

Factoryless Goods Production – a Case Example from Current Prices to Volume Measures in Finland

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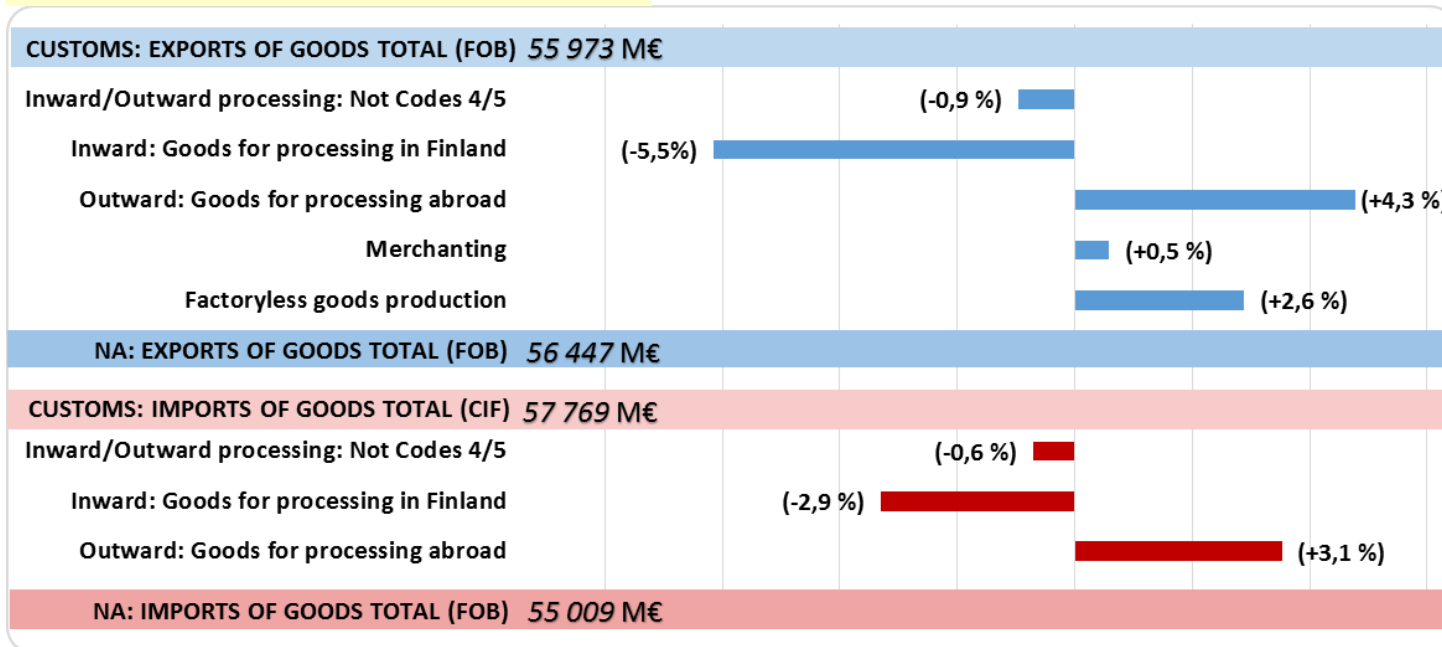
Group of Experts on National Accounts, 31 May – 2 June 2017

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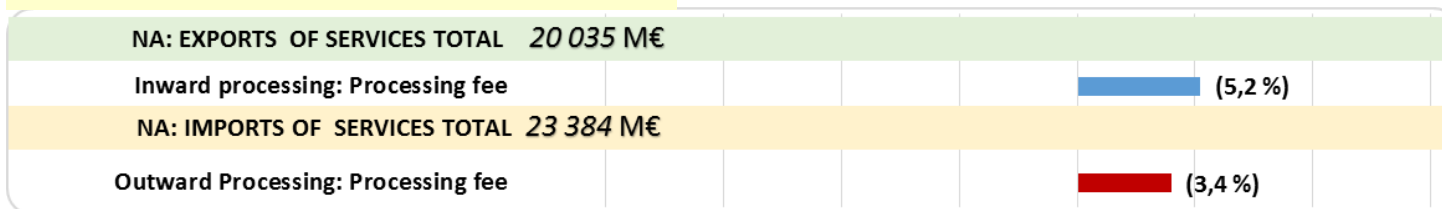
- Global production adjustments in Finland
- FGP case company
 - Identification: sources
 - Decision: industry, product, price
- Challenges

Finland: Global production adjustments in 2014

% of export/import of goods totals

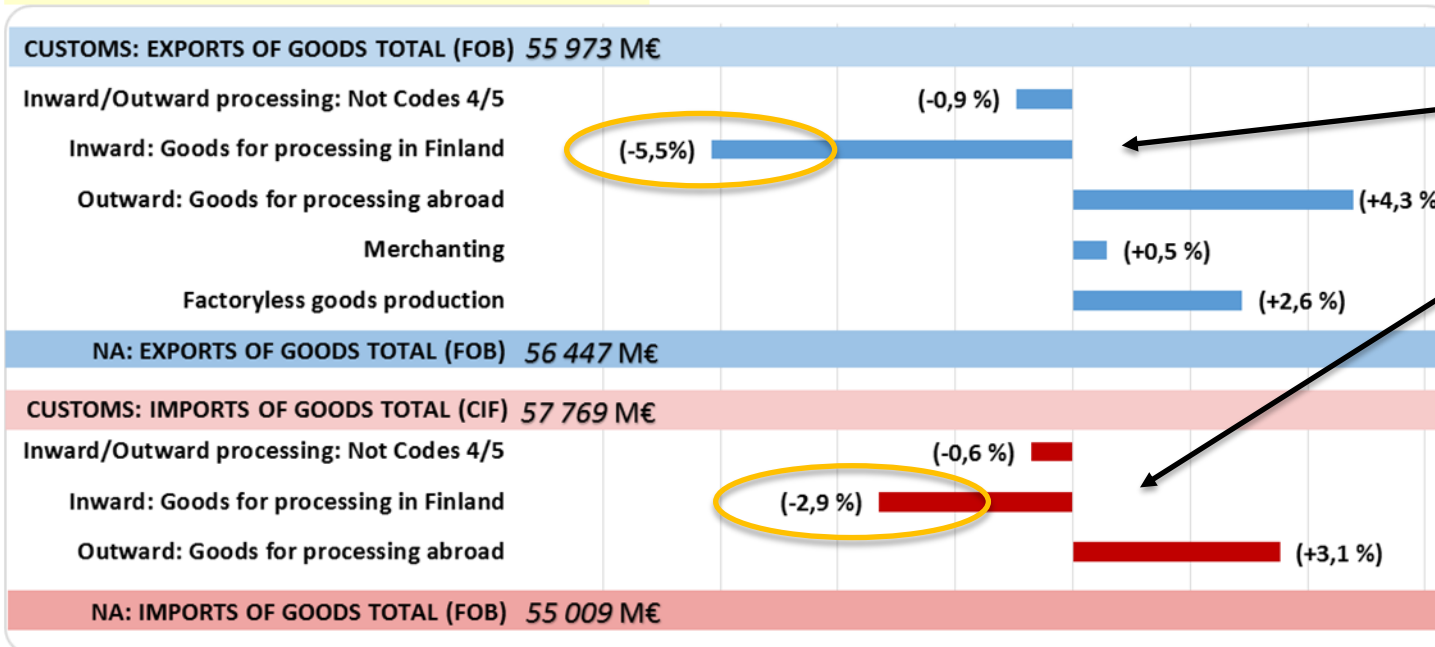


% of export/import of services totals



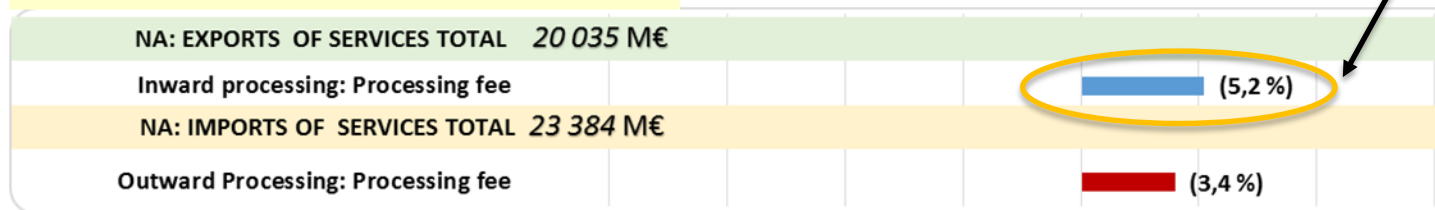
Finland: Global production adjustments in 2014

% of export/import of goods totals



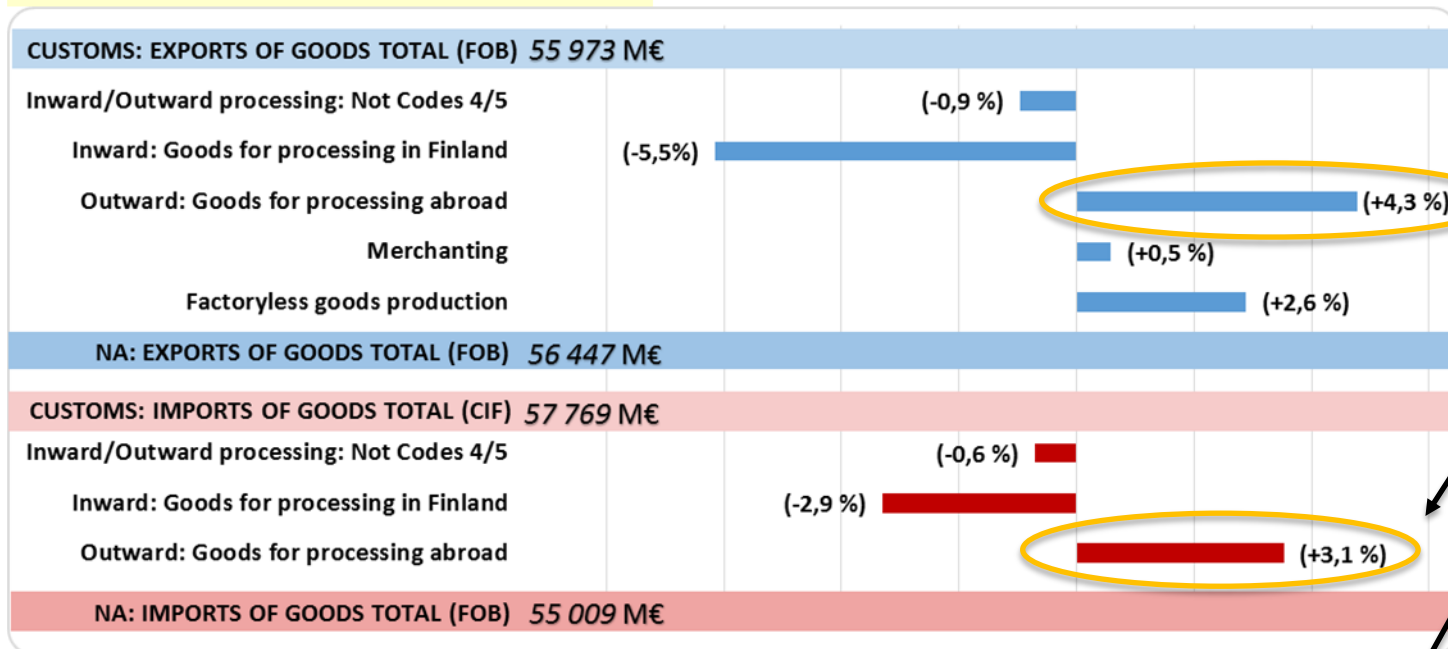
Effects on inward processing

% of export/import of services totals



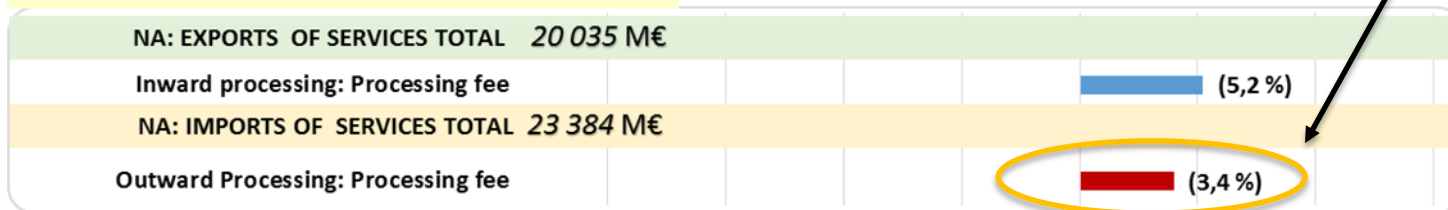
Finland: Global production adjustments in 2014

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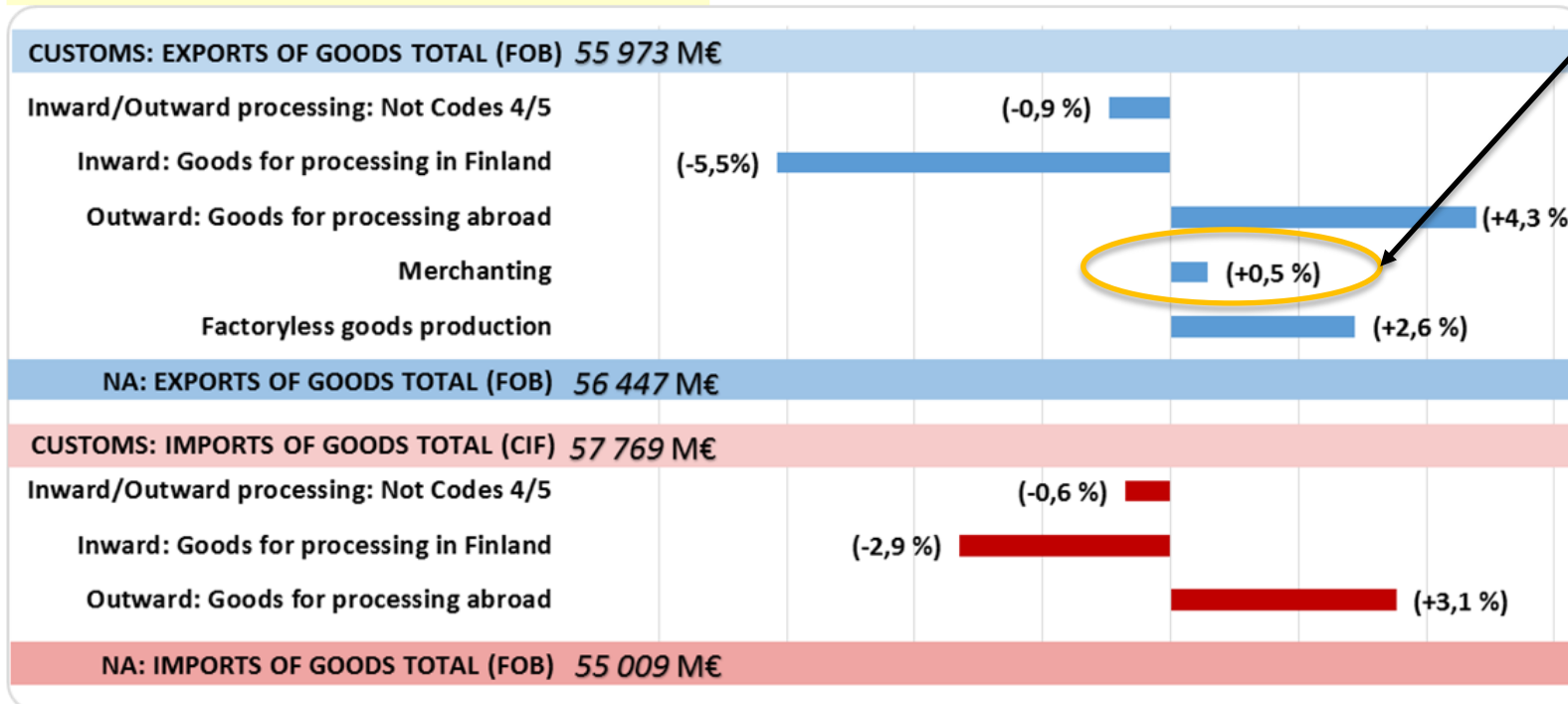
Effects on outward processing

% of export/import of services totals



Finland: Global production adjustments in 2014

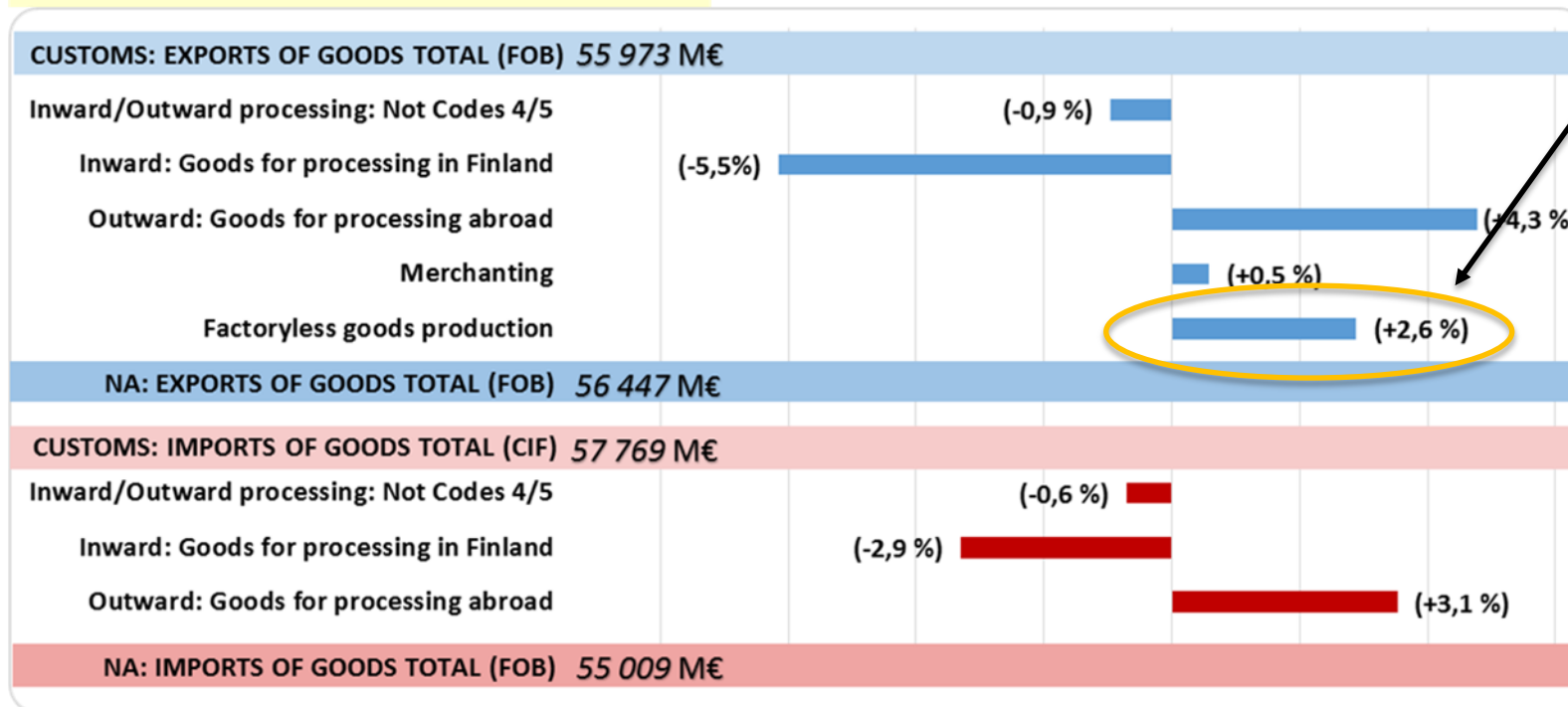
% of export/import of goods totals



Effect on merchanting

Finland: Global production adjustments in 2014

% of export/import of goods totals

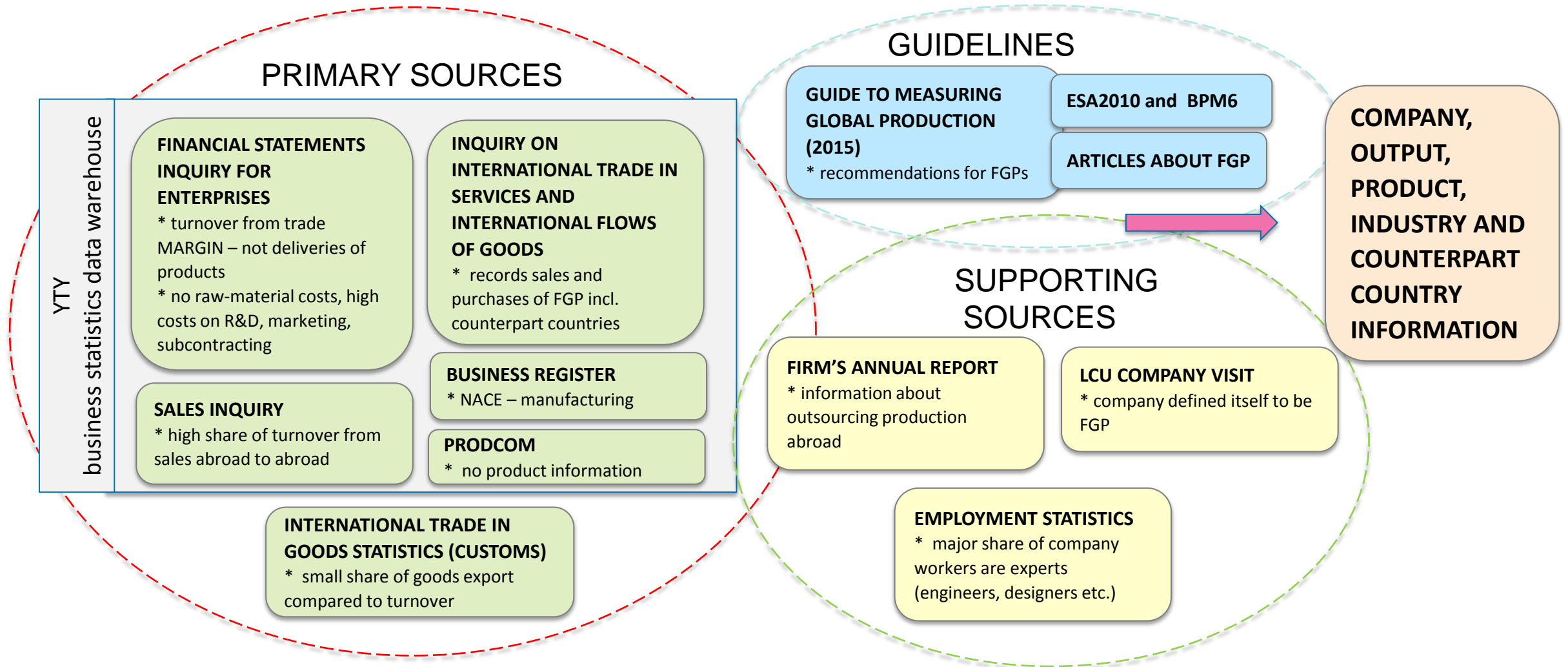


Effect on
factoryless
production

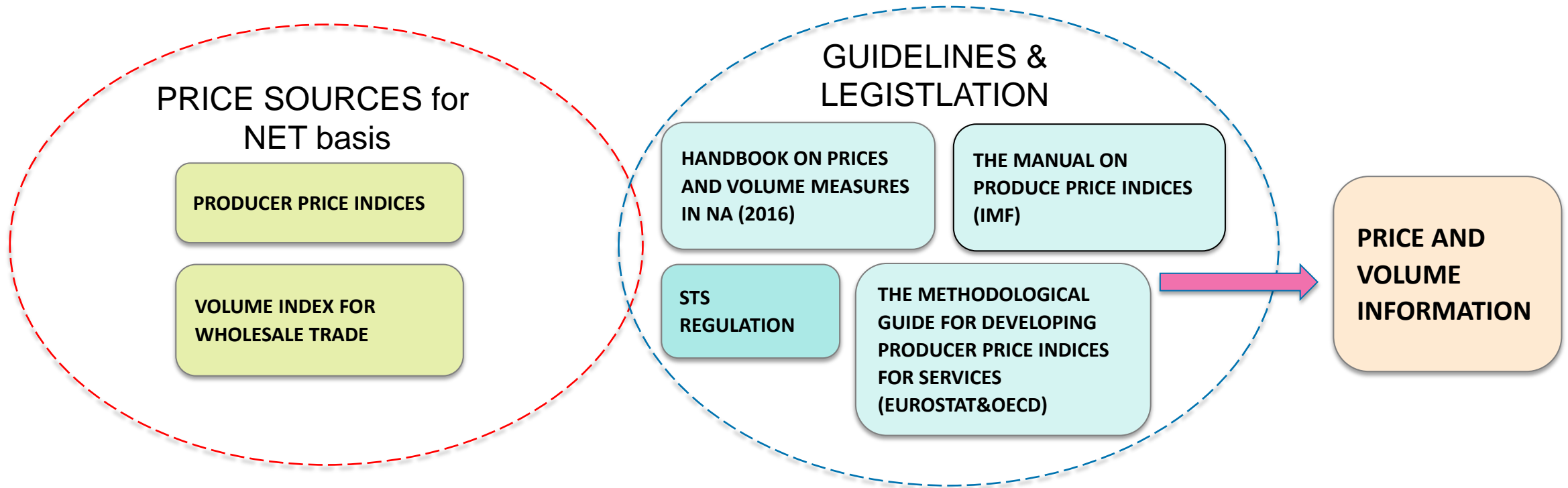
How global production adjustments are done?

- Influence on total trade is not very big
- Case by case analysis, covering about 70 companies
- Finland is a small economy – big firms dominating, change in a global production activity could affect the surplus/deficit in trade balance
- Statistics Finland publishes quarterly [International trade in goods and services](#) statistics where the differences between ITGS and BOP are explained in aggregated level

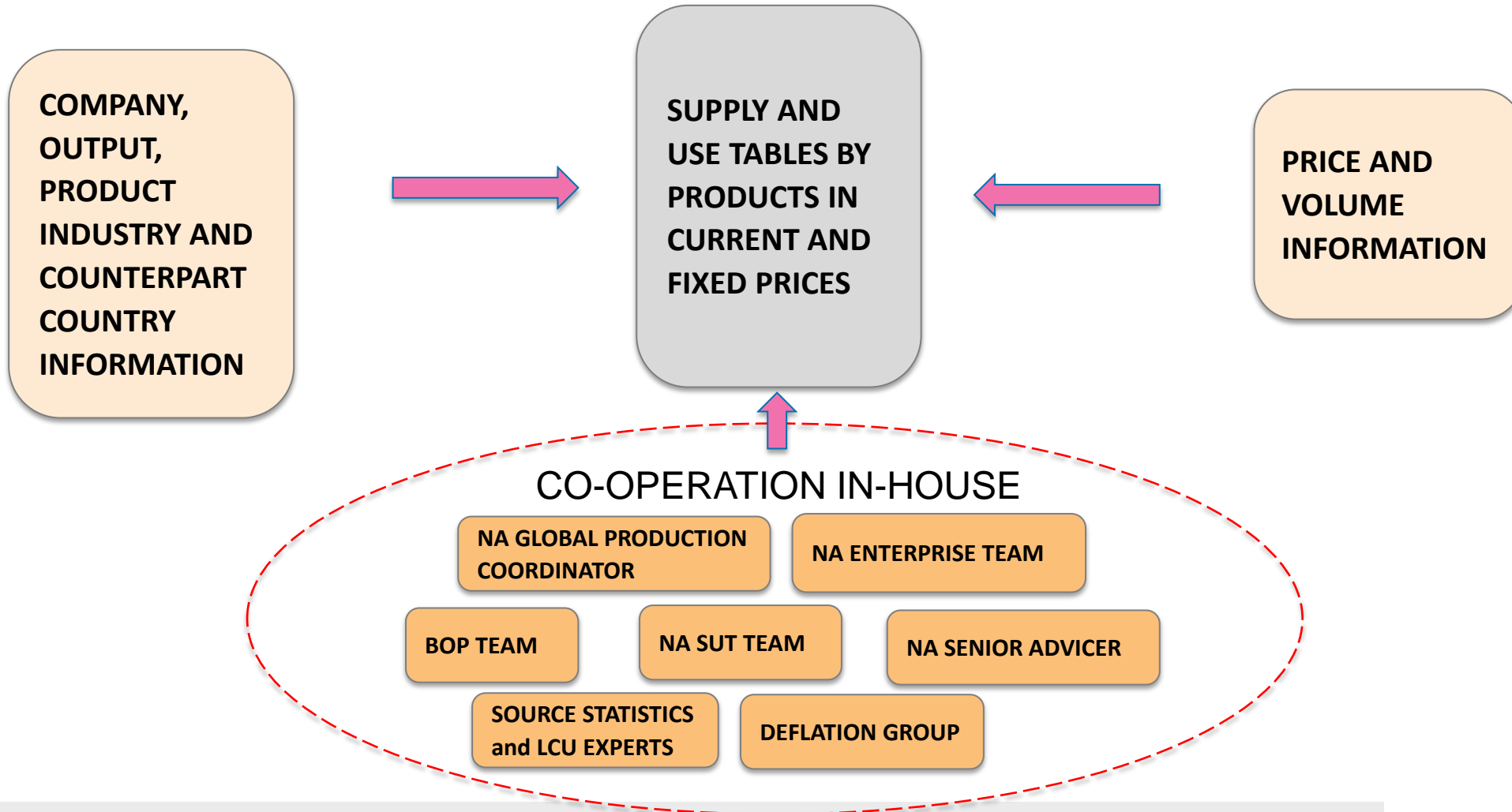
FGP case company – Identification and analysis in NA / Step I



FGP case company – Identification and analysis in NA / Step II



FGP case company – Identification and analysis in NA / Step III



FGP a case company – Decision in NA / Step IV

- **Previously:** One big player – the electronic and telecommunication cluster outsourced production abroad already mid of 2000s, before FGP was not a topic
 - ESA2010 & BPM6 not available
 - NA decided to split the margin into the service products in SUT according to the activities of these companies in Finland – R&D, head office and agency services
- **Now:** More companies are acting as FGPs
 - Wider variety of players and products produced
 - Methodological change from statistical year 2014 onwards to show output in goods
 - Similar treatment in NA and BOP (integrated IT system will be in use June 2017)

...continues →

FGP a case company – Decision in NA / Step IV

- **Supporting factors:**

- a) **to identify FGPs**

- In company visit by LCU the company defined itself as FGP

- b) **to show output in GOODS instead of SERVICES**

- The end-user buys the final product and IPP “services” are only a component of the final product
 - Is also recommended in Global Production Guide

- c) **to show NET instead of GROSS**

- The principal does not supply material inputs, no information about the content of intermediate consumption, what is the price to use

- d) **to keep FGPs in MANUFACTURING instead of TRADE**

- Decision of Statistics Finland: manufacturing firms that have outsourced production abroad are classified according to the **final products** they are producing globally
 - **Flagging of FGP firms from merchants** because of the high IPP content in products

FGP a case company – SUT price & deflating / Step V

- On SUPPLY side EQUIPMENT LTD's production is divided into two products: "final product" CPA 28 (90 %) and wholesale trade services -product CPA 46 (10 %)
- On USE side EQUIPMENT LTD's production is shown only as a "final product" CPA 28 with value items "basic price" and "wholesale trade margin"

COMPANY INFORMATION			SUPPLY			USE				
			OUTPUT			EXPORT				
Company ID	Company name	NACE	CPA	CPA heading	Basic price	CPA	CPA heading	Basic price	118W Wholesale trade margins	Purchasers' price
0909090-1	EQUIPMENT LTD.	28	28	Machinery and equipment n.e.c.	90 000 000	28	Machinery and equipment n.e.c.	90 000 000	10 000 000	100 000 000
0909090-1	EQUIPMENT LTD.	28	46	Wholesale trade services, except of motor vehicles and motorcycles	10 000 000	46	Wholesale trade services, except of motor vehicles and motorcycles	10 000 000	-10 000 000	0

DEFLATION:
PPI Export price
index (CPA 28)

DEFLATION:
Wholesale trade
price index (CPA 46)

Prices and volumes of FGP

- At the moment there is no specific recommendation for volume measures on FGP
- Statistics Finland studied question and came to conclusion, that FGP **could** be deflated with principles that are recommended for the merchanting **margin**
- Price information which is available is limited. PPI for export covers only export from Finland, not export from other countries. Volume index for wholesale trade covers domestic firms' total revenues, not the margin

Do we reach the target?

- Do we have right industry GDP volumes?
 - The current values are more or less “correct” based on financial statements of firms, but have we chosen right products and/or prices?
- ESA2010 requirements are reached, but compiling routines of experts and IT system don't yet fully support analyzing global production phenomena. We have just started a SUT IT project and we hope, that it will also help compiling

International challenges

- Do international organisations have any plans to support NSIs global production volume calculations in practice?
- FGPs NACE industry?
 - UN [ISIC](#) Rev 4.: Trade but further research needed
 - [NAICS 2017](#): FGPs recommendation not implemented, further research needed (Federal register notice: 79 FR 46557)
- Global production adjustments – country practices differ?



Thank you

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