

# The City of Edmonton's 2023 Municipal Price Inflation Update

## Understanding Inflation

Inflation is defined as the rate of price growth for goods and services over a period of time, which means that every unit of currency buys a different amount of goods and services over time. For example, if an item costs \$100.00 in period 1 and period-to-period inflation is two per cent, that same item will cost \$102.00 in period 2, \$104.04 in period 3 and so forth. The Consumer Price Index (CPI) measures price changes for goods and services purchased by Canadian consumers and is the most widely used indicator of price changes in Canada.

The City of Edmonton's ("City") cost of municipal service provision also faces inflation. Due to price increases, the City requires more money to purchase the same mix of goods and services over time. However, because the City purchases a considerably different range of goods and services than the average Canadian consumer, the CPI is not an adequate measure of the inflation the City faces for operations. Thus, a Municipal Price Index (MPI) was developed to estimate operating price inflation faced by the City.

The MPI is not a prescriptive tool that mandates operating expenditure increases each year. Rather, the MPI is a tool that helps better inform the City's budgetary process of external economic conditions that the City may be exposed to. Details on the MPI methodology can be found in the MPI Backgrounder available [here](#).

## 2023 Municipal Price Index Calculation

The MPI is updated on an annual basis, typically during the first half of the year. Annual updates to the MPI involve revising the previous year's estimated MPI values to reflect historical inflation figures and updating the inflation factors for the current year and the next four years with updated forecast values and realized values, where available. Revisions to historical estimates beyond the previous year are only made when there are revisions to historical inflation factors, for example from Statistics Canada, or new collective agreements that came into force between update periods that would have an impact on historical inflation for City personnel.

Municipal inflation for 2022 was estimated at 4.44 per cent, which was higher than the 2022 projection of 2.67 per cent. The much faster rate was due primarily to stronger price increases for utilities, fuels and manufactured goods.<sup>1</sup> To the extent there were categories that experienced less inflation than expected, the slower price increases were negligible. Of particular note, the economic effects brought on by the combination of Russia's invasion of Ukraine and the strong pace of

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<sup>1</sup> There were also upward revisions to labour inflation factors but these are still open to revision as a number of City of Edmonton labour agreements remain unresolved that would cover 2022.

COVID-19 pandemic recovery played a significant role in driving up commodity prices and inflation for almost all sectors in 2022. For instance, consumer inflation in the Edmonton census metropolitan area (CMA) was 6.3 per cent in 2022, the Alberta electric power selling price for sales over 5,000 kilowatts to non-residential customers rose 45 per cent and benchmark West Texas Intermediate crude oil rose 37 per cent.

The municipal inflation rate for 2023 is forecast to be 2.57 per cent, nearly one percentage point higher than forecast last year. This is anticipated to be largely driven by higher inflationary pressures brought on by City employee wages, salaries and benefits, as well as contracted and professional services. Higher interest rates introduced by the Bank of Canada to counteract 2021 and 2022's rising consumer inflation will also pose an inflationary challenge. Over the remainder of the forecast horizon, 2024-2027, inflation expectations for the City are expected to come largely in line with previous expectations, averaging 1.8 per cent annually.

**Table 1. City of Edmonton Municipal Inflation**

		Weighted Expenditure Category Inflation		
Expenditure Category	Weight	2022e	2023f	2024-27f Avg.
Wages and Salaries	45.48%	0.64%	1.61%	1.06%
Employee Benefits Total	8.41%	0.12%	0.30%	0.20%
Equipment (Vehicles and Computers)	3.77%	0.48%	-0.01%	0.04%
Fuel	1.88%	0.92%	-0.26%	-0.04%
Materials	3.26%	0.42%	-0.01%	0.03%
Natural Gas	0.57%	0.15%	-0.25%	0.03%
Electricity	1.38%	0.62%	0.08%	0.03%
Utilities (excl. Natural Gas and Electricity)	0.62%	-0.01%	0.04%	0.01%
External Space	1.34%	0.08%	0.04%	0.03%
Grants & Board Requisition	1.29%	0.08%	0.04%	0.03%
Land Cost	3.54%	0.05%	0.11%	0.07%
Tax Adj & Concessions	0.57%	0.04%	0.02%	0.01%
Other Expenses	7.44%	0.47%	0.24%	0.16%
Other Financing	0.02%	0.00%	0.00%	0.00%
Travel & Training	0.16%	0.01%	0.01%	0.00%
Contract Services	7.84%	0.15%	0.28%	0.18%
Professional Services	1.21%	0.02%	0.04%	0.03%
Debt Service Total	11.22%	0.19%	0.29%	-0.06%
	100.0%			
<b>Municipal Price Inflation</b>		<b>4.44%</b>	<b>2.57%</b>	<b>1.80%</b>

Sources: City of Edmonton, Statistics Canada, Bank of Canada, Conference Board of Canada  
 "e" = estimates, "f" = forecasts