

Note on the Upcoming Comprehensive Revision of the National Income and Product Accounts

Next year, BEA will undertake its 12th comprehensive, or benchmark, revision of the national income and product accounts (NIPA's).

Comprehensive revisions are prepared about every 5 years and incorporate three major types of improvements: (1) Definitional and classificational changes that update the accounts to more accurately portray the evolving U.S. economy, (2) statistical changes that update the accounts to reflect the introduction of new and improved methodologies and the incorporation of newly available and revised source data, and (3) presentational changes that update the NIPA tables to reflect the definitional, classificational, and statistical changes and to make the tables more informative.

Comprehensive revisions, and to a lesser extent annual revisions, provide the opportunity to introduce the major changes that are outlined in BEA's strategic plan for maintaining and improving its economic accounts. BEA's strategic plan is available on our Web site at <www.bea.gov>; click on "About BEA" and find the bullet for "BEA's Final Strategic Plan for 2001–2005" near the bottom of the page.

In discussing the national accounts, BEA's strategic plan outlines four major areas for improvement in meeting the goal to "upgrade BEA's economic statistics by improving statistical methodologies and source data and by using new technologies." Within each of the four areas, the following are the major improvements that BEA is considering for the upcoming comprehensive revision.

Improving processing systems

- In preparation for the comprehensive revision, improvements are being made to the processing systems that are used to compile the national economic accounts, including the design and implementation of a new NIPA central system. The new system, which is scheduled to be fully tested and operational by late spring, will support ongoing improvements to the accounts.

Addressing data gaps and other shortcomings

- Several changes to the definition of insurance output have been proposed: Recognizing expected investment income (interest, dividends, and capital gains) as an implicit supplement to the premiums paid by policyholders, replacing claims with a measure of expected claims in the measure of the net premium paid, and

using double deflation to calculate real insurance services.

- Industry estimates (including those for national income, compensation of employees, proprietors' income, net interest, and corporate profits) will be converted from the Standard Industrial Classification system to the North American Industry Classification System (NAICS).¹
- The 1997 benchmark input-output accounts, which are scheduled to be released in December 2002, will be incorporated. These accounts include improvements to the estimates of computer software.
- Several newly available producer price indexes for services from the Bureau of Labor Statistics will be used for deflation. In addition, BEA is pursuing research on developing quality-adjusted price indexes for software, photocopy equipment, and nonresidential structures. BEA is also evaluating the use of quality-adjusted price indexes for communications equipment developed by the Federal Reserve Board.
- BEA is examining the effects of employee stock options on corporate profits, with an eye toward improving the extrapolation of profits for current time periods. After the comprehensive revision, BEA will look at potential conceptual improvements, such as the possibility of recording and valuing stock options as compensation during the period between granting and vesting rather than at the time of exercise.
- Presentational changes to deemphasize chained dollars and emphasize percent changes and contributions to percent change are under consideration.
- New tables are being developed to present estimates of real government consumption expenditures and gross investment by function.
- Information from trade sources is being used to develop improved estimates of current-dollar and real expenditures for used motor vehicles.
- A new "market-based" PCE price measure is being developed that would exclude prices based on imputations and other nonmarket transactions.
- The reference year for price and quantity measures will be updated to 2000.

1. See John R. Kort, "The North American Industry Classification System in BEA's Economic Accounts," *SURVEY OF CURRENT BUSINESS* 81 (May 2001): 7–13.

Improving consistency and integration with other accounts

- A presentation that shows separate incomes and outlays for households and for nonprofit institutions serving households has been developed.
- The methodology for preparing BEA's estimates of the stock of fixed assets and consumer durable goods will be reviewed before the conversion to NAICS in 2004. New service lives for aircraft and motor vehicles are under consideration. A new type-of-asset classification for structures will be adopted. The investment and depreciation flows used in estimating the stocks will be more closely integrated with the NIPA's.
- A proposal to reclassify services of owner-occupied housing (both farm and nonfarm) and the rental value of fixed assets owned and used by nonprofit institutions serving households from the business sector to the households and institutions sector is being investigated. A proposal to classify transactions of Indian tribal governments as part of State and local governments is also being investigated.

Improving consistency with international standards

- Research is underway on the question of whether part of the consumption of the imputed services furnished without payment by financial intermediaries should be allocated to borrowers, as recommended by the

international guidelines for national accounts, *System of National Accounts 1993* (SNA).

- The presentation of government consumption expenditures and gross investment may be revised to emphasize the government's role as a producer of services. Partial estimates of the change in government inventories are being investigated.
- Additional presentational and definitional changes have been proposed that would move the NIPA's toward conformity with the SNA.
- Research is underway to investigate the feasibility of converting selected government estimates from a cash basis to an accrual basis.

Constraints on time, resources, and source data will play a role in deciding which improvements will be implemented.

During the next year, BEA will provide additional information on the comprehensive revision in SURVEY OF CURRENT BUSINESS articles that preview the proposed changes, at meetings of the BEA Advisory Committee, and at other group meetings of experts. If you have comments or suggestions on the comprehensive revision, please contact:

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