

15th Meeting of the Ottawa Group 10 – 12 May 2017

Session 1: Index theory and practice

Breaking down the differences between the CPI-U and C-CPI-U: weights vs. formula

Gregory Kurtzon, U.S. Bureau of Labor Statistics

A large economics literature has debated the best formula to estimate a cost-of-living index (COLI) – this study shows that formula may not be relevant for many purposes for an index chained at a monthly frequency if current weight information is properly used. The large majority of the difference between the levels of the CPI-U and the generally lower C-CPI-U (a COLI) is due to the CPI-U weights holding quantities constant over long periods, rather than the difference in formula assumptions. A new method to avoid chain drift with long term price relatives is developed to effectively approximate a COLI.