

ADVISORY PANELS ON CONSUMER PRICES - TECHNICAL

Minutes**19 May 2017****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10.30 – 13.00****Present**

Mr Nick Vaughan (Chairman - ONS)

Mr John Astin

Prof. Bert Balk

Mr Robert Bucknall (ONS)

Mr Rupert de Vincent-Humphreys (via phone)

Mr Mike Prestwood (ONS)

Mr Paul Smith

Dr Martin Weale

Secretariat

Mrs Ruth Donovan (ONS)

Ms Helen Sands (ONS)

Apologies

Prof. Alberto Cavallo

Prof. Ian Crawford

Prof. Sir Stephen Nickell

Mr Chris Payne (ONS)

Dr Jeff Ralph (ONS)

1. Introductions, apologies and actions

- 1.1. The chairman welcomed attendees to the APCP-Technical (APCP-T) meeting. A round table of introductions followed.
- 1.2. Prof. Sir Stephen Nickell has stepped down from the panel. The panel received this news with regret and collectively expressed their thanks for his contributions.
- 1.3. The chairman would welcome any suggestions from the panel for new panel members to join the Technical Panel.

Action 1: Panel members to email secretariat with potential new panel members

- 1.4. The panel provided a few drafting comments on the minutes from the previous meeting.

Action 2: APCP-T secretariat to incorporate suggested changes to the January 2017 minutes and republish

- 1.5. Ms Sands went through the status of the actions from the January panel meeting. Action 1 is complete. Suggested changes to the September minutes were incorporated and republished.
- 1.6. Action 2 is complete. The updated Terms of Reference will be published after the purdah period.

- 1.7. Action 3 is complete. The investigation of the distribution of price relatives for other items in the CPI basket, to be compared with clothing, as part of the ongoing work on clothing and the formula effect has been added to the work plan for addressing the formula effect.
- 1.8. Action 4 is complete. Local price collection instructions for clothing were circulated to panel members.
- 1.9. Action 5 is complete. Although ONS is happy to receive further advice on the formula effect project via email correspondence.
- 1.10. Action 6 is complete. Advisory panels are considered sufficient at present. The use of focus groups will be considered in the future as issues arise and are resolved. It was clarified that the use of focus groups was suggested for issues such as quality adjustments rather than methodological issues.
- 1.11. Action 7 is complete. Papers regarding public perception of expenditure and inflation were circulated to panel members.

2. The measurement of real household incomes in the UK: Options for a matched approach

Paper APCP-T(17)06 – not for publication.

This is a draft of a document that will be published in Q3 2017

- 2.1. Ms Sands talked through the draft paper. Some members of the panel expressed confusion over the terminology in the paper and what the work was trying to achieve. There was a suggestion that the paper could follow a more logical approach by starting with a research question and then aiming to answer that question.
- 2.2. There was discussion about whether owner-occupier housing income could be imputed. It was decided that whilst it is a difficult concept for users to understand it was a justifiable method but the wording should be changed within the paper to provide more clarity. Thinking about housing in terms of a service rather a durable good may help this, for example, a mansion would provide a greater service to an owner-occupier than a bungalow, and as such their imputed income would be greater.

Action 3: Ms Sands to incorporate suggested changes in the measurement of real household incomes in the UK: Options for a matched approach (Paper APCP-T(17)06)

3. Including the cost of finance in CPIH and HCIs

Paper APCP-T(17)07 – published

- 3.1. Ms Sands went through the proposals in the paper. Firstly, whether work should be initiated to consider including Financial Intermediation Services Indirectly Measured (FISIM) in CPIH. Conceptually, FISIM could be included as a proxy for the service charge that households pay to financial institutions. Practically this is challenging to calculate. To calculate a price for FISIM one would need to apply FISIM to an underlying stock of debt. As the purchasing power of money changes over time, this stock of debt would need to be updated to account for changes in inflation.

- 3.2. A panel member noted that the CPI manual is currently being updated and ONS should refer to guidance in interest costs. It was also suggested that ONS should investigate why other countries do and don't include FISIM. The panel agreed that the inclusion of FISIM in CPIH should be investigated further.

Action 4: ONS to add investigation of FISIM in CPIH to consumer prices work programme as low priority

- 3.3. The second section of the paper looked at gross interest costs in Household Costs Indices (HCIs). ONS proposed to use the simple revaluation approach and to use CPIH to update the stock of debt each month. On balance, the panel disagreed that CPIH was the appropriate measure to update the stock of debt. While CPIH is the most comprehensive measure in the economic context, using HCIs would reflect that money has a different value to different household groups. The panel recommended that HCIs be used to update the stock of debt each month.

4. Inflation for household groups: calculation of weights

Paper APCP-T(17)08 – published

- 4.1. Mr Bucknall went through the work on calculation of weights for inflation for household groups. The first issue to address was reconciling LCF data with CPIH expenditure totals in cases where there is a large discrepancy between the two data sources and where few LCF households report spending in a class.
- 4.2. One proposal for reconciling LCF data with CPIH expenditure totals was a two-step regression model. This was discussed and considered an inadequate method by the panel. The panel agreed that the method used in previous iterations of the work should be used. This is where, in classes where there are large discrepancies between LCF and CPIH expenditure totals and where there are few households that report spending; expenditure on the class would be reapportioned to LCF households based on their expenditure of a higher aggregate. For example, expenditure on paramedic and medical services could be reapportioned to LCF households based on their expenditure on health.
- 4.3. Dr Weale informed the group that ESCoE would be holding a relevant workshop on Monday 2 October 2017, on reconciling the difference between income and consumer price surveys.
- 4.4. The second issue that the panel discussed was with regards to which vintage of LCF data to use to reapportion CPIH expenditure totals. The panel asked if some initial analysis could be done to make a comparison between the proposed vintages.

Action 5: ONS to undertake and circulate some analysis comparing the effect of using different vintages of the LCF

- 4.5. The panel discussed the options available. It was generally agreed that due to the sample sizes it would be necessary to use 3 years of pooled data. There was a suggestion that each year of LCF data should be scaled to HHFCE data for that year and then pooled. Dr Weale will email his suggestion to ONS about his proposed method for pooling the LCF data.

Action 6: Dr Weale to email his suggestion to ONS about his proposed method for pooling the LCF data

- 4.6. The section on imputed rents was not covered in depth due to time constraints. One panel member requested that the Heckman model be checked to ensure it was being adjusted correctly, given that it was a log model.

5. Consumer prices work programme

Paper APCP-T(17)09 – not for publication

This is a draft of a document that will be published in Q4 2017

- 5.1. Mr Prestwood gave details of the work included in the consumer prices work programme and emphasised that it would also be discussed at the Stakeholder Panel. It is a draft programme and ONS welcome suggestions from Technical Panel members with regards to additions, removals or amendments to the programme.

Action 7: Technical Panel members to send any further comments on paper APCP-T(17)09 consumer prices work programme by email correspondence.

- 5.2. There was suggestion from the panel that the consumer price work programme should tie in with the wider prices work programme as the work is likely to be complementary.
- 5.3. The strategy for producing inflation rates for different household groups was queried by panel members. Mr Prestwood explained that the CPIH subgroups are already in development and are likely to be published earlier in 2017 than the first release of the HCIs. ONS are still deciding whether the CPIH subgroups will continue to be published once the HCIs have been developed. Work in producing CPIH subgroups will still be used as a building block for HCIs development and the decision as to whether to cease CPIH subgroups following this will be based on user needs. The HCIs will continue to be developed and published in line with the work programme.
- 5.4. A panel member requested that some of the terminology in the paper is a bit fanciful and that it be changed before publication. Mr Prestwood confirmed that that is a draft and the wording will be reviewed prior to publication.
- 5.5. It was noted that some of the deadlines in the work programme were in Q2 2017. It was confirmed by ONS that papers on these projects are largely complete and will be shared with the panel via correspondence prior to their publication.

Action 8: ONS to send papers on web-scraped data and on standard errors arising from expenditure weights to panel members prior to publication

- 5.6. A panel member asked whether European compliance was still relevant in light of the UK leaving the EU. ONS confirmed that whilst there may be rare occasions where what is best for UK statistics does not match with European compliance, it is likely that compliance will continue for international comparison and best practice purposes.

6. AOB and date of next meeting

- 6.1. The panel discussed big data and scanner data in relation to the recent Ottawa conference. Prices Division (ONS) and Index Number Methodology (ONS) were in attendance at the conference. They will follow up these discussions and feed relevant issues in to their work. Prices Division may have a paper on scanner data to bring to the January 2018 panel meeting.
- 6.2. There was little time for discussion of the APCP-T(17)AOB paper. A paper Prof. Balk had sent prior to the meeting addressing the question raised had been shared with the technical panel via correspondence. This paper on Mixed-Form Indices will be shared with Arthur Barnett who posed the question and discussed further at the next technical panel meeting.

Action 9: ONS to send the Mixed-Form Indices paper to Arthur Barnett and put this on the agenda for discussion at the next meeting

- 6.3. The next Technical Panel meeting will take place on Friday 15 September 2017.

7. Actions

No.	Action	Person Responsible
1	Panel members to email secretariat with potential new panel members	Technical Panel members
2	APCP-T secretariat to incorporate suggested changes to the January 2017 minutes and republish	Ms Sands
3	ONS to incorporate suggested changes in the Measurement of RHI (Paper APCP-T(17)06)	Ms Sands
4	ONS to add investigation of FISIM in CPIH to consumer prices work programme as low priority	Ms Sands
5	ONS to undertake and circulate some analysis comparing the effect of using different vintages of the LCF	Mr Bucknall
6	Dr Weale to email his suggestion to ONS about his proposed method for pooling the LCF data	Dr Weale
7	Panel members to send any further comments on paper APCP-T(17)09 by email correspondence	Technical Panel members
8	ONS to send papers on web-scraped data and on standard errors arising from expenditure weights to panel members	Ms Sands
9	ONS to send the Mixed-Form Indices paper to Arthur Barnett and put this on the agenda for discussion at the next meeting	Ms Sands