



Owner-occupied housing and the EU HICP

UN Network of Economic Statisticians
Sprint on OOH, 2nd meeting, 20 Sept 2022

Paul Konijn, Eurostat

HICP vs national CPIs

- HICP = Harmonised Index of Consumer Prices
 - Comparable across all EU countries, based on harmonised definitions and methods
 - Main uses: price stability objective of ECB; convergence criteria for accession to euro zone
- CPI = Consumer Price Index
 - Specific for each country, using national definitions and methods, i.e. not comparable
 - Important uses: indexation of pensions, social security, minimum wages, rents, etc.

HICP and OOH

- HICP was created in 90s for the purposes of monetary union
- Includes household monetary consumption transactions only
- Main exclusion: owner-occupied housing (OOH) = cost of living in your own house
- Lack of international consensus on the best way to include OOH in consumer price indices
- ECB has over the years repeatedly requested the inclusion of OOH in the HICP, because of its significance and the impact of the exclusion on comparability of the HICP (within EU and with countries outside EU)

Four main approaches to measuring OOH, none perfect

- **Rental equivalence:** how much owner-occupiers would have to pay to rent their dwelling -> imputed price, not monetary; dominant approach used in national accounts; difficult for countries with small rental market
- **Net acquisitions:** uses prices paid by households for the acquisition and ownership of dwellings for own use -> monetary, but goes beyond consumption and includes asset elements in a CPI
- **User costs:** estimates the opportunity cost of the invested capital value, plus depreciation less capital gains -> includes modelling, difficult to implement
- **Payments:** based on cash outlays by owner-occupiers, e.g. on mortgage interest, down payments, etc. -> depends on interest rates, not suitable for monetary policy

Additional challenge for HICP: find a harmonised approach

Inclusion of OOH in national CPIs

Rental equivalence approach	Acquisitions approach	User cost approach	Payments approach	Exclusion of OOH
Denmark Germany The Netherlands Slovakia	Finland Czechia	Sweden	Ireland Austria (until 2019)	Remaining EU countries
Norway Switzerland		Iceland		
USA UK Japan	Australia New Zealand	Canada		

Owner-occupied housing price index (OOHPI)

- A separate harmonised index on OOH was developed in all EU countries, for possible integration with the HICP
- Based on net acquisition approach, including costs of acquisition as well as costs of ownership
- Data are available since reference year 2010; legal obligation
- Quarterly index, available around 3 months after reference quarter

Note: not to be confused with the *House Price Index*, which covers all transactions of dwellings by households

Breakdown of the OOHPI

Expenditure categories	Item weights (parts per 1000) for EA19 in 2022
O.1.1. Acquisitions of dwellings	779.2
O.1.1.1. New dwellings	648.2
O.1.1.1.1. Purchases of newly built dwellings	211.5
O.1.1.1.2. Self-build dwellings and major renovations	436.7
O.1.1.2. Existing dwellings new to households	5.5
O.1.1.3. Other services related to the acquisition of dwellings	125.4
O.1.2. Ownership of dwellings	220.8
O.1.2.1. Major repairs and maintenance	185.0
O.1.2.2. Insurance connected with dwellings	27.5
O.1.2.3. Other services related to ownership of dwellings	8.4

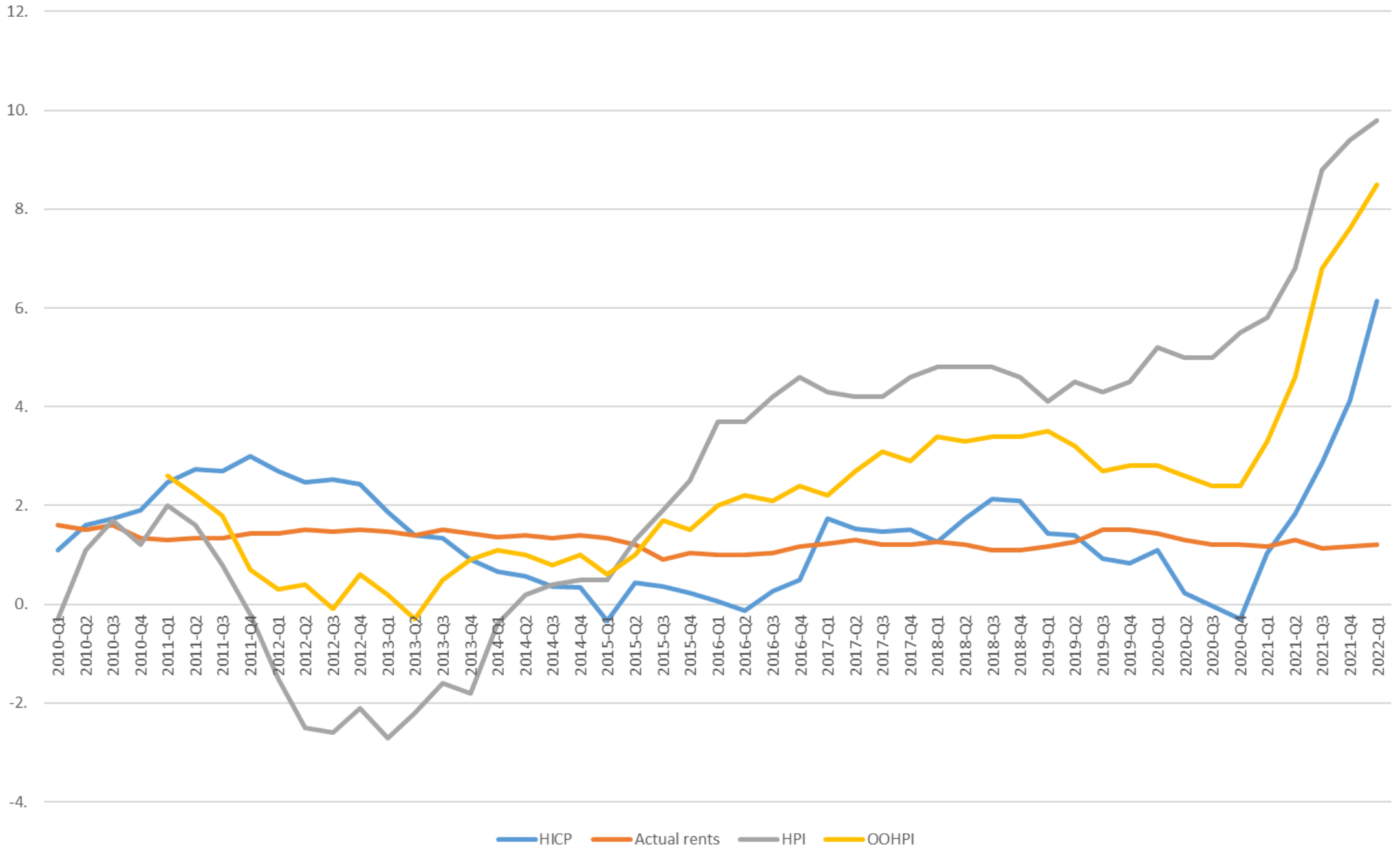
Relation with national accounts

- O.1.1. Acquisition of dwellings = gross fixed capital formation of households in their capacity as producers of own-account housing services
- O.1.2. Ownership of dwellings = intermediate consumption of households in their capacity as producers of own-account housing services
- HICP = final monetary consumption expenditure of households
- HICP + OOHPI = monetary expenditures, whether current or capital, of households for direct final consumption or for use in the production of housing services for own consumption (cf. Peter Hill, 1996)

Treatment of land

- Excluded from expenditures used as weights, as per national accounts definition of gross fixed capital formation
- Included in the transaction prices used for estimating the indices for
 - Purchases of new dwellings
 - Existing dwellings new to households
 - Other services related to acquisition of dwellings
(overall share: 342.5)
- Excluded for *Self-build dwellings and major renovations* (share: 436.7), which is based on construction price or cost indices

euro area - annual rates of change



2018 Commission report to European Parliament and Council

- OOHPI currently not suitable for integration into coverage of HICP, because:
 - Frequency and timeliness below HICP standards
 - No solution found yet for separating consumption and investment elements of house purchases

ECB Monetary Policy Strategy Review

- Outcome published 8 July 2021
- Covering all aspects of monetary policy, including measurement of inflation (HICP)
- Most important subject in relation to HICP: owner-occupied housing (OOH)
- ECB confirmed that HICP remains the appropriate index for quantifying ECB's price stability objective for the euro area
- ECB proposed roadmap towards inclusion of OOH

ECB recommendations on OOH

- Support for the use of the net acquisitions approach
- Request to produce a separate quarterly combined index of HICP with OOHPI
- Further research on separating consumption from investment elements in the OOHPI
- Reminder that the long-term aim is integration of OOH into HICP on a monthly basis.

Discussions in ESS

- Concerns raised by several Member States on
 - Risk to credibility of HICP and national CPIs (of publishing combined indicator)
 - Conceptual issues -> some would prefer rental equivalence approach
- Decision to set up a dedicated Task Force to prepare a response to the ECB recommendations on OOH

Task Force Owner-Occupied Housing

- Mandate: to assist Eurostat in drafting a public ESS response to ECB recommendations
- Task Force composition: AT, DK, FI, FR, IE, IT, LT, NL, PL, PT, ECB, OECD, ECFIN
- Meeting every month from February to June, again in September and October
- Carrying out a survey to EU and EFTA NSIs on feasibility and appropriateness of different approaches to OOH
- Aim for conclusion at ESS Committee in February 2023

Conclusions

- No changes to HICP to be expected in near future
- Discussions are ongoing on the future of OOH in relation to the HICP
- One proposal is a separate quarterly index combining a measure of OOH with the HICP, without changing the HICP itself
- No (direct) impact on national CPIs

Thank you

Contact: ESTAT-PRICE-STATISTICS@EC.EUROPA.EU