

## RETAIL PRICES INDEX

The Retail Prices Index (RPI) is one of the most important influences on pay bargaining, benefit levels, pensions and tax allowances. Yet few of us know how it is determined. The RPI is the most familiar domestic measure of inflation in the UK and is used for indexation of pensions and state benefits.

The modern Retail Prices Index (RPI) began in 1947 as a way of determining the impact of inflation on family budgets. The index represents the **average change** in prices of the goods and services purchased by people across the UK.

The RPI should not be confused with the Consumer Prices Indices (CPI). CPI is the government's official measure of inflation and forms the basis for the government's inflation target. The methods used to calculate CPI are subtly different to RPI, allowing it to be used for international comparisons. A more detailed explanation of CPI is also included in this factsheet. UNISON Bargaining Support strongly advises that CPI is not used as the basis for pay negotiations, because it does not take account of most housing costs.

### How does it work?

The Retail Prices Index is based on a "shopping basket" of goods and services which people typically buy. The list includes basics such as food, electricity bills, clothing and petrol, as well as luxury and leisure goods such as electronic equipment, cinema tickets and restaurant meals.

Each month price collectors (staff working for the Office of National Statistics) obtain about 120,000 prices for 600 specified goods and services. They go to a wide variety of shops in 146 areas of the country. Prices of some items, such as utility bills, newspapers, council tax and rail fares are collected centrally.

| RPI is based on the prices of 600 items in 14 categories: |                              |
|---|------------------------------|
| Food  | Household services           |
| Catering  | Clothing and footwear        |
| Alcoholic drink   | Personal goods and services  |
| Tobacco   | Motoring expenditure         |
| Housing   | Fares and other travel costs |
| Fuel and light  | Leisure goods                |
| Household goods   | Leisure services             |

### Calculating the Index

Because people spend more on some things than others, the index is weighted to ensure that it reflects the importance of items in the shopping basket.

For example "Furniture, furnishings and carpets" forms a significant part of consumer spending in the UK, particularly when retailers offer cut price deals in the early months of the year. As a result it is given a relatively high weighting for the calculation of RPI. In January 2007 RPI inflation fell to 4.2 per cent, down from 4.4 per cent in December. The largest downward effect on the

RPI annual rate came from household goods, where there was a record month-on-month fall in furniture prices with widespread price cuts across a range of items. Had the weighting given to furniture in the calculation been lower, it would not have had such a significant effect on inflation.

Weightings are based largely on the results of the Family Expenditure Survey, an Office of National Statistics (ONS) study which collects information on the spending patterns of 7,000 families across the country. Weightings are reviewed every year to take account of market changes and new products. Back in the 1950's the index included items such as live chickens and mangles. Today, ready meals and dry cleaning are on the list. In 2006 personal MP3 players, flat-panel televisions and digital camcorders were added.

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### What do the figures mean?

The annual change in the RPI is known as the **rate of inflation**. The **headline rate** or **all items RPI** is the percentage the index increases over one year. For example, in December 2005 the index stood at 194.1. By December 2006 the index had risen to 202.7. The index had risen by 4.4% over the twelve months, so the rate of inflation for December 2006 was 4.4%

The RPI is currently measured from January 1987. The value of the index in January 1987 is set at 100 (January 1987=100). In December 2006 the value of the index was 202.7, meaning that £202.7 in December 2006 would buy the same as £100 would have bought in January 1987.

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### CPI – a new European Union inflation measure

The Consumer Price Index (also called HICP - 'harmonised index of consumer prices') is an internationally comparable measure of inflation, calculated by each country in the European Union (EU). CPI's are used to compare inflation rates across the EU, and the government uses it to decide if interest rates should be altered. It has been used as the government's official rate from December 2003.

CPI differs from RPI in various ways. It excludes most housing costs (including council tax, mortgage interest, buildings insurance). It also assumes that if the price of one product rises, people will buy less of it and more of its competitors. Using CPI, the UK inflation rate has been one of the lowest in the EU since 2000. UNISON Bargaining Support strongly advises that CPI is not used as the basis for pay negotiations, *because* it does not take account of most housing costs.

Annual increases in pensions and other benefits calculated using the rate of inflation will continue to be calculated using the current criteria, not CPI.

Get information on the CPI from [www.statistics.gov.uk/CCI/nugget.asp?ID=181](http://www.statistics.gov.uk/CCI/nugget.asp?ID=181)

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### Other inflation measures

Before it adopted the 'CPI' measure, the government used **Underlying inflation**, or **RPIX** as it's main measure. This is the annual rate of inflation **excluding** mortgage interest payments. The government has set a target of 2.5% for underlying inflation. If it rises above this level, the Bank of England is likely to raise interest rates in order to bring inflation down.

Another measure is **RPIY**, which excludes mortgage interest payments and all indirect taxes such as VAT, Council Tax and excise duties.

There has been some criticism that established measures of inflation have often failed to reflect the experience of rising prices for some sectors of the population, particularly the poorest. For example, rapidly increasing utility bills have outstripped RPI, but disproportionately effect lower income groups.

In January 2007 the Office of National Statistics went some way to acknowledging this when they launched an online "personal inflation calculator" that allows people to see if their own inflation is higher or lower than the national average. To use the calculator visit this website:  
<http://www.statistics.gov.uk/pic/>

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## Using RPI in pay bargaining

The rate of inflation is a key factor in any pay negotiations. If a pay increase is lower than the rate of inflation, workers will lose pay in **real** terms. This means that their pay will buy less than it did previously. An above-inflation settlement should provide a real increase in pay.

Some employers will try to link pay directly to the RPI, claiming that this will allow workers to keep up with the cost of living. This is not exactly correct. Remember that the RPI is an **average** based on the cost of items most people buy, in the amounts most people buy them. Individuals with different spending patterns may have higher costs.

For example, gas bills rose by 17% in 2006. In contrast luxury items such as computers and digital music players have fell by as much as 27 per cent over the year. These two groups of products have as much weight as each as other in the inflation index, but clearly those who can't or don't spend money on luxury technology items may find that their expenses had risen faster than the rate of inflation.

It is sensible, therefore, to seek an increase **above** the rate of inflation to ensure that all members are protected from falling behind the RPI.

Employers may also attempt to base pay increases on CPI, or the underlying rate of inflation. Branches should resist this as CPI excludes housing costs, and therefore does not reflect the true cost of living for our members.

### **For more information about the RPI:**

*Retail Prices Index: a brief guide*, Office of National Statistics; [www.statistics.gov.uk](http://www.statistics.gov.uk) (copies available from the Bargaining Support Unit).

For the very latest information regularly check the Bargaining Zone at [www.unison.org.uk/bargaining](http://www.unison.org.uk/bargaining) and subscribe to Bargaining Monthly (from Bargaining Zone).

### **Your Comments**

UNISON welcomes comments on this information sheet. Contact the Bargaining Support Group at UNISON, 1 Mabledon Place, London WC1H 9AJ

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