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This Week...

Consumer Price Inflation
Employment Earnings
Housing Starts



Consumer Price Inflation Rates

By Doug Elliott, Editor

Statistics Canada has released the final figures for the rate of inflation in 2011 as

measured by the Consumer Price Index (CPI). The inflation rate was below the national average in Alberta and B.C. and near it in Saskatchewan and Manitoba. Compared with the national average of 2.9%, consumer prices increased by:

- 2.4% in B.C. and Alberta;
- 2.8% in Saskatchewan; and
- 3.0% in Manitoba.

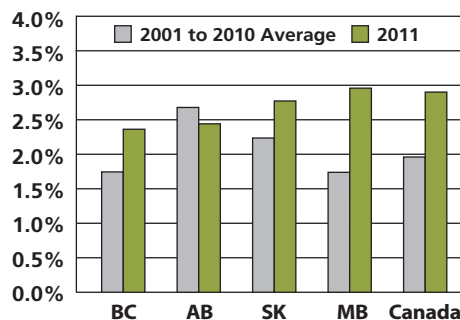
These levels of price inflation are slightly higher than the ones we have experienced in the recent past (see Figure 1). Inflation rates in the West averaged 2.1% from 2001 to 2010¹.

Examined by category, the largest price increases were for groceries (4.2%) and transportation (5.3%). The former is because of a general increase in the cost for most food products (with the exception of fish). The latter is because of higher prices for gasoline and air fares, offset by the lower cost of purchasing a new vehicle.

The rate of inflation in shelter costs was 2.4% which is considerably lower than the 6% to 7% increases in 2007 and 2008. Prices fell for clothing and footwear and for furnishings and equipment. These articles tend to be imported and are therefore affected by the lower cost of imports from Asia. An appreciating Canadian dollar also helps.

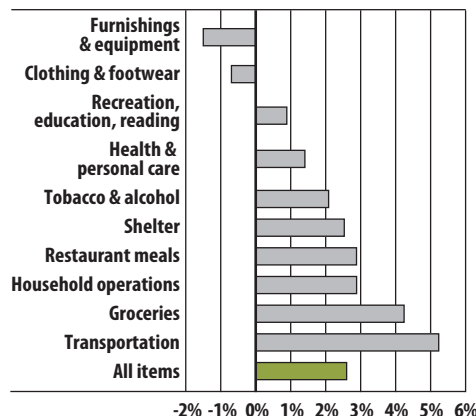
These levels of inflation will not be a hardship for most households, but the increase in grocery

Figure 1: Consumer Price Inflation Rates, Annual



The increase in grocery prices will have a disproportionate effect on low-income households.

Figure 2: Inflation Rate by Category, Average of Western Provinces, 2011



prices will have a disproportionate effect on low-income households because they tend to spend an above-average proportion of their income on groceries.

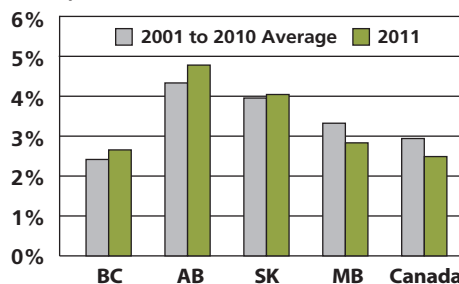
The rate of inflation is expected to slow in 2012 as commodity prices decline. In particular, the price of crude oil is dropping so gasoline prices, which peaked in the fall of 2011, should continue to fall in the first part of 2012.

Employment Earnings

In a typical week last year, an average Alberta employee had earnings of \$1,040 before taxes. This is well above the national average of \$875, and well above the averages in the other western provinces which ranged from a low of \$810 in Manitoba, through \$840 in B.C. and \$880 in Saskatchewan².

The earnings gap between Alberta and the other western provinces continued to widen in 2011 with an estimated increase of 4.8% in Alberta – the highest in the West (see Figure 3). The

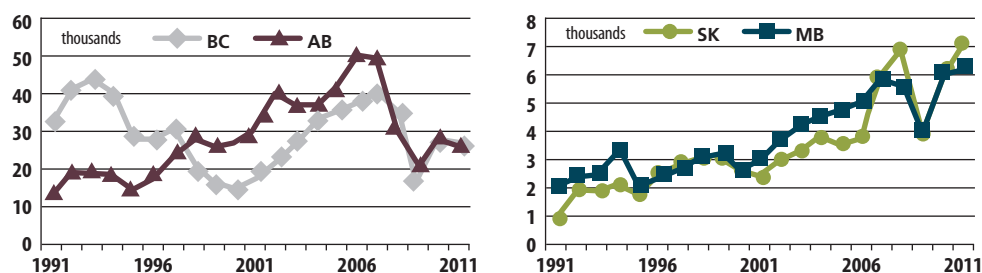
Figure 3: Annual Increase in Gross Weekly Earnings (including overtime and before taxes)



¹ The average of the four western provinces is not really the inflation rate in the West but there is no "official" inflation rate published. A more precise measure would take into account the different populations and spending patterns for consumers in the four provinces.

² All figures are estimates based on the first 11 months of the year and include overtime and other premium pay.

Figure 4: Housing Starts in Western Canada (note differences in vertical scales)



increase in Saskatchewan will be 4.0% which is near the ten-year average.

Earnings for workers in B.C. and Manitoba will barely retain their purchasing power. The increase in B.C. was 2.7% which is only slightly above the 2.4% inflation rate. In Manitoba, the increase is estimated at 2.9% which is lower than the ten-year average and at the rate of inflation. On average, workers in Alberta and Saskatchewan will have received a 2.4% and 1.2% increase, respectively, in purchasing power.

The earnings differential between Alberta and the other provinces will continue to provide a powerful economic incentive for interprovincial migration.

Housing Starts

One of the key indicators used by the Canada Mortgage and Housing Corporation (CMHC) to track the residential housing market is the number of new "housing starts". This is a measure of the number of new dwellings (or apartment units or row houses) for which construction began in a given month or year. Preliminary figures for 2011 have just been released.

Figure 4 shows two different patterns for housing starts in the West. In Alberta and B.C., the number of new starts increased rapidly from the turn of the century to 2007 and then collapsed to approximately 20,000 per year by 2009. Starts recovered to approximately 25,000 in 2010 and have remained there in 2011. Manitoba and Saskatchewan show a somewhat different pattern with steady but slow increases since the mid-1990s. The same decline occurred in 2009 but it was not as dramatic and the recovery has been quicker. In 2011, starts in both provinces were above the previous highs.

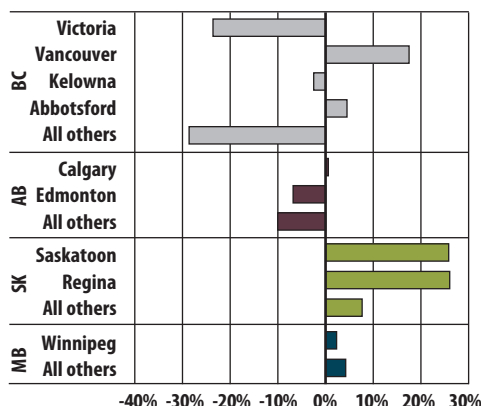
Figure 5 shows there is a great deal of variance within the provinces. The cities with the largest increases were Vancouver, Saskatoon and Regina. The largest drop was in Victoria.

CMHC expects 2012 housing starts to remain flat in Manitoba, to decline slightly in Saskatchewan and to increase in Alberta and B.C.

The construction of new homes is fundamentally driven by population growth and new household

formation, but the figures are also affected by the size and quality of the existing housing stock, consumer confidence and interest rates. The Bank of Canada is concerned about a housing bubble developing in some provinces because prices are increasing more quickly than can be justified by changes in supply and demand. These figures suggest that, at least in the West, this may only be a concern in Saskatchewan or Vancouver.

Figure 5: Increase in Housing Starts, 2011



Upcoming Releases

In the next two weeks, Statistics Canada will be releasing data describing:

- December grain stocks on February 3;
- January labour market statistics on February 3;
- 2011 census population and dwelling counts on February 8;
- December building permits on February 9; and
- December motor vehicle sales on February 14.

Sources:

The figures are adapted from the following sources.

Consumer Price Inflation: Statistics Canada CANSIM Table 326-0021

Employment Earnings: Statistics Canada CANSIM Table 281-0026

Housing Starts: CMHC Housing Outlook publications and CANSIM Tables 027-0009 and 027-0049

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EDITOR

Doug Elliott

EDITORIAL BOARD

Rose Olfert
Lihui Zhang
Jim Marshall

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Johnson-Shoyama Graduate School of Public Policy

University of Saskatchewan Campus
Diefenbaker Building
101 Diefenbaker Place
Saskatoon, SK, Canada
S7N 5B8

Tel: 306 966-8525

Fax: 306 966-1967

Email: public.policy@usask.ca

University of Regina Campus
3737 Wascana Parkway
Regina, SK, Canada
S4S 0A2

Tel: 306 585-5460

Fax: 306 585-5461

Email: gspp@uregina.ca

Outreach & Training

University of Regina
College Avenue Campus
Gallery Building, Second Floor
Regina, SK, Canada
S4S 0A2

Tel: 306 585-5777

Fax: 306 585-5780

Email: js_outreach@uregina.ca

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University of Regina

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