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**Mark Pont, Assessment Programme Lead**

Rob Kent-Smith  
Deputy Director, National Accounts Coordination, ONS  
(by email)

5 January 2021

Dear Rob

### **Experimental Estimates of GVA (Gross Value Added) using Double Deflation**

I am writing to you following our review of ONS's recent publication: [Producing an alternate approach to GDP using experimental estimates of GVA](#). These new experimental estimates of GVA represent a significant step forward towards improving the UK's National Accounts framework. Implementing double deflation should minimise industry-level bias in GVA statistics and, hence, make them more accurate and valuable. We decided to conduct this review in order to evaluate progress in the development of these estimates and to identify where users can expect further enhancement of the statistics going forward.

Producing volume estimates of GVA using a double deflation method is widely regarded as international best practise for calculating estimates of real-terms Gross Domestic Product (GDP(P)) and has been a key recommendation of several reviews of economic statistics in recent years.

We welcome the positive progress that has been made towards developing a double deflation approach to National Accounting and would particularly highlight the following:

- There is a high degree of transparency regarding both the methodology and the development plans for these statistics. ONS has also published several iterations of a deflator strategy over the last few years, which further enhances user understanding of the way the estimates are produced
- The background and context to the statistics are explained at a level that is appropriate for the kinds of people who will be engaging with these statistics, who will be largely experienced, technical users
- The publication is clear about the experimental nature of these statistics and their current limitations
- There has been good engagement with user groups throughout the development of these statistics. Efforts to produce an internal 'deflator dashboard' and share this with some users, in order to facilitate understanding of deflator strategy, are particularly commendable. Engaging with users in this way is likely to increase their understanding of the methods behind these estimates, and result in more meaningful conversations between producers and users going forward

As you continue to develop these statistics, the following points will be amongst the most important to consider:

1. Continuing work alongside the ONS team producing Services Producer Price Indices (SPPIs), to identify what changes to SPPIs are required in order to make them suitable for use in the National Accounts framework, whilst also allowing them to remain valuable price indices in their own right. SPPIs can be a more accurate deflator of intermediate consumption than industry deflators, as they are likely to be more reflective of the price paid by industry. Currently 49 of the approximately 200 SPPIs are being used in the National Accounts and consideration should continue to be given as to which price indices will provide the best possible deflator for the respective consumption.
2. Consider how best to communicate to users the greater volatility associated with double deflated estimates of GVA in comparison to figures produced using single deflation. We are pleased to hear that you are already endeavouring to understand the volatility of these estimates by engaging with international comparators, and would encourage you to share these findings with users once these have been gathered
3. Consider how best to alert users of instances where a price index and a deflator differ. We understand that this will become a more common occurrence in the future, and it is important to ensure that users understand why this can happen and the resulting consequences for the statistics they use
4. Consider how best to communicate the potential impacts of double deflation on labour productivity before the new approach is fully adopted into the UK National Accounts. The new framework for volume estimates of GVA should produce better estimates of productivity analysis at the industry level. Given the interest in the UK's productivity puzzle amongst users of productivity statistics, there is likely to be considerable interest in the potential impacts on UK productivity from the implementation of the new framework for double deflation and users should be made clear about the implications of these.

I'd like to thank you and your team for your positive engagement on this review. We have been very pleased to see the progress you have made with these double-deflated estimates, and look forward to seeing the further developments made going forward. I am copying this letter to Darren Morgan, Director of Economics Statistics Development at ONS.

Yours sincerely



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