
30 November 2020

Simon Hayes and Rhys Phillips
Head of Current Economic Conditions Division, and Head of Sterling Markets Division
Monetary Analysis, Division 2
Bank of England
Threadneedle Street
London
EC2R 8AH

Dear Simon and Rhys,

This letter covers changes to the suite of consumer price inflation statistics in 2021.

i. Issue

A request for the Bank of England to assess the changes to the Retail Prices Index (RPI) proposed by UK Statistics Authority (the Authority) for implementation in 2021.

ii. Action

To note the contents of this letter, which is being sent to acknowledge the requirements under Section 21 of the Statistics and Registration Service Act 2007. In previous years it has initiated the Authority's consultation with the Bank over whether any proposed changes to the RPI would constitute a fundamental change in the index which would be materially detrimental to the interests of holders of relevant index-linked gilts, and hence trigger the redemption clause.

iii. Timing

For response by 4 January 2021.

Impact of COVID-19 on our routine processes for consumer price inflation statistics

Since March 2020 we have faced several challenges in continuing the production of the suite of consumer price statistics, including the continuity of data collection and methods for dealing with prices that we have not been able to collect. Contingency plans were put into action and these issues were addressed through [correspondence with the Deputy Governor](#) in April 2020. As the pandemic continues to unfold, we are faced with further challenges as outlined in this section.

iv. Ongoing collection of prices

As government guidance is likely to change over time in response to the coronavirus (COVID19) pandemic, we must be flexible with our approach to data collection. We will continue to collect prices in physical stores where it adheres with the regional guidelines and is safe and practical to do so. In locations that face tighter restrictions we will temporarily collect data through retailer websites or by phone until the time comes that physical stores can be visited again.

v. Annual basket update

The annual update of the suite of consumer price inflation statistics will take effect with the February 2021 indices, which will be published on 24th March 2021. An accompanying article describing the changes to the baskets will be published on the ONS website about a week earlier. A fuller description of the reweighting and updating process can be found in the [basket article](#) and the [weights article for 2020](#).

The standard procedures for the annual updating of the baskets are well rehearsed. Although fixed within each year, the contents of the baskets of goods and services and their associated expenditure weights are updated annually to ensure that they are representative of household spending patterns. The updating mitigates potential biases that might otherwise occur from not allowing for changing consumer expenditure habits.

Our suite of consumer price indices use a Lowe index methodology, meaning that expenditure data from before the base period are used to weight consumption classes. These weights remain fixed throughout each year and are updated annually. Given the sizeable shifts in consumption patterns observed during 2020 due to COVID19, our usual weights update process has been adapted to ensure that the expenditure weights used in 2021 adequately reflect expenditure in the base year, in this case 2020. This methodology ensures that we maintain a consistent Lowe index methodology in all our measures, using the base period as our best estimate of the weights for the upcoming year.

The RPI uses expenditure data primarily from the Living costs and food survey (LCF) to construct annual weights. Under regular processing procedures, 2021 RPI weights would be based on LCF data between July 2019 and June 2020, price updated to January 2021. We do not intend to make changes to our routine weights update procedure for the RPI; the weights data used cover a period of “normal” spending in 2019, as well as the most extreme consumption shifts in the second quarter of 2020.

However, the Consumer Prices Index including owner occupiers’ housing costs (CPIH) and Consumer Prices Index (CPI) use Household Final Consumption Expenditure (HHFCE) estimates from the last full year that data are available to construct annual weights. So, under regular processing procedures, 2021 weights would be based on 2019 expenditure, price updated to December (for January 2021 weights) and January (for February – December 2021 weights). The HHFCE estimates are supplemented by the LCF and other data sources in calculating weights at the lowest level of the consumer prices hierarchy.

For the upcoming 2021 weights for CPIH and CPI, we intend to update the 2019 HHFCE expenditure in consumption classes where there have been notable shifts in consumer spending through 2020. The most recent HHFCE estimates for the first 3 quarters of 2020 will be used as the primary data source for these adjustments, with other data sources (such as retail sales and financial transaction data) used to supplement HHFCE estimates where there is limited information. This approach is coherent with the Eurostat guidance provided for

the internationally comparable Harmonised Index of Consumer Prices (HICP, which is the same measure as our CPI).

The items in the basket will be updated in 2021, as usual, so that they remain representative of consumer spending and trends. Changes in the contents of the RPI, CPIH and CPI baskets and their associated weights are not significant beyond their primary aim of ensuring the continuous and proper representation of consumer expenditure habits.

vi. Location rotation and re-enumeration

Approximately 140 locations in the UK are visited each month as part of the local price collection. These locations are carefully selected according to retail turnover and carefully controlled to avoid overlaps with current locations within the sample. To maintain the sample of locations, each year 30 locations are refreshed, either by excluding a location and replacing it with a new one (rotation) or refreshing the list of outlets in the existing location (re-enumeration). Due to movement restrictions in 2020, it has not been possible for our field collectors to carry out this routine process. Therefore, in 2021 we will maintain the sample of locations and retail outlets that were collected from throughout 2020.

Other upcoming changes to the suite of consumer price statistics

vii. Updating shop-type weights

Stratification, a process for which shop-type weights are used, is carried out on locally collected items to improve the accuracy of RPI, CPIH and CPI. It enables the best available information about purchasing patterns to be incorporated in the figures by assigning weights below the item level. There are four stratum types: region, shop-type (multiple or independent), region and shop-type combined, or no stratification.

Last year we wrote to you regarding our intention to begin using the Annual Business Survey (ABS), matched to store counts from the Inter-Departmental Business Register, as the new data source for updating shop-type weights. We have since identified a further improvement to the methodology for classifying retailers to a shop-type. This approach makes use of an additional variable on the ABS dataset in the matching process to better classify retailers as either independent or multiple. We intend to introduce this improvement from the February 2021 index, published in March 2021.

viii. Transformation of consumer price inflation statistics

We have been improving our systems for producing above-item aggregation and chainlinking for RPI, CPIH and CPI by moving these onto our strategic Oracle supported platform (CORD). The change will not have any impact on the statistics, but the expectation would be that there is lesser scope for error as we move to common, corporate platforms. The new system will not revise historical data. In our correspondence last year, I outlined a timetable to go live with this system during 2020 and maintain a parallel run with existing systems until the end of 2020. Due to the challenges faced this year, we have extended the parallel run phase through to April 2021 to provide additional confidence in the new system.

We have also continued developing our capability to use automated collection tools as part of our consumer prices data collection strategy. This is part of our [wider transformation](#) to incorporate alternative data sources

into consumer price statistics in 2023. To date, our web-scraped data have only been used to produce online weekly price indices for food and drink items as part of the [Coronavirus and the latest indicators for the UK economy and society](#) publication series. Producing these indicators has expanded our capability and experience in web-scraping, and in 2021 we hope to begin to replace some of our manual, central price collections with these more automated methods. The data collected and sampled will be the same data that would be collected under traditional methods, and the new tools are closely monitored and assessed against information from other sources.

The events of this year have further demonstrated the benefits that can be gained from having regular access to point-of-sale transaction (scanner) data directly from UK retailers. We continue our endeavour to obtain data feeds from these retailers and have made substantial progress in accessing these data throughout 2020. We have also made significant progress with regards to both system and methods development over the course of 2020, keeping us on track to improve the quality of consumer price statistics using new data and methods from 2023.

Furthermore, in 2021 we plan to pilot the collection of barcode information as part of our field collection. This will enable us to appropriately match price quotes collected in the field with prices calculated using alternative data sources; thereby increasing the potential for us to be able to use these data in consumer price statistics, through direct substitution with existing price quotes, prior to 2023.

ix. Development of private rental series

We are currently investigating new methodologies to improve our private rental prices statistics, as outlined in our [development plan](#). We plan to replace the Index of Private Housing Rental Prices (IPHRP) with the new index during 2021, following stakeholder feedback and parallel testing of the new methods. We will subsequently test incorporation of these changes into the private rent components of RPI, CPIH and CPI, and the owner occupiers' housing component of CPIH. We will discuss these changes and their potential impacts with users in 2021 before potential incorporation of the new methods no sooner than 2022.

Please let me know if you have any queries or would like to discuss any of the changes raised in this letter.

A copy of this letter goes to Simon Kirby and Sarah Illingworth at the Bank of England, to James Benford and Daniel Gallagher at the Treasury and to Sam Beckett, Jonathan Athow and Grant Fitzner here at ONS.

Yours sincerely,

Michael Hardie

Michael Hardie
Head of Prices Division, Office for National Statistics