



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

15 September 2004

Monetary Policy, Data Uncertainty and the Supply-Side: Living With the Statistical Fog - Speech by Marian Bell to the Society of Business Economists

It is inevitable that official statistics, especially in timely first releases, are subject to significant uncertainty and revision, Marian Bell, a member of the Bank of England's Monetary Policy Committee, said on Wednesday. "The Monetary Policy Committee recognises that revisions are inevitable. Indeed, in so far as they bring us to a better understanding of the underlying reality, we welcome them," Bell said. "And it is incumbent on us, collectively and individually, to try and make the best decision possible each month in the light of the information available to us at the time and our interpretation of it."

In a speech in London to the Society of Business Economists Bell looked at the various ways in which data uncertainty might arise and discussed how the monetary policy maker should respond.

A particular difficulty for statisticians can be in allocating movements in nominal variables to price and volume changes. This is especially so at times of change, and rebasing can result in large revisions to statistics. When such uncertainty is high and the structure of the economy and relative prices have changed notably from the base period "looking at a money value measure of activity may be informative", particularly if other reliable inflation data are available, Bell argues.

The estimated level of real activity "appears more prone to mismeasurement than growth rates, and we should be wary of conventional, mechanical estimates of the output gap, which rely heavily on levels information." We should not ignore other relevant information, such as inflation data, the labour market and surveys of capacity utilisation, in gauging inflationary pressure "and the relative price data used in the rebasing process may itself be informative" Bell argues.

"Revisions to data stemming either from more information or methodological improvements will inevitably lead us to reassess our view of the underlying truth", Bell concludes. "This is not always comfortable. But it is an inevitable part of the policymaker's job, and that of other users of statistics, to make sense of revisions. Improvements to statistics should be something we welcome, not criticise. Understanding the nature of data uncertainty and revisions should inform our judgments about the world."

Key Resources

Monetary Policy, Data Uncertainty and the Supply-Side: Living With the Statistical Fog – Full speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2004/speech228.pdf>