

Article

# Measuring changing prices and costs for consumers and households

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# 1 . 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
- work is underway to develop Household Costs Indices (HCIs), a set of measures that describe the experience of households by measuring changes in costs they face
- reflecting the weaknesses of the Retail Price 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. To facilitate this, we have set out three “use cases”, along with how they relate to the measures that we currently publish and those that are under development. Taken together, our aim is that these should present a clear future approach to measuring changes in prices and costs faced by consumers and households. There is no single definition of inflation. Instead we present different ways of looking at changing prices and costs. All measures track a basket of goods and services, but take different approaches to measuring the prices and costs associated with those goods and services, and weight them differently.

## 2 . A comprehensive measure of inflation, based on economic principles: the Consumer Prices Index including owner occupiers' housing costs (CPIH)

The Consumer Prices Index including owner occupiers' housing costs (CPIH) is a measure of inflation based on economic principles. 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 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.

### **3 . A set of measures to reflect the change in costs as experienced by households: the Household Costs Indices (HCIs)**

The Household Costs Indices 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.

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 will present these changes to household costs alongside corresponding measures of household income.

### **4 . A legacy measure that is required to meet existing user needs: the Retail Prices Index (RPI)**

The methods used to produce the Retail Prices Index (RPI) are not consistent with internationally recognised best practice, a flaw which led to it [losing National Statistics status](#) in 2013. It also has other weaknesses, including its population coverage which excludes certain households. The [National Statistician's statement](#) in 2016 described these deficiencies and strongly discouraged its use.

Nonetheless, 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, whilst 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.