

Article

# Measuring changing prices and costs for consumers and households, proposed updates: March 2020

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

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Release date:  
18 March 2020

Next release:  
To be announced

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# 1 . Introduction

[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. The original article presents three “use cases” for the inflation measures published by the Office for National Statistics (ONS).

Here we set out proposed updates to the article, to give users a view of what these “use cases” would look like if the proposals put forward in the ongoing [consultation](#) on the future of the Retail Prices Index are implemented. We will update the article in light of the outcome of the consultation.

## 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 and prices they face; [preliminary experimental estimates](#) are published annually drawing in the latest methodological improvements and, in August 2019, we published our [plans](#) to work towards National Statistic status for the HCIs.
- 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 the RPI as anticipated, we have further plans to address the RPI’s shortcomings by bringing CPIH methods and data sources into the RPI between 2025 and 2030, subject to [consultation](#).

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 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: the 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 prices of the goods and services 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 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 internationally.

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. The 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 (the Consumer Prices Index (CPI) and Consumer Prices Index including owner occupiers' housing costs (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. The 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 experimental estimates](#) are published annually, drawing in the most recent methodological improvements.

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

In June 2019, the National Statistician published a [statement](#) outlining our future direction for the HCIs, and we subsequently published [plans](#) in August 2019. We will focus on refining the main HCIs measures, producing a quarterly test run in 2022 before seeking National Statistic status the following year. The National Statistician also recognised the user need for a broader set of measures; for example, to include the capital element of owner-occupied housing. Once National Statistic status has been achieved for the main measures, we will develop a HCIs variant – the HCICs – that will include such costs.

## 5 . A legacy measure that is required under legislation: 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 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. [Shortcomings of the Retail Prices Index as a measure of inflation](#), published in March 2018, describes these deficiencies.

The UK Statistics Authority, on advice from the National Statistician, proposed that the methods and data sources of the Consumer Prices Index including owner occupiers' housing costs (CPIH) are brought into the RPI to address the shortcomings of the RPI. The exact date of this change will be informed by a joint UK Statistics Authority and HM Treasury [consultation](#) which will run from 11 March 2020 for six weeks. We recognise that there are a number of long-established uses of the RPI, including for index-linked gilts and long-term contracts, which make it impractical to change the RPI in the short term. For this reason, the implementation of this change will take place between 2025 and 2030.

After the change has been made, we will publish the minimum necessary to ensure our obligation under the [Statistics and Registration Services Act 2007 \(SRSA07\)](#) – to compile and publish the RPI every month – is met. Only an all-items RPI will be produced, and users who require lower level or supplementary series will be directed to the equivalent CPIH series. In particular, the RPIX (RPI excluding mortgage interest payments) will no longer be produced. This is because the CPIH does not include mortgage interest payments, so the concept is redundant in a CPIH framework. Once the change has been implemented, we will propose that any future changes to the CPIH should also be made to the RPI.

We encourage all users to choose the statistically robust index that best meets their needs, whether that is the CPIH or CPI, the HCIs, or their sub-indices, which have been described in this article. The “use case” for the RPI remains to meet the needs of users for whom this is not possible.

This is a proposed update to the consumer price inflation “use cases”, which will be reviewed and amended to reflect the outcome of the [consultation on the RPI](#).