

Ed Humpherson, Director General for Regulation

Chair, Treasury Committee
House of Commons
London
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Dear Chair,

Following my appearance before the Committee on 30 October 2019 as part of its inquiry considering *Regional Imbalances in the UK Economy*, members requested I write to the Committee on the pathway towards providing enhanced regional economic statistics, and their inclusion in official publications. Committee members were interested in the pros and cons of including such statistics on a more routine basis in official publications, for example, in the Office for Budget Responsibility's (OBR) work and in Budget documents.

This letter considers three aspects of publishing enhanced regional economic statistics:

- The building blocks for better regional economic statistics.
- The inclusion of statistics on regional economic performance in official documents.
- The publication of forecasts at the regional level.

Building blocks for improved regional economic statistics

The table below sets out developments in economic statistics that the Office for National Statistics (ONS) should focus on, and which form the steps on the path to significantly improving regional economic forecasts.

Economic Statistics	Developments required
Regional Economic Accounts and Supply and Use tables	Regional supply and use tables enable a rich and detailed picture to be created of all the goods and services produced or imported in an area and their ultimate use. These are the building blocks for the modelling of the economic effects of various interventions or other changes in supply and demand. These already exist in Scotland and Northern Ireland but there are none currently for Wales and the English regions.
Regional GDP (Expenditure approach)	GDP can be calculated by adding together consumer spending, current government spending, private and public investment, and net trade (the value of exports minus imports). These components are widely used for forecasting and modelling the economy. There are currently no regional estimates of the expenditure measure of GDP, except in Scotland where they have just been introduced.
Inter-regional trade flow statistics	There is a need for greater detail on import and exports of goods and services. Inter-regional flows, trade and value added and supply chains within and between the

	regions and ports. There would be a need for those who wish to use such statistics to access micro-data.
Nowcasts of regional GDP	In time, the ONS plan to feed data from its new quarterly regional GDP measure into the nowcast regional GDP model, to improve accuracy. This could provide “flash” estimates at a regional level.

These developments would act as a set of pre-conditions for creating enhanced measures of regional economic performance, and for the publication of regional economic forecasts. All these developments will be enabled by better access to administrative data, where the ONS can provide enhanced (ideally flexible) geographies with more use of direct estimation.

Inclusion of statistics on regional economic performance in official publications

HM Treasury does not currently include much by way of regional economic breakdowns in their budget report, either to describe recent economic performance or for forecasts. Regional performance information published by the UK Government can be found in some departmental annual reports and accounts but is not summarised in any compendium.

Given the growing interest in regional disparities in economic performance, the lack of focus in official documents is surprising. It would be relatively easy to address this absence using statistics already published by the ONS, the Scottish Government, the Welsh Government and the Northern Ireland Statistics and Research Agency. With the developments undertaken by the ONS outlined in the table above, it could be done at increasing levels of granularity.

Publication of forecasts at the regional level

In addition to more routine inclusion of statistics on regional economic performance in official publications, there might be considerable public good served by publishing some regional economic forecasts. However, there are several important conditions before this could be adopted as a regular part of information provided to help people make judgements about the UK and regional economy.

- Firstly, the improvements set out in the table above would enable more granular forecasts to be made. In the absence of these statistics as input data, forecasters may struggle to develop models with sufficient granularity. The more that regional economic forecasts take account of official data the more likely that the forecast error will remain within tolerable limits.
- Secondly, even with those improvements, the extent and nature of user demand would need to be established, including the extent to which forecast errors would be acceptable to users. This can only be ascertained through user testing.
- Furthermore, providing data to inform regional forecasts is already taking place in parts of the UK, in part prompted by devolution. Any developments of forecasts at a sub-UK level should take into account the data already available for Scotland, Northern Ireland and Wales.
- It would be important to communicate the uncertainties associated with any regional GVA forecasts. For example, there are deficiencies in historical GVA data. Forecasts will only be as good as the data they rely on.
- Users told the Committee that for regional economic forecasts to be useful they would need to be produced sub-regionally in ways that can provide consistent analysis at multiple geographies, e.g. LEP boundary. Forecasters would be likely to

use sub-regional indicators to allocate national totals, an approach that is unlikely to be reliable for small geographical areas.

- Producing adequate data at NUTS2 and finer degrees of disaggregation would require much greater exploitation of administrative data than present. Although this is challenging, it is possible and is a matter of resources and priorities, once over some access hurdles. Moreover, it is often the case that the source data for businesses operating across multiple regions is not broken down appropriately, so even then there would be gaps.

Finally, in line with the emphasis on trustworthiness and quality at the heart of our work at the Office for Statistics Regulation, we would strongly advocate the adoption of rigorous governance and publication policies for regional forecasts. These policies would include having arrangements for planned, orderly publication of the forecasts; clarity on strengths and limitations of the forecast; and appropriate explanation of the assumptions adopted in ways that are accessible and clear to guide interpretation and use.

I would be very happy to discuss these issues further with the Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ed Humpherson', written in a cursive style.

Ed Humpherson
Director General for Regulation