

HCI: Some questions

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Just to recap key points

- **Looking at how inflation affects actual household experience**
- **Not:** trying to match any economic theory; measuring “consumption” as defined in national accounts; intended for use in monetary policy
- **Used to see how inflation affects households**
- Compare with income to assess economic wellbeing of households
- Potentially for use in uprating
- Overall index plus index for different household groups

HICs: Where we are

Points already included:

- Democratic weighting
- Payments approach to owner occupier costs including mortgage interest (as RPI) but not so far capital costs
- Credit card interest
- Insurance premiums gross (as RPI)

And now:

- Student loan repayments

Owner occupied housing costs

- One of most controversial issues for all consumer price indices
- No perfect solution yet found
- CPIH: rental equivalence
- RPI: mortgage interest and house prices as proxy for depreciation plus repairs and maintenance, conveyancing costs, insurance etc
- CPI ignores it other than repairs and maintenance; HICPs (inc CPI) intended to use Net Acquisitions
- HCIs (at the moment): some payments but not all

What do the different methods cover?

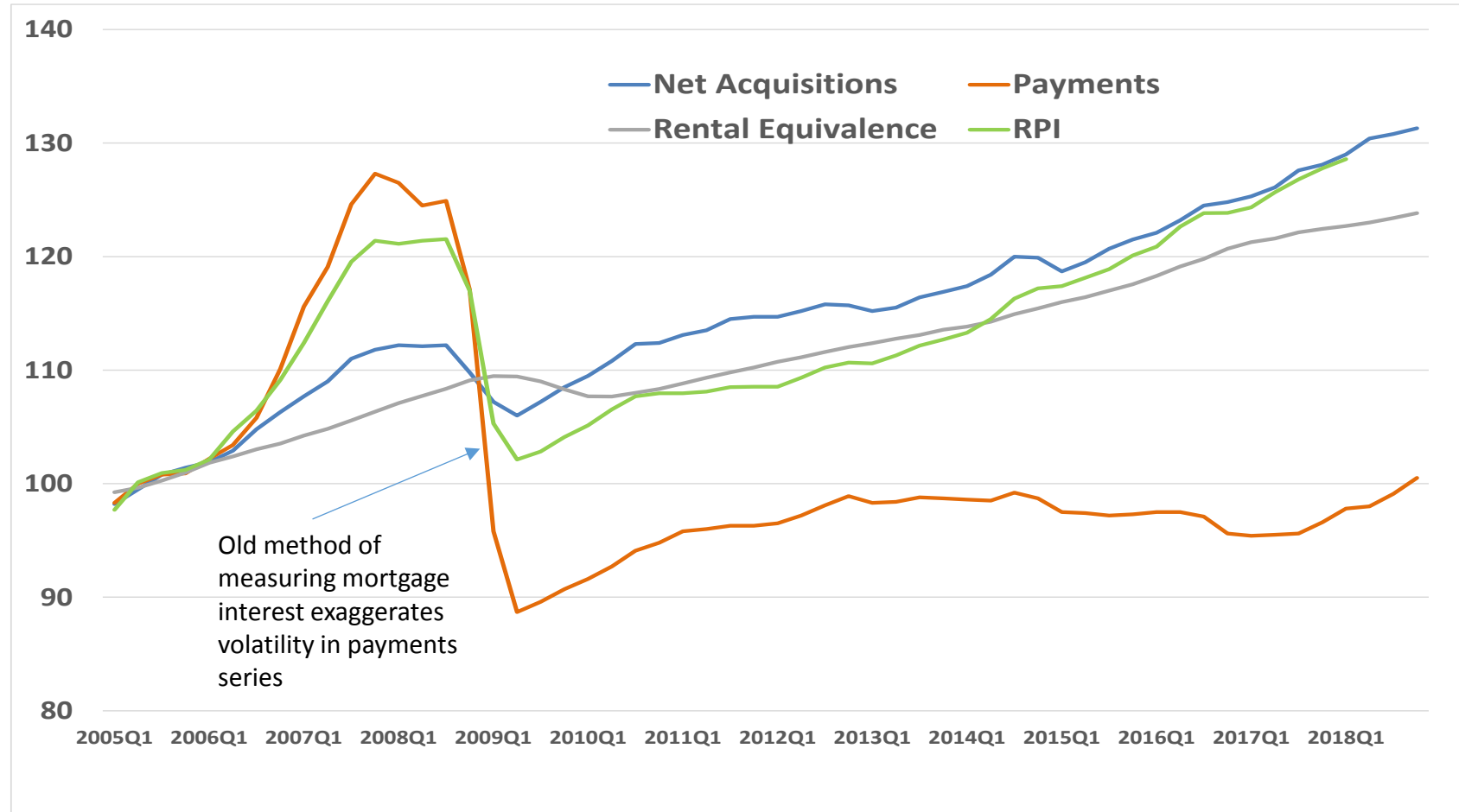
	CPI in future?	CPIH	HICs at present	RPI method
	Net Acquisitions	Rental Equivalence	Payments	
Mortgage Interest	No	No	Yes	Yes
Council Tax	No	Yes	Yes	Yes
Dwelling insurance	Yes	Implied?	Yes	Yes
Ground rent	No	Implied?	Yes	Yes
Stamp Duty	Yes	Implied???	Yes	No
Sale and purchase costs*	Yes	Implied???	Yes	Yes
Minor repairs and maintenance	Yes	Implied?	Yes	Yes
Depreciation <i>or</i> major repairs and maintenance	Yes (repairs and maintenance)	Implied??	Yes (repairs and maintenance)	Depreciation proxied by house prices
House prices	In part**	??	No	As proxy

* Surveys, estate agent and legal/conveyancing costs

** Includes purchase cost of dwellings new to household sector and self build but excludes land

Different versions of OOH (Indices, 2005 = 100)

Payments slowest growing: excludes real or implied capital costs



Capital costs

Should they be in at all? Investment element traditionally ignored in consumer price indices

If used as uprating index then “rewarding” owner occupiers for increase in asset value

But

Major element of many household budgets

Shelter a necessity

House prices have some influence on rental equivalence (indirect) and on net acquisitions (direct)

Housing not like other investments

- Investment only part of motive
- Cannot just sell and walk away as with other investments
- An investment often only realised towards end of life or on death
- Investment aim often largely to keep pace with housing market generally so not disadvantaged if need to move
- Proposed solution for HCIs for the moment is two versions with and without capital costs

What part of capital costs?

- Typical first time buyer: deposit + mortgage
- Subsequent buyers: Proceeds from sale of current house + mortgage (and possibly additional capital)
- Proceeds from sale of current house = already paid for cost + any gain so should not be included (also downsizers..)
- Therefore decision to include mortgage capital costs only. But should initial payment for first time buyers be included?

Pension contributions

- Form of saving – should this be included?
- Everyone has to save for old age income
- Compulsory for most people
- Purchasing a future income
- Other savings?

National insurance and income tax

- Part of NI a pension contribution
- If council tax included why not income tax?
- But income tax levied according to ones income not a “normal” price

“Forced” quality change

- In classic CPIs try to remove cost increase due to quality change
- But what happens when you can no longer buy the “unimproved” item?
- If improvement has increased the price of something then this is inflation experienced by households