

Template for response

The Authority encourages respondents, where possible, to provide their submissions [online](#).

Where you would prefer to respond via email or on paper, please use this template and return the submission via email to cpi@ons.gsi.gov.uk, or via post to:

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Section One: Measuring prices across the economy

1. Should ONS identify a main measure of price change across the economy?

- a. Yes
- b. No

1a. Why? Please provide any comments below:

Insert Response

No. In my opinion, the target inflation indicator that the Treasury Department identifies in its remit to the Bank of England should be the main measure of price change for the ONS, the headline measure when the CPI tables are published. To my mind, this would not involve a politicization of the ONS. On the contrary, to specify a different headline measure, when the Treasury Department had specified the CPI or the CPIH or whatever as the most useful measure of inflation, would seem to set the UKSA up as a kind of counter authority. Of course this would have to be reconsidered if the Treasury Department set up a series that was not a consumer price series (e.g. the final domestic demand deflator) as the target inflation indicator, but this doesn't seem likely.

If yes:

2. What should this measure be?

- a. the CPIH, as recommended in the Johnson review. The CPIH includes owner-occupiers' housing costs. It does not currently hold the *National Statistics* designation (although its re-assessment is due to commence shortly). The index is a UK measure, designed by ONS to meet UK needs.
- b. the CPI, ONS's current headline measure. The CPI is an EU measure, designed by Eurostat to ensure comparable consumer prices statistics across the EU.
- c. other (please provide details).

2a. Why? Please provide any comments below:

Insert Response

It should be a CPI plus measure, which would, as I say, be the new target inflation indicator of the Bank of England. Basically it would be the CPI including an owner-occupied housing component based on the net acquisitions approach, as defined by Eurostat. If Eurostat does incorporate the OOH series they currently recommend in their HCIPs,, the new UK HICP would, on a take it or leave it basis, definitely be better than the current UK HCIP or UK CPI. However there are problems with the treatment of seasonal goods, non-life insurance and the calculation of the net acquisitions index for housing in the Eurostat HCIPs that are sufficiently serious I would hope the ONS would calculate a separate series that would reflect differences in opinion with Eurostat. If these were resolved over time, the two series, CPI and CPI plus, could become one series, which would match the Eurostat definition.

The CPIHY, and any other measures linked to the CPIH, should be discontinued, although not the CPIH itself, which has limited analytical usefulness.

3. Should its production be governed by legislation?

- a. Yes
- b. No

3a. Why? Please provide any comments below:

I don't really know, but my gut feeling would be that trying to freeze any changes into legislation would hurt rather than help progress. Legislative provisions already seem to have hurt the reform of the RPI. Isn't that why there is an RPIJ series?

Section Two: Measuring consumer price inflation for different household types

4. Should ONS seek to measure changes in prices, as experienced by different households?

- i. Yes
- ii. No

4a. Why? How often? Please provide any comments below:

I have mixed feelings about this. In Canada there have not been big differences between CPIs for special groups. It seems the evidence is that the difference is larger in the UK. Possibly this reflects the very high rents and costs of some foodstuffs in the UK that would be big budget items for many low-income households.

If there were to be such estimates, they should either be calculated on a monthly basis coincident with the other series, as now with the pensioner indices, or as monthly series, updated once a year. Logically, this would be when a full 12 months of data are available based on the current basket (for the pensioner indices at present this would mean for the period February year y to January year y+1).

As Jill Leyland and John Astin believe, there should be one household inflation index for all households but that would not preclude having special indices for other household groups.

A Bortkiewicz-Szulc analysis of the difference between the index for all income groups and for particular income groups has never been attempted for the UK, as far as I know, but should be a routine part of analysis.

If yes:

5. How should ONS seek to do so?

- i. Using a payments-based approach.
- ii. On the same basis as existing measures such as CPI.
- iii. Via another means (please provide details)

5a. Why? Please provide any comments below:

I suspect by the payments approach, something like the existing RPI is meant, using the clumsy terminology of the Johnson review. However, the RPI uses an accounting approach to measure owner-occupied housing and an acquisitions approach to measuring consumer durables. It would be permissible to calculate these indices for special income groups using the existing RPI methodology EXCEPT THAT STAMP DUTY MUST BE ADDED TO THE RPI OR ITS SUCCESSOR SERIES.

I would prefer a methodology more along the lines suggested by John Astin and Jill Leyland for a household inflation index, but this would take some time to establish so there would be a case for using a slightly reformed version of the RPI methodology.

Section Three: The RPI

6. Do you use the following indices?

i.	RPIJ ¹	Yes/No
ii.	Tax and price Index	Yes/No
iii.	RPIY ²	Yes/No
iv.	RPI pensioner indices	Yes/No
v.	Component indices of the RPI	Yes/No
vi.	Any other RPI analytical- or sub- index	Yes/No

6a. If yes, for what purposes? Please provide any comments below:

Yes, I use the RPIJ and RPI series every month to adjust the RPIX series (RPI excluding mortgage interest payments and community tax) for the formula effect. If the RPIJ series were published in component detail I would have no need for the RPI or the RPIJ for All-items. I would monitor the RPIJ series excluding mortgage interest payments and community tax instead.

I also monitor the RPIs for foreign and UK holidays. I am amused to see how these series alter the change in the annual inflation rate of RPI All-items, even though their annual rates have no meaning for any month of the year except for January, and then not the obvious one.

I monitor the foreign and UK holiday series month by month to see how these badly constructed series impact on the total RPI. It is one of the worst failings of the Paul Johnson Review that he identified the problem with these series in a vague sort of way but didn't suggest any remedy.

¹ RPI calculated using formulae that meet international standards

² RPI excluding Mortgage Interest Payments and indirect taxes

7. Do you agree that the below indices should be discontinued?

i.	RPIJ	No
ii.	Tax and price Index	Yes
iii.	RPIY	Yes/No
iv.	RPI pensioner indices	Yes/No
v.	Component indices of the RPI	Yes/No
vi.	Any other RPI analytical- or sub-index	Yes/No

7a. If yes, why? Please provide any comments below:

- i) *I believe the RPI should have been reformed to move largely from the Carli formula to the Jevons formula. So many new indices in such a short time are confusing for users. Once the legislative complications to gilts are resolved, the RPIJ should be redesignated the RPI. I am supportive of the Astin-Leyland proposal for a household inflation index but it seems that they also are only talking about a reformed RPI.*
- ii) *The TPI was one of Margaret Thatcher's least happy reforms, an ugly mix of a price index and something else. Only the US has calculated one besides the UK and it doesn't receive much attention. It should be discontinued.*
- iii) *If one thinks of it as a measure of underlying inflation, the RPIY is probably unique among such measures in the world in excluding both mortgage interest payments and indirect taxes and subsidies. Since there is general agreement that no index based on the RPI framework will be used as an inflation indicator by the Bank of England, the continued use of the RPIY depends on its analytical usefulness or its usefulness for upratings. Assuming that the ultimate cost-of-living index retains the name RPI, an index adjusted to exclude indirect taxes only would be more useful than one that excluded indirect taxes and mortgage interest costs. It also seems questionable whether the taxes excluded should be limited to taxes at the retail level. The short-lived Canadian Net Price Index (NPI) excluded virtually all indirect taxes, including customs duties. However, it was also calculated using National Accounts data. If one can remove taxes from the HFCE deflator does one need to remove them from the RPI? An RPI series excluding indirect taxes altogether seems unnecessary seems unnecessary for upratings purposes. Employers may not wish to bear the burden of indirect tax changes but they don't want to work from a consumer price series whose basket looks quite different from the COLI. They don't need an RPIY.*
- iv) *See comment re 4a.*
- v) *Re Rossi index see comment re 4a.*

8. Do you have any views on what ‘freezing’ changes to the RPI should mean in practice? Please provide comments.

Yes, unfreezing of these changes in one way or another should commence as soon as possible. It is quite dysfunctional to try to make the CPI or CPIH serve as an index for upratings or as a deflator of most nominal income series, for which the RPI or some successor series would be much better suited.

Section Four: Evolving Consumer Price Statistics

9. Are the priorities identified by ONS in its forward work plan appropriate?

- a. Yes
- b. No

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No. It is wrong-headed to give priority to development of CPIH series. ONS should recognize that this was a wrong turn and work much harder on improving its OOH series based on a net acquisitions approach. It is unacceptable that the renovations index should not reflect profit margins of contractors and subcontractors, whether or not this is sufficient for Eurostat purposes. Two OOH series should be calculated, one for Eurostat, and one for the Bank of England. The one for the Bank of England should have a home acquisitions price index with an expenditure weight based on home purchases, not dwelling purchases. The description of retrospective superlative indices in the work plan seemed more like a description of symmetric indices (which would include the Edgeworth price index) than superlative indices as defined by W.E. Diewert, which would not. However superlative indexes would include literally an infinite number of series that would approximate the square root of the greatest and least item price relatives. These formulas could be considered to “make equal use [i.e. virtually not at all] of expenditure data from the base and reference periods to weight price changes” but it seems abusive to define them in this way when they are virtually completely insensitive to the expenditures in either the base or reference period. It seems not a little unpatriotic of the ONS to include Törnqvist and Vartia formulas in their list of eligible formulas, but not the formula of Francis Edgeworth, one of the greatest of all British economists. Work on a chain Edgeworth index for both the CPI and the RPI or its successor should be stepped up. A CPI calculated as a chain Edgeworth index would allow the Treasury Department to lower the target inflation rate in its remit to the Bank of England since the upward measurement bias of the CPI would be reduced. The February links of the CPI and RPI should disappear to be replaced by annual links. The segment of the workplan “Producing the CPI and the CPIH to a high standard mentions package holiday trips as a priority, as it should be. For all seasonal goods, including this series, admission to sporting events and seasonal food and clothing, a Rothwell formula should be used, and the annual indexes would henceforth be calculated as weighted averages of their monthly values. All CPI core measures should take the CPI-CT as their frame (none of them do now.) Vehicle excise duty should not have been put in scope for the CPI and it should be excluded once more.

10. Should ONS include council tax in the CPIH?

- a. Yes
- b. No

10a. Why? Please provide your comments below:

Absolutely not. Shaun Richards said it well when he said that the CPIH is about as useful as a chocolate teapot, meaning one would never use such a thing to make tea. However, a chocolate teapot isn't useless. One can always eat it. Similarly, while the CPIH is useless as a target inflation indicator for the Bank of England or for upratings purposes it is useful for analyzing the impact of differences in the treatment of owner-occupied housing on the differences between movements in the CPI and the HFCE deflator. The HFCE deflator doesn't include council tax. Add council tax to the CPIH and you reduce or eliminate its only real usefulness.