

**UK STATISTICS AUTHORITY
ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER**

Minutes

Friday 25 January 2019

Boardroom, UK Statistics Authority, Drummond Gate, London, SW1V 2QQ

Members in attendance

Dame Kate Barker (Chair)
Mr Jonathan Athow (ONS)
Mr Richard Barwell (BNP Paribas)
Mr Jonathan Camfield (Lane Clark & Peacock)
Mr Grant Fitzner (ONS)
Mr Daniel Gallagher (HM Treasury)
Mr Richard Gibson (Barnett Waddingham)
Mr Michael Hardie (ONS)
Mr Andy King (ONS)
Mr Simon Kirby (Bank of England)
Mr Ashwin Kumar (Joseph Rowntree Foundation)
Ms Jill Leyland (Royal Statistical Society)
Mr Ian Rowson (Independent Policy Analyst)
Dr Geoff Tily (Trade Union Congress)

Secretariat

Mr Anthony Luke (ONS)
Ms Sally-Ann Jones (ONS)

Presenters

Mrs Tanya Flower (ONS)
Mr Chris Payne (ONS)

1. Introduction, apologies and actions

- 1.1 The Chair welcomed new members: Mr Jonathan Camfield, Mr Richard Gibson and Mr Ashwin Kumar. Apologies were received from Dr Andrew Sentance and Mr Matthew Whitaker.
- 1.2 The minutes of the previous meeting, held on 17 September 2018 had been agreed in correspondence and subsequently published on the UK Statistics Authority website.
- 1.3 The meeting reviewed the Terms of Reference (ToR). The Chair normally discouraged attendance by substitutes, except for the Bank of England and HM Treasury (HMT). The security classification of papers should be clear on circulation. A register of declarations of interest would be included in the ToR. It was noted that re-appointment letters for original members would be issued following the meeting.
- 1.4 It was acknowledged that the Data Access Agreement needed to be reviewed.

Action: ONS to establish an ACPC-S database of declared interests and to review the draft Data Access Agreement.

2. Discussion of the Lords' Economic Affairs Committee: Measuring Inflation

- 2.1 The House of Lords Report on Measuring Inflation was published on 17 January 2019. The panel discussed the report and the following points were made in discussion:
 - i. The panel welcomed the Lords' report, considering it bold in its recommendations and approving of it opening up the discussion around the current inflation measures. They added, however, that it does not consider some of the more nuanced points and the previous consultation work carried out on these issues.
 - ii. There were a range of views on the proposal in the report that the Authority and the Government should agree on a single general measure of inflation for official use within the next five years.
 - iii. Providing a single measure of inflation would avoid confusion for the public and provide one focal point. However, it was noted by some panel members that a single measure would not be appropriate for all purposes.
 - iv. The panel believed the ONS's current position on the Retail Price Index (RPI) to be unsustainable. The RPI's pre-2010 credibility needs to be restored through methodology changes and a programme of improvements should be started, although some members considered it would not become a good measure of inflation.
 - v. The panel were concerned with the importance of public confidence in inflation measures and noted that care should be taken when making methodological changes which are based on economic arguments (e.g. measuring owner occupiers' housing costs using rental equivalence).

- vi. The panel supported the proposal that the Authority should resolve the issue with clothing prices in the RPI measure which would help to restore public confidence. However, a panel member stated that it is public perception that the CPI underestimates inflation, rather than that the measurement of RPI over estimates inflation. The Authority should ascertain whether the issue with clothing prices is caused by the raw data and the more lenient rules regarding item comparability, or the use of the Carli formula. It should then suggest a way forward to address the issue.
 - vii. The unintended effect of the methodological change in 2010 had, by way of example, impacted adversely on some Defined Benefit (DB) pension schemes and consumers of regulated services. However, some pensioners and other RPI recipients had benefited. There have also been a wide range of other winners and losers, where RPI has been used in various contracts. Any future change to RPI methodology would have a similar range of impacts.
 - viii. A panel member noted the structure of the inflation basket impacts the wedge between CPI and RPI. The ONS responded saying it aims to construct a representative basket of goods and services to ensure high-quality consumer price statistics are produced, and does not consider the wedge when undertaking this analysis.
- 2.2 The ONS noted the complexity of issues regarding consumer price inflation. A significant amount of work had been undertaken by ONS after the consultation on the future of the RPI in 2012 (which was not reflected in the Lords' report). The consultation had resulted in the decision not to make further improvements to RPI, and this was endorsed by an independent review of consumer price indices by Paul Johnson in 2015. (Although it was noted that his evidence to the Select Committee showed a change in Paul Johnson's view on this point).
- 2.3 The Chair concluded that a draft letter should be produced detailing the panel's range of views and areas of consensus. The panel agreed that:
- i. The ONS should take action on the RPI, including the problems with clothing which caused a jump in the series in 2010. A plan for implementing improvements should be put in place.
 - ii. It was acknowledged that the ONS could not act alone to address the issues in the Lords' report given the legal limitations surrounding the RPI and the ramifications changes have across government and the private sector. Working together with key stakeholders across Government, the ONS should produce a pathway/roadmap to address the issues raised in the report.

Action: The Chair to draft a letter to John Pullinger detailing the panel's discussion and points the panel wish to raise in response to the Lords' report.

3. Technical Panel Update: December

- 3.1 Chris Payne provided an update on the Technical Panel held in December, which had focussed on the development of Household Costs Indices. The minutes provide the detail of the discussion.

- 3.2 ONS were planning an Economic Statistics Centre of Excellence (ESCOE) workshop in April to generate a broader discussion.

Action: Secretariat to invite interested parties from the Stakeholder Panel members to attend the ESCOE workshop.

- 3.3 Chris Payne provided an update on the work to calculate a student loans repayment index for inclusion in the HCIs. The minutes provide the details of the discussion.
- 3.4 The panel suggested that, if the goal was to calculate average expenditure, the distribution of average earnings should be used.
- 3.5 The difference between the tuition fees collected for the CPI and the HCI measurement of student loan repayment was discussed. It was suggested that ONS speak to HMRC regarding the provision of real data.

Action: Chris Payne to discuss the potential to receive student loans data from HMRC.

4. Technical Panel Update: January

- 4.1 Grant Fitzner provided an update on the Technical Panel held in January, which had considered two papers on the unweighted indices. It was noted that the papers would be published, making clear that they were not a response to the issues raised in the Lords' report. A paper re: Quality Adjustment reviews had also been considered. The last Technical Panel also agreed to produce a short paper on unweighted indices, which will be discussed at a future Stakeholder Panel meeting.
- 4.2 The Chair referenced an action from a previous meeting for the Technical Panel to revisit the formula issue on clothing. At the previous Technical Panel meeting, it had been agreed that a paper outlining the strength and weakness of each formula in a number of different scenarios, including in particular the impact on clothing, would be produced. The panel requested that the report provides an impartial and accessible summary of the debate around the formula issue.

5. Alternative Data Sources Roadmap

- 5.1 Tanya Flower presented the progress to date on alternative data sources and plans going forward.
- 5.2 The panel were interested in the relative strengths of scanner and web-scraped data. It was clarified that web-scraped data was useful when detailed attribute information is required or when it's impractical to collect scanner data. Scanner data was less detailed but provided the underlying expenditure weights, which can notably improve quality.
- 5.3 Historic web-scraped data is unavailable and must be built up over time, stakeholders have requested at least two years of sensitivity analysis before new data sources can be incorporated into the headline measures.

- 5.4 Web-scraped data did not provide a ready source of expenditure data but alternative sources of data for weighting purposes, such as page ranking positions, were being considered.
- 5.5 Machine learning techniques were being researched to help identify potential replacement items in price collection, which could be an option in areas such as clothing.
- 5.6 The panel highlighted the need to be careful with supplier data as the information was valuable and suppliers were protective of it. They suggested drawing up contracts with suppliers to define how the data was used and to ensure it was provided on a consistent and timely basis.

6. Any other business

- 6.1 The Chair noted that the Secretariat would check the suitability of meeting dates with panel members with the possibility of rescheduling those currently in on a Friday, to allow more people to attend.