

SUPPORTING STATEMENT
Consumer Price Index Commodities and Services

A. JUSTIFICATION

1. Circumstances that Make the Collection of Information Necessary

Section 2 of Title 29, Chapter 1, Subchapter 1, United States Code Annotated directs the Bureau of Labor Statistics (BLS), under the direction of the Secretary of Labor, to collect, collate, and report full and complete statistics of the conditions of labor and the products and distribution of the products of the same. A copy of the relevant section of Title 29 is attached.

The Consumer Price Index (CPI) is the only index compiled by the U.S. Government that is designed to measure changes in the purchasing power of the consumer's dollar. The CPI is a measure of the average change in prices over time in a market basket of goods and services. It is calculated monthly for two population groups, one consisting of all urban families (CPI-U), and the other consisting of urban wage earners and clerical workers (CPI-W). The CPI-U represents the buying habits of about 87 percent of the population of the United States, while the CPI-W represents approximately 32 percent of that group.

In addition to the above produced indexes, BLS also produces the Chained Consumer Price Index for all urban consumers (C-CPI-U). The C-CPI-U is a "superlative" type index that is designed to be a closer approximation to a "cost-of-living" index than the CPI-U and CPI-W. The C-CPI-U is distinguished from the CPI-U and CPI-W by the expenditure weights and formula used to produce aggregate measures of price change. Expenditure data required for the calculation of the C-CPI-U are available only with a time lag. Thus, the C-CPI-U is being issued first in preliminary form using the latest available expenditure data at that time and is subject to two subsequent revisions. The C-CPI-U is issued for national averages only and is not seasonally adjusted.

2. Uses of the Information

The CPI is used most widely as a measure of inflation, and serves as an indicator of the effectiveness of government economic policy. It is also used as a deflator of other economic series, that is, to adjust other series for price changes and to translate these series into inflation-free dollars. Examples include retail sales, hourly and weekly earnings, and components of the Gross Domestic Product.

A third major use of the CPI is to adjust income payments. Almost 2 million workers are covered by collective bargaining contracts, which provide for increases in wage rates based on increases in the CPI. Similarly, nine states have laws that link the adjustment in state minimum wage to the changes in the CPI. In addition to private sector workers whose wages or pensions are adjusted according to changes in the CPI, the index also affects the income of nearly 80 million persons, largely as a result of statutory action: about 53 million social security beneficiaries; about 4.5 million retired military and Federal Civil Service employees and survivors, and about 25.7 million food stamp recipients. Changes in the CPI also affect the 29.6 million children who eat lunch at school. Under the National School Lunch Act and Child Nutrition Act, national average payments for those lunches and breakfasts are adjusted annually by the Secretary of Agriculture on the basis of the change in the CPI series, "Food away from Home." Since 1985, the CPI has been used to adjust the Federal income tax structure to prevent inflation-induced tax rate increases.

3. Use of Improved Information Technology

Trained BLS economic assistants collect all data by either: (1) visiting the retail outlets (which include brick and mortar, catalogs and websites) and collecting data without any respondent assistance, (2) visiting the retail outlets and collecting data that are provided orally by a respondent, (3) contacting the respondent by telephone to collect data, or (4) when requested by the respondent accessing price data from the outlet's website. In all cases, the collection of data is completed by BLS employees -- respondents are not asked to fill out any forms. (Note a small number of items are priced by national office staff from data supplied directly to BLS by vendors, for example airfares are priced through the SABRE reservation system.)

BLS uses a computer assisted data collection (CADC) method for initiating and pricing the commodities and services (C&S) part of the CPI program. This CADC technology enables BLS employees to collect data in a structured way that promotes the accuracy of collected data, and ensures that the security of the data is maintained through tracked electronic transmission. There are no respondent record-keeping requirements associated with the CADC method. BLS staff performs all data collection and record keeping.

Currently there is an electronic manual with the procedures for selecting and subsequently pricing items using the CADC instrument. The C&S items for which data are collected with the CADC instrument represents approximately 70 percent of the expenditures included in the all-items CPI, the other 30 percent being represented by the two housing components, residential rent and owner's equivalent rent.

Because data is collected with the CADC instrument there are no forms or form numbers. Copies of the current CADC instrument 'screen shot forms' are attached.

The specific CADC Screen capture snapshots are:

The Outlet Messages tab - This screen contains outlet system messages, e.g. personal visit required, and LSR messages and response to such LSR messages – LSR refers to live schedule review by field managers - that are being sent out to the collection staff.

The Outlet Location tab – This screen identifies the outlet name, address, and telephone number, as well as COC status (central office collection approval is required, or not).

The Outlet Contact Info tab – This screen identifies the preferred contact time, respondent, instructions, specifically related to the outlet, outlet sequence, and outlet wild card - provides a way to organize the order of schedules, perhaps in a mall, to aid efficient collection.

The Outlet Authorizing Official/Type of Business tab – This screen contains the name of the authorizing official, his/her address, and telephone number, plus the type of business code assigned to the outlet.

The Quote Messages tab – This screen contains messages from the Washington Office - CA message, e.g., "WO requests that you please update description for code from A1 to A2"; System Messages, e.g. include applicable taxes in reported price; and Field Messages, e.g. price change due to new ownership.

The Quote Respondent/Location/Seasonal Information tab – This screen contains the respondent's name and location, plus quote sequence number, index PSU, and unique item season.

The Quote Action/Description tab – This screen describes the characteristics of the priced item.

The Quote Price tab – This screen contains the collected price and price adjunct, e.g. size values.

The Quote Corrections tab - This screen contains the effective date and reported corrections to previously collected price and price adjunct values, e.g. size.

The Quote Disaggregation Information tab - This screen contains general information related to the disaggregation utility (DU) – disaggregation is sampling process used to select a unique item to be priced.

The Elementary Level Item (ELI) Checklist screen – This screen contains the complete range of specifications needed to describe a unique item within an ELI. This screen is used to record initiations and reinitiations as well as being used in conjunction with recording substitutions, changes to current item descriptions and redescrptions associated with revised checklists.

The ELI Info screen – This screen contains ELI-specific instructions associated with each ELI Checklist.

The Point of Purchase Survey (POPS) Worksheet screen – This screen contains information used in the weight calculation when more than one ELI is assigned to a POPS category. There are a total of 214 POPS categories, only 28 require completing a POPS Worksheet.

The Disaggregation Utility screen – This screen is where measures of sales data are entered when disaggregating to a unique item.

The Selling Season Worksheet screen – This screen contains the months assigned to each of the two seasonal periods for quotes falling in the 31 Washington Office Designated Seasonal (WODS) ELIs.

4. Efforts to Identify Duplication

The CPI is the nation's chief source of information on retail price changes. BLS has made extensive efforts to identify from other government agencies and the scientific literature other sources of data and any duplication of indexes, but to BLS's knowledge, there is no other series outside of BLS available which performs the function of the CPI.

While there is no similar information available that meets the complete needs of the CPI, there are a few companies that collect and compile limited price data for grocery stores and one or two other companies that collect some retail prescription drug price data. Data from some of these companies are being analyzed for use as a partial alternative to direct BLS data collection

Recently the price programs within BLS have begun to examine potential duplication efforts which have led to a regular exchange of information for pricing of hospital services. Both the Producer Price Index and the CPI programs collect hospital prices from independently sampled outlets. The two programs have a process in place to identify overlap hospitals and when that occurs, the two programs combine their collection efforts and share data as appropriate.

5. Minimizing the Burden on Small Establishments

In general, the effort to minimize the burden on small business benefits from the continuous efforts on the part of BLS staff to collect data (most often commodities) directly by locating the selected items in the outlet without the respondent's assistance and contacting respondents by telephone (primarily for service items) to collect data when appropriate. Specifically, the burden on small businesses is minimized by the sample rotation process, through which new outlets are selected in a subset of categories in each of our 87 sample areas every year, so that over a four year period nearly all categories are rotated in all areas. Thus, a small outlet would rarely remain in the survey for more than four years. Furthermore, since outlets and the specific items within outlets are selected for pricing with probability proportional to their dollar volume sales, it is rare for more than a few items to be priced in any one small outlet. In addition, if an outlet requests that current price collection be conducted over their website we will comply.¹

6. Consequences of Not Collecting or Less Frequent Data Collection

If the information on prices of commodities and services were not collected, all the programs discussed in items (1) and (2) above could not function properly. Federal fiscal and monetary policies would be hampered due to the lack of information on price changes in a major sector of the U.S. economy and estimates of the real value of GNP could not be made. The consequences to both the Federal and private sectors would be far-reaching and would have serious repercussions on Federal government policy and institutions.

If collection were conducted less frequently, the timeliness and accuracy of the CPI would be significantly decreased.

7. Special Circumstances

All data are collected in a manner consistent with the guidelines in 5 CFR 1320.5.(d)(2).

8. Preclearance Consultation Federal Register and Consultation with Outside Sources

Federal Register Notice

No comments were received as a result of the Federal Register notice published in Volume 73, No. 14 on January 22, 2008.

Consultation with Outside Sources

Due to the CPI's high visibility, the data collection methodology used for its construction is subject to scrutiny by individuals and organizations within and outside the U.S. Government. Agencies with whom BLS has had contact regarding methodology and procedures include the Council of Economic Advisers (CEA), the Office of Management and budget (OMB), the Congressional Budget Office (CBO), the Congressional Joint Economic Committee (JEC), the Bureau of Economic Analysis (BEA), the Federal Reserve Board (FRB), and the National Academy of Sciences.

In 2002 The Committee on National Statistics (CNSTAT) - The Division of Behavioral and Social Sciences and Education of The National Research Council published a report entitled, "At What Price? Conceptualizing and Measuring Cost-of-Living and Price Indexes". BLS requested CNSTAT "to investigate conceptual, measurement, and other statistical issues in the development of cost-of-living indexes." In response to their recommendations BLS has been examining a number of measurement enhancements that address issues raised by CNSTAT.

¹ As a practice, when a respondent requests a CPI data collector to collect price information from their website, data collectors will ask the respondent if the online prices and price movements are the same as their brick and mortar outlets. In situations where the respondent indicates that prices and price movements are the same the item or service is treated as pricing the same item or service. If the respondent indicates that prices or price movements are not the same then the item or service is treated as a noncomparable replacement item or service.

In addition, BLS regularly consults with major user groups concerning their needs and uses of our data series. In previous years, BLS has held semiannual meetings with BLS's Business Research Advisory Council and Labor Research Advisory Council, as part of the program to consult with those affected by the CPI and those from whom information is to be obtained. The last meeting for these groups occurred in the Fall of 2006. BLS is in the process of establishing a new committee called the Data Users Advisory Committee (DUAC). The Committee will provide advice to the Bureau of Labor Statistics from the points of view of data users from various sectors of the U.S. economy, including the labor, business, research, academic and government communities, on technical matters related to the collection, tabulation, and analysis of the Bureau's statistics, on its published reports, and on the broader aspects of its overall mission and function.

During the past years, members of the CPI staff in Washington have participated in meetings of the National Bureau of Economic Research, American Economic Association, the Federal Economic Statistics Advisory Committee (FESAC), the Conference of European Statisticians, the International Working Group on Price Indices (the Ottawa Group) and the American Statistical Association to discuss various aspects of the CPI survey, including methodological and procedural aspects of the data collection process.

The BLS Commissioner and Associate Commissioners submit a monthly report to the JEC.

9. Respondent Payments

Cooperation by the respondents to supply data for the CPI is voluntary and no remuneration, payment or gift is provided.

10. Confidentiality

The Commissioner's Order No. 1-06, "Confidential Nature of BLS Statistical Data," explains the Bureau's policy on confidentiality: "In conformance with existing law and Departmental regulations, it is the policy of the BLS that respondent identifiable information collected or maintained by, or under the auspices of, the BLS for exclusively statistical purposes and under a pledge of confidentiality shall be treated in a manner that will ensure that the information will be used only for statistical purposes and will be accessible only to authorized persons."

Special care is taken to ensure data security. Data collected by Economic Assistants using CADC is encrypted and transmitted over telephone lines to a Remote Access Server (RAS) in Washington D.C.

The data are stored in computer files which have provisions for data security and extensive rules for data access to protect the data from unauthorized use. Collected variables are maintained in the C&S client server database for a period of thirteen months. After that time frame the data are moved to an archived storage format.

Although the CADC data capture screens do not include a statement regarding confidentiality or burden, the data collection staff do provide respondents a pamphlet that contains confidentiality and burden statements, see below:

Confidentiality Statement. The Bureau of Labor Statistics, its employees, agents, and partner statistical agencies, will use the information you provide for statistical purposes only and will hold the information in confidence to the full extent permitted by law. In accordance with the Confidential Information Protection and Statistical Efficiency Act of 2002 (Title 5 of Public Law 107-347) and other applicable Federal laws, your responses will not be disclosed in identifiable form without your informed consent.

Voluntary Nature of the Program. This report is authorized by law, 29 U.S.C.2. Your voluntary cooperation is needed to make the results of this survey comprehensive, accurate, and timely.

Initiation Burden Statement provided to respondents:

We estimate that it will take an average of 1 hour per initial interview, and approximately 20 minutes per subsequent visit to complete this survey.

Pricing Burden Statement:

We estimate that it will take an average of 20 minutes per interview to complete this survey.

If you have any comments regarding these estimates or any other aspect of the survey—including suggestions for reducing the duration of the interview—send them directly to the Division of Consumer Prices and Indexes (202-691-6991), Bureau of Labor Statistics, 2 Massachusetts Avenue, N.E., Washington, D.C. 20212. Persons are not required to respond to pricing inquiries unless data collection schedules display current and valid OMB numbers.

11. Sensitive Questions

There are no sensitive questions in this survey.

12. Estimated Reporting Burden

As mentioned in number 10 above, the data collection staff provide respondents with a pamphlet that contains the following burden statement:

Initiation Burden Statement provided to respondents:

We estimate that it will take an average of 1 hour per initial interview, and approximately 20 minutes per subsequent visit to complete this survey.

Pricing Burden Statement:

We estimate that it will take an average of 20 minutes per interview to complete this survey.

If you have any comments regarding these estimates or any other aspect of the survey—including suggestions for reducing the duration of the interview—send them directly to the Division of Consumer Prices and Indexes (202-691-6991), Bureau of Labor Statistics, 2 Massachusetts Avenue, N.E., Washington, D.C. 20212. Persons are not required to respond to pricing inquiries unless data collection schedules display current and valid OMB numbers.

Estimation of Respondent Burden

The respondent burden is estimated to be 123,850 hours per year for fiscal years 2009, 2010, and 2011 and reflects only direct contact with respondent.

FY 2009, FY 2010, FY 2011						
	# of respondents	# of responses per respondent per year	Total Responses*	Respondent Hours Per Response	Total hours*	Cost
PRICING						
Ongoing Pricing--Private Sector	35,640	9	320,760	0.33	105,851	\$1,970,941.90
Test Pricing--Private Sector	1,000	1	1,000	0.33	330	\$6,144.60
Ongoing Pricing--State, Local or Tribal Governments	360	9	3,240	0.33	1069	\$19,908.50
Subtotal for Pricing	37,000		325,000		107,250	\$1,996,995.00
OUTLET ROTATION: Ongoing and Geographical						
Ongoing Initiation--Private Sector	11,921	1	11,921	1.00	11,921	\$221,969.02
Geographical Rotation--Sector Private Sector	1,980	1	1,980	1.00	1,980	\$36,867.60
Test Initiation--Private Sector	1,000	1	1,000	1.00	1,000	\$18,620.00
Initiation--State, Local or Tribal Governments	99	1	99	1.00	99	\$1,843.38
Sub total for rotation	15,000		15,000		15,000	\$279,300.00
ITEM ROTATION						
Initiation	900	1	900	1	900	\$16,758.00
Renitiation	700	1	700	1.00	700	\$13,034.00
Sub total for IR	1,600		1,600		1,600	\$29,792.00
TOTAL	53,600	n/a	341,600	n/a	123,850	\$2,306,087.00

* Totals are rounded to the nearest highest whole number.

** June 2005 mean hourly earnings (\$18.62), from the National Compensation Survey, latest released value

*** These estimates are included in the burden table based on the assumption that the budget requests for the CPI revision will be approved.

The activities included in the tables above are:

(a) Pricing

Ongoing pricing - The collection of prices to be used to calculate the CPI each month. Note; excludes quotes that are not collected directly from contacting respondents, e.g. using the SABRE system to price airfares. The items to be priced have already been selected.

Pricing - testing pricing - Is used to assess the possibilities of introducing new methodologies into the index.

(b) Outlet rotation/initiation -

Ongoing outlet rotation - An ongoing process in which new outlets and items are selected for the CPI sample. Sample rotation takes place when a new sample is selected and an old sample is dropped. The current rotation schedule is based on the efficiencies of rotating some samples in each priced area each year. Under this strategy, on average, a full rotation occurs every four years, thus ensuring a more up-to-date sample of outlets and items than would be the case if a more gradual rotation process was followed. Note in anticipation of the new geographical sample, PSUs identified as early droppers from the CPI geography have not been rotated since August 07.

Geographical rotation - A new sample of geographic areas, which includes 31 new primary sampling units (PSUs), has been selected based on the 2000 Decennial Census. Please note; the initiation activity associated with the geographical rotation is based on the assumption that the CPI will receive approval of budgetary requests to fund such activity. If funding is not approved to support the geographic rotation, the CPI will pursue the fall back activity and resume ongoing initiation activity in all PSUs.

Outlet rotation - test initiation - Is used to assess the possibilities of introducing new methodologies into the index.

(c) Item Rotation

Item rotation- Is a process for reinitiating existing quotes within currently priced outlets, for selected entry level items, enabling the item sample to be refreshed sooner than typically occurs with the TPOPS rotation cycle. This process allows for (a) the inclusion of new goods and (b) a redistribution of priced items to reflect current outlet sales. Under this process, a selected subset of the entry level items are reinitiated two years after the original initiation. The selected subset of entry level items are those where the introduction of new goods, new varieties of existing items, or new sales distribution of eligible items is likely.

13. Annual Cost Burden to Respondents

The annual cost to respondents is approximately \$2,306,087 (123,850 burden hours x \$18.62 per hour wage rate*) or \$43.02 per respondent (\$2,306,087 / 53,600 respondents.)

* June 2005 mean hourly earnings, from the National Compensation Survey, latest released value.

14. Estimated Federal Costs

The annual cost to the Federal Government of collecting, processing, and reviewing the data collected for the Commodities and Services part of the CPI program is budgeted for \$49,576,000 for fiscal year 2007. This figure reflects a revision in the methodology to include the full cost of conducting the Commodities and Services part of the CPI, such as space rent and telecommunications.

15. Change in Burden

The current Information Collection Budget (ICB) based on the average of FY2006, FY2007 and FY2008 reflects 126,462 burden hours. The burdens included in this request are: 123,850 for FY2009, FY2010, and FY2011. Following is an analysis of the differences:

	FY2006-2008	FY2009-2011	Difference	Comment
Ongoing Pricing	112,153	106,920	-5,233	A main difference is that the FY2009-2011 estimates excludes situations where a respondent is not contacted for a price on a monthly basis. Previously they were included in the burden estimate. Also contributing to the decline are random variations in outlet losses over time.
Outlet Rotation	10,676	14,000	3,324	An increase in the size of some of the outlet samples selected for ongoing outlet rotation and samples for new geographical areas.
Item Rotation	2,398	1,600	-798	The decrease in the number of burden hours for item rotation reflects a reduction in the number of eligible items for this process, based on an analysis of the benefits derived from this initiative by item.
Testing	1,235	1,330	95	The increase in the number of burden hours for testing reflects a minor increase in the number of anticipated respondents participating in such tests.
Totals	126,462	123,850	-2,612	

* This number was revised (down) in January 2006 from 141,700 to 126,462 due to erroneous inclusion of children quotes

16. Plans for Tabulation and Publication

The CPI is published monthly and is based on data collected for a particular month. The release of the CPI is usually scheduled between the fourteenth and the eighteenth day of the month following the month for which the data are collected. Schedules for collection, production and the release of the CPI are determined annually in the fall, prior to the specific year to which they apply.

17. Display of Expiration Date

The expiration date for OMB approval will be clearly displayed.

18. Certification of Paperwork Reduction Act Submissions

There are no exceptions to the certification statement, "Certification for Paper Work Reduction Act Submissions."