



Third International Seminar on Early Warning and Business Cycle Indicators

**17 – 19 November 2010
Moscow, Russian Federation**

Harmonized business and consumer surveys: an overview

Organisation for Economic Cooperation and Development

Harmonized business and consumer surveys: an overview

Statistics Directorate OECD
Moscow 2010

Introduction

Business and Consumer Tendency Surveys are carried out to obtain *qualitative* information for use in monitoring the current business situation and forecasting short-term economic developments. Information from these surveys has proved of particular value in forecasting turning points in the business cycle. The purpose of this note is to show how these surveys are designed and carried out, how the results are processed and how they can be used for economic analysis.

Business and consumer tendency surveys – also called opinion or climate surveys – ask company managers (consumers in the case of consumer surveys), about the current situation of their business (households), and about their plans and expectations for the near future. Experience in OECD Member countries has shown that surveys of this type provide information that is valuable to the respondents themselves and to economic policy makers and analysts. Although they do not provide precise information on levels of output, sales, investment, employment or consumption they can be used to predict changes in these aggregates and, for that reason, they are particularly useful for analysing the business cycle.

A historical perspective on tendency surveys

The European Commission's harmonised survey programme, managed by the Directorate-General for Economic and Financial Affairs (DG ECFIN), was set up in 1961, and its scope has since expanded considerably in terms of both countries and sectors covered.

The European Union established a standard framework for business tendency surveys during the 1970s. The OECD subsequently worked with the EU during the 1990s to adapt this system for use by transition countries in Europe and Central Asia¹ and OECD countries, later in collaboration with the UN's regional economic agencies has helped countries in Asia and Latin America to adopt the same system. Much of the early development and recent improvements in business tendency surveys is due to the activities of CIRET – the Centre for International Research on Economic Tendency Surveys² a forum for leading economists and institutions that conduct and analyse business tendency and consumer survey data – augmenting the regular workshops co-organized by DG ECFIN and OECD on tendency surveys.

Key common features of tendency surveys

Qualitative nature

The information collected in business and consumer tendency surveys is described as qualitative because respondents are asked to assign *qualities*, rather than *quantities*, to the variables of

1 See, for example *Development of Business and Consumer Surveys in Central and Eastern Europe: Summary of Workshops 1991-1996*, OECD/GD (97)84, OECD, Paris, 1997.

2 Website - <http://www.ciret.org/html/info.html>

interest. For example, in a business tendency survey, respondents might be asked to assign *qualities* to the value of their order books such as “higher than normal”, “normal” or “below normal” or signal the direction of changes in production, qualifying whether it “goes up”, “stays the same” or “decreases”. In a conventional industry survey, on the other hand, respondents may be asked to give *quantitative* information about their order books, such as the actual value of outstanding orders, or in the case of production indicate the percentage change of volumes and value of their production.

It is important to stress that the majority of the qualitative questions refers to the situation of the surveyed unit and not the macroeconomic concept that can be associated with the question. Beyond this core set of questions anchored to the activity of the surveyed units the questionnaires may include questions asking the respondents perception of key macroeconomic variables, such as overall business situation (in the case of business surveys) or perceived inflation (in consumer surveys). For business cycle analysis and forecasting the micro-rooted questions tend to perform better than the perception-type questions. Nonetheless, for investigations on the behaviour of respondents, and for uncovering systematic biases in the surveys these additional perception-type questions carry valuable information.

Easy information collection

The tendency surveys are designed for quick and cost effective information retrieval. They minimize respondent burden and also keep processing costs relatively low. In this type of surveys, respondents are expected to give qualitative information, which does not require that they consult their accounting records. The questionnaires are also kept short (usually not longer than one page). As a result, the questionnaires are more likely to be completed and returned in a short time than other type of questionnaires that require more information to be filled in. The small size of the questionnaires and the qualitative nature of the tendency surveys make processing a simple. The operation of tendency surveys is not resource intensive (compared to other statistical frameworks), especially when the operating agency carries out other statistical or data collection activities that creates synergies in maintaining the sample and contacts with the respondents.

Timeliness

As a result of the light survey design the overall time spent with collection of data and processing is minimal. The summary of the data collected in the beginning of the month can be published just days later, within the reference month. This feature makes the tendency surveys very popular, not only among macro-economists, but also among traders and financial markets analysts.

Forward looking elements

Business and consumer tendency surveys have an element that is rarely captured by traditional measurement based, quantitative statistics: expectations on the immediate future. This feature, to the extent that the respondents can forecast accurately (or formulate informed expectations), further improves timeliness by advancing the availability of business-cycle relevant information.

Wide coverage of information

Compared to traditional statistical surveys, which usually cover only variables on one aspect of an enterprise’s activity, business tendency surveys collect information about a wide range of variables selected for their ability to give an overall picture of a sector of the economy. For example, most business surveys collect information on various elements of the production process ranging from orders, production, stocks of finished goods, employment to prices.

Beyond the core questions, the range of information covered by business and consumer tendency surveys goes beyond variables that can easily be captured in conventional quantitative statistics. Qualitative information may be collected for variables that are difficult or impossible to measure by conventional methods. Examples include:

- capacity utilisation;
- production bottlenecks;
- consumption and saving plans
- views on the evolution of specific macro variables.

Use of tendency surveys

The main users of survey results are the respondents themselves. Detailed survey results broken down by sectors of activity give them valuable information on business conditions in their own sector as seen by their competitors and about the current and future business situation in their suppliers' and users' sectors.

Economic and financial analysts have also become major users of series derived from business tendency surveys. This is because the data are available rapidly and because some of the series provide advance warning of changes in aggregate economic activity. In addition, the survey information focuses on assessments and expectations of the economic situation by actors on the market. Being a source of advance information, the tendency survey releases are widely monitored, and have a proven track record as market movers.

Business and consumer tendency surveys are conducted in all OECD Member countries and in many countries beyond and they have proved a cost-efficient means of generating timely information on short-term economic developments. Conventional quantitative statistics are often published with long delays in many of these countries so that policy makers cannot use them for analysing the current situation and they cannot take remedial action to avert financial and other economic crises. A reliable system of qualitative short-term indicators can therefore be seen as a valuable complement to the system of quantitative statistics.

Recent studies have shown that information incorporated in business and consumer tendency surveys can help predicting revisions in official quantitative statistics. Therefore statistics offices in their effort to improve early releases of quantitative data, remove biases and decrease consecutive revisions can benefit from monitoring, incorporating into their data processing systems the tendency survey data.

In summary, the applications and uses of tendency surveys are plenty depending on the user's profile and interests. It encompasses the evaluation of one's relative position to its peers, monitoring and forecasting business cycles (either for trading or for policy control purposes), and improving the quality of other economic statistics. The major application however lies with business cycles monitoring and forecasting: the cyclical profiles of the tendency survey series are in many cases easy to detect because they contain no trend. Usually the series are seasonally adjusted, at least to some extent, by the respondents and this adds to the smoothness of the series. This and the fact that they usually do not need revisions, facilitate their use in forecasting and, in particular, in predicting turning points in the business cycle. Many survey series provide advance warning of turning points in aggregate economic activity as measured by GDP or industrial production and are therefore classified as *leading indicators* in cyclical analysis.

Benefits of harmonization

The history of tendency surveys can be traced back to the early decades of the 20th century, with most of the surveys carried out by business associations in the early years, with the countries joining later showing a wide variety of institutional settings: statistical offices, central banks, private research institutes, universities. Although with some common elements the surveys have been developed in parallel by the national organizations till the 1970s when the European Commission started to lay the foundations of a harmonized European framework. This harmonized system was later further refined. The number of countries implementing tendency surveys that are closely compatible with the harmonized system grew along the years including countries on all continents. The points below summarize the numerous advantages of harmonization:

Reliability

The survey procedures and the questions used in the system have been extensively tested over many years across more than 30 countries which often have a significantly different industrial structure and stage of economic development. The harmonised system thus uses survey questionnaires and procedures that have been shown to produce business tendency survey data that has proved reliable and useful for policy makers.

Comparability

Use of the harmonised system allows participating countries to compare their business tendency survey results with those of neighbouring or countries within their peer-group. It opens the way to regional aggregate construction. It also allows addressing questions relating to cyclical convergence/divergence and leading-lagging relationship among countries.

Enforced / improved quality (quality control / framework)

With the aim to ensure the quality of the data the harmonized system formulates recommendations for carrying out tendency surveys in a number of domains:

- *Target universe, units, sample design*
- *Questionnaires, variables selection*
- *Periodicity of the surveys & timing*
- *Collection procedure, and response handling*
- *Seasonal adjustment*

Transparency

The application of the harmonized system immediately improves transparency, as the users of the system are have access to the methodological descriptions and guidelines governing the processes. But even beyond that, the harmonized system recommends the provision of sufficient information about the overall quality of the survey to enable users to draw accurate inferences from the data: comparability, periodicity, coverage, sources and any additional comments which would be useful to interpret the data. It is also standard practice to include the actual questionnaire used for the survey along with the instructions to respondents.

Flexibility

Harmonisation does not mean uniformity. The national questionnaires may include additional questions, beyond the harmonised ones. Similarly, the sectoral breakdown in the questionnaires may be more detailed than the one set in the program. Also, the survey institutes are free to

organise the fieldwork the way that best suits their needs. In particular, the sample design, the sample size, the survey mode, and other methodological considerations are left to their discretion. Nevertheless, institutes are invited to implement the international guidelines on data collection and survey design recently developed by the European Commission and the OECD. The important point is not to have a literal translation of the original question in English but to retain the meaning of the question. A limited number of additional questions can be added to reflect country specificities, without affecting the benefits drawn from harmonization. Other differences in the questionnaires (e.g. use of different concepts, of different reference periods, missing questions, etc.) should be avoided however in order to ensure comparability of survey results across countries.

Closing remarks

This document summarizes the information provided in two key documents in the field of tendency survey harmonization.

The European Commission (DG ECFIN) document:

European Economy, Special Report No 5, Directorate for Economic and Financial Affairs, European Union, Brussels, 2006

The OECD document:

Business Tendency Surveys: A Handbook, OECD, Paris, 2003