

Developing the range of consumer price statistics in the UK

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Overview

The history of UK
consumer price statistics

Reviewing UK consumer
price statistics and
engagement with users

The UKs current and
future landscape of
consumer price statistics

The Retail Prices Index (RPI)

- RPI is the UK's oldest inflation measure
 - Introduced in 1947
 - Widely used – government debt is linked to RPI, student loan repayments, rail fares, and mobile phone bills all increased in line with RPI
 - Because of use in long term contracts, including index-linked gilts, there is national legislation governing changes to the RPI

Consumer Prices Index (CPI)

- CPI first published in 1997 to measure inflation consistently across all European states (HICP)
- Became the Bank of England's inflation target in 2003
- Required by European Law and produced to the specification of European legislation
- But it lacks a very important element of consumers' expenditure: Owner Occupiers' Housing costs (OOH)

Differences between RPI and CPI (HICP)

- Formula (carli)
- Construction of weights (survey data / trimming)
- Aggregation structure (unique to the RPI)
- Coverage (private UK households)
- Treatment of OOH (partial user-cost / accounting)
- Use of a single “index day”

Consumer price statistics in 2013

- RPI loses its National Statistics badge over concerns about the use of the Carli formula
- CPI becomes the lead measure in our inflation bulletins
- RPIJ is introduced following consultation on the RPI – it replaces the flawed Carli formula with the more widely accepted Jevons formula
- CPIH is introduced – it adds a measure of OOH to CPI

The range of consumer price statistics in 2013

- The Consumer Prices Index (**CPI** - also the Harmonised Index of Consumer Prices, or **HICP**)
- The Consumer Prices Index including owner occupiers' Housing costs (**CPIH**)
- The Retail Prices Index (**RPI**)
- The Retail Prices Index-Jevons (**RPIJ**)
- Various sub-components of these measures

ONS has created 'alphabet soup' of inflation measures, resulting in more problems than solutions – ITEM Club



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Andrew Goodwin, senior economic advisor to the EY ITEM Club, comments on today's inflation announcement by the ONS:

“The ONS was stuck between a rock and a hard place on this one and the conclusion that it has come to is a real fudge which doesn't solve anything. The methodology behind the calculation of RPI is fatally flawed and though the initial upheaval associated with a change would have been challenging, it would have taken us to a much more satisfactory place in the long run.

“We're now left with a real alphabet soup of different inflation measures – we were already getting one new measure in March, CPIH, but now we also get RPIJ to go alongside RPI, RPIX, RPIY, CPI and TPI. What was already a mess has now become messier.”

INDEX SHOPPING FESTIVAL



Inflation shopping?

Shopaholic.in.
Indexliving

Reviews of consumer price statistics

- As a result of our alphabet soup of measures, the UK Statistics Authority commissioned two reviews:
 - A review of the governance of consumer price statistics
 - A review of the range of consumer price statistics
- The latter, 'UK Consumer Price Statistics: A Review' (more commonly known as the Johnson Review) made a number of recommendations on how to improve the current situation

Johnson review conclusion

“There is an unhelpful proliferation of price indices in the UK at present. The current situation is causing confusion, and as a result many users are still using the RPI, a statistic that is no longer fit for purpose”

- Paul Johnson, January 2015

Johnson Review recommendations

- CPIH as lead measure
- Publication of indices for different household groups, along with income measures
- ONS and UKSA should discourage use of RPI and work towards ending use as soon as practicable
- Consult on discontinuation of RPIJ and a number of RPI-related indices
- Freeze changes to RPI



Resolution Foundation



User engagement



User engagement

- Articles / newsletters for a range of audiences
 - Narratives
 - Strategic direction
 - Detailed statistical analysis
- Formal engagement with key stakeholders
 - Advisory Panels on Consumer Prices (APCP)
 - Bank of England, Treasury, Office for Budget Responsibility
- Wider outreach
 - Public meetings
 - Stats user net
 - Industry conferences

User engagement

- Identified 3 broad classes of current and emerging user needs
- Identified the need for a clearer narrative around UK consumer price statistics

User needs

Economic principles

- Approach consistent with economic concepts and approaches

Household experience

- Looking at price changes as experienced by households

Ongoing RPI

- Existing, long-standing contracts need RPI

Future landscape

CPIH

- Economic principles
- Most comprehensive measure
- Sub-group measures

CPI

- Comparable across EU
- Does not include OOH costs

Household Costs Indices

- Household experience of inflation
- Focus on sub-group measures
- Matched with comparable measure of income

RPI

- Legacy measure
- Use discouraged
- Range of measures reduced

Household Costs Indices

Key features of the HCIs are to be:

- Democratic weighting
 - A payments approach (for example, OOH and education)
 - Include interest on debt
 - Measure gross insurance premiums
 - National coverage
-
- Also considering capital cost of housing

Where are we now?

- We have reviewed and updated our range of measures to meet current and emerging user needs
- Provided users with more context to the different indices and what they are attempting to measure
- Provided users with information regarding the distribution of consumer price inflation across different household groups
- Updated our statistical bulletins to be more concise and focus on 'stories'

Results

- More users are recognising that RPI should no longer be used
- There has been a move among economic regulators away from RPI (for example, Ofwat have committed to moving to CPIH)
- Increased media attention on CPIH
- Continued engagement with users on development of the HCIs

Some challenges remain...

- Discouraging use of RPI while we continue to produce and publish it
- Should we be advising on what indices should be used for (e.g. uprating, inflation targeting)?
- Should all measures be presented with 'equal footing'?

Questions
?
