

Inflation Review

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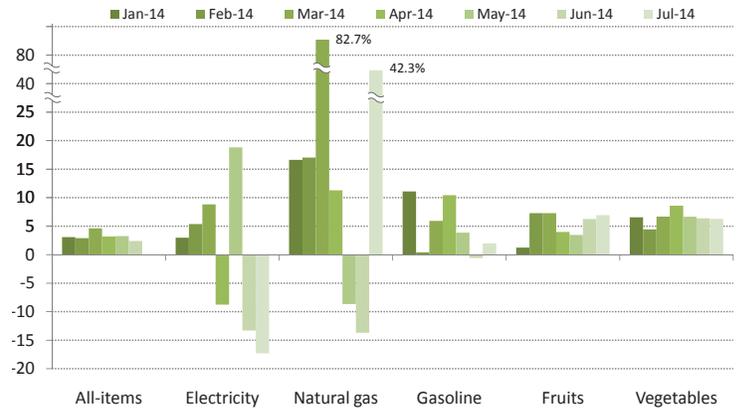
Calgary's headline inflation accelerated in July

In July, the headline inflation for the Calgary census metropolitan area (CMA) moved up 2.9 per cent year-over-year, after reaching 2.4 per cent in June. In Alberta, inflation rate accelerated to 2.6 per cent but decelerated to 2.1 per cent in Canada. Solid gains were observed in food, which was 3.1 per cent more expensive than last year. Food purchased from stores was up 3.2 per cent and restaurant bills were up 3.2 per cent. Calgaryans paid 2.6 per cent more for transportation as gasoline prices rebounded 2.0 per cent following a modest 0.6 per cent contraction in June. Shelter costs leaped 5.5 per cent in July as natural gas prices spiked 42.3 per cent when compared to last year's data. Rented accommodation costs advanced 3.3 per cent and owned accommodation, 6.0 per cent.

Key drivers for inflation in Calgary: food and energy

Calgary's inflation rate began climbing at a steady pace in October 2013, when the annual inflation rate rose from 1.5 per cent to 3.1 per cent in January 2014. Then in March, inflation hit a seven-year high of 4.6 per cent. The surprising up-tick in consumer prices was almost entirely due to high energy costs caused by the unusually cold winter. In March, a massive 82.7 per cent spike in natural gas prices and a 5.2 per cent jump in gasoline prices resulted in significant year-over-year gains for both costs in shelter (10.6 per cent) and transportation (3.5 per cent). Since then, energy prices have fallen. Electricity prices contracted 1.8 per cent since March and natural gas prices retreated 25.4 per cent. This has led to

Chart 1. Key drivers for Calgary's headline inflation (Year-over-year change, per cent)



Sources: Statistics Canada, Corporate Economics, August 2014

declines in shelter costs of 1.7 per cent. Meanwhile, food prices are becoming an increasingly key driver of inflation; accelerating from around 2.5 per cent in the beginning of the year to a three-year high of 4.3 per cent in June. Specifically, the costs of fresh fruits and vegetables rose about 5.2 to 6.5 per cent over the first seven months of 2014. Consumers will have to endure higher grocery bills for a little longer as the drop in the loonie combined with a drought in California have been placing upward pressure on prices (Chart 1).

Inflation Rates

	Relative Importance (%) [*]	Year-over-year			Year-to-date		
		Jul-14 (%)	Jun-14 (%)	Jul-13 (%)	Jul-14 (%)	Jun-14 (%)	Jul-13 (%)
Calgary: All-items	100.00	2.9	2.4	2.5	3.2	3.2	1.5
Calgary: All-items excluding food and energy	76.49	2.7	3.0	2.2	2.9	2.9	1.4
Food	15.99	3.1	4.3	1.9	3.2	3.2	2.2
Shelter	26.56	5.5	2.9	4.6	6.0	6.1	2.7
Rented accommodation	5.40	3.3	3.1	3.8	3.2	3.2	3.2
Owned accommodation	16.24	6.0	5.9	2.9	5.7	5.7	2.0
Water, fuel and electricity	4.84	7.1	(8.6)	12.8	11.1	11.8	5.1
Household operations, furnishing and equipment	12.27	2.1	2.5	2.4	2.4	2.4	2.1
Clothing and footwear	5.88	0.9	1.9	2.1	1.2	1.3	0.2
Transportation	20.44	2.6	1.8	2.8	3.2	3.3	0.5
Gasoline	3.81	2.0	(0.6)	5.7	4.5	4.9	0.8
Health and personal care	4.65	2.1	1.4	(0.5)	1.1	1.0	0.0
Recreation, education and reading	11.37	1.5	2.8	1.4	2.4	2.6	0.8
Alcoholic beverages and tobacco products	2.83	3.9	3.9	1.1	3.5	3.5	1.3
Alberta: All-items	100.00	2.5	1.9	2.2	2.7	2.7	1.4
Alberta: All-items excluding food and energy	76.49	2.3	2.6	1.9	2.4	2.4	1.3
Canada: All-items	100.00	2.1	2.4	1.3	1.9	1.8	0.9
Canada: All-items excluding food and energy	74.85	1.5	1.6	1.1	1.4	1.3	0.8

Sources: Statistics Canada, Corporate Economics, August 2014

* 2011 CPI basket weights at January 2013 prices, date modified March 27, 2013

Figures in red and parentheses indicate negative.

Going forward...

The year-to-date headline inflation rate for the first seven months of the year in Calgary came in at 3.2 per cent, which was particularly high when compared to last year's rate of 1.5 per cent. July's consumer prices were up as a result of higher prices for food and energy. Apart from the highly volatile food and energy categories, Calgary's core inflation was 2.7 per cent in July and 2.9 per cent year-to-date. Overall, the inflation rate should trend downwards in the coming months aided by a moderation in energy costs.

Next release: Sep 19, 2014

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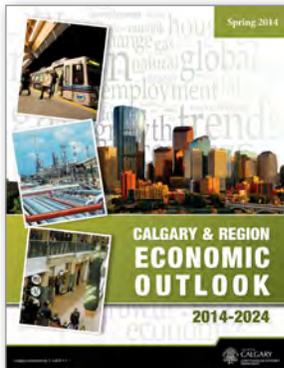
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Sources: Statistics Canada, Corporate Economics.