

28 November 2019

Simon Hayes and Rhys Phillips
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Dear Simon and Rhys,

This letter covers changes to consumer price inflation statistics in 2020. The letter addresses routine and non-routine changes to the suite of consumer price inflation statistics. This is provided for information.

1. RPI: NO PLANNED CHANGES AT THE TIME OF THE ANNUAL REWEIGHTING AND UPDATING OF THE BASKETS

i. Issue

There are no planned changes to the coverage or basic calculation of the Retail Prices Index (RPI) proposed by the UK Statistics Authority (the Authority) for implementation alongside the update to the basket in 2020.

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 3 January 2020.

2. RPI, CPIH, and CPI: Planned routine changes

Further to the information provided in the first section, which covered non-routine changes to the RPI, this section details other routine changes to the suite of consumer price inflation statistics for your information.

i. Annual basket update

The annual update of the suite of consumer price inflation statistics will take effect with the February 2020 indices, which will be published on 25th March 2020. 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 2019](#).

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 price relative 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 in 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, and 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.

It is considered that the changes in the contents of the Consumer Prices Index including owner occupiers' Housing costs (CPIH), CPI, and RPI baskets and the associated weights are not significant beyond their primary aim of ensuring the continuous and proper representation of consumer expenditure habits.

The annual basket update in February 2020 will include the removal of one RPI section "Imported lamb". The frozen imported leg of lamb item has coverage of just under 40 per cent, meaning that less than 40 per cent of the desired number of prices are collected. In normal circumstances, this item would have already been removed from the basket but it is the only item in the published RPI section "Imported lamb". Alternative representative items have been investigated but none could be expected to improve the situation. Removing it without replacement means that this section will no longer be produced. Instead only an overall "Lamb" section will be published, without the breakdown between home-killed and imported lamb.

ii. 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.

The Annual Retailing Inquiry (ARI) was formerly used to update shop-type weights annually but was terminated in 1999. Between 1999-2006 shop-type weights received minor updates using data from the LCF. Since 2006, shop-type weights used to compile the RPI, CPIH and CPI have not been updated.

For the February 2020 indices, published in March 2020, ONS will re-introduce the routine (annual) update of shop-type weights as part of the annual basket update for the RPI, CPIH and CPI. These weights will be based

on data from the [Annual Business Survey](#) matched against store counts on the [Inter-Departmental Business Register](#) to allow stratification between multiple and independent retailers.

iii. Transformation of inflation statistics

ONS has been improving its systems for producing above-item aggregation¹ and chain linking for RPI, CPIH and CPI by moving these onto our strategic Oracle supported platform (CORD). The new system is a fully supported application and provides additional visualisation tools that will make data analysis easier for ONS production teams. 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.

Phase 1 of this project was delivered in April 2019. Since this implementation, there has been further development work to move all other index types and remaining above-item aggregation (for example, CPIY and CPI-CT) onto CORD. This is being completed alongside significance business acceptance testing. We will continue to undertake business acceptance testing until after the basket update is complete in March 2020, when the new systems will go live. The current legacy system will remain in use in parallel to the new system until the end of 2020 to provide the necessary quality assurance in the use of the new system.

In 2020, ONS will also begin the move towards using automated price collection tools as part of the transformation of inflation statistics and the move to more efficient ways of working. These web-scraping tools are an automated way of collecting data from retailer websites. The data collected and sampled are the same data that would be collected under traditional methods. Processing of these data, following collection, will also continue to use traditional methods. The sample of items that will use these tools in the first instance are items where prices change infrequently, such as passport and driving licence fees, and birth, marriage and death certificates. These tools will be closely monitored and assessed against information from other sources.

iv. Access to VOA transaction level rental data

In September 2019 ONS gained access to transaction level rental data for England from the Valuation Office Agency (VOA). These data are used alongside equivalent data for Scotland and Wales to produce private rental indices in RPI, CPIH and CPI and owner-occupier housing indices in CPIH. Gaining access to these data will have no impact on the resulting indices as the same methods will be used for compilation, however, it will allow ONS to carry out more detailed quality assurance and analyses on the estimates. ONS are currently running compilation of the aggregate indices in parallel with VOA compilation and expect to fully operationalise in-house production in January 2020.

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 Nicholas Butt at the Bank of England, to Vanessa MacDougall and Daniel Gallagher at the Treasury and to Jonathan Athow and Grant Fitzner here at ONS.

Yours sincerely,

Mike Hardie

¹ Elementary aggregation functions will remain on existing platforms until a strategic platform has been developed.