

Voorburg Group on Service Statistics
13th Meeting in Rome, September 1998
The Impact
of the New Council Regulation 1165/98
On Short-Term Statistics
In Trade And Other Services

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1. Introduction

Nobody denies that in all advanced economies the importance of the service sector increases and the importance of industry decreases.

The following table gives an impression of the changes in share of value added in the European Community.

For a long time, the increase of importance to the service sector was not sufficiently reflected in our statistics. For short-term indicators, only some series were transmitted to Eurostat on retail trade, and these series were often late and, very important, they were not harmonised.

	Agriculture	Industry	Services	Other
1960	7.4%	39.8%	35.2%	17.6%
1995	2.2%	26.0%	51.7%	20.1%

No series were transmitted for other services except data on tourism demand (for example nights spent in hotels etc.).

This situation left half of the economy as a white spot, as unknown territory. Some people argue that there is only a business cycle in industry and in construction, all other sectors show a smooth evolution, so no short-term statistics need to be collected in these areas. But how do they know, if there are no statistics available?

The new Council Regulation 1165/98 on short-term statistics, which was adopted in May 1998 and entered into force in June, will from now on be a sound base for European short-term indicators in trade and other services.

The present paper will first briefly outline the characteristics of this Regulation, how it is structured and how the implementation will be realised (chapter 2). After that the detailed request of the Regulation concerning trade and other services will be explained. This concerns the type of variables, the level of detail, the deadlines for data transmission etc. (chapter 3).

Finally a chapter will be devoted to some of the remaining problems with short-term statistics in trade and other services. Here the classification problem and the choice of variables will be highlighted (chapter 4).

2. Functioning of the Council Regulation

Like many recent Regulations on statistical topics, the Council Regulation 1165/98 is set up as a “framework” Regulation. This means that it consists of:

- a **core text** which defines the basic aims and rules concerning future enterprise based short-term statistics and
- **annexes** (modules) which give the detailed specifications concerning the variables, delay of data supply, level of detail etc. for different sectors of the economy. The Regulation on short-term statistics has 4 annexes: A. Industry, B. Construction, C. Retail and Trade and D. Other Services.
- The Regulation stipulates in Article 18 the creation of a **Committee** which can adopt the rules of the annexes to possible economic and technical developments in the future. It can thus change the list of variables, level of detail, transmission deadlines etc. This creation of a Committee which can change the detailed contents of the Regulation (in the annexes) introduces a flexibility which did not exist in old legal texts of the Community.
- The fourth element of the Regulation, set up in Article 12, is the creation of a **Methodological Manual**. This manual will be revised regularly and contains explanations and recommendations and dissemination of short-term statistics.

The core text of the Regulation will not be explained here in full detail, since we want to focus on future short-term statistics in trade and other services. But some features are nonetheless worth mentioning since they shed a light on what we can expect in the future concerning the monthly and quarterly business statistics based on this Regulation.

- (i) transmission of **confidential data**: according to Article 9, Member States are also obliged to send confidential data to Eurostat, which will of course maintain the confidentiality of the data but which will then be able to calculate Europe totals. This means that the coverage of future short-term statistics will be more complete.

- (ii) **quality:** the Articles 10 and 14 of the Regulation stipulate that the quality of the transmitted statistics is to be checked thoroughly at regular intervals. The Member States have to send all necessary information for this purpose to Eurostat. Eurostat will publish every 3 years a quality report concerning the short-term statistics. This feature is very new and so far we have no experiences as to how it will be put into practise. But it is evident that it will gradually increase the quality of our statistics, since the transparency of what is currently done in other Member States will encourage efforts in each Member State to eliminate their deficiencies concerning quality.
- (iii) **transition periods:** for all statistics temporary derogations can be conceded, and this will be an important aspect of statistics on trade and other services (see next chapter). This derogation is necessary for the national statistical offices in all areas where the appropriate statistics do not yet exist, so that new data collections have to be started. For the users this is bad news: they have to wait even longer until they can expect to dispose of the necessary short-term statistics.
- (iv) **pilot studies:** several variables could not find a majority among the Member States as a binding obligation, when the current Council Regulation was discussed. Other Member States and important users insisted on the other hand on the importance and relevance of these statistics. They now obtained the status of “pilot studies”. This means that these controversial variables or concepts will be tested on a voluntary base for some years. Thereafter the Committee will decide whether these statistics shall become an obligation or whether the costs outweigh the benefits. So far, no pilot studies have yet been started.

So much on the most interesting features of the core text of the Regulation. Let's now turn to the legal specification in the trade and other service sectors.

3. Future short-term statistics in Trade and Other Services

As explained above, annex C of the Regulation deals with Retail Trade, annex D with other services. This separation is a bit unfortunate, it does not follow the structure of NACE Rev.1 or economic logic: wholesale trade is dealt within annex D, not C, so that Trade is split in 2 modules. In this paper the 2 modules C and D are therefore treated together.

a) Scope

The annexes in question apply to the sections G, H, I, J, K, M, N, and O of NACE Rev.1, i.e. wholesale and retail trade, hotels and restaurants, transports, financial intermediation, real estate, renting and business activities, education, health and social work, other community, social and personal service activities.

b) The observation unit

The observation unit in these annexes is the enterprise. Kind-of-activity unit (KAU) would clearly be preferable, since they are more homogeneous, so that the resulting statistics are clearer to interpret, but data collection for KAU's was considered too difficult by most Member States.

c) Variables

Two variables are to be collected: turnover and employment. Only in retail trade (annex C) deflated turnover ("volume of sales") is to be computed and transmitted. Obviously turnover and employment are the most classical variables; they are comparable across sectors and relatively easy to collect. Whether they are the most appropriate to follow the business cycle can be debated (see chapter 4).

There was a long debate whether for employment the number of employees or the persons employed (i.e. including self employed) should be mandatory. From an economical point of view, in other words with the eyes of the analyst-user, persons employed is more appropriate. The number of self-employed can vary considerably in the business cycle, so that the number of employees would be misleading or at least lagging in time concerning the turning points of economic evolution. From a statistical office's point of view data on the number of employees is easier (and thus cheaper) to collect, so many Member States preferred this concept. As a compromise the number of persons employed is asked for, but can be approximated for at least 5 years by the number of employees.

d) Form

Both variables are to be transmitted unadjusted, with turnover also working day adjusted. The transmission of seasonally adjusted data (or trend cycle data) is optional. Eurostat would prefer that the Member States do the seasonal adjustment themselves, since they are closer to the source of the data and thus dispose of much better knowledge of country and branch specificities.

e) Frequency

All series are to be transmitted on a quarterly base except turnover in retail trade (module C) which is to be sent monthly.

This is unfortunate since the close following of the business cycle requires a monthly data series. We hope that most turnover data will be collected and sent monthly on a voluntary base.

f) Level of detail

This is a very complex topic since our classification NACE Rev.1 is not very appropriate for analytical purposes, to say the least (see chapter 4). Data collection at the 4 digit level of NACE Rev.1 would be very costly and often makes little sense since the 4 digit branch is frequently economically irrelevant. As a compromise, more or less complicated aggregations were constructed in order to be able to publish useful statistics.

The Impact of the Regulation 1165/98 on short term service statistics

For the **turnover** variable this means:

NACE Rev.1	Short Description
50.1+50.3+50.4	Sale of motor vehicles and motorcycles, parts and accessories
50.2	Maintenance and repair of motor vehicles
50.5	Retail sale of automotive fuel
51.1	Wholesale on a fee or contract basis
51.2	Wholesale of agricultural raw materials and live animals
51.3	Wholesale of food, beverages and tobacco
51.4	Wholesale of household goods
51.5	Wholesale of non-agricultural intermediate goods
51.6	Wholesale of machinery, equipment and supplies
51.7	Other wholesale
52.11	Retail sale in non-specialised stores with food, beverages and tobacco
52.12	Other retail sale in non-specialised stores
52.2	Retail sale of food, beverages and tobacco in specialised stores
52.41-52.43	Retail sale of textiles, clothing, footwear and leather goods
52.44-52.46	Retail sale of furniture, electr. household appliances, hardware, paints and glass
52.47-52.48	Retail sale of books and other retail sale in specialised stores
52.61	Retail sale via mail order houses
60	Land transport, transport via pipeline
61	Water transport
62	Air transport
63	Supporting and auxiliary transport activities, travel agencies
64.1	Post and courier activities
64.2	Telecommunications
72	Computer and related activities
74.11-74.14	Legal, accounting and consultancy activities, Market research
74.2-74.3	Architectural and engineering activities, Technical testing and analysis
74.4	Advertising
74.5	Labour recruitment, provision of personnel
74.6	Investigation and security activities
74.7	Industrial cleaning
74.8	Miscellaneous activities n.e.c.

For employment the result was:

NACE Rev.1	Short Description
50	Motor vehicles and automotive fuel
51	Wholesale trade and commission trade
52.11+52.2	Retail sale of food, beverages and tobacco in specialised and non special. stores
52.12+52.3 to 52.6	Retail sale of pharmaceutical and medical goods, of new goods, of second-hand goods; Retail trade in non-specialised stores and not in stores
55	Hotels and restaurants
60	Land transport; transport via pipelines
61	Water transport
62	Air transport
63	Supporting and auxiliary transport activities; travel agencies
64	Post and telecommunications

72	Computer and related activities
74	Other business activities

This will hopefully evolve with time. As explained above, the Committee can change the mandatory level of detail if this seems appropriate and feasible.

A good example for the need of improvement is the (previous) postal service (NACE Rev.1 64): Here unfortunately postal services and telecommunication are together in one division of the activity classification. This made sense until a few years ago, when the state owned postal service in each country also dealt with telecommunication as a monopolist. Since quite some time the two services have developed very rapidly and the NACE Rev.1 groups 64.1 (postal services) and 64.2 (telecommunication) have become very differently structured markets. For this reason it would make sense to collect also the employment variable for the groups, not for the division 64 together. There are more examples like this (see also chapter 4).

g) Deadline of data transmission

All variables in all sectors are to be transmitted three months after the reference period. Only turnover (value and volume) in retail trade (module C) are to be transmitted within two months for the higher aggregated level.

Considering that speed (timeliness) is clearly the top priority of all users, these deadlines in the regulation are somewhat disappointing. But this is a starting point. If these mandatory deadlines would be respected by all Member States (which is currently not the case), improvements on timeliness could be decided by the Committee set up by the Regulation.

h) Pilot Studies

As explained above (see chapter 2), the Regulation gives the possibility to run pilot studies on statistical domains which are currently still controversial among the National Statistical Offices concerning their cost benefit. The main pilot studies mentioned in the Regulation are:

- ◆ Provide a more detailed activity breakdown
- ◆ Improve timeliness
- ◆ Increase the coverage by branches which are still excluded (real estate, renting activity, research & development, banking and insurance, education, health service)
- ◆ Use the kind-of-activity unit as observation unit
- ◆ Collect short-term statistics on birth and death of enterprises
- ◆ Collect data on wages & salaries

The views on the priorities of these pilot studies vary a lot. Clearly a more detailed breakdown and improved timeliness are a top priority. Before adding variables (wages & salaries, birth and death of enterprises) or including branches not yet covered, the potential users should be consulted.

i) First reference period and transition periods

All series are to be transmitted covering the period from the beginning of 1998 onwards. Transition periods of up to five years are foreseen for most variables and branches. Only in retail trade (module C) are the transition periods shorter: two years for turnover at the more aggregated level, three years for employment.

These rather long derogation periods were already commented on above (see chapter 2).

To summarise, as a general rule users can expect quarterly turnover and unemployment series for most parts of the service sector, often at a fairly aggregated level and most probably after a lengthy transition period.

Only in retail trade, more detail, monthly frequency and shorter transition periods are foreseen. In addition, only in this sector “volume sales”, i.e. deflated turnover, is foreseen in the Regulation.

With this statistical program concerning short-term statistics in trade and other services we will create the framework for business cycle analysis.

More sophisticated statistics can be set up with the aid of the Committee that is created with the Regulation. This Committee will play a crucial role in the future for meeting users' needs, taking into account the burden on enterprises and the costs for statistical offices.

4. Some problems

Not all problems can be discussed here. Clearly we first need some experience with the existing legal framework and the improvements it will bring to the users of our statistics. But two problems seem to be worth mentioning: the classification and the choice of variables.

NACE Rev.1

Many users of statistics, in particular researchers and economists, are quite unhappy with our activity classification NACE Rev.1 in the domain of **services**. It is difficult for an activity classification to fit all needs when the reality in the domain of services changes so rapidly as it did in recent years.

Frequently the structure of classes (4-digit), groups (3-digit) and divisions (2-digit) is no longer economically appropriate. Some 4 digit classes are economically very important (for example road transport NACE Rev.1 60.24) and should rather be groups or divisions, other parts are nearly empty (for example wholesale on a fee basis NACE Rev.1 51.1).

For this reason we, the statisticians, have to use the classification (which we can not change and replace by something better from one day to the other) with flexibility. All elements are there, but more or less complex regroupings must be done in order to come to sensible solutions.

It is a major breakthrough that all Member States agreed in the Council Regulation on short-term statistics to apply this approach of aggregating occasionally divisions, groups and classes. A few years ago some National Statistical Offices were still rather hostile to this idea.

In this spirit it might also be necessary in the future to develop the classification further and to agree on common 5th digit positions, if a majority feels the need for it and users ask for it strongly.

Type of variable

As mentioned above, the Regulation asks for the most “classical” variables, turnover and employment. This is surely valuable information as an input to quarterly national accounts. But we also have to ask the question, are these variables appropriate in order to follow closely the business cycle?

In Industry and in Construction, the production index, i.e. a volume index, is the most commonly used tool for analysis. This should in my eyes also be developed for trade and other services. For this purpose there are two approaches:

- Calculate deflated turnover indices (“volume sales”) or
- Find appropriate volume proxies that reflect the evolution in a branch.

For the first approach, deflators have to be developed. This is surely a promising way to get good indicators of the business cycle. But, as we all know, it is occasionally not so trivial to find the appropriate deflators of good quality.

The second approach is also worth considering. In several areas quantitative information is already collected: nights spent in hotel for tourism, tons transported by road or rail for the transport sector, etc. Some brainstorming would be necessary to find common proxies in various countries and eventually harmonise the concepts in order to achieve European volume indicators.

With this approach also the sector of banking and insurance could maybe be covered, where so far no short term statistics are foreseen since turnover is irrelevant in this domain.

Thus, to summarise, there is still enough thrilling work waiting for us in the coming years to improve the statistical coverage of the short term evolution in trade and other services.