

Measuring Consumer Prices: the options for change

GLA Economics consultation response

September 2015

Section One: Measuring prices across the economy

1. Should ONS identify a main measure of price change across the economy?

a. Yes

1a. Why? Please provide any comments below:

A measure of how prices, in general, have moved in the economy is necessary for a whole range of reasons, not least to have one measure with which to measure and monitor the stability of prices for the Bank of England's Monetary Policy Committee. However, that is not to say that other measures of price changes should be neglected or disregarded. For instance, given that the cost of living differs substantially across the UK Government Office Regions, introducing a regional dimension to the index would add significant value and enable more accurate analysis of the cost of living in the UK. Moreover, one single measure of inflation won't provide sufficient information on inflation experienced by some individuals and households. A household based index would better capture the changes in the cost of living and support the Greater London Authority's (GLA) work on the implementation of the London Living Wage and wider analysis on the National Living Wage.

2. If Yes, What should this measure be?

a. Other (details on the measure in section 2a).

2a. Why? Please provide any comments below:

CPI inflation should be the key measure of inflation in the UK. It is important that the headline measure is comparable internationally. However, any new alternative cost of living measure that is to be published should also include all housing costs to better reflect the true cost of living. As a part of the alternative cost of living measure, household weighting should be based on the number of households to avoid bias towards wealthier households. As a part of the new cost of living measure, it should be possible to disaggregate data by region, and category of expenditure. Categories of expenditure on transport, housing, council tax, childcare and other would provide valuable information for GLA's work for instance on our calculations for the London Living Wage.

3. Should its production be governed by legislation?

a. Yes

3a. Why? Please provide any comments below:

Setting the production of this statistic by legislation would enable the ONS to accurately understand the needs of the government in terms of national statistics. However, such legislation would need to be constantly reviewed in order to ensure that statistics remained fit for purpose. Further, the introduction of legislation for regional price indexes would guarantee that this so far overlooked statistical need is adequately addressed.

Section Two: Measuring consumer price inflation for different household types

4. Should ONS seek to measure changes in prices, as experienced by different households?

i. Yes

4a. Why? How often? Please provide any comments below:

A timely indicator of cost of living experienced by households would provide policy makers with tools to respond to changes in cost pressures.

It would be helpful to develop minimum income standards for different types of household. However, there is a risk around recording price changes as experienced by different households as it may largely reflect differences in income. Therefore, the results may not be meaningful without a shared approach to income standards.

5. If Yes, how should ONS seek to do so?

- i. Using a payments-based approach.
- ii. On the same basis as existing measures such as CPI.
- iii. Via another means (please provide details)

5a. Why? Please provide any comments below:

Using a payments-based approach as this would most readily capture the costs of living as experienced by households.

Section Three: The RPI

6. Do you use the following indices?

- i. RPIJ **Yes**
- ii. Tax and price Index **Yes**
- iii. RPIY **Yes**
- iv. RPI pensioner indices **Yes**
- v. Component indices of the RPI **Yes**
- vi. Any other RPI analytical- or sub- index **Yes**

6a. If yes, for what purposes? Please provide any comments below:

These indices are used as required in GLA Economics' research in order to fully understand the performance of the UK and London economies and in order to provide briefings to the Mayor and other stakeholders.

7. Do you agree that the below indices should be discontinued?

- | | | |
|--|------------|------------|
| i. RPIJ | Yes | |
| ii. Tax and price Index | | Yes |
| iii. RPIY | Yes | |
| iv. RPI pensioner indices | | Yes |
| v. Component indices of the RPI | | Yes |
| vi. Any other RPI analytical- or sub-index | | Yes |

7a. If yes, why? Please provide any comments below:

As indicated by the Johnson review, the usefulness of these measures is limited given the current lack of 'National Statistics' accreditation of RPI. However, given the importance and use of the RPI in commercial contracts and gilts there is a risk that discontinuing building blocks of RPI could affect the predictability of the RPI measure used by market participants. In general, if discontinuing some of the above indices results in the loss of time series information on inflation, then this would not be desirable. Further, this response is dependent on the ONS generating other price indices that deal with the issues that we have highlighted above. If no alternative measures are introduced to replace these indices we would not agree with discontinuing these series.

8. Do you have any views on what 'freezing' changes to the RPI should mean in practice? Please provide comments.

N/A

Section Four: Evolving Consumer Price Statistics

9. Are the priorities identified by ONS in its forward work plan appropriate?

Yes

9a. Why? Please provide your comments below:

The priority should be towards the development of a costs of living price index that better captures the changes in the cost of living. Further, developing a regional dimension to the price index would benefit many users and enable more sophisticated analysis of trends over time.

10. Should ONS include council tax in the CPIH?

a. **Yes**

10a. Why? Please provide your comments below

Council tax should be an element of price indices as it is an important part of consumer expenditure, and varies across the country.

