

The Impact of Migration on National Accounts: A UK perspective

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Objective and Structure

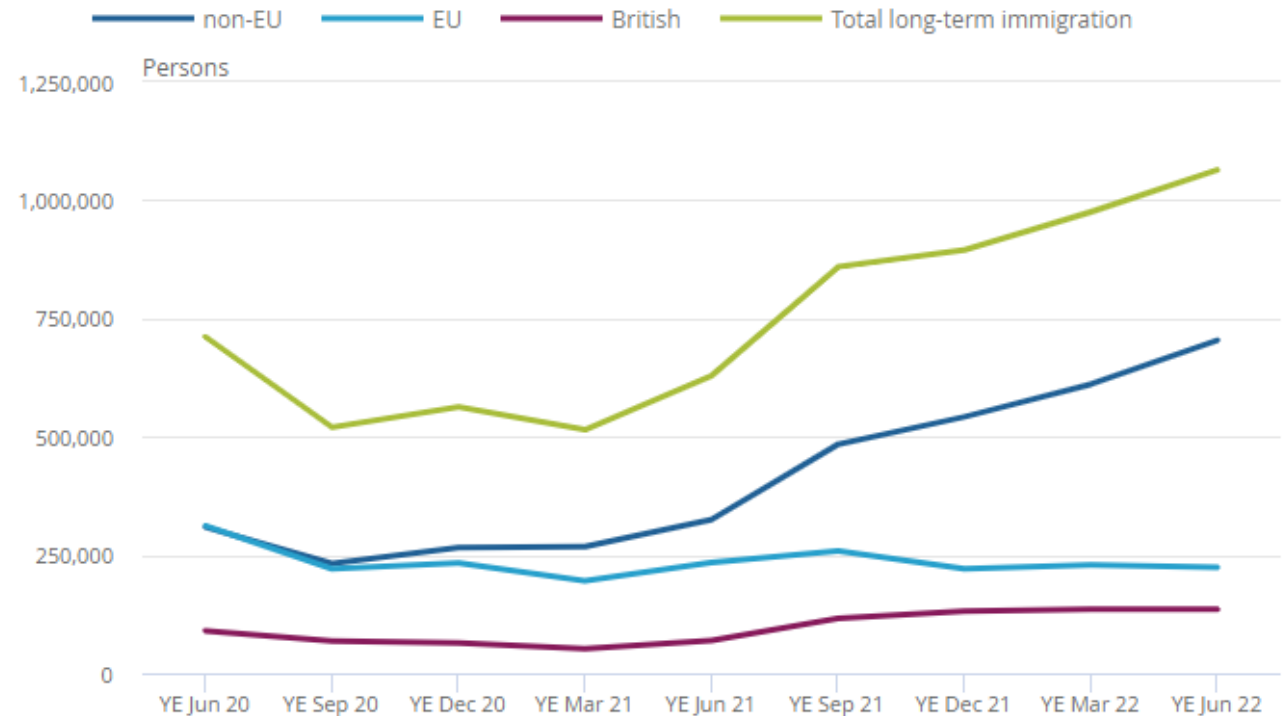
- The proposal to include labour accounts within the SNA from 2025 is a key milestone.
 - An opportunity to reflect on modern realities in how to account for migration in economic statistics.
 - Equally an opportunity to consider how best economic statistics can ensure its perspective is taken into account in social statistics definitions and concepts discussion on migration (see discussions at 54th UNSC (2023), considering the role of temporary mobility).

The UK context

"A series of world events have impacted international migration patterns in the 12 months to June 2022. Taken together these were unprecedented. These include the end of lockdown restrictions in the UK, the first full period following transition from the EU, the war in Ukraine, the resettlement of Afghans and the new visa route for Hong Kong British nationals (Overseas), which have all contributed to the record levels of long-term immigration we have seen."

In the year to June 2020 UK net migration was 88,000, which rose to 504,000 in year to June 2022

Number of non-EU, EU and British nationals immigrating into the UK, between the year ending June 2020 and the year ending June 2022



Source: Office for National Statistics, Department for Work and Pensions, Home Office

Key Questions

- How best to account for rapid changes in the structure of the population?
- How best to align and understand different population concepts?
- How best to accommodate efforts by population statisticians and demographers to keep pace with rapid change?

The change problem

- Economic growth can occur either through the process of more output being generated by the factors of production within the production boundary, or it can occur by activity, or factors of production moving from outside the production boundary (and therefore out of scope of the national accounts), to moving within the production boundary and hence into scope.
- Movements across the production boundary can make understanding economic growth inherently more complex. Given that in the UK, as with most other economies, labour inputs are the most important factor of production understanding how they change and adapt is vital to understanding whether more is being *produced* or simply more is being *counted*.
- ONS (2022a) estimated that the UK's inclusive net worth, including productive assets, environmental assets, human capital, financial assets and financial liabilities was £36.2 trillion in nominal prices in 2020. Environmental assets, as measured in the natural capital accounts, were worth £1.7 trillion, while human capital was worth £23.8 trillion or more than double the value of the traditional non-financial capital stock captured in the national accounts.

Three broad measurement approaches

- **Population statistics** defines a person as a usual resident at their permanent address where they spend most of their time. This usually has a residency requirement, or the intention to reside, for at least twelve months. This includes those who migrate into or out of the UK.
- **ILO labour statistics** also capture a domestic resident population, including those who work abroad, and excluding those who reside overseas and work in the domestic economy (e.g. those who cross the border between Northern Ireland and the Republic of Ireland)
- **National Accounts** requires labour statistics which align to the production boundary and therefore capture those who work in the domestic economy, that is excluding those who work abroad, and including those workers who reside overseas (such as those living in the Republic of Ireland and working in the UK).

Some concepts

- The current statistical guidance landscape requires us to produce data on three different bases

	Those living overseas and working in the domestic economy	Those working in the domestic economy, but fewer than twelve months residency	Those working in the domestic economy, and more than twelve months residency
Population Statistics	Excluded	Excluded	Included
ILO Labour Measures	Excluded	Included conceptually, but excluded in the weights as these come from population statistics	Included
National Accounts	Included	Included conceptually, but excluded in the weights as these come from population statistics	Included

Those living domestically and working overseas are obviously included in Population Statistics and ILO measures, but excluded from National Accounts

Impacts of different approaches

- In normal times, if rates of migration or cross-border working remain relatively consistent across time periods then the growth rates should not be significantly biased, although the stock level may be more subject to bias.
- However, in circumstances when migration trends change this can result in three problems:
 - Faster growth in net migration, where these individuals are allowed to work, will result in national accounts capturing faster GVA growth in the first year whilst *not* observing labour inputs growth. This results in accelerated growth in GDP per head and labour productivity measures.
 - Wider discrepancies in dis-aggregations, both of industry and geography if migration relatively greater affects some industries and regions than others, which can distort the appearance of where the drivers of growth can be observed.
 - If migration also has a greater or lesser impact than average on particular occupation classifications which are used for cost of production type estimates, such as for intangible capital investment (e.g. software and databases) this could distort perceptions of investment rates and again the drivers of growth in the national accounts. The impact will also be dependent on the relative size of the sector of the economy.

The population statistics discussion

- International guidance on population statistics is governed by ‘UN Principles and Recommendations for Population and Housing Censuses’, (2017). They make clear the need to measure a “**usually resident population**” which requires a threshold of 12 months when considering place of usual residence.
- There is a reasonable argument for a ‘usual’ resident population. Having an accurate distribution of the population supports long-term planning, particularly in small geographic areas to avoid short term volatility. This is also important for projecting future population estimates and is crucial for producing high quality sampling frames for surveys which draw on population or households, such as the Labour Force Survey.
- On the other hand, the rise of global mobility has changed the way countries need to provide services. A usual resident population doesn’t consider those who live in a country for shorter periods but still needs access to schools, hospitals and other public services, and might be engaged in meaningful employment. The Final Report on Conceptual frameworks and Concepts and Definitions on International Migration, (April 2021), calls on a need for a “**present population**” comprised of both the resident population and a temporary population component. The temporary population can make a significant contribution to both the economy and society and attributing this contribution to the usually resident population (often the denominator) misrepresents the reality.

The economic statistics problem

Broadly four types of conceptual adjustment are required to align with national accounts requirements if one begins with household survey data, such as the LFS:

- **Territoriality** – the issues of cross-border work have to be adjusted for in a household survey, whereas a business survey, which only covers domestic businesses does not face the same biases.
- Seasonal work adjustments where the **population weights** which are used to derive whole economy estimates are generated from a population estimate which fails to take account of short-term economic migration, which we have already observed is of more significance in particular industries, biasing the geographical or industrial distribution of potentially both estimates of output and productivity.
- **Alignment with industry groupings.** As Ward et al (2018) describes *‘industry coding is often conducted on the basis of information given by the respondent about the type of product, service or function provided by his/her place of work, which may not align with the industry coding of that firm in the business register, and hence national accounts (although in some countries this alignment is improved by matching respondents information, such as the name and address of the firm with equivalent information on the business register)’*. In the UK, LFS data is reweighted using the STES to address this distributional issue, which would otherwise serve to bias measures of productivity derived from the national accounts.
- **Coverage** – Ward et al (2018) note that *‘the LFS does not cover some groups of the population such as persons below or above certain age thresholds (which varies by country), those living and working in communal establishments (such as prisons or long-term care facilities), collective households (such as religious institutions) and the armed forces, all of whose output is included, at least in theory, in estimates of GDP.’*

Conclusions

- Waiting twelve months to confirm usual residency, in addition to collecting and processing data, creates an inevitable time lag, which reduces the timeliness of population and migration statistics. This is important for many statistical systems and political debate, including economic statistics.
- The issues around the conceptual alignment between the three treatments described above indicate clearly that economic measures can be differentially affected both when migration patterns change, but could also shift if one or more of the three definitions of population and migration statistics methods are revised.
- In a fast moving, modern, digital economy, with more readily available data the prospect of moving to a system where issues of population and migration do not need to wait for the twelve-month threshold, and can be measured within a shorter period present as increasingly feasible options.
- Noting any revised definition of migration would need to meet the needs of a variety of population and migration statistics and above all be coherent between stocks and flows, it would also be the case that economic measurement would need to consider the potential for any such change to impact key measures of GVA, investment, GDP per head and productivity measures, as well as human capital and education satellite accounts. SNA 2025 presents the perfect opportunity to consider this issue.