Economic Outlook Terminology

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BUSINESS TENDENCY SURVEYS

Business tendency survey

Business tendency surveys are qualitative surveys intended to track the economic situation of the moment and to forecast short-term trends. Business leaders or households are regularly surveyed. The results of these surveys are obtained very quickly - at the end of the month under observation - and their findings are crucial to short-term analysis and forecasting.

They provide an overview of a given sector and shed light on areas that are only covered much later, if at all, by classical statistics, for example household surveys.

For businesses, the surveyed sectors are industry, services, retail and automobile sales and repairs, wholesale, and construction.

Some of these surveys (on households, industry, investment in industry, services, retail and automobile sales and repairs, building industry and civil engineering) are part of a harmonised European system of business tendency surveys to which the member States of the European Union contribute. The questionnaires, classifications and processing methods are all harmonised.

The data gathered in these business tendency surveys are called qualitative because the respondents are asked to provide qualitative assessments rather than quantities in regard to the variables covered by the survey. For example, in this type of survey entrepreneurs are asked to specify whether their order books are "fuller than normal", "normal" or "not as full as normal", and whether their cash flow is "better", "equivalent", or "worse" than it was in the previous survey. By contrast, in conventional quantitative surveys, respondents will be asked to supply the actual amount of orders underway. The Investment in Industry survey combines quantitative and qualitative questions.

Composite indicator

The composite business climate indicator summarises the mood of the responses given by business leaders in the Business Tendency Surveys: the higher it is, the more positive the view industrialists have of the economic outlook. It is built with a long-term average taking a value of 100.

This composite indicator is calculated by factor analysis. This technique can summarise the concurrent trends of several variables whose movements are closely correlated. Changes in the composite indicator therefore provide a relevant insight into the economic situation, influencing all the balances of opinion in the business tendency surveys.

Turning point indicator

The turning point indicator attempts to detect, as early as possible, the moment when economic trends are reversed. Each month it plots the difference between the probability of the economic trend being positive and the probability of it being negative.

The indicator varies between +1 and -1: a point very close to +1 (or -1 respectively) indicates that activity is in a distinct upturn phase (or distinct downturn phase, respectively). The moments when the indicator is very close to 0 are considered phases of stabilisation, i.e. the growth rate is returning towards its long-term average. During these phases the signals received are very mixed and do not show any pronounced movement upwards or downwards.

The value of the indicator for the latest month may be revised the following month, and it is therefore advisable to wait for at least two consecutive months before interpreting a big variation as being the signal of a major change in economic trends.

Balance of opinion

The balance of opinion is defined as the difference between the proportion of respondents having expressed a positive opinion and the proportion of respondents having expressed a negative opinion.

The questions in business tendency surveys usually call for a response chosen from three possibilities: "up", "stable" or "down".

From these responses, the percentage of respondents (households or entrepreneurs) saying "up" (positive responses), "stable" or "down" (negative responses) is calculated for each question, taking account, in the case of enterprises, of the relative size of the enterprise and of the sub-sector concerned.

A balance of opinion is then established for each question as being the difference between the percentage of respondents giving a positive response and the percentage of respondents with a negative response.

In business tendency surveys on industrialists, for example, the balance of opinion on past sales or on business prospects is calculated. In the surveys on households, a balance of opinion on unemployment in France or on the current financial situation of households is calculated.

NATIONAL ACCOUNTING TERMS

Final (or actual) consumption of households

Household consumption as a whole. It is the sum of household consumption expenditure and the individualised consumptions included in the final consumption expenditure of general government.

Household consumption expenditure is restricted to the expenses that households bear directly. It includes the share that they pay towards healthcare, education and accommodation after any reimbursements. It also includes "imputed rents", i.e. the rent which households that own their main residence implicitly pay to themselves.

The individualised consumptions included in the final consumption of general government are those for which the beneficiaries can be precisely defined. This is the case, in particular, of expenditure on education and healthcare.

Gross operating surplus (GOS)

Gross operating surplus is the balance of the trading account of companies. It is equal to value-added minus payroll and other taxes on production, and plus operating subsidies.

Gross operating surplus can be calculated net, after deduction of the consumption of fixed capital, i.e. depreciation of the capital further to foreseeable wear and tear or obsolescence.

GOS of pure households

The rents received by pure households are what is known in national accounting as the gross operating surplus (GOS) of pure households. It corresponds to the rents that homeowners receive from their tenants or would receive if they rented out their property ("fictional rents"), minus property tax.

Investment or Gross fixed capital formation (GFCF)

In the national accounts, corporate investment, particularly that of non-financial companies, is called gross fixed capital formation (GFCF). It represents the acquisitions of net fixed assets (minus the sales of same) made by resident producers.

Fixed assets are tangible or intangible assets resulting from the production process and used either repeatedly or continuously in other production processes over a period of at least one year.

Purchasing power of income

The purchasing power of income is the quantity of goods and services that can be bought with an income unit. Its growth is linked to that of prices and incomes.

If prices increase while income is constant, there is a drop in purchasing power. If the increase in income is greater than that of prices, the purchasing power of income will rise.

Gross domestic product (GDP)

Gross domestic product (GDP) is a measure of the national wealth produced each year.

It is an aggregate representing the final result of the production activity of resident production units.

It can be defined in three ways:

- GDP is equal to the sum of the gross added values of the various institutional sectors or of the various branches of activity plus taxes and minus the subsidies on products (which are not attributed to the sectors and branches of activity);

- GDP is equal to the sum of the final domestic uses of goods and services (actual final consumption, gross fixed capital formation, inventory change) plus exports and minus imports;

- GDP is equal to the sum of uses in the operating accounts of the institutional sectors: payment of wages, taxes on production, imports minus subsidies, gross operating surplus (GOS) and mixed income (GOS of sole proprietorships). Its growth is linked to that of prices and income.

Gross disposable income (GDI)

Gross disposable income is the proportion of income left for households to consume and save once social security contributions and taxes have been deducted.

Gross disposable income includes earned income (wages, salaries, etc.), own income (dividends, interest, rents), transfers (most notably insurance proceeds net of premiums) and social benefits (including pensions and unemployment benefit), net of direct taxes. Four direct taxes are generally taken into account: income tax, council tax, general social contribution (CSG) and contribution for the reimbursement of the social debt (CRDS).

Adjusted disposable income

For households, this is gross disposable income plus social transfers in kind, the counterparty to the consumption that can be isolated in general government expenditure (*see final consumption of households*).

Property income

Income received by the owner of a financial asset or a tangible non-produced asset in exchange for making this asset available to another institutional unit. It mainly includes the dividends paid by companies, interest, and rent from land (rent from housing is a tangible produced asset and is considered as payment for a service).

Basic monthly wage

Changes in the basic monthly wage reflect the average variation in wages at a constant qualification structure. The basic monthly wage does not include bonuses of any kind, or overtime.

It is an index that is estimated from the Acemo quarterly survey conducted by the DARES (survey on the activity and employment conditions of the workforce). This survey covers quaterly 20,000 to 30,000 establishments or companies with 10 employees or more in the non-agricultural market sector. The basic monthly wage is listed for 16 professional categories. Each establishment or company declares the basic wage of a work position considered as representative of a professional category. This position is tracked from survey to survey.

Average wage per head

Changes in the average wage per head reflect variations in the wages paid by all companies. This indicator is built by comparing changes in the total payroll and in the number of employees, both of which are measured from comprehensive sources (tax data from companies). Unlike the basic monthly wage, it includes micro-enterprises and also integrates structuring effects (changes in qualifications and in the proportion of part-time work), short-term effects (level of overtime) and seasonal effects (bonuses).

Real wages and nominal wages

Compensation of employees can be measured either at current currency values, in other words at current prices, or at constant prices, i.e. after inflation is deducted. The former is known as the nominal wage and the latter as the real wage.

Household savings ratio

The proportion of the disposable income (or adjusted disposable income) of households which is not used for consumption expenditure (or final consumption) is their savings. The difference between disposable income and adjusted disposable income - which corresponds to social transfers in kind - is also the difference between consumption expenditure and final consumption. There is only one definition of savings. However, there may be several savings ratios depending on which definition of income the savings are plotted against. In short-term analyses, the savings ratio calculated against gross disposable income is preferred.

Margin rate

The margin rate measures the share of added value which services capital. It is the ratio of gross operating surplus to added value.

The margin rate:

- grows when labour productivity or terms of trade increase;
- diminishes when the real average wage per head or the employers' contribution rate increases.

For further information, read the special report in Conjoncture *in France, June 2003.*

Margin rate at factor cost

The margin rate at factor cost (meaning the cost of production factors) measures the share of added value at factor cost which services capital. Added value at factor cost is calculated as gross added value minus taxes on production plus operating subsidies. The margin rate at factor cost is around 1% higher than the margin rate as defined in the national accounts.

Self-financing ratio

Ratio of gross savings to gross fixed capital formation (GFCF).

Consumption unit

A weighting system assigning a coefficient to each member of the household and used to compare standards of living between households of different sizes and compositions. With this weighting, the number of people is converted into a number of consumption units (CU).

To compare the standard of living of households, consumption per person is not satisfactory, as the needs of the household do not increase proportionally to its size. When several people live together, it is not necessary to multiply all the consumer goods (in particular durable consumer goods, appliances, etc.) by the number of people in order to keep the same standard of living. Therefore, to compare the standards of living of households of different sizes or compositions, we use a measurement of income corrected by the consumption unit using an equivalence scale.

The most widely used scale at present (known as the OECD scale) uses the following weighting:

- 1 CU for the first adult in the household;
- 0.5 CU for the other persons aged 14 years or older;
- 0.3 CU for the children under 14 years.

Value added

Value added is equal to the value of production minus intermediate consumption.

ECONOMIC TERMS

Unemployed person (ILO)

In application of the international definition adopted in 1982 by the International Labour Organisation (ILO), an unemployed person is a person of working age (15 or over) who meets three conditions simultaneously:

- they were without employment, meaning that they did not work, even for one hour, in the course of the reference week;
- they are available to take up employment within two weeks;
- they have actively looked for a job in the previous month or have found one starting within the next three months.

Note: An unemployed person (ILO) is not necessarily a person registered with Pôle Emploi (and vice versa).

Competitiveness

The competitiveness of an economy or a company is its ability - or otherwise - to gain market share from its competitors. To sell its products, a company can rely on its price competitiveness or its non-price competitiveness. The former is directly linked to the sale price. Non-price competitiveness depends on the quality of the product, its degree of innovation, and after-sales service, among other things.

At the level of an economy, price-competitiveness can be seen in the real effective exchange rate *(see definition)*.

Potential growth and output gap

The potential growth of an economy is the maximum speed at which it could grow without causing inflation to accelerate, in other words without creating excessive tension in the goods and labour markets. It is a function of production factors, capital stock, the active population and technical progress.
Econometric techniques can be used to determine this potential growth, consisting in extracting a trend from a cycle. The Hodrick-Prescott filter is one of these techniques. The idea is that on average over the long term, an economy progresses in line with its potential growth. Short-term incidents may cause it to deviate momentarily from this potential.It is also possible to build a production function that takes the various factors into account. Estimating these factors is the most difficult part.

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The output gap is the difference between the observed growth of the economy and its potential growth.

World demand for French products

This is calculated from estimated imports for each of France's trading partners, weighted by the share of France in these imports. It is an indicator of foreign demand and, along with competitiveness, is an important determinant of exports.

French demand for products of trading partners

French demand for products of trading partners is calculated by weighting each item of demand (from companies, households, general government and exports) by its content in imports.

Flexion effects

When the economic outlook is poor, a proportion of the population may decide not to join the labour market, or prefer to withdraw from it (young people may decide to pursue their studies, unemployed people may stop looking for jobs, etc.). Symmetrically, a good economic outlook encourages more people to enter the labour market.
So depending on the outlook, the activity rate, which is the ratio between the job-seeking population and the population of a working age, may vary: this variation is called a flexion of the activity rate driven by the economic outlook. A calculation of these flexion effects allows an estimation of the active population.

Employment (ILO)

Persons employed in the sense of the International Labour Organisation (ILO) are those aged 15 or older who worked for any amount of time, if only for one hour, in the course of the reference week. This notion is different from that of employment in the sense of the population census, which concerns persons having declared they had a job on the census form.

The notion of employment in the sense of the ILO is therefore broader than that in the sense of the population census. Some people may consider that occasional jobs are not worth declaring in the census.

The measurement of employment in the sense of the ILO can be made only through specific questions, such as those of the Labour Force Survey, one of the primary objectives of which is to make this measurement.

Core inflation

For the purposes of economic analysis, the INSEE publishes a core inflation index. It allows us to observe deeper trends in the changes in prices. It does not include prices which are subject to government intervention and products whose price is volatile, i.e. which experience high variability due to climatic factors or tensions on the global markets. Seasonal products, energy, tobacco and public service charges are all excluded. The core inflation index is also corrected for tax measures. It is a seasonally-adjusted index.

Additionally, the core inflation index is corrected for tax measures (rise or fall in VAT, specific measures imposed on products etc.) in order to neutralise the effect on the price index of variations in indirect taxation or government measures which directly affect consumer prices. Core inflation is thus better suited to analysis of inflationary tensions, as it is less sensitive to exogenous phenomena.

Active population

The active population includes all people with a job, constituting the occupied labour force, and the unemployed. Its growth mainly depends on demographics, trends in the activity rate, and flexion effects (*see definition*).

Real effective exchange rate

To get an idea of the competitiveness of a country or a zone, we have to be able to evaluate its currency in relation to all the exchange rates of its main trading partners, taking into account the weight of each one.

This is what economists call the effective exchange rate, the rate that allows us to take into account the structure of the country or zone's foreign trade. To prevent competitiveness studies from being distorted due to prices changing in different ways in different zones, economists calculate a "real effective" exchange rate which also takes account of the rate of inflation of trading partners.

Terms of trade

This is an indicator allowing an assessment of the advantage that a given economy gains from its trading relations with foreign countries. It is calculated as the ratio between a country's export price and its import price.

Activity rate

The activity rate is the ratio between the number of active persons (occupied labour force and the unemployed) and the corresponding total population.

It can be calculated for women, men, or a specific age group.

Unemployment rate

The unemployment rate is the percentage of unemployed people in the active population (occupied labour force + the unemployed).

An unemployment rate per age can be calculated by calculating the ratio of the unemployed persons in an age group to the labour force of that age. Likewise, unemployment rates can be calculated by gender, by socio-professional category, by region, by nationality, by qualification level, etc.

STATISTICAL TERMS

Growth overhang (ovhg)

The growth overhang of a variable for a year N corresponds to the growth rate of the variable between year N-1 and year N that would be obtained if the variable remained until the end of year N at the level of the last known quarter.

For example, when the last known quarter for a year N is the third quarter, the variable's growth overhang for year N is equal to the growth rate between N-1 and N that would be obtained if the variable remained at the same level in the fourth quarter as in the third quarter.

Contribution to GDP growth

GDP growth may be broken down into the sum of contributions from its various components: consumption expenditure of households and general government, investments, changes in inventories and trade balance.

In simple cases, the contribution of a component to an aggregate (GDP for example) is equal to the product of that component's growth rate by its weight in the aggregate on the previous period.

This formula is not valid with chain-linked volumes at the price of the previous year, a concept of volume according to which the national accounts are published. However, as a first approximation the previous calculation with the growth of the component in chain-linked volume and weight in value provides a relatively accurate measurement of the contribution.

Dynamic contributions

Dynamic contributions are a technique used in econometrics. The starting point is an equation linking an explained variable (consumption, investment, exports, prices, wages, employment, etc.) to its economic determinants (income for consumption, demand for investment, etc.). The calculation of dynamic contributions gives an insight into the respective weight of the various determinants of the level or rate of growth of the explained variable. These contributions are termed dynamic, as opposed to static contributions which are obtained simply through an accounting breakdown. They explicitly take into account the lag(s) with which the explanatory variables have an effect on the explained variable: for example, the variation in consumption in a given quarter may also depend on the variation in income in the previous quarter.

Seasonal and working-day adjustment

The development of a statistical series may in general be broken down into three factors: a trend, a seasonal component and an irregular component. Seasonal adjustment is a technique that statisticians use to eliminate the effect of normal seasonal fluctuations on data, so as to bring out fundamental trends (trend and irregular component).

For example, the seasonally adjusted unemployment rate eliminates variations due to the seasonal habit of hiring in the summer and dismissing in the winter in sectors such as agriculture and the building industry.

Additionally, to compare periods that do not have the same number of working days as each other, a working-day adjustment is made.

Year-on-year change and average

A year-on-year change compares a value at two dates, generally a year or a quarter apart.

For example, the year-on-year change in a variable in a given Quarter Q corresponds to the change (as a %) obtained between the level of the variable in Q and its level in the same quarter of the previous year (Q-4). The quarter-on-quarter change is obtained by calculating the difference between the variable in Q and its level in the previous quarter (Q-1).

When the variable is monthly, year-on-year change is calculated between the level in a given month and that in the same month of the previous year (for example, December in year N and December in N-1). However, the change in the annual average compares the average of one year and the average of the previous year.

For example, a phrase such as "In 2012, salaried employment increased by..." can have two meanings, depending on whether reference is being made to average salaried employment in the course of 2012 and the average for 2011, or whether a year-on-year comparison is being made between the situation on 31 December 2012 and on 31 December 2011.

These two trends may be very different. For example, if there was strong growth in year N-1 and a small decline in year N, then the change in annual averages may be positive, while year-on-year change is negative.

When events are no longer included in the year-on-year calculation - for example, a sharp rise in oil prices in a given month will affect the measurement of year-on-year inflation for the following eleven months, before disappearing from the calculation - this is called the "base effect".

FINANCIAL TERMS

Yield curve

The yield curve gives a view of the relationship between the values of interest rates and their terms. This curve is usually ascending because of the existence of a risk premium (long rates higher than short rates). However, it may reverse, most notably when operators expect a drop in inflation.

Nominal and real interest rates

An interest rate is either the cost of a loan to the borrower or the remuneration of an investment. It is expressed as a percentage, usually over a reference period of one year. The nominal interest rate is also known as the apparent interest rate. It is calculated in current euros, without taking account of the fact that inflation mechanically depreciates the amount of the loan. The real interest rate is the nominal rate corrected for inflation. It is calculated in constant euros. If inflation is denoted p, the nominal interest rate n and the real interest rate r, and assuming that p and n are not too high, we can write:

$r = n - p.$

Otherwise, the following equation is used:

$1 + r = (1 + n) / (1 + p).$■