

# Suggestions of the OMB Interagency Technical Working Group: Consumer Inflation Measures

## **Rob Cage**

Assistant Commissioner for Consumer Prices and Price Indexes  
Bureau of Labor Statistics

## **Greg Kurtzon**

Research Economist  
Bureau of Labor Statistics

prepared for  
Expert Meeting on Adjusting Historical Income and Earnings Estimates for Inflation:  
Selecting the Optimal Inflation Index  
U.S. Census Bureau  
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# BLS consumer inflation measures

INDEX	POPULATION REPRESENTED	YEAR INTRODUCED	NOTE
<b>CPI-W<sup>1</sup></b>	Wage-earners and clerical workers	1921	Index used for Social Security cost of living adjustment (COLA)
<b>CPI-U</b>	All urban consumers	1978	Headline Index
<b>R-CPI-E<sup>1</sup></b>	Elderly consumers	1988	Experimental
<b>R-CPI-U-RS<sup>2</sup></b>	All urban consumers	1999	Research series
<b>Chained CPI-U<sup>3</sup></b>	All urban consumers	2002	Published with ~1 year lag

Notes:

1. Index represents a population cohort that is a subset of the all urban consumer population.
2. Index designed to reflect methodological improvements made to the CPI-U since 1978 retrospectively back to 1978.
3. Index designed exclusively to mitigate substitution bias in the CPI-U. A preliminary version is published on the same schedule as the CPI-U, and then revised. It is the only CPI product subject to revision.

# BLS consumer inflation measures

INDEX	Number of indexes published	Percent of website hits <sup>1</sup>	Number of references in U.S. Code	Notable statutory escalation uses
CPI-W	7,860	12%	5	42 US 62 - Federal contract wages
CPI-U	8,091	86%	100 +	11 US 104 - Bankruptcy dollar amounts
R-CPI-E	9	?	2	None
R-CPI-U-RS	2	?	0	None
Chained CPI-U	29	2%	2	26 US 1 - Federal income tax brackets

Notes:

1. For the 12-month period ending February 2022.

# Use in compilation of federal statistics

INDEX	AGENCY	FEDERAL STATISTIC
CPI-W	BLS	Real earnings for production and nonsupervisory employees
CPI-U	BEA	Real output (GDP)
	BLS	Real compensation per hour
	BLS	Real earnings for all employees
	BLS	Employment Cost Index (ECI)
	Census	Official Poverty Measure
R-CPI-U-RS	Census	Real median income



# OMB Interagency Technical Working Group: Inflation Measures

- 13 members from 8 federal agencies
- Chartered February 2019
- Goals:
  1. Recommend proper index for official poverty measure (OPM); revise Statistical Policy No. 14
  2. Provide federal agency guidelines for selecting appropriate inflation measure for administrative purposes and official statistics

# OMB Interagency Technical Working Group: Inflation Measures

## ■ Recommendations:

1. BLS should pursue development of a CPI specifically designed to represent the inflation experience of low-income consumers
  - OMB should use the new CPI for low-income consumers to adjust OPM
  - The Tornqvist formula should be used in the construction of the CPI for low-income consumers (i.e., a Chained CPI for Low-income)
2. BLS should provide additional resources to assist users on index choice

# Aid for BLS Guidance on Index Choice

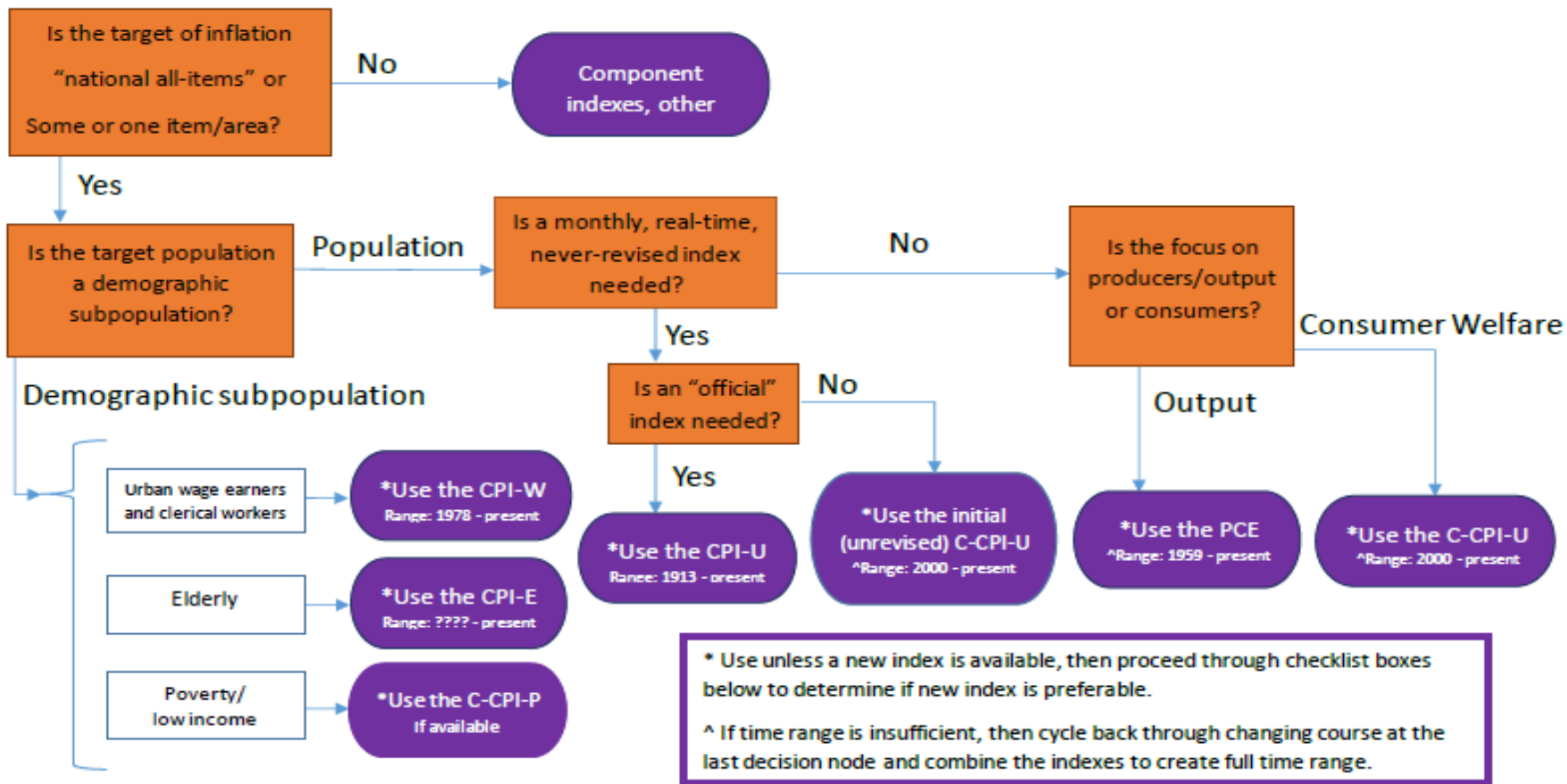
- Helps guide users to the appropriate index for their target
- Uses same agreed on principles as the choice of OPM escalation index
- Leaves open options of using indexes only available in future
- Allows for different indexes to be used for different ranges of time
  - ▶ Not all indexes are available for all time periods

# General Principles

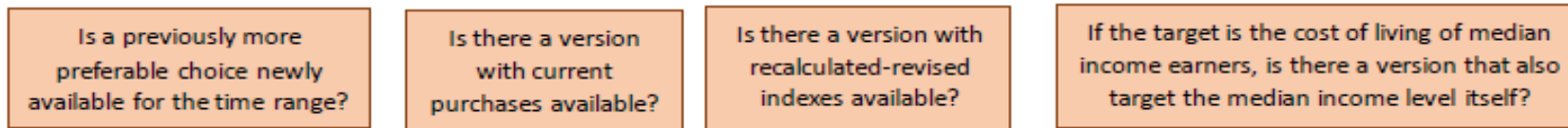
- An index weighted with current quantities is preferred to one with lagged quantities.
- Specific population-targeted indexes are preferred for uses related to their targeted population than general indexes.
- A revised index is preferred to an unrevised index.
- A recalculated revised index is preferred to an extrapolated revised index.
- An index targeted to consumers is preferred for a consumer income measure.
- An official index is preferred for research series of similar nature.



All-purpose index decision-making flowchart



Checklist boxes for newly available indexes. If "no" to all, stay with choice(s) in purple; if "yes," to any, continue to check all boxes and use the index version mentioned in the checkbox farthest to the right.



# Example of Median Income

- All items? **Yes**
- If Yes (Demographic subpopulation) for median population, hit dead end at subgroup choices
  - ▶ Checklist questions
    - Special box for median income
- Back to No (Population). Real-time needed? **No**
- Consumer welfare? **Yes**
- Then C-CPI-U. But must back up for before 2000
- Leads to PCE from 1959-2000, must back up before 1959
- Leads to CPI-U before 1959
- Checklist questions could change answer in future

# Contact Information

## **Rob Cage**

Assistant Commissioner for Consumer Prices and Price Indexes  
Bureau of Labor Statistics  
cage.rob@bls.gov  
202.441.2576

## **Greg Kurtzon**

Research Economist  
Bureau of Labor Statistics  
kurtzon.greg@bls.gov  
202.691.6574