



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Christine LAGARDE
President

Mr Engin Eroglu
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt am Main, 8 May 2020

L/CL/20/124

Re: Your letter (QZ-022)

Honourable Member of the European Parliament, dear Mr Eroglu,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 27 March 2020.

In your letter, you raise questions as regards the representation of housing costs in the Harmonised Index of Consumer Prices (HICP).

Rental costs make up approximately 6.5% of the basket of goods and services used to calculate the euro area HICP. At present, the only owner-occupied housing costs included in the HICP are expenditure for maintenance and minor repairs, as well as other running costs¹. Other parts of owner-occupied housing expenditure, in particular the cost to households of buying their homes, are currently not included in the HICP. The ECB has been in favour of including an owner-occupied housing cost index in the HICP, provided that this does not compromise the key properties of HICP that have been achieved so far, particularly its monthly reporting frequency, the availability of an early estimate at the end of each reporting month and the provision of a comprehensive dataset two weeks later. The HICP's focus on households' consumption expenditure and the reliability of its compilation are also relevant in this respect.

¹ Running costs comprise expenditure on heating, electricity, water supply, and refuse and sewage collection.

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Two approaches to measuring owner-occupied housing costs are the “rental equivalence” approach and the “net acquisition” approach. The rental equivalence approach estimates the cost to owner-occupiers of living in their own house or flat on the basis of what they would pay if they were to rent the property in which they live. Such imputed indices are not used in the HICP since it is based on prices resulting from actual transactions. As you mention, rents do not necessarily rise at the same pace as housing prices.

The net acquisition approach quantifies owner-occupied housing costs on the basis of actual purchase prices for new houses and flats. Acquisition-based price indices for owner-occupied housing are provided by Eurostat and the statistical offices of the EU Member States. However, these indices are reported once a quarter with a delay of one quarter, while an early estimate of the HICP is published at the end of each reporting month, followed by a release with a full breakdown by product category around two weeks later. Hence, a concurrent purchase-based price index for owner-occupied housing is not available at the time of the HICP data releases. It also has to be taken into account that acquisition-based price indices for owner-occupied housing in part reflect investment considerations.

The approaches mentioned above help to provide additional and auxiliary information on housing to be used in an encompassing inflation assessment. It is also important to note that, according to experimental calculations, adjusted inflation figures giving a larger weight to housing costs are currently slightly higher than the annual HICP inflation rate, whereas at some points in the past such adjustments would have resulted in a lower inflation rate.

In general, the implications of incorporating owner-occupied housing in the reference rate of inflation for monetary policy need to be carefully assessed before a final decision can be taken. This will be part of the ECB’s strategy review launched in January 2020. Ultimately, it is Eurostat and the statistical offices of the EU Member States that decide how owner-occupied housing may best be treated in the HICP context. The ECB will contribute with its opinion at the end of the strategy review.

Yours sincerely,

[signed]

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