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## Statscan admits five-year inflation mistake

Key price index was miscalculated by 0.1 per cent

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Canada's federal statistics-gathering agency admitted yesterday it mistakenly understated the country's inflation rate over the past five years.

Statistics Canada said the overall consumer price index was miscalculated, on average, by a tenth of a percentage point between early 2001 and March of this year.

A glitch in a computer formula meant the agency was wrong about the price of hotel and motel rooms during the period: Statscan had reported that room rates fell 16 per cent when they really rose 32 per cent. The error in that CPI component threw off the whole index.

Statscan said it didn't catch the mistake earlier because anecdotal evidence suggested Canada's tourism industry was facing tough times, hence the price pressure.

It's an embarrassing blunder for an agency that's been lauded by the likes of The Economist magazine and the International Monetary Fund as being the best of the best.

The consumer price index is one of the most closely watched monthly economic indicators because the Bank of Canada uses it to help set interest rates.

The index, which includes data on what shoppers pay in stores and hair salons and at the pumps, also influences old-age pensions, rental agreements, child-support payments and wages.

The error isn't enough to have swayed the Bank of Canada on any past interest-rate decisions. It does, however, erode confidence in an agency that, just in April, acknowledged Canadian productivity last year was twice the level that was previously announced.

"I think it will raise more questions," said Doug Porter, senior economist at BMO Nesbitt Burns Inc., who noticed in March that the hotel inflation rate looked odd. "It's one of the more common issues that we deal with, whether CPI is accurately capturing the real inflation that people face. Unfortunately, this episode just further heightens that issue."

The CPI is never revised and won't be this time. Statscan and other agencies around the world have agreed not to revise inflation numbers because that could wreak havoc on all the contracts, such as wage settlements, that rely on the inflation data.

Mr. Porter continues to believe the CPI is accurate and that Statscan does a good job of tracking it. "I still think it's the best measure of inflation we have."

Other economists were taken aback by the glitch, reported by Bloomberg News yesterday and which first surfaced as a footnote in Statscan's June price inflation, released July 21.

"It's a surprise and [so is] the fact that it was going on for a long period of time and they hadn't caught the miscalculation up until this point," said Mark Chandler, senior financial economist at Scotia Capital in Toronto. "It opens questions on how many other components are suffering from something like that. It does hurt their credibility a little bit."

The Bank of Canada said the error hasn't caused it to rethink its past interpretation of the economy, nor is the central bank reassessing its outlook. "The bank has great confidence in the overall reliability of the CPI as a measure of inflation," spokesman Jeremy Harrison said.

The bank, along with most economists, is aware that there's a margin of error. A study last year by the central bank found that Canadian CPI overstates inflation by about 0.6 percentage points a year.

Canada's monthly consumer price index tracks the prices of more than 600 separate goods and services in 169 classes. The CPI division employs about 150 people across the country who work on collection, computation, analysis and research, according to Tarek Harchaoui, assistant director of the division. Statscan employees spend hundreds of hours every month checking numbers and doing quality control, he added.

On the world stage, Statscan is highly regarded. In two surveys conducted by The Economist in the 1990s on world statistical agencies, Statistics Canada ranked No. 1 both times. More recently, the International Monetary Fund reviewed Canada's CPI in 2003 for adherence to international standards and found it complied with 15 out of 15 measures of quality.

That's not to say the agency is immune from criticism. Some have questioned how it measures car insurance and house prices.

For many Canadians, this will simply confirm suspicions that inflation is rising at a faster pace than what the government says. But, as economists have noted, consumers tend to notice when prices go up and not realize that costs for, say, a new computer or a coffee maker, have actually fallen over the years.

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