
Chair of the UK Statistics Authority, Sir Michael Scholar KCB

Kate Barker CBE

6 February 2012

Dear Kate

CONSUMER PRICES INDEX

Thank you for your recent letter raising various concerns in relation to the Consumer Prices Index. I have also seen Stephen Penneck's reply to you which explains what ONS is doing currently and its plans for future developments.

I am enclosing a copy of a recent progress report on implementation of the Authority's recommendations in our Monitoring Brief *Communicating Inflation*, published in December 2010. As you will see from the progress report, while some of our recommendations have been met, in other areas work continues.

The Authority Board is anxious to ensure that further progress is made as quickly as possible in these areas, and that the two priorities in the Consumer Prices Advisory Committee (CPAC) work programme – the inclusion of owner occupiers' housing costs into the CPI and the improvement of the measurement of clothing inflation – are completed to the timeframe set out in Stephen's letter, and sooner if at all possible. We are determined to ensure that sufficient resources within ONS continue to be made available to carry out CPAC's work programme.

ONS has been exploring the availability of private-sector rental market data with the Valuation Office Agency (VOA). This is needed to feed into the measure of owner occupiers' housing costs that ONS is developing for the CPI. The Authority has been told that the VOA is currently working with ONS to provide the information needed. This will help ensure that ONS can make progress in this most important aspect of the CPAC work programme.

The Authority Board will continue to receive regular reports from CPAC about its work programme, and the minutes of CPAC meetings will continue to be published on the ONS website.

I am copying this letter as yours, and to Dyfed Allsop at the Valuation Office Agency.

With best wishes.

Yours sincerely



Sir Michael Scholar KCB

Communicating Inflation

The Authority published its Monitoring Brief *Communicating Inflation* in December 2010.¹²

This Brief considered issues raised in public debate about official statistics on inflation. It identified two distinct uses that are made of the measures and considered the need to respond further to these. Aspects of the way in which the official measures of inflation are communicated were also considered.

Recommendation 1: Take forward the matters raised in the Assessment Report, including:

- a) establish an up-to-date official position on regional indicators; and**
- b) consult on the demand for indices for different household types.**

Ongoing

ONS has addressed all of the Requirements in Assessment Report 79 and the Head of Assessment has confirmed the designation of these statistics as National Statistics.

ONS has established an up-to-date official position on regional indicators in *UK relative Regional Consumer Price levels for Goods and Services for 2010*, which it published alongside the statistical release for *Consumer Price Indices July 2011*.

ONS plans to consult users on the demand for indices for different household types during the course of 2012, as part of its consultation with users about a strategy for consumer prices.

Recommendation 2:

- a) Carry out more analysis of the strengths and weaknesses of the CPI and RPI as macroeconomic measures of inflation and as compensation indices;**
- b) As part of the analysis at (a), examine the benefits and disadvantages of using the preferred macroeconomic measure of UK inflation as a compensation index, and the practicality of using different measures for these distinct uses; and**
- c) Use the analysis at (a) and (b) to guide future development of the indices.**

Met

ONS has addressed parts (a) and (b) through publication of the following two articles:

- History of and differences between the Consumer Prices Index and Retail Prices Index, which was published alongside *Consumer Price Indices July 2011*.
- Implications of the differences between the Consumer Price Index and Retail Price Index which was published alongside *Consumer Price Indices August 2011*.

The findings from these articles have been taken into account by ONS in developing a draft strategy for consumer prices, which sets out its plans for the future development of the indices.

Recommendation 3: In the context of this analysis, consult users on whether the current proposals for improving the CPI while maintaining the RPI represent a suitable approach to developing improved measures of inflation, while continuing to meet users' needs for existing measures.

¹² <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-briefs/monitoring-brief-7-2010---communicating-inflation.pdf>

Ongoing

ONS plans to consult users about its draft strategy for consumer prices during the course of 2012.

Recommendation 4: Include in the Consumer Price Indices statistical bulletin a fuller discussion of the uses and potential uses of the different statistics on inflation, and provide some signposting to further guidance on the suitability of the different indices for particular uses. Review the continuing user requirement for RPIX and for two separate measures that exclude indirect taxation, CPIY and RPIY, and the way these measures are described and presented in Consumer Price.

Met

The statistical release *Consumer Price Indices* includes some discussion about the uses that are made of the different price indices. ONS has also published a document, *How the Consumer Price Statistics are used*, which provides more information about the uses that are made of these statistics. ONS plans to include a link to this document in future releases of *Consumer Price Indices*.

ONS has invited users to provide feedback on their ongoing requirement for RPIX, CPIY and RPIY. The feedback suggests that the RPIX is currently little used. The CPIY and RPIY attract most attention when there are significant changes to taxes at Budget time.

Recommendation 5: Review the need for three separate monthly publications to release these statistics, and consider whether other arrangements would allow these statistics to be communicated more clearly.

Met

ONS reviewed the arrangements for releasing these statistics and made some significant changes. ONS now releases these statistics through two statistical releases and a single data file, that are all published on the same day. The headline statistics continue to be published in *Consumer Price Indices*, which is accompanied by more detailed information published in a *Detailed Briefing Note*. ONS also publishes a complete set of data tables, which has replaced the statistical release *Focus on Consumer Prices*. The new tables provide users with access to the underlying data much sooner than had previously been the case, and in a much more user friendly format.

Recommendation 6: Build on the recent improvements in the Consumer Price Indices statistical bulletin by (a) including additional commentary on specific external developments that have an impact on the indices; (b) drawing attention to any particular significance of the latest figures and (c) including a clear explanation whenever the difference between the CPI and RPI headline measures of inflation is significant.

Met

ONS has made a number of improvements to the way in which it presents the latest statistics in *Consumer Price Indices*. It has also published additional information about specific developments that are likely to be of particular interest to users. For example, in January 2011, it published an article that described the drivers behind the increased impact of the formula effect during 2010. In March 2011, within a week of the Budget, ONS published information about the impact on the CPI and RPI of the budgetary measures due to come into force between April 2011 and March 2012.

Recommendation 7: Support the news media in relation to the communication of the statistics by (a) producing additional published material for users and journalists on the differences between a consumer price index and a cost of living index; and (b) considering

ways of bringing to a wider audience the important messages about inflation statistics that are published in *Economic and Labour Market Review*.

Met

ONS has produced additional material for users and journalists on the differences between a consumer price index and a cost of living index in the two articles published in response to Recommendation 2 above.

ONS has discontinued publication of *Economic and Labour Market Review*.

It now publishes information about consumer price indices in stand-alone articles that are disseminated through the CPI Homepage.

Recommendation 8: Evaluate how effective the ‘personal inflation calculator’ has been in addressing perceptions of inflation. Also, consider, with users, whether there are any lessons for the UK from the German index of perceptions of inflation that might supplement the work that ONS has already carried out on the way in which inflation is perceived.

Ongoing

ONS plans to publish an article in February 2012 that will address this Recommendation.