

ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER

Minutes**2 February 2018****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10:30 – 13:00****Members in attendance**

Dame Kate Barker (Chairman)

Mr Jonathan Athow (ONS)

Mr Richard Barwell (BNP Paribas)

Mr Steve Farrington (HM Treasury)

Ms Jill Leyland (Royal Statistical Society)

Ms Rebecca Maule (Bank of England)

Mr Chris Payne (ONS)

Mr Geoff Tily (Trades Union Congress)

Secretariat

Dr James Tucker (ONS)

Ms Jaya Jassi (ONS)

Observers

Mr Daniel Gallagher (HM Treasury)

Apologies

Mr Mike Prestwood (ONS)

Mr Ian Rowson (Civil Aviation Authority)

Mr Andrew Sentance (PricewaterhouseCoopers)

Mr Nick Vaughan (ONS & Chair of the Technical Panel)

Ms Sally West (Age UK)

Mr Matthew Whittaker (Resolution Foundation)

Presenters

Ms Helen Sands (ONS)

Mr Jim O'Donoghue (ONS, by phone)

1. Introduction, apologies and actions*Paper APCP-S(17)14 - published*

- 1.1. The chairman welcomed the attendees to the APCP-Stakeholder (APCP-S) meeting and passed on apologies from those who were unable to attend.
- 1.2. The actions from the previous meeting held on 28 September 2017 were discussed. Ms Sands explained that the measurement of student loans in the HCIs is difficult because the different measures of income treat student loans differently. The inclusion of pension contributions is to be discussed under the HCIs release item.
- 1.3. The chairman reminded panel members of the action to raise any issues they want discussed at the Technical Panel meetings in future. There were no further comments from the panel on the previous meetings minutes and actions. ONS confirmed that all of the other actions had been completed.

2. Technical Panel Update

- 2.1. Mr Payne gave an update on the outcomes of the discussions at the Technical Panel meeting on 15 January 2018. With regards to the CPIH sampling errors paper Technical Panel members pointed out that jack-knife techniques often underestimated the variance, while bootstrapping techniques tended to overestimate. Alternative techniques were discussed, such as linearisation techniques, simulations and using scanner data. A key comment that came from the APCP-T paper on the feasibility study into producing CPIH-consistent inflation rates for UK regions was that relative regional price levels might be of more interest to users. The update for producing a historical series for CPIH and measuring changes in used car prices is to be given later on in the meeting, under their respective items.

3. Producing a historical series for CPIH

Paper APCP-S(18)01 – This is work in progress and will be published once the work and estimates are finalised

- 3.1. Mr O’Donoghue introduced the paper and methodology used to calculate a historical series for CPIH for the period 1947 to 2005. The biggest complexity in this calculation is obtaining data for imputed rentals prior to 2005 as the source used from 2005 is unavailable in previous periods.
- 3.2. Mr Payne stated that the Technical Panel thought that better weights data may be available through the FES for earlier periods. The APCP-T suggested to publish the series from mid-80s, in response to user demand, and then release an earlier section of the series at a later date.
- 3.3. A panel member highlighted the difficulties in modelling a long time series given the shifts in consumer spending patterns and associated uncertainty.
- 3.4. Panel members discussed how far the time series needed to go back and supported the Technical Panel’s suggestion of the series going back to the mid-80s. The panel also discussed possible reasons for the increase in weight from 1974 to 1987, for which the increase in home-ownership from the 1970s to the 1990s was suggested to be the cause. However, it was pointed out that home ownership grew more over the period 1950 to 1970.
- 3.5. One panel member requested that when publishing the year on year changes to also publish the indices.

Action 1: ONS to publish the results from mid 1980s onwards and include indices

4. Measuring changes in used car prices

Paper APCP-S(18)02 – This paper will be published alongside the minutes

- 4.1. Dr Tucker gave an overview of the paper. While the trend shown in the ONS used-cars index is difficult to explain, a similar issue is seen across European countries, and Eurostat have been investigating the issue. The main methodological challenge has been to control for the age and mileage of the car. Some indices produced by private sector companies support the ONS used-cars index, however the methodology and calculation used in these alternatives is not fully understood.

- 4.2. There was an update on the discussion from the Technical Panel meeting regarding this paper. Dr Mehrhoff, who is a member of the APCP-T and works for Eurostat, has offered to assist with the work.
- 4.3. Panel members suggested approaching industry experts to get further insight into trends in the market.

Action 2: ONS to make contact with industry experts

- 4.4. One panel member questioned how knowledgeable the ONS was about Glass's guide methodology and that it would be useful to have more information on it. Dr Tucker clarified that summary information on the methodology is in the published Quality Assurance of Administrative Data article.
- 4.5. A panel member suggested that there should be further investigation given the growing importance of car finance and potential inflationary impacts.
- 4.6. The panel suggested that the ONS should look into other data sources, such as web-scraping.
- 4.7. The drivers of the downward trend were further discussed. A potential driver could be the difference between the depreciation of a two year old car and a three year old car, for example. Another panel member suggested that there could be a quality adjustment issue. The panel also questioned whether the ONS should still be looking at just two and three year old cars.
- 4.8. Mr Payne raised further points from the Technical Panel that gave suggestions to look wider than just two or three year old cars. The APCP-T also wanted to understand the data sources better.
- 4.9. A panel member questioned whether the calculation of new car prices has kept up with the increasing use of payment schemes. Dr Tucker stated that the ONS have previously looked at including leasing in the basket but there were issues with obtaining expenditure data. He also stated that the calculation of the new cars index is easier due to not having to factor in the age adjustments, as with used cars.

5. Data collection strategy

Paper APCP-S(18)03 – This paper will be published alongside the minutes

- 5.1. Mr Payne provided an overview of the paper, asked for feedback on the research done to date and outlined ONS' future work plan for the Consumer Prices data collection strategy.
- 5.2. A panel member asked about the legal constraints on RPI and how the constraints might affect the move to alternative data sources. The ONS are uncertain whether a change in data sources will constitute as a fundamental change, as there is no precedent for this, and will only know if the change is detrimental once data is obtained.
- 5.3. It was discussed that alongside new data sources, new methodology would also have to be used. The question was raised that if these new methods are passed onto RPI, would that also be considered to be a fundamental change? A potential option could be to imitate the current price collection using the alternative data sources. It was agreed that the ONS should go ahead with the option that seems most sensible. There is a need to move to alternative data sources to reflect a dynamic retail environment.
- 5.4. A panel member questioned how much focus should be put on web-scraping compared to scanner data as there is a concern that a lot of money will be invested into web-scraping but

then scanner data will be obtained shortly after. The research benefits of obtaining web-scraped data were highlighted.

- 5.5. A discussion was had over the broader point of index-linked gilts as a panel member questioned what other countries do about regulating the index they are linking to, and whether issuing gilts to a different inflation index would need a legal framework. A panel member felt that the panel should be vocal about the RPI legislation creating constraints going forward regarding methodological improvements.
- 5.6. The chairman addressed the clothing literature review that was shared following an action from the previous meeting held on 28 September 2017. A panel member had some drafting comments on the literature review and thought that not all of the literature had been included. The panel member also questioned why different results were obtained when using a new computer system in 2014, compared with the results obtained in 2012. Mr Payne clarified that an offline SAS system was used in 2012 and an online live SAS system was used in 2014. Although opposite results were obtained, the difference was small.
- 5.7. Another panel member felt that the formula effect issue isn't resolved and that this should be pursued further. Some members of the panel felt that there should be more work done on investigating which formula should be used for different items. Mr Athow responded that the ONS have limited resources and need to prioritise development of the indices.
- 5.8. The advantages and disadvantages to the Carli and Jevons formulae were discussed. A panel member felt that the literature review didn't address the disadvantages of the Jevons formula. It was highlighted that the economic approach wasn't a good rationale for the choice of the Jevons.
- 5.9. There was discussion over whether or not the changes made to the measurement of clothing prices in 2010 was an improvement. A panel member referred to Mr de Vincent-Humphreys work, in January 2017, on clothing prices which tracked the price development and replacements for a particular item. The microdata presented suggested that the clothing prices collection was very volatile which doesn't seem to be an improvement. The ONS were asked to clarify whether the products highlighted in Mr de Vincent-Humphreys presentation are typical or whether the more general clothing collection is not so volatile. Mr Payne responded that products that are able to be tracked over longer time periods may generally be non-fashion items, and the price behaviour for these items may not be the same as for fashion items which are harder to track. It was also pointed out that the changes made were an improvement in the sense that they allowed a reasonable sample size to be maintained throughout the year, whereas previously collectors were finding it difficult to identify replacements. A panel member felt that the extreme formula divergence on clothing was a symptom of the extreme problems with collecting clothing prices, and could not be generalised to other items. They also felt that the flat aggregate measure of clothing prices under the Jevons approach illustrated the theoretical concern that the Jevons might over-smooth highly volatile figures.

Action 3: ONS to clarify whether volatile clothing collection prices are typical or not

6. Household Cost Indices release

Paper APCP-S(18)04 – This paper will be published alongside the minutes

- 6.1. Ms Sands gave an overview of the paper, asked for feedback on the work done to date and asked panel members what should be prioritised going forward. The next HCIs publication is planned for late 2018 or early 2019 and will be better timed with the income publication.
- 6.2. A member of the panel questioned why dispersion of each household group in the HCIs is higher than CPIH. Ms Sands referred to the contribution charts in Annex A of Household Cost Indices, UK: preliminary estimates 2005 to 2017 and responded that the weight for OOH is lower in HCIs compared with CPIH, and that food, drink, fuel, gas and electricity were given a higher weight in the HCIs compared with CPIH.
- 6.3. A panel member asked for the response deadline to be extended past Friday 23 February 2018.

Action 4: ONS to extend the response deadline past Friday 23 February 2018

- 6.4. It was questioned what measure of disposable income is used in the HCIs. Ms Sands responded that the measure used is the Household Disposable Income and Inequality measure that ONS publish.
- 6.5. Panel members considered the work done so far very useful and asked about future plans for work on HCIs. Ms Sands responded that there have been a number of other proposals about further work, such as including capital costs and student loans. The questionnaire in Annex A of APCP-S(18)04 is designed to guide the ONS in their future work. The panel asked for a summary of the feedback in a future meeting.

Action 5: ONS to provide an update to panel members on HCIs questionnaire at the May meeting

- 6.6. A panel member suggested that it would be interesting to see, for future publications, how different household groups are affected as interest rates rise.
- 6.7. The panel thanked Ms Sands for her hard work on the HCIs.

7. AOB and date of next meeting

- 7.1. The group discussed the decision for BT to continue indexing pension schemes using RPI. The panel also discussed the Governor of the Bank of England's three point plan of how to transition away from RPI at the Lords Economic Affairs Committee.
- 7.2. There was some discussion about the historical arguments for moving from RPI to CPI for inflation targeting and how far it had been due to making efforts towards convergence with the Euro area.
- 7.3. Mr Athow mentioned recent media commentary about ONS work on the telecoms deflator. He stated that this is distinct from the approach used for consumer prices.
- 7.4. Mr Farrington stated that he will be leaving the panel and Mr Gallagher will be replacing him as HM Treasury's representative. The chairman thanked Mr Farrington for his contributions.
- 7.5. The next Stakeholder Panel meetings will take place on Friday 25 May 2018. Panel members were asked to note the changed September date: Monday 17th.

Actions

No.	Action	Person Responsible
1	ONS to publish the indices alongside the year on year changes for the historical series	Mr Jim O'Donoghue
2	ONS to make contact with industry experts on used car prices	Dr James Tucker
3	ONS to clarify whether volatile clothing collection prices are typical or not	Mr Chris Payne
4	ONS to extend the requested responses deadline for the HCIs questionnaire past Friday 23 February 2018	Ms Helen Sands
5	ONS to provide an update to panel members on HCIs questionnaire	Ms Helen Sands