
Ed Humpherson, Director General for Regulation

Mike Keoghan
Deputy National Statistician and Director General for the Economic, Social and
Environmental Statistics Group
Office for National Statistics
(by email)

6 July 2023

Dear Mike

Assessment of Producer Price Indices

We have completed our [quality-focused assessment of your Producer Price Indices \(PPIs\)](#). This assessment used a newly developed assessment framework, based on the Code of Practice for Statistics, that focuses more intensively on the quality of economic statistics. It is the first in a series of quality-focused assessments for our [Spotlight on Quality: Assuring Confidence in Economic Statistics](#) programme, which aims to provide enhanced assurance of the UK's economic statistics.

We thank you and your team for engaging with us on our pilot assessment. We will be further developing the assessment framework as the programme progresses.

PPIs are a well-established set of economic statistics. They play an important role in deflating other economic series (their primary use), and are also used as an economic indicator and as a basis for indexing prices in contracts.

We found many strengths. In particular, the implementation of the annual chain-linking method in 2020 brought the PPI methods in line with international best practice and the needs of users. We also welcome your team's proactive engagement with users; openness to peer review, which led to improvements to the quality assurance process following a recent series of errors; and plans to move survey data collection online, which will support higher quality data.

We identified eight actions to improve the quality of the PPIs (see Annex). We see the issues with the samples of the three statutory surveys, used to collect most price data, as the biggest threat to the quality of the statistics. Therefore, it is essential that you review and update the survey samples and consider what remedial changes you can make to improve sampling arrangements in the meantime. Replacing the legacy Ingres-based system currently used to produce PPIs with a more robust, flexible and sustainable producer price inflation statistics system is also crucial for safeguarding the quality of PPIs.

Implementing these actions will ensure that the statistics continue to meet the highest standards of the Code of Practice for Statistics. We expect your team to publish an action plan by September 2023, setting out how you intend to improve the quality of the PPIs, and to report back to us every six months on progress on implementing the actions.

We recognise that many of the messages from our report may also apply to the Services Producer Price Indices (SPPIs) as they are closely related to PPIs, produced using similar data sources and methods. We therefore encourage you to consider how the findings and recommendations in the PPI report apply to SPPIs so that the benefits from our assessment and engagement with the PPI team can be maximised. To promote trustworthiness and provide reassurances to SPPI users about quality, it would be helpful if you set out, either in the PPI action plan or separately, which of the relevant actions you may be able to apply to improve the SPPIs.

I am copying this letter to Grant Fitzner, Chief Economist; Matt Corder, Deputy Director, Prices Division; Chris Jenkins, Assistant Deputy Director, Prices Division; Fahmida Qureshi, Assistant Deputy Director, Prices Division; and Andrew Carey, Head of Business Prices.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ed Humpherson', written in a cursive style.

Ed Humpherson
Director General for Regulation

Annex: List of Requirements to improve the PPIs

- **Requirement 1:** To improve the quality of the PPIs and ensure that they meet users' needs, ONS should undertake a review of the necessary sample size and sample optimisation for the PPI, EPI and IPI surveys by July 2024, and update the samples accordingly by July 2025. In the meantime, ONS should consider what remedial changes it can make to improve sampling arrangements sooner than 2025.
- **Requirement 2:** To safeguard the quality of PPIs, ONS should publicly commit to clear and achievable transformation plans for developing a robust, flexible and sustainable producer price inflation statistics system. This should enable RAP principles to be applied throughout and allow new sources to be used and new methods to be implemented. ONS should publish and promote the plans as part of the wider PPI improvement plans by September 2023.
- **Requirement 3:** Within six months of moving to the Statistical Processing Platform, ONS should review the PPI data validation processes and checks to ensure they provide an appropriate level of quality assurance and are adaptable to the prevailing general level of price increases.
- **Requirement 4:** To improve its understanding of revisions and minimise their impact on quality, ONS should carry out a revisions analysis every year. Where revisions are found to be significantly different from zero, ONS should investigate their source and, where necessary, make appropriate improvements to the methods for producing PPIs.
- **Requirement 5:** To ensure the continued suitability of data sources used to produce PPIs, by July 2024, ONS should review the suitability and quality of all current data sources and improve its understanding of the quality assurance carried out by data suppliers. To help users understand how PPIs are compiled, ONS should add a high-level process map to quality documentation explaining how the different sources contribute to the final estimates.
- **Requirement 6:** To ensure the best available methods are being used, by July 2024, ONS should review its imputation methods, including assessing whether they are still fit for purpose and not introducing bias.
- **Requirement 7:** To maximise the usefulness and quality of the published indices, and optimise the use of available resources, ONS should rationalise the number of indices produced by July 2024. It should take into account users' needs and sample size limitations.
- **Requirement 8:** To enhance transparency and provide reassurance to users about quality, by July 2024, ONS should ensure that its published information about data sources, methodology and quality assurance covers all aspects of the production of the statistics and is suitable for a range of users. ONS should review and update this information whenever needed to reflect current processes.