



## **Report of the presentation by Ainslie Restieaux, Office for National Statistics, to RPI/CPI Campaign Group representatives**

**Wednesday 8 May 2013, National Union of Teachers HQ, Hamilton House**

Present: Nick Kirby (PSPC), Anita Brown (PSPC), John Jarvis (CSPA), Mike Duggan (CSPA), Lisa Ray (CSPA), Chris Haswell (PCS), David Brown (RPOAS), Jane Shallice (NUT), Frank Byrne (NARF), Usman Gbajabiamila (ATL), Suresh Gupta (NFOP)

Mr Duggan welcomed Ms Restieaux to the meeting and thanked her for making the presentation to the RPI/CPI Campaign Group. The purpose of the meeting was to learn more about the new indices – RPIJ and CPIH, the status of RPI and the future plans for the uses of the indices. Ms Restieaux began her presentation by explaining the Owner Occupier Housing Costs (OOH) element and its inclusion in CPI. She explained that two ways of measuring OOH had been developed by the Consumer Prices Advisory Committee (CPAC) over a two year period. The two measures were ‘rental equivalence’ and ‘net acquisitions’. Rental equivalence used rent as a proxy for the costs involved in owner occupier housing. Net acquisitions attempted to measure the separate elements involved.

In April 2012 CPAC recommended rental equivalence as the preferred method to measure OOH. The new measure of consumer inflation would be known as CPIH. A consultation followed in June 2012 and twenty responses were received. The responses reflected mixed views but CPAC continued with their original recommendation. The UK Statistics Authority Board approved the recommendation.

In March 2013 an article ‘Introducing OOH’ was published and CPIH and OOH were published in the Consumer Price Inflation Bulletin. Ms Restieaux stated that CPIH would be initially published as an experimental statistic and user feedback would be gathered. She explained how the Campaign Group could take part in the feedback. Ms Restieaux stated that CPIH was fulfilling a need that CPI could not because CPI had been restricted by EU Legislation to produce a comparable measure across the EU (see HICP, below). She explained that CPIH could evolve to meet user needs.

She then introduced a graph which showed that OOH as measured by rental equivalence was lower than CPI from 2006 until 2012. A member of the Campaign Group asked why the graph had not included RPI as a comparison figure. Ms Restieaux explained that it was most useful to compare CPI with OOH. She advised that the comparisons were available from the ONS website. A general discussion was had on how CPIH would actually be used. Ms Restieaux was not sure if CPIH would replace CPI but indicated that CPI may need to be amended in future to include OOH using the net acquisitions method.

Another graph was introduced which showed CPIH and CPI from 2006 to 2012. The graph showed that CPI was higher than CPIH and this fact was questioned by the Campaign Group. Ms Restieaux explained that the difference in the figures on the graph was a result of OOH being lower than CPI and that although there was also a dip in house prices, this wasn’t as pronounced as that of the rental market.

Ms Restieaux set out the European developments towards measuring OOH. The inclusion of OOH in the Harmonised Index of Consumer Prices (HICP) was seen as a high priority and a Eurostat regulation would require the ONS to provide a standalone net acquisitions index from the end of 2014. There was potential for full inclusion in the HICP at some point in the future. This would mean a change to the current British CPI index.

She then went on to talk about the 'formula effect' – the difference between RPI and CPI that leads to RPI running at around 1 per cent higher than CPI. A programme had been launched in 2011 to look at the causes of the formula effect. She explained that experts had written reports and held teaching sessions at the ONS on the formula effect. The National Statistician said that the gap needed to be addressed so a consultation on four options for amending RPI took place in October 2012.

Ms Restieaux confirmed that responses to the consultation strongly favoured option 1 – which was for no changes to be made to RPI. It was pointed out that the PSPC response to the consultation had aligned with the Royal Statistical Society response that had rejected all options and called for a review of CPI and RPI. In January 2013 CPAC met to consider the outcome of the consultation. It said that elements of the RPI formula did not meet international standards and therefore a new RPI-based index called RPIJ would be published using the formula for calculation known as 'Jevons' based on a geometric mean.

Ms Restieaux was asked to explain the differences between the different methods of calculation. She stated that it was important how the measure performed during 'price bouncing' which involved shops, especially clothes shops, putting their goods in and out of sale promotions. The way people buy items such as clothes had changed since RPI had been introduced and the method used to calculate RPI needed to take account of this.

In March 2013 the UK Statistics Authority announced the cancellation of RPI as a 'national statistic' although it would still be published as an 'official statistic' because it was still in common use, notably for index-linked gilts, student loans and train fares. Ms Restieaux explained that a national statistic meant that it would have a badge of standard and quality. Ms Restieaux introduced two more slides. One highlighted the cumulative difference between RPIJ and RPI from 1997 to 2012 showing that RPI was lower over the period. The other showed the RPIJ and RPI yearly change figures from 1998 to 2012 showing RPI, as expected, was consistently higher than RPIJ.

Ms Restieaux ended her presentation by setting out the next steps. The CPIH was able to meet the needs of UK users and could evolve. The purpose of RPIJ was to enable users of RPI to understand the impact of the use of a formula that did not meet international standards - as highlighted by CPAC. The UK Statistics Authority was intending to conduct a wider review but details of this were yet to be announced.

Questions were then taken from the Campaign Group. Ms Restieaux was asked to explain the use for RPIJ and CPIH and if RPI would remain the same. She explained that there would only be 'routine changes' to RPI, ie, the standard changes to the basket of goods used. It was not clear what RPIJ and CPIH would be used for but Ms Restieaux reminded the Campaign Group that the ONS was independent of Government. Ms Restieaux was asked if the Bank of England had responded to the consultations – they had not but did occupy a position on the Committee. It was understood that the Bank of England had an important role as it was the issuer of index-linked bonds. Changing the terms of these loans could lead to creditors asking for their money back! A general discussion on how the Government might use RPI and CPIH took place. It was explained that other European countries have two measures for inflation - one on a Euro-compatible basis, the other to measure domestic cost of living.