

Better measurement of inflation for households

Statement in response to ONS' proposed Index of Household Payments

1. On 15th August 2016 the ONS published proposals for '[Developing an Index of Household Payments](#)' [2], responding to [the direction of the National Statistician](#) [3]. The ONS are consulting on their proposals. Here we summarise our views for the forward development of the Index, pending more detailed answers to the ONS questionnaire.
2. The Royal Statistical Society (RSS) has consistently argued that the UK needs an index which reflects how price changes affect households. Our views on this matter are informed by our National Statistics Advisory Group, with particular reference to Astin and Leyland's paper, '[Towards a Household Inflation Index](#)' [1], which was commissioned by the RSS.
3. The RSS strongly supports the development of a **monthly household payments price index** to provide an alternative and complementary index to the CPI. The proposed new index would have many features in common with the Retail Prices Index (RPI), but would correct some of the deficiencies in that index as well as updating its approach and coverage to reflect the realities of the 21st Century. We see it as a potential replacement for the RPI.
4. To be useful to users the new price index must be produced monthly. As such it would become an important tool in wage negotiations and indexation; and would correspond more closely to what the general public perceive of and experience as "inflation". The CPI would continue to be of greater use for monetary and macro-economic policy and as an overall measure of inflation in the economy as a whole. Both should be published side by side in the monthly consumer price release.
5. As reflected in the ONS paper, the key differences of the new index from the macro-economic based CPI would be:
 - Congruence with common public perceptions of regular and unavoidable household costs including interest payments and all owner occupier costs.
 - Weighted by household (so-called "democratic" weights) rather than by expenditure ("plutocratic" weights) so it better reflects the experience of the average household
 - Payments based rather than acquisition based (where feasible and where there is a significant difference)
 - Full weight to be given to insurance premiums rather than reducing the weight to account for claims
6. Comparisons with income measures and versions of the index by income or socio-economic groups would be a supplementary analysis and can be produced annually, as envisaged by ONS.



Notes and references

- The Royal Statistical Society (RSS) is one of the world's leading organisations to promote the importance of statistics and data, and have done so since we were founded in 1834. One of our key goals is for statistics to be used effectively in the public interest, so that policy formulation and decision making are informed by evidence for the good of society.
- ONS' proposed development of a household payment price index follows the outcome of consultation on the future of Consumer Inflation Statistics in the UK. In March, the RSS welcomed the position taken by the National Statistician [3], quoted here below:

'The HII – as a 'payments index' – presents an idea that is fundamentally different in a number of important aspects to the traditional measurement of consumer inflation. These include the potential inclusion of asset prices and interest payments, plus giving each household's expenditure equal weight. The HII could also be a vehicle for measuring different households' experience of changes in prices. ... I believe the potential of a HII is to provide information that will be valued by users and provide an important complement to our measures of consumer inflation.' (Letter from John Pullinger to Sir Andrew Dilnot, Chair of the UK Statistics Authority [4])

References

[1] Astin, J. & Leyland, J. (2015) *Towards a Household Inflation Index* (PDF). Available from: <http://www.rss.org.uk/Images/PDF/publications/Astin-Leyland-HII-paper-Apr-2015.pdf>

[2] Office for National Statistics (2016) 'Methodology: Developing an Index of Household Payments' (webpage), available at: <https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/developinganindexofhouseholdpayments> (Last revised 15 August 2016)

[3] 'National Statistician proposes new Household Inflation Index' (html), *StatsLife*, 9 March 2016, available at: <https://www.statslife.org.uk/news/2718-national-statistician-proposes-new-household-inflation-index>

[4] Letter from John Pullinger to Sir Andrew Dilnot, 'Shaping the Future of Consumer Inflation Statistics in the UK' (PDF), 9 March 2016. Available from: <https://www.statisticsauthority.gov.uk/wp-content/uploads/2016/03/Letter-from-John-Pullinger-to-Sir-Andrew-Dilnot-090316.pdf>

Statement produced by the Royal Statistical Society, August 2016

