

Inflation rate reaches 1.7% in March

April 21, 2021

Note: According to Statistics Canada, a base-year effect refers to the price movements from 12 months earlier on the current month's headline consumer inflation. Due to the COVID-19 pandemic and public health measures, Canadian consumers experienced a significant decline in prices from February to April 2020. For example, in the Edmonton CMA, headline consumer inflation slowed from 2.5 per cent in February 2020 to 0.9 per cent in March, and then to -0.3 per cent in April. As annualised rates of inflation are calculated over a 12-month period, the base-year effect is significantly more pronounced in March's consumer price index (CPI) readings due to price distortions caused by the pandemic. This is expected to be temporary with the impact of price declines becoming less pronounced in the coming months.

The annualised rate of change in the CPI for the **Edmonton** Census Metropolitan Area (CMA) was 1.7 per cent in March 2021 compared to 0.5 per cent in February. The shelter component recorded annualised price growth of 1.9 per cent, largely driven by higher prices for utilities (i.e., water, fuel and electricity) and rented accommodation.

Inflation in **Alberta** picked up from an annualised rate of 0.6 per cent in February to 1.9 per cent in March. Prices continued to rise in the food and shelter components; however, there has been a very noticeable increase in the price for energy¹, which added significant pressure on the provincial inflation rate in March. Price growth for natural gas and gasoline were the largest contributors to higher provincial energy prices. On a year-over-year basis, natural gas prices in March were almost 36 per cent higher, while gasoline prices rose almost 46 per cent. Excluding energy, Alberta's CPI inched up by 0.21 per cent in March.

The annualised rate of inflation in **Canada** rose to 2.2 per cent in March from 1.1 per cent in February. Much of the acceleration was due to base-year effects. Price growth in the transportation and shelter components contributed the most to the national inflation rate in March. National gasoline prices, much like in Alberta, saw a significant increase (+35.3 per cent year-over-year in March) that was mainly driven by a combination of a recovery in global oil demand and the Organization of the Petroleum Exporting Countries Plus continuing their production cuts, according to Statistics Canada.

¹ Statistics Canada's special "energy" aggregate includes: "electricity", "natural gas", "fuel oil and other fuels", "gasoline", and "fuel, parts and accessories for recreational vehicles".

Consumer Price Index for March 2021

	Mar 2020	Feb 2021	Mar 2021	Feb to Mar 2021	Mar 2020 to Mar 2021
	2002=100			% change	
Canada	136.6	138.9	139.6	0.5	2.2
Alberta	144.1	146.4	146.9	0.3	1.9
Edmonton CMA	144.3	146.2	146.8	0.4	1.7

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).

Significance

The expectation for inflation in the Edmonton region is an average around the two per cent range in 2021. This is despite concerns of high inflation as the region's economy recovers and consumption begins to normalise. The pandemic created distortions in consumption with low prices persisting in components most affected by these distortions, like clothing and footwear. However, there is a significant amount of slack in Edmonton's economy which is expected to remain even as economic conditions improve, which will limit upward pressures on inflation.

Canada's core inflation rate, as reflected in the three measures of consumer prices tracked by the Bank of Canada, averaged 1.9 per cent in March. It is worth noting that the Bank revised its forward guidance in its April 2021 Monetary Policy Report to reflect expectations of economic slack being absorbed to happen some time in the second half of 2022 compared to in 2023.

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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