



An Phríomh-Oifig Staidrimh
Central Statistics Office

information notice

Revised Structural Business Statistics series

Introduction

The CSO information note of 24 June 2016 last outlined that CSO has updated the definition used in Business Statistics of what constitutes an active enterprise.

www.cso.ie/shorturl/453

The Business Demography release of 6 July 2016 outlined the reasons for the new definition of what constitutes an active enterprise and the impact of this updated definition on the population of active enterprises see (<http://www.cso.ie/en/releasesandpublications/er/bd/businessdemography2014/>). The CSO is now measuring more enterprise activity in its Business Statistics reports, typically measuring for the private business economy 240,000 enterprises now rather than the 180,000 or so previously. Primarily, this is due to the removal of thresholds in determining which enterprises to measure.

This new population of active enterprises is in turn measured by the Structural Business Statistics (SBS) series. The SBS series provides information on the structure of the business economy in Ireland - numbers working and numbers of enterprises in the sectors of Industry, Services & Distribution and Construction, the value added generated by enterprises from these sectors, and a range of other analyses (by size class, nationality, etc.).

The CSO took the opportunity to review the methodology for the compilation of the SBS series in conjunction with introducing the new population of active enterprises. Revised SBS series for the years 2008 to 2014 will be published over the coming weeks - in three releases for the Industrial, Services & Distribution and Construction sectors respectively. The revisions will incorporate the changes in methodology (as described below) and the broader population of enterprises. There will therefore be a significant break in the SBS time series pre- and post-2008 and this will affect comparability when looking at pre and post 2008.

New SBS methodology

The three releases - on Industry, Services & Distribution, and Construction - will provide more detail on the reasons for the changes in the data (i.e. old SBS series compared to new). At a summary level, the SBS series are being revised due to the following main factors:

(i) There are now more enterprises considered active per the Business Demography series. These enterprises need to be measured by SBS. What is considered an active enterprise per the register of active enterprises in Ireland will determine its inclusion in the SBS series. Size class thresholds will no longer be applied. For example, the Industry series previously didn't estimate for enterprises employing less than 3 persons engaged, but will do so now.

(ii) Updates in the National Accounts series. Under rules for the compilation of EU National Accounts (ESA 2010) a number of data series have been updated. As relevant to the SBS series, these adjustments principally concern the new aircraft leasing and Research & Development (R&D) series.

(iii) Non-response treatment & the greater use of administrative data. As part of the methodological review we have examined our methodology for non-response treatment. We have aligned our non-response methodology more closely to the use of available administrative data (tax data) and changed how we estimate for non-response. These new estimates for non-response are now incorporated into the SBS series.

(iv) *Other adjustments.* The review has also taken the opportunity to update the series for some sectoral NACE adjustments (enterprises being reclassified from one particular NACE sector to another) and updates to some Multinational Enterprise data as measured by our National Accounts Large Cases Unit are also incorporated.

The revisions will bring about closer coherence between the SBS data series and the related National Accounts (Income Method) series for Gross Value Added. The National Accounts figures are not affected by these SBS revisions as the compilation of the National Accounts (Income method) relies on a parallel process involving use of administrative data. The SBS and National Accounts series, as seen through the measure of Gross Value Added, measure different but complementary account items.

The SBS updated series is for the period 2008-14 only, so the recent step-change experienced in the National Accounts and the Monthly Production data series for reference year 2015 do not impact on the SBS data for 2008-14. The updated National Accounts and Monthly Production data for 2015 will feed into SBS (Industry) data for reference year 2015 (and years thereafter).

Gross Value Added - why SBS and National Accounts measures of GVA are different

Both SBS and National Accounts provide information on Gross Value Added (GVA) for the business economy, but they are different concepts. The SBS GVA measure is broadly analogous to the concept of “gross profit” as one would understand it from a standard enterprise Profit & Loss Account, while the National Accounts concept of GVA is one more rooted in broader economic theory and includes data and adjustments unrelated to the typical enterprise profit & loss type measures of turnover, purchases, etc.

The SBS measure of GVA is broadly summarised as follows, taking a top-down approach:

- Production value = Turnover - purchases + addition to capital assets +/- stock change
- GVA = Production value - Intermediate consumption

The National Accounts measure of GVA, as measured by the Income approach to the compilation of the National Accounts, is a bottom-up approach where the essential starting point is enterprise profits/losses (otherwise known as Gross Operating Surplus). To this starting point then, other estimates for the compensation of employees are added, as well as other National Account specific adjustments. For more information on the compilation of National Accounts GVA please see this link <http://www.cso.ie/en/media/csoie/surveysandmethodologies/documents/pdfdocs/NIE2015methodology.pdf>

In summary, the major differences between the two concepts of GVA are:

1. *Survey data versus Administrative data* - the SBS series largely rely on survey data as provided by the enterprises themselves, whereas the National Accounts estimation of GVA relies more on administrative data as provided by the Revenue Commissioners. These different data sources will result in different estimates of enterprise activity.
2. *Personnel cost estimates* - the SBS series uses data provided by the enterprises themselves and supplemented by the CSO Business Register. National Accounts estimates for “compensation of employees” use administrative sources from the Revenue Commissioners’ data on income tax along with data from the CSO Quarterly National Household Survey and the CSO Quarterly Earnings release (EHECS). These different data sources will result in different estimates for personnel-related costs.
3. *Conceptual adjustments* - National Accounts adjustments are required for production activities which are not captured in the activities of enterprises, for example estimates for the so-called “black” economy. These estimates are not included in SBS.
4. *Different coverage* - National Accounts GVA must measure own-use and non-market output also, while the SBS series only measures market activity. This particularly impacts on the rental sector, where National Accounts include an estimate for the own-use output of households. National Accounts include these estimates of the value of housing services produced by households which they then consume. These kind of estimates are not included in SBS.
5. *Other National Accounts adjustments* - the National Accounts methodology for the calculation of GVA also outlines a range of other adjustments which are not in SBS. The main ones are: adjustments for stocks appreciation across the economy (which are not captured by SBS survey returns) and Financial

Intermediation Services Indirectly Measured (FISIM). FISIM is used in National Accounts to value the activity of financial corporations as intermediaries between depositors and borrowers. FISIM is not measured in the SBS series.

Which measure of Gross Value Added to use

In addition to the reasons for the differences between the SBS and National Accounts GVA series above, there are a number of other factors a user should consider when deciding which GVA measure to use:

1. *Coverage* - the SBS series only provides data on the sectors of Industry, Services & Distribution and Construction. The National Accounts series provides detail on GVA for the entire economy.
2. *Detail* - subject to confidentiality constraints, the SBS series typically provides more detail than National Accounts for the sectors of Industry, Services & Distribution and Construction. In some cases, SBS data can be available down to NACE 4-digit level. In some circumstances, the SBS data is also available at more detailed geographical levels than National Accounts measures of GVA for the sectors of Industry, Services & Distribution and Construction. In addition, for detailed analyses concerned with enterprises the SBS series would be the more appropriate one to use as size class and other analyses are available.
3. *Comparability over time* - the main purpose of the SBS series is to provide an insight into the structure of the business economy at a particular point in time. The SBS data are not deflated for price effects and so changes in the SBS series over time can come from changes in prices and activity / volume levels. The National Accounts GVA series is provided on a current and constant price basis and so changes in activity levels can be more easily discernible from the National Accounts series.
4. *Timeliness* - the SBS series is an annual series and is typically available 18 months or so after the end of the particular reference year. This time lag is primarily due to the availability of year end company accounts, and in particular the requirement to await finalisation of the data for some of the larger enterprises who have a material impact on the economic aggregates of the business economy in Ireland. The National Accounts GVA series is available as both a quarterly and annual series and so is available earlier to users.

Publication schedule

The revised SBS series will be published as follows:

- Industry - week beginning October 24th
- Services & Distribution - week beginning October 31st
- Construction - week beginning November 7th
- Business in Ireland publication - by end November

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