3. To the knowledge of Statistics Canada, what is the current average term to renewal of a typical mortgage?

4. In the opinion of Statistics Canada, does the mortgage interest component of the Consumer Price Index adequately reflect movements in mortgage interest costs?

5. What would be the impact on the (a) mortgage interest component (b) consumer price index, of using a (i) one (ii) two (iii) three (iv) four year moving average?

6. Will changes be made to the mortgage interest component in the near future and (a) if so, what will be the nature of the changes (b) if not, for what reason?

Hon. J.-J. Blais (Minister of Supply and Services): Statistics Canada reports:

1. The mortgage interest component of the consumer price index is based on a model which uses a five-year moving average for calculating changes in mortgage interest costs. These costs are affected by changes in both mortgage interest rates and dwelling prices during the 60 months which precede the current month.

2. Statistics Canada is fully aware that in recent years there has been a growing incidence of mortgages being renewed with terms which are shorter than five years. Such mortgages, on the other hand, would constitute only a small proportion of mortgages used in the CPI because the CPI is supposed to reflect changes in all mortgages. (Refer to part 4 of question.)

3. There are no complete current statistics on mortgage contracts which would allow for computation of the average term of new (or renewed) mortgages. According to our knowledge, the most recent information available is that which is compiled by the Canada Mortgage and Housing Corporation which is presented as a table below. This information does not yet include 1981 data and covers only loans approved in conformity with the National Housing Act (i.e. excludes conventional mortgages). Please note that changes in the distribution of new or renewed mortgages, according to terms, are not representative of changes in the distribution of all mortgages currently existing, even though they affect the latter (Refer to parts 2 and 4.)

4. The treatment of owned accommodation is likely to be the most complex and controversial problem in the field of consumer price indexes. There is not and likely never will be, an ideal and universally satisfactory solution to this problem. Particular statistical offices apply various approaches and some even entirely exclude the owned accommodation component from their CPI.

The Canadian approach is based on the assumption that the CPI should reflect, as well as possible, the price-induced changes in the purchasing power of urban consumers. The purchasing power of home owners changes when, among other things, the mortgage interest costs which they assumed change, which are in turn determined by price changes in mortgage credit (i.e. interest rates) and for mortgaged dwellings. These are affected, however, not only by current prices but also by former prices and their mix depends on the distribution by age of all mortgage contracts currently in force.

According to Canadian practice, the above mix is approximated by a 60-month moving average of interest rates and dwelling prices, with inter-month proportions being kept constant from one CPI weight update to another (presently, four years). Mortgages older than five years are not taken into account, because they amount only to about 25 per cent of the total outstanding mortgage debt (according to both the 1974 and 1978 family expenditure surveys). On the other hand, a shorter moving average would eliminate a substantial proportion of mortgage contracts in force and could result in quite volatile price indexes.

Therefore, while it is true that the share of mortgages having shorter renewal periods is increasing, the impact of this not being reflected in the current CPI is to an unknown extent offset by the fact that the CPI does not include mortgages assumed more than five years ago, some of which have fixed rates for the entire life of the mortgage.

The approximation technique used for calculating changes in the mortgage interest is certainly not perfect, this being mainly attributable to the unavailability of appropriate and timely data. Statistics Canada is confident that this approximation technique is nonetheless adequate for measuring a very complex phenomenon.

5. Because of the complexities and enormity of the task associated with recalculating the mortgage interest component of the CPI as stipulated in part 5 of the question, the answer will only become available in two or three months.

6. As part of its continuing effort to incorporate refinements to the CPI, Statistics Canada has and will continue to review new alternatives to the treatment of home ownership in the CPI. With specific respect to the mortgage interest component, the feasibility of using average mortgage interest rates which would vary according to the current mix of mortgages, by age, is in fact currently being studied.

Because of the extremely complex nature of the problem it is not possible at this point in time to specify the exact nature of the changes which will be brought about, nor their implementation date.

Year of the Contract	Full-Term	Five Years	Four Years	Three Years	Two Years	Total One Years	Number of Contracts
			New Mortgages				
1968	35,300	—	—	—	—	—	35,300
1969	27,155	7,341	—	—	—	—	34,496
1970	20,214	31,352	—	—	—	—	51,566
1971	8,242	59,148	—	—	—	—	67,390
1972	6,051	57,544	—	—	—	—	63,605
1973	2,566	42,755	—	—	—	—	45,321