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DOMINION BUREAU OF STATISTICS

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MEMORANDUM TO USERS OF RETAIL PRICE INDEXES

This is to inform you that as announced February last, the Cost-of-Living Index will not be published beyond the index for September 1st, to be released early in October.

For your additional information, please find attached two statements outlining, first, the procedure to be followed in converting city Cost-of-Living Indexes to the same basis as the Consumer Price Index; second, a suggested method for converting escalator clauses of wage contracts from use of the Cost-of-Living Index to use of the Consumer Price Index.

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DOMINION BUREAU OF STATISTICS

PRICES SECTION

CITY CONSUMER PRICE INDEXES

It is planned to release early in November 1953, new Consumer Price Indexes for the following cities or city combinations:

Halifax
Saint John
Montreal
Ottawa
Toronto

Winnipeg
Saskatoon-Regina
Edmonton-Calgary
Vancouver

The October indexes, to be released in November, for each of the above will be on the base 1949 = 100 and, with the exception of Ottawa, for which an index will be available for the first time, will replace cost-of-living indexes on the base August 1939 = 100. Between January 3, 1949 and September 1, 1953, each series will consist of Cost-of-Living Indexes for the corresponding cities, arithmetically converted from the base August 1939 = 100 to the new 1949 base period. Subsequent to September 1, 1953, revised samples of items and weights, based on the results of the 1947-1949 family expenditure surveys, will be used to calculate the indexes. The revised pricing sample for each index will be substantially the same as that of the Consumer Price Index for Canada. The last month for which city Cost-of-Living Indexes on the pre-war base period are to be published is September 1953. Thus, as of September the new and old indexes will be joined to form one consecutive series and the measurement of price change between September and October 1953 will be on the new basis. If required, the new indexes may be arithmetically converted back to the base August 1939.

The St. John's, Newfoundland, index will be published for the time being on the present base period of June 1951, but will shortly be converted to the base 1949 = 100.

Details in regard to the city indexes will be published during the course of the next few months.



DOMINION BUREAU OF STATISTICS

PRICES SECTION

A SUGGESTED METHOD OF CONVERTING ESCALATOR CLAUSES OF WAGE CONTRACTS TO USE OF THE CONSUMER PRICE INDEX

This statement has been prepared to assist those who have the problem of converting escalator clauses of wage contracts to use of the Consumer Price Index.

The problem is basically one of calculating point changes in both indexes which amount to the same percentage change. Because of the fact that the indexes are at different levels, a given number of points in the Cost-of-Living Index is equivalent to a smaller percentage, than is the same number of points in the Consumer Price Index. Recognizing this fact the following steps outline the arithmetic of converting an escalator clause of a wage contract from use of the Cost-of-Living Index to use of the Consumer Price Index, so as to retain the intent of the original contract. In addition to a statement of method there follows an illustration based upon a hypothetical contract which specifies a change of one cent per hour for each change of 1.2 points in the Cost-of-Living Index. However, numerous other point value relationships are in use, and while the arithmetic is, of course, applicable to other point value ratios, the method may not be suitable in certain instances. If interested parties request, the Bureau would be pleased to render any further assistance possible.

Matters pertaining to wage adjustments are, of course, to be determined between the parties concerned, and the adoption, modification, or rejection of the method outlined here is a matter of negotiation.

A METHOD OF CONVERSION

AN ILLUSTRATIVE EXAMPLE OF CONVERSION

A hypothetical escalator clause incorporates the following table of Cost-of-Living Indexes and corresponding bonuses.

<u>Cost-of-Living Index Intervals</u>		<u>Cents per Hour Bonus</u>
<u>Lower Limits</u>	<u>Upper Limits</u>	
184.8	— 185.9	11
186.0	— 187.1	12
187.2	— 188.3	13
188.4	— 189.5	14

1. Select a conversion month when the Consumer Price Index will be substituted for the Cost-of-Living Index.
2. Agree that the "cost-of-living" bonus of a given amount, being paid on the basis of the Cost-of-Living Index for the conversion month, shall also be paid on the basis of the Consumer Price Index for the same month.
3. Calculate the percentage which the Consumer Price Index for the conversion month is of the Cost-of-Living Index for the same month.
4. Take the lower limit of the Cost-of-Living Index bracket or interval in which the Cost-of-Living Index for the conversion month falls. Convert this index to the equivalent lower limit of the corresponding Consumer Price Index bracket, by multiplying it by the percentage obtained in step No. 3 above, and round to the nearest one decimal.
5. Take the figure of the point change in the Cost-of-Living Index required to change the bonus by a stated amount. In order to obtain the corresponding number of Consumer Price Index points multiply this figure by the percentage obtained in step No. 3 above, and round to the nearest one decimal.
6. Starting from the Consumer Price Index obtained in step No. 4 above, successively add and subtract the number of points obtained in step No. 5 above. This yields the lower limits of a Consumer Price Index table equivalent to the lower limits of the Cost-of-Living Index table contained in the original contract.

1. It is agreed that the above clause shall be converted to use of the Consumer Price Index as of August 1953.
2. The August Cost-of-Living Index of 186.4 falls in the bracket of 186.0 - 187.1 corresponding to twelve cents per hour. Therefore, a bonus of twelve cents per hour shall be paid for the August Consumer Price Index of 115.7.
3. The August Consumer Price Index of 115.7 is 62.071 per cent of the August Cost-of-Living Index of 186.4 ($\frac{115.7}{186.4} \times 100 = 62.071$ per cent)
4. The lower limit of the bracket in which the August Cost-of-Living Index falls is 186.0. When multiplied by the percentage 62.071 and rounded to the nearest one decimal, this becomes 115.5.
5. In the above table a change in the Cost-of-Living Index of 1.2 points corresponds to a change in the bonus of one cent per hour. This figure of 1.2 points, when multiplied by the percentage 62.071 and rounded to the nearest one decimal, becomes 0.7 Consumer Price Index points.
6. The Consumer Price Index from No. 4 above is 115.5. The successive addition and subtraction of 0.7 points yields the following lower limits of a new table, corresponding to the number of cents obtained in the original contract:

<u>Consumer Price Index Intervals</u>		<u>Cents per Hour Bonus</u>
<u>Lower Limits</u>	<u>Upper Limits</u>	
114.8	11
115.5	12
116.2	13
116.9	14

7. Obtain each of the upper limits of the new table, by adding to the lower limits, a number of points 0.1 less than the figure calculated in step No. 5.

7. The number of points obtained in step No. 5 is 0.7 points. Subtracting 0.1 points this becomes 0.6 points, which when added to the lower limits produces the upper limits. The completed table corresponding to the original table is therefore as follows:

<u>Consumer Price Index Intervals</u>		<u>Cents per Hour Bonus</u>
<u>Lower Limits</u>	<u>Upper Limits</u>	
114.8	— 115.4	11
115.5	— 116.1	12
116.2	— 116.8	13
116.9	— 117.5	14

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