

## ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL

### Minutes

8 November 2019

UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ / Office for National Statistics, Newport, South Wales, NP10 8XG

10:30 – 12:00

#### Members in attendance

Mr John Astin  
Dr Gareth Clews (ONS)  
Prof. Ian Crawford  
Mr Grant Fitzner (Chair – ONS)  
Mr Mike Hardie (ONS)  
Mr Peter Levell  
Dr Jens Mehrhoff  
Prof. Paul Smith  
Mr Rupert de Vincent-Humphreys

#### Secretariat

Ms Joanna Corless (ONS)  
Mr Chris Payne (ONS)

#### Apologies

Prof. Bert Balk  
Dr Antonio Chessa  
Dr Martin Weale

#### 1. Introduction and apologies

- 1.1. Mr Grant Fitzner welcomed attendees to the Advisory Panel on Consumer Prices-Technical (APCP-T) meeting, which was held as a telephone conference, and passed on apologies from those who were unable to attend.
- 1.2. Dr Martin Weale declared a conflict of interest prior to the meeting and did not attend.

#### 2. Draft working text for the consultation on the future of the Retail Prices Index

Paper APCP-T(19)18 –*Draft for future publication*

- 2.1. Mr Chris Payne introduced the paper, which was the draft working text for the consultation on the future of the Retail Prices Index. The document presented two options, A and B, for introducing the CPIH methodology into RPI. Under both options the CPIH would be chain-linked to RPI from February of the implementation year resulting in matching index movements and 1-month growth rates. Under option B the annual growth rates would be calculated from this new index, and would converge with CPIH annual growth after the first year. Under option A RPI annual growth would be set equal to CPIH annual growth from February of the implementation year despite the fact that 12-month growth calculated directly from the index would differ from the reported rate during the implementation year. The consultation draft also contained a question regarding the type and nature of contracts linked to lower level and supplementary RPI indices, which would be discontinued, and a further question on the need for ONS to provide guidance on the appropriate CPIH

replacement for these indices. Mr Payne also outlined written comments by Prof. Bert Balk, published alongside these minutes, which supported using Option B.

- 2.2. Mr John Astin stated that he disagreed with the plans to bring CPIH methods into RPI and did not have any intention of participating in this process.
- 2.3. There was unanimous agreement by all other panel members that Option B was the most appropriate method. Several panel members believed that ONS should present Option B as their favoured option since it was the most statistically sound. The point was made that this option was equivalent to the usual treatment when a price index undergoes any change in methodology.
- 2.4. Two additional options for linking CPIH onto RPI were suggested, but quickly dismissed due to their limitations. These were:
  - Over the year linking: For the first year, use a rolling RPI link month based on a 12-month lag, and chain on the 12-month CPIH growth
  - Annual overlap: For the first year, use the average of the previous year's RPI as the link period and chain on the CPIH growth relative to the previous year's average CPIH
- 2.5. Several panel members indicated that the document should be redrafted to make it clearer; in particular, the explanation of the options for bringing the methods of CPIH into RPI. One member believed the title did not clearly convey that the strategy involves simply linking CPIH onto RPI. It was suggested that it should be more explicitly stated that RPI and CPIH will be equivalent measures after the transition. A panel member also disagreed with the description of a "methodological flaw" in RPI, arguing that while there is a mismatch between the data collection and index construction methodologies, this is not a fundamental flaw with the methodology. It was also suggested that the text of the document could be clarified with further worked examples and equations.
- 2.6. One panel member suggested that Question 2 could be made more specific by asking which contracts are based on lower level RPI indices and Question 3 could ask what type of guidance would be most useful to users.
- 2.7. A panel member suggested that the consultation should include an analysis of the impact of the proposed methods for aligning RPI and CPIH growth rates on users with RPI-linked instruments.
- 2.8. There was a discussion around the feasibility of re-referencing both indices at the end of the transition period to make them consistent with one another. A potential issue with this was that it could cause CPIH and CPI to lose their alignment.
- 2.9. It was concluded that ONS would redraft the text to present Option B only. Panel members would be asked to review the updated version of the draft.

Action 1: ONS to redraft the consultation document working text, incorporating panel members' advice.

Action 2: ONS to share an updated draft of the consultation document with panel members for further comment.

### 3. AOB

- 3.1. Panel members expressed an interest in seeing correspondence between the RSS and UKSA regarding the RPI consultation. Mr Fitzner noted that this would require gaining the permission of the UKSA Board secretariat and the RSS.

Action 3: ONS to look into gaining permission to share correspondence between the RSS and UKSA with panel members.

- 3.2. The next APCP-T meeting will be held on 17<sup>th</sup> January 2020.

No.	Action	Person responsible
1	ONS to redraft the consultation document working text, incorporating panel members' advice.	ONS
2	ONS to share an updated draft of the consultation document with panel members for further comment	ONS
3	ONS to look into gaining permission to share correspondence between the RSS and UKSA with panel members	Mr Fitzner