

## ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL

**Minutes****9 October 2020****Teleconference****10:30 – 13:00****Members in attendance**

Mr John Astin  
Prof. Bert Balk  
Mr Grant Fitzner (ONS, chair)  
Mr Mike Hardie (ONS)  
Mr Peter Levell  
Dr Jens Mehrhoff  
Prof. Paul Smith  
Dr Martin Weale  
Mr Rupert de Vincent-Humphreys

**Secretariat**

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

**Apologies**

Dr Antonio Chessa  
Dr Gareth Clews (Methodology, ONS)  
Prof. Ian Crawford

**1. Introduction and apologies**

- 1.1. Mr 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. All actions from the previous meeting were complete.

**2. Consumer prices development plan 2021**

*APCP-T(20)12 – Draft consumer prices development plan 2021 – draft for future publication*

- 2.1. Mr Payne introduced the draft Consumer prices development plan 2021 and invited comments from the Panel.
- 2.2. There was some discussion around whether CPI would continue to be aligned with HICP in the longer term. Some Panel members emphasised the importance of maintaining international comparability. ONS are committed to continued alignment with international standards, enabling comparability both over time and internationally. After the UK has left the Transition Period, the CPI price index will continue to align with the HICP. Over time the UK statistical system might choose some limited divergence of economic statistics from European standards, but there are currently no plans to do this for price statistics.
- 2.3. There was some discussion around the risks associated with web scraped and scanner data in ensuring an ongoing supply of data for regular use in ONS consumer price statistics. The risk of ad hoc changes would be mitigated by having agreements with suppliers and automated weekly data deliveries.
- 2.4. There was a suggestion that alternative data sources could be considered as part of the ongoing review of quality adjustment methods; for example, product attributes could be web scraped for use in hedonic modelling. Web scraping can be used to increase the amount of hedonics done, and additionally, the quality adjustment review would help with prioritising where to use hedonics.

- 2.5. There was a question around whether rural-urban stratification had been considered; a wider discussion was said to be needed around regional indices.

### 3. Priorities for consumer price statistics with Prof. Sir Ian Diamond

- 3.1. Panel members were invited to ask Prof. Sir Ian Diamond questions about his priorities for consumer price statistics. Sir Ian stated that his highest priorities for price indices were clarity on the future, long-term consistency and insight. He emphasised the need for ONS to provide data in real time and reduce manual collections, and to provide more insight into what their data means. He also emphasised the need for flexibility, since the economy and society being measured are changing, citing the rapid development of the COVID-19 Infection Survey and Faster Indicators of economic activity.
- 3.2. Sir Ian was asked whether, given the current pandemic and the increase in electronic data, established practices should be challenged and new ways of working and acquiring data should be encouraged. Sir Ian agreed and pointed to the radical, ambitious and inclusive pillars of the [new UKSA strategy](#). He also highlighted the new Priority Dataset Task Force (PDTF) that is being set up at pace to get more accurate and useful data and encourage out-of-the-box thinking.
- 3.3. Sir Ian felt that big data on household budgets and spending was an area where APCP-T could offer insight, and also suggested research collaboration with [Economic Statistics Centre of Excellence](#) (ESCoE) on this subject.
- 3.4. Sir Ian stated that international work should be utilised where possible, and posed to the Panel the question of whether there was a consensus on the best index number method to use. Panel members said that there was not a consensus internationally.

### 4. CPIH historical series 1950-1987

*APCP-T(20)13 CPIH: producing a historical series for the period 1950 to 1987 – work in progress*

- 4.1. Mr Payne presented the paper, which described the work undertaken to date to produce estimates for a proposed CPIH back series over the period 1950 to 1987. New modelled estimates for CPI and CPIH were presented, following revisions that were made to the modelled CPI series between 1998 and 1996.
- 4.2. The motivation for publishing a CPIH historical series was discussed. There was demand for this from users in government and the private sector, as well as widespread academic interest. Prof Smith added that this development ensures that all users are making use of the same numbers.
- 4.3. There was a question around whether the imputed rents in the RPI were derived from rateable values, which it was suggested are poor indicators of market rent.

Action 1: Clarify whether rateable values were used for RPI imputed rents used in the CPIH back series calculation
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- 4.4. A Panel member commented that neither approach presented used all the information and suggested using all the data in dynamic forecasting models.
- 4.5. The Panel also noted the differences between national accounts data and the household budget survey data for the period 1975-1987, for which there is an overlap. This was the reason for extending the national accounts series using the growth in the survey data rather than using expenditure estimates directly, for the missing period.
- 4.6. It was inquired whether users are content with the data being used in the published CPI back series; there had been no recent feedback on this. It was also noted that because the

historical series are modelled based on the RPI and the formula effect, they tend to follow the RPI series quite closely, but at different level. Hence, the estimates tend to follow the path of observed data relatively closely. A concern was raised that users may mistakenly think the estimates are based on observed data. The presentation of the article will make clear how they were created and that they are intended for analytical purposes only. ONS plans to publish the CPIH historical series as a table in an appendix in an analytical article, in a similar manner to the CPI historical series. However, the Panel felt there was some value in treating the estimates as a time series dataset, but with a separate identifier to the official CPI and CPIH series.

Action 2: Circulate the slides used for the presentation on the CPIH historical series.

Action 3: ONS to publish a methodological paper on the data and modelling underpinning these new estimates, most likely through the ESCoE discussion paper series.

## 5. Household Costs Indices

*APCP-T(20)14 On household costs indices – draft for future publication*

- 5.1. Dr Weale presented his paper, which explored the theoretical underpinnings of the Household Costs Indices.
- 5.2. Most of the Panel felt that the paper made a useful attempt to relate the concepts of the HCIs to mainstream economic theory. It was commented that the paper was important for helping with interpretation and understanding of the HCIs and that use of ‘common sense’ alone in specifying a measure like this was inadvisable. However, one Panel member argued that greater importance should be placed on simplicity and practical considerations, rather than theory, and that utility maximisation theory is not a useful guide for practical experience. It was also considered helpful for the conceptual case for inclusion or exclusion of items to be clearly spelt out.
- 5.3. It was suggested that there was a need for an alternative to the RPI for uprating when the changes set out in the consultation on reform to RPI methodology come into effect.
- 5.4. There was some discussion around the accuracy of democratic weights. One Panel member queried the reliability of [Living Costs and Food Survey \(LCF\)](#) data underlying them. LCF is the primary source of household-level spending data with a sample of approximately 6000 households, and it underpins Household Final Consumption Expenditure data in the national accounts. Dr Weale argued that with smaller sample sizes, democratic weights are more accurate than plutocratic weights. Mr Fitzner said that there were ongoing conversations about how to improve the survey.
- 5.5. It was commented that the distinction between cash spending and credit spending was important and queried whether scanner data would help in making this distinction.
- 5.6. Dr Weale posed to the Panel whether ONS should compare the approaches of treating insurance premiums as gross or net of claims, and to what extent the timing of payments should be reflected in the HCIs. There was no conclusive response, with some wanting to better understand what was being measured or what was the final product being aimed for.
- 5.7. Mr Payne said we would be taking a HCI ‘roadmap’ to the APCP-Stakeholder, and would be seeking National Statistics badging by 2025. The focus for future development would be on a national coverage basis, and on the treatment of mortgage payments.

## 6. Weights for 2021

- 6.1. Mr Payne outlined options for calculating weights to use for CPIH, CPI and RPI in 2021, in the context of shifts in the spending distribution due to the ongoing COVID-19 pandemic. Under normal procedures, 2019 HHFCE data would be used for CPI and CPIH weights in 2021 and LCF data from July 2019 to June 2020 would be used for RPI. The options presented involved either using the original data as planned or making adjustments to weights to reflect post-pandemic changes in household spending, as suggested by new Eurostat guidance (see below).

Action 4: Provide feedback to Eurostat on weights guidance, on behalf of APCP-T

- 6.2. One Panel member queried whether the shift to home delivery during the pandemic had been reflected in the weights. Internet prices have been collected since April where price collectors have been unable to visit stores either as a result of the national lockdown or as a result of the more recent localised lockdowns. Previous analysis suggests internet prices are similar to in-store prices. Delivery charges are captured separately.
- 6.3. Prof. Smith noted that it may be helpful to quantify the uncertainty resulting from unpredictable expenditure by following up on his standard errors (SE) work by developing COVID SEs.

Action 5: ONS to discuss with Paul Smith regarding calculating standard errors for CPIH during the COVID-19 pandemic

- 6.4. Eurostat guidance on weights in the HICP was discussed. The guidance states that Member States should generally use data on consumption patterns from the year t-2, but should review whether there have been any important market developments affecting quantities in the subdivisions of HICP between the periods t-2 and t-1, in order to estimate weights that are as up to date as possible. Panel members were concerned that the approach for 2021 could be problematic given the uncertainty around the period. The Panel thought that a rigid approach would be unhelpful, so there should be flexibility in the guidelines to enable NSIs to adapt their weighting schema in real time to respond to events as they unfold, and therefore reflect relevant spending patterns. Flexibility should be applied carefully and within agreed boundaries, and changes should only be made where it becomes clear that weights are not reflective of consumer spending. It was agreed that Mr Payne would provide feedback to Eurostat on the weights guidance on behalf of APCP-T.

Action 6: Circulate the slides used for the presentation on Weights for 2021

## 7. AOB

- 7.1. Mr Payne highlighted recently published papers relating to alternative data sources and noted that feedback from Panel members would be gratefully received.

Action 6: Recirculate alternative data sources papers to Panel members for feedback

No.	Action	Person Responsible
1	Clarify whether rateable values were used for RPI imputed rents used in the CPIH back series calculation	Mr Payne
2	Circulate the slides used for the presentation on the CPIH historical series.	Mr Payne

3	ONS to publish a methodological paper on the data and modelling underpinning these new estimates most likely through the ESCoE discussion paper series.	Mr Payne
4	Provide feedback to Eurostat on weights guidance, on behalf of APCP-T	Mr Payne
5	ONS to discuss with Paul Smith regarding calculating standard errors for CPIH during the COVID-19 pandemic	Mr Payne
6	Circulate the slides used for the presentation on Weights for 2021	Mr Payne
7	Recirculate alternative data sources papers to Panel members for feedback	Mr Payne

