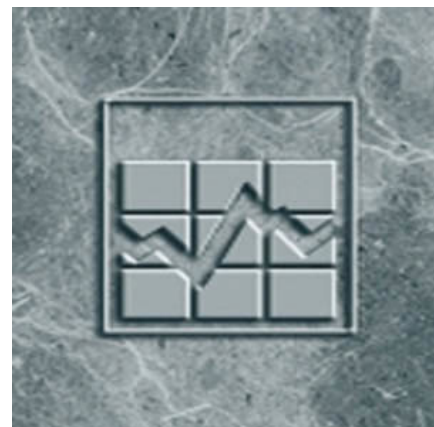


Catalogue no. 75F0002M
ISSN 1707-2840
ISBN 978-0-660-33155-3

Income Research Paper Series

Towards an update of the Market Basket



Release date: December 6, 2019



Statistics
Canada

Statistique
Canada

Canada

How to obtain more information

For information about this product or the wide range of services and data available from Statistics Canada, visit our website, www.statcan.gc.ca.

You can also contact us by

Email at STATCAN.infostats-infostats.STATCAN@canada.ca

Telephone, from Monday to Friday, 8:30 a.m. to 4:30 p.m., at the following numbers:

- | | |
|---|----------------|
| • Statistical Information Service | 1-800-263-1136 |
| • National telecommunications device for the hearing impaired | 1-800-363-7629 |
| • Fax line | 1-514-283-9350 |

Depository Services Program

- | | |
|------------------|----------------|
| • Inquiries line | 1-800-635-7943 |
| • Fax line | 1-800-565-7757 |

Standards of service to the public

Statistics Canada is committed to serving its clients in a prompt, reliable and courteous manner. To this end, Statistics Canada has developed standards of service that its employees observe. To obtain a copy of these service standards, please contact Statistics Canada toll-free at 1-800-263-1136. The service standards are also published on www.statcan.gc.ca under "Contact us" > "[Standards of service to the public](#)."

Note of appreciation

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued co-operation and goodwill.

Published by authority of the Minister responsible for Statistics Canada

© Her Majesty the Queen in Right of Canada as represented by the Minister of Industry, 2019

All rights reserved. Use of this publication is governed by the Statistics Canada [Open Licence Agreement](#).

An [HTML version](#) is also available.

Cette publication est aussi disponible en français.

Towards an update of the Market Basket

The Market Basket Measure basket is comprised of five major components: food, clothing, transportation, shelter and other necessities. This discussion paper describes considerations for updating these five components and the changes to the methodology for calculating these five components. This discussion paper also provides an opportunity for feedback and comments to the proposed changes to the Market Basket Measure.



Introduction

On August 21, 2018, the Government of Canada released *Opportunity for All – Canada’s First Poverty Reduction Strategy* (Employment and Social Development Canada, 2018), which contained long-term commitments to guide current and future government actions and investments to reduce poverty, including:

- Establishing the Market Basket Measure, or MBM (Statistics Canada, 2016) as Canada’s Official Poverty Line
- Introducing poverty reduction targets using a baseline of 2015
 - ▶ Reduce the rate of poverty by 20% by 2020, and
 - ▶ Reduce the rate of poverty by 50% by 2030 (aligned with United Nations Sustainable Development Goals)
- Creating a National Advisory Council on Poverty
- A Data and Measurement Plan, which includes ongoing funding to develop and improve data to measure poverty and to inform policy decisions.

The *Poverty Reduction Act* received Royal Assent in June 2019 and legislates commitments made in the Strategy including entrenching the Market Basket Measure (MBM) as Canada’s Official Poverty Line.

The MBM establishes poverty thresholds based on the cost of a basket of food, clothing, shelter, transportation and other items for a family of four that reflects a modest, basic standard of living. A family with a disposable income¹ below the appropriate MBM threshold for the size of the family and the region is considered to be living in poverty.

The *Poverty Reduction Act* mandates Statistics Canada to review the MBM on a regular basis “to ensure that it reflects the up-to-date cost of a basket of goods and services representing a modest, basic standard of living in Canada.” In 2018, Statistics Canada launched a comprehensive review of the MBM, which will be completed in 2020.

To date, the comprehensive review has consisted of several related activities. From September 2018 through April 2019, Statistics Canada with the participation of Employment and Social Development Canada (ESDC) conducted broad consultations with Canadians, poverty experts, other stakeholders and officials from provincial, territorial and federal governments, which was summarised in *An update on the Market Basket Measure comprehensive review* (Andrew Heisz, 2019).

Next, in the spring of 2019, Statistics Canada and ESDC prepared a work plan to test various methodological changes to the MBM arising from the comments received during the consultations. This work went through the summer and fall of 2019. The process has been collaborative, with Statistics Canada responsible for launching and conducting the comprehensive review as well as for the statistical methodology of the MBM and ESDC responsible for setting the scope of the comprehensive review and for the policy direction of the MBM.

1. A discussion paper on proposed changes to MBM Disposable Income will be released in December 2019.

This discussion paper provides an update on the work that Statistics Canada has undertaken to update the MBM methodology applied in the provinces, focusing specifically on the elements of the methodology associated with the food, clothing, shelter, transportation and other necessities components.

As indicated in *An update on the Market Basket Measure comprehensive review*, Statistics Canada is also working with Northwest Territories, Yukon and Nunavut to develop territory-specific MBM thresholds for these regions (see text box - *Developing MBM lines for the Territories*).

The origins and evolution of the MBM

To better understand the current comprehensive review, it is worth revisiting the history of the MBM - reviewing its development, and the experiences of the previous comprehensive review.

The MBM was designed by a working group of Federal, Provincial and Territorial officials between 1997 and 1999 at the request of the Federal, Provincial and Territorial Ministers responsible for Social Services (Hatfield, Pyper and Gustajtis (2010)). The “value added” of the MBM was to provide an intuitive and transparent measure of low income based on a basket of goods and services representing a modest, basic standard of living. Its purpose was to measure the cost of this basket for a reference family of one male and one female adult aged 25-49 with two children (a girl aged 9 and a boy aged 13). In some cases, the reference family is also considered to be in the second decile of income. This is to ensure that an appropriate income level is used when looking for typical expenses of the reference family.

Developing MBM lines for the Territories

Opportunity for All indicates that Statistics Canada will be investigating the possibility of producing MBM thresholds for the territories. To this end, Statistics Canada is working with the three territorial governments with the aim of identifying how to adapt the MBM to represent a modest, basic standard of living in a Northern context unique to each territory.



The MBM was also designed to reflect regional differences in living costs. This is done through estimating the cost of the basket in as granular fashion as possible (see text box – *The MBM regions*).

What represents a modest, basic standard of living can change over time, so the *Poverty Reduction Act* indicates that Statistics Canada should update the MBM methodology regularly. Updates or “rebasings” of the measure are conducted following a comprehensive review and, where necessary, methodological changes are also made. At these times, the basket contents can also be adjusted to reflect contemporary circumstances.

The MBM was last updated in 2008-2010 through “the first comprehensive review” (Hatfield, Pyper and Gustajtis (2010)). During that review, several aspects of the basket were changed. For example, the food and clothing baskets were updated to more contemporary standards, the transportation component was modified to allow for more transit passes per family, and a component was added to place mortgage-free homeowners, who have lower shelter costs than other families, on a more-comparable footing. This new methodology became the standard for the MBM through to the present.

Because of these changes, the 2008-base yielded poverty rates that were 2.2 percentage points higher than the 2000-base for reference year 2008. This is often the case for poverty lines like the MBM when they are updated to more contemporary norms – they often result in higher thresholds and therefore higher levels of poverty than the older thresholds did for the same year (Statistics Canada, 2019).

The present comprehensive review aims to create a new 2018-base MBM. It aims to ensure that the 2018-base reflects current prices, consumption patterns and statistical practices, and more specifically that:

- the MBM basket continues to reflect a modest, basic standard of living in the Canadian context of 2018;
- the cost of purchasing the MBM basket in specific geographic areas of the ten provinces is estimated as accurately as possible; and
- the measure takes into account as closely as possible the resources available to families to enable them to buy the contents of the basket.

The MBM regions

Currently, the MBM offers poverty thresholds for 50 regions across the provinces: 19 specific communities (referred to as urban MBM regions) and 31 population centre size and province combinations. Reserves and the Territories are presently excluded from the MBM calculation (see text box – *The commitment to co-develop indicators of poverty with Indigenous persons*).

Urban MBM regions include St. John’s, Newfoundland and Labrador; Charlottetown, Prince Edward Island; Halifax and Cape Breton, Nova Scotia; Fredericton, Moncton and Saint John, New Brunswick; Québec City and Montréal, Québec; Ottawa, Hamilton/Burlington, and Toronto, Ontario; Brandon and Winnipeg, Manitoba; Saskatoon and Regina, Saskatchewan; Edmonton and Calgary, Alberta; and Vancouver, British Columbia.

For the remainder of the population, municipalities in a province are grouped into MBM regions based upon the size and density of the municipality: Rural, less than 30,000, 30,000 to 99,999, and 100,000 to 499,999.

Over time the number and configuration of the MBM regions may change. For example, population growth announced in the 2016 Census suggests that the following three new population centre size regions could be added to the previous 50 regions: Newfoundland and Labrador 30,000 to 99,999, Ontario 500,000+ and Manitoba 30,000 to 99,999, where before these communities were grouped in with other MBM regions. These changes would bring the number of MBM regions across the provinces to 53.

The MBM thresholds are also adjusted on an annual basis to reflect inflation. The new 2018-base MBM will adopt an adjustment method to improve the stability of the year-to-year change (see text box – *Statistical Fine Print: Price indexation*).

Statistical Fine Print: Price indexation

The MBM methodology has always used a combination of methods to update the values of the thresholds from year to year. The main methods are (1) direct pricing of goods and services, and (2) using Consumer Price Index (CPI) based inflators to adjust the prices over time (thereby both methods account for inflation). Through the review, it was determined that using direct pricing of goods and services every year adds unwanted variability to the thresholds, as there is some sampling variability added into the estimates at this stage. To improve the stability of the thresholds from year to year, the 2018-base MBM will use price indices exclusively to inflate the thresholds. For example, once the 2018-base food basket is established for 2018, the CPI food price index will be used to determine the change in the price of the food basket over time. This will reduce variability in the time series that comes from sampling error, as well as make the year over year movements in the baskets more transparent and predictable.

Working with Indigenous peoples

Opportunity for All announced a commitment to consult with Indigenous peoples to identify and co-develop indicators of poverty and well-being, including non-income-based measures of poverty, that reflect the multiple dimensions of poverty and well-being experienced by First Nations, Inuit and Métis. That discussion is proceeding independently from this comprehensive review.

The commitment to co-develop indicators of poverty with Indigenous persons

The Government of Canada is committed to reconciliation with Indigenous peoples and to a renewed relationship based on the recognition of rights, respect, cooperation and partnership. Accordingly, Chapter 7 of *Opportunity for All* makes a commitment to take actions to help better understand poverty among First Nations, Inuit and Métis—regardless of where they live in Canada.

During the consultations for *Opportunity for All*, the Government of Canada heard that it should take a strengths-based approach to poverty reduction that focuses on well-being and supporting resilience. Indigenous women also indicated that poverty is about more than a lack of income; it is also about social disconnection, and they explained that cultural activities promote social and economic well-being by improving self-confidence and building identity.

Accordingly, as part of the *Opportunity for All* distinctions-based approach, and based on the principles of reconciliation, the Government is committed to working with National Indigenous Organizations and others to identify and co-develop indicators of poverty and well-being, including non-income-based measures of poverty, that reflect the multiple dimensions of poverty and well-being experienced by First Nations, Inuit and Métis.

Proposals for changes to the MBM components

The next five sections of the discussion paper describe the main changes proposed to the basket components for the 2018-base MBM. The main aspects of the proposals are summarized as follows:

- **Shelter:** Recognising the recommendation of using the Canadian National Occupancy Standard (NOS), the MBM shelter component would be based upon the rental of a 3-bedroom dwelling (see text box - *The use of standards in the MBM*). In addition, the rent prices would be updated to use the results of the 2016 Census and would be estimated using a new statistical method.
- **Clothing:** The clothing component would be updated to reflect the Social Planning Council of Winnipeg and Winnipeg Harvest Acceptable Living Level (ALL) 2012 clothing basket for a family of four.
- **Food:** The food component would be updated to use the 2019 National Nutritious Food Basket (NNFB).
- **Transportation:** The methodology would be changed to better reflect consumption habits and the reality of how people get around in cities, especially those who require transportation to get to work. According to the 2016 Census, some lower-earning families drive to work while others use public transit. The 2018-base MBM would recognize this by accounting for both in the pricing of the transportation component in cities.
- **Other expenses:** Calculations of the other expenses component would continue to follow the simplified “multiplier” methodology that has been used for this component in recent years. It is also proposed that an amount be added to the component to reflect the widespread need for cellular telephone services.

The use of standards in the MBM

A large number of decisions must be made in constructing a poverty threshold as detailed as the MBM. Accordingly, wherever appropriate, the MBM is built upon preexisting work of experts in various domains who have already thought in great detail about what are appropriate standards for Canadian families. These standards are updated from time to time, and when the time comes to update the MBM through a rebasing, the newer versions of these standards could be used to update the MBM basket. In one case, the MBM shelter component was found to not be following a basic housing standard for the established reference family, and so the component is proposed to be modified to bring it more into line.

Standards proposed for the 2018-base MBM:

The Canadian [National Occupancy Standard](#) (NOS) would be used to establish the appropriate dwelling size for the reference family. The NOS assesses the bedroom requirements of a household based on the following criteria:

- There should be no more than 2 persons per bedroom;
- Children less than 5 years of age of different sexes may reasonably share a bedroom;
- Children 5 years of age or older of opposite sex should have separate bedrooms;
- Children less than 18 years of age and of the same sex may reasonably share a bedroom; and
- Single household members 18 years or older should have a separate bedroom, as should parents or couples.

Previously, the 2008-base MBM did not reflect the NOS standard for the MBM reference family. The NOS is the same standard used in the development of Canadian Mortgage and Housing Corporation’s (CMHC) measure of Core Housing Need.

The clothing basket is based upon Social Planning Council of Winnipeg and Winnipeg Harvest [Acceptable Living Level \(ALL\) basket](#) for clothing for a family of four, and would be updated to the latest available version in 2012. Previously, the 2008-base MBM used the 2001 ALL clothing basket.

Health Canada’s revised **National Nutritious Food Basket (NNFB)** would be used in developing the food component of the 2018-MBM basket. The revised NNFB will be consistent with [Canada’s Food Guide](#). The 2008-base MBM used the 2008 version of the NNFB.

Shelter Component

Throughout the consultation process for the comprehensive review, one of the most frequently made comments was that the amount allocated to the shelter component was too low. In “*An update on the Market Basket Measure comprehensive review*” it was reported that 93 percent of respondents to a voluntary, on-line survey felt that the shelter value for the 2008-base MBM was “too low” for their community, even though the value had been inflated to 2017 using the CPI. Further, the shortfall was large. On average, people who said the shelter cost was too low said it was too low by 43%.

The 2008-base MBM was derived from shelter costs for rental units obtained from the 2006 Census. The Census provides an excellent source of data for rental values for MBM regions because its large sample size allows for precise estimation of the rental cost and covers all types of rental units. In the 2008-base MBM, the cost of rent was estimated for 2006 by using the median rent for 2- and 3-bedroom units, while to get estimates for subsequent years, rental price data was inflated using the CPI index for rented accommodations.

The first proposed change for the 2018-base MBM is to update the values to a more recent time period using the 2016 Census. Updating the rental values to a more recent time period will address to a large degree the shortfall in rents noted throughout the consultation process.

A second change recommended for the 2018-base MBM is to update the number of bedrooms of the dwelling units used to establish shelter costs for the MBM reference family so that these units meet the Canadian National Occupancy Standard (NOS) (see text box - *The use of standards in the MBM*). As mentioned earlier, the MBM is built upon standards created by experts in various domains wherever appropriate. Some users noted that the 2008-base MBM did not seem to “line up” well with the available standards. They pointed to the NOS which dictates that a family of the size and composition of the MBM reference family should have access to a three bedroom unit, while the 2008-base MBM only allowed for a “2 or 3” bedroom unit.² As a result, it is proposed that the MBM follow the NOS and use 3-bedroom units exclusively for determining the shelter costs of the reference family.

Overall, these proposed changes would increase the threshold value of the shelter component. According to preliminary estimates, the value for most MBM regions would increase, with increases distributed across both cities and rural areas. On average, updating data from the 2006 Census accounts for a larger share of the increase than changing the dwelling size to a 3-bedroom unit.

Another change that is proposed is to use a new method to calculate the cost of rent that is more representative of the reference family (see text box – *The Statistical Fine Print: Shelter*).



2. The 2008-base MBM set shelter cost as the average of the median rent of two- and three-bedroom units.

The Statistical Fine Print: Shelter

In the 2018-base MBM, it is proposed that the cost of rent be based on the results of a regression using data from the 2016 Census. Specifically, the regression model will predict the median gross market rent (i.e. rent paid at market rates including utilities and municipal services) for a 3-bedroom unit occupied by families in the second decile of income.

A value for the cost of appliances is added based upon the provincial share of dwellings that are rented without appliances, and the cost to purchase the appliance, amortized over a normal life cycle. A value is also added for tenant insurance costs.

Compared to the method used in the 2008-base, the proposed model would generate rent estimates that are more appropriate to lower income families.

Clothing and Footwear Component

In the MBM, the clothing component is based on the Social Planning Council of Winnipeg and Winnipeg Harvest Acceptable Living Level (ALL) basket. The ALL basket was initially chosen because it (1) was a recently determined clothing and footwear “basket” developed in Canada, (2) reflected an effort to provide clothing and footwear for most common work, school and social occasions—a standard of living similar to that aimed for by the MBM, and (3) had significant input from persons with lived experience of poverty. The 2008-base MBM used the 2001 version of the basket while it is proposed that the 2018-base MBM use the 2012 version³ which is the most recent.

The clothing basket contains goods specifically for the reference family of two adults with two children (a girl and a boy). Statistics Canada collects prices from one representative city in each province, with the exception of Ontario which has price collection for Toronto, as well as a second city which represents the rest of the province. These prices, combined with specified quantities and a replacement schedule, result in the cost of the component.

The 2012 ALL clothing basket features several improvements over the 2001 version. Improvements in the 2012 basket include the removal of dated items such as wristwatches and the inclusion of items such as athletic, formal and workwear in proportionate quantities for men and women, removing instances of gender stereotyping that were present in the 2001 basket. Moving to the 2012 ALL basket is expected to have a minimal impact on the MBM thresholds for clothing.



3. The first ALL Report was released in 1997 by Winnipeg Harvest and the Social Planning Council of Winnipeg.

Food Component

The MBM would continue to use the National Nutritious Food Basket (NNFB), developed by Health Canada, to calculate the cost of the food component in the 2018-base MBM. The NNFB is a standard that is used to monitor the cost and affordability of healthy eating across Canada.

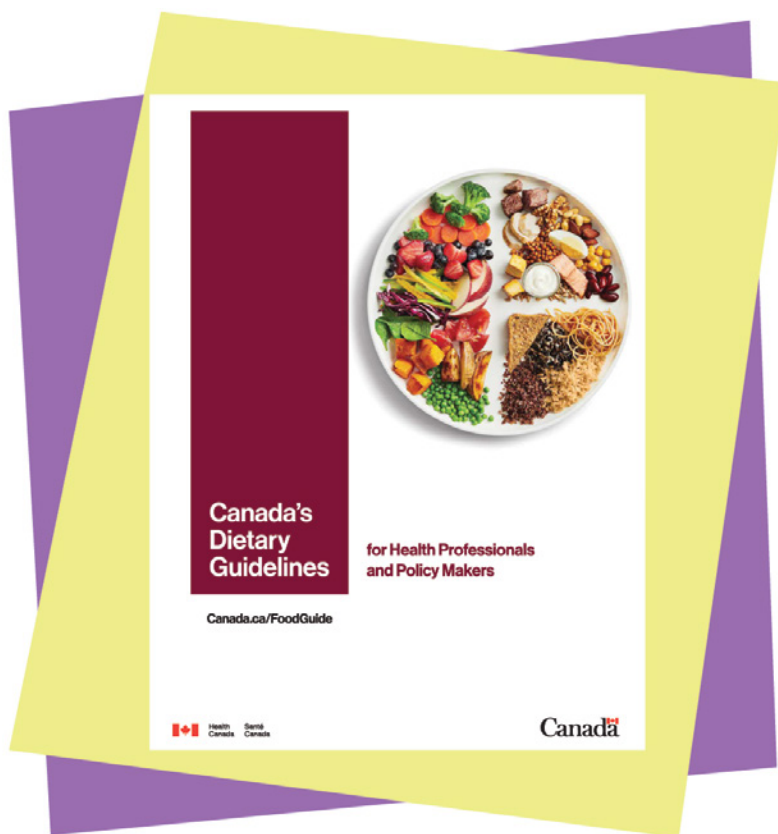
The federal government began producing nutritious food baskets in 1974. Periodic updates have been made over the years to reflect changes in dietary guidance and food habits. Health Canada has had the responsibility for the NNFB since 1997, and updated it in 1998 and 2008. Health Canada is revising the NNFB once again to be consistent with the new Canada's Food Guide, and reflect updated national food intake data and nutrient reference standards.

The foods in the revised NNFB will be selected from a list of the foods that Canadians reported consuming in the most recent (2015) Canadian Community Health Survey-Nutrition, and are consistent with the new dietary guidelines. The new dietary guidelines recommend for example that vegetables, fruit, whole grains and protein foods

should be consumed regularly. Among protein foods, it is recommended that Canadians consume plant-based more often. Patterns of eating that include animal-based foods should promote nutritious foods that are lower in saturated fat, such as lower fat dairy and lean meats. In line with the new Food Guide, the NNFB will include foods in fresh, frozen and canned formats to reflect consideration for cost, access and availability.

Normally, the food prices are collected monthly by Statistics Canada in 38 cities across Canada. However, given the recent release of the new Food Guide, Statistics Canada will be producing a provisional estimate of the cost of the revised NNFB based upon the best prices available at this time. As with the 2008 NNFB, 5% is added to the total cost of the basket for miscellaneous foods and beverages such as coffee, tea, herbs, spices and condiments.

Over the next year, the price estimates for the food items in the NNFB will be revised as Statistics Canada is able to collect final prices for new NNFB items.



Health Canada released the new Food Guide in January 2019, which promotes healthy eating and overall nutritional well-being, and supports improvements to the Canadian food environment.

Source: [Canada's Food Guide – Food Guide Snap Shot](#)

Transportation Component

The objective of the transportation component of the MBM is to recognise the costs necessary to travel to and from work, shopping and other everyday needs. However, depending on where a person lives and the exact nature of their needs, how these needs are met may vary and, as a result, costs may also vary. In rural areas, most often the only mode of transportation used to do daily tasks and commute to work is a car. Meanwhile, most large urban areas have effective public transit systems to meet the transportation needs of people living in cities, but in small and medium sized cities, as well as in the suburbs, public transit may be a less effective means of meeting the transportation needs of the reference family.

The first proposed change, relative to the 2008-base MBM, is to recognize the widespread use of cars as a means of transportation, even in urban centres that have public transportation systems. The 2018-base MBM proposes a new methodology to establish typical transportation costs for families. In rural MBM regions and MBM regions comprised of population centres with fewer than 30,000 people, it is assumed, as it was in the 2008-base MBM, that families would need their own car to transport themselves to work and to conduct daily activities such as shopping. In larger MBM regions, including the specified CMAs and CAs, a weighted average of the cost of public transit and private transportation would be assumed. This is different from the 2008-base MBM methodology which recognised only the cost of public transit in urban areas where public transit was available. This shift from a public transit-only model to one where the costs of private transportation are also recognised would accommodate the different requirements of different families, and better reflect the average experience of families in each MBM region.

A second important change is to update the features of the private transportation vehicle used for pricing. An older used car for the pricing of private transportation is proposed for the 2018-base MBM methodology. Due to the increase in the longevity of vehicles, and their improved fuel efficiency in the nearly 20 years since the MBM was first introduced, it is proposed that the age of the used car purchased would be increased from 5 years to 8 years, and that less gasoline be assumed to be required each year to operate the vehicle (see text box – *The Statistical Fine Print: Transportation*).⁴

Overall, the changes are expected to increase transportation costs in some areas, and decrease them in others. Switching the private transportation expense to an older, more fuel efficient vehicle tends to decrease transportation costs in rural MBM regions as well as MBM regions made up of small municipalities of fewer than 30,000 people. Recognising the need for private transportation in urban MBM regions tends to result in a higher transportation threshold value in these areas – more in smaller urban areas than larger ones.

4. Technological advances have contributed to the improved longevity of vehicles sold on the Canadian market. According to Desrosiers Automotive Consultants, in 2017, 54% of vehicles in Canada lasted at least 15 years, compared to 34% in 2000. According to the same source, the average longevity of a vehicle in Canada today is about 13 years. This means that after ten years, which was the case under the 2008-base MBM methodology, there is a good chance that a vehicle will still be in its useful life and hold a certain value.

The Statistical Fine Print: Transportation

The MBM transportation component is made up of two subcomponents: the cost of public transportation, and the cost of private transportation. Each are costed to meet the reference family needs of 2 adults and 2 children.

The public transportation component is comprised of 2 monthly adult and 1 child transit passes, as well as a 12 round-trip taxi rides per year.

The final transportation threshold would be a weighted average of public and private transportation costs for most of the population centres with more than 30,000 people and for all 19 specific urban communities, and the cost of private transportation for the remaining MBM regions.

The private transportation component would provide for the purchase of an eight-year-old compact car (5 year-old in the 2008-base MBM) along with 1,200 litres of gas per year (1,500 in the 2008-base MBM). As in the 2008-base MBM, the value of the vehicle is amortized over 5 years with a 36-month financing term at a rate corresponding to the published consumer loan rate. Other costs such as insurance, maintenance, registration and driver's license renewals are also accounted for. Moving from a 5 year old vehicle to an 8 year old vehicle reflects technological advances which have contributed to the improved longevity of vehicles sold in the Canadian market.

The weighted average would be determined using weights derived from Census data on commuting patterns.

Different urban MBM regions have different commuting mode patterns, resulting in different weights being used for different MBM regions. In Montreal, Ottawa, Hamilton, Toronto and Vancouver, the weight on public transportation was over 40%. In smaller urban regions the weight was often closer to 30%.

A desirable feature of this method is that changes in societal norms or investments in public transportation, over time, would be reflected in the transportation component.

The 2018-base MBM methodology would also be modified to use a "basket" of 5 compact cars in determining the vehicle price. This is a change from the 2008-base MBM where only one car was used. This change would facilitate transition in the future (in the event some models cease production) and add stability to the estimates. Price estimates are sourced from the Canadian Red Book.

The vehicles included in the transportation basket have an average fuel-base consumption of 8 liters per 100 km. The annual distance that a family of four travels is assumed to be 15,000 km (unchanged from the 2008-base). By combining this average consumption with the distance travelled, we obtain an annual consumption of 1,200 litres of gasoline.

Other Necessities Component

The MBM has a final component that recognises the needs for necessary other goods and services that are not captured under the shelter, clothing, food and transportation categories (e.g., household items, personal care, reading materials, etc.). The methodology for pricing other goods and services does not utilize the pricing of items as other parts of the MBM does. Doing so would be difficult, as there are a large number of items that would potentially need to be priced, and many of the items would be considered necessities for some families but not for others. Accordingly, the other component is meant to approximate average expenditures on a wide range of other goods and services, using data sourced from Statistics Canada's Survey of Household Spending (SHS).

In the 2008-base MBM, the value for the other necessities component was established as a percentage of the sum of the food and clothing components.

The percentage was established based on an analysis of historical spending patterns on a set of selected expenditure categories deemed necessary for a modest, basic standard of living (Hatfield, Pyper and Gustajtis (2010)). This percentage is often called the "*multiplier*". While originally designed to be updated every year, the multiplier has been held constant in the MBM methodology since 2009 (at a level of 75.4%) because it was determined that the value was being estimated with excessive variability, resulting in unwanted variation over time in the values for the other component.

Nevertheless, analysis of the size of the other component indicates that the value of the other component in recent years still adequately reflects average expenditures on other necessities, with the exception that it should be adjusted to add an amount for cellular telephone services. More than 85% of households have cellular services in all provinces, indicating that they have become a necessity since the 2008-base MBM was developed.

Accordingly, the proposal for the 2018-base MBM is to set the level of the other necessities component multiplier so that the new 2018-base level for 2018 equals the 2008-base level, plus an amount for cell phone services. The value for the other multiplier will be finalised once the values for the other MBM basket components have been completed (see text box – *A forward looking research agenda*).

A forward looking research agenda

During our consultations, we heard from many Canadians – everyday people and experts alike – about certain areas of the MBM they would like to see Statistics Canada study. Some of the items are more complex than others, and they may need more study before they can be adopted. These are important questions which would form the basis for a forward looking research agenda to help prepare for the next MBM rebasing exercise (See *An update on the Market Basket Measure comprehensive review* (Andrew Heisz, 2019) for examples of other items on the forward looking research agenda).

The other component. The "other component" is meant to represent the costs of goods and services other than food, shelter, transportation and clothing. The list of items that could potentially be included in the other component is large and would vary depending on the structure, age, location or other circumstances of the family. Ongoing research on the methodology underpinning the other component could verify whether the current method for setting the value of the other component is adequate for the MBM or if it could be improved.

Discussion papers reporting on the comprehensive review

This study represents the second of four discussion papers to be released as part of the comprehensive review. Other papers in the series include:

July 2019: An update on the Market Basket Measure comprehensive review

From September 2018 through April 2019, Statistics Canada conducted a broad consultation on the Market Basket Measure. The consultation objectives were to gather input on the development of an update to the Market Basket Measure. [This paper](#) will describe the consultations that took place, give highlights of what Statistics Canada heard, and describe next steps.

December 2019: Defining disposable income in the Market Basket Measure

According to the MBM, a family is in low income if its disposable income is less than the Market Basket Measure threshold for a family of its size in its region. This discussion paper describes some of the considerations for updating the disposable income concept for the new MBM.

February 2020: The second comprehensive review of the Market Basket Measure of low income

This report describes the proposed changes to be made to the MBM as part of the 2018-base, as well as identifying research to be conducted in preparation for the 2023 review. The paper will describe the 2018-base thresholds and compare these to the 2008-base thresholds. Release of this report will be followed by a review period during which Statistics Canada and ESDC will work with experts, stakeholders, and federal, provincial and territorial officials to validate the results.

Conclusion

This discussion paper described the work being done by Statistics Canada and Employment and Social Development Canada towards updating the Market Basket Measure to a new 2018-base. It described proposed changes to the shelter, clothing, food, transportation and other components. This paper is the second in a series of four papers that are intended to provide updates on the progress of the comprehensive review. The next paper, which will discuss proposed changes to the Disposable Income concept, will be shared in December 2019. Users are welcome to ask questions or share their feedback. Persons interested in contacting us are encouraged to do so by sending an email to: statcan.market.basket.measure-mesure.du.panier.de.consommation.statcan@canada.ca

References

Employment and Social Development Canada, 2018. [Opportunity for All – Canada's First Poverty Reduction Strategy](https://www.canada.ca/en/employment-social-development/programs/poverty-reduction/reports/strategy.html), Cat. No.: SSD-212-08-18E. <https://www.canada.ca/en/employment-social-development/programs/poverty-reduction/reports/strategy.html>

Hatfield, Michael, Wendy Pyper and Burton Gustajtis. (2010), "[First Comprehensive Review of the Market Basket Measure of Low Income](http://publications.gc.ca/site/eng/372293/publication.html)", Applied Research Branch paper, Human Resources and Skills Development Canada. <http://publications.gc.ca/site/eng/372293/publication.html>

Heisz, Andrew (2019), [An update on the Market Basket Measure comprehensive review](https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2019009-eng.htm). Catalogue no.75F0002M2019009. <https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2019009-eng.htm>

Statistics Canada, 2016. [Low Income Lines: What they are and how they are created](https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2016002-eng.htm). Catalogue no.75F0002M2016002. <https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2016002-eng.htm>

Statistics Canada, 2019. [Methodological changes to the Market Basket Measure in 2019](https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2019005-eng.htm). Catalogue no.75F0002M2019005. <https://www150.statcan.gc.ca/n1/pub/75f0002m/75f0002m2019005-eng.htm>