Fifth International Workshop on Central Bank Business Surveys

On 19 and 20 November 2014, the Bank of England hosted the fifth International Workshop on Central Bank Business Surveys, attended by participants from over 20 central banks. This annual workshop, hosted by a different central bank each year, provides an opportunity for the sharing of experiences and best practice across business survey functions. It also allows for participants to discuss key current issues in the collection and analysis of business intelligence, sometimes extending to information collected from surveys of households and professional forecasters.

The workshop was arranged around two main themes: the quantification of business intelligence; and the application of business intelligence to central bank policy, with six sessions covering different aspects of those themes. Andy Haldane, Chief Economist and Member of the Monetary Policy Committee, Bank of England, gave opening remarks to start proceedings, noting in particular the long history of the Bank’s business intelligence work dating back to 1930 and the dramatic increase in the importance and use of business intelligence by central banks since the financial crisis. This article summarises some of the issues discussed by participants, though it does not detail the material presented, much of which was shared on a confidential basis.

Survey approaches to estimating uncertainty

Uncertainty – and its effects on the economy – had been a key issue for many central banks in the period since the financial crisis. Participants discussed approaches and challenges to capturing survey measures of uncertainty, using preliminary work undertaken on household uncertainty and on uncertainty in inflation expectations as a basis for discussion. One proximate measure of uncertainty was the dispersion of responses to particular survey questions, though such measures did not gauge respondents’ own levels of uncertainty. Participants discussed ways of doing that, including sophisticated approaches such as asking respondents to assign probabilities to different ranges of outcomes, or more qualitative approaches, such as simply asking businesses to provide some kind of view on their level of uncertainty, relative to some measure of ‘normal’. One approach already used within the group was to ask for respondents’ central expectations, and then ask for more information on the likelihood of different ranges based around the central response.

Targeting business intelligence on key issues

A number of participants provided case studies of how they had used business intelligence or surveys to address particular topical issues. Depending on the topic being investigated, these case studies highlighted the potential benefits of adopting the ‘language of business’ when undertaking surveys around business strategy. A number of participants noted that companies’ strategies had appeared to focus on cost reduction in the aftermath of the crisis. Relatedly, some central banks had run surveys on corporate pricing, which had highlighted how weak demand and high levels of competition had suppressed output price inflation. Other examples showed how surveys could potentially fill gaps in official data for investment, with that approach likely to be particularly effective in countries where capital investment was concentrated in a relatively small number of firms. Beyond business intelligence, there was a presentation on how labour market survey data could be used to produce estimates of the wages that unemployed people expect to be able to earn, which could shed light on the drivers of unemployment.

Challenges in establishing and developing business intelligence quantification and reports

A number of participants shared their experiences of establishing business intelligence units or reports.¹ The session included discussion on the extent to which business intelligence units could

¹ For illustrative purposes, the Bank of England’s business intelligence unit is its network of Agents around the United Kingdom, coordinated from its Threadneedle Street office. Its regular business intelligence report - the
also perform a representative function and the variation in the degree to which central banks focused on regional issues. For some central banks, there were practical challenges to the gathering of intelligence due to a wide geographical spread of businesses. The importance of accessing the right contact in businesses was a common theme: often contact with Chief Financial Officers/Finance Directors was more useful – and easier – than contact with Chief Executive Officers for the purposes of understanding detailed business trends. In gathering intelligence, there were mixed views among participants on whether samples needed to be ‘representative’ of the wider economy, depending on whether the information being gathered was quantitative (survey-based) or qualitative (based on discussions with business). In terms of published business intelligence reports, a range of approaches were taken, with some focusing more on quantitative measures from regular surveys and others focusing more on qualitative intelligence derived from meetings with companies. Often, however, reports used a mixture of both elements.

**Quantifying economic developments in real time**

A presentation was given by the Bank of England on its Agents’ company visit scores, covering up to eleven economic variables, forward and backward looking, on over 23,000 company visits since 2007. These scores provided timely intelligence that follows broad trends in the economy, as indicated by correlations with official data, and were being increasingly used in analytical work at the Bank, including in publications, such as the *Inflation Report*. Some challenges in the use of company visit scores were recognised, such as the effective capture of either ‘new’ firms at one end of the scale, or failing companies at the other. There was discussion around wider challenges of maintaining the consistency of scoring - which the Bank’s Agents address through the issuance of guidance documents and periodic reviews of scoring - and on the interpretation of scores and survey results that were framed as ‘relative to normal’ given potential changes to perceptions of what was ‘normal’ over time.

**Applying business intelligence to financial stability policy**

A presentation was also given on the role that Agents’ business intelligence had been playing in informing financial stability policy at the Bank of England, following the creation of the Financial Policy Committee and the Prudential Regulation Authority. The Agents’ work so far had included: the production of regular internal financial stability briefing; trialling the scoring of corporate credit conditions; and the production of thematic internal notes on topics such as housing and non-bank finance. Discussion centred on the extent to which business intelligence work was distinct and separate from supervisory meetings (with a clear distinction made in the case of the Bank of England), on the importance of having appropriate processes in place for escalating any reports of potential misconduct, and on ensuring adequate training on financial stability issues.

**Applying business intelligence to monetary policy**

Presentations were given on a range of applications of business intelligence – widely defined – to monetary policy. For example, some representatives discussed how they conducted and used regular surveys of external professional forecasters. While such surveys could be used as a cross-check on central banks’ forecasts, it was noted that they could also alert central banks to misunderstandings about policy, which might then be addressed in central bank communications.

Agents’ National Summary of Business conditions - can be found at [http://www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx](http://www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx).

On a more forward-looking basis, there was a discussion of how IT development and globalisation had changed the landscape for collecting and analysing information, for both firms and policy makers, and of how central banks could use the resulting ‘big data’ to improve or augment the information available to them in setting monetary policy. For example, such data could potentially improve the ‘nowcasting’ of the economy. Significant challenges were noted in fully exploiting those developments, however, including from the collection, processing and dissemination of large amounts of data from disparate sources. In terms of company behaviour, participants noted how businesses were using ‘big data’ to make more rapid and targeted changes in pricing, with potential implications for CPI measurement.

Ian McCafferty, external member of the Bank of England’s Monetary Policy Committee, closed the workshop with a keynote address, highlighting the role of survey data in monetary policy by offering timely information, additional coverage, and a narrative on macroeconomic developments. He noted survey data’s use as a cross-check with official data and as an indicator on where the economy is heading, focusing on the use of survey results in the Bank’s near-term forecasting and on the use of Agency intelligence in particular.

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3 See also a write-up of a recent event hosted by the Bank of England ‘Big data and central banks’ [http://www.bankofengland.co.uk/research/Documents/ccbs/bigdatawriteup.pdf](http://www.bankofengland.co.uk/research/Documents/ccbs/bigdatawriteup.pdf). The Bank of England’s Advanced Analytics Division leads the Bank’s efforts to capitalise on the advent of ‘big data’ technologies, which has included the creation of a new Data Lab.  