



**An
Phríomh-Oifig
Staidrimh**

Central
Statistics
Office

Owner Occupied Housing in the Irish CPI

UN Sprint on OOH, 20 September 2022

Edel Flannery, Central Statistics Office

Owner Occupied Housing (OOH)

- Home ownership is 68% of households in Ireland - higher than France and Germany but lower than many other EA countries
- No perfect method to measure OOH
- Goal is to find the best (or the least worst) option in the context of the conceptual basis and measurement objectives of national CPI



Method used in national CPI in Ireland

- Payments method since 1975 – has broad user acceptance, not at all controversial nationally
- It measures what it was designed to measure i.e. changing costs faced by homeowners in relation to their mortgage interest payments, house insurance and maintenance and repair of the dwelling.
- However conceptual problems e.g. borrowing costs are not consumption, incoherent measure across the target population
- Plan is to replace the payments method – extensive user consultation will be required



OOHPI following net acquisitions approach

- Compiled as per Regulation using administrative data (Stamp Duty returns from the Revenue Commissioners)
- Sent to Eurostat quarterly
- Stamp Duty returns in Ireland can be lodged up to 3 months after the purchase of a dwelling, so the OOHPI data is subject to revision
- No National publication of OOHPI data



CSO commissioned research on OOH

- “Rental equivalence, owner-occupied housing, and inflation measurement: Microlevel evidence from Ireland” - Journal Article in Real Estate Economics: External link: <https://onlinelibrary.wiley.com/doi/10.1111/1540-6229.12360>
- “Estimating the cost of Irish housing for the CPI: A rental equivalence approach”, ESRI Working Paper: <https://www.esri.ie/publications/estimating-the-cost-of-irish-housing-for-the-cpi-a-rental-equivalence-approach>
- “A review of the methodologies used in compiling owner-occupiers’ housing indices”, ESRI Working Paper: <https://www.esri.ie/publications/a-review-of-the-methodologies-used-in-compiling-owner-occupiers-housing-indices>



Summary of most recent paper

- Rental Equivalence (RE) measure is theoretically suited to the consumption focus of CPI measurement i.e. not based on asset values – also meets frequency and timeliness criteria of CPI
- Paper estimates a RE measure for OOH for Ireland using supervisory property-level rental data – calculates 32 separate regional hedonic rent models and uses the results to weight up to the RE index
- Addresses three issues of concern:
 1. differentiates between new (marginal) and existing (stock) rent levels – paper argues in favour of new rents while existing rents are commonly used in NSIs
 2. controls for utility costs to calculate “pure” rent (similar to US CPI)
 3. able to estimate an RE measure in the absence of rent controls



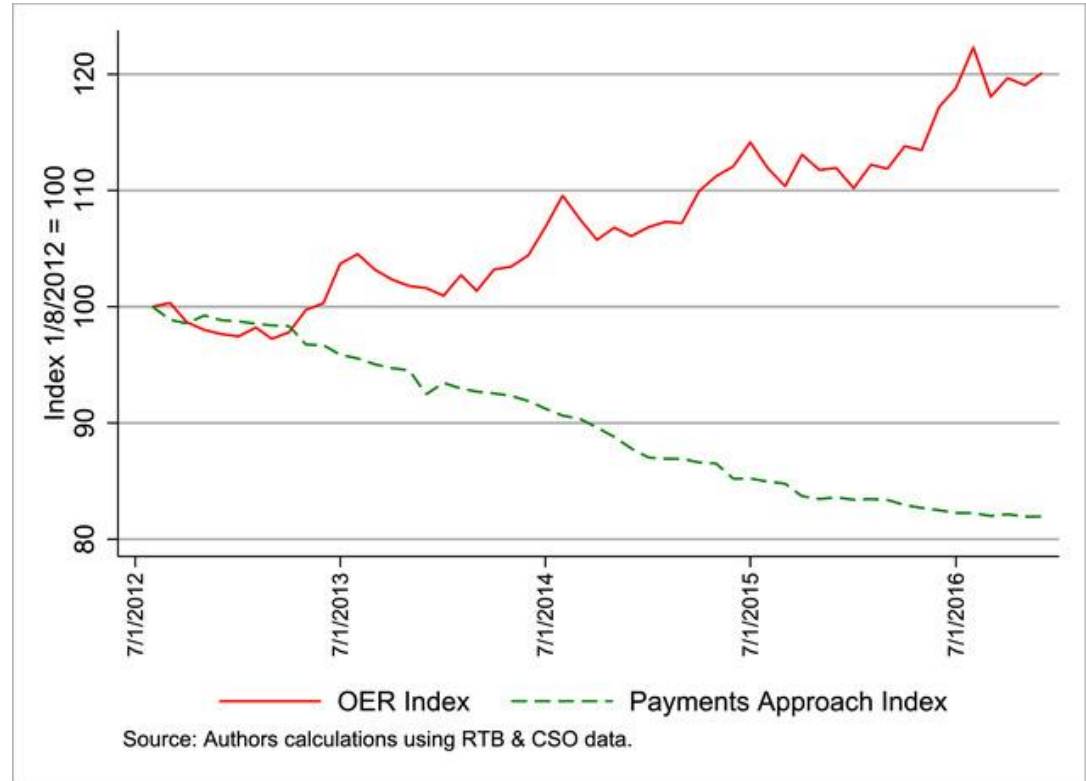
Some findings

- RE index is very different from the official (payments approach) OOH index
- RE index, adjusted for property types of OOH, is very different to an unadjusted rent index
- Choice around using existing (stock), or new (marginal) rents matters a lot



Rental equivalence v payments approach

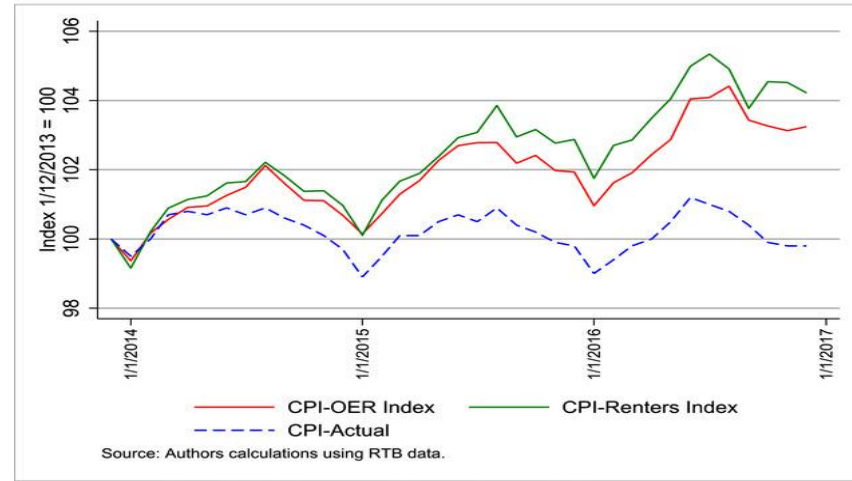
- Payments approach indicates a fall in the cost of OOH, whereas the RE measure is indicating a rise



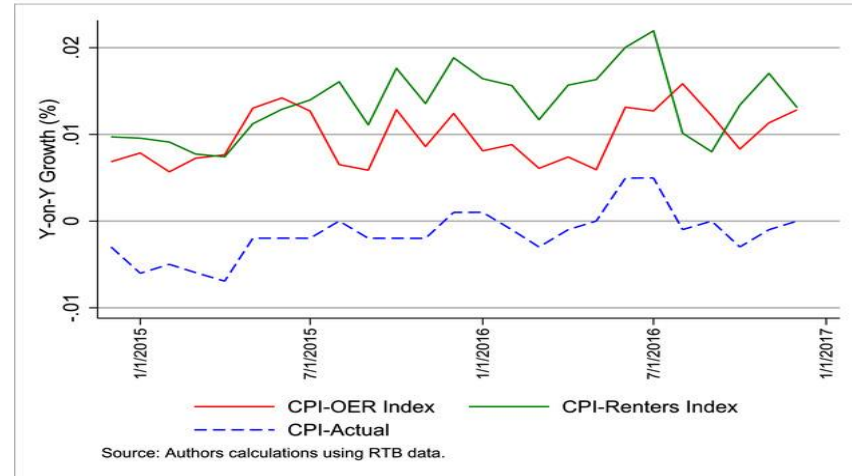
CPI actual v CPI+OOH (rental equivalence)

- CPI actual = CPI+OOH following the payments approach
- Significant difference between the CPI actual and CPI+OOH following rental equivalence
- Weight of OOH goes from 5.6% (payments) to 16.3% (rental equivalence)

(a) Indices (12/2013 = 100)



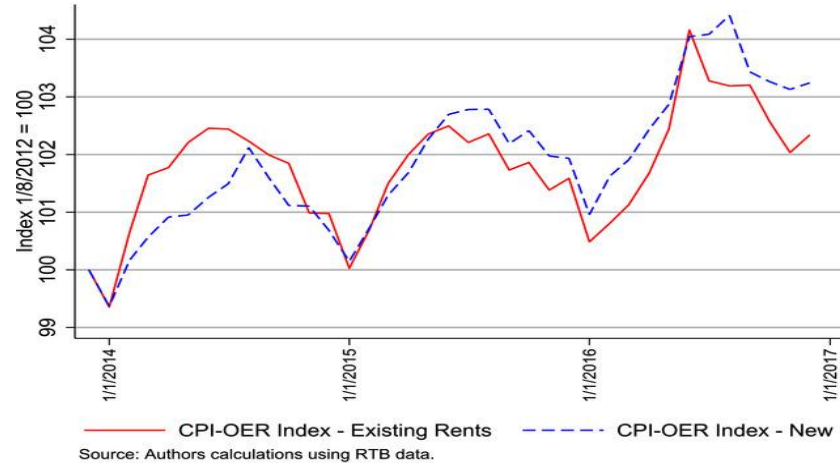
(b) CPI Year on Year Growth Rates (%)



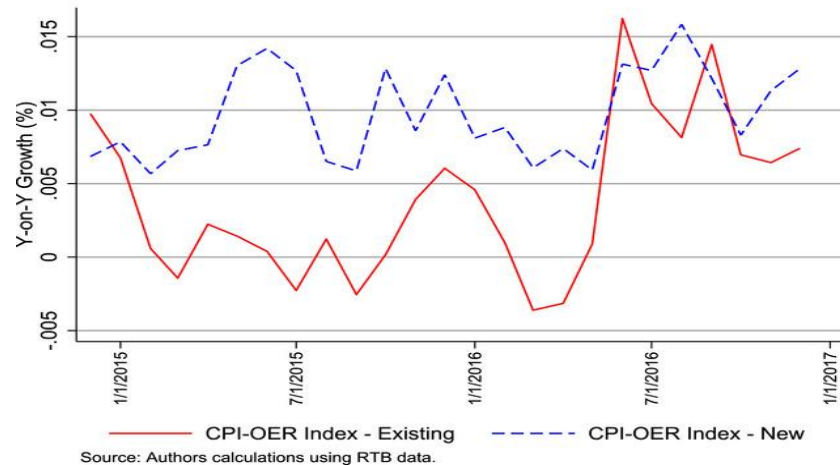
New (marginal) v existing (stock) rents

- International literature is not clear on this point
- The CPI is lower using existing (stock) rents
- The annualized change in inflation was 0.6 percentage points lower using existing rents relative to new rents.

(a) Indices (12/2013 = 100)



(b) CPI Year on Year Growth Rates (%)



Where are we now?

- HICP and Irish CPI have been converging for years – last major difference is 00H
- We have a data source and a method and we are about to begin the user consultation to present the pros and cons - RE is currently the most likely candidate
- The debate at European level is significantly complicating the national discussion
- No desire for CPI+RE and HICP+NA – very difficult to explain to users





Thank you.

Questions?



www.cso.ie