
John Pullinger CB CStat | National StatisticianSir Andrew Dilnot CBE
Chair, UK Statistics Authority
1 Drummond Gate,
London
SW1V 2QQ

14 August 2014

Dear Andrew,

Preliminary findings of work with the Valuation Office Agency on CPIH

It is now a little over a year since CPIH, a measure of consumer price inflation including owner-occupiers' housing costs (OOH), was first published. Following the first release of CPIH in March 2013 the indicator was assessed by the UK Statistics Authority and with the release of the November 2013 figures its status changed from an experimental indicator to a National Statistic.

The primary source for OOH is data held within the Valuation Office Agency's (VOA) systems. In recent months ONS and VOA officials have been working closely together to assess the practical implementation of the methods that generate the elementary indices used in compiling the OOH component of CPIH. These methods were set out in the article accompanying the release of the index¹ and formed the basis of the Statistics Authority's initial assessment.

The experience we have now gained from 'live running' has allowed VOA and ONS to gather a more complete understanding of the statistical properties of this administrative data source. This has enabled us to experiment with implementing the methods in a more effective way and also to review whether the assumed length of a rental contract (18 months) is appropriate. While there is further work to complete, it is apparent from the work so far, given the importance of OOH in CPIH, that there are likely to be implications for this series. Specifically, on the basis of preliminary findings, if we incorporated this new knowledge into the estimation of the OOH component in CPIH the annual rate of growth of CPIH could be approximately 0.2 percentage points higher in recent months than has been currently estimated.

In light of this I recommend that the Authority considers suspending the National Statistics designation of CPIH and returning the indicator to an experimental status, at least until the work assessing options for improvement is complete. This is scheduled for mid-September, at which point I will write to you again setting out proposals for going forward.

By being open and transparent about these preliminary findings, set out in the note published today², I hope to provide as clear a picture as possible about the current limitations of these statistics. In line with this,

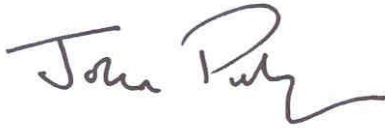
¹ <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/introducing-the-new-cpih-measure-of-consumer-price-inflation.pdf>

² www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/cpih-announcement-august-2014.pdf

ONS will continue to produce CPIH to the pre-announced schedule and release as currently while further work is underway, and subject to your decision, make it clear that CPIH is again an experimental indicator.

I am copying this letter to the Chief Executive of the VOA, Penny Ciniewicz, the Permanent Secretary at HM Treasury, Sir Nick Macpherson, the Permanent Secretary at HM Revenue & Customs, Lin Homer, and the Deputy Governor of the Bank of England, Ben Broadbent.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Pullinger', with a stylized, cursive script.

John Pullinger