

Quarterly GDP

National Accounts Workshop

11 – 17 Port of Spain Trinidad

Quarterly GDP

- Why quarterly? Who wants it?
- Quarterly estimates of growth give a better picture of economic cycles.
- They show turning points – lows and highs – and they are a better basis for forecasting future growth
- So governments, business who need to plan economic development and make crucial investment and borrowing decisions

Quarterly GDP

- How do they fit with annual accounts?
- The 2008 SNA concepts, definitions and classifications apply
- Quarterly estimates are needed earlier than annual national accounts, and there must be estimates in volume terms.
- The sources should be consistent with the annual ones (same business register frame)
- GDP may be presented as a single estimate of growth, without the component detail of the annual estimates

Quarterly GDP

- Quarterly estimates will require seasonal adjustment to smooth out fluctuations of growth within the year
- Quarterly estimates are leading indicators of the annual benchmarks to come – the movements must not differ a lot from benchmarks to come
- Users do not like revisions – so do not let the annual estimates be the prisoner of the early indicators

Quarterly GDP

- Process points
- Graphs are an essential tool to look at Quarterly estimates of GDP
- Quarterly estimates need a formal and public revisions policy

Quarterly GDP – special issues

- The SNA is in theory based on accrual accounting – its when things happen, not when the money changes hands
- Timing differences which do not affect the annual accounts, can have a large effect on quarterly estimates
- Data from administrative systems will often have a lag between occurrence and recording (late tax returns)

Quarterly GDP – special issues

- Production of goods over long periods (e.g. large infrastructure projects)
- We must show output going to work-in-progress, to avoid “lumpy” output recorded at the end of the project
- Showing output to work in progress results in the need to reduce wip by all the changes during the project, at conclusion of the project, to avoid double counting in demand

Quarterly GDP – special issues

- Large service contracts similarly can last a long time in terms of quarters, and it is good practice to record regular interim payments, to ensure ongoing production is captured.

Quarterly GDP – survey data sources

- Quarterly GDP is based on production data
- Production volume estimates require
 - A. short-term business surveys – simple forms, possibly telephone responses accepted, collecting sales/turnover
 - B. Price measures at detailed level e.g. PPI to strip out inflation
 - C. short-term collection of quantity measures

Quarterly GDP – administrative sources

- VAT (Sales, costs by industry)
- National Insurance Schemes (compensation of employees, employment by industry)
- Company accounts, financial statements
- Special cases (e.g. large public corporations closely monitored and regulated by government)

Quarterly GDP

- Key criterion for choice of data source
- Are the quarterly indicators reliable early estimates of annual growth?
- How early are the estimates available
- A rule of thumb for statistical estimates is that they should appear one period after the periodicity of the series.

Quarterly GDP - timeliness

- So a monthly Index of Production for January should appear in March
- Quarterly GDP estimate for the first quarter should appear at the end of the second quarter
- As time passes from the period more information appears, and so a system of 1st, 2nd and 3rd estimates is common
- Provisional estimates, with revision

Quarterly GDP – strategy

- 1. Establish user want
- 2. Compile inventory of data sources
- 3. describe indicators available (sales, prices, quantities, employment etc.)
- 4. Establish how timely good coverage can be achieved

Quarterly GDP - strategy

- Where possible, use exactly the same indicators as the annual system
- Establish a methodology for benchmarking to annual estimates
- Establish a revisions policy

Quarterly GDP

- Bench-marking
- Graph of annual versus quarterly growth estimates
- A. good sample, consistent sources and methodology
- B. Small panel of quantity indicators

Quarterly GDP - benchmarking

- In bench-marking, the aim is to preserve the short-term fluctuations of the quarterly series
- But preserve the general annual trend
- This done by various mathematical techniques, the best-known is the proportional Denton method
- This minimises the change to quarterly growths, subject to being consistent with the general annual growth over a year.

Quarterly GDP – seasonal adjustment

- Well researched, but not easy to apply in practice
- Specialist training and experience is recommended
- It removes seasonal effects over the period

Quarterly GDP

- Sources and methods by activity

Quarterly GDP

- Revisions policy and analysis

Quarterly GDP

- What happens next?
- Review – comments from CARICOM, countries
- Distribute review to CARICOM