

Motive for change / background			
Question	Plain English Answer	Statistical Answer (if different)	Refer to Prices Division Immediately
Doesn't the outcome illustrate that you've been leant on by the government/ lobby groups/ pensioners?	ONS is an independent organisation that is committed to producing high quality, fair and impartial statistics. The National Statistician has reached her recommendation independent of pressure from government or anyone else.		No
Are you revisiting other ONS outputs to check that the formulae you are using are still relevant?	ONS has an ongoing quality review process to ensure its statistics are - and remain - fit for purpose and among the best in the world. The choice of formula will, where relevant, be considered as part of this process.		No
Why did you make your changes in 2010 without looking at the impact? If you had done you wouldn't be in this mess	The changes to the measurement of clothing prices that were introduced in 2010 ensured that the CPI and RPI were better reflecting how consumers purchase clothes, better measuring clothing price inflation, and brought into line with international best practice. The choice of EA formula was not considered at this time. ONS has learnt from the introduction of these improvements and now ensures that all significant potential changes to the RPI and CPI are rigorously assessed to determine their likely impact on the indices.		No
Why have you run the consultation now and not 20 years ago - the issues with these index numbers have been known about for nearly a hundred years? Have you been asleep on the job?	Many of the theoretical causes of the formula effect have been known for a number of years. The collective impact of these causes was known and was relatively stable (approx 0.5 percentage points - see table 5 in the consumer price stats bulletin). Given the stability of the size of the formula effect gap and the large impact on users of making any changes to the formulation of the RPI or CPI, it was felt that the methodological case for changing did not stack up against the requirements to meet user needs in the code of practice for official statistics. Three factors caused ONS to look again at this issue. Firstly, the increase in the formula effect gap during 2010 as a result of the improvements made to the measurement of clothing prices. Secondly, a change in user requirements for the CPI and RPI following the Government's decision to switch the indexation of many pensions and benefits from the RPI and CPI. Finally, ONS has developed and uncovered new evidence that was not previously known (eg the analysis of consumer behaviour and its potential impact on the choice of EA formulae, plus the review of practices in other countries).		No
Why did you start the consultation without having a comprehensive understanding the statistical issues?	ONS has been working on understanding the formula effect gap for a couple of years and has compiled significant and sufficient evidence to consider options for changing the elementary formulae in the RPI. Waiting before consulting would mean that any changes (should they be deemed necessary) couldn't be implemented before 2014. This was seen as unacceptable in the face of the evidence gathered to date.		No

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Why was ONS research not been allowed to run its full course before the consultation took place?	ONS has been working on understanding the formula effect gap for a couple of years and has compiled significant and sufficient evidence to consider options for changing the elementary formulae in the RPI. Waiting before consulting would have meant that any changes couldn't be implemented before 2014. This was considered unacceptable in the face of the evidence gathered to date.		No
Is there an error in the RPI?	There is no error in the RPI. The RPI is constructed and calculated as defined in the Consumer Price Indices Technical Manual. ONS constantly keeps the composition of its indicators under review.		No

Impact of the change on users			
Question	Non-Statistical Answer	Statistical Answer	Refer to Prices Division Immediately
What is the impact of your recommendation for users: Index linked-gilts, pensioners, NS&I index linked savings, government debt, rail users etc?	The National Statistician has recommended that no change is made to the RPI. There will therefore be no impact on your uses of the index.		No

Timing / Procedure			
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Why was the announcement of the National Statisticians' decision made at 07:00am and not the usual publication time?	The announcement was made at 07:00, outside of trading hours for index linked gilts, to enable the financial markets to collate the information before the markets open		No
Why did the consultation run for only 8 weeks and not the standard 12?	The statistical reasons for the consultation and the majority of the evidence, have been in the public domain for some time (eg CPAC papers - media articles). Moreover, the contents of the consultation were announced by the National Statistician in mid September. It is vital that we have users' views in sufficient time to implement any of the options for change in time for the 2013 update of the RPI.		No
Why do any changes have to be implemented in March 2013?	The statistical and computational structure of the RPI means that any change to the way in which it is calculated can only be implemented at the point in the year at which the basket of goods is updated.		No
The consultation and other information provided by ONS is too technical for me to understand. Are you trying to blind me with science?	ONS has made every effort to ensure that the consultation document is as accessible as possible. As this is a technical statistical consultation there are some complex points that need to be covered. Prices statisticians at ONS are happy to help users understand this material and can be contacted by e-mailing RPIConsultation@ons.gsi.gov.uk or calling 01633456900.		No
When will the Bank/Chancellor decide whether the recommendation for a new/changed RPI can be implemented?	As the National Statistician has recommended that there should be no change from the RPI, a decision from the Bank/ Chancellor is not required. The Bank will give its opinion in respect of the change for the source for private housing rental data in a timely manner.		No

Statistical (User requirements)			
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If RPI is OK to keep should you change CPI?	The work conducted by ONS looked at the elementary aggregate formulae used in the CPI and RPI. The statistical evidence gathered suggests that there is no case to change the formulae used in the CPI at present. The reason for not changing the RPI is the significant value to users in continuity of the RPI's long term time series.		No
If you think there are issues with the RPI why are you still producing it?	The issues with the use of the Carli in the RPI are well-understood and there is significant value to users in the continuity of the RPI's long term time series.		No
Will you revisit these issues in the future, or is the RPI likely to remain as it is now?	ONS will continue to pursue its research programme in the area of consumer price statistics, though the formulation of the RPI will not be considered. This is a complex area that is evolving as the retail sector changes. Developments in technology and retail behaviour will drive changes in the way prices are collected, processed and aggregated. Users should recognise that the RPI was developed to reflect a consumer market that is barely recognisable today and as a result ONS will work with users to develop proposals that will maintain the quality of its consumer price statistics.		No
Why are there so many different price indices?	We are required to produce the RPI under UK law (the statistics and registration act, 2007) and the CPI (known internationally as the Harmonised Index of Consumer Prices) under EU regulations. We must therefore continue to produce both indices. In addition, there are a range of different uses of consumer price indices. ONS aims to ensure that users' needs can be met from its suite of indices and will work with users to develop proposals that will maintain the quality of its consumer price statistics.		No
What is RPI-J and why are you producing it?	RPI-J is a new RPI-based analytical index which will be introduced to assist users to understand the difference between the RPI and CPI. The index will be constructed in the same way as the RPI, but will use the Jevons elementary aggregate formula where the Carli formula is currently used. This is equivalent to option 3 as presented in the RPI consultation.		No

Impact of the change on the figures & Other Statistical Questions			
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Can you explain why you say in the consultation document that the Carli is biased upward.	The reference to the bias of the Carli in the consultation document referred to a property of the Carli index which means that (under certain conditions) it produces higher results than one would, intuitively, feel reasonable. For example, a set of prices could increase and then fall back to their original level. While, intuitively an index calculated using these prices would return to its original value, a Carli index would suggest that there had been a price increase.	[IN ADDITION TO THE NON-STATISTICAL MATERIAL] The Carli formulae fails two important axiomatic 'tests' for index number - the time reversal and transitivity tests. Whilst failure of these tests in of itself may not be considered a big issue, the failure always results in an upward bias.	Yes
Any questions regarding bias in the CPI or RPI	As it is unknown - and it is not possible to know what the true, exact, rate of inflation is, it is not possible to state categorically that either the RPI or CPI is biased as a measure of the true rate of inflation.	As it is unknown what the true rate of inflation is, it is not possible to state categorically that either the RPI or CPI is biased as a measure of the true rate of inflation. If we were able to make such statements it would make the choice of elementary aggregate much easier, however as inflation is a latent variable, and many targets have been proposed for its measurement it is not possible to identify a bias in the CPI because it uses Jevons. The bias of either index is unknown which is why the choice of elementary aggregate is so difficult.	Yes
What is the difference between bias and chain drift?	Bias is a measurement of the difference between a sample estimate and the true population. Think of it as the difference between the true rate of consumer inflation and the estimates of consumer inflation (CPI and RPI) produced by ONS. Explaining chain drift first requires an explanation about the way in which the CPI and RPI are calculated.	Bias measures the difference between an estimate and a population variable, chain drift occurs because it is necessary to update the basket of goods in a price index on a regular basis. The CPI and RPI are currently constructed as annual indices which are then chained together using overlapping months. Chain drift then occurs because	Yes

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	We update the CPI/ RPI basket of goods and service collected every year to reflect changes in the goods and services people buy. If we didn't we would still be measuring the price of mangles and rabbits. To produce a single index from the changing baskets we use a process called chaining. Basically, indices are calculated for each good for a 13 month period. These indices are aggregated into groups of similar products (eg meat) and then chained together using overlap months as links. Chain drift occurs when a chained index returns a value of inflation which is higher than would have been observed using a direct (ie where chaining doesn't take place) index. Chained indices will exhibit drift when prices fluctuate over time.	the indices which are chained together are higher than indices which would otherwise have been constructed based on direct comparisons of two time periods. Chain drift can therefore be felt of as a type of bias, but one which is tolerable as it allows for the index to make improvements which are likely to mean that overall the index is a less biased measure of overall inflation. The elimination of chain drift would be useful, however at the moment this is not possible but the cost of having this in the index is outweighed by the benefits of updating the index.	
What is 'price bounce' and what does it mean in terms of the RPI?	Price bounce refers to the behaviour of prices which move in one way before then reversing direction, for example a barbecue which starts the year at one price, increases in price in the summer before being discounted again in the autumn. This type of behaviour can, over time, result in a type of bias called chain drift (see previous answer). Price bounce is a bigger issue for a Carli index than it is for other elementary aggregate indices.	Price bounce refers to the behaviour of prices which move in one way before then reversing direction, for example a barbecue which starts the year at one price, increases in price in the summer before being discounted again in the autumn. This type of behaviour can increase the chain drift in a price index and so introduces additional bias to a price index. It can be shown that this is likely to be more severe for the Carli elementary aggregate than the Jevons and so may be considered a weakness of the Carli. It is difficult to isolate the magnitude of this price bounce effect from other chain drift effects so little is known of the size of its impact on the RPI.	Yes

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Is the RPI more susceptible to price bounce/chain drift/bias now than it was before 2010?	It may be that the changes in some areas of the indices, such as clothing price collection, have increased the magnitude of the effect of price bouncing, however we don't currently have an estimate for this. There is no reason to believe that more prices have exhibited bouncing since 2010 and there is no reason to believe this has become any more pertinent an issue since 2010.		Yes
What is the size of the impact that price bounce/chain drift/bias has on the RPI?	The effect is difficult to measure as it requires various approximations to take place in order to calculate price bounce and chain drift in RPI.	The effect of chain drift is difficult to measure as it requires a direct index to be compiled over a period as well as a chain linked period, in effect this would require 2 years of RPI data. In order to make an estimate of chain drift meaningful would require the weights to change as they would during a chain link as this will contribute to the chain drift effect. In addition we would have to limit our attention to items which are in the basket across the 2 year period, which for fashion goods is a non-trivial issue. An estimate of the possible magnitude of chain drift may therefore be possible with adequate data restrictions. Separating this out to identify the impact of only bouncing prices is difficult, and to our knowledge has never been attempted before, it may therefore represent a significant piece of research.	Yes
Does the CPI take account of substitution because it uses the Jevons while the Carli doesn't because it uses the Carli?	Research conducted by the ONS has shown no relationship between consumer spending and the choice of calculation at the elementary aggregate level.	Evidence on the economic approach to elementary aggregate formula compiled by ONS showed that it was not possible to find a link between observed consumer substitution behaviour and the appropriate choice of elementary aggregate formula. Therefore the choice of formula is not intended to reflect any beliefs about substitution behaviour, anyone making	No

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		such comments has made additional assumptions which ONS has not been able to identify evidence to support.	
Will you stop measuring clothing prices?	Refer to Statistical Answer	Expenditure on clothing and footwear is a significant and important element of consumer expenditure (currently approx 4.5% of the weight of the RPI). As such, there are no plans to stop measuring clothing prices in the RPI or CPI.	No
Have you made the right choice given that you've set aside the advice of a leading expert in index numbers?	The views of experts in index numbers have not reached a consensus on the issue of the choice of elementary aggregate formula. Our examination of the views provided to us has been considered against the other views expressed by knowledgeable parties and existing knowledge regarding price index construction. The advice offered to us was important in allowing us to identify the important issues in the debate and analyse them in the context of ONS's work.		No
Does the formula used in the CPI take account of substitution effect?	The basket of goods for both the CPI and RPI are updated annually to reflect changes in consumers' spending patterns, including substitution of one good for another. The absence of expenditure data at the lowest level of data aggregation means that consumer substitution cannot be measured in the CPI or RPI at this level.		No
What contribution does clothing make to the formula effect?	The latest estimates on the contribution individual divisions make to the gap are from July 2012 where clothing and footwear contributed 0.52 percentage points to the then total formula effect of 0.86 percentage points. These estimates are available from ONS http://www.ons.gov.uk/ons/about-ons/what-we-do/publication-scheme/published-ad-hoc-data/economy/october-2012/index.html .		No

NEW QUESTIONS			
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