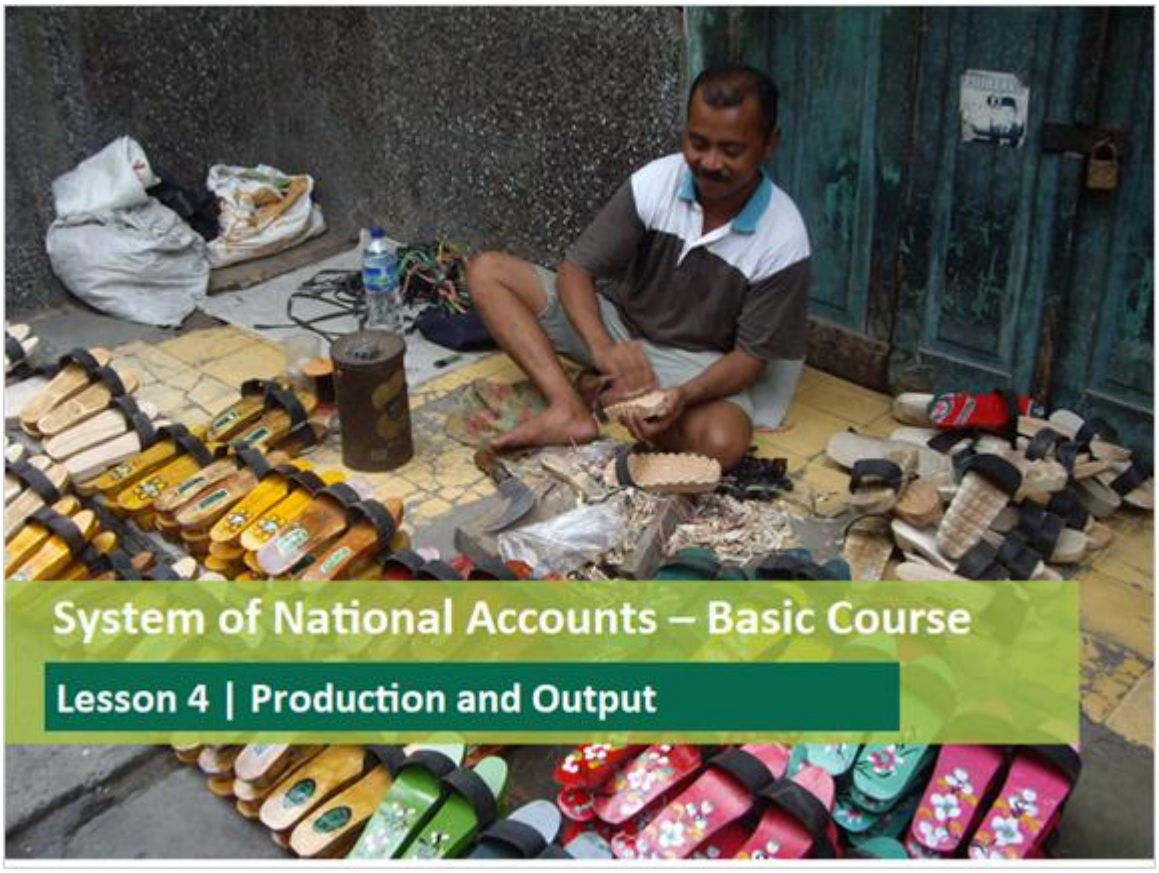
SNA Basic Level: Lesson 4 - Production and Output

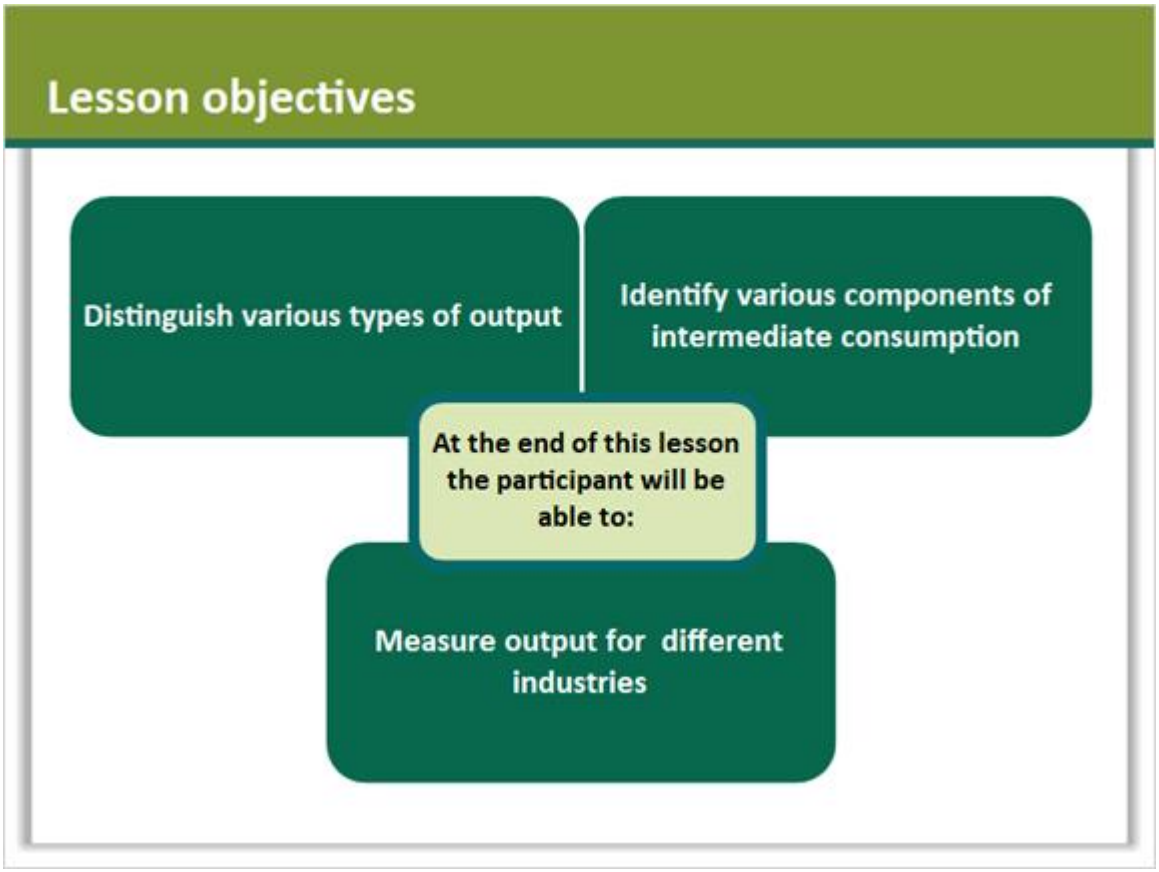
4.1 Production and Output



Notes:

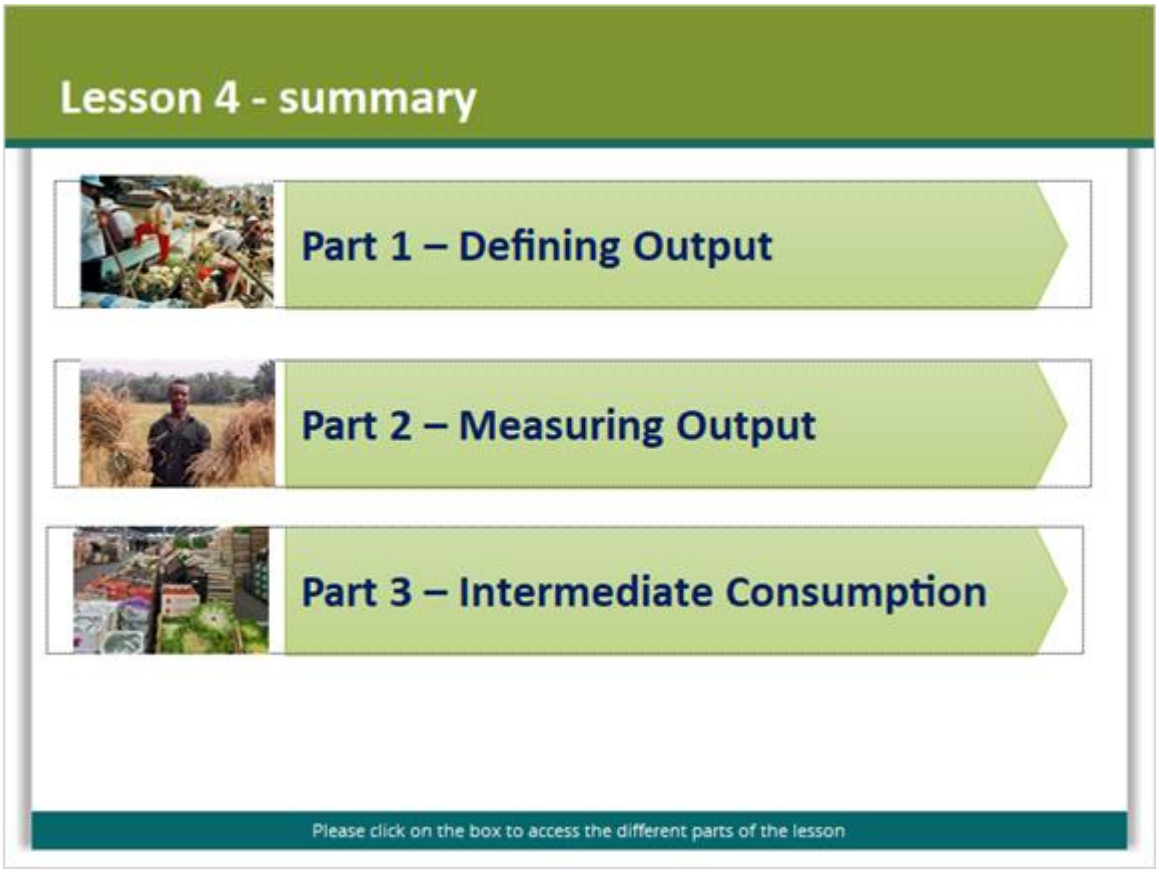
Welcome to the fourth lesson of the System of National Accounts Basic Course. This lessons introduces the concepts of production and output.

4.2 Lesson objectives



Notes:

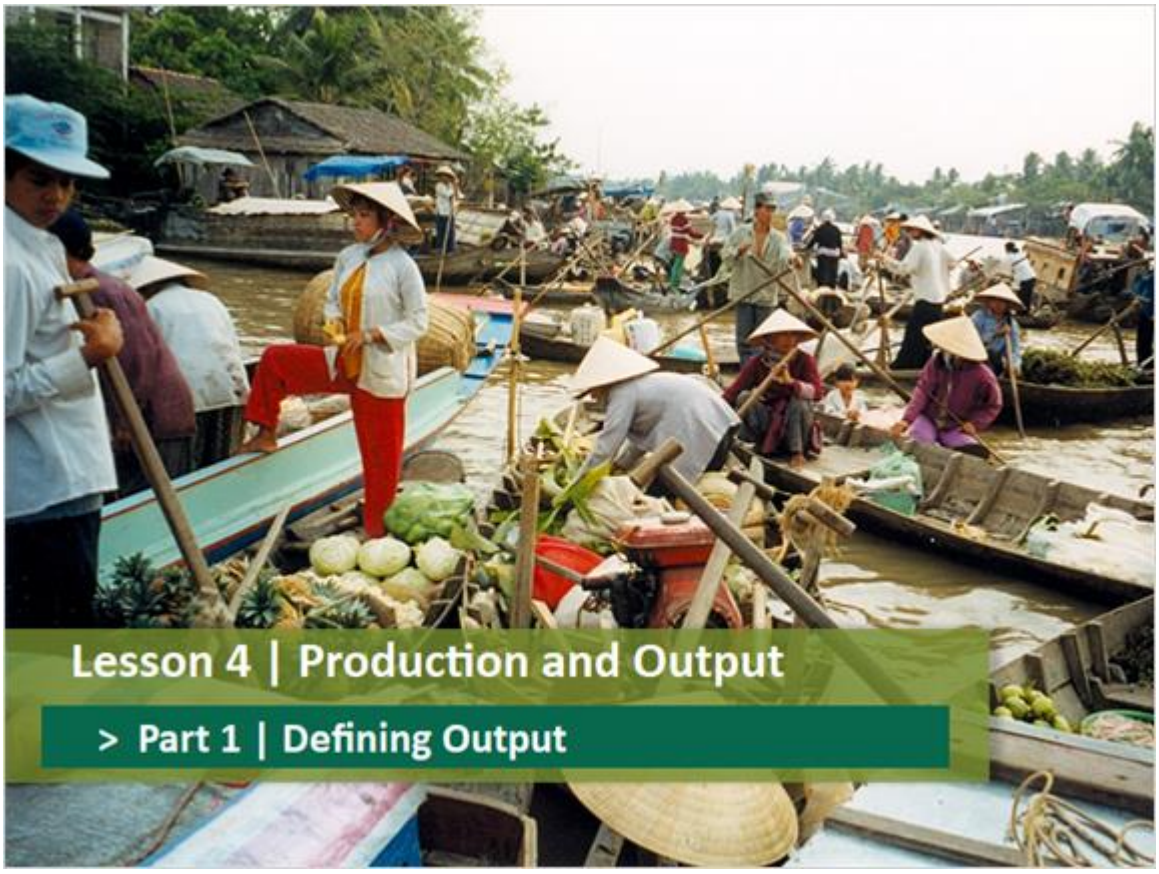
4.3 Summary



Notes:

This lesson is divided into 3 different parts. You can directly access each section through the provided menu.

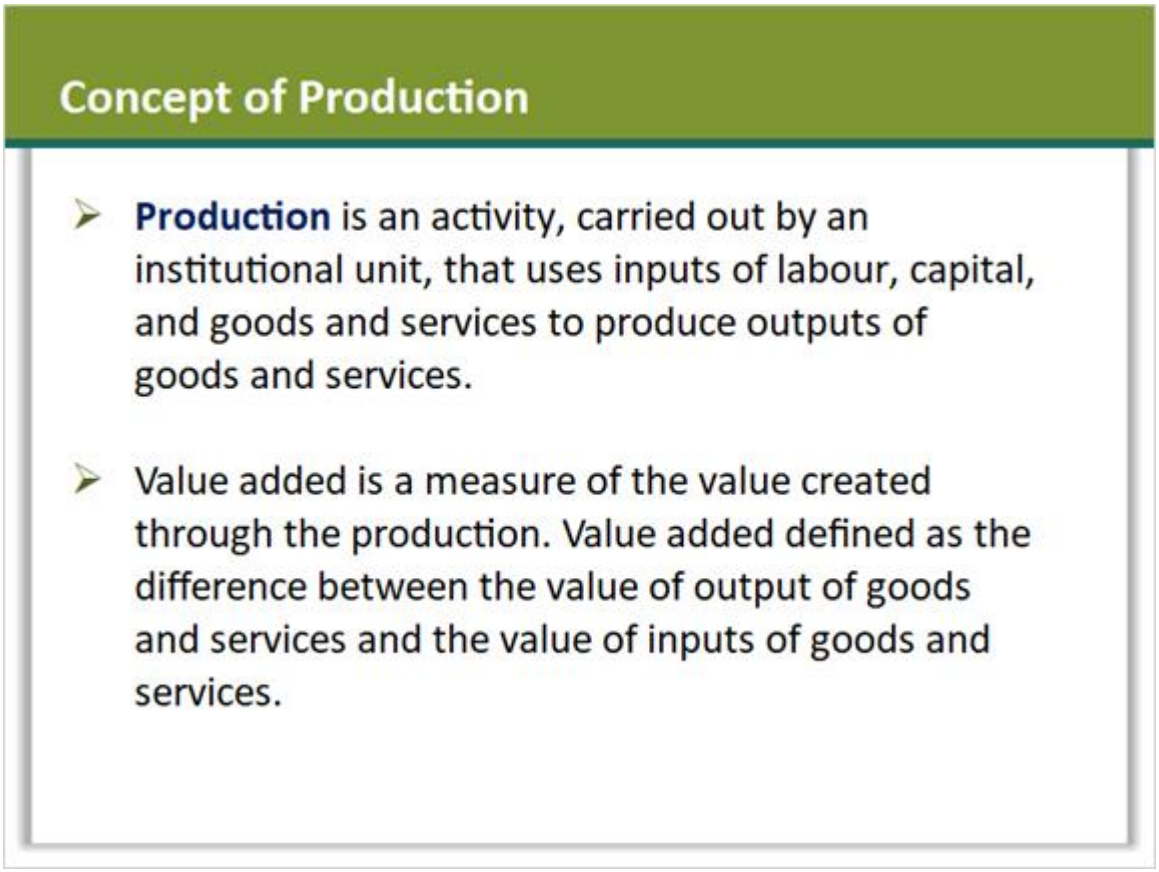
4.4 Defining Output



Notes:

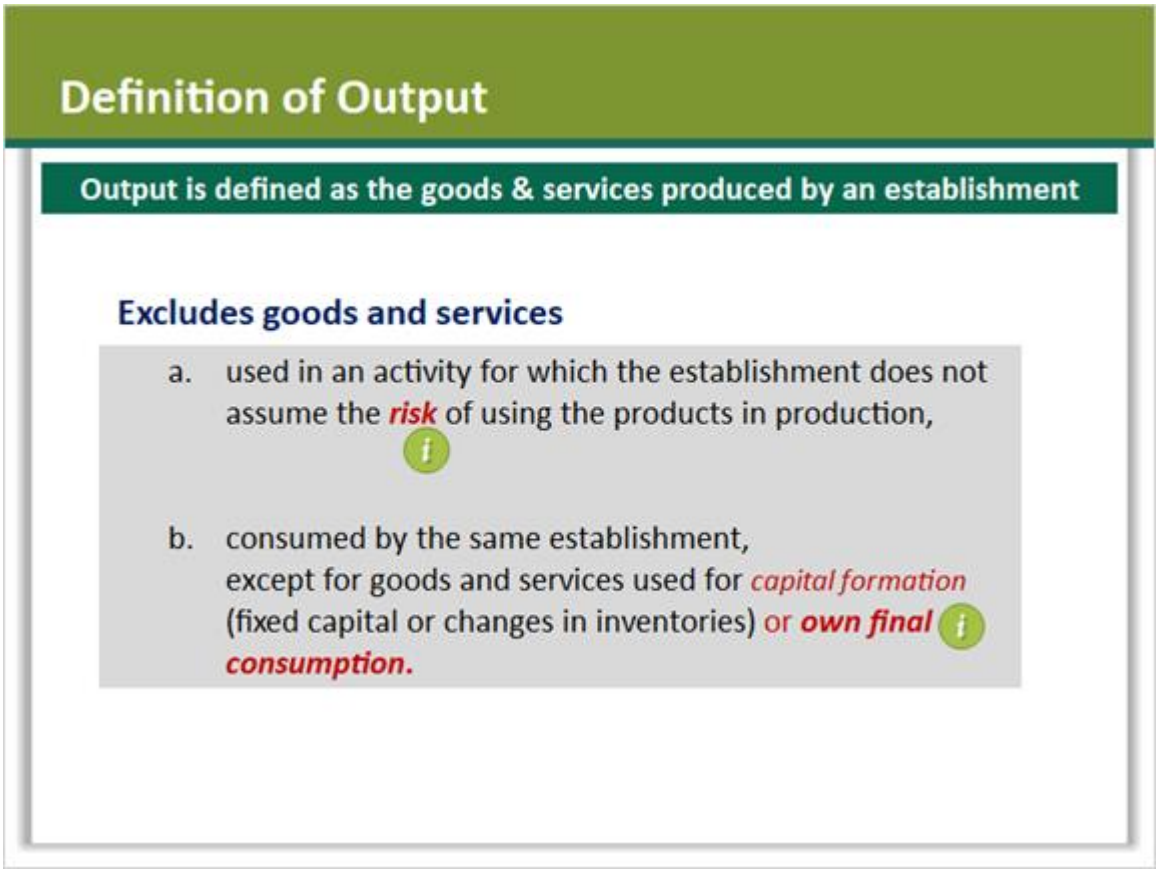
This first section revisits the concept of production and continues with defining output.

4.5 Concept of Production



Notes:

4.6 Definition of Output



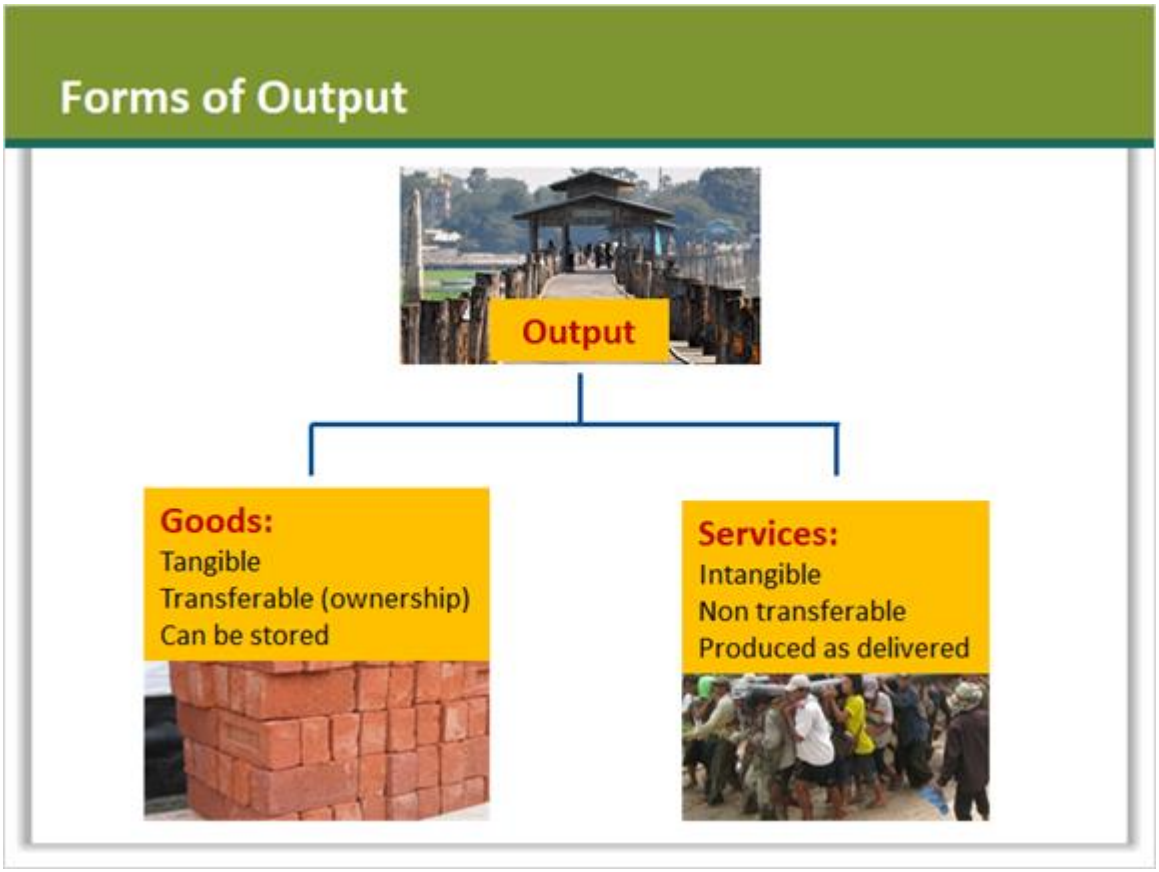
Notes:

The '***risk*** of using' stated here means either the risk of being able to sell or consume or store or use as capital goods. *Own final consumption* - like farmer growing crops for self-consumption in its household - is included in **output.** Capital goods (say a factory shed) constructed by a firm for using them for carrying out its production activities are also included in **output**.

(i)Risk: The '***risk*** of using' stated here means either the risk of being able to sell or consume or store or use as capital goods.
This illustrated in the following slides.

(i)Own final consumption*:* - like farmer growing crops for self-consumption in its household – is included in **output**.
Capital goods (say a factory shed) constructed by a firm for using them for carrying out its production activities are also included in **output**.

4.7 Forms of Output



Notes:

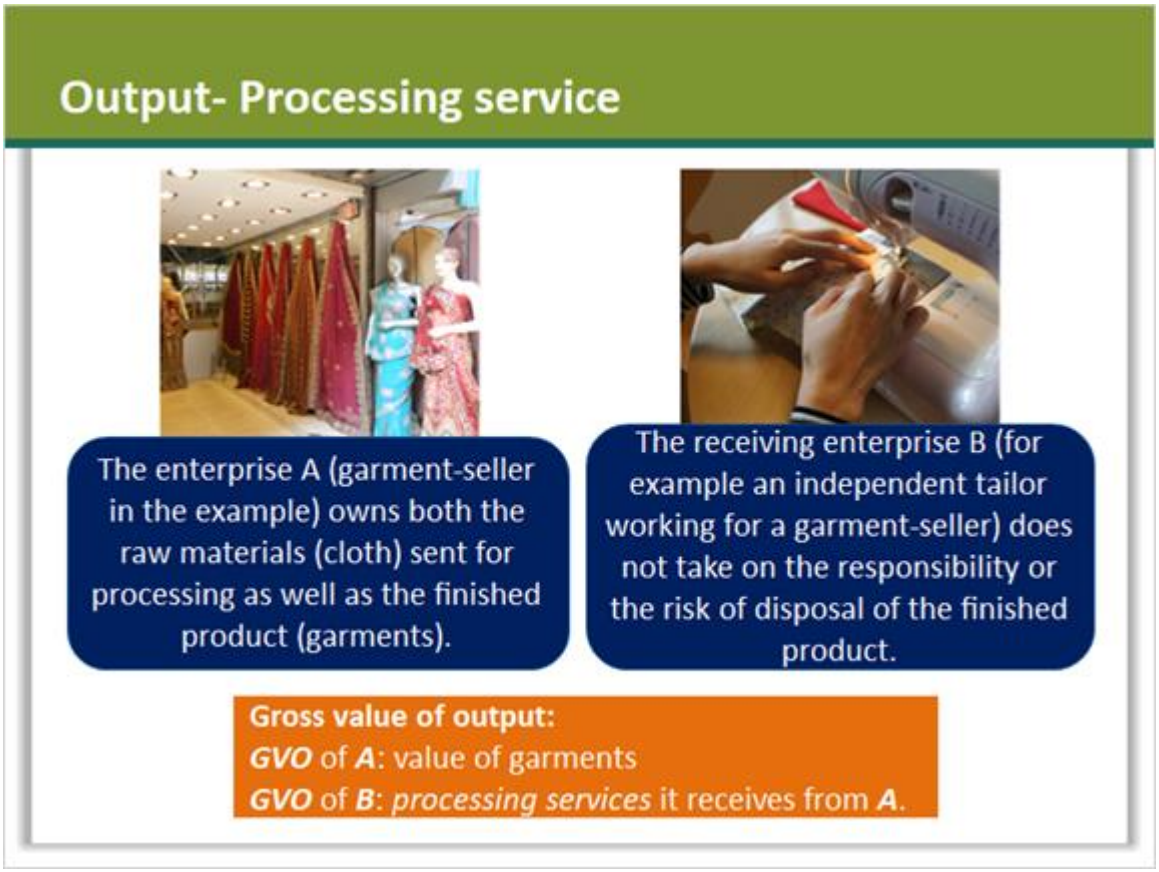
Output constitutes goods and services from the process of production. Goods are tangible products and can be transferred from one owner to another. They can also be stored and are treated as a stock. Services on the other hand are intangible, non-transferable and are produced as delivered.

4.8 Processing Service

Notes:

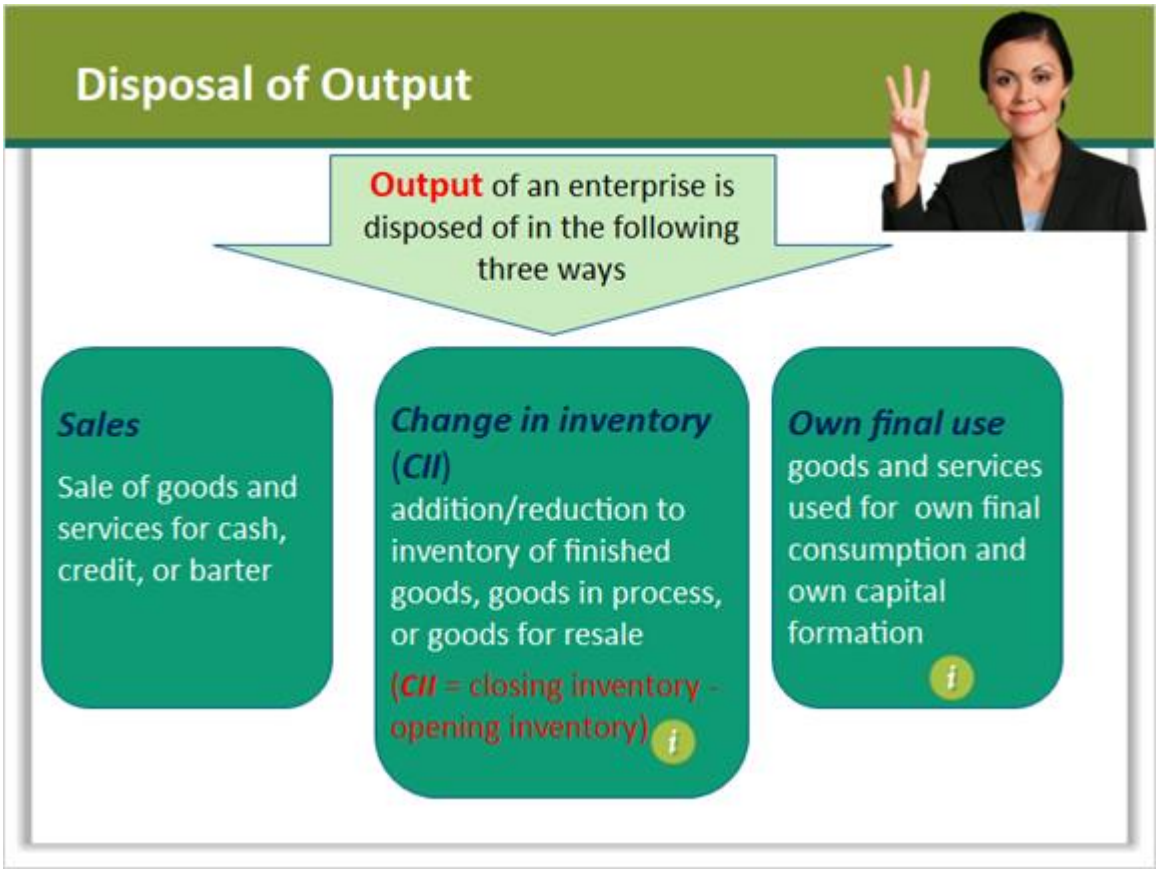
Processing services are one example of how a service is produced. In this context, enterprise A manufactures cloth and contracts another enterprise B to turn the cloth into garments such as shirts, shorts etc. Enterprise A takes full risk of this process and the owner of the output while enterprise B simply charges for the service it renders to A. The service charges are an output of enterprise B and cost for enterprise B.

4.9 Output - Processing Service



Notes:

4.10 Disposal of Output



Notes:

Output of an enterprise is disposed through sales, changes in stocks (inventories) and own use.

CII = closing inventory - opening inventory:

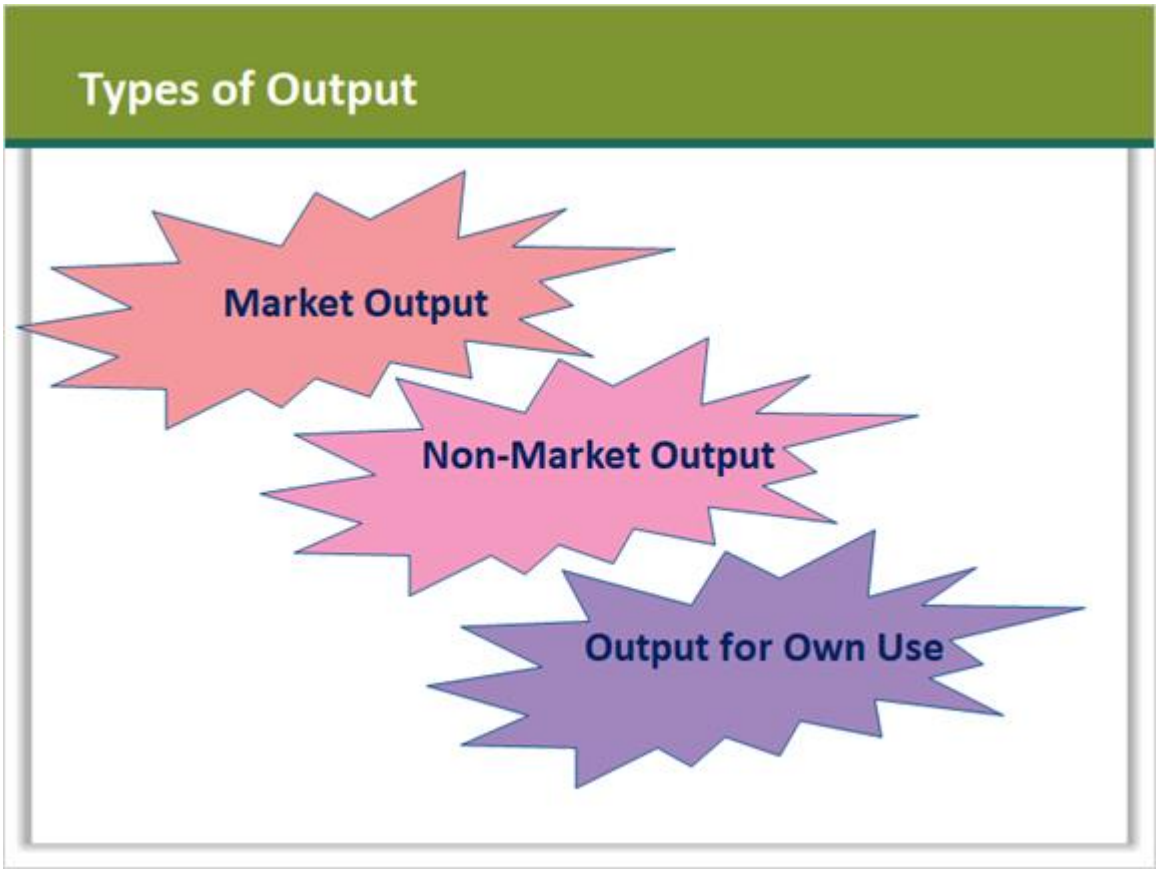
- Goods and services produced by an enterprise is mostly sold in the market.
- A part of it may remain unsold during the reporting period. This part goes to the ***inventory***, resulting in a positive ***CII***.
- When sold in the following reporting period, these are treated as withdrawal from inventories, negative ***CII***.

Own final use:

Often goods are also produced for own ***final use*** like:

- capital goods produced by the enterprise for its own use form part of its ***output*** as well as its ***capital formation***.
- farmers growing rice for consumption of its household.

4.11 Types of Output



Notes:

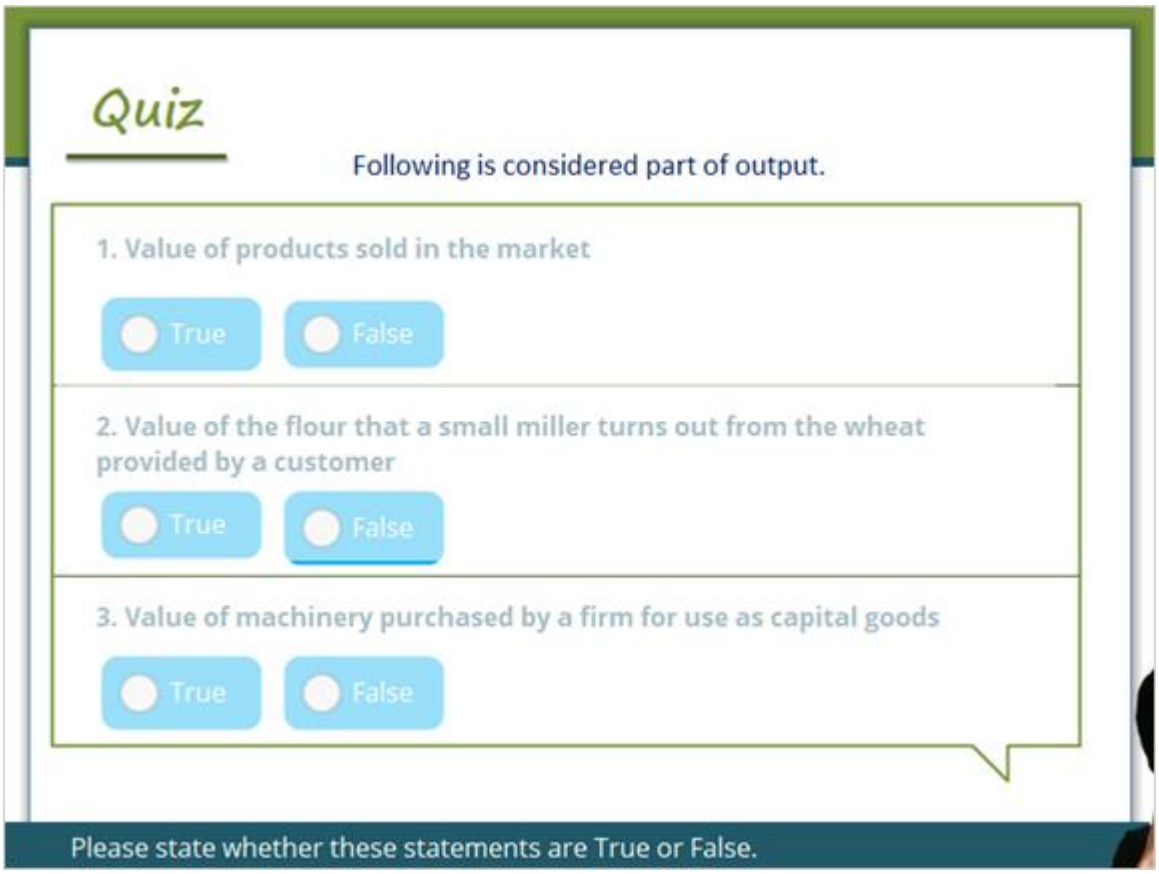
The 2008 SNA makes a three way distinction of output:

Market output is intended for sale at economically significant prices. The gross value of (market) output includes the value of produced goods & services sold at economically significant prices, bartered in exchange for other goods, services or assets and used for payments in kind, including compensation in kind. The gross value of (market) output includes the value of produced goods & services used for intra-enterprise deliveries from one establishment to another that are used as intermediate inputs, entering in inventories of finished goods and work-in-progress intended for one or other of the above uses and the margins charged on the supply of goods and services (trade & transport margins, margins on the acquisition and disposal of financial assets).

Non-market output consists of goods and individual or collective services produced by non-profit institutions serving households (NPISHs) or government that are supplied free, or at prices that are not economically significant, to other institutional units or the community as a whole.

Output for own use consists of goods and services produced by different institutional units for their own use. Examples include a construction company building its own office block or a farmer growing crops for own consumption.

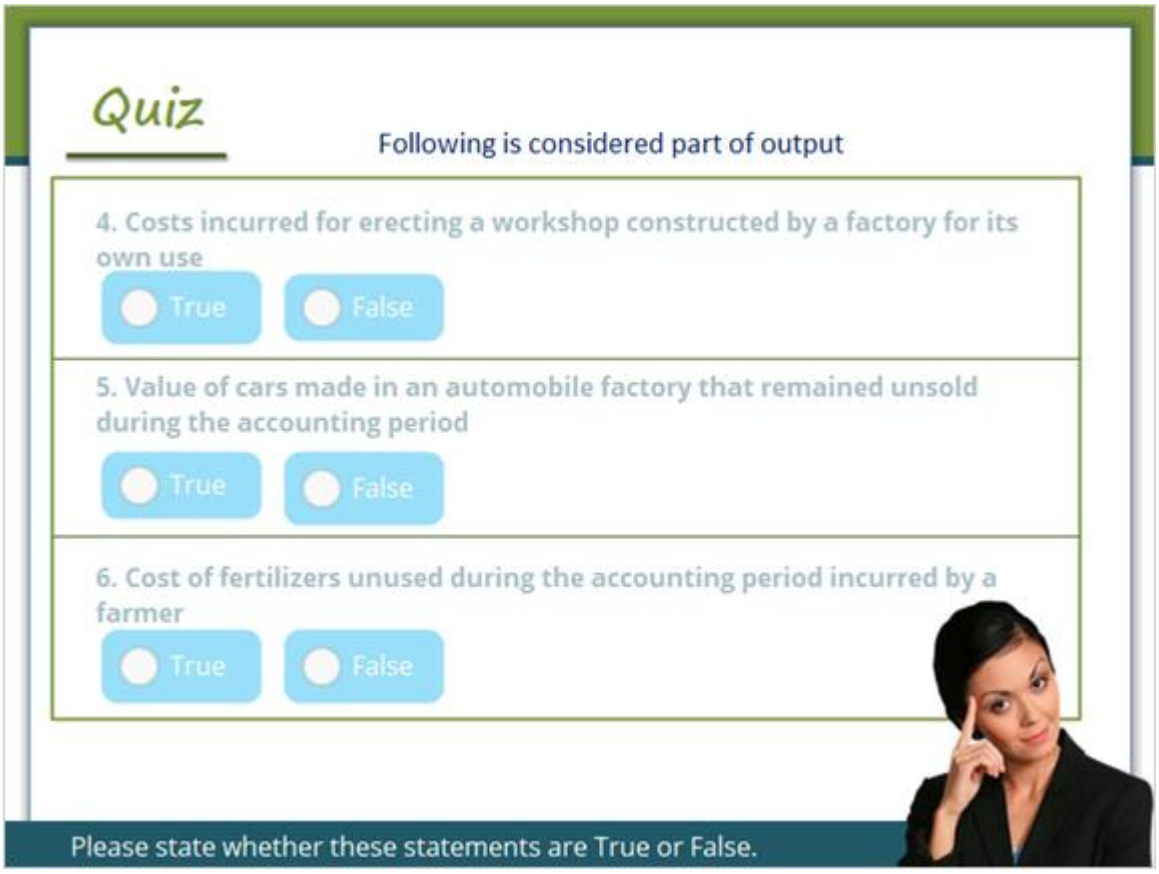
4.12 Answer the Quiz



Notes:

1. Value of products sold in the market >**True**
2. Value of the flour that a small miller turns out from the wheat provided by a customer > **False**
3. Value of machinery purchased by a firm for use as capital goods > **Fales**

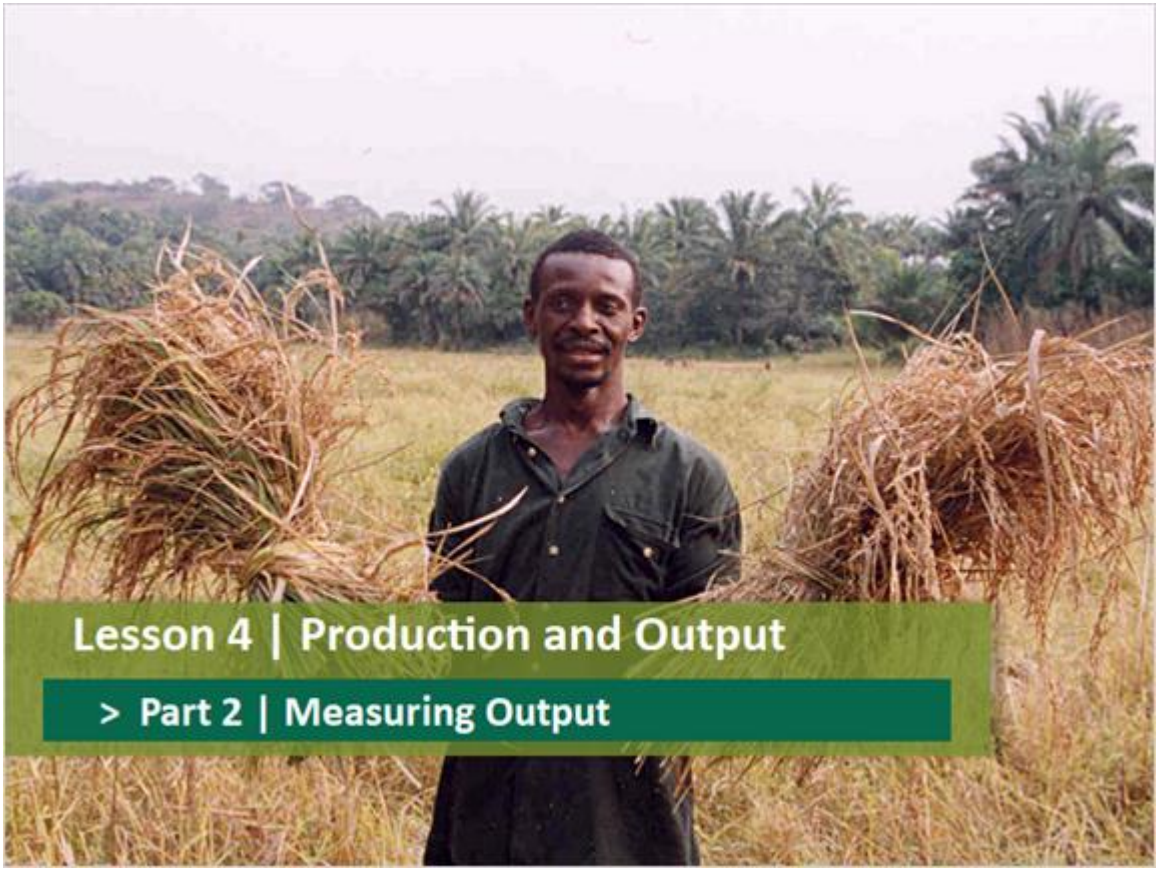
4.13 Answer the Quiz



Notes:

4. Costs incurred for erecting a workshop constructed by a factory for its own use > **True**
5. Value of cars made in an automobile factory that remained unsold during the accounting period >**True**
6. Cost of fertilizers unused during the accounting period incurred by a farmer > **False**

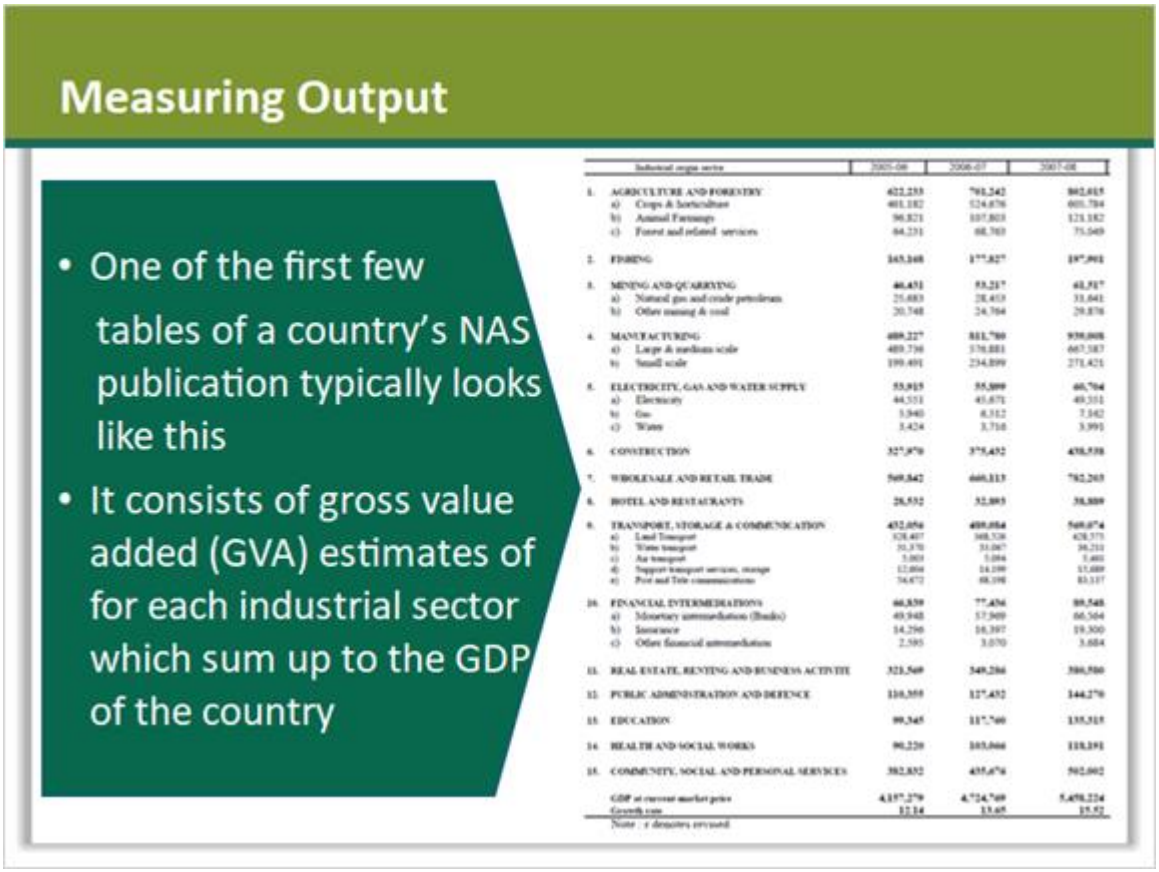
4.14 Measuring Output



Notes:

This second section will discuss the measuring output.

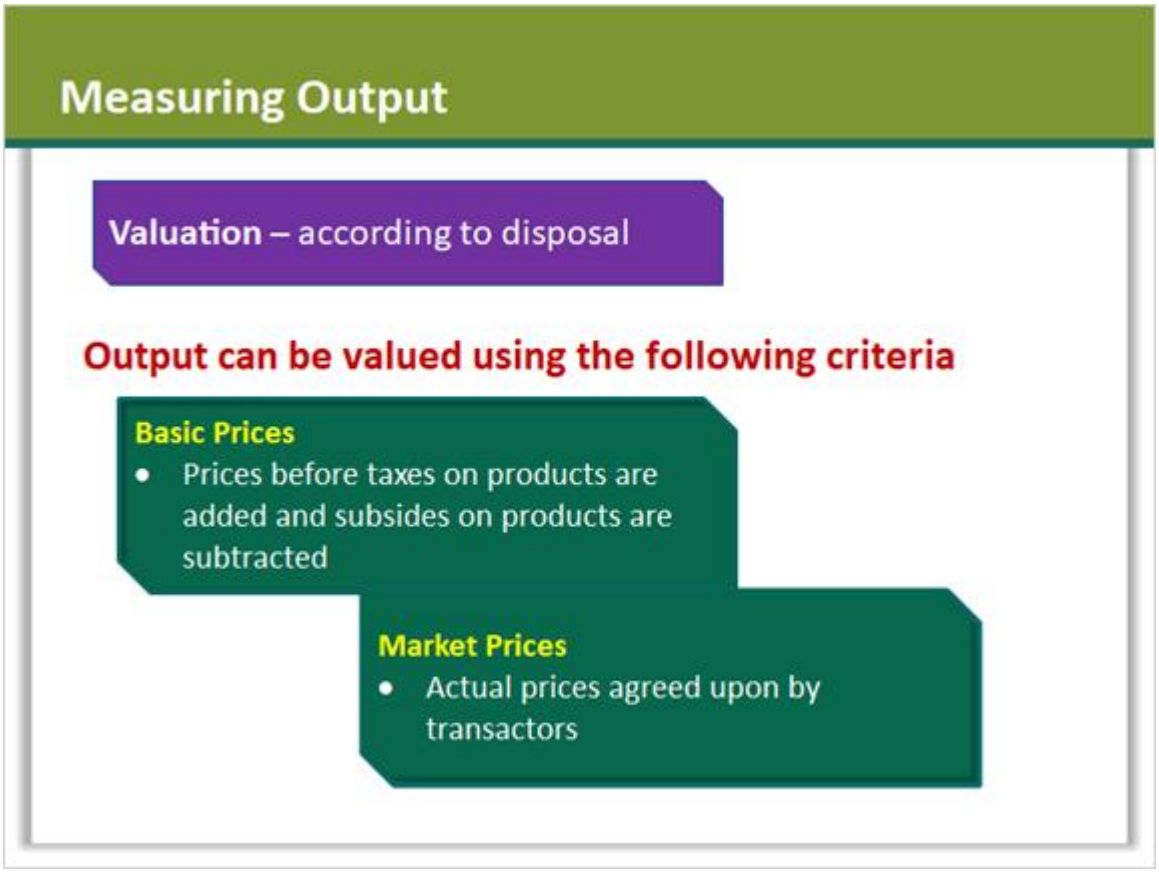
4.15 Measuring Output



Notes:

Your standard table for national accounts shows GDP on the basis of gross value added by industry. This table can be broken further down into market, non-market and output for own use by industry using GVA. As a general practice is to ***GDP*** by production-approach is compiled as the sum of ***GVA***s estimated industry by industry. The industry-wise ***GVA***s often referred to as distribution of ***GDP*** by industry / economic activity - are presented at either basic prices or at market prices. Finally, the ***GDP*** for the economy is always produced at market prices.

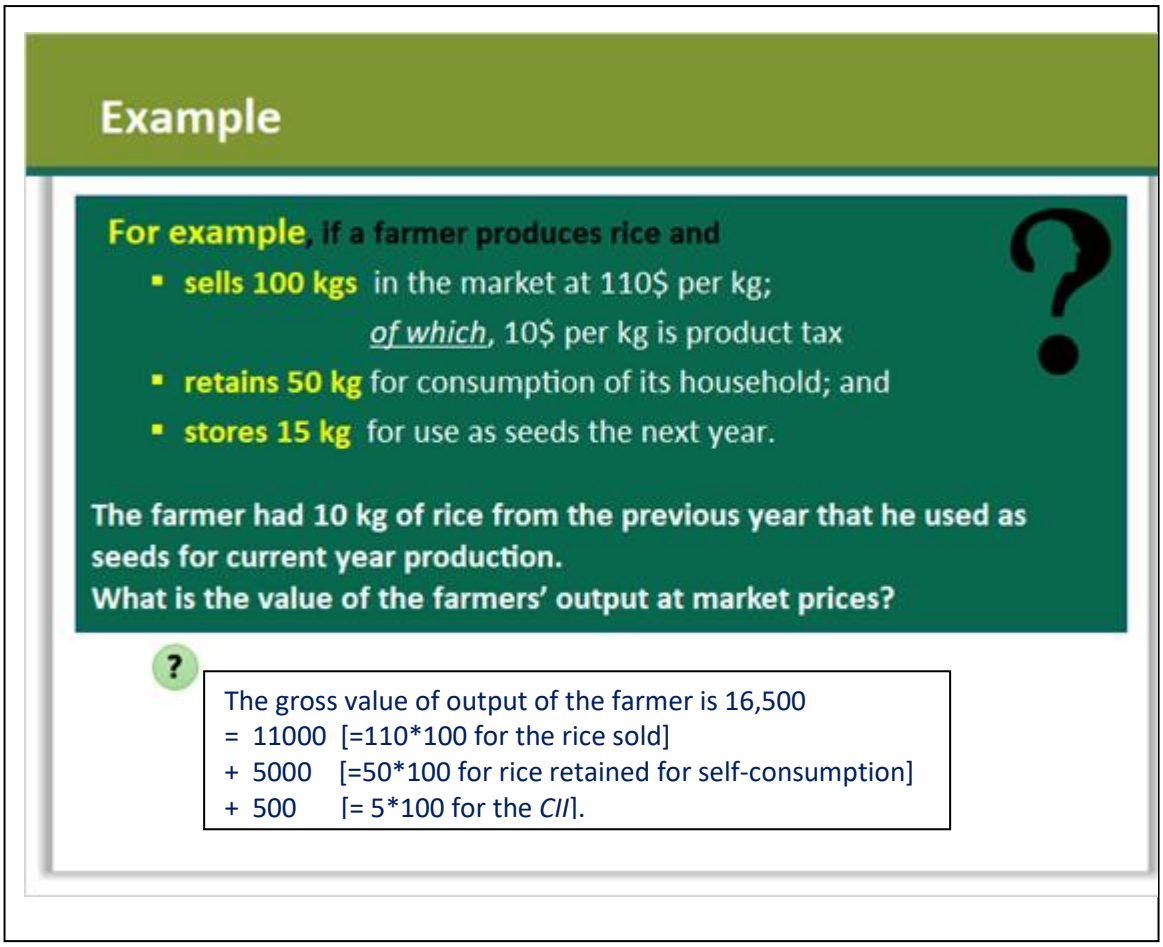
4.16 Measuring Output



Notes:

To obtain ***GDP*** (at market prices), the industry-wise ***GVA***s, if primarily estimated at *basic price*, have to be converted to *market price.* The prices to be applied for valuation of output at *market prices* depends on the mode of disposal. ***Sales*** - are valued at *producer price* (+ product taxes paid directly by the consumers if any). ***Change in inventory***: for finished product - always at *basic price ,*for purchased raw materials - always at purchaser's price. ***Own final use*** - always at *basic* price.

4.17 Example



Notes:

This example illustrates the procedure for estimating the output of rice by a farmer. Take note that rice retained for use as seed or consumption is also considered part of output

4.18 Non-Market Output

Notes:

Output at production costs is the sum of intermediate consumption, compensation of employees, consumption of fixed capital and other taxes (*less* subsidies) on production.

4.19 Market Output

Notes:

The gross value of (market) output includes the value of produced goods & services sold at economically significant prices, bartered in exchange for other goods, services or assets and used for payments in kind, including compensation in kind.

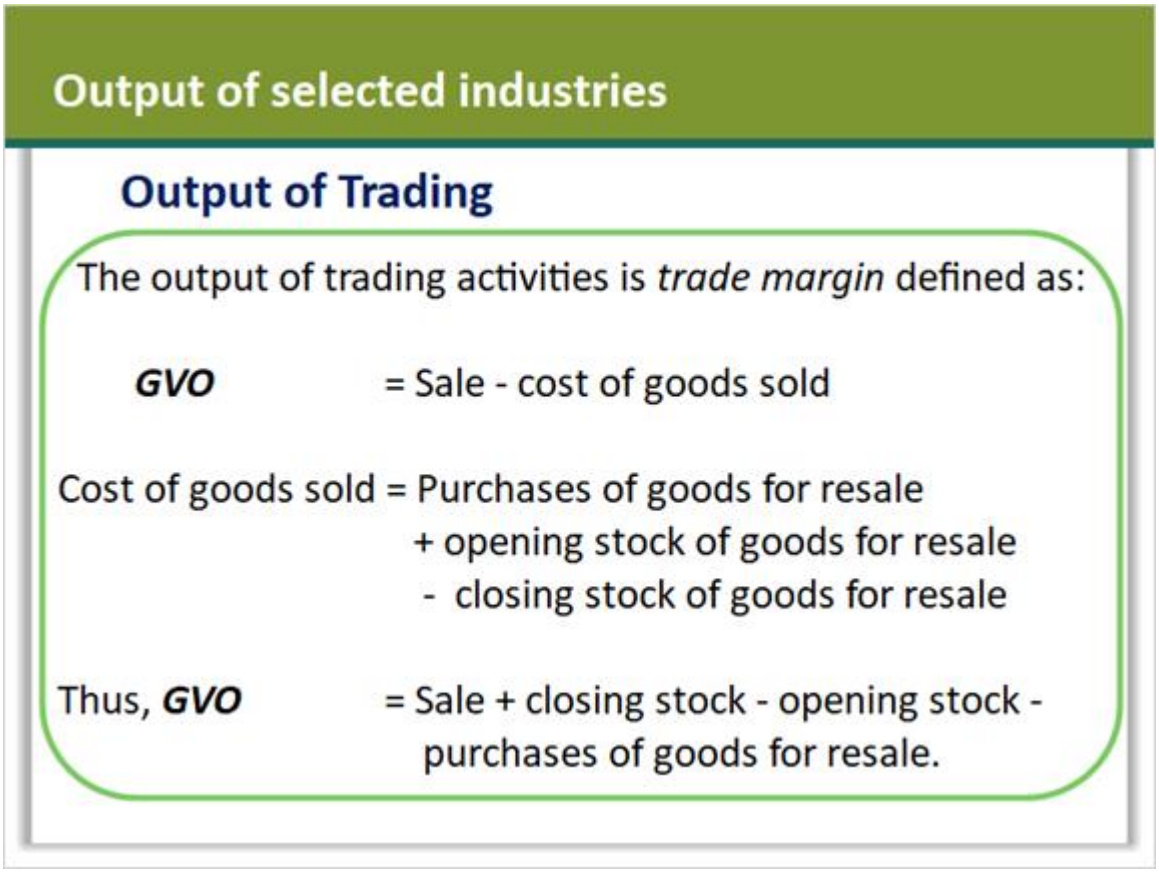
4.20 Output for Own Use

Notes:

Output for own use consists of goods produced by an unincorporated enterprise and consumed by the same household; services provided to households by paid domestic staff; imputed services of owner-occupied dwellings; fixed assets produced by an establishment that are retained;(own-account gross fixed capital formation); changes in inventories of finished goods and work-in-progress intended for one or other of the above uses.

Output for own final use should be valued at the basic prices at which the goods and services could be sold if offered for sale on the market. When reliable market prices cannot be obtained, the value is deemed to be equal to the sum of their costs of production (intermediate consumption, compensation of employees, net return to fixed capital, consumption of fixed capital, other taxes on production).

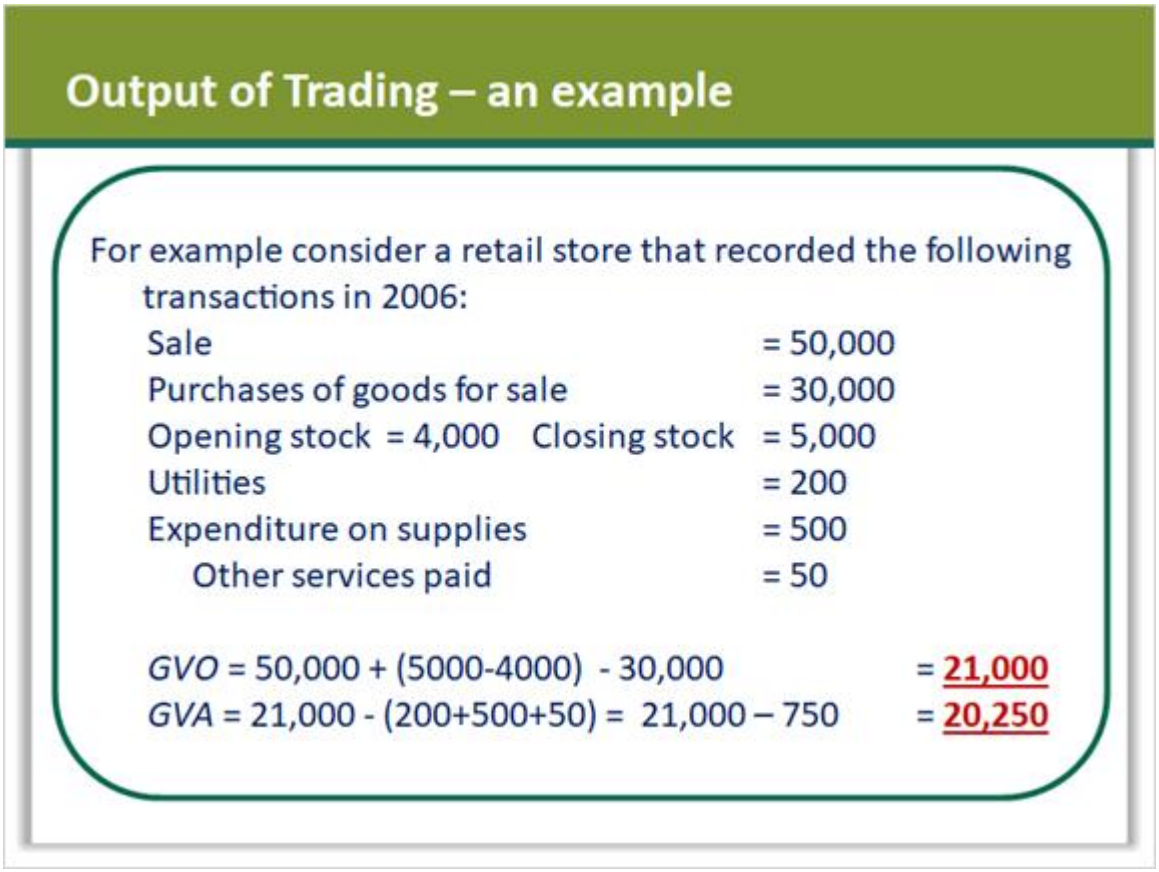
4.21 Output of selected industries



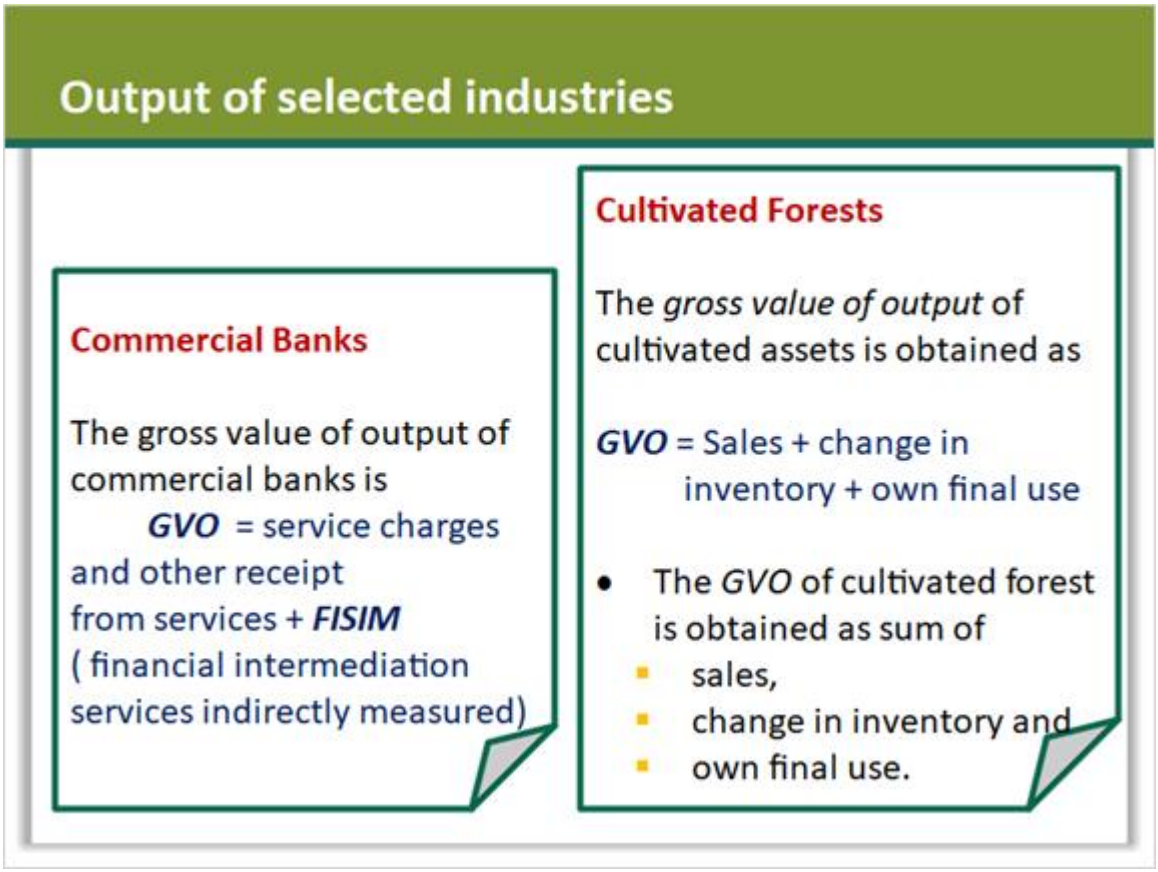
Notes:

This is an illustration of how output and gross value added of a trading enterprise is compiled. Take note that the output of any trading enterprise is essentially its trade margins. The output is measure as the difference of total sales and the costs of purchasing items for resale. The cost of goods for resale is adjusted for stocks.

4.22 Output of Trading example



4.23 Output of selected industries



Notes:

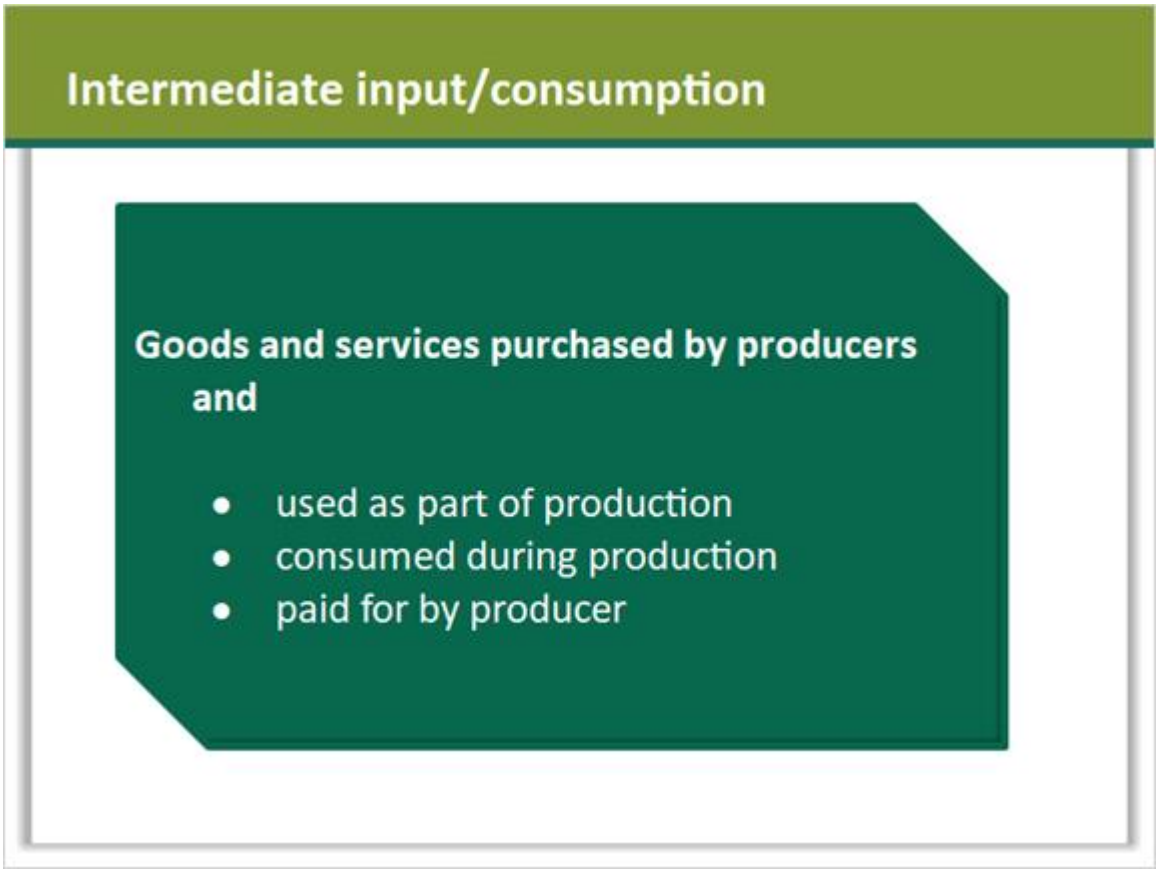
FISIM (financial intermediation services indirectly measured) is the value of services integrated in computation of interest on deposit and loans estimated as difference between interest charged and received. Refer to the example on page 53 of the *Reading Materials* for estimation of output of cultivated forests.

4.24 Intermediate Consumption

Notes:

The third section introduces the concept of intermediate consumption.

4.25 Intermediate input/consumption

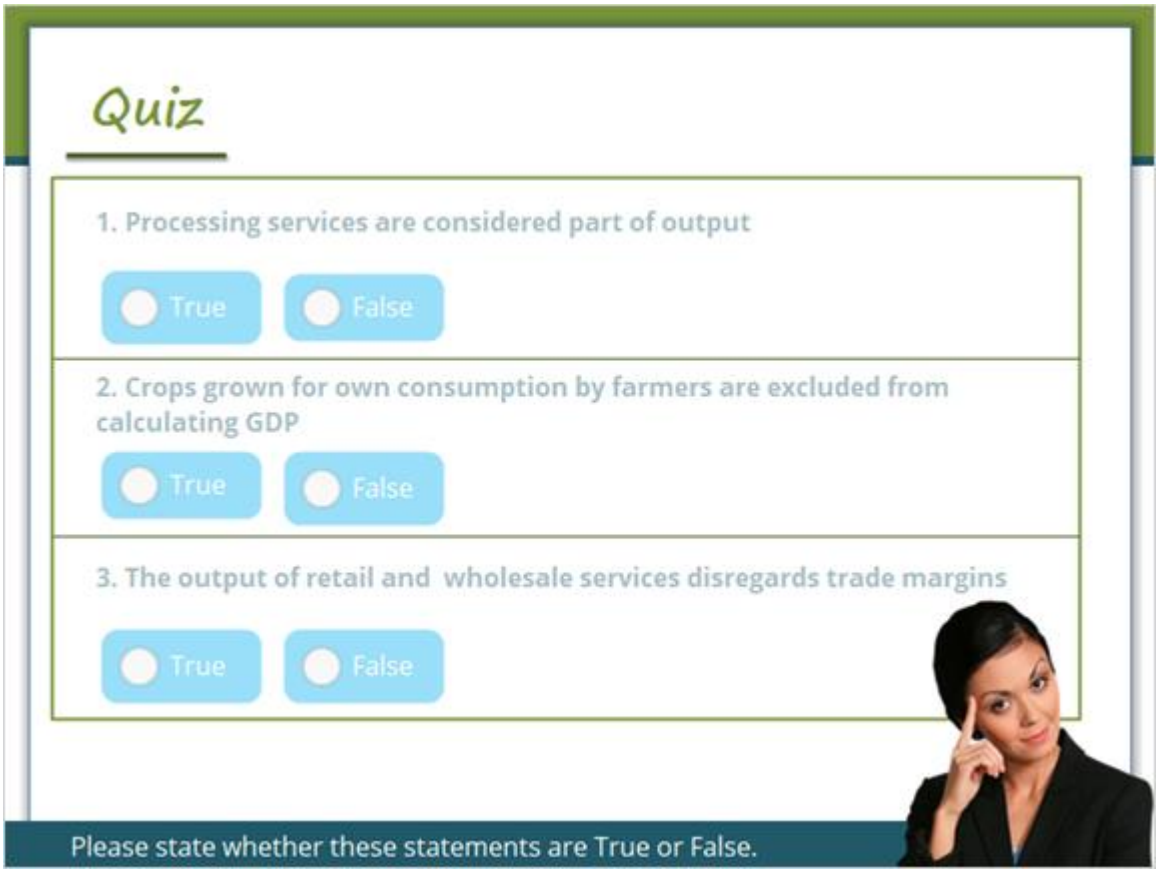


Notes:

Intermediate consumption consists of the value of all goods (non-durable) and services consumed in the process of production. It includes rentals paid on use of fixed assets, goods and services supplied by other establishments of same enterprise, goods and services used as inputs for the ancillary activity expenditure that an owner-occupier incurs on the maintenance and repair of the dwelling. Some examples are seeds, fertilizers, raw materials, fuel, electricity, water charges, chemicals, packing material, transport charges, accounting / business services, food material in restaurants, linens in hotels, wrapper in retail trade, insurance services charge, etc.

Intermediate consumption excludes value of consumption of fixed capital used, goods and services (intermediate products) produced and used within the establishment, bad debt provisions/write-offs, taxes, fines, donations, dividends, amortization of goodwill, exchange rate losses, land rent, loss on sale of assets, interest (other than allocated FISIM) and expenditures on valuables (work of arts, precious metals, etc.) as stores of value.

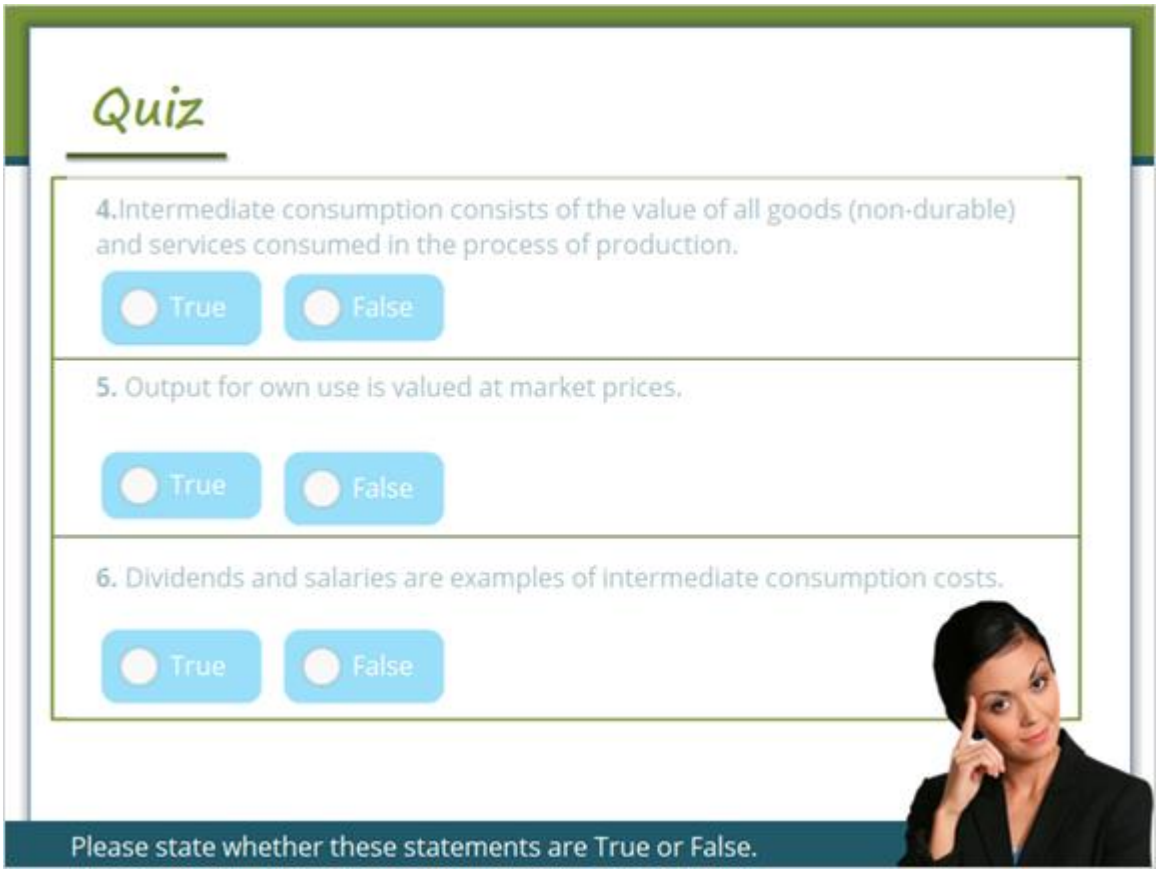
4.26 Answer the Quiz



Notes:

1. Processing services are considered as part of output. > **True**
2. Crops grown for own consumption by farmers are excluded from calculating GDP. > **False**
3. The output of retail and wholesale services disregards trade margins. > **False**

4.27 Answer the Quiz



Notes:

4. Intermediate consumption consists of the value of all goods (non-durable) and services consumed in the process of production. **> True**
5. Output for own use is valued at market prices.**> False**
6. Dividends and salaries are examples of intermediate consumption costs.**> False**

4.28 End of Lesson