

Economic Spotlight

ENERGY PRICES DRIVING ALBERTA INFLATION

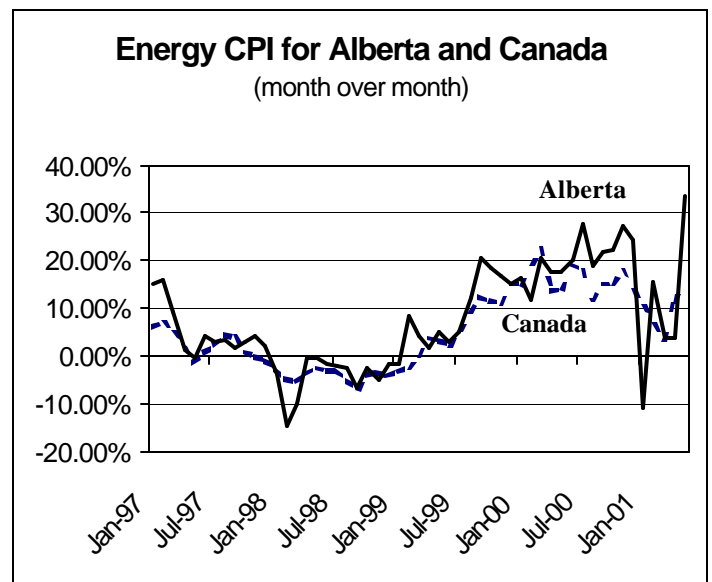
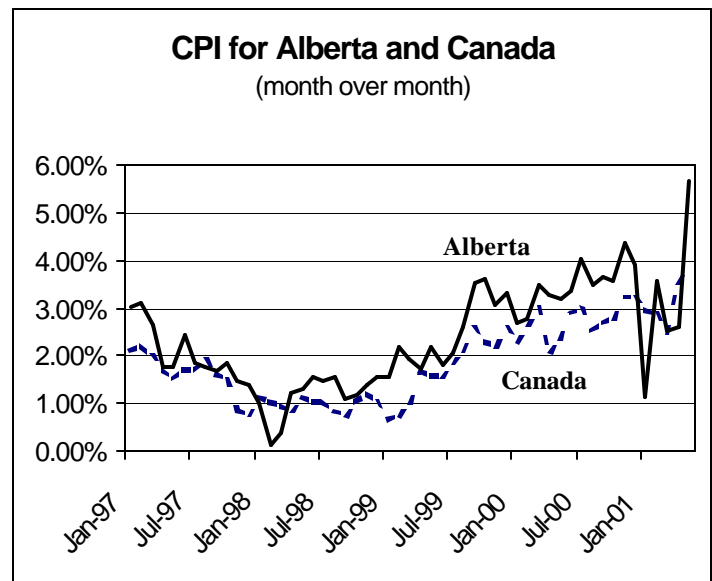
Headline Inflation

Alberta's all-items CPI inflation rate hit 5.7% in May 2001, a rate almost unimaginable in the days of inflation targets. The all-items CPI inflation rate for Canada as a whole was 3.9%.

The reason is simple – energy prices and government rebate programs. Compared to May 2000, the energy CPI sub-index was up 33.3% in Alberta, and 16.0% in Canada as a whole. Just as the introduction of the government rebate program for natural gas helped drive energy CPI inflation into negative territory (-10.7%) in January and reduce the overall CPI inflation rate to 1.1%, the conclusion of the initial program at the end of the winter heating season boosted inflation measures in May.

Natural Gas Prices

The main factor driving the increase in the energy CPI sub-index in May was the price of natural gas. The natural gas CPI sub-index in Alberta was 85.8% higher in May 2001 than in May 2000. (The rise at the national level was 67.4%). This reflects both the end of the government rebate natural gas program and increases in natural gas prices. When the rebate program was introduced in January 2001, the natural gas sub-index of the CPI was 49.9% lower than



in January 2000.

Note that the CPI measures only price increases, and does not take into account any changes in demand. Demand for natural gas in Alberta drops sharply at the end of the winter heating season, minimizing the impacts of May price increases.

For a typical residential customer in Calgary, a natural gas utility bill calculated for April would have been \$6.25 after the government rebate assuming normal weather conditions and usage. This would have risen to \$98.65 in May with the end of the rebate program. For typical Edmonton users, the estimated natural gas utility bill would have gone from a *credit* of \$16 in April to a charge of \$85 in May.

Although details have yet to be finalized, the new Natural Gas Price Protection Act is intended to help shield consumers from large and unexpected price increases. As well, ATCO recently made an application to the EUB for a 40% cut in natural gas rates effective July 1, 2001 through January 2002. Relative to last July, prices for residential consumers would be 13.0% higher in the north and 3.2% lower in the south.

Utilities purchase gas under a combination of daily and monthly contracts. Daily AECO-C spot prices for natural gas rose from an average of \$4.42 per gigajoule in May 2000 to an average of \$5.59 per gigajoule in May 2001, but have since fallen to an average of \$4.69 per gigajoule in the first half of June. Average monthly prices rose from \$3.84 per gigajoule in May 2000 to \$7.05 per gigajoule in May 2001.

Gasoline Prices

Gasoline prices were also up strongly in May 2001 compared to the previous year – 11.6% for Alberta and 12.0% for Canada as a whole. World oil prices were virtually unchanged from the preceding year, with West Texas Intermediate averaging at US\$28.61 in May 2001 compared to US\$28.82 in May 2000. Market concerns about limitations on refinery capacity at the start of the summer driving season drove up gasoline prices at the pump. However this concern was not borne out as stocks of gasoline products have been building since May, and prices at the pump have started to decline from their record highs.