

Section 2.—Consumer Price Index

The purpose of the Consumer Price Index is to measure the movement from month to month in retail prices of goods and services bought by a representative cross-section of the Canadian urban population. For a particular article or service, a price index number is simply the price of the article in one period of time expressed as a percentage of its price in a reference period, usually called a base period. However, indexes for individual goods may be combined to form indexes representing prices of broad groups of goods and services. Thus, the Consumer Price Index relates to the wide range of goods and services bought by Canadian urban families. The index expresses the combined prices of such goods each month as a percentage of their prices in the base period 1949.

The group of goods and services represented in the index is called the index "basket" and "weights" are assigned to the price indexes of individual items for purposes of combining them into an over-all or composite index. The weights reflect the relative importance of items in expenditures of middle size urban families with medium incomes. The basket is an unchanging or equivalent quantity and quality of goods and services. Only prices change from month to month and the index, therefore, measures the effect of changing prices on the cost of purchasing the fixed basket. The basket and weights now used in the index are based on expenditures in 1957 of families of two to six persons, with annual incomes of \$2,500 to \$7,000, living in cities of 30,000 population or over.

A comprehensive description of the index is contained in the publication *The Consumer Price Index (1949=100)—Revision Based on 1957 Expenditures* (Catalogue No. 62-518).

Movements in the Consumer Price Index Since 1949.—During the 15 years of almost continuous economic growth following the end of the Second World War there have been several distinct periods of retail price behaviour, the latest of which was in evidence throughout 1959, 1960 and 1961. The gradual relaxation of price controls in 1946 combined with consumer demands far in excess of supply brought on a period of rapidly advancing prices, so that between 1946 and 1948 the consumer price index advanced more than 25 p.c. A significant exception to these general price increases was the behaviour of rents which, continuing under some degree of control, increased only 7 p.c. in the same period. Toward the end of 1948, production appeared to be matching consumer demands and, during the slight recession of 1949, consumer prices levelled off. Between the latter months of 1948 and May 1950, retail prices increased only slightly more than 1 p.c. However, with the outbreak of war in Korea in June 1950 came a resurgence of pressure on prices and in the course of the next 18 months further major upward movements took place. The consumer price index rose from 102.7 in July 1950 to 118.1 by December 1951, an increase of 15 p.c. Food advanced sharply from 102.6 to 122.5 or by 20 p.c. The housing component, comprised of shelter and household operation groups, rose from 104.3 to 117.2. The shelter index, based on both home ownership and rents—the latter freed from most of the wartime controls—moved from 107.4 to 118.2, or by about 10 p.c. Household operation, covering such items as furniture, appliances and fuel, rose about the same degree, from 101.6 to 116.4. Clothing experienced a more substantial rise of 16 p.c. from 99.1 to 115.2. The wide variety of goods and services covered in the other groups followed a somewhat similar pattern.

The peak in consumer price levels was reached in January 1952 when the index stood at 118.2, dropping off gradually in the first half of 1952 to reach 115.9 in May, mainly as a