

# Re-referencing of the CPI and CPIH and Introduction of the COICOP5 Classification

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## 1. Introduction

This note sets out two important forthcoming developments for the Consumer Prices Index (CPI) and CPIH (a measure of inflation that includes owner occupiers' housing costs). The first of these is a re-referencing of the indices to 2015=100, which is due to take place in early 2016. The second is the introduction of a more detailed level of indices known as COICOP5 which will be implemented in the next couple of years.

Both of these developments have been proposed by Eurostat, the statistical office of the European Union, for implementation in the Harmonised Index of Consumer Prices (HICP – the European name for the UK CPI). As CPIH is produced largely on the same basis as CPI, and as both of these developments reflect improvements to the indices, we intend to implement the developments for both indices. The Retail Prices Index remains unaffected by these changes.

## 2. Re-referencing

### 2.1 Background

Currently CPI and CPIH indices are referenced to 2005=100 (ie for each component, the average of the monthly indices of that year are set to equal 100). Eurostat has proposed that all HICP indices are re-referenced to 2015=100 from January 2016 onwards. This proposal is currently going through legal consultation at the EU level, and looks likely to be approved.

As the UK CPI is currently one and the same as its HICP, it is proposed to re-reference CPI/HICP in 2016. As CPIH is produced on largely the same basis, we propose to re-reference this at the same time.

## 2.2 Impact of re-referencing on CPI and CPIH

Regular re-referencing of indices is methodological good practice as it avoids rounding issues that can arise from small index values. Published CPI and CPIH inflation rates are calculated from unrounded indices, meaning that re-referencing will not impact on published inflation rates. Re-referencing will result in revisions to the CPI and CPIH indices. Full back series of the revised indices will be published, with further details to come later this year. Users of indices (as opposed to inflation rates) will want to ensure that, in using these data to calculate their own rates of inflation, they use indices calculated using the same reference year.

## 3. COICOP5

### 3.1 Background

Eurostat has proposed adding in a new level of disaggregated HICP indices called ECOICOP or COICOP5 that will sit between the existing class level indices (the lowest level of data currently published on a monthly basis) and our approximately 700 item level indices (published as part of the quarterly release of microdata<sup>1</sup>). For example, 'bread' is a COICOP5 heading lying between the existing 'bread and cereals' class and items such as a large white unsliced loaf. Introducing COICOP5 enables the publication of a greater range of indices, providing users with a more detailed picture of consumer price inflation.

### 3.2 Impact of introducing COICOP5 on CPI and CPIH

Consideration is being given on how to publish the new data to best meet user needs. It is likely that an indicative back series will be produced. However, any back series will not form part of the official series due to coverage gaps at COICOP5 level in the historic data.

## 4. Next Steps

Both these developments reflect improvements in the data ONS provides to its users. Regular re-referencing of indices avoids rounding issues that can arise from small index values. COICOP5 will provide users with a more detailed picture of consumer price inflation. Both developments also present challenges to users in terms of using the data if they are not fully aware of the developments in advance of their implementation. To maximise the benefits and minimise the challenges, we will be providing further updates on the changes in the coming months through the monthly consumer price inflation release, the StatsUserNet forum<sup>2</sup>, and via Social Media. In the meantime, any questions regarding these developments should be sent to [cpi@ons.gsi.gov.uk](mailto:cpi@ons.gsi.gov.uk).

Neither change impacts on the RPI in any way meaning that the formal requirements to consult the Bank of England as set out in the *Statistics and Registration Service Act 2007* are not required.

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<sup>1</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/cpi-and-rpi-item-indices-and-price-quotes/index.html>

<sup>2</sup> <http://www.statsusernet.org.uk/home>