

National Statistician announces outcome of consultation on RPI

Following a consultation on options for improving the Retail Prices Index (RPI), the National Statistician, Jil Matheson, has concluded that the formula used to produce the RPI does not meet international standards and recommended that a new index be published.

The National Statistician's consultation was prompted by the need to address the gap between the estimates produced by the RPI and the Consumer Prices Index (CPI). The ONS research programme found that use of the arithmetic formulation (known as the 'Carli' index formula) in the RPI is the primary source of the formula effect difference between the RPI and the CPI, and, that this formulation does not meet current international standards. Therefore, a new RPI-based index will be published from March 2013 using a geometric formulation (Jevons), known as RPIJ.

In developing her recommendations the National Statistician also noted that there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Therefore, while the arithmetic formulation would not be chosen were ONS constructing a new price index, the National Statistician recommended that the formulae used at the elementary aggregate level in the RPI should remain unchanged.

The National Statistician has also recommended that improvements to the measurement of private housing rents from using an alternative data source should be implemented in the February 2013 RPI indices (published on 19 March 2013). As this change affects the RPI it is subject to consultation with the Bank of England and, if necessary, the consent of the Chancellor of the Exchequer.

The Board of the UK Statistics Authority has accepted these three recommendations.

The Office for National Statistics will continue to pursue its research programme in the area of consumer price statistics and work with users to maintain the quality of its consumer price statistics.

Background Notes

1. The National Statistician's announcements relate to the options set out in her consultation published on 8 October 2012. See: <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/owner-occupiers-housing-costs/index.html>
2. The consultation was announced on 18 September 2012 and ended on 30 November 2012. More than 400 responses to the consultation were received from a wide range of organisations and a significant number of individuals.
3. The recommendation not to change the formulae used in the RPI equates to option 1 as set out in the consultation document.
4. The development of the new RPI based indicator equates to option 3 in the consultation document, and it will be published alongside other measures on 19 March 2013. The geometric approach will use the 'Jevons' measure and is based on a calculation that uses the nth root of the product of n price measures.
5. The RPI is an economic indicator that is published monthly by the Office for National Statistics and measures the change in the cost of a basket of retail goods and services.
6. On 8 January 2013, the Consumer Prices Advisory Committee (CPAC) met to provide advice to the National Statistician in making her recommendation. Both the meeting papers and a summary note of the meeting have been published today on the CPAC webpage: <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/consumer-prices-advisory-committee/cpac-papers/index.html>
7. Section 21 of the Statistics and Registration Service Act 2007 requires that:
“(2) Before making any change to the coverage or the basic calculation of the retail prices index, the [Statistics] Board must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities.
(3) If the Bank of England considers that the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities, the Board may not make the change without the consent of the Chancellor of the Exchequer.
8. The Bank of England's judgment on the proposal affecting private housing rental data and, if required, the decision by the Chancellor of the Exchequer will be published in the CPI/RPI Statistical Bulletin at 09:30 on Tuesday 15 January 2013.
9. ONS will publish all responses (subject to any necessary consents being obtained or redactions made) to the National Statistician's consultation before the end of February 2013.
10. National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure

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