

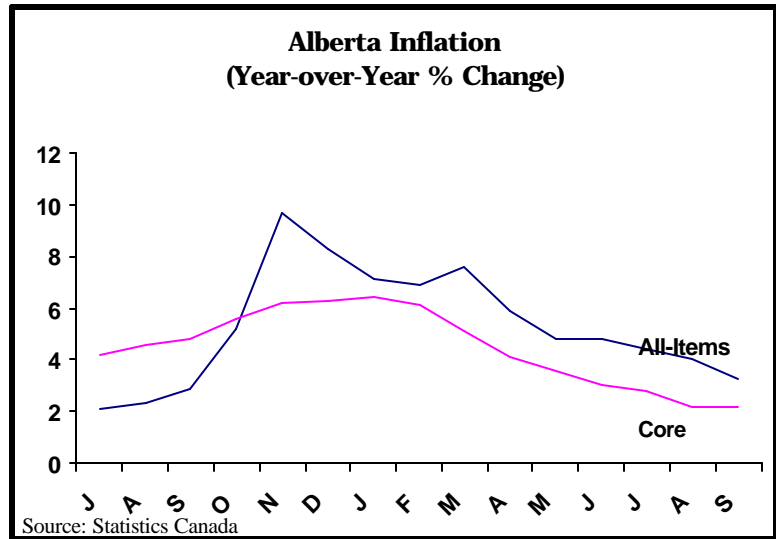
Economic Spotlight

Trends in Alberta CPI Inflation

Overall CPI Inflation

Over the past year, the Alberta CPI inflation rate has been highly volatile, ranging from a low of 2.1% in July 2002 to a peak of 9.7% in November 2002. In recent months, however, CPI inflation has been trending downward, recording declines in eight of the past ten months. In September 2003, Alberta's all-items annual CPI inflation rate stood at 3.3%, down 0.7% from August, and reaching its lowest level since September 2002.

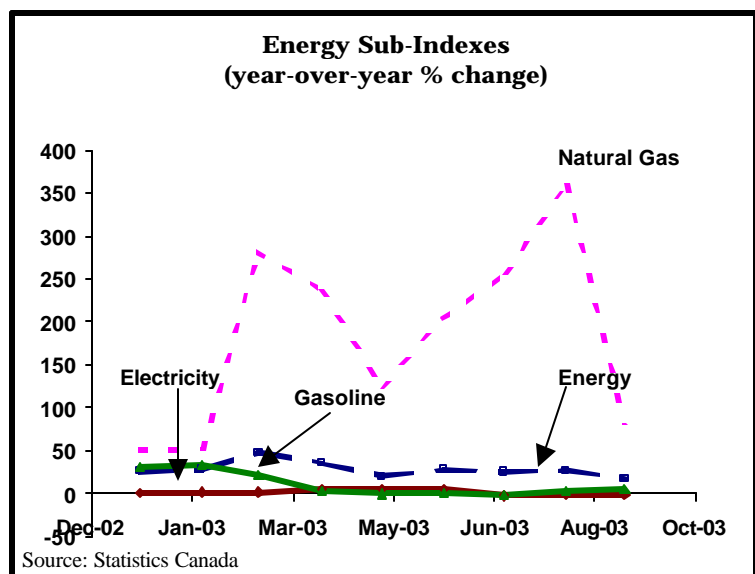
Several factors have contributed to both the volatility and relatively high level of Alberta's CPI inflation recently. Key factors have included energy prices (natural gas in particular), automobile insurance premiums, and tobacco products.



Natural Gas & Energy Inflation

The natural gas CPI sub-index has shown extreme volatility this year, with annual growth ranging from 50% to 358%. Overall, the natural gas sub-index has recorded growth of 146% in the first nine months of 2003 relative to the same period in 2002.

The extreme monthly fluctuations in the natural gas sub-index have been due in large measure to Statistics Canada's treatment of natural gas rebates. Because of the artificially low base generated from natural gas rebates in 2002, the return to more normal price levels in 2003 has seen the reported CPI inflation rate significantly overstate underlying inflationary trends. For example, the September



2003 natural gas sub-index was up 82.5% from September 2002, but was only 14.8% higher than its level of September 2001 (i.e. prior to rebates). Furthermore, the average level of the natural gas sub-index was lower in the second quarter of 2003 than in the comparable quarter of 2001.

Gasoline prices increased 9.2% in the first nine months of 2003 (compared to the same time period in 2002), while electricity prices increased by only 1.9%.

As Table 1 shows, energy prices generally have been a major factor driving Alberta's CPI inflation rate in 2003. Energy prices have accounted for over one-third (1.9 percentage points) of Alberta's year-to-date average inflation rate of 5.4%.

Auto Insurance Premiums and Tobacco

Automobile insurance premiums and tobacco product prices have also been driving up Alberta's CPI inflation rate in 2003, with year-to-date increases of 40.2% and 19.5%, respectively. Automobile insurance premiums have accounted for almost one-quarter (1.2 percentage points) of Alberta's year-to-date CPI inflation rate in 2003, while tobacco prices have added close to half a percentage point to the 2003 inflation rate (due to the effects of tobacco tax increases in 2002).

Table 1: Alberta's CPI Inflation Rates

	January-September Actual	Projected 2003 assuming no change from September levels
All-items CPI	5.4	4.5
Food	1.4	1.1
Shelter	9.9	8.0
Household Operations and Furnishings	0.4	0.7
Clothing and Footwear	-1.0	-1.0
Transportation	9.6	7.8
Health and Personal Care	1.8	1.6
Recreation, Education and Reading	1.6	1.5
Alcoholic Beverages & Tobacco Products	13.0	10.5
Auto Insurance Premiums	40.2	32.9
All-Items Excluding Auto Insurance Premiums	4.2	3.5
Energy	28.1	21.9
All-Items Excluding Energy	3.5	2.9
All-Items Excluding Food and Energy	3.9	3.3
Tobacco	19.5	15.3
All-Items Excluding Tobacco	5.0	4.2

Source: Statistics Canada, Alberta Finance

Inflation Outlook for 2003 and 2004

Alberta's CPI inflation rate is likely to remain near its current level through the remainder of 2003, but should return to more normal levels in 2004, as the above-noted measurement anomalies and other, mostly one-time price effects work their way through the system, and as energy prices moderate. In 2004, the annual inflation rate is expected to fall to around 2.2%.