



ShareSoc

UK Individual Shareholders Society

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National Statistician (RPI consultation)
Government Buildings
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Via email to: RPIConsultation@ons.gsi.gov.uk

28 November 2012

Response to National Statistician's consultation on options for improving the Retail Prices Index

Dear Sirs,

Our submission in response to the National Statistician's "consultation on options for improving the Retail Prices Index" is given below.

Our organisation is one which represents and supports individual investors who invest in a range of investments, including the UK stock markets, gilts and National Savings & Investments Index-linked Savings Certificates. On behalf of our members who hold such investments, we have an interest in ensuring that any change of formulae used in the calculation of the RPI rate (that may result in a rate change) is carefully considered. We have therefore given our responses to the specific consultation questions in the attached document and below are our general comments.

Whilst appreciating it is outside of the scope of this consultation we note Section 21 of the Statistics and Registration Service Act 2007 and consider that if a fundamental change in the index was to occur (per the options outlined within the consultation) it would almost certainly be detrimental to individual investors. We would therefore like to raise this as a concern in the event any fundamental changes are ultimately proposed.

Below you will find a response to each of the options set out. We have addressed each option pragmatically, acknowledging the need to put bias aside to ensure a statistically sound conclusion. We have also given a view on the proposal to improve the measurement of change in the price of private housing rents.

1. No change. This option would leave the formula effect as it is.

We do not consider this a reasonable option and feel it cannot be considered on any statistical merit.

It is clear changes made to the changes in price collection guidelines in 2010 have rendered the option to leave RPI, as it is currently calculated, not viable. We now see a formula effect within RPI that is out of kilter with historic figures after almost doubling to 1.0%. We are of the belief that this increase in formula effect is detrimental to the data quality and needs changing.

Despite the increase in the formula effect over the last two years being understood, we believe it is of primary importance that the integrity of the RPI index is upheld and that current calculation methods are consistent with the past, allowing for effective analysis for investors and other users of the index.

This consistency is the key to ensuring relevance of any index; in analysing these proposed options consistency is a theme we constantly found ourselves referring back to. With the RPI providing continuous data since 1947 we believe every effort should be made to ensure this data is comparable to the data that will be published in the future.

2. Change one particular approach to averaging changes in prices, which calculates the average of price relatives (the amount a price changes over time for the same type of item where there is no information about consumers' precise expenditure), for clothing.

We consider this a suitable option and put this forward as our proposal for change.

As stated previously, it seems clear the issues that have arisen, giving need for this consultation, are centred on the changes that occurred to price collection guidelines, which led to an increase in the variance of the price relative for clothing. Based upon this it would seem a logical step to alter the formula relating to clothing.

The word logical is used here as ultimately option 2 attempts to address the underlying problem that has arisen with clothing impacting on the RPI figures. This can be seen as a step which is statistically sound and, importantly, resolves a specific element of inconsistency which has arisen since early 2010. By narrowing the gap to within 0.3% percentage points of the CPI, users of the RPI can appreciate an approach that ensures the index's consistency with pre 2010.

Recalling the properties of the two alternative formulae and considering the recommendations of Professor Erwin Diewert, we believe moving from the Carli to the Jevons formula is appropriate for estimating price change of clothing items. We favour the Jevons over Dutot due to the Dutot becoming increasingly arbitrary with increased product diversity.

3. Change one particular approach to averaging changes in prices, which calculates the average of price relatives, for all categories that use it.

Though on a statistical level we cannot fault the logic of Professor Erwin Diewert in his assessment of the use of the Carli we believe that by applying a formula change beyond clothing would dilute the consistency of the index and therefore we do not favour it.

With the significance of the clothing calculations being of such importance since 2010 we believe that clothing should be the area of focus in this consultation. Making a sweeping change as proposed under this option would significantly alter the integrity of the index and we don't find it to be necessary.

4. Change the RPI so that its formulae align fully with those used in the CPI.

By aligning the RPI formulae with that of the CPI we are left with an index that will effectively become a slight modification of the CPI (modifications relating to coverage, weight and scope).

We see this option as moving the RPI from its historical base and diluting the consistency of the index. The argument sometimes made that the CPI represents a more accurate picture may well be true (it may also be wrong) but surely that would lead to the conclusion to use CPI where relevant and mildly refine the RPI to ensure consistency in data.

In addition, contrasting with the aims of this consultation to improve the available information on average inflation, we see this option as representing a contraction in the overall amount of quality data, as the basis of calculation between two leading indexes significantly converges.

Private housing rental data

We back the proposal set out that will alter collection of private housing rental data.

The increased volume of quotes collected should ensure a more accurate representation within both the RPI & CPI.

Yours sincerely

Roger W. Lawson
Chairman

About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock markets. We are a mutual association controlled by the members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by its commercial activities. More information on ShareSoc can be obtained from our web site at www.sharesoc.org (our objects are fully defined on this page: www.sharesoc.org/objects.html).

National Statistician's consultation on options for improving the Retail Prices Index Feedback form

October 2012

In responding to the consultation it would be helpful if you could use this feedback form to answer the following questions

The National Statistician's consultation on options for improving the Retail Prices Index can be found in the following link: <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/national-statistician-s-consultation-on-options-for-improving-the-retail-prices-index/index.html>

a) Options for improving the Retail Price Index

Which option proposed would you prefer?

Please enter ✓ in the box to indicate your response

<p>Option 1) No change. The reasons for the formula effect have been identified, explained and understood.</p>	<input type="checkbox"/>
<p>Option 2) Stop using the Carli to estimate price change for clothing, with options of the method to be used in its place. This would reduce but not remove the formula effect as some differences between the RPI and CPI formulation would remain.</p>	<input checked="" type="checkbox"/> If you support this option which formula do you prefer? <input type="checkbox"/> Dutot <input checked="" type="checkbox"/> Jevons
<p>Option 3) Stop using the Carli for all items in the RPI. Replacing the Carli with either the Dutot or the Jevons would reduce the formula effect to a minimum, although some difference between the RPI and CPI formulation would remain.</p>	<input type="checkbox"/> If you support this option which formula do you prefer? <input type="checkbox"/> Dutot <input type="checkbox"/> Jevons
<p>Option 4) Change the RPI so that its formulae align fully with those used in the CPI. This would remove the formula effect between the RPI and CPI, though there would remain differences in estimates because of the different coverage, weights and scope used in each.</p>	<input type="checkbox"/>

What are the methodological considerations behind your preference?

See our covering letter.

Do the options for improving the RPI have any impacts you would like to make the National Statistician aware of?

No additional comments.

b) Private housing rentals

Do you support the proposal to change the source for the data for private housing rental prices?

YES

NO

Please provide any comments you would like to make in respect of this proposed change:

It should ensure a more representative sample.

c) Any additional comments

Please use this space provided for any additional comments.

See covering letter.

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<p>Are you content for your response to be made public? Please enter ✓ in the box to indicate your response:</p> <p><input checked="" type="checkbox"/> Yes I am content for my response to be made public <input type="checkbox"/> No I want my response to remain confidential</p>	
<p>Would you like an individual response? Please enter ✓ in the box to indicate your response:</p> <p><input type="checkbox"/> Yes I would like an individual response <input checked="" type="checkbox"/> No I am happy to receive a summary of responses</p>	
<p>Is this a personal response or on behalf of an organisation? Please enter ✓ in the box to indicate your response:</p> <p><input type="checkbox"/> Personal response <input checked="" type="checkbox"/> On behalf of an organisation (please state which organisation above)</p> <p>If on behalf of an organisation, please state how the views of the members were assembled:</p>	

We consulted our board members, and also posted a draft of our response on our Member's Network (we have approx 2,500 members who have access to this "forum" system), plus distributed information to our members via a newsletter from which we got a number of comments.

Please respond by email or post to:

Responses to the consultation can be submitted by email to: RPIConsultation@ons.gsi.gov.uk

Alternatively, responses can be sent to:

National Statistician (RPI consultation)
Government Buildings
Cardiff Road
Newport
South Wales
NP10 8XG

Please submit your response by **30 November 2012**.

Thank you for taking the time to take part in the consultation. Individual responses will not be acknowledged unless specifically requested.

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you would like the information, including personal data, that you submit to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this it would be helpful if you could explain to ONS why you regard the

information as confidential. If ONS receives a request for disclosure of the information ONS will take full account of your explanation, but cannot give an assurance that confidentiality can be maintained in all circumstances. Before disclosing any information that is personal to you, ONS will inform you of this in advance of any disclosure. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on ONS.

If you would prefer for your response and your name to be kept confidential, please make this clear in your response. Confidential responses will be included in any summary of comments received and views expressed.

Consultation timetable

This consultation will run from 8 October to 30 November 2012.

After the consultation

A response to the consultation, with a summary of the responses provided, will be published within 12 weeks of the consultation closing.

How to comment on the consultation process

If you would like to make any comments about the consultation process ONS has followed, please contact:

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