

## ADVISORY PANELS ON CONSUMER PRICES – STAKEHOLDER

**Minutes****31 May 2017****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ  
10.30 - 13.00****Present**

Dame Kate Barker (Chairman)  
 Mr Jonathan Athow (ONS)  
 Mr Richard Barwell (BNP Paribas)  
 Mr Jamie Bell (Bank of England)  
 Ms Ruth Donovan (ONS)  
 Mr Steve Farrington (HM Treasury)

Ms Jill Leyland (Royal Statistical Society)  
 Mr Mike Prestwood (ONS & representing  
 Technical Panel)  
 Mr Ian Rowson (Ofgem)  
 Mr Andrew Sentance (PricewaterhouseCoopers)  
 Mr Geoff Tily (Trades Union Congress)

**Secretariat**

Dr James Tucker (ONS)  
 Ms Helen Sands(ONS)

**Apologies**

Mr Matthew Whitaker (Resolution Foundation)  
 Mr Nick Vaughan (ONS & Chair of the Technical Panel)

**1. Introductions, apologies and actions**

*Paper APCP-S(17)06 – published*

- 1.1. The chairman welcomed attendees to the APCP-Stakeholder (APCP-S) meeting.
- 1.2. The actions from the previous meeting held on 30 January 2017 were discussed. ONS confirmed that the majority of actions are complete. The chairman questioned progress on Action 4 (for ONS to recreate the Mr de Vincent-Humphreys table of price changes for other years, particularly pre 2010). Ms Sands explained this was ongoing and had been added to the project looking at clothing collection issues and the formula effect. This will be circulated to panel members once complete.

**2. Technical Panel update**

- 2.1. Mr Prestwood (deputising for Mr Vaughan – APCP-T chairman) explained Professor Sir Stephen Nickell has decided to withdraw from the APCP-T, and that Technical Panel members expressed their regret and collectively expressed thanks for his contributions over the years. Mr Prestwood told the Stakeholder Panel that ONS were in the process of looking for 1-2 new members for APCP-T, and that Technical Panel members had been asked to provide suggestions.
- 2.2. Mr Prestwood went on to describe the papers discussed at the Technical Panel meeting on 19 September 2017. He highlighted how the nature of the Technical Panel papers were very different in nature to the Stakeholder Panel papers this month, and that many interesting technical discussions were held.

- 2.3. The first paper that was discussed was a draft ONS paper on the measurement of real household incomes in the UK. Mr Prestwood stated that the group had been generally supportive of the paper but had offered some drafting suggestions. The group discussed the imputation of owner-occupier housing costs for income. The Stakeholder Panel noted that this work aligns with some of the work being carried out by Dr. Martin Weale as part of the Economic Statistics Centre of Excellence (ESCoE) programme.
- 2.4. A Stakeholder Panel member asked about the implications of this paper for ONS work. Ms Sands explained that the real household income work has important implications for both the CPIH (in deflating macroeconomic income measures) and the Household Costs Indices (HCIs – in producing them alongside household income measures). It was queried what timescale ONS were working towards for the HCIs, and Ms Sands confirmed ONS were still working towards releasing initial experimental estimates of the HCIs by the end of 2017.
- 2.5. The second paper discussed was on the inclusion of financial intermediation services (FISIM) in CPIH. Mr Prestwood explained that although there was interest, that there was currently no commitment to include this in CPIH. Technical Panel members had requested that ONS better understand other countries reasons for, and for not, including FISIM in their national CPIs, and also that ONS follow international discussions on the inclusion of FISIM. A Stakeholder Panel member queried whether including FISIM in CPIH would have implications on revisions, as ONS had stated they were unlikely to revise CPIH again in future.
- 2.6. The third paper discussed was with regards to the weighting methodology used to calculate measures of inflation for household groups. The Technical Panel had discussed a proxy approach that is used for classes with unusual behaviour and decided this to be a viable method of calculation. The Technical Panel also discussed the vintage of LCF data used, and asked for further analysis before reaching a conclusion.
- 2.7. Lastly, the Technical Panel discussed the revised consumer prices work programme, and added further work on FISIM as a low priority item. They also queried whether it was necessary to produce both CPIH and HCI subgroups, and commented that the work programme was extremely ambitious.

### **3. Future landscape of inflation statistics**

*Paper APCP-S(17)07 – not for publication*

*This is a draft of a document scheduled for release in July 2017*

- 3.1. Mr Athow explained how a narrative had been written in attempt to provide clarity over the future landscape of inflation measures. Through conversations with users ONS have identified 3 use cases around the CPIH, the HCIs and the RPI. Mr Athow noted that the narrative focuses on concepts, and what the indices measure (economic principles, household experience and legacy respectively).
- 3.2. A number of panel members raised questions regarding the move to place emphasis on CPIH before it had received National Statistic status. One member questioned whether there was much interest in the measure, and a number of other panel members expressed that they were interested. For example, a [government document](#) published in 2010 had expressed the need for an inflation measure that included owner occupied housing costs.

- 3.3. Panel members discussed the strategy, highlighting that ONS were coming very close to prescribing use of the indices. Some members felt that ONS should go further, and advise on use of the indices, but it was also noted that the independence of ONS from government is extremely important. At the very least, the National Statistician should do more to discourage use of the RPI.
- 3.4. A number of panel members felt that the CPI should have greater acknowledgement within the document given it's currently one of the most widely used indices and is also the current inflation target. Also that the document should more explicitly reference the HICP. It was noted that this document regards the future and not the current landscape, but that this would be taken into consideration.
- 3.5. One panel member highlighted that the terminology used in the narrative is vague, and doesn't get into presentational issues; there is a big question over when and how all these indices will be presented. Mr Athow stated that the decisions on CPIH and RPI had already been made, but there was still much to consider with regards to the presentation of the HCIs. Following later discussion surrounding the HCIs, it was suggested that ONS might be more tentative with the future landscape, and at the very least, should make the status of the indices clear in the narrative (i.e. that HCIs are in development and will initially be released as experimental).
- 3.6. Members also made a number of drafting suggestions on the narrative itself and requested ONS review the document taking on board these suggestions.

**Action 1: ONS to review the 'Future landscape of inflation statistics' narrative and recirculate to Stakeholder Panel members.**

#### **4. Concepts and purpose of Household Costs Indices**

*Paper APCP-S(17)08 – published*

- 4.1. Ms Leyland talked through the paper drafted by herself and Mr Astin (APCP-T member). Ms Leyland discussed the history of the measures and how RPI had originally been designed, highlighting the importance of the public acceptability of measures, and suggesting that use should always be in mind when developing an index, although this use should not be too specific. Ms Leyland also discussed the approaches taken by New Zealand and Australia, pinpointing their similarities to the proposed HCIs.
- 4.2. Panel members began to discuss the proposals for the index, such as the method of weighting and the treatment of particular items such as insurance and interest. A panel member raised the point that different justifications had been used for different proposals, and without a clear and explicit set of principles, it was difficult to reach any conclusions. A number of panel members agreed with this point and also expressed that under some of the justifications that had been provided, a household's savings, life insurance and pension contributions should be included in the index.
- 4.3. Ms Leyland highlighted that practicalities had been considered when coming up with the proposals, so in places compromises had been made. Panel members suggested that the principles should be clearly laid out which will lead the decisions as to what features are desirable. Compromises can be made once a desirable index is fleshed out. It was also noted that the use of the word 'perceived' is

unhelpful, as perceptions of inflation are often misguided, and that is not what is being measured here. The household's 'experience' may be a better way of expressing this.

- 4.4. A panel member raised that there is no average, or typical, household and questioned whether an all-households index of this kind should be published at all. It was noted that even if ONS didn't publish an all-households index, users could aggregate this themselves. A panel member noted that CPIH could be considered an appropriate household measure conceptually, as it is measuring the change in price of goods and services as consumed by households.
- 4.5. The panel discussed indexation using the indices, with some questioning which benefits it would make sense to uprate using them. It was pointed out that it would not be appropriate to compensate households for their house price going up in value. Ms Leyland suggested that discussion of the capital costs of housing, which is a difficult issue, should be discussed as a stand alone item at a future meeting. It was also raised that a significant proportion of households are net savers, and that these households would benefit more from compensation if the index were to include rises in interest costs. Ms Leyland highlighted that the index can be modified to suit different user needs.
- 4.6. Quality adjustment within the HCIs was discussed. Some panel members agreed with the notion of forced quality change, where consumers have no choice but to buy the improved quality at the (often increased) new price, and that this should be reflected in the indices. However, one member pointed out that the market develops due to consumer demand, so consumers must be benefitting from this improved quality. Again, the point was made that a clear set of principles around what the HCIs were trying to measure should be provided and that would guide methodological decisions.
- 4.7. Insurance premiums were discussed. Ms Leyland highlighted that following an accident a household is worse off, and that receiving an insurance payout is compensation of loss, rather than income, and shouldn't be considered. One panel member suggested that claims could be included in the corresponding income measure, but that the money from these payouts must not be 'lost' between the measures. It was noted that data on household insurance claims are not currently available. Another member raised that people are aware that they receive insurance payouts, so maybe using net premiums would pass the public acceptability criterion. Again it was raised that a clear set of principles was needed to justify the decisions being made. Some members of the panel agreed that a gross approach to insurance premiums may be interesting when looking at household groups, but that this approach didn't make sense when considering an aggregate figure.
- 4.8. A panel member expressed that this was a Stakeholder Panel meeting, not a Technical Panel meeting, and questioned whether this level of detail should be discussed at all. The chairman highlighted that the discussion was focussing on the concepts and that these were useful views to be expressed, and that members were not discussing technical details or calculation itself.
- 4.9. One panel member felt a series of meetings reopening past issues was unhelpful, and that a different starting point was needed, for example, the RPI. This member expressed that ONS could not 'reinvent the wheel' in the timeframe they were working to. A number of panel members also voiced concern over the timing of the landing of HCIs (end 2017). Mr Athow stated that ONS have committed to producing something by the end of the year. Some panel members suggested that ONS would not be held to that timeframe and should consider taking more time to consider the

principles of the indices. It was requested Ms Leyland and Mr Astin return to APCP-S with a paper setting out the principles of the HCIs at the September meeting. (Post meeting note: Mr Astin has since pointed out that no defining principles were set out for the HICP)

**Action 2: Ms Leyland and Mr Astin to work with ONS to define principles for HCIs to bring to panel meeting in September**

## 5. Consumer prices work programme

*Paper APCP-S(17)09 – not for publication*

*This is a draft of a document scheduled to be published in Q4 2017*

- 5.1. Mr Prestwood talked through the changes that had been made to the work programme since the previous iteration had been presented to the Stakeholder Panel in May 2016.
- 5.2. Panel members questioned how ONS planned to model a historical series for CPIH and whether there was user need for it. A number of members expressed that there was a strong need for it and one member suggested that this work should be a priority for ONS. It was pointed out that the historical series is made up of different series spliced together.
- 5.3. A panel member suggested that relevant ESCoE projects should feed into the work programme as appropriate, for example, the work on democratic income, or the work on quality adjustment of deflators.
- 5.4. One member commented that although they were satisfied that the formula effect work was now high priority, that this had focused on clothing and the formula effect needed to be investigated more broadly.
- 5.5. Panel members discussed the production of a flow (as opposed to a stock) measure of imputed rents. It was clarified that this was being looked at experimentally and could help reconcile differences between alternative measures of OOH costs. It was suggested that this should be made more clear in the work programme.

**Action 3: ONS to change wording in the work programme to reflect panel discussions.**

## 6. AOB and date of next meeting

- 6.1. Mr Prestwood gave an update on the CPIH reassessment. He explained that although the regulation committee met in April that no announcements could be made during the purdah period. The next regulation committee meeting is being held in July so an update is expected at this point. ONS are continuing to improve documentation and communication with stakeholders and users.
- 6.2. The next meeting will be held on Thursday 28 September 2017.

**Actions**

<b>No.</b>	<b>Action</b>	<b>Person Responsible</b>
1	ONS to review the 'Future landscape of inflation statistics' narrative and recirculate to Stakeholder Panel members.	Mr Tucker
2	Work to define principles for HCIs to bring to panel meeting in September and invite Mr Astin to September meeting	Ms Leyland / Ms Sands
3	ONS to change wording in the work programme to reflect panel discussions.	Ms Sands