



## BRITISH COLUMBIA BUSINESS INDICATORS

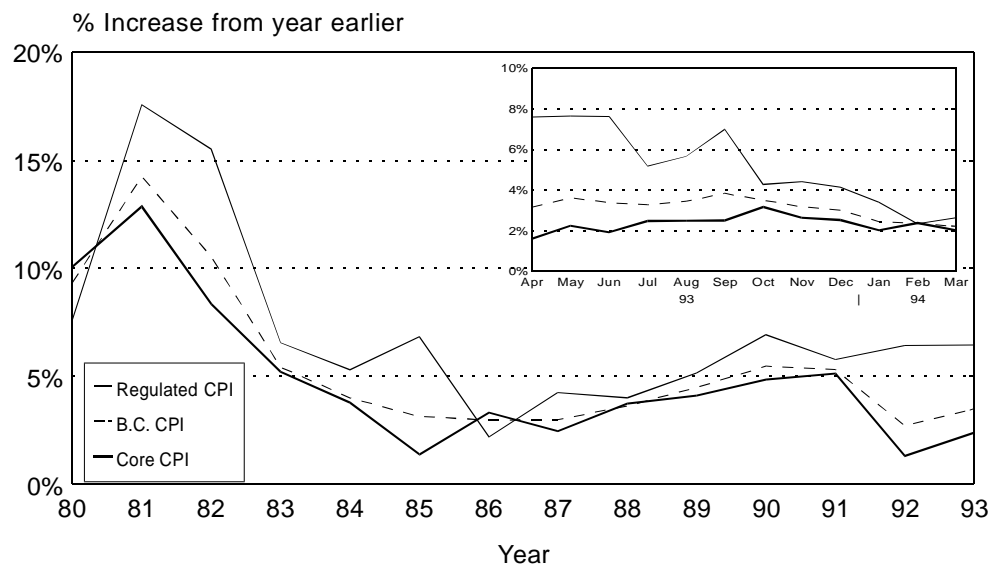
### August 1994

#### British Columbia Core Consumer Price Index

The Consumer Price Index can sometimes be a misleading indicator of market-driven inflation, due to the inclusion of price changes for regulated goods and services. Changes in tax rates or other government policy can

cause changes in the CPI which do not reflect what might occur under open market conditions. The development of a core CPI is an attempt to factor out the influence of regulated prices on inflation.

#### British Columbia Consumer Price Indexes



There are basically three ways in which governments influence inflation: regulation through supply management using marketing boards; through direct government provision of goods and services; and through government approved, or set, pricing.

The following goods and services are considered to be regulated in British Columbia, and therefore, are excluded from the calculation of the core CPI:

- Poultry
- Dairy Products and Eggs
- Utilities (Water, Electricity, Fuel Oil, Natural Gas)
- Public Transportation (Excluding Air Transportation)
- Telephone Services (Excluding Long Distance)
- Postal Services
- Tobacco Products and Alcoholic Beverages
- Gasoline
- Public and Private Automobile Insurance
- Automotive Vehicle Registration Fees
- Property Taxes
- Cablevision
- Tuition

In general the regulated price index has increased faster than the non-regulated core index, particularly in the early eighties and in recent years. There are a few key components that are largely responsible for the discrepancy in rates of movement. The largest gap between the growth in the regulated index and that of the core index occurred during the early eighties. The main contributor to this effect was the price of oil, and consequently, gasoline. As the eighties progressed, tobacco and alcohol products became more of a factor and kept upward pressure on the regulated index. The dip in 1986, where the regulated index growth fell below that of the core index, was due mostly to a decline in the price of gasoline and fuel oil.

The return to a wide gap in the early nineties has been due to large increases in many of the regulated components, particularly property taxes, and automobile insurance. This faster pace of growth for the regulated index relative to the core index has occurred despite declining gasoline prices, which were driving the growth through most of the eighties. In recent months the gap has been shrinking considerably, to the point where, in February, 1994, the regulated index was virtually equal to the core index. This is mainly due to the continual decline in gasoline prices plus the slight decline in the alcohol and tobacco index.

Index	Average Annual Per Cent Change					
	1981-85	1986-90	1991	1992	1993	1994*
Core cpi	6.3	3.7	5.1	1.3	2.4	2.2
Regulated	10.4	4.5	5.8	6.4	6.4	2.8
Tobacco and Alcohol	10.9	8.2	13.6	8.3	4.4	0.6
Gasoline	16.1	3.2	-4.5	-6.0	0.4	-6.1
Property Tax	8.3	8.2	1.0	4.1	14.6	3.3
Auto. Insurance	15.5	8.9	6.5	23.5	11.7	7.1
All Items	7.5	3.9	5.3	2.7	3.5	2.3
*Average through March						

It should be noted that, although government regulations have a significant impact on changes in the regulated consumer price index, they are not necessarily the sole reason for price changes. Market-based price effects that occur in the government regulated sector are unavoidably excluded from the core CPI. At the same time, some government regulation occurs in the unregulated sector and is, therefore, included in the core CPI. For example, sales taxes such as the GST and the PST affect a broad base of goods and services, and are generally a one-time shock with respect to the CPI figure. Therefore, goods affected by these taxes are not excluded from the core CPI. The core CPI is meant to give a general idea of the effect of regulation on the CPI. It is not an exact indicator of the effects of government regulation.

Dan Schrier, Population Section  
387-0334