OPINION OF THE EUROPEAN MONETARY INSTITUTE

at a request of the Council of the European Union under Article 109 f (6) of the Treaty establishing the European Community ("the Treaty") and Article 5.3 of the Statute of the EMI

on a Draft Proposal for a Council Regulation concerning Short-Term Statistics (COM(97) 313 final) ("the Draft Regulation").

CON/97/19

1. The present opinion was requested in a letter dated 30 July 1997 from the Council of the European Union which, for this purpose, transmitted to the EMI document "COM(97) 313 final" containing the Draft Regulation and its explanatory memorandum. The EMI is competent for this consultation, by virtue of Articles 109f (6) of the Treaty and Article 5.3 of the Statute of the EMI.

2. The objective of the Draft Regulation is to establish a framework for the production of short-term business statistics. The EMI as the forerunner of the ECB has a keen interest in this initiative, since the indicators covered under the Draft Regulation are of vital interest for the future single monetary policy. They will provide the necessary economic background information and contribute to the statistical basis on which monetary policy decisions will be taken.

3. In July 1996 the EMI set out the statistical requirements for Monetary Union and specified the prospective requirements in the field of short-term statistics.[1] In general, the ECB will need sufficiently comparable, comprehensive and timely data from the start of Monetary Union in January 1999. Whilst the analysis of economic developments in individual Member States will continue to be important, the focus of the single monetary policy will move to aggregated results for the Monetary Union area as a whole. An important implication of this is that a common standard for *all* Member States is essential and that exceptions from this standard must be avoided or minimised if they challenge the compilation and quality of Monetary Union-wide statistics.

4. The current provision of short-term business statistics at a European level does not meet the requirements of the future single monetary policy. Therefore the EMI strongly supports this initiative. The EMI is conscious of the costs which the required changes may entail. These costs have to be

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[1] Implementation Package (Statistical Requirements for Stage Three of Monetary Union), EMI, July 1996.

viewed against the opportunity to define and conduct policy with the benefit of better information. The following comments are divided into general and more specific comments.

A. General remarks

5. With a view to the start of Stage Three of Economic and Monetary Union in January 1999, the EMI regards it as necessary that the Draft Regulation is adopted as soon as possible and that further delays in the implementation of the Regulation are limited to the unavoidable minimum. The information provided by the statistics covered under the Draft Regulation will play an important role in the monetary policy decision-making process.

6. Most important for the EMI and the future ECB are timely short-term statistics with a sufficiently broad coverage of the economy which should be available for all Member States in a comparable fashion. **From the point of view of the EMI, the following paragraphs 7. To 11. of this Opinion would therefore have highest priority.**

7. According to the Draft Regulation, the first data to be supplied are due in January 1998. However, the Draft Regulation provides for a general transition period of up to five years and, for a small group of indicators, for a transition period of two years (Article 12(1) and Annex A to C(j)). Complete EU-wide data may not therefore be available before the year 2003 or 2000 respectively. Although the EMI acknowledges that the introduction of new statistics or the change to existing collection systems may require significant efforts in the Member States concerned, the provision of long transition periods is a serious shortcoming of the Draft and is not in line with the start of a single monetary policy in January 1999. **The EMI therefore proposes that the general transition period of five years should be reduced to a period of three years and the two-year transition period to a period of one year.**

8. In the context of the length of the transition periods and the timeliness of the data produced under the Regulation, it is also emphasised that, for the purposes of macroeconomic and monetary policy analysis, **timely aggregated indicators are more important than detailed breakdowns.**

9. The EMI welcomes the provision in Article 8(3) for timely transmission of the results from the Member States to the Statistical Office of the European Communities, enabling the Statistical Office of the European Communities to release these data in a timely fashion. **The upper limit of six months for the transmission of statistics as provided for in Article 8(2) is regarded as much too long for the purposes of short-term statistics.**

10. The Draft Regulation provides for only a few legally binding measures for enhancing the conceptual comparability of short-term statistics (Articles 7 and 11). The EMI underlines the

importance of a sufficient comparability of national data for the purpose of aggregation. **The introduction of more comparable statistical methods should therefore be a priority after the implementation of the Regulation.**

11. The EMI welcomes the broad scope of the Draft Regulation. However, given the increasing importance of the services sector in the economy, the EMI regrets the low priority which has been given to "other services" (Annex D). **The EMI accepts that studies may need to precede the introduction of new statistics, in particular in order to identify the most relevant and cyclical sub-sectors, but proposes that the envisaged timetable for the decision on and introduction of quarterly statistics relating to the service sector should be shorter.**

12. The scope of the Regulation includes all market activities in the financial intermediation sector as defined in the NACE Rev.1. **Given the responsibilities of the future ECB in the field of financial statistics, the EMI proposes that the first sentence of Article 16 of the Draft Regulation is amended by the following addition after "...laid down in Article 17":**

> ***"... and, for all implementation measures concerning Section J of NACE Rev.1, after consultation of the European Central Bank and the Committee on Monetary, Financial and Balance of Payments Statistics,..."***

13. With reference to the scope of the Draft Regulation the EMI also notes that the production of **import price statistics** is not covered by the Regulation. Considering the importance of such data for the purposes of inflation analysis, the EMI suggests that this variable should be added to the catalogue of indicators covered by the Draft Regulation.

14. Concerning Article 10 of the Draft Regulation the EMI suggests that the regular weight adjustments of the indicators should be carried out in a co-ordinated manner as far as possible in order to avoid frequent weight changes in the derived EU- and MU-aggregates as a consequence of adjustments of national weighting schemes.

B. Specific remarks

Annex A (Industry module)

15. The EMI welcomes the inclusion of **industrial order statistics** in the Draft Regulation, deeming these essential for detecting trends and turning points in the economy in a timely fashion. For the

ECB it will be important to know the geographical origin of orders or, more specifically, to be able to **separate orders originating from the single currency area from orders originating from other countries**. The traditional split into national and foreign orders will not suffice for this, since total export orders will cover orders from other Monetary Union countries as well as orders from third countries. Moreover, for the ECB this breakdown will be more relevant than the breakdown into intra-EC and extra-EC export market variables for which the Draft Regulation foresees in Annex A(h) the launch of a voluntary pilot study. The EMI considers that a legal initiative, which will start producing statistical results at broadly the same time as the start of the single monetary policy, should make provision for this important variable.

A corresponding modification of the Draft Regulation is proposed for **industrial output prices**. The current Draft does not allow for the compilation of output prices for Monetary Union area-wide sales, although this is likely to be the most important producer price indicator for the ECB.

16. The EMI supports the proposed **calculation frequencies** and **deadlines for data transmission.** They provide a good basis for the purposes of short-term economic analysis. Given the importance of order statistics for conjunctural analysis, however, a shorter transmission delay for this variable would be desirable.

Annex B (Construction module)

17. The EMI welcomes the comprehensive list of indicators envisaged for the construction sector. The planned statistics on **output prices** and **construction costs** are important indicators for inflation analysis.

18. Concerning the variable **new orders received**, the EMI proposes that a breakdown should be added between residential, industrial and public construction orders. Such a breakdown can provide valuable information for cyclical analysis.

19. The EMI notes that the limitation of **construction output prices** and **construction costs** to new residential buildings significantly reduces the information provided by these variables. A wider coverage of these indicators would be preferable.

20. Moreover, the EMI notes that the envisaged **transmission delays** for construction statistics are in several cases too long. This concerns in particular the variables for new orders, output prices and construction costs, for which the EMI proposes that the envisaged timeliness should be about 60 calendar days instead of 90 calendar days.

Annex C (Retail trade module)

21. Given that **retail trade turnover** data is the most important short-term information on household demand, the timely provision of sufficiently reliable results is essential. The foreseen transmission delays of three to six months appear unduly long. Moreover, the nature and the quality of the "special estimated advance variables", which are to be transmitted on the highest aggregation level within two months, are not sufficiently clear. It is therefore proposed that the delay for all preliminary results should be reduced from three to two months.

22. Corresponding to what is envisaged for the industry and construction module, the EMI would suggest the addition of a variable for gross wages and salaries which is an important indicator for monetary policy analysis.

Annex D (Other services module)

23. According to the Draft Regulation, pilot studies are to be carried out by the end of 2002 before any decision is taken regarding the introduction of short-term services sector statistics. Against this background, the EMI regards it as premature to propose a transmission delay of six months after the end of the reference period. This specification should await the outcome of the planned pilot studies. In any case, transmission delays of six months are not compatible with the objectives of short-term statistics.

24. The EMI would suggest the addition of a variable for gross wages and salaries and, if practicable, also output prices to the two variables (turnover and persons employed) which are planned to be subject of a pilot study.

25. This opinion will be published in the Official Journal of the European Communities.

11 September 1997