

Inflation Beginning to Resurface with Recovery in Output Growth

Headline rate moving close to BoC's target in February 2010

Compared to a year ago, Canadian headline CPI rose 1.6 per cent in February 2010. Consumer prices increased by 1.0 per cent in Alberta, and 0.7 per cent in Calgary. The upward pressure on prices came alongside the recovery in output growth, and the rebound in commodity prices. Most of the rise in the inflation rates was due to energy prices, which increased at a more aggressive pace than in the year-earlier period. However, the upward trend in inflation remains quite muted in an environment of considerable excess industrial and labour capacity.

Inflation and unused production capacity

The increase in both the headline and core inflation rate is expected to slow in the months ahead. The deep recession of 2009 created a large output gap, and even with the national economy growing at a decent 5 per cent annual rate in the fourth quarter last year, it will take several quarters before the excess slack is eliminated. The run-up in the unemployment rate and very low capacity utilization are two indications that there is a lot of excess supply in the economy. In response, wage growth has slowed significantly in recent months. The following two graphs show the negative relationship between

unemployment rate and inflation rate in Canada and Calgary. We can see that, with unemployment being high at both national and local levels, inflation cannot go far beyond the BoC's target (2 per cent) in 2010.

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

Shelter: Shelter costs decreased by 3.3 per cent in February 2010, which offset 0.9 per cent of Calgary's overall inflation. Low mortgage interest rates still played a major role in reducing shelter costs.

Food: The 12-month-moving-average index for food increased by 3.7 per cent. The contribution of food prices to Calgary's overall inflation was 0.6 per cent in February. Food price inflation has continued to moderate for 8 straight months since July 2009 in Calgary.

Transportation: Prices in transportation decreased by 3.4 per cent in February 2010, which offset by 0.7 per cent the overall inflation in Calgary. We can expect the 12-month-moving-average inflation for transportation to turn positive as the steep reduction of the energy prices fall out of the calculation.

Next release: April 23, 2010

Inflation Rates

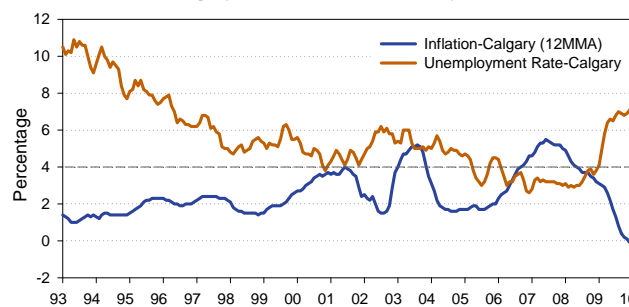
(12-Month-Moving-Average or average inflation rate for the past 12 months)

	Relative Importance (%)*	Feb-10	Jan-10	Feb-09
Calgary: All-items	100	(0.2)	(0.1)	3.0
Calgary: All-items excluding food and energy	75.2	1.6	1.3	1.9
Food	15.5	3.7	4.2	4.4
Shelter	27.7	(3.3)	(2.8)	6.9
Owned accommodation	17.9	(0.3)	0.0	5.8
Water, fuel and electricity	5.6	(19.9)	(18.6)	13.6
Household operations, furnishing and equipment	11.4	2.5	2.8	0.8
Clothing and footwear	5.2	0.0	0.3	(2.0)
Transportation	19.5	(3.4)	(3.9)	0.3
Gasoline	4.5	(15.3)	(17.1)	5.7
Health and personal care	4.5	5.2	4.8	2.3
Recreation, education and reading	12.9	1.5	1.1	0.2
Alcoholic beverages and tobacco products	3.3	4.0	3.8	2.6
Alberta: All-items	100	(0.2)	(0.1)	2.9
Alberta: All-items excluding food and energy	75.2	1.3	1.4	1.8
Canada: All-items	100	0.4	0.4	2.2
Canada: All-items excluding food and energy	73.6	1.1	1.1	1.2

Source: Statistics Canada, Corporate Economics, March 2010

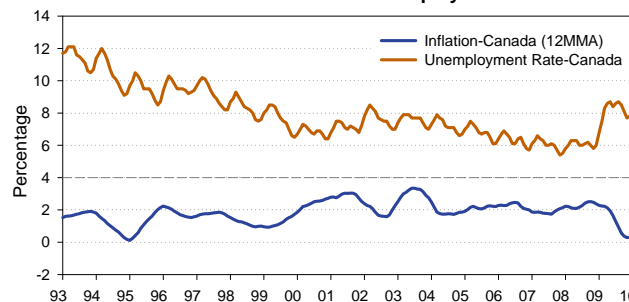
* 2005 CPI basket weights at April 2007 prices, Alberta and Canada, effective May 2007

Calgary: Inflation and Unemployment



Source: Statistics Canada, Corporate Economics, March 2010

Canada: Inflation and Unemployment



Source: Statistics Canada, Corporate Economics, March 2010

Calgary's Monthly Inflation Review: February 2010

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.

For more information, please contact:

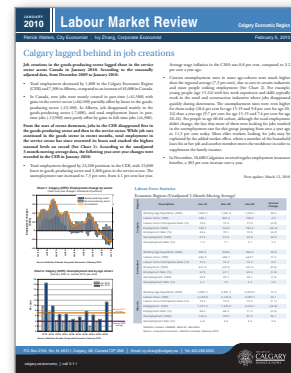
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Many of our publications are available on the internet at www.calgary.ca/economy.

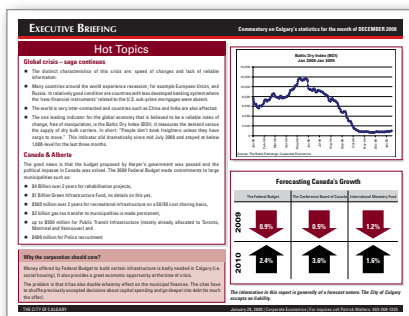
Monthly
Energy Markets and
the Economy



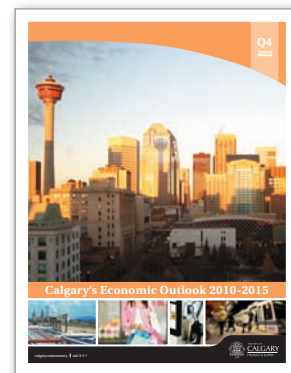
Monthly
Review of Economic Trends



Commentary
Executive Briefing



Quarterly
Calgary's Quarterly Economic
Outlook



Corporate Research Analyst: Estella Chan

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Source: Statistics Canada