

RSS Welcomes First Estimates of New Household Cost Indices

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The Office for National Statistics (ONS) today published its first [preliminary estimates](#) for the [experimental Household Cost Indices](#) (HCIs), in a move welcomed by the RSS.

The HCIs are incomplete - excluding some crucial elements such as capital costs for owner occupier housing and student loan repayments. (The aim is to include these at a later stage.) As well as an overall index, the indices have been compiled for different household groupings - enabling the fortunes of different household groups to be explored.

So far, the main differences with CPIH, the ONS's preferred measure of inflation, are:

- the use of "democratic" (household) weighting in the HCIs. This aims to give all households equal weights, whereas the "plutocratic" (expenditure) weights of the Consumer Prices Index (CPI) and CPIH give more weight to higher spending, normally richer, households;
- the use of a payments approach, including mortgage interest payments, for measuring owner occupiers' housing costs (OOH), although capital costs are not yet included;
- the inclusion of a measure of interest costs on credit card debt; and
- the use of gross expenditure to calculate the weight for insurance premia.

RSS's Jill Leyland commented:

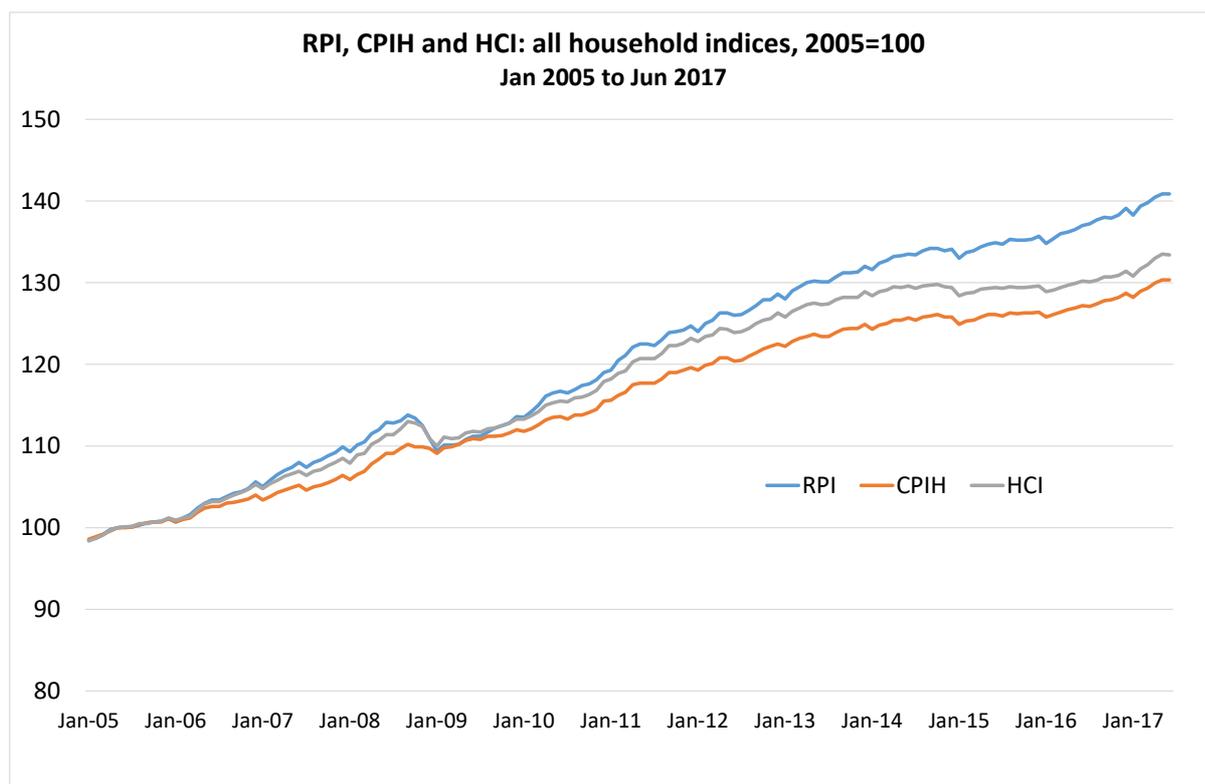
"These are preliminary, experimental figures. But we welcome their publication by the ONS. They represent an important landmark in HCIs' development. We believe the HCI system has real potential for the future. Accordingly, RSS members look forward to playing a continuing role in its development."

The original aim of consumer price indices, including the Retail Prices Index (RPI), was to measure households' experience of inflation. But the advent of inflation targeting in the 1990s meant that macroeconomic views started to dominate their construction and the original purpose was partly lost. The CPI, which is the EU Harmonised Index of Consumer Prices (HICP) for the UK, was compiled according to macroeconomic principles. With the RPI having lost its National Statistic status as a result of technical and other issues, the HCIs will, when complete, fill the gap.



The ONS's [methodology document](#) lays out, step by step, the various differences between CPIH (a macroeconomic measure) and the new HCI. On average, the HCI has grown by 0.2 percentage points more per year than CPIH - although with year by year differences.

Further alterations will follow when, at a later date, housing capital costs and student loan repayments are included in the index. Meanwhile, the following chart compares the new overall HCI index with CPIH and RPI.



While the growth rate of the overall HCI has been generally faster than that of CPIH over the period shown, it fell more sharply around 2009 due to the fall in mortgage interest rates, and it also grew more slowly around 2015 and 2016.

The following table shows the average 12-month HCI growth rates for different household groups, compared with the overall indices for the HCI, CPIH and RPI.

Average HCI 12 month growth rates for different household groups, 2006 to 2016	
Overall	2.4
Retired households	2.6



Non-retired households	2.3
Households with children	2.2
Households without children	2.5
By decile of disposable income (1st = lowest, 10th = highest)	
1 st decile	2.7
2 nd decile	2.6
9 th decile	2.2
10 th decile	2.3
For comparison	
CPIH	2.2
RPI	2.9

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