

# JOINT ADVISORY PANELS ON CONSUMER PRICES – TECHNICAL + STAKEHOLDER

## Minutes

27 October 2023

Teleconference

12:30 – 13:50

### Members in attendance

[APCP-T Panel](#)

[APCP-S Panel](#)

### ONS Contributors

Ms Natalie Jones (ONS)

Ms Emma Halshaw (ONS)

Mr Dawid Pienaar (ONS)

Mr Michael Hardie (ONS)

Mr Matthew Corder (ONS)

Ms Abi Casey (ONS)

Mr Chris Jenkins (ONS)

Mr James Wilkins (ONS)

## 1. Introduction and apologies

1.01 Dame Kate Barker opened the meeting, passed on apologies from members unable to attend, and introduced all in attendance.

## 2. Impact analysis and readiness assessment of private rental prices

2.01 Ms Jones presented impact analysis on private rental prices. The aims of the presentation were: firstly, to recap on the methods and details of the price index of private rentals (PIPR), and secondly to provide the indicative impact of including these new indices within consumer prices.

2.02 On the first aim of the presentation, Ms Jones explained that the methodology moves from a matched pairs approach in the Index of Private Housing Rental Price (IPHRP), to a hedonic regression approach in the PIPR. Ms Jones highlighted that data for PIPR is received from Valuation Office Agency (VOA), Welsh Government, and Scottish Government.

2.03 The price-determining characteristics that we use in the regression are:

- number of bedrooms
- floor area (used only for properties in England and Wales)
- property type (detached, semi-detached, terraced, and flat or maisonette)
- furnished status
- geo-demographic segmentation ([ACORN](#))
- local authority district in England and Wales, and Broad Rental Market Area in Scotland
- property age bracket

2.04 On the second aim of the presentation, Ms Jones went through the differences between the IPHRP, PIPR, and private sector measurements. Ms Jones explained the difference between IPHRP and PIPR is due to improved weighting at the local level in PIPR, rather than at the regional level in IPHRP, and the use of all collected data. The difference between ONS measurements (IPHRP and PIPR) and private sector measurements, is a stock vs flow approach.

Meaning private sector measurements measure the price of rental prices coming onto the market (flow), whereas due to data availability ONS measures the stock of rental prices already on the market (stock). By construction, movements in stock measures are lagged around six months behind flow measurements.

- 2.05 Ms Jones explained the impact of the new PIPR on the headline indices for the RPI, CPI, and CPIH. The difference between the RPI and CPI is less when using PIPR, compared with CPIH. Ms Jones explained that the RPI uses a Carli formula to calculate average prices, whereas CPI and CPIH uses a Jevons formula to calculate average prices. The Carli and Jevons formulas coincide when all price relatives are the same. As the new methodology (PIPR) constructs price relatives using a regression model, price relatives in each stratum are more similar than when a regression model is not used (such as in IPHRP). This explains why the difference between RPI and CPI/CPIH is less than in the IPHRP.
- 2.06 The Panel thanked Ms Jones for an interesting and helpful presentation. The Panel were then invited to comment.
- 2.07 Multiple Panel members highlighted the importance of clearly showing the difference, also referred to as the 'wedge', between the CPI/CPIH and the RPI within the impact analysis. A Panel member questioned how far back it is possible for the analysis to go because markets would want to see pre-2016 data, and so this would be useful and helpful for conversations. Ms Jones replied that ONS is looking into the feasibility of producing a historic time series. There are changes in data quality throughout the time series hence why an assessment on the feasibility given the data quality is needed before publishing further historic data.
- 2.08 Panel members reflected on the change to the CPIH index because of the new private rents index methodology. Another Panel member commented that they expect the CPIH index with the new methodology to have an upward trajectory in the difference for August and September as the annual change has been greater than June and July data (data up to July 2023 were presented).
- 2.08 A Panel member highlighted the potential impact this methodological change could have on current housing research in the public domain which considers rental costs as a percentage of income, which ONS would need to address. In response, Ms Jones commented that the research on rental affordability uses average rental price levels, and so the move from IPHRP to PIPR would not affect the results, unless a decision was made to change the rental price source data.
- 2.09 A Panel member reflected on the difference between Carli and Jevons formulas. They asked whether the Carli formula was a better formula because it did not imply high elasticity of substitution. In reply, Ms Jones emphasised that ONS is not saying the measure before was incorrect but that we now have access to microdata which has allowed us to make use of better methods. ONS staff said that the use of the Carli formula in price indices is never appropriate.
- 2.10 A Panel member reflected that the new CPI rents index is closer to the new RPI rents index because the new methodology uses a hedonic model (which results in more similar price relatives within each stratum), and so therefore isn't much of a difference between Carli and Jevons. ONS staff agreed with this and noted that the fact the new CPI index is now closer to the old RPI index because of new private rental index methodology is a coincidence and not design.
- 2.11 A Panel member asked ONS to produce Broad Rental Market Area (BRMA) for England by size category. Ms Jones responded to say ONS could investigate the feasibility of publishing for BRMA, however there are difficulties in producing weights at BRMA.

- 2.12 A Panel member questioned how confident ONS is in rental price collection required for the new methodology, and if ONS can replicate that confidence with VOA in the future. Ms Jones informed the Panel that the Valuation Office Agency aim to collect a representative sample, and that we have strong relationships with the Valuation Office Agency, with monthly meetings to catch up on the latest collection information.
- 2.13 A Panel member highlighted that rental prices collected by VOA excludes rental prices where housing benefits are claimed. The Panel member emphasised that household rental prices which claim benefits should not be excluded from the calculation, and therefore asked whether these exclusions by VOA affect the calculations ONS has done. Ms Jones replied that the new changes to housing benefits now means it is harder to know if housing benefits are claimed, and month-to-month changes to whether a household claims housing benefits also adds to the difficulty. The Panel member was still keen to know whether there were households being excluded from the calculations which may skew the perception of monthly percentage changes.
- 2.14 On the topic of communicating the effect of the new private rental index methodology and the impact it has, a Panel member highlighted that it is a result of more granular aggregation of weights. Therefore, an explanatory line the ONS could take is to state faster rental price increases are seen now, because households renting in areas with high prices increases are now better represented in the calculation, in contrast to the old methodology where they were not. Therefore, the Panel member questioned whether conversations around Carli and Jevons would make a difference.
- 2.15 On the same issue of Carli and Jevons formulas, a Panel member recommended to leave out discussion of Carli and Jevons from public discourse. This is because the results are a coincidence and has to the potential for individuals to come to the wrong conclusions. In response, another member suggested discussion of Carli and Jevons may be useful to have in some situations depending on the audience. An example would be for the RSS discussion.
- 2.16 Ms Jones presented a readiness assessment which considered five areas: Data, methods, systems, processes, and user readiness. Ms Jones stated the final go-no go decision will be February 2024.
- 2.17 A Panel member questioned the time periods that would be revised because of the proposed changes to private rental prices methodology. ONS staff emphasised that new methodology will only affect future consumer price statistics, and previous inflation statistics will not be revised. In this instance, ONS will only give an indication what the changes would have been. A Panel member reflected on the odd nature of the situation, because inflation should have been higher in these periods but is not reflected in official statistics.
- 2.18 A Panel member stated that should ONS decide to undertake further impact assessment, with an information pack including clear messaging points, then they would be happy to look at the material to support ONS. Multiple Panel members agreed knowing the obligation to view the pack in-person rather than virtually due to the sensitive nature of the topic.
- 2.19 On effects of the change to Other Government Departments (OGD), a Panel member noted these changes would be relevant material to economic regulators. ONS staff stated these OGD are not currently on the list that ONS will contact but hope that events hosted by ONS will allow potential stakeholders to consider the impact, and if it is deemed to be the case, ONS will provide further information. A Panel member also referenced the Office for Budget Responsibility (OBR) due to the potential fiscal policy implication, as there may be a mismatch on housing policy data, and therefore guidance post publication on the new PIPR will be needed.

- 2.20 A Panel member questioned whether these changes to the private rental index will cause meaningful changes to real GDP. Ms Jones replied that there are ongoing conversations with National Accounts, but this exact question has not been raised as of yet.
- 2.21 Panel members were asked their preference on the amount of data for ONS to publish. There was agreement that as much data published as possible is preferred, which includes the extra three months from July 2023.
- 2.22 On publishing additional data, a Panel member commented that it is also helpful to provide a clear understanding of the market to put the data in context. In addition, the Panel member highlighted context needed for presenting the wedge between CPIH and RPI as the context and reason for why the wedge occurs will be considered by individuals.
- 2.23 When publishing data, a Panel member asked if an index for broad rental market areas in England and Wales would also be published. Ms Jones stated current plans are to publish to local authority and regional level, but we would investigate the feasibility of producing broad rental market areas. The Panel member replied stating that they would be interested in seeing indices by broad rental market areas.
- 2.24 A Panel member highlighted that given the dates provided in the impact analysis, it is unclear what the data would do in a period of falling rents. ONS staff highlighted that London saw falling rates over the time period covered in the impact analysis, so this can be considered given the new methodology.

### **3 Impact analysis and readiness assessment of second-hand cars**

- 3.01 Ms Halshaw presented impact analysis on the effect of new methodology for calculating a second-hand cars price index. Detail was provided on the methodology and how it differs from previous methodology, and the impact on final indices.
- 3.02 Mr Pienaar presented a readiness assessment on the implementation of the new methodology, highlighting that previous issues which caused the decision not to go live last year have now been addressed. The remaining work prior to going live is now around the production environment which should soon be completed. Mr Pienaar also highlighted that impact analysis will be shared at January's Panel meeting.
- 3.03 The Panel thanked Ms Halshaw and Mr Pienaar for an interesting and helpful presentation. The Panel were then invited to comment.
- 3.04 A Panel member highlighted that in the methodology there is a big reliance on Autotrader to provide data and therefore calculate the price indices. Therefore, contingency plans should be put in place to mitigate the risk of over-reliance on a single data supplier.
- 3.05 A Panel member commented that data on second-hand motorcycles is received from Autotrader but is subsequently discarded. The Panel member highlighted that as this data is available, it would be worthwhile to evaluate whether price indices would be enhanced from including second-hand motorcycles data.

#### 4 **AOB**

4.01 Mr Jenkins presented on the change to be implemented in calculating the weights which feed into the CPI and CPIH. These changes are going to be implemented as there is no longer a large impact from the Covid-19 pandemic on consumer expenditure patterns. Therefore, the methodology previously brought in to address this issue is no longer required.

4.02 Panel members agreed that the presented item from Mr Jenkins was sensible and there were no objections. There was particular support from a Panel member on the removal of rounding in the weight's calculation.