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INTERNATIONAL: Economic measurement faces huge changes

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Abstract (summary)

Challenges faced by economic measurement techniques.

Important decisions are made on the back of economic statistics that are compiled by government statistical agencies. Policymakers and investors use these data with major consequences. However, evidence suggests that the economic statistics are often based on inadequate methodologies and data gathering techniques and can be distorted by rapid changes in the structure of most economies.

Full Text

SUBJECT:Challenges faced by economic measurement techniques.

SIGNIFICANCE:Important decisions are made on the back of economic statistics that are compiled by government statistical agencies. Policymakers and investors use these data with major consequences. However, evidence suggests that the economic statistics are often based on inadequate methodologies and data gathering techniques and can be distorted by rapid changes in the structure of most economies.

ANALYSIS: Impacts.

Technological advances and the commercial benefits from better and more timely data will drive 'big data' changes.

Unless national statistical agencies can share the benefits of this data revolution, government data could become less relevant.

Governmental agencies are aware of these challenges, but the ability to commit appropriate resources to meet them is doubtful.

The data issues faced by developing countries will grow unless they receive support from wealthier countries and

supranational agencies.

There has been acknowledgement of the need for the public sector to improve and update the official statistics function:

In October 2014, the UK statistics authority launched a new five-year strategy titled "Better statistics, better decisions". The strategy paper recognises the need to integrate administrative and commercial data sources and to keep pace with advances in technology. It sees developing partnerships across the private and public sectors as a way forward.

In August 2014, UN Secretary-General Ban Ki-moon set up an independent expert group to make recommendations on bringing about a data revolution in sustainable development. The report produced by the expert group, entitled "A world that counts", proposes a programme for experimenting with how traditional and new data sources can be brought together for better and faster data on sustainable development, developing new infrastructures for data development, sharing and supporting innovations that improve the quality and reduce the costs of producing public data.

GDP statistics.

GDP is a relatively recent way of measuring national income. It has struggled to capture the rapid structural changes in most economies and the increasing complexity of economic activity. While GDP can efficiently measure production output, it is less effective in capturing the value of services and measuring intangible benefits. GDP data is the most significant economic metric produced at the national level. It measures the value of economic activity of a country and, by extension, how well its citizens are faring from an economic perspective. Yet GDP accounting is an evolving practice:

China is the latest in a long line of countries that have announced a substantial revision in the size of their GDP. On December 19, 2014, the National Bureau of Statistics announced China's GDP for 2013 to be 58.8 trillion renminbi (9.4 trillion dollars), which raised the previous GDP number by 3.4%. The revision resulted from the findings of the latest economic census survey which uncovered a stronger contribution from the services sector. This revision surprised markets and follows previous revisions, in 2004 (up 16.8%) and in 2008 (up 4.4%).

Other countries have announced substantial GDP revisions. The most extreme example was in 2012 when Ghana announced a 60% increase in the size of its GDP.

The largest GDP revisions have come from attempts to estimate the size of the informal economy which, in developing countries, can be large. For instance, the informal sector in Nigeria accounts for 40-60% of total economic activity (see NIGERIA: Rebasing highlights lagging policy reforms - April 24, 2014).

Developed countries.

Substantial GDP revisions are not confined to developing countries. In September 2014, the United Kingdom's Office for National Statistics (ONS) published a series of new GDP data. As a result, the UK nominal GDP in 2013 was revised up from 1,613 billion pounds (2,501 billion dollars) to 1,713 billion pounds, a 6.2% increase.

Informal economic activity is not confined to developing countries. When the ONS announced its GDP revisions, the increase partly came from including illegal drugs and prostitution as part of the measurement of economic activity. Including these activities, which added 8 billion pounds to UK GDP, resulted from meeting European national accounting standards (see EU: GDP reform risks weakening fiscal discipline - July 11, 2014).

CPI statistics.

GDP is not the only important economic metric on which significant policy measures are taken and faces challenges in its construction. Inflation is another notable one. Most developed countries produce more than one measure of

inflation.

In the United Kingdom, the consumer price index (CPI) and the retail price index (RPI) are common, but other measures are also used. All measures seek to show the annual change in living costs and use a similar approach by tracking the changing cost of a fixed basket of goods and services over time. This process involves combining around 180,000 prices for over 650 items that reflect the expenditure of UK households.

CPI is the official measure and, since 2011, has been used for the indexation of benefits, tax credits and pensions. It includes taxes, but excludes housing and mortgage costs. Another measure, CPIH, includes housing costs for owner occupiers. CPIY is similar to CPI, but excludes the impact of direct taxes.

There has also been an attempt to measure core inflation, excluding volatile factors such as food and energy prices. The impact of volatile commodity prices and, notably, fuel prices, has had a significant impact on inflation measures. With inflation in many OECD countries below the target set by central banks, there is a risk of inappropriate monetary policies being implemented to offset the decline in inflation and, in some countries, the risk of deflation. This issue was highlighted in the Federal Reserve's Open Market Committee (FOMC) meeting on December 16-17, as the Fed's chair Janet Yellen talked about the transitory impact of lower oil prices, which meant that FOMC had "looked through" the current impact of lower energy prices on the inflation measurement.

Survey statistics.

Survey data are also important in decision-making processes. While surveying techniques are established, the nature of surveys can provide conflicting messages. In November 2014, the Conference Board released its consumer confidence index which showed that US consumer optimism dropped from October (94.1) to November (88.7), while another leading consumer sentiment index, the University of Michigan consumer sentiment index, indicated that consumer optimism rose to a seven-year high in December. These surveys are closely watched by market observers and move markets.

The pace of technological change combined with the commercial benefits that arise from capturing more effective data will result in substantial changes in the production and communication of economic statistics. The challenge for governments is to ensure that they can keep up with developments. For many developed countries, improving national statistics is a priority, but, in light of widespread fiscal constraints, it is not certain that these objectives will be achieved.

CONCLUSION: Statistical agencies will have to push hard to keep pace with rapid changes in the economy and society, as technology is transforming how data is captured, stored and analysed. Most of the 'big data' innovations are led by the private sector and public sector data could become less significant unless government statistical agencies can work closely with the private sector to ensure that data innovations can help enhance the quality of national statistics.

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