

Subsection 2.—The New Index Number on a Post-War Base (1926).

The official Canadian index number of wholesale prices and other price indexes computed by the Dominion Bureau of Statistics have been revised and calculated with the year 1926 as base. In the index of wholesale prices, the number of price series has been increased from 236 to 502, some of the latter being composite prices. For example, the index number for milk is obtained from the weighted average of 15 prices collected at representative centres all over the Dominion. New statistical materials have made possible refinements and extensions of the weighting system previously used; this adds to the accuracy of the index numbers, particularly those of groups and sub-groups. A detailed explanation of the methods now used in computing the indexes and the reasons for their adoption follows:—

Base Year.—Since the nations of the world and along with them their currency systems have arrived, or are in the process of arriving, at a condition which may perhaps be called post-war "normalcy", comparisons with pre-war years become less important and interesting, and the need arises of placing index numbers upon some post-war base which will serve as a suitable background for future movements. A second important reason lies in the necessity of a periodical revision of index numbers so as to take account of current changes in the kind, quality and weighting of the commodities used in their computation. Ten years ago, the maker of index numbers was not concerned with artificial silk, but today this commodity must be given an important place in the textile group. Again, such commodities as newsprint paper, copper, wheat, etc., must be given a greater weight in a Canadian index based on current conditions than in one based on 1913 conditions. So many changes take place in the production, consumption and exchange of commodities in a decade that a periodical revision of index numbers based upon them is a necessity.

It is preferable that a base period should consist of an average of several years, but the abnormal conditions which prevailed during and after the war furnish insuperable obstacles to a base of this character. Prior to 1925 the disparity between farm prices and the prices of manufactured goods was an abnormal factor in the prices situation. In Canada this was rectified in 1925, when on account of the marked rise in grain prices, the index for which rose from 143.9 in 1924 to 180.3 in 1925, a price level unusually high for the period resulted. It was finally decided to take as base the year 1926, the price level for which was about halfway between that for 1925 and 1927. This is in effect practically equivalent to an average of the three years 1925, 1926 and 1927. The Bureau was also influenced in its choice of 1926 as base by the fact that the index numbers computed by the United States Bureau of Labour Statistics are on the 1926 base. It was desirable, owing to the close interrelation of price movements in the two countries, to construct the index numbers on similar principles for comparative purposes.