

Kate Barker CBE

26 January 2012

Dear Kate

Issue around the use of the CPI as the key measure of UK inflation

Thank you for copying to me your recent letter to Sir Michael Scholar and for asking me to provide my own consideration of the issues raised in your letter concerning the uses of the CPI.

I agree that the CPI must command high credibility with both the statistical community and the wider population. ONS's current work programme recognises the importance of continuing to improve the measurement of consumer price inflation and to build and maintain public trust in these measures. In your letter, you raise the need for sufficient resources to be devoted to this work, for improvements to be implemented as swiftly as possible and the need for sound consultation. I would like to say a little about what ONS is doing to address each of these points.

ONS, under the guidance of the Consumer Prices Advisory Committee (CPAC), is leading a programme of work to both maintain and improve the measurement of consumer price inflation. ONS considers this programme a high priority and has a team dedicated to its successful completion.

I am glad that you agree that the two priorities for this work programme are the inclusion of owner occupiers' housing cost (OOH) into the CPI and the improvement of the measurement of clothing inflation. ONS is working towards completing this work and implementing improvements in early 2013. I believe this to be a realistic target.

ONS is open and transparent in the methods and approaches that underpin the measurement of the CPI, which is produced in accordance with internationally agreed standards set out in European legislation, and the RPI. This is illustrated by the informed debate currently taking place on the differences between the two.

Part of work programme is to determine the most appropriate elementary aggregate formulae. The aim of this work is to understand and communicate the reasons for the increase in the gap between the CPI and RPI caused by the formula effect and to implement improvements to the indices that will remove any unjustified differences caused by this effect. This work is initially focussed on the measurement of clothing inflation in the CPI and RPI but it will be extended in due course to cover other areas of the 'basket' as appropriate. In conjunction with determining the most appropriate elementary aggregate formulae, ONS is pursuing a number of avenues of research including introducing additional stratification into the production of item indices, improving the collection guidelines for clothing and considering the relationship between consumer behaviour and the choice of elementary aggregate formulae. We will report this work to CPAC throughout 2012.

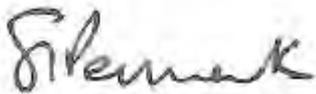
The need for sound consultation is, as you point out, vital for the successful implementation of the planned improvements. ONS engages with users to ensure improvements to its consumer price indices are

managed smoothly and their consequences are understood. Also, CPAC papers are published on the CPAC webpage¹ following each committee meeting. ONS will run public consultations on any proposed improvements and is working with the Royal Statistical Society's newly formed Consumer Prices User Group. ONS has already engaged with expert users on various aspects of the development programme. We would welcome discussions with you and other experts on the work programme.

Finally, you mention the 'shift' towards the wider use of the CPI and the need to retain public confidence. The uses to which statistics are put are not decisions for the ONS, though they should be informed by accessible and clear information that ONS provides on the quality of the statistics in relation to the uses to which they are put. Building and retaining public confidence and trust in the statistics is and will remain to be the main driver for the development programme for consumer price statistics.

I am copying this letter to Sir Michael Scholar and Jil Matheson. Please pass onto Valerie Isham and Bronwyn Curtis.

Yours sincerely,



Stephen Penneck
Director General for ONS

¹ <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/prices-development-plan/consumer-prices-development-work.html>