

ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER

Household Costs Indices (HCIs)

Status: final

Expected publication: alongside minutes

Purpose

1. The first preliminary estimates of the Household Costs Indices (HCIs) were published in December 2017. This paper summarises the publications and results, and invites APCP-S members to provide feedback on the content of the papers published and comment on future priorities with regards to production of the HCIs.

Actions

2. Members of the Stakeholder Panel are invited to:
 - a. provide feedback on the content of the Household Costs Indices (HCIs) publications in December
 - b. comment on the short and longer-term priorities with regards to development of the HCIs

Background

3. In December 2017, ONS published the first preliminary estimates of the [Household Costs Indices](#) (HCIs) for the period January 2005 to June 2017. These show how prices and costs have been changing for different household types. Initially, this includes different household income groups, retired and non-retired households and households with and without children.
4. The HCIs are also contrasted with household disposable income, to show how different groups have been faring in the economy throughout the past decade (FYE 2006 to FYE 2016).
5. The preliminary estimates release was supported by a [methodology paper](#) that explained the differences in methodology between the HCIs and the CPIH, the impact that each difference would have were it applied uniquely to the CPIH, and the limitations of each approach. The cumulative impact of the methodological differences at the aggregate level were also provided in section 8 of this article, contrasted with the all-households CPIH and the RPI for reference.
6. Users are now invited to comment on future priorities regarding development and production of the HCIs. A questionnaire acts as a guide to these responses and is provided in Annex A.

Summary of methodological differences

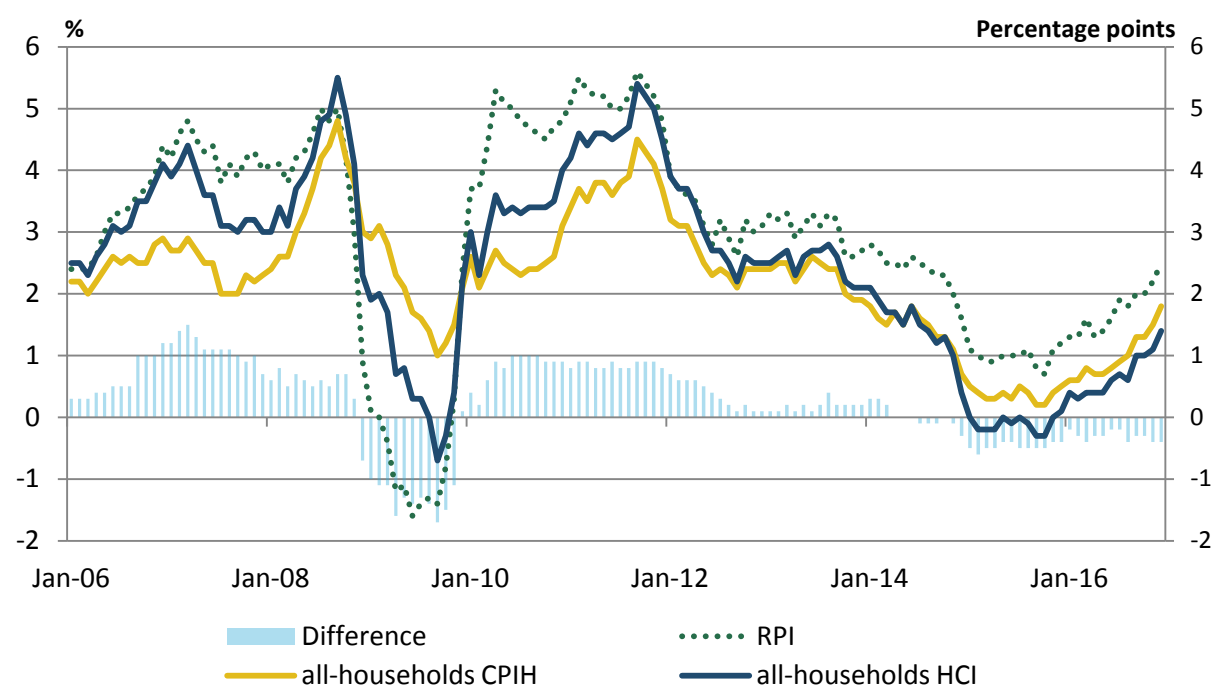
7. Although a number of differences to CPIH measurement have been proposed for the HCIs, the preliminary estimates published in December 2017 focussed on four of the key differences. These were:
 - a. the use of democratic weighting

- b. the use of a payments approach to measure owner-occupiers housing (excluding capital costs)
 - c. the inclusion of interest costs on credit card debt
 - d. the use of gross expenditure to calculate weights for insurance premia
8. While ONS also explored the inclusion of capital mortgage repayments and student loan repayments in 2017, data availability and concerns around data quality and methodologies prevented their inclusion in the first preliminary estimates of the HCIs. However, the consideration of these components currently remains a priority on our future work programme with regards to the HCIs.

Cumulative impact of methodological differences

9. Figure 1 shows the cumulative impact of the four methodological differences outlined above, in contrast with the CPIH and the RPI. The all-households HCI typically shows a higher growth rate than the CPIH, but shows less extreme movements than the RPI. The recent period (post-2014) is interesting, as while the RPI shows a higher growth rate than the CPIH, the all-households HCI shows slower and sometimes negative growth.

Figure 1: 12-month growth rate for all-households HCI, all-households CPIH and RPI UK, January 2006 to December 2016



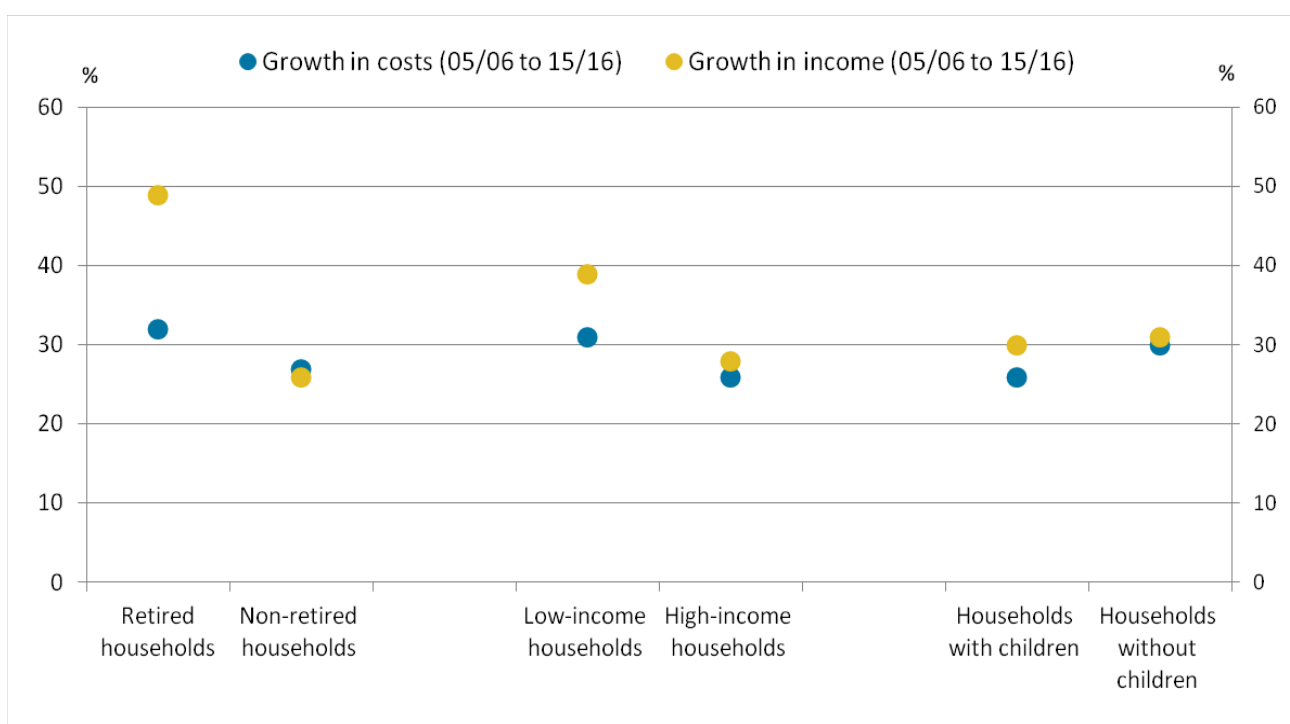
10. The differences between the all-households HCI and all-households CPIH at the aggregate level are largely driven by the different approach used to measuring owner-occupiers housing costs (OOH) and the use of democratic weighting (as shown in sections 4 and 5 of the supporting methodology document).

11. The inclusion of interest costs on credit card debt and using gross expenditure to weight insurance premia have a minor to negligible impact on the resulting growth rate (as shown in sections 6 and 7 of the supporting methodology document).

Summary of results

12. Retired households experienced stronger rises in their prices and costs than non-retired households over the periods explored, with rises for retired households averaging 2.6% per year, compared with 2.3% for non-retired households. However, the disposable income received by retired households has also grown considerably more than the disposable income received by non-retired households over the period analysed.
13. Low-income households observe stronger rises in their prices and costs than high-income households, with poorer households (represented by the second income decile) seeing average annual price rises of 2.6%, while richer households (represented by the ninth income decile) saw annual average price rises of 2.2%. However, the cumulative growth in costs is met by a similar cumulative growth in household disposable income for these two groups over the period analysed.
14. Households without children have also experienced stronger rises in their prices and costs than households with children, but again, this growth is matched by similar growth in household disposable income for each group.

Figure 2: Equivalised disposable household income (nominal) and Household Costs Indices, cumulative growth, %
UK, FYE 2006 to FYE 2016



Next steps

15. Publication of the first preliminary estimates of the HCIs marked an important first step in their development, while recognising that there are a number of areas still to be considered. Following publication, users are invited to comment on future priorities regarding their development. A questionnaire is provided to guide responses, and is presented in Annex A of this paper.
16. ONS have requested responses by Friday 23 February 2018. The responses will then be considered alongside the advice of the APCP-S in deciding on how to proceed with future development and production of the HCIs.

Helen Sands
Prices Development, ONS
January, 2018

Links

Methodology paper:

<https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/householdcostsindicesmethodology>

Results paper:

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/householdcostsindices/preliminaryestimates2005to2017>

List of Annexes

Annex A	Questionnaire for responses
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Annex A – Questionnaire to guide responses

We have provided the following questions as a guideline for responses to this article, but any additional comments or observations will also be appreciated.

Please ensure you include your name or organisation in your response and submit it by email to cpi@ons.gsi.gov.uk or in writing to FAO Helen Sands, Prices Division, Office for National Statistics, Cardiff Road, Newport, NP10 8XG by Friday 23 February 2018. This will help guide our future work programme for 2018 and beyond.

1. What is your name or organisation?
2. What is your interest in the Household Costs Indices (HCIs)? (for example: personal interest, analytical interest, business need)
3. Is there a specific purpose that you would wish to use the HCIs for? If so, what?
4. Would you consider the HCIs as presented in this article and in the [preliminary estimates of the HCIs](#) suitable to meet this purpose?
5. If the HCIs presented are not suitable to meet this purpose, how can we improve the HCIs so that they do meet this purpose?
6. A number of suggestions have been put forward as to how the HCIs should differ from the CPIH (see section 4 of [developing the Household Costs Indices](#)). Which of these proposals do you think are most important to consider when producing HCIs?
7. A number of limitations around the current methodologies are presented in this article. Do you think our focus for 2018 should be on:
 - a) improving the current estimates which use the methodologies discussed in this article
 - b) expanding the scope of the HCIs
 - c) other (please specify)
8. What do you think our longer term objectives for developing the HCIs should be?
9. A number of different household groups are presented for the [preliminary estimates of the HCIs](#). Are there any other household groups that you would like to see published?
10. Do you have any further comments or suggestions?