
John Pullinger CB CStat | National StatisticianSir Andrew Dilnot CBE
Chair, UK Statistics Authority
1 Drummond Gate
London
SW1V 2QQ

9 March 2016

Dear Andrew

Shaping the Future of Consumer Inflation Statistics in the UK

I am writing to give you an update on my thinking for the future of consumer price statistics. Over the last few months I have been considering how ONS should develop these statistics in the coming years to best meet user needs. The responses to the [public consultation](#) and [the advice of my new consumer prices panels](#) have been invaluable in helping me shape my thinking.

As you are aware, the [UK Statistics Authority Assessment Report on CPIH](#), the consumer prices measure including owner occupied housing costs, was published on 3 March. This included a number of actions that are needed for CPIH to regain its status as a National Statistic. I intend to set out my detailed plans for the future of price statistics once good progress has been made in addressing the issues raised in the Assessment Report.

Nonetheless, I would like now to share with you, and others, the approach I am minded to take subject to that work. I am also publishing today on the ONS website the advice I have received from my advisory group. When I come to make final decisions I will, of course, also review any further relevant information.

First, on the basis of all the information I have received, I am inclined to consider that CPIH should become the ONS preferred measure of consumer inflation and the focal point of ONS commentary in due course. I consider that it is important that a measure of owner occupiers' housing costs is included in the measure we make the focal point of our commentary. I also consider that it is important that we focus on a measure that can continue to be developed to meet the needs of UK users without being constrained by international regulations – although we will also continue to produce such measures and others which form part of the same “family” of statistics. CPIH meets both of these tests.

Whilst this change to our commentary could not happen until CPIH is re-accredited as a National Statistic, ONS will allocate sufficient resource to ensure that all requirements set out in the assessment report are implemented as swiftly and effectively as possible. I expect ONS to be in a position to present its evidence on how it has met the requirements in September. During this period, I also want to continue the constructive engagement we have been having with stakeholders so that the nature of this index is fully understood.

Second, I have listened to calls for a measure showing the effect of changes in payments for goods and services, which has been referred to as a ‘Household Inflation Index (HII)’. 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. ONS will publish proposals and a timetable

on the development of HII in July 2016. 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.

Third, users have sought clarification on the future of the Retail Prices Index (RPI). Put simply, I believe that the RPI is not a good measure of inflation and does not realistically have the potential to become one. I strongly discourage the use of RPI for as a measure of inflation as there are far superior alternatives. Nonetheless, RPI is still used for a number of legacy purposes and its production is mandated by legislation. My intention is that from the start of 2017, ONS would publish the minimum of RPI-related data necessary to ensure the critical and essential needs of existing users are met. This would consist of the aggregates RPI and RPIX. Component indices of RPI (for example, the RPI indices for food, clothing etc) would also continue. For the avoidance of doubt, RPIJ would no longer be published.

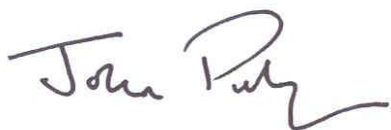
The RPI would continue to be maintained through routine changes. This covers all changes required to continue production of a consistent, fit for purpose RPI (for example the annual update of the basket and weights, computer systems upgrades and improvements to data validation and quality assurance methods). With due consideration to the requirements of the Statistics and Registration Services Act 2007, ONS would only consider making methodological changes to the RPI if to not do so would inhibit the improvement of CPIH and the Consumer Prices Index.

Finally, I have been thinking about the development priorities for consumer inflation statistics. Ensuring we deliver on the requirements in the Assessment Report and therefore that CPIH is reaccredited as a National Statistic is the top priority in the short term. We will also be preparing for other changes, such as including Council Tax in the CPIH calculation, which I am inclined to believe to be sensible. I am hoping that these changes can be made later this year.

Over the medium to long term, the development of the use of new data sources such as web scraped data and the development of the HII concept will be among the priorities. There is also work that must be done to ensure the Consumer Prices Index remains compliant with EU regulations.

In taking forward all these actions, I will continue to liaise with users and draw on the expertise of the advisory groups. I will write to you in September with an update on progress and to let you know when I will publish my full report on the future of these vitally important statistics.

Yours sincerely,

A handwritten signature in black ink that reads "John Pullinger". The signature is written in a cursive, slightly slanted style.

John Pullinger