Article

National Accounts articles: Latest developments to national accounts and balance of payments - changes to be implemented for Blue Book 2017 and Pink Book 2017

This article informs users of the planned scope and content of the 'UK National Accounts: The Blue Book: 2017 edition', and 'UK Balance of Payments: The Pink Book: 2017 edition', due to be published on 31 October 2017.

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1 . Executive summary

This article describes the planned scope and content of the "UK National Accounts, The Blue Book: 2017 edition", and the "UK Balance of Payments, The Pink Book: 2017 edition", due to be published on 31 October 2017.

Our prioritised strategy for improving economic statistics is set out in the Economic Statistics and Analysis Strategy (ESAS), formulated in the light of user consultation and views. As important parts of UK economic statistics, Blue Book 2017 and Pink Book 2017 will implement further improvements consistent with that strategy. Detail on the impacts of particular improvements will be published in a series of articles in the lead-up to the publication. The improvements and their impacts will also be presented at various seminars and user groups. A provisional communication schedule is presented in Table 1.

2 . Introduction

Every year the Office for National Statistics (ONS) updates the UK National Accounts through a process known as annual supply and use balancing. This brings together detailed data on the 3 approaches to measuring gross domestic product (GDP) and balances them by product and industry. In addition, volume series are updated so their reference and base years are moved forward, usually this is by one year.

However, in 2017, due to one of the improvements being implemented, the base year will move forward 3 years and the reference year by 2 years (explained in more detail in Section 4 of this article). At the same time major methodological or classification improvements may be implemented within the accounts. The publication incorporating these improvements is known as the Blue Book, and the Quarterly National Accounts release published a month prior is consistent with the Blue Book. Blue Book also includes improvements made to incorporate new data sources, including those used for annual benchmarking purposes.

A parallel process is followed for the balance of payments consistent with the UK National Accounts. The annual publication, known as the Pink Book, is published at the same time as the Blue Book and includes detailed balance of payments statistics including geographical breakdowns of the current account and international investment positions. As with the approach taken with quarterly national accounts, the Balance of Payments quarterly release published a month prior is consistent with the Pink Book.

The UK National Accounts must adhere to international standards, specifically the European System of Accounts and Balance of Payments Manuals, to ensure international comparability. In September 2014, we published the first set of UK National Accounts incorporating methods improvements to bring them in line with the European System of Accounts 2010 (ESA2010), which replaced the European System of Accounts 1995 (ESA1995). The balance of payments (BoP) was published in line with the Balance of Payments and International Investment Position Manual sixth edition (BPM6). Further improvements to bring the UK National Accounts into line with ESA2010 will be made in Blue Book 2017, as well as implementing other improvements considered important by users.

Completion of all improvements to bring the UK National Accounts into line with ESA2010 is scheduled for Blue Book 2018. We are currently planning the scopes of Blue Book 2018 and Pink Book 2018, with a working assumption that these will be published in July 2018.

3 . Scope of Blue Book 2017 and Pink Book 2017

The scope of Blue Book 2017 and Pink Book 2017 includes the main methodological improvements detailed in this section.

Corporate bonds interest payments

A recent data assessment of the interest paid to holders of UK corporate bonds has identified that these bond holders should be receiving more interest than is currently shown in the National Accounts. To address this, a new method (which is in the process of being further quality assured) will be introduced to improve the calculation of bond interest payments. Implementing this change will have a significant impact on bond interest payments and receipts. These impacts will be seen in the current account dataset and the UK gross national income data (but not GDP).

Sectorisation

ESA2010 requires the presentation of separate estimates for the household sector and non-profit institutions serving households sector. Currently these 2 sectors are presented as though they are one sector. More detailed analysis of these sectors will therefore now be possible.

Furthermore, ESA2010 requires more detailed presentation of the types of institution in the financial corporations sector to reflect new developments in financial services, markets and instruments. Currently, the UK financial account is presented separately for 3 types of financial institution. From Blue Book 2017, the financial account will be presented separately for 4 types of financial institution. Again, this means more detailed analyses are possible to understand these sectors better.

Actual rental

Improvements to the data sources and methods used to estimate actual rental will be implemented. This includes the use of new data sources (Valuation Office Agency data and similar data from the devolved administrations) replacing existing Living Cost and Food Survey data. Information on how similar improvements were implemented for imputed rentals in Blue Book 2016 can be found in the article Changes to National Accounts: Imputed Rental.

Surveys

Blue Book and Pink Book 2017 will also include a series of enhancements to survey data and the introduction of new surveys which are explained in further detail.

The compilation of gross fixed capital formation (GFCF) involves processing survey data to capture information on the acquisition costs and proceeds from disposals of fixed assets. Under ESA2010 the scope of the fixed assets that should be included in calculating GFCF has been updated. Survey improvements have been made to the Annual Survey on Business Spend to collect further product level breakdowns and to the Quarterly Survey of Capital Expenditure to update fixed asset categories. In addition, these surveys have been renamed the "Annual Survey on Acquisition and Disposal of Capital Assets" and "Quarterly Acquisitions and Disposals of Capital Assets Survey" respectively. To reflect these improvements, the Annual Business Survey (ABS) will also be updated to align to the new fixed asset categories.

Under ESA2010, the compilation of the financial sector will also benefit from the inclusion of new data in Blue Book 2017, following the introduction of the new Security Dealers Survey. The new, significantly improved survey was introduced in Quarter 1 (Jan to Mar) 2015. There will be no overlap with the previous survey, but it will provide the national accounts with greater detail of the financial assets, liabilities and transactions of securities dealers.

Following the inclusion of the illegal drug trade within the production boundary of the published national accounts in Blue Book 2014, estimates for the number of drug users for individual drugs have become available from the Crime Survey for England and Wales. Currently estimates on the number of drug users are back-cast from 2005 to 1997 but data back to 2000 are now available and will be used in Blue Book 2017.

In Pink Book 2017, there will be an improvement to the source data used to calculate the estimates for education; these data will now be sourced from a survey of UK universities undertaken by the Higher Education Statistics Authority (HESA). Its data gives a breakdown of domicile of foreign students prior to entry to the UK, allowing for a breakdown of education-related travel (for example, EU or non-EU).

Data processing

Blue Book and Pink Book 2017 will also include a series of enhancements to how data are processed.

A review of the GFCF processing system has been undertaken and as a result a new GFCF processing system has been developed. In particular, there will be improvements made to the product breakdown of GFCF, the level at which assets are deflated and the level of seasonal adjustment.

New construction industry deflators will be introduced. The suspension of the construction cost and price indices (CPCIs) published by the then Department for Business, Innovation & Skills (BIS) in 2014, resulted in the Office for National Statistics creating interim CPCIs and launching a programme of work to develop a longer-term solution. The construction development programme has presented 3 options to users including creation of tender price indices (TPIs) or input cost indices that could both be converted to output price indices (OPIs) under different methodologies; or creating a new survey on output prices within the construction industry. To date, we have progressed the first 2 of these options and we are sharing these developments with the specialist steering group for construction statistics. A wider consultation is planned for autumn 2016, with a view to refining our preferred option ready for implementation in Blue Book 2017.

4 . Other improvements

To ensure the UK National Accounts adhere to international standards, enabling comparison with data produced in other countries, specifically ESA2010, methods improvements are required to address our principles for measuring prices and volumes. To put this in to context, the UK first introduced annual chain-linking of volume data in 2003. At that time, the UK chose the following approach for calculating chained volume measure (CVM) data:

- the last base year is the latest re-balanced year through the Supply and Use Framework – typically t-3 years where t is currently 2016

- volume data for periods after the last base year are calculated using the prices of the last base year – rather than previous years' prices

- as a consequence CVM data in the fixed base tail are additive

- the reference year in the UK is updated annually in line with the last base year

- at the time of writing, the UK has a last base year and reference year of 2013

Following the introduction of ESA2010 the UK is required to improve prices and volume methods after the last base year. The planned improvements will be to update the volume series calculation to the latest last base year as soon as data for it are available. Therefore, the last base year for CVM will be moved forward by 3 years, from 2013 to 2016, in Blue Book 2017 and Pink Book 2017. As the UK National Accounts are fully integrated this methodological change will be made at the same time to short-term indicators, trade statistics, balance of payments, government finance statistics and regional short-term indicators. An article providing further details on this change in methodology will be published on Wednesday 12 October 2016.

The reference year will continue to be updated during the annual balance and it is planned that the reference year for chained volume estimates will be moved forward by 2 years, from 2013 to 2015, in Blue Book 2017 and Pink Book 2017.

Highlights of the other main improvements to be incorporated in Blue Book 2017 and Pink Book 2017 include:

- continued reconciliation between the public sector finance statistics and the national accounts

- implementation of classification decisions including the reclassification of English Housing Associations (private registered providers of social housing) to the public corporations sector

- continued commitment to publish historic datasets (that is, data for the period prior to 1997) alongside the Blue Book 2017 and Pink Book 2017 consistent datasets

5 . Revisions

These improvements will lead to revisions throughout the published time series. Revisions between 1997 and 2012 will mainly be due to methods changes, whilst the years 2013 to 2015 will also be fully open for revision to allow the incorporation of new data from sources such as the Annual Business Survey.

6 . Communications

To keep you informed on all changes to the national accounts, we will adopt a similar approach to that taken in previous Blue and Pink Books. We will publish a series of articles in the lead up to the publication, supported by news releases, highlighting the main changes detailed in this article. The changes will also be presented at various seminars and user groups.

Table 1 gives a provisional schedule for the remaining articles leading up to the publication of Blue Book 2017 and Pink Book 2017 on 31 October 2017. Final dates will be announced at least 1 month before each publication.

Table 1: Provisional publication schedule for Blue Book 2017 and Pink Book 2017

Content of article	Provisional date of publication
Changes to the methods of UK chain-linking of economic statistics	Wednesday 12 October 2016
GFCF system/methods configuration	End October 2016
Impact of changes to the methods of UK chain-linking of economic statistics	End November 2016
Blue Book 2016 revisions analysis and impact	End January 2016
National Accounts: Impact of Blue Book 2017 changes on GDP current prices annual estimates, 1997 to 2012	End February 2017
Methodological improvements to national accounts for Blue Book 2017 and Pink Book 2017	End February 2017
Series of articles to include:	
· household and NPISH sector split	
· Interest on long-term debt securities issued by UK corporations	
· financial accounts sub-sectorisation and the introduction of the new Securities Dealers Survey data	
· reclassification of English Housing Associations and other classification decisions	
· GFCF enhancements	
National Accounts: Impact on GDP chained volume measures annual estimates, 1997 to 2012	End March 2017
National Accounts: Detailed assessment of changes to annual sector accounts annual estimates, 1997 to 2012	Mid May 2017
National Accounts: Detailed assessment of changes to balance of payments annual estimates, 1997 to 2012	Mid May 2017
National Accounts: Impact of Blue Book 2017 on GDP current price and chained volume measure quarterly and annual estimates, 1997 to 2015	End June 2017
National Accounts: Detailed assessment of changes to annual sector accounts, 1997 to 2015	Mid August 2017
National Accounts: Detailed assessment of changes to balance of payments, 1997 to 2015	Mid August 2017
Quarterly National Accounts Quarter 2 (April to June) 2017 (consistent with Blue Book 2017)	Friday 29 September 2017
Balance of Payments Quarter 2 (April to June) 2017 (consistent with Pink Book 2017)	Friday 29 September 2017
Impact of changes in the national accounts and economic commentary for Quarter 2 (April to June) 2017	Friday 29 September 2017
Alignment between public sector finances and national accounts	Monday 2 October 2017
Blue Book 2017 and Pink Book 2017	Tuesday 31 October 2017

Source: Office for National Statistics