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(Noumea, New Caledonia, 12–16 July 2010)

***Statistics2020 – Developing sustainable national and regional statistical capacities***

**Session 3.2 : Design and conduct of HIES classifications to meet**

**national accounts requirements**

(Document presented by the Secretariat of the Pacific Community)

**Purpose**

1. The purpose of this paper is to discuss ways to help link household income and expenditure survey (HIES) outputs to national accounts data requirements in light of the three prevailing methods to estimate gross domestic product (GDP). These approaches are based on estimating GDP by expenditure, by income, or by production.

**National accounts approaches**

1. Estimating GDP by expenditure, is based on the following input data:
2. Household consumption expenditure on goods and services
3. Gross fixed capital formation (acquisitions of fixed assets)

(covering transport equipment, buildings, office equipment, machinery, dwellings etc.)

*2.1* Investments by financial and non-financial corporations

*2.2* Household investment (in-country)

*2.2.1* Major alterations to dwellings

*2.2.2* Purchases of new dwellings

*2.2.3* Purchases of durable goods (with lifespan over one year)

*2.3* Government fixed assets

1. Government final consumption expenditures
2. Net exports
3. Estimating GDP based on income
4. Compensation of employees (in kind and cash)
5. Operating surplus/mixed income

*2.1* from own and household business (mixed income)

*2.2* from formal incorporated businesses (operating surplus)

1. Estimating GDP by production/output

GDP is the result of the difference between production/output and intermediate consumption. At the level of the main establishments, such information is generally available. In terms of household and household business production and intermediate consumption, only household surveys can enlighten us. The HIES can tell us the value of total household business production and its corresponding intermediate consumption.

**HIES data**

1. As the name indicates, in household income and expenditure surveys the two main data components are linked to household income and expenditure (referring to cash and in-kind) regarding private household consumption, with expenditure related to household business activities not taken into account.
2. Experience has shown that it is not always easy for enumerators (and field supervisors) to make the distinction between a personal or a business purchase, particularly in circumstances where households own a business; a classic example is provided by taxi or minibus drivers who buy fuel to run their transport business but also use their vehicle (and fuel) for personal matters.
3. Ensuring a clean distinction between personal and business expenditure under such conditions remains a big challenge in HIES. To address this issue, some lessons can be drawn from past HIES. For example, in three French Pacific territories over the past 10 years (French Polynesia 2001, Wallis and Futuna 2005, New Caledonia 2008), an item called ‘business part’ was added in front of some expenditure items: bills referring to electricity, telephone, and water consumption, as well as rent can apply to both personal and household business expenditure and consumption. In the 2005 Wallis and Futuna HIES, if a household sold more than 3 pigs in a one-year period it was considered to be a ‘pig seller’ working as a business. This meant that expenditure items related to this business activity, such as the purchase of imported pig feed, were excluded from general household expenditure. Purchase of pig feed can be considered an intermediate expense in the business of pig farming.
4. When applying the GDP by expenditure approach, **household consumption of goods and services**, as well as **in-country household investments**, can be linked to discrete HIES outputs. Household consumption of goods and services deals with household final consumption expenditure, based on the international recommendation of the United Nation Statistics Division: COICOP (Classification of Individual Consumption according to Purpose). Created in 1999, COICOP allows harmonisation on consumer price index (CPI) and HIES final consumption. COICOP has 12 divisions (Table 1).

Table 1: HIES final consumption

|  |  |
| --- | --- |
| **Division COICOP** | **Label** |
| 01 | Food and non-alcoholic beverages |
| 02 | Alcoholic beverages, tobacco and narcotics |
| 03 | Clothing and footwear |
| 04 | Housing, water, electricity, gas and other fuel |
| 05 | Furnishing, household equipment and routine household maintenance |
| 06 | Health |
| 07 | Transport |
| 08 | Communication |
| 09 | Recreation and culture |
| 10 | Education |
| 11 | Restaurants and hotels |
| 12 | Miscellaneous goods and services |

1. Household investments (in-country) are divided into three groups based on HIES in Tonga, Tuvalu and French Pacific territories:
2. *The purchase of a house*, or dwelling, is covered in the HIES questionnaire in the section dealing with loans, with loan payments over the preceding 12-month period representing a specific expenditure item. These payments can cover both equity (capital) and interest.

Interest payments are included in COICOP Division 12, Group 6, as ‘Financial services’, whereas equity/capital represents the investment in the purchase of a house or dwelling. Therefore, great care has to be applied at the data processing stage in making this distinction, and the loan questionnaire must be detailed enough to estimate the interest component. It is important to note that in some PICTs, such as the French Pacific territories, the purchase of a house is only covered by the loan questionnaire, so data on people purchasing a house without taking a loan are not currently captured.

1. *Main alterations to the dwelling* covers two areas:

* Major alterations, which add long-term value to the dwelling (e.g. extension, new kitchen, outside deck, swimming pool, double garage); and
* Major maintenance, paid for by the owner, such as putting on a new roof or retaining wall; minor on routine repairs and maintenance are not included under investment but are listed under final consumption.

In order to distinguish between investment and final consumption expenditure, it is necessary to be very specific in the questionnaire about the work that has been done, as the same expenditure can apply to consumption (minor maintenance) or investment (major maintenance and alteration).

1. *Durable goods* refer to expenditure items with a lifespan normally exceeding one year or items that are continuously used over a long time, like major purchases listed in Table 2 below.

Table 2: Durable goods in COICOP

|  |  |
| --- | --- |
| **Code COICOP** | **Label** |
| 05.1.1 | Furniture and furnishing |
| 05.1.2 | Carpet and other floor covering |
| 05.3.1 | Major household appliances electric or not |
| 05.5.1 | Major tools and equipment |
| 06.1.3 | Therapeutic appliances and equipment |
| 07.1.1 | Motor cars purchase |
| 07.1.2 | Motorcycles purchase |
| 07.1.3 | Bicycles purchase |
| 08.2.0 | Telephone and telefax equipment |
| 09.1.1 | Equipment for the reception, recording and reproduction of sound and pictures |
| 09.1.2 | Photographic and cinematographic equipment and optical instruments |
| 09.1.3 | Information processing equipment |
| 09.2.1 | Major durables for outdoor recreation |
| 09.2.2 | Musical instruments and major durables for indoor recreation |
| 12.3.1 | Jewellery, clocks and watches |

**Information not collected in HIES**

1. Household business expenditures are important in national accounts, especially in countries where specific kinds of business are quite prominent (in terms of value) or numerous (in terms of providing economic livelihoods). Most HIES do not collect these intermediate expenditures, but could readily be adjusted to do so. In the case of household businesses, for example, an additional module could be added that addresses small business expenditures. This inclusion would also mean that countries would not need to engage in separate ‘small business activity’ surveys. The Tuvalu HIES in 2004, for example, included such a form related to household businesses.
2. It is also possible to create a group for ‘household intermediate consumption’, even for households that are not involved in a business. For instance, COICOP Division 09 includes fishing material as a recreational expense. In most of the Pacific countries, however, fishing is not primarily a recreational expense but an intermediate expense in order to obtain fish for own consumption or sale. It should be possible to target all items that can be classified as intermediate consumption.

**DISCUSSION**

1. The conference is invited to comment on the following general and specific suggestions:

*General:* Adapt HIES questionnaires to national account data needs

*Specific* :

1. Create a questionnaire especially related to dwelling purchase:
   * Purchase of dwelling in the period between this survey and the past one.

- If there is a purchase, ask: - the price

- Is it a new one?

- Did you receive a loan?

1. Have a detailed questionnaire on loans in order to estimate interest and capital refunded over the past year.
2. In the dwelling alteration questionnaire, distinguish investment expenses and final consumption expenses.
3. Distinguish the business expense and the household consumption expense, and add the opportunity to collect business expenditures (in a separate module).
4. Distinguish the intermediate consumption of the households that have subsistence activities and create an intermediate consumption group.
5. For each expense ask the location of the purchase; the most useful information is the name of the shop, but if that is not available at least ask if the purchase was in the territory or overseas.

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