



Sir Michael Scholar,
Chair,
UK Statistics Authority,
Statistics House,
Myddelton Street,
LONDON EC1R 1UW

12 Errol Street
London EC1Y 8LX
DDI: +44 (0)20 7638 8998
Fax: +44 (0)20 7614 3905
E-mail: president@rss.org.uk
Internet: <http://www.rss.org.uk>

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Dear Michael,

Consumer and Retail Price Indices

In his letter of December 9th, welcoming the conclusions of the UKSA Assessment and Monitoring Reports on the consumer price indices, David Hand mentioned that I and others would be following up on your earlier correspondence with him regarding the CPI and RPI. A number of developments since David's letter are keeping this issue in the public eye, including the correspondence between Rachel Reeves MP and the Minister for Pensions, an article by Michael Ward, Derek Blades and Carol Carson in the *Journal of the International Association of Official Statisticians*¹, comments by the Bank of England on the effect of changes in the method of collecting clothing prices, and ongoing concerns by many public sector pensioners over the impact of the change to CPI for the uprating of their pensions (I understand a rally and mass lobby of Parliament is planned for March 1st).

The published work plan of the Consumer Prices Advisory Committee (CPAC) was set out in its annual report last September. Although this sets out actions to address a number of the issues that have been raised it does not address them all, and notably fails to consider fully the need for an index that reflects the household budget as well as, or as distinct from, macroeconomic purposes. The UKSA's Monitoring Report concluded that the uses of consumer price indices both as macroeconomic measures of inflation and as "compensation indices" imposed different requirements on the indices. We believe that the need to address this and other issues is now pressing, and are keen to offer the Society's help in doing so. We are concerned, as I am sure you are, about the further damage that will be done to consumer confidence in official statistics if it is perceived that uprating to pensions and other benefits is being governed by an index perceived by many as inappropriate and unfair without a more relevant index being offered by statisticians.

There are good arguments for the CPI as a macroeconomic indicator (particularly once some indicator of owner occupier costs has been included) but, as you know, we do not feel that it currently serves the purpose of being a sufficiently good measure of price inflation as experienced by households to be used in uprating pensions and benefits or for use in wage negotiations, thus not fully meeting Principle 1 of the Code of Practice. Use in business contracts is another aspect that should also be considered. Having now studied the CPAC's proposals for including owner occupier housing costs, we agree with the point made by John Amos, of the Civil Service Pensioners' Alliance, in his recent letter to Jil Matheson, that these will not help this issue as the measures proposed have been designed with macroeconomic needs in mind rather than as a measure of costs experienced by householders.

The RSS thinks it would be helpful to all parties if the Authority would explain what advice it has received from ONS/CPAC on how the CPI may be adapted to reflect household experience better and thus become a

¹ Statistical Journal of the IAOS 27 (2011) 31–37

better guide for pensions and benefits uplift, wage negotiations and similar purposes; and the extent to which one index can satisfactorily meet both these needs and be used for macroeconomic purposes. If the CPAC has yet to consider these points, when can Parliament and the public expect to see its independent advice?

We understand that the CPAC exists both to offer expert advice to ONS and to reassure the public that an external and independent view is guiding complex methodological questions. Given the level of public concern about these issues, and to avoid confidence in its authority and integrity becoming eroded, we would suggest that CPAC should now establish a stronger and clearer voice and express its views openly and fully (the summary of the last meeting was very thin).

Finally I attach a list of some additional questions where we feel it would be helpful if more detail, from either the UKSA or the ONS, were available.

I look forward to hearing from you and we would be happy to meet and discuss further if this would be helpful.

I am copying this letter to Jil Matheson, Richard Alldritt, Stephen Penneck and Bernard Jenkin MP. In view of the current concerns over public sector pensions, I am also copying it to Steve Webb MP, Rachel Reeves MP and to John Amos. In line with our usual practice we will publish this on our website and I presume it will also appear on the Authority's website in due course.

Yours sincerely,

A handwritten signature in blue ink that reads "Jill".

Jill Leyland
Vice President, Royal Statistical Society and Chair, RSS National Statistics Working Party

Additional questions

- What empirical research has been done, or may be planned, into consumers' response to relative price changes in different outlets, brands or varieties of the same good? Has consideration been given, for example, to tapping into the knowledge of supermarkets and other major retailers?
- What plans does ONS have to consult on the use made of consumer price indices, and on the need for different indices for different population groups and other sub-indices suggested or required in the Assessment and Monitoring reports?
- Could ONS publish more detail on the plans to address the other issues in the Monitoring and Assessment reports and on their timing?
- What further changes are planned to RPI methodology? Are ONS and CPAC content with the widening of the "formula effect" difference following the changes to collecting clothing prices that were introduced?