

**UK STATISTICS AUTHORITY  
ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER**

**Minutes**

**Friday 22 October 2021  
Via Conference Call**

**Members in attendance**

Dame Kate Barker (Chair)  
Jonathan Camfield (Lane Clark & Peacock)  
Richard Gibson (Barnett Waddingham)  
Michael Hardie (ONS)  
Simon Hayes (Bank of England)  
Jill Leyland (Royal Statistical Society)  
Ian Rowson (Independent Policy Analyst)  
Daniela Silcock (Pensions Policy Institute)  
James Smith (Resolution Foundation)  
Thomas Yeomans (HM Treasury), for items 1 to 4

**Secretariat**

Andy King (ONS)

**Presenters**

Natalie Jones (ONS)  
Chris Payne (ONS)  
Sofia Poni (ONS)  
Domenica Rasulo (ONS)

## **1. Introduction, apologies, and actions**

- 1.1 The Chair welcomed everyone to the meeting. Apologies were received from Grant Fitzner, Jenny King, Ashwin Kumar, and Geoff Tily.
- 1.2 The minutes from the previous meeting (23 July 2021) were approved. The discussions about the timing of a joint Panel meeting were complete while the outstanding actions on the private rental development work and the Johnson Review will be taken to future meetings:

**Action: ONS to present an update on regional development work.**

**Action: ONS to report back to the Panel with their private rental development communications plan.**

**Action: ONS to publish a paper summarising the discussions of the Johnson Review recommendations.**

**Action: ONS to review the reference to the Johnson Review within the terms of reference (following the publication of the above paper).**

## **2. Update on the Alternative Data Sources Project**

- 2.1 Sofia Poni gave an update on the consumer prices Alternative Data Sources (ADS) project including highlighting the analytical papers being published on 9 November 2021, which includes an update of ONS's overarching plans for ADS development.
- 2.2 Sofia referred the Panel to the index methods slides presented at the recent Technical Panel which covered the work, commissioned through the Economic Statistics Centre of Excellence, to review the index number methods framework.
- 2.3 Part of the following discussions have been redacted due to the market sensitive nature of the subject.
- 2.4 The Panel were invited to comment on the planned ADS development work:
  - i. The Panel thanked Sofia for the update.
  - ii. A Panel member asked about how the decision between index methods will be made. Sofia explained that the purpose of the index methods framework is to provide the criteria for assessing the methods and to decide on the most appropriate method.

**Action: ONS to circulate the index methods framework and criteria for selecting the most appropriate methods.**

- iii. The Panel asked if ONS had considered producing explanatory material which makes it easier to understand the ADS methods? The current material is aimed at a technical audience and clear explanation at a more accessible level would be useful.
- iv. Sofia outlined that ONS planned to present the draft decision on the ADS methods to the Panel at a future meeting, following the finalisation of the Economic Statistics Centre of Excellence paper. Michael Hardie added that the ONS appreciates the complexity of the proposed methods and that, with support from ONS's communication team, the ONS will publish blogs and material, including worked examples, to help stakeholders and users to better understand these new methods.

### 3. Progress update on Household Cost Indices

- 3.1 Domenica Rasulo presented three options for implementing mortgage interest payments (MIPs) in the Household Cost Indices (HCI). The three options are:
- (a) Current method used in the Retail Prices Index (RPI) - this method uses a time series of average house prices bought on mortgages over a 23-year period;
  - (b) Simple revaluation – the simplest approach to measuring mortgage interest payments. It uses the index of house prices over time and applies the effective interest rates to calculate an index of mortgage interest payments over time, and is used by Stats New Zealand; or
  - (c) Lender’s formula method – for mortgage applications, lenders derive mortgage repayments based on the amount of the loan, the length of the mortgage and the type of interest rate (fixed or variable). We use this method of calculating mortgage repayments to create a mortgage interest payments index.
- 3.2 Domenica added that, due to the impact of the coronavirus (COVID-19) pandemic, the next HCI publication will, unfortunately, be delayed until Spring 2022.
- 3.3 After a thorough presentation, the Panel were asked to comment:
- i. The Panel thanked Domenica for an interesting presentation.
  - ii. The Panel were interested in the expected impact on the three methods of the current uncertainty around MIPs and house prices. The ONS was asked to produce projections for the three proposed methods of household experiences based on a 20% reduction in average house prices and a 1% rise in interest rates, with the latter more likely to impact on household budgets.

**Action: ONS to produce a projection for the three methods with a 20% fall in house prices and a 1% increase in interest rates.**

- iii. In summary, the Panel acknowledged that the method used by lenders to derive mortgage payments is likely to be the closest to reality and favoured its use, subject to the analysis of its behaviour following changes to the house price and interest rates. A further benefit of the lenders’ formula is that capital payments are already included.
- iv. However, it was noted that there are benefits of both the simple revaluation approach – for its simplicity to calculate (although it closely tracks the Bank of England rate) – and the capital method, which aligns with plans to introduce a capital payment version of the HCIs at a later point.
- v. The Panel asked whether this work would result in improvements to the existing RPI methods? The development of MIPs in HCIs will not impact the RPI methods, which are governed by Section 21 of the Statistics and Registration Service Act 2007.
- vi. The ONS were asked about their plans to publish distributional impacts resulting from the COVID-19 pandemic, which would show how different parts of the population have been affected over the pandemic. The Panel stressed the importance of this work.

- vii. Chris Payne advised that next HCI publication will include analysis for the complete range of deciles and population subgroups over 2020 and 2021. The publication has been delayed because of additional considerations around unavailable products and the approach to the HCI basket. It is ONS's intention to publish the HCIs on a consistent basis (to previously published series) and Paasche analysis, which uses current spending baskets to reflect expenditure changes over the pandemic.
- viii. Chris added that ONS intend to publish Consumer Prices Inflation including owner occupiers' housing cost (CPIH) subgroups, which was suspended over the pandemic, following the publication of next HCIs. However, it is anticipated that the HCIs (and their supplementary analysis) will be more informative of the impact on different population groups because of the price assumptions and lagged weights required for the CPIH subgroups.
- ix. The Panel were concerned that, by being unable to publish distributional analysis until 2022, the ONS is leaving a potential gap for other organisations to produce less accurate estimates. However, the difficulties in publishing sooner were acknowledged.

#### **4. Progress update on private rental development**

- 4.1 Natalie Jones gave an update of the ongoing private rental development project.
- 4.2 The following discussions have been redacted due to the market sensitive nature of the subject.

#### **5. Weights 2022**

- 5.1 Chris Payne outlined the ONS's thought on preparing 2022 weights for both the CPIH and the Consumer Prices Index (CPI), subject to any new international guidance.
- 5.2 The Panel were asked for their thoughts on these proposals:
  - i. The Panel supported the ONS's proposal to estimate expenditure reflective of base-year (2021) spending in the same way as weights for the current 2021 CPIH and CPI, using 2019 data as a base.
  - ii. A Panel member added that ONS's pragmatic approach to preparing the 2022 weights, based on available data, seems sensible given the uncertainty around changes to spending patterns. However, ahead of defining the 2023 weights, they felt that the ONS should decide on how current spending has been permanently changed by the pandemic.

#### **6. Technical Panel Updates – October 2021**

- 6.1 The Technical Panel discussions have been covered elsewhere in this meeting.

**7. Renewal of term of membership**

- 7.1 The Panel had a brief discussion about renewing of the Panel's three-year term of membership from 1 January 2022.

**8. AOB / Summary**

- 8.1 The Chair thanked the Panel for their contributions to today's meeting and the presenters for taking time to attend.

The next Panel meeting will take place at 10:30 on 4 February 2022.