

METHODOLOGICAL NOTE:

Seasonal adjustment of Wholesale Trade Sales

August 2017 to July 2018

Methodological note on the seasonal adjustment of wholesale trade

This document provides a brief explanation of the seasonal adjustment of wholesale trade statistics.

Monthly and quarterly time series are often characterised by considerable seasonal variations, which might complicate their interpretation. Such time series are therefore subjected to a process of seasonal adjustment in order to remove the effects of these seasonal fluctuations.

Statistics South Africa (Stats SA) uses X-12-ARIMA to estimate trend, seasonal and irregular components as well as length of month (LOM), trading day (TD) and Easter effects.

The time series for wholesale trade shows LOM, TD and Easter effects. Adjustment was done for these effects as shown in Table 1. As can be seen in Table 1, some components were adjusted for TD without a leap year effect (TDNOLPYEAR) while others were adjusted for TD with a leap year effect.

X-12-ARIMA is a seasonal adjustment program developed at the United States Bureau of Census. The program is based on the Bureau's X11 algorithm. It incorporates regression techniques and also ARIMA modelling to improve estimation of the different time series. The span of the wholesale trade used in identifying the parameters was split into two intervals:

- January 1998 to August 2004 (direct seasonal adjustment was applied to the totals only),
- September 2004 to June 2017 (indirect seasonal adjustment was applied by seasonally adjusting the subcomponents and then aggregating them to the total).

The identified parameters will be fixed for a period of one year and revised on an annual basis or as necessary.

Table 1 shows metadata for wholesale trade components. For each component the following is given in the tables below: decomposition scheme, ARIMA model, presence of seasonality, Henderson and seasonal moving average filters, outliers and presence of TD, LOM and Easter effects.

Table 1: Metadata for wholesale trade time series (September 2004 to June 2017)

| Description | Decomposition scheme | ARIMA model | Presence of seasonality | Presence of Easter effect | Presence of TD or LOM effect | Henderson Filter | Seasonal Movement Average Filter | Outliers (AO, LS, TC)* |
|--|----------------------|----------------|-------------------------|---------------------------|------------------------------|------------------|----------------------------------|-------------------------------------|
| Wholesale trade sale at constant prices ** | Additive | (2,1,0)(0,1,1) | Present | Easter(1) | LOM | 13 | 3x5 | |
| Fee or contract basis | Multiplicative | (1,0,1)(1,0,1) | Present | Not present | TDNOLPYEAR | 13 | 3x5 | |
| Agricultural raw materials and livestock | Multiplicative | (2,1,1)(0,1,1) | Present | Easter(15) | Not present | 13 | 3x5 | |
| Food, beverages and tobacco** | Multiplicative | (0,1,1)(0,1,1) | Present | Not Present | Not Present | 13 | 3x5 | |
| Textiles, clothing and footwear | Multiplicative | (1,0,0)(0,1,1) | Present | Easter(1) | TDNOLPYEAR | 13 | 3x5 | AODEC2015 |
| Other household goods except precious stones*** | Additive | (0,1,1)(0,1,1) | Present | Not Present | TD | 13 | 3x5 | AOAPR2008 AODEC2016 |
| Solid, liquid and gaseous fuels and related products | Multiplicative | (1,1,0)(0,1,1) | Present | Not Present | LOM | 13 | 3x5 | LSFEB2009 |
| Metals and metal ores*** | Multiplicative | (0,1,1)(0,1,1) | Present | Not Present | TDNOLPYEAR | 13 | 3x5 | AOJUL2014 |
| Construction and building materials** | Multiplicative | (31,1)(0,1,1) | Present | Easter(1) | LOM | 13 | 3x5 | |
| Other intermediate products, waste and scrap | Multiplicative | (0,1,1)(0,1,1) | Present | Easter(1) | TDNOLPYEAR | 13 | 3x5 | |
| Machinery, equipment and supplies | Multiplicative | (0,1,1)(1,1,1) | Present | Easter(1) | TDNOLPYEAR | 13 | 3x5 | AONOV2008 TCJAN2016 AOJUL2016 |
| Other goods | Additive | (0,1,1)(0,1,1) | Present | Easter(1) | Not Present | 13 | 3x5 | |
| Precious stones, jewellery and silverware | Additive | (0,1,1)(0,1,1) | Present | Not Present | Not Present | 23 | 3x5 | LSAUG2008 AOFEB2017 AOAPR2017 |

Note

* Various economic reasons were provided for the existence of all outliers listed in the table above and hence no adjustment was done for them.

** Wholesale trade sale at constant prices; food, beverage and tobacco and construction and building materials were further adjusted for residual TD effect.

*** Other household goods except precious stones and metals and metal ores were further adjusted for residual Easter (1) effects.

Definitions:

Additive decomposition – An additive decomposition is appropriate if the magnitude of the seasonal fluctuations does not vary with the level of the series. Under the additive decomposition scheme, the original series (Y) is expressed as $Y = T + (TD + S) + I$, where T = trend, TD = trading day effect, S=seasonal component and I=irregular component.

Multiplicative decomposition – A multiplicative decomposition is usually appropriate for series of positive values where the size of the seasonal oscillations increases with the level of the series. The original series (Y) is expressed as $Y = T * (TD * S) * I$.

Additive Outlier (AO) – This refers to unusually high or low singular values in the time series.

Level Shift (LS) – This refers to an abrupt but sustained change in the level of the time series.

Transitory Changes (TC) – This refers to a series of outliers with transitory effects on the level of the series.

Easter effect – The Easter holidays may regularly affect economic activity before, during or after the holiday period. Unlike other public holidays which occur on the same date each year, the dates for Easter are not fixed and may occur in March or April. Such an effect, if it is present, is known as the Easter effect.

Trading day effect (TD) – An effect associated with the composition of the calendar. For example, different months have different numbers of working days and also the number of specific days of the week can occur in differing frequency in the same month over different years. Days of the week can have different levels of activity.

Length of month effect (LOM) – An effect arising from the fact that some months are longer than others e.g. 28, 29, 30 or 31 days.

Seasonal adjustment approaches – In seasonal adjustment, the direct approach refers to the adjustment of a total (aggregate of unadjusted components), and the indirect approach is the aggregation of seasonally adjusted components to obtain a total.

Trend component – An estimate of the local level of the series derived from the surrounding recent (a year or two) observations. The trend is generally fairly smooth and includes movements and cycles longer than a year.

Seasonal component – An estimate of effects that are reasonably stable in terms of annual timing, direction and magnitude. Possible causes include natural factors (the weather), administrative measures (starting and ending dates of the school year), and social/cultural/religious traditions (fixed holidays such as Christmas).

Irregular component – An estimate of any effect not included in the trend-cycle or the seasonal effects (or in estimated trading day or holiday effects). Its values are unpredictable with regard to timing, impact and duration. It can arise from sampling error, non-sampling error, unseasonal weather patterns, natural disasters, strikes, etc.

Parameters – This refers to the decomposition scheme, ARIMA model, seasonal moving average and Henderson filters, outliers and trading day, Easter and length of month regressors.