

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, the 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, as a result of statutory action, the CPI affects the income of millions of Americans. Over 50 million Social Security beneficiaries, and millions of military and Federal Civil Service retirees, have cost-of-living adjustments tied to the CPI. In addition, eligibility criteria for millions of food stamps recipients and millions of children who eat lunch at school are affected by changes in the CPI. 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 the BLS by vendors, for example airfares are priced through the SABRE reservation system.)

The 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.

In June of 2010, the BLS deployed a new inventory of Lenovo X200 Convertible Tablet PCs to replace the Fujitsu ST5011D tablet PCs which have been in use since May 2005. The new tablet PCs offer several improvements over the previous models including a 40GB hard drive, a larger 12.1" WXGA LED screen, a longer battery life (up to 10.3 hours unplugged), Mobile Broadband capability, and a total weight of under 5 pounds. The new tablet looks and acts like a laptop but can be converted to a tablet by swiveling the screen 180 degrees and locking it in place face up. 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 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 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. The 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 the BLS's knowledge, there is no other series outside of the 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 the BLS data collection

The price programs within the BLS continue to examine potential duplication efforts looking to expand upon the 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 76 FR 2149 on January 12, 2011.

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 the 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". The BLS requested CNSTAT "to investigate conceptual, measurement, and other statistical issues in the development of cost-of-living indexes." In response to their recommendations the BLS has been examining a number of measurement enhancements that address issues raised by CNSTAT.

In addition, the BLS regularly consults with major user groups concerning their needs and uses of our data series. In previous years, the BLS has held semiannual meetings with the 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. In November of 2007, the BLS chartered a new committee called the Data Users Advisory Committee (DUAC). The Committee provides advice to the Bureau of Labor Statistics from the points of view of data

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.

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. The last meeting for DUAC was in November 2009.

The BLS is in the process of establishing a new committee called Technical Advisory Committee (TAC). The committee presents advice and makes recommendations to the BLS on technical aspects of the collection and formulation of economic measures.

Additionally, the BLS will be a full partner with the Census Department and the Bureau of Economic Analysis in the resumption of Federal Economic Statistics Advisory Committee (FESAC). The committee will advise the Directors of Economics and Statistical Administration's two statistical agencies, the Bureau of Economic Analysis (BEA) and the U.S. Census Bureau (Census), and the Commissioner of the BLS on statistical methodology and other technical matters related to the collection, tabulation, and analysis of federal economic statistics.

In past years, members of the CPI staff in Washington have participated in meetings of the National Bureau of Economic Research, American Economic Association, 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 Confidential Information Protection and Statistical Efficiency Act of 2002 (CIPSEA) safeguards the confidentiality of individually identifiable information acquired under a pledge of confidentiality for exclusively statistical purposes by controlling access to, and uses made of, such information. CIPSEA includes fines and penalties for any knowing and willful disclosure of individually identifiable information by an officer, employee, or agent of the BLS.

Based on this law, the BLS provides respondents with the following confidentiality pledge/informed consent 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.

The Bureau of Labor Statistics 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.

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 confidentiality and burden statements.

Estimation of Respondent Burden

The respondent burden is estimated to be 179,915 hours per year for fiscal years 2012, 2013, and 2014 and reflects only direct contact with respondent.

FY 2012, FY 2013, FY 2014						
	# of respondents	# of responses per respondent per year	Total Responses*	Respondent Hours Per Response	Total hours*	Cost
PRICING						
Ongoing Pricing--Private Sector	52,979	9	476,811	0.33	157,347	\$3,255,509.43
Test Pricing--Private Sector	1,000	1	1,000	0.33	330	\$6,827.70
Ongoing Pricing--State, Local or Tribal Governments	482	9	4,338	0.33	1,432	\$29,628.08
Subtotal for Pricing	54,461		482,149		159,109	\$3,291,907.28
OUTLET ROTATION						
Ongoing Initiation--Private Sector	19,746	1	19,746	1.00	19,746	\$408,544.74
Test Initiation--Private Sector	1,000	1	1,000	1.00	1,000	\$20,690.00
Initiation--State, Local or Tribal Governments	63	1	63	1.00	63	\$1,303.47
Sub total for rotation	20,809		20,809		20,809	\$430,538.21
TOTAL	75,270	n/a	502,958	n/a	179,918	\$3,722,503.42

* Totals are rounded to the nearest whole number.

** September 2010 mean hourly earnings (\$20.69), 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.

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

Please note, the numbers in the table above reflect an increase in the number of CPI commodity and services price quotes collected by 50 percent. This increase is contingent on funding in the FY 2011 budget proposal and directly related to an initiative (BLS Strategic Plan Goal 2, Product Improvement) to improve the accuracy of each published index and the overall quality of CPI data.

The annual cost to respondents is approximately \$3,722,503.42 (179,918 burden hours x \$20.69 per hour wage rate*) or \$49.46 per respondent (\$3,722,503.42 / 75,270 respondents.)

* September 2010 mean hourly earnings for civilian workers, from the National Compensation Survey, latest released value. "Civilian workers" refers to workers in the private nonfarm economy and the public sector, excluding both households and the Federal government.

13. Annual Cost Burden to Respondents

This information collection does not entail start-up/capital maintenance/operations costs to respondents beyond the value of a respondent's time.

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 \$71,509,300 for fiscal year 2011, including \$15,000,000 for the 2011 Increase the Number of CPI Price Quotes initiative. This figure reflects the full cost of conducting the Commodities and Services part of the CPI, including space rent and telecommunications.

15. Change in Burden

The current Information Collection Budget (ICB) based on the average of FY2009, FY2010 and FY2011 reflects 123,850 burden hours. The burdens included in this request are: 179,915 for FY2012, FY2013, and FY2014. Following is an analysis of the differences:

	FY2009-2011	FY2012-2014 with	Difference	Comment

		est. 50% increase		
Ongoing Pricing	106,920	158,779	51,859	
Outlet Rotation	14,000	19,809	5,809	
Testing	1,330	1,330	0	No Change.
Totals	123,850	179,918	56,068	Please note, the differences for both ongoing pricing and outlet initiation reflect an initiative (BLS Strategic Plan Goal 2, Product Improvement) to improve the accuracy of each published index and the overall quality of CPI data. Contingent on funding in the FY 2011 budget proposal this will result in an increase the CPI C&S quotes by 50 percent.

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."