

Professor Sir Ian Diamond
National Statistician
UK Statistics Authority Statistics House
Cardiff Road
Newport
South Wales
NP10 8XG

By email to national.statistician@statistics.gov.uk

12 April 2022

Dear Sir Ian,

Measuring the cost of living crisis

As you know, the RSS has long supported the development of new Household Costs Indices (HCIs) to replace the Retail Price Index (RPI). I am writing because we believe that the deepening cost of living crisis makes the case for developing HCIs more urgent.

It is unlikely that the crisis in the cost of living will be over quickly – even if the immediate surge in inflation slows, the number of people who are struggling to meet basic needs will remain significant. It is vitally important that the country has the most accurate possible information about how inflation is impacting this group – as well as other households – so that decision-makers can most effectively target policy measures.

We believe that the Household Costs Indices (HCIs) should play a major role in this. Properly understanding the more social, microeconomic needs of households requires a measurement of inflation that has been developed with that in mind, rather than relying on a measurement which, like the Consumer Prices Index (CPI) – and, by implication the CPI including owner occupiers' housing costs (CPIH) – were expressly developed for (macro)economic purposes such as inflation targeting. HCIs, as they were developed with the prime aim of measuring inflation as it actually affects different households, could be a powerful tool.

However, the pace of HCI development, even before Covid delayed it, has been somewhat slow: they are currently only published once a year and on current plans will only be published quarterly even after they have obtained National Statistics status.

We would like to see the development of HCIs substantially accelerated along with a commitment to publishing them every month, even while it is still an experimental statistics, alongside CPI/CPIH and RPI. They will allow the impact of inflation on households to be measured as accurately as possible.

The RSS is keen to continue to help develop HCIs however we can. We have asked John Astin and Jill Leyland to update and extend their [2015 technical paper on HCI coverage](#) and we intend to organise a public meeting during the summer on the applicability and future development of the HCI. I have also attached an appendix with some comments from our experts on the important issue of formula effects that we think ought to be addressed as HCIs are developed.

If it is helpful, we would be very happy to meet and discuss these issues with you.

Yours sincerely,



Professor Sylvia Richardson CBE
President of the Royal Statistical Society



Appendix – Formula issues

1. Which elementary aggregate formulae should be used in the HCIs

The debate in the UK over which elementary aggregate formula to use (Carli, Dutot, Jevons) in the compilation of consumer price indices when weights are not available has been particularly bitter. The choice between RPI and CPI for uprating purposes makes a real difference to what people receive (eg in pensions) or pay out (eg rail fares, student loan repayments etc). The difference between the two inflation rates is normally (not currently) primarily due to the different formulae used. The debate has been aggravated by:

- entrenched positions on both sides
- apparently opportunistic choices by the government as to when RPI is used and when CPI
- the absence (as far as we are aware) of any unbiased assessment, in accessible language, of which formula should be used when
- confusion (even within the ONS – for example in the March 2018 article on the Shortcomings of the RPI) between the chained and direct versions of the Carli index which can give very different results in practice.

A decision was made that the HCIs should use the same formulae as CPI/CPIH which is mainly Jevons with a small amount of Dutot. The reason for the decision was to facilitate comparison between the HCIs and CPIH. However it would be better to review this and make the choice on the characteristics of each data set. In particular, there is a strong case for making significantly more use of Dutot.

2. The formulae to be used with scanner and web-scraped data

It has been agreed that more complex formulae than those currently used are needed with these large datasets. These will be far less easily understood by lay people than the current ones. Given the legacy of mistrust from the above there will need to be a substantive effort to explain and justify the new formulae. It is also important that there is clear understanding about the circumstances in which they do and do not perform well so that the 2010 issue with Carli is not repeated.

