

**Mark Pont, Assessment Programme Lead**

Mike Hardie  
Deputy Director, Prices  
Office for National Statistics  
(by email)

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Dear Mike

### **Consumer Prices Index Including Owner-Occupiers' Housing Costs (CPIH)**

Thank you for the positive engagement of yourself and colleagues during our follow-up review of ONS's development of CPIH – [Consumer Prices Index including Owner-Occupiers' Housing Costs \(OOH\)](#). This review follows [our letter](#) from July 2017, when the UK Statistics Authority re-designated CPIH as National Statistics. We focused on the two key areas from our previous letter: providing analyses about OOH, and continuing to build effective user engagement.

Your ongoing publication of comparative analyses continues to provide reassurance about various aspects of the CPIH. We particularly welcome that since you have gained access to record-level data from the Valuation Office Agency, you are reviewing alternative ways to estimate OOH. In addition, we see ONS's innovation in integrating web-scraped prices and those gleaned from scanner data as leading-edge developments in measuring inflation resulting in significant improvements to the methods and accuracy of the CPIH statistics. Also, these new methods should lead to improved product coverage, higher frequency of collection and potential cost savings.

We commend the steps that ONS has taken to enhance engagement with users, in particular your engagement with the Stakeholder and Technical Advisory Panels on Consumer Prices. Setting out the landscape of inflation statistics through the use cases will continue to be important particularly in the light of proposed changes to the [Retail Prices Index](#) (RPI) and the development of [Household Costs Indices](#) (HCIs). We recognise your commitment to keep the use cases updated.

We have expanded on the above points in an attached annex. I am copying this letter to Jonathan Athow, Deputy National Statistician for Economic Statistics.

Yours sincerely



Mark Pont  
Assessment Programme Lead

**Annex: This annex sets out the main findings of our review**

Future considerations mentioned in our letter re-designating CPIH as National Statistics	Developments undertaken by ONS	Office for Statistics Regulation’s evaluation of progress
<b>Providing analysis of Owner-Occupiers’ Housing Costs</b>		
<p>It will be essential for ONS to continue to demonstrate this curiosity in monitoring how the different measures compare over time, taking any further actions necessary in relation to the production of CPIH, and in being responsive to user queries.</p> <p><b>(a)</b> ONS should continue to monitor CPIH’s behaviour as part of its ongoing reassurance to users about its quality and to remain vigilant to broader developments to private rents, any impact on its data sources and impact on the accuracy of CPIH, as part of ONS’s planned work to measure its accuracy</p> <p><a href="#">Code of Practice for Statistics Value Pillar, Principle 1 – Relevance to Users, Practice 1.6</a></p>	<p>ONS has published data measuring OOH by different methods providing a valuable means for users to monitor the impact on inflation between the choice of rental equivalence (RE) method of measuring OOH and the net acquisitions (NA) method. For example:</p> <ul style="list-style-type: none"> <li>• ONS has published quarterly statistics_ on <a href="#">Measures of Owner-Occupiers’ Housing Costs</a> presenting costs data using different approaches of measuring owner occupiers’ housing costs There have also been several “Spotlight” sections produced, which focus on different topics relating to OOH, For example <a href="#">relationship between private rents and house prices</a> and <a href="#">changes to methodology</a></li> <li>• ONS told us that it is aware of a recent public comment about its method of calculating OOH inflation. Its recent access to Valuation Office Agency (VOA) rents microdata is helping ONS to better understand the impact of its</li> </ul>	<p>Our search for relevant articles and information analysing movements in OOH found that users were well-served.</p> <p>Until early 2020, growth rates in OOH as measured by the RE and NA methods (which were the main alternatives when ONS made its choice to use RE) have remained very much aligned, with NA consistently giving a higher level of inflation. Since February 2020 the respective methods of measuring OOH began to diverge more significantly. By March 2020, the difference in the growth rate between NA and RE was 2.4 percentage points, the largest since November 2017.</p> <p>There has been some public comment that the rents data used to calculate OOH do not reflect the most recent rents. Data are based on rents over the past 14 months or so because the series needs to be smoothed. As an example, OOH inflation labelled as being for July 2020 included a significant proportion of OOH cost changes not occurring at or near July 2020. With OOH being approximately 16.3% of CPIH by weight this could significantly bias the index. The critique of the methodology also extended to actual rents data which comprise another 6.3% by weight of the index.</p>

	OOH methodology and consider ways it could change its approach.	We anticipate that ONS's investigations will help users understand the impacts of new rents microdata on the accuracy and timeliness of OOH estimates.
<p><b>(b)</b> ONS should progress its business case for future access to VOA's microdata swiftly, making use of the powers conferred by the Digital Economy Act 2017.</p> <p>It will also be important for ONS to continue to engage with a broad range of users to ensure that documentation relating to the methods used to produce CPIH remain relevant and accessible to interested users.</p> <p>ONS needs to build on the work that it is doing to embed a proactive approach to quality assurance within its working practices, including the further development and maintenance of ongoing relationships with each of its data providers using a risk-based approach.</p> <p><a href="#">Code of Practice for Statistics Quality Pillar, Principle 3 – Assured Quality, Practice 3.5</a></p>	ONS pursued access to this microdata under the Digital Economy Act 2017 and was successful in securing such access.	<p>ONS last <a href="#">published</a> its quality assurance of the administrative data (QAAD) used to produce CPIH statistics on 17 July 2017, describing the results of its actions to enhance engagement with data suppliers. The lack of updated QAAD documentation means that this has not been reported regularly.</p> <p>Following its access to VOA microdata and other developments since July 2017, ONS has committed to update its information about how it assures the quality of CPIH as well as update its QAAD analysis and data supplier engagement by the first quarter of 2021.</p>
<b>Continuing to build effective user engagement</b>		

<p>To further enhance the quality and public value of CPIH as a measure of inflation, ONS needs to continue to develop a culture that defaults to open and responsive dialogue. This should cover the wide range of available groups, from its Stakeholder Advisory Panel through to individual users of inflation measures. ONS also needs to maintain its ongoing dialogue with data suppliers</p> <p><b>(c)</b> It is vital that ONS maintains and enhances its support for all users in their use of inflation measures including through further clarifying the role of CPIH within the family of inflation indices.</p> <p><a href="#">Code of Practice for Statistics Value Pillar, Principle 1 – Relevance to Users, Practice 1.1</a></p>	<p>ONS has clarified the purposes of the different consumer and retail prices statistics and the uses to which they are put. A three-family approach of Consumer Prices Indices was set out by ONS in an article <a href="#">Measuring changing prices and costs for consumers and Households</a> in March 2018. In the article ONS says that the ‘use cases’ are:</p> <ul style="list-style-type: none"> <li>• A comprehensive measure of inflation based on economic principles: CPIH</li> <li>• A set of measures to reflect the change in costs as experienced by households: the Household Costs Indices (HCIs)</li> <li>• A legacy measure that is required to meet existing user needs: RPI</li> </ul> <p>ONS has communicated since 2017 that CPIH is its most comprehensive measure of macro-economic inflation. In 2020 widespread adoption by users of CPIH to replace their use of either RPI or CPI has yet to take place. In the 2018 Budget the Chancellor at the time said it was hoped that CPIH would be used for inflation targeting.</p>	<p>We anticipate that the adoption by the Treasury of CPIH for inflation targeting will be one of the main elements in CPIH gaining broader user acceptance as a measure of inflation. We are encouraged that ONS intends to keep updated the main use-cases for its inflation statistics. As part of that communication users will no doubt be keen to hear about the further adoption of CPIH as a key inflation statistic replacing less-comprehensive measures of inflation.</p>
<p><b>(d)</b> ONS should continue to focus attention on user engagement, working closely with interested users, improving their understanding of the different inflation indices it produces, and taking care to engage them fully</p>	<ul style="list-style-type: none"> <li>• ONS has engaged attentively with users of these statistics particularly its engagement with both the Stakeholder and Technical Advisory Panels on Consumer Prices. There are other examples of effective engagement with users.</li> </ul>	<p>ONS is aware of the importance of the development of the HCIs in meeting the needs, among others, of long-time users of the RPI, particularly the impacts of inflation on different types of household. The eventual uptake of HCIs will partly depend on the frequency of the publication of the statistics and on developing the user base in preparation for the full deployment of these statistics. We look forward to</p>

<p>during the development work on the Household Costs Indices.</p> <p><a href="#">Code of Practice for Statistics Value Pillar, Principle 1 – Relevance to Users, Practice 1.4</a></p>	<ul style="list-style-type: none"> <li>ONS statisticians report continuous development work conducted on the HCIs and on CPIH with the involvement of both Advisory Panels on Consumer Prices. Developments to CPIH have included developing <a href="#">longer time series</a>, and analysis for HM Treasury on differences in inflation between CPIH and RPI between 1947 and 1987</li> </ul>	<p>seeing developments in due course in the frequency of publishing HCIs and in the preparation of the user base for the new HCIs. We anticipate ONS asking OSR to assess the HCIs with a view to National Statistics designation subject to the statistics’ full compliance with the Code of Practice for Statistics.</p>
<p><b>(e)</b> ONS should ensure that the production and development of CPIH is properly resourced ...including monitoring developments in web-scraping and scanner data sources, and using these data in conjunction with more traditional data sources</p> <p><a href="#">Code of Practice for Statistics Trustworthiness Pillar Principle 4 – Transparent processes and management, Practice 4.2</a></p>	<ul style="list-style-type: none"> <li>At the beginning of September 2020 ONS released a <a href="#">publication</a> detailing its plans to modernise its approach to consumer price indices. The article outlines the ONS’s plans to introduce web-scraped and scanner data into index calculations by 2023, in addition to the traditional, manually collected data sources already in use. There are significant benefits associated with these proposed changes.</li> <li>Such changes will transform index measurements with the inclusion of a vast new array more detailed and timely data.</li> </ul>	<p>The integration of web-scraped prices and those gleaned from scanner data are intended to make significant improvements to the methods and accuracy of the CPIH. These new methods are not being introduced into the RPI.</p> <p>We see ONS’s innovation in integrating web-scraped prices and those gleaned from scanner data as leading-edge and look forward to these innovations leading to further improvements to measures of inflation.</p>