

Inflation Review

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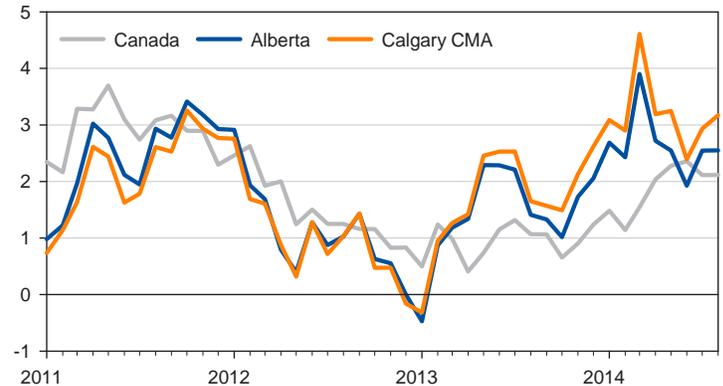
September 19, 2014

Calgary's inflation rate accelerated once again in August

In August Calgary's inflation rate accelerated to 3.2 per cent year-over-year as a result of rising transportation and shelter costs. Gasoline prices climbed 3.6 per cent from August 2013, although they actually declined from the previous month. Shelter costs were up 5.6 per cent as an annual decline in electricity prices was outweighed by a sizable increase in natural gas prices. Natural gas continues to be a significant driver of inflation this year due to the price spikes that occurred during the winter. On a year-to-date basis, prices have advanced almost 20.0 per cent. As things return to normal next year, natural gas will likely become a drag on inflation. Food prices have also behaved as a substantial driver for inflation in 2014, although year-on-year increases slowed from 3.1 per cent in July to 2.8 per cent in August. Meanwhile, the cost of household operations, furnishing, and equipment jumped 3.4 per cent from August 2013 following a 2.1 per cent increase the month before. Overall for Calgary the inflation rate excluding food and energy picked up to 3.3 per cent in the month.

Alberta's inflation rate also increased in August, rising to 2.6 per cent after coming in at 2.5 per cent in July. Gains in both food and energy prices slowed in the month, slipping to 2.2 per cent and 2.7 per cent year-over-year, respectively. Excluding these two categories, Alberta's inflation rate climbed from 2.3 per cent in July to 2.7 per cent in August. At the national level, Canada's all-items inflation rate held steady at 2.1 per cent. There was a noticeable

Chart 1. Headline inflation comparison
(year-over-year change, January 2011 - August 2014, per cent)



Sources: Statistics Canada, Corporate Economics, September 2014

acceleration in the core inflation rate, which excludes food and energy. It jumped to 2.0 per cent, after a significantly tamer 1.5 per cent rise in July. Similarly, the Bank of Canada's measure of core inflation rose from 1.7 per cent to 2.1 per cent. This marked its highest level since April 2012, and the first time it has come in at or above the 2.0 per cent target in over two years.

On a year-to-date basis Calgary's inflation rate continues to run at 3.2 per cent. While this is rather high relative to the rest of

the country, we expect it to come down fairly significantly in 2015 as natural gas prices normalize. If core inflation continues to track around 2.0 per cent at the national level, it will become increasingly likely that the Bank of Canada will raise interest rates within the next year. Economic growth is accelerating thanks to a pickup in exports, although the labour market's recent performance has been lacklustre at best. A key consequence of rising interest rates will be the increase in mortgage carrying costs, which will serve to erode shelter affordability in Calgary.

Next release: Oct 17, 2014

Inflation Rates

	Relative Importance (%) [*]	Year-over-year			Year-to-date		
		Aug-14 (%)	Jul-14 (%)	Aug-13 (%)	Aug-14 (%)	Jul-14 (%)	Aug-13 (%)
Calgary: All-items	100.00	3.2	2.9	1.7	3.2	3.2	1.6
Calgary: All-items excluding food and energy	76.49	3.3	2.7	1.9	2.9	2.9	1.5
Food	15.99	2.8	3.1	2.4	3.1	3.2	2.3
Shelter	26.56	5.6	5.5	2.9	5.9	6.0	2.7
Rented accommodation	5.40	3.4	3.3	3.7	3.2	3.2	3.2
Owned accommodation	16.24	6.0	6.0	3.2	5.8	5.7	2.2
Water, fuel and electricity	4.84	7.4	7.1	0.8	10.6	11.1	4.5
Household operations, furnishing and equipment	12.27	3.4	2.1	2.1	2.5	2.4	2.1
Clothing and footwear	5.88	0.8	0.9	2.1	1.2	1.2	0.4
Transportation	20.44	3.8	2.6	1.0	3.3	3.2	0.6
Gasoline	3.81	3.6	2.0	0.1	4.4	4.5	0.7
Health and personal care	4.65	1.7	2.1	(1.0)	1.2	1.1	(0.1)
Recreation, education and reading	11.37	2.2	1.5	1.2	2.4	2.4	0.8
Alcoholic beverages and tobacco products	2.83	4.1	3.9	1.0	3.6	3.5	1.3
Alberta: All-items	100.00	2.6	2.5	1.4	2.7	2.7	1.4
Alberta: All-items excluding food and energy	76.49	2.7	2.3	1.6	2.4	2.4	1.3
Canada: All-items	100.00	2.1	2.1	1.1	1.9	1.9	0.9
Canada: All-items excluding food and energy	74.85	2.0	1.5	0.9	1.4	1.4	0.8

Sources: Statistics Canada, Corporate Economics, September 2014

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

Figures in red and parentheses indicate negative.



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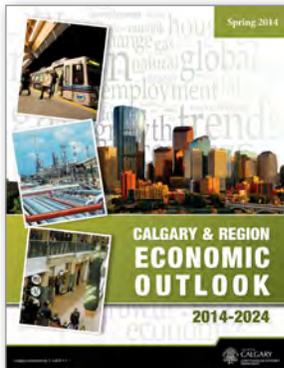
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Sources: Statistics Canada, Corporate Economics.