



# Inflation Review

Patrick Walters, City Economist | Wendy Fan, Corporate Economist

September 21, 2011

## Calgary's Inflation Higher Than Expected in August 2011

### Stronger energy and food prices drove inflation at national and local level in August

Canadian headline inflation advanced 3.1 per cent in August 2011 on annual basis, after an increase of 2.7 per cent in July. Consumer prices rose by 2.9 per cent in Alberta and 2.6 per cent in Calgary respectively compared to a year ago. Core inflation also accelerated to 1.9 per cent in August, close to the central bank's inflation target of 2 per cent. The unexpected burst in inflation is caused by transitory factors and likely to be temporary, since the world commodity prices have pulled back and economic outlook has become more uncertain.

### Inflationary pressures to be subdued in the face of downside economic risks

The global inflationary worries have moderated recently with the easing of energy prices and deterioration of sovereign debt problems and recession concerns. As a small open economy, Calgary's market is sensitive to global shocks. The weakness of U.S. growth and fiscal strains in Eurozone should keep commodity prices contained, which will translate into mild inflation in Canada and in Calgary in the second half of 2011. Meanwhile, modest wage growth and current account deficit should further counterbalance some of the rising core

inflationary pressures. The Bank of Canada (BoC) remained on hold again at its September 7th meeting, which is the eighth pause after three consecutive policy rate increases in mid-2010. This is in line with the Fed's commitment last month to maintain low interest rates for the next two years.

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

**Food:** The 12-month-moving-average for food price advanced 2.2 per cent, which contributed 0.34 per cent to the overall inflation in Calgary. Since agricultural prices take longer to pass through to consumers, we expect food inflation to continue in the next couple of months in Calgary.

**Shelter:** Calgarians paid 1.4 per cent more on shelter costs in August, which translated into 0.39 per cent of Calgary's overall inflation. The major drivers were the costs of water, fuel and electricity which went up by 6.9 per cent and contributed to most of the shelter cost changes.

**Transportation:** Transportation costs rose 4.1 per cent in July, which added 0.8 per cent to the overall inflation in Calgary. Consumers paid 15.4 per cent more for gasoline, after a 13.7 per cent increase in the previous month.

Next release: October 21, 2011

### Inflation Rates

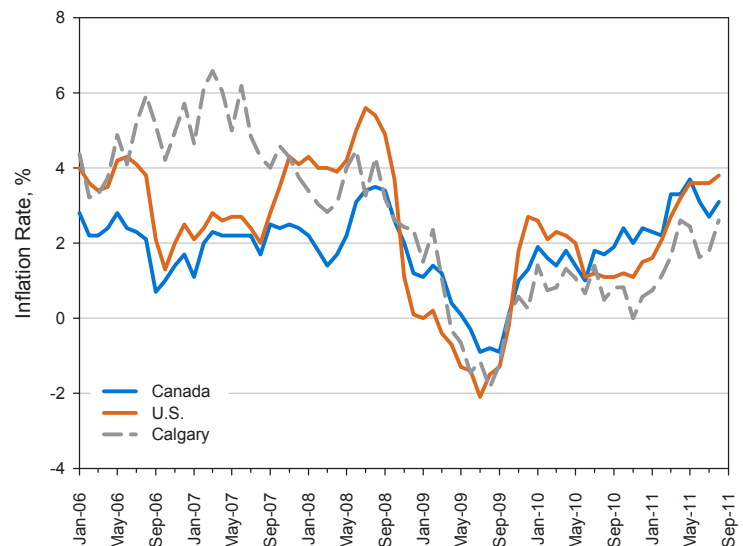
(12-Month-Moving-Average or average inflation rate for the past 12 months)

	Relative Importance (%)*	Aug-11 (%)	Jul-11 (%)	Aug-10 (%)
Calgary: All-items	100	1.4	1.2	0.6
Calgary: All-items excluding food and energy	75.2	0.4	0.4	0.8
Food	15.5	2.2	2.0	1.2
Shelter	27.7	1.4	1.1	(1.4)
Owned accommodation	17.9	0.8	0.8	(0.6)
Water, fuel and electricity	5.6	6.9	5.0	(5.9)
Household operations, furnishing and equipment	11.4	0.5	0.4	1.1
Clothing and footwear	5.2	(2.9)	(2.7)	0.1
Transportation	19.5	4.1	3.7	1.3
Gasoline	4.5	15.4	13.7	0.8
Health and personal care	4.5	2.1	2.4	6.6
Recreation, education and reading	12.9	(0.4)	(0.5)	1.6
Alcoholic beverages and tobacco products	3.3	0.7	0.5	2.1
Alberta: All-items	100	1.7	1.5	0.8
Alberta: All-items excluding food and energy	75.2	0.5	0.5	1.0
Canada: All-items	100	2.7	2.6	1.2
Canada: All-items excluding food and energy	73.6	1.6	1.6	1.1

Source: Statistics Canada, Corporate Economics, September 2011

\* 2005 CPI basket weights at April 2007 prices, Alberta and Canada, effective May 2007  
 Figures in red and parentheses indicate negative.

Inflation Rates in Canada, the U.S., and Calgary  
 (January 2006 - August 2011)



Source: Statistics Canada; US Bureau of Labor Statistics; Corporate Economics

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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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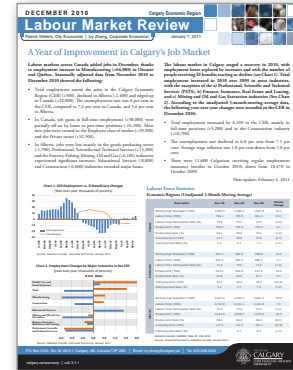
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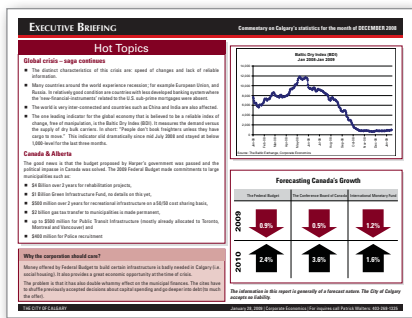
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Energy Markets and  
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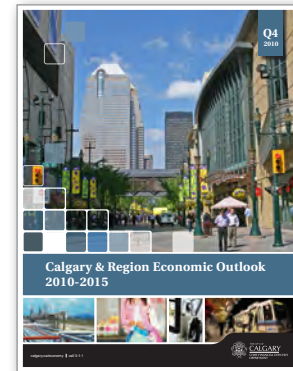
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Corporate Research Analyst: Estella Scruggs

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

