

Base-year effects continue to bolster inflation rate

June 16, 2021

The annualised rate of change in the Consumer Price Index (CPI) for the **Edmonton** Census Metropolitan Area (CMA) slowed slightly to 2.9 per cent in May 2021 from three per cent in April. Price growth in the shelter component increased by 1.8 per cent year-over-year in May, with upward price pressure coming from utilities (i.e., water, fuel and electricity) and rented accommodation. Gasoline prices in the Edmonton region has seen strong growth, posting double-digit year-over-year growth consistently since February 2021. The price for regular unleaded gasoline was \$1.23 in May 2021, up 48 per cent year-over-year, providing additional upward pressure on the overall inflation rate in May.

Base-year effects, which refer to the price movements from 12 months earlier on the current month's headline consumer inflation, continue to have an impact on the Edmonton region's inflation readings, lifting rates much higher lately due to pandemic-related price declines. According to Statistics Canada, price declines were most pronounced between February and April 2020. Large base-year effects related to the pandemic are expected to be temporary and to become less pronounced in the coming months. However, pent-up consumer demand is now impacting prices in certain expenditure categories, which is lifting overall inflation further.

The expectation for inflation in the Edmonton region is an annual average rate of 2.2 per cent in 2021, though there is a risk that actual rates may be higher than expected. The risk is largely due to pressures on supply chains lifting prices (e.g., lumber prices have seen extraordinary price increases due to supply not being able to keep up with very strong demand), which is expected to impact consumer purchase prices. As of May 2021, the year-to-date inflation rate in the Edmonton region was about 1.8 per cent.

Consumer Price Index for May 2021

	May 2020	Apr 2021	May 2021	Apr to May 2021	May 2020 to May 2021
	2002=100			% change	
Canada	136.1	140.3	141.0	0.5	3.6
Alberta	144.1	147.7	148.6	0.6	3.1
Edmonton CMA	144.0	147.5	148.2	0.5	2.9

Source: Statistics Canada, Table 18-10-0004-01

Note: This table outlines the percentage change in the monthly CPI reading from the previous month, as well as the same month a year earlier (also known as the annualised rate).

The national CPI increased 3.6 per cent on a year-over-year basis in May 2021, an increase from 3.4 per cent in April. According to Statistics Canada, this represents the largest yearly increase since May 2011. Base-year effects continued to impact the annualized inflation rate in May, though there was additional upward pressure coming from higher shelter prices and purchases of passenger vehicles. Canada's core inflation rate, as reflected in the three measures of consumer prices tracked by the Bank of Canada, averaged 2.3 per cent in May, an increase from 2.1 per cent in April and above the Bank's inflation-control target range of one to three per cent. The Bank of Canada has indicated that it will hold its policy interest rate at the effective lower bound of 0.25 per cent until economic slack is absorbed, which is expected to happen sometime in the second half of 2022.

Limitations

The CPI is a measure of the change in prices and not their absolute levels. It reflects the prices consumers pay on a typical basket of goods and services, but not all the inflationary pressures experienced by organizations, such as the City of Edmonton. Prices used to determine the CPI represent average consumer purchases, such as groceries, clothes, retail goods, rent and mortgages. The CPI does not reflect the type of expenditures required to deliver municipal goods and services, such as construction materials, public transit equipment and professional services.

Consequently, when compared to the national CPI, Edmonton's higher CPI does not mean the cost of living in Edmonton is higher than elsewhere. It does indicate that since 2002, prices for consumer goods have risen somewhat faster in Edmonton compared to the Canadian average.

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