

Base-year effects continue to accelerate inflation rate

May 20, 2021

Note: According to Statistics Canada, a base-year effect refers to the price movements from 12 months earlier on the current month's headline consumer inflation. Due to the COVID-19 pandemic and public health measures, Canadian consumers experienced a significant decline in prices from February to April 2020. For example, in the Edmonton CMA, headline consumer inflation slowed from 2.5 per cent in February 2020 to 0.9 per cent in March, and then fell into negative territory in April and May. As annualised rates of inflation are calculated over a 12-month period, the base-year effect is significantly more pronounced in consumer price index (CPI) readings due to price distortions caused by the pandemic. This is expected to be temporary with the impact of price declines becoming less pronounced in the coming months.

The annualised rate of change in the CPI for the **Edmonton** Census Metropolitan Area (CMA) was three per cent in April 2021 compared to 1.7 per cent in March. The shelter component recorded annualised inflation of 1.9 per cent as higher prices for utilities (i.e., water, fuel and electricity) and rented accommodation offset lower prices for owned accommodation. Gasoline prices in the Edmonton region have seen significant year-over-year gains since February 2021. Like overall inflation, base-year effects can explain some of the strong growth. However, prices saw further lift-off due to a combination of sustained production cuts and higher demand as economies open, lifting some of the restrictions that had previously hampered travel.

Significance

The pandemic has created distortions in monthly CPI readings due to changes in consumption which have, in turn, caused distortions in annualized inflation rates. For example, prices for clothing and footwear saw reductions as in-store shopping was suspended due to public health guidelines. With few exceptions, annualized inflation rates in Alberta¹ for the clothing and footwear component have been negative. Base-year effects have reduced the extent to which prices have fallen though with prices in April 2021 being 0.9 per cent lower year-over-year, compared to a reduction of 8.5 per cent in March.

The expectation for inflation in the Edmonton region is an annual average rate of 2.2 per cent in 2021. It is important to note that there is a risk that actual rates may be higher than expected. The risk is largely due to pressures on supply chains lifting prices (e.g., lumber prices have seen

¹ Even though monthly CPI data for the Edmonton region are only available for all-items and select details under the shelter component, provincial inflation trends in the other components can be an indicator of regional inflation trends.

extraordinary price increases due to supply not being able to keep up with very strong demand), which is expected to impact consumer purchase prices.

Consumer Price Index for April 2021

	Apr 2020	Mar 2021	Apr 2021	Mar to Apr 2021	Apr 2020 to Apr 2021
	2002=100			% change	
Canada	135.7	139.6	140.3	0.5	3.4
Alberta	143.0	146.9	147.7	0.5	3.3
Edmonton CMA	143.2	146.8	147.5	0.5	3.0

Source: Statistics Canada, Table 18-10-0004-01

Note: This table outlines the percentage change in the monthly CPI reading from the previous month, as well as the same month a year earlier (also known as the annualised rate).

Canada's core inflation rate, as reflected in the three measures of consumer prices tracked by the Bank of Canada, averaged 2.1 per cent in April which is slightly above the Bank's inflation-control target range of one to three per cent.

Limitations

The CPI is a measure of the change in prices and not their absolute levels. It reflects the prices consumers pay on a typical basket of goods and services, but not all the inflationary pressures experienced by organizations, such as the City of Edmonton. Prices used to determine the CPI represent average consumer purchases, such as groceries, clothes, retail goods, rent and mortgages. The CPI does not reflect the type of expenditures required to deliver municipal goods and services, such as construction materials, public transit equipment and professional services.

Consequently, when compared to the national CPI, Edmonton's higher CPI does not mean the cost of living in Edmonton is higher than elsewhere. It does indicate that since 2002, prices for consumer goods have risen somewhat faster in Edmonton compared to the Canadian average.

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