

17 November 2015

James Bell and Sarah John
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Dear James and Sarah

CPI, CPIH, RPI AND RPIJ: NO PLANNED CHANGES AT THE TIME OF THE ANNUAL RE-WEIGHTING AND UPDATING OF THE BASKETS

Issue

There are no planned changes to the Retail Prices Index (RPI) proposed by the UK Statistics Authority (the Authority) for implementation alongside the update to the basket in 2016.

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.

Timing

For response by 11 January 2016.

Location Boundary Review

In 2014 the sampling frame used to define the location boundaries for the suite of consumer price inflation statistics captured around 76% of total retail activity in the UK¹. New methodology has been developed to define the sampling frame which captures around 85% of the retail activity in the UK.

A live-pilot will be introduced as part of next year's sample refresh in January 2016, incorporating four locations based on the new sampling frame. Within the annual sample re-fresh, two of the current locations which have been chosen to be re-enumerated, will have their location boundaries changed in line with the new sampling frame. Two of the locations dropped will be replaced using two locations from the new sampling frame.

Following a review of the success of the pilot study, ONS proposes to roll out the new sampling frame over a five year period. Around thirty locations are refreshed or re-enumerated annually; in the future these will be updated using the new sampling frame. Changes to the location boundaries will be carefully controlled to avoid overlaps with current locations within the sample.

The Authority considers that, the introduction of a new sampling frame is a periodic routine change, necessary to maintain the suite of consumer price inflation statistics.

¹ Based on IDBR data

Annual Basket update

The annual update of the suite of consumer price inflation statistics will take effect with the February 2016 indices, which will be published on 22 March 2016. 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 for 2015, which is available on line².

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 they are representative of household spending patterns. The updating mitigates potential biases that might otherwise occur from not allowing for consumers switching purchases away from goods and services that have increased in relative price to those whose prices have reduced relative to other goods and services. Each year ONS conducts research into expenditure patterns to help inform decisions on which goods and services are under-represented and on which areas of the basket there is scope for removing items. Criteria for choosing a set of items to represent particular categories of expenditure, such as clothing and footwear or food, include the size of expenditure and the diversity of the market based on information from the Living Costs and Food (LCF) survey, observed price variations based on historic data plus market research from a variety of sources on latest consumer trends. Information principally from the latest LCF and UK national accounts is used to update the expenditure weights.

The Authority considers that, the changes in the contents of the CPI, CPIH, RPI and RPIJ baskets and the associated weights are not significant beyond their primary aim of ensuring the continuous and proper representation of consumer expenditure habits.

Introduction of a new definitive House Price Index (HPI)

In mid 2016 ONS and Land Registry will publish for the first time a new HPI which will form a definitive government HPI based on transaction data from the Land Registry and property attributes data from Valuation Office Agency. A version of the existing HPI is used in the RPI for Mortgage Interest Payments (MIPs), house depreciation, ground rent, estate agent fees and surveyor fees. Therefore, the version of the existing HPI used in the RPI will be re-weighted and produced until at least January 2017. During 2016 ONS and the Authority will consider whether the new definitive HPI should be used from 2017 onwards in the RPI. Before these changes are implemented, the Bank will be consulted as required under Section 21 of the Statistics and Registration Service Act 2007.

Please let me know if you have any queries or would like to discuss further.

A copy of this letter goes to Nicholas Butt and Stuart Berry at the Bank of England, to Dave Ramsden and Stephen Farrington at the Treasury and to Jonathan Athrow, Nicholas Vaughan and Joe Grice here at ONS.

Yours sincerely



Mike Prestwood

² <http://www.ons.gov.uk/ons/rel/cpi/cpi-rpi-basket/2015/index.html>