

ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL

Minutes

10 July 2020

Teleconference

10:30 – 13:00

Members in attendance

Mr John Astin
Prof. Bert Balk
Dr Antonio Chessa
Dr Gareth Clews (Methodology, ONS)
Mr Mike Hardie (ONS, acting chair)
Mr Peter Levell
Dr Jens Mehrhoff
Prof. Paul Smith
Dr Martin Weale

Presenters

Mr Philip Gooding (ONS)
Ms Natalie Jones

Secretariat

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

Apologies

Prof. Ian Crawford
Mr Grant Fitzner (ONS, chair)
Mr Rupert de Vincent-Humphreys

1. Introduction and apologies

- 1.1. Mr Hardie 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. A Data Science Campus seminar on classification with machine learning was being planned for the near future.
- 1.3. There were plans to invite National Statistician, Prof Sir Ian Diamond, to attend the October APCP-T meeting. It had been proposed the meeting would include a session to discuss priorities for the organisation and a Q&A session with the National Statistician.
- 1.4. The Stakeholder Panel will be consulted over how to better integrate the Stakeholder and Technical panels in the upcoming July APCP-S meeting.
- 1.5. All other actions from April's meeting were complete.

2. Strategy for resuming normal price collection (verbal update)

- 2.1. Mr Payne gave a verbal update on the strategy for resuming normal price collection following the period of movement restrictions in the UK due to Covid-19. Mr Gooding, Head Consumer Prices Indices Production and Commodity Analysis, joined the meeting for this item to provide technical support on the methods and data sources underpinning consumer price statistics. The principles that ONS aimed to adopt once price collectors were able to return to physical outlets were outlined. The principles were to aim to preserve index levels prior to implementation of Covid-19 restrictions such that pre-pandemic price movements

were accurately reflected; to maximise the sample size, and to minimise product replacements. A key point was that products collected in March 2020, prior to the period of movement restrictions, would be used as the basis for the collection in August 2020. Price collection issues were also discussed, including the risk of a high proportion of product replacements if the product priced in March was not available, and the risk of local areas having movement restrictions enforced, affecting price collections in specific locations. Special considerations for how to treat package holidays, airfares, sea fares and international rail, as well as policy developments including discounts for meals eaten out and a reduction in the VAT rate, were also discussed. ONS's plans will be described in more detail in a forthcoming article in August.

- 2.2. Panel members agreed with the principle of preserving index levels prior to the period of movement restrictions by continuing to collect products that were in the sample in March going forwards. There was a suggestion that avoiding a long-term effect on the series should be an over-arching principle.
- 2.3. There was discussion around the impact of the period of movement restrictions on the accuracy of published price indices and the communication of this to the public. Mr Payne informed the panel of plans to publish an impact analysis in August. There was a suggestion that further research into the longer-term impacts of Covid-19 on consumption patterns should be carried out at a later date. A [working paper](#) by Alberto Cavallo of Harvard Business School, regarding the impact that changes in expenditure patterns due to Covid-19 are having on inflation measurement, was highlighted to the panel. Dr Chessa added that Statistics Netherlands had also been conducting impact analyses, including a sensitivity analysis for areas of the basket that may be experiencing different expenditure patterns and price movements to normal times. Prof. Smith also proposed expanding his work on estimating variance for the UK CPI to look at this period in greater detail.
- 2.4. On price collection issues, the following was discussed:
 - Due to it not being possible for price collectors to use both the March price list and July price list simultaneously, there was a suggestion that two consecutive price collections could be carried out, first with the March price list and then with the July price list for cases where products collected in March were not available.
 - A panel member queried whether there was any means of retrospectively collecting base prices where replacements needed to be made, rather than imputing base prices. This was considered unlikely, but consideration would be given to whether there were any areas of the basket where this could be feasible.
 - There was discussion around the strategy for dealing with local areas with movement restrictions. The proposed strategy was to collect prices online for such locations, and to retain the March basket by not allowing product replacements for online local collections.
- 2.5. On the treatment of package holidays, suggestions included:
 - Using more sophisticated methods than linear interpolation such as a time series models and dynamic factor models
 - Comparing data collected prior to the period of movement restrictions with historical data to assess whether the 2020 data is consistent with previous years
 - Adjusting monthly rates to account for the likely scenario that holidays consumed in the coming months are different to holidays normally consumed in that month

- 2.6. It was queried whether ONS has information on the actual expenditure on holidays over the recent period. They did not yet, but would soon have access to such data, which would be used to calculate a rescaled basket as part of the planned impact analysis.
- 2.7. It was queried whether ONS has a strategy for dealing with package holidays in the period up until the market returns to normal. It was agreed that thought would be given to this area.
- 2.8. One panel member raised that the quality of travel may be affected by restrictions in place, raising issues of comparability.
- 2.9. A panel member asked whether cancellations are normally taken into account for relevant areas of the CPI basket. It was clarified that this would impact on weights but is not normally taken into account during the price collection.
- 2.10. Methods required to address the new policy of discounted meals out from Monday to Wednesday during August were discussed. There was a suggestion that adjustments already used for working and non-working days for monthly services could be used to guide the weighting of prices by day of the week. It was also raised that companies may be able to participate in the scheme without passing on the discount to the consumer, since prices before and after would unlikely be monitored by the government. Mr Payne proposed asking retailers whether they are passing the discounts on to consumers, as planned for the VAT reduction.
- 2.11. The problem of VAT changes being introduced at a point during the July collection period was discussed. There was a suggestion that collectors could focus on retailers affected by the VAT reduction before the change is introduced, and focus on those not affected after the VAT change, to remove any impact of the change in July's prices.

3. Consultation on the reform to Retail Prices Index Methodology (verbal update)

- 3.1. Mr Payne gave an overview of the questions asked in the [RPI consultation](#), which related to the statistical robustness of the proposed method for bringing the methods and data sources of the CPIH into the RPI, the current use of supplementary RPI indices and guidance that users would find helpful. The Panel was asked for their views.
- 3.2. There was a suggestion that, as CPIH doesn't include mortgage interest, the RPI All Items Excl Mortgage Interest (RPIX) could be set as equal to CPIH. However, Mr Payne suggested that users of this sub index often wish to use an RPI that excludes Owner Occupier's Housing Costs (OOH), in which case CPI could be a more appropriate replacement. Therefore, it would be cleaner to stop RPIX and direct users to the most relevant measure for their needs.
- 3.3. There was discussion around the difficulty of communicating the legal restrictions around the publication and the nature of the RPI to the public.
- 3.4. The panel had previously agreed that the method presented in the consultation was the only statistically appropriate approach, as noted in the [minutes from the meeting of November 2019](#).
- 3.5. A joint Technical Panel response was discussed and ONS agreed to prepare a draft reflecting their views. Whilst panel members agreed on the linking method it was recognised that there were different views around other aspects of the consultation and panel members may wish to opt out of a combined response.

ACTION 1: ONS to prepare a draft response to the RPI consultation reflecting the views of the Panel.

4. Reinstatement of the House Price Index (verbal update)

- 4.1. Ms Jones updated the panel on the current status of the House Price Index. The index had been suspended from April onwards due to insufficient data on housing transactions. This was firstly because of a reduction in transactions caused during the period of movement restrictions and secondly due to data providers having a backlog of transactions to process while they adapted to working from home. A sensitivity analysis was being performed to test the effect of having less data on the statistical significance of the hedonic model underlying the HPI and the volatility of the index. It was hoped that HPI could be published for April and May once sufficient data was received.
- 4.2. Prof. Smith suggested that the variance of the HPI could be investigated as an extension of his work on estimating variance in the CPI. The residuals in the hedonic model could be examined to give an indication of the variance in the short term.
- 4.3. It was raised that the hedonic model needed may not be the same now as it was before the housing market was paused. It was suggested that biased samples of data should be used to test the point at which the model breaks down, in case the transactions now are not representative of the transactions previously.

5. AOB

- 5.1. Prof. Smith updated the panel on his work on estimating the variance in the CPI. He had written a journal article, which he would circulate to the Panel.

ACTION 2: Prof. Smith to circulate draft of journal article to the Panel.

- 5.2. Dr Mehrhoff proposed that at the next APCP-T meeting the Panel discuss the weights to be used for the consumer price indices in 2021, given the disruption in 2020.

ACTION 3: ONS to update the panel in the October APCP-T on plans regarding the weights to use for consumer price indices in 2021.

No.	Action	Person responsible	Status
1	ONS to prepare a draft response to the RPI consultation reflecting the views of the Panel.	Mr Payne	
2	Prof. Smith to circulate draft of journal article to the Panel	Prof. Smith	
3	ONS to update the panel in the October APCP-T on plans regarding the weights to use for consumer price indices in 2021	ONS	
4	Ian Diamond to be invited to a future APCP-T meeting	Mr Payne	Ongoing