

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

Minutes

**Friday 20 September 2019
Boardroom, UK Statistics Authority, Drummond Gate, London, SW1V 2QQ**

Members in attendance

Dame Kate Barker (Chair)
Mr Jonathan Athrow (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) – by telephone
Mr Michael Hardie (ONS)
Mr Simon Kirby (Bank of England)
Mr Ashwin Kumar (Manchester Metropolitan University)
Ms Jill Leyland (Royal Statistical Society)
Mr Matthew Whittaker (Resolution Foundation)

Secretariat

Mr Andy King (ONS)
Ms Jennifer Velu (ONS)
Ms Abby Humphries (ONS)

Presenters

Mr Chris Payne (ONS)
Ms Helen Sands (ONS)
Ms Nicola Shearman (ONS)

Apologies

Mr Ian Rowson (Independent Policy Analyst)
Dr Geoff Tily (Trade Union Congress)

Observer

Ms Victoria Sutton (HM Treasury)

1. Introduction, apologies and actions

- 1.1 The Chair welcomed everyone to the meeting. Apologies were received from Mr Rowson and Dr Tily.
- 1.2 The Chair confirmed that all actions from the last meeting had been completed.

2. Round table discussion following the Government's response to the Lord's Economic Affairs Committee

- 2.1 Mr Athow summarised the UKSA's strategy, and the process and decisions made to get to the current position. Mr Gallagher outlined HM Treasury's decision making process and considerations, as detailed in the Chancellor's letter of 4 September. These considerations, as well as the need for time to prepare and adjust meant that the Chancellor could not consent to any change before 2025.
- 2.2 Mr Gallagher confirmed that the Treasury consultation would address when to bring the CPIH methods into RPI and that it would look to make a decision by the Spring Statement and the end of the financial year. The Chancellor is not able to consult on a statistical decision.
- 2.3 The Panel were then invited to comment on the decision and proposed consultation and noted the following:
 - i. Acknowledgement that the UKSA had historically discouraged the use of RPI, and that it has an obligation to produce the best measure of inflation. However, some felt that the UKSA was seeking to make a significant and wide-reaching change affecting individuals as well as the markets without sufficient consultation. A member queried the ONS' mandate for taking such a step and argued that there should not be reliance on the Johnson Review which had taken insufficiently wide evidence. It was noted that negative reactions may be expected. A response was made that the UKSA's requirement is to consider statistical matters only, and that there has been little consensus on the appropriate steps around RPI, despite wide public debate.
 - ii. The change will impact key groups including those with RPI-linked pensions; gilt-holders; and those involved in contracts linked to RPI. Pension funds who had hedged CPI liabilities with an RPI linked gilt would be adversely affected. There were issues around annuity contracts. The wider number of private contracts affected is not known. HM Treasury noted that the consultation would allow for better understanding of private sector use.
 - iii. Through the consultation, the Government should seek to better understand the extent to which private contracts are reliant on RPI.
 - iv. The Chair asked if the Panel could be invited to comment on the consultation ahead of its wider publication.

Action: Mr Gallagher to advise on whether the Panel will have the opportunity to comment on the consultation document ahead of its wider publication.

- v. There are questions about the possibility of compensation for RPI-linked asset holders. The announcement has raised the wider question of the availability of CPI or CPIH linked assets. It is anticipated that views around this will be captured as part of the consultation.
- vi. Methods to bring the CPIH methods into RPI, essentially linking the indices, will be presented to the Technical Panel in November and then shared with the Stakeholder Panel.

- vii. It was the strong view of the Panel that a subsequently arising CPIH / RPI wedge due to the use of alternative sources, such as scanner and web scraped data, must not be permitted. If there were uncertainty over whether this could be guaranteed, then the Panel recommends putting off any changes until after 2030.
- viii. The Panel agreed to formulate a response to the consultation but noted that it may not provide a unified response to the proposals. This is likely to be produced following January's meeting.

3. Follow up discussion on clothing and footwear analysis

- 3.1 Mr Payne presented work looking at the differences in distribution and volatility of price relatives before and after changes made in February 2010. As this analysis is exploratory only, further work will be done to investigate causal links. ONS will also consider using the Monte Carlo method as an alternative to logistic regression when constructing the counterfactual distribution. He also confirmed that the clothing microdata are publicly available.
- 3.2 Mr Barwell suggested that tracking items over a longer period would be necessary to check whether the data accurately captures the drop in price and subsequent recovery, in addition to producing a counterfactual distribution for comparison. Mr Kumar asked for further analysis into the factors contributing to the wedge, other than the formula effect, to be included.

Action: ONS to address the additional questions within this paper and publish.

4. Proposed framework for shortlisting appropriate index number methods

- 4.1 Ms Sands presented the considerations for choosing index number methods for new types of data, for example, scanner data that includes quantity information. Other National Statistical Institutes (NSIs) use a variety of methods but literature suggests an emerging consensus towards multilateral methods. Feedback on the framework and on the draft explanations of technical methods was sought.
- 4.2 The Panel agreed that the number of different index methods used should not be arbitrarily set and that choosing appropriate measures for the item characteristic should be the priority. It was also noted that any weakness in method can be magnified where fewer methods are used, and that analysis taken to the Panel should include looking at the effects of using different methods/sets of index methods.
- 4.3 It suggested parallel runs before incorporating into the final index. Mr Hardie confirmed that UK retailers are providing ONS with historic data to allow for sensitivity analysis and that the current pipeline is flexible enough to deal with different methods.
- 4.4 The Panel agreed that multilateral methods (and therefore the need for subsequent revisions) should not be ruled out if they are statistically superior, though further research would be needed. Other NSIs use splicing to avoid revisions, though it was noted that this approach may result in loss of desirable properties. Further research should cover the implications of moving average indices, including the impact on current contracts.
- 4.5 Ms Sands mentioned that a workshop is planned in the coming months to discuss proposals with a wider audience but that the timeline for international consensus to be reached was uncertain.

- 4.6 Ms Sands also confirmed that the framework could be adapted for work on the HCIs.
- 4.7 The Panel considered cohesion with other NSIs important and suggested bearing in mind methods used internationally in the consideration set, as well as pooling development resources, and influencing the international consensus.
- 4.8 It also noted the timeline of implementation in 2023 could be affected by the proposed RPI changes which could take place in 2025.

5. Technical Panel Update: September

- 5.1 Mr Fitzner provided an update on the Technical Panel held in September which included:
 - i. A special session of the Technical Panel will be held in November to discuss the RPI consultation.
 - ii. Updating shop weights was agreed to be completed in February using Annual Business Survey data rather than the Annual Retailing Inquiry, a now defunct data source that is currently used.
 - iii. It was decided to wait until scanner data can be used to give accurate take-up rates of multi-buy discounts, rather than estimating a take-up rate to avoid an additional break in the series.
- 5.2 The minutes provide the detail of the discussion.

6. Package Holiday collections

This discussion has been redacted due to the market sensitive nature of the subject.

7. Prioritising suitable categories for the inclusion of alternative data sources

- 7.1 Ms Sands presented the approach for prioritising specific product categories to be targeted for implementation of alternative data sources by 2023 and the rationale for prioritising items.
- 7.2 It was confirmed that, even with the availability of grocery scanner data, ONS would still collect prices from independent grocery shops.
- 7.3 The relevance of CDs / DVDs as opposed to downloaded audio / visual content was discussed, as well as in-game computer game purchases, which are likely to prove difficult to assess for comparability.
- 7.4 Mr King confirmed that some alternative data could be incorporated into the central collection in the interim, ahead of the long-term adoption post-2023.

8. Price Collection Contingency post 31 October – redacted until publication

- 8.1 Mr Hardie presented ONS's plans for ongoing price collection in the event of a no-deal Brexit on 31 October including monitoring stock levels, and publishing indices potentially affected by stock shortages. The Technical Panel recommended conducting the monitoring of stock levels as close to index day as possible to allow time for impact on stock levels to manifest.

- 8.2 The inclusion of non-perishable goods including medicines was suggested. Mr Hardie explained resource constraints limited the breadth of items collected, the Panel agreed that most medicine with a short shelf life was obtained through prescriptions.
- 8.3 It was suggested that there would likely be a correlation between items with low stock and contribution, so analysis should consider the omission of items with very low stock.
- 8.4 Mr Fitzner confirmed that if the UK did not exit the EU on the 31 October the plans would be put on hold. The Panel recommended ONS consider the impact of publishing this paper ahead of 31 October.

9. Any other business

- 9.1 The Panel agreed to move the May 2020 meeting to a 12pm start.
- 9.2 Mr Camfield encouraged ONS to establish a confidentiality agreement for Panel members. Additionally, ONS should consider the content of materials before sending to Panel members because of their conflicts of interests and the sensitive nature of some documents.

Action: ONS to update written confidentiality policy and to consider Panel members' potential conflicts when circulating market sensitive materials.

- 9.3 Ms Leyland asked for an update on the HCIs. Mr Payne confirmed that a methodology paper had been published, and that the next iteration of the indices would be published in 2020. In the medium term we will move towards a more regular quarterly publication and begin to seek National Statistic status.
- 9.4 The Chair expressed the Panel's appreciation to Dr Andrew Sentance, who has stepped down from the Panel, and thanked him for his contribution. Ms Jenny King from Which? will be joining the Panel to represent consumers.