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TITLE: ATTRIBUTING QUARTERLY GDP GROWTH RATES OF THE EURO AREA TO FINAL DEMAND COMPONENTS

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ABSTRACT:

For economists to analyse economic developments it is important to understand the driving forces of economic growth. One of the analyses which is used is the attribution of GDP growth rates to final demand components such as household consumption, gross fixed capital formation and exports. Two methods are available: Firstly, there is the "net-exports method" which is used in the Monthly Bulletin of the ECB (ECB, 2008, p53). In this method, the growth rate is decomposed using a net measure for exports i.e. imports are subtracted from exports. Secondly, there is the "attribution method" which adopts input-output modelling techniques to decompose the effects of changes in final demand components. In a previous study for the ECB, Hoekstra et al. (2006) showed that that the attribution method leads to more fruitful economic analysis but that the data requirements are larger because the method requires an input-output table (IOT) for the euro area (EA). In the report an IOT for 2001 for the EA was constructed and was used for the attribution method for annual (2002-2005) and quarterly growth rates (2005Q1-2006Q1). The current report builds on the work done in Hoekstra et al. (2006). EA-IOT for 2003, 2004 and 2005 are produced and used to attribute annual (2003-2006) and quarterly (2006Q1-2007Q3) growth rates to final demand components. Many improvements have been introduced along the way, but four stand out. Firstly, the data situation in the Eurostat transmission program has improved. Secondly, the IOT which have been produced are consistent with the latest macro-economic aggregates series produced by the ECB. Thirdly, IOT for multiple years have been produced (2003, 2004 and 2005). Finally, one of the problems identified in the previous report, re-exports and transit trade (for the Netherlands), has been tackled using new data from the department of trade statistics of Statistics Netherlands. In the report we also discuss which steps would be necessary to produce the SUT/IOT and attribution calculations on a regular basis. Potential improvements and further research are also discussed. Detailed appendices, in which the data work is described and sensitivity analyses presented are also included.