

Inflation Review

Patrick Walters, City Economist | Wendy Fan, Corporate Economist

July 22, 2011



Consumer Prices Softer Than Expected in June 2011

Both headline and core inflation tamed in June

The headline inflation of Canada advanced 3.1 per cent in June 2011 on annual basis, after climbing 3.7 per cent in May. Consumer prices rose by 2.1 per cent in Alberta and 1.6 per cent in Calgary respectively compared to a year ago. Prices moderated in June compared to May nationally, while the global pressures affecting food and energy prices eased. Core inflation also decelerated to 1.3 per cent in June.

Headline inflation spiked in Q2 with moderation ahead

In Q2 2011, Calgary's headline CPI averaged 2.23 per cent, while the inflation excluding food and energy components averaged only 0.43 per cent. The recent easing in gasoline prices should mitigate some of the upward pressure, while the rising food costs should still remain a significant burden for households in Calgary in the coming months. Meanwhile, inflation excluding food and energy should maintain at a much milder level in the second half of 2011. Slower economic growth, modest wage increase and a strong currency may counterbalance some of the rising inflationary pressures. As is shown in the chart below, the trended CPI in Calgary indicates a subdued direction which is consistent with weak domestic

demand. The Bank of Canada (BoC) remained on hold at its meeting on July 19th, 2011. Today's slackening inflation results should give the BoC more freedom to manage its monetary policy.

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

Food: Calgaryans paid 1.8 per cent more on food in June 2011. This contributed 0.28 per cent to the overall inflation in Calgary. The high food prices are expected to persist over the coming months.

Shelter: Shelter costs rose 1.1 per cent at the 12-month-moving-average level in June, which contributed 0.31 per cent to Calgary's overall inflation. The major drivers were the costs of water, fuel and electricity which went up by 5.5 per cent.

Transportation: Transportation costs advanced 3.5 per cent in June, which added 0.68 per cent to the overall inflation in Calgary. Consumers paid 11.6 per cent more for gasoline, after an 8.8 per cent increase in the previous month.

Next release: August 19, 2011

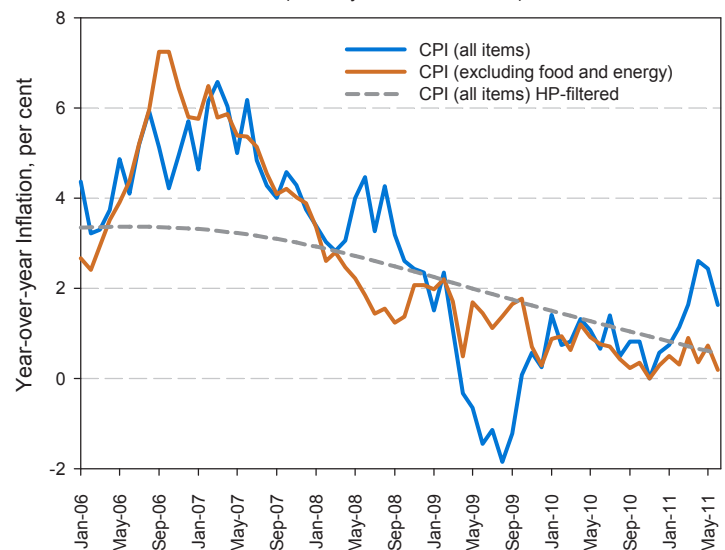
Inflation Rates

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

	Relative Importance (%)*	Jun-11 (%)	May-11 (%)	Jun-10 (%)
Calgary: All-items	100	1.2	1.1	0.2
Calgary: All-items excluding food and energy	75.2	0.5	0.5	0.7
Food	15.5	1.8	1.6	1.7
Shelter	27.7	1.1	1.2	(2.4)
Owned accommodation	17.9	0.8	1.0	(0.6)
Water, fuel and electricity	5.6	5.5	5.9	(12.6)
Household operations, furnishing and equipment	11.4	0.3	0.1	1.6
Clothing and footwear	5.2	(2.5)	(2.4)	(0.1)
Transportation	19.5	3.5	3.1	(0.2)
Gasoline	4.5	11.6	8.8	(4.9)
Health and personal care	4.5	2.8	3.1	6.1
Recreation, education and reading	12.9	(0.4)	(0.4)	1.7
Alcoholic beverages and tobacco products	3.3	0.4	0.2	3.1
Alberta: All-items	100	1.4	1.3	0.3
Alberta: All-items excluding food and energy	75.2	0.5	0.6	1.1
Canada: All-items	100	2.5	2.3	0.7
Canada: All-items excluding food and energy	73.6	1.6	1.5	1.0

Source: Statistics Canada, Corporate Economics, July 2011
 * 2005 CPI basket weights at April 2007 prices, Alberta and Canada, effective May 2007
 Figures in red and parentheses indicate negative.

Year-over-year Inflation in Calgary
 (January 2006 - June 2011)



Source: Statistics Canada & Corporate Economics, July 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.

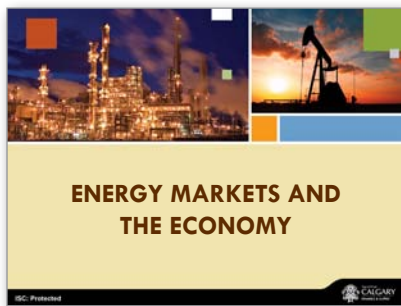
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Many of our publications are available on the internet at www.calgary.ca/economy.

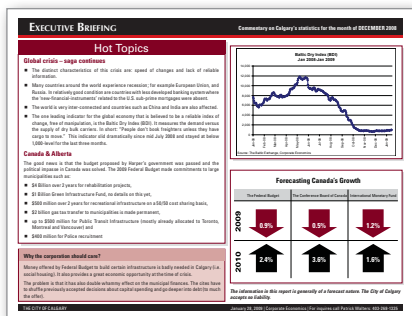
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Sources: Statistics Canada, Bank of Canada and Corporate Economics.

