FESAC Discussion on the Measurement of Financial Services

Perspective from the National Accounts

Dennis J. Fixler

Federal Economic Statistics Advisory Committee

December 12, 2014

Current

- Nominal measures of financial services output is the main focus
- Real values computed using various BLS indexes (CPI, PPI) and the bank output quantity index

Current

- Major change in the measure of commercial bank financial service output in the comprehensive revision of 2003
- There was also a change in the measure of output for property and casualty insurance
- Focus today will be on non-commerical bank financial services such as deposit, credit and investment services

Current

- Effectively looking at the following in NAICS
  - 522 Credit Intermediation and Related Activities
  - 523 Securities and Commodity contracts Intermediation and Brokerage
  - 525 Funds, Trusts, and Other Financial Vehicles
- This list largely omits the financial services provided by the Central Bank and Insurance Carriers

Current

- The measurement challenge for many of the financial services produced is that they are not explicitly charged-for
- Known as FISIM; Financial Intermediary Services Indirectly Measured
- Accordingly a way of estimating or imputing the implicit price is necessary
- The methodology for depository institutions is based on the user cost of money developed by Donovan (1978) and Barnett (1978)

Current

- The idea is that implicit service prices is the difference between an interest rate, such as a loan interest rate and a reference rate
- Usual focus on depositor and credit services
- Price of credit services $= r_L - \rho$ where ρ is the reference rate and r_L is the loan interest rate
- Price of deposit services = $\rho - r_D$ and r_D is the deposit interest rate

Current

- Ideally the reference rate is an interest rate that: represents the opportunity cost of money, has no financial services attached – including risk bearing.
- As a result BEA uses a reference rate that is based on US Treasury securities

Current

- The nominal total of commercial bank financial services output consists of the value of implicitly and explicitly charged – for financial services.
- There are many aspects of this methodology that have been revised since 2003
- Initial methodology described in Fixler, Reinsdorf and Smith (2003)
- All of the these refinements have produced a more stable measure of nominal bank output.

Extensions to other non-commercial bank depository institutions

- Savings institutions and credit unions
- Savings institutions: update methodology to match commercial banks (CBs)
- Current methods are pre-2003, assign all services to depositor
- New method assigns some services to borrowers
- Loan categories: household business (mostly owner occupied housing); household consumption; business
- Borrowers are less likely to be final consumers, so GDP goes down
- Regulatory data will be used
- For 2018 comprehensive revision savings institutions and CBs will be combined because regulatory data are the same

Extensions to other non-commercial bank depository institutions

- Credit unions: update methodology to match CBs
- Same as above for saving institutions
- Currently all net interest income is counted as depositor services and assigned to households
- Now will have same loan categories as for saving institutions; so some output allocated to intermediate uses
- Again most loan output is consumed by the owner-occupied housing sector
- Regulatory data will be used

Shadow Banking

- Recently attention has been directed toward what is referred to as shadow banking
- No consensus definition; institutions that perform many of the credit functions of banks but do not take in deposits
- Shadow banking is not treated as a separate sector in the NIPAs
- It is comprised of a variety of industrial units that are separately estimated

Shadow Banking

- The current methods for shadow banking use only fees and charges.
- Fees in the form of spreads charged to mutual fund customers (including Money Market Mutual Funds) are included in estimates of services.
- FISIM is only computed for depository institutions.

Data needs

- Major challenge is assigning nominal output to intermediate and final demand
- Furthermore, difficult to allocate financial services output to the components of each of the above – in particular the intermediate industries
- Have been working with Census Bureau to collect class of customer data on the commercial bank QSS

Data needs

- Currently main source of data is the Call Reports from FFIEC (Federal Financial Institutions Examination Council)
- Also use data from the Fed produced Financial Accounts
- Would like too explore other data sources such as administrative data not publicly available.
- BEA does receive tax data with a lag and have worked with SOI about getting better bank related data

Data needs

- OFR mandate for collections should be especially useful for the non-depository financial service providers
- Some examples of the kind of data BEA needs follows

Data needs

- Private Asset Backed Securities (ABS) issuers
  - Coupon rates on ABS bonds or interest expense figures
  - Loan rates ("weight average coupon" on collateral), or interest income figures
  - Type of loan collateral (business, mortgage, auto, etc.)
  - Servicing fees, service charges, etc.: What services do ABS issuers buy from banks, etc.? What entities are providing these services?
  - Delinquencies, losses, etc.
  - Maturities

Data needs

- Finance companies
  - Interest income figures, by type of loan
  - Expanding the universe (Fed's 50% rules too stringent) – we want companies with even smaller amounts of loans on books (10%?)
  - Maturity information

Data needs

- Repos
  - Spreads charged on repurchase agreements by dealer banks
  - A comprehensive accounting of repos, dealers, and spreads of buyers and sellers in the market

Questions?

Thanks for your attention

References

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