ADVISORY PANELS ON CONSUMER PRICES - TECHNICAL

Written Submission – Rupert de Vincent-Humpreys
10 May 2016

Mr de Vincent-Humpreys sent his apologies for the meeting on 10 May 2016 but provided a written submission on the agenda items for panel members to consider.

1 Minutes of previous meeting

1.1 Looking at the attendees list, I would have said that, perhaps aside from ONS staff, we are all independent experts. The way it's presented may lead a casual reader to conclude that our membership of this committee is by virtue of the specific posts indicated, rather than by being an independent expert. I'd prefer to see just an "ONS" tag, where relevant.

1.2 In the context of Mr Courtney's comments, I would actually emphasise the point about Jevons also coping well with the practicalities more strongly. The key point is how the elementary aggregate formula copes with replacements. For the item level example I cited, where the Carli rate was over twice the Jevons, all non-zero inflation came from comparable replacements at a different (higher) price.

2 Double price updating

2.1 On the narrow choice, I agree that implementing the second link at the item level would be preferable to at COICOP5 level.

2.2 Different perspectives are often helpful, and the one which I'd like you and the technical committee to take is to consider this as a now casting problem, rather than an index number problem. We need to know the weights in the base period, but they are only available with a lag, so they must be estimated. There are several approaches one could take. To uprate actual nominal expenditure data by subsequent inflation is to say that all consumption is completely price inelastic / insensitive. Whatever real share was purchased at the old prices will be purchased at the new prices. That is one extreme. But the other extreme is no less plausible, that consumption is perfectly elastic, such that any price change since the last actual measurement of quantities will be offset by an adjustment in (real) consumption quantity, leaving nominal expenditure shares unchanged. It would not be difficult to run an evaluation over the historical data to see which of these two approaches gave the best now cast of what nominal expenditure shares in that period were eventually measured to be.

2.3 As a general point, when presenting graphs showing the impact of methodological revisions, it would be preferable to take them back to the series start, i.e. 97 if in annual change space. The last 10 years have been pretty exceptional in terms of economic shocks and may not necessarily be a good guide to the future.

3 CPIH

3.1 What's the desired timetable here? I'd be minded to suggest some substantive changes, but I don't know how helpful that would be at this stage. That said, the current draft does not read as if it has already incorporated HMT and BoE comments, and they may have had similar thoughts to me.

3.2 The single most important thing to hammer home is that this is entirely dependent on the purpose of CPIH. And that established purpose is to measure the cost of consumption. It is not about measuring the change in (investment) asset prices (which for us, rules out NA), nor is it about the cost of financing that consumption (which rules out e.g. mortgage payments). Now there is a question of sequencing here: does the stakeholder panel first need to endorse that purpose, i.e. ratify the decision of CPAC of yesteryear?

4 Weights

4.1 While I support option 1 (subject to my reservations on subsequent uprating), I disagree with the choice of classes. I believe this methodology should be applied to all classes. I prefer consistent and coherent methodologies to those defined by special treatments and ad hoc rules, cast in the prevailing circumstances. I could not find in the note a presentation of all classes' weights' volatilities and the objective, quantitative criteria set out from which the three selected follow. But the two advantages of applying this one methodology consistently across all classes is that (1) you would basically recreate this result (the moving average of a stable series looks like the series anyway) and (2) you are future proofing against genuine changes in class consumption volatility or methodological changes in the national accounts. The latter can lead to step changes in CPI weights (as we saw with OOH), but not in the national accounts themselves, since that full back series is revised. Since we do not wish to revise back CPI as often the NA series, I would prefer to see any such step changes to other components in the future to be phased in over a 3-year period, which this would achieve.