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Dear Chris

**REVIEW OF STATISTICAL REQUIREMENTS FOR MONETARY AND  
WIDER ECONOMIC POLICYMAKING**

Thank you for the invitation extended to Bruce Robinson (12<sup>th</sup> June), and during your visit on the 2<sup>nd</sup> July, to provide a written submission to inform the above review.

I include overleaf a summary of the issues discussed during your visit, together with some additional points for your consideration, under the three main headings of the review. The initial views of Northern Ireland Departmental statisticians have also been canvassed to inform the DETI submission.

It is imperative that good quality data is available to devolved administrations to assist, where appropriate, in the formulation of effective regional policies. The Review team may wish to keep the Office of the First Minister and Deputy First Minister (OFMDFM) informed of progress.

Given the emphasis during your visit on regional indicators related to economic growth, I also include a copy of the Northern Ireland Public Service Agreement targets for reference (Annexe A). During the course of your visit on the 2<sup>nd</sup> July, I provided you with a summary of Northern Ireland economic statistics and this is now supplemented with further information on the surveys and areas for potential development (Annexe B).

As indicated this is very much a preliminary view and we would welcome the opportunity to facilitate further requests for information or for you to meet colleagues in Northern Ireland to discuss the issues further.

**Victor Hewitt  
Chief Economist**

**DETI**

DEPARTMENT of ENTERPRISE,  
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**SUBMISSION TO THE ALLSOPP REVIEW**

**AUGUST 2003**



## **Developing the UK and Northern Ireland economic statistics framework to support: -**

### ***1. Monetary policy making if the UK were to join the EU single currency***

Within a single currency, the ECB would consider the same economic indicators as the Bank of England when formulating Monetary Policy. The primary policy objective of the BoE's Monetary Policy Committee, to deliver price stability, coincides with that of the European Central Bank. Price stability is defined by the ECB as year on year price increase of less than 2%; the BoE MPC's target is to maintain an underlying rate of inflation of 2.5%.

Therefore the primary statistical evidence required in monetary policy making is inflation. At a UK level inflation statistics are satisfactory, however they are not available at a regional level. However, it is unlikely that regional differences in price levels between the UK regions would be given much consideration if monetary policy was being made at a EU-wide level. Rather regional inflation measures would be useful for national and local officials to monitor the impact of a new monetary regime, and where required possibly respond with corrective fiscal policy. Therefore in an ideal world RPI, RPI(x) and HICP statistics for NI would be useful.

Colleagues working in the Department of Agriculture and Rural Development have indicated that the adoption of the Euro would enhance economic information on the farming sector; since EU market management and direct payments to farmers operate in Euros, there should be scope for improvements in economic forecasting.

### ***2. Progress towards the key objectives of promoting regional growth and reducing disparities in regional growth rates with particular regard to regional statistics***

#### **A. Macroeconomic Statistics**

Northern Ireland policymakers would welcome a more timely and higher quality measure of overall economic performance. Primary responsibility for the production of Regional Accounts information resides with the Office for National Statistics. Northern Ireland Statistics and Research Agency (NISRA) representatives sit on the ONS Regional Accounts Advisory Group and provide a high-level quality review function within the existing methodology. However, the methodological approach used tends to favour a top-down approach, which may not give sufficient emphasis to the requirement for robust regional estimates.

In recent years DETI has worked to improve the quality of regional accounts by developing the quality of data sources such as the Northern Ireland Annual Business Inquiry and Employment measures.

## Issues

1. Existing Regional Accounts (GVA) should be more timely and of better quality. Policymakers can be constrained by the absence of an up to date measure of local economic performance. Up until September 2003, which provided data up to 2001, the Regional Accounts related to provisional data for 1999. The December 2002 release was withdrawn because of quality issues. Even if macroeconomic policy levers are not available to Northern Ireland decision makers, they still require to be informed of Northern Ireland's overall economic performance to make appropriate social and microeconomic decisions.

NISRA has raised with ONS the issue of the resources needed to produce better quality versions of existing regional statistics and the need for peer review throughout the production process.

2. Additional change to the ONS methodology may be required to achieve the desired level of quality improvements for Regional Accounts. ONS could consider whether greater weight could be given to a "bottom-up" approach where sufficiently robust regional estimates exist.
3. Alongside this, there needs to be further detailed assessment of the costs and benefits involved in significant development of the official framework of local economic statistics in Northern Ireland. For example, consideration could be given to developing Input-Output tables for Northern Ireland, as is the case in Scotland. Historically the costs in terms of the burden on business and the statistical resources required to develop a comprehensive independent matrix of local economic statistics have been judged too great, given the size of the Northern Ireland economy. However, given the primacy attached by local administrations to economic growth this may be something, which a devolved administration in Northern Ireland would wish to consider in the future.

## B. Macroeconomic Regional Competitiveness Indicators<sup>1</sup>

DTI's selected measure of regional performance include measures such as Manufacturing GVA per employee job and Gross Disposable Household Income per head and rely on the availability of Regional Accounts to provide up to date information.

## Issues

1. The lack of timeliness of Regional Accounts information likewise limits the usefulness of productivity measures for regional comparison purposes. For example, the January 2003 publication of Regional Competitiveness gives regional GDP per capita data for 1999 and has limited value for evidence based decision making.
2. Increasingly it is of interest to compare Northern Ireland economic performance against that of other EU regions and particularly against the Republic of Ireland. Development of more timely regional accounts or

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<sup>1</sup> "Regional Competitiveness and State of the Regions" indicators published by DTI

productivity indicators that operate on a comparable EU basis would facilitate this.

3. Further development of the UK Annual Business Inquiry would provide an earlier basis for regional comparisons of those aspects of economic performance covered by the ABI. This is currently limited by the lack of Approximate GVA per head information by industry at the regional level and would require development of English ABI regional employment estimates.
4. A recent exercise highlighted the gaps in information available to assess the cost of operating business in NI, in particular, insurance costs, transport costs and energy costs. (DETI have now completed a survey of Business Insurance costs)

### **C. Short and Medium Term Economic Output Indicators**

Northern Ireland currently provides an Index of Production, a Construction Index and is developing an Index of Services that provides information on the performance of businesses some 3 months after the reference quarter. From 2003, the Northern Ireland version of the Annual Business Inquiry will provide more timely annual data becoming available in the December (e.g. 2003) of the year following the reference year (e.g. 2002). There is no measure of Quarterly GDP in Northern Ireland.

#### **Issues**

1. Unlike Scotland, Northern Ireland does not have a Quarterly measure of GDP. The burden on business required to produce the necessary statistical infrastructure has historically been regarded as too high. There has also been a view that until there are robust and timely annual measures of Regional GVA, there is little point in developing whole economy quarterly estimates of change.
2. The DETI Index of Production, Construction Index, and the soon to be introduced Index of Services provide short-term indicators of sectoral rates of change in Northern Ireland. By their nature they do not provide sufficient information for policymakers in terms of changes in the level of overall production or whole economy performance.
3. There is a limited range of short-term measures of output (e.g. Index of Production) whereby the performance of the Northern Ireland economy can be compared against that of other UK regions. We would welcome examination by the review of indices that would allow further comparisons.
4. From December 2003, the Northern Ireland version of the Annual Business Inquiry will provide a timely measure of the performance of Northern Ireland businesses. This information (after adjustment) is not available for UK regional comparison purposes until Summer 2004. A more timely measure of UK Regional ABI data would be beneficial.

## **D. Labour Market Indicators**

Northern Ireland's Labour Force Survey (LFS) provides monthly figures of three month rolling unemployment estimates and unlike the UK, DETI has a biennial Census of Employment supplemented with a Quarterly Employment Survey which measures employee jobs. This is regarded as providing a superior estimate of employee jobs than is available in other regions of the UK. The Labour Force Survey estimates are regarded as broadly appropriate given the already high proportion of households sampled in Northern Ireland - a small region in UK terms.

### **Issues**

1. There is some demand from policymakers for greater levels of disaggregation of LFS results (although key indicators are currently provided quarterly at District Council level). However, increasing the sample size to the extent needed is considered counterproductive in terms of the overall impact on the LFS and indeed on the response rate for other government surveys in Northern Ireland.
2. Relative sampling errors for key Northern Ireland LFS estimates tend to be higher than for other UK regions (see Annexe B). While the Labour Market estimates used to measure regional convergence should ideally have broadly similar levels of precision, as noted there is limited flexibility to increase LFS sample size in Northern Ireland.

## **E. Measuring prerequisites for economic growth**

HM Treasury (Productivity in the UK, HMT/DTI November 2001) points to five productivity drivers associated with economic performance and cites a number of measures used to assess regional differences: -

- (i) skills,
- (ii) investment,
- (iii) innovation,
- (iv) enterprise
- (v) competition

Further consideration would need to be given by Northern Ireland Departments in terms of appropriate measures for the purposes of monitoring UK regional performance.

There are a number of Public Service Agreement (PSA) indicators used by Departments within Northern Ireland to reflect progress towards policy objectives. A full list of PSA targets is provided in Annexe A.

### **Issues**

1. A number of the indicators used in the DTI/Treasury publication referred to above are not available for Northern Ireland.

2. Lack of a NI Youth Cohort Study presents an evidence gap on educational and training choices and outcomes. The Department for Employment and Learning is currently examining the feasibility of a YCS for NI.
3. The pre-requisites for growth include a low cost operating environment – information gaps exist when assessing transportation, finance and regulation compliance costs.

#### **F. Regional price deflators: -**

Without robust regional price indices it is difficult to compare regions in terms of their real GDP or convergence of growth rates. Northern Ireland currently uses UK deflators for indices such as the Index of Production.

#### **Issue**

1. An assessment of the extent of the burden on businesses should be undertaken in Northern Ireland before the introduction of regional price deflators.

#### **G. Sub-national policy**

Northern Ireland has a Neighbourhood Statistics system, similar to the ONS initiative for England. This system is about the delivery of robust relevant statistics for small areas and has a role in skewing resources to areas in greatest need, thus promoting wider social and economic well-being through reducing inequalities. While it is primarily about small areas, it encompasses all geographic aggregates and operates at, for example, LGD level at which level some macroeconomic analyses might be feasible.

#### **Issue**

1. Users have commented that although labour market statistics are satisfactory at this level, timely GVA data at NUTS III level would be very useful in a policy context, especially at a time when area based initiatives are being established.

### **3. An assessment of the nature, frequency and timeliness of official economic statistics to adequately reflect the changing economic structure of the UK**

This topic is being addressed as part of the Office for National Statistics ongoing Quality review processes. The strengths and weaknesses of existing statistics are summarized in Annexe B. For the purposes of the current review Departmental colleagues were canvassed regarding the extent to which user needs were being met and their views are included.

#### **A. Are User Needs being met by existing Economic Statistics?**

##### **Economy**

1. The objectives of DETI are to encourage the growth of the economy by promoting knowledge-based business and an enterprise culture and to develop and maintain the policy and regulatory environment to achieve economic growth with equal opportunities for all
2. Users have made clear their concerns regarding the lack of timeliness and the robustness of Regional Accounts information as previously discussed. NISRA will continue to work with ONS to improve timeliness and quality within the existing structures. Users have also indicated that it is imperative that GVA data is robust and accurate; it will be of limited use to policy makers if it is subject to substantial revisions.
3. The Index of Production, the Index of Construction and the soon to be implemented Index of Services provide quarterly coverage of change within these sectors. The perceived deficit is that there is limited timely information on the performance of the whole economy, which is available in an integrated fashion for Northern Ireland.
4. The Northern Ireland Economic Research Agenda [http://www.detini.gov.uk/cgi-bin/get\\_pub?id=71](http://www.detini.gov.uk/cgi-bin/get_pub?id=71) seeks to address gaps in DETI's understanding of determinants of economic development. Northern Ireland relies on being represented within UK series to obtain information on e-commerce, financial sector information, consumer and producer price indices, product information and as a consequence there are gaps in these areas in terms of their true importance to the Northern Ireland economy. Further consideration of the costs and benefits of increased Northern Ireland sample sizes in these areas are required.
5. The introduction of the Northern Ireland Annual Business Inquiry, which will be available in the December following the reference year, will provide a timely measure of business performance. There have been two versions of Northern Ireland ABI, one unadjusted to National totals (DETI) and the other constrained to National totals (ONS). From December 2003 DETI will seek to provide a single Northern Ireland regional estimate (unadjusted to UK totals).

6. As noted previously, more timely GB ABI information that allowed regional comparisons and particularly comparisons of regional productivity would be beneficial. This may require further development of regional employment information in England.
7. There is a growing demand for comparative economic data with the Republic of Ireland in relation to Labour Costs and, GVA and productivity measures and further work will need to be done to look at the comparability of data sources.

### **Labour Market Statistics**

8. Statistics on the Labour Market are provided by outputs from the Labour Force Survey, the claimant count of unemployment, the biennial Census of Employment, the Quarterly Employment Survey and the New Earnings Survey. There is some demand for greater disaggregation on a geographical basis but this needs to be balanced against the potential burden on business and the confidentiality constraints imposed by the legislation under which the data is collected.

### **Commerce Energy and Industry**

9. DETI's maintenance of the IDBR has traditionally provided a quality sampling frame for DETI surveys.
10. DETI has traditionally had a valuable measure of its export performance beyond that provided by HMCE Trade Statistics. This informs InvestNI strategies to develop Northern Ireland's export sector and is widely used by economic commentators as an index of Northern Ireland economic performance.
11. The Research and Development survey has recently moved from a triennial to an annual basis in Northern Ireland and has been extended to provide a measure of Higher Education investment to bring it in line with GB.
12. Some users have also commented on the paucity of published data on local energy costs to industry.

## **B. Coverage of developing economic sectors**

DETI has completed two years of a three-year exercise to develop a survey to cover the export of Trade in Services and is also developing an Index of Services which should be published in 2004.

### **Issue**

1. DETI has commissioned the Northern Ireland Economic Research Centre (NIERC) to undertake a pilot survey of Northern Ireland's exports of Tradable Services, which is in its third year. DETI will consider whether or not Northern Ireland should introduce an annual survey of Tradeable Services and how this should sit with the ONS International Trade in Services survey.

### **C. Existing Economic Series**

Annexe B provides information on characteristics of existing economic statistics in terms of the nature, frequency and timeliness of surveys in the National Statistics Themes of (i) Labour Market (ii) Economy; and (iii) Commerce, Energy & Industry Statistics.

