

## **Proposal to delay the implementation of COICOP2018 in Consumer Prices Inflation**

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### **Purpose**

1. A significant revision of the Classification of Individual Consumption by Purpose (COICOP) system that underpins key economic statistics has been implemented by the United Nations Statistical Division (UNSD). Most developed countries are planning to implement the updated classification in late 2025 for National Accounts and early 2026 for consumer inflation. The Office for National Statistics (ONS) was working towards the same implementation dates, however, due to recent resourcing constraints and in particular the ONS decision to stop the Household Financial Statistics Transformation (HFST) project, the UK is currently unable to meet these deadlines.
2. The purpose of this paper is to present to the panels the preferred option for a delayed implementation of the new classification. While this is ONS's preferred option at this time, consultation with our users is at an early stage and it is possible that our final position may be different.

### **Actions**

3. Members of the panel are invited to comment on:
  - a. The proposal to delay the implementation of a revised COICOP classification in consumer inflation.
  - b. The preferred approach to implement the change in classification.
  - c. The proposal for an interim reclassification approach to maintain comparability for the purchasing power parities.

### **Background**

4. The Classification Of Individual Consumption by Purpose (COICOP) is an international classification managed by the United Nations Statistical Division (UNSD) and originates from 1999. It is the main classification system used for both national accounts and consumer prices inflation across the world. It also underpins many household budget surveys.
5. A revision of the existing COICOP 1999 (COICOP99) was adopted by the UNSD in its meeting of March 2018. The new COICOP (referred to as COICOP18) updates and restructures the classification to better reflect current consumption patterns and provides more detail. In Europe, a more detailed version of COICOP 1999 was adopted in 2016. This version, labelled "ECOICOP", added a more detailed subclass (5-digit) level to COICOP 1999, without changing the higher-level structure (class level, also known as '4-digit level' and above). The UK adopted the more detailed ECOICOP in 2017, which was a legal requirement laid down by Eurostat for all Member states.

ECOICOP is the classification that currently underpins the production of UK consumer prices inflation and wider economic statistics.

6. COICOP18 also introduces a detailed subclass (5-digit) level which in many cases is based on ECOICOP. However, COICOP18 also changes the division structure (2-digit level) into 13 divisions for consumer expenditure (as opposed to the 12 divisions currently) and the underlying groups and classes. With these changes, COICOP18 is much better suited to classify current consumer expenditures, specifically on communication and information services, than COICOP 1999/ECOICOP.
7. Following a session on the [implementation of COICOP18](#) at the 2023 meeting of the group of experts on Consumer Price Indices (CPI), several countries indicated they would be implementing COICOP18 in late 2025, and then for the consumer price index in February 2026, with the publication of the January 2026 index. The ONS has not committed to any implementation date for COICOP18, although we had been working towards the same initial deadline.
8. Eurostat expects all member states to adhere to this date, with anecdotal evidence that other key countries are also working to these dates but there is no explicit confirmation of implementation beyond EU member states. The UK would potentially remain one of a small number of countries on the old, outdated classification.
9. Historically, given the UK membership of the European Union (EU), we have adhered to the legal requirements of Eurostat, in particular the Harmonised Index of Consumer Prices (HICP), for which our CPI was compliant. This meant the UK introduced the ECOICOP classification in 2017, and we remain on this version of the COICOP classification (across Prices and national accounts where it is used), which is essentially aligned to COICOP99 with an additional level of detail.
10. At the time of the introduction of ECOICOP, the UK made the decision to take a 'light touch' implementation, as we were aware of the impending wider UNSD revision of COICOP. It is worth remembering that ECOICOP only introduced additional detail at the sub-class level of the classification, whereas the UNSD revision is a fundamental reclassification that has led to the introduction of a new structure (for example, COICOP18 has 13 divisions, compared to 12 divisions under COICOP99). Light touch in this context meant a model was developed by national accounts, in coordination with Prices Division and the Living Costs and Food (LCF) survey that used existing data sources, such as data held by LCF, Prices or other areas in ONS to derive expenditure estimates at the detailed sub-class level. Where insufficient data are available, a simple apportionment is used to redistribute class level expenditure to the detailed ECOICOP breakdown. This model is updated each year to ensure it utilises any updated new data sources.
11. Following the introduction of ECOICOP, strategic plans were put in place to start preparation for the more fundamental reclassification that COICOP18 would entail. The proper course of action for the introduction of a new classification is to identify any relevant gaps in data under the new

classification, then take the necessary steps to collect this data either through updates to the LCF questionnaire, or by utilising any new administrative data sources, notwithstanding the system development to manage these changes. This approach ensures the correct flow of data from household budget surveys, through the national accounts and into inflation. It also ensures all key themes (family spending, national accounts and inflation) are ultimately based on the same classification structure.

12. Resources were made available to support the broad implementation of COICOP18 as part of the wider Household Financial Statistics Transformation (HFST) project funded through the ARIES programme in ONS. Whilst no formal implementation date for the introduction of COICOP18 by the UK was publicly confirmed, a timetable was developed to support the introduction of the new classification through LCF questionnaire/data source improvements in 2023/24, implementation in National Accounts from 2025 and subsequently implementation for consumer inflation in early 2026, which aligned with the implementation planned by Eurostat and other countries. This approach was being coordinated across ONS and would therefore have the UK in a consistent position with the new classification.
13. In mid-2023, following the office review of resources and subsequent reprioritisation, funding for HFST was withdrawn by ARIES, meaning the work to support the implementation of COICOP18 was stopped. No further work on the implementation of COICOP18 has taken place since and there are implications to be considered as a result.

### **The current position and proposed way forward**

14. The comprehensive and coordinated introduction of a new (or updated) classification such as COICOP can be both time consuming and challenging. The ideal flow of change would see improvements and system changes introduced to the household budget survey (the Living Costs and Food survey in ONS, LCF) initially, along with consideration of new or alternative data sources needed to fulfil any gaps in data under the new classification. The LCF data are then used in household final consumption expenditure within the national accounts, and then subsequently fed through to consumer inflation. This approach ensures each area, household budget, national accounts, and inflation, adopt the new classification in a logical order. This was the approach initially planned within ONS, however, as noted above, this approach requires additional resources for implementation.
15. Sequencing is important, both across the outputs that use COICOP but also alongside the other transformation and development work planned in ONS. Most notably within prices there is the alternative data sources (ADS) transformation of consumer inflation, with the ambitious introduction of scanner data for groceries expected to deliver in March 2025. Wider than inflation, there is also the significant planning of work needed to implement the new System of National Accounts (SNA25) which requires considerable

- development across the ONS national accounts. The implementation of COICOP without additional resources could put either of these projects at risk.
16. An impending Spending Review, assuming a new Government decides to make this a priority provides the perfect opportunity to bid for funding to implement the new classification in a comprehensive manner, effectively picking up the HFST work and taking it through to conclusion.
  17. Assuming a comprehensive Spending Review covers the period from April 2025, a bid for the implementation of COICOP18 would see the HFST work pick up again in 2025 and the necessary improvements/reclassification introduced via the LCF in 2025/26, implementation in national accounts in late 2027 followed by the implementation in consumer inflation in early 2028.
  18. The clear benefits of this approach are the comprehensive nature of the reclassification, the consistent implementation across the various areas of ONS that use COICOP and the relatively small impact on other streams of work already taking place. However, this option does lead to a delay in the introduction of COICOP18 for the UK, particularly in comparison to EU member states who are aiming to introduce COICOP18 in February 2026 for the harmonised index of consumer prices (HICP). Whilst the UK CPI will still be comparable at the aggregate index level, there will be a period where the UK CPI is out of sync with HICP at the divisional level.
  19. Should international consistency be seen as essential for consumer inflation then a two-tiered implementation of COICOP18 would be needed. A comprehensive implementation would still be required as part of a Spending Review (see above), with an interim approach taken on a best endeavours basis to introduce the new classification in consumer inflation by February 2026. This approach would come at significant risk in terms of the quality of reclassification work implemented, the risk to other workstreams within ONS and a period of inconsistency between national accounts and inflation. This latter point would require consumer inflation to be 'double-run' on both the current and new COICOP classification for deflation purposes until the comprehensive implementation of COICOP18 in the national accounts in late 2027.
  20. It is ONS' preferred option, subject to further consultation with users that the implementation of COICOP18 is delayed allowing the sufficient resourcing through a Spending Review bid, which in turn allows for a logical and comprehensive implementation of the new classification across all areas of ONS. This proposal minimizes risk to other high priority work taking place in ONS and ensures confidence in the quality of ONS accredited official statistics underpinned by COICOP. This will see COICOP18 introduced in national accounts in late 2027 and consumer inflation in early 2028.
  21. Given the proposed two-year delay and potential issue around non-comparability with other countries, the ONS will need to carefully engage with key users and stakeholders, along with key international agencies such as the International Monetary Fund, OECD and Eurostat.

## **Purchasing Power Parities**

22. The COICOP99 classification is also the basis of data collected for the Purchasing Power Parities (PPP). Historically, the UK provided PPP data to Eurostat as part of European Comparison Programme, which was 75% funded by Eurostat. However, since Brexit, the UK now sits as part of the wider OECD International Comparison Programme, which is non-funded (so covered by Prices baseline).
23. The underlying principle of the PPP is international comparability, and as such the UK need to provide PPP data on a consistent basis to OECD, so classified to the new COICOP in line with other countries. There are two data requirements for PPPs, firstly price data which is collected via a rolling series of price questionnaires using a common list of items maintained by Eurostat/OECD. This component doesn't require any significant development work, system changes (as this is managed by OECD) or additional resource.
24. The second requirement is for annual GDP expenditure-based weights. These data are provided via the national accounts, currently on an ECOICOP basis. To maintain consistency the UK would need to provide these annual weights on the new COICOP18 basis. At this stage we are waiting to confirm the exact date OECD expect COICOP18 based weights but expect it to align with Eurostat (late 2025). From a reputational perspective, each G7 country is represented in the International Comparison Programme.
25. From the PPP perspective, the work needed to compile weights on the new classification is significantly less of a burden and can be done in isolation to other economic statistics. In this case, the reclassification can be carried out on a best endeavours basis to ensure the UK PPPs remain comparable as required.
26. The PPPs are revisable (for up to three years), so the comprehensive reclassification implemented via a Spending Review bid can then be used once it has been implemented in National Accounts to revise the earlier PPP data as needed.

**Chris Jenkins**

**Prices Division, Office for National Statistics**

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