



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ms Lisa Ray
General Secretary of Public Service Pensioners' Council
Civil Service Pensioners Alliance
Grosvenor House
125 High Street
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10 January 2018

Dear Lisa,

GOVERNMENT'S USE OF DIFFERENT INFLATION MEASURES

1. Thank you for your letter of 12 December setting out further concerns about the Government's use of different inflation measures.
2. In response, I would like to set out some additional information about the Government's use of inflation measures. As previously explained, the problems with RPI are well known and the Government has committed to reviewing the use of RPI for indirect taxes once its fiscal consolidation plans have been implemented. We are already making progress, despite the ongoing challenges to the public finances. For example, at the Budget the Chancellor announced that the planned switch in indexation of business rates from RPI to CPI will be brought forward two years to April 2018.
3. You are correct that the Johnson Review of Consumer Price Statistics recommended that the government and regulators work towards ending the use of RPI, and that the ONS should make CPIH the main measure of inflation. A great deal of work has been carried out by the ONS to develop CPIH both prior to the Johnson Review and since the publication of its recommendations. Most recently, CPIH regained its 'National Statistic' status in July 2017. However, we believe that CPIH needs time to establish a reliable track record as a National Statistic before it is considered for policy purposes.



4. You also raise the development by the ONS of a measure tracking the changes in costs facing different household types. The ONS have named these measures the Household Costs Indices (HCIs). The HCIs are different to CPIH in the use of a payments approach to measuring OOH costs through outgoings, including mortgage interest payments, transaction fees, and running costs. In contrast, CPIH uses the rental equivalence method to estimate the price an owner occupier would have to pay to rent an equivalent home. Other differences between the HCIs and the CPIH include the addition of credit card interest costs and an alternative approach to weighting goods and services.

5. The HCIs are still at an early stage of development. It is therefore too soon to know if these statistics will be useful from a policy perspective. The first edition of experimental numbers, published 19 December 2017, suggested the average difference between the CPIH and the HCIs was small. For example, the difference between the growth rate of the all-household HCI and CPIH was only 0.2 percentage points between 2006 and 2016. However, the all-household HCI growth rate is more volatile, and was briefly negative in 2015.

6. I hope that the information above responds to your queries and helps you to understand the Government's use of inflation statistics.

Best wishes,

A handwritten signature in blue ink, appearing to read 'Elizabeth Truss'.

RT HON ELIZABETH TRUSS MP