ADVISORY PANEL ON CONSUMER PRICES

Consumer Price Inflation – future of the consumer prices landscape

Expected publication: market sensitive

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Information regarding the RPI has been redacted until the UKSA has considered these matters.

Purpose

1. This paper provides an overview of the consumer prices landscape, which describes the different measures and approaches to consumer price inflation. It raises several questions regarding potential updates in response to panel members feedback, including how Consumer Prices Index including owner occupiers' Housing costs' (CPIH) role is described, the wording of the Retail Prices Index (RPI) reform planned in 2030, and development work required for Household Costs Indices (HCIs).

Actions

2. Members of the Panel are invited to consider:
    a. How the role of CPIH should be communicated, with particular emphasis on whether it should be referred to as the lead or most comprehensive measure, or an alternative.
    b. Whether supplementary statistics, such as seasonally adjusted consumer price statistics should be included in the consumer prices landscape.
    c. .
    d. .
    e. Are the HCIs still viewed as a key part of the consumer prices landscape despite the lack of resources to undertake further development at present.

Background

2. The ONS has set out a clear consumer prices landscape summarising the different measures and approaches to measuring consumer price inflation, enabling stakeholders to make an informed choice over which measure is most appropriate for their purpose. The landscape was first published in 2017 following an independent review and public consultation. It was subsequently updated in 2023 to incorporate changes in how these statistics are presented and developed, including the results of the 2020 consultation on the Reform of the Retail Prices Index.
3. Despite the Prices Landscape being available on the ONS website, it is not prominently signposted and has been accessed only 1145 times over the past 2 years. There is clear potential to enhance its visibility and promote it more effectively as a resource for understanding the range of measures provided by ONS, and the different reasons stakeholders may prefer one measure over another.
4. The landscape has three 'use cases' for consumer price inflation statistics:
    a. CPIH is our lead and most comprehensive measure, which is based on economic principles and is designated as an Accredited Official Statistic. The Consumer Prices Index (CPI) is also an Accredited Official Statistic and based on economic principles, but importantly it does not include owner occupiers' housing costs and Council Tax, which are

significant expenses for many households. However, the measure is produced in line with European standards and guidance, making the CPI, also known as the UK Harmonised Index of Consumer Prices (HICP), internationally comparable.

b. The Household Costs Indices (HCIs) are a set of statistics in development that describe the experience of different households by measuring changes in costs and prices they face; experimental estimates are published every quarter. These complement the CPIH and CPI which are macroeconomic measures of inflation.
c. The Retail Prices Index (RPI) is not a good measure of inflation. The methods used to produce it are not consistent with internationally-recognised best practice, a shortcoming that led to it losing National Statistics status in 2013. Reflecting the serious shortcomings of the RPI as a measure of inflation, the publication of RPI-related data was scaled back to that which is essential to meet existing user needs; moreover, as the majority of users have not moved away from using RPI as anticipated, our policy is to address the shortcomings by bringing CPIH methods and data sources into RPI in 2030.

5. The landscape is as important to the credibility of any one statistic as the unique features that define it. When the Office for Statistics Regulation reviewed CPIH against the Code of Practice for (then) National Statistic accreditation in 2017, they assessed how well it meets user needs by considering its role in the wider consumer prices landscape. Ed Humpherson's letter of July 2017 states, "How ONS explains the purpose of CPIH and how it fits with other measures of inflation needs to be clear....ONS has clarified what it describes as the 'use case' of CPIH in its role as an economic indicator of inflation, based on economic principles, within a wider family of measures. This greater clarity of purpose has helped us assess whether CPIH does meet the user need for a macroeconomic measure, and we conclude that CPIH does indeed meet the economic 'use case'." The implication here is that there are further use cases, and that these are not met by CPIH.

Consumer Prices Index including owner occupiers' housing costs' (CPIH) role

6. While CPIH has been our 'lead' and 'most comprehensive' measure of consumer price inflation, for nearly a decade, there's been limited appetite to use it. The CPIH builds on the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home, known as owner occupiers' housing costs (OOH), along with Council Tax. Therefore, CPIH is ONS's most comprehensive measure of consumer price change across the economy as a whole. Despite this, the majority of stakeholders continue to use CPI and RPI, there's wide media coverage of the former every month, most of the queries received by ONS are on these measures, and they are widely used to uprate financial products.
7. In contrast, CPIH has only seen limited uptake. We've had feedback from stakeholders including the media, that they will continue to report on CPI as it's the Bank of England's Monetary Policy Committee's inflation target and until this is changed, it is very unlikely that CPIH will be widely used.
8. However, recent metrics from the ONS website, show that the CPIH 12-month rate is the most accessed time series data on the website, contradicting the widely held view that there's been limited appetite to use CPIH. This could possibly be attributed to stakeholders preparing for the reform of the RPI in 2030, when the data sources and methods of the CPIH will be used for this widely discredited measure. Also, the CPIH 12-month rate is signposted on the main figures page

on the ONS website, allowing stakeholders to access the time series with one click, in contrast stakeholders are unable to access CPI and RPI in the same way.

Table 1: Time series data URL visits between June 2023 to June 2025

	CPIH	CPI	RPI
Index	63,762	91,086	215,884
12-month rate	350,215	149,602	249,177
1 month rate	5,090	3,841	3,927

9. In recent years, we have rebalanced our commentary. For example, while the consumer prices statistical bulletin previously focused primarily on CPIH, it now gives equal attention to both CPIH and CPI, a change that has been positively received by stakeholders.
10. Is it ONS's role to tell stakeholders what it considers the best measure or should the lead measure be based on what stakeholders consider it to be. We still view CPIH as our lead and most comprehensive measure of consumer price inflation; but does the lack of uptake undermine ONS's position, and should future communication focus on CPIH as our most 'comprehensive' rather than 'lead' measure.

<u>The role of supplementary statistics</u>

11. The ONS produces a wide range of supplementary statistics, including core inflation and shortly seasonally adjusted consumer price statistics. These are not included in the landscape to avoid conflating headline and supplementary statistics; however, this means that the landscape is incomplete. One potential approach is to include a summary of the supplementary statistics we produce, as they are widely used by stakeholders and would provide a more complete picture. However, previously ONS has been criticised for having too many different inflation measures making it difficult for stakeholders to understand consumer price statistics.

<u>Reform to the RPI Methodology</u>

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<u>Communication of the reform to the RPI Methodology</u>

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<u>Development of the Household Costs Indices</u>

20. The Household Cost Indices (HCIs) have been in live production for nearly two years and published as official statistics in development. These statistics are an important part of the

landscape, offering valuable insights into the changing costs and prices faced by different household groups.

21. The Stakeholder Panel have asked for HCIs to be accredited by 2028, allowing users time to move away from RPI. These efforts will focus on ensuring the quality and value of HCIs to meet accreditation standards and including exploratory work into mortgage interest payments and other costs associated with owner occupied households. However, there's currently limited resource available to take this forward.
    a. Years 1 and 2: Identify potential replacements for data sources and update methods. Focus only on key work required for accreditation, including user needs.
    b. Years 3 and 4: Progressing through the accreditation process, if the above is achieved.

22. In terms of international practice, ONS's development of the HCIs is considered groundbreaking. There is strong interest at international expert group meetings, and other countries are also considering similar frameworks. Modernizing the Consumer Price Index for the 21st Century, an influential review of the US CPI, recommended that "developing price indexes for population subgroups along the income distribution should be a high priority for Bureau of Labor Statistics (BLS),". This work is actively being taken forward by the BLS, and other countries, such as Switzerland are also exploring these approaches. Stats New Zealand and the Australian Bureau of Statistics have published similar measures for some time.

23. Panel members are invited to provide feedback on the role of the HCIs within the consumer prices landscape; are the HCIs still viewed as a key part of the consumer prices landscape (and hence the "use case" for a measure of inflation that reflects household experiences) despite the likely lack of further development prior to 2030. The Economic Statistics Plan is prioritising CPIH, CPI, business and house price statistics, and will revisit whether additional resources can be allocated to the HCIs when capacity becomes available.
24. Also, if the HCIs are determined to still be a central part of the landscape, should they be highlighted as a replacement for the RPI and an appropriate index for uprating.

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