FESAC Discussion on the Measurement of Financial Services

Perspective from the National Accounts

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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-commercial bank financial services such as deposit, credit and investment services
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
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)
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 $\rho$ 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.
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
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
• 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 to 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