

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, under the direction of the Secretary of Labor, shall collect, collate, and report at least once each year, or oftener if necessary, full and complete statistics of the conditions of labor and the products and distribution of the products of the same, and to this end said Secretary shall have power to employ any or either of the bureaus provided for his department and to rearrange such statistical work, and to distribute or consolidate the same as may be deemed desirable in the public interests; and said Secretary shall also have authority to call upon other departments of the Government for statistical data and results obtained by them; and said Secretary of Labor may collate, arrange, and publish such statistical information so obtained in such manner as to him may seem wise.” 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 88 percent of the population of the United States, while the CPI-W represents approximately 28 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 subsequent revisions. The C-CPI-U is issued for national averages only and is not seasonally adjusted.

BLS periodically issues a report on its experimental index for the elderly. The CPI for the elderly or CPI-E is calculated monthly and is available on request. The CPI-E is a reweighting of the CPI basic indexes using expenditure weights from households headed by someone 62 years of age or older.

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. At least 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 57 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, (4) when requested by the respondent contacting the respondent by email to collect data, or (5) 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. A small number of items are priced by national office staff from data supplied by vendors, for example used cars and trucks are priced using data from the National Automobile Dealers Association. BLS is also testing the feasibility of using company transaction data in lieu of in-store, telephone, and internet collection.

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 2014 BLS will deploy a new inventory of encrypted Fujitsu Q702 hybrid tablet computers for data collection. 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 represent approximately 69 percent of the expenditures included in the all-items CPI, the other 31 percent being represented by the two housing components, residential rent and owners' equivalent rent.

Because data are 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 Live Schedule Review (LSR) messages and their responses 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 Central Office Clearance (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 which 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 (WO) - Commodity Analyst (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 Primary Sampling Unit (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 adjuncts, 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, reinitiations, 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 BLS data collection.

There is a private organization that uses price information from hundreds of online retailers around the world to gauge inflation trends. In comparison, the CPI is broader and has many sectors that they cannot monitor online, such as service industries.

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. Currently the two programs are researching the feasibility of a shared hospital sample that could support both programs’ index generation requirements.

5. Minimizing the Burden on Small Establishments

The effort to minimize the burden on small business benefits from the continuous efforts on the part of BLS staff to collect data without the respondent's assistance. Additionally, for some service items, BLS staff may contact respondents by telephone to collect data when appropriate. Even more importantly, 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, the Consumer Price Index (CPI), the Chained Consumer Price Index (C-CPI-U) and the CPI for the Elderly (CPI-E) would not exist. The programs discussed above in section 2 "Uses of the Information" 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 GDP 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 the Code of Federal Regulations 5 CFR 1320.5.(d)(2).

8. Preclearance Consultation Federal Register and Consultation with Outside Sources

Federal Register Notice

One comment was received as a result of the Federal Register notice published in the Federal Register, 79 FR 9281 on February 18, 2014. The comment; which was faxed to BLS on February 18, 2014, expressed the opinion that the CPI numbers are adjusted for political gain by politicians. As an independent statistical agency, BLS serves its diverse user communities by providing products and services that are objective, timely, accurate, and relevant. The Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. Millions of American workers and retirees rely on these adjustments for their day-to-day expenses. Social Security payments are typically adjusted each year based on the responses gathered in the CPI survey. The interest rates on many mortgages and consumer loans are adjusted based on the inflation rate and the CPI. Additionally, the information gathered is widely used by policymakers and researchers to study the impact of price increases and policy changes.

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.

Consultation with Outside Sources

Due to the CPI's high visibility, data collection, data review and index methodologies used for its construction are under constant scrutiny by individuals and organizations within and outside the U.S. Government. Organizations with which the BLS has had recent contact for the purposes of eliciting comments 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),
- the Federal Economic Statistics Advisory Committee (FESAC),
- the BLS Data Users Advisory Committee (DUAC),
- the BLS Technical Advisory Committee (BLSTAC), and
- the Government Accountability Office (GAO).

The BLS is a full partner with the Census Department and the Bureau of Economic Analysis in the Federal Economic Statistics Advisory Committee (FESAC). The committee advises 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. A second advisory committee, the BLS Data Users Advisory Committee (DUAC), provides BLS programs with input from a wide variety of data users representing labor, business, government, research, academic organizations, and other groups. A third advisory committee, the BLS Technical Advisory Committee (BLSTAC), focuses on measurement issues that are specific to BLS programs.

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 report on a monthly basis to the Congressional Joint Economic Committee, and they meet as needed with the Council of Economic Advisors and the Government Accountability Office to discuss BLS issues, and especially the CPI program.

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.

BLS policy on the confidential nature of respondent identifiable information (RII) states that “RII acquired or maintained by the BLS for exclusively statistical purposes and under a pledge of confidentiality shall be treated in a manner that ensures the information will be used only for statistical purposes and will be accessible only to authorized individuals with a need-to-know.”

Special care is taken to ensure data security. Data collected by Economic Assistants using CADC is encrypted and transmitted by a Virtual Private Network (VPN). A VPN is a secure, private communication tunnel between two or more devices across a public network (like the Internet). Even though data can travel across the Internet, it is secure because of the strong encryption algorithm used. If an unauthorized user attempts to intercept data across the VPN tunnel, the intruder will not be able to decipher the transmitted data because the data will be encrypted. In addition, VPN software monitors connections such that transmissions are ensured to be unaltered while traveling across the public network.

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.

The CADC data capture screens do not include a statement regarding confidentiality or burden since respondents do not see these screens, but the data collection staff do provide respondents a pamphlet that contains confidentiality and burden statements.

A letter from the Regional Commissioner of Labor Statistics is sent to potential respondents. The letter introduces the CPI and explains our mission. The letter assures that information collected will be used for statistical purposes only and contains a confidentiality assurance.

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 titled, *The Consumer Price Index Commodities and Services Survey: Questions & Answers* that contains the confidentiality and burden statements.

Also mentioned in number 10 above, the Regional Commissioner of Labor Statistics sends potential respondents a letter that contains a confidentiality pledge.

The respondent burden is estimated to be 116,977 hours per year for fiscal years 2015, 2016, and 2017 and reflects only direct contact with respondent.

Estimation of Respondent Burden

	Number of Respondents	Number of Visits to Respondent per Year	Total Responses	Respondent Hours Per Response	Total Hours*	Cost **
Pricing						
Pricing of Private Sector	34,602	9	311,418	0.33	102,768	\$2,213,621
Test Pricing of Private Sector	1,000	1	1,000	0.33	330	\$7,108
Pricing of State, Local Gov't	319	9	2,871	0.33	947	\$20,408
Subtotal for Pricing	35,921		315,289		104,045	\$2,241,137
Outlet Rotation						
Initiation of Private Sector	11,835	1	11,835	1.00	11,835	\$254,926
Test Initiation of Private Sector	1,000	1	1,000	1.00	1,000	\$21,540
Initiation of State, Local Gov't	97	1	97	1.00	97	\$2,089
Subtotal for Outlet Rotation	12,932		12,932		12,932	\$278,555
GRAND TOTAL	48,853		328,221		116,977	\$2,519,693

* Totals are rounded to the nearest whole number.

** Costs are rounded to the nearest dollar and calculated using September 2013 mean hourly earnings (\$21.54) from the National Compensation Survey.

The activities included in the tables above are:

Pricing

Pricing of Private Sector & Pricing of State, Local Gov't - The ongoing collection of prices to be used to calculate the CPI each month. The items to be priced have already been selected.

Test Pricing of Private Sector - Is used to assess the possibilities of introducing new methodologies into the index.

Outlet Rotation/Initiation -

Initiation of Private Sector & Initiation of State, Local Gov't - 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.

Test Initiation of Private Sector - Is used to assess the possibilities of introducing new methodologies into the index.

The total annual cost to respondents is approximately \$2,519,693 (116,977 burden hours x \$21.54 per hour wage rate). The total cost per respondent is \$51.58 (\$2,519,693 total cost / 48,853 respondents).

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 total annual cost to the Federal Government of collecting, processing, and reviewing the data collected for the CPI program is approximately \$83 million for fiscal year 2014. The Commodities and Services (C&S) Survey is estimated to cost about 75% of the total CPI program cost, or about \$62 million.

15. Change in Burden

The projected respondent burden hours for FY 2015 – 2017 are 116,977 burden hours per year. The previous reported respondent burden hours included a proposed 50% increase in quotes collected to improve the accuracy of each published index and overall quality of CPI data. The funding for the proposed improvement was denied and the 50% increase was not implemented.

Change in Respondent Burden Hours

	FY 2012-2014 with est. 50% increase	FY 2015 - 2017	Difference	Comments
Ongoing Pricing	158,779	103,715	-55,064	
Outlet Rotation	19,809	11,932	-7,877	
Testing	1,330	1,330	0	No Change.
Totals	179,918	116,977	-62,941	Previous Respondent Burden Hours for FY 2012 - 2014 included a 50% increase contingent on funding. The funding wasn't approved and the 50% increase never materialize.

16. Plans for Tabulation and Publication

The CPI is published monthly and is based on data collected for a particular month. The monthly CPI is first published in a news release between the 15th and 22nd of the month following the month in which the data are collected. The index for January is published in mid-February. The release includes a narrative summary and analysis of major price changes, short tables showing seasonally adjusted and unadjusted percentage changes in major expenditure categories, and several detailed tables. Summary tables are also published in the Monthly Labor Review the following month; shortly thereafter, a great deal of additional information appears in the monthly CPI Detailed Report. The information also is found on the CPI public website at <http://www.bls.gov/cpi/>.

17. Display of Expiration Date

The Consumer Price Index Commodities and Services Program requests authorization to not display the expiration date for OMB approval on the survey materials, to save printing costs and personnel time.

Printed on the Commodities and Services Survey: Questions & Answers pamphlet is the phrase “The U.S. Office of Management and Budget (OMB) has approved this collection of information and has assigned 1220-0039 as the control number. Without OMB approval and this number, we would not be able to conduct this survey.”

18. Certification of Paperwork Reduction Act Submissions

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