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cc. HoL, Economic Affairs Committee  
Public Administration and Constitutional Affairs Committee  
Sir David Norgrove, Chair, UKSA  
Professor Sir Ian Diamond, National Statistician  
Jonathan Athow, Deputy NS & Director General Economic Statistics

12 November 2019

Dear Ed Humpherson,

### **UKSA Response to HoL inquiry into Measuring Inflation**

We refer to the response, by Sir David on behalf of the UKSA, to the House of Lords inquiry into “Measuring Inflation” and the correspondence on the same date by the Treasury.

The categorisation of price indices was set out in the article “Measuring changing prices and costs for consumers and households” in July 2017<sup>1</sup> and repeated in an updated article in March 2018<sup>2</sup>. These articles make it clear that both the CPI and CPIH are macro-economic indicators of price changes. The RPI is by nature and history a household index. To judge one sort of index by the rules and practices governing another (deliberately different) type makes little sense. Turning it into the CPIH would completely alter its character. The three family approach, in the 2017 paper, has wide support.

The issues listed in the National Statistician’s note to the UKSA board of February 2019 were all decisions arrived at in the past by due consideration and assessment including by the relevant advisory committee. It may be that with the passage of time these decisions may need to be reviewed but they should not be dismissed as “shortcomings”.

Specifically,

- Doubts have been raised, by some, about the use of Carli but there is no issue with the use of Dutot in the RPI and when price relatives are very variable it is more robust than Jevons;
- While measuring owner occupied housing is problematic the approach taken in the RPI is a reasonable approach that matches households’ real world experience of costs and the HoL committee did not feel rental equivalence was suitable;

1

<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/measuringchangingpricesandcostsforconsumersandhouseholds/2017-07-18>

2

<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/measuringchangingpricesandcostsforconsumersandhouseholds/march2018>

- The exclusion of high income households and pensioners mainly reliant on state benefits was decided specifically so the index would better suit its purpose (please refer to the 1956 and 1986 reports of the advisory committee);
- Population coverage in the RPI is on a national not domestic basis which is the correct approach for a household index;
- Insurance in CPIH is weighted only by the difference between premiums and claims, this is not a correct approach for a household index;
- The classification system used in the RPI is different from that used in the CPI/CPIH, but not inferior.

For the above reasons we dispute the UKSA's sweeping description of "shortcomings" in the RPI and its proposal to bring the methods of the CPIH into it. It is disappointing to see that the arguments for the change refer back to the March 2018 article, "The Shortcomings of the Retail Prices Index as a Measure of Inflation", an article with a number of issues and which we feel is well below normal ONS standards.

There are also potential issues surrounding the first pillar of the Code of Practice – Trustworthiness – which the subheading categorises as "Confidence in the people and organisations that produce statistics and data". The PACAC report, paragraph 132, refers to the "...the influence that HM Treasury and the Bank of England have exercised..." Paragraph 124 refers to Chris Giles experience of views that disagreed with ONS being "buried" and this experience was reflected by others in subsequent paragraphs.

ONS established a Stakeholder panel as a means to represent and get feedback on user views, but seems to pay scant regard to the panel's views and did not consult the panel on the changes. Moreover, in this instance, it seems sweeping changes are proposed with little or no user consultation.

The UKSA letter makes no mention of the needs of users of price indices. It was left to the Chancellor, in his letter, to mention the problems that users would face. In our view the needs of users should be at the forefront of the UKSA concerns.

Further, the minutes of the UKSA Board meeting on 14<sup>th</sup> February 2019 show that members were told (paragraph 3.2.ii) "that – although members were aware of the wider implications of making changes to the RPI – the Board should make its recommendations regarding the future of the UK's consumer price statistics on the basis of statistical considerations only."

Is all this consistent with the Code of Practice, specifically Principle V1, regarding the importance of taking user needs into account? We note also that this principle was quoted, and indeed reinforced, in the UKSA Chair's recent response to the Public Administration and Constitutional Affairs Committee.

There is a need to restore user confidence in ONS advice and decision making on price indices. Given the importance of the RPI to users we invite the OSR to investigate the concerns we have raised above regarding the UKSA's failure to adequately take account of the needs of users both in terms of the Code of practice and in relation to the specific need to maintain the RPI as a household measure of changing prices as illustrated by the specific points included above.

Yours,

Tony Cox