

## ADVISORY PANELS ON CONSUMER PRICES - TECHNICAL

### Minutes

22 January 2016

Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ

10.30 – 13.00

#### Present

Mr Nick Vaughan (Chair - Office for National Statistics)  
Mr John Astin (Independent expert – nominated by RSS)  
Prof. Bert Balk (Erasmus University, Netherlands)  
Mr Richard Campbell (Office for National Statistics)  
Prof. Ian Crawford (University of Oxford)  
Mr Rupert de Vincent-Humphreys (Bank of England)  
Mr Mike Prestwood (Office for National Statistics)  
Dr Jeff Ralph (Office for National Statistics)  
Prof. Sir Stephen Nickell (Office for Budget Responsibility)  
Mr Paul Smith (University of Southampton)  
Dr Martin Weale (Monetary Policy Committee)

Mr Mark Courtney (guest for item 3)

#### Secretariat

Mrs Ainslie Woods (Office for National Statistics)  
Ms Tanya Flower (Office for National Statistics)

#### Apologies

Prof. Alberto Cavallo (Massachusetts Institute of Technology, Boston)

#### 1. Introductions, apologies and actions

- 1.1. The Chair welcomed attendees to the APCP-Technical meeting. He reminded members that they were appointed for their technical expertise and that the panel is advisory. A round table of introductions followed.
- 1.2. All actions from the previous meeting were signed off as complete by the Secretariat.

#### 2. Terms of Reference (Paper APCP-T(16)01)

- 2.1. Mrs Woods explained that members were being asked to endorse the terms of reference for the Panel before their publication on the APCP home page. Members discussed whether they would have the opportunity to see papers circulated to Stakeholder Panel members. As previously agreed, Stakeholder Panel members are copied in on papers sent to Technical Panel members. To help the Panels work in-conjunction it was agreed that Technical Panel members would also receive Stakeholder Panel meeting papers.

- 2.2. There was a discussion on the appointment of technical panel members and whether appointment would be via open competition when existing members reached the end of their term. As the terms of reference are reviewed annually this will be considered in more detail when new members are next appointed. Finally, it was asked if the panel would allow observers. It was agreed that this would be by exception if a relevant topic was being discussed.

Action 1: Mrs Woods to update the terms of reference to include specific reference to Technical Panel members receiving Stakeholder panel meeting papers and vice versa. Once updated the Terms of Reference will be published on the APCP landing page.

### **3. Discussion of Mr Courtney's paper 'Consumer Price Indices in the UK'**

- 3.1. Mr Courtney joined the meeting and presented his paper 'Consumer Price Indices in the UK'. He provided an overview of his perspective on consumer price inflation measures in the UK and summarised his conclusions on research into the choice of elementary aggregate formulae (Carli, Dutot and Jevons). He talked in detail about supply and demand effects which he feels are important factors in the choice of elementary aggregate formula. In particular, he suggests that since demand side effects can result in a positive association between price and quantity, this justifies the use of the Carli formula.
- 3.2. Panel members agreed that the relative merits of the mathematical properties of elementary aggregate formulae were finely balanced when considered from a theoretical standpoint. However, the performance of each formula in practice is an important consideration for use. The changes made to the collection of clothing prices in 2010, and the resulting large impact on the RPI, suggest that the Carli index is less suitable than the Jevons and Dutot formula (both of which had similar results to each other before and after the changes to the clothing collection). ONS research has shown that the Jevons and Dutot formulae typically produce comparable results while the Carli index is usually higher.
- 3.3. Changes made to the clothing collection were discussed in further detail with some specific examples provided of clothing items that have the largest contribution to the formula effect. The panel concluded that the elementary aggregate formula used needs to be considered in the context of the mechanics of carrying out a price collection in practice. For example, the use of comparable replacements, which can result in more dispersed price relatives (especially for clothing items) makes the Carli formula unsuitable. Research could also be conducted on price changes for standard items of clothing such as uniforms, which could proxy more stable price change for all clothing items.
- 3.4. Finally, there was some discussion on the usefulness of considering aggregate demand effects (rather than a household or individual level demand effect) in the context of elementary aggregates. Mr Courtney feels that these demand effects are particularly important in the context of clothing. Panel members concluded that aggregate demand effects could not be used to inform the choice of elementary aggregate formula. The ONS expert on the panel commented that Mr Courtney's conclusions from ONS research on supply and demand effects differed from ONS's own conclusions.
- 3.5. The Chair thanked Mr Courtney for his presentation and noted that panel members found the mathematical properties of the elementary aggregate formulae finely balanced. However, their

properties also need to be considered in the context of price collection in practice. The evidence based on the clothing shows that the Carli formula is less suitable than the Jevons and Dutot formulae.

#### **4. Consultation Response Proposals (Paper APCP-S(16)02)**

4.1. The advice provided to the National Statistician on the proposals presented in the paper will be published separately in a joint note from both advisory panels.

#### **5. AOB and date of next meeting**

5.1. The next meeting will take place on 10 May 2016.

#### **Actions**

<b>No.</b>	<b>Action</b>	<b>Person Responsible</b>	<b>Status</b>
1	Update the terms of reference to include specific reference to Technical Panel members receiving Stakeholder panel papers and vice versa. Once updated the Terms of Reference will be published on the APCP landing page.	Mrs Woods	Complete – TOR published.