



EDMONTON

# indicators

## Consumer inflation continues to moderate

August 19, 2011 – Canada's inflation rate as measured by the Consumer Price Index (CPI) slipped again in July as increases in energy prices and shelter costs slowed.

The year-over-year increase in the CPI for the month of July was 2.7%, compared to 3.1% recorded in June.

Edmonton's rate of inflation also dipped, as the CPI slid from 2.4% to 1.9% between June and July. With continued falls in gasoline and other energy prices, moderate inflation figures for Edmonton will likely continue over the next 60 to 90 days. However, ongoing increases in electricity prices are setting the stage for a faster rate of inflation in Edmonton later in 2011.

The continued drop in inflation at the national level was anticipated. More moderate increases in gasoline prices and a sharp drop in vehicle costs resulting from dealer incentives were the key factors in the lower results for July. Food, furniture and housing costs all contributed to the increase in CPI. Excluding food and energy, Canada's CPI advanced 1.4% on an annual basis.

The CPI for Alberta consumers was up 1.9% in July, compared to the same month a year ago. Lower prices for vehicles and selected categories of clothing, as well as a stabilization of energy costs, resulted in a more moderate rate of inflation for the province.

### Significance

At the national level, the CPI is closely watched by the Bank of Canada and is a key factor in the Bank's management of interest rates. The Bank is committed to keeping the change in core inflation (essentially the CPI minus highly volatile food and energy prices) at the 2% level. Continued moderation combined with weaker global economic conditions gives the Bank of Canada additional time before they need to start raising interest rates. It is now anticipated that Canadian interest rates will begin to climb early in 2012.

For Edmonton, a second month of moderation in CPI growth is welcome after steady increases in inflation earlier this year. However, July's results are unlikely to mark a reliable return to lower inflationary pressures. Inflation as captured by the CPI should move back up to the 3% range in the late summer/early fall, with the possibility of a move to values around 2.5% in late 2011.

### Limitations

CPI is a measure of the change in prices and not their absolute level. Consequently, Edmonton's CPI of 125.6 does not mean 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 indicator of all of the 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 municipal goods and services.

**Table 1**

**Consumer Price Index for June 2011**

	July 2010	June 2011	July 2011	June 2011 to July 2011	July 2010 to July 2011
	2002=100			% change	
Canada	116.8	119.8	120.0	0.2	2.7
Alberta	123.3	125.3	125.7	0.3	1.9
Edmonton CMA	123.5	125.6	125.9	0.2	1.9
Calgary CMA	123.3	124.6	125.5	0.5	1.8

Source: Statistics Canada

### Contact

John Rose  
Chief Economist  
Economic Trends & External Research  
Strategic Management  
Finance and Treasury  
780-496-6070