



EDMONTON

indicators

Consumer Price Index eases in June

July 25, 2011 – Canada's inflation rate measured by the Consumer Price Index (CPI) slowed in June as increases in energy and food prices slowed and costs for vehicles fell.

Edmonton's year-over-year increase for the month of June was 2.4%, compared to the 3% recorded in May.

Although a cooling in inflation was anticipated at the national level, the rate of slowing from May to June was somewhat unexpected. A more moderate rate of increase in gasoline prices and a sharp drop in vehicle costs resulting from dealer incentives were the key factors in the lower results for June. 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 2.1% in June compared to the same month a year ago. Lower vehicle prices and a stabilization of energy costs resulted in a more moderate rate of inflation for the province than had been anticipated.

While June's inflation results across the country were surprisingly tame, the temporary nature of auto dealer incentives and a moderation in energy costs suggest this lull in price increases will not continue into the coming months. This is particularly true for Edmonton, where a significant increase in electricity prices for July has already set the stage for a faster rate of inflation.

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. In its most recent report on the Canadian economic outlook the Bank made it clear that interest rate increases are now likely. It is anticipated that rates will begin to move up later this year.

For Edmonton, June's figures are a welcome change from the steady increases in inflation seen over the past nine months. However, June's results are unlikely to mark an immediate return to lower inflationary pressures. Inflation as captured by the Consumer Price Index should move back up to the 3% range in the late summer and early fall with the possibility of a return to values around 2.5% in late in 2011.

Limitations

CPI is a measure of the change in prices and not their absolute level. Consequently, Edmonton's CPI of 125.6 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 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

	June 2010	May 2011	June 2011	May 2011 to June 2011	June 2010 to June 2011
	2002=100			% change	
Canada	116.2	120.6	119.8	-0.7	3.1
Alberta	122.7	126.1	125.3	-0.6	2.1
Edmonton CMA	122.7	126.5	125.6	-0.7	2.4
Calgary CMA	122.9	125.8	124.6	-0.7	1.6

Source: Statistics Canada

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