



Postal and courier activities industry review, 2016

Full report

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This publication

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1 Introduction

In the UK, the output approach to measuring gross domestic product (GDP(O)) is based on a comprehensive and wide-ranging suite of short-term indicators that are used to compile the Index of Services, Index of Production, Retail Sales Index and Output in the Construction industry. The industry review programme considers the concepts, methods and data sources underpinning the short-term indicators on a rolling basis to ensure that they remain fit for purpose. The programme of work commenced in 2012 and is strongly supported by main external stakeholders and the UK Statistics Authority. The programme of reviews, covering all of the UK Standard Industrial Classification, is due to be completed in 2021.

This programme of reviews demonstrates the commitment of the Office for National Statistics (ONS) to quality assure outputs as part of the [Code of Practice for Official Statistics](#). It mirrors a similar work programme conducted between 2002 and 2009 during which time the Index of Services achieved National Statistics status in April 2007, due at least in part to the existence and impact of the industry review programme.

The reviews are prioritised using a priority matrix designed by ONS which is described in section 2.2 of the article [Improvements to the output approach to measure UK GDP, 2015](#). The main determinant of an industry position within the priority matrix is the importance or weight of the industry, as measured by its contribution to gross value added (GVA) within the context of the overall economy. However, over time the matrix has played a lesser part in establishing the priority of the industry to be reviewed, and instead emerging issues have directed where resources must be focused.

The priority matrix is published in Annex 1 of the article [Improvements to the output approach to measure UK GDP, 2015](#); changes to the 2015 matrix can be attributed to changes in GVA weights, revisions performance and changes in volatility. Through combined use of the priority matrix and the knowledge that significant changes were taking place in the postal and courier industry, the industry was selected for review.

A [summary overview](#) of the Postal and courier industry review, 2016 is also available on our website.

2 Summary

Main messages from the postal and courier activities industry review are:

- significant changes in the industry – as a result changes have been required in methods and data sources to more accurately reflect the industry
- conceptual appropriateness of the deflator – the industry review has concluded that the current deflator is appropriate
- conceptual quality – as a result of changes to methods and data sources the conceptual quality of the industry has improved from a B ‘acceptable’ rating to an A ‘appropriate’ rating

Recommendations which are due to be implemented at Blue Book 2016:

1. it is recommended that Post Office Ltd remain classified to UK SIC 2007 group 53.1, Eurostat has confirmed that any postal companies that carry out services necessary to support the universal service obligation should be classified to the UK SIC 2007 group 53.1.
2. due to the fact that Royal Mail Group Ltd and Post Office Ltd are now operating separately, it is recommended that their activities need to be captured separately
3. it is recommended that due to Royal Mail Group Ltd being a private company, its activities may be measured by collecting monthly turnover data collected via the Monthly Business Survey, with the aim to implement this in Blue Book 2016
4. it is recommended that the turnover data collected by the ONS Public Corporations Inquiry survey for the Royal Mail Group Ltd (until privatisation) be utilised to compile a representative back series, with the aim to implement this in Blue Book 2016
5. it is recommended that the activities of the Post Offices be measured by utilising the turnover data collected by the ONS Public Corporations Inquiry survey, with the aim to implement this in Blue Book 2016. The turnover data is collected on a quarterly basis and captures all activities of Post Office Ltd

Table 1: Comparison of Blue Book 2015 and Blue Book 2016 GDP(O) data sources for division 53

Blue Book 2015					Blue Book 2016				
Industry code	Industry description	Current price	Volume measure	Deflator	Industry code	Industry description	Current price	Volume measure	Deflator
53	Postal and courier activities	Monthly Business Survey turnover index	Volume data index	Consumer Price Index for Post and Services Producer Price Index for National Post Parcels	53	Postal and courier activities	Monthly Business Survey turnover index and A turnover index of postal activities that are classified as public corporations	Derived*	Consumer Price Index for Post and Services Producer Price Index for National Post Parcels

* a derived volume measure is produced by dividing the current price index by the price (deflator) index

3 Industry overview

3.1 UK Standard Industrial Classification (UK SIC 2007)

The postal and courier industry covers all activities under UK SIC 2007 division 53. This division includes postal and courier activities, such as pickup, transport and delivery of letters and parcels under various arrangements. Local delivery and messenger services are also included.

Based on the [UK Standard Industrial Classification \(2007\)](#), the division is divided into 2 groups:

- 53.1 - Postal activities under universal service obligation
- 53.2 - Other postal and courier activities

Group 53.1 represents businesses that provide the services necessary to support the universal service obligation as defined in the [Postal Services Act 2011](#). All other businesses that handle letters, parcels and packages are represented in group 53.2.

These groups are further sub-divided into classes for ease of measuring output as listed in Table 2.

Table 2: UK Standard Industrial Classification 2007 codes for postal and courier activities

UK SIC (2007) component	UK SIC (2007) activity description
Section H	Transportation and storage
Division 53	Postal and courier activities
Group 53.1	Postal activities under universal service obligation
Class 53.10	Postal activities under universal service obligation
Group 53.2	Other postal and courier activities
Class 53.20	Other postal and courier activities
Class 53.20/1	Licensed carriers
Class 53.20/2	Unlicensed carriers

Source: UK Standard Industrial Classification (2007)

A more detailed breakdown of the postal and courier industry is available in Annex A.

The types of roles and activities undertaken within each aspect of the UK SIC 2007 classification can be found in the ONS guide '[Index, alphabetical and numerical](#)' (page 292). This is particularly useful as it provides more specific information on what roles are undertaken within activities classified to division 53.

3.2 Inter-Departmental Business Register (IDBR)

The [Inter-Departmental Business Register \(IDBR\)](#) is a comprehensive list of UK businesses that is used by government for statistical purposes. It provides the main sampling frame for business surveys carried out by ONS and other government departments. It is also a main data source for analyses of business activity.

The main administrative sources for the IDBR are VAT (Value Added Tax) and PAYE (Pay As You Earn) information from HM Revenue and Customs and details of incorporated businesses from Companies House. The information from these administrative sources is supplemented mainly by the ONS Business Register and Employment Survey to form the IDBR.

The [UK Business: Activity, size and location: 2015](#) statistical bulletin is published annually in October and contains information collated from a snapshot of the IDBR taken in March 2015. Information specific to the postal and courier industry (UK SIC 2007 division 53) has been extracted from the statistical bulletin to give an overview of the industry:

- there were 15,270 enterprises classified under division 53 - this is an increase of approximately 1,670 enterprises (12.3%) from the previous year (March 2014)
- the majority of enterprises within division 53 are allocated to '53.20 – Other postal and courier activities'; and equate to 12,915 enterprises (84.6% of the total division)
- the annual turnover of 5,940 (38.9%) enterprises within division 53 was below £50,000, whereas 545 enterprises (3.6%) had an annual turnover of over £1 million
- the majority of enterprises in division 53 have fewer than 4 people in employment (this equates to 13,145 enterprises or 86.1% of the division)

Further information, extracted from the IDBR publication which is specific to division 53, is available in Annex B.

3.3 Index of Services (IoS) industry structure

Whilst it is useful to establish the breakdown by UK SIC 2007 and the type of activities and roles undertaken by the industry; it is important to note the reporting structure of division 53 for the measurement of Index of Services (IoS). The IoS reporting structure used to measure division 53 as at UK National Accounts - Blue Book 2015 is shown in Table 3.

Table 3: Postal and courier structure for Index of Services – Blue Book 2015

IoS structure	Description
53.1	Postal activities under universal service obligation
53.2	Other postal and courier activities

Although the detailed IoS structure described in Table 3 is used for ease of measuring output, the lowest published level of data within the [IoS](#) publication and the GDP estimates ([preliminary estimate](#), [second estimate](#) and the [quarterly national accounts](#)) is at division 53.

3.4 Importance of the industry to the UK economy at Blue Book 2015

The importance of each industry within the context of the gross domestic product (GDP) of the overall economy can be expressed by a weight, in parts per thousand. For the [output approach](#) to measuring GDP, this represents its proportion of the sum of gross value added (GVA) produced by the economy in a given year. GVA is derived from outputs less inputs, or output less intermediate consumption. This is explained in more detail in the '[UK national accounts – a short guide](#)'.

The weights used by GDP(O) are derived from [supply and use tables](#) calculated as part of [supply and use balancing](#) for each year from 1997 and revisions tend to be higher in later periods. The weights are specifically the GVA for the industry divided by the total GVA for the economy and then multiplied by 1,000. To calculate GVA weights within the Index of Services, rather than dividing by the whole economy we divide by the total of the services industries.

For Blue Book 2015, balancing was applied to 2013 for the first time, but GDP(O) has only used weights for the years up to and including 2012. This is due to the convention that weights must undergo 2 years of balancing to minimise the impact of any revisions. The weights for 2012 are also used in 2013 and subsequent periods. In reference to the whole economy, the updated weights will decrease the importance of industries where GVA has fallen and increase the importance of industries where GVA has risen. This will necessarily produce the potential for revision to the overall GDP(O) index, although the growth rates of constituent industries remain unchanged, and their significance will vary each year. There were no significant changes to the GVA weights for 2012.

The last year for which weights are calculated is also known as the reference year for the index. Therefore, for the most recent UK National Accounts – Blue Book 2015; the latest GVA weights are for 2012 with the index produced on a 2012=100 basis. The GVA weights for 2012, as at Blue Book 2015, for division 53 are shown in Table 4.

Table 4: Blue Book 2015 summary of 2012 weights for division 53

2012 GVA weights (ppt)*				
Industry code	Industry description	GDP(O) section weight	GDP(O) industry weight	IoS weight
H	Transportation and storage	42.9263		54.6433
53	Postal and courier activities		6.5225	8.3029

* (ppt) = parts per thousand

All weights listed are expressed as parts per thousand (ppt) and indicate the relative contribution to the UK economy, with the exception of the IoS weight, which indicates the relative contribution to the UK services industries.

Table 4 shows that for Blue Book 2015, the postal and courier industry contributed 0.7% to the total UK economy and 0.8% to the UK services industries in 2012.

All previous year's GVA weights are open to revision each year, as more data becomes available. For further information on the historic GVA weights used for the postal and courier industry, please see Annex C.

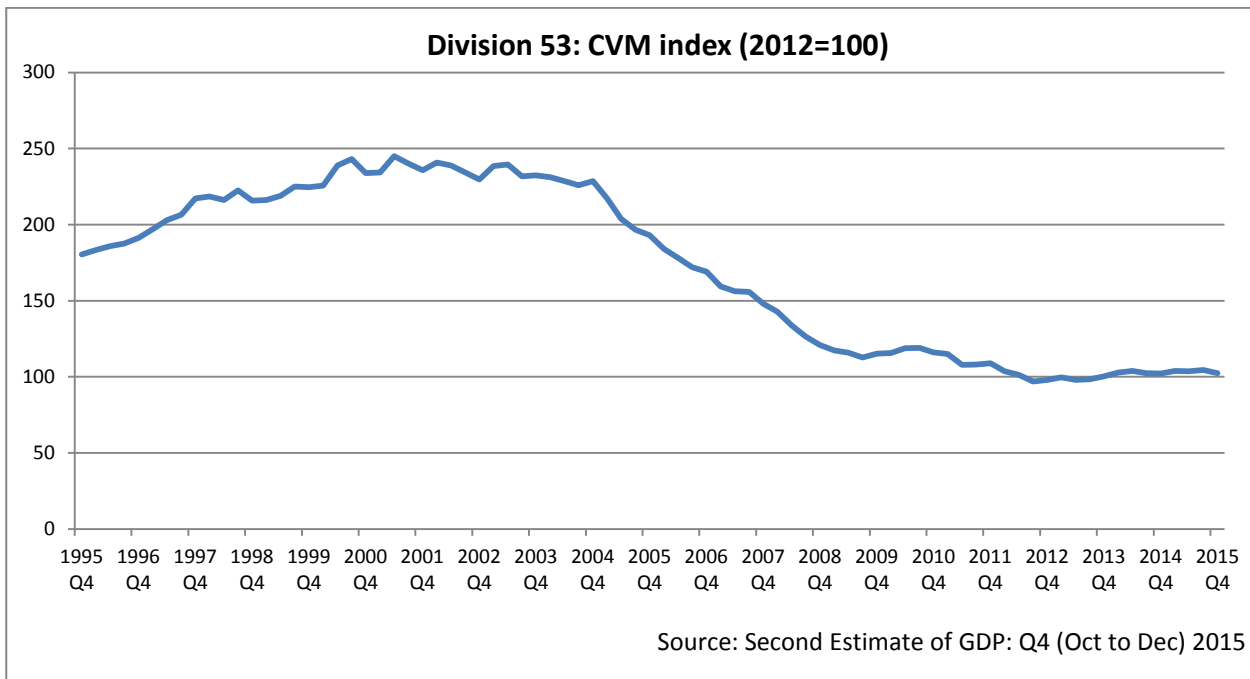
For information on the derivation of IoS weights and aggregation weights, please see the [Index of Services methods](#) page on our website. For an overview of GVA weights used in GDP(O), see the [output approach to measuring gross domestic product – methods and sources](#) page on our website.

3.5 Output index at February 2016

As previously mentioned, the lowest published level of data for the postal and courier industry within the [IoS](#) publication and within GDP publications ([preliminary](#) estimate, [second](#) estimate and the [quarterly national accounts](#)) is division 53.

Figure 1 shows the chained volume measure (CVM) index for UK SIC 2007 division 53 from Quarter 4 (Oct to Dec) 1995 to Quarter 4 (Oct to Dec) 2015. The data has been extracted from the February 2016 publication '[Second Estimate of GDP: Quarter 4 \(Oct to Dec\) 2015](#)'; reference table '[UK GDP\(O\) low level aggregates](#)'. The graph shows that the output for division 53 progressively decreased from 2004 to 2012 and has since remained stable.

Figure 1: CVM index for division 53 from the second estimate of GDP: Quarter 4 (Oct to Dec) 2015, February 2016, UK



4 Previous industry review

As a part of our commitment to improve the sources and methods used to measure the UK services industries, the postal and courier industry was previously reviewed as part of the ONS Index of Services Development Industry Review Programme in 2005. At the time of that review programme, the industry was classed within division 64 under the UK Standard Industrial Classification (SIC) 2003. UK SIC 2003 division 64 consisted of 2 groups:

- 64.1 Post and courier activities and
- 64.2 Telecommunications

The outcome of the review was published alongside Blue Book 2005 and the final report titled 'Post and Telecommunications Industry Review' can be found on the ONS archived web page dedicated to [industry reviews](#).

The review provided good background and conceptual information to support the methods and sources used to measure the postal and courier industry for GDP(O). However, it also covered the telecommunications industry which due to classification changes will not be covered by the current review.

Since the 2005 industry review, methods and sources have been reviewed at periodic points to ensure they meet the requirements of measuring the industry from a national accounts perspective. It cannot therefore be assumed that the methods outlined in the previous report are correct as of today. An overview of the methodology used in Blue Book 2015 to measure UK SIC 2007 - division 53; within the output approach to measuring GDP is detailed in section 5.

5 Blue Book 2015 methodology

This section outlines the Blue Book 2015 methodology used to measure short-term output in the postal and courier industry for the output approach to measuring GDP. The data sources, methods and concepts described in this section relate to those used for Blue Book 2015.

Table 5: Summary of Blue Book 2015 GDP(O) methodology for division 53

Industry code	Industry description	Current price source	Volume	Deflator
53	Postal and courier activities	Turnover from Monthly Business Survey	Volume data	Consumer Price Index for Post and Services Producer Price Index for National Post Parcels

5.1 Postal activities under universal service obligation (53.1)

The output of postal activities under universal service obligation is measured using volume indicators on a monthly basis. These indicators are weighted together and then deflated using a weighted combination of the [Consumer Price Index \(CPI\)](#) for postal services together with the [Services Producer Price Index \(SPPI\)](#) for national post parcels.

Consumer Price Index (CPI)

The CPI is a monthly indicator of UK consumer price inflation produced to international standards. It measures the average change in the prices of consumer goods and services purchased in the UK over time. These goods and services are classified according to the internationally agreed [Classification of Individual Consumption by Purpose \(COICOP\)](#), of which '08.1 - postal services' is the classification category used as a deflator for group 53.1.

The index is calculated by collecting prices from a wide range of products, these include postage prices for first and second class regular and large letters, cost of a £5 postal order, cost of sending international letters, cost of sending small and medium parcels, cost of recorded delivery, cost of special delivery of a letter and the cost of re-directing mail.

Services Producer Price Index (SPPI)

The SPPI indicator is compiled from a statutory quarterly survey; it measures the changes in the prices received for services provided by one UK business to another UK business. All transactions to private individuals and households are excluded. At the industry level the SPPI is classified according to the UK SIC 2007 and the SPPI category '53.10 - national post parcels' is used to remove the effect of price inflation from time series. The data for this category is collected from Parcelforce and an index is calculated.

5.2 Other postal and courier activities (53.2)

All other postal and courier companies that handle letters, parcels and packages are represented in group 53.2 and are not bound by the universal service obligation. The output of this group is measured by deflating the monthly turnover series sourced from the Monthly Business Survey (MBS) using the SPPI series '53.20 – courier services' as a deflator.

The MBS monthly turnover information is compiled from UK businesses sampled from the Inter-Departmental Business Register. Monthly turnover results give an early indication of what is happening in the economy and contribute to a number of important economic measures, including GDP(O), IoP and IoS.

For the SPPI category '53.20 – courier services', the data is collected from 9 components to calculate an index. The proportion of each component of the index is stated in the [SPPI methods and guidance - October 2015](#) report and is given in the brackets next to each category listed below. Due to rounding the sum of these percentage contributions may not add up to 100.

1. UK – Same day (2.27%)
2. UK – Next day (35.39%)
3. UK – Other (32.79%)
4. European Commission Europe – Same day (1.65%)
5. EC Europe – Next day (3.36%)
6. EC Europe – Other (6.39%)
7. Non-EC Europe – Next day (8.72%)
8. Non-EC Europe – Other (7.67%)
9. One-off Contracts – One-off Contracts (1.77%)

6 Conceptual quality

In considering the Blue Book 2015 methodology used to measure the postal and courier industry for the output approach to measuring GDP, it is useful to understand international guidance to ensure the reliability and comparability of data.

6.1 Industry specific guidance on conceptual quality

We use the most appropriate and comprehensive international guidance to judge the conceptual quality underpinning estimates of short-term growth. In this context the most important guidance is that contained in the Eurostat [Handbook on prices and volumes measures in national accounts \(2016\)](#). The handbook is based upon the [Classification of Products by Activity \(CPA\) 2008](#) which broadly relates to [UK Standard Industrial Classification of Economic Activities 2007](#).

Using this guidance framework the quality of each industry is re-assessed by our experts each year. It is important to note that the assessment considers the weakest element of each industry where this breaches a 10% significance threshold and rates the measures as A, B or C quality, with C rated as 'improvement required', B rated industries being deemed 'acceptable' and A rated industries achieving the highest 'appropriate' rating.

The Organisation for Economic Co-operation and Development (OECD) has also published the [Compilation manual for an Index of Service Production \(2007\)](#) providing international guidelines on the compilation of output indicators for the services industries for OECD member countries. It has been written to compliment the Eurostat 'Handbook on prices and volumes measures in national accounts' but with emphasis on short-term measures of output – the Eurostat handbook has been written in the context of annual data, although it can be used in the context of quarterly and monthly data.

The [OECD manual](#) (paragraph 87) states that:

“Appropriately deflated turnover would be classified as an ‘A method’. Turnover deflated by a less appropriate deflator (for example, with wider industry coverage) would be classified as a ‘B method’. Generally the Eurostat handbook classifies volume measures as B methods. However, if there is a detailed breakdown by type of commodity ensuring reasonable homogeneity, and there is very little change in quality, a volume indicator could be classified as an A method. 'Input' indicators are classified as C category indicators by Eurostat, because they do not adequately detect changes in productivity; employment is an example.”

The [OECD manual](#) (Annex 2, page 100) lists the preferred methods for measuring the output of postal and courier services:

Industry description	Preferred methodology												
National Post activities	<p data-bbox="392 432 1185 465">Gross turnover deflated by appropriate quality adjusted price indices</p> <p data-bbox="392 477 916 562">Turnover from survey of national post provider(s) or administrative data from tax returns, which could be split by type of national post activity.</p> <p data-bbox="392 562 547 589">Examples are:</p> <ul data-bbox="392 589 772 701" style="list-style-type: none"> - Business letters and parcels - Consumer letters and parcels - Mailbox rental and poste restante - Sale of postage stamps <p data-bbox="962 477 1342 504">Weighted appropriate price indices.</p> <p data-bbox="962 504 1118 530">Examples are:</p> <ul data-bbox="962 530 1246 616" style="list-style-type: none"> - CPI: Letters and parcels - CPI: Other mail services - PPI: Letters and parcels <p data-bbox="815 701 1023 752" style="text-align: center;">Or Volume indicators</p> <p data-bbox="392 757 547 784">Examples are:</p> <ul data-bbox="392 784 759 925" style="list-style-type: none"> - Number of domestic letters: - Number of international letters: - Number of domestic parcels: - Number of international parcels: - Number of pick up points <table data-bbox="962 784 1436 925" style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Packages and small parcels</td> <td>Large parcels</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Packages and small parcels</td> <td>Large parcels</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Mailboxes</td> <td>Poste restante</td> </tr> </table>	Premium service	Standard service	Premium service	Standard service	Packages and small parcels	Large parcels	Packages and small parcels	Large parcels	Mailboxes	Poste restante		
Premium service	Standard service												
Premium service	Standard service												
Packages and small parcels	Large parcels												
Packages and small parcels	Large parcels												
Mailboxes	Poste restante												
Courier activities other than national post activities	<p data-bbox="392 965 1185 999">Gross turnover deflated by appropriate quality adjusted price indices</p> <p data-bbox="392 999 916 1084">Turnover from survey of couriers or administrative data from tax returns, which could be split by type of other post activity.</p> <p data-bbox="392 1084 547 1111">Examples are:</p> <ul data-bbox="392 1111 600 1196" style="list-style-type: none"> - Domestic - International - One off contracts <p data-bbox="962 999 1342 1025">Weighted appropriate price indices.</p> <p data-bbox="962 1025 1118 1052">Examples are:</p> <ul data-bbox="962 1052 1428 1137" style="list-style-type: none"> - PPI: Domestic letters and parcels - PPI: Trans continental letters and parcels - PPI: Inter continental letters and parcels <p data-bbox="815 1196 1023 1247" style="text-align: center;">Or Volume indicators</p> <p data-bbox="392 1252 547 1279">Examples are:</p> <ul data-bbox="392 1279 919 1444" style="list-style-type: none"> - Number of domestic letters - Number of international letters - Number of domestic packages/small parcels - Number of domestic large parcels - Number of international packages/small parcels - Number of international large parcels <table data-bbox="962 1279 1350 1444" style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> <tr> <td style="border-right: 1px solid black; padding-right: 5px;">Premium service</td> <td>Standard service</td> </tr> </table>	Premium service	Standard service	Premium service	Standard service	Premium service	Standard service	Premium service	Standard service	Premium service	Standard service	Premium service	Standard service
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Premium service	Standard service												

The [Eurostat handbook](#) (section 4.8.3) states that for most types of postal services, the price is determined by a range of factors which includes: size of packet, weight of packet, speed of delivery and destination. The price for other postal services, such as poste restante or mailbox rental, is usually set on a fee or transaction basis. Price tariffs can be complicated because of the range of different products offered, but they are readily available for the household consumer.

Prices for business customers are more likely to be based on contract prices that are more difficult to measure and may require a model pricing approach. It is also necessary to take account of discounts for business users. Discounts may be based around such diverse factors as the quantity of the service consumed or the fact that the business customer pre-sorts the post before it is handed over to the postal company for delivery.

In terms of deflation for postal and courier services, the [Eurostat handbook](#) (section 4.8.3) states that appropriate and representative PPIs which take account of quality changes are an A method. For PPIs to be considered appropriate and representative they would need to cover the full range

of services produced and take account of any discounts. The use of a CPI for post services, adjusted to basic prices, would be a suitable A method only for that part of output provided to households.

PPIs that do not cover the full range of services or do not take account of changes in quality are a B method. Volume indicator methods based on detailed indicators of the many types of services provided, for example, number of letters/parcels broken down by different postage rate, are B methods. The use of detailed CPIs to deflate output other than that consumed by households can be a B method if price developments can be shown to be similar for households and businesses.

However, CPIs are unlikely to be suitable for the full range of postal services, because of the availability of discounts and the different range of products consumed by businesses. Using detailed CPIs for business purchases where it is known that businesses receive discounts or purchase a different range of products than households would be a C method.

6.2 Blue Book 2015 industry quality rating

Prior to the industry review process, the conceptual quality of the short-term measurement of the postal and courier industry was assessed according to the principles outlined in the Eurostat [Handbook on prices and volumes measures in national accounts \(2016\)](#). It should be noted that the assessments made in this report are made by ONS experts rather than Eurostat.

The Blue Book 2015 methodology used to measure postal and courier industry output is rated as follows:

Table 6: Eurostat quality rating as at Blue Book 2015

Industry code	Industry description	Eurostat quality rating as at Blue Book 2015
53.1	Postal activities under universal service obligation	B
53.2	Other postal and courier activities	A

UK SIC 2007 group 53.1 was classified as a B method since volume indicators are used to measure output.

UK SIC 2007 group 53.2 was classified as an A method since the output of this group is measured by deflating a turnover series using appropriate deflators.

The overall quality rating for UK SIC07 division 53 is a 'B' method, since the lowest rating takes precedence at the SUT level. The quality ratings can be seen in the published article [Improvements to the output approach to measure UK GDP, 2015](#).

7 International perspective

OECD

In terms of international comparisons, there are a limited number of countries which undertake the collection of data on the services industries to produce a monthly index. In 2007, the Organisation for Economic Co-operation and Development (OECD) produced guidance in the form of the [‘Compilation manual for an Index of Service Production’](#).

This was compiled by representatives from the UK, South Korea, USA and Canada. These countries all have forms of publication which aim ‘to obtain a more accurate view of short-term economic phenomena in their services sectors’. The OECD manual provides specific methodology in terms of how the service sector should be measured in the short-term. This includes areas such as defining a framework and classification system, noting possible sources and methods and also how the index should be calculated.

Eurostat

For comparison purposes within the European Union, few member states compile a monthly Index of Services (IoS). However, work is being conducted at a European level to address this issue in the form of a taskforce between Eurostat and member states’ national statistics institutes (NSIs). Apart from the UK, the only other European countries which conduct a monthly IoS or equivalent in their respective countries are Ireland and Sweden.

A broad overview of monthly IoS measures produced by other NSIs can be found below. This is based upon information made publicly available through their respective websites (unless otherwise stated).

Ireland

Ireland’s [Monthly Services Value Index](#) (MSI) measures the changes in output at current prices in the non-financial traded services sector. The MSI is compiled and published every month by the [Central Statistics Office](#) (CSO) and has been conducted continuously since 2009. The CSO Central Business Register provides the basis for the Short Term Statistics Register from which a sample of about 2,200 enterprises is selected.

The sole data collected from enterprises is their monthly turnover which is indexed using 2010=100 as the base. The MSI is based on the Statistical Classification of Economic Activities in the European Community Rev. 2 (2008) [that is [NACE Rev. 2](#)], and are consistent with the UK SIC 2007 classification. Estimates for Division 53 – postal and courier activities are published under the broader NACE Rev. 2 category ‘Transportation and Storage (H)’ (NACE 49-53). Therefore these estimates cannot be used for comparison purposes. Further detailed [methodological information](#) on the MSI is available on the CSO website.

Sweden

Within Europe, the nearest comparison to the UK's IoS is the monthly Swedish ['Index of Service Production'](#). This index provides information about the Swedish service sector and has been published since 2005 in a monthly press release, 35 days after the end of the time period in question. The Index of Service Production is based on EU recommended standard, NACE Rev.2. NACE 53 is divided into 2 groups, distinguishing between Postal Activities under Universal Service Obligation (NACE 53.1) and Other Postal and Courier Activities (NACE 53.2).

NSIs from across the world meet annually to discuss service sector statistics under the banner of the 'Voorburg group'. Based on the information provided in the ['Turnover and Output for Postal Activities in Sweden'](#) paper presented at the Voorburg group in October 2013; in 2011, there were 348 enterprises included in the postal and courier activities, with 32,000 employees. The postal and courier activities sector is a small part of the Swedish business sector (excluding financial services) contributing 0.4% of total turnover and 0.8% of value added. It is an industry where a large share of the turnover belongs to 53.1 Postal Activities under Universal Service Obligation.

The Voorburg paper also details the Postal Services survey conducted by Statistics Sweden (SCB), on behalf of [Transport Analysis](#) (TRAFSA), an agency responsible for official statistics on postal and courier activities in Sweden. The study collects data on services, managed volumes, revenues, expenses and employment in Swedish postal operations.

Canada

The closest equivalent estimates beyond Europe are from Canada, which produces a monthly output estimate of GDP with a breakdown by industry. The Statistics Canada website provides an overview of the methodology used to produce the monthly [Gross Domestic Product by Industry](#). The production estimates are prepared for 214 separate industries using the [North American Industrial Classification System](#) (NAICS 2007).

In terms of the NAICS 2007 classification the following groups cover the postal and courier activities; [491 Postal Service](#) and [492 Couriers and Messengers](#). There are a few differences in the activities that are included in group 492 Couriers and Messengers. For example, the delivery of small parcels, such as take-out restaurant meals, alcoholic beverages and groceries, on a fee basis, usually by small truck or van, are included. As a result of this, comparability with the UK Postal and Courier indicators is limited.

Table 7 provides a summary of the methods and data sources used by Statistics Canada to produce the national monthly gross domestic product for postal and courier services.

Table 7: [Methods and sources](#) for postal and courier services

Code	Industry name	Type of indicators	Methods and data sources
491	Postal service	Gross output	Canada Post revenues deflated by a Consumer Price Index adjusted for sales tax changes, Record no. 2301 .
492	Couriers and messengers	Revenues	Revenues declared on the Goods and Services Tax remittance form, Canada Revenue Agency; deflated by the Couriers and Messengers services price index, Record no. 5064 .

8 Issues identified during the industry review

As part of the industry review, various areas were investigated in order to ascertain whether the existing methodology is sufficient and meets the internationally recognised guidance. This section will discuss any issues that have been identified as part of this review; under the following sub-headings:

- significant changes in the postal industry:
 - liberalisation of the UK postal market
 - separation of Post Office Ltd from Royal Mail Group Ltd
 - privatisation of Royal Mail Group Ltd
- coverage of Post Office activities
- other postal and courier activities
- conceptual appropriateness of the postal and courier deflators

The issues will be addressed in turn; however, they are not listed in any particular order of preference or priority.

8.1 Significant changes in the postal industry

8.1.1 Liberalisation of the UK postal market

The UK postal and courier market underwent dramatic changes in 2006 when the industry was opened up to full competition ahead of the European Union deadline of 31 December 2011, the last possible date allowed under European law. As a result the Royal Mail's 350 year monopoly ended in January 2006 when other postal businesses were given the right to collect and deliver mail.

8.1.2 Separation of Post Office Ltd from Royal Mail Group Ltd

Richard Hooper conducted 2 reviews (the first in [2008](#) and the second in [2010](#)) of the postal service and made a number of recommendations.

The [Postal Services Act 2011](#) came into force on 1 October 2011, transferring the regulatory responsibility from Postcomm to Ofcom. The Act provided the legal framework for the restructuring of Royal Mail as a basis for possible privatisation, and made provisions for Post Office Ltd to continue to be owned by the Crown.

In April 2012 the Post Office Ltd, a subsidiary of the Royal Mail Group Ltd, became a separate company and began to operate independently. The Post Office Ltd is wholly owned by the UK government and overseen by the Secretary of State for Business, Innovation, and Skills. The majority of its income is from market sales and therefore remains classified as a public non-financial corporation.

Although the Post Office Ltd continues to support the mail and retail services for Royal Mail and Parcelforce, it provides over 170 different products at branches across its network. These services include the provision of financial services such as bank accounts, saving schemes, insurance and mortgages; services to government departments which includes Department for Work and Pensions, Home Office and Driver and Vehicle Licensing Agency, and telecoms services which includes home broadband and phone packages.

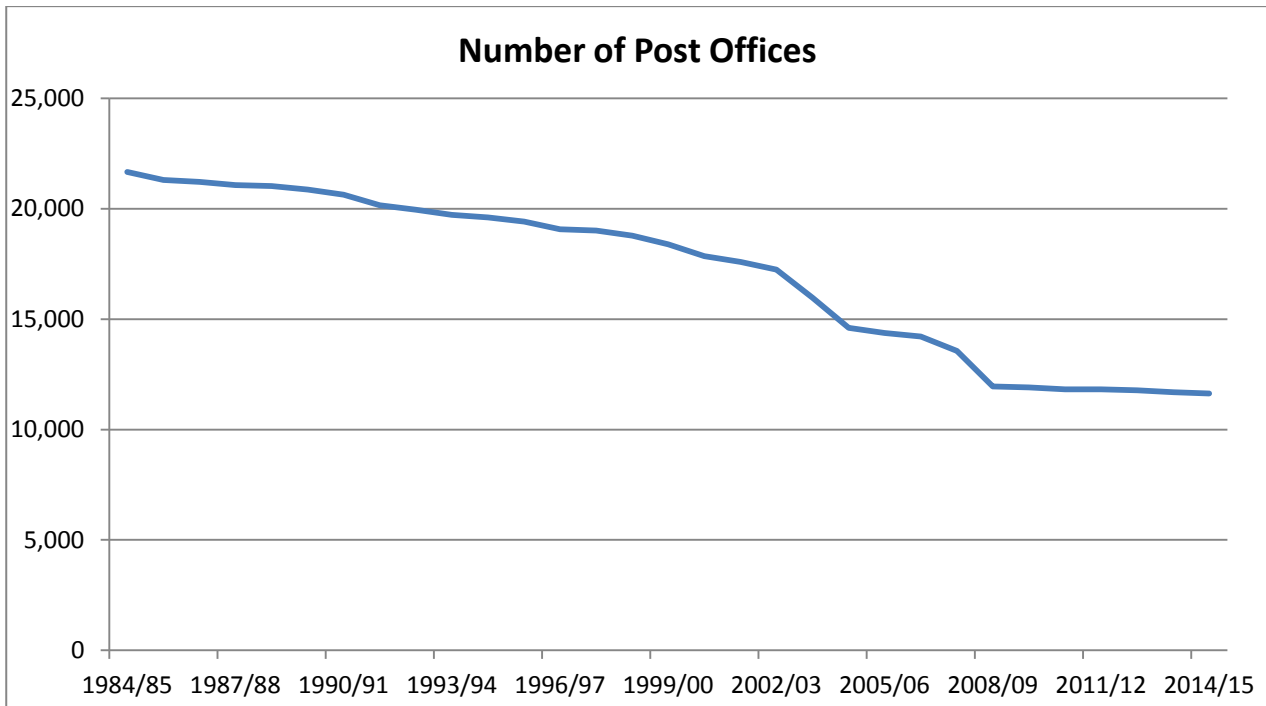
At the end of March 2015, there were 11,634 Post Offices across the UK, previously known as 'Post Office Counters'. The Post Office has divided its outlets into 4 main categories; these are Crown Post Offices, 'Main' Post Offices, 'Local' Post Offices and a series of 'Outreach' services:

- Crown Post Office branches are directly managed by Post Office Ltd – as at March 2015, there were 326 Crown branches
- the 'Main' Post Offices offer a broader range of products and services than the 'Local' branches and in many cases have longer opening hours
- the 'Local' Post Office branches are those where the Post Office operation is fully integrated in the retail outlet, such as a convenience store, petrol station or pharmacy – these Post Offices are likely to have longer opening hours than the traditional post office but a limited range of services
- the 'Outreach' Post Office services are provided for small and rural communities where levels of postal business are relatively low

The Post Office annual turnover stated in its [Post Office Annual Report 2014/15](#) was £976 million. The percentage turnover by its 4 main activities was 40% for mail and retail services, 30% for financial services, 14% for government service, 12% for telecoms, and the remaining 4% was attributed to other income.

Analysis on the data extracted from the [House of Commons Library briefing paper](#), shows that over the past 30 years the number of UK post offices has almost halved.

Figure 2: Change in the number of Post Offices over time



Royal Mail Group Ltd is now a separate company from the Post Office Ltd and is the sole provider of the 'universal postal service' in UK, which by law states that it must deliver to all 29 million UK addresses at a set and affordable price for 6 days a week. Since liberalisation, other postal operators have been able to compete with Royal Mail by offering 'end to end' services for collecting and delivering mail, or by accessing Royal Mail's network for some parts of the delivery process.

Royal Mail's annual turnover stated in its [Annual Report and Financial Statements 2014 to 2015](#) was £9.4 billion. The percentage of turnover by market in 2014 to 2015 was 51% for parcels, 36% for letters and other mail and 13% for Marketing mail.

8.1.3 Privatisation of Royal Mail plc

In October 2013, the UK government floated Royal Mail plc on the London Stock Exchange, selling 60% of the business to investors, allocating 10% to Royal Mail employees thereby leaving the UK government with a 30% stake in the company. This resulted in the [reclassification of Royal Mail](#) from a 'public non-financial corporation' to a 'private non-financial corporation', taking it out of the public sector. The main subsidiary of Royal Mail plc is 'Royal Mail Group Ltd', which operates UK and international parcels and letters delivery through its 'Royal Mail' and 'Parcelforce Worldwide' brands. In light of this and the knowledge that Royal Mail plc is now classified as a private non-financial corporation and is subject to selection for ONS business surveys conducted under the provisions of the [Statistics of Trade Act 1947](#). The coverage of the MBS has been expanded to include 53.1 for non-public businesses.

In summary, the above regulatory changes have mainly impacted the UK SIC 2007 group 53.1, which represents the businesses that either provide or carry out services that support the universal service obligation. This has led to an evaluation of the current methodology used to measure the activities of this group on a short-term basis.

Recommendations

1. It is recommended that Post Office Ltd remain classified to UK SIC 2007 group 53.1, Eurostat has confirmed that any postal companies that carry out services necessary to support universal service obligation should be classified to group 53.1.
2. Due to the fact that Royal Mail Group Ltd and Post Office Ltd are now operating separately, it is recommended that their activities need to be captured separately.
3. It is recommended that Royal Mail Group Ltd be treated in the same manner as other non-financial corporations and be measured by collecting monthly turnover data collected via the Monthly Business Survey, with the aim to implement this in Blue Book 2016.

8.2 Coverage of Post Office Ltd activities

Over the past 30 years the number of Post Offices has almost halved and their activities have become more diverse (see section 8.1.2). However, the review has highlighted that previous volume measures did not adequately represent the activities of Post Office Ltd and that a new data source should be identified. As Post Office Ltd is reflected in public expenditure data it is recommended that data from Public Corporations expenditure are utilised. This will improve coherence with Government final consumption expenditure.

Recommendations

4. It is recommended that the turnover data collected by the ONS Public Corporations Inquiry survey for the Royal Mail Group Ltd (until privatisation) be utilised to compile a representative back series, with the aim to implement this in Blue Book 2016.
5. It is recommended that the activities of the Post Offices be measured by utilising the turnover data collected by the ONS Public Corporations Inquiry survey, with the aim to implement this in Blue Book 2016. The turnover data is collected on a quarterly basis and captures all activities of Post Office Ltd.

8.3 Other postal and courier activities (53.2)

The activities of all other postal and courier companies are captured under the UK SIC 2007 group 53.2, which are currently measured using turnover data from the Monthly Business Survey (MBS). This methodology is conceptually appropriate and meets the criteria set out in the Eurostat [Handbook on prices and volumes measures in national accounts \(2016\)](#).

8.4 Conceptual appropriateness of the postal and courier deflators

The review has concluded that the specific SPPI and CPI deflators described in sections 5.1 and 5.2 to deflate postal activities are appropriate.

8.5 The impact of data revisions on GDP

Initial estimates of the modelled data have been conducted. The results show that the revised Index of Services for industry 53 is now more closely aligned to the [supply use tables](#) (SUT). In reference to this, it is important to note that annual GDP growth rates are established through supply and use balancing as this is a better estimator of growth in gross value added. As such, the changes to the estimates outlined as part of this review will not impact the periods where supply and use balancing set the annual growth rates. For Blue Book 2016 this will be for the period up to and including 2014. After 2014, annual growth rates for industry 53 are established by data as published by the Index of Services.

However, the changes will revise the quarterly chained volume estimate for both the balanced SUT and non-balanced SUT periods. This is due to the lack of quarterly supply and use data and the convention that short-term chained volume estimates for GDP(O) represent the best estimate of value added on a quarterly basis.

9 Blue Book 2016 methodology

This section outlines the Blue Book 2016 methodology proposed to measure short-term output in the postal and courier industry for the output approach to measuring GDP.

9.1 Blue Book 2016 data sources

Table 8: Summary of the proposed Blue Book 2016 GDP(O) methodology for division 53

Industry code	Industry description	Periodicity	Current source	price	Volume source	Deflator source
53	Postal and courier activities	Monthly	Monthly Business Survey		Derived *	CPI/SPPI
		Quarterly	Public Corporations Inquiry survey		Derived *	SPPI

* a derived volume measure is produced by dividing the current price index by the price (deflator) index

9.2 Blue Book 2016 industry quality ratings

As a result of the proposed methodological improvements recommended for Blue Book 2016, the Eurostat A/B/C quality ratings for UK SIC 2007 division 53 will be impacted. According to the internationally recognised guidance, the potential overall quality rating for UK SIC 2007 division 53 will improve from a B 'acceptable' rating to an A 'appropriate' rating. This is in line with the Eurostat [Handbook on prices and volumes measures in national accounts \(2016\)](#). The revised quality ratings are shown in Table 9.

Table 9: Eurostat quality rating as at Blue Book 2016

Industry code	Industry description	Eurostat quality rating as at Blue Book 2015
53.1	Postal activities under universal service obligation	A
53.2	Other Postal and courier activities	A

10 User engagements

Throughout the industry review process, consultations have taken place with a range of internal and external stakeholders. These consultations provided an opportunity to contribute to the continued improvement of the methods and sources used in the measurement of postal and courier output, within GDP(O).

Consultation meetings took place with some important external bodies namely, Office for Budget Responsibility (OBR), Her Majesty's Treasury (HMT), the Bank of England (BoE) and the Department for Business, Innovation and Skills (BIS). The aim of these meetings was to seek feedback on the proposed sources and methodology used to compile the indicators for postal and courier.

The industry review process has also been regularly communicated to the [Short-Term Output Indicator stakeholder group](#). This group includes representatives from the BoE, HMT, OBR and BIS who are kept closely informed of progress.

Final recommendations were discussed and approved by the GDP(O) Improvement Project board, which is attended by senior managers and important ONS stakeholders within national accounts. The board ensures that the quality and methodology underpinning the outputs have kept pace with changing sources and methods.

For a complete list of consultation visits and user engagement articles, please see Annex D.

11 Recommendations

This section provides a summary of the recommendations from the postal and courier industry review.

Recommendations

1. It is recommended that Post Office Ltd remain classified to UK SIC 2007 group 53.1, Eurostat has confirmed that any postal companies that carry out services necessary to support universal service obligation should be classified to group 53.1.
2. Due to the fact that Royal Mail Group Ltd and Post Office Ltd are now operating separately, it is recommended that their activities need to be captured separately.
3. It is recommended that due to Royal Mail Group Ltd being a private company, its activities may be measured by collecting monthly turnover data collected via the Monthly Business Survey, with the aim to implement this in Blue Book 2016.
4. It is recommended that the turnover data collected by the ONS Public Corporations Inquiry survey for the Royal Mail Group Ltd (until privatisation) be utilised to compile a representative back series, with the aim to implement this in Blue Book 2016.
5. It is recommended that the activities of the Post Offices be measured by utilising the turnover data collected by the ONS Public Corporations Inquiry survey, with the aim to implement this in Blue Book 2016. The turnover data is collected on a quarterly basis and captures all activities of Post Office Ltd.

12 References

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<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/gva/relationship-gva-and-gdp/gross-value-added-and-gross-domestic-product.html>
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- Watson, C (2015) [Post Office Numbers](#), House of Commons Briefing paper, October 2015

13 Glossary

Acronym	Full title
BIS	Business, Innovation and Skills
BoE	Bank of England
CPA	Classification of Products by Activity
CPI	Consumer Prices Index
CSO	Central Statistics Office
CVM	Chained Volume Measure
EU	European Union
GDP	Gross Domestic Product
GDP(O)	Output approach to measuring Gross Domestic Product
GVA	Gross Value Added
HMT	Her Majesty's Treasury
IDBR	Inter-Departmental Business Register
IoP	Index of Production
IoS	Index of Services
MBS	Monthly Business Survey
MSI	Monthly Services Value Index
NACE	European Classification of Economic Activities
NAICS	North American Industrial Classification System
NSI	National Statistics Institutes
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PAYE	Pay As You Earn
PPI	Producer Price Index
PPT	Parts per thousand
SIC	Standard Industrial Classification
SPPI	Services Producer Price Index
SUT	Supply Use Tables
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

Annex A: UK Standard Industrial Classification 2007 description for postal and courier activities

Section H Transportation and storage

This section includes the provision of passenger or freight transport, whether scheduled or not, by rail, pipeline, road, water or air and associated activities such as terminal and parking facilities, cargo handling, storage etc. Included in this section is the renting of transport equipment with driver or operator.

Also included are postal and courier activities.

53 Postal and courier activities

This division includes postal and courier activities, such as pickup, transport and delivery of letters and parcels under various arrangements. Local delivery and messenger services are also included.

53.1 Postal activities under universal service obligation

53.10 Postal activities under universal service obligation

This class includes the activities of postal services operating under a universal service obligation by one or more designated universal service providers. The activities include use of the universal service infrastructure, including retail locations, sorting and processing facilities, and carrier routes to pickup and deliver the mail. The delivery can include letter-post, that is, letters, postcards, printed papers (newspaper, periodicals, advertising items, etc.), small packets, goods or documents. Also included are other services necessary to support the universal service obligation.

This class includes:

- pickup, sorting, transport and delivery (domestic or international) of letter-post and (mail-type) parcels and packages by postal services operating under a universal service obligation – one or more modes of transport may be involved and the activity may be carried out with either self-owned (private) transport or via public transport
- collection of letter-mail and parcels from public letter-boxes or from post offices

This class excludes:

- postal giro, postal savings activities and money order activities

53.2 Other postal and courier activities

53.20 Other postal and courier activities

53.20/1 Other postal and courier activities

53.20/2 Licensed carriers

This subclass includes:

- pickup, sorting, transport and delivery (domestic or international) of letter-post and (mail-type) parcels and packages by firms operating outside the scope of a universal service obligation-. – one or more modes of transport may be involved and the activity may be carried out with either self-owned (private) transport or via public transport

This subclass also includes:

- home delivery services

This subclass excludes:

- transport of freight

53.20/2 Unlicensed carriers

This subclass includes:

- pickup, sorting, transport and delivery (domestic or international) of (mail-type) parcels and packages by firms operating outside the scope of a universal service obligation – one or more modes of transport may be involved and the activity may be carried out with either self-owned (private) transport or via public transport

This subclass also includes:

- home delivery services

This subclass excludes:

- transport of freight

Annex B: IDBR Summary information for division 53

The tables below are extracts from the Inter-Departmental Business Register (IDBR) publication '[UK Business: Activity, size and location: 2015](#)' recording the position of units, specifically for division 53 (UK SIC 2007) as at 6 October 2015.

Number of VAT and/or PAYE based enterprises in industry 53 in 2015 UK SIC 2007 class by employment size band

Class	Employment size							TOTAL
	0 - 4	5 - 9	10 - 19	20 - 49	50 - 99	100 - 249	250 and over	
53	13,145	1,350	470	215	50	20	20	15,270
5310	1,450	750	120	25	0	5	5	2,355
5320	11,695	600	345	190	50	15	20	12,915

Number of VAT and/or PAYE based enterprises in industry 53 in 2015 UK SIC 2007 class by turnover size band

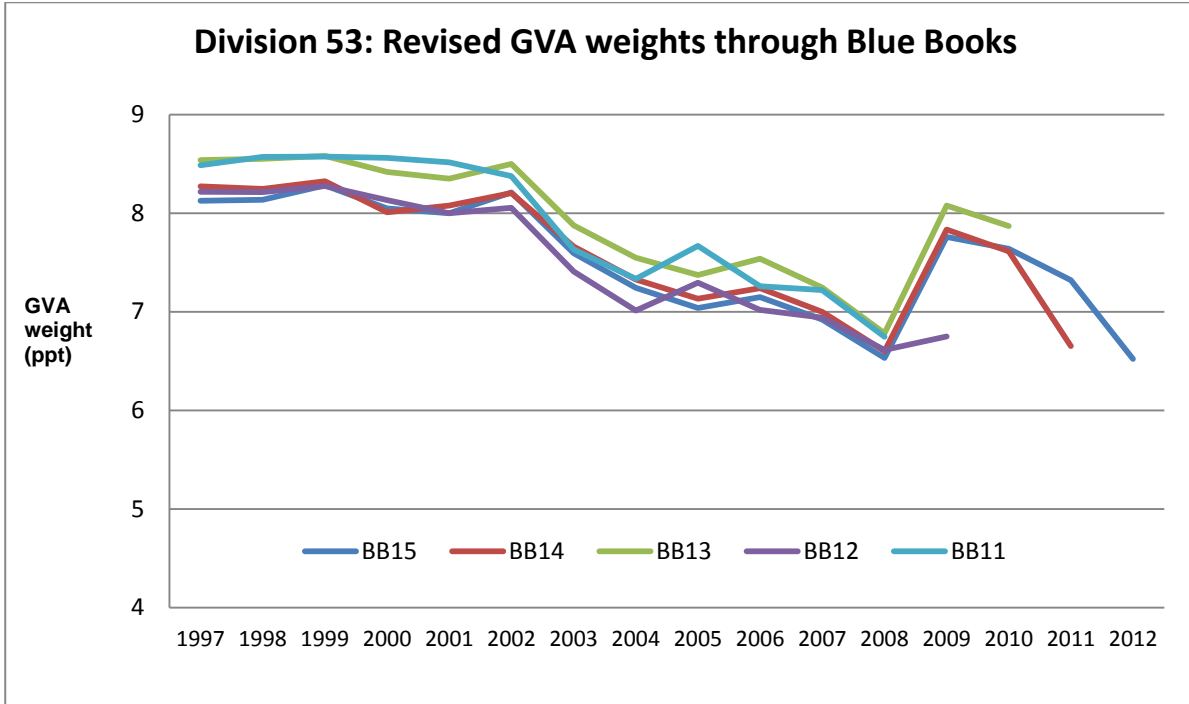
Class	Turnover size (£ thousand)							TOTAL
	0 - 49	50 - 99	100 - 249	250 - 499	500 - 999	1,000 - 4,999	5,000 and over	
53	5,940	4,285	2,965	1,035	500	425	120	15,270
5310	245	460	1,190	330	80	35	15	2,355
5320	5,695	3,825	1,775	700	420	395	105	12,915

Number of VAT and/or PAYE based enterprises in industry 53 in 2015 UK SIC 2007 class by region

Class	Government Office Region												UK
	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	Wales	Scotland	Northern Ireland	
53	435	1,720	1,475	1,410	1,740	1,630	1,720	2,150	1,275	515	920	280	15,270
5310	90	290	265	200	210	195	225	235	220	140	210	75	2,355
5320	350	1,435	1,205	1,205	1,535	1,440	1,495	1,915	1,055	380	705	195	12,915

Annex C: Historic gross value added weights for division 53

Figure 3 illustrates the weight of division 53 through previous Blue Books.



Annex D: List of consultations visits throughout industry review process

Date	Organisation visited	Purpose of visit
23 September 2013	Short Term Output Indicators Stakeholder Group attendees: <ul style="list-style-type: none"> • HM Treasury • Bank of England • Department for Business, Innovation and Skills • Office for Budget Responsibility 	As part of the meeting the progress into the Industry Review process was discussed. See section ' GDP(O) Improvement Seminar '
2 October 2013	GDP(O) users seminar attendees: <ul style="list-style-type: none"> • HM Treasury • Department for Business, Innovation and Skills • Office for Budget Responsibility • National Institute of Economic and Social Research • Marine Management Organisation 	Presentations and Q&A on the industry review process, wider GDP(O) improvements and experimental statistics.
22 October 2013	Bank of England	A trimmed down version of the seminar held on 2 October 2013
21 January 2014	Short Term Output Indicators Stakeholder Group attendees: <ul style="list-style-type: none"> • HM Treasury • Bank of England • Department for Business, Innovation and Skills • Office for Budget Responsibility 	As part of the meeting the progress into the Industry Review process was discussed. See section ' Item 6 – Update on Industry Review and GDP(O) Improvement project '
9 May 2014	Short Term Output Indicators Stakeholder Group attendees: <ul style="list-style-type: none"> • HM Treasury • Bank of England • Department for Business, Innovation and Skills • Office for Budget Responsibility 	As part of the meeting the progress into the Industry Review process was discussed. See ' section 5 – Update on continuous improvement / industry reviews '
14 April 2015	Separate meetings were held with: <ul style="list-style-type: none"> • Bank of England • Office for Budget Responsibility 	Discussion as to the recommendations highlighted as part of the Postal and courier industry and ways in which they are planned to be addressed.
28 April 2015	HM Treasury	Discussion as to the recommendations highlighted as part of the Postal and courier industry and ways in which they are planned to be addressed.
9 December 2015	Bank of England	Discussion as to the recommendations highlighted as part of the Postal and courier industry and ways in which they are planned to be addressed.

Links to the Industry Review requests for consultation from users

Date	Publication/Output
August 2012	Index of Services – Industry Reviews
24 April 2013	Continuous Improvement of Gross Domestic Product: Sources, Methods and Communication (Section 3.1.1. Source Data – Index of Services Industry Review)
June 2013	GDP Output Improvement Report June 2013
22 November 2013	Continuous Improvement of Gross Domestic Product – November 2013 (Section 3.1.1. Source Data – Index of Services Industry Review)
29 May 2014	Continuous Improvement of Gross Domestic Product: Sources, Methods and Communication (Section 3.1.1. Source Data – Index of Services Industry Review)
30 June 2014	Changes to National Accounts: Industry Reviews BB14 Implementation
30 September 2014	GDP Output Improvement Report – September 2014
30 September 2015	Improvements to the output approach to measure UK GDP, 2015
Feb 2013 to present	Index of Services (IoS) Monthly Statistical bulletin In the background notes section of the IoS bulletin, there has been links to articles and seminars highlighted in the tables above. This is therefore another method in which users can consult in terms of the Human Health Activities industry review process.

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