

ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL

Minutes

6 September 2019

Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ

10:30 – 13:00

Members in attendance

Mr John Astin

Mr Rob Bucknall

Dr Antonio Chessa

Prof. Ian Crawford

Mr Grant Fitzner (Chair – ONS)

Mr Mike Hardie (ONS)

Dr Jens Mehrhoff

Prof. Paul Smith

Mr Rupert de Vincent-Humphreys

Dr Martin Weale

Guests

Mr Jonathan Athow (ONS)

Secretariat

Ms Joanna Corless (ONS)

Mr Chris Payne (ONS)

Apologies

Prof. Bert Balk

Mr Peter Levell

1. Introduction and apologies

- 1.1. Mr Grant Fitzner welcomed attendees to the Advisory Panel on Consumer Prices-Technical (APCP-T) meeting and passed on apologies from those who were unable to attend.
- 1.2. Members were informed that the redactions relating to the House of Lords inquiry into RPI in previous APCP minutes and the 2018 Annual Report had now been lifted and material withheld from publication has now been published.
- 1.3. Dr Mehrhoff planned to enquire about ONS getting access to Eurostat research on classification techniques for scanner data, as discussed in the last meeting. However, other panel members may not be able to gain access to the research. The action for Dr Chessa to enquire about getting permission to share research by Statistics Netherlands on classification techniques was ongoing. All other actions were complete.

2. Response to the House of Lords inquiry into RPI

- 2.1. Mr Jonathan Athow summarised the UK Statistics Authority's response to the House of Lords report, 'Measuring Inflation', which focussed on the use of RPI. The UK Statistics Authority Board has recommended that in the long-term, the publication of RPI should be stopped, but in the interim, the methods of CPIH should be brought into RPI to address its shortcomings. The Bank of England judged that the proposed changes would be fundamental and materially detrimental to certain index-linked bond holders, meaning that, under section 21 of the Statistics and Registration Service Act (SRSA), permission to make changes must be obtained from the Chancellor. On the 4th September, the Chancellor announced his intention to consult in early 2020 on whether to bring the methods of CPIH into RPI between 2025 and 2030.

- 2.2. The panel were encouraged to provide their thoughts on the technical issues related to bringing CPIH methods into RPI.
- 2.3. Additionally, future changes to RPI – for example to change to a new data source or a new method – would potentially require permission under S21 of the SRSA until 2030, when the relevant index-linked bonds mature. Therefore, permanent alignment of RPI and CPIH is not guaranteed.
- 2.4. Mr Grant Fitzner proposed holding an extra meeting of the Technical Panel in October or November for panel members to provide input to the consultation document.
- 2.5. The panel discussed some of the technical aspects of the proposed changes including
 - Communicating the difference of measurement of owner occupiers' housing costs (OOH) in CPIH and RPI
 - Aligning to CPIH rather than CPI
 - Having two measures of inflation that are calculated using the same methods but have different names. This is considered necessary due to the widespread use of RPI in contracts.

Action 1: Panel members to provide thoughts on technical issues related to bringing CPIH methods into RPI.

Action 2: APCP-T secretariat to set up additional APCP-T meeting to discuss the upcoming consultation on RPI later in 2019.

3. This section of the minutes, and the accompanying paper APCP-T(19)12, have been redacted due to the market sensitive nature of the discussions.

4. This section of the minutes, and the accompanying paper APCP-T(19)13, have been redacted, but will be made available in due course.

Action 3: REDACTED

Action 4: REDACTED

Action 5: REDACTED

5. Updating the data source for shop-type weights

Paper APCP-T(19)14 – *This is work in progress and will be published in the future when additional analysis has been undertaken*

- 5.1. Mr Payne introduced the paper, which discussed updating the data source for calculating shop-type stratum weights, that is, the relative weights for independent and multiple shop types. An addendum to the paper showed that using the updated weights

in general had little impact on CPIH, CPI and RPI growth rates, although there was some impact in 2016 and 2017.

- 5.2. It had been requested that the Annual Survey of Goods and Services (ASGS) work towards asking businesses to breakdown their turnover generated online and in physical stores, which could further improve stratification in the future.
- 5.3. One panel member believed it should be possible to achieve a higher match rate between the Annual Business Survey (ABS) and IDBR data, as ABS draw an IDBR extract for their sampling frame. ONS will look into this further.
- 5.4. It was suggested that the drop in the proportion of multiple retailers in 2007, 2012 and 2016 could be related to rotational sampling, if a particular business was entering or leaving the sample on a regular cycle. If correct, it was suggested a rolling average should be used over the appropriate number of years to eliminate this fluctuation. Otherwise, carrying forward the previous weight was the correct approach for dealing with unusual variation in weights.
- 5.5. It was queried why the number of ABS retailers in figure 1 showed so much variation; the ABS had said this may be due to business deaths that occur between sample selection and survey responses.
- 5.6. The panel agreed that the shop-type weights should be updated using ABS data from the annual changes in February 2020's index, subject to the remaining issues around volatility being resolved. Once sufficient ASGS data has been collected, this would be used to update the shop-type weights.

6. Collecting discounted prices

Paper APCP-T(19)15 - *This paper will be published alongside the minutes*

- 6.1. Mr Payne introduced the paper, which discussed the potential impact and questions around the inclusion of multi-buy discounts in consumer price statistics. Panel members were asked if they favoured implementing new methods to include multi-buy discounts now or waiting until scanner data is introduced.
- 6.2. Several panel members favoured waiting until scanner data is in use, which would minimise the discontinuity caused to the series. A counter-point was made that assuming a 50% take-up would likely be closer to reality than taking no account of discounts. One member thought that using prices that were functions of numbers was a significant change from the usual approach for calculating price indices and should be considered carefully. There was discussion around the other implications of discounts for our price index methodologies; if volumes of goods purchased vary in response to discounting, a basket with fixed monthly weights would not reflect this. It was emphasised that it should be considered what is aiming to be measured; a traditional price index with a fixed basket is not the same as a unit value index which aims to measure cost of living. However, scanner data, which makes volumes available, lends itself to producing a unit value index.
- 6.3. One panel member raised that with scanner data it may not be possible to distinguish between offers which are available to all customers and those not available to all, such

as those linked to loyalty schemes. Another member pointed out that internet discounts are another form of discount that are not available to all, since not everyone has internet access.

- 6.4. It was pointed out that offers such as “any three for two” which mix and match different products may be difficult to link to individual products with scanner data. There was a suggestion that a further impact analysis could be carried out using Dominick’s Finer Foods scanner data, which has indicators to distinguish between discounted and regular prices.
- 6.5. A panel member raised the point that, if, for a particular item, discounts were much more widespread in some months than others, this could result in a large impact on item indices and increased volatility. This problem is not yet resolved internationally where scanner data is in use.
- 6.6. There was a suggestion that the Household Cost Indices (HCI) could include discounts while the other consumer price indices could exclude them.
- 6.7. Rather than proceed with the 50% assumption, the Panel considered it best to consider the case for inclusion of multi-buy discounts when there is a sufficient run of scanner data to be able to assess the impact on consumer price statistics.

7. AOB

- 7.1. Panel members were reminded to provide feedback by correspondence on paper APCP-T(19)16, which discusses unweighted index number formulae

Action 6: Panel members to provide feedback by correspondence on paper APCP-T(19)16 by Friday 4th October

- 7.2. Dr Weale reminded panel members that on 17th and 18th March 2020, Erwin Dierwet is leading a Masterclass and Conference on Measuring Prices and Quantities. Submissions of academic papers would be welcomed.

Action 7: ONS to circulate further details about Masterclass and Conference on Measuring Prices and Quantities as they become available.

- 7.3. There are plans to hold an ESCOE workshop to discuss the criteria for choosing index formulae for alternative data sources, with the date still to be confirmed.
- 7.4. The next APCP-T meeting will be held on 17th January 2020.

No.	Action	Person Responsible
1	Panel members to provide thoughts on technical issues related to bringing CPIH methods into RPI.	All panel members
2	APCP-T secretariat to set up additional APCP-T meeting to discuss the upcoming consultation on RPI later in 2019.	Ms Corless
3	REDACTED	
4	REDACTED	
5	REDACTED	
6	Panel members to provide feedback by correspondence on paper APCP-T(19)16 by Friday 4 th October	All panel members
7	ONS to circulate further details about the march 2020 Masterclass and Conference on Measuring Prices and Quantities as they become available.	Mr Payne/Ms Corless