

Section One: Measuring prices across the economy

4. Should ONS identify a main measure of price change across the economy?

- a. Yes
- b. No

1a. Why? Please provide any comments below:

Price indices are designed for different purposes and have different characteristics to correspond to those purposes. To answer this question it is therefore necessary to specify the purpose for which the index is intended.

The RPI CPI User Group has proposed that a Household Inflation Index should be developed to measure the change in prices as experienced by the typical UK household. This would make such an index suitable as the main measure of price change across the economy as experienced by the typical household.

Of currently available indices the RPI remains the most suitable measure of household inflation. However, the User Group considers this could be improved upon significantly by developing a HII, as discussed above.

RPIJ shares most of the characteristics of the RPI and hence similar arguments apply. However, the simple switch of formula from Carli to Jevons is of concern, especially as the ONS has relied on the weight of expert opinion in favour of Jevons rather than engage in a more detailed debate about the suitability of different formulae for particular circumstances.

The CPI is the same as the HICP which is produced in accordance with EU Regulations. It was designed to compare inflation rates across Europe and is also now used as one of the main indicators when setting inflation rates. In order to meet this overriding requirement compromises were necessary and in particular it does not yet include OOH costs. In addition it does not include council tax and cannot include any interest payments. On the other hand it does include spending in the UK by non-residents. It remains suitable for the purpose for which it was designed, but would not qualify as a "main measure of price change across the economy".

The CPIH is an attempt to correct the omission of OOH costs. However, instead of measuring these costs directly it uses a proxy measure of rental equivalence. Adopting a proxy measure for such a significant element of a UK price index is an additional reason to regard this index as unsuitable as a "main measure of price change across the economy".

Both the CPI and CPIH are expenditure weighted indices making them unsuitable as indices that measure price changes for the typical household. ONS research has shown that the CPI most accurately represents CPI measured changes in prices for the 7th income decile. (While the RPI is also expenditure weighted it mitigates this problem by excluding the top 4% of households plus pensioners mainly reliant on state benefits.)

If yes:

2. What should this measure be?

- a. ~~the CPIH, as recommended in the Johnson review. The CPIH includes owner-occupiers' housing costs. It does not currently hold the *National Statistics* designation (although its re-assessment is due to commence shortly). The index is a UK measure, designed by ONS to meet UK needs.~~
- b. ~~the CPI, ONS's current headline measure. The CPI is an EU measure, designed by Eurostat to ensure comparable consumer prices statistics across the EU.~~
- c. ~~other (please provide details).~~

2a. Why? Please provide any comments below:

This question has been answered in Q1.

A HII would fill a significant gap in the current range of UK price indices and provide the main measure of price change across the economy as experienced by the typical household.

3. Should its production be governed by legislation?

- a. Yes
- b. No

3a. Why? Please provide any comments below:

In general the User Group regards parliamentary legislation as a cumbersome method of regulating a price index, which are better governed by a strong and robust independent governance group. This principle could be appropriately enshrined in parliamentary legislation.

Section Two: Measuring consumer price inflation for different household types

4. Should ONS seek to measure changes in prices, as experienced by different households?

- i. Yes
- ii. No

4a. Why? How often? Please provide any comments below:

In terms of priority we suggest the following hierarchy of need -

First: The critical need is to develop a Household Inflation Index to measure the change in prices as experienced by the typical UK household. This should be produced on a monthly basis in line with existing indices.

Second: There is a need to measure the experience of price changes of different income groups.

Third: Sub-divisions by 'type' of household eg. pensioners, benefit recipients, single parent households etc. Also required are regional sub-divisions.

All statistics should be produced on a monthly basis to enable comparisons with other related statistics and to ensure they be utilised effectively.

8. Do you have any views on what 'freezing' changes to the RPI should mean in practice? Please provide comments.

It is difficult to understand how the ONS can remain credible if it produces a statistic that is not updated in line with best practice. The RPI should therefore not be 'frozen', but should continue to be improved in line with good practice.

In reality it is accepted that the RPI will remain in use for the foreseeable future. The UK Pension Protection Fund in its, "Long Term Funding Strategy Update" paper published on 27 July 2015 has accepted that the long-awaited market for instruments linked to the consumer prices index (CPI) is unlikely to materialise and that such instruments will remain linked to the RPI.

This strengthens the case to ensure that the RPI is not frozen, but continues to be improved.

7. Do you agree that the below indices should be discontinued?

i. RPIJ	Yes/No
ii. Tax and price Index	Yes/No
iii. RPIY	Yes/No
iv. RPI pensioner indices	Yes/No
v. Component indices of the RPI	Yes/No
vi. Any other RPI analytical- or sub-index	Yes/No

7a. If yes, why? Please provide any comments below:

We do not have a strong view on maintaining the RPI family of indices, apart from the RPI itself, currently produced by the ONS. However, as the RPI must continue to be produced it would appear to require only a very modest effort to keep the whole family of RPI based indices. We therefore propose that they are kept unless the ONS can explain why that would present difficulties or be unduly expensive.

The RPIJ provides a useful measure of the difference between the use of Carli and Jevons within the RPI framework.

Section Three: The RPI

6. Do you use the following indices?

i. RPIJ ¹	Yes/No
ii. Tax and price Index	Yes/No
iii. RPIY ²	Yes/No
iv. RPI pensioner indices	Yes/No
v. Component indices of the RPI	Yes/No
vi. Any other RPI analytical- or sub- index	Yes/No

6a. If yes, for what purposes? Please provide any comments below:

Of the existing indices within the RPI family the User Group attends in the main to the RPI itself. However, all of these indices are referenced from time to time by the User Group.

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RPI excluding Mortgage Interest Payments and indirect taxes

If yes:

5. How should ONS seek to do so?

- i. Using a payments-based approach.
- ii. ~~On the same basis as existing measures such as CPI.~~
- iii. ~~Via another means (please provide details)~~

5a. Why? Please provide any comments below:

A payments based approach should be the principal approach as this accords most directly with households' experience of price changes. However, there is a legitimate debate between an acquisition and a payment approach for certain items.

The principle should be to recognise the full cost of an item plus interest payments on loans.

10. Should ONS include council tax in the CPIH?

- a. Yes
- b. No

10a. Why? Please provide your comments below:

Council tax is not, in general, a tax based on income. It does not therefore qualify for omission from a price index.

Section Four: Evolving Consumer Price Statistics

9. Are the priorities identified by ONS in its forward work plan appropriate?

- a. ~~Yes~~
- b. No

9a. Why? Please provide your comments below:

The main priority should be to develop a HII. Although the work-plan refers to measuring inflation as experienced by different households it is not clear if this involves developing a purpose designed measure of price change as experienced by households. In the User Group view this is essential.

The User Group has identified the following priorities for the ONS-

- 1. To develop a Household Inflation Index*
- 2. To conduct a deeper analysis of whether quality changes are always positive and specifically to ensure that changes in reliability are accounted for.*
- 3. A thorough analysis of Carli/Dutot/Jevons and when each should be used and the alternative Generalised Mean.*
- 4. Work on 'superlative indices' and COLI should not be considered a priority. These are matters of academic interest and should not be accorded high priority.*
- 5. Establish an effective governance system that is transparent about changes to the index and ensures regular and thorough reports that investigate additional or alternative sources that provide more comprehensive and accurate price quotes.*