

RPI Consultation



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Background

- RPI is one of a range of measures of consumer price inflation produced by the Office for National Statistics
- It is a legacy measure with significant shortcomings; we discourage its use
- There are more appropriate measures of consumer price inflation, such as CPIH



Legal Position

Statistics and Registration Service Act 2007 says in section 21:

- RPI must be produced every month
- Under certain circumstances, changes to the way RPI is calculated require the approval of the Chancellor of the Exchequer

Those circumstances are where a change is both ‘fundamental’ and ‘materially detrimental’ to the holders of specific index-linked gilts (UK government debt securities).

The legislation says that it is for the Bank of England to determine whether a change to RPI is ‘fundamental’ and/or ‘materially detrimental’.

History of the RPI Debate

First RPI consultation – 2012

- Triggered by a change to the collection of clothing prices
- Findings: RPI *‘does not meet international standards’* but that there is *‘significant value to users’* in it remaining unchanged

➤ 2013 - RPI loses its status as a National Statistic

Paul Johnson Review – 2015

- Independent review led by Paul Johnson
- RPI *“should be considered a legacy measure to be used only where contractually required”*
- CPIH *“provides a good estimate of price changes across the economy”* and *“should be the main headline index produced by ONS.”*

➤ 2017 – CPIH becomes ONS’ lead measure of inflation

History of the RPI Debate

Spring Statement – 2018

- CPIH to become the government's headline measure over time

Lords Economic Affairs Committee – June 2018

- RPI still widely used despite its shortcomings, and despite losing its status as a 'National Statistic' in 2013
- This is unsatisfactory – RPI cannot remain a 'legacy measure' and its shortcomings need to be addressed
- **2019 – National Statistician recommends that the publication of the RPI be stopped at a point in future. In the interim, the shortcomings of the RPI should be addressed by bringing the methods of CPIH into it.**

Why we are consulting

In 2019, the Authority recommended:

- That the publication of the RPI be stopped at a point in future
- In the interim, the shortcomings of the RPI be addressed by bringing the methods and data sources of CPIH to it
- The Bank of England confirmed that either of these would constitute ‘fundamental’ and/or ‘materially detrimental’ changes to the RPI, and the Authority would need to request the consent of the Chancellor.

The Chancellor responded by:

- Ruling out plans to make methodological changes before 2025
- Announcing to consult on whether to make the proposed methodological change between 2025 and 2030 (when the requirement to seek his consent expires)

The consultation

UKSA and HMT are running a joint consultation to address the shortcomings of the RPI:

- HMT is consulting on the **appropriate timing** for the proposed changes to the RPI to take place
- UKSA is consulting on our recommended approach of bringing these changes to the RPI to ensure it follows **best statistical practice**

Complex, technical issue → if in doubt, refer to consultation document: <https://consultations.ons.gov.uk/rpi/2020>

UK Statistics Authority

- Seeking feedback on the proposed method of making the transition to the new RPI methods
- Seeking information about how people and organisations currently use the RPI and its sub-indices (e.g. RPIX)
- We are planning to provide guidance on alternative measures, as the RPI sub-indices will stop

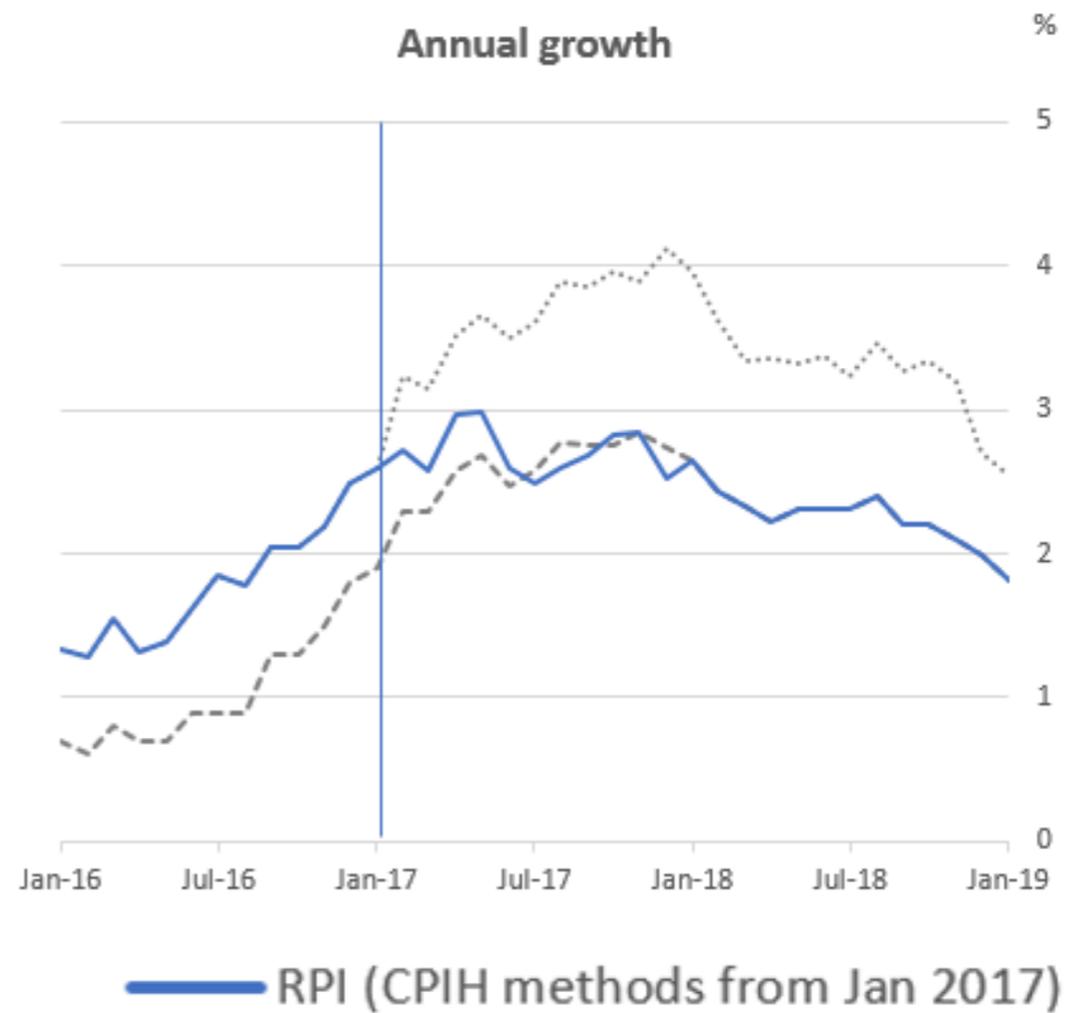
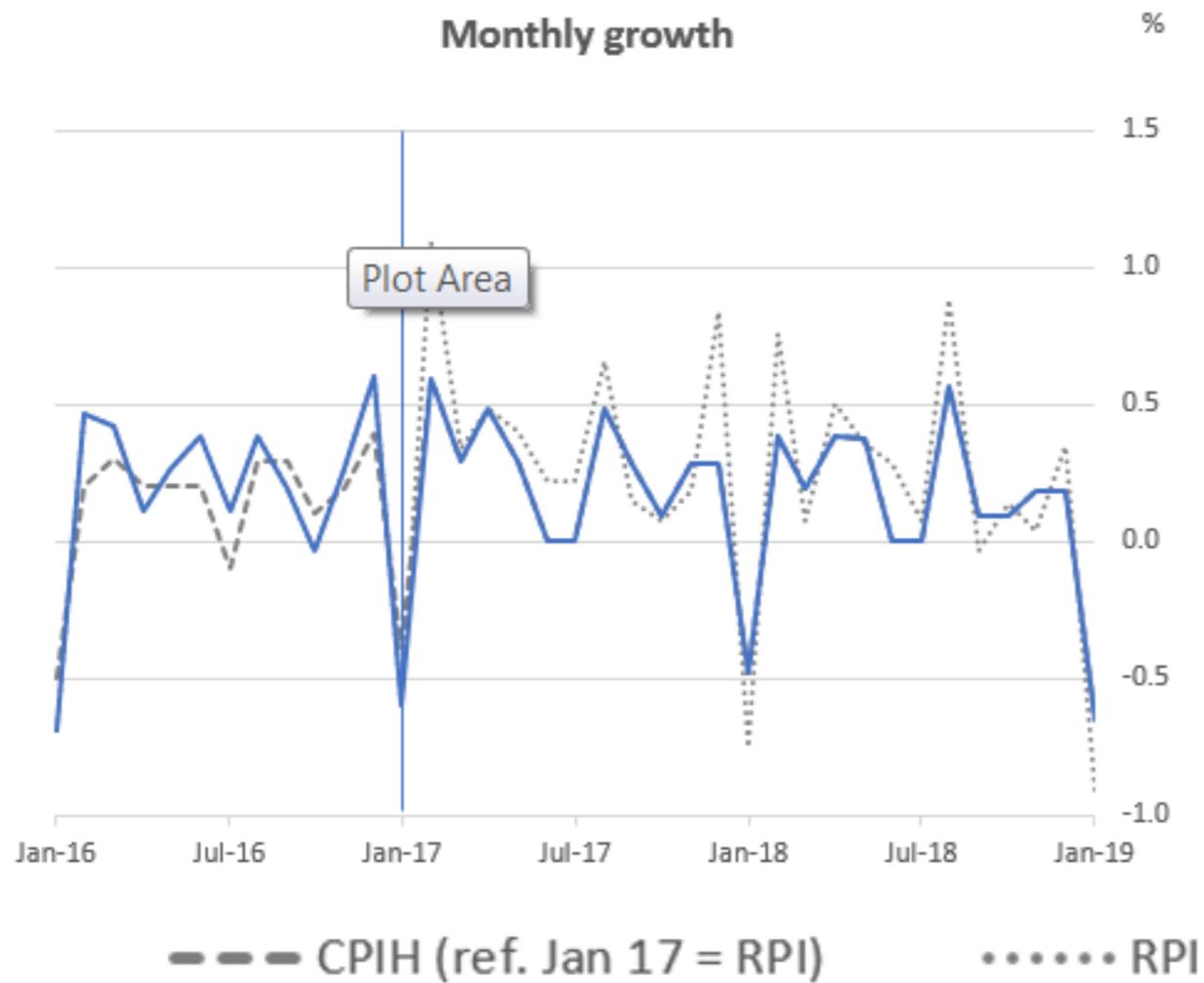
Chain Linking

- “Chaining” a commonly used method in price indices globally to link indices.
 - It’s the method used to introduce new basket items, and new expenditure weights, to ensure that the index reflects changing consumer preferences.
 - Put simply, the monthly growth in the new series under the new methodology is applied to the long-run series based on the old methodology.
 - Monthly growth will equal CPIH immediately and annual growth will converge after the first year.
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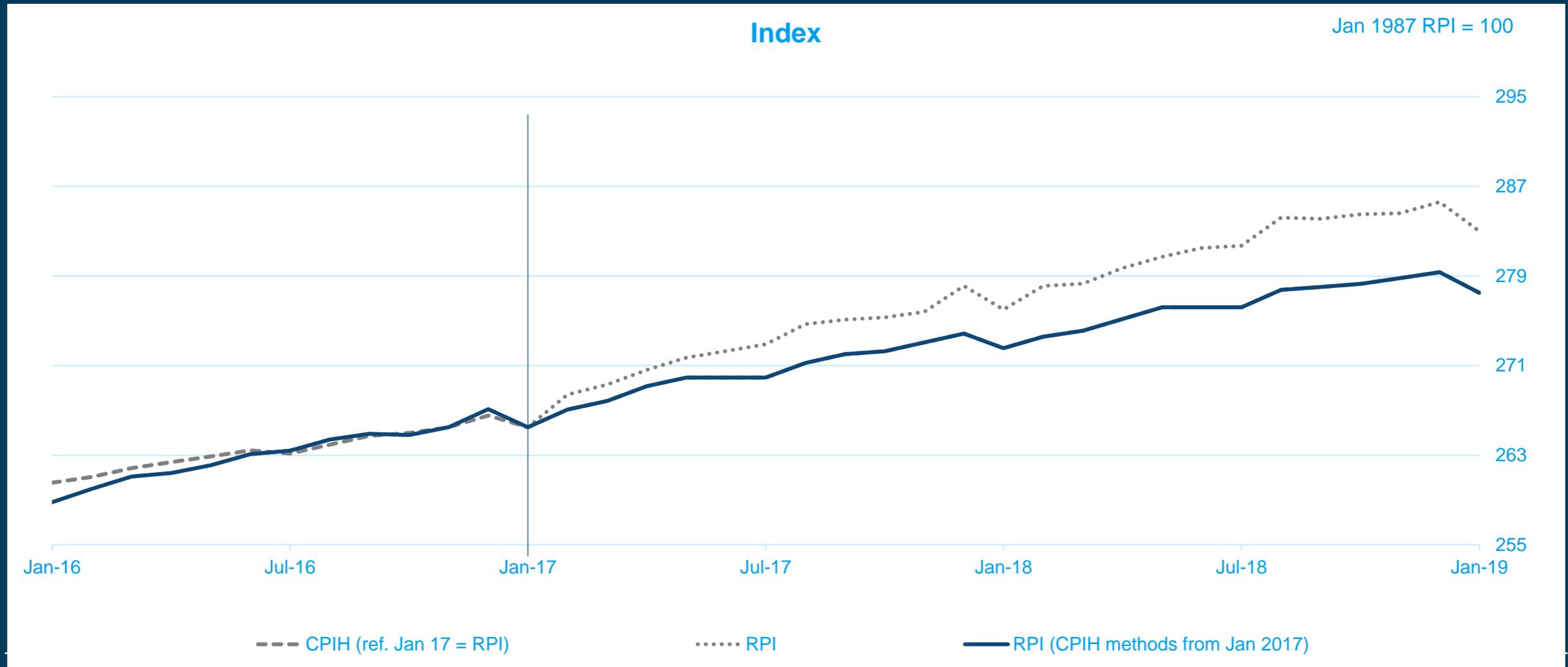
How we chain link – a simple example

- Take existing RPI index for reference month of implementation year (Jan 17)
- This is then multiplied by the price movement of the unlinked aggregate with CPIH methods
- We then get RPI*, The new RPI with CPIH sources and methods.

$$\begin{aligned} &= 265.5 \times \frac{100.6}{100.0} \\ &= 267.1 \end{aligned}$$



Results of chain linking



Supplementary indices

Two reasons for discontinuation

1. Mapping RPI lower level categories to new methods would result in supplementary indices not being reconciled to the headline RPI* index. For example RPI food and drink.
2. Higher level indices such as RPIX (RPI excluding mortgage interest payments) will be discontinued as MIPs are not part of the CPIH conceptual framework.

How to respond

Respond online at

<https://consultations.ons.gov.uk/rpi/2020>

Contact

RPI Consultation Team

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List of engagement opportunities

<https://www.statisticsauthority.gov.uk/rpi>

Consultation Dates:

11 March -22 April 2020

