

Summary of the Second Sprint Meeting on the Measurement of Inflation of Owner-Occupied Housing in the CPI

20 September 2022

Introduction

1. One of the objectives of the Sprint on the Measurement of the OOH in the CPI is to provide a forum for National Statistical Institutes (NSI) to share their experiences with measuring owner occupied housing (OOH) in the Consumer Price Index (CPI). The second meeting of the Sprint picked up the thread of country experiences from the first meeting, but with a focus on the European experience. This encompassed presentations from a number of NSIs, as well as the more particular case of the work conducted by Eurostat on introducing the OOH into the Harmonized Index of Consumer Prices (HICP).

OOH and the European Union HICP

2. The meeting kicked-off with a run through of the work conducted by Eurostat to study the options for including the OOH into the HICP, as well as the recommendations of the European Central Bank's (ECB) 2021 Monetary Policy Strategy Review with respect to inflation measurement, in particular on OOH.
3. It has been the long-standing position of the ECB that the current exclusion of the OOH from the HICP represents a significant limitation for the comparability of the HICP within, and outside, the European Union (EU). The recent Strategy Review has confirmed this stance, and proposed a roadmap for eventually including the OOH into the HICP on the basis of the net acquisition approach as implemented in the stand-alone Owner-Occupied Housing Price Index (OOHPI). A European Task Force has been assembled to discuss the possibilities for follow-up on the ECB recommendations, including investigations on the feasibility and appropriateness of the various approaches to measuring OOH. The outcome of the work should be decided by February 2023.

OOH in the European Union national CPIs

4. The NSIs from Ireland, Finland and the Netherlands provided overviews of their approaches to measuring OOH in their CPIs. The three countries have long since included OOH in their national CPIs, but using different methods reflecting their respective housing market structures and data sources. Finland uses the net acquisition approach (also including loan interest rates), Ireland uses the payments approach while the Netherlands measure the OOH using the rental equivalence method. Ireland is considering replacing the payments approach with the rental equivalence approach and is in the process of launching user consultations to determine a final plan. The Netherlands and Finland are satisfied with their current approach and do not foresee any imminent changes.

Should a comparable CPI including OOH be an aspirational goal?

5. The Plenary session launched a discussion, which will be fully developed in the Third Sprint Meeting, on whether an internationally comparable CPI, including OOH, was a desirable aspiration for all NSIs. The following, non-exhaustive, elements guided the discussion:
 - Defining the primary purpose of the CPI, based on user requirements, is key to determining how it should be compiled, including the OOH component
 - The availability of data, including new sources, is an important determinant of the method for measuring OOH in the CPI
 - Continuing to experiment with various methods of measuring the OOH in the CPI will improve the suite of indicators available to users
 - Clear and direct communication to users of what is being measured and how, will contribute to bridging the gap between measured and perceived inflation
6. Generally, those who spoke agreed that having an internationally comparable CPI which includes OOH, would be a desirable goal. However, given the challenges faced by NSIs in identifying a common method for compiling a CPI which includes OOH, and the different uses of CPIs, it was pointed out that there is a need for NSIs to prioritize between the need for an internationally comparable CPI versus having a CPI that includes OOH. The CPI Manual stresses the importance of OOH but leaves the options open for compilers on whether or not to include OOH, and which method to use.
7. Finally, the aspect of communication was identified as a very complex one: as most NSIs used imperfect methods for measuring OOH, users need to have clear, concise and non-technical information on how this is done along with the pros and cons of the method used.