

## **Revision of the Prescribed Medicines Index of the Consumer Price Index (CPI), beginning with the September 2012 CPI**

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### **Background**

The Consumer Price Index (CPI) measures the rate at which the prices of a fixed basket of representative consumer goods and services change over time. In order to accurately reflect changes in the market and the behavior of consumers, Statistics Canada periodically reviews and updates the concepts and methods applied to the various components of the CPI program.

The methodology of the Prescribed Medicines Index (PMI), part of the Canadian CPI, has been updated with the September CPI release on October 19, 2012. Concepts remain the same. Prescribed medicines account for 0.6% of the CPI 2009 basket and belong to a major component of the CPI, Health and Personal Care Products.

The market structure for prescribed medicines has changed since the last major PMI update: the number of prescriptions and sales of many generic drugs have increased while those of brand products have declined in relative terms, new drugs have been introduced to the market and the importance of the various therapeutic classes has changed over time.

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### The Prescribed Medicines Index (PMI) Review

The following changes have been made to the index:

1. The classification of the PMI has been updated to represent the main therapeutic classes for prescribed drugs sold in Canada. The new classification has 9 therapeutic classes: 5 old therapeutic classes have been removed and 4 new therapeutic classes have been introduced.
2. New representative products (RPs) have been selected for the updated therapeutic classes. For the first time, generic versions of drug brands are included for every therapeutic class. The old RP sample included 16 products whereas the new sample now includes 25 products.
3. To reduce response burden and control costs, a method of even and odd month price collection has been introduced. Two different samples of pharmacies are visited for odd and even month price collections; however, each therapeutic class is covered each month, involving 13 of the 25 representative products (RPs) in the odd months and 12 RPs in even months. By collecting more RPs less frequently, and from the same outlets only every second month, the sampling coverage is increased while the burden on respondents is controlled.
4. The outlet sample has been completely renewed to be made more representative and control response burden. The new outlet sample is selected from a target population which consists of all statistical locations on Statistics Canada's Business Register (BR). Those locations are classified by industries, using the North American Industry Classification System (NAICS 2007), with the revenues from the sales of the prescribed drugs commodity group derived from Statistics Canada's Quarterly Retail Commodity Survey (QRCS). The NAICS codes included in the target population are 446110 (Pharmacies and drug stores), 445110 (Supermarkets and other grocery (except convenience) stores), 452110 (Department stores) and 452910 (Warehouse clubs).

The new sample consists of 222 pharmacy outlets compared to the previous sample which covered 100 outlets. The outlet selection was rebalanced based on population and sales volume criteria (to make it more representative at the national and provincial levels) as well as by types of outlets (whether chains or independent retailers).

The updated PMI methodology will contribute to making the CPI a better reflection of changing consumption patterns and product characteristics. In future, therapeutic classes and the samples of products and outlets will be updated more frequently. This regular update process will more effectively capture product substitutions that normally occur when consumers move away from relatively more expensive patented drugs to their relatively cheaper generic equivalents. As well, new products or new varieties of existing products, whether patented or generic, will be introduced into the classification and price sample more quickly than in the past.