

Article

# Measuring changing prices and costs for consumers and households: March 2018

Description of the different measures and approaches to inflation in the UK: Consumer Prices Index including owner occupiers' household costs (CPIH), Household Costs Indices (HCIs) and Retail Prices Index (RPI).

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# 1 . Introduction

This article describes the different measures and approaches to inflation. There is no single measure of inflation, as there are different ways of looking at changing prices and costs. Instead this article is a guide to the issues and explains the approaches of different measures.

## 2 . Background

Following an [independent review](#) and subsequent public consultation, the National Statistician published a [statement](#) setting out plans for consumer inflation statistics in the UK, to ensure that they meet current and emerging user needs. We have since implemented significant changes to both the presentation and development of these statistics:

- our most comprehensive measure of consumer price inflation, the Consumer Prices Index including owner occupiers' housing costs (CPIH), became the lead measure in our publications in March 2017 and was [designated as a National Statistic](#) in July 2017
- the Household Costs Indices (HCIs) are under development, providing a set of measures that describe the experience of households by measuring changes in costs they face; [preliminary estimates](#) were published in December 2017
- reflecting the serious [shortcomings of the Retail Prices Index \(RPI\)](#) as a measure of inflation, the publication of RPI-related data has been scaled back to that which is essential to meet existing user needs

In addition to meeting the range of user needs, it is important to ensure that the statistics present a clear and coherent picture, enabling users to make an informed choice over which measure is most appropriate for their purpose. In particular, as we believe RPI is not a good measure of inflation, this article aims to help people understand which measure of inflation might be most relevant for their use. To facilitate this, we have set out three “use cases”, along with how they relate to the measures that we publish.

## 3 . A comprehensive measure, based on economic principles: CPIH

The Consumer Prices Index including owner occupiers' housing costs (CPIH) is a measure of changing consumer prices based on economic principles and is [designated as a National Statistic](#). It measures the change in the prices of the goods and services as consumed by households. The price movements of items within this [basket of goods](#) are weighted in proportion to their importance to total household spending on these items, meaning that items on which households spend more money will have a greater influence on the rate of inflation.

The Consumer Prices Index (CPI) is also a National Statistic and based on economic principles, but importantly it does not include certain housing costs, which are significant expenses for many households. However, because it is also the UK [Harmonised Index of Consumer Prices \(HICP\)](#), it enables us to produce a measure that is comparable across Europe and with other countries.

The CPIH builds on the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home, known as owner occupiers' housing costs (OOH), along with Council Tax. CPIH is therefore a comprehensive measure of price change across the economy as a whole and is the [lead measure in our publications](#) of consumer price inflation.

## 4 . A set of measures to reflect the change in costs as experienced by households: the HCIs

The Household Costs Indices (HCIs) are currently under development and examine how households experience changes in costs by looking at the payments they make for a basket of goods, services and other financial transactions. The changes in costs of items within this basket are aggregated in a way that gives equal weights to all households (CPI and CPIH implicitly give a greater weight to higher-spending households).

Different household groups (for example, pensioners or low-income households) experience different changes in costs. HCIs allow these to be measured, with the aggregate measure covering all households acting as a benchmark. An article, published in November 2017, provides more information on the [development of the HCIs](#) and how they compare with other measures. [Preliminary estimates](#) were first published in December 2017.

To put these figures in context and to provide a better understanding of the change in the purchasing power of disposable income as experienced by different household groups, we present these changes to household costs alongside corresponding measures of household income.

## 5 . A legacy measure that is required for continuity: the RPI

The Retail Prices Index (RPI) is not a good measure of inflation, at times greatly overestimating and at other times underestimating changes in prices and how these changes are experienced. The methods used to produce it are not consistent with internationally-recognised best practice, a flaw that led to it [losing National Statistics status](#) in 2013. It also has other significant weaknesses, including how it measures housing costs, and its population coverage, which excludes certain households. [Shortcomings of the Retail Prices Index as a measure of inflation](#), published in March 2018, describes these deficiencies.

While we strongly discourage its use, there are a number of long-established uses of RPI, including for index-linked gilts and long-term contracts, which make it impractical to stop its publication. For this reason, while we have significantly [scaled back publication of RPI-related data](#), we continue to publish the minimum necessary to ensure the essential needs of existing users are met.