

ROYAL STATISTICAL SOCIETY RESPONSE TO THE HOUSE OF LORDS ECONOMIC AFFAIRS COMMITTEE REPORT: 'MEASURING INFLATION'

The RSS welcomes this report, thanks the Committee members for the quality and comprehensiveness of their inquiry, and supports most of their conclusions. Consumer prices provide key indicators of inflation that are vital for economic policy, and also for the day-to-day decisions of business and citizens. Users have a right to expect the best possible measures of inflation for their various needs.

Following the publication of the Committee's recommendations, we need to see the Government and UK Statistics Authority develop plans to address the issues and shortcomings set out in this report - with proper user engagement and regular progress reports.

We welcome, wholeheartedly, the recommendation that a programme of methodological improvement to the Retail Prices Index (RPI) should be resumed. We are also delighted that the Committee shares our longstanding concerns about governments' 'inflation shopping', which needs to be brought to an end. We welcome, too, the suggested review of how owner-occupier housing costs should be measured.

We note the proposal for one measure of inflation for government use but believe there is a case for different indices for different purposes, as set out in our submission to the Committee. The characteristics of any such single measure, and its measurement, would therefore need to be very carefully considered - bearing in mind, in particular, that there can be real differences in indices with a macro-economic focus and those focusing on measuring the impact of inflation on households.

Our view on the RPI is set out in our statement published on 29 October 2018. In that statement we:

- fully supported the National Statistician's vision that three families of inflation measures need to be maintained on an equal basis;
- supported the ultimate use of Household Costs Indices (HCIs) to replace the RPI as long as they continue to be developed satisfactorily;
- given its long term use, argued that the RPI should, in the meantime, be managed as well as possible, with pragmatic adjustments to deal with the clothing problem (which is described in the Committee's report); and
- argued that the current selective use by government of different price indices, and the justifications given for these uses, can be arbitrary and appear unprincipled.

Accordingly, we particularly welcome the recommendations made in the report to help address the issues covered in the third and fourth of these points.

We make the following detailed response to the Committee's report:

On the previous decision to treat the RPI solely as a 'legacy measure', paras 102 to 108.

We fully agree that the programme of periodical methodological work to the RPI should be resumed, given its continued use. We strongly welcome the call for the problem with clothing prices to be fixed, and that the necessary consultations should take place.

On the need to prevent 'inflation shopping' by government, paras 126 to 135.

The Committee is right to point out that governments can and do 'inflation shop' - all too often using one inflation index when paying money out to the public but another when taking it in. (See Table 2 of the Committee's report, p. 39.) The RSS has repeatedly expressed its disquiet about this practice, which is both unfair and damages public trust in official statistics. We support and welcome the Committee's endorsement of our concerns, and its call for this practice to cease.

On tackling the 'formula' effect, paras 57 - 69, 80-94 and 119-120.

The RSS welcomes the Committee's decision to call on the UK Statistics Authority to address the formula effect and, in the report's words, "fix the issue with clothing prices."

This subject had been one on which RSS members had given particularly detailed evidence, in person and in writing, to the Committee during the course of its inquiry.

On Household Cost Indices and the measurement of owner-occupied housing costs, paras 151 to 152, and 153 to 154.

We are disappointed not to see either a conclusion recognising the value of the HCIs for measuring the impact of inflation on household budgets or a recommendation asking the Office for National Statistics (ONS) to move forward the HCI development programme more speedily.

We agree that having a good measure of owner-occupier housing is important and welcome the conclusion that the method for measuring this should be comprehensively reviewed. We would ask ONS to ensure that they have fuller discussions with a wider range of stakeholders on this important topic before a decision is reached, and that wider needs beyond macroeconomic needs should be considered.

On the development of a new inflation measure and the convergence of the RPI towards it by 2030, paras 180 to 184, and 194 to 196.

The Committee argues in favour of a single measure of inflation for government use, which would undoubtedly make public communication easier. However, as indicated above, the RSS firmly believes that there are values for different users in different indices and, indeed, we strongly support the continuing development of the new Household Cost Indices.

In the same vein, we believe the Committee's report does not fully set out the complexity of the RPI and why it remains attractive to other users. The report does not give sufficient weight to the fact that there are two quite distinct uses of price indices - as a macroeconomic measure, and as an indicator of pressure on household budgets. The RPI is, in fact, a hybrid of these two measures but has more in common with a household cost index than a macroeconomic consumer prices index. This is the reason why it is still favoured by pension funds. The rationale for uprating pensions in line with the RPI is to ensure they match households' experience of rising budget costs, which is not what the CPI does.

Notes

1. Experts from the RSS were involved in providing technical advice to the Committee as it finalised its report (as noted in Chapter 1, paragraph 4).
2. The Society had previously submitted evidence to the inquiry, which was based on discussions at various RSS meetings held during 2018 - including, in particular, one devoted solely to 'The Future of the RPI'.

Ends