



Measurement of the Financial Sector: FESAC Agencies Response to the Financial Crisis

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FESAC Agencies Response to the Financial Crisis

- BEA, BLS, and Census produce estimates of the financial sector's receipts, expenses, output, income, prices, tangible wealth, and productivity.
- BEA, the Federal Reserve, and Treasury produce estimates of the financial sectors financial flows and stocks.
- Since the financial crisis, the FESAC and other agencies have been actively involved in improving timeliness, filling gaps in coverage, tracking the recovery, and better integrating their data.

BLS Productivity Measures for Financial Services

- Industry productivity program publishes labor productivity measures for Commercial Banking, NAICS 52211
 - Banking industry output is based on transactions approach
 - Combines a variety of transactions in deposits, loans, trusts
 - BLS is currently revising its output measure to include additional banking services and updated weights
- A multifactor productivity “research dataset” (production account) for non-manufacturing sectors is maintained by BLS
- Four sectors within NAICS 52 (finance and insurance) are covered
 - Concerns about MFP results include the negative trends for banking and volatility of annual movements for securities



BLS Producer Price Indexes for Banking and Financial Services



- PPI program publishes indexes that cover 64% of in-scope financial services in the following industries:
 - Investment Banking & Securities Dealing
 - Securities Brokerage
 - Portfolio Management
 - Investment Advice
 - Commercial Banking
 - Savings Institutions

- Gaps in PPI Financial Services coverage:
 - Depository Credit Intermediation: Credit Unions and Other Depository Credit Intermediation
 - Non-depository Credit Intermediation (includes credit issuing, sales financing, consumer lending, real estate credit, etc.)
 - Commodities Contracts Dealing
 - Commodities Contracts Brokerage
 - Securities and Commodity Exchanges
 - Miscellaneous Intermediation
 - Trust, Fiduciary, and Custody Activities
 - Miscellaneous Financial Investment Activities



Census – Quarterly Services Survey

Expedited Quarterly Services Survey Expansion

- Ambulatory Health Care Services and Social Assistance
- Truck Transportation, Courier Services, Warehousing, Rental and Leasing Services, Arts, Entertainment, and Recreation, and Other Services
- **Monetary Authorities – Central Banks, Commercial Banking, Savings Institutions, and Nondepository Credit Intermediation, Securities, Commodity Contracts, and Other Financial Investments and Related Activities, and Insurance Carriers - EXPEDITED BY 18 MONTHS**
- Utilities, Air Transportation, Water Transportation, Transit and Ground Transportation, Pipeline Transportation, Scenic and Sightseeing Transportation, Transportation Support, Real Estate, Lessors of Nonfinancial Intangible Assets, and Educational Services

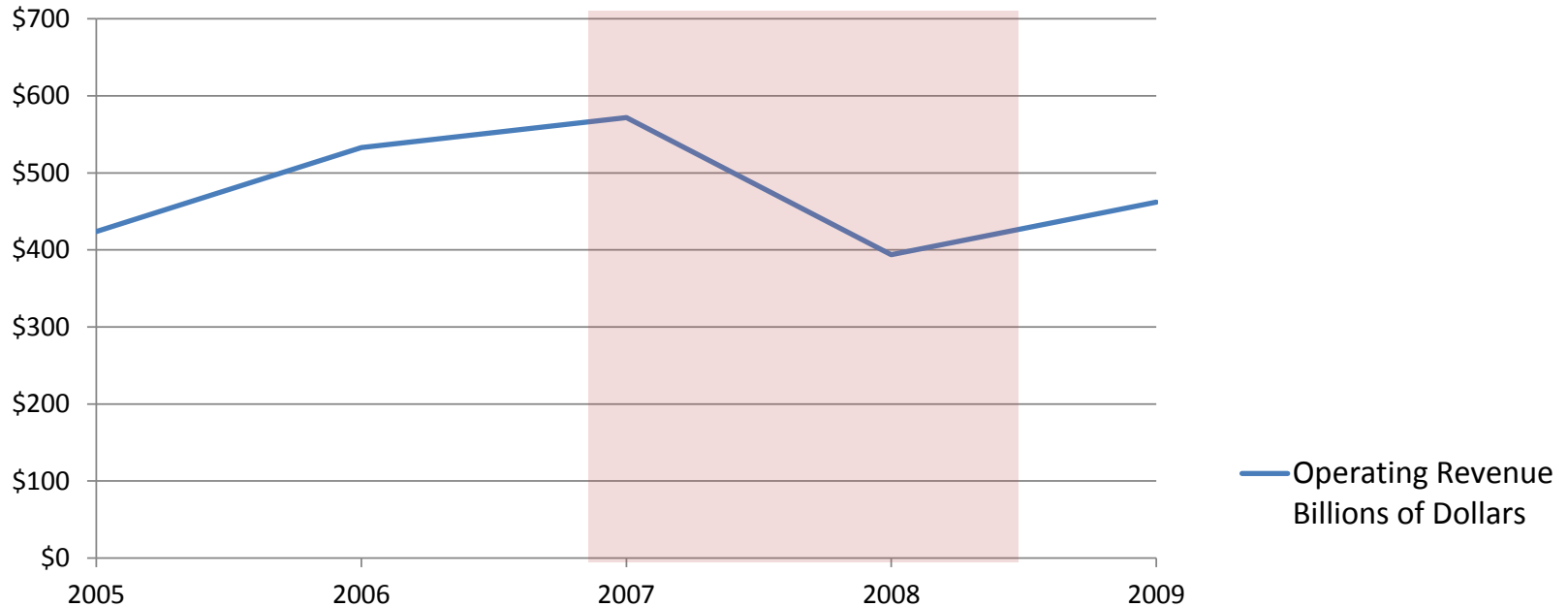
Census: Service Annual Survey

Services Annual Survey Expansion

- Utilities, Air Transportation, Water Transportation, Transit and Ground Transportation, Pipeline Transportation, Scenic and Sightseeing Transportation, Transportation Support, **Monetary Authorities – Central Banks, Commercial Banking, Savings Institutions, and Nondepository Credit Intermediation, Security and Commodity Exchanges, Insurance Carriers, Real Estate, Lessors of Nonfinancial Intangible Assets, and Educational Services** (22, 481, 483, 485, 486, 487, 488, **521, 522, 5232, 524, 531, 533, 61**)

Expanded Coverage of SAS

Securities, Commodity Contracts, and Other Financial Investments Activities (NAICS 523)¹ - Estimated Revenue for Employer Firms 2005-2009



Estimates are based on data from the 2009 Service Annual Survey
 Estimates represent approximately 14% of the Finance and Insurance Sector
 Shaded area = Recession: December 2007 - June 2009

¹ Excludes Securities and commodity contracts intermediation and brokerage (NAICS 5231), Portfolio management (NAICS 52392) Investment advice (NAICS 52393), Miscellaneous intermediation (NAICS 52391), and All other financial investment activities (NAICS 52399)

BEA National Accounts: Finance and insurance industry

Finance and insurance sector, 2009

(Billions of dollars)

	Gross output	Value added	% of GDP	Personal consumption	% of PCE
Finance and insurance	2,264.7	1,171.6	8.3	813.8	8.1
Banks/credit intermediation	1,027.8	514.0	3.6	327.5	3.3
Securities/investments	442.5	175.2	1.2	129.8	1.3
Insurance	669.2	424.5	3.0	308.6	3.1
Funds, trusts, etc.	125.2	57.8	0.4	47.9	0.5

BEA National and Industry Accounts:

- In addition to direct fees, some financial services are funded indirectly:
- To capture financial services funded in this manner, the national accounts add imputed service fees (and equivalent imputed interest)
- For 2009, imputed financial and insurance services to consumers were \$215.6 billion (2.2% of PCE)

BEA National and Industry Accounts

- As part of the benchmark revision for financial services furnished without payment, expected credit losses will be excluded from borrower services
- Financial services without payment will be split between depositor and borrower services to avoid spurious volatility.
- The reference rate approach (currently used for commercial banks) will be extended to thrifts

BEA National and Industry Accounts

- The newly available and accelerated QSS and SAS data will help in improving the accuracy of BEA's quarterly GDP estimates, especially around turning points.
- BEA is exploring the contribution of income in the financial services industries to the statistical discrepancy during recent business cycles.
- Post-financial crisis, BEA has developed tracking systems or tracking the Recovery Act and other tax and spending changes and their impact on GDP and GDI.

BEA International Accounts: Balance of Payments and International Investment Position

- Current Account of the Balance of Payments
 - Exports and imports of financial and insurance services
 - Portfolio and direct investment income
- Financial Account of the Balance of Payments
 - Transactions in U.S.-owned assets abroad and in foreign-owned assets in the United States
 - Net purchases/sales of securities
 - Change in outstanding amounts for deposits, loans, and other claims and liabilities
 - Transactions in direct investment, U.S. reserve assets, other U.S. government accounts
 - Financial derivatives - net settlements

BEA International Accounts

- International Investment Position
 - U.S.-owned assets abroad and foreign-owned assets in the United States (U.S. liabilities)
 - Positions at yearend
 - Adjusted for valuation changes and other changes
 - Gross positive/negative fair value of derivatives at yearend
- BEA will be making significant changes in the financial accounts to better decompose by functional category, by type instrument, by maturity, and by sector.
- BEA is developing new estimates for insurance technical reserves, provisions for calls under standardized guarantees, and implicit financial services.

Implications of the Financial Crisis

- Cross Border Financial Linkages: BEA, Treasury & FRB
 - BEA participated in the IMF's first Coordinated Direct Investment Survey last year
 - BEA is planning to introduce quarterly IIP by fall of 2012
 - Treasury acceleration of TIC data on financial derivatives transactions and positions for BOP and IIP is expected
 - BEA and Treasury are linking data to close gaps and eliminate possible duplication for nonbanks that became banks during the financial crisis
 - BEA and Treasury are working to improve reporting by respondents.

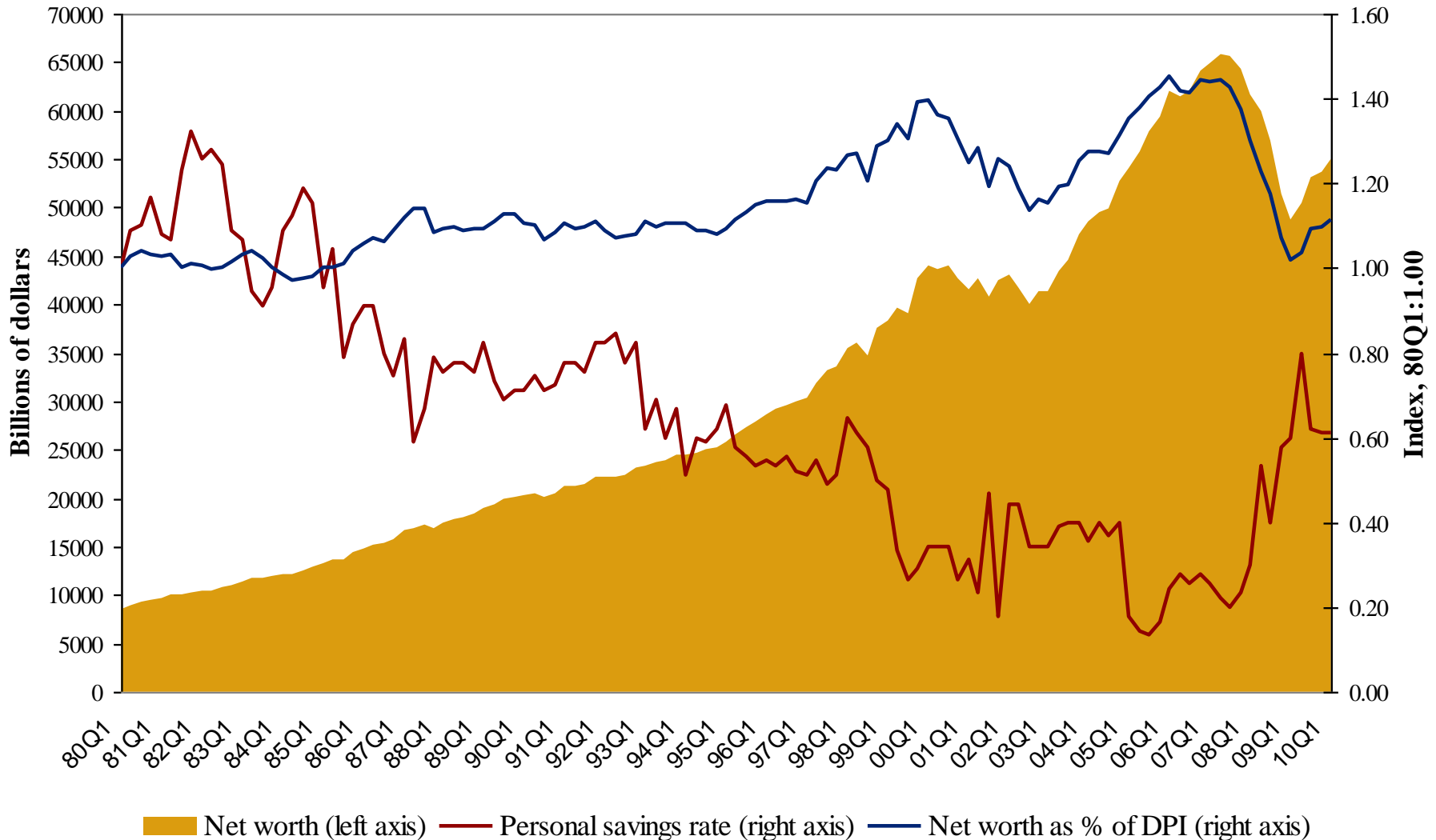
Implications of the Financial Crisis

- Cross Border Financial Linkages: BEA, Treasury & FRB (continued)
 - BEA is planning to incorporate improved source data from new Treasury International Capital Reporting (TIC) Form SLT
 - More timely data on cross-border holdings of long-term securities
 - Improved coverage of hedge fund and private equity investment
 - Improved detail on domestic sectors (assets - U.S. issuer; liabilities - U.S. holder)

Other Implications of the Financial Crisis

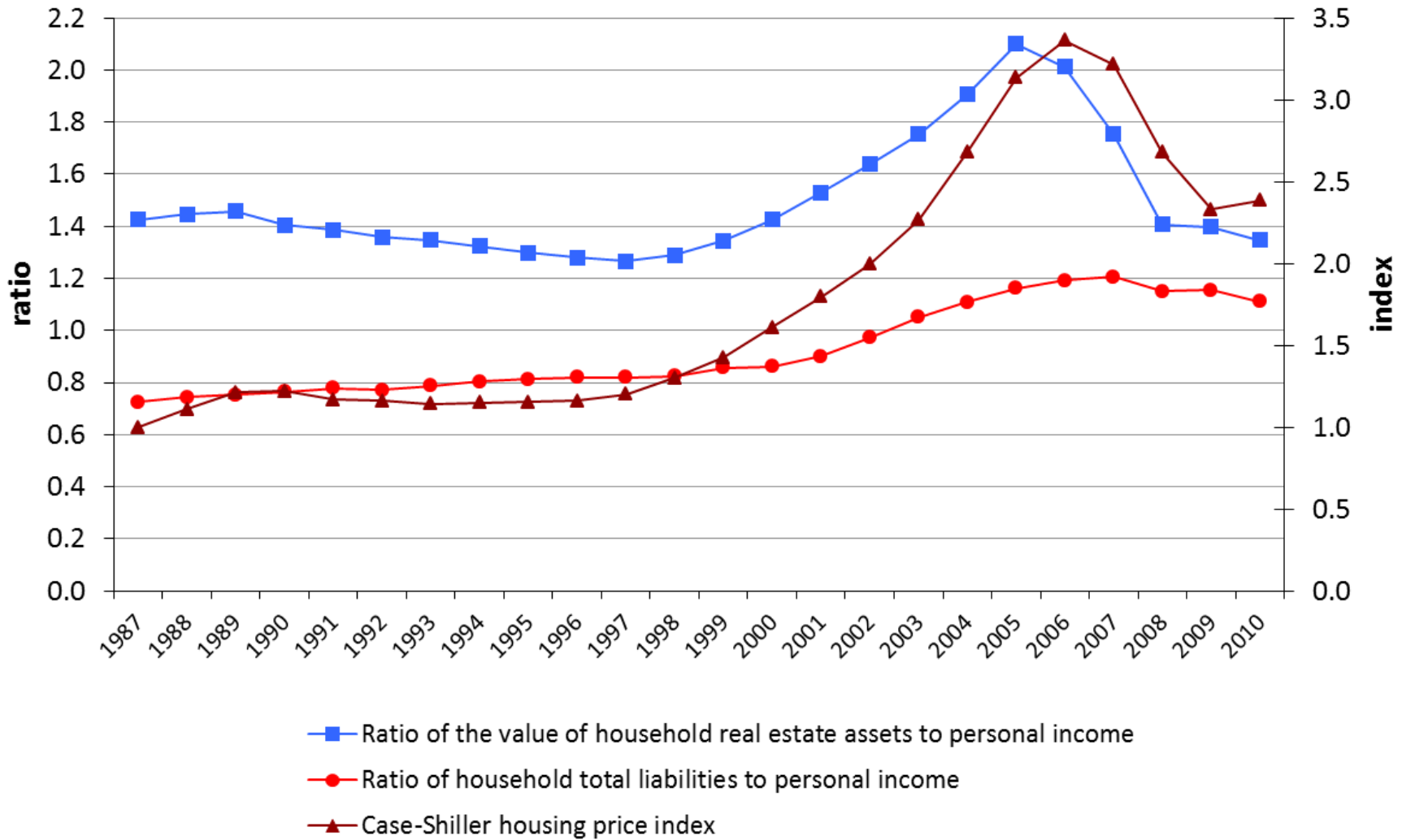
- Better data from BEA, Treasury and Fed on the vulnerability of the domestic economy to shocks:
 - Integrated real and financial sector accounts – quarterly with more detail on the financial sector
 - Improved government finance statistics (with Treasury)
 - Add distributional information on income, consumption, and wealth to the national accounts.
 - Improve communication of official statistics
 - Integrated presentation of real estate, and other asset prices – and other financial information, relative to income, profits, and other information.
 - Monitor economic vulnerabilities

Feeling Rich on Unrealized Gains



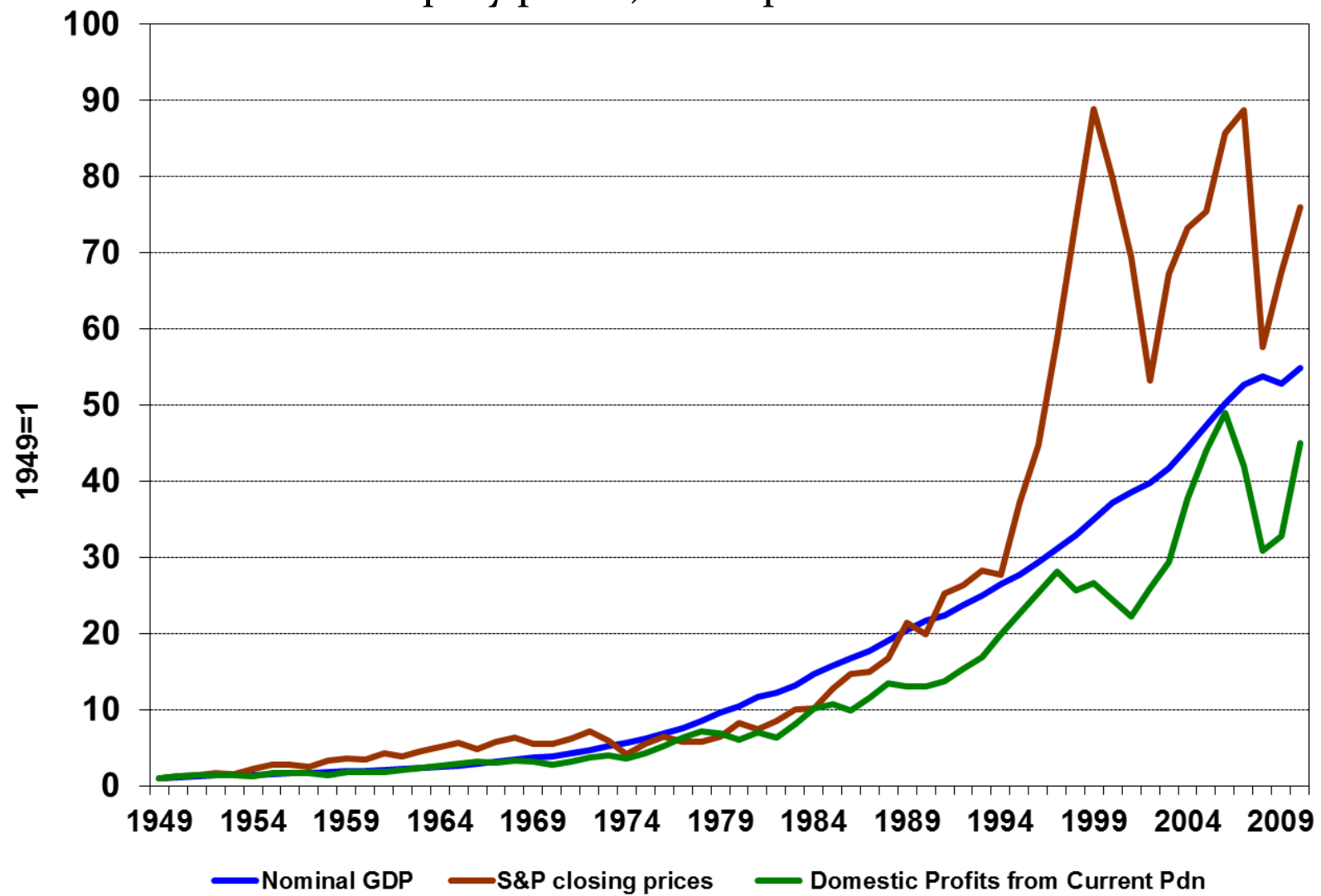
“How Did the Bubble Stay Under the Radar?”

Response to Robert Shiller?



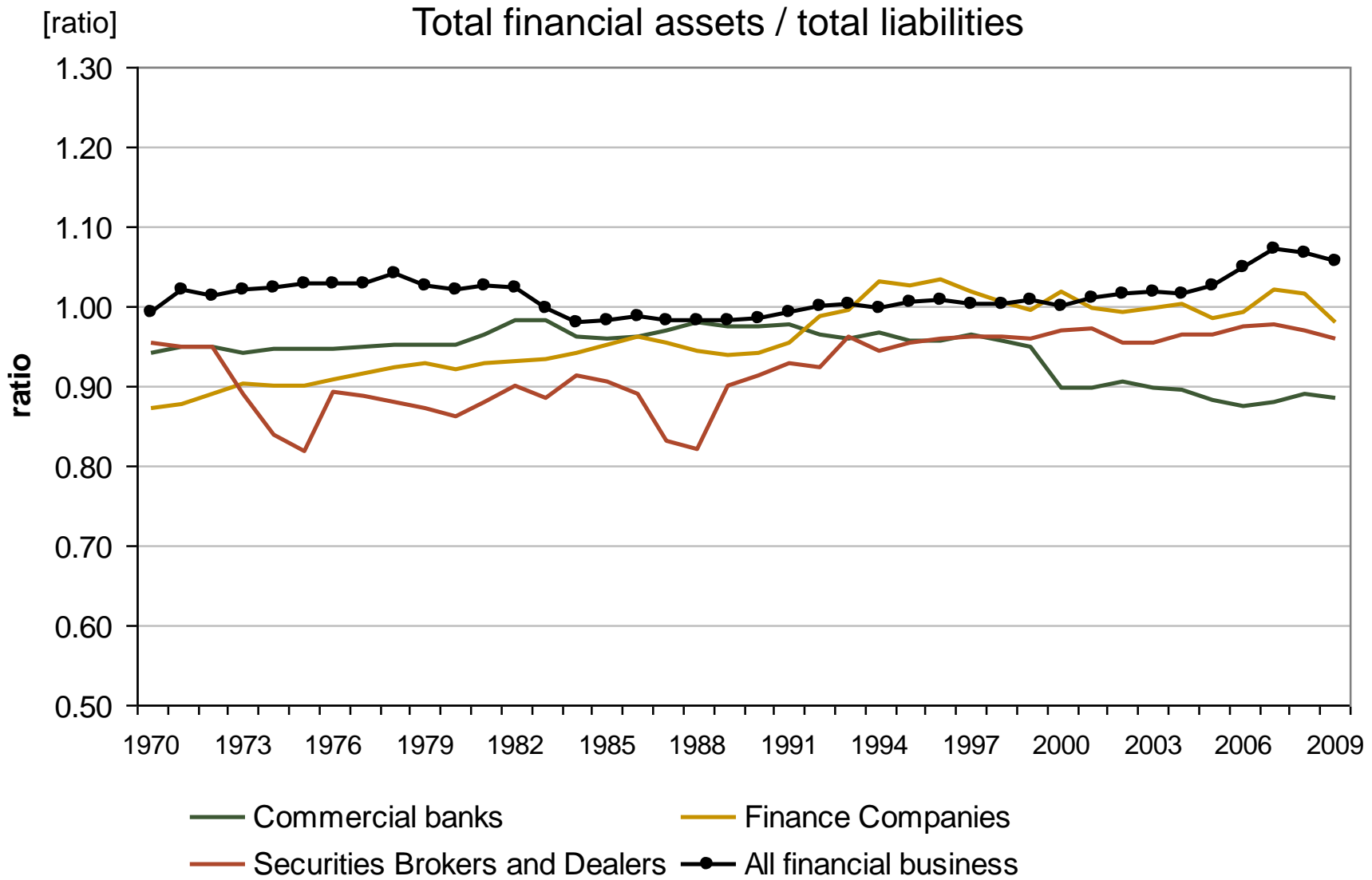
Why Didn't We See the Equity Bubble in the Official Statistics?

Equity prices, NIPA profits & GDP



— Nominal GDP — S&P closing prices — Domestic Profits from Current Pdn

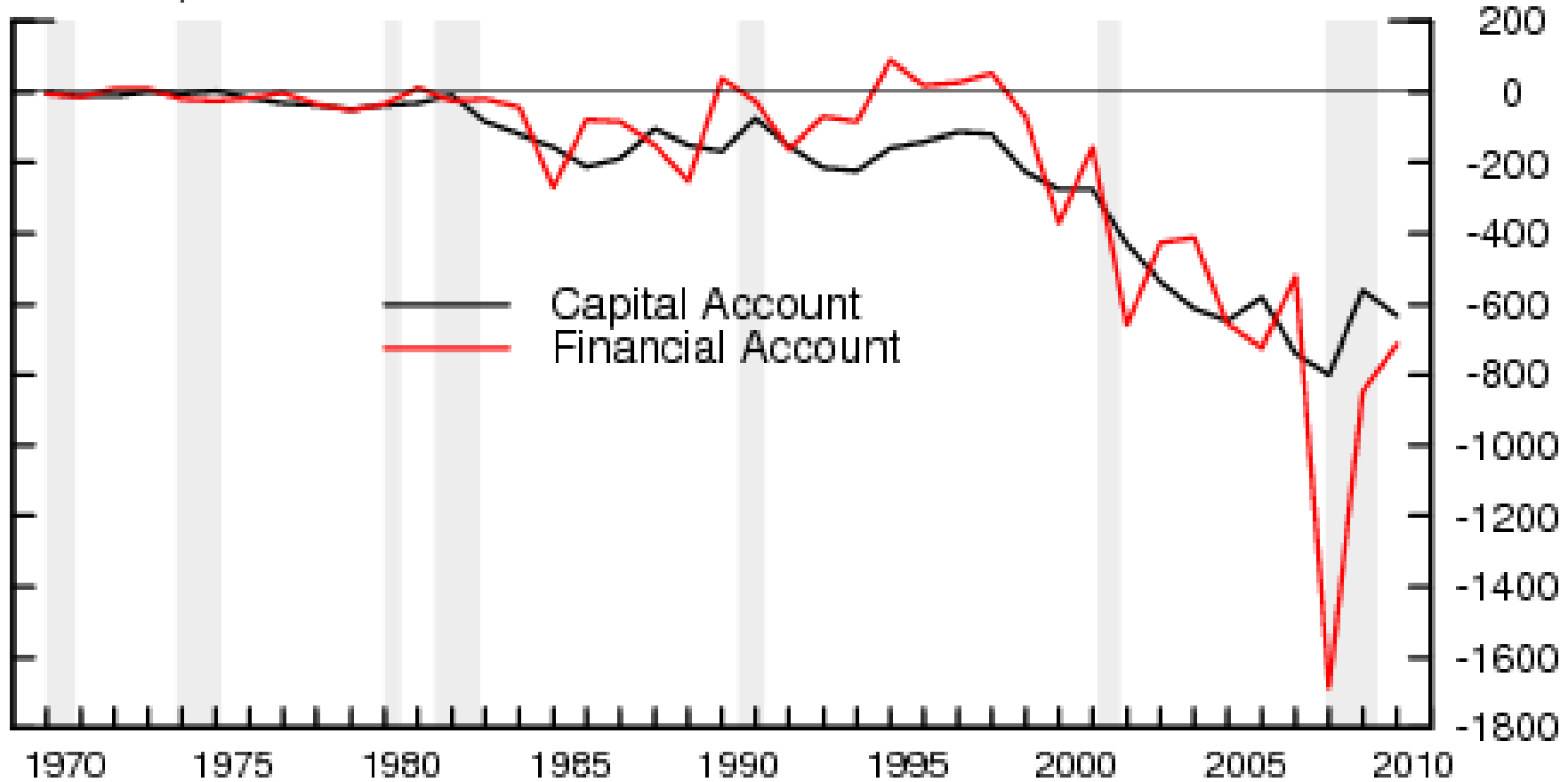
What Didn't We See An Increase in Leverage in the Official Statistics?



Integrating & Reconciling Statistics

Net Lending (+) or Net Borrowing (-)
in the Capital and Financial Accounts

Billions of dollars



Source: Flow of Funds Accounts of the United States, March 10, 2011