

Dame Kate Barker, Chair, Advisory Panel on Consumer Prices - Stakeholder

Sir Ian Diamond
National Statistician
UK Statistics Authority
2 Marsham Street
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Dear Sir Ian,

The majority of the Stakeholder Advisory Panel have supported the development of Household Costs Indices (HCIs) for a number of years, and they have been a recurring topic of discussion since the Panel's inception in late 2015. As recognised formally since 2017, they fulfil an important need in the consumer prices landscape by showing how different types of households, and households overall, experience inflation.

More recently, ONS has recognised the importance of these measures in supporting the current "cost of living" debate and has brought forward its plans to move them to a regular quarterly publication (to be delivered later this year). This is very welcome, although it has of course meant postponing other important HCIs development workstreams.

However, the Panel was very disappointed to hear of ONS's plans to stop further development of the HCIs after the quarterly publication begins. We recognise the pressures that ONS faces with challenges around increasing costs, and the need to prioritise accordingly. And we are aware that we only see a small part of the overall ONS picture. But, we have been clear in our discussions that the HCIs should be a major priority for ONS. That means the development of a credible, fit-for-purpose output with the potential to become a National Statistic, as well as a commitment to regular publication.

In order for the HCIs to meet this standard, we believe that the following outstanding work, in particular, still needs to be addressed and we will be discussing these and other issues at July's Stakeholder Panel:

- *The mortgage interest payments methodology*
ONS had been exploring an alternative "lenders' formula" methodology, which measured the change in mortgage interest repayments based on a fixed basket of house prices. This work has never been formally concluded, or a decision made on which approach to use in future. In particular, the use of the standard variable rate in the current methodology is unconvincing prior to 2010.

- *The HCIs historical series*
To date, experimental HCIs estimates have been produced going back as far as 2005. However, we understand that challenges with the current project mean that it may not be possible to update the historical series on a consistent basis with new estimates. It is important that users are provided with a consistent time series so that they are able to understand the longer-term context of household inflation.
- *The equal price changes assumption*
Estimates of inflation for different household groups are based on the currently necessary assumption that all households pay the same prices for similar goods. However, this assumption is unrealistic given variances in consumption habits. Whilst it may be challenging in the short term to produce different price indices for different types of households, ONS should explore in more detail the feasibility of capturing variation in household prices – although we recognise this will need to be a longer-term project.

Finally, whilst the HCIs are being prepared for quarterly publication, it is critical that ONS continue to provide users with data on the impact of price rises on different types of households. Until December 2022, ONS was publishing CPIH and CPI-consistent subgroup inflation rates. But due to challenges updating the weights, this publication was suspended for the first quarter of 2023. We do note that ONS has instead published provisional estimates for this period, produced using the same proportions to break down all-household spending that were used in the previous year. However, we would have preferred that the CPIH and CPI-consistent subgroup inflation rates were updated and published in full.

Although the CPIH-consistent subgroup data are useful, in the long term, many of the Stakeholder Panel felt that the HCIs had the potential to offer greater insight into how households experience inflation.

In the light of the work in other countries, New Zealand and, to some extent, Australia, having led the way and now we understand to be joined by the US, we urge the ONS to reconsider the priority given to the HCIs in order to maintain its high status for quality and relevance in its inflation statistics.

To end on a more positive note, the Panel remains very supportive of the good work that ONS has delivered on consumer prices in recent years, especially around Covid, without putting the quality of its outputs at risk. The important focus on quality means that we are supportive of ONS's decision not to implement groceries scanner data in live production before 2025. We are very conscious of the amount and complexity of the work needed to introduce these data successfully.

Yours,

Dame Kate Barker