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Canadian Industry Research

Canadian Price Movements

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One statistic that many business researchers often neglect to consult is price movements. Statistics Canada has two publications that record the increase in prices of data on the prices paid by consumers for goods and services. The second, [Industry Price Indexes](#), (cat#62-011) presents price movements of industry product prices, (i.e. the cost of a product as it leaves the factory) as well as raw material price movements.

While they are comprehensive, these publications do not cover the full detail of the Stats Can price index databases. For that you need to consult the CANSIM tables [326-0001](#), [329-0038 to 329-0049](#) and [330-0006](#). You will be charged \$3.00 plus tax for every price index you download. In most cases you will only need one or two price indexes.

There are also many other specialized price indexes available from Statistics Canada. (e.g. Accounting services price index, Computer price indexes, by type of purchaser) See the [CANSIM directory](#). Our [Source Lists](#) also have these special indexes listed under their appropriate industry heading.

Actual prices are not recorded here but rather price indexes. The price of a particular product in a particular year is assigned the arbitrary value of 100. The prices for all years following are then measured in relation to this value. For example the consumer price of computer equipment and supplies in 1994 was assigned the value of 100. In 1995, prices actually dropped on these items so that the index value was recorded as 93.1. In 1996 the prices dropped again to an index of 85.3.

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For price indexes to have any significance you must calculate the year over year percentage change in prices. This is calculated by taking the current year's index, subtracting the previous years index, dividing by the previous year's index and multiplying by 100. Using the computer equipment and supplies figures for 1995 and 1996 the calculation would be:

$$85.3 - 93.1 = -7.8$$

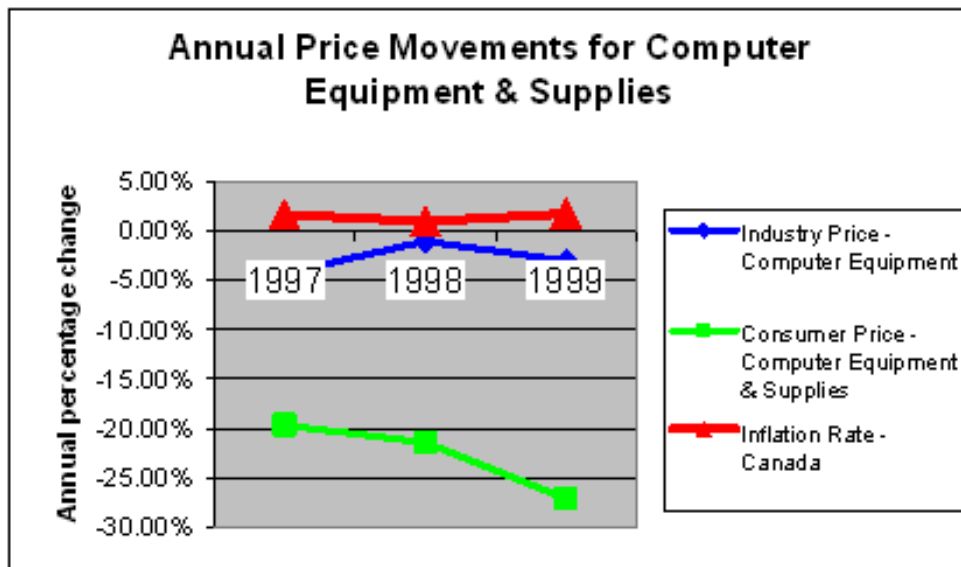
$$7.8/93.1 = -0.0838$$

$$0.084 \times 100 = -8.38\%$$

Therefore consumer prices for computer equipment and supplies dropped 8.38% between 1995 and 1996. Calculate the price movements over a period of three to five years. Make sure you use the annual average index number and not a monthly figure.

Once you have calculated the consumer price turn to the industry price indexes. Look for the index that covers the same commodities or related raw materials as closely as possible. The statistics will not be exact but they should be close enough so trends can be discerned. The closest industry index to the consumer category computer equipment and supplies is the industry product category computer equipment. This will be close enough for our purposes in that we will be able to see overall trends within the industry.

Below is a data table with the year over year percentage change in prices calculated. An accompanying graph helps to illustrate the significance of the price movements.



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Data Table - Annual Price Movements

	1997	1998	1999
Industry Price - Computer Equipment	-4.3%	-1.1%	-3.1%
Consumer Price - Computer Equipment & Supplies	-19.7%	-21.4%	-27.1%
Inflation Rate - Canada	1.6%	0.9%	1.7%

It is immediately apparent that consumer prices were dropping rapidly on computer equipment and supplies. They were well below the overall inflation rate of Canada. What is of interest to the computer reseller however, is that industry or factory prices have not decreased at nearly the same rate. A computer store would have to pay roughly the same price for its stock but to be competitive in the consumer market place it will have to drop the prices it charges. This will effectively squeeze the profit margin of the reseller. This is a clear trend that affected this industry over the three years in question.

It is not always possible to find appropriate consumer and industry prices for comparison. Nevertheless, single price indexes on their own can still be insightful. They can alert you to the potential of rising input costs related to raw material or to fluctuation in consumer service costs such as childcare, domestic services and personal care services.

It is always useful to compare any price movements to the overall Consumer Price Index - commonly referred to as the "Inflation Rate". This lets you determine whether or not your costs or the prices you can charge are growing faster or slower than inflation overall.

Do not use price movement trends as the sole basis for any business decisions but rather consider the figures in combination with other statistical and non-statistical data. Talk to stakeholders in your industry to find out their explanation for the trends you observe.

Next: [CANSIM](#)

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