



Postal and courier activities industry review, 2016

Summary Report

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1 Introduction

In the UK, the output approach to measuring GDP (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. As part of the Office for National Statistics' (ONS) commitment to continuous improvement, a programme of industry reviews commenced in December 2012. This programme aims to review the concepts, methods and data sources underpinning the short-term indicators, to ensure that they remain fit for purpose. It also demonstrates the commitment of ONS to quality assure outputs as part of the [Code of Practice for Official Statistics](#).

The reviews are conducted broadly at the division level of the [UK Standard Industrial Classification 2007 \(UK SIC 2007\)](#) and will cover the whole economy with a provisional completion date of 2021. 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 [full report](#) 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

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.

As at Blue Book 2015, the postal and courier activities ([UK SIC 2007 division 53](#)) accounted for:

- 0.8% of the Index of Services
- 0.7% of total GDP(O)

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.

4 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; prior to the completion of this industry review.

Table 2: Summary of Blue Book 2015 GDP(O) methodology for division 53

Industry code	Industry description	Current price source	Volume	Deflator	GDP(O) industry weight (ppt)*
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	6.5225

* (ppt) = parts per thousand

5 Issues identified during the industry review

A summary of the issues identified during the postal and courier industry review are detailed in this section.

5.1 Significant changes in the postal industry

5.1.1 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.

5.1.2 Separation of Post Office Ltd from Royal Mail Group Ltd

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 majority of its income is from market sales and therefore remains classified as a public non-financial corporation.

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. 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.

5.1.3 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.

5.2 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. 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.

5.3 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 volume measures in national accounts \(2016\)](#).

5.4 Conceptual appropriateness of the postal and courier deflators

The review has concluded that the specific SPPI and CPI deflators used to deflate postal activities are appropriate.

5.5 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.

For further information on these issues, see section 8 of the [full report](#).

6 Blue Book 2016 methodology

Table 3 provides details of the Blue Book 2016 methodology proposed to measure short-term output in the postal and courier industry for the output approach to measuring GDP.

Table 3: Summary of 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

7 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, see section 10 and annex D of the [full report](#).