An Overview of Business Tendency Surveys

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Abstract

In this fast paced world where economic and health shocks are transmitted rapidly across oceans, there is an increased need for timely information on economic impacts. Business tendency surveys (BTS) are low cost, low response burden qualitative surveys, directed at businesses, which are designed to fill forward looking and current information needs. This paper will examine the definition of business tendency surveys and indicate their uses worldwide. Particular attention will be put on comparing and contrasting business tendency surveys in Canada and France. The paper notes that the two countries’ surveys have many commonalities, but also many striking differences: some of the likely causes for these differences are explored.

1. Business Tendency Surveys -- An introduction

In fast paced world where economic and health shocks are transmitted rapidly across oceans, there is an increased need for information on timely economic impacts. There is also a need to minimize response burden in surveys. Business tendency surveys are low cost, low response burden qualitative business surveys designed to fill forward looking and current information needs. They aim to get a pulse of economic trends in key industries.

The purpose of business tendency surveys as 'to obtain qualitative information for use in monitoring the current business situation and forecasting short-term developments. Information from these surveys has proved of particular value in forecasting turning points in the business cycle.' Business Tendency Surveys: A Handbook (OECD, 2003)

Vincent (2006) in a description of the new Canadian Business Conditions Survey (BCS) for Traveller Accommodation states that this survey has the following qualities:

- Relevant
- Timely
- Qualitative, but based on informed opinion
- Forward looking
- Comparable (to other Business Conditions Surveys)

Amstad and Etter (2000) assert that the three most 'striking advantages' to business tendency surveys are 1) they offer a range of business cycle information not supplied by official quantitative statistics, 2) BTS data have a publication lead on official (quantitative) data, and 3) the data are not revised.

All sources stress that this type of survey is looking forward at short term developments. Zarnovitz (2004) emphasizes the importance of the business cycle and shocks to the economy and states that 'business cycles, even if less of a threat, are far from conquered and still represent the most serious form of macroeconomic instability'. He stresses the need for 'further study, better understanding, and more effective counterpolicies'.

Where do these surveys fit in with other statistical information on businesses? The following describes the different types of surveys/information:

**Structural**
- in depth quantitative information
- focuses on past performance based on detailed financial statements
- Annual, Biennial Production Surveys

**Recent** (sometimes the term 'current' is used)
- quantitative, but not much content
- focuses on recent performance in the latest sub-annual period
- Monthly or Quarterly Sales (Turnover) Surveys

**Leading**
- Qualitative (because revenue/turnover numbers are not available)
Focuses on next quarter

Business Tendency Surveys

Business tendency surveys are basically qualitative and, thus, distinguished from quantitative surveys which must wait for financial records to be compiled by businesses. They are closer in time to current surveys, but very different from annual structural surveys which are not timely and cannot be used for policy making based on the business cycle.

Vincent (2006) adds the element of 'informed opinion'. In other words, these surveys do not depend on guesses. Informed opinion could come from the use of available information (e.g., order books, reservation systems) or very informed respondents, such as purchasing managers.

Table 1: Number of Business Tendency Surveys by Region and Sponsors

<table>
<thead>
<tr>
<th>Region</th>
<th>National Statistical Agency</th>
<th>Economic Research Institute</th>
<th>Central Bank</th>
<th>Employers' Associations</th>
<th>Purchasing Managers Institute</th>
<th>Other¹</th>
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<td>3</td>
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<td>10</td>
<td>4</td>
<td>1</td>
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</tbody>
</table>

¹ Spain, Brazil, Columbia, Taipei, and Saudi Arabia.


2. Business Tendency Surveys -- a global view

Business tendency surveys began from at least the early 1920s with surveys conducted by trade associations, in Britain and Germany (OECD, 2003). Business Tendency Surveys have such names as Business Conditions Survey, Survey of Business Opinions (New Zealand), Business Expectations Survey (Singapore), Business Survey Indicators (Belgium), Enquêtes de conjoncture trimestrielle (France), and Report on Business (USA).

The Business Tendency Surveys, A Handbook (OECD, 2003) list countries with Business Tendency Surveys; see Table 1. It is interesting to note the diversity of sponsors. National Statistic Agencies are responsible for well less than half of the business tendency surveys. Data users run many of these surveys, whether the
users be central banks, economic institutes, employers' associations, or purchasing managers' associations. The reasons for this include 1) these groups use the intelligence internally and 2) business tendency surveys tend to be relatively cheap.

3. Statistics Canada's Approach

The Manufacturing Business Conditions Survey (BCS) began in January 1976. It is a quarterly survey.

There are basically three parts to the questionnaire (see Appendix A):
1. impediments
2. current conditions
3. future conditions (next three months)

The future business conditions content categories concern production, orders, inventories (stocks), and the labour market (employment).

The response categories for the recent and future business conditions are as follows:
- Higher
- About the same
- Lower
- No opinion.

The results for current and future conditions are tabulated as a balance of opinion (percent increasing minus per cent decreasing) for each item. There is no combined index, although two economic research firms do produce this index. The research departments of major Canadian financial institutions focus on these results and consider them highly reliable (Gazette, 2007).

Figure 1

Source: Statistics Canada, Manufacturing, Construction and Energy Division
N.B.: Business Conditions Index 0 = neutral; >0 = positive outlook; <0 = negative outlook.

The Canadian manufacturing BTS outlook tracks actual GDP remarkably well. Figure 1 illustrates that the manufacturing business conditions index outlook tracks very well with the actual manufacturing Gross Domestic Product change.

In May 2005 Statistics Canada launched another Business Conditions Survey (BCS) for Traveller Accommodation after a 6 quarter pilot period (Statistics Canada, 2005). This survey was developed in collaboration with the Canadian Tourism Commission after the terrorist attack of September 11, 2001 and the SARS epidemic of the first half of 2003 devastated the Canadian tourism industry. The Traveller Accommodation industry is large and over 65% of its business comes from tourists.

The Traveller Accommodation BCS was deliberately designed to mimic the Manufacturing BCS in order to help users and facilitate comparisons. It is also a quarterly survey. The response categories are the same. Both surveys are voluntary. Like the Manufacturing BCS, the Traveller Accommodation BCS questionnaire has three parts:
- Recent business impediments
- Recent business conditions -- the past three months
- Future Business Conditions -- the next three months.

The future business conditions content categories concern business activities (occupancy rates), labour market (hours), and prices (average daily room rates). What is clear is that although the questionnaire is the same format as the Manufacturing survey, the actual questions are industry specific. Companies in both industries have records/systems about future prospects -- one in 'order books' and the other in 'reservations'.

Why was the Traveller Accommodation Industry chosen? It is a key component of the tourism sector -- virtually every tourist must stay in a hotel or motel.

Secondly the tourism sector, including Traveller Accommodation, is susceptible to shocks. In 2001 there was a slowdown which was deepened
by a reluctance to travel immediately after the terrorist attack on the World Trade Centre. The SARS epidemic in Toronto received much media exposure around the world which discouraged foreigners from travelling to Canada and other Canadians from travelling to or through Toronto.

Thirdly key stakeholders came forward and funded the extension of Business Conditions Surveys to the Traveller Accommodation industry. First the Canadian Tourism Commission and, later, the Ontario Ministry of Tourism came forward to support this survey. Ontario found the survey information very useful information to arbitrage among the demands of the many tourist associations.

**Future** oriented questions focus on the outlook for:

1. occupancy rates
2. number of room-nights booked
3. number of corporate/commercial travelers
4. average daily room rates
5. number of hours worked.

The first three questions concern business activities (i.e., production), the fourth is about price inflation, and the fifth relates to the labour market. As can be seen in Figure 2, the 2003 SARS epidemic represented a nadir of despair for hotel and motel operators in Canada.

**Figure 2**

Outlook for occupancy rates
Balance of opinion, Q4 2003 to Q2 2007

Canada, Quarterly Business Conditions Survey on Traveller Accommodation

The impediments information is highly valued as current important and impartial information by tourist and hotel associations and provincial tourism agencies. Table 7 illustrates the top five impediments to the Traveller Accommodation industry in Q2 2007. Table 8 shows the decline in the importance of public safety since the SARS epidemic ravaged the Toronto region. Other factors have become more important like 'Canada's reputation as a tourism destination' (Figure 3), labour shortages, and the appreciation in the value of the Canadian dollar.

**Figure 3**

Top 5 business impediments, Canada, Q2 2007

Source: Statistics Canada, Quarterly Business Conditions Survey on Traveller Accommodation

The BCS on Traveller Accommodation continues to be supported by tourism stakeholders. One reason is the excellent press which it has received. In addition, studies, including data confrontation research, demonstrate that the outlook results are reasonable.

There is presently a pilot being undertaken of the Heritage Institutions as well as the Amusement and Recreation industries.

Statistics Canada has over 30 years experience with the Manufacturing Business Conditions Survey. Only in recent years has the model been applied in other industries and only with care to preserve relevance, comparability, and quality.

**4 - Qualitative Business Surveys in France**

**4.1 Introduction:**

When trying to understand the conditions under which Business Tendency Surveys (BTSs) thrive, the French case provides a useful counterpoint, because it is significantly different in many respects.

The official French statistical agency is the *Institut national de statistiques et d’études économiques* (Insee). Insee has one of Europe’s
best-developed set of BTSs in the world, which it refers to as *enquêtes de conjoncture*. The BTSs are a very important part of Insee’s statistical program, and constitute a significant part of its business survey taking activity. The first French BTS started in 1952, and the program has grown steadily since then.

As will be seen, the French program is very different from Canada’s in several important respects. The purpose of the following section is to provide a brief sketch of Insee’s BTS program, with particular emphasis on points where it differs from the Canadian program. The next section attempts to identify some of the factors that might have contributed to the two countries’ very different evolution.

### 4.2 Brief Description of Insee’s BTS program:

The purpose of Insee’s BTS program is to brush an opinion-based portrait of short-term business and household perspectives in terms of production, employment, investment, etc… Various questions on these surveys provide indicators of lagging, coincident and – most importantly – leading activity.

Timeliness is paramount, and questionnaires are therefore short (usually one page, never more than three) and require the respondent to provide mostly qualitative information, as opposed to quantities. Most questions are designed to be answered easily and quickly by respondents. The French business tendency surveys which are required for Eurostat are obligatory. Sample sizes vary between 1000 and 4500, depending on the survey; in all cases, they are chosen such that changes in the overall balance of opinion of 2 to 3 points are considered significant.

Insee’s program of BTSs surpasses Statistics Canada’s in both breadth and depth. The industry coverage assures a good coverage of both final demand and supply sides of the economy. While generally short, the questionnaires delve into greater detail than their Canadian counterparts; the amount of detail that is publicly released is also greater, including, for example, some industrial breakdowns.

A partial list of Insee’s main sectoral BTS’s is shown below:

#### Manufacturing Surveys
- Manufacturing Survey (Monthly, Quarterly)
- Survey of Investment Intentions (Quarterly)
- Survey of Financial Situation (Twice a year)

#### Construction Surveys
- Residential Construction Survey (Quarterly)
- General Construction Survey (Monthly)
- Trades Survey (Quarterly)
- Public Works Survey (Quarterly)

#### Services industries surveys
- Retail Trade Survey (Monthly)
- Wholesale Trade Survey (Bimonthly)
- Business Services Survey (Monthly)

Insee also provides extensive cross-tabulations at different levels of aggregation, notably by end use categories, e.g., Consumption goods (“*Biens de consommation*”) for current and past production prospects, as well as for inventories and orders.

Main results from the survey are also aggregated into a *synthetic indicator* that aims to provide an overall view of conditions in the manufacturing industries, as well as a *turning point indicator* designed to show when a significant turning point has been reached.

### The Differences Summarized

The differences between the Canadian and French BTS’s can be encapsulated by the following three points. The French surveys have:

1) **More questions**: The French questionnaires include a much more extensive set of questions, especially on the manufacturing survey (the only survey the two countries have in common).

2) **Qualitative and some quantitative questions**: In addition to a vaster array of qualitative questions, some of the French questionnaires (as was illustrated above in the case of
manufacturing) also include quantitative questions to fulfill special needs.

3) A larger number of industries: Canada currently covers two industries, manufacturing and hotel traveller accommodation, with one survey for each, while France has multiple surveys that cover at least 5 industries.

4.3 Reasons why Canadian and French BTS programs differ

Why does Canada have such a comparatively smaller BTS program? We have identified two key reasons:

A) Different mandates, resource allocation
B) Different pressures to harmonize

4.3.1 - Differing mandate, resource allocation:

The most crucial difference relates to the fundamentally different mandates of the two statistical agencies.

In at least one respect, Insee’s mandate differs in a very important way from that of its Canadian counterpart: it has a mandate to produce short-term forecasts of GDP\(^1\), going forward two quarters. Insee’s forecasts are highly regarded by business cycle economists, and are likely the best available, surpassing in reliability those of both the private sector and those of other government departments. They are in effect the “official” forecasts most widely used by business cycle economists (conjonturistes) tracking the French economy.

Therefore, in addition to having a Department devoted to computing the GDP, Insee also has a Forecasting Division (“Departement de la Conjoncture”), whose purpose is to compile forecasts of key variables such as the growth rate of the GDP, gross output, employment, investment and consumption, largely on the basis of a substantial survey-taking arm. VAR (Vector autoregressive) models are specified using BTS results to extrapolate the growth rates of the principle economic aggregates produced by the French System of National Accounts.

Thanks to both their timeliness and forward-looking content, Insee’s BTS programs are highly prized assets, providing as they do key inputs into their own forecasting models. The economic significance of the forecasts it produces, and the hence the importance and prestige of the Forecasting Division within Insee places it (in the authors’ opinion) at the pinnacle of the French business statistical system.

The situation in Canada is markedly different. Statistics Canada’s mandate is to “collect, compile, analyze, abstract and publish…”. While this does not preclude the production of economic forecasts, and its own internal policies do allow for it under certain conditions, in practice very little if any forecasting is done by its staff.

As a result, backward-looking estimates of GDP stand at the summit of the Canadian statistical system’s business statistics program. Moreover, these estimates rely on a very complete set of mostly survey-based quantitative estimates of production, income and demand. They are, in turn, highly respected estimates, and compare extremely favourably with similar estimates produced by other national statistical organizations. In addition to the usual uses to which these statistics are normally put, Canadian estimates of GDP are also used for the very sensitive task of allocating large amounts of federally-collected tax revenues to its provinces, a task for which extremely detailed statistics are required.

Thus, we conclude that a demand for forward-looking statistics to aid in producing forecasts of GDP has had a material impact on the French statistical system. Simply put, Insee needs BTSs to fulfill its core mandate; Statistics Canada does not\(^2\). The result is a major difference in how resources in the two agencies are allocated.

Insee’s differing mandate has created a permanent internal demand for such surveys, and resource allocation has reflected this.

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\(^{1}\) “L’Insee établit des previsions sur l’évolution de l’économie française à très court terme.” (quoted from www.insee.fr/fr/a_propos/connaitre/missions/six-missions.htm#collecter.)

\(^{2}\) Of course, Statistic Canada’s Business Conditions Surveys are considered important by stakeholders, the Bank of Canada or tourism organisations. Therefore the Agency considers these surveys to be important.
How has Insee been able to focus the considerably larger resources it allocates to its BTS program while still meeting the other elements of its business statistics mandates? (e.g., produce the necessary complement of “classical” quantitative statistics?) The answer may very well be a greater reliance on administrative data sources for its regular or so-called «classical» quantitative estimates of production, income and demand.

At Insee, relatively few of these quantitative estimates are survey-based, the majority being compiled from administrative data sources (e.g., VAT data are used to compile estimates of turnover in the manufacturing, retail, wholesale and business services industries). As a result, French enterprises bear a relatively light response burden, responding primarily to BTS-type surveys, which are quick and easy, and being spared the need to report turnover (i.e., sales) data.

Again, the contrast with the situation in Canada is striking. Statistics Canada’s GDP program is supported by an extensive array of survey-based estimates of activity. For example, monthly quantitative estimates of turnover in the manufacturing, retailing and wholesaling industries are all produced by “classical” sample surveys, supplemented only since 2004-05 by a small complement of administrative (VAT) data. Moreover, the latter account for less than 10% of the estimated turnover\(^3\). In France, the same three industries rely entirely on VAT data, and are released to the public in index form, with a limited amount of detail.

4.3.2 - Differing international pressures to harmonize

France’s adherence to the standards being promulgated within the Euro-zone by the European Central Bank (ECB) or within the European Union by the European Commission through mostly Eurostat has also impacted positively on the BTS program.

The European Commission is the force behind the creation of a harmonized European statistical system. In the mid-1990’s, the impetus for such a system grew with the expectation for the enlargement of the Union and the adoption of a common currency to be managed by a common monetary policy. In recent years, the majority of changes implemented to survey frequency, scope, definitions, modes of collection are the result of specifications aimed at increasing harmonization.

The pressures for change enacted by the European Commission have had a welcome influence on Insee’s BTS program. For example, the BTS on Business Services industries become a monthly survey (June 2000), while several surveys are now produced in a more timely manner than before. Both are examples of changes enacted to meet European harmonization requirements.

The Canadian situation can be characterized by an outright absence of pressures to harmonize. Simply put, Canada is encountering very little in the way of international pressures to harmonize its BTS program to bring it into line with those of other countries.

5. Conclusion

While the pressures to harmonize within the European Community have had a positive effect on the development of Insee’s stable of BTS’s, the improvements arising from this have amounted to little more than relatively minor refinements to an already impressive infrastructure of surveys. As was noted earlier, Insee is tasked not only with producing the usual spectrum of supply and demand indicators, culminating with estimates of GDP, but is also mandated with producing short-term forecasts of GDP, going forward two quarters. It follows that the French statistical system’s need for BTS’s has been entrenched for some time, and reflects the system’s – perhaps unique – own internal need for a richer source of forecasting-related data, which – not incidentally – dovetail with the needs of the wider business cycle forecasting community. The unusually large amount of resources devoted to BTS’s is balanced by an

\(^3\) Canada also has a very extensive set of annual surveys, which collect detailed data about costs and revenues in these same industries. These results are used by Canada’s System of National Accounts to produce complete annual Input-Output tables of the Canadian economy as a whole, as well as a detailed annual set of annual accounts for each of its Provinces and Territories. There is no such equivalent in France.
equally well-established investment in less costly administrative (i.e., VAT-based) data sources.

In Canada, the picture is radically different, where a well-entrenched culture of producing the best possible quantitative estimates of backward-looking GDP has prevailed, producing one of the most extensive and detailed set of National Accounts in the world. As a result, reliance on administrative data is relatively limited, with most quantitative data needs being sourced from questionnaire-based sample surveys.

References


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ISM (2007), website of the Institute of Supply Management (United States) at www.ISM.ws.


