

Inflation Review

Patrick Walters, City Economist | Wendy Fan, Corporate Economist

August 19, 2011



Inflation Stabilizing in July with Easing in Global Energy Prices

Consumer prices trended up slightly in Calgary though tamed at national level

The headline inflation for Canada advanced 2.7 per cent in July 2011 on an annual basis, after the rally of 3.1 per cent in June and 3.7 per cent in May. Consumer prices rose by 1.9 per cent in Alberta and 1.8 per cent in Calgary respectively compared to a year ago. Inflationary pressures moderated as global recession fears are now gripping markets and throwing doubt on the strength of Canada's economic recovery.

Canadian monetary policy not immune to external headwinds

The recent easing of global energy prices has mitigated pressures on Canadian headline inflation. Moreover, the economic growth was much lower than expected for the U.S. in the first half of 2011, which inevitably dragged on Canadian growth outlook. The soft U.S. demand and domestic weakness should alleviate inflationary pressures and put the Bank of Canada's (BoC) monetary tightening on hold. On August 9th, the Fed's made an additional two-year commitment to maintain monetary stimulus, which further suggests the BoC should remain concerned about the spillover effects

from heightened external headwinds against the Canadian economy. Meanwhile, the lagged effects from strong food prices and the gradually closing output gap will exert upward pressure on core inflation, which will converge with the headline inflation at the 2 per cent target in 2012.

Major contributors to Calgary's 12-month-moving-average inflation

Food: Food prices continued to increase in Calgary in July 2011. The 12-month-moving-average index advanced 2.0 per cent, which contributed 0.31 per cent to the overall inflation in Calgary.

Shelter: Calgarians paid 1.1 per cent more on shelter costs in July, which translated into 0.31 per cent of Calgary's overall inflation. The major drivers were the costs of water, fuel and electricity which went up by 5.0 per cent and attributed to 92 per cent of the shelter cost changes.

Transportation: Transportation costs rose 3.7 per cent in July, which added 0.72 per cent to the overall inflation in Calgary. Consumers paid 13.7 per cent more for gasoline, after a 3.5 per cent increase in the previous month.

Next release: September 21, 2011

Inflation Rates

(12-Month-Moving-Average or average inflation rate for the past 12 months)

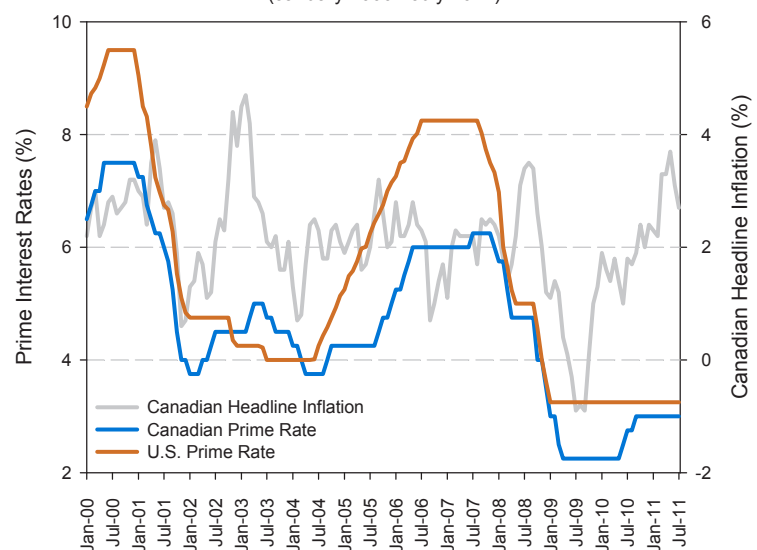
	Relative Importance (%)*	Jul-11 (%)	Jun-11 (%)	Jul-10 (%)
Calgary: All-items	100	1.2	1.2	0.4
Calgary: All-items excluding food and energy	75.2	0.4	0.5	0.8
Food	15.5	2.0	1.8	1.4
Shelter	27.7	1.1	1.1	(1.9)
Owned accommodation	17.9	0.8	0.8	(0.6)
Water, fuel and electricity	5.6	5.0	5.5	(9.5)
Household operations, furnishing and equipment	11.4	0.4	0.3	1.3
Clothing and footwear	5.2	(2.7)	(2.5)	0.2
Transportation	19.5	3.7	3.5	0.6
Gasoline	4.5	13.7	11.6	(1.7)
Health and personal care	4.5	2.4	2.8	6.3
Recreation, education and reading	12.9	(0.5)	(0.4)	1.7
Alcoholic beverages and tobacco products	3.3	0.5	0.4	2.5
Alberta: All-items	100	1.5	1.4	0.6
Alberta: All-items excluding food and energy	75.2	0.5	0.5	1.1
Canada: All-items	100	2.6	2.5	1.0
Canada: All-items excluding food and energy	73.6	1.6	1.6	1.0

Source: Statistics Canada, Corporate Economics, August 2011

* 2005 CPI basket weights at April 2007 prices, Alberta and Canada, effective May 2007

Figures in red and parentheses indicate negative.

Prime Rates in Canada and the U.S. and Canadian Inflation (January 2000 - July 2011)



Source: Bank of Canada, Statistics Canada, Federal Reserve Bank of St. Louis, Corporate Economics, August 2011.

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Who We Are

Over the past ten years Corporate Economics has researched dozens of economic topics and developed reliable methods of forecasting and analysis. Monitoring economic trends allows us to develop unique insights on how external events are impacting the local economy and the Municipal Corporation. We provide services in four areas: forecasting, information provision, consulting and policy analysis.

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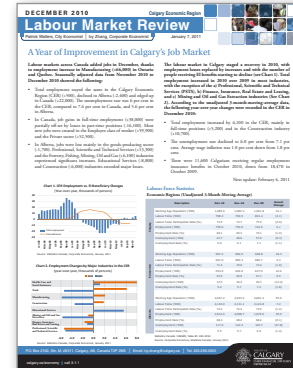
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Many of our publications are available on the internet at www.calgary.ca/economy.

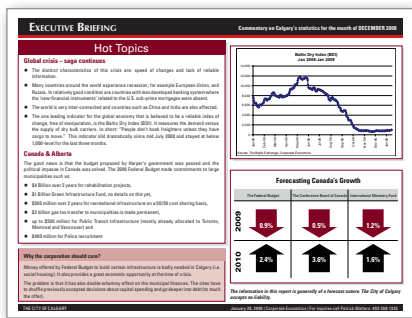
Monthly
Energy Markets and
the Economy



Monthly
Review of Economic Trends



Commentary
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Corporate Research Analyst: Estella Scruggs

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Sources: Statistics Canada, Bank of Canada and Corporate Economics.

