

A Revision of the Methodology of the Rent Component of the Consumer Price Index (CPI), beginning with the July 2009 CPI

Introduction

The comprehensive review of the concepts, methods and data sources launched recently by the Consumer Price Index (CPI) program included a review of the shelter component of the CPI. The review of this component started with a redesign of homeowners' insurance premiums, followed by an enhancement of Internet service provision and now includes improvements to rent.

The purpose of this note is first to describe the rent component of the CPI, and secondly to describe the recent change that has been done in the calculation of this component with the publication of the July 2009 reference month of the CPI.

Data sources

The CPI obtains its rental data from a supplementary questionnaire included with the Labour Force Survey (LFS). The LFS contacts approximately 60,000 dwelling units each month for which its primary objective is to collect information about the labour-related characteristics of the Canadian population.

Approximately one quarter of the sampled households in any given month (about 14,000 units) report themselves as renter-occupiers and are therefore potentially in scope for the rental component of the CPI.

Subsidized dwellings and units used for business purposes are excluded from the rent sample, for example. After accounting for all exclusions and non-responses, approximately six thousand units (usable observations for the CPI) remain at the Canada level each month.

Publication of the index

Typically, the CPI is first published at the provincial level before being aggregated to the national level. CPIs are also available for some cities, but the price indexes of many of their components are borrowed from their corresponding provincial CPI components. One exception to this practice is the rental accommodation index, whereby, because of localized market conditions, the rents used in a published city's All-items CPI are derived directly from a sample of rents from that city.

The Consumer Price Index for rental accommodation is published at the national and provincial levels and for the following sixteen cities: St John's, Charlottetown, Halifax, Saint John, Quebec City, Montreal, Ottawa, Toronto, Thunder Bay, Winnipeg, Regina, Saskatoon, Edmonton, Calgary, Vancouver, and Victoria.

Quality change

The concept of measuring "pure" (or quality-adjusted) price change applies to all of the over 600 goods and services included in the CPI. To estimate "pure" price change, rental data are collected along with a description of major services and facilities provided by the landlord. If some aspect of the service or the amenities of a sample unit should change between two collection periods, an intervention is required that will quality adjust the rent in order to ensure the comparability of the unit from one period to the next.

For instance, if the landlord ceases to include heating in the rental price, then the previous period's rent is adjusted, assuming everything else has remained constant, to reflect the fact that the renter is now receiving less services than before in exchange for the same rent payment. This adjustment procedure ensures that the comparison is like-for-like thus respecting the principles of the CPI. Consequently, the adjustment is essential to ensure that the price movement reported by the CPI is qualified as a "pure" price change and is not due to a change in the level of services received by consumers.

Change to the rent component of the Consumer Price Index

Like other components of the basket, the rental component of the CPI makes some assumptions about the way the rental market operates. These assumptions include for instance the frequency of rent increases (or decreases), the factors affecting rent changes, and the behaviour of rent according to tenancy (new tenants versus established tenants). Assumptions of this nature need to be regularly validated. To this end, Statistics Canada initiated in early 2009 a consultation in major Canadian cities to gain insights about the latest trends in the rental market. A total of forty-four interviews were conducted in Ottawa, Toronto, Montreal, Calgary, and Vancouver.

The results of the consultation confirmed the accuracy of the majority of the working assumptions underlying the measurement of rent for the CPI, with the exception of one assumption. With the previous methodology, it was assumed that when a new tenant moved into a sampled rental unit, that this unit had undergone some improvements just prior to taking possession of the unit (e.g., new paint and other repairs) and that any increase in the rent could be explained by these improvements. As a result, adjusting for improvements in the quality of the unit would offset the rent increase of the new tenant. The rent index starting with the publication of the July 2009 CPI data no longer makes this assumption.

During the course of the consultation exercise, it was confirmed that normal maintenance and repairs did occur before a new tenant moved into the unit. However, it was found that these improvements were typically not significant and therefore did not necessitate a quality adjustment. The recent change in methodology will therefore likely result in a higher rent index compared to before the change. However, the increase in this index will likely not be significant, given that only a small proportion of the sample is actually affected by this change.