



City of Edmonton



Edmonton

**Municipal Price Index,
2021**

Office of the Chief Economist

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1. Overview

Inflation is an increase in the level of prices of goods and services in an economy over a period of time. The City of Edmonton monitors inflation as it can have various effects on its year-to-year operations and financial decision-making that is tied to the City's budgetary process. The Municipal Price Index (MPI) serves to measure inflation for the City of Edmonton and reflects the mix of goods and services purchased by the City of Edmonton.

The actual year-end municipal inflation for 2020 was 0.11 per cent which was lower than the annual change of one per cent in the CPI but much lower than the 2020 MPI projection of 1.34 per cent. The 2021 forecast for the MPI is 2.61 per cent. Between 2022 and 2025, municipal inflation rates are expected to be relatively volatile, ranging between one and 2.1 per cent.

The table below displays the actual MPI and CPI from 2020 along with forecasts for 2021–2025.

Table 1. Comparison of Municipal Price Inflation and Consumer Price Index¹, per cent

	2020	2021f	2022f	2023f	2024f	2025f
Municipal Inflation	0.11	2.61	0.95	1.51	2.06	2.14
Consumer Inflation	1.04	1.50	2.00	1.95	2.12	2.23
Difference (in percentage points)	-0.93	1.11	-1.05	-0.44	-0.06	-0.09

Source: City of Edmonton and the Conference Board of Canada

¹ Forecasts are denoted by "f". 2020 values are the actual rates experienced in that year.

2. Understanding Inflation

Inflation is defined as the rise in the level of prices of goods and services in an economy over a period of time and is measured as an annual percentage increase in Statistics Canada's Consumer Price Index (CPI). In essence, inflation means that every unit of currency buys a smaller amount of goods and services over time. An upward trend in inflation causes a decline in the purchasing power of money. For example, if an item costs \$100.00 in period 1 and period-to-period inflation is 2 per cent, that same item will cost \$102.00 in period 2, \$104.04 in period 3 and so forth.

The City of Edmonton's cost of municipal service provision also faces inflation. Due to price increases, the City requires more money in its operating budget to purchase the same mix of goods and services over time. However, because the City purchases a considerably different range of goods and services than the average Canadian consumer, the CPI is not an adequate measure of the inflation the City's operating budget experiences. Given that municipal costs tend to experience a higher level of inflation than average consumers do, a Municipal Price Index (MPI) was developed to measure the price increases the City of Edmonton's operating budget faces.

For example, the inflation factor for the Wages and Salaries expenditure category, which accounts for 45.58 per cent of the MPI, is a weighted average of wage increases, as outlined in collective bargaining settlement agreements. In the absence of a collective bargaining settlement agreement, the Conference Board of Canada's annual forecast for the Alberta Average Weekly Wages & Salaries Per Employee series is used. In calculating the 2021 MPI forecast, the inflation rate for this expenditure category was 1.47 per cent, which was determined by a combination of collective bargaining settlement agreements and the Conference Board of Canada's forecast for Alberta average weekly wages and salaries. This expenditure category added 0.67 percentage points to the 2021 MPI forecast of 2.61 per cent.

The MPI is not a prescriptive tool that mandates operating budget expenditures to increase by a designated amount each year. Rather, the MPI is a tool that helps better inform the City's budgetary process of external economic conditions that the City will face. Details on the MPI methodology can be found in the MPI Backgrounder available [here](#).

3. The City of Edmonton MPI

The MPI is updated on an annual basis, generally during the first half of the year. Annual updates to the MPI involve revising the previous year's estimated MPI values to reflect actual inflation figures and updating the inflation factors for the current year and the next four years with updated forecast values.

The actual year-end municipal inflation for 2020 was 0.11 per cent which was lower than the annual change of one per cent in the CPI but much lower than the 2020 projection of 1.34 per cent. The much slower rate was due to deeper negative swings in commodity prices and lower inflationary pressures for wages, salaries, and benefits in 2020. The economic effects brought on by the COVID-19 pandemic played a significant part in bringing down crude oil prices in 2020. Natural gas prices were also impacted, though milder weather and high levels of gas production also applied downward pressure on prices.

The municipal inflation rate is forecast to be 2.61 per cent in 2021, driven largely by higher inflationary pressures brought on by the wages and salaries component, and price growth returning to positive territory for the following categories: equipment; fuel; materials; and natural gas. The largest contributors to the updated forecast for 2021 are wages and salaries (+0.67 percentage points) and fuel (+0.70 percentage points). Between 2022 and 2025, municipal inflation rates are expected to be relatively volatile, ranging between one and 2.1 per cent. The MPI is expected to be lower than CPI over the forecast horizon which has not typically been the case in previous years. One factor explaining this change is that inflationary pressures for wages, salaries, and benefits (which combined account for almost 55 per cent of the overall MPI) are expected to be below CPI over the forecast horizon.

Table 2. City of Edmonton Municipal Price Inflation

Expenditure Category	Weight	Weighted Expenditure Category Inflation					
		Actual	Forecast				
		2020	2021	2022	2023	2024	2025
Wages & Salaries	45.58%	0.09%	0.67%	0.14%	0.55%	0.87%	0.89%
Employee Benefits	8.93%	0.02%	0.13%	0.03%	0.11%	0.17%	0.18%
Equipment (Vehicles & Computers)	3.23%	-0.02%	0.19%	0.03%	0.05%	0.06%	0.06%
Fuel	1.39%	-0.47%	0.70%	0.07%	0.02%	0.03%	0.02%
Materials	3.52%	-0.02%	0.20%	0.04%	0.06%	0.07%	0.06%
Natural Gas	0.38%	-0.07%	0.05%	0.04%	0.01%	0.01%	0.01%
Utilities Total	2.05%	0.01%	0.03%	0.05%	0.04%	0.04%	0.04%
External Space	1.52%	0.02%	0.02%	0.03%	0.03%	0.03%	0.03%
Grants & Board Requisition	5.10%	0.05%	0.08%	0.10%	0.10%	0.11%	0.11%
Land Cost	3.33%	0.00%	0.05%	0.07%	0.07%	0.07%	0.07%
Tax Adjustments & Concessions	0.49%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Other Expenses	4.79%	0.05%	0.07%	0.10%	0.09%	0.10%	0.11%
Other Financing	0.24%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Travel & Training	0.44%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%
Contract Services	9.13%	0.17%	0.16%	0.03%	0.11%	0.17%	0.18%
Professional Services	1.17%	0.02%	0.02%	0.00%	0.01%	0.02%	0.02%
Debt Service Total	8.71%	0.24%	0.21%	0.21%	0.23%	0.28%	0.33%
	100.0%						
Municipal Price Inflation		0.11%	2.61%	0.95%	1.51%	2.06%	2.14%
Consumer Price Inflation		1.04%	1.50%	2.00%	1.95%	2.12%	2.23%
Difference (percentage points)		-0.93%	1.11%	-1.05%	-0.44%	-0.06%	-0.09%

Source: City of Edmonton and the Conference Board of Canada