

## **Response from the Royal Statistical Society to Re-Assessment of Statistics on the Consumer Prices Index including owner-occupiers' housing costs (CPIH)**

The Royal Statistical Society (RSS) is a learned society and professional body for statisticians and data analysts. We are one of the world's leading organisations to promote the importance of statistics and data, and have done so since we were founded in 1834. One of our six key strategic goals for 2014-2018 is for statistics to be used effectively in the public interest, so that policy formulation and decision making are informed by evidence for the good of society. Our National Statistics Advisory Group has advised RSS' response to this consultation with this goal in mind.

### **Background to RSS response**

The UK Statistics Authority has invited comments on their re-assessment of CPIH for designation as part of National Statistics. CPIH uses the new ONS Index of Private Housing Rental Prices (IPHRP) as its data source for imputation of owner occupied housing costs. We have therefore structured our response into two parts – first our comments on IPHRP (which itself does not yet have National Statistics status) and secondly our comments on CPIH.

### **Comment on IPHRP**

1. We welcome the improvements that have been made to the treatment of the rents data which will feed into improvements in a number of statistics. The five components of improvement (all leading to increases in the index) set out in the January 2015 article all seem soundly based and sensible. Clearly the underlying selection of rents by the Valuation Office Agency (VOA) is not a statistical sample and is subject to bias, but the methodological improvements described by the ONS would seem to address this issue as well as can be expected.

2. Trends in the rental index, as acknowledged in the article a much slower growth rate over time than actual rental prices from the same source (and also from other sources). The paper explains that this is due to compositional and quality changes which are corrected for in the price index. We wonder however if the revised index might not still have a downward bias for two reasons which perhaps need further investigation:

- a. The Johnson Report and associated research has put a question mark over the practices used when selecting non-comparable substitutions for dwellings where rent information is no longer available. (When a dwelling price is no longer available and no comparable substitution can be found the replacement procedure implicitly ascribes all the difference to price to a quality change.)
- b. Rent increases above 50% are rejected and the property deleted from the sample. We wonder however if some of these might not be genuine, perhaps when a long standing tenant moves on and the property is put of the market for the first time in many years. It would be useful to know how many are rejected as having abnormally high rent increases.

## **Comments on CPIH**

1. Despite the improvement in the rents data we do not find rental equivalence a credible way of measuring Owner Occupied Housing, since rental markets can diverge from owner occupational costs over long periods of time, and the imputed price would not be seen by the general public as a reasonable measure of owner occupied housing costs.
2. Using rental equivalence in this way means that CPIH makes substantial use of imputation. The weight accorded to Owner Occupied Housing in the current CPIH has varied from 17% to 19.5% in recent years. Using imputation for something this significant is highly dubious. Neither is it recommended internationally (see para 3.131 of Consumer Price Index Manual: Theory and Practice, 2004, International Labour Organization and others). Imputation is not permitted in the EU Harmonised Index of Consumer Prices (HICP), from which CPIH is derived, other than for the minor use of estimating prices of individual products for a month when the price cannot be directly recorded.
3. Eurostat are developing the net acquisitions approach for measuring owner occupied housing costs and when introduced, the UK would be obliged to follow this method for the data supplied to Eurostat and will also need to publish it, creating a rival and confusing alternative version of CPIH.
4. For the above reasons, we question whether CPIH meets Principles 1 (Meeting User Needs) or 4 (Sound Methods and Assured Quality) of the Code of Practice.

*Submitted by RSS' Policy and Research Manager, 1 October 2015*