ADVISORY PANELS ON CONSUMER PRICES - TECHNICAL

Minutes
01 September 2016
Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ
10.30 – 13.00

Present

Mr Nick Vaughan (Chairman - ONS)   Mr Jonathan Lewis (ONS)

Mr John Astin   Mr Mike Prestwood (ONS)

Prof. Bert Balk   Dr Jeff Ralph (ONS)

Prof. Ian Crawford   Prof. Sir Stephen Nickell

Mr Rupert de Vincent-Humphreys (by phone) Mr Paul Smith

Ms Joanna Konings   Dr Martin Weale

Secretariat

Mr Chris Payne (ONS)

Miss Helen Sands (ONS)

Apologies

Prof. Alberto Cavallo

1. Introductions, apologies and actions

1.1. The Chairman welcomed attendees to the Technical APCP (APCP-T) meeting. A round table of introductions followed. The panel confirmed they were content with the minutes from the previous meeting.

1.2. The Chairman then went through actions from Mays Technical APCP as follows:

- Action 1 was for Mr Tucker to circulate the Eurostat paper to panel members. This action was signed off as complete.

- Action 2 was for ONS to formalise the agreement with Eurostat that the UK will hold an exception to the regulation that requires HICP weights to be changed once a year. Mr Prestwood explained ONS has verbally formalised the agreement with Eurostat that the UK will hold an exception to the regulation that requires HICP weights to only be changed once a year. This is yet to be put in writing, but the action was signed off as complete

- Action 3 was for Mr Lewis to circulate a note on the methodology currently used to calculate the net acquisitions measure of OOH. This action was signed off as complete.

- Action 4 was for Mr Lewis to conduct a feasibility study into implementing the double price update in OOH methodology. This action is ongoing and findings will be shared with the panel on completion.

- Action 5 was for Mr Payne to circulate a list of upcoming publications and identify where ONS would like engagement with the panel before publication. This action is ongoing and the panel will be notified of any upcoming publications.
- Action 6 was for ONS to continue researching the best method to smooth volatile weights. ONS are continuing research, although following May's Technical APCP, this is considered lower priority for Prices Work Programme.

1. CPIH Assessment 2 (Paper APCP-T(16)10)

1.1. Mr Payne explained this discussion follows on from May's technical panel meeting and described the articles being presented. The first article was regarding the different measures of Owner Occupier's Housing (OOH) costs. This had been presented to the panel in May but had since changed substantially based on feedback received from the Monitoring and Assessment team. The second article was regarding quality assurance of admin data, which was also devised to help meet some of the CPIH reassessment criteria.

1.2. Panel members were invited to provide feedback on how well both articles meet both the UKSA requirements and user requirements. They were also invited to feedback on whether the payments measure in the article should follow the RPI approach (i.e. inclusive of house depreciation) or use a true payments approach (without house depreciation).

1.3. Mr Prestwood detailed the current timeline ONS are working towards for CPIH reassessment. The full set of evidence will be provided to the advisory panels in late September. The Monitoring and Assessment team will present this to the Regulatory Committee in October, and there may be some further feedback, which will need to be incorporated for the regulatory committee in December. The new methodology will be introduced in the January index that is published in February 2017. CPIH will also face a 'bedding in' period which involves increasing user understanding. Mr Prestwood also noted the submitted evidence will mostly be publically available, as ONS are trying to improve general understanding and acceptance of CPIH.

1.4. The panel discussed that the OOH article still needs to make more reference to how rental equivalence meets the needs of stakeholders. In order to show suitability these needs should be placed in context of a purpose, and it should be described how using the rental equivalence approach meets this purpose. It was suggested this could be discussed in terms of targets, as the different approaches have different targets, the choice of target, and reasons for said target, should be made explicit.

1.5. The panel discussed the net acquisitions measure and what would happen if the weight for Existing Dwellings to the OOH sector were to be negative. It was pointed out negative weights are possible in other areas of the CPIH and they should be accepted as reality, although this may be hard to explain to users (for example, an increase in house prices could result in a decrease to the index). One member suggested that, because owner occupation had been declining for some years, the weight on net acquisitions should indeed be negative. The panel suggested it may be a good idea to include criticisms of the net acquisitions measure earlier on in the initial text.

1.6. The panel also suggested the methodology for calculating the weights for net acquisitions (OOH(NA)) could be improved. Currently the weight for existing dwellings new to the household sector is set to zero as it cannot be calculated. ONS can't currently differentiate between housing that is bought to rent and housing that is bought to occupy. The panel believed there

should be a way to calculate this. Mr Vaughan explained the methodology here is currently under review, and it was suggested the English Housing Survey, or housing associations data could be used.

Action 1: ONS to review the methodology used to calculate weights for OOH(NA)

1.7. The panel were in agreement that the payments approach in the OOH article should not be based on the approach used in the RPI. The depreciation component of the RPI doesn't measure payments made by the consumer and therefore is unsuitable for use in a payments-based OOH index. A UK payments approach to OOH should be developed.

Action 2: ONS to produce a payments measure of OOH that is not based on the RPI approach

1.8. The panel discussed how well the rental equivalence measure captures changes in rental prices for new properties to the market. Although there may be a lag the panel agreed that this is because the cost to consume ones house is not affected immediately by acquisition costs. To only take into account rentals new to the market would diminish the sample size which may be disadvantageous given the uniqueness of housing. Furthermore, unless rents are completely invariant to transaction costs, to include transaction costs separately would introduce double-counting. As the focus here is on consumption, even if transaction costs don't result in changes to rental prices, this would be because transaction costs are contributing to the capital element of housing, rather than the consumption element.

1.9. Further suggestions for improvements to the OOH article were made, including an analysis of the different proportions of housing between the private rental market and owner occupiers market, and looking at the falling proportion of owner occupation.

Action 3: ONS to rework OOH article to take on board APCP-T comments

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2.10. The panel had no comments on the quality assurance of administrative data document.

2. Council Tax in CPIH (Paper APCP-T(16)11)

2.1. Mr Payne discussed how the decision to include council tax in CPIH had been considered by CPAC and the Johnson Review, and the National Statistician had decided this should be incorporated. The panel were asked to comment on whether it should be treated as a direct tax and excluded from CPIHY (CPIH excluding indirect tax), whether it should be classified in COICOP division 4 – Housing, and whether the CPIH should be revised back to 2005 to include Council Tax.

2.2. The panel were in agreement that CPIHY should not include council tax and the definitions for CPIHY and RPIY should be updated to differentiate between "consumption tax" and "non-consumption tax". These definitions were considered more appropriate.

2.3. If Council Tax were to be introduced at the COICOP5 level or above then the consequent aggregation of the index would not be affected by its classification. If it were to be introduced at item level, its relative weight could be affected by its classification. There are no suitable

classifications at the COICOP5 level for this item currently. Therefore the panel agreed Council Tax should be introduced using a dummy classification at the COICOP5 level in Division 4 (Housing).

2.4. The panel discussed that CPIH should start on the best footing, and as such the index should be backdated to include Council Tax. The panel members questioned the calculation method of Council Tax in CPIH. A note will be sent to technical panel members on the methodology that will be used to calculate Council Tax in CPIH.

> Action 4: Mr Payne to circulate a note on the methodology to be used to calculate Council Tax in CPIH

3. Developing an Index of Household Payments (Paper APCP-T(16)12)

3.1. Mr Payne invited panel members to discuss the paper "Developing an Index of Household Payments", the concept as proposed and ONS' work plan for this index. One panel member, Mr Astin, co-authored many of the proposals behind the index, and expressed support for the index as had been originally proposed (as a "Household Inflation Index").

3.2. Members of the panel expressed confusion over the term 'payments' and the concept of a 'basket of payments'. Concern was also expressed as to how well this index fitted alongside economic theory and questioned how it would fit into the broader perspective. Mr Astin expressed that the way the index had been presented in the ONS paper made it appear not to be a prices index, as had originally been proposed for the "Household Inflation Index".

3.3. The members debated as to whether this should be seen as a measure of inflation. Some members, including the Chairman, were clear it was not a measure of consumer price inflation partly at least to the inclusion of interest payments. Other members pointed out that it was difficult to define inflation and that there are numerous ways in which to measure it.

3.4. The panel articulated the need for a clearly defined purpose, or concept to drive the index. Some members of the panel were also dissatisfied with how the index had been presented. It was questioned whether there really was a user need.

3.5. Some members of the panel agreed there is room for an index beyond the consumer price indices currently produced, and this could be useful as a welfare index, or for annual indicators of living standards of different types of households. To do this the index would have to sit alongside a measure of income, or against household income receipts – however this would need exhaustive data on monetary transactions made by households.

3.6. One member commented that developing the index from scratch could provide ONS an opportunity to work in a different way, the index could be set out scientifically and a bottom-up approach could be used to develop it (i.e. start from a concept and build the statistical framework around it). Again, a clearly defined purpose is necessary before this could be achieved.

3.7. Members of the panel raised the issue that it may be difficult to determine what households consider their expenses, and what the perceived experience of a typical household actually is. It was also noted that the way you define baskets may differ for each population sub-group. An

item may not meet the overall expenditure guideline used for CPI/CPIH, and there may be an item that a particular population group spends a significant amount of money on, that is not included in CPI/CPIH.

Action 5: Mr Vaughan to express views technical panel members held on IHP at upcoming stakeholder panel

4. AOB and date of next meeting

4.1. There was one topic for discussion under AOB. As ONS are revising CPIH whether the opportunity be taken to also revise the index, by introducing COICOP5 and the double chain-link update, back to 2005.

4.2. The panel members agreed it would be best to re-launch CPIH on its best possible footing, however reasons were identified as to why only the OOH aspect should be revised;

- there would be more inconsistencies between CPI and CPIH making it more challenging to explain the difference between these measures
- the time taken to implement these changes into the systems would be substantial, and may push back the implementation date for these changes and place on hold other pieces of high priority work

4.3. A revisions policy for the CPIH is needed and should be aligned with the revisions policy for CPI. Mr Prestwood to circulate the current revisions policy to panel members.

Action 6: Mr Prestwood to circulate the current revisions policy to panel members

4.4. Mr Prestwood confirmed ONS will be updating the technical manual with these changes in due course and also publishing papers regarding the changes in coming months

Action 7: Mr Payne to circulate timetable for the 2017 CPI Technical Manual update to panel members

4.5. Mr Payne explained the next panel meetings had not yet been arranged, however they would take place in January on similar dates to this year's meeting.

Action 8: Secretariat to arrange 2017 meetings and send invites to panel members

Actions

No.	Action	Person Responsible	Status
1	ONS to review the methodology used to calculate weights for OOH(NA)	Mr Payne	
2	ONS to produce a payments measure of OOH that is not based on the RPI approach	Miss Flower	
3	ONS to rework OOH article to take on board APCP-T comments	Miss Flower	
4	Mr Payne to circulate a note on the methodology to be used to calculate Council Tax in CPIH	Mr Payne	
5	Mr Vaughan to express views technical panel members on IHP at upcoming stakeholder panel	Mr Vaughan	
6	Mr Prestwood to circulate the current revisions policy to panel members	Mr Prestwood	
7	Mr Payne to circulate timetable for the 2017 CPI Technical Manual update to panel members	Mr Payne	
8	Secretariat to arrange 2017 meetings and send invites to panel members	Miss Sands	