

Attachment 4

The contents of this document were prepared by staff at the Bureau of Economic Analysis (BEA) in support of the Expansion of the Service Annual Survey and Quarterly Services Survey. The document was sent to Mark Wallace, Chief of the Service Sector Statistics Division at the Bureau of the Census on May 2, 2008 by Ruth Bramblett, Source Data Coordinator, BEA. On May 15, 2009, this document was approved for inclusion in the QSS OMB package by Dennis Fixler, Chief Economist BEA.

BEA SUPPORT FOR EXPANSION OF THE SERVICE ANNUAL SURVEY (SAS) AND QUARTERLY SERVICES SURVEY (QSS)

The Bureau of Economic Analysis (BEA) considers the U.S. Census Bureau's Service Annual Survey (SAS) as the most accurate source for output and expense data for service-producing industries. Private service-producing industries account for nearly 70% of total Gross Domestic Product (GDP) in the United States today. Current SAS coverage accounts for 30% of GDP, and includes:

- Truck Transportation (NAICS 484);
- Courier and Messenger Services (NAICS 492);
- Warehousing and Storage (NAICS 493);
- Information (NAICS 51);
- Securities, Commodity Contracts, and Investments (NAICS 523);
- Rental and Leasing Services (NAICS 532);
- Professional, Scientific, and Technical Services (NAICS 54);
- Administrative and Waste Management Services (NAICS 56);
- Health Care and Social Assistance (NAICS 62);
- Arts, Entertainment, and Recreation (NAICS 71); and
- Other Services (except Public Administration) (NAICS 81).¹

Future SAS expansion will increase coverage into the following industries:

- Finance and Insurance (except 523);
- Transportation and Warehousing (except NAICS 484, 492, and 493);
- Educational Services (NAICS 61);
- Real Estate (NAICS 531); and
- Utilities (NAICS 22).

Revenue and expense data will be included for these areas. Current industry data (published by BEA) values these additional sectors at \$3 trillion, or 23% of GDP. SAS coverage after this expansion will account for over 50% of GDP and will match the level of coverage in the Economic Census.

The Census Bureau's Quarterly Services Survey (QSS) provides similar service industry data on a quarterly basis. QSS draws its sample from SAS and currently includes the following service sectors:

- Information (NAICS 51);
- Professional, Scientific, and Technical Services (NAICS 54);
- Administrative and Waste Management Services (NAICS 56); and
- Hospitals, Nursing and Residential Care (NAICS 622 and 623),

which presently account for 17% of GDP. There are two expansions proposed for the QSS. The initial expansion would increase sector coverage to include all industries

currently covered in SAS. Future expansion of QSS would mirror the proposed SAS expansion.

National Income and Wealth Division (NIWD)

According to the Bureau of Economic Analysis (BEA), U.S. consumer spending accounts for over \$9 trillion, or 70% of GDP. Services alone accounts for almost 60% of this spending and continues to increase in its contribution. Quarterly estimates of Personal Consumption Expenditures (PCE) for services are made possible in part by data collected from the U.S. Census Bureau's Quarterly Services Survey (QSS).

Current QSS industry coverage captures just under \$1 trillion of PCE services, or 7.2 percent of GDP. Important industries used in calculating annual PCE estimates, which are included in the Census Bureau's Service Annual Survey (SAS), are not collected in the QSS. Expanding QSS to cover these industries will standardize sector coverage in the QSS with SAS. Quarterly estimates of PCE services will become more reliable and consistent with annual estimates, reducing the GDP coverage disparity of \$1.6 trillion that currently exists between quarterly and annual estimates.

The expansion of QSS is also critical for improving estimates of quarterly GDP as these data provide more accurate, and often more timely, information on economic performance in the service sector than data obtained from private sources. For estimates that currently do not rely on QSS data, because the industry data are not collected, BEA must often incorporate large revisions when the SAS data become available. For example, the 2006 estimate for consumer spending on physicians' services was revised up by almost \$5 billion when the 2006 SAS data replaced the initial estimate that was based on private sources. The proposed QSS expansion will aid BEA in reducing revisions for consumer spending on services.

Limited coverage of service industries has been a longstanding weakness in the federal statistical system. Broadening SAS and QSS coverage of GDP and PCE services will, consequently, improve the accuracy of policy and forecasting decisions by financial markets, the Federal Reserve Board (FRB), and the Congressional Budget Office (CBO). These proposed additions to SAS and QSS are invaluable in our effort to consistently provide and enhance BEA's measures of PCE and other highly-regarded macroeconomic measures.

Current Industry Analysis Division (CIAD)

According to the Bureau of Economic Analysis' (BEA) Annual Industry Accounts (AIAs), private non-trade service² industries' share to GDP increased substantially over the last decade. It increased from \$4.3 trillion (52% of GDP) in 1997 to \$7.4 trillion (56%) in 2006. BEA regards the U.S. Census Bureau's Service Annual Survey (SAS) as its best source for accurate data on service industry outputs and expenses.

However, SAS did not collect data on industries that, on average, accounted for 47% of growth in non-trade services between 1997 and 2006³. BEA's AIAs incorporate SAS data wherever available, and will incorporate new SAS data should it become available. BEA's accounts, published 12 months after the reference year, are the Nation's principal source of information on industry contributions to GDP growth, and for comparable production and productivity estimates across industries.

BEA is currently researching quarterly estimates of GDP-by-Industry. Quarterly estimates would provide timelier industry data for business cycle analysis and could

include quarterly indicators of real output for goods-producing and services-producing industries. The Census Bureau's Quarterly Services Survey (QSS) provides the timeliest source for information on service industries. With its current coverage, the QSS does not include industries that account for nearly 70% of private non-trade services growth between 1997 and 2006.

Not only would expanded industry coverage in QSS substantially increase the usefulness of quarterly GDP-by-Industry estimates, it would also improve early "advance" annual estimates of GDP-by-Industry (published four months after the reference year). Averaging the quarterly estimates for the reference year and for the preceding year would provide a strong estimate of annual change for purposes of extrapolation.

Industry Benchmark Division (IBD)

Proposed expansion of data collection into industries not currently covered by the U.S. Census Bureau's Service Annual Survey (SAS), and collection of expense data for all surveyed industries, will greatly enhance the Bureau of Economic Analysis (BEA) Industry Benchmark Accounts. At this time, SAS does not cover the following industries: Finance and Insurance (except 523), Transportation (except 484, 492, and 493), Educational Services, Real Estate, and Utilities. In 2002, these industries collectively represented \$1.8 trillion, or 17% of total GDP in the BEA Benchmark Input-Output (I-O) Tables. SAS expansion to include these industries will greatly improve the accuracy of the Benchmark I-O Accounts.

BEA will be relying on the expense data from SAS (formerly provided in the Business Expenses Survey, or BES) to estimate intermediate input estimates for the Benchmark I-O Accounts. Having complete SAS data on expenses will contribute towards more consistent and accurate estimates for BEA's I-O tables, which will subsequently provide policy makers and researchers with a more reliable snapshot of domestic industry interaction.

¹NOTES

¹ In calculating the contribution of SAS-covered Services to GDP, Food Services and Drinking Places (NAICS 722) is included when using Value Added by Industry measures. NAICS 722 is currently classified as a goods-producing industry in measures of Personal Consumption Expenditures (PCE) and is not included in SAS-covered Service's contribution to PCE. A forthcoming change in definition for PCE services (Summer 2009) will include NAICS 722 as a service-producing industry.

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² Private, non-trade services consists of utilities; transportation and warehousing; information; finance and insurance; real estate; rental and leasing services; professional and business services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation, and food services; and other non-government services.

³ This number reflects the average annual growth rate of services not covered by SAS ("non-SAS"), multiplied by the contribution of non-SAS services to GDP.