

ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL

Minutes

17 January 2020

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
Prof. Bert Balk
Dr Antonio Chessa
Dr Gareth Clews (Methodology, ONS)
Mr Grant Fitzner (Chair – ONS)
Mr Mike Hardie (ONS)
Mr Peter Levell
Dr Jens Mehrhoff
Prof. Paul Smith
Mr Rupert de Vincent-Humphreys
Dr Martin Weale

Presenters

Mr Jonathan Athow and Mr Alex Rose (both
item 5 only)

Observers

Miss Helen Sands (item 5 only) and George
Clarke (ONS)

Secretariat

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

Apologies

Prof. Ian Crawford

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. The RPI consultation document has been redrafted to take account of panel members' comments and is currently being finalised with HM Treasury. It will be circulated to panel members once it is published.
- 1.3. ONS will circulate further details about the March 2020 Masterclass and Conference on Measuring Prices and Quantities as they become available.
- 1.4. Dr Chessa confirmed that it will be possible to share work done by Statistics Netherlands on classification techniques.
- 1.5. All other actions from the September and November meetings were complete.

Action 1: ONS to circulate further details about the March 2020 Masterclass and Conference on Measuring Prices and Quantities as they become available

Action 2: Dr Chessa to share work done by Statistics Netherlands on classification techniques

2. Terms of Reference

Paper APCP-T(20)01 – *This is a draft of the Terms of Reference, which will be updated on publication of the minutes*

- 2.1. Panel members suggested some improvements to the Terms of Reference, including:
 - Having a formal process for reviewing panel membership
 - Reviewing the operation of the panel less frequently than every two years
 - Broadening the statements regarding the subjects on which technical advice may be sought
 - Adding a statement to reflect the panel’s capacity to make active suggestions for work to do in addition to reactive responses to work done.
 - Update the Code of Conduct to reflect the non-disclosure agreements they are required to sign
- 2.2. The panel asked for more clarity over what information they were permitted to share under the non-disclosure agreement. Panel members were asked not to share meeting papers more widely, however, should they wish to do so exceptions may be granted on a case by case basis by ONS. It was agreed that all papers would be given a status indicating their sensitivity and publication plans.
- 2.3. One panel member suggested that papers could be sent earlier than one week prior to the panel meetings.
- 2.4. One member felt there was a disconnect between the Technical and Stakeholder panels and raised that something might be done to improve this relationship. It was agreed that the Stakeholder Panel would be asked for their views on this.

Action 3: Consult Stakeholder Panel over how to better integrate the Technical and Stakeholder panels.
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3. Tuition fees

Paper APCP-T(20)02 – *This paper will be published alongside the minutes*

- 3.1. Mr Payne introduced the paper, which proposed improvements to the price indices for student loan repayments in the Household Cost Indices (HCIs), as previously discussed in December 2018. Proposals included methods for the inclusion of tuition fees paid upfront and methods to remove maintenance loans. In addition, variations of the previously discussed ‘threshold model’ were presented.
- 3.2. There was discussion around the conceptual basis of the index, which some panel members suggested should be considered a cost index and not a price index. One panel member disagreed with the statement that HCIs aimed to measure the outgoings of households, as this describes expenditure rather than price. It was also pointed out that student loan repayments are in practise similar to a tax.
- 3.3. There was discussion around how voluntary payments should be treated. It was suggested that a general approach for voluntary and mandatory payments was required for the HCIs, beyond the tuition fees component. Some panel members argued voluntary payments were

in principle no different from other purchases made by consumers, since all purchases are made at the choice of the consumer, while others believed they did not fall into the scope of the HCIs. The panel suggested that voluntary payments should be included in the weight of the student loans repayment component, rather than including a price component for the voluntary payments.

- 3.4. The panel discussed timeliness issues and it was suggested that if a lagged method had to be used that salaries should be updated to the appropriate period in line with other lagged expenditure data in CPI. The microdata approach was felt to be the most appropriate method as there were no barriers to its construction.
- 3.5. The panel made various other recommendations, including:
 - In estimating student loan repayments for Northern Ireland, consider which countries could best be used to represent Northern Ireland in reality
 - The distribution of salaries should be taken by cohort of students rather than across all students, since the dynamics could differ substantially

4. Interest on financial debt

APCP-T(20)03 – This is work in progress and will be published in the future when additional analysis has been undertaken

- 4.1. Mr Payne introduced the paper, which was about expanding the measurement of interest payments on financial debt. Types of financial debt investigated were credit cards, secured and unsecured loans (excluding student loans), mail orders and overdrafts. ONS had identified some issues with the expenditure data and agreed to reissue the paper once these had been resolved.
- 4.2. The panel made various other suggestions, including the following:
 - Overdrafts could be split into authorised and unauthorised overdrafts, since these have very different associated costs
 - Overdraft interest payments may be distorted by those who are self-employed
 - Car loans could be separated out from other secured loans
- 4.3. In addition to the discussion on the weights for new interest items there was some discussion around the Simple Revaluation Approach, which was used following the May 2017 meeting to calculate interest indices. A panel member outlined that there are two factors affecting the cost of interest: i) the price of the good itself and ii) the interest margin. There was discussion around whether the price of goods was taken into account with the proposed methods. One panel member expressed that it was inconsistent to account for depreciation of debts but not savings, so a nominal interest rate should be used. The Panel requested further detail on the method; they asked that methods used be written algebraically and worked examples in Excel be provided.

Action 4: Redraft the paper on Interest on Financial Debt with updated expenditure estimates

Action 5: Provide more information on the Simple Revaluation Approach

5. Index number framework

Paper APCP-T(20)04 - *This is work in progress and the final analysis will be published in due course*

- 5.1. Mr Rose introduced the paper, which laid out the criteria and scoring system ONS have developed to assess the appropriateness of elementary aggregate methods for use on web scraped and scanner data, and the resulting shortlist of methods obtained.
- 5.2. There was discussion around the value of the exercise being undertaken. One view was that similar research comparing index methods already exists and shows that there is no single best index method. Another view was that the exercise was beneficial as it will provide transparency over how we choose our index methods. One panel member argued that a more holistic method should ultimately be used to choose our index methodologies, as an inflexible scoring system may have flaws. ONS clarified that the framework exists to guide and to provide focus on a subset of methods, not to dictate.
- 5.3. One panel member advised against using more than one approach for the index method, extension method or window length, except possibly for the different data sources (scanner data and web scraped data).
- 5.4. There was some discussion around the definition of “characteristicity”, which a panel member asserted was not precisely defined but relates to the number of periods that influence the value of the index in another given period.
- 5.5. There was further discussion around specific criteria in the framework and the index methodology. Comments included:
 - Transitivity is a key priority if a dynamic approach which makes full use of new data sources is being taken, rather than a static approach which imitates traditional CPI procedures. ONS clarified that a dynamic approach is favoured
 - The Geary-Khamis index method does not satisfy the identity axiom, which is not acknowledged in the paper
 - Decomposability should be considered as a criterion. Dr Mehrhoff offered support using Domenick’s data to investigate this. A workshop could be held to develop ideas. Additionally, the contributions of individual items could be investigated as a sense check when applying index methods to data
 - Robust methods should be favoured over those that satisfy the most axioms
 - For multilateral methods, the window length is an important consideration. Dr Chessa can share research which found a 25 month window was always better than a 13 month window
 - Even in multilateral indices, the price comparisons are bilateral. It is the implicit quality adjustment factors that are multilateral. Similar adjustments could be made explicitly with bilateral index methods.
 - A recommendation that essential requirements should be set out in the headline criteria within the framework

6. Transparency

6.1. The publication status for each of the papers presented in the meeting was communicated to the panel.

7. AOB

7.1. The next APCP-T meeting will be held on 17th April 2020.

No.	Action	Person Responsible
1	ONS to circulate further details about the March 2020 Masterclass and Conference on Measuring Prices and Quantities as they become available	ONS
2	Dr Chessa to share work done by Statistics Netherlands on classification techniques	Dr Chessa
3	Consult Stakeholder Panel over how to better integrate Technical and Stakeholder panels	ONS
4	Redraft the paper on Interest on Financial Debt with the updated expenditure estimates	ONS
5	Provide more information on the Simple Revaluation Approach	ONS