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Friday, 28 September 2012

Dear Jil

Consultation on the RPI

The RSS has, as you know, argued for some time (we first wrote to Michael Scholar in August 2010) that the formula effect should be reduced or, preferably, eliminated. We were delighted when the ONS started its research programme into the topic in summer 2011. So I first want to say that the RSS is happy to offer its support for the consultation you recently announced and, in particular, would be very willing to host a meeting on it.

This said, there are two aspects of what has been announced so far that concern us. The potential changes could have a direct and material effect on a substantial number of people and organisations, at least some of whom will find difficulty in gathering views and assessing the potential impacts of different options in a short time frame, so we regret that the timescale is less than the full 12 weeks.

The other concern is the apparent limits of the consultation. The information published so far states that only the RPI formulae are under consideration, not those in the CPI, and that only the choice of formulae is being considered. The Jevons formula extensively used in the CPI is not without its critics as well as its supporters; even within the constraints of HICP rules it is not the only option and these constraints will not apply to the new "CPIH". As we all know there is no perfect index number formula for all situations. The "formula effect" depends not just on the choice of index but also on the characteristics of the price movements and levels being measured, sample design, choice of base period and price collection methods. Indeed we had hoped that the research programme being run by the ONS would be allowed to run a full course examining all these factors and enabling them and their interaction to be assessed before changes were considered.

We accept though that the evidence the research programme has so far uncovered does point to the use of the Carli index being a large part of the problem and that there are arguments for seeking to solve this part of the issue sooner rather than later. What we would urge is that the consultation, within the limits of practicality and the time frame, covers

as many of the issues mentioned above as feasible and, above all, that the work on the formula effect continues so that ultimately we do arrive at the best possible conclusion for both indices.

I am copying this letter to Andrew Dilnot, Glen Watson, Caron Walker and Derek Bird as well as colleagues here at the RSS.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Valerie Isham', with a long horizontal flourish extending to the right.

Valerie Isham
President of the Royal Statistical Society