

Article

# Measuring changing prices and costs for consumers and households: December 2023

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

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# 1 . Overview of measuring changing prices and costs for consumers and households

Our article [Measuring changing prices and costs for consumers and households](#), published on 8 March 2018, describes the different measures and approaches to consumer price inflation. In summary, there is no one measure of inflation; rather, there are different ways of reflecting changing prices and costs, and different reasons why we may choose one approach over another.

The original article presented three “use cases” for the inflation measures published by the Office for National Statistics (ONS). This article has been updated to reflect changes to the presentation and development of these statistics, including the outcome of the [2020 consultation on the reform of the Retail Prices Index](#).

## 2 . Our current position

Following an [independent review](#) and subsequent public consultation, the National Statistician published a [statement in 2016 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 a set of experimental measures that describe the experience of different households by measuring changes in costs and prices they face; [experimental estimates](#) are published every quarter.
- Reflecting the serious [shortcomings of the Retail Prices Index \(RPI\)](#) as a measure of inflation, the publication of RPI-related data was scaled back to that which is essential to meet existing user needs; moreover, as the majority of users have not moved away from using RPI as anticipated, our intention is to address the RPI’s shortcomings by bringing CPIH methods and data sources into RPI in 2030.

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.

It is important to remember that the uses to which consumer inflation statistics are put are not the primary purpose of producing these statistics. The main purpose of our consumer inflation statistics is to provide an accurate measure of changes in prices and costs. In particular, as 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 help with this, we have set out three “use cases”, along with how they relate to the measures that we publish.

## A comprehensive measure based on economic principles: CPIH and CPI

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 and services](#) 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 owner occupiers' housing costs and Council Tax, 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 internationally. The CPI is also currently used by the government as the inflation target for the Bank of England, so is often quoted as "the" measure of inflation.

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. This measure of OOH is based on a large, robust data source, which allows us to reliably estimate the cost of consuming owner-occupied housing services and is also consistent with the measure used in measuring gross domestic product (GDP), providing a consistent macroeconomic picture.

CPIH is therefore a comprehensive measure of price change across the economy as a whole, [as reported in our consumer price inflation publications](#), although we continue to also provide information on CPI given the high level of interest in this measure.

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

The Household Costs Indices (HCIs) are [experimental statistics](#) that examine how different 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 added up in a way that gives equal weights to all households (CPI and CPIH implicitly give a greater weight to higher-spending households). The HCIs basket also includes some components that are out of scope of CPIH and CPI such as mortgage and other interest payments.

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. Our article, [Developing of the HCIs](#) provides more information. [Experimental monthly data](#) are currently published every quarter at a lag of between two and five months.

To put these figures in context and to give a representative picture of the change in the purchasing power of disposable income as experienced by different household groups, we recommend that changes to household costs should be considered alongside corresponding measures of household income.

## A legacy measure that is required under legislation: the RPI

The Retail Prices Index (RPI) is not a good measure of inflation. The methods used to produce it are not consistent with internationally-recognised best practice, a shortcoming 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. Our article [Shortcomings of the Retail Prices Index as a measure of inflation](#), published in March 2018, describes these deficiencies.

The Office for National Statistics (ONS) aims to ensure the quality of all its statistical outputs including the RPI. Our current policy is to “address the shortcomings in the RPI in full at the earliest legal and practical opportunity (in February 2030) by bringing the methods and data sources from the National Statistic and ONS’s lead measure of inflation, the Consumer Prices Index including owner occupiers’ housing costs (CPIH), into the RPI”. Prior to 2030, and always with due consideration to the requirements of the [Statistics and Registration Services Act 2007](#), we propose generally to follow the approach outlined in earlier policy statements, namely: “The RPI would continue to be maintained through routine changes”. By contrast, in general, we “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 (CPI).” The principles underlying this policy are that, given we expect to be unable to address the key methodological shortcomings of the RPI before 2030, in the interim we will generally prioritise ensuring that changes to the RPI keep it up-to-date, and are limited and predictable, with our development work focussed on improving our headline consumer price statistics (CPIH and CPI) as the best way to ensure the overall relevance, accuracy and reliability of our price statistics, and the best and most efficient use of our resources.

As work on consumer prices transformation has progressed it has become clear that there is some degree of conflict between ensuring changes to RPI are limited and predictable and maintaining the quality of the suite of consumer price statistics. To enable existing data sources and methods to be continued to be used in the RPI would require significant investment in legacy systems that are no longer being used for CPI and CPIH. We therefore propose allowing methods and data improvements from the [Prices Transformation Project](#) to feed into the RPI where they are not substantially similar to the elements of the RPI that we do not expect to be able to address before 2030, most notably the Carli formula and methodology for owner occupiers’ housing (OOH) costs. This allows us to continue to provide some predictability while also ensuring we devote resource to modernising the production and improving the quality of our full suite of consumer price statistics.

We encourage all users to choose the statistically robust index that best meets their needs, whether that is CPIH or CPI, the HCIs, or their sub-indices, which have been described in this article. We will continue to produce the RPI as required by statute.

## 3 . Provide feedback

This content will be reviewed every two years.

If you have any feedback or suggestions on the work we are doing around measuring changing prices and costs for consumers and households, please contact us at [cpi@ons.gov.uk](mailto:cpi@ons.gov.uk).

## 4 . Publication schedule

We publish regular releases related to measures of changing prices and costs for consumers and households:

- [Consumer Price Inflation, UK](#) (monthly)
- [Household Costs Indices](#) (quarterly)

## 5 . Cite this article

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