

Consumer Price Index continues upward trend

The Consumer Price Index (CPI) for the Edmonton Census Metropolitan Area (CMA) was 1.1% higher in April compared to March, Statistics Canada figures released May 20 show.

The month-to-month increase was the largest among all major Canadian urban centres, though only slightly ahead of Calgary. Compared to April a year ago, the CPI was up by 2.9%. The March CPI was 2% higher than the same month last year. From the very moderate movements in the CPI recorded in 2010, Edmonton's inflation rate is now converging, at an accelerating pace, on the national average. Higher energy costs, particularly for electricity, were the primary cause of the increase in Edmonton's CPI.

At the national level, in spite of a significant rise in energy-related costs, the CPI was up only slightly from March. Compared to April 2010, the Canadian CPI was up 3.3% as lower food, clothing, furniture and housing costs partially offset a 17.1% increase in energy prices. Excluding food and energy, Canada's CPI advanced 1.6% on an annual basis.

The CPI for Alberta consumers was up 3% in April compared to the same month a year ago, after recording a 2% rise in March compared to March 2010. The primary drivers of this increase were increases in electricity prices (up 59.6%) and gasoline (up 24%). The jump in electricity costs is partly explained as a rebound from very low prices in the first half of 2010. Since then a drop in generating capacity and a recovery in demand for power in the province have pushed electricity costs up sharply.

The consensus appears to be that Canada's inflation rate, reflected in the CPI, is peaking. Similarly, inflation for Alberta is expected to moderate. However, it is quite possible that CPI inflation figures for Edmonton will go higher. This is because prices here reached very low levels toward the late summer and fall of 2010. Consequently the annual growth in CPI for Edmonton will likely be biased upward until the fourth quarter of 2011.

Significance

At the national level, the CPI is closely watched by the Bank of Canada and is a key factor in the Bank's decisions on managing interest rates. The Bank is committed to keeping the change in core inflation (essentially CPI excluding highly volatile food and energy prices) at the 2% level. With the current rate of change in core inflation closing in on that target level, the Bank will likely be under pressure to raise rates in the second half of 2011.

For Edmonton, the large role of energy price movements and the distorting impact of unusually low prices in 2010 bring into question the usual interpretation of a rising rate of CPI change as a sign of boom conditions. While Edmonton's economic performance is very strong, the spike in April's CPI should not be interpreted as a signal of overheating in the CMA's economy. However, if higher inflation rates persist into the fourth quarter of 2011, they may indeed signal an unsustainable tightening in local economic conditions.

Limitations

CPI is a measure of the change in prices and not their absolute level. Consequently, Edmonton's CPI of 124.3 cannot be used to conclude that the cost of living in Edmonton is higher than elsewhere. What it does show is that since 2002, prices for consumer goods have risen faster in Edmonton than in the country as a whole – 26% for Edmonton compared to 20% for Canada.

Also, CPI may not be a useful guide to inflationary pressures experienced by organizations such as the City of Edmonton. Prices used to determine the CPI are reflective of what the average consumer purchases, not typical City expenditures on wages, salaries and capital projects.

Table 1

Consumer Price Index for April 2011

	Apr -10	Mar -11	Apr - 11	Mar 2011 to Apr 2011	Apr 2010 to Apr 2011
	2002=100			% change	
Canada	118.5	119.4	119.7	0.3	3.3
Alberta	122.3	124.5	126.0	1.2	3.0
Edmonton CMA	122.6	124.8	126.2	1.1	2.9
Calgary CMA	122.8	124.3	125.6	1.0	2.6

Source: Statistics Canada

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