

Modest Inflation in May on Account of Weakening Energy Prices

Headline and core CPI¹ on divergent paths in May 2010

Canadian headline CPI increased by 1.4 per cent in May 2010 compared to a year ago, which has been fairly contained due to weakening energy prices. Core consumer inflation remained relatively elevated by rising at 1.8 per cent year-over-year. The increases of consumer prices in Alberta and Calgary both were 1.1 per cent in May compared to the same time last year.

Bank of Canada increased interest rates by 0.25 per cent

On June 1st, 2010, the Bank of Canada (BoC) began its gradual removal of the stimulative monetary policy and raised its target rate by 0.25 per cent to 0.50 per cent. It also raised the bank rate to 0.75 per cent and the prime business loan rate to 2.50 per cent respectively. Canada is the first G-7 country to hike its interest rates, motivated by the improved economic growth (6.1 per cent of GDP growth in Q1 2010), labour market, and domestic demand. Resumption in economic conditions has been accompanied by inflationary pressures due to base effects, temporary factors and higher commodity prices.

¹ Inflation measured by the core CPI excludes transitory fluctuations in the prices of the most volatile components such as food and energy, as well as the effect of changes in indirect taxes on the remaining components.

Bank of Canada looks ahead about 6 to 24 months to keep inflation on track. The normalization of BoC policy rates could be slow given global economic uncertainties. The combination of effects from strong domestic demand, modest wage growth and accumulated slack in the economy will keep the inflation within the target range of 2% in the second half 2010.

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

Shelter: Shelter costs fell by 3.0 per cent in May 2010, which offset 0.83 per cent of Calgary's overall inflation. Cheaper energy prices and continued softness in mortgage costs were still the main drivers in reducing shelter costs.

Food: The 12-month-moving-average prices for food advanced by 2.1 per cent, which contributed 0.33 per cent to Calgary's overall inflation in May. The increase in May was the smallest since November 2008.

Transportation: Transportation prices decreased by 0.8 per cent in May 2010, which offset 0.16 per cent of overall inflation in Calgary.

Next release: July 23, 2010

Inflation Rates

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

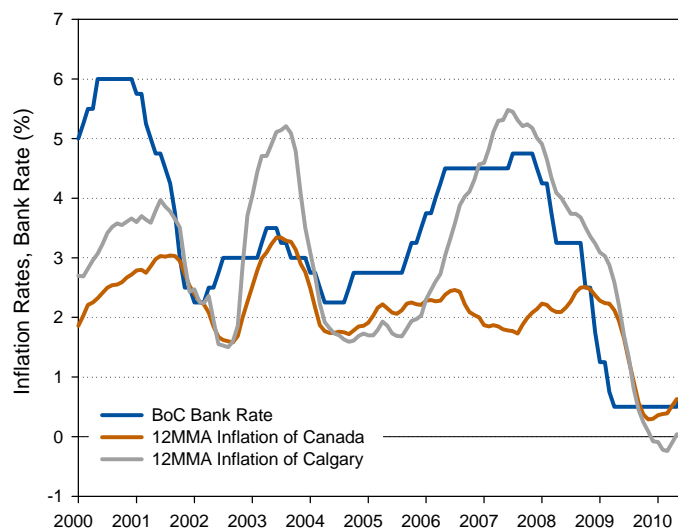
	Relative Importance (%) [*]	May-10 (%)	Apr-10 (%)	May-09 (%)
Calgary: All-items	100	0.0	(0.1)	2.2
Calgary: All-items excluding food and energy	75.2	0.3	1.3	1.7
Food	15.5	2.1	2.6	6.0
Shelter	27.7	(3.0)	(3.4)	4.1
Owned accommodation	17.9	(0.7)	(0.6)	4.0
Water, fuel and electricity	5.6	(16.4)	(18.7)	4.5
Household operations, furnishing and equipment	11.4	1.8	2.1	1.4
Clothing and footwear	5.2	0.0	(0.1)	(1.1)
Transportation	19.5	(0.8)	(1.7)	(1.6)
Gasoline	4.5	(7.0)	(10.0)	(4.8)
Health and personal care	4.5	6.0	5.8	2.6
Recreation, education and reading	12.9	1.7	1.8	(0.0)
Alcoholic beverages and tobacco products	3.3	3.7	4.4	2.3
Alberta: All-items	100	0.2	0.0	2.0
Alberta: All-items excluding food and energy	75.2	1.2	1.3	1.5
Canada: All-items	100	0.6	0.5	1.9
Canada: All-items excluding food and energy	73.6	1.0	1.1	1.2

Source: Statistics Canada, Corporate Economics, June 2010

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

Figures in red and parentheses indicate negative.

12-Month-Moving-Average Inflation Rates vs. BoC's Bank Rate



Sources: Bank of Canada, Statistics Canada & Corporate Economics, June 2010
Note: The bank rate is 0.25 per cent higher than the BoC overnight target rate.

Calgary's Monthly Inflation Review: May 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:

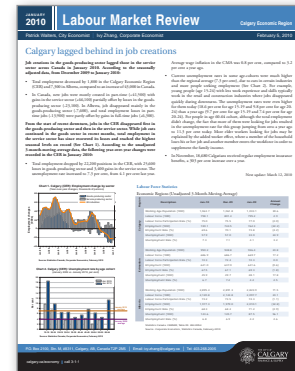
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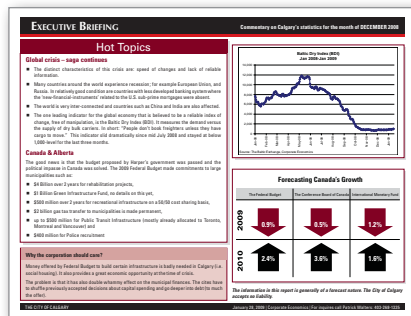
Monthly
Energy Markets and
the Economy



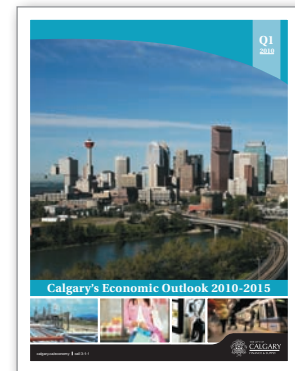
Monthly
Review of Economic Trends



Commentary
Executive Briefing



Quarterly
Calgary's Quarterly Economic
Outlook



Corporate Research Analyst: Estella Scruggs

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Source: Statistics Canada, Bank of Canada