

## **Revision of the Methodology of the Purchase of Passenger Vehicles component of the Consumer Price Index (CPI) beginning with the November 2012 CPI**

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### **Background**

The Consumer Price Index (CPI) measures the rate at which the prices of representative goods and services in a fixed consumer basket 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 Purchase of Passenger Vehicles Index (PPVI), part of the Transportation major component of the CPI, has been updated with the November CPI release on December 21, 2012. Further updates will come into effect with the next CPI Basket Update, scheduled for March 27, 2013. The PPVI accounts for 6.53% of the CPI 2009 basket.

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### **Improvements to the Purchase of Passenger Vehicles Index (PPVI) with the November CPI Release**

The PPVI has been modified as follows:

1. **The timing of the introduction of new models has been improved to reflect manufacturers' marketing strategies.**

After analysing market penetration using third-party data, model year updates are now introduced into the CPI sample in the third month after introduction into the marketplace. At this time, sales of new model year vehicles generally overtake those of the current model year. This also reflects the new industry behavior where new model year introduction is no longer set in advance, and replaces the previous CPI fixed-calendar month introduction system whereby new models were introduced in August, November and February of each year. Users are cautioned that this change may alter the established seasonal price pattern of the series.

2. **The price definition has been modified to complement the changes to the introduction of new models.**

The purchase price continues to be estimated every month using the Manufacturer's Suggested Retail Price (MSRP), including freight charges, and the manufacturer's rebate. However, preparation and administration fees, and dealer discounts are no longer included in the purchase price. Their contribution to price movements is negligible and this change will provide the flexibility required to implement the improvements to the introduction of model updates.

To create a pure price movement, option pricing quality adjustments between model years continue to be made using an auto industry database.

### **Improvements to the Purchase of Passenger Vehicles Index (PPVI) that will be introduced with the next CPI Basket Update on March 27, 2013**

1. **The number of individual passenger automobiles priced every month will be increased to reflect the more diversified product offerings available to consumers.**

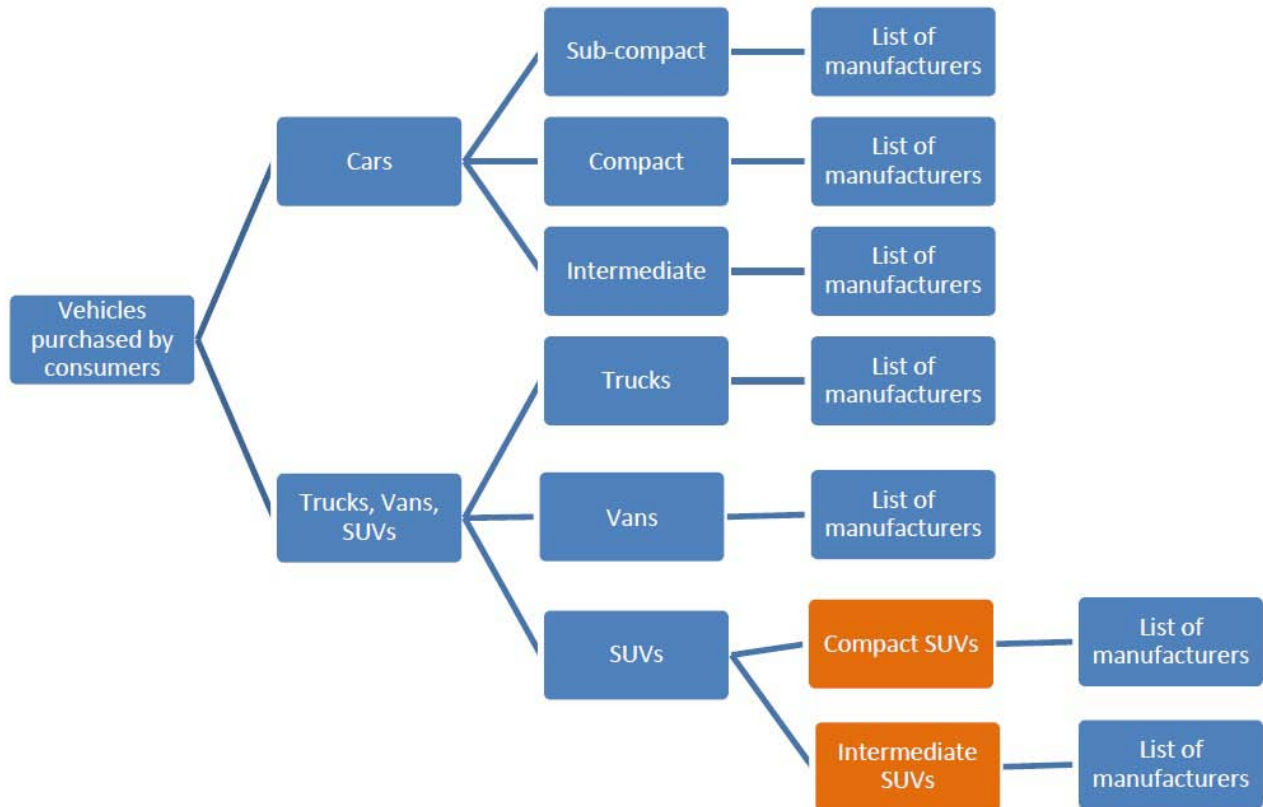
With the next CPI Basket Update, the number of individual passenger automobiles in the sample will be increased significantly to better reflect the current marketplace.

2. **The stratification will be updated to reflect new market segmentation.**

The sample will continue to be stratified by type of vehicle and manufacturer, as depicted in blue below. Vehicles are first split into two broad categories: Cars; or Trucks, Vans and Sport Utility Vehicles (SUVs), and then sub-divided accordingly. With the next CPI Basket Update, the SUV category will be further sub-divided into: compact SUVs; and intermediate-sized SUVs, as illustrated in orange (Chart 1).

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Chart 1: Purchase of Passenger Vehicles stratification effective with the introduction of the 2011 CPI basket



Basket weights for the different vehicles in the sample were obtained from Statistics Canada's Survey of Household Spending, as well as third-party data.

The revised CPI passenger vehicle sample will more accurately reflect market shares as well as the mix of North American and non-North American models that may comprise a particular category of vehicle.

These updates to the PPVI will contribute to keeping the CPI representative and better reflect changing consumption patterns and market characteristics. The greater breadth of the sample means that new vehicles will be introduced into the classification and price sample in a more timely fashion than in the past.