



City of Edmonton



Edmonton

**Municipal Price Index,  
2020**

**Office of the Chief Economist**

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## 1. Executive Summary

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.

Consumer inflation is typically measured through the Consumer Price Index (CPI) produced by Statistics Canada. The CPI represents the purchasing patterns of an average consumer and is a generally accepted measure of inflation. However, the CPI is not the best tool to assess inflationary pressures the City of Edmonton faces because it does not adequately represent municipal purchasing patterns.

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. Development of an MPI was undertaken as a means to measure the inflation the City of Edmonton's operating budget faces.

It is important to note that in the 2018 MPI report, the City re-calculated the weighting of each expenditure category based on the City's 2017 operating budget. In addition, average house price changes were replaced by annual changes in the land only component of Statistics Canada's New Housing Price Index (NHPI) for Edmonton to determine historical inflation for land costs. Due to these revisions to the methodology, MPI calculations from 2019 onward are only directly comparable to the 2018 MPI report.

The actual year-end municipal inflation for 2019 was 2.16 per cent which was higher than the annual change of 1.74 per cent in the CPI. Municipal inflation is forecasted to be 1.34 per cent in 2020 while consumer inflation is expected to average 1.15 per cent. Between 2021 and 2024, municipal inflation is expected to be within the 1.9 and 2.6 per cent range. Consumer inflation is forecasted to be in the 1.90 to 2.30 per cent range over 2021 to 2024.

The table below displays the actual MPI and CPI from 2019 along with forecasts for 2020–2024.

**Table 1. Comparison of Municipal Price Inflation and Consumer Price Index<sup>1</sup>, per cent**

	2019	2020f	2021f	2022f	2023f	2024f
<b>Municipal Inflation</b>	2.16	1.34	1.87	2.62	2.53	2.59
<b>Consumer Inflation</b>	1.74	1.15	2.33	1.92	1.97	1.97
<b>Difference (in percentage points)</b>	0.42	0.19	-0.46	0.70	0.56	0.62

Source: City of Edmonton and the Conference Board of Canada

<sup>1</sup> Forecasts are denoted by “f”. 2019 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 the 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.

Since 1991, the Bank of Canada has employed an inflation control target that aims to maintain annual consumer inflation at 2 per cent—the midpoint of a control range of 1 to 3 per cent. This inflation-targeting approach to monetary policy guides the Bank of Canada in maintaining a stable price environment over the medium term. As a result, consumer inflation as measured by the CPI has been, on average, stable at the national level.

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 & 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 Alberta Average Weekly Wages & Salaries Per Employee data series is used. In calculating the 2020 MPI forecast, the inflation rate for this expenditure category was 2.75 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 1.02 percentage points to the 2020 MPI forecast of 1.34 per cent, higher than the Conference Board of Canada's forecast for consumer inflation of 1.15 per cent.

The development of the MPI necessitated the formation of steering and working committees. The steering committee included senior managers from the Financial and

Corporate Services Department, who provided direction and assigned resources to the project. The working committee, made up of representatives from most sections of the Financial and Corporate Services Department, provided direction on the composition of expenditure categories, weights and inflation factors. The City of Edmonton's MPI was also created in accordance with a previous corporate strategy document, *The Way We Finance*, with both projects developed in close alignment.

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

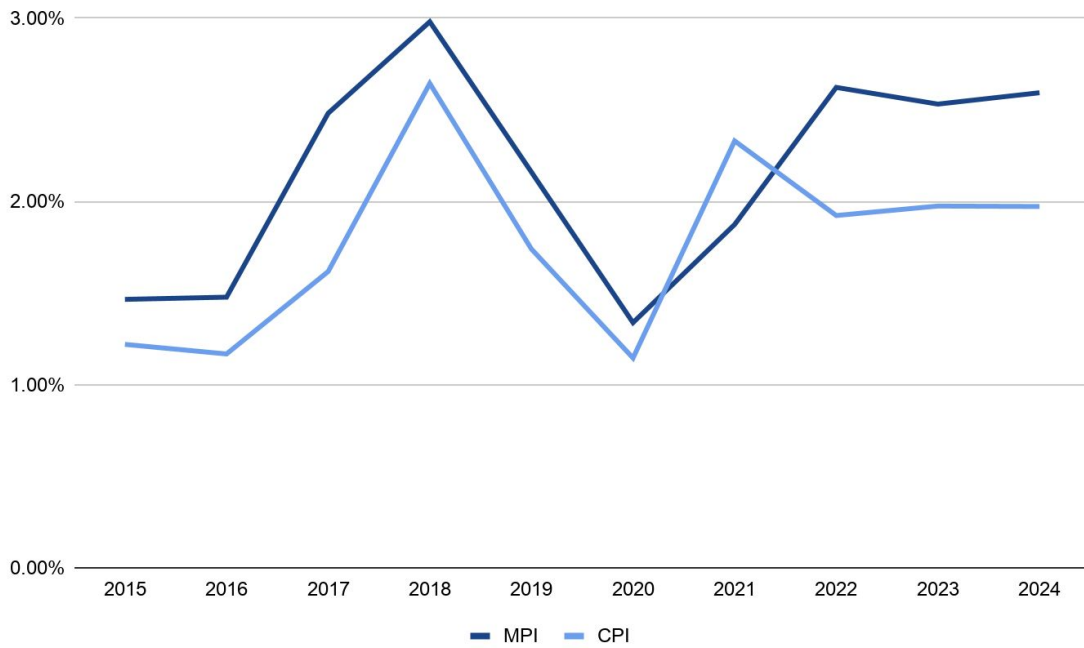
The MPI is updated on an annual basis, generally during the first half of the year. The update to the MPI involves revising the previous year's estimated MPI values to reflect actual inflation figures and updating the inflation factors for the current year and the next four years with updated forecast values. This report incorporates the revisions to the previously estimated 2019 MPI values to reflect actual figures and updates to the MPI forecasts for the 2020–2024 period.

Over the past five years, Edmonton's municipal inflation has fluctuated between about 1.5 and 3 per cent, above consumer-based inflation each year. The actual year-end municipal inflation for 2019 was 2.16 per cent which was higher than the annual change of 1.74 per cent in the CPI.

It is important to note that in the 2018 MPI report, the City re-calculated the weighting of each expenditure category based on the City's 2017 operating budget. In addition, average house price changes were replaced by annual changes in the land only component of Statistics Canada's New Housing Price Index (NHPI) for Edmonton to determine historical inflation for land costs. Due to these revisions to the methodology, MPI calculations from 2019 onward are only directly comparable to the 2018 MPI report.

Municipal inflation is forecasted to be 1.34 per cent in 2020 while consumer inflation is expected to average 1.15 per cent. Municipal inflation is then forecast to rise to 1.87 per cent in 2021. Between 2022 and 2024, municipal inflation is expected to be within the 2.5 and 2.6 per cent range. Consumer inflation is forecasted to be in the 1.90 to 2.30 per cent range over 2021 to 2024.

**Figure 1. Municipal Price Inflation vs. Consumer Price Inflation**



Source: City of Edmonton and the Conference Board of Canada  
 Data from 2020 onward are forecasts.

Table 2 on page 8 shows the City of Edmonton’s actual and forecasted MPI from 2019 to 2024. The inflation factors for 2019 represent actual historical inflation rates experienced in each of the expenditure categories, while those for years 2020 to 2024 are forecasted inflation rates that are expected over the current and next four years.

**Table 2. City of Edmonton Municipal Price Inflation**

Expenditure Category	Weight	Weighted Expenditure Category Inflation (per cent)					
		Actual	Forecast				
		2019	2020	2021	2022	2023	2024
Wages & Salaries	45.58%	1.11	1.02	0.58	1.01	1.13	1.21
Employee Benefits	8.93%	0.22	0.20	0.11	0.20	0.22	0.24
Equipment (Vehicles & Computers)	3.23%	0.00	-0.05	0.08	0.09	0.06	0.06
Fuel	1.39%	-0.06	-0.42	0.18	0.32	0.07	0.04
Materials	3.52%	0.00	-0.05	0.09	0.10	0.07	0.06
Natural Gas	0.38%	0.00	-0.05	0.07	0.02	0.01	0.01
Utilities Total	2.05%	0.04	0.02	0.05	0.05	0.04	0.04
External Space	1.52%	0.03	0.02	0.04	0.03	0.03	0.03
Grants & Board Requisition	5.10%	0.09	0.06	0.12	0.10	0.10	0.10
Land Cost	3.33%	0.01	0.04	0.08	0.06	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%	0.08	0.05	0.11	0.09	0.09	0.09
Other Financing	0.24%	0.01	0.01	0.01	0.01	0.01	0.01
Travel & Training	0.44%	0.01	0.01	0.01	0.01	0.01	0.01
Contract Services	9.13%	0.26	0.22	0.11	0.20	0.23	0.24
Professional Services	1.17%	0.03	0.03	0.01	0.03	0.03	0.03
Debt Service Total	8.71%	0.34	0.24	0.22	0.30	0.36	0.35
	100.0%						
Municipal Price Inflation		2.16	1.34	1.87	2.62	2.53	2.59
Consumer Price Inflation		1.74	1.15	2.33	1.92	1.97	1.97
Difference (percentage points)		0.42	0.19	-0.46	0.70	0.56	0.62

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