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## Income Research Paper Series

# An update on the Market Basket Measure comprehensive review

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## Summary

From September 2018 through April 2019, Statistics Canada conducted a broad consultation on the Market Basket Measure. The consultation objectives were to gather input on the development of an update to the Market Basket Measure. This paper will describe the consultations that took place, give highlights of what Statistics Canada heard, and describe next steps.<sup>1</sup>

1. This "word cloud" is constructed using the data provided through an open text question collected from more than 4000 respondents to Statistics Canada's on-line MBM consultation survey. A word cloud is a data visualization of text which illustrates common themes. Each word size is proportional to the frequency that it appears in the data.

## Introduction

On August 21, 2018, the Government of Canada released *Opportunity for All, Canada's First Poverty Reduction Strategy* (Employment and Social Development Canada, 2018), which contained long-term commitments to guide current and future government actions and investments to reduce poverty, including:

- Establishing the Market Basket Measure, or MBM (Statistics Canada, 2016), as Canada's Official Poverty Line
- Introducing poverty reduction targets using a baseline of 2015
  - ▶ Reduce the rate of poverty by 20% by 2020, and
  - ▶ Reduce the rate of poverty by 50% by 2030 (aligned with United Nations Sustainable Development Goals).
- Creating a National Advisory Council on Poverty
- A Data and Measurement Plan, which includes ongoing funding to develop and improve data to measure poverty and to inform policy decisions.

The *Poverty Reduction Act* included in the *Budget Implementation Act I, 2019 (Bill C-97)*, legislates the commitments made in the Strategy. In addition, the *Poverty Reduction Act* mandates Statistics Canada to review the MBM on a regular basis “to ensure that it reflects the up-to-date cost of a basket of goods and services representing a modest, basic standard of living in Canada”. Accordingly, in 2018, Statistics Canada launched a comprehensive review of the Market Basket Measure, which will be completed in 2020.

During the course of this comprehensive review, Statistics Canada has consulted with Canadians, and federal, provincial, and territorial government officials, and worked jointly with Employment and Social Development Canada (ESDC) — the department responsible for the Poverty Reduction Strategy. This document describes the activities and results to date of the comprehensive review and discusses the work that lies ahead.

## Working with Indigenous peoples

*Opportunity for All* announced a commitment to consult with Indigenous persons to identify and co-develop indicators of poverty and well-being, including non-income-based measures of poverty, that reflect the multiple dimensions of poverty and well-being experienced by First Nations, Inuit and Métis. That discussion is proceeding independently from this comprehensive review.

## The Data and Measurement Plan

The Data and Measurement Plan represents a significant investment in the infrastructure to measure poverty, including:

- **Sample:** The sample of the Canadian Income Survey would be increased to permit more detailed analysis of poverty for specific groups and to allow for annual estimates of poverty to be computed for the territories.
- **Research:** Research will be undertaken on a range of topics, including entry and exit rates from poverty, the presence of poverty in different regions of the country, and the poverty reduction impacts of non-monetary benefits like rent subsidies.
- **Dashboard:** *Opportunity for All* introduces an online dashboard of indicators to allow all Canadians to monitor progress on the many aspects of poverty. The dashboard will be publically available on Statistic Canada's website.
- **New indicators:** Statistics Canada will produce annual estimates of food security and unmet health care needs, as well as develop and disseminate other indicators required for the Dashboard.
- **MBM review:** Statistics Canada, in collaboration with ESDC, will conduct a comprehensive review of the MBM with the aim to develop, for 2020, a new 2018-base MBM measure.

## The commitment to co-develop with Indigenous persons

The Government of Canada is committed to reconciliation with Indigenous peoples and to a renewed relationship based on the recognition of rights, respect, cooperation and partnership. Accordingly, Chapter 7 of *Opportunity for All* makes a commitment to take actions to help better understand poverty among First Nations, Inuit and Métis—regardless of where they live in Canada.

During the consultations for *Opportunity for All*, the Government of Canada heard that it should take a strengths-based approach to poverty reduction that focuses on well-being and supporting resilience. Indigenous women also indicated that poverty is about more than a lack of income; it is also about social disconnection, and they explained that cultural activities promote social and economic well-being by improving self-confidence and building identity.

Accordingly, as part of the *Opportunity for All* distinctions-based approach, and based on the principles of reconciliation, the Government will work with National Indigenous Organizations and others to identify and co-develop indicators of poverty and well-being, including non-income-based measures of poverty, that reflect the multiple dimensions of poverty and well-being experienced by First Nations, Inuit and Métis.

## What is the Market Basket Measure, and what is the comprehensive review?

The Market Basket Measure (MBM) of low income develops thresholds of poverty based upon the cost of a basket of food, clothing, shelter, transportation, and other items for individuals and families representing a modest, basic standard of living (see: Snapshot of the Market Basket Measure).

A family with disposable income less than the poverty threshold appropriate for their family's size and region would be living in poverty. Disposable income is total income (including government transfers) after deducting not only income taxes but also several non-discretionary expenditures. These expenditures are Employment Insurance, Canada Pension Plan, Quebec Pension Plan and Registered Pension Plan contributions, union dues, child care expenses, support payments paid, public health insurance premiums and direct medical expenses including private insurance premiums. Disposable income is also adjusted for mortgage-free owners, as explained below.

Currently, the MBM offers poverty thresholds for 50 regions across the country, including 19 specific communities. What represents a modest, basic standard of living can change over time, so it was determined that the MBM methodology should be updated regularly, with every 5-years being a possible frequency.

Updates or “rebasings” of the measure are conducted following a comprehensive review and, where necessary, methodological changes are also made. At these times, the basket contents can also be adjusted to reflect contemporary circumstances. The MBM was last updated in 2008-2010 through “the first comprehensive review” (Hatfield, Pyper and Gustajtis. (2010)).



During that review, several aspects of the basket were changed. For example, the food and clothing baskets were updated to more contemporary standards, the transportation component was modified to allow for more transit passes per family, and a component was added to place mortgage-free homeowners, who have lower shelter costs than other families, on a more-comparable footing. This new methodology became the standard for the MBM through to the present.

The objective of the current comprehensive review is to update the MBM methodology, targeting 2018 as a new base year. As with the previous review, the current comprehensive review will ask what basket contents would need to be adjusted to reflect contemporary circumstances, what methodological adjustments should be made at this time, and what are the areas requiring further research.

This approach of anchoring the MBM to specific base years, yet updating it regularly to reflect changes in standards of living, is an underlying strength of the MBM. Trends in economic well-being are compared to a fixed, real living standard, yet the standard is updated from time to time so that, over time, it remains relevant.

## **Who is responsible for the comprehensive review?**

As was the case for the 2010 comprehensive review of the MBM, the current review is a joint effort by Statistics Canada and ESDC with contributions from many individuals and groups across Canada. The respective roles and responsibilities of Statistics Canada and ESDC for the review are longstanding and were set prior to the beginning of the review.

Statistics Canada is responsible for launching and conducting the comprehensive review as well as for the statistical methodology of the MBM. As part of the review, Statistics Canada leads public consultations with Canadians, experts, and federal, provincial and territorial stakeholders to gather input on what they saw as necessary to updating the MBM. Statistics Canada is responsible for summarising these discussions and reporting them publically.

ESDC is responsible for setting the scope of the comprehensive review and for the policy direction of the MBM.

Throughout the comprehensive review, ESDC and Statistics Canada are working together to address changes to the MBM reflecting what was heard during the consultations. In many cases, these changes have both statistical and non-statistical aspects. Ultimately, the responsibility for the final MBM base rests with the Deputy Minister of ESDC, from a policy perspective, and Statistics Canada's Chief Statistician, from a methodological perspective, recognizing the need for statistical independence of Statistics Canada.

## **The MBM consultation process**

Over the past year, Statistics Canada undertook public consultations as part of the MBM review. These consultations consisted of three major components:

1. Talking with people with lived experiences of poverty
2. Reaching out to Canadians for their input
3. Connecting with non-government organizations (NGOs), Academics, and Federal stakeholders and Provinces and Territories

Through these consultations, there was significant participation by Canadians, who brought forward their ideas about the MBM and poverty measurement in Canada.

## Talking to people with lived experiences of poverty

From September to November 2018, Statistics Canada conducted 21 focus groups and 188 one-on-one interviews with participants in all provinces and territories to explore what Canadians living in low-income or poverty situations considered to be the necessary items in a basic basket of goods and services. These focus groups and interviews gathered information directly from people struggling to make ends meet on the main items represented by the MBM.

Speaking directly with these individuals provided valuable insight into the day-to-day lives of Canadians at risk of poverty. We heard from Canadians who were not able to buy the type and quantity of food they wanted. We heard directly from Canadians at-risk of poverty about their transportation needs, their living conditions and daily struggles. The messages were diverse – and different points of view were often expressed on the importance of things like having access to the internet or having private transportation. What they shared in common were their views on the importance of living a life with dignity, having opportunity to improve their circumstances, and having the resilience to handle difficult situations.



## What we heard from Canadians about their experiences in poverty

**Food:** Participants were not able to buy the type and quantity of food they wanted. In fact, food seems to be the main area where people could cut expenses when they were short of money. Some participants in the North supplemented their groceries with meat from hunting, though the amount could vary, and hunting also carried expenses such as fuel, shells, rifles and tents.

**Clothing:** Participants did not seem to spend a lot of money on clothing and it also did not seem to be at the top of their priorities. Many participants stated that this is the area of necessities with the lowest priority.

**Transportation:** Most participants did not own a car and used public transit, however, this varied by city. Those who did own a car usually had older cars. In most cases, these participants had children they needed to drive to daycare, school, or around for various activities, needed their car to work, or had a mobility issue.

**Shelter:** Shelter was the sole largest expense for participants. Overall, most seemed satisfied with their dwellings, however, several participants lived in crowded quarters where people had to share rooms. A few renters who had children said they hoped to be able to afford a house someday.

**Other expenses:** Health care was often brought up as an issue. Many participants were frustrated and disappointed in the health care system when it came to prescribed medications, dental care, and eye care.

As well, most participants described situations where they felt like they could not participate in activities because of their cost — birthday parties, weddings and having friends over were specifically mentioned. They did not spend much on leisure or hobbies.

**Students** pointed out the cost of tuition and former students were often paying off their student loans. Students and parents of school-aged children mentioned that September was a stressful month due to school-related expenses.

**Communications technology:** Participants typically had a cell phone and paid to get access to internet with basic services. Students, and parents of school-age children agreed that internet access at home and a computer were essential.

**Daycare:** Participants mentioned daycare was expensive, and that sometimes it is not even worth working as it barely covers daycare costs.

**Remittances:** Many immigrants indicated, remitting money abroad to relatives for vital expenses like food or health care is an essential expense for them.

**Savings:** When asked, most participants considered it essential to be able to put money away for retirement or (say, \$20 or \$50 every month) as a rainy-day fund.

## Reaching out to Canadians for their input

To offer all Canadians an opportunity to provide feedback to the MBM comprehensive review, Statistics Canada launched a voluntary anonymous survey on its website (Statistics Canada, 2018a). This survey was widely promoted through Statistics Canada's Twitter account, through Reddit, and through extensive mail-outs using a mailing list of NGOs, other stakeholders and persons interested in poverty reduction.

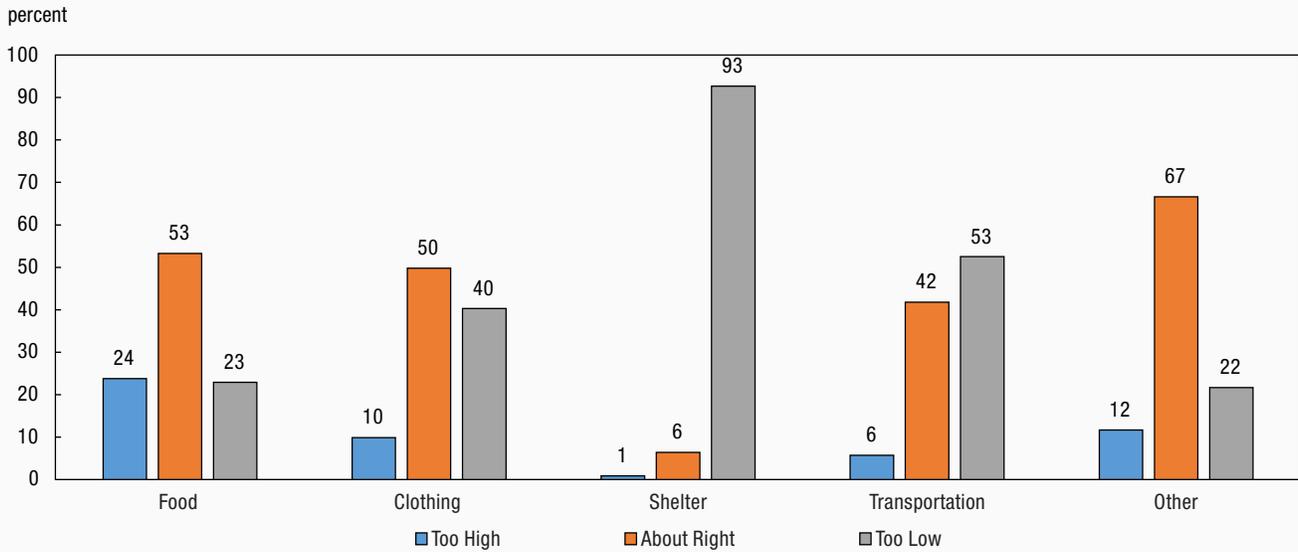
The objective of this survey was to gather information to help direct Statistics Canada in its comprehensive review. The first part of the questionnaire asked participants if the existing 2008-base MBM thresholds for their family size and region were "too high, too low, or about right". That is, were they still satisfactory in the context of 2018, and did they continue to reflect a modest, basic standard of living. Next, participants were asked several questions specific to life in 2018 which may be different than it was in 2008, such as the importance of information technology and public transit. Finally, the questionnaire added a comment box, where participants could share their thoughts.

Launched on October 9th, 2018 with an expectation of 1,500 responses, the questionnaire quickly surpassed its target, and in the end, received 9,666 responses by its planned closing date of January 31, 2019 (including 66 participants from the three territories who received a shorter questionnaire since no MBM thresholds presently exist in these regions). Most questionnaires were fully completed, and more than half of respondents chose to write a comment in the comment box.



## Opening the consultation to all Canadians through a voluntary anonymous survey

**Chart 1**  
**Responses to online consultation survey: too high, too low or about right?**

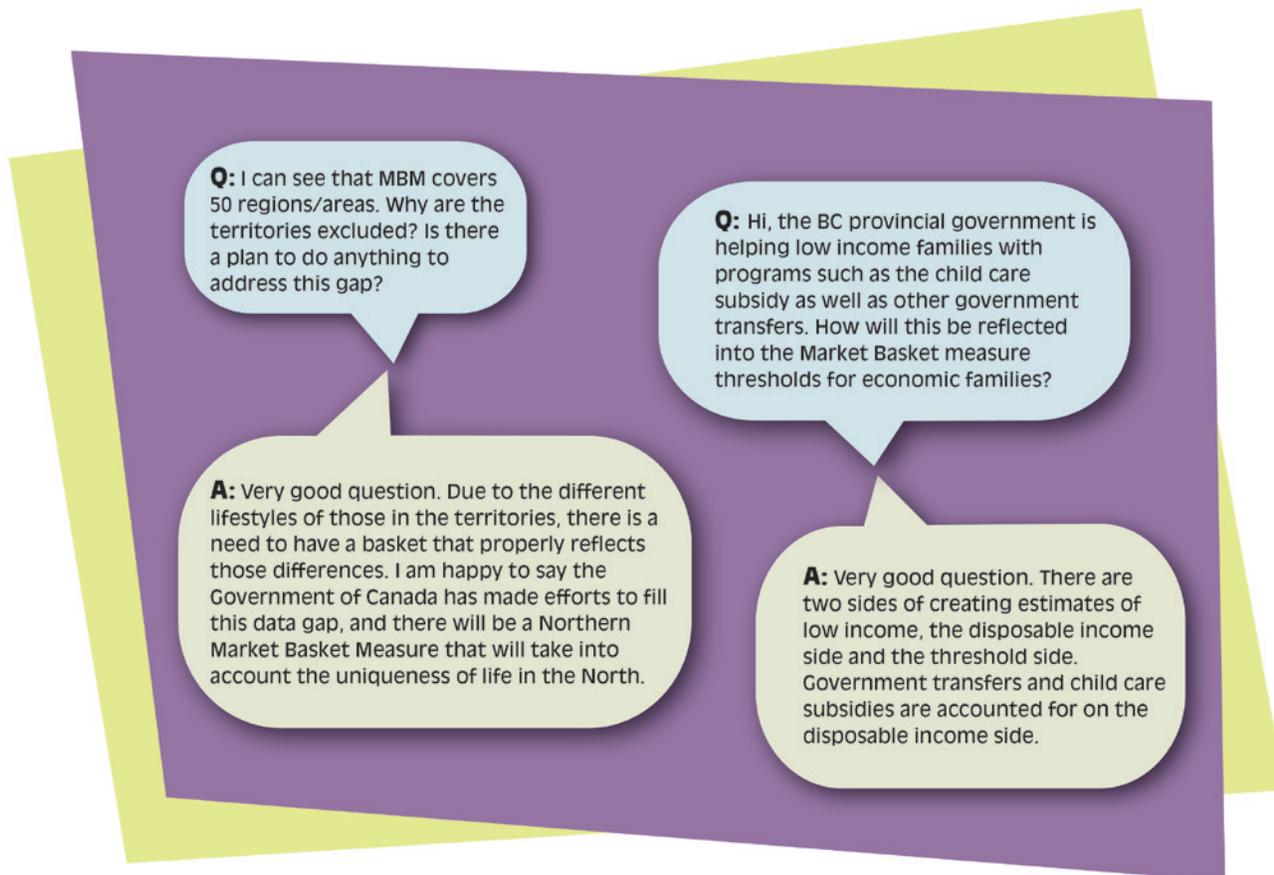


**Note:** Figures may not add up to 100 due to rounding.  
**Source:** Statistics Canada 2018a.

Because this was a voluntary, non-sample survey, the results cannot be considered representative of the views of all Canadians. Nevertheless, the results can help validate the directions Statistics Canada should take in recommending updates of the MBM. For example, the food component (53%), the clothing component (50%) and the other component (67%) were all confirmed by half, or more, of participants to be “about right” (Chart 1). Significant shares found the transportation component (53%) and clothing components (40%) to be “too low”. The strongest takeaways were that more than 9 in 10 participants thought the shelter component value was too low, about 80% of participants agreed with the idea that “parents should be able to afford a home where every child has their own room” and that “smartphones are necessary to participate in daily living”.

## Other opportunities to connect with Statistics Canada

Statistics Canada has undertaken other events, offering opportunities for Canadians to give their feedback to the comprehensive review. For example, on October 19, 2018, Statistics Canada hosted online a “Chat with an Expert” event — an opportunity for Canadians to interact directly with Statistics Canada officials responsible for the measurement of the MBM (Statistics Canada, 2018b). Altogether, 81 participants logged in and asked 57 questions about the MBM.



## Connecting with NGOs, Academics, and Federal, Provincial and Territorial Stakeholders

As part of the Comprehensive Review for the Market Basket Measure (MBM), and the development of a new 2018 base, a consultation workshop was held with government officials from the Provinces and Territories on October 29-30, 2018. A second workshop was held on November 19-20, 2018 with representatives from the academic community and from non-government organizations across the country. Discussions were held with federal departments on an ongoing basis throughout the process.

These discussions went into great depth on the methodology of the MBM. The discussions focussed on different ways the MBM could be measured, and what the concepts of “basic” and “modest” standards of living mean to Canadians. Statistical elements such as equivalence scales and the use of multipliers to capture different costs of living were also discussed.

There was discussion around items such as “how are child care expenses recognised in the MBM?”, “how are medical expenses recognised?”, and “is there recognition for the needs of persons with disabilities?” In addition, representatives from the three territories participated and shared their perspectives on what an MBM could look like for these regions of Canada.

The MBM is meant to represent a modest, basic standard of living, and as a result, needs to be updated from time to time to make sure it continues to reflect contemporary standards. Major changes to the measure must not be taken lightly, and each must be studied in detail before the change is introduced.

During our consultations, we heard from many Canadians – everyday people and experts alike – about certain areas of the MBM they would like to see Statistics Canada study. Some of the items are more complex than others, and they need more study before they can be adopted. These are important questions which would form the basis for a forward-looking research agenda to help prepare for the next MBM rebasing exercise (see text box – A forward looking research agenda.).

## Developing MBM lines for the Territories

*Opportunity for All* indicates that Statistics Canada will be investigating the possibility of producing MBM thresholds for the territories. To this end, Statistics Canada has had several discussions with statistical focal points in the three territories with the aim of identifying what specific things might need to be changed in order to have MBM thresholds in the north. The discussions aim to build upon a study produced in 2012, by an informal working group formed to assess the technical feasibility of developing a Northern Market Basket Measure (MBM-N) (Statistics Canada internal document, 2012).

The feasibility study described an adaptation of the MBM that reflects life and conditions in the three territorial capitals (i.e., Yellowknife, Whitehorse and Iqaluit) and the differences in the available data. The MBM-N would include the same categories of goods and services as the MBM, while making adjustments to the basket contents as required to reflect life in the North, and reflecting the availability of data sources for the territories, which is often different than in the provinces. Presently, Statistics Canada is working towards updating this feasibility study and determining how the MBM would be adjusted to represent the areas of the territories beyond the territorial capitals.

## Next steps

Through these consultations, Statistics Canada has determined three principles to be used when considering changes to the MBM.

### **The MBM is built on standards, and these standards should be validated, and updated to more contemporary versions.**

In many places, the MBM is built upon standards created by experts in various domains. These standards are updated from time to time, and when the time comes to update the MBM through a rebasing, the newer versions of these standards could be used to update the MBM basket. For example, to determine what items belong in the food component of the MBM, Statistics Canada relies on the expertise of nutritionists at Health Canada and would use the latest National Nutritious Food Basket (NNFB) to determine the contents of the food component in the MBM.

## **A forward looking research agenda**

**Communications technology.** Statistics Canada will research how the MBM would be changed to accommodate the needs for Canadians to have access to communications goods and services. Presently, this need is reflected in the “other” component, but it could be that the MBM would be improved if this item had its own component.

**Child care expenses.** Currently, child care costs are represented in the MBM as a direct deduction from disposable income. This way, a family’s needs are compared to an income measure that reflects their available resources. Experts have asked Statistics Canada if this is the best way. Could child care costs instead be treated as a basket item?

**Remoteness.** Statistics Canada will research whether adjustments should be made to the MBM to account for remoteness of the respondents to yield (for example) better estimates for the northern parts of provinces.

**Different family sizes.** Currently, Statistics Canada estimates MBM thresholds for a family of four, and then uses a statistical process, known as “equivalization”, to come up with thresholds for families of different sizes. Is the method Statistics Canada uses the best one? Does this method lead to the best possible thresholds for smaller families or unattached individuals?

### **Updating the methodology to bring it in line with today's statistical system.**

Some parts of the MBM are built upon statistical processes that can be improved, or can be replaced with more modern approaches. For example, there are some areas where new sources of administrative data are available that Statistics Canada can use instead of collecting data directly from respondents. Making changes such as this can lead to more stable and accurate estimates of the MBM thresholds and the poverty rate. Other changes can be made to reduce complexity in the MBM, yielding the same quality of estimates in a more transparent and cost-effective way.

### **Improving the transparency of the MBM measure**

While the MBM as a low income measure is easy to communicate, its methodology is complicated in detail. Statistics Canada commits to increasing the transparency in the MBM by simplifying overly-complex processes, and developing more complete documentation to allow users to see into the details of its construction. Statistics Canada will publish detailed estimates of the components used in the basket and in the disposable income concept, and allow for users to validate the assumptions made in the construction of the MBM. An annual publication will examine what might be new in the MBM for a given year, and present detailed studies examining the methodology and proposing areas that might be changed in the future.

#### **Discussion papers reporting on the comprehensive review**

This study represents the first of four discussion papers to be released as part of the comprehensive review. Upcoming discussion papers include:

##### **November 2019: Towards an update of the Market Basket**

The Market Basket Measure basket is comprised of 5 major components: food, clothing, transportation, shelter and other necessities. This discussion paper describes considerations for updating these five components and the changes to the methodology for calculating these five components.

##### **December 2019: Defining disposable income in the Market Basket Measure**

According to the MBM, a family is in low income if its disposable income is less than the Market Basket Measure threshold for a family of its size in its region. This discussion paper describes some of the considerations for updating the disposable income concept for the new MBM.

##### **February 2020: The second comprehensive review of the Market Basket Measure of low income**

This report describes the changes made to the MBM as part of the 2018 base, as well as identifying research to be conducted in preparation for the 2023 review. The paper will describe the new thresholds and compare these to the 2008-base thresholds.

## **Conclusion**

This discussion paper highlighted the efforts Statistics Canada has made to consult with Canadians during the review of the Market Basket Measure of Low income — now Canada's Official Poverty Line. Inputs are still welcome: persons interested in contributing to the comprehensive review are invited to provide comments by sending an email to: [statcan.market.basket.measure-mesure.du.panier.de.consommation.statcan@canada.ca](mailto:statcan.market.basket.measure-mesure.du.panier.de.consommation.statcan@canada.ca)

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