

III.—PRICES.

Commodity prices naturally fall into two main divisions—wholesale prices and retail prices. Because the number of wholesale traders is smaller than that of retail traders, buying and selling by carefully defined grades more prevalent, and price ranges at any particular time and place much narrower, it would appear that in comparison wholesale prices have an advantage over retail prices. But this advantage is largely offset by certain difficulties inherent in the nature of index numbers of wholesale prices. The making of an index number of wholesale prices for general purposes requires the inclusion of a much larger range of commodities than is necessary for a retail or cost of living index. Moreover, wholesale commodities are in all stages from raw material to finished product, while retail prices are concerned only with the latter. At each stage in the evolution of a commodity we are frequently confronted with several grades, and this situation is complicated by the fact that grades undergo changes in the course of time. Hence, to secure from month to month and year to year quotations which give accurate continuity is a task in which eternal vigilance is the price of success. The maker of wholesale index numbers must be assiduous in acquiring and keeping up to date a knowledge of grades and qualities, and in dealing with a very large list of commodities this is a difficult task. This knowledge has constantly to be applied to the quotations taken from trade papers and other journals, in which many inaccuracies are found. In retail prices the question of grades and qualities is best ignored and index calculations based on the predominant selling prices of particular commodities.

Another pitfall to be avoided in dealing with wholesale quotations is that relating to the conditions of sale, whether the price is f.o.b., delivered, c.i.f. or otherwise. Continuity must be maintained, but trade journals are often inadequate in this respect. In the case of retail prices, some account may be taken of service rendered to the purchaser or its curtailment, as in a "grocery" or "a cash and carry store," but this is not imperative if predominant prices are used.

Wholesale transactions are generally between expert buyers and sellers, dealing on purely business principles. Accordingly, wholesale prices conform approximately to the operation of the principle of supply and demand, and are thus more valuable as an index to the current state of business. Retail prices, on the other hand, are largely governed by custom and do not respond to the fluctuations in wholesale prices. Further, small fluctuations in wholesale prices are not fairly reflected in retail prices because of the limitations of the currency in representing small quantities of commodities. Again, retail prices vary considerably for the same commodity in different parts of the same city, due to difference in the service rendered, to location of stores and to classes of customers. In the collection of retail price statistics it is necessary to take quotations from the most representative class of retailers, serving the masses of the people.

Further, since wholesale prices are determined by the business situation of the moment, while retail prices are largely determined by custom and change comparatively slowly, there exists what is technically called a "lag" between the two, retail prices not showing changes in fundamental business conditions until some time after wholesale prices. Thus, while wholesale prices in Canada reached the peak in May, 1920, and commenced to decline in June, retail prices reached the peak in July, 1920, and began to decline in August.