of primary and secondary statistics for more detailed breakdowns.

2.1.4.3 Quality of the production process

The aim in addressing the production process is to increase efficiency. Possible mechanisms for this are:

- Online surveys (Internet reporting via W3Stat as a first step; eSTATISTIK.core – as an interface to the operational reporting system – as the second).

- Production process with no change of media (eStatistics)
- Optimised cooperation between national statistics producers.
- Early reporting for priority indicators.

2.1.4.4 Quality of the interpretation process

To meet the requirements and prerequisites of the various user types requires not only sophisticated data production but also a flexible and requirements-based distribution and publication strategy. Some possible approaches for this area might be:

- Free-of-charge information on the Net; portal for all statistics in Germany.
- Service orientation, focus on user-specific consultancy, service offered for a fee (from an upper limit)
- Databases, self-service, metadata and joint research for professional users.
- Coordination of seasonal adjustments with the Bundesbank.

2.1.5 Conclusions

Short-term indicators are used mainly to describe the latest position of an economy in the economic cycle. Because of the complexity of economic events and the variety of users, the number of possible indicators is almost unlimited. With growing demand, diminishing resources and limited capacity in companies, the Statistical Office cannot crystallise its information needs on a more or less experimental basis by a process of trial and error. This is particularly true of economic data, which only becomes especially valuable in long continuous time series. As paradoxical as it might seem: short-term indicators require careful long-term planning. Multiple data collection cycles within the year impose a particular burden on companies providing information. As short-term indicators are used as a basis for important decisions, special quality requirements are placed on them. The Statistical Offices would be well advised to try to find out more about the need for indicators, with all the associated quality aspects, and to involve user groups in the decision on what indicators should be provided. Statistical committees play a decisive role in this. The adequation process requires open discussion, not only on the type of indicators to be calculated and the level of regional and topical breakdown, but also on all the required quality features and the associated costs and burdens. The Statistical Offices must take care of optimising process quality. This includes adequation quality, guaranteeing an optimum implementation of user requirements in a consistent

and meaningful system of economic indicators; production quality, ensuring that the desired statistical information can be produced by the most efficient means and with the minimum burden on the companies; and interpretation quality, using appropriate metadata, consultancy services and transparent quality standards to prevent misinterpretation as far as possible.

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1 "The statistician is no longer a specialist living in his closed world; he is increasingly a manager of statistical information, in constant contact with decision-makers" [7].

2.2 Some divergence between the information needs of enterprises and Professional Federations and the development of official statistics

Daniel DEWAVRIN

President of the French Industrial Federations Association

2.2.1 Needs, expectations and initiatives of enterprises and professions

Somewhat paradoxically, enterprises want detailed and plentiful statistical data, but would rather not have to answer important, demanding and overly-frequent questionnaires. The vast majority of enterprises and professions expect official statistics to help them improve their assessments, comparisons and forecasts by:

- providing easily exploitable data (making forward studies feasible) with a sufficient level of detail;
- ensuring realistic survey frequencies, with short return periods;
- exercising the principle of statistical secrecy (avoiding overly-inquisitive investigation of fiscal matters, without jeopardizing the ability to compare competing enterprises);
- devising simplified and reliable classifications.

With regard to **frequency**, it should be noted that some short-term surveys are inadequate, with not very informative indicators.

Insofar as the **level of detail of the surveys** is concerned, it has been pointed out that the level of detail of market research often goes beyond what official statistics can or need to achieve, notwithstanding the fact that that the administrative sphere (particularly the Directorate-General of Competition, Consumption and Repression of Fraud) carries out more detailed surveys.
In fact, industrial branch surveys focus primarily on production rather than the market, which does not cover all requirements:

- deliveries by volume;
- invoices by value;

- products manufactured by reporting enterprises.

Enterprises and professional associations actually feel that the financial and administrative burden is out-of-proportion with the service provided by industrial statistics, particularly because the data provided is often unsuitable.

France continues to carry out branch surveys. Some branches, who, under contract, developed statistics on their sector for the government, are no longer cooperating with the official bodies because the surveys have become less relevant to enterprises and because of the associated costs. Examples of this include the surveys formerly carried out by the Confederation of Electrical, Electronic and Communication Industries (FIEEC) and the Union of Textile Industries (UIT), which have now been taken over by the Statistical Department of the Ministry of Industry.

Professional organisations, in various sectors, were therefore forced to compensate for this lack of relevance by developing private industrial statistics which, in some cases, was extended to European and even global level.

In relation to **classifications**, work towards convergence will begin in 2007 and will have both a positive and negative impact on enterprises: correspondences and comparisons will become more accurate, at the risk of a loss of detail. The CN (Combined Nomenclature) was to have shrunk from 10 000 to 6 000 lines by reducing the number of products, but this development was abandoned because of pressure from the French Customs. So it will be up to the Professional Federations to ensure that the definitions of the professions do not become too vague when the production classification Prodcom, NACE etc. are revised.

2.2.2 The worrying development of official statistics at European level

Over the last ten years or so, the relationship between Eurostat and the Professional Federations has weakened or even deteriorated. At the beginning, there was a real sense of cooperation between the Statistical Office of the European Communities and the European Industrial Federations (FEBIs). However, over time, the European statistical system drifted away from the needs of enterprises in order to respond to the Community demand for the macroeconomic data which was required for the introduction of the euro. Since 1999, Eurostat has increasingly been monopolised by Economic and Monetary Union (EMU) and by following up on the cohesion criteria laid down in the Maastricht Treaty.

As a result, priority was given to two types of indicators which are not among enterprises' top priorities:

- macroeconomic indicators focused on the overall aggregates of the Member States;
- short term indicators geared towards the implementation of national fiscal policies.

2.2.3 Useful indicators for enterprises

In order to meet the needs of enterprises more fully, the system of public statistics needs to become more focused on producing data which meet the following priorities:

- market awareness (products / services / foreign trade);
- microeconomic, rather than macroeconomic, climate;
- medium / long-term indicators (trend barometers);
- easily comparable labour market indicators;
- sustainable development indicators.

Market indicators

Industrial enterprises are currently focused on improving their ability to develop market awareness. The context of globalisation and hypercompetition places much greater emphasis on the act of "selling" than on "producing". Yet official statistics are more focused on production than on selling, insofar as production, as a variable, is directly proportionate to GDP. Enterprises also have a strong interest in developing their knowledge of competitors and competing sectors, which would involve greater exchange of statistical information between Europeans and beyond.

The *Conseil National de l'Information Statistique* (CNIS - National Council for Statistical Information) which "supervises" French statistical policy, examined this development in its training report "Industry, Agricultural and Foodstuff Industries (IAA) & Energy".

Labour market indicators

Professional Federations are on the whole in agreement that the indicators below are a top priority in statistics, particularly for the purpose of making comparisons within the euro area. The coverage

of this domain remains insufficient both in terms of the frequency of surveys (e.g. quadrennial surveys) and the choice of indicators:

- working hours;
- working time;
- unit labour cost;
- productivity per hour etc.

Some of these criteria, many of which are used by the European Central Bank (ECB), are in fact unreliable (e.g. unit labour cost).

Investment Indicators

Enterprises and professionals often say that their needs are not being properly met. The impact of globalisation on production and on the markets has given priority to indicators relating to volume and investment behaviour (stocks, flows). However, the nature of foreign direct investment (FDI) is often not ideal, and it is more difficult to interpret than one would like with regard to the real economic sphere. The information in the Bank of France's Balance of Payments indicates that 75% of FDI is not industrial. Instead, it corresponds to financial flows (costs of mergers and acquisitions, intermediation costs, transfers etc.).

The survey model used in Germany (the state surveys 20 000 enterprises directly in order to clarify financial liabilities) should also be used in France, where approximately 15 000 enterprises should be surveyed.

There is a marked contrast between foreign investment in France, which is generally well-known and analysed by official statistical bodies or by the AFII (French Agency for International Investment), and French investment abroad, on which there is less detailed information, but which is very important for the assessment of France's position in the major external markets.

NB: Three levels: Europe - France - Regions

The "regional" dimension - both on a French and Community scale – must be kept in mind when dealing with statistics in order to ensure regions do not launch uncoordinated surveys.

In France, the system is, at present, well controlled by the CNIS, which ensures overall consistency through its Opinions on Suitability and its Authorisation Committee.

With the new law on decentralisation, who can tell what the future holds?

Theme 2 – Goods and services market – Some comments

Jan FISCHER

President, Czech Statistical Institute

When we respect the still topical recommendation of Eurostat from the year 1999, which determined the scope of standard reports on statistics quality, then the original seven dimensions were lined up, but as for their importance they were presented practically as equal. Nevertheless, the fact that on the first place on the list the relevance of statistical determination occurred, was not by chance for sure. Both the speakers also confirmed again the persuasion, which is probably generally shared, i.e. that the state statistical service must primarily result from the needs of users.

Users – statistics - respondents

Walter Radermacher et al. proceeded from the known relational triangle the vertexes of which are requirements of users, burden of respondents and activity of the state statistical service briefly characterised as quality. They prove that optimal functioning of the state statistical service can be achieved only when using available sources of the state statistical service and with acceptable burden of respondents it is possible to meet the requirements of users or that it is an optimization task the goal of which is to achieve balance between the interests of the participants involved. We fully agree with the goal determined like that; however, we are not sure that the declaration of optimization helps to achieve the balance in concern more easily or faster in practice. Interests of the participants can be identified; however, their quantification, synthesis and, especially, mutual comparison are difficult or even impossible in full extent, because each vertex of the relational triangle in mind is basically a structured set of miscellaneous elements. Thus, it is questionable whether we could be successful should we try to transfer various interests and their coverage to a common expression – in order to create a space for exact methods to be able to compare the interests fully and "weight" them in an exact way. (For that matter, the authors do not even propose anything like that.) For a major part of requirements of users we have to count with the fact that their interests do not have to be in harmony with the interests of other participants or, it is better to say, that the existing opposites will be shown mostly on the global level and not for the groups of participants with whom it is, after all, possible to seek a trade-off. Thus, it is the state statistical service, which has to cope with practically the entire weight of effort to achieve the balance in

concern; it reminds a parallel: “fighting at two battlefronts”, in which on the line of the state statistical service the most important is an adequate allocation of available sources. From this point of view, it is also possible to speak about optimization, this time maybe rather in the interest of elimination of unwanted impacts on both the groups of partners of the state statistical service. A specific feature of the current situation in most countries is stagnation, often even relative restriction of available sources of the state statistical service, which makes its space for acting much more narrow. In relation to that, the authors note that there is a necessity to additionally fully profit from available sources of data and statistical information (e.g. by connection of statistical information with secondary information) that could save carrying out of a deeper statistical survey.

The difference of both declared and expected demand of various groups of users is shown by the data in table 1 and figure 2. Also Mr Dewavrin expressed himself regarding this type of variety referring to the practical impact of cooperation between the Statistical Office of European Communities and European Industrial Federations, the cause of which he can see in a one-sided focus of the ESS on satisfying the demand for macroeconomic data after 1999. Similar expressions of a certain imbalance we can identify also among opinions of users of Czech statistics – we still have to clarify characteristics of the system of short-term statistics of the EC, because many users are not willing to give up indicators, which were characteristic for the planned economy. (To put it concretely, it applies to the deflated industry turnover indices and to construction output indices resulting from the output supplied to end users; these indicators are published simultaneously with indicators required by the Council Regulation (EC) no 1165/98.) To put aside some lingering opinions, we can assume that such a situation will not be unique even in the future - moreover, especially taking into consideration newly emerging phenomena and processes.

In Czech conditions, we appreciate the importance of international standards - especially those, which are part of the EC legislation. It is so thanks to the well-developed focusing of these standards as well as due to a small number of experienced experts available to the Czech state statistical service for solution of methodological problems. Thus, we assume that the dominant importance at strengthening statistics quality belongs to the ways of determination of priorities of requirements of individual groups of users and, subsequently, to the ways of respecting these priorities. Should the setting of priorities to user requirements result in a real benefit, i.e. if it is not to be just another administrative matter, it cannot remain to be a question solved only by individual NSIs but it should pervade the entire activity of the ESS. In other words, important is that Eurostat – perhaps using division of labour within the ESS (Centres of excellence) – reacts on new requirements more flexible, if possible in advance before NSIs are forced to respect a requirement

of a user, sometimes with little invention and limited knowledge. However, the end remains open: how to cope with requirements the order of which – for the lack of sources or capacities – eliminates them from the plan of statistical activities of NSIs? Are we going to be consistent or will we allow solutions like "you guys – just do it as you wish – I know you have already coped with more demanding tasks!" or will a local statistical diplomacy take control over the space, the results of which, however, do not have to always confirm the objective prioritisation of requirements?

Paradoxical character of approach of the business sphere and their unions is shown explicitly by Mr Dewavrin who says: "businesses wish detailed and bloated statistics without having to answer bloated, demanding and very often questionnaires." Information on the shift of the meaning of some of traditional statistics in France such as, for example, surveys originally carried out by FIEEC and UIT, is interesting for us, because we are looking for possibilities for division of labour between the state statistical service and statistics made by unions of entrepreneurs. When the need to simplify HS and Prodcom classifications via reduction of the number of items is in concern, we hope that this rationalisation flow will not end up in the half of its way. Heading towards the mutual change of position of indicators of output and turnover yet deserves a detailed analysis because it would not be good if the possibility to see or competently judge the development of stock drops out of the system of short-term development indicators. Also a survey model by which a closer specification of financial liabilities of enterprises is sought in order to monitor manifestations and consequences of economic globalisation deserves our attention. We assume that these or other similar stimuli should be analysed and in a short term evaluated so that both the positive and negative priorities of the ESS are not only subject of discussions but become a practical utilizable instrument.

At the "second battlefront" there are respondents towards whom the state statistical service can be in general less demanding when it succeeds to use administrative or business data sources, imputation method or successfully apply sample surveys. Walter Radermacher et al., however, in relation to the measures taken by the Bundesamt für Statistik broken down by focus on quality of the adequacy process (followed by processing and interpretation) recommend rather limitation of sample surveys, which might call for better clarification. At utilisation of administrative or business data that do not correspond by their determination to statistical determination, a question arises how to cope with the differences. In relation to that we assume that inspiration can be drawn from the practice of the Directorate General for Statistics and Economic Information, Belgium, which according to the information of Mr Hans D´Hondt (presented e.g. on the EIPA seminar in Maastricht in May 2004) succeeded with some administrators of registers to agree on such a practice that these differences are surveyed within maintaining these registers. In Czech conditions

we consider up to now to be a success when we are able to overcome bureaucratic obstacles and obtain some data from administrative records, which usually serve to us as a benchmark not as direct alternative information. Inspiring is also experience with creation of a feedback between the state statistical service and respondents via providing of various services of information character – they should contribute to the respondents´ feeling of bigger responsibility for providing of their data. Our first experience with opinion polls among respondents and users we consider in this sense to be encouraging.

Trade-off of dimensions of quality – state statistical services

To take requirements of users, the level of cooperation with respondents and sources available to the state statistical service as given, then what is deciding about quality of statistical products are relations or emphasis put on individual dimensions of quality and on coping with internal processes of the state statistical service. In our practice, we have been feeling a bigger pressure on achieving of precise and comparable statistical information. Meeting of deadlines for transmission of short-term statistics indicators to Eurostat was without problems; we are prepared also to meet the already announced deadlines with shorter lapse of time after the reference period. First studies on coherence of selected time series of gross value added from the sets of national accounts and output indices for selected branches showed the necessity to pay bigger attention to this relation, namely in all branches of economy. We are successful in synthesizing the results from labour force sample surveys and surveys on employees at employers.

The differentiation of internal processes of the state statistical service to processes determining quality of information according its adequacy, correct processing (including proportional coverage of the sample) and comprehension of interpretation, which are mentioned by Walter Radermacher et al., we consider to be a good starting point for application of EFQM. Recently, when we have been transforming Czech statistics, we have narrowed the issues of adequacy to the issue of fulfilment of the EC standards being newly mastered; in the area of processing we have made a transition from regional to the specialized central processing. A special attention has been paid to commentaries to analyses, which formed a part of presentations of statistical information, so we assume that parameters of activity of the Czech state statistical service can be compared with parameters of activity of comparable foreign institutions; however, many working methods are still to be elaborated so that the resulting outputs are of a real quality.

Walter Radermacher et al. also deal with quality of the portfolio of short-term statistics in the scope required by the Council Regulation (EC) no 1165/98. The Czech Statistical Office still does not

have enough experience with analyses of relations between stable early, presence and late indicators, because their time series are still short. On the other hand, we produce results from business cycle surveys among entrepreneurs in industry, construction, trade and services, the first time series of which starts in 1993. In cooperation with the University of Economics in Prague experimental calculations of flash changes of the gross domestic product are made – for these calculations inclusion of time series of some indicators of business cycle surveys are useful. (More detailed information was contained in a speech delivered at the "Statistics – Investment in the Future" conference in September in Prague.) Suggestion for evaluation of a suitable set of portfolio of indicators for selected group of users or generally focused analytical activity we consider to be beneficial.

The quoted authors then deal with the consequences of determination of priorities of requirements for financing of activities of the state statistical service. They note that it is no longer enough to take care of a positive result of a cost-benefit analysis of new projects, but there also exist political and financial barriers to further expansion of statistical activities. It means that when considering inclusion of another project compensation has to be looked for consisting in the cut or elimination of another project. The Czech Statistical Office has been trying for already several years to create a system of resulting calculations for their projects, however, up to now the results were not unambiguous. We suppose the CZSO would not be the only one to seek exchange of experience regarding this topic.

Theme 2 - Goods and services markets - Discussion

The discussion touched upon the following issues:

1. Is there a crowding out of those user needs that are not related to monetary policy?

   The tentative answer was to the affirmative. However, it was underlined that the user portfolio has to be recognised through a dialogue that carries sufficient weight.

2. Is there a general policy bias in determining user needs?

   Again the tentative answer was to the affirmative. This was considered to be somewhat unfortunate, most notably when some kind of overall coherence has to be assured.

3. Is Eurostat taking respondent interests adequately into account?

   NSIs were seen to be closer to respondents than Eurostat and thus naturally more responsive to their interests. Eurostat, however, has contacts with the FEBI and intends to strengthen these links, also in view of accommodating their interests early on.

   However, it was also mentioned that the interests of respondents might not always be adequately defended by business associations, as their interests do not necessarily coincide. Nevertheless the role of business association is believed to be the conversion of divergent interests into a coherent position.

4. Should different users be treated differently?

   Expert users usually accept the idea that everything cannot be provided without charges. Therefore a segmentation of users distinguishing between simple viewers, occasional observers and experts could be helpful.

5. How could the interests of respondents best be accommodated?

   A tailor-made feedback to respondents has been quite helpful to overcome their reticence. It was also mentioned that the incentive for NSIs for reducing the response burden would increase, if the respondent costs are adequately taken into account. Although it is widely believed that it would be difficult to come up with a correct amount.

6. Are the costs for servicing users equitably shared among the agencies involved (Eurostat and NSIs)?

It was mentioned that national users tend to opt for obtaining statistical information through NSIs, even if they are interested in European information. Thus NSIs have to assume most of the costs, while Eurostat seems to be left with "low cost users" such as the ECB or Commission services, who – on top – seem to carry a lot of weight in determining user needs. Eurostat's new free access policy will in all likelihood increase the servicing costs for NSIs even further.

Theme 3 -
Labour market

3.1 Polish experience in labour market statistics with regard to quality of information

Prof. Janusz WITKOWSKI

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The paper presents the Polish experience in restructuring labour statistics in subsequent periods of transformation of the economy. Three stages of this restructuring process have been discussed in more detail: harmonisation with international recommendations, satisfying domestic needs and integration of the knowledge about the labour market. The paper concludes with discussing further challenges associated with improving the quality of data and information in the area of labour market statistics.

3.1.1 Quality of data in the process of restructuring of Polish labour market statistics

At the beginning of the 1990s, when the process of restructuring of Polish labour market statistics began, particular emphasis was placed on full and relatively timely harmonisation of methodology and the scope of studies with international standards. Therefore, at that time the main effort was focused on modifying the methodology of many studies carried out previously and on preparing and implementing new surveys, fully in line with the needs of a market economy and international recommendations. Quite quickly it had turned out, however, that good quality of statistical information is an indispensable aspect of the new system of labour market statistics. In the conditions of dynamic changes on Poland's labour market (practically throughout the period of transformation of the economy), expectations with regard to statistics have been, and remain, higher than in a situation of economic stability. The Polish labour market statistics have also experienced this, as it was expected that these statistics would provide the following data:

- describing the new phenomena of the market economy (e.g. unemployment);
- allowing an analysis and evaluation of the situation in Poland against other countries;
- depicting the geographical differences in the labour market mechanisms;
- describing the situation of various groups of the population in the labour market, and

- allowing for a comprehensive evaluation of changes in the labour market, meaning not only presenting the facts, but also showing the determinants and consequences of changes in the labour market.

Practically all of these expectations were and are related to the quality of statistics in the broad sense of the word, mainly with regard to relevance of the data, its timeliness and accessibility, accuracy of the data, a large degree of detail in the data and the completeness of information. These expectations were emphasised in different ways at various periods in the transformation process and therefore they have influenced the successive stages of development (restructuring) of labour market statistics in Poland. The first stage primarily covered the adjustment of Polish statistics to international standards, which set out the scope and methodology of studies in the conditions of a market economy. The second stage was related to better satisfying domestic needs, which were increasing quite fast, in view of the dynamic changes in the labour market. This was the result of demand from macroeconomic policy decision makers and labour market analysts for additional data depicting the distinct features of the Polish labour market. Therefore, a need arose to broaden the scope of labour market research beyond international recommendations. Finally, the third stage of development of labour market statistics was a consequence of the need for a more comprehensive description of changes in the labour market, therefore, it called for integration of the knowledge about the labour market from different sources of information and studies covering different aspects of labour market functioning. This was to a large extent a natural process of development of labour market statistics, as it resulted from realised analytical needs, largely created also by official statistics.

3.1.2 Harmonisation of labour market statistics with international standards

The first stage of restructuring of Polish labour market statistics, involving its adjustment to international statistics was extremely important and pressing, because together with the process of transformation of the economy, new phenomena and processes emerged in the labour market, which were not known previously or were not significant in Poland. A sudden drop in the number of jobs and mass unemployment were phenomena which called for an in-depth analysis and evaluation, therefore also appropriate statistical data. The introduction of the Labour Force Survey, reflecting the recommendations of the International Labour Organisation and Eurostat of that time, was of key importance for harmonisation of Polish labour market statistics. The most important advantage of this study was the possibility of analysing three categories of the population important from the viewpoint of the labour market – employed, unemployed and economically inactive – based on a

single source of data. Previously, such a data source did not exist in Poland, nor did the phenomenon of official unemployment.

Initially this study was designed as a quarterly one, allowing for relatively frequent updates of the knowledge about processes taking place in the labour market. From the viewpoint of diagnosis of the situation in the labour market, relatively detailed demographic, social and professional data about the three categories of the population were extremely important and could not be obtained in a timely manner from other studies. Meanwhile, the panel nature of this study made it also possible to analyse flows of the population between the respective categories of labour market status (employed, unemployed and inactive) and thus evaluate the processes of labour mobility [1]. Previously existing labour statistics did not allow for this, while in the conditions of major changes in the labour market, the issue of labour mobility has gained importance, mainly in view of the need to rationalise employment and improve the effectiveness of human resources management. In the long-term, the additional advantage of this study is a stable methodology, facilitating an analysis of the most significant trends in the labour market.

An important element of the new system of labour market statistics was the introduction already at the beginning of the transformation of the Polish economy of current registration of the unemployed. These registers have proven to be a very significant source of operating data on unemployment. Thanks to the homogenous rules for registration of unemployed throughout the country, based on these registers it was possible to evaluate the scale of registered unemployment, its territorial diversity, existing development tendencies and characterise the basic demographic and social-professional features of unemployed persons. Three features of this data source on unemployment were and continue to be particularly important, namely: monthly frequency of information, possibility of disaggregation of the data to the level of local labour markets and assessment of the inflow and outflow to unemployment. This data source constitutes a significant complement to the knowledge about the labour market obtained from results of the LFS. However, data on registered unemployment do not meet all the requirements of international statistics. This is mainly due to the definition of an unemployed person, which complies with Polish legal regulations in the area of the labour market, but it differs from that recommended by ILO and Eurostat [2].

In view of the dynamic changes in the number of jobs, employment surveys have become a very important component of labour market statistics. The previously existing system of studies through enterprises has largely been used for this purpose. However, in the market economy environment, greater difficulties arose regarding completeness of responses from enterprises and with obtaining

data from micro entities, the number of which had been growing significantly and rapidly at that time. An achievement of statistics of that time, also in the area of the labour market, was the implementation of the annual representative study of small entities. This was an extremely difficult task, in view of the very high number of such businesses and their considerable liquidity (many such entities go out of business, new ones are created in their place, while others suspend activities or change the type of their activity). This makes it significantly harder to maintain an up-to date register of these units, which is necessary as the sampling frame for representative surveys. However, this survey is improved systematically, recently also using data from tax registers.

When it comes to improving the quality of data describing the working population, a significant step was the introduction of analysis of completeness of studies (response rates) based on specially prepared completeness reports, which determined the causes of a lack of reports from some of the entities studied. Based on this, data imputation rules were devised, using a variety of sources of information, including the business register.

A significant decision parameter determining capital flows in a market economy and, therefore, also affecting changes in the labour market, are labour costs. They play a very significant role also in the Polish economy, significantly influencing the number of employed and the level of unemployment. In view of this, knowledge about the costs of labour has become a significant element of the system of labour market information. Implementation of such a study was also associated with harmonisation of Polish labour market statistics, because such studies are conducted in all European Union Member States. Their advantage lies in the fact, that it is possible to distinguish the elements of employee costs incurred by the employer. From the viewpoint of a general characteristics of labour costs, it is significant to have the opportunity of their analysis with distinguishing wage and non-wage costs according to type of activity of the business, the size of the entity and the sector of ownership, as well as an evaluation of unit labour costs (per 1 employee, per 1 hour paid and per 1 hour worked). Full harmonisation of this study with the methodology recommended by Eurostat, allows also for a comparative analysis of the labour costs in Poland and in other countries [3]. Work associated with devising a methodology of calculating an employment cost index is also fully harmonised. In the periods between surveys on the labour costs, this is a very significant source of information on the price of labour. In accordance with Eurostat recommendations, these are calculated systematically, with quarterly frequency.

In the initial stage of transformation of the Polish economy, a particularly important objective of statistics in general and labour market statistics in particular, was timely availability of statistics.

This was the result of the need for providing a quick description for changes taking place in the labour market on one hand, but on the other, it was due to the process of education of users of labour market data, for whom a large part of the new system of labour market information was little known. In fact, official statistics of the labour market set such an education objective for itself and performed it by the means of an accordingly adjusted data provision system. It had covered many forms, but primarily publications and cooperation with the media. In order to make it easier to use the results of labour market studies, it was decided that they shall generally be presented in statistical publications (statistical tables complemented with methodological notes), analytical reports, encompassing not only statistical data, but also a broad analysis of phenomena and processes and so-called monitoring reports, which include either summary results of studies or a set of indicators describing various aspects of the labour market. Each of the publications had its readers, but they have all played an important information role in disseminating the results of labour market statistics, as well as an education role, as they were not only showing pure statistical data, but also included analysis methods and specific conclusions regarding the labour market. At present, the system of dissemination of labour market data has changed somewhat, due to different expectations of recipients of statistical data and more advanced methods of transferring information. However, these data continue to be included in the current information about the social-economic situation of the country and are presented at monthly press conferences. A system of support and cooperation with data users has also been launched, allowing them to inquire about more specialised labour market data. Thanks to this, the timeliness of information has been notably improved, the latter being an important attribute of information quality.

3.1.3 Improvements in labour statistics aimed at satisfying domestic requirements

The reformed system of labour statistics has played an important role in the monitoring of changes in the labour market in the first years of transformation and has made it easier to formulate objectives for active labour market policy. Quite quickly it had turned out, however, that the standard scope of surveys of these statistics is not sufficient for a full diagnosis of the labour market. New phenomena have emerged, which were not as significant in other countries and which were not reflected in labour market statistics. Therefore, another stage of improvement of Poland's labour market statistics was the implementation of additional studies, mainly as modules of the LFS. From the viewpoint of users and economic decision-makers this essentially translated into an improvement in labour statistics. Several studies introduced with the aim of satisfying domestic recipients were of fundamental significance, some of them were even of pioneer nature.

One of these studies was the research on the rural labour market, which is unusual due to the different situation of the farming and non-farming population, which is largely associated with the distinct features of Poland's private farming. This was the first survey in the transition period, which allowed for a very in-depth analysis and evaluation of the situation of the rural community in the labour market, with particular consideration given to the farming population [4]. One of the advantages of this study was a successful attempt at estimating hidden unemployment on private farms, in other words, the redundant – from the viewpoint of production needs of a farm – employment on private farms. The methodology of surveying hidden unemployment in rural areas employed in this study was then used in two agricultural censuses (1996 and 2002) and the 2002 National Population and Housing Census. This study, therefore, not only had an information advantage, but also a methodological one for future studies of the rural labour market.

One of the serious problems of the Polish labour market since the beginning of transition was the high level of youth unemployment, resulting from the difficulty in passing from school after its graduation to work. A large number of school graduates of different schools came across barriers in finding work immediately, as well as after several months. Little was known at that time about the professional lives of school graduates and the reasons for their difficult situation. Knowledge in this area was significantly complemented by a study on professional lives of school graduates, following their situation from the moment of school graduation to the moment of the study. This was a retrospective study, which covered all school graduates since the beginning of the transition period, as a result of which it was possible to assess the change in their situation in the labour market in the subsequent years of transformation of the Polish economy. The survey on school graduates made it possible to analyse three extremely significant problems: the level and type of education of the school graduates, the search and finding of their first job and the ensuing career life. The study incorporated a lot of information allowing for an assessment of the degree of fit of school graduates' skills to the needs of the labour market and their behaviour at the first contact with the labour market [5, 6]. In view of the huge cognitive advantage of this study, as well as the interest of institutions involved in labour market policy and education policy, it had been repeated for the following generations of graduates.

The deteriorating situation in the labour market was particularly difficult for those groups of the population, which were not fully prepared to face the new conditions. For several reasons, the disabled were in a particularly difficult situation. This had inspired social politicians (the government) to undertake actions supporting this group of the population, including the promotion of their employment. A prerequisite for undertaking specific measures was as comprehensive as

possible a diagnosis of their situation, including their position in the labour market. Another labour market survey met this need, by *studying the situation of disabled persons in the labour market*. Although the main objective of this study was an evaluation of the situation of this group of the population in the labour market, in fact it was a very broad study and covered all key aspects of life of disabled persons, including the nature of their disability, living conditions, etc. [7]. For a few years, this was the only source of information about disabled persons in Poland, often used by the decision makers. This encouraged statisticians to repeat this study after a few years.

The most spectacular study in the area of the labour market, implemented with the aim of satisfying domestic needs, was devoted to unregistered employment. The huge decline in the number of jobs, sudden and mass-scale increase in unemployment have caused the shadow economy to develop on a sizeable scale already in the initial years of the transformation period. It had offered a large number of jobs, which were not reflected in official labour market statistics. The need for a more precise evaluation of the actual situation in the labour market led us to first undertake an attempt at estimating the number of people working in the shadow economy and then to include in the LFS a module survey on labour in the shadow economy (called in Poland a survey on unregistered employment). The results of this study were of great importance for the analysis of demand and supply in the labour market, but they were and still are, also used to estimate the size of the shadow economy in national accounts. The study not only covered the number of people working in the shadow economy, but also allowed for a social-demographic and professional description of these persons. It allowed to establish the most common types of non-registered labour, to evaluate monthly income from this type of work, to provide characteristics of households using “shadow” labour, as well as, to obtain opinions on the causes of taking up unregistered work [8]. Due to the cognitive benefits of this study, it has been conducted twice, and this year it will be conducted for the third time.

Another noteworthy study is that of labour demand, which is carried out systematically, every two years since 1996. This is because one of the most significant pieces of information on the situation in the labour market is the size of demand for employees in various segments of the economy. This was a clear gap in the system of information on the labour market in Poland, felt acutely by many recipients of statistical data. The question was not only in the size of the demand for labour, but primarily in the structure of this demand from the viewpoint of skills and professions. For this reason, the scope of this study covers the number of hires and terminations in a given year, the main causes of changes in the number of persons employed, professions in which the highest number of employees were hired and laid off and which encountered the biggest problems in finding

employees, the most desired skills of employees, the number of available jobs and their structure by professions, as well as the number of newly created jobs. This study also allowed to learn about the anticipated changes in the number of employed over the coming year, as the study includes the anticipated number of hires and terminations and the professions in which the highest employee movement is anticipated [10]. It can therefore be assumed, that this survey has to some extent the features of a short-term projection of changes in employment according to skills.

The second stage of improving of Polish labour statistics, therefore, mainly had the nature of expanding the scope of studies, which provided additional information on important aspects of functioning of the labour market on current basis. This was an important stage of development of labour statistics from the viewpoint of its quality for the user.

3.1.4 Integration of knowledge about the labour market

The directions in the improvement in labour market statistics described above were aimed mainly at harmonisation of the studies from the methodological point of view and working out such a scope of these studies, which is essential from the viewpoint of the needs of international statistics and domestic users. However, their foremost aim was to provide information on facts taking place in the labour market (number and structure of employed, unemployed and economically inactive). These surveys only accounted for determining factors and consequences of changes in the labour market to a small extent. Meanwhile, as the market economy was developing in Poland and in view of significant fluctuations in the situation in the labour market, a broader need arose for a comprehensive analysis and evaluation of the situation in the labour market. The main idea here was to explain the causes of the frequently unusual changes in the Polish labour market. This is necessary because of the fact that it is precisely in the labour market, where the economic and social consequences of functioning of the economy manifest themselves. The labour market is closely tied to various areas of social-economic events, which affect both the demand for labour, as well as, supply of the labour force.

A comprehensive analysis of the labour market is usually feasible, when different sources of information are used. Administrative data sources are very useful in this regard (registers, databases). In Poland, these data sources are not yet developed sufficiently to be used to enrich the analysis of the labour market. Therefore, it is mainly the numerous (various) studies carried out by official statistics, which are used for this purpose. However, in order to use several statistical sources, it is first necessary to make them comparable, which is best achieved by using the methodology (concept) of national accounts. Such work is underway in Poland and it is most

advanced in estimating data on the labour market for national accounts. However, this still remains an important future challenge for Polish labour statistics.

One of the factors determining the changes in the labour market is remuneration However, summary data on the level of average salary in various segments of the economy or even distribution of employees by wages and salaries are not sufficient to describe the relationship between remuneration and the situation in the labour market, but more detailed information about the factors determining the salary level is necessary. Such data may only be obtained as individual data (at the level of a single employee) and this is exactly the survey which has been conducted recently every second year. This is a study on the structure of remuneration by occupation, but also including many important characteristics of employees: sex, age, level of education, work experience, as well as features of employers: type of activity, sector of ownership, size of the entity [11].

A multi-aspect analysis and evaluation of the situation in the labour market also requires the use of results of studies carried out in other than labour statistics areas of official statistics. There are many of them, but some are particularly important. From the viewpoint of labour supply, the most useful are demographic statistics, including demographic forecasts. A large portion of data on the population is directly used in the analysis of labour market tendencies, but from the viewpoint of future changes in the labour market, the labour force projections are particularly useful. Such projections are carried out in Poland and they constitute a significant determinant for government labour market policy in the perspective of a few or even several years [12, 13].

One of the more important aspects of the labour market functioning is the occupational dimension. It is reflected both on the side of supply of the labour force, as well as, on the demand for labour side. All persons declaring readiness to work (supply) are characterised by certain professional skills, whereas all jobs (demand) are characterised by precisely defined skills expectations. The degree of matching the professional structure of demand with the supply significantly influences the situation in the labour market. For this reason, the analysis of the labour market from the viewpoint of occupational and skill matching between demand and supply can provide important information for education policy and professional development. Education policy and adjusting the education system to the changing needs of the labour market is mainly relevant for persons entering the labour market. Therefore, the analysis of the education system and the structure of school graduates of various types of schools (education statistics) fulfil an important information role, but also a decision-making one. For this reason, the use of education statistics is extremely useful for the

needs of labour market analyses. However, the readiness and ability to learn and improve professional skills throughout the entire career is becoming increasingly important today. Carrying out a policy in this regard, therefore, requires good knowledge on the scale, forms and frequency of participation in vocational training. Statistics of lifelong learning and its use for the analysis of the labour market will, therefore, play an increasing role in integrating knowledge on the labour market. Education statistics in Poland fulfil the expectations associated with analysis of the labour market, while statistics of lifelong learning is currently being developed intensively.

An important aspect of a comprehensive analysis of the labour market is the assessment of consequences of the changes taking place. Such an assessment is usually made in an indirect way, concluding about the social, occupational and economic situation of various groups of the population. A good illustration is the assessment of the scope of poverty among persons of different labour market status, particularly unemployed persons. However, carrying out such an assessment requires studies, which directly focus on evaluation of the consequences of changes in the labour market. Such a study has been conducted in Poland and its name was to recognise the social-economic consequences of unemployment. It focused on the living conditions of households affected by unemployment, their financial and emotional problems, the situation of children in these households, activity of the unemployed in searching for jobs, the current life style of the unemployed [14]. This type of survey made it possible to recognise the major problems in the lives of the unemployed population, as well as, evaluate the difficulties faced by these persons in the labour market.

The third stage of improving labour statistics in Poland, therefore, aims at enriching our knowledge on the mechanisms of functioning of the labour market by integrating results of surveys from different domains. This integration predominantly takes place at the analysis level, but specialised studies are also needed to describe the determinants and consequences of changes in the labour market in a more comprehensive manner. As a matter of fact, this is a never-ending objective of labour statistics.

3.1.5 Current challenges for labour market statistics from the viewpoint of data quality

Despite considerable determination in building a modern system of information on the labour market, Polish labour statistics still face important challenges associated with data quality in the broad sense of the word. The main problem from this point of view is completeness of data obtained from different surveys. This is an important task both with regard to representative surveys, as well as, censuses and it is equally relevant for studies of households, as well as enterprises. Improvement

in statistics in this regard covers two main areas: increasing the completeness of surveys, mainly through their better preparation, update of the sampling frames, specialised training of interviewers and co-ordinators of specific surveys, better co-operation and closer contact with respondents and entities and improving the methods of generalisation of representative surveys or broader application of the imputation method in case of censuses, including the use of additional data sources, also administrative ones.

Data on the number of employees in Poland are collected at different frequencies, depending on the size of the entities and the type of their activity. However, in view of the difficult situation in the Polish labour market, as well as significant seasonal fluctuations in the number of employed and unemployed, there is a growing need for monthly and quarterly data on the labour market. The greatest limitations in meeting these expectations emerge with regard to the number of the employed. This is associated with two groups of employees, namely those working on private farms and in micro entities (according to the Polish organisation of studies, this refers to entities employing fewer than 10 persons). A representative survey on employment in micro entities is carried out once a year, with a sample which does not allow for generalisation of results for spatial units at the level of NUTS 3. Meanwhile, actual demand for this data refers to even smaller geographical units, implying a need for developing work on estimating the number of the employed for small areas. Meanwhile, data on employment on private farms come either from censuses (agricultural or population) or from LFS. Until recently, the tendencies and scale of changes in farm employment assessed on the basis of censuses and the LFS differed considerably, resulting in difficulties in precise determination of the number of the employed on private farms. This is a significant direction for the improvement of the quality of statistics on the number of the employed.

Another area of labour market statistics, which requires further improvement, is that of vacancies and jobs creation. Although we have at our disposal the results of the survey on demand for labour, but it turns out that there is a growing pressure to produce data presenting the ability of the economy to generate new jobs. We do not have this information available directly, estimation efforts are being undertaken, but they are insufficient. The first attempt at obtaining such data has already been undertaken, but their value shall be assessed in the analysis of results. Data on the number and structure of vacancies are also not fully satisfactory for some recipients. Official data on vacancies are collected by Labour Offices, but it is evident, that only a portion of actually existing vacancies is covered by this register. Although this data is also collected in our survey on the demand for labour, they refer only to large and mid-sized enterprises.

From the viewpoint of influencing future changes in the labour market, an extremely useful piece of information is that on future demand of the economy for employees – in several years time. An essential element of such information is the demand for employee skills in the light of foreseen economic development. These expectations may be met by a forecast on labour demand by skills (occupations), which is already being prepared in a few countries. Meanwhile, in Poland, methodological and experimental work has been undertaken in the area of forecasting the demand for labour, but it needs to be developed further [15, 16]. This also constitutes an important challenge for labour market statistics.

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3.2 How to capture the dynamics of the labor market

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No government can decide where it wants to go if it does not know where it is: good statistics are an essential ingredient of a successful economic policy. This is particularly true for the labor market. Good statistics are of course not enough: even if they exist, they still have to be on time, and they have to be precise enough. Of course not every statistic can be had, nor can it be quickly available, nor can it be perfectly accurate. The trade-off can be made, but it is ultimately the users of those statistics who must decide how that trade-off must be settled. We also discuss how labor markets statistics must evolve as economic theories have evolved, and how we need to concentrate on gross flows rather than on levels.

3.2.1 The relative importance of national and European labor market statistics

The labor market is one of the key elements in economic policy

With growth, inflation, and the balance of payments, the labor market is one of the key classical economic targets in modern economies. As such, no list of principal European economic indicators could leave out such important statistics such as employment and unemployment.

Labor market variables have an impact on several other variables of the economy. Employment, through wages, leads to disposable income, which in term leads to consumption. Unemployment on the other hand affects wages, and thus inflation.

However, most employment (and unemployment) statistics typically lag gross domestic product growth by 3 to 4 quarters. These labor market statistics will not carry information about future growth in the following quarters. Nevertheless almost anyone will know what unemployment means, and will be worried about it. The unemployment rate is one of only a few economic indicators to have a large audience. Moreover, unemployment has a habit of sticking in the minds of households and thus has a very direct effect on morale and consumption. Growth without a decrease in unemployment is not tangible growth for the person in the street.

Labor markets are first and foremost national issues …

While goods come and go, labor markets still are mainly defined by national borders. Labor legislation can be drastically different across borders, and in France the movement of workers across borders is not high enough to warrant European-level statistics.

Net total migration in France is at or below 1 for 1 000 inhabitants each year, and only a fraction of it is with other European countries. While it is true that on border regions unemployment is affected by neighboring countries' health, less than 1 % of the France-inhabiting workforce works in bordering countries. Of course this will probably –and hopefully– change, as the European labor market grows from its current infancy, but so far the French labor market is almost completely within the French borders.

Furthermore, each country has very different labor market institutions, as the labor market in each country is the result of a long aggregation of custom and laws. Common European statistics might not represent well enough the peculiarities of the French, or the Spanish, or the British, or the Estonian, labor market. More often than not, specifically tailored statistics will inform policy makers better than consensus ones. Idiosyncratic statistics are sometimes faster and often more relevant for one wishing to study the French economy through short term statistics.

For this reason, some of the national labor market statistics should continue to be defined according to national concepts: maybe untranslatable, maybe incomparable, but pertinent to the local labor market.

For example, in France temporary employment (*intérim*) represents 18 % of the variance of quarterly employment change. Many firms will employ temporary workers as they face increased demand, so that monthly statistics on the number of temp workers can be a leading indicator of the cycle. As another example, government subsidized jobs for specific types of persons (*contrats aidés*) can also represent a large fraction of employment change.

… but international comparisons are essential for our understanding of them

In light of our previous discussion, only a small number of unified and useful harmonized statistics would appear to be possibly agreed upon if labor markets are not submitted to the same set of rules: if worker contracts are different, employment statistics will probably not measure the same thing, and we will not be able to draw the right inferences from the data.

However, having the right statistic is useless without the capacity of understanding it. We can learn immensely from other countries' experience, and our knowledge of the national economy can only be improved by the comparison of other economies. But the comparison would be worthless if we cannot assess how our economy fares against the others. Knowing the temperature in Fahrenheit degrees is not useful if I do not know how cold or hot it is. We cannot do without common statistical concepts: ILO unemployment lets us compare how some labor markets react under different sets of institutions, and what –if any– change can be undertaken. The success of active labor market policies can best be judged if between countries the statistics these policies are measured against translate the same concepts.

Hence the development of European harmonized statistics is a necessity. Nevertheless, this development must not be done at the expense of quality and usefulness. National statisticians should strive to produce innovative and pertinent statistics (see below) to end-users, while European statisticians should construct the frameworks in which those statistics can be best analyzed and compared.

All in all, there is still much to be gained from having a common set of internationally agreed-upon statistics. Meanwhile, economic theory is dragging us in new directions, and statistics should be improved in those directions.

3.2.2 Labor market statistics in the 21st century

Faster statistics or safer statistics?

With labor statistics as with any other type of statistics there is a trade-off between speed and quality of the data, and economists and statisticians should agree on where to choose between the two. Different audiences will demand different solutions. Ignorance might be bliss, and knowledge might be power. While we cannot request the dumbing-down of statistics, it is not unrealistic to suggest that statisticians should convey more the limits of their statistics.

As a whole, given the already observable lag between activity and the labor market, it is not a good thing for all labor market statistics to be published too fast, or too often, or to give the appearance of a precision they do not often possess. The unemployment rate, even though it is monthly, has a very appropriate single digit after the decimal point. Movements in the rate need to overcome a certain threshold to be visible. This threshold should be comparable to the underlying precision of the indicator. For those who still want to know, the change in the number of unemployed is available, while for the rest, the unemployment rate is enough.

Finally, while detailed and coherent statistics (such as quarterly national accounts, which allow the comparison with production, hours worked and wages) are more appealing, they often carry the price of their coherence, in terms of speed. Fragmentary information is useful in itself to analysts and policy makers, because of the speed with which it is available: employment in some parts of the private sector, as opposed to all employment, is interesting in and of itself.

From levels to flows ...

Economists and statisticians have evident complementarities: what can be measured can be analyzed and what can be imagined begs a measurement. For much of the second half of the 20th century statistics have revolved around macro-level data. Advances in computing power have made possible several novel (in their respective times) techniques. Structural VAR models were all the rage at one point. The effect of prices and wages on unemployment has been dissected more than enough times. All these type of analysis share a common point: they are built on the levels and the changes of macro-variables

Newer paradigms have tried to go deeper, and computing power has once more obliged. Levels are not enough, for we must know where those levels came from. In the labor market, unemployed persons come and go, and having some certainty as to how many of them there are on a given date is insufficient. Where to they come from? (a former job, school, out of the labor force) Where do they go? (a job with long/short term contract, retirement, out of the labor force) How are jobs destroyed, and how are jobs created? This will provide us with the data we need to be able to apply matching models to the economy.

... to the data we need now and will need tomorrow

Some "classical" level statistics are still in much demand, although much progress has been made. For example, to have an idea of the number of job vacancies in France we only have an estimate relating the number of registered unemployed workers against the number of job offers for a list of occupations. Vacancy statistics are one of the cornerstones of Beveridge curve-type analysis of the labor market. Shortages of labour (*difficultés de recrutement*) were only known through qualitative business surveys, while statistics from the unemployment agency only showed the mismatch between the number of job offers and the number of job proposals. We hear that new statistics on this topic will be published soon, and we can only be glad that labor market statistics are continually improving.

Short term indicators should moreover evolve so as to be more relevant for short term analysis. First, priority should be given to forward looking statistics that inform us of coming conditions of the labor market: overtime hours, job vacancies, recruitment difficulties. Similarly, better care should be given to the measure of transitions between work and unemployment.

Theme 3 - Labour market - Some comments

Georg FISCHER[1]

European Commission,

Directorate General for Employment and Social Affairs

I am very glad to have been invited to participate in this conference in the role of a discussant at today's session on the labour market.

To start with I would like to highlight some of the key issues raised by the first speaker Professor Janusz Witkowski. In doing so I will provide a viewpoint from the angle of a consumer of statistics who, however, uses them a lot, and not from a statistician's point of view. I will also address issues raised in Mr Philippe Bouyoux's paper on "how to capture dynamics on the labour market".

The central theme in both papers presented today is the issue of the quality of labour statistics. Professor Witkowski identifies a series of challenges associated with data quality in the broad sense of the word, especially the need to improve the completeness of data, to link data sources more easily, availability of data on a more frequent basis, more detailed breakdowns, and the need for further harmonisation of underlying definitions. Not surprisingly, many challenges mentioned in the production of statistics needed by Polish policy makers are mirrored at EU-level.

Let me react on what has been said while at the same time similarly briefly highlighting some *challenges faced in constructing a European Community system of statistics, which underpins the different policy exercises at EU-level.*

First – the world of labour and social statistics has become more European and more integrated. Following the establishment of the single market there has been a trend towards an Europeanization of certain policies leading to a growing need for comparative information on economic, employment and social performance of the Union and the Member States. As an important example, in spring 2000, the Lisbon European Council set a new strategic goal for the EU to become by 2010 *"the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".* An integrated approach was agreed how to achieve this goal, covering simultaneously economic, employment and social life (later on supplemented by environment).

This relates to an observation made by Prof. Witkowski, namely a change in the demands to the providers of statistics at levels, the national and the European. While in the past data collection was often compartmentalised to meet demands within specific policy areas, the greater interaction between different policies has created the need for a more flexible, less vertically segregated statistical system that provides for consistency of information provided not only within one area but also across the sectors. To pick up the point made by Mr Bouyoux we can not afford not to let National Account and Labour Force Survey based time series on employment to live separate lives. Economic and employment policies are seen as two aspects of an overall policy approach hence information resulting from the sources has to be consistent.

Second, the assessment of performance is at the centre: Overall the focus of the Union on economic, employment and social policies in the Lisbon context has shifted from the development of new objectives and mandates towards implementation of the reforms agreed at the highest political level. Clearly, the three employment targets are crucial in this regard as they are covering one key aspect of improved performance and as they are clearly defined and measurable. Hence the importance of the assessment of the actual impact of the national reform efforts and the Lisbon Strategy. Consequently, last year, at the Brussels March European Council, the Commission was invited to analyse the measurable progress which Lisbon's integrated approach has brought about, and to assess how Member States have improved their position.

The concern about implementation of reforms and the emphasis on measuring progress has led the European Council to ask how the use of structural indicators and other analytical tools for assessing progress on the Lisbon Strategy could be strengthened. The Council asked for improvements in the *"quality, in particular the comparability over time, countries and regions, of statistical and analytical tools, so as to provide better analytical foundations for the design and monitoring of policies."* It thus highlighted the need to underpin the assessment of the Lisbon Strategy with sound statistical and analytical evidence.

Third: this leads to the structural indicators. For the purpose of the regular assessment of progress a set of broadly agreed indicators of high quality has been agreed at the Union level, the so-called "Structural Indicators. The Commission presents them in an Annual Report preparing the Spring European Council. The upcoming mid-term review of the Lisbon strategy will use these indicators to highlight progress and gaps.

The agreed criteria for these indicators are:

1. that they are easy to read and understand and
2. policy relevant;
3. mutually consistent;
4. available in a timely fashion;
5. available for most, if not all Member States and candidate countries;
6. comparable between these countries and, as far as possible, with other countries, in particular the US;
7. selected from reliable sources; and
8. that they do not impose too large a burden on statistical institutes and respondents.

Fourth, we need to go beyond the simple numbers as important they are and as much efforts are still needed to achieve high quality structural indicators. As raised in Mr Bouyoux's paper a key issue for labour market analysis is how to capture the dynamics on the labour market. Labour market data are usually expressed in stocks and these are the basis for most comparisons of performance. A better understanding of differences in the employment levels requires looking at the flows that produce the stocks we observe at a specific moment in time. Jobs are created and destroyed, people move between jobs, between inactivity, unemployment and employment, the relative duration people pass in these different positions can led to huge differences in employment or unemployment rates. This has immediate policy implications in terms of facilitating labour market transitions and quality of work.

In technical terms this leads back to a question raised by both speakers how to combine different data sources and how to ensure comparability in particular between administrative and survey sources at the one hand the and European and national levels at the other. We need to be able to provide comparative information on flows across the Member States and I share the expectations Prof. Witkowski has expressed in the introduction of the continuous LFS in this respect.

Let me mention some concrete examples of specific areas where improvements in European statistics both within and beyond the quality question are needed and indeed ongoing:

- Both papers underline the importance of short term and structural information on labour demand for the analysis of different aspects of our economies reaching from assessing the potential for inflationary pressures, to structural issues such as labour mobility and skill shortages to the assessment of and the matching as an indicator for labour market efficiency; therefore statistics on job vacancies are an important area in the European efforts to improve labour market statistics and there is an important initiative by Eurostat and the Statistical Institutes to develop business survey based comparable information on vacancies;

- In the context of an ageing labour force immigration is gaining importance, and Europe is in need of a forward-looking approach to migration and integration of migrants. Developing a more systematic collection of information comparable at the Union level is an important part of such a pro-active approach. Among other things one needs to examine how migrant workers can be better captured in the LFS.

- Reliable comparable information on earnings, wages and wage formation systems; to link such information to the socio-economic characteristics of individuals and households and of firms is essential. I would like to draw your attention to a recent initiative in the framework of the European Statistical System for the development of an integrated system of earnings and labour cost statistics, which deserves your support.

- And, there is a need for better data on the complex issue of human capital. This concerns in particular the measurement of participation in education and training and the related development of an Adult Education Survey, covering also the complex issue of literacy and numeracy skills of the adult population;

- I would like to add a few words about the more specific issue of the transition from the European Community Household Panel (ECHP) to the new EU Statistics on Income and Living Conditions (SILC). This transition might lead to complications notably with regard to quality indicators, in particular those based on individual-level longitudinal data to monitor labour market dynamics as well as the gender pay gap. It will be essential to ensure therefore that – in particular during the transition period from the ECHP to the EU-SILC - high-quality data and indicators will be provided by all Member States.

Mr Witkowski describes the need for considerable further improvements in Polish labour statistics associated with data quality, challenges shared generally at EU-level. I would like to highlight three aspects:

Firstly, the quality, and here particularly accuracy, coverage, completeness, comparability and timeliness has to be improved.

Secondly, additional needs have to be satisfied without, however, increasing the response burden of respondents unduly. We all agree that the response burden "costs" should be viewed against the "benefits" which improved data can provide, namely the better development and targeting of policies which benefit all. Nevertheless, any initiatives are welcome to explore options to lighten the effort in obtaining additional data in particular through using existing data while improving their comparability.

Thirdly, labour and social statistics at European level have to be flexible enough to allow for their use for a variety of purposes and to combine data from different areas. In this regard, from a user perspective it would be highly preferable not to have just one, perhaps even very large set of indicators, but rather a very flexible system which could be used to produce a variety of information including an analysis of the interactions between different variables.

These needs are a core challenge for the ESS and particularly the European System of Social Statistics (ESSS) in line with the new principle of 'First for Europe'.

Overall, progress in labour and social statistics has been impressive at national and European level over the last decade or so, including the production of a range of core indicators (e.g. employment and social structural indicators) and the availability and improvement of the underlying statistical surveys in particular the European Labour Force Survey and the European Community Household Panel and the SILC. All these achievements were only possible due to the strong efforts of all key players in the European Statistical System. These achievements provide a good basis for mastering the challenges mentioned above.

Conclusion

To conclude, the new political framework in the employment and social spheres has considerably multiplied the need for better and timelier statistics in this area, as well as creating demands for additional information on new issues. In this regard, constructing a Community system of statistics, which underpins the different exercises of policy co-ordination and facilitates flexible and detailed analysis, will be crucial. This raises several issues, which will need to be resolved, and which may add to today's discussions:

First, there are new tasks in terms of quality improvements and in terms of new issues. This requires clarity about priorities but also willingness to see statistical efforts as investment rather than simply as consumption of public resources.

Second, efforts to revise the European Statistical System with a view to changing and future user needs will have to take account of resource limitations and will thus also have to involve some 'negative priority setting' in accordance with common political priorities. In my view this involves as well balancing structural and cyclical needs: for example to think carefully about frequency and breakdowns.

Third, to what extent will it be possible to respond to the new challenges through a better exploitation of existing data sources, including through linking different data sources and other means?

An interesting period is ahead of us in which the European Statistical System will have to prove its efficiency – as a basis for enabling an efficient implementation and assessment of the Lisbon Strategy.

Thank you very much for your attention.

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[1] At the moment detached to DARES Paris

Theme 3 – Labour market - Discussion

The discussion highlighted the differences in methods and focuses in the different NSIs, which indeed make it difficult to achieve true harmonisation in this area. It was however noted that progress is slowly being made and some interesting ideas for a future working approach, which would enable a better explanation of some of the phenomena on the labour market, were put forward.

Among the issues raised in the discussion was the question of how to achieve a regional breakdown in the LFS and household surveys which would be satisfactory to the local communities. Indeed, many countries experience increasing pressure from users to improve the scope, content and quality of regional statistics, in particular concerning labour market statistics.

In the attempts to answer this question the following solutions were mentioned:

- Using a very large sample size for the LFS and disaggregating at regional or even at NUTS 3 level. This requires significant resources. In order to ensure value for expenditure, given the very high costs involved in using a large sample, one Member State explained that it had, in addition to the labour force questions, included a range of social modules every quarter, thus providing information also on other interesting social issues. In other Member States, where regional authorities are autonomous and very powerful, NSIs are *obliged* to use a very large sample in the LFS to ensure reliable data also at regional level.

- Using additional sources of data, i.e. combining survey and administrative data. This requires that the definitions used are standardised, so that the same definition is used for national registers and the LFS. Without standardised definitions dissemination becomes a problem, as users do not understand the differences in the data.

- Abandoning questions about the labour market in sectoral surveys in order to obtain more coherent data.

- Another issue which was raised was how to improve the quality and availability of indicators for the design and monitoring of policies, as requested by the Council in the context of the Lisbon indicators. Here, the adoption of a quality certificate for Structural

Indicators and the complete integration of a system of labour accounts into national accounts, which would allow a better integration of the knowledge concerning the functioning of the labour market and also create a more flexible data source for presenting data on the labour market, were mentioned as possible solutions.

As for focusing on cross-flows rather than on levels, a research programme developed by Statistics Netherlands, called "Social and labour market dynamics", which aims at the further development of labour market as well as household and income dynamics of persons had provided useful information on the yearly flows of persons between work and unemployment, work and retirement and work and disability. Further work on this project in the context of a European research programme was suggested.

Finally, the importance of having a set of indicators that are open and flexible, so as to be able to respond to future needs not yet known today, was stressed.

Theme 4 –
Good trade-off between timeliness and quality

4.1 The trade-off between timeliness and reliability of short-term indicators - some experience from the UK

Len COOK

Director, ONS, United Kingdom

4.1.1 Introduction

The provision of timely and effective statistics enables key users to act decisively and promptly when the need arises. Short-term indicators play a critical role in maintaining confidence in the positioning of the economy in the business cycle. They inform the responses of all types of markets (labour, capital, finance, commodities, services) to both short term shocks, and to evolving trends in market forces and behaviour. At various times, they have also had a role in helping the markets to anticipate the actions of central Banks, policy or other regulatory bodies in setting interest rates, foreign exchange rates, subsidies and taxes, or regulating the conditions of trade in some other way.

4.1.2 The UK economic policy setting

Over the post war period, there has been variation in the extent to which economic policies have reacted to short term changes in economic conditions. In the current monetary policy setting, the Bank of England has responsibility for price stability through maintaining inflation (as measured by the Consumer Prices Index) at the target rate. The capacity to set interest rates has been its instrument to manage demand to deliver this stability. Although the index used to define the inflation target was changed last year from the Retail Prices Index excluding mortgage interest payments (RPIX) to the Consumer Prices Index (CPI), this has been the essential monetary policy setting since 1997.

However, this has not always been the case and indeed key aspects of economic policy-making have undergone a considerable transformation over the last few decades. Since the late 1970s there has been some consensus that macro economic policy (principally meaning monetary policy) should be aimed at controlling inflation, thereby ensuring a more stable environment in which the economy would hopefully grow more quickly. This goal of controlling inflation was pursued indirectly, initially by targeting various monetary indicators, and later by targeting the exchange rate. While short term economic indicators still had a role in these policy regimes, it was less specific.

It was only in 1992, when the UK left the exchange rate mechanism of the European Monetary System, that an explicit inflation target was adopted as the back bone of monetary policy. This policy objective was made much more formal in 1997 by the incoming government which introduced legislation to give the Bank of England operational independence in setting monetary policy (the Bank of England Act 1998). In conjunction with this Act, the government defined a price stability target, to be measured (initially) by the Retail Prices Index excluding mortgage interest payments which is produced monthly by the Office for National Statistics. As a consequence of these profound shifts in the policy setting, the past seven years has seen a continuing increase in expectations of the quality and cohesiveness of economic indicators in the UK, and the range of measures to which these expectations apply.

Meeting an explicit inflation target has become the predominant paradigm of economic policy in the UK, the euro zone, and many other places (for example, Australia, New Zealand, and Sweden). Within this paradigm, it is key that users have an understanding of the nature of inflationary forces the economy is experiencing, and the pressure on the economy from demand and supply imbalances where they occur (for example in the labour, housing and oil markets). In the UK the availability of a suite of short-term economic indicators informs the decisions of the Bank of England's Monetary Policy Committee (MPC) in its setting of interest rates. The MPC has also been at the forefront of communicating the reasoning behind its policy decisions. It publishes a quarterly Inflation Report that explains its interpretations of the economic data in very great detail, and it publishes the minutes of the monthly meetings of the MPC two weeks after each meeting. These minutes explain how the Committee's interpretation of current economic conditions has led to that month’s decision on interest rates, and can often place a sharp focus on the influence that the latest set of economic indicators has had on this policy process. The minutes can also reflect the Committee's implicit judgements on the quality, reliability, relevance and usefulness of particular indicators in monitoring prevailing trends in the economy. It is not the case that all central Banks with a similar responsibility for maintaining price stability publish assessments and interpretations of this sort.

The Bank of England's highly transparent decision-making process means that economists and commentators now expect to know the key factors and judgements that have contributed to the Bank's decisions. As a result, informed users have a greater tendency to assess the comparative influence of the major statistical messages that are noted in the MPC’s minutes. This in turn may have generated an increase in expectations about the quality and coherence of monthly economic indicators, which the development of the indicators themselves has not matched. Interest in this issue is heightened by the potential scale of the market gain from accurately anticipating the Bank’s

decisions on interest rates. In mid-2003, in observing the difficulty in matching the trends in Intrastat-based foreign trade statistics with those from other series, the Governor of the Bank of England described the situation as a "statistical fog". Given such uncertainty, fewer participants in the markets can anticipate the Bank's decisions, since this incoherence clouds analysts' understanding of the weight that the MPC gives to particular indicators in formulating its conclusions.

Because the work of the MPC is inherently forward-looking, in making its decisions the MPC needs to consider the time-lag over which its own policy actions begin to have a measurable effect on the economy. For example, there is a typical delay of between 12 and 18 months before an interest rate change impacts on inflation measures. Similarly, the MPC will also consider the time lags inherent in the system of economic indicators that uses to inform its decisions. Given that a change in demand will feed through progressively into measures of output, sales and inflation, the statistical measures of these attributes will reflect the effects of a single underlying market shift at quite different times.

The integrity of monetary policy may be influenced by the quality of short-term economic indicators, as well as the quality of the macro-economic statistics that provide the comprehensive framework of measures of the economy. The Bank of England needs to be decisive and timely in adjusting monetary conditions through their management of interest rates, and this requires a difficult balance. The closer that monetary decisions are made to the most timely statistical report of economic conditions, the greater is the likelihood of that they will be the best response to the circumstances at the time the decision takes effect. As in all areas of public policy, there is rarely any chance of being able to wait until the final statistical measure is available before taking action, and much of the Bank's decision-making is informed by short-term indicators whose quality is often not known precisely. If timely measures of known quality were not available, policy-makers could only have a partial understanding of the present derived from past forecasts, anecdote or attitudinal surveys rather than official statistics. Furthermore, there could be significant risks to policy if key decisions were delayed as result of timely information not being available, or being difficult to interpret.

In order to effectively monitor a new public policy in a changing context, it is critical that the system of economic indicators has the capacity to adapt to new needs. However, ascertaining what those need are is in itself an evolutionary process. In the UK for example, the Bank of England's price stability target is quite explicitly stated and has primacy above other goals, but as yet it has

been in place for only a relatively short period. Even since the change to the monetary policy framework in 1997, there has until quite recently been much greater weight given to understanding the quality and causes of volatility of longstanding series in their new role, rather than defining the conceptual focus of key measures. The adoption of the HICP-based price measure (now known as the Consumer Prices Index (CPI)) in the Bank's stability target has begun to shift this focus, given that this measure was specifically designed as a macro-economic indicator of inflation, compared to the mix of purposes that the1994-based Retail Prices Index was designed to serve. The introduction of an index of services in 2001 has significantly widened the conceptual scope of the UK's official monthly economic indicators that are based on high quality, directly measured statistics.

4.1.3 Economic indicators: the current position

Official statistics published by government in the UK should enable political and commercial decisions to be based firmly on relevant information. When we produce initial "first releases" of regular economic statistics, we can generally identify the probable cause of any subsequent revisions, as we progressively increase the amount of information that we use to calculate our estimates. Users have the certainty that whenever we publish a statistical measure, it draws on all the relevant source information that is available at the time of release. However, our current survey designs cannot give confidence in any continuing logical relationship between monthly statistical measures, where these estimates are connected in some modelling process. (By way of a simple example, this would mean that a change in production would appear in monthly measures of exports, sales, consumption and stocks, or all four, in some additive and sequential manner). If coherence had been a fundamental element of the survey design of key sets of indicators, then we would expect a regime of validation and internal consistency checks to ensure that this coherence was a self-reinforcing attribute, to which each index contributed. Instead, while individual official indicators are generally robust, we see them being compared with less accurate but more immediately-available unofficial measures, with the most common evaluation criterion being the extent to which these quick measures concur with the prevailing received wisdom on the state of the economy. Ironically, it may well be that the less coherence that there is among official monthly economic indicators, the greater is the perceived need to develop a larger range of less formal measures, rarely with any element of coherence in their survey design. Consequently this market response, which aims to reduce any sense of "statistical fog", actually results in it increasing.

UK monthly economic indicators seem quite volatile, more so than the corresponding quarterly series, particularly those that are part of the national accounts. In some cases, individual economic events, sometimes at a national level but more often at an industry level, can influence a sufficiently

large share of a particular month's activity that seasonal and other patterns are disturbed. Furthermore, monthly series are subject to a high number of revisions, but they are not usually revised to the extent that our initial understanding of the original series would be changed. Even without revisions to original series, volatility is such that the consequent mix of seasonal adjustment and smoothing makes it difficult to confirm turning points in series until well after the event. It is this variable delay in the ability of series to confirm the underlying trend that is the most fundamental limitation that we currently see in monthly economic indicators. With this limitation in mind, and in response to the ongoing tendency of some users to over-interpret or over-react to a single monthly estimate, our releases emphasise that the change over the most recent three-month period is the best measure of the prevailing trend in a series. However, we naturally want to understand more of the causes of volatility in monthly series, which can include

a) the inherent volatility of what is being estimated (e.g. the Annual Earnings Index, where particular months can be skewed by the timing of annual bonus payments)

b) the occasional imputation of responses of very large survey respondents

c) the inherent volatility of the statistical sources used for the estimates (for example, the measures of trade flows through the EU's Intrastat system)

d) the limitations of using calendar months as a reference period (for example , the UK's Retail Sales Index, essentially a measure based on average weekly sales in the reference month)

e) rapidly changing seasonal and trading-day patterns

f) outdated survey strata, which can lead to an increased number of outliers that need to be identified to prevent them from being inappropriately weighted

g) updating of the sample population infrequently, without sufficient precision and sometimes at irregular intervals. This can necessitate purposive sampling of new respondents

h) insufficiently relevant survey design variables

When economic growth is steadied at a low level, there seems to be a greater tendency for economic indicators to present seemingly contradictory trends in measures that might be expected to show strong relationships. Some indicators might suggest that growth is strong while others suggest that the economy is in decline. Following one recent frustrating example, when overseas trade statistics seemed to act in a contrary manner to how the domestic economy was performing,

the Governor of the Bank of England observed at a press conference on the Bank's August 2003 Inflation Report that "the fog of war has been replaced by the mists of the trade statistics". Indeed, it is not unusual for the Bank to write of the apparent contradictions in short term economic statistics. In its Inflation Report of 11 August 2004, the Bank noted that:

- domestic consumption did not show the pattern that growth in services production led them to expect,
- trends in the measures of employees provided by the Labour Force Survey did not reflect those from business surveys of employment,
- the business survey of vacancies was not consistent with the picture shown in the other series.

This report from the Bank highlights the very strong expectation of coherence between and among official statistics. This expectation is also apparent in much of the wider media criticism of economic indicators. As noted earlier, cross survey coherence was not part of the key survey designs when the fundamental characteristics of the economic measures were established. Most short term economic indicators in UK official statistics that were designed following the 1989 Pickford review of economic statistics emphasised the importance of strong macro-economic statistics as their top priority. Pickford's influence on UK measures continued until the implementation of the European System of Accounts (ESA) in 1998, which necessitated conceptual shifts in many National Accounts measures. The development of a monthly index of services in 2001 was the strongest initiative driven by the needs of the 1997 monetary policy changes, and it will be the cornerstone of a monthly GDP measure which we intend to produce by 2007. This key development lies alongside a great variety of smaller improvements made to monthly economic statistics. However, few of these monthly indicators been substantially redesigned since the 1997 monetary policy changes, and in fact many are based on survey designs whose fundamental elements may have lasted over 20 years, spanning several different policy contexts. Furthermore, given that the trend estimation practices have evolved over the last two decades, the prime measure of the trend is different for different series.

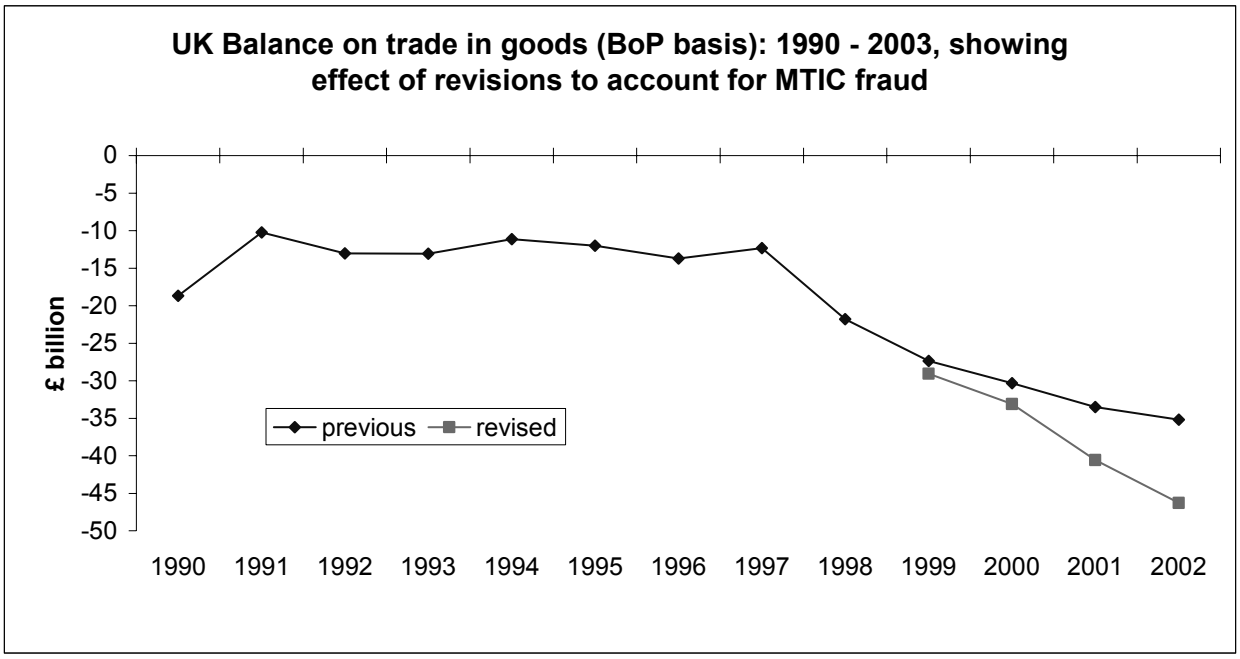
4.1.4 Responding to users' comments

In both our new development initiatives and in the reporting of current statistics, the coherence of data is a high-priority issue. We always aim to ensure that economic indicators tell a consistent story, and we react if users suggest that particular issues need investigating. Sometimes, the

indicators receive unjustified criticism, but constructive comment from informed, expert users is usually of real value.

Ironically, the reference to "statistical fog" by the Governor of the Bank of England appears to have been prompted by action that ONS had already taken to improve the coherence of UK trade data. Comparisons of our own trade statistics and those of our European partners had shown evidence of systematic asymmetries: UK statistics on imports from other EU countries were consistently less than the exports to the UK reported in the trade figures of other EU Member States. Further investigation by the Office for National Statistics (ONS) and HM Customs and Excise in the UK suggested that a considerable part of this asymmetry was due to fraudulent activity on the part of some importers. These traders registered their businesses for Value Added Tax (VAT) purposes but then failed to declare the tax when it was due. Statistics on imports from the EU are derived from VAT returns and so the failure to record this business meant that some imports into the UK were unrecorded. As a result of the investigation into this VAT “missing trader intra-Community” (MTIC) fraud, figures for UK imports and for the balance of trade in goods were revised for the period from 1999 onwards. The revisions also had an impact on GDP (see graph).

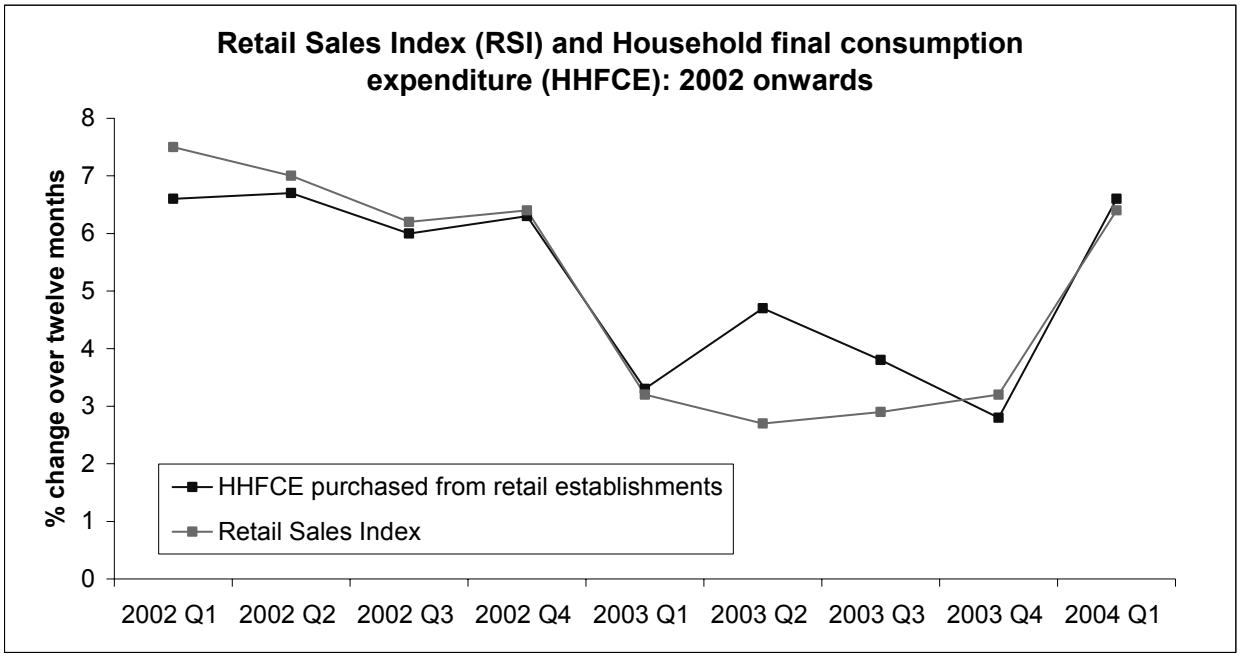
It was unarguable that these revisions improved the coherency of the figures. However, they were of large magnitude, and their market-sensitive nature prevented wide consultation on them prior to release. These facts may have caused some short-term confusion to users, and it seems likely that this confusion prompted the Governor's comments. An additional complicating factor was that heightened efforts by HM Customs and Excise to combat this illegal activity had resulted in the import figures for 2003 appearing smaller in comparison with the recent past. To guide users through these issues, ONS published a detailed explanatory paper, as well as alternative figures that showed the magnitude of the MTIC fraud effect. These efforts drew a positive response, and a few weeks later in his evidence to a Parliamentary Select Committee, Mervyn King praised the "sterling efforts" of ONS in making sense of the import data. However, this episode shows how important it is for official statisticians to explain clearly the reasoning behind changes to the data, even where they are demonstrably necessary.



More recently, the Bank of England has noted that ONS Retail Sales Index has been growing in recent quarters at a much more rapid rate than the quarterly consumer spending figures that form part of the National Accounts. This divergence caused concerns over whether the data were in fact consistent. However, investigation showed that there were logical explanations for this divergence, and that there was no fundamental incoherence in the data themselves. Retail sales and consumer spending data differ both by coverage and by their methods of compilation. Retail sales only account for a subset of total consumer spending, since only around 35 per cent of household consumer expenditure in the UK is on goods of the type sold by businesses classified as retailers. Even then, not all consumer spending on those types of goods is actually with retail businesses. For example, a computer manufacturer that sells its products directly to consumers would be classified as a manufacturer and not as a retailer. Only those businesses classified as retailers on the Business Register used by ONS are within the scope of the statistical inquiry used in the Retail Sales Index. It is also the case that not all retail sales will be to households for their final consumption, since retailers also sell to other businesses and to tourists from overseas and this portion of their sales needs to be excluded from UK consumer expenditure estimates.

The graph below compares the growth rates of the proportion of consumers' spending that is likely to be made in retail establishments with the Retail Sales Index itself (all data are in real terms). The fact that the growth rates are so close together shows that when the differences in coverage are

minimised, the Retail Sales Index and consumer spending data do tell a very similar story, despite being derived from different data sources. The remaining differences between the series are likely to be a result of normal statistical error, and the differing methodologies used in the compilation of the two series. For instance, household consumer expenditure estimates relate to whole of the United Kingdom, while the Retail Sales Index only refers to Great Britain (i.e. Northern Ireland is excluded). Furthermore, the consumer spending estimates are taken from quarterly National Accounts, which are subject to the "chain linking" process of reweighting, while the retail sales index is not. In summary, there are a number of good reasons why the two series might show distinctly different trends and we are confident that there is no problem of incoherence between the estimates in this case. However, this example illustrates that we need to be able to investigate user concerns and offer a clear and comprehensive explanation of apparent discrepancies if we are to retain the confidence of users.



Users continue to raise similar issues with us. For example, the Bank of England and other key users have identified problems in the coherence of key labour market data, and particularly whether we are able to reconcile over employment data obtained from business surveys with similar estimates from the Labour Force Survey of households. These differences are exacerbated when regional comparisons are made. This is an ongoing issue of investigation for ONS and we feel that we are making progress. However, the fact that incoherence still exists in such an important economic indicator shows that we still have some way to go to produce a comprehensive set of economic indicators that tell a fully consistent story.

4.1.5 Types of error in statistical measurement

In practice most monthly economic indicators are statistical samples based on a survey designed by the statistical office, or based on an administrative source that provides some key aggregates to the statistical office in good time. In producing an economic statistical series, we aim to measure a particular concept or quality of a defined population (e.g. all transactions or businesses within a given sector of the economy). Our population is accounted for in the national business directory, through which we approximate the total population relevant to any survey, and we can then apply statistical methods to produce estimates of the quality that we are measuring about this population. These estimates are therefore subject to a great variety of types of error. As this paper discusses, in simple practical terms the more timely the first estimate, the greater the total error is likely to be.

Generally, there are three types of measurement challenges that limit the reliability of any set of statistics

- the difficulty in actually measuring the precise concept that the statistics aim to reflect
- the limitations of methodology adopted at the time, and
- the practical constraints of all kinds that prevent us from doing what is theoretically possible.

We also need to define clearly what we mean when we refer to 'error' in the context of measurement. There are in fact two types of error operating here: ‘statistical error’ and 'non-statistical error'.

Statistical errors arise as a normal part of the statistical process. Some are associated with the sampling procedure (we call such errors 'sampling errors') and others arise from the forecasting or modelling approach being used. On the other hand, non-sampling errors are those which arise from problems with coverage, non-response and inexact measurement. In this last instance, error can result from respondent inaccuracy or from the use of proxy measures given that we often have to describe phenomena that are difficult to measure directly. [Ruddock, 1999] Such non-sampling errors are often more difficult to assess and quantify than sampling errors.

However, both sampling and non-sampling errors are a normal and expected part of any statistical process that produces estimates of the 'true' population value. Such errors are not always within the control of statisticians, and improvements in sampling and survey methods, such as more efficient

sample allocation and improved estimation and imputation techniques, may not reduce some sources of error in any significant way

Anticipated revisions which occur between the first and subsequent estimates are essentially a consequence of planned, routine work to reduce the magnitude of these statistical errors. They are therefore a natural consequence of the explicit trade-off which is made between timing of the availability of the first estimates and their reliability.

We can also have error in the production of estimates which arise because of mistakes. Respondent information may have been incorrectly captured, or there may be error in the statistical software used for processing. Although such errors are rare, when they occur it is important that they are acknowledged and that action is taken to ensure that the likelihood of similar errors in the future is reduced. Such mistakes can significantly damage user confidence, not only in the affected series but other unrelated statistics. This is particularly the case when the process of correcting the error is not well managed by a statistical office.

4.1.6 Revisions to series, and the nature of the "first release"

In the UK, the most timely official estimates are published in "First Releases". There is strong demand from users that these releases are available as soon as possible after the reference period for the estimates, and this means that most First Releases are early estimates published before fuller information is available. As a result, a significant component of the revisions between the first and subsequent estimates arises from the incorporation of late responses to sample surveys and the replacement of forecasts by estimates based on data. A further consequence of including more complete data is that the estimate of seasonal components in seasonally adjusted series will be revised. Revisions of this type are likely to be large in series where the seasonality is either uncertain or evolving rapidly.

Furthermore, early estimates are based on source data which is necessarily less comprehensive than the more infrequent structural surveys. For example, most monthly and quarterly economic statistics are based on source data taken from the management accounting systems of respondent businesses. Subsequent annual estimates use information from audited full-year company accounts. There are clear differences in the quality of these two information sources, which can only be addressed to a limited extent (via validation and congruence checks, etc.). Also, in order to manage the compliance costs to businesses, short-term estimates are calculated from smaller samples of businesses than are annual estimates. Therefore, there are sources of both sampling and non-sampling errors which are reduced in the transition from short-term to annual estimation.

The magnitude of revisions from one survey period to the next also depends on the stability of the business register, and the quality of our validation systems and our estimation for non-response. Good procedures imply smaller revisions. Long term revisions are also made via benchmarking using data sources that are most stable. For example, quarterly estimates inferred from a sample can be revised via benchmarking using more stable estimates provided by a corresponding large scale survey of the appropriate population. However, such revisions are not timely.

The reliability of an early estimate should be contrasted not only against the final estimate, but also against the alternative measures that would have been used if the methods and data sources underpinning the estimate had not been available. Some information derived from income tax administration systems used in the National Accounts is not finalised for three or more years after the period to which it refers. Despite this shortcoming it is the most comprehensive way we have of obtaining robust information about some facets of economic activity (including self-employment, rental income, and the output of some service industries).

A comprehensive analysis of the causes of revisions to official economic statistics was presented in an international review of National Accounts revisions carried out by the Swedish National Statistics Office [Öller and Hansson, 2002]. In a more recent article, published in the UK "Economic Trends" journal [Cook, 2004], the author explored the particular issues influencing revisions to UK economic statistics. The paper emphasises that such revisions are an expected and inevitable consequence of the explicit trade-off that is made between the reliability of key releases, and the need to have statistics available when it is most opportune to benefit from them. This paper attempts to place revisions in their proper context, discussing the balance between the constraints inherent in statistical processes and the demand for timely statistics that remain relevant in a rapidly changing world.

4.1.7 Policy implications of statistical revisions

An example of the effect of revisions on policy can be seen through the increased emphasis on the output gap by UK policy makers. This has meant that historical revisions can significantly change the current estimate of the output gap, and hence influence confidence in current policy, even if prevailing trends in output are barely affected by revisions. However, it should be noted that ONS itself does not make estimates of the output gap. The extent of integration now expected between labour statistics and macro-economic measures is far more extensive than is recognised in the original survey designs of either the key statistical sources for national accounts or the main labour market surveys (particularly the Labour Force Survey, and the New Earnings Survey). Once

fundamental survey redesigns have taken place, we will be able to make significant improvements here.

Indeed, continued effective measurement of the real economy requires ongoing redevelopment to retain its relevance, in the face of the ongoing and substantial change in the nature of the services that are traded in the UK. Keeping up with this continuing shift limits absorbs resources which we would otherwise use to more quickly extend the scope of directly measured price change continually in each of the major components of the national accounts. In common with other EU countries, we are least effective in our measurement of the service sector (particularly those services that are traded internationally) and the public sector. We now have a fundamental review under way of the measurement of public sector output and productivity, led by Sir Tony Atkinson, one of Britain's leading economists. In moving, at a time of steady budgets, to a new policy setting that has had such a dramatic impact on the demand for monthly economic indicators (and on macro-economic measures as well) it has been important to reduce the extent of statistical enquiries elsewhere. The UK experience has been that in sectors whose contribution to the economy has been declining, the demand for statistics is more related to the breadth of policy interest in the sector, rather than its significance to the overall performance of the economy. This is well exemplified in both manufacturing and agriculture.

4.1.8 What can we do to improve reliability without delaying timing of releases?

In the UK we put great emphasis on the data and information content of our early estimates. Given that this approach could potentially increase future revisions, notably from sampling and non-sampling errors, considerable effort is put into ensuring that some of the major sources of error are reduced. We have rigorous survey control procedures to ensure that response to surveys by businesses are both timely and that the overall response rate is high. For example, the industrial production survey achieves around 80 % response (or around two-thirds of total turnover coverage) in time for the publication of the production index around five and a half weeks after the reference period. The methodologies we use to impute for non-response are also aimed at off-setting future revisions.

We have an increasingly clear need for an effective survey design strategy for short term business surveys that would fit alongside improvements to the quality and timeliness of the business register. These developments would allow us to improve the reliability of our estimates and the coherence between indicators. The current official surveys relating to business activity in the UK have evolved piecemeal over many years and use different survey instruments and methodologies. For example,

this means that data on turnover, prices and inventories are all collected using different surveys, and yet estimates of deflated output requires the use of all three sources. As part of the ONS Modernisation Programme, we are seeking to address this deficiency through the redesign of these surveys into a single coherent framework. The first step in this is the creation of an information management capability and data storage environment that will support the necessary analytical work.

Our ability to benchmark short-term estimates with those from annual structural surveys in such a way as to limit revisions is dependent on the consistency of these two sources. To a large degree this is dependent on the quality, particular the timeliness and completeness, of the business register used as the selection frame for both sources. In the UK we are developing ways to improve the overall structure of the business register and make better use of administrative data in the register update process. We have access to VAT registrations and PAYE (Pay As You Earn) tax records for updating the UK statistical business directory (the Interdepartmental Business Register - IDBR), and we are working to obtain access to information contained in both VAT and annual business tax returns. This has the potential to both improve the quality and reliability of economic statistics while reducing the load placed on business survey respondents.

Analytical approaches to separating out the irregular components of time series from the underlying trend have been long used by official statisticians, and the UK is no exception here. Seasonal adjustment is inevitably a key tool. To provide cohesiveness across a rich and varied legacy of methods, ONS developed an office-wide set of standards and applied them to major monthly economic indicator series in 1998. There has been continued development of seasonal adjustment work since that date, with responsibility passed from individual business areas to a strengthened central methodology team. Work is well underway to update the standard methods and processes for seasonal adjustment from X11 ARIMA to X12 ARIMA. Where seasonally adjusted series still retain so much volatility that month to month comparisons give little information, some form of smoothing has been adopted. This is a necessary process for nearly all key short-term economic series. The smoothing method has either used been the seasonal adjustment technique relevant to the series, or a three month moving average of the seasonally adjusted series.

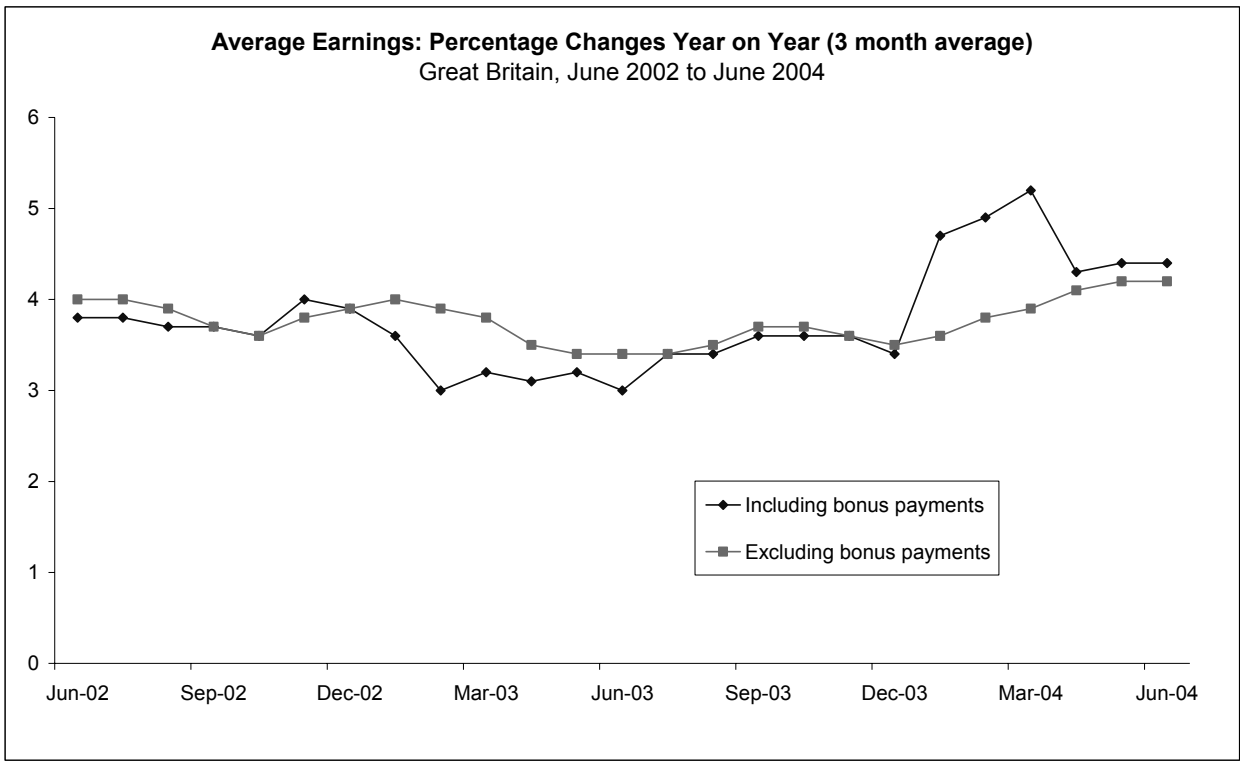
As noted, forecasting is a further source of statistical error in early estimates. In the UK were are investigating better forecasting methods which by definition reduce the size of future revisions. For example, the UK's preliminary estimate of quarterly Gross Domestic Product, produced just 26 days after the end of a quarter, is based extensively on forecasts (the information content of the estimate

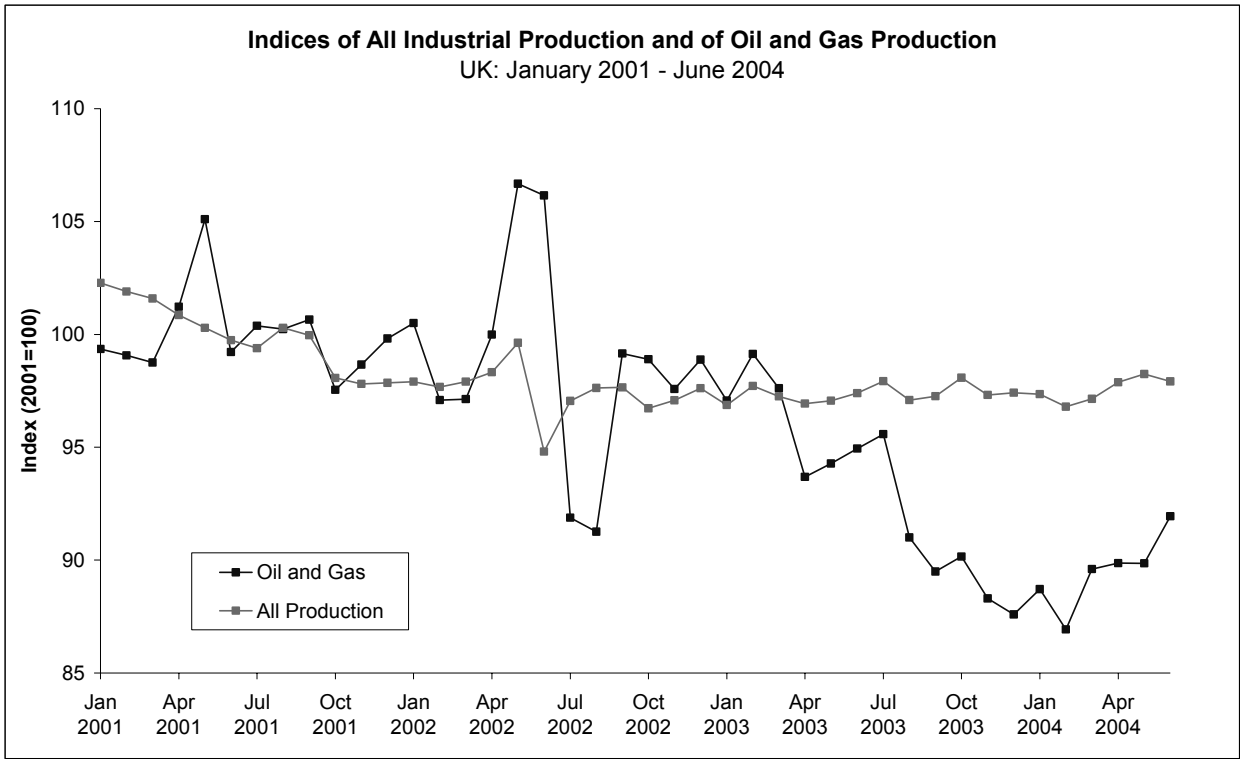
is around 40 %) and at present these are mainly produced using univariate techniques. Work is underway to examine whether multivariate methods may help to improve the reliability of the flash estimate. We are also considering how best to take advantage of the results of the many external surveys of business intentions run by industry bodies, and how we might modify our estimation procedures in the light of their research. Assessing the limits to modelling is somewhat judgemental. For example, in the UK we have found that in cases where we detect significant bias in revisions, some users expect that we would explicitly adjust our early estimates for this. The reason we don't is that, where biases exist, we will work to reduce the chance of them occurring through careful scrutiny of our statistical process. As a result, we always start from the premise that our most recent estimates are unbiased. The assumption that a past bias will continue is currently at the limits of what we are prepared to do in estimation, although of course we use quite similar methods in many areas of statistic to adjust for unknown coverage errors that we can periodically measure.

As we introduce improvements to estimation procedures, this naturally gives rise to revisions in itself. Our programme of work to improve the statistical sources used for the measurement of output in the UK service sector has brought the most benefits in terms of the conceptual quality of the estimates. As these improvements have been introduced, and the sources of non-sampling errors referred to earlier have been reduced, the estimates of service sector output have been revised. Even though they arise from improvements to the estimation procedure, many users still view such revisions as unhelpful since (like all revisions) they represent a change to the published statistical record. In such cases there is a clear need to both lift the understanding of users as to benefits of the reduced non-sampling error, and to be able to separate out the various reasons for the revisions. It is also important that when introducing methodological changes of this type there is effective management of this process. As part of this, in the UK we also involve experts through formal peer review, and users, via seminars and articles for information purposes.

We can also understand the nature of revisions better by examining their impact directly. In the UK we carry out detailed analyses of when and why revisions have occurred as an established and routine stage of the statistical process. This can help us, among other things, to assess if there is any systematic bias in our early estimates in comparison to the final estimates. When carried out at a sufficient level of detail, such analysis helps us to identify the components which may be responsible for any bias. We can then examine whether there are systematic estimation failures causing this bias, such as deficiencies in our sample selection procedure. We can also be more active in identifying the most conceptually volatile components of economic series. We can then

isolate these key sources of volatility before applying analytical methods of trend analysis to smooth out the irregularities that arise from the measurement process itself, and from the lesser (but still inherent) volatility of the more stable components of the series. Significant examples of the benefits of identifying components are most volatile and susceptible to revision include the separation of bonus payments in the estimate of average earnings growth, and of oil production in the index of industrial output. The following graphs illustrate both of these examples.





4.1.9 Informing users of quality limitations

Our experience is that it has become a matter of priority for ONS to provide users with information about past revisions performance to help contextualise the estimates, and to signal the magnitude of likely future revisions. To this end, in the UK we have recently introduced a standard presentation of revisions in our major releases, which includes a statistical evaluation of the bias in revisions. This is a only small step towards the ideal of presenting official estimates together with a confidence interval and other summary statistical measures of quality. However, users in the UK can now at least make informed decisions in the light of these measures of bias in the estimates. We see this as a critical shift in the way we give implicit information on the reliability of official statistics in our key releases.

It has become increasingly necessary to publish quality measures, so that the real differences in the quality standards of official economic indicators can be recognised. Having a coherent set of standards for the great variety of official economic indicators may ultimately raise awareness in the quality of the many unofficial indicators produced by external bodies in the UK, as they grow in quantity and become more visible and timely. Given the resource constraints on UK official statistics in the period when some of our key measures were developed, it is likely the introduction of quality measures would have needed to be offset elsewhere in the statistical process (for example

through a smaller sample size or reduced scope for analysis). Indeed, the very informed users of official statistics in the Treasury, the Bank of England and the Department of Trade and Industry may have regarded themselves as being sufficiently knowledgeable, or having sufficient privileged access to official statisticians, that they would have preferred resources to be used to produce more reliable statistics that were capable of richer analysis, rather than quality measures.

It is a real irony that we currently have better measures of quality for those series which we know to be more reliable. Where we have real quality concerns about a series, we generally have less detailed and exact quality information to work from. Pensions contributions statistics and international migration statistics have been two areas where there have been significant quality problems in recent years, and where we had previously lacked the robust information on quality needed to investigate residual concerns in more detail. On the other hand, we have a good knowledge of the sampling error, bias and coverage of the monthly estimates of employment and average earnings, and we are much more confident in the quality of these estimates.

When introducing this increased transparency on the issue of revisions bias, there is a risk that it may have a negative influence on users' confidence in official estimates, at least in the short-term. Without a more broadly based communications programme to build users' understanding of the limits to statistical measurement, this is a particular concern. In the UK we have therefore needed to support the introduction of this new presentation with an extensive information campaign to help mitigate such risks. Users need to be made aware of the rapidly changing context in which data are collected, the nature of the statistical process, and how these necessarily lead to revisions. This is a huge task, and in other areas of statistics, particularly population estimation, we have found ourselves long overdue in making progress.

The EU wide policy interest in monthly economic indicators is a broad one. It has become vital to the EU wide policy of price stability to publish EU wide measures whose quality attributes include timeliness comparable to that of the largest economies. The capacity for sharing and adopting best practice across EU countries provides strong (albeit unrealised) potential for enabling the necessary improvements. The interdependence of trade, migration and financial flows creates the opportunity for more cohesive national and EU wide measures through EU wide survey strategies. These need however to be seen in the context of the current EU wide survey initiative in foreign trade, Intrastat, which has lead to national estimates of foreign trade flows that are so incoherent that it is undermining confidence in national statistical systems. Methodology and fundamental survey design is a costly activity, and across EU countries statistical budgets may need building up. This

will help ensure that development activity is not crowded out by the increasing difficulty of maintaining the integrity of current measures, given that globalisation, new technologies, changing national structures and privatisation have brought about a more rapid obsolescence of existing survey designs and methods.

4.1.10 Case study: reducing revisions to short-term estimates of output in the UK

In the UK the short-term indicators used to measure business output are produced as an integral part of the National Accounts process. A key reason for this is that changes in output are deemed, on the basis of empirical evidence, to be the best short-term measure of the change in Gross Value Added. Thus the ONS' indicators for industrial production and service production are used (together with other estimates of output for the construction and agricultural sectors) as the basis of the UK's flash estimate of GDP. This is published just 26 days after the end of the reference quarter and is the fastest such estimate to be made available. Key users in the UK view the timing of the availability of this estimate as critical to their decision making.

The information content of the flash estimate has been calculated as being around 40 %, with the remainder being based on forecasts and other methods of estimation. Revisions to the flash estimate occur because of all of the reasons discussed above: late data, the variable quality of early data from businesses, re-seasonal adjustment, coherence with equivalent annual estimates, and methodological improvements.

In the short-term, revisions are generally small, when late data are incorporated into the estimates and forecasts are replaced with estimates based on data. The largest revisions arise at the time of benchmarking of these short-term estimates to the balanced annual National Accounts. This introduces revisions from a number of sources, including the availability of the annual benchmark series, and the 'balancing' of the accounts through the reconciliation of the output estimates with those based on the income and expenditure approaches to measuring GDP. The revisions arising from this benchmarking and from 'balancing' adjustments can be significant. In fact, the flash estimate has been shown to be a statistically biased estimate of the final balanced estimate.

This raises fundamental questions about the quality and usefulness of the early estimates. In the UK we are therefore developing our methodology and systems to enable us to improve the initial estimates of GDP to be closer to those from the final balanced National Accounts. This involves a fundamental restructuring of our processes to allow the production of short-term estimates of output on a monthly and quarterly basis which are reconciled with the Income and Expenditure measures

as soon as possible. This 'reengineering' of the National Accounts in the UK is a major challenge, both methodologically and in terms of the design of the processes used to compile the accounts.

The core of this reengineering development is the introduction of quarterly Supply-Use tables to allow us to balance, at both current and constant prices, the output of industries with their intermediate and final consumption, and with the incomes of the various factors of production. The development of a monthly measure of GDP is also being developed within this new framework, with the short-term output indicators driving the early estimates of GDP, as now, but within a more highly integrated short-term system.

This system will improve the quality of the early estimates of output from the short-term inquiries by reducing future revisions. It will also provide the analytical framework and tools needed to identify the major drivers of the economy by industry or by product, and to determine the impact of changes in output against changes in prices.

The vision for the reengineered systems is that they will produce integrated estimates of the short-term change in GDP and the final balanced National Accounts in one system. The early estimates will therefore be less subject to revision, and so will provide more reliable timely estimates for key economic policy makers.

On the other hand, the integration of series through interactive balance processes can significantly affect the irregular component of individual series, and the ability to apply forecasting and smoothing methods to them. This issue raises real questions about the separate publication of unbalanced series, given the benefits of integration, and loss of key information that delays in publication (for balancing purposes) can cause.

4.1.11 Conclusion

The trade-off between the timeliness and the reliability of short-term indicators is inevitable given the strong and justifiable demands from users for early estimates, and the limitations on any statistical process for measuring a complex and rapidly evolving economy.

Revisions necessarily arise as a part of the statistical process, as statistical agencies seek to operate within fixed budgets and to limit the burdens of form-filling on business. As a result, early estimates are based on incomplete sources of information and smaller sample sizes when compared with less frequent surveys. The benchmarking and reconciliation of the early estimates with the

more complete picture provided by these annual and less regular surveys and administrative sources inevitably causes revisions.

Further, the need to continue to develop methodology and data sources needed to meet changing needs also leads to revised estimates. The need for such improvements also arises from the inheritance of legacy systems which may have been designed initially for very different purposes. It is important that the process driving such developments is both robust and transparent and that users are aware of the nature of the changes, and have sufficient information to allow them to understand the various reasons for the revisions when they occur.

Maintaining user confidence in the face of revisions is a key challenge for statistical offices. Revisions are sometimes presented as 'improvements', for example when they result from methodological or conceptual developments. Indeed, it is technically true that all revisions are by definition improvements, since revised statistics should be of better quality than the measures they replace. However, it is equally true that all revisions are at some level unhelpful to users to the extent that they represent a change to the published statistical record. Indeed, most non-specialist users are less interested in the explanation for a revision than in the numeric effect on the estimates. Part of the job of official statisticians is therefore to persuade users of the longer-term benefit of revisions which arise from genuine improvements, and to ensure that revisions more generally do not undermine users' confidence in both the statistics and the statisticians.

The tension between timeliness and reliability can never be resolved fully. However, by being open with users about what is possible, maintaining high response rates and robust validation procedures, and ensuring that the statistical processes used for the first and the final estimates are integrated as far as possible, we can go some way to resolving this conflict. One cost of the UK's emphasis on timeliness has been the capacity to make informed comment at the time of release of statistics, particularly the more comprehensive statistical series. We are seeking to expand the capacity for informed comment in the UK and we are looking at external models to draw on here.

In the UK we are meeting this challenge through a major programme of modernisation which will improve the basis of our processes along the whole statistical value-chain: from register and sample design and survey integration, to improved validation and estimation methods, to the integration of key systems like the National Accounts and the development of a common set of analytical tools. Users will also benefit from improved access to official statistics through new web-based approaches to dissemination. Taken together, these developments will create a more robust basis for

the UK's statistical system and will provide users with an improved range of timely and reliable indicators.

Consequently, this paper is written at a time of reflection of what the common basis of short term economic series needs to be, and in particular which elements of coherence need to be a function of survey design, of survey operation or of later analytical processes. Part of the quality of any statistical measure rests on the capacity to unambiguously classify samples of businesses that should be consistently and fully representative of the relevant sphere f economic activity, in any reference period.

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4.2 EU short-term indicators: how best invest in timeliness and quality?

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Short term indicators (STIs) are used by public and private economists for business cycle assessment and short term forecasting. This very simple fact is worth reminding when we assess the suitability of the EU STIs for the needs of economists. It helps to stress the quality features of STIs that are most appropriate. Obviously timeliness is a prominent candidate in the wide range of the quality criteria that may be applied to STIs. For many EU STIs timeliness is wished to be improved. But as it cannot be done at any cost, a strategic investment approach may deserve to be considered.

These are the lines along which I would like to tackle this sensitive topic. In the following I'll have a quick look at the effective use of STIs (1) and I'll briefly picture the trade off between timeliness and completeness (rather than quality) (2). I'll then discuss the investment strategy that may be appropriate to meet the need for improvement, in the spirit of the Principal European Economic Indicators (PEEIs) initiative (3). And finally I'll briefly screen their list in order to outline the domains which may currently deserve most effort (4).

4.2.1 A quick look at the effective use of short term indicators

In economics, representative agents include all available data into the information set on which they build up their rational expectations. In real life it means that they should use every data news to update their current forecasts at the different horizons they target.

In practice they have to select a subset of relevant news, the information content of which is meaningful for their specific forecasts. In macroeconomics, they rely on a subset of STIs (for output, inflation, employment, inventories, demand and cost pressures, financial developments…), for which they would like to benefit from first releases as timely as possible.

But, they also know that very timely first releases may have some drawbacks. The coverage of the STI first releases may be far from complete and there may be measurement errors. The subsequent revisions (see examples in annex 1 drawn from ECB 2004), if substantial, may cause instability in the forecasts. This is why, for instance, some forecasting teams do prefer not to include the first

releases of certain STIs in the set of explaining variables they take as inputs in the forecasting exercises. In fact, for several series, they may prefer to compute "home made" indicators and forecast current points of series rather than to rely on first releases of official STIs. Moreover, from a macro economic policy point of view, it appears that the analysis of policy rules with "real time data" rather than ex post revised data may considerably change the appreciation of the policy followed by the public institutions in charge (see for instance Orphanides 2001 for the monetary policy in the US).

There has been a significant stream of research trying to assess the quality of the first and subsequent releases of some prominent macroeconomic series (Zarnowitz 1982). It is for instance very interesting to check whether the successive revisions of the first releases are systematically biased or not, whether they add "news" or only "noises" (recent examples in Faust *et alii* 2000 or Richardson 2003). From annex 1, Euro Area GDP shows the potential for systematic bias. GDP revisions since the start of EMU have rather been upwards in the EU (and rather downwards in the US), reinforcing the impression that the EU is performing poorly vis-a-vis the US.

On the other hand I have the idea that it could also be of interest to try to challenge the first releases of some EU STIs. Some preliminary checks have been done (Lacroix *et alii* 2004) by comparing first releases and forecasts based on historic values of the same series. It can be checked whether the first releases of points in a series can be ignored without loosing any forecasting accuracy at given horizons. Fortunately, provisional results seem to indicate that, for instance, this is not usually the case with the EU Industrial Production Index. More specifically it can also be checked whether the first releases of points in a series are closer to the "final" releases than the forecasts of these points. Fortunately again, for instance, the answer seems to be 'yes' on average in the case of the European Industrial Production Index. But these are only preliminary results.

Furthermore, we are aware that usual forecasting techniques are rather poor for uncovering turning points. Indeed they tend to extrapolate historic means and make up for passed drifts away from those means. This is a reason why the research about coincident and leading indicators is very lively in countries where great attention is paid to business cycle analysis (McGuckin *et alii* 2003). This type of research explores the ability of STIs specific or limited in scope (new orders for instance) to forecast current points of much broader series (GDP for instance).

There is no general and straight forward answer to such open questions but those different approaches may be shaped in order to help manage more efficiently the effort devoted to the design of the different individual STIs. The lesson to be drawn from those considerations is rather simple:

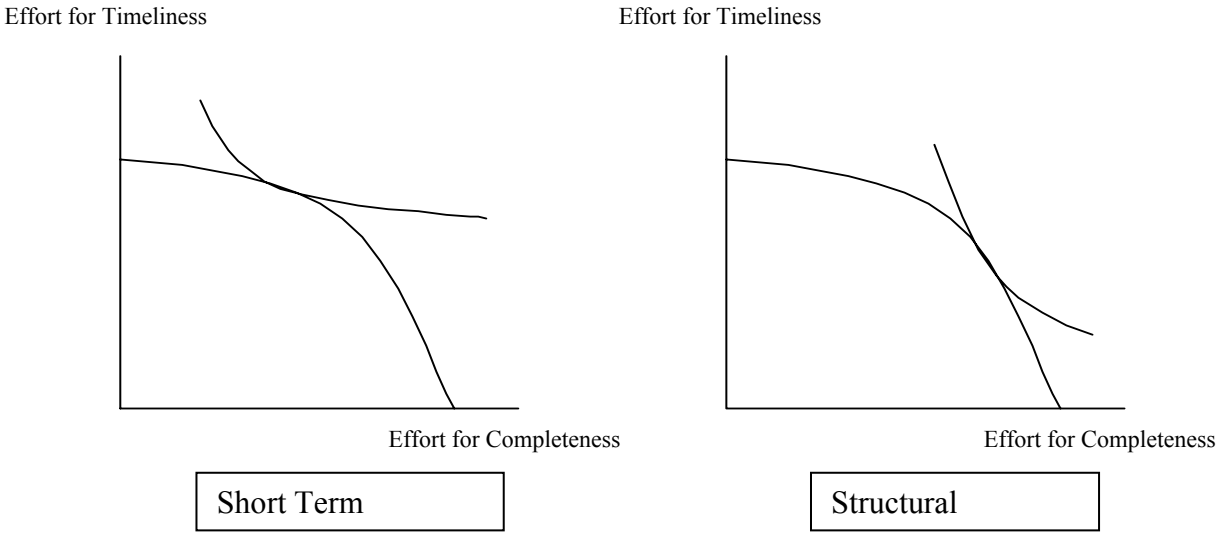
the likely use of any specific STI should be considered before fixing its desired features. And these ones certainly are somewhat different from those relevant for structural statistics.

4.2.2 Timeliness versus completeness

Keeping in mind the likely uses of EU STIs, we can have a deeper insight into the trade off between timeliness and quality. Of course, in many respects, increasing the timeliness (high frequency and speed of delivery) of series may hamper the other dimensions of their quality, all else being equal. But, there is a more pro active approach to the trade off which consists in asking what degree of completeness is necessary when designing STIs. Might I dare pretend that there is no need for a total coverage of the domain addressed by a specific STI, neither any need for a full consistency with the statistics of other domains? Surely completeness (high if not full coverage and consistency) is a major quality dimension for structural statistics. But it is difficult to imagine that such criteria should be directly transposed to STIs.

The relevance of STIs rather relies on their ability to draw coincident information (or leading information) about the business cycle, even if their scope is limited and their coverage partial. If the information content is significant, they should improve the forecasts, even the forecasts of the current points of broader series. For instance a capacity utilisation ratio can deliver very valuable information about business cycle even if it covers only industrial sectors. And the fact that STIs can be focused on well defined fields, with for instance well controlled samples or panels of individuals, may improve the robustness of the series and eventually reduce the number of revisions and the volatility of the forecasts. Especially in the European context, it may be easier to agree on a common design and/or a convergent management for STIs more limited in scope and coverage. Such an approach is based on the assumption, built on experience, that the optimal point on the production frontier of statistics is not the same for STIs as for structural statistics.

Trade-off between Timeliness and Completeness in STIs and Structural Statistics



About the simple graphs above there usually are much words written and said about the product transformation curves. But now in my view the important point at the European level is rather the location of the social indifference curves. Very clear choices would greatly help to improve the European statistics: we cannot afford timely and complete statistics about everything but we can afford both very complete structural statistics with high coverage and consistency, provided they are not too frequent and timely, and highly frequent and timely STIs, even if they are not complete in terms of coverage and consistency, provided of course they can be somewhat benchmarked against reliable structural statistics. So the trade off is slightly more sophisticated than it may appear sometimes. In any case, it requires important investment choices.

4.2.3 Investing appropriate resources

To get more timely EU STIs there should be some appropriate investments. And to finance them, if we forget about any additional resource, we should rely on resource re allocation and productivity gains. The Ecofin council recommended in last June to examine the possibilities to re balance priorities in the field of EU statistics. We can guess there are some resources devoted to excessively timely "complete statistics", that may be re invested in more timely EU STIs. However it is not only a matter of rough resources but to a large extent it is also a matter of skills. Sharp skills in data management, sampling, estimation, time series and forecasting, etc., are necessary in order to speed up collection, computation and dissemination of data related to STIs. In the European context it is also important to touch on co ordination strategy. The PEEIS initiative has given some momentum to this approach.

With these considerations in mind, it seems that three types of actions deserve much support in order to proceed along the PEEIs agenda.

- The "Flash estimate" approach has already proved to be fairly successful and allows to achieve further improvements as regards EU STIs. By using appropriate skills, it is already possible to deliver timely EU indicators (HICP, GDP). Of course there is still some room for improvement in some other quality dimensions. But this approach has triggered a very pro active dynamics that represent a great challenge to the national statistical offices. Several Members States which used to have some reservations about delivering more timely national STIs took up the challenge and prefer now to align the first release dates of prominent STIs (GDP in particular) on the European targeted deadlines, in order to keep up with their peers in the computation and dissemination steps of both national and European STIs. And if some Member States would not take up the challenge, it is likely to mean that the concerned indicators are not so important for domestic purposes, so that there is no much damage made by direct estimations undertaken at the European level. Thus, such a fair competition between different major players in the European Statistical System will remain very fruitful in the field of STIs.

- Another approach which has been recommended consists of possible European surveys based on direct European samples. It seems this is a more delicate route since it has more implication as regards the collecting of original data (the "input side"). Eurostat has not the same room for manoeuvre as for the Flash estimates and is not likely to design European samples by itself. And for surveys which are not opinion surveys (as in the case of the ones sent to DG ECFIN), it is likely to be more difficult and costly for Member States to renew well established national procedures. This is clearly the difficulty that has to be overcome as regards employment related STIs. Despite the difficulties, it should be very fruitful to think further of common sampling design for some STIs.

- Besides there is surely some further improvement to get from strengthened co-ordination in the field of dissemination. Common approaches to first release policies, revision policies and data transmission or sharing practices would surely speed up the delivery of STIs and the coherence of their national components across Europe. In particular, the policy makers and the public opinion cannot understand why the information they need about any European series is still delivered piece by piece, without sufficient co-ordination between the national first releases which spread over time. On the other hand the policy makers and

public opinion should be kept informed of the robustness of the first releases and of the subsequent revision policy.

These different sets of action certainly would increase the timeliness of the EU STIs but also eventually some other quality aspects. Then economists could rely more heavily on the EU STIs and devote most of their time to the quality of their forecasting techniques rather than spending too much of it on building up their own STIs.

4.2.4 Investing in key domains

When we look at domains rather than techniques, it is easy to say where to invest first. Benchmarking exercises, especially along the timeliness dimension, may look sufficient to uncover some major gaps. There have been prominent papers on the subject (SCB-Eurostat 2001), and Annex 2 (taken from EFC 2004) provides an updated summary table regarding the PEEIs.

It is striking to note that despite major progress in some fields, especially those of HICP or GDP, there are still very important gaps, notably as regards labour market indicators. In order to improve the EU employment indicator for instance, we can have again a look at the trade off between timeliness and completeness. Surely we may wish the quarterly index to be very complete and fully consistent with national accounts (quarterly average total employment) in order for instance to compute productivity data. But whereas productivity data are rather of a structural nature and worth looking at for medium term analysis, it may be fairly difficult to quickly improve the timeliness of complete employment series as the desired improvement may have heavy consequences on the input side in several Member States. On the other hand if we accept the idea that we only need end of period employment data for very well defined parts of the total employment, preferably sensitive to business cycle fluctuations, we may hope to converge more quickly to an harmonised set of national employment STIs. They could eventually be used as indicators of broader and more ambitious employment concepts, both at the national and the European levels, in the spirit of the "Flash estimate" approach. Of course, I acknowledge that this is only a professional guess and not the result of a long expertise. Besides, this is only an example and there are some other important items on the PEEIs agenda.

But some already fruitful experiences are likely to improve confidence in the actions still to be undertaken.

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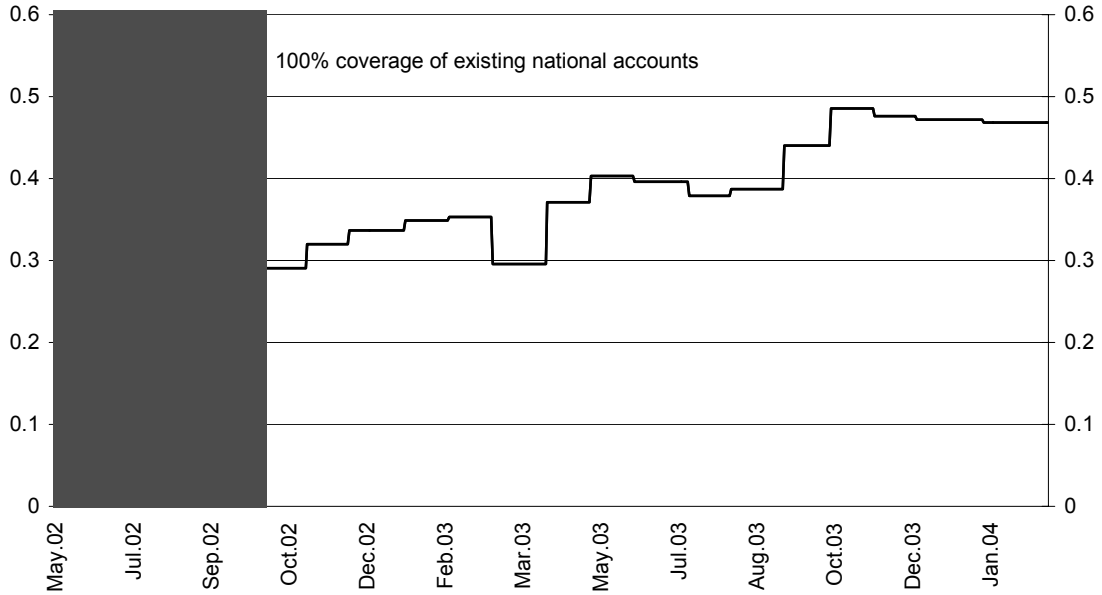
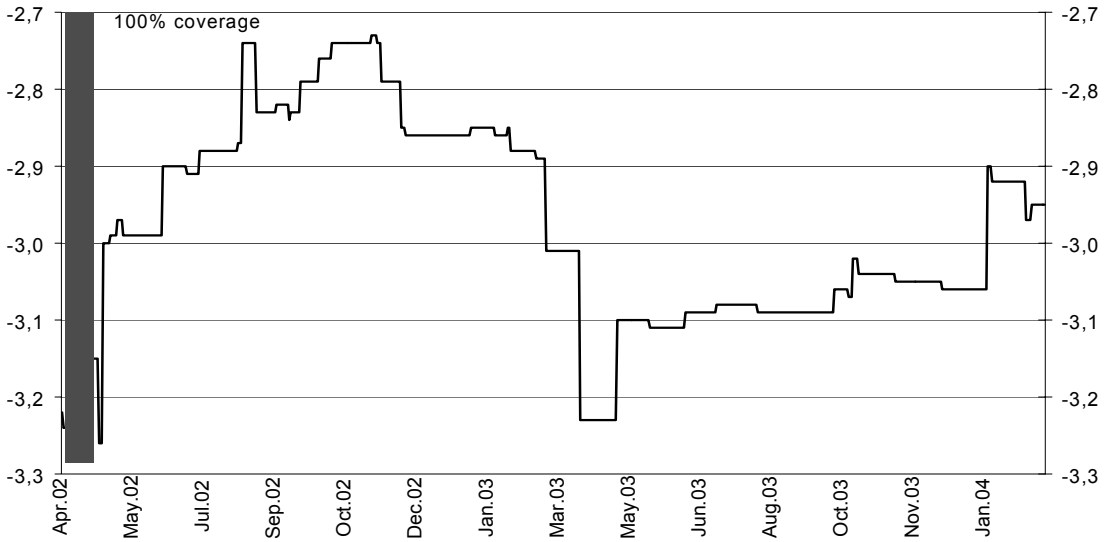
Annex 1: taken from ECB 2004 Successive revisions for selected euro area PEEIs[1]

Euro area GDP
First quarter 2002 (annual percentage changes)



Euro area Industrial Production, (ex. Construction)
January 2002 (annual percentage changes)



[1] Charts show the annual growth rate of the January 2002 / Q1 2002 observation as transmitted by Eurostat to ECB from its initial release until February 2004. The shaded area to the left of each chart identifies the period during which not all euro area countries had published data for this observation. After this point, when 100 % coverage had been reached, revisions are solely due to revisions in national data. Since euro area aggregates for STS indicators are calculated as soon as the coverage exceeds 60 %, but are usually only published with a higher coverage, some of the revisions shown in the shaded area are revisions carried out before the first press release by Eurostat.

Annex 2: taken from EFC 2004

Synoptic Table: Principal European Economic Indicators

Target compliance (delay and coverage) and not fully committed countries

Principal European Economic Indicators (Coverage in brackets)	Current Release of European aggregates	Current release of US indicators	Target date according to Com (2002) 661 final	Expected PEEI compliance for 2005			
				Euro area coverage	Euro area countries not fully committed	EU-25 coverage	Other EU countries not fully committed
Set 1: Consumer Price Indicators							
1.1. Harmonised Consumer Price Index: MUICP flash estimate	0 (~55 %)	na	0	~65 %	FR, IE, LU, NL, AT, PT, FI		
1.2. Harmonised Consumer Price Index: actual indices	17 (100 %)	14	17	100 %	none	~99.9 %	MT
Set 2: Quarterly National Accounts							
2.1. Quarterly National Accounts: First GDP estimate	45 (~90 %)	30	45	~90 %	IE, LU, AT, PT	~90 %	DK, LV, MT, SI
2.2. Quarterly National Accounts: GDP release with more breakdowns	65 (~70 %)	30	60	~90 %	IE, LU AT, PT, FI	~70 %	CY, LV, LT, HU, MT, PL, SI, SK, UK
2.3. Quarterly National Accounts: Household and Company Accounts	na (na)	60	90	~80 %	EL, ES, IE, LU, AT, PT, FI	~80 %	DK, LV, MT, SI
2.4. Quarterly National Accounts: Government Finance Statistics	100 (100 %)	60	90	100	none	< 100 %	CZ, MT
Set 3: Business Indicators							
3.1 Industrial production index	47 (~95 %)	14	40	~95 %	EL, LU, AT	~95 %	CY, HU, MT
3.2 Industrial output price index for domestic markets	34 (~90 %)	14	35	~95 %	LU, AT	~95 %	HU, MT
3.3 Industrial new orders index	54 (~85 %)	28	50 (40)	~95 %	EL, LU, AT	~95 %	CZ, CY, HU, MT
3.4 Industrial import price index	na	7	45	~60 %	BE, ES, IE, IT, LU, AT, PT	~50 %	DK, CY, LV, LT, HU, MT, UK
3.5 Production in construction	77 (~95 %)	16	45	~90 %	El, LU, AT, FI	~75 %	DK, EE, CY, LV, HU, MT, UK
3.6 Turnover index for retail trade and repair	35 (~80 %)	15	30	~90 %	BE, EL, IE, LU, AT	~90 %	CY, LT, HU, MT
3.7 Turnover index for other services	Na	na	60	~95 %	EL, IE, LU	~95 %	EE, CY, LT, HU, MT
3.8 Corporate output price index for services	Na	na	60	~20 %	BE, DE, EL, ES, IE, IT, LU, AT, NL, PT,	<40 %	DK, EE, CY, LV, LT, HU, MT, PL, SI

Set 4: Labour Market Indicators							
4.1 Unemployment rate (monthly)	34 (~65 %)	5	30	< 80 %	EL, IT	~60 %	LT, MT, PL, SI, UK
4.2 Job vacancy rate (quarterly)	na (na)	5	45	~70 %	BE, GR, ES, IE AT, PT, FI	~65 %	CZ, DK, EE, CY, LV, LT, MT, PL, SI
4.3 Employment (quarterly)	105 (~90 %)	5 (monthly)	45	~95 %	EL, LU	~60 %	EE, CY, LV, LT, MT, SI, UK
4.4 Labour cost index (quarterly)	80 (~60 %)	30	70	~90 %	BE, EL, IE, LU	~85 %	CZ, CY, MT
Set 5: External Trade Indicators							
5.1 External trade balance: intra- and extra-MU; intra- and extra-EU	49 (~95 %)	44	45	100	none	> 95 %	CZ, MT, PL

Explanatory notes and comments:

The target dates for the release of European aggregates (euro zone, EU-15) have been set in the Communication of the Commission to the European Parliament and the Council on euro zone statistics (Com (2002) 661 final). The commitments have been made by National Statistical Institutes in autumn 2002 and updated in spring 2004 covering also the new Member States. The current release of European aggregates is described by the number of calendar days after the end of the reporting period. Their coverage by Member States data was calculated with 2002 GDP weights for all indicators except HICP (2004 consumption weights) and labour market indicators (LFS employment weights 2002) and refer to the euro zone. Member States are classified as missing if they do not compile the respective indicator or only with a delay longer than the European target. It should be noted that in some cases Member States are not committed to the objective, but nevertheless delivering their data already as timely as required. For the indicators marked in **red** the commitments are insufficient for achieving the objectives set in the Communication, for those in **yellow** adequate commitments have been made, but substantial progress has to materialise in the months to come.

Theme 4 - The good trade-off between timeliness and quality - Some Comments

Nicolas SOBCZAK

Executive Director, Senior European Economist, Goldman Sachs

First, let me thank you for this opportunity to discuss such an important topic with you. As you know, economists working in the financial sector make an extensive use of short-term indicators. They scrutinise with great attention every data release to detect a possible inflexion in the business cycle, or a likely build-up of inflationary pressure. Given the forward-looking nature of financial markets, every piece of news can substantially alter the picture and therefore make an impact on financial assets.

Accordingly, financial markets are among the most demanding users: they need information as early as possible to update in real-time the information priced into stock or bond markets. As such, timeliness is the most valued quality for an indicator. To use the framework described in Mr Cordier's paper: being an economist working in financial markets, my indifference curves are very "flat".

But the reliability, or the information content, of the data release is also important. Financial markets do not particularly dislike volatility *per se* – after all, it brings opportunities for arbitrage and raises the demand for protection. But if a piece of data brings little valuable information, it will plainly be ignored. In practice, the analysis focuses on a few indicators which have proved reliable. I will comment on our own "Top list" later and on the ways to improve it.

Before that, I will risk some comments and questions on the two stimulating contributions from our speakers: Mr Cook and Mr Cordier. Naturally, the technicality of the discussion may sometimes go beyond my own capacity. I thus ask for your indulgence if some of my remarks sound too naïve or even inaccurate.

The UK experience: the thrive for transparency

This first paper addresses the question from the point of view of a mature statistical system. The quality of UK data is well known. A lot of data are available with great detail, and are often

amongst the earliest in the world to be released. As noted by Mr Cook, they constitute a considerable asset for policy makers, but also for financial market participants.

Regarding the trade-off between timeliness and reliability, there is little doubt that the UK is close to the optimal frontier. There is always scope for improvement – through better survey design and constant pressure to maintain a high response rate - but any improvement would be marginal or would necessitate a strong financial effort out of proportion with the expected gains.

Accordingly, the question in the UK is not really "how to improve the data", but "how to communicate the data to make revisions more acceptable". The starting point is that everybody will have to live with the basic "uncertainty principle" that short-term indicators are prone to significant revisions. Economic indicators are stochastic "animals", and all users have to live with it.

How to make revisions more acceptable? The answer proposed by Mr Cook is to educate users and prove as transparent as possible. I have great sympathy for this approach, as it will considerably help the job of data users. This principle should be pushed as far as possible. To me, it means:

- All estimates –preliminary or not - are to be bias-free. That is the minimal requirement. As noted by Mr Cook., a good way to make sure there is no systematic bias is to fully integrate the statistical process from the first to the final estimate. But even in that case, there can remain a bias due to incomplete information. My view is that statistical offices should correct for this bias in order to provide their best estimate at the time of the release. Otherwise, it feels like statistical offices are restraining themselves from using information which is available to them. The fact that UK GDP preliminary figures seem to have a significant bias should be corrected. Similarly, the way some data are communicated is sometimes confusing. For example, in Germany, data on industrial production are often released with an indication that they will be revised up in the next release! It would be much more satisfactory if statistical offices were to give their best unbiased forecast of the final release, even if based on limited information.

- Full transparency about the quality of short-term indicators. In my view, confidence intervals should be systematically provided, along with other standard measures of statistical quality (autocorrelation, presence of cyclical bias etc.) After all, short-term indicators can be thought as informed-forecasts of the final and definitive release. As such, many indicators can be designed to assess the quality of the "forecast". Even more interesting, the full history of the successive revisions should be systematically provided. It

is always extremely informative to track how estimates and forecasts tend to move over time, as it reveals the marginal information. The Internet provides an easy way to disseminate and update these time series, along with the full history of revisions.

- Full transparency and some stability in the methods used. Users need to understand what really is measured by the statistical instrument. This is especially important in case of special shocks –strikes, bad weather, supply disruption, increase in taxes, change of regulation – so that users are able to anticipate their impact and even to read through them. The methods, the sources, and the exact dates at which surveys are made are thus crucial information. Similarly, some stability in the methods used would also considerably help understand the data. One frequent source of confusion is the role of seasonal adjustments which are often updated and revised on a real-time basis.

This raises interesting question: How transparent are statistical offices willing to be? Will it be possible to benchmark all data and improve peer pressure? Should apparent bias be corrected? How to make seasonal adjustment and working-days adjustment easier to understand?

The Euroland problem

Turning to Euroland, the problem becomes a bit different. In contrast with the UK, the Euroland statistical system is not satisfactory. Different national statistical cultures have to be integrated, and the aggregation is proving to be very painful and difficult (although nice progresses have been registered already). To paraphrase the classical discussion about the optimality of a single monetary policy in Europe, one can safely argue that Europe is far from being an "Optimal Statistical Area".

Accordingly, the most pressing problem is not to educate users about the likelihood of future revisions (although this should also be done, following the UK experience) – but plainly to improve the quality of short-term indicators. Euroland is not yet close to the optimal frontier and great efforts are needed to improve the statistical apparatus.

It is well known: short-term indicators in Euroland are incomplete, heterogeneous, and sometimes even non-existent. On top of that, they are not revealed through a single release, but in several consecutive stages by aggregating national releases. Mr Cordier's contribution therefore sets the problem in terms of a trade-off between timeliness and completeness. And the implicit answer is that Eurostat should not wait too long to release its data. Estimates for Euroland should be proposed well before all national indicators are known.

This the principle underlying the construction of Flash estimates, both for GDP and HICP indicators. This method has enabled Eurostat to produce timelier estimate on the basis of a few big country releases.

At face value, this is a clear improvement - yet, from the point of view of financial markets this does not represent substantial progress. If we agree that the quality of short-term indicators is measured by the marginal information they bring, it seems difficult to argue that Euroland releases bring a lot of significant new information.

- By construction, Eurostat data – even Flash estimates- are best described as plain aggregation. As the most important national releases are known before, the initial Eurostat estimate brings almost zero additional information. This is well illustrated by the example of consumer prices. Preliminary CPI from Germany and Italy are usually available at the end of the month under review. By the time Eurostat publishes its own Flash estimate – and later its final release- the outturn is rarely a surprise and is already priced into financial markets and incorporated in economists' expectations.

- The situation is even more confusing for some data, where the aggregation from Eurostat does not look consistent with national releases – the most prominent example being figures on industrial production!

How to improve this? My own guess is that the Eurostat releases should coincide with the first significant national release. For example, Eurostat – or more directly the Statistiche Bundesamt – should issue an estimate of Euroland inflation at the same time that Germany releases its first estimate of German inflation. These estimates would then be updated as much time as necessary when a national statistical institute releases his own bit of the data. Naturally, in the medium run, the timeliness of all national data will converge.

The demand side: the view from financial markets

Turning finally to the demand side, here is the list of our preferred short-term indicators in Euroland – in order of importance for financial markets ("market movers"). This list is extracted from our comprehensive guide of Euroland Statistics [1].

- **German Ifo business survey**. A timely survey of over 6 000 German firms. Its business expectations sub-component is a good short-term indicator of German and Euroland economic activity.

- **Euroland PMI** (corresponding to the US ISM). One of the most accurate indicators of Euroland industrial production. It has been a useful guide to ECB decisions.

- **German states CPI**. Released before the end of the month to which the data applies; it provides an accurate reading of overall German CPI and shapes the CPI figure for the whole euro area.

- **German unemployment**. Released shortly after the end of the relevant month, it gives an early warning on income formation, consumer confidence and private spending.

- **French INSEE business survey**. Covering French manufacturing businesses, this survey provides a useful guide to industrial conditions in Euroland second largest country.

- **Flash GDP estimates,**" Flash" GDP estimates for Euroland and a number of EMU members provide the first official indication of overall economic growth.

- **Euroland GDP breakdown**. The breakdown of the demand components provides a valuable indication of the drivers of growth and the position in the economic cycle.

- **German industrial production**. Representing more than a third of Euroland industrial output, this statistic is an important indicator of activity.

- **German retail sales**. Together with French sales of manufacturing goods, German retail sales provide a good early indication of private consumption developments.

Two striking points appear:

First, there are not many "Euroland" indicators in this list. As noted before, the most valuable data in Euroland so far remains national releases – because of their timeliness. Euroland data mostly appear as redundant. German data continue to occupy a center stage, because of the mere size of its economy and its importance to shape monetary policy decisions.

Second, the most interesting data are business surveys. Their qualities are well known: they are readily available, quite accurate, and hardly revised over time! As such, they clearly dominate all official releases about industrial activity. This poses a considerable challenge to statistical institutes, as hard data often appear much less reliable than business surveys.

This raises a question: should Statistical Institutes invest more heavily in qualitative surveys? There is still a considerable lack of information about the services sector or the retail sector (even though

surveys do exist). Can Statistical offices add some value there, or should they stick to the production of "hard" data, with the risk of producing unreliable data?

Naturally, a lot of useful indicators are missing in this list – especially when contrasted with the US. This is particularly striking on the consumer side or the labour market. As suggested by the UK, the release of monthly GDP numbers (with a decomposition of the main components of demand) would be a considerable improvement. This is a task that could be directly taken by Eurostat on the basis of available short-term indicators – instead of going through national releases.

References

[1] Goldman Sachs Economics Research. (2004), Understanding Euroland Economic Statistics, Third Edition, September 2004.

Theme 4 -
Good trade-off between timeliness and quality - Discussion

The discussion concentrated on some key issues raised by the speakers during the session, particularly on the ways to improve timeliness of European statistics, transparency, and the contribution given by statistical modelling and forecasting techniques in improving the timeliness-quality-completeness trade-offs.

Following a remark by the discussant Mr Sobczak, Eurostat pointed out that there should not be any confusion between European surveys and European samples. European sampling techniques are at the basis of the progress made in the last few years in increasing timeliness at EU level, especially concerning the flash estimate of retail trade indices. They can, of course, be extended to other sensitive domains after appropriate checking, such as the industrial production index.

INSEE commented on some remarks, made by Mr Sobczak in his discussion, on the need for more transparency in statistics. In this respect, Mr Sobczak recalled the efforts usually made by users in trying to anticipate the effects that exogenous shocks can have on statistics, especially concerning future revisions to the data yet to be released by NSIs. INSEE noted that there has always been full transparency on methods and sources used in releasing short-term statistics at both NSI and Eurostat level. INSEE pointed out that procedures and techniques used usually are replicable by users and that all the information needed has always been made available upon request.

CEIES noted that forecasts can be an instrument to increase timeliness, but stressed that improvements in data quality can also be obtained by using other strategies. In fact, CEIES stressed that the quality of forecasts has not dramatically increased over the last decades or so and that to obtain visible improvements in this field a long time period is required.

Round table – The "First for Europe"Principle - Discussion

In his speech **Mr Garvey** stressed three points:

1. The need for more flexible and differentiated EU-legislation. When the First for Europe principle was first discussed it was presented as a challenge only for the NSIs. It is however also a challenge for Eurostat, which needs to move away from the idea that the only way to compile statistics for Europe is to add up precisely the same information for every country, big and small. EU-legislation should be far more differentiated in its application to different countries. Small countries, like Ireland, have in the past been inclined to behave constructively and to agree with proposed legislation, often with the idea that it would be achieved when the resources and priorities actually permitted it This collaborative approach, whereby countries would not be legally threatened if legislative details were not fully implemented provided they were moving in the right direction, has been of benefit for the development of both the Irish statistical system and of the ESS. If the observance of the fine detail of legislation takes on a greater importance it may as a consequence become much more difficult to agree on new statistical legislation in the future.

2. The need for a better legal framework for the ESS. Statistics are increasingly central to a number of important political discussions. If the expectations of stakeholders and society are to be met then there is a need for a very strong "whole system" approach, while at the same time of course respecting the UN fundamental principles. Mr Garvey quoted the Ecofin press release from its meeting on 2 June 2004: "The Council notes that on several occasions the fiscal statistics had been revised after a new government took office. The Council considers that the compilation and reporting of statistics for the EDP must not be vulnerable to political and electoral cycles." "High-quality statistics are fundamental for European policies. The Council considers that integrity, independence and accountability of data compilers, and the transparency of the compilation methods, underpinned by the appropriate institutional arrangements are crucial to ensure such high-quality statistics. It would therefore be recommendable to develop minimum European standards for the institutional set up of statistical authorities. The Council invites the Commission to make, by June 2005, a proposal for such standards, which reinforce the independence, integrity and accountability of the Member States' national statistical institutes". Statistical legislation should not only be rationalised and consolidated; the meaning of European statistics and the ESS should also be clarified and the institutional arrangements defined. The opportunity should therefore now be

seized to work hard and provide leadership to put together a Code of Practice for the ESS. Moreover, an enabling framework for the exchange of microdata should be developed.

3. The need for a Code of Practice. The Task Force on Legal and Constitutional aspects of the ESS recommended to the SPC in March 2003 the development of a Code of Practice. The reports, a discussion paper and a draft Code of Practice, are now available. The paper strongly reiterates the need for a voluntary Code of Practice for reasons both external and internal to the ESS. It states the importance of improving trust and confidence in the statistical system, independence, at both Eurostat and the NSIs, and the credibility and quality of the statistics produced and disseminated by the ESS. It emphasises the importance of promoting best statistical principles, methods and practices by all producers of official statistics. The Ecofin press release should be used to encourage the progress of this work more quickly, which could help the Commission to produce by June 2005 the response requested by the Council. The discussion paper proposes two approaches, an outcome approach and a more ambitious and challenging general approach. The second approach also takes up issues concerning the institutional environment in which the NSIs and Eurostat operate.

In concluding, Mr Garvey said there is a need to have a stronger sense of interconnectiveness and to take steps to develop a stronger "whole system" approach and added that the three measures discussed above are essential to advance the First for Europe principle.

Mr Van der Veen made two comments concerning the importance of improving coordination and harmonisation between NSIs and between NSIs and the EU/EMU with respect to revision and release policy. Firstly, he stressed the importance of having an agreement on release data for the European economic system. He suggested a "slot-system" whereby larger countries would agree on the release of certain data and others would join in at a later stage. Such a system would give users greater clarity about the figures. Another advantage would be that users would know in advance when European economic indicators will become public. Secondly, he commented on the way data is now produced, i.e. by combining the national figures. As an example of how to achieve quick and reliable data at the lowest possible cost and with the lowest possible survey burden he mentioned establishing European Schemes, as in the new STS Regulation. Data for the European figure would then be the priority and national figures would be published later. Another way would be to establish Centres of Excellence, whereby a NSI in the forefront in a particular topic would take the lead in that area. This approach should also help improve the timeliness of European data. Finally, Mr Van der Veen said there was a need to agree on NSIs willing to take the lead and in which subject.

Mr Biggeri preferred to take a broader approach by examining the First for Europe principle in the framework of the development of the ESS and of policy needs and proposed a strategy to be followed to achieve more advancement both as concerns the principle and the ESS. For the medium to long term he said a vision is necessary. For the transitory period he outlined some immediate actions that should be taken to achieve this vision.

To start with he made two assumptions: firstly, that there is an agreement on the vision and mission to develop a strong and coherent ESS for the systematic and programmed production and dissemination of statistics necessary for the performance of the tasks of the EU; secondly, that the production and dissemination of European statistics shall be governed by the well-known fundamental principles of official statistics.

1. The meaning of the First for Europe principle in the framework of a strong and well developed ESS. The First for Europe principle means that statistical indictors are more important at aggregated European level and therefore aggregated data at that level is a priority. However, this is not true e.g. for economic and monetary policy. A good European Statistical System has to carefully consider **all** the needs and priorities at the different territorial levels. In many fields the priority is at national or regional level. It has to be recognised that apart from the First for Europe principle there is also a First for Member States principle, a First for Regions principle. Therefore, the combination of the three principles has to be considered. He requested a deeper and more frank discussion about the meaning of a real European Statistical System, about how to choose the priorities and about the resources necessary for the development of the ESS. He said a stronger organisation of the ESS would be necessary to achieve this objective.

2. The application of the First for Europe principle in the field of Short-Term Indicators (STI). Looking at STIs, Mr Biggeri said that timeliness is one of the most important aspects, but that a test phase is necessary to ensure that also the other fundamental principles of official statistics, in particular accuracy, coherence and comparability, are respected. As for economic and monetary policy not only indicators at European aggregated level but also a breakdown at least by country and sometimes by region and even by sector are needed. This is a necessary condition in order to be able to carry out the analysis to understand the real situation and evolution of the European economy and to evaluate possible intervention. Mr Biggeri stated the need for a matrix of indicators in which the estimation bias of each indicator, i.e. each cell in the matrix, should be reduced, if possible, to zero. Only in this way would the correct signal be given to the users.

3. The revision policy of the STIs and users' understanding. It is very important to develop a revision policy at European level. However, there are many different users. The transparency and the dissemination of the information on the revision policy is useful for analysts and experienced users, but less so for the mass media, which usually looks for scoops, and for the citizens who have no statistical culture. There is a danger that the dissemination of revised data is criticised by mass media and that this will reduce the credibility of official statistics. It is therefore important that the ESS prepares a *common* communication strategy in this field.

Mr Charpin first said that the Ecofin conclusions from 2 June 2004, which admittedly contains some criticism of the profession, should be taken positively. It is in the interest of the European Statistical System that a standard to guarantee the integrity, the independence and the accountability of statisticians is decided by the Ecofin Council.

Secondly, Mr Charpin wished to emphasise that the First for Europe principle does not undermine the principle of subsidiarity and that several categories have to be distinguished. E.g. business statistics or statistics on products have reached such integration at European level in terms of the market, competition policy, etc. that it would be only normal to apply the First for Europe principle. On the other hand, Mr Charpin suggested a more careful advancement in the area of household statistics, where policies and institutions are still very different across Europe. Mr Charpin added that concerning macro-economic statistics there is a legitimate demand for data at both European and national levels. It is necessary to find a way to make the two needs compatible.

According to Mr Charpin the most important area within which to progress would be to ensure better coordination of revision and release dates. Here he noted three different problems. Firstly, the technical barriers. These could however, although not so easily, be overcome. Secondly, and more importantly, the problem of transmission of confidential data under embargo to Eurostat. He said it would be desirable to know to whom the data is transmitted, to the Commission or to Eurostat and to know the nature of the links between Eurostat and the Commission. If Eurostat is a synonym for the Commission then he said there is no way that confidential data can be transmitted to Eurostat before the national governments know them. Thirdly, he mentioned the problem of significant differences in release dates. Is it possible to request that a fast country delays its release significantly?

Mr Vanden Abeele commented on Mr Garvey's presentation saying that it was difficult to have a flexible approach to statistical legislation; in some areas it would be impossible to differentiate legislation. He could however imagine differentiated legislation in the social domain, where

subsidiarity means that total harmonisation is impossible. Moreover, in a Europe of 25 Mr Vanden Abeele agreed that a differentiated approach in some areas was necessary so as to allow the new Member States to catch up. This being said, as soon as a common interest has been identified he said one should also move up a gear and adopt a common speed. He also reminded the audience that once the regulation is established it is the Commission's responsibility to ensure that the regulation is applied.

As regards the concerns about the transmission to Eurostat of data under embargo, Mr Vanden Abeele assured the participants that Eurostat staff respect the same type of deontology as staff in the NSIs. No data are transmitted to the political level in advance. He explained that the weekly news releases are produced at the same time for the NSIs and for the Commissioner. Mr Vanden Abeele promised to distribute a paper explaining the publication modalities at Eurostat.

As concerns the First for Europe principle Mr Vanden Abeele said it should be understood in the light of the requirements of the NSIs. If there is an agreement that data should be presented in a consistent way, Mr Vanden Abeele said there are two possibilities: *either* to agree on bringing release dates of each NSI closer together, meaning that NSIs would have to organise themselves accordingly at national level, e.g. through benchmarking, *or* to investigate the possibility of achieving consistency through regulations.

Closing speech

Mr Charpin said the Conference had given the participants a good overview of what has been achieved so far in the area of short-term indicators, but also of what remains to be done. He said the objectives set four years ago have still not all been achieved. A number of proposals and suggestions had also been made during the Conference, which seemed to indicate that there are a number of new areas linked to short-term statistics that are going to require additional efforts from the NSIs. There were also three other subjects, not included on the agenda, which he said called for the attention of the Directors-general of the NSIs and the other participants:

1. Given the political pressure to provide macro-economic statistics much effort and resources had been dedicated to these statistics, to the expense of other areas, such as e.g. strengthening national accounts, increasing comparability, saving rates, detailed statistics regarding products and markets as well as local and regional data. These areas have therefore, in order to give the necessary attention to the macro-economic figures, implicitly become negative priorities. Thought should be given to these negative priorities in the light of the NSIs limited resources.

2. The importance of the Ecofin decisions in June 2005 should not be underestimated and will certainly have consequences on the statistical profession as a whole.

3. Considerable efforts are also required by Eurostat to improve its leadership and co-ordination role within the ESS.

Mr Charpin closed the Conference and thanked all of those who had contributed to the success of the Conference: the organisers at Eurostat and INSEE, the speakers and discussants, the interpreters as well as all the other participants.

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