



# 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

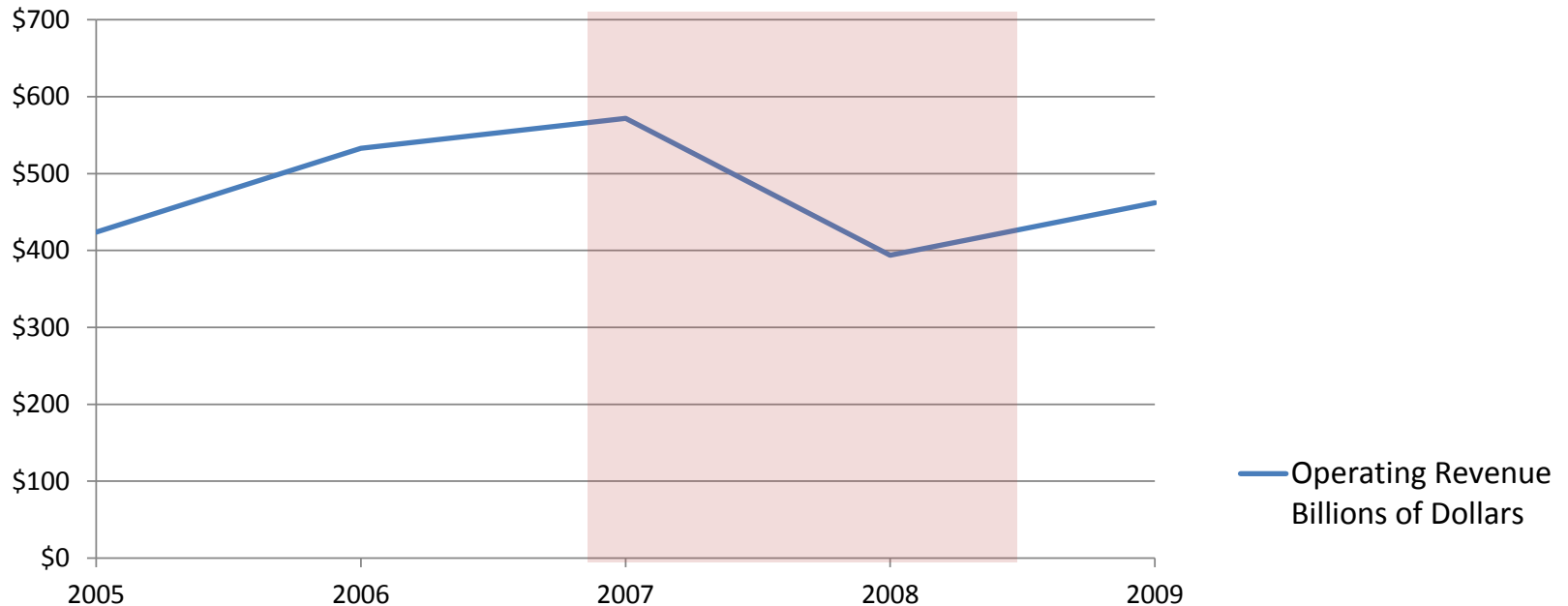
# Census: Service Annual Survey

## 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)<sup>1</sup> - 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

<sup>1</sup> 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
<b>Finance and insurance</b>	<b>2,264.7</b>	<b>1,171.6</b>	<b>8.3</b>	<b>813.8</b>	<b>8.1</b>
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.

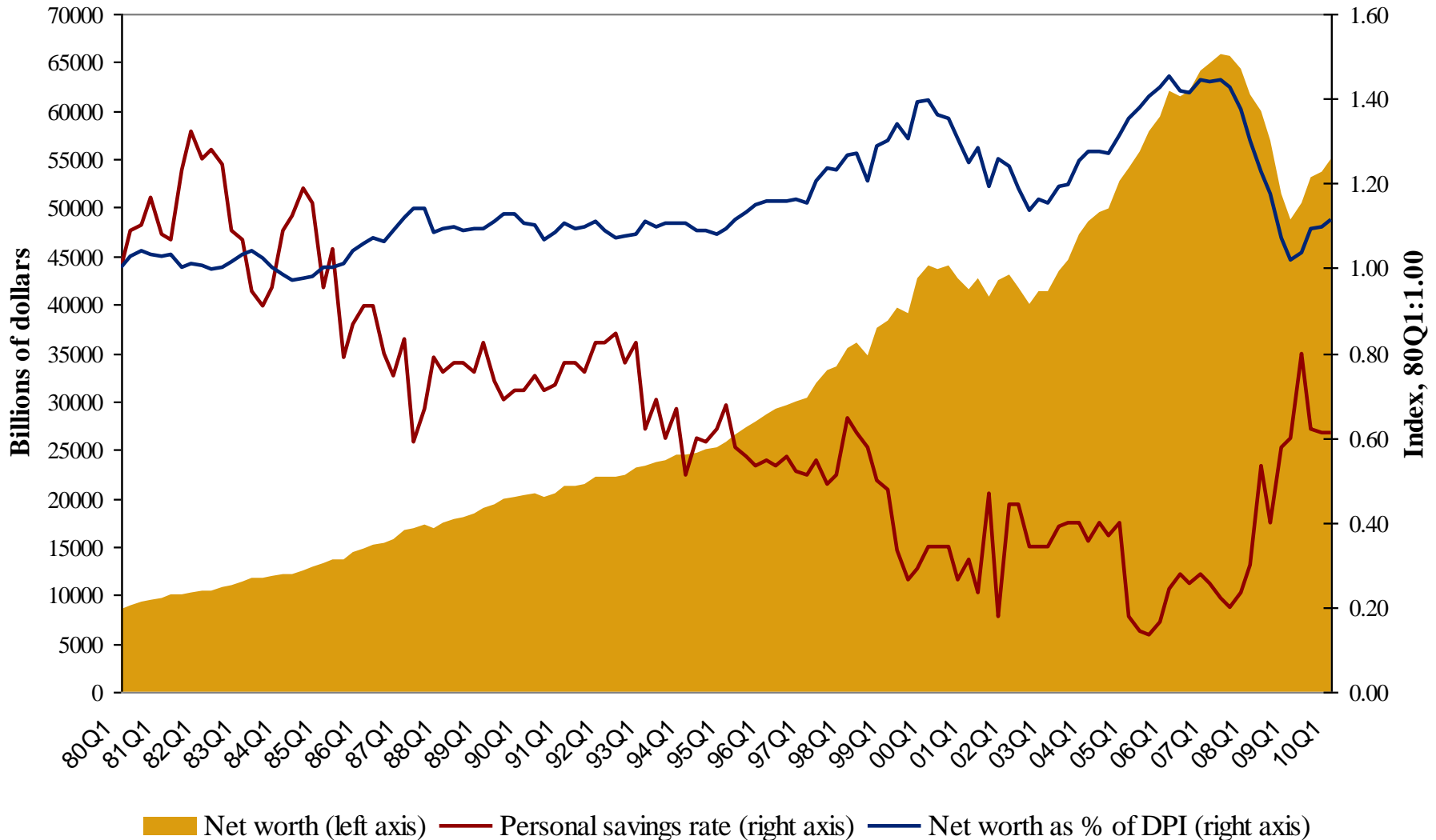
# Implications of the Financial Crisis

- 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)



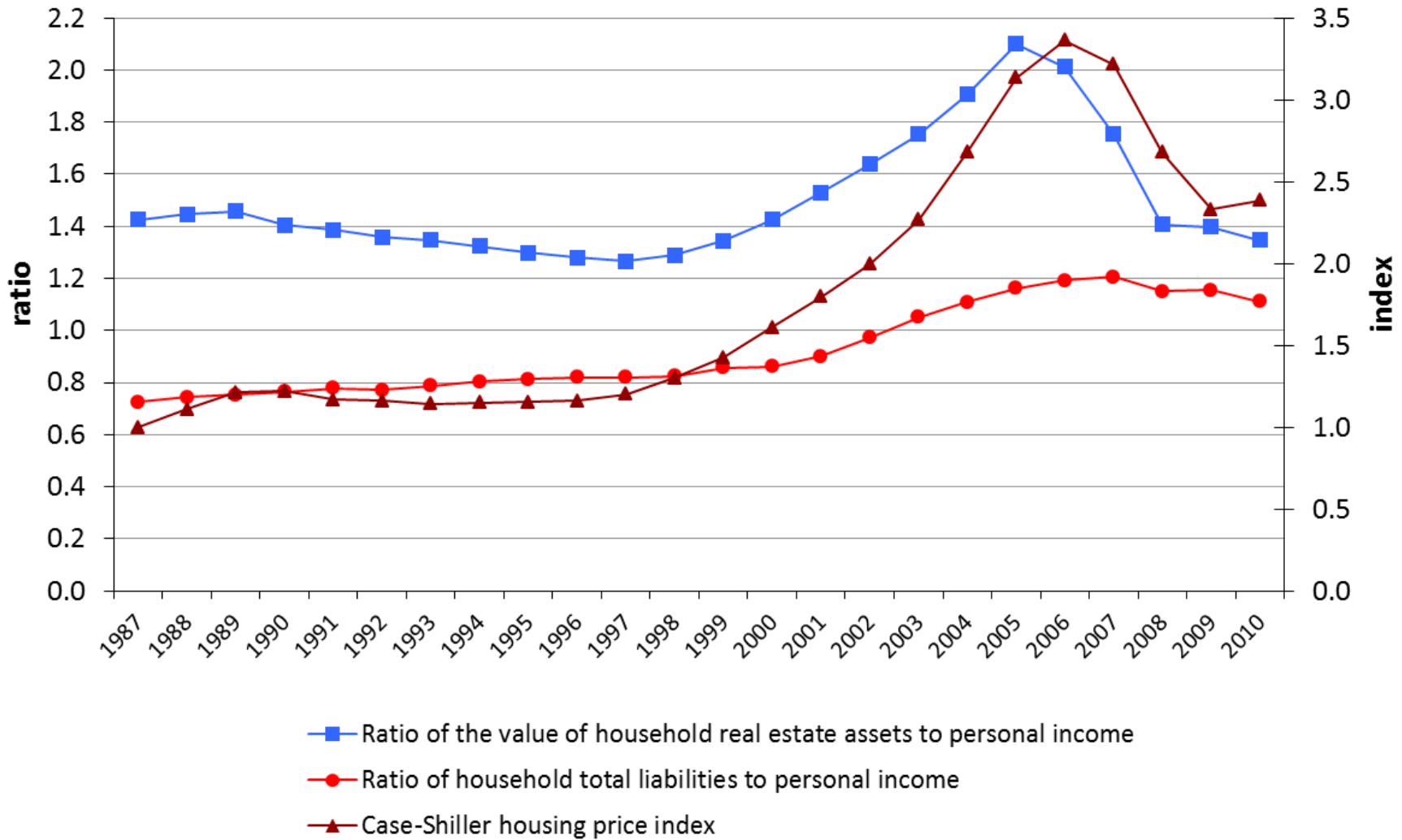


# Feeling Rich on Unrealized Gains



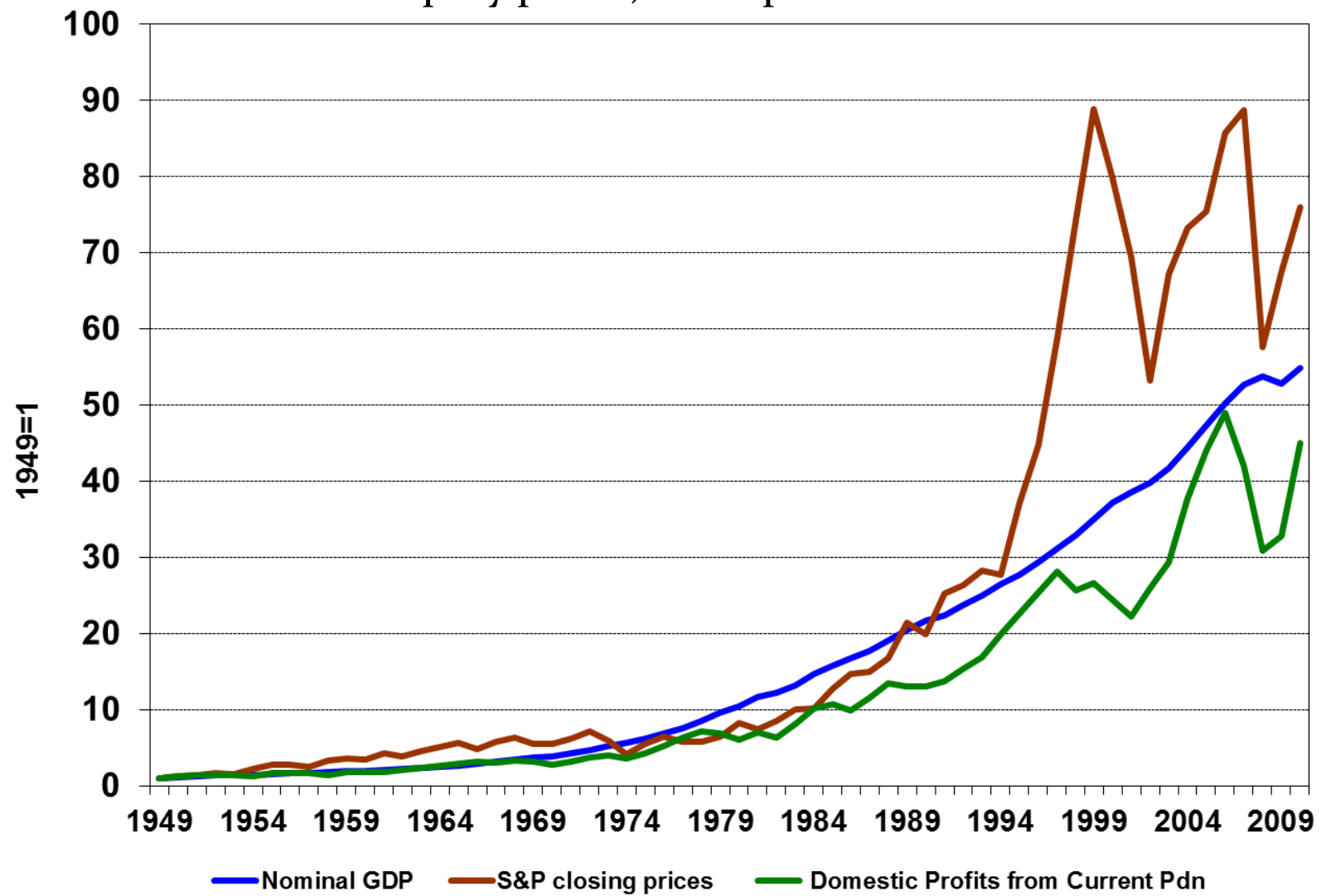
# “How Did the Bubble Stay Under the Radar?”

## Response to Robert Shiller?



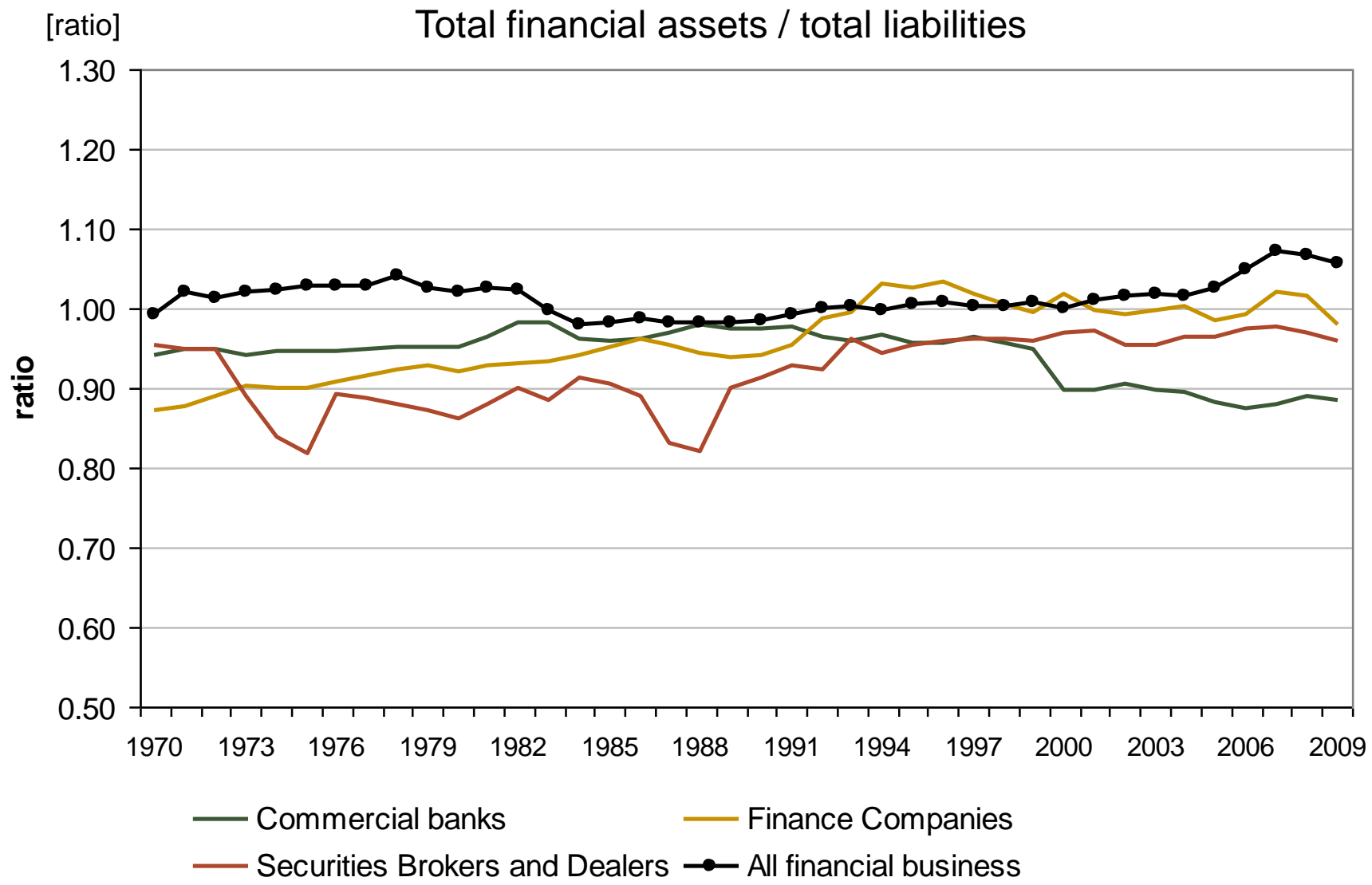
# Why Didn't We See the Equity Bubble in the Official Statistics?

## Equity prices, NIPA profits & GDP



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

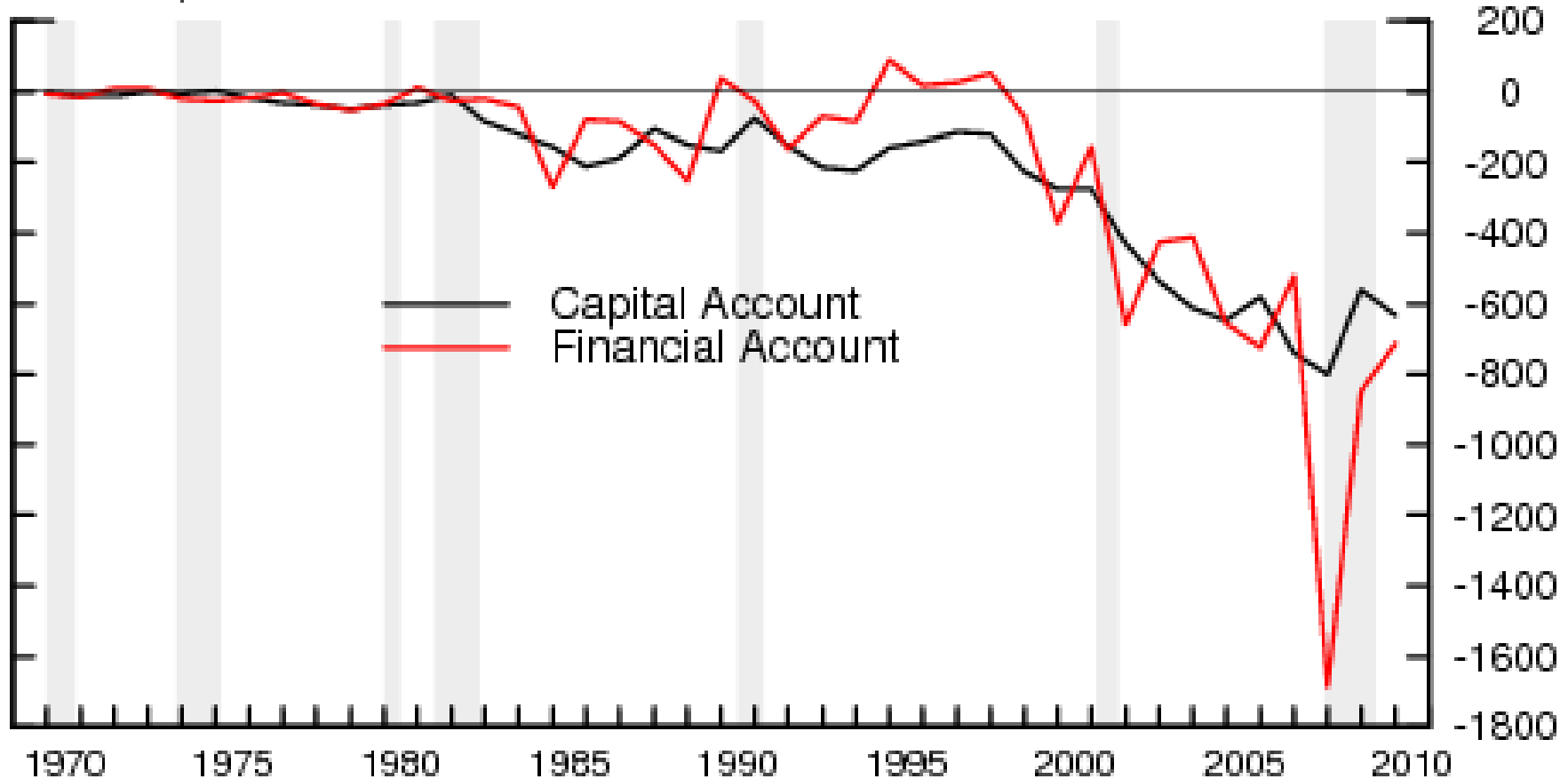
# What Didn't We See An Increase in Leverage in the Official Statistics?



# 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