

WEEKLY ECONOMIC REVIEW

June 23, 2006

Canada's inflation rate for May came in above market expectations at 2.8 per cent compared to the same month last year. The increase was mostly attributable to a rise in gasoline prices (18.6 per cent), natural gas prices (15.6 per cent), and electricity prices (6.2 per cent). Core inflation, which excludes the eight most volatile components of headline inflation, increased to 2.0 per cent in May, from 1.6 in April because of higher travel accommodation and homeowners' replacement costs.

Between May 2006 and May 2005, Alberta's inflation rate jumped to 4.5 per cent – the largest year-over-year increase since June 2003. The surge in this month's inflation rate was due to rising homeowners' replacement costs (29.8 per cent), gasoline prices (22.9 per cent), and natural gas prices (11.6 per cent). While the increase in energy prices is consistent with the Canadian trend, the rise in homeowners' replacement cost is more than four times the Canadian increase of 7.2 per cent. Rising housing starts in Alberta are putting upward pressures on land, material and labour costs.

Canada's retail sales in April beat expectations, rising by 1.7 per cent from the previous month. Although higher gasoline prices drove retail sales higher, gains were

| Cdn Dollar (C¢/US\$) | | |
|---|---------------|---------|
| ← | June 23, 2006 | 89.0¢ |
| | June 16, 2006 | 89.1¢ |
| | 2006-07 YTD | 89.2¢ |
| WTI Oil \$US/bbl | | |
| ↑ | June 22, 2006 | \$70.84 |
| | June 15, 2006 | \$69.50 |
| | 2006-07 YTD | \$70.57 |
| Nymex Natural Gas C\$/mcf* | | |
| July Contract | | |
| ↓ | June 23, 2006 | \$7.03 |
| | June 16, 2006 | \$8.15 |
| *Estimate based on Nymex Futures Market Price | | |

broad-based. Six out of eight sectors posted gains, with the automotive sector rising by 3.6 per cent. Retail sales in Alberta increased for the seventh consecutive month, as sales rose 3.9 per cent from March and by a record 17.4 per cent from April 2005.

Higher inflation and retail sales reports this week along with strong employment gains in May are likely to make it harder for the Bank of Canada to refrain from raising interest rates further.

Despite a rise in U.S. crude oil inventories, oil prices regained some strength this week, reaching US\$70.8/bbl. The gain was led by an increase in gasoline futures and continued uncertainty regarding the nuclear agreement between Iran and the West.

| Economic Indicators Released this Week | Reference Period | Month/Previous Month | Month/Previous Year's Month | Year-to-date ¹ |
|--|------------------|----------------------|-----------------------------|---------------------------|
| Consumer Price Index (1997=100) | May | | | |
| Alberta | 139.4 | 0.8% | 4.5% | 3.7% |
| Canada | 130.6 | 0.5% | 2.8% | 2.5% |
| Retail Trade (\$ Millions) | April | | | |
| Alberta | 4,704 | 3.9% | 17.4% | 16.6% |
| Canada | 32,799 | 1.7% | 6.7% | 6.2% |
| Wholesale Trade (\$ Millions) | April | | | |
| Alberta | 5,129 | -0.5% | 12.0% | 16.5% |
| Canada | 41,629 | 0.1% | 6.6% | 8.5% |

Source: Statistics Canada

¹Year-to-date 2006 compared to the same time period in 2005. For example: January-April 2006 versus January-April 2005