

## Box 7

**INDICATORS OF EURO AREA PRIVATE CONSUMPTION – CURRENT SITUATION AND AVENUES TO EXPLORE**

Private consumption is an important variable to monitor, as it constitutes almost 60% of GDP in the euro area. Against this background, this box reviews the indicators that are currently available in order to estimate and assess the latest developments in private consumption. It then highlights the areas where the availability of high-frequency (and timely) indicators falls short. Finally, alternative indicators from outside official statistics are mentioned which could help to fill the current information gap.

**Available short-term indicators for private consumption: retail trade and car purchases**

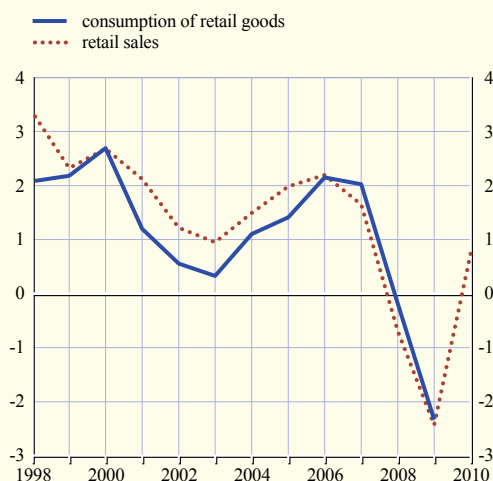
For monthly short-term indicators to be useful for consumption analysis, they need to be timely and exhibit reasonable co-movement with private consumption (or parts of it). The only indicators that currently appear to fulfil these criteria are the monthly series on the volume of retail trade turnover (published by Eurostat) and the number of new passenger car registrations (which are published by the European Automobile Manufacturers' Association (ACEA) and seasonally adjusted by the ECB). At the euro area level, retail trade constitutes almost 45% of overall consumption, while car purchases constitute slightly less than 5%. This means that, for almost 50% of private consumption, the timeliness of data for retail trade and car registrations allows a view of developments to be formed in advance of the release of the expenditure breakdown as part of the quarterly national accounts, which are typically available around two months after the end of the reference quarter.

One way of assessing the information content of these two early indicators is to use the COICOP<sup>1</sup> breakdown of private consumption and to construct aggregates that correspond to the short-term indicators of retail trade and car registrations. However, the COICOP breakdown of consumption is only available at annual frequency and is published with a significant delay. Chart A shows the annual rate of change for retail consumption in the euro area constructed from

<sup>1</sup> "Classification of Individual Consumption by Purpose" (see Commission Regulation (EC) No 113/2002 of 23 January 2002). The classification of household consumption expenditure by consumption purpose is used by the European System of Accounts (ESA 95) and the Harmonised Index of Consumer Prices (HICP).

**Chart A Euro area retail consumption and retail trade**

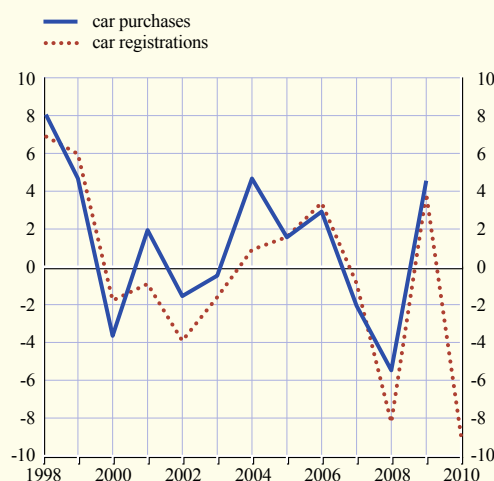
(annual percentage changes; annual data)



Sources: Eurostat and ECB calculations.

**Chart B Euro area car purchases and registrations**

(annual percentage changes; annual data)



Sources: ACEA, Eurostat and ECB calculations.

this breakdown alongside the retail trade series, while Chart B shows car purchases alongside new passenger car registrations (for comparative purposes, the monthly series have been converted to an annual frequency in both cases). The co-movements between the respective series do indeed suggest that it is reasonable to use retail trade and car registration data to form a view on recent developments in the corresponding sub-components of euro area private consumption. Despite the relatively good fit of the annual data, deriving quarterly movements from monthly data exhibits higher uncertainty. This may reflect differences in seasonal and working-day adjustments, as well as different revision policies being applied for national data. The monthly series on retail trade, for instance, is subject to frequent and sometimes large revisions.

### Indicators for other consumption elements (mainly services)

The remaining 53% of total euro area private consumption, as defined in the national accounts, consists mainly of services, with housing (including energy) and restaurants and hotels accounting for the highest shares (see the table). Chart C illustrates the quarterly contribution from other consumption alongside the contributions from the retail trade and car registrations.<sup>2</sup> For other consumption, there

### Components of other consumption (mainly services)

(weight as a percentage)

Housing, water, electricity, gas and other fuels	21.1
Services for routine household maintenance	0.9
Health	2.4
Transport services	2.1
Communication services	3.0
Recreational and cultural services	3.1
Package holidays	0.6
Education	0.8
Restaurants and hotels	8.8
Personal care	2.2
Social protection	1.1
Insurance	3.0
Financial services	3.9
<b>Total</b>	<b>53.0</b>

Sources: Eurostat and ECB calculations.  
Note: The shares are calculated over the period 2006-09.

<sup>2</sup> The contribution for other consumption is calculated as the residual by deducting the contributions from retail trade and car registrations from the actual quarter-on-quarter growth in total private consumption.

are no reliable, high-frequency indicators for euro area-wide developments, and all available indicators have their drawbacks.

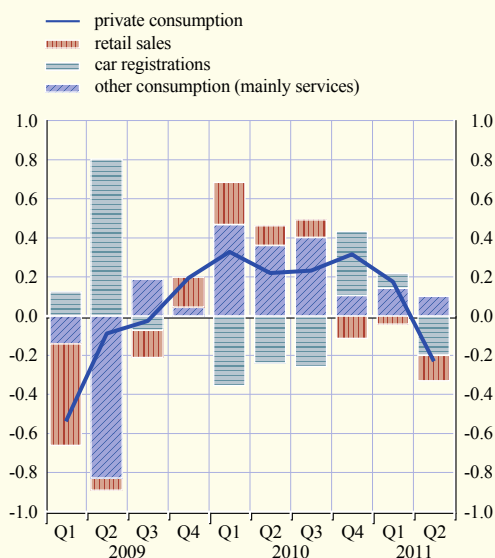
Harmonised turnover statistics on services are published by Eurostat. The coverage and level of detail for services industries has increased since the recent migration of business statistics to the new classification of economic activities (NACE Rev. 2).<sup>3</sup> However, euro area aggregates are still only partially available. Other significant drawbacks of these data are their timeliness and frequency. Despite the fact that the euro area time series are available monthly, data are only updated once a quarter, so all three months of a quarter are published simultaneously, usually when the quarterly national accounts are released. Moreover, their correlation with quarter-on-quarter growth in services consumption, as measured in national accounts, is currently not particularly high. However, it is expected that the quality of these services turnover indicators will improve over time with the increasing length of time series and by overcoming some initial data problems caused by the introduction of the new economic classification.

One potential source of indicators relates to tendency survey data. Both the European Commission business surveys and the surveys among purchasing managers (PMI surveys) provide various series covering the services sector. Some of these series show some co-movement with trend developments in services consumption (e.g. year-on-year growth). However, they often fail to capture the short-term dynamics, which are crucial when trying to form a view on the latest quarter-on-quarter consumption growth figure. This may in part reflect the fact that, in many cases, the tendency survey data also cover business services and not just services attributed to private consumption. The European Commission's survey among consumers provides information on matters such as households' intentions to make major purchases in the near future. The Commission's consumer confidence indicator often provides overall consistent signals with the general trend of private consumption. They are, however, less reliable in terms of capturing short-term movements (e.g. quarter-on-quarter growth) in consumer spending.

A third potential source of data relates to data on payment transactions. The use of payment statistics for conjunctural analysis is fairly new and two separate approaches can be identified. The first approach might consider credit card transactions from the main national and international card issuers. These data could potentially be interesting for the purposes of consumption analysis, at least for those service industries which make extensive use of card payments, such as the airline industry, hotels and restaurants. The second approach is the use of cash withdrawal data from automated teller machines and card payments at points of sale (ATM/POS transactions),

**Chart C Private consumption growth and contributions**

(quarter-on-quarter growth rate and quarterly percentage point contributions; seasonally adjusted)



Sources: ACEA, Eurostat and ECB calculations.

<sup>3</sup> For more details on the new version of the NACE classification, see the box entitled "Recent changes in short-term statistics", *Monthly Bulletin*, ECB, April 2009.

which are collected by the European NCBs in the context of payment statistics. The coverage is more suitable for consumption analysis purposes, as all domestic transactions are included. However, issues remain relating to the current frequency of the data (annual) and the long reporting lag (around nine months).

A new avenue to be explored in more detail could come from the use of data derived from the internet (e.g. via search engines). As larger shares of e-commerce and increased penetration rates of internet equipment in private households can also be observed in Europe, this could become a potential source of very timely, high-frequency information on consumption behaviour.

Finally, the coverage of energy consumption by private households in the form of reliable, high-frequency statistics from larger energy producers, in particular, should become another area for statistical development.

To sum up, private consumption is an important variable to monitor. In this respect, the statistics on retail sales and new passenger car registrations provide useful indicators which together cover around half of consumer spending. However, the remainder of total euro area private consumption consists mainly of services. There are only a few reliable, high-frequency indicators for euro area-wide developments for this part and all available indicators have their drawbacks. This calls for new avenues of data gathering to be explored. Such additional, high-frequency information could help to bridge the gap to official statistics in order to broaden the information basis on the most recent developments in private consumption.