

POST-ELECTION BRIEFING: BETTER DATA FOR INFORMED, TRANSPARENT DECISION- MAKING

RSS manifesto ask

The use of more granular inflation measures in decision-making – using the new Household Costs Indices when focusing on the impact of rising costs on different household types.

Summary

The Household Costs Indices (HCIs) are new measures of inflation which more accurately reflect the impact of increasing costs on different types of households. HCIs started being published quarterly in December 2023 and have not yet cut through to decision-makers. We call on the government to emphasise that they see HCIs as important for their policy needs and on parliamentarians to refer to HCIs when raising issues around inflation in parliament.

What's the problem?

In 2020, the government decided to align the Retail Prices Index (RPI) with the Consumer Prices Index (including housing costs – CPIH). The [RSS opposed this move](#) because the RPI and CPIH have different purposes: CPIH is a macroeconomic indicator that is good for gauging the general performance of the economy, while RPI is intended to reflect changes in the cost of living. We argued that using a macroeconomic indicator to reflect how prices are changing risks giving people a misleading impression of how prices are changing and undermining confidence in statistics.

Instead, at our urging, the Office for National Statistics (ONS) developed an alternative measure of inflation, designed to measure the impact of inflation as it is experienced by the typical household – the [Household Costs Indices](#) (HCIs). This has been published quarterly since December 2023.

During the cost-of-living crisis, we have been relying on the macroeconomic CPI and CPIH to give us a measure of inflation. This is problematic because:

- They are weighted by pounds spent – meaning that high-income households' spend counts for more and what is happening to lower-income households is underrepresented in the headline figure.
- They exclude interest costs (including mortgage costs) and student loan repayments – this makes sense for a macroeconomic measure (the Bank of England uses it to set interest rates and it would be problematic if interest rates contributed to the figure), but they are a big cost for households. They should be included in calculations if we are seeking to understand the impact of inflation on households.



- They are not sufficiently fine grained to account for the fact that basic products in a category may have a different inflation rate to luxury products.

This means that throughout the cost-of-living crisis, we have not had an adequate measure of the impact of inflation on households. We have been working with Citizen's Advice and the Financial Fairness Trust and we believe that CPI has significantly understated the impact of inflation on households over the past few years.

Part of the problem has been solved by the regular publication of HCIs. But there is limited use in having an improved measure of the impact of inflation on households if it is not used in decision-making.

While it is not being used in decision-making (and if government continues to signal that the measure is not a priority for them), the ONS will not further develop HCIs – leaving them as an experimental statistical release rather than progressing them to the gold standard accredited official statistic status. While the measure remains only available in experimental releases, decision-makers are less likely to use them.

This vicious circle limits the information available about the cost of living, especially for lower-income households. It is important that policy makers have a full picture of how different types of households are affected, so that decisions can be made with the best available information.

How to fix it

This is best addressed by policy-makers starting to use HCIs. We call on the government to:

1. Emphasise to the National Statistician that HCIs are important for policy needs and that the government is prepared to consider its competing priorities for statistics, noting that an accelerated development timetable for HCIs would currently have to be considered within an ONS 2024/25 budget that is smaller in nominal terms than 2023/24.
2. Commission the ONS to estimate what impact product choice by households would have on the HCIs and examine ways to incorporate such factors. The ONS has commissioned research and completed early experimental work on this, as has the Financial Fairness Trust (in partnership with Loughborough University).

Parliamentarians also have an important role to play – they can help by referring to HCIs in parliamentary questions and speeches and highlighting them as a way to better understand the cost of living for households.