

Inflation Review

Patrick Walters, City Economist | Wendy Fan, Corporate Economist

January 25, 2011



Calgary Experienced Moderate Inflation in 2010

Gasoline prices exerting upward pressure on CPI in December 2010

Canada's headline CPI climbed in December 2010 on annual basis. Compared to a year ago, consumer price indexes increased by 2.4 per cent in Canada, 0.8 per cent in Alberta, and 0.6 per cent in Calgary. The main reason for the rise in December was the increase in gasoline prices, which exerted upward pressure on CPI.

Unemployment, unused production capacity and inflation in 2010

Tepid economic growth and persistent output gap kept inflationary pressures mild in 2010, with core inflation slightly below the Bank of Canada's (BoC) 2 per cent target. The unused production capacity created by the deep recession still exists and should take several quarters before the excess slack is eliminated. Unemployment rate is a good indicator of the capital utilization in the economy. The following two graphs show the negative relationships between unemployment rate and inflation rate in Canada and Calgary. We can see that, in December 2010, unemployment was still above its historical potential at both national and local levels, and this trend would continue into the

first half of 2011 given the sluggish domestic demand and weak economic forecast. As a result, inflation should remain moderate, at around 2 per cent in 2011.

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

Shelter: In December 2010, shelter costs declined modestly by 0.02 per cent, which lowered Calgary's overall inflation by 0.01 per cent.

Food: The 12-month-moving-average prices for food advanced 1.1 per cent in December 2010, which contributed 0.17 per cent to Calgary's overall inflation. The increase in food price slowed down in 2010 compared to the previous year. However, adverse weather conditions reduced production of some major food items and this placed upward pressure on costs of food in 2011.

Transportation: Transportation prices increased 2.8 per cent in December 2010, which contributed 0.55 per cent to the overall inflation in Calgary. Higher gasoline prices were the major driver in lifting transportation costs.

Next release: February 18, 2011

Inflation Rates

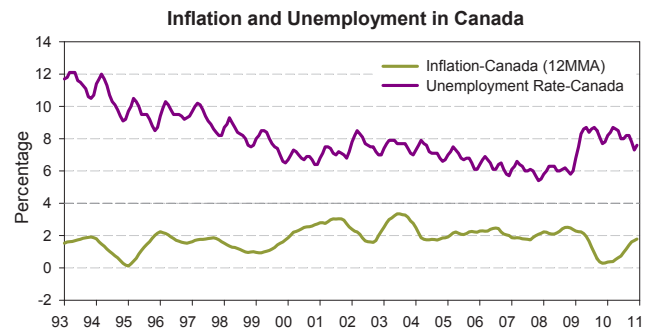
(12-Month-Moving-Average or average inflation rate for the past 12 months)

	Relative Importance (%)*	Dec-10 (%)	Nov-10 (%)	Dec-09 (%)
Calgary: All-items	100	0.8	0.8	(0.1)
Calgary: All-items excluding food and energy	75.2	0.6	0.7	0.8
Food	15.5	1.1	1.1	4.8
Shelter	27.7	(0.0)	(0.4)	(1.0)
Owned accommodation	17.9	0.1	(0.2)	0.5
Water, fuel and electricity	5.6	1.1	(0.5)	(18.5)
Household operations, furnishing and equipment	11.4	(0.1)	0.1	2.8
Clothing and footwear	5.2	(1.5)	(1.1)	0.4
Transportation	19.5	2.8	2.8	(4.9)
Gasoline	4.5	4.9	5.6	(19.9)
Health and personal care	4.5	4.7	5.2	4.5
Recreation, education and reading	12.9	0.6	0.9	1.0
Alcoholic beverages and tobacco products	3.3	1.0	1.2	3.7
Alberta: All-items	100	1.0	1.0	(0.1)
Alberta: All-items excluding food and energy	75.2	0.7	0.8	1.4
Canada: All-items	100	1.8	1.7	0.3
Canada: All-items excluding food and energy	73.6	1.3	1.2	1.1

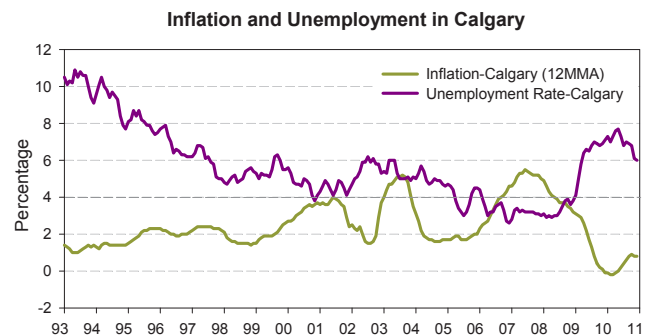
Source: Statistics Canada, Corporate Economics, January 2011

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

Figures in red and parentheses indicate negative.



Source: Statistics Canada, Corporate Economics, January 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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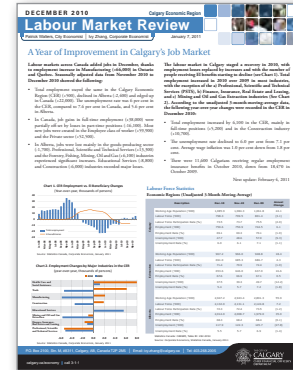
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Many of our publications are available on the internet at www.calgary.ca/economy.

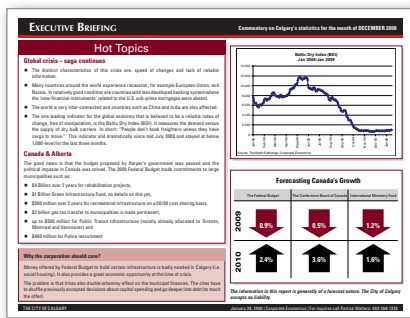
Monthly
Energy Markets and
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Monthly
Review of Economic Trends



Commentary
Executive Briefing



Quarterly
Calgary's Quarterly Economic
Outlook



Corporate Research Analyst: Estella Scruggs

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Sources: Statistics Canada, Bank of Canada, Federal Reserve Economic Data.

