



What is the Retail Prices Index?

It is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the UK. It is compiled and published monthly. Once published, it is never revised.

What is it used for?

Measures of inflation are vital tools for economists, business and government. The RPI continues to be used for the indexation of pensions, state benefits and index-linked gilts. Wage agreements, leases, maintenance and child support payments are often linked directly to the RPI. Also utility regulators impose restrictions on price movements based on the RPI.

Which items are included in the Retail Prices Index?

The RPI includes prices for food and drink, tobacco, housing, household goods and services, personal goods and services, transport fares, motoring costs, clothing and leisure goods and services.

Who gathers the prices?

Prices are collected in two ways. The local price collection is carried out by a market research firm who collect over 110,000 prices per month. The Office of National Statistics (ONS) has procedures in place to quality assure the local price collection carried out by the contractors.

ONS staff collect a further 10,000 prices centrally each month for a number of reasons including efficiency (e.g. prices in catalogues, national newspaper prices, utility prices), availability (e.g. prices that may not be available in retail areas such as sea fares, road tolls, internet prices), prices that are methodologically difficult to measure (e.g. mortgage interest payments) and items where quality adjustments may be important (e.g. personal computers).

Where are prices collected?

Random sampling of locations was introduced in 1995. The geographical coverage is defined as the whole of the UK - but this does not include the Channel Islands or Isle of Man. In all, retail outlets in around 150 shopping areas or out of town retail parks areas are selected for the price collection each year. This sample is changed by about one-fifth each year with new locations replacing old locations.

Are all items represented equally?

No. The RPI is a weighted index - for example, since most people spend far more on electricity than on processed fruit, a price rise for electricity would have more effect than a similar-sized one for processed fruit. The principal guide to weighting is the rolling Expenditure and Food Survey.

Are all households' spending patterns represented in the RPI?

No. The spending patterns of two types of households are excluded: pensioner households which derive at least three quarters of their total

income from state pensions and benefits, and high-income households, defined as those whose income lies within the top 4% of all households. These two groups are considered likely to have atypical spending patterns; including them in the scope of the RPI would distort the overall average.

Do the prices apply to a specific day of the month?

In theory, yes. The RPI is intended to reflect prices on the second or third Tuesday of each month, depending on the month. This day is known as Index Day. In practice, it is not possible to collect every single price in one day so prices are usually collected between the Monday and Wednesday. However, prices for fresh fruit, vegetables, petrol and oil are particularly volatile and so are always obtained on Index Day itself.

Are special offers included in the calculation?

Discounted or subsidised prices are included in the calculation, as long as the offer is available to anyone with no conditions - so money-off coupons and loyalty card offers are ignored. Sale prices are included if they are temporary reductions on goods likely to be available again at normal prices, or are end of season sales. Clearance prices where availability is seriously limited to certain sizes or seconds where quality is reduced are excluded. No account is taken of free gifts, or temporary 'extra free' offers. Other issues may be considered on a case-by-case basis.