

Update on BEA Activities

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BEA Advisory Committee Meeting
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Measuring the Nation's Economy.



National Accounts

- Completed the historic fixed assets estimates on a NAICS basis
- Improved “Business Situation”
 - “GDP and the Economy”
 - Displays NIPA tables with the text
- Medicare Part D
 - Developed treatment for NIPAs
 - FAQs describing treatment

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SNA Update

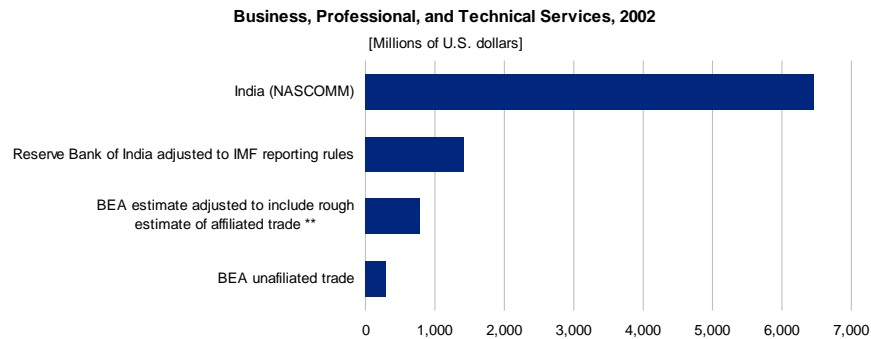
- Final recommendations from in the Advisory Expert Group. Key decisions include
 - Include a rate of return for government fixed assets
 - Support the use of accrual accounting for defined benefit pension plans based on actuarial estimates
 - Capitalize R&D
 - Include services of capital (for countries with capital stocks and the capacity to produce integrated production accounts)

International Accounts

- Direct investment data made available in interactive tables
- Offshoring
 - NAPA, GAO, and NRC/National Academies Reports
- Remittances
 - GAO Report
 - New International Working Group
- Summary estimates of MNCs
 - Revisions in these estimates have been well within the range that BEA typically sees in these data sets

Areas that Require Updating

U.S. and Indian Data on Trade in BPT Services



Source: BEA, NASCOMM, Reserve Bank of India (RBI), and BEA estimates based on RBI data.

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Regional Accounts

- Update on inter-area prices – a *Monthly Labor Review* article is due out around June
- Backcasting of GSP – SIC series extended back to 1963 from 1977
- Acceleration and accuracy:
 - Prototype estimates suggest that revisions to metropolitan area personal income will generally be small.

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Industry Accounts

- GDP by Industry backcasting
 - Value added on NAICS basis 1947-2005 available
 - Gross output and employment to come
- Integration – internal and external efforts discussed in later sessions
- Acceleration and accuracy
 - First preliminary 2002 Benchmark gross output estimates, two years ahead of time
 - Annual I-O accounts with only a one year lag, and GDP-by-industry advance estimates, four months after the reference year
 - Review of advance estimates indicates improving accuracy

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Communications: Responses to Nov. 2005 Meeting

- Explanation and Delivery of Data
 - Interactive charts and tables, RSS news feeds, archival data, new time series for MNC data
- Web Site Design
 - Help for less-experienced users, search window, improved accessibility, and regular comprehensive revisions of design
- Interactive Tables
 - Links to FAQ's, footnotes, and other explanatory tools; explanation of tables in keyword index; and table relationships
- FAQ's
 - Address "Errors frequently made" and develop handbbook of methods
- Survey of Current Business
 - Completely redesigned business situation; full text search capability, and improved subject index.

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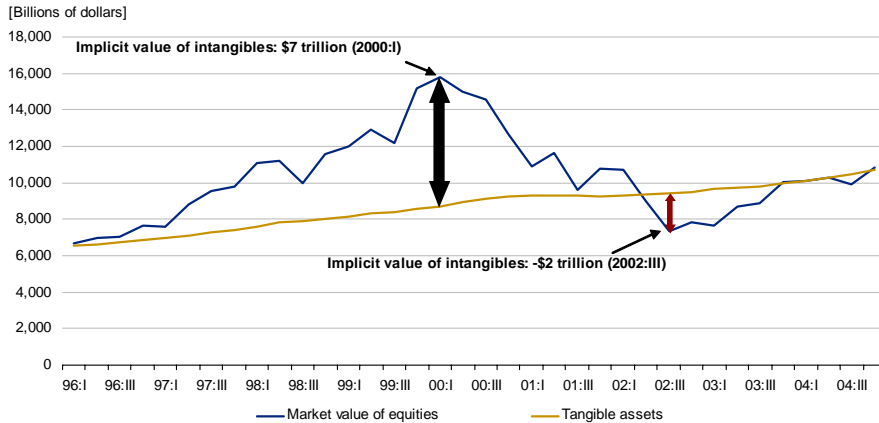
The Knowledge Economy

- The Knowledge Economy:
 - Outdated and Understated GDP?
 - R&D, human capital, and other intangibles
 - Dark Matter: understated or overstated services, trade balance, capital account

The Knowledge Economy

- Developing a consensus on scope, concepts, and methods:
 - R&D
 - Human Capital
 - Brand Equity
 - Firm-specific human capital
 - Organizational structure

Measuring Intangibles: Problems in Using Imputations Rather Than Direct Measures



Source: FRB Flow of Funds (L.102 and B.102) release March 9, 2006. Data based on nonfarm nonfinancial corporate business.

Note: A number of analysts attributed the large difference between equity values and the replacement value of plant and equipment to intangibles during the market run-up in the late 1990s.

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Measuring Intangibles in International Trade and Finance

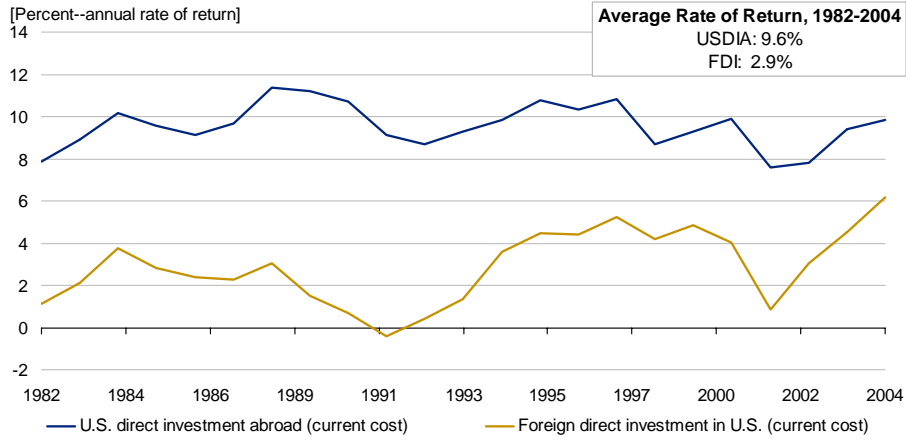
- **Dark Matter:** The problem of disentangling services from financial transactions.
 - How can we have surplus in investment income when we are the “world’s largest debtor nation?”
 - Argument -- that the high rate of return on USDIA is due to intangibles -- applies to foreign direct investment
 - Portfolio assets priced at market prices and returns are on marketed bonds and equities
 - FDI asset values are estimated and profits may reflect transfer prices

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Rate of Return – USDIA vs. FDI



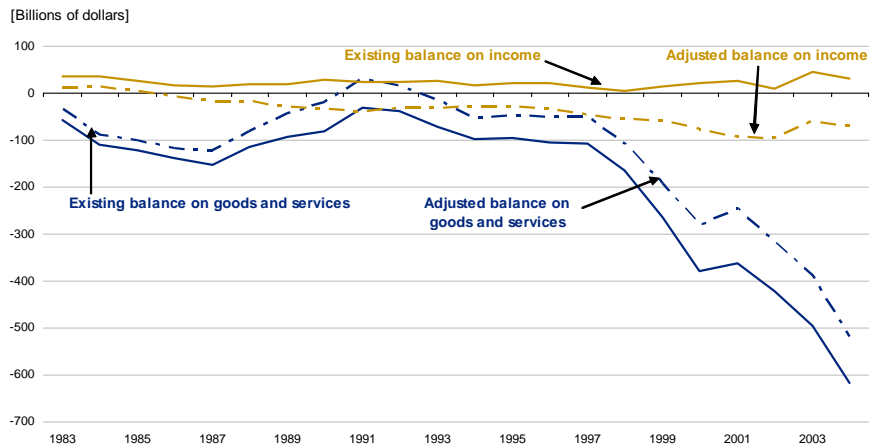
Source: BEA.

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International Transactions and Alternative Measures



Source: BEA.

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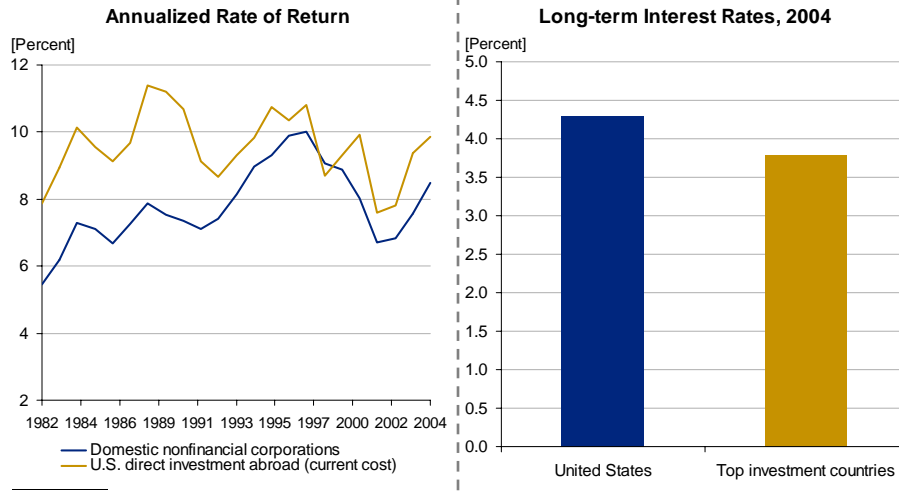
Measuring Intangibles in International Trade and Finance

- Higher returns on USDIA than FDIUS
 - Result of implicit exports of U.S. knowledge capital that raise reported U.S. profits? (Hausmann & Sturzenegger)
 - Result of transfer pricing that lowers returns to USDIA? (Krugman)
 - Result of Double-Counting of USDIA Reinvested Earnings in Market Valuation of Assets by BEA? (Gros)
 - BEA does not double count, but adjusts U.S. equity index for reinvested earnings, and uses USDIA reinvested earnings in place of equity index value.

Measuring Intangibles in International Trade and Finance

- Higher returns on USDIA than FDIUS
 - Other factors:
 - Currency risk, country political risk, country cyclical risk, relative interest rates/opportunity costs, historical investment pattern, and capital gains and losses.
 - Effective tax rates effect is unclear.
 - U.S. “know-how” may also explain difference, but it’s not clear how to measure.
 - Bottom-Line: Importance of separating analysis from accounting

Rate of Return & Interest Rates



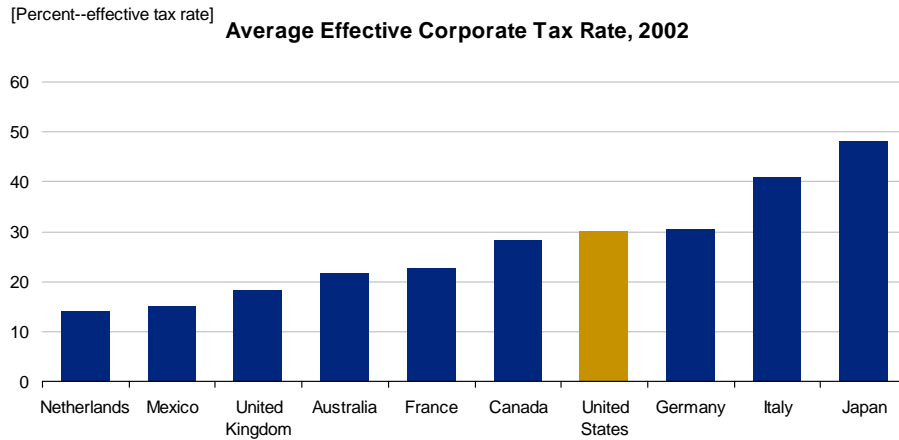
Source: BEA.

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Effective Corporate Tax Rates



Source: Institute for International Economics.

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Other Issues

- Management:
 - All green on OMB scorecard
 - New hiring system is working
- Future Issues:
 - Budget and priorities
 - Knowledge economy and priorities