



Owner-occupied housing and the HICP

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Background: HICP vs national CPIs

- HICP = Harmonised Index of Consumer Prices
 - Comparable across all EU countries, based on harmonised definitions and methods
 - Main uses: price stability objective of ECB; convergence criteria for accession to euro area
- CPI = Consumer Price Index
 - Specific for each country, using national definitions and methods, i.e. not comparable
 - Important uses: indexation of pensions, social security, minimum wages, rents, etc.

Brief history of HICP and OOH

- HICP was created in '90s for the purposes of monetary union
- 'Basket of Goods' index; includes household monetary consumption transactions only
- Main exclusion: owner-occupied housing (OOH) = cost of living in your own house
- Lack of international consensus on the best way to include OOH in consumer price indices
- ECB has over the years repeatedly requested the inclusion of OOH in the HICP, because of its significance and the impact of the exclusion on comparability of the HICP (within EU and with countries outside EU)

Four main approaches to measuring OOH, none perfect

- **Rental equivalence:** how much owner-occupiers would have to pay to rent their dwelling -> imputed price, not monetary; dominant approach used in national accounts; difficult for countries with small rental market
- **Net acquisitions:** uses prices paid by households for the acquisition and ownership of dwellings for own use -> monetary, but goes beyond consumption and includes asset elements in a CPI
- **User costs:** estimates the opportunity cost of the invested capital value, plus depreciation less capital gains -> includes modelling, difficult to implement
- **Payments:** based on cash outlays by owner-occupiers, e.g. on mortgage interest, down payments, etc. -> depends on interest rates, not suitable for monetary policy

In 2000: SPC decision to develop stand-alone index based on net acquisitions approach

Owner-occupied housing price index (OOHPI)

- A separate harmonised index on OOH was developed in all EU countries, for possible integration with the HICP
- Based on net acquisition approach, including costs of acquisition as well as costs of ownership
- Data are available since reference year 2010; legal obligation
- Quarterly index, available around 3 months after reference quarter

Note: not to be confused with the *House Price Index*, which covers all transactions of dwellings by households

Breakdown of the OOHPI

Expenditure categories	Item weights (parts per 1000) for EA19 in 2022
O.1.1. Acquisitions of dwellings	779.2
O.1.1.1. New dwellings	648.2
O.1.1.1.1. Purchases of newly built dwellings	211.5
O.1.1.1.2. Self-build dwellings and major renovations	436.7
O.1.1.2. Existing dwellings new to households	5.5
O.1.1.3. Other services related to the acquisition of dwellings	125.4
O.1.2. Ownership of dwellings	220.8
O.1.2.1. Major repairs and maintenance	185.0
O.1.2.2. Insurance connected with dwellings	27.5
O.1.2.3. Other services related to ownership of dwellings	8.4

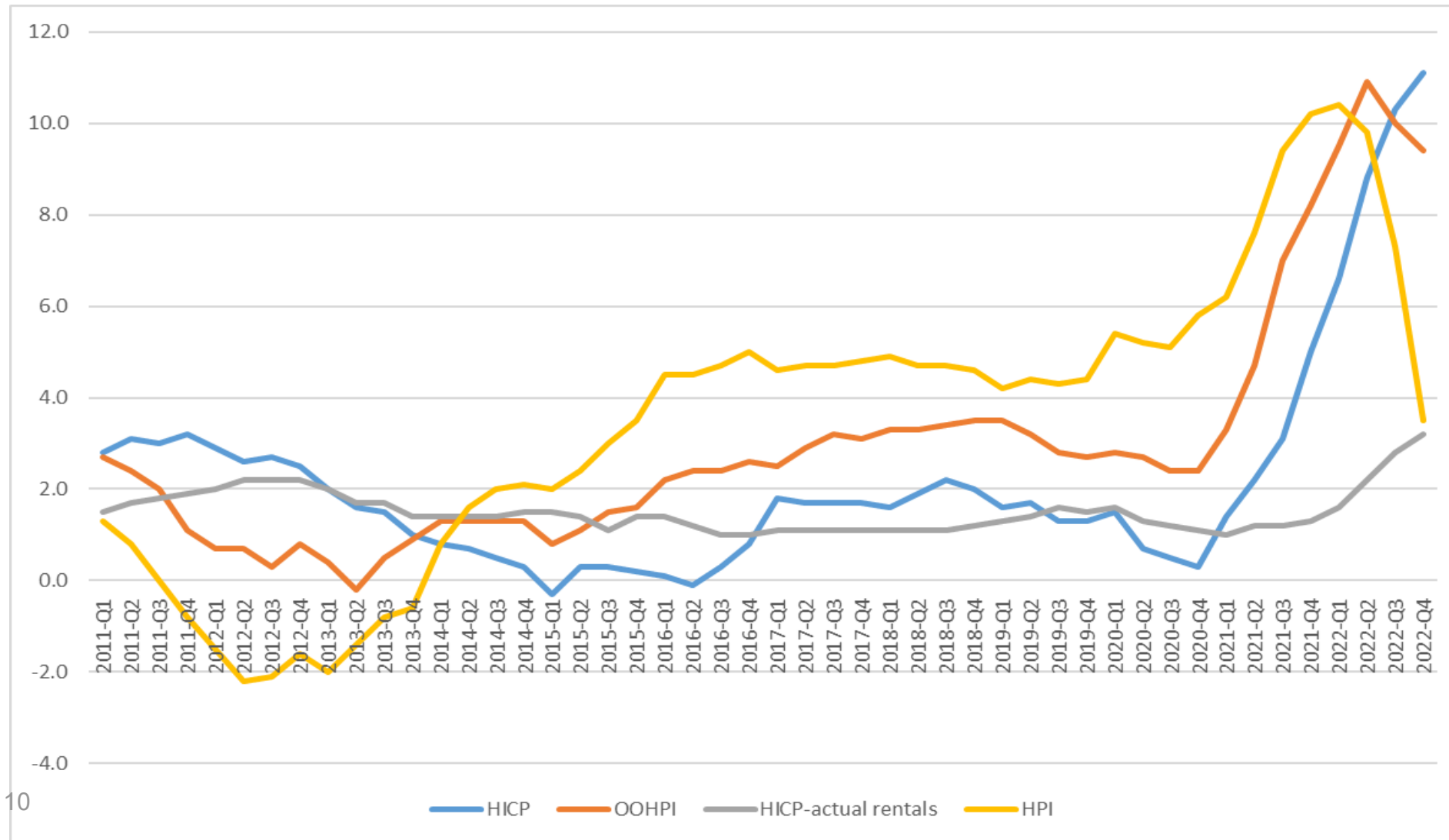
Relation with national accounts

- O.1.1. Acquisition of dwellings = gross fixed capital formation of households in their capacity as producers of own-account housing services
- O.1.2. Ownership of dwellings = intermediate consumption of households in their capacity as producers of own-account housing services
- HICP = final monetary consumption expenditure of households
- HICP + OOHPI = monetary expenditures, whether current or capital, of households for direct final consumption or for use in the production of housing services for own consumption (cf. Peter Hill, 1996)

Treatment of land

- Excluded from expenditures used as weights, as per national accounts definition of gross fixed capital formation
- Included in the transaction prices used for estimating the indices for
 - Purchases of newly built dwellings
 - Existing dwellings new to households
 - Other services related to acquisition of dwellings
(overall share: 342.5)
- Excluded for *Self-build dwellings and major renovations* (share: 436.7), which is based on construction price or cost indices

Annual rates of change for four EU indices



ECB Monetary Policy Strategy Review

- Outcome published 8 July 2021
- Covering all aspects of monetary policy, including measurement of inflation (HICP)
- Most important subject in relation to HICP: owner-occupied housing (OOH)
- ECB confirmed that HICP remains the appropriate index for quantifying ECB's price stability objective for the euro area
- ECB proposed roadmap towards inclusion of OOH

ECB recommendations on OOH

- Support for the use of the net acquisitions approach
- Request to produce a separate quarterly combined index of HICP with OOHPI
- Further research on separating consumption from investment elements in the OOHPI
- Reminder that the long-term aim is integration of OOH into HICP on a monthly basis.

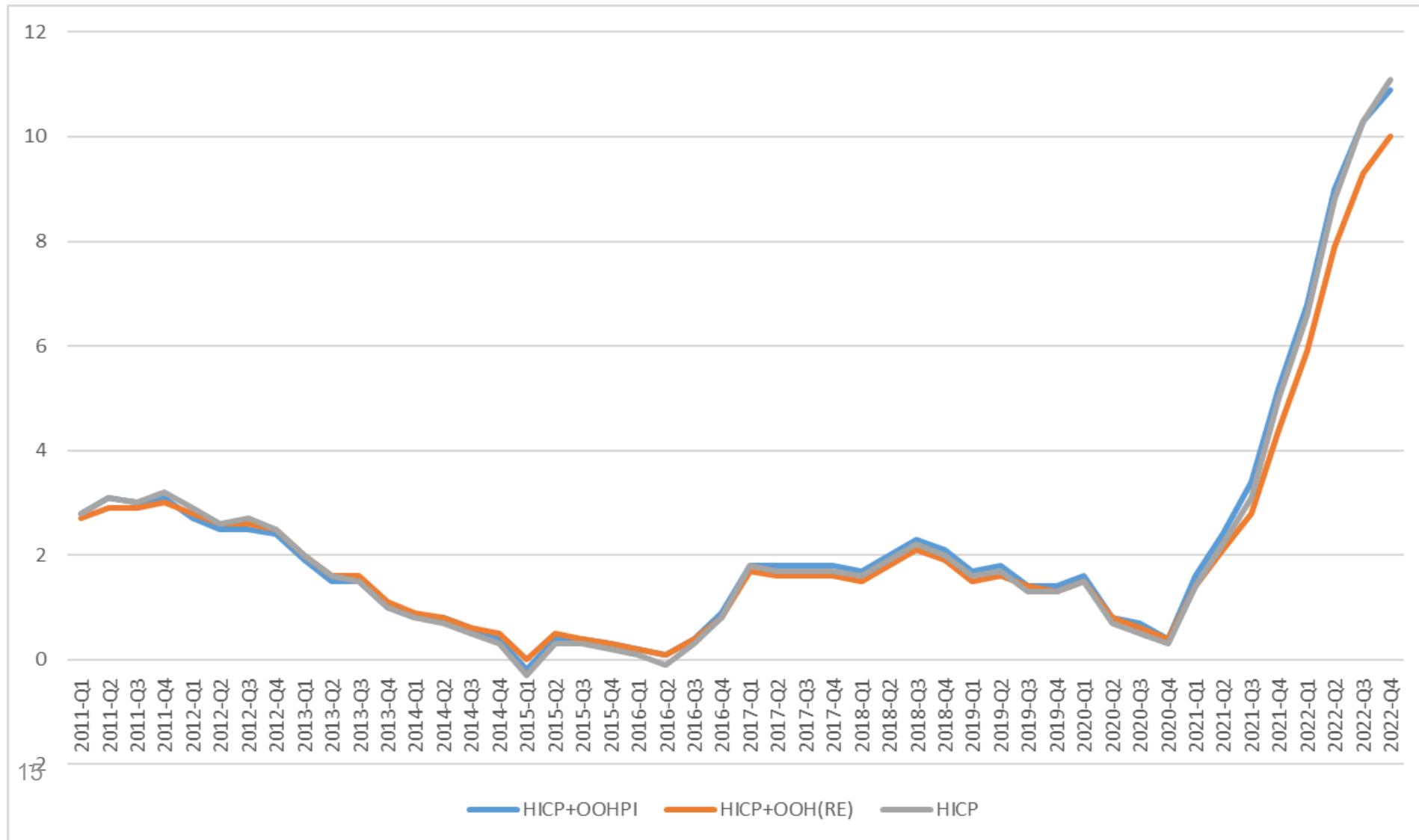
Discussions in ESS

- Concerns raised by several Member States:
 - Publishing a separate quarterly combined indicator entails a risk to the credibility of HICP and national CPIs
 - Use of net acquisitions approach -> some would prefer rental equivalence approach
- Decision to set up a dedicated Task Force to prepare a response to the ECB recommendations on OOH
- Task Force produced final report by end 2022

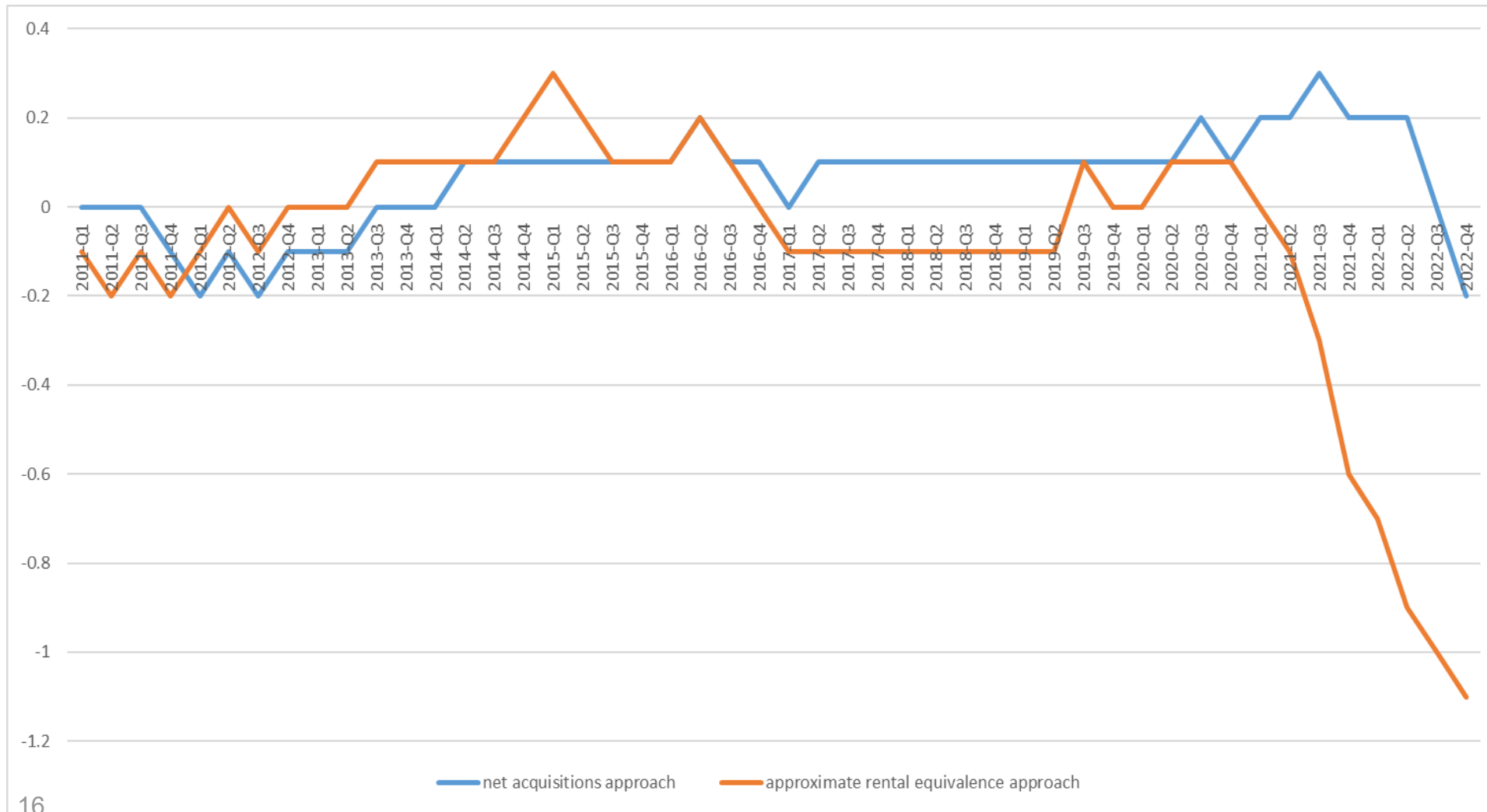
TF OOH – experimental quarterly indices

- Combination of HICP with OOHPI (net acquisition approach), using total OOHPI expenditures as weights
- Combination of HICP with actual rentals index from HICP (approximate rental equivalence approach), using household expenditure data on imputed rents from national accounts as weights

Experimental quarterly indices for EU – annual rates of change



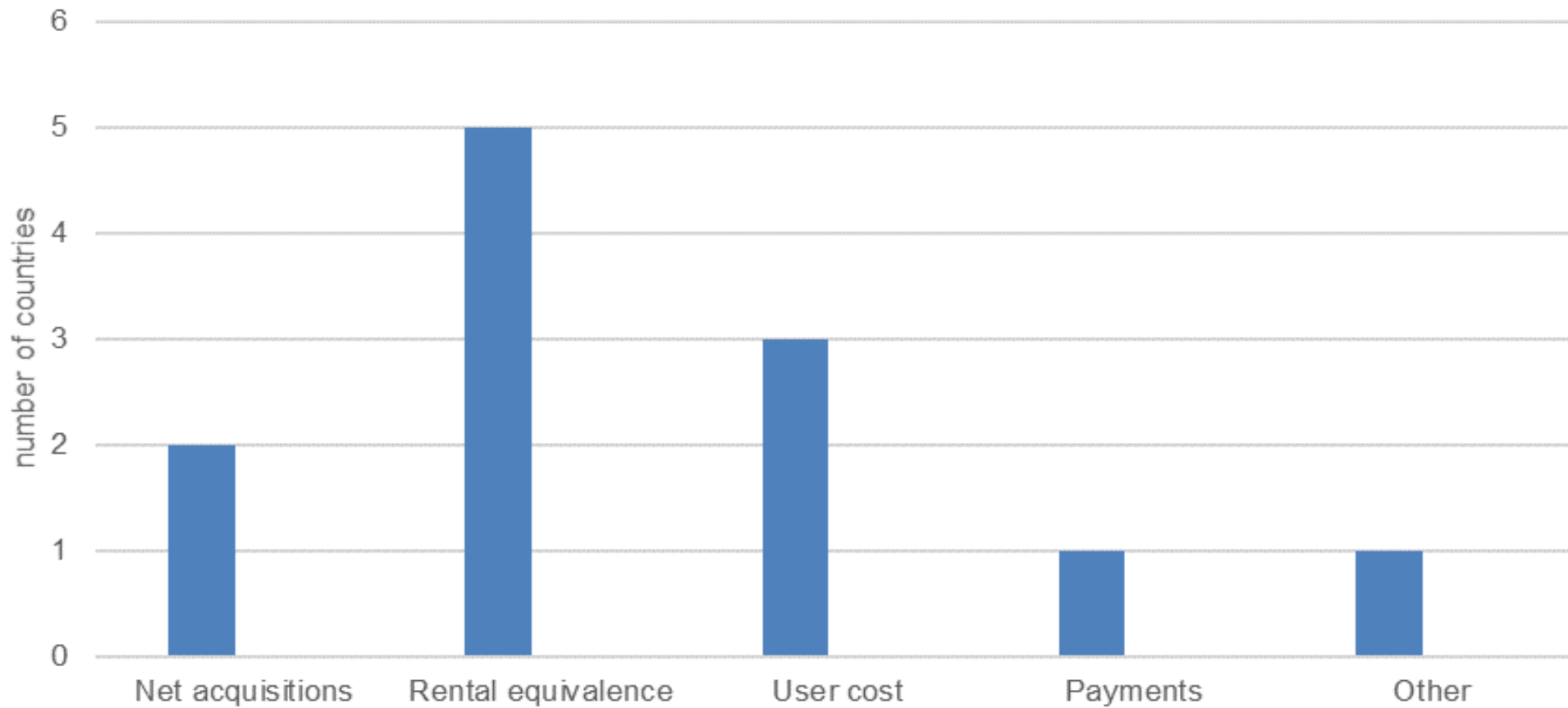
Experimental quarterly indices for EU – differences in pp with HICP annual rates



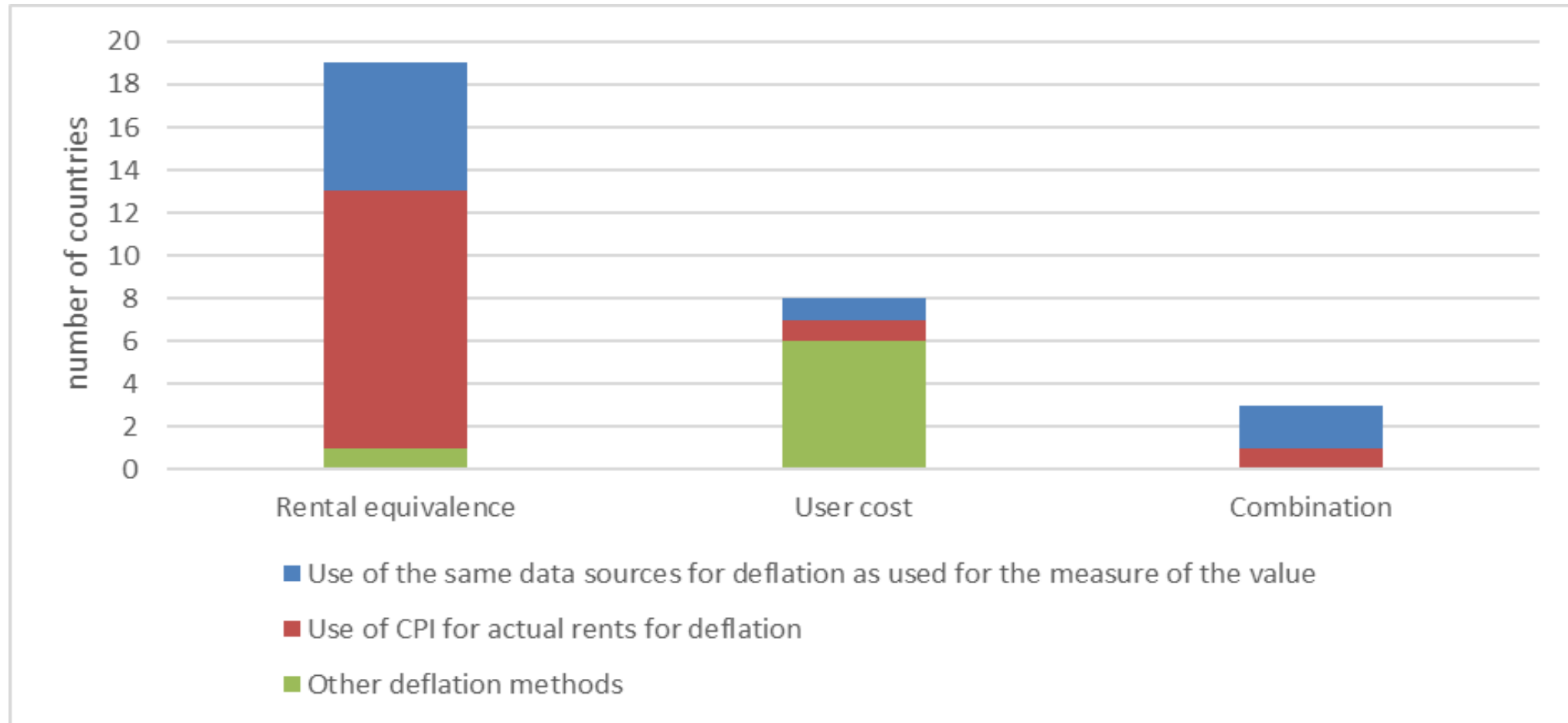
TF OOH - Survey among NSIs

- To evaluate the suitability, for each country, of various approaches to the measurement of OOH in respect of its possible future inclusion in the monthly HICP
- Carried out in July-August 2022
- All 30 EU and EFTA countries responded

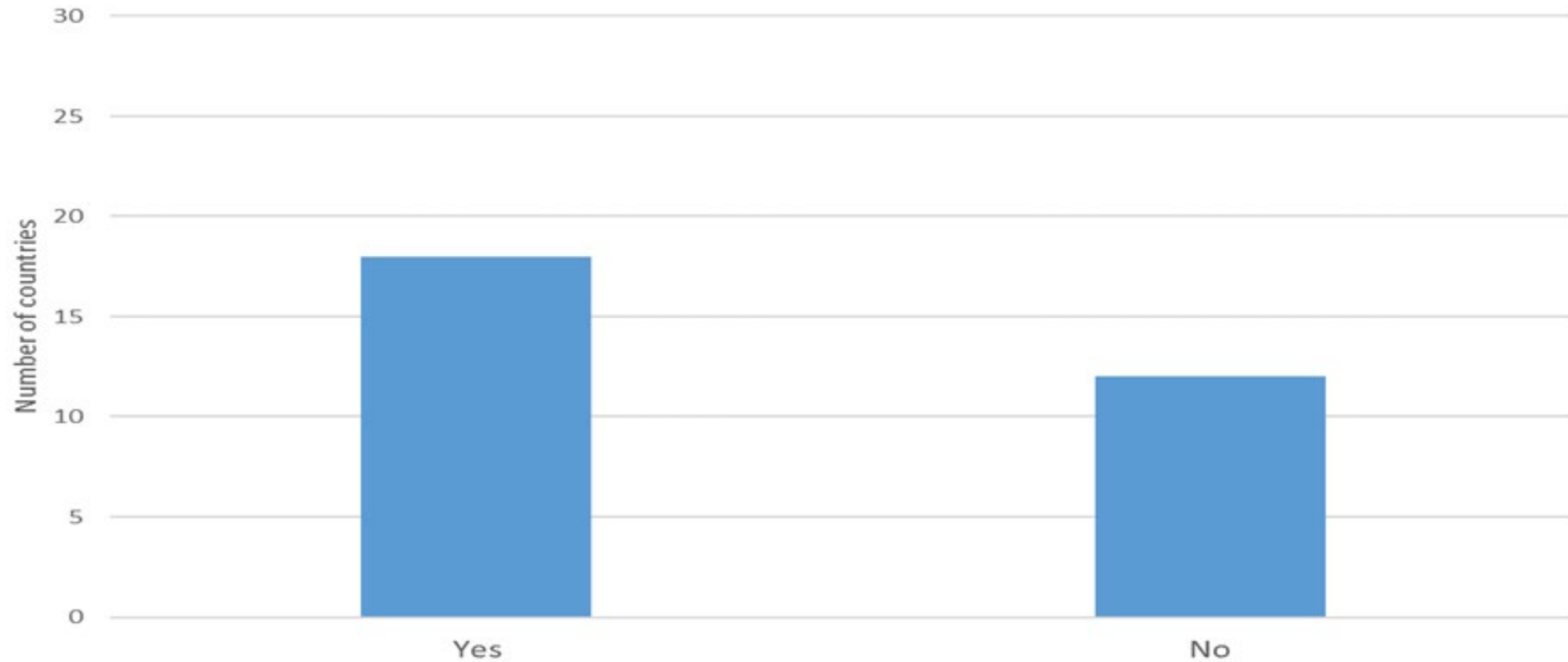
Approaches to OOH used in national CPIs



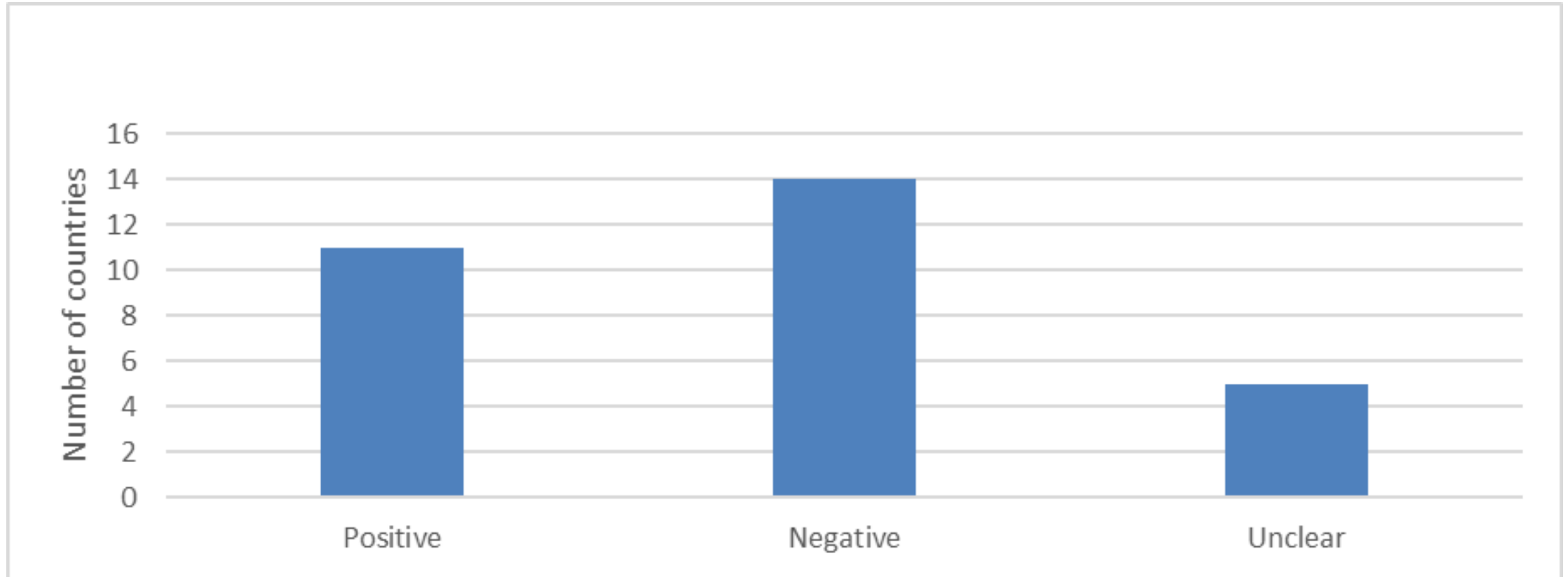
Approaches used to measure OOH in the national accounts



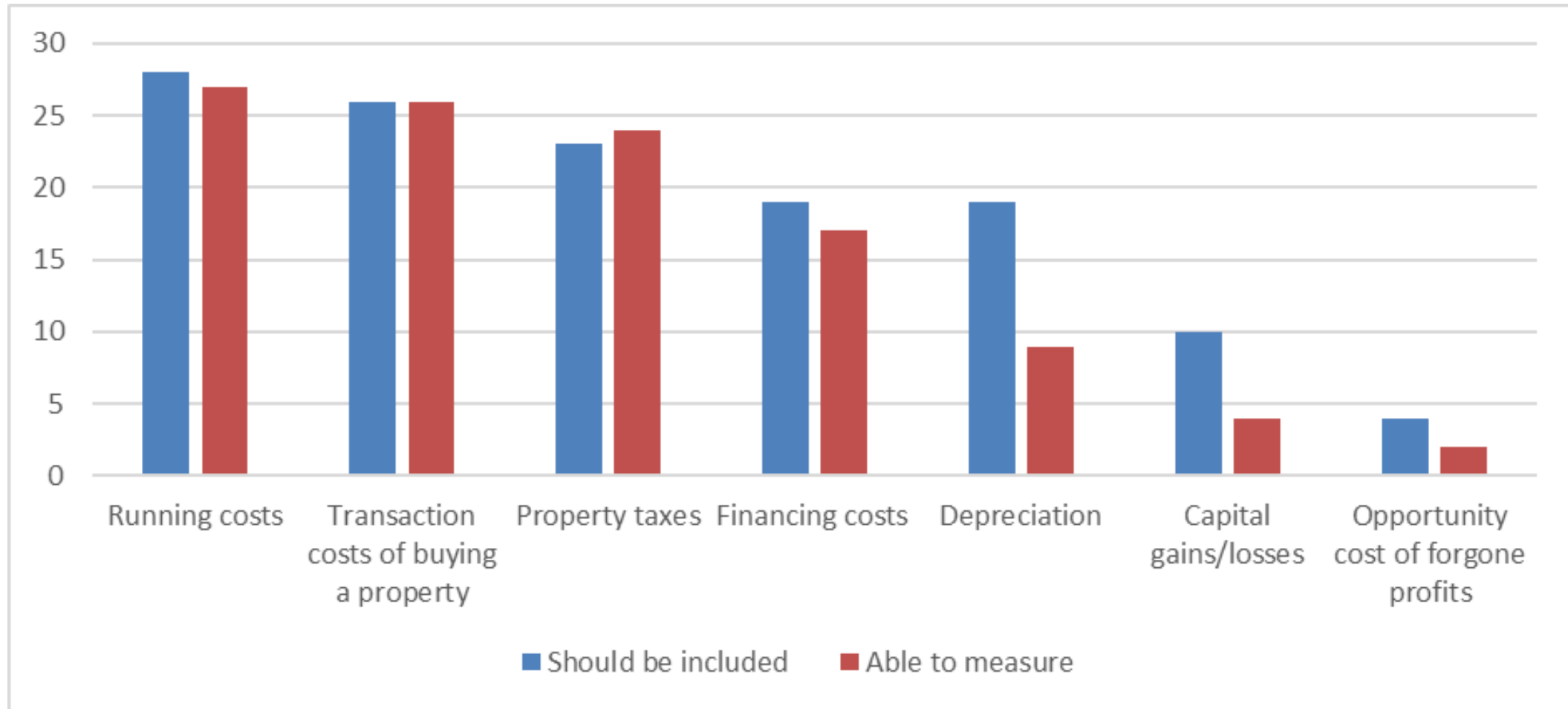
Assuming that the methodological issues on timeliness, frequency and the separation of consumption and investment could be resolved, do you consider the **net acquisitions approach** to be an appropriate approach for your country to incorporate the OOH component into the monthly HICP?



Please provide your assessment of the feasibility and appropriateness of the **rental equivalence approach** for your country as a method to incorporate the OOH component into the monthly HICP



Which of the possible **user cost component** should be included in an approach used by all countries and which of these components do you think you are able to measure?



Conclusions

- No consensus among countries on the best method to include OOH in the HICP. There are substantial differences of opinion on conceptual questions.
- None of the three approaches investigated (net acquisitions, rental equivalence and user cost) currently enable in practice to include OOH in the HICP without affecting the quality of the HICP.
- Experimental calculations of quarterly indices (for net acquisitions and rental equivalence) show different results. Starting from 2020Q4, the results show significant differences in the direction of the impact.

What's next

- Publish Task Force report
- Seek user feedback
- Continue with the research agenda
 - Timeliness and frequency of house price indicators
 - Consumption vs investment motives of house purchases
 - Exclusion of land
 - User cost approach

Thank you

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