ROYAL STATISTICAL SOCIETY
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Transcription of RSS Open Meeting on RPI

This is a first version of the transcript of the RSS Open Meeting on the RPI. It may contain some errors that will be corrected before a final version is made available. Please refer to the video for a definitive record of people's comments – timestamps for the start of each section are provided in this document.

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Chair's introduction

[Starts at 00:00:00]

Deborah Ashby (DA -- chair): I would like to thank all of you for dialling in especially as it is turning out to be a really rather lovely evening outside. I would particularly like to thank the UK Statistics Authority: I know that Sir David Norgrove is dialling in, I can see that Sir Ian Diamond has dialled in, and Jonathan Athow for attending. And that level of engagement when there is so much else going on tells me how seriously the UK Stats Authority are taking this. What is slightly sadder is that we don't have a representative from the Treasury, who are also hosting the consultation. And though we did ask them to be involved, they were unable to send a representative and although the subject is very important they clearly have other things going on so they were unable to prioritise this. I hope that we're going to have a good discussion that will eventually feed through.

I would like to thank the Royal Statistical Society's National Statistics Advisory Group, chaired by Steve Penneck, for organising the event and who have made sure that everything is working properly, ably assisted by RSS staff.

So, a little bit of background for the event. Some of you will know this well, but some of you may not know quite as well, that the consultation started earlier in the year on the Retail Prices Index, and as part of that we had planned a face-to-face meeting at our Errol Street premises. I was really looking forward to it. And I think it's fair to say I think it was one of the first serious casualties of the fact that we then couldn't meet in person because Covid was coming much faster than any of us had appreciated. We then moved couple of things to online including a RSS Council meeting in March and, indeed, our interviews for our new chief executive. But we just couldn't get a head around how to do a consultation meeting online. So we postponed it, we then got rather that the consultation wouldn't be terribly effective, not just because we couldn't participate, but because actually anybody that might be putting into it at that point was trying to work out how to work from home, [and] how to make their workplaces secure if anyone did have to go in. And, quite frankly, we were thinking about just about everything except the Retail Prices Index.

If anything, changes to the economy has made consideration of this even more important. So we lobbied to make sure that the consultation period would at least be extended. We are very grateful that happened and what that means is that we are still now in the consultation period. Now that we've all got rather more used to using Teams meetings, we've discovered that actually they have their advantages. If anything, they're actually rather more inclusive. We thought -- right, we know how to do this. Hence we're having this virtual meeting.

That extension was warmly welcomed by, among others, Tony Cox of the RPI/CPI User Group and I'm delighted that Tony is one of our keynote speakers today. So there's good coming out of this.

I should remind you, your stream may tell you or it may not, that this event is being recorded as we did for the 2018 event on 'The Future of the Retail Prices Index'. So a recording and transcription will be available after the event so that we've got a record of it. What that also means is that if you use the chat function, please bear in mind that your intemperate comments will still be recorded for posterity! We don't have any way of editing them, so please post only comments that you don't mind other people reading.

Part of the purpose of this meeting is to help inform the Royal Statistical Society's response to the consultation. I'm expecting a variety of views, though I don't know if everything will make it in unedited. But the chat can be used for that. If you've got points that you want to make that there may not be time to make verbally, or are more appropriate by chat, please do use the chat function because we will be able to capture it. I would also highlight that there is an opportunity to submit written thoughts by 9am on 29th July to the RSS. If you look at your briefing packs, it tells you how to do that.

But back to housekeeping for the next part of the meeting. We have three presentations and then we're going to go into some invited contributions and then we'll go to a more free-flowing question and answer session. Some people have already told us that they want to ask a question. I will outline the ground rules for both of those sessions.

But we’ve got first of all three speakers. I think I've got the order right but we've got first of all Jonathan Athow, Tony Cox and Jill Leyland who have got about ten minutes each. And we will take those straight after each other without questions in between because we've got plenty of time for questions later. So I would like to allow each of those ten minutes to have their say.

Without further ado, then, I'm going to hand over to Jonathan Athow, who's the Deputy National Statistician for the UK Statistics Authority and for those of you who listen to the *Today* programme, he's become rather a regular participant. And he is probably on other parts of the media that I don't necessarily tune into. So, Jonathan over to you.

Presentations

1. Jonathan Athow, UKSA, *RPI Consultation*

[Starts at 00:05:31]

Jonathan Athow (JA): Thank you very much. I'm going to take you on a whistle-stop tour of the consultation. I will give you quite a bit of background because I think that's really important to understand why the consultation was framed in this particular way.

So I'll start off with a few statements. Obviously, most of you will know all this. RPI is one of a number of measures of price inflation produced by the Office for National Statistics. We have come to see it as a legacy measure and I'll explain where that word legacy comes from. We see a number of significant shortcomings. Now I know not everyone has the same view as us on that, but that's our position. And we come to discourage the use of it, we think there are better measures of consumer price inflation, CPI being one, but also the Household Cost Indices which I’ll give you an update on today.

So that's the background. Before I get into the detail I'll take you through a bit of the legal position because again I'm afraid this does colour how the conversation is structured. The legislation, the Statistics and Registration Service Act, says two main things about the RPI. First of all, we must produce it every month. And secondly, if there are certain changes that we make to it, we need the agreement of the Chancellor of the Exchequer. And that happens when there are changes to the RPI that are fundamental and materially detrimental to the holders of certain index-linked gilts. And that judgement on whether they are fundamental or detrimental is an issue for the Bank of England to decide. All of that is set out in legislation. I'll explain a little bit more how that is fed into our consultation.

Just to give you a bit of history on the RPI: obviously you can go all the way back to 2010 when we made some changes in clothing prices that really started what I think it's been a decade-long discussion and re-evaluation of the RPI. The first consultation was launched in 2012 and the conclusion reached at that particular time was that RPI did not meet international standards, but there were no plans to change it because we saw significant value to users at the time in leaving it unchanged. Instead what happened was the RPI lost its status as a ‘national statistic’.

Then came along Paul Johnson and he did a review about inflation measures: a pretty broad review. That reported in 2015, and he sort of said a couple of things. RPI should be considered a legacy measure; he wanted it used only where it was contractually required and other uses to stop. And he was also keen that CPIH would become the headline message. So that took us up to about 2017.

Then there are a few things that have happened more recently. In 2018, the Government said that its objective was for CPIH to become the government headline measure over time. Then a key decision point was the [inquiry by the House of] Lords Economic Affairs Committee. They launched an inquiry in 2018 that reported in January 2019 and it was a very complex, detailed report but essentially they were saying that we are still seeing widespread use of RPI and this cannot be satisfactory. It couldn't remain a legacy measure and therefore we need to address the shortcomings.

Then I'll move on to what our response was. The Board of the UK Statistics Authority took advice from the then National Statistician and he made two proposals around RPI that were accepted by the Board and formed our proposition that we put to the Chancellor. So, first of all he said that RPI should stop – we should stop publication. Arguably if it's not a good measure the best thing to do to stop its publication. Now I should say that the Chancellor ruled out this option, stopping RPI, so I'm not going to talk about any further – but just for completeness I wanted to mention that it was part of our proposal. The alternative was then to address the problems with RPI by bringing in the methods and data from CPIH into RPI. So that was the central proposal. We put that to the Bank of England, they said it was fundamental and materially detrimental and required the consent of the Chancellor. The Chancellor responded, all of this was made public in September, he said he wasn't willing to contemplate changes to RPI before 2025, but wanted to consult on whether to make changes between 2025 and 2030. I haven't mentioned 2030 before, but essentially that's when the gilts with the particular protections in them that are covered by the legislation mature. So essentially that requirement to ask the Chancellor falls in 2030. So that was the Chancellor's response. So that's really led to where we are with the consultation today.

The consultation has two parts to it. The Treasury is consulting on the appropriate timing, this 2025-2030 slot. We are consulting on technical aspects and, in particular, the one I'll talk about most is how you bring the methods of CPIH into RPI.

We're seeking feedback on this approach as we put the proposal forward. The other issue we are talking to people about is the sub-indices of RPI. We can't in some cases continue to produce these appendices; in fact, in virtually all cases we cannot produce sub-indices of RPI once we've imported the methods and data of CPIH. So we're seeking to understand what users are using those for, so we can provide guidance. I won't talk about that in any more detail.

Moving on. The way we're planning to bring the methods of CPIH into RPI is by chain-linking, "chaining". This is a very common approach. It's essentially the approach that we use when we update the 'basket' every year. And, put simply, what we're planning to do is, the monthly growth rate of the CPIH series is going to be applied to the index-level of the RPI/RPI-level. And I'll take you through what the consequences of that are.

What we have done, as we've put in the consultation document, is what this transition would have looked like if we'd done it in 2017. Obviously, we've not done it in 2017, but that gives you an idea of some of what has happened. So this is the calculation: we start with the white number, which is the RPI index, we apply to that the CPIH growth rate, which is the ratio in sort-of yellowy-orange. And that gives you what this new RPI with the CPIH methods in looks like. So, that's the simple calculation.

I'll just take you through, very quickly, what that looks like. So, the chart on the left shows what happens to the monthly growth path and essentially from the moment of transition. As I've said, we've chosen what would have happened in 2017. We simply switch from having a separate CPIH and separate RPI to a single index. What happens with the annual growth rate is that that converges in twelve months and, as you can see in the example here, there are some periods where that RPI level is above CPIH – some times when it is below. There's no particular pattern – that will depend on the data at the time. But it takes twelve months for those then to converge. And then you've got essentially the same methods and the same data forming both indices.

Again, very simple for the index. The index just changes from the point at which you start to make the change to the monthly growth rate. So that's the key thing in terms of how we're going to make the changes.

I'm running out of time, so I won't say anything too much about supplementary indices. We are interested in what people are saying, so that we can provide guidance on what the alternative would be in the new framework.

Just to take you through what the opportunities are for consultation … So, there's an opportunity to respond online. There's a hyperlink there; these will be circulated afterwards. There's an opportunity to 'speak' to the consultation team via email. We've also got some engagement opportunities coming up: we've got an event next week. As I've said, this is a joint consultation with the Treasury, so anything you send to any of these addresses will be shared between the two departments because, again, it's easiest to do it that way. And, as Deborah said at the beginning, we started this consultation on 11th March, extended it because of the pandemic, so we'll have had five months of consultation to August.

So that's all I wanted to say. A very, very quick tour. As I've sort of said in one of my slides, but didn't actually read out, I've covered a lot of ground there. There's a lot of complexity, a lot of detail here. Anything that I may have covered over quickly, the detail is in the consultation document. That's the document of record so, if there's anything we're missing or any ambiguity in what I've said, that's the place to go and look.

OK, thank you very much for that opportunity.

DA: Thank you, Jonathan. That was a *tour de force* both on the technical detail, but also on what it is we're consulting on and what it is we are not. So, plenty of time later to ask questions. For now, we're moving on to the user perspective and Tony Cox is going to take us through that. Tony – it's all yours.

2. Tony Cox, RPI/CPI User Group, *Future of the RPI: Some Comments*

[Starts at 00:16:51]

Tony Cox (TC): OK. So, thank you Deborah and thank you Jonathan for that introduction to the consultation. As you've heard, I'm Tony Cox and I chair the RPI/CPI User Group. The views I'm going to express here today are informed by the User Group and its members, but they are my own. So we should bear that in mind.

So, this afternoon I want to make the case for why I do not think the consultation is transparent. It does not pay proper regard to the model of price indices as set out by the [then] National Statistician in 2017. Nor indeed to the advice the [then] National Statistician provided to the UKSA Board in 2019, which Jonathan referred to in his slides. Furthermore, it repeats a one-sided criticism of the RPI. The RPI comes in for a lot of criticism; the CPIH and CPI should receive their fair share of criticism as well. And, finally, at best I regard the consultation as being premature.

Why do I say the consultation is not transparent? Well, mainly because it's not consulting on the fundamental proposal contained within it. Which is, in effect to change the RPI into the CPIH, as you just saw in the slides that Jonathan presented. After a year of transition, the RPI and CPI will become, to all intents and purposes, identical. So it proposes to present one index, CPIH, under two headings. One, the RPI, which is still the much-trusted name of our familiar price index, and the other under its continuing title of the CPIH. But to all intents and purposes the two indices will be identical. This is a fundamentally dishonest approach to the handling of the country's price indices. Furthermore, the proposed change is going to disrupt many existing agreements in unpredictable ways. Although the ONS is inviting information on the extent of affected agreements it is unlikely that they can all be identified in advance. Furthermore, the change proposed, will in any case, create winners and losers on an arbitrary basis. Agreements entered into on an understanding of the terms will be fundamentally changed to the benefit of one party and the detriment of another.

Yet the parties to such agreements could have chosen the CPIH in preference to the RPI, but they made a deliberate choice to use the RPI; they will now be forced to use what they had previously rejected.

The consultation betrays the UKSA's stated commitment to two classes of inflation measurement – that is a macro-economic family of indices and a household family of indices. There is scant reference to this important concept within the consultation document. While macro-economic price indices are well served by two - the CPI and CPIH - the household index family currently relies on the RPI. As Jonathan said, a new index is under development – the HCI – but it is not yet ready and it is certainly not ready for use, for widespread use.

In his advice to the UKSA Board in 2019, the [then] National Statistician said – and I quote – "it would be possible to align the RPI with the CPIH, which would meet the needs of those users seeking an index reflecting inflation according to economic principles. In this situation, those users who are seeking an index reflecting the impact of price changes on households should then be given the opportunity to use the HCIs". End of quote. So, in other words, the National Statistician at the time was clear that the CPIH was an economic indicator of inflation and those requiring a household measure should look elsewhere. He suggested towards the HCIs but, as I just said, these do not yet exist in a usable form.

It should also be pointed out that those users seeking an index reflecting economic principles are already well-served with both the CPI and the CPIH. They hardly require another CPIH with the name “the RPI” attached to it.

The best that can therefore be said for this consultation is that it is premature, as it is taking place before we have a fully developed and accepted new household measure of inflation.

The ONS has had ten years to address the difficulty thrown up by changes to the collection in clothing data. But despite many suggestions it has failed to tackle the issue. It is now attempting to wash its hands of that problem by also discarding a long running and trusted, by many, measure of prices.

I think it is necessary to address the elephant in the room, as I’ve described it, which is the objection of the Authority to the use of the Carli formula. The consultation document at page 25, table 1 and the third row provides an example. I’ve taken that example and given more detailed expansion of it to provide clarity. Using the example provided in the consultation document, I’ve started with two identically priced items. The cost of each is 50p in 2019. One increases by five-fourths in 2020, now costs 62.5p. The other decreases by four-fifths in 2020 and now costs 40p, as shown in this example on your screen.

The Jevons formula says that there has been no increase to the consumer. But in the real world of 2020 our consumer will find themselves unable to afford the same items for the same price as in 2019, as my slide shows. In fact, our consumer will now need one pound and two-and-a-half pence and, lo and behold, that is the figure delivered by the Carli formula. The example provided is therefore a clear example of why the Carli formula continues to have a justifiable role in the compilation of price indices. The ONS has for too long been one-sided in its criticism of Carli and, indeed, the RPI in general while neglecting the shortcomings of the Jevons formula and its preferred headline measure - the CPIH. It is worth mentioning that the other rows in this same table, if you refer to them, provide arguments for why the RPI is the superior measure of household inflation, but time does not permit discussion in detail of those points.

However, I don’t want my comments just now to be taken as an assertion that the Carli formula is the one to be used regardless of context. I’m merely asserting that all formula when used to estimate an average will have advantages and shortcomings. Jevons may well be the right formula in some cases as will the Dutot, another form of the arithmetic mean.

This slide shows the extent to which formula and direct estimates of weights are used within the RPI and the CPI (on which the CPIH is based). The table demonstrates that while Jevons is not used in the RPI, it does make use of a mix of both the Dutot and the Carli formulae, whereas the CPI uses the Jevons almost exclusively, with a very small percentage of the Dutot. It is also worth drawing attention to the greater use of weighted information in the RPI when compared to the CPI, which is generally regarded as providing the basis for a more accurate calculation.

In this short presentation, I hope I have demonstrated why I regard this consultation as lacking in transparency, failing to properly recognise the framework for price indices laid out by the former National Statistician in 2017, and that the consultation continues a history of unbalanced criticism of the RPI. Given the way that the CPIH falls short of the ONS's own plans to develop a household measure of inflation, adoption of it under the label of the RPI will fail those users requiring a household measure of inflation. So, once again, the best that can be said for it is that is premature and should wait for the development of an alternative household measure of prices.

Thank you.

DA: Thank you, Tony. I'm sure some will agree with you; some will disagree. But I hope everyone will agree that was a really clear presentation of your views. And, again, I'm sure there will be discussion on those later. The third of the presentations that we're going to move to now, is from Jill Leyland, who I think is wearing a – I mean, she has had various hats over the years – but she is now wearing I Royal Statistical Society hat and she is going to tell us about the future of the RPI: some alternative paths. So, Jill – over to you.

3. Jill Leyland, *The Future of the RPI: alternative paths*

[Starts at 00:26:32]

Jill Leyland (JL): Thank you, very much Deborah. And thank you, Jonathan and Tony. Yes, I'm going to talk a bit about the RSS view. What I'm going to say is not the RSS view in its entirety because there is some overlap in what the RSS thinks and what the User Group thinks and you didn't want to hear Tony and me say the same thing twice.

So, I hope I'm going to be able to make three main points.

First, that we only have partial knowledge about the use of RPI or, indeed, consumer price indices generally, and of what the needs of those users are.

Second, the "landscape" of consumer prices that Tony mentioned, that was set out in 2017, makes a distinction between economic – or, as some people will refer to it, macro-economic – indices such as the CPI and CPIH and household indices such as the Household Costs Indices. And the RPI is essentially a household index.

Third, there are other options and we have time to reflect.

It has long been recognised that you need different consumer price indices for different uses. And on this slide I have a quote from the consumer price index manual, the international manual, which is published by the ILO, the IMF, OECD, UN and other eminent international organisations. And that says while the general purpose of a consumer price index is to measure changes in the prices of consumption goods and services, the concept of consumption is an imprecise one that can be interpreted in several different ways, each of which may lead to a different index. So understanding user needs is therefore important.

But our knowledge is very patchy. Some areas, we know quite a lot about: we know about its use in policy, the use of the CPI by the Bank of England for an inflation target, for example. The use of indices for regulated prices etc. We know quite a bit about the use of indices in pension funds, index-linked gilts and so forth. Maybe something about their use in wage negotiations. But we know very little [in other areas] - for example, such as their use in business contracts.

The consultation has questions which ask about the impact of the proposed changes – but apparently the decision’s already been made about what we’re going to do and this seems to be the wrong way round. I cannot help but think of a parallel with 2010 when this whole saga about the RPI started. And it was a result of changes made to the way clothing prices were collected, changes made with extremely good intentions, but disastrously they were not tested before implementation, so the impact of them was not appreciated. And now it seems that, in some ways, we’re doing the same thing: making changes without full knowledge of their impact.

Jonathan mentioned the Johnson review. There were a lot of good things in that review. But there is one thing it did not do -- and this is perhaps something that is not particularly widely realised – it did not look particularly closely at user needs. Particularly outside the public sector. If you look at the appendix to the review you will find a list of 15 organisations consulted and only four of those were not official bodies.

However, we do have some knowledge, even if not as good as we would like. And as already mentioned, in February 2017 the former National Statistician, John Pullinger, set out a landscape of consumer needs.

This is a direct copy of John Pullinger’s slide. So, as you see, he saw a need for three sorts of indices: indices based on economic or macroeconomic needs, to be met by CPIH and CPI; household experience, which John Pullinger envisaged being met by the Household Cost Indices; and, finally, the RPI for all the existing long-standing contracts where RPI was mentioned. And it is very widely used indeed.

That landscape seemed to us, in the RSS, to make a lot of sense and I don’t think we were alone in that.

Now, CPI, CPIH and RPI will, I am sure, be familiar to all of you. Household Costs Indices are less well-known. They’ve already been mentioned by the last two speakers. They are experimental series, as has been said, and as Jonathan mentioned the latest iteration of them was published at 9.30 today. I had hoped to include one slide showing some of the results but unfortunately we had some power cuts where I live in the morning, coupled with loss of internet, and this just made this not possible. But I do urge you all to have a look at them – just Google “household costs indices and ONS” or something like that and you should get through to them. And you will see for example how the inflation experience of households in different categories has varied. For example, the difference between households in different income deciles, for households with and without children, and for retired and non-retired households and so forth.

What exactly, though, are the differences? Because although we have these two concepts, if the differences are not very great, it really doesn't matter if we only have one index to cover the two. So, let's have a little look at some of the differences – these are only some of them.

Economic indices are plutocratically weighted, to use the term that is commonly used, whereas household indices are democratically weighted. Plutocratic weighting, when you weigh together the items that go into a consumer price index, you want their weights to reflect their use overall in the whole economy. How much money is spent on each item overall? This means, of course, that households that spend more, which typically are richer households, have more influence than poorer, lower-spending households. Household indices you attempt to weight all the indices – sorry, households – similarly or get as close to that as we can. Research by the ONS has shown that this can make quite a big difference.

Economic indices are based on economic definitions as far as possible, whereas household indices are very much based on household experience. So, for example, economic indices exclude interest payments, while household indices include them. Household indices look at expenditure by residents, whether that's in the UK or ideally, if possible, abroad, whereas economic indices include all expenditure in a country, whoever makes it. And there are a number of other treatments of owner-occupier housing, for example, that can make quite a difference.

And if you look at the original purpose of all the indices we have, CPIH is essentially CPI with a couple of additions. And CPI is the EU's harmonised index of consumer prices for the UK. And the harmonised indices of consumer prices were designed, and this is a quote from the EU regulation that established them, for the purpose of providing comparisons of inflation in the macroeconomic context – that's things like inflation-targeting – as distinct from indices for national and microeconomic purposes such as compensation.

The RPI, if we look at its history, was originally designed right back in the 1950s for wage bargaining – that was its purpose. So, it was designed to reflect the experience of the target households who would be affected by wage negotiations. And while its use expanded over the years, it still had this idea of reflecting household experience as the 1986 advisory committee said: "for the index to be of value it must generally be regarded as relevant to people's concerns and a fair reflection of their experience". So, it's essentially a household index. So why turn it into a macroeconomic one?

There are other options. The former Chancellor's decision to delay any change until at least 2025 gives us time. I believe, and I'm fairly similar to Tony here, that the RPI only has one real flaw. That is the combination of the Carli index with the way that clothing prices are collected. And that could be mended. Other flaws, so-called, are decisions that were made at the time -- in the past – and were considered properly by the advisory committees at the time and were made for good reason. You may want to review them as time has passed, but you cannot really call them flaws.

Turning back to the one flaw I do see. We are going to have scanner data which will give us a lot more opportunity to use weighted indices and that should come on-stream in the next few years. Then, of course, the Household Cost Indices will be more fully developed. So I do hope that there will be a review.

Up to now, what I have said reflects, so far, the RSS's views, although obviously they will evolve, largely as a result of this meeting. But I want to end on a personal thought. In the 50 years of my working life, I've been a user of ONS statistics or, in the past, CSO statistics. And, for most of those years, ONS at its best is a world leader. At its best it is open-minded, has a sense of discovery, it is innovative, it listens, it has expertise. But the RPI saga since 2010 has been a very sorry one. Sometimes ONS has looked like a rabbit in the headlights.

I do hope that there will be a change Not just for all the reasons that Tony and I have mentioned, but because I think the ONS is better than what it has proposed at the moment.

DA: Thank you, Jill. So, again, very clearly put. And I'd like to thank our three keynote speakers for sticking so well to time despite having a lot that they wanted to get across. So that's left us with plenty of time to start opening it up.

<u>Invited Contributions</u>

1. Ashwin Kumar

[Starts at 00:38:50]

We're going to go to Ashwin Kumar, form Manchester Metropolitan University. All four of you have been advised that you've got about four minutes. So, after that, I will start leaning in. If you see my camera going on, you'll know. So, Ashwin first.

Ashwin Kumar: Thank you very much, Deborah. So, I'm at risk of repeating some of what Jill, has already said. Let me start with where I'm coming from. As a former chief economist at the Joseph Rowntree Foundation, as someone whose work involves looking at incomes and at poverty, one of my principle concerns with economic statistics is they tyranny of the average in communications of economic statistics.

Just to take an example, if you look at house prices: go back to the pre-recession peak and house prices in the north east of England were 5% lower than they were in the pre-recession peak. But in London, they are 61% higher. If we hear on the news the national average, that is 25% up. If you live in the north east of England, that statistic is utterly meaningless to you.

One of the problems that we have in our economic conversation is that there isn't space to reflect this diversity. The news will only have one inflation figure, or one house price figure. One of my key criteria for price statistics is the ability to reflect the diversity of experience. And, so for me, one of the things that that means is democratic weighting is absolutely crucial. The second, which is really important, is disaggregation by subgroup. The household cost indices, the latest iteration of which was published today, show for instance that inflation in the last year has been higher for people in lower income deciles, and it is incredibly important to allow that capacity. I'd also want to be able to see users have the ability to generate their own ways to be able to look at specific subgroups. If I'm trying to analyse the relationship between lone parents and benefit income, and other sources of income, compared to their costs – I want to be able to generate a price inflation series for that particular subgroup.

As others have said, CPI is firmly in the macro camp. For me what that means is we need the household cost indices. The RPI doesn't have the democratic weighting and I don't see it as the saviour. The exclusion of households, pensioner households, whose income rely ions ate benefits is an important exclusion from my point of view. And it means that actually, quite a lot of change needs to happen to the RPI before it can be used for the purposes that I need. Another example is the dependence on house prices influencing the index/ As we saw, there is so much diversity on a geographical basis between house prices, I wouldn't want that necessarily to effect the presentation of the picture that people see in the shops.

So, my conclusion is that I agree that it's not acceptable for the RPI to be left as a legacy benefit with shortcomings, given that people are using it. It needs to be changed; my view is that the household cost indices are really the direction for change. I'm relaxed, therefore about whether the RPI is moved towards CPI or towards the household cost indices. What I'd really like to se is the household cost indices to be built up and to become the item that people talk about in the news when they say what's happening to prices in the shops.

DA: Right. Thank you very much, Ashwin. Beautifully within your time. We're going to move to the other three, then at the end of these I'm going to move to ask the panel speakers if they want to respond to anything before we open it up more widely. The next person in this series is Jonathan Camfield who is from Lane Clark Peacock.

2. **Jonathan Camfield**

[Starts at 00:42:32]

Jonathan Camfield: Thank you very much, Deborah. Thank you for the invitation to speak to the meeting. I should mention that I'm a member of the advisory panel for consumer prices and also a partner at LCP. But today, I'm speaking in a personal capacity.

At LCP we advise at over 40% of the FTSE100 on pension matters. We're actuaries and that includes advise relating to inflation. RPI reform is expected to have a range of impacts on pensions. Which I'm going to briefly comment on covering three key areas of: pensions themselves, investment markets, and pension deficits.

So, first, pensions themselves. If RPI is to be around 1% per annum lower from, for example 2025, then any pension that is linked to RPI will increase around 1% per annum lower in the future. In the long-term, I know it's a statement of the obvious, this will clearly be less money in pensioner pockets. It is worth considering who is impacted. It's not state pensions or public sector pensions – these are already linked to CPI. It is not the modern so-called DC pensions, that the majority of the UK's private sector workers are now in. It's the older style DB final salary pensions, the vast majority of which are now closed, they've promised pensions toa round ten million people. Survey evidence suggests around 70% -- 7 million pensions – are still linked to RPI and these can therefore now be expected to be lower in the long-term.

You can look at this in two ways. Some would argue this is deeply unfair. Pensioners were promised RPI and are now being provided with something less than that. Others would argue that these pensions have increased by more than true economic inflation in the past, particularly over the last ten years with the clothing issue we've heard about. They've had a windfall and its now only appropriate to correct this issue, albeit with some warning.

Secondly, the investment markets: many pension schemes own index-linked gilts, which are linked directly to RPI. Currently this market is worth around £800 billion. Some estimates suggest that the vast vast majority of it is owned directly or indirectly by pension schemes and insurance companies to give them a secure asset to back the pension payments that they've promised. This is why in my view a clear roadmap for the future of inflation is really important. Because financial markets depend on clarity. My view is that a solution that involves a series of consultations, of tweaks, of improvements to the RPI wouldn't have been appropriate for these markets.

Thirdly, this brings me on to the financial position of pension schemes and deficits. This is the amount of money that sponsors of pensions are asked to pay into schemes. There's a wide range of such financial impacts of RPI reforms. Some schemes will definitely be net losers and in the extreme cases employers will need to pick up additional cost of more than £1 billion. In other cases, there will be littler impact, maybe in the majority of cases the schemes and hence the employer will actually end up gaining financially.

I'm just going to conclude by summarising my reading of the likely response to the consultation from the pensions and investment world. I expect that the vast majority of responses will be supportive of reform, recognising flaws in RPI but calling for compensation for users, recognising the impact on pensioners and some schemes. But there will also be some responding from the pensions as well to support reform with no compensation as in their view, they think it's a fairer outcome for pensioners and it also improves the funding of many pension schemes.

Thank you.

DA: Thank you, Jonathan. So, you've outlined a very important perspective and that reminds me that I should declare a conflict of interest. I'm nearer to me pension than many people on this call. So, we're moving on now to Robert O'Neill who is from Manchester University – as opposed to Manchester Metropolitans University that we heard from a few minutes ago. So, Robert, over to you.

3. Robert O'Neill

[Starts at 00:47:02]

Robert O'Neill: So, just to say, I'm at the University of Manchester now. A few years ago, we've heard it mentioned a few times and I've felt a chill go up my spine every time, I was at ONS as part of the team working on the 2012 consultation on a not dissimilar, but not quite the same issue, and I've written a few books on the RPI and index numbers since. I think it's interesting that, in a way, not a lot of the conversation around the differences between CPI and RPI has necessarily moved on a lot since then. Particularly when it comes to the strengths and weaknesses and which is best and which is the optimal index to use, which I'm fully convinced that no two groups of people, or no two people within a group will ever completely agree both ion what the right index to be using is or the right basis for using that index is.

But at the same time, we've had this odd historical artefact, because of the way we chose to do things, where we've had the RPI and CPI which both led us into this situation. Neither are indices which stay exactly the same throughout their history and this focusing on the difference between them has at times taken away from wider discussion which other people have touched on, about ways to get better measures of index, which wouldn't necessarily be either of the versions as they are. So, I think it's one of these things where – yes, there are differences and yes there are differences of opinion and it's not a matter of fact about which is better than the other. So I think it's always going to be a very difficult process, but I think at some point, from my reading of the situation, there might be an argument made that this on-going debate, which has been being had for well over a decade now, and if you look back at the life of the RPI, much much longer than that. It might be the case that this is one of those debates that's getting in the way of improvements for things like better household indexes and uses of scanner data. So that's all I had to say.

DA: Thank you very much, Robert. And, again, nice succinct comments. The final discussant in this part is from Chris Giles from the FT.

4. Chris Giles

[Starts at 00:49:37]

Chris Giles: Thank you very much, Deborah. I'm just going to make a few brief comments as well.

I think just we want to know, there's been some talk about it insofar as being premature, the consultation. I think this is really not premature. We've had a decade where we've been messing around with the RPI and thinking about what to do about it. It really should have been sorted in 2012. We don't need to revisit that decision we just need to sort it out now. The status quo as we speak is untenable. That was very clear from the Lords Economic Affairs Committee, because at the moment the ONS is simply not following the law; not following the statistics and registration services act of 2007, which says it has to promote and safeguard the quality of official statistics. The RPI is an official statistic and it couldn't continue by saying, "we don't think it's a very good statistic, but we're going to do nothing about it".

So the only way to follow the law was to do pretty much what it did do, I really commend the UK Statistics Authority and the ONS for finally biting the bullet and doing what is always difficult in public policy: performing a big U-turn last year and saying it wanted to first of all abolish the RPI – something the Chancellor was always going o disagree with – but then having a back-up plan to do pretty much what it wants. The 2030 date is very very significant in law, because after 2030, when all the index-linked bonds have matured that have the clause in them, which says you have to go through the Bank of England and then the Chancellor before you can make any fundamental change, those die and then at that point, in law it says that the relevant gilt-edged securities will not exist anymore. So ONS, or the UK Statistics Authority Board, can do what it likes. And it has chosen, it has been decisive and again I would commend them for that decisiveness after a period in which it very much didn't do that after the 2010 clothing decision.

There will of course be quite a lot of moaning and special pleading. We see hard luck stories. In fact, the Financial Times wrote up a hard-luck story just this morning. It is online as we speak, saying that up to ten million pensioners will face a worse future if they move the RPI to something like CPIH. What I was very encouraged by, if you look at the comments underneath that article today, that the comments have moved very very significantly in the direction of people being rather critical of that sort of special pleading.

I'm just going to read the top three most-recommend comments.

One is, that if you listen quietly enough, you might be able to hear the faint noise of the world's tiniest violin. The second most-recommended comment was that up to ten million pensioners face being paid a pension that better reflects price increases. And the third one is that what matters most is not which is higher, but which is more reflective of the cost of living.

And one thing that we do know is that the RPI has not been reflective of the cost of living in many years. And the way it has interacted with public policy meant we distributed very significantly from young people to old people. From poor people to richer people. So the fundamental choice the UK Stats Authority made was to sort that out. And I very much commend them for that.

Of course, you can choose another index and that's also what the ONS is doing. To have household cost indices. It's just that we can have those sitting alongside the new RPI and that will be a perfectly acceptable situation for the future.

So, I think the current situation, the consultation, is very welcome. Its welcome that its consulting on the date – 2025 is clearly better than 2030, in fact it should be now, but we don't have that choice in front of us. So, what the ONS and UKSA have done, I think is just fine. It's just coming a little bit too late.

DA: Thank you very much indeed Chris. So, thank you to all four people giving invited comments there. And I think that illustrates the range of use we've got, which is actually why this consultation is so important -- to listen to those and then try and steer a way through it. Both for the RSS to respond to the consultation and then Treasury and UKSA as to then what to then do.

5. Reflections from the panel

[Starts at 00:54:19]

So, at this point we're going to do a little bit of taking stock before we moved to a rather more flowing question and answer. and what I'd like to do is to invite the three keynote speakers if they would like to respond to anything they said so far in the meeting. it could be from each other or from these four speakers. Don't feel you need to respond to everything because clearly we need to leave time for others, but I would like to give you a chance to pick this up so that it doesn't get lost. So, I will turn first of all to Jonathan Athow, then to Tony, then to Jilll to respond. And then after I've done that I will come up with the rules for the questions and answer session afterwards.

Jonathan, have you got any remarks you'd like to make at this stage?

JA: There was just a couple of things that I would bring out. One person asked that question on the consultation on the substance. I mean I think here I would build on some of the things we've heard – that actually this has been a long running issue and I think that many of the substantive issues have been extensively discussed, say for the last 10 years or so. We had the consultation with Paul Johnson, and the Johnson Review, we had a lot of discussion around many of these issues that informed the Lord's Economic Affairs Committee. So, I think so many of these issues have been have been well aired.

I mean one of the things I would reflect on as well as what we've heard, is that I'm not certain a consultation will arrive at consensus. There are really strongly held views on this, and we've heard a lot of those.

The other one I would reflect on is really picking up on what Jill said about the choice of of CPIH. I would encourage people to, if they're interested, to look at the advice that their national statistician put to the UKSA Board. And really that was what underpinned the advice that the first best option -- and I'm summarising what he said – would be to stop RPI because then people would have a choice about whether they wanted to move to CPIH, CPI, a household cost indices or something else so that was seen as very much the first best. But as I said, the Chancellor said that he wasn't willing to go down that particular route and then a good option was the one that we put forward to bring the methods of CPIH and CPI into RPI. So, there is a bit of nuance there that I think it'd be worth, if people are interested, in just looking through that advice and how we got to those particular decisions.

DA: Thank you very much, Jonathan. Tony Cox is there anything you want to respond to at the moment, or pick up on?

TC: Yes, I think it is worth just picking up on a few points that I think have been very well made, actually. I think the first point I'd like to make is that there is an underlying assumption a lot of people seem to think that the CPI gives us the true measure of inflation. Of course, the reality is we don't know the true rate of inflation, we just make efforts to get as close as possible to what we think is the true rate. And some people think that the CPI delivers that, some people think it's the CPIH and others think it's the RPI. But the truth is we don't actually know, so I would just caution against this assumption that the CPI is the correct measure and therefore the RPI, because it's normally higher than CPI, is incorrect and is higher in some way. So that's one point.

I would echo Jonathan's point actually about looking carefully at what the National Statistician advised the board back in 2019. I think that does repay revisiting and I think it's more nuanced than Jonathan was just suggesting.

I think I'll leave it at that for now those were the two points I wanted to make.

Oh, perhaps just one other point. Just picking up something saw in the comments. Somebody was querying my example and saying that in the example I gave, it doesn't account for people choosing to buy the cheaper item. And, of course, that may well be true. People may choose the cheaper item, but in my view that is not giving a true measure of inflation. The measure is supposed to be objective and say well how much have prices gone up by, not take account of people's reaction to those changes in prices. This can be a philosophical point but, I think it is an important one.

DA: That's a fascinating debate, but possibly beyond the scope of this meeting -- and then some may argue even with that! Okay Jill have you got anything you'd like to respond to at this stage?

JL: Yes, thank you Deborah. I agree with Tony's point about that we do not know what inflation actually is but I have one other point I wanted to pick up. I was struck Robert O'Neill made a very important point, I think. And that is that all these issues about Carli, Jevons and what happened in 2010 and the subsequent thing have actually taken us away from discussing some of the more important issues.

Now, Chris Giles said that we've had a decade of discussion and, you know, we really don't want any more. But I think that is the problem: the discussion has not been about the things that we should have wanted to discuss. So, we haven't really got some of the answers we would want. I think that in this respect, though not in all respects, the Johnson Review really was a huge missed opportunity because it didn't look closely enough at what the needs were. So that's why I still think we need some reflection and consultation, tiresome as it may seem after what we've gone through in the last ten years. That's all for now.

Question and Answer session

[Starts at 01:00:38]

DA: Lovely. Thank you, Jill. So that really does bring us the halfway point of the meeting. And I think that has set out an awful lot of the issues. What we're doing now is to move to question and answer and the first four we're going to take are ones that were pre-submitted. And we'll take those in two pairs, and I'll give the speakers a chance to respond to those. But we'll take two at a time just to make things slightly more efficient in terms of timing. After that we're going to take them from the floor and there are two ways of doing that. And that's at least partly because different people have different functionality depending what machine you've got and what version of Teams.

So, you can either raise your hand, and I can see that at least one participant has raised their hand so far, or you can type into the chat saying that you want to ask a question. And what I'm going to do is that Jonathan Everett from the RSS staff is going to give me a heads up about what we do in what order because some of the questions group, some of them don't really need an answer now and some of them are comments. But he's going to steer through about what order we take things in. But if you want to speak either put your hand up using that function or put it into the chat.

So, the first two questions. And what I should say is that everyone who speaks can I ask you to say where you're from or what hat you're wearing but also if there's any com potential conflicts of interest to be aware of. It's not you shouldn't speak but it's just best to have these things out on the table. So, we've got two pre-submitted questions that I'll read out and then go to the speakers. So, the first, which I would interpret as quite a broad question here is “Will ONS publish a balanced analysis of the UKSA proposal for the retail price index, including the counter arguments before any decisions are made?”. And then Daniela Silcock said: “As we're already changing indices, does the panel think it's politically feasible and practical to explore at the same time using a separate officially recognized pensioners index to uprate government benefits pensioners and pension payments from schemes and annuities?". So, in other words taking it that this is going ahead at some point, but that maybe we need something different for some purposes.

And I won't every time turns Jonathan first, but I think these questions are so clearly in his court that it would be silly not to. So, Jonathan, Jill and then Tony.

JA: Right. So, just on Arthur's comment, I think what the analysis or the advice that the then National Statistician put to the board does exactly that. Of looking at different options: whether it's the status quo or alternative options. So, I think he balanced his advice to the board and the board took account of that, so I would encourage Arthur to have a look at that.

Daniela's point is a really interesting one. As a couple of people have mentioned, we published today the household cost indices looking at retired versus non-retired households. I think there's nothing practical stop this. I mean, while there have been some differences in costs for pension and non-pensioner households, certainly in recent years they've not been that large. And one other point, which is not a statistical point but one I've been hearing, and I think – as Jonathan Camfield mentioned -- there is an issue with pensions if you have a different index for the operating of a pension or an annuity from the instruments that are matched to hedge it. That can cause problems for pension schemes, so I think there are some interesting issues there on the sort of practical side from the financial service industry. But in terms of practicalities it's certainly possible and, as I said, we've published different versions of the household cost indices looking at exactly these sorts of issues.

DA: Thank you, Jonathan. Jill, have you got anything you want to add at this stage?

JL: Yes, thank you, Deborah. Jonathan, I think you rather swept aside Arthur's point. Yes, there were obviously some pros and cons in John Pullinger's letter to the board that you mentioned, but it was a really a summary of arguments and I don't I wouldn't really say it's a full analysis of them.

Turning then to Daniela's point, obviously it's not for me to say whether it's politically feasible – or indeed to say how desirable that would be from the point of view of the pensions industry – although as Daniela works for the Pensions Policy Institute I guess she's got a good idea of that. It's certainly practical to have a separate index, and indeed the household costs indices for retired households would seem to be certainly getting there – if not already there. If that is what people want and of course it's not just the pensions industry itself that should discuss this, but also both pensioners and pension fund trustees. Jonathan mentioned the issue about index-linked gilts. That's another issue, again it's not really for me to say. My understanding is that something like 90 per cent, Jonathan Camfield probably knows this, of index link gilts are used to hedge pension fund liabilities either directly or indirectly. So that proposes another argument, whether you'd need a series that's exactly the same or whether it could be roughly the same. I think there are a lot of questions about it but that's not for me to say and indeed it is practical to have such an index.

DA: Okay, thank you. And Tony anything to pick up on these questions?

TC: Well, not much to add to what's just been said. But I would agree that it would be very useful to have a balanced analysis of the UKSA proposal including counterarguments. That's something that we haven't seen so far and that would be extremely helpful. As far as pensions are concerned, this is more of a political question really. Whether or not pensions should be uprated according to a price index or whether it should be with the average rising in wages or some other measure are all decisions for the wider population to take, I think. One of the problems with the whole debate has been tying it into pensions and pension up-rating, whereas I prefer to look at the need for a household index as being for providing information about what the prices that we face in the shops are – not just the shops, but services as well. And providing information about the way the economy is operating and then whether you use it to uprate pensions or not becomes a political issue.

DA: Okay, thank you very much indeed. So, I think we've had responses to the speakers on those, so can we now move to the second pair of pre-submitted questions. So, one of them is from Kevin Russell, who is from Unison, who said that: “In the development of the household cost indices is it the intention of UKSA that any of those indices will be based on an arithmetic mean?”. And then Derek Benstead from First Actuarial said that “The way price data is collected and fed into an index formula can affect the outcome, for example it was seen in 2010 that a reform to the collection of clothing data results in the widening the difference between CPI and RPI. Is it possible to reform the collection of price data in a manner which would narrow the gap between CPI and RPI? For example, could electronic data collection resulting in a greater volume of data being collected and a greater consistency over time of the data collected, have the consequential effect of narrowing the gap between CPI and RPI? And if so, would CPI increase?” So, a lot of questions packed in there and I think I’m going to go in reverse order of the speakers actually, so I’m going to go to Jill and then Tony and then to Jonathan. So, Jill:

JL: Yes, thank you Deborah. Taking Kevin’s question first, I very much hope that the household costs indices will not, as they are currently, be heavily dependent on the Jevon's index because I think you need to look at each item separately and then decide which index is better. When John Astin and I originally put out our proposal which has been used by ONS in developing their indices, we put out our paper in 2015, we thought that something like the index choice that was used in RPIJ, which was a mixture of Jevons and Dutot – we always forget Dutot, but as used it's quite a good index in many ways – would be better. The other point of course is that ONS is working hard on looking at scanner data from supermarkets and so forth and that tells you not just the price of things but also the quantity that is bought, which of course means you can start developing a weighted index. Which means you don't have to use elementary indices like Carli and Jevons in the future. So, I would hope that all of those get reflected and that you get a better index choice than just mainly Jevons with one or two bits of Dutot thrown in.

Derek, yes indeed -- it's quite interesting, if you try and unpick what happened in 2010. Various changes were made to the price collection of clothing data but from everything I’ve seen, particularly recently, the real damage was done by the fact that more sales data in January, which is the base index for the yearly fragments of indices in the UK, was put in because that’s when you get a lot of variety in the in the prices in the base month and particularly a lot of low outliers that you see Carli misbehaving. And of course, by adding more sales data in January, that was what happened. Certainly, I’m sure it's possible. It's not an easy job but it can happen and hopefully with scanner data, if you incorporated scanner data into both you would in fact narrow the gap quite a lot.

DA: Thank you. Tony?

TC: Well, not a lot to add to what Jill has just said. I echo what she was saying. In my presentation I tried to say that actually it's better not to rely on just one formula when you're compiling price indices, and that Carli has a role, Dutot has a role and Jevons have a role. But the preponderance of Jevons in the CPI and CPIH is a worry I think, because mathematically it does bias things downwards and there is a logical mathematical argument about substitution that you can use to justify that but that is not, I would say, what a household cost index should be measuring. It's not supposed to assume the way people react to prices; it's supposed to be measuring the change in prices. So that's what I’d say in response to Kevin’s point.

On the clothing issue, I don't really think I can add much to that. This is something that should have been sorted out back in 2010, it wasn’t, and it's led to the decade of debate that we've had and that Chris Giles quite rightly criticized. But I wouldn't agree with Chris on the way it should now be resolved but, nevertheless, we've seen a wasted decade in terms of sorting this problem out.

DA: Thank you. Jonathan, anything you want to add to these?

JA: Just to pick up on the elementary index point. There is no perfect answer to an elementary index but I think the analysis we've done, the analysis for example that was included in the Johnson Review led us to think that Carli is not a good index so we currently use Jevons and Dutot in CPI and HCIs, so I would expect that to continue.

On the question of trying to think about collection as a way of changing index levels, I think the experience from 2010 is that sometimes small changes in collection can have very large impacts so you have to be very careful with those sort of issues. The other thing I would say is we are actively pursuing both scanner data and web scraped data for inclusion in CPI and CPIH. We have plans for that. And when you do get into those different data sources some of these arguments about current elementary indices fall away. Either because you have weights or because you have to appeal to more complex multilateral methods which are not invested exactly on the same basis as the elementary indices so I think if we would look forward we'd probably be having a different set of debates those measures. We published, for example, some analysis looking at the different methods for web scraped and scanner data. So, we're actively going down that path at the moment.

DA: Okay, thank you Jonathan. So, thank you to those four questioners and in the interest of time I’ve decided to read those ones out. But I think we'll start now hearing a greater variety of voices. We will take two or three and then go to the panel because I want to make sure that the people who have attended this meeting get their voices heard. Kevin, as you’ve got your hand up, are you following up on your question?

Kevin Russell: Yes, I'm not following up on the question. I think one of the central developments since the 2018 meeting was the House of Lords Economic Affairs Committee report and I’ve got to say that Unison's interpretation of what that report said is quite different from what a gentleman was saying earlier. We thought it was an extraordinarily curved dismissal of what that parliamentary committee stated. And what the UKSA actually stated was that there should be a request to fix the clothing problem, we should stop treating RPI as a legacy measure and resume a program of periodic methodological improvement and we're not convinced by the use of rental equivalence in CPI. And yet within 46 days the UKSA had written to the Chancellor making it plain that they were not going to fix the clothing problem, they're not going to resume the program methodological improvement and that they were going to recommend precisely the rental equivalence measure that the Economic Affairs Committee so strongly objected to. But I'd just, since this is probably going to be our last chance, I would like it to make it clear just how enraged unison is that we've got to this point now, where we we're on the verge of having a complete absence of a price index that is going to be relevant for wage bargaining in the UK.

DA: Okay, thank you for that and I won't ask for any response just yet because we'll take a couple more points. So, Martin Wheale?

Martin Wheale: Thank you very much. I'm a professor of economics at King's College London I'm also a member of the technical advisory panel on consumer price indices. Could I say please that I think both the RSS and the ONS do a disservice in the distinction they make between economic price indices and household price indices. I know very little Greek, but I think the Greek for household is economos, but perhaps more important is that I think the distinction should be between macroeconomic price indices and indices that are relevant to welfare measures. And that leads straight forwardly to the sort of democratic weighting that Jill has done so much to advance. A democratic weighted index is appropriate for an indicator of welfare. The corresponding measure of welfare is the geometric mean of incomes while an arithmetic measure is appropriate to the arithmetic mean of incomes and that isn't a terribly good welfare indicator. The reason that this matters is that actually economists have done a lot of work on social welfare indicators and price indices appropriate to them. And it is possible to put the HCIs largely in that context, but the sort of brushing aside of economics I really think hasn't helped with that. Thank you.

DA: Thank you very much, Martin. So, I'll go Tony, Jonathan, Jill. Tony?

TC: Okay, well on Kevin's points, I'd be inclined to agree with most the points he made. I think that there is a tendency within the ONS and UKSA to dismiss the House of Lords report in its entirety and they rather seized on the points that they wanted to move forward with and I think it was taken as an opportunity to do away with the RPI, but they didn't really fully appreciate what the House of Lords report was saying. I'd say similarly that in my view the advice given by the National Statistician in 2019 hasn't been fully taken on board in terms of the importance of the two types of measure, which Martin Wheale has described in slightly different terms. I'm not sure that I would want to comment on what Martin has said there in terms of dismissing the arithmetic mean as having a role. I would say that all these things have a role and need to be used judiciously.

DA: Okay, thank you. Jonathan?

JA: Responding on the House of Lords report, we looked at those issues and considered the option of fixing clothing and one of the challenges has been working out what does that really mean. We looked at that alongside other options and we decided that, consistent with our overall duties and objectives, that this was the best way forward. The one area where we did disagree with the House of Lords was on the rental equivalence issue. The rental equivalence approach had been developed over a long period of time in consultation with technical experts and more general discussions. So, we felt that was the one area where we didn't agree with the with the House of Lords. We took on board their option around clothing but looked at that alongside other options.

I think martin raises some really interesting points. He's done some really valuable work on looking at these different concepts of welfare. And so I think actually there's a really interesting discussion to be had there about those different ways of looking at income and different ways of looking at wealth so I don't think we've really fully articulated the intellectual or economic – or whatever you want to say – underpinnings of the household cost indices. I think there's a lot there that people are agreeing on but I don't think we've quite developed the sort of rationale quite in the way – and I think Martin's contribution there is really helpful to continuing to test that as a as a concept.

DA: Okay, thank you. And Jill?

JL: Yes. I don't think I want to say too much about the House of Lords report. I do agree that I think there was a lot of good stuff in it and I would have like hoped that a little more attention was paid to it. But there were some things in it that I disagreed with and I think I'm not alone in disagreeing with some of their suggestions. In fairness I probably should point out that while they didn't like rental equivalence – I'm not fond of that one either – they didn't like the RPI method of dealing with owner-occupied housing so one can pick and choose a bit but generally I would have liked to have seen more attention paid to it.

Martin, I agree with you that using economic versus household is a bit of a shorthand and is a little oversimplistic. One can do macro and micro, neither of them as you say really sum up the differences properly. But one thing, I may have misheard what you said, but when you talk about using the geometric mean as reflecting welfare I'm not entirely sure about that but perhaps – this is probably an argument we should have some other time – it does if you assume that households always substitute towards items that have gone up less in price and certainly some households will at times behave like that. But consumer behaviour is far more complex than economic theory can cover, and they don't always react like that so I think I think there's research that shows that. So, I'm not sure about that but maybe you'll convince me another time.

DA: Okay, thank you. So, we'll go some more questions. We'll have Sean Richards and then Geoff Tily and respond to those. Shaun first:

Sean Richards: I'm Sean Richards of Not Yes Man's Economics and I'd like to ask a question about the rental equivalence subject that's come up. This is part of CPIH and will come into the RPI, however there's the issue here that this is a complete fantasy. The concept was rejected by the House of Lords because you're assuming people that don't pay rent actually do, and there's a secondary issue to this, which people that have followed the debate on statues and that will know, I've been asking about the actual rental figures that have been used and it turns out that they're weighted back to some extent over the last 16 months. So, they're not even the actual rents anyway, in some respect, they're last year's. I'd like people to respond to those two issues: one you're applying something that doesn't actually exist, two as we tried to measure it, it's actually last year's number and not this year's. Thank you.

DA: Thank you. Geoff Tily?

Geoff Tily: I'm Geoff Tily from the TUC. I had a couple of points. One just been provoked by the welfare issue. My understanding was that previously the ONS had rejected the substitution argument as a way of deciding between formulas, so I'd like to have that clarified. Then I just want to go back to the House of Lords report which I too think has been too easily disregarded. In particular they offered an important compromise with the possibility of renewing the RPI so I want to go back to Jonathan because to be honest I didn't properly understand his argument about why he rejected the clothing compromise that they offered, so I'd like him to clarify that please. Thank you.

DA: Okay, thank you. So we'll take those two. And perhaps we'll go in the order of the speakers again, so Jonathan, Tony and then Jill.

JA: So, so on the rental equivalence argument this is based on the economic concept of opportunity cost. The opportunity cost of living in your house is the inability to rent it out. It's another way of deriving a user cost approach to use some of the terminology that's used in inflation statistics. And what we've spent a long time developing that thinking and at was the approach we arrived at after very very careful consideration. In terms of the data we use, we use data from the Valuation Office Agency and, just to give you a bit of insight into rent prices, this is a combination of new rents – ie what people have paid because they've moved into a house recently – and existing rents and so therefore it's an average of the two. We can't separately identify how many people have moved in recently so it's a new rent and how many people have been in rent for a while. But essentially, it's the price people are paying at this particular point in time, so in that sense it is exactly what it says. But what we're unable to do – and it's a bit different so what some of the online agencies are able to do – is look at new rents versus existing rents we're not able to do that although we did look at part of the reason why you get different numbers sometimes from the online rentals compared to our own, which is because of this split between new and existing rents. And it tends to be that when you get new tenants that tends to be when landlords put up rents and the people who've been in for a longer time don't see those rent rises. But it's essentially an average of the two but we don't know the weights.

On Geoff Tily's point on substitution, when Paul Johnson did his review he didn't appeal to that argument to justify why he didn't think Carli was a good measure and, without that, we see there's good evidence that we don't think Carli is on balance is a good index. So, we don't appeal to that, but we do look at other measures.

And on the clothing compromise, you might have actually answered your own question there Geoff – because it is a compromise. I think it was very difficult because when we looked at the RPI we saw a number of problems. The two big ones were the formula and the way the formula interacts with clothing in and also housing. But there are others as well and, I'm probably badly paraphrasing what the advice from the national statistician was, that for us it didn't seem logical to fix one problem and leave essentially five others or depending on how you want to categorize them, but a number of other problems unaddressed. So that was the message in the National Statisticians advice. Hopefully I've covered most of the points.

DA: Okay, thank you. So, we'll go to Tony next.

TC: Just picking up on the rental equivalence points, then. I think there's an additional concern about using rental equivalence, which is that the rents people pay, they pay according to the rental market and that market is different from the owner-occupied housing market. It's just a simple fact. So however accurate the ONS is able to get a figure for the rents that are paid, that's great, and that's appropriate for those people who are paying rent. But it is not necessarily appropriate for people who are owner-occupiers, they are operating in a different market. And this might not matter if it was just a small element of the index, but actually when you add up the rents and the costs of owner-occupied housing, they take up a substantial portion of the whole index. So, any error that's there, has a large impact on the overall index. So, I think that does remain a big concern.

On the substitution point, Geoff was quite right that it is not used as a justification for the use of any particular arithmetic formula but nevertheless the fact that Jevons is used almost exclusively within the CPI and CPIH, the mathematical properties of that formula do mean that we're assuming people substitute -- just regardless. So that's the mathematical assumption that lies there within the indexes that use it to such a great extent. And my argument is that that is a problem because that is not the way that all consumers react and even if they did that is not giving us a proper measure of the price changes that consumers face. I don't think I need to repeat the point about the House of Lords report, so I'll stop there.

DA: Okay, thank you. Jill?

JL: Yes, thank you. I agree with what a lot of what Tony has just said but I want to make about substitution and economic theory: I want to go back to a quote I put in my presentation which was from the 1986 advisory committee, where they said for the index to be of value it must be generally regarded as relevant to people's concerns and a fair reflection of their experience. In other words, if you're going to have an index that's used for uprating or wage bargaining or anything for welfare in any sense, then if it's going to be credible it has to have some relation to what people actually pay and their experience. And the big problem with rental equivalence – it's very nice in theory – but it isn't actually what people pay in practice. I'm quite fond actually of the RPI method of measuring unoccupied housing because, I know doesn't agree with any form of economic theory, but to my mind it's intuitively closer to people's experience. And I do think that is important – that people find it credible. An index that's used for uprating in my view has to pass what I call the "down the pub test" – in other words you have to be able to explain what you're doing with it and how it's put together. Not in full technical detail but you have to be able explain the substance of what you're doing down the pub so that people understand it. And that's really why I don't like rental equivalence.

DA: Okay. So, we'll take Rachel Leeser.

Rachel Leeser: Hi and I'm from Greater London Authority, but that's got nothing to do with it. I know it's not in the consultation but people have been talking about the housing costs element and I think the one of the problems for me is that because the capital cost of a house isn't included in the housing costs part then the rental equivalence makes up for that, but it's a delayed reaction and that isn't anybody's experience so it intuitively it doesn't make sense as part of an inflation measure as far as I can see it. So, I'd like somebody to explain how it is.

DA: Okay and we've also so we'll come to that in a minute we've also got a question in the chat about why the consultation is about just about the timing rather than the substance and actually I haven't heard any discussion about the timing at all so I just wondered whether the panel had any or they had any views on what were the pros and cons of either an early change or a late change. So perhaps we could take the question we've just heard and then any comments they want to make on the timing question. Wither why we're talking about it or what their what their views might be. So perhaps we'll go Tony, Jill, Jonathan. Tony:

TC: Well, on the housing cost element from Rachel, I agree basically that it's a real problem. As I said before the rental market is a different one to the owner-occupied housing market. People who buy houses and sell them and live in them, they are facing different costs to those people who are renting, and landlords are subject to different pressures in terms of setting the rents. They're presumably trying to maximize their rents, but they've got the pressure that people are not prepared to pay that much – but it's a different market. So I agree, it's not measuring the same thing and that in my view is a problem. In terms of the timing of any change, well my vote would be to put it off for as long as possible. But my main criteria for that is not so much to preserve the RPI forever, although there is of course a separate argument about having a longstanding index for comparison purposes, but really we need to give sufficient time for the household costs index to become acceptable and to be fully implemented. And when they get to that point then, in my view, would be the time to start thinking about downgrading the RPI in terms of its usage. It's already being downgraded officially but it is nevertheless still in widespread use because of the perceived value it retained. So that would be my answer to that question. And, in terms of replying just to the question that's in the chat, my view is very strongly that if the proposal is to close down the RPI that is what should be consulted on. Not just the timing and how you make methodological changes, as I hope I said in my presentation.

DA: Okay, thank you. Jill?

JL: Yes, thank you. To take Rachel's point, she's absolutely right that there isn't any element of capital costs in it. Now, it's difficult, all sorts of theoretical pros and cons about dealing with capital costs but in my view, you do need some form of capital cost in there because it is an element that people pay in reality. And I hope there will be some that come into the household costs indices. The plan at the moment is to develop the household costs indices without them and then to have a separate one which includes at least the capital element of mortgage payments. So, you have that in. Possibly other things as well like contributions to future pension funds and so forth. I would like to see all of those in. And that to my mind would be a better thing and I fully agree that using rental equivalence as a substitute very much delays it. Yes, household prices feed in as one element that feeds into the determination of rents but as Rachel said it's over a very long timeframe.

I like the RPI, but I think it has got a lot of baggage with it now and we'll see. But I would certainly like it made into a respectable index. I probably would say that the future is with the household cost indices wouldn't I – but given what I've written on the subject I probably should declare an interest in that – but that is what I think.

Timing: yes again, once we have the household costs indices properly developed then I think in a sense it becomes easier. One point I would make though and I think it's perhaps not the most important point but it's not unimportant, is you mustn't get rid of the long historical legacy of the RPI and you might need that just for historical research. I'll stop there.

DA: Okay. Thank you. Jonathan?

JA: Just to pick up on Rachel's point. Housing is possibly the most challenging item to deal with in consumer price inflation and, to get to the heart of the issue, a house is both somewhere you live – so it provides some benefits there – but it's also an asset. And it's that dual nature that makes it very very difficult to measure. So, if the price of a service or a good you buy – a price of a cup of coffee goes up – you are undoubtedly worse off because, other things equal you can consume fewer of them. The problem with a house is the asset element: when the asset goes up and you own the asset that actually makes you better off. And that's really the heart of all the challenges around housing. It's why when the RPI used mortgage interest payments it only used the interest payments not the capital repayment for that – probably for exactly that purpose. But it's exactly that argumentation that leads you through to the rental equivalence.

The question of how long it takes to pass through: as I said what we're doing is basing it on actual rents people are paying – and they inevitably do take some time to feed through to economic activity – so there will always be some new rents that are responding to the immediate market reactions. And then there's a sort of tail of existing rents that have been there for a while. So, it is less responsive, but it's less responsive because we're basing it on what people are actually paying at that particular point in time for rents and then uh applying that to the to the rental equivalence measure. But at its heart it's this dichotomy that houses are an asset and houses are providing a service that all the different ways of measuring owner-occupier housing costs try to deal with.

Summation: Stephen Penneck, chair of RSS National Statistics Advisory Group

[Starts at 01:46:34]

DA: Okay, so we're coming towards the end. In a moment I'm going to ask Stephen Penneck to summarize discussion for us. And that's a hard task. If there are any urgent questions hold your hand or put your hand up or type in the chat now.

So, what I'd like to do is to invite Steve Penneck, who is the chair of the National Statistics Advisory Group of the RSS to summarize the discussion before I formally close the meeting. So, Steve, over to you.

Stephen Penneck: Well, thank you Deborah for chairing the meeting and also thanks to all the people – I think we've had about 80 – contributing to the meeting this evening. And many thanks to them and also to those who presented and asked questions. We're now at the stage where we will be putting together a formal RSS response to the consultation over the next few weeks. The National Statistics Advisory Group will be doing that and the debate and the discussion that we've had this evening has been very helpful in enabling us to do this. We will have a recording from tonight and we also will have a transcription of the chat. That has flown rather quickly this evening and it has been difficult to assimilate all of it.

I'm going to try and give a few key points that I've taken from this but – this is a kind of pre-digested version – and people shouldn't assume that the digested version won't include some more of the nuances which have come through from this evening.

I'm grateful to Jonathan Athow for having reviewed the background to the RPI and the recent history. And also, to Tony Cox and Jill Leyland for having told us more about the two main use cases as they see it: about the macroeconomic index and the household index. And the focus really on the need to understand the uses to which price indices are put before establishing how they should be compiled.

We learned that there's little known about the use of price indices in business contracts and also the uses in the pensions industry. And the point was made about how the pensions industry needs a clear roadmap and I think there was some understanding that there is a need to get this issue as it is sorted out. Chris Giles made an important point on that. Whether this is the right solution is a matter that people are divided on. The point was made that the delay to 2030 gives us a bit more time to work this out maybe and it would be good if we could come up with a solution that more people could support.

There were three things that came through, I think, in the general discussion that we had. People kind of referred continually back to the need for balanced analysis between the different options; a need to take, perhaps, rather more note of the points that the House of Lords have made in their very detailed report. Although of course it is a contradictory report in many ways, but there are some points there that need to be referred back to. And also, there were references back to the National Statistician's advice in 2017 and the need to think about what that might mean.

I'm not going to go into the more technical discussion that people have been having about house price indices and about arithmetic forms and so on.

There was the question about whether the decision to kill off the RPI should be consulted on. You remember, Deborah, that you wrote to the chair of the UK Stats Authority back in last October and I will quote what you said. You said: "We urge you to ensure that your consultation covers what changes should be made, not just the technical aspects of how they should be implemented". So, the RSS already has a position on that, and I think that position will be reflected in our consultation response. But it'd be amplified by some of the very helpful comments that people have made this evening, so thank you very much.

DA: Thank you, Steve so it just remains for me now to really draw the evening to a close. I would like to thank firstly the speakers, because they each gave us a very clear talk and they stuck to their timing and managed to pack a lot into their allotted ten minutes. And then on top of that we have really put them through their paces. To have this kind of quick fire of questions of all sorts and to do it in this sort of format where it's slightly less easy to group things or to have a back and forth. So, you've really earned whatever you have on a Tuesday evening when you need to relax! So, thank you very much for that.

I would also like to reiterate thanks to Steve Penneck for the National Stats Advisory Group – for everything they're doing but in particular for arranging this meeting. I would like to thank the staff, in particular Jonathan Everett who is very new to the society and Luz Martinez who is not so new to the society – but they have had the speakers on for a briefing this morning, making sure we knew how to operate stuff, they've been keeping an eye on everything, sending out details and they really have put in a huge amount of work that's resulted in really a remarkably smooth running meeting.

And my final thanks are actually to the audience and the questioners, because there are really very strongly held views in this field you've heard many of them tonight. And so what I want to thank you for is making sure that we have covered all of that but the respectful way in which we've had that debate because it's really important to have debate but it can sometimes get heated in ways that aren't helpful and I think this has been stunning. So, I have learnt a huge amount on, I mean I thought I'd done some homework on RPI and so on, but I've learned quite a lot of nuances I really haven't appreciated despite my pre-Thatcherite economics A-level. So, thank you for that and I hope that we've got plenty of material that's going to feed through into the RSS consultation response.

I would remind you for those who weren't on earlier that if you've got things that you want to say that you haven't put into the chat or you go away afterwards and think I'd like to make that more coherently, you can respond to the RSS using the link that you've been sent and of course any individual is perfectly free to put into the consultation in their own right or for their organization. So, you're perfectly free to do that as well.

The other conclusion I've drawn from this is that online consultations really have their merits – it's not just a poor substitute for the face-to-face meeting it really adds another dimension.

So, on that note I'm going to thank you all very much, wish you a very good evening and I very much look forward to seeing the consultation and the results that come from it at a very interesting time. So, thank you.