

CHAPTER 6

TOURISM IN CANADA AND ITS VARIOUS ECONOMIC FACETS¹

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Introduction

Tourism affects a number of industries. Hotels, travel agencies, airlines and restaurants are to varying degrees affected by tourism. Thus, tourism is not just one industry, but an amalgam of several, and the tourism phenomenon raises a number of questions because of its complexity, its various ramifications and its scope.

What is the real magnitude of tourism in Canada? What are the total tourism expenditures in Canada? Is it possible to identify a trend in these expenditures, inflation-adjusted or otherwise? What proportions of these expenditures are made by foreign and Canadian visitors? Has the latter proportion grown or declined in recent years? To what extent does tourism contribute to the output of goods and services within the overall economy? How many jobs are generated by tourism activity? What is the inflation rate for tourism commodities, and is this rate rising faster than for the economy as a whole? What is tourism's share in the total revenue from a good or service? What government revenues are attributable to tourism?

This chapter will attempt to answer these various questions, drawing on information contained in the Tourism Satellite Account (TSA) and the National Tourism Indicators (NTI). The analysis will focus on 1997 and 1998², while providing a historical perspective.

Before beginning, it is important to identify clearly what we are seeking to measure. The definition of tourism used in the TSA and the NTI is the one adopted by the World Tourism Organization and the United Nations Statistical Commission. It reads as follows: "the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes." Clearly, this definition is both broad and general – broad because it includes not only personal trips but also trips made primarily for business; and general, because it does not attempt to clarify the concept of usual environment. Each country is therefore free to use its own criteria in order to arrive at a practical application and reflect its own particular circumstances. In Canada, the distance criterion is used. Thus, tourism is generally considered to consist of the trips³ of Canadians travelling within Canada for a distance of

What is the Tourism Satellite Account?

- A set of statistics that measure, in a very detailed way and at regular intervals, the structure and scope of tourism in Canada in terms of output, expenditures and employment.
- Uses information from various sources, for both the supply of and the demand for tourism commodities.
- Brings the information together within a comprehensive conceptual framework, namely the System of National Accounts.
- Allows for comparison with other industries in the Canadian economy.

From the Satellite Account to the National Tourism Indicators

The National Tourism Indicators

- Show the status of tourism and how it is evolving on a quarterly basis.
- Serve to update the Satellite Account.
- Are released ninety days after the reference quarter.
- Are the result of a partnership between Statistics Canada and the Canadian Tourism Commission.

80 kilometres or more (one-way) from their home, as well as the trips of foreigners (or non-residents) travelling in Canada. The expenditures associated with these two components, when taken together, yield a figure for “tourism total demand in Canada.” Canadian residents travelling outside Canada are also covered by the general definition of tourism.

The Tourism Use of Certain Commodities

Some commodities are considered as “tourism” commodities if a significant portion of the demand for them in Canada comes from visitors. The major categories of tourism commodities are transportation, accommodation, food and beverages and other commodities (mainly recreation services and travel agencies). Within these categories are expenditures on passenger air transportation and automobile fuel, motels and campgrounds, meals and alcohol served by licensed establishments. But it is immediately obvious that some tourism commodities are not purchased solely by visitors. In other words, the tourism content varies greatly from one commodity to another or, in technical terms, the demand/supply ratio is low or high. For example, tourists consume a very large share of accommodation services. On the other hand, only a small

percentage of expenditures in restaurants may be attributable to visitors, with the bulk of those expenditures being made by local residents. This is also the case with gasoline, a very large proportion of which is consumed for non-tourism purposes. The following table shows tourism demand as a portion of the supply of tourism commodities according to the Tourism Satellite Account.

Text Table 6.1
Tourism Demand as a Proportion of Domestic Supply⁴

Tourism commodities	%
Air transportation, passenger	93.0
Rail transportation, passenger	90.6
Water transportation, passenger	85.8
Interurban bus, charter and tour	88.6
Taxicabs	22.3
Vehicle rental	82.9
Vehicle repairs and parts	17.9
Vehicle fuel	22.9
Total transportation	39.8
Hotels	92.1
Motels	94.7
Camping	88.8
Outfitters	90.1
Other types of accommodation	74.9
Total accommodation	91.6
Meals from:	
Accommodation services	38.3
Food and beverage services	19.5
Other tourism industries	19.4
Alcoholic beverages from:	
Accommodation services	23.4
Food and beverage services	17.7
Other tourism industries	17.8
Total food and beverages	20.9
Recreation and entertainment	23.6
Travel agency services	98.1
Convention fees	92.1
Total, other tourism commodities	31.6
TOTAL, TOURISM COMMODITIES	36.1

Source: National Tourism Indicators, Catalogue no. 13-009-XPB.

Thus, 93% of passenger air transportation revenues were from tourism, while the corresponding percentage was 92.1% in the case of hotel accommodation. Some might believe that these percentages should be 100%, i.e., that all revenues are attributable to tourism. However, it is necessary to keep in mind that according to the very definition of tourism, certain categories of travellers are excluded, such as students, migrants and diplomats. Furthermore, in the case of accommodation services, local residents make some use of these establishments. For the other two types of expenditures cited above, food and beverage services and gasoline, the tourism demand/supply ratios are 19.5% and 22.9% respectively.

The Various Components of Tourism Demand in Canada

This section seeks to answer the questions on the amount of tourism expenditures made by the different categories of visitors, namely non-residents and Canadians⁵.

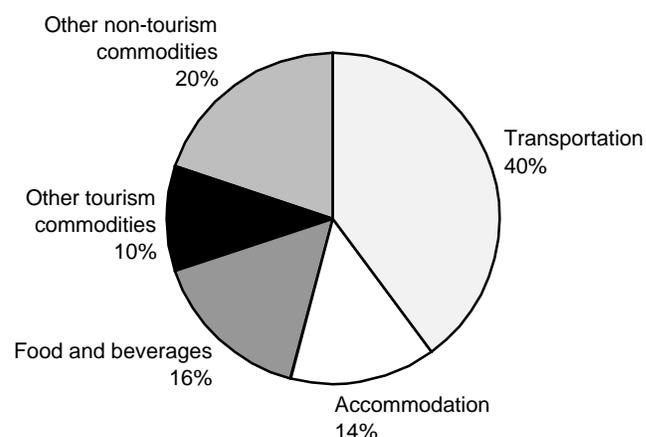
Tourism Demand in Canada

Tourism expenditures in Canada stood at \$44.0 billion in 1997, an increase of 5.3%, compared to the 4.7% increase registered in 1996. Looking at the two components of tourism demand in Canada, export growth fell sharply, while domestic demand rebounded. The growth rate of exports decreased by half, dropping from 10.4% in 1996 to 5.2% in 1997, while the growth rate of domestic demand doubled, rising from 2.6% to 5.3% during the same period.

However, when accounting for inflation, the growth in tourism expenditures in Canada fell for the third consecutive year. At 2.5%, it was the lowest increase since 1992. This slackening is largely attributable to the expenditures of non-residents, which grew more slowly in 1997 in all expenditure categories. Overnight trips, which are more costly, increased by only 1.9%, while same-day trips rose by 5.8%

Of the different expenditure categories, transportation was by far the largest. Alone, it accounted for 40% of total tourism spending in Canada in 1997. Next came other non-tourism commodities (20%), food and beverages (16%), accommodation (14%) and other tourism commodities (10%). In 1997, expenditures in all these major categories were up. Among these, the other tourism commodities category, which is made up mainly of recreation and entertainment services (63%) and travel agency services (34%), grew by 6.8%, the strongest increase of all major

Figure 6.1
Composition of Tourism Demand in Canada



Source: National Tourism Indicators, Catalogue no. 13-009-XPB.

categories. Ranking second, the transportation expenditures grew by 6.6%. Air transportation expenditures, which accounted for more than half of transportation expenditures (56%), increased the most (10.3%) of all expenditure components and had their best performance since 1987. This might be related to the signing of the "Open Skies" agreement between Canada and the United States⁶ in February 1995.

Domestic Demand

Domestic demand, which accounted for 71% of total demand in Canada, grew by 5.3% in 1997, the highest growth rate since 1990. When accounting for inflation, domestic demand rose by 2.1%, the strongest increase since 1993.

The total number of trips abroad by Canadians fell by 2.6%. Trips to the United States, which represented 93% of the total, fell by 3.3%, while trips to other countries rose by 8.5%. The U.S. – Canada exchange rate favoured domestic travel rather than U.S. travel in 1997.

The demand for other tourism commodities exhibited the strongest increase (8.2%), with travel agency services rising by 9.9%. Transportation services, which represent almost half (46%) of the domestic demand ranked second, with a growth rate of 7.1%, followed by expenditures on food and beverage services (4.2%) and accommodation services (1.0%), which accounted for 13% and 11% respectively of total domestic demand.

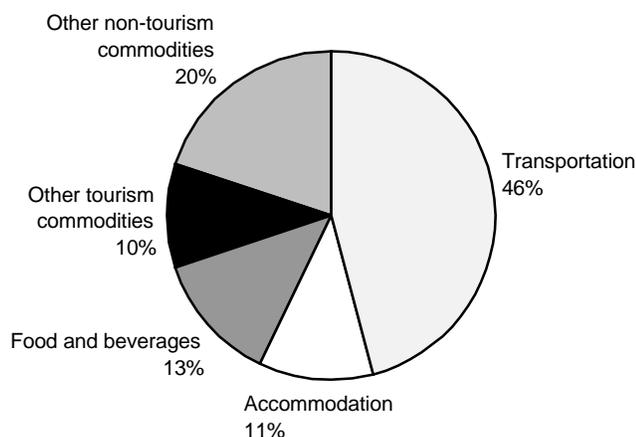
Text Table 6.2

Tourism Demand in Canada - 1997

	Domestic Tourism Demand in Canada	Percent change from preceding year	Foreign demand (Tourism Exports)	Percent change from preceding year	Total Tourism Demand in Canada	Percent change from preceding year
	\$ millions	%	\$ millions	%	\$ millions	%
Transportation	14,280	7.1	3,347	4.4	17,627	6.6
Passenger air transport	7,909	11.7	1,889	5.0	9,798	10.3
Passenger rail transport	132	5.6	71	6.0	203	5.7
Interurban bus transport	397	3.9	168	5.7	565	4.4
Vehicle rental	353	0.3	549	1.7	902	1.1
Vehicle repairs and parts	1,829	-2.1	69	3.0	1,898	-1.9
Vehicle fuel	3,229	3.8	398	3.4	3,627	3.7
Other transportation	431	4.1	203	8.0	634	5.3
Accommodation	3,375	1.0	2,813	8.7	6,188	4.4
Hotels	2,399	-0.1	2,214	10.8	4,613	4.8
Motels	584	3.0	324	4.2	908	3.4
Other accommodation	392	5.7	275	-1.1	667	2.8
Food and beverage services	4,174	4.2	2,911	5.5	7,085	4.7
Meals, from accommodation services	573	3.8	400	1.3	973	2.7
Meals, from food and beverage services	2,524	4.9	1,783	6.6	4,307	5.6
Alcohol, from accommodation services	294	2.4	241	3.4	535	2.9
Alcohol, from food and beverage services	635	2.1	390	6.0	1,025	3.5
Meals and alcohol, from other industries	148	6.5	97	6.6	245	6.5
Other tourism commodities	3,275	8.2	1,169	3.3	4,444	6.8
Recreation and entertainment	1,745	7.5	1,073	3.1	2,818	5.8
Travel agency services	1,479	9.9	50	0.0	1,529	9.5
Convention fees	51	-13.6	46	12.2	97	-3.0
Total tourism commodities	25,104	5.9	10,240	5.7	35,344	5.8
Total other commodities	6,149	3.1	2,494	3.1	8,643	3.1
Tourism expenditures	31,253	5.3	12,734	5.2	43,987	5.3

Source: National Tourism Indicators, Catalogue no. 13-009-XPB.

Figure 6.2
Composition of Domestic Demand



Source: National Tourism Indicators, Catalogue no. 13-009-XPB.

In 1997, domestic demand for air transportation services increased by 11.7%. This was the highest growth rate for all components, since private vehicle operation expenditures increased by 1.5%, while other transportation expenditures rose by 4.2%.

Expenditures on food and beverage services rose by 4.2%, a rate almost four times higher than the previous year. Meals served by restaurants increased by 4.9%, while those served by accommodation services rose by 3.8%.

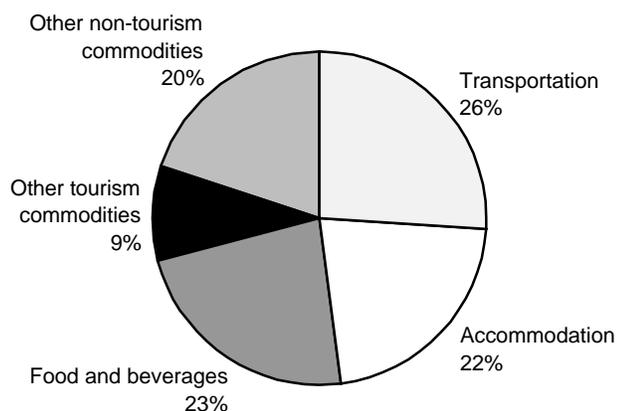
Foreign Demand

The growth rate of foreign demand (exports) fell by half, going from 10.4% in 1996 to 5.2% in 1997, the lowest rate since 1992. However, foreign demand as a proportion of total demand rose from 22% in 1989 to 29% in 1997. With

the Canadian currency weakening against the American dollar, the number of travellers from the United States increased by 5.2%. The number of same-day visitors rose by 6.0%, while overnight stays increased by 3.8%. The number of visitors from other countries dropped by 4.2% after rising by 10.6% in 1996. The number of visitors from Europe and the Asia Pacific region fell by 2.2% and 8.1% respectively, as the Canadian dollar appreciated against their currencies and the financial crisis in Asian countries deepened.

Accommodation services, which accounted for 22% of non-resident expenditures, posted the strongest increase (8.7%). The main component, expenditures on hotels, grew by 10.8%, more than double the increase in expenditures on motels (4.2%). Ranking second were expenditures on food and beverage services, which increased by 5.5%, representing 23% of expenditures. In this category, meals served by food and beverage services rose by 6.6%.

Figure 6.3
Composition of Exports



Source: *National Tourism Indicators, Catalogue no. 13-009-XPB.*

Non-resident transportation expenditures accounted for 26% of total exports. Air transportation, which alone represented more than half of total transportation expenditures, increased by 5.0%.

Non-residents' expenditures on other tourism commodities increased by 3.3%, with the main component, recreation and entertainment, rising by 3.1%. As the figures show, non-residents consume very few services of Canadian travel agencies.

The Tourism Gross Domestic Product (GDP)

The tourism GDP allows analysts to compare the activities resulting from tourism with the activities of other industries and to determine their relative magnitude. The tourism GDP at factor cost reached \$19.2 billion in 1998, representing 2.5% of the GDP of the economy as a whole. This is similar to the 1990 rate of 2.3%. Over the period 1990-1998, the tourism GDP rose by 43%, while the overall GDP increased by approximately 30%.

The tourism GDP at factor cost is the total valued added by both tourism and non-tourism industries that is generated by the provision of goods and services to tourists and same-day visitors. An industry is considered a tourism industry if it provides goods and services to visitors, and if in the absence of tourism, it would cease to exist or would continue to exist but at a greatly reduced level.

Estimates of the tourism GDP are calculated in the framework of the Tourism Satellite Account for 1988 and 1992. For the other years, the tourism GDP is generated from a tourism economic impact model (TEIM). This accounting model is based on the input, output and final demand matrices in the input-output tables, and on the Tourism Satellite Account. The input-output matrices link industries and commodities, as well as the sales of certain industries, to the purchases of other industries and to final demand. The TEIM is also based on the most reliable and recent data on tourism, such as the National Tourism Indicators, the International Travel Survey and the Canadian Travel Survey.

The TEIM also shows how hypothetical changes in tourism demand lead to changes in the supply, distribution and allocation of goods and services in the production line of the business sector. The total effect of a given expenditure is obtained by summing its direct and indirect effects. The direct effect is measured by the increase in the output of establishments directly in contact with visitors, such as hotels and restaurants. The suppliers of these establishments will see their output increase indirectly. For example, an increase in the demand for restaurant meals directly benefits the food and beverages industry and indirectly benefits the food processing industry and beyond it the agricultural sector. The multipliers in the input-output tables do not include the induced effects of expenditures made by those who have received income for their labour or capital.

Employment and Tourism in Canada

Any firm, regardless of the industry in which it operates, uses some combination of materials (capital) and manpower (labour) in its production process. Firms in the tourism field are no exception to this rule. Perhaps what distinguishes tourism is its large labour component, since it is generally recognized as a highly service-oriented activity. Visitors' demand for tourism commodities, technological change, competition among firms, and various government policies are only a few of the factors that can influence the level and structure of employment in the tourism field.

The Tourism Satellite Account (TSA) and the National Tourism Indicators (NTI) provide policy makers, people in the tourism industry, researchers and users in general with relevant data on the size and composition of the manpower engaged in tourism.⁷ Those data show that in 1997, tourism generated 503,200 jobs, an increase of 2.3% over the previous year. The number of employed persons attributable to tourism in transportation grew by 5.1% in 1997, accounting for much of the overall increase. Air transportation did particularly well, with a growth rate of nearly 9% over 1996.

Definition of employment

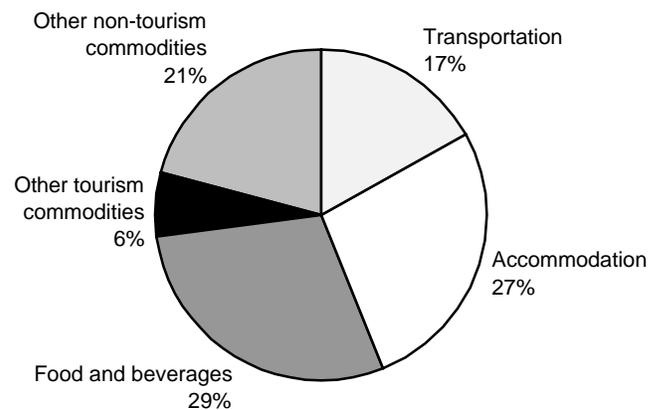
Employment attributable to tourism is expressed in terms of persons employed, whether full-time or part-time. This means that a person working 15 hours per week has the same weight as another person working 40 or 50 hours per week. These estimates are therefore not based on the concept of full-time equivalence.

An examination of the period 1986⁸ - 1997 shows that total employment attributable to tourism rose by 19.5% over the period, going from 420,900 in 1986 to 503,200 in 1997. In comparison, employment in the business sector as a whole grew at a slower pace, increasing by only 12.5%. During those eleven years, the 1990-91 recession obviously had a negative impact on employment levels in the tourism industry and in the business sector as a whole.⁹ From its pre-recession peak in the fourth quarter of 1989 (seasonally adjusted data) to its trough in the first quarter of 1992, employment fell by 4.1% for the business sector as a whole. Tourism employment was harder hit, dropping by 5.4% from the fourth quarter of 1989 (seasonally adjusted data) to the third quarter of 1991.

Of the total of 503,000 jobs, 395,000 were in tourism industries, namely transportation, accommodation, food and beverage services, recreation and entertainment, and travel

agencies. The other 108,000 jobs were in industries not strictly related to tourism, but whose employment levels were affected by visitors' expenditures. Among the tourism industries, the greatest number of employed persons (140,600) were in food and beverage services. Accommodation was a close second with some 137,400 jobs, or 27.3% of the total. Among the other tourism industries, 87,400 employed persons were in transportation and 29,800 in recreation, entertainment and travel agencies.

Figure 6.4
Breakdown of Tourism Employment by Industry in 1997



Source: National Tourism Indicators, Catalogue no. 13-009-XPB.

Government Revenues From Tourism

In addition to expenditures, employment and Gross Domestic Product (GDP), there is another variable for quantifying the importance of tourism in Canada: the share of government revenues attributable to tourism. The goods and services tax (GST) that an individual must pay when staying in a hotel is a good example of a tax that is collected by government and is directly related to tourism. A study¹⁰ was conducted to measure this phenomenon.

Government revenues come from various sources: from taxation (the taxation source), from income-generating government assets or Crown corporations or, to a lesser extent, from the sale of goods and services. It is important to note that this study looked only at revenues from the taxation source, in other words, revenues obtained through the collection of indirect or direct taxes.¹¹ Moreover, only a portion of the direct taxes levied were taken into account, namely direct taxes on employment income; taxes on corporate profits in particular were excluded. The study drew heavily on tax data from Revenue Canada.

Thus, in 1992, all governments collected \$169.5 billion from the sources taken into account in the study. Approximately 4.8% of revenues, or \$8.1 billion, can be directly attributed to tourism. Direct taxes on income from employment in the business sector amounted to \$73.1 billion for the three levels of government. The share attributable to tourism was 3.5% or \$2.6 billion. Indirect taxes on firms yielded \$47.8 billion, of which 2.5%, or \$1.2 billion, were directly attributable to tourism. Indirect taxes on business sales to final consumers were \$48.7 billion, of which 9.0%, or \$4.4 billion, were directly attributable to tourism. Analysed by level of government, the study results showed that tourism generated 5.3% of the tax revenues of the federal government, the same percentage for provincial and territorial governments, and 2.1% for municipalities.

The study also looked at tax revenues per dollar devoted to tourism expenditures; it showed that for every \$100 of expenditures on tourism, the three levels of government together collected \$22.90 in 1992. More specifically, the federal government received \$12.40, provincial and territorial governments received \$8.90, and local governments received \$1.60.

Inflation in Tourism

What is the inflation rate for tourism-related commodities, and does it increase more quickly than in the economy as a whole? The inflation rate for tourism in general is the result of price increases or decreases for a great number of variables. It is useful to look at the same expenditure categories as studied above, from transportation to accommodation to food and beverage services.

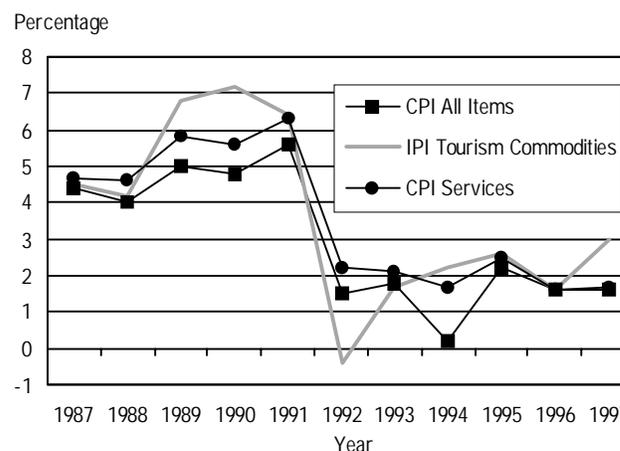
In 1997, prices¹² for all tourism commodities increased by 3.0% over the previous year. The first quarter (data not seasonally adjusted) was especially affected, with the inflation rate approaching 6%. Transportation services posted the strongest increase in 1997, with prices rising by 4.0%. Price changes in passenger air transportation were a major contributing factor, with an inflation rate of 6.2% for the year.

Price increases in 1997 were lower for the other expenditure categories. For accommodation, food and beverages and other tourism commodities, the inflation rate was 2.3%, 1.6% and 2.3% respectively.

In comparison, the all-items consumer price index (CPI), a more general measure of prices in the economy, posted an increase of 1.6% in 1997 over the previous year. This, then,

was almost half the overall rate for tourism commodities as measured by the implicit price index (IPI). This situation was not unique to 1997, as the following chart shows.

Figure 6.5
Inflation in Tourism Compared to the Rest of the Economy



Sources: National Tourism Indicators and the Consumer Price Index.

Thus, in 9 years out of 11 from 1987 to 1997, price increases for tourism commodities were greater than for the overall basket of goods purchased by consumers. The two exceptions were 1992 and 1993, and in 1992 there was even a decrease in prices for tourism commodities. An analysis of price changes over the entire period shows that prices related to tourism rose by 43%, whereas the CPI rose by 32%. From another perspective, the increase in prices was on average one percent higher per year for tourism commodities than for the overall basket of goods and services purchased by individuals.

Preliminary Review of 1998

In 1998, tourism expenditures in Canada amounted to \$47.0 billion, including \$14.2 billion or 30% by non-residents and \$32.8 billion or 70% by Canadians. The share of total expenditures attributable to non-residents has been steadily rising for nine years.

Expenditures of foreign visitors rose by 11.4% over the previous year, twice the growth rate for Canadians' expenditures (5.1%). In 1998, the combined overall rate of increase of tourism expenditures in Canada was 7.0%, much higher than the rate registered in 1997 (5.3%) and in 1996 (4.7%). Unlike the previous two years, when spending was mainly buoyed by transportation expenditures, 1998

was marked by sizeable gains in expenditures on accommodation (10.7%) and food and beverages (9.0 %).

After correcting for inflation, tourism expenditures rose considerably in Canada in 1998 (5.0%), ending a downward trend observed since 1995. The sizeable increase (9.0%) in the expenditures of non-residents was once again the main source of growth in overall demand, with Canadians increasing their expenditures by 3.3%. In 1998, the number of Americans travelling to Canada increased by 8.3% over 1997 as they continued to take advantage of the weak Canadian dollar. The number of overnight trips, which are more costly, grew by 11.1%, almost double the growth rate observed for same-day visits (6.9%). However, the situation for visitors from Europe or the Asia Pacific region was not nearly as favourable. The number of European visitors fell for the second time this decade (-2.4%), while the number of visitors from the Asia Pacific region fell even more sharply (-19.5%).

Canada's travel account balance (including passenger fares) –the difference between the expenditures of foreign visitors in Canada and those of Canadian residents abroad–stood at minus \$3.3 billion in 1998, representing the lowest deficit in ten years. This situation resulted from a greater number of American visitors to Canada and the fact that almost 15% more Canadian visitors decided to stay home in 1998.

Price Increases in Tourism Commodities Outpace the Consumer Price Index

The overall tourism inflation rate as measured by the implicit index of tourism commodity prices was 2.1% in 1998, compared to 3.0% in the previous year. By comparison, the Consumer Price Index (CPI) for all goods and services, a more general measure of price changes, rose only slightly (1%) during the year. The greatest price increase was in accommodation (4.5%), with a more modest increase in transportation prices (1.1 %).

More Jobs Generated by Tourism

In 1998, tourism generated a total of 518,000 full-time and part-time jobs, an increase of 3.0% over the previous year. Especially good results were obtained in the air transportation sector, with an increase in the number of travellers. After outpacing the rate of job growth in the business sector for the previous three years, in 1998, tourism-related job growth was comparable to that of the business sector as a whole.

Summary and Conclusion

The Tourism Satellite Account and the National Tourism Indicators are a major source of information for analysing the tourism sector in Canada. This article sought to answer various questions concerning the impact of tourism in terms of the value of expenditures made by the different categories of visitors, the employment attributable to tourism, and the amounts that governments receive from tourism in the form of taxes. The size of the amounts involved shows the significant role of tourism in the Canadian economy.

Furthermore, the various changes that are currently taking place within our society (such as the growing use of the internet, the globalization of trade, the near-elimination of national borders in Europe and the retirement of the baby boomers) will undoubtedly, in the fairly near future, have a direct impact on tourism in both Canada and the rest of the world.

Notes

- ¹ The original version was written in French.
- ² Using data available on April 1st 1999.
- ³ Not all trips constitute tourism. Not included are commuting, trips for the purpose of education or work in a new location, or trips made by migrants, diplomats or members of the Armed Forces on assignment, as well as flight personnel.
- ⁴ Percentages are based on the 1992 reference year.
- ⁵ Spending by non-residents is also referred to as “exports” or “foreign demand” and spending by Canadians in the country as “domestic demand”.
- ⁶ See Travel Log, Catalogue no. 87-003, Vol. 18 no.3 *The US-Canada Open Skies Agreement: Three Years Later*.
- ⁷ Statistics Canada's Income and Expenditure Accounts Division is currently undertaking a major effort to set up a module on human resources for tourism, which would supplement the TSA and NTI. The module would serve to extend and disaggregate the current measures of employment and wages and use them in combination with socio-demographic variables such as sex, age, education level and type of occupation.
- ⁸ First year for which data are available from the National Tourism Indicators.

- ⁹ There is usually some time lag between a drop in output and firms' decision to lay off employees. Similarly, once business picks up, firms generally prefer to wait a while before calling back all their employees.
- ¹⁰ This section draws on the broad outlines of a study conducted by Statistics Canada's Income and Expenditure Accounts Division for the Canadian Tourism Commission, entitled "Estimates of Government Revenues Attributable to Tourism, 1992". The reader should note that some revisions were made to the totals estimated for various taxes after the study was released.
- ¹¹ Indirect taxes are mainly associated with expenditures, while direct taxes are primarily associated with income.
- ¹² These estimates are derived from implicit price indexes; that is, they are obtained by dividing expenditure estimates in current prices by those in constant prices for the base year (1992). In this way, the prices reflect not only pure price changes but also changes in the expenditure weighting pattern.