

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

24 October 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 third meeting of the Sprint wrapped up the country experiences with a presentation from South Africa and then focused on gathering inputs from participants on the proposed next steps for improving the international comparability and quality of national CPIs, including the services costs of owner-occupied housing.

## OOH and the South African Experience

2. The meeting kicked-off with a comprehensive presentation from the South African statistical agency, which focused on the methods utilized for calculating weights and recording prices.
3. The CPI in South Africa has a multitude of uses: indicator of inflation, cost of living and deflator for the System of National Accounts. The vast majority of housing in South Africa is within the formal sector, and this is the target for the OOH measurement, for which the NSI uses the rental equivalence method. A unique approach of matching between the rental and owned housing, based on home typologies, is employed to derive weights. Rental pricing is collected via a quarterly survey.

## The Road Forward

4. The main part of the meeting was a Plenary Session gathering input and opinions from the participants on four key proposals:
  - *OOH should be included in official CPIs, as recommended by the CPI Manual, as OOH is an important component of household expenditures and there is a strong user demand, in particular from central banks;*
  - *An aim for the international statistical community is to explore, as a priority, the identification of a harmonized method for measuring OOH to use for international comparisons of inflation; it is recognized that to achieve this aspirational goal may take time and an iterative approach;*
  - *When countries use a different method for measuring OOH than the identified harmonized one in their national CPI, it is recommended that they should aim to develop, in parallel, a CPI that is internationally comparable.*
  - *Transparent metadata should be available so that users can clearly understand the purpose of the CPI and the methods used to compile it.*

5. Participants generally supported the aspirational goal that all CPIs should include OOH given its importance in household expenditures and as recommended by the CPI manual. It was, however, noted that the goal may be difficult to achieve in practice, mostly due to lack of suitable data sources and/or resources. Introducing OOH in the CPI will also result in a break in series, which is undesirable for users interested in historical inflation trends.
6. The participants considered that identifying a harmonized method of measuring OOH in the CPI will be challenging. The example of the European Task Force which has been working on OOH in the context of the EU harmonized index of consumer prices shows the difficulty of agreeing on a common approach. Differences in housing markets (share of rental housing, shares of formal and informal housing, rent controls, etc.), dearth of data sources, potential breaks in series and the specific uses of the CPI were cited as potential barriers to adopting a harmonized method..
7. Developing an alternative CPI, which would lend itself to international comparisons, was seen as potentially difficult to communicate to users. Expert users may be well positioned to understand the differences in methods, and therefore the reasons behind divergent CPIs, but regular users may be confused. This led to the recognition that it is important to provide ample information on the methods and data used to compile the CPI.
8. There was support for further refinement of existing OOH methods described in the CPI manual – clarity is needed to guide practitioners through the complexities of data availability, local housing market characteristics (especially countries with large informal housing sector) and technical details. This work, will be entrusted jointly to the existing groups dedicated to improving the quality of the CPI, i.e. the Intersecretariat Working Group on Price Statistics and the Ottawa Group on Price Indices

## Conclusion

9. The audience was informed that the Network will prepare a Report for the upcoming United Nations Statistical Commission meeting which will include the outcomes of this sprint's meetings, as well as the proposed follow-up actions.