

Analytical Paper

Analysis in Brief

Consumer Prices: The Year 2008 in Review

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- . not available for any reference period
- .. not available for a specific reference period
- ... not applicable
- 0 true zero or a value rounded to zero
- 0^s value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
- p preliminary
- r revised
- x suppressed to meet the confidentiality requirements of the *Statistics Act*
- E use with caution
- F too unreliable to be published

Table of contents

Consumer Prices: The Year 2008 in Review

1	Summary	4
2	Consumer prices, on average, continue to gain momentum	5
3	Energy prices post solid increases despite declines in the final months of the year	7
4	Consumers continue to feel the pinch from higher costs for shelter	8
5	Food prices outpace growth in the all-items index for fifth consecutive year	9
6	Many items produced in the global market post price declines	11
7	Consumer prices in all provinces except Alberta and New Brunswick gain momentum	13
8	The cyclical nature of consumer prices in 2008	14

About this article **16**

About Analysis in Brief **17**

Distribution list: Free subscription **18**

Consumer Prices: The Year 2008 in Review

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1 Summary

The year 2008 was a year of high price volatility. There were large price increases in the first half of the year followed by weakening prices at the end of 2008, and for the year as a whole, consumer prices increased at a rate slightly higher than in the previous two years.

Consumers paid 2.3% more on average for the goods and services in the Consumer Price Index (CPI) basket in 2008 compared to 2007. The rise was slightly larger than the average of 2.2% in 2007 and 2.0% in 2006, and was the largest increase since the 2.8% rise recorded in 2003.

On the strength of commodity prices for energy, prices for gasoline, natural gas and fuel oil and other fuels rose sharply in 2008 and largely contributed to the overall increase in the CPI. However, substantial decreases in prices for gasoline and fuel oil and other fuels were also the main contributor to the drop in consumer prices towards the end of 2008.

Shelter costs rose 4.4% in 2008 and accounted for about half of the increase in the CPI in the year. Continued strength in the housing market raised costs for owned accommodation and significantly contributed to the annual increase in the CPI in 2008. As with energy costs, owned accommodation costs also started to abate in the latter part of 2008.

Rising prices for several food items, particularly those associated with grain products, led to a sharp rise in food prices in 2008.

Price declines for purchasing new vehicles, clothing and footwear items and electronic products—all items which consumers purchase less frequently—greatly helped to temper the increase in the CPI in 2008.

Overall, prices for goods in the CPI basket rose a subdued 1.3% in 2008, reflecting the fact that price increases for several goods, such as gasoline and food products, were partially offset by price drops for other goods such as automobiles. Excluding energy and food, the two main rising components of the good sub-index, good prices actually fell 2.7% in 2008. Services in the CPI, on the other hand, rose 3.4% on average, reflecting widespread increases.

On a provincial basis, growth in consumer prices continued to vary considerably across the country in 2008, but less so than in 2007. Increases ranged from a high of 3.4% in Prince Edward Island to a low of 1.7% in New Brunswick.

Over the course of 2008, consumer prices fluctuated significantly on a month-to-month basis. On a seasonally adjusted basis, consumer prices advanced a moderate 0.1% in January, then climbed by a sharp 0.8% in May before finally posting consecutive price drops in the last three months of the year. The slowdown in consumer price growth at the end of 2008 was due primarily to price declines for gasoline and fuel oil and other fuels as well as slower price increases for mortgage interest and replacement costs.

This study reviews changes in consumer prices in 2008 as measured by the annual average of the monthly Consumer Price Index (CPI). It discusses the main contributors and drivers of these variations. The focus is on the average for the year, as this indicator is used for indexing many public and private pension plans and programs. Given that the average reflects both the rise and decline of consumer prices over the year, some attention will be given to infra-annual variations.

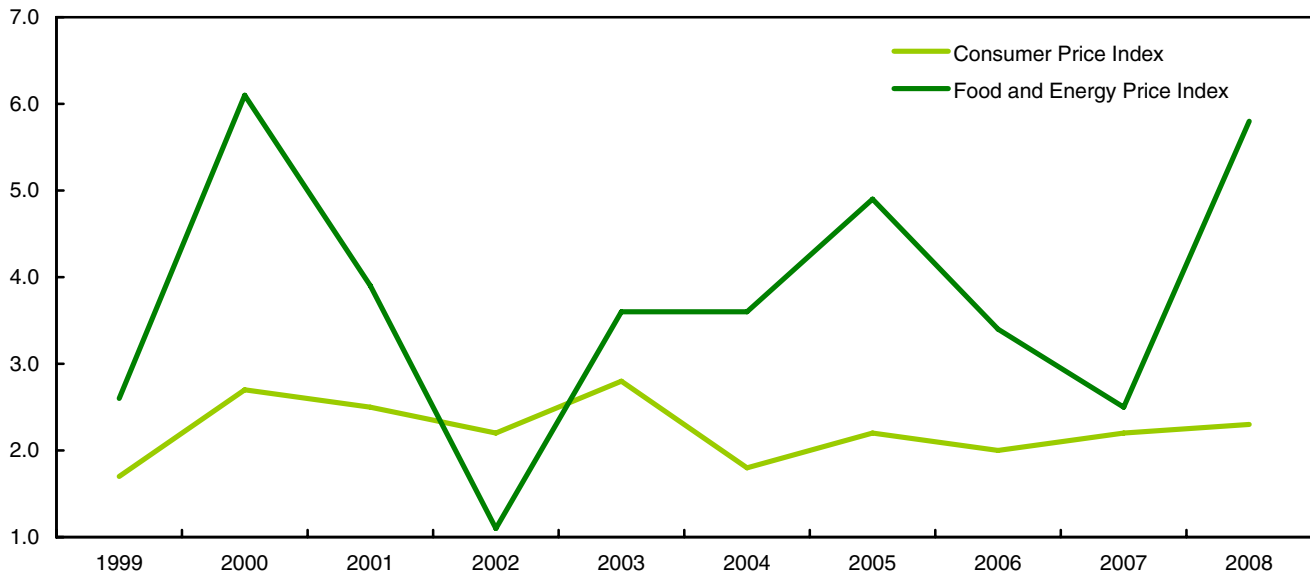
2 Consumer prices, on average, continue to gain momentum

Canadian consumers paid on average 2.3% more for the goods and services in the Consumer Price Index (CPI) basket in 2008 than they did in 2007.¹ Despite the substantial slowdown in the growth of most prices towards the end of 2008, the annual average change in the CPI was slightly higher than the 2.2% increase in 2007 and the 2.0% in 2006. The annual increase in 2008 was the fastest rate of growth since the 2.8% rise posted in 2003.

Chart 1

The Consumer Price Index accelerates slightly as the Food and Energy Price Index sharply increases in 2008

Annual growth rate (percent)



Source(s): Statistics Canada, CANSIM table 326-0021.

Higher prices for various energy and food products and mortgage interest costs were the primary contributors to the increase in consumer prices in 2008. The food and energy price index rose 5.8% in 2008, up from the 2.5% increase in 2007 and the largest since the 6.1% rise registered in 2000. Higher prices for gasoline, natural gas, fuel oil and other fuels and various food items, particularly grain related products, put significant upward pressure on the food and energy price index in 2008.

Helping to mitigate the overall rise in consumer prices in 2008 were price declines for purchasing and leasing passenger vehicles, clothing and footwear products and various electronic items.

A reduction in the Goods and Services Tax (GST) from 6% to 5% in January 2008 likely helped to contain consumer inflation, as price changes measured by the CPI take into account the value of consumption taxes paid by Canadians.

Since some products, such as prescription drugs and many food items sold in retail stores are exempt from the GST, the resulting decrease was likely less than the one percentage point reduction in this tax. Because about 60% of the goods and services in the CPI basket are subject to GST, a rough estimation of the impact of the one percentage point reduction in the GST on the level of the CPI suggests a decrease in the order of 0.6 of a percentage point.²

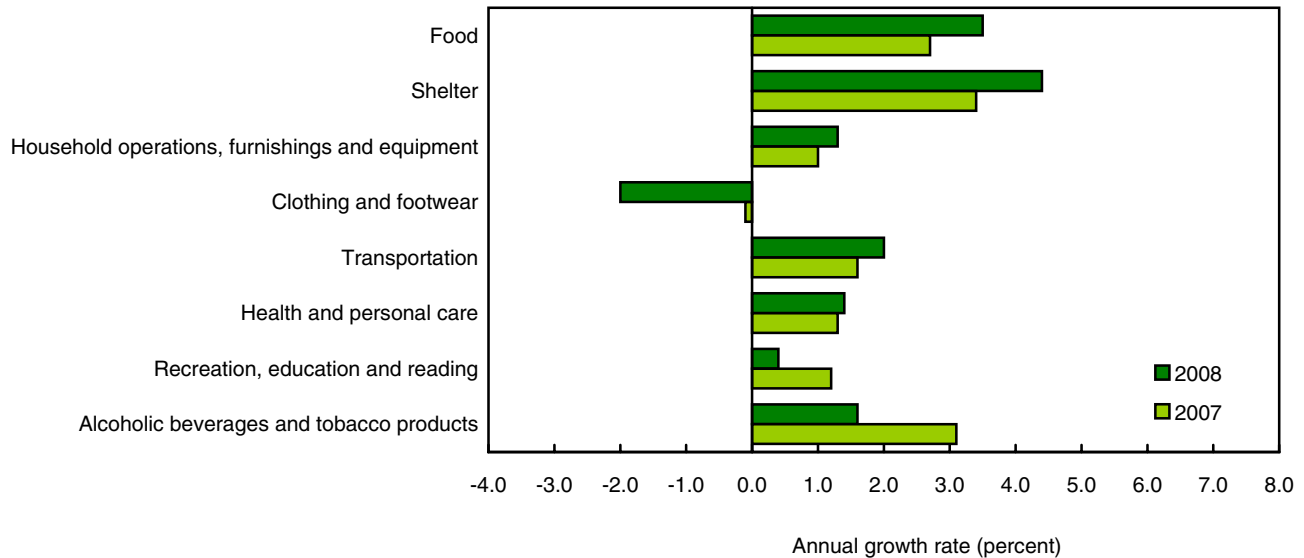
1. The annual average change is calculated by averaging CPI levels over the 12 months of two calendar years and calculating their percentage difference. A 12-month change compares the CPI in one month of a given year to the same month of the previous year. Unless otherwise indicated, all price changes mentioned in the analysis are on an annual average basis.

2. This estimation is based on the assumption that the entire amount of the decrease was transferred to consumers and that the industrial structure that underlies the way that prices are determined remained the same.

Over the year, several other significant events also impacted consumer prices, including a firm but cooling housing market, the fluctuating Canadian dollar in relation to the US greenback, the peaking and subsequent decline of commodity prices, financial market uncertainty and the general deterioration of economic conditions.

Of the eight major components in the CPI basket of goods and services, inflation in 2008 was largely driven up by price increases for shelter and food.³ The clothing and footwear price index was the only major component that declined.

Chart 2
Seven of the eight major components increase



Source(s): Statistics Canada, CANSIM table 326-0021.

Table 1
Distribution of expenditures used in the Consumer Price Index and annual percentage change, by major component, for Canada

	CPI component weight	Annual average change, 2008	Contribution to total change, 2008
	percent		
All-items	100.0	2.3	...
Food	17.0	3.5	25.9
Shelter	26.6	4.4	50.9
Household operations, furnishings and equipment	11.1	1.4	6.8
Clothing and footwear	5.4	-2.0	-4.7
Transportation	19.9	2.0	17.3
Health and personal care	4.7	1.4	2.9
Recreation, education and reading	12.2	0.4	2.1
Alcoholic beverages and tobacco products	3.1	1.6	2.2

Note(s): Figures may not add to 100% due to rounding.

Source(s): Statistics Canada, CANSIM table 326-0021.

3. The CPI is broken down into eight major product categories known as the CPI major components. These are: food; shelter; household operations and furnishings; clothing and footwear; transportation; health and personal care; recreation, education and reading; and alcoholic beverages and tobacco products.

While shelter components represent more than 26% of the total CPI basket of goods and services, they accounted for about 50% of the total increase in consumer prices in 2008. Similarly, food components, which represent roughly 17% of the total expenditure weight in the CPI, accounted for about 26% of the increase in the CPI.

After gaining momentum in the previous three years, the Bank of Canada's core index slowed to a growth rate of 1.7% in 2008, down from the 2.1% and 1.9% increases posted in 2007 and 2006, respectively.⁴ The gap between the Bank of Canada's core index and the CPI is largely attributed to gasoline prices, which pushed up the CPI but which are not accounted for in the core measure of consumer prices.

3 Energy prices post solid increases despite declines in the final months of the year

Symbolic of the boom in commodity prices, energy prices greatly pushed up consumer prices during most of the year. While world markets saw the prices of other commodities such as metals and grains rise rapidly over the last four years, the worldwide surge in energy prices was the strongest and most consistent over the course of the commodity price boom cycle that began in 2002.

In Canada, higher energy prices were largely responsible for the increase in two of the eight major components: shelter and transportation. While energy components represent roughly 9% of the total CPI basket of goods and services, they accounted for over 37% of the increase in consumer prices in 2008. Higher energy prices also likely contributed indirectly to higher food prices as the price to process and transport food increased.

Chart 3
Gasoline prices push up the increase in energy prices

Annual growth rate (percent)



Overall, consumers paid 9.9% more in 2008 than 2007 for energy products, substantially more than the 2.3% increase recorded from 2006 to 2007. The rise in 2008 was the largest since 2000 when energy prices rose 16.2%. Higher prices for gasoline were largely responsible for rising energy costs, which followed the swing in world crude oil prices over the year.

4. The core index is a special aggregate of the CPI and is used by the Bank of Canada as a policy instrument to conduct monetary policy with the aim of holding overall inflation within a 1% to 3% target range. The core index is computed by removing eight of the most volatile components of the CPI as defined by the Bank (fruits; fruit preparations and nuts; vegetables and vegetable preparations; mortgage interest costs; natural gas; heating oil and other fuels; gasoline; inter-city transportation; and tobacco products and smokers' supplies) and the effect of changes in indirect taxes from the CPI.

The *West Texas Intermediate (WTI)* price of crude oil surpassed the record levels reached in 2007. In 2008, the WTI average was US\$99.57 (CAN\$104.18), up from the previous record of US\$72.36 (CAN\$76.86) in 2007.⁵

Overall, gasoline prices in Canada were up 12.7% in 2008, more than double the 4.5% increase in 2007 and virtually matching the 12.8% rise in 2005 when hurricanes Katrina and Rita disrupted the oil market. Higher gasoline prices contributed significantly to higher transportation costs for Canadians. However, by December 2008 gas prices were about 26% lower than the same month the year before. Excluding gasoline, consumer prices rose 1.8% in 2008, significantly less than the overall increase of 2.3%.

Higher energy prices were also bolstered by strong gains in prices for natural gas. Consumers paid 11.8% more for natural gas to heat their homes in 2008, after receiving a break in 2007 when prices fell 6.5%. The rise in 2008 was the biggest jump since the 30.1% hike posted in 2003.

An increase in demand due to colder temperatures and a fall in Canadian natural gas production supported higher natural gas prices. Canadian marketable natural gas production fell nearly 4% in 2008.⁶ Helping to temper the increase in prices for natural gas was the roughly 6% increase in marketable natural gas production in the United States, as the Canadian and US natural gas markets operate as one large integrated market.⁷

Consumers heating their homes with fuel oil and other fuels, particularly in the Maritime Provinces of Nova Scotia, Prince Edward Island and New Brunswick also had to contend with higher prices. After rising 4.0% in 2007, consumers paid 30.7% more for fuel oils and other fuels in 2008.

The increase in prices for natural gas and fuel oil and other fuels largely contributed to rising shelter costs for consumers. Helping to offset the rise in energy prices associated with housing in 2008 was a subdued 0.3% price increase for electricity, following the 1.9% increase in 2007.

Excluding all energy components, the CPI advanced only 1.6% in 2008, identical to the rate posted in 2007.

4 Consumers continue to feel the pinch from higher costs for shelter

After advancing 3.4% in 2007, shelter costs rose a larger 4.4% in 2008 and accounted for roughly 50% of the increase in the CPI. Robust increases for owned accommodation costs followed by higher costs for utilities, thanks to sharp increases in prices for energy products associated with housing, largely contributed to the rise in shelter costs.

Rising costs for mortgage interest and homeowner's replacement costs led to a 4.4% rise in owned accommodation costs in 2008, a slowdown from the 4.9% increase in 2007. Mortgage interest costs crept up in 2008, advancing 8.0% after posting a 6.0% gain in 2007. This was the sixth consecutive year that the index advanced at a faster pace than the previous year.

While the housing market has slowed in Canada, it was on balance strong during most of 2008. Relatively high employment levels, rising incomes and low mortgage rates provided a solid foundation for most of the year. While housing starts fell to about 212,000 units in 2008, down from 228,343 units in 2007, this was the seventh consecutive year in which housing starts exceeded 200,000 units.⁸

Mortgage interest costs depend on the value of the housing unit purchased and the underlying mortgage interest rate. Although the five-year conventional mortgage rate averaged 7.1% for 2008, identical to the rate in 2007, increasing housing prices pushed up mortgage interest costs.

The New Housing Price Index (NHPI) advanced 3.4% in 2008, a slowdown from the 7.7% rise posted in 2007.⁹ Although gains were observed in all ten provinces, increases varied considerably across the country, from lows

5. See Economagic, *Spot Oil Price: West Texas Intermediate: Dollars per Barrel*, "Economagic Time Series", <http://www.economagic.com/em-cgi/data.exe/fedstl/oilprice+1> (accessed January 27, 2009).

6. See National Energy Board (NEB), *Marketable Natural Gas Production in Canada*, <http://www.neb.gc.ca/clf-nsi/mrgynfimt/ststc/mrktblntrlgspdrctn/mrktblntrlgspdrctn-eng.html> (accessed February 10, 2009).

7. See Energy Information Administration, *Short-Term Energy Outlook - January 2009*, <http://www.eia.doe.gov> (accessed January 13, 2009).

8. See the Canadian Real Estate Association, *MLS Statistics*, <http://creastats.crea.ca/natl/> (accessed January 9, 2009).

9. The NHPI measures changes over time in the contractors' selling prices of new residential housing.

of 0.7% in Alberta and 1.4% in Prince Edward Island to highs of 23.4% in Saskatchewan and 19.6% in Newfoundland and Labrador. Excluding land, the NHPI rose 2.9% in 2008.

Chart 4
Shelter costs continue to post strong price increases

Annual growth rate (percent)



Source(s): Statistics Canada, CANSIM table 326-0021.

Although easing to a growth rate of 3.0% in 2008 after the 5.9% rise posted in 2007, homeowner's replacement costs continued to be a primary contributor to the increase in costs for owned accommodation. Homeowner's replacement costs represent the cost of maintaining the housing structure from wear and tear and are estimated using new housing prices excluding land.

A 3.7% rise in property tax rates in 2008 following the 3.2% rise in 2007 also helped to push up owned accommodation costs. Higher housing prices were largely responsible for pushing up homeowner's replacement costs and property tax rates.

Higher costs for energy also continued to prop up costs for shelter in 2008. The strong gains recorded in prices for natural gas (+11.8%) and fuel oils and other fuels (+30.7%) as mentioned above, and a 10.2% rise in water rates pushed up household utility costs 7.0%. This is a significant jump from the small 0.6% rise recorded in 2007. A minor rise in electricity prices (+0.3%) helped to dampen the over increase in household utility costs.

Excluding shelter costs from the CPI calculation, consumer prices advanced only 1.6% in 2008.

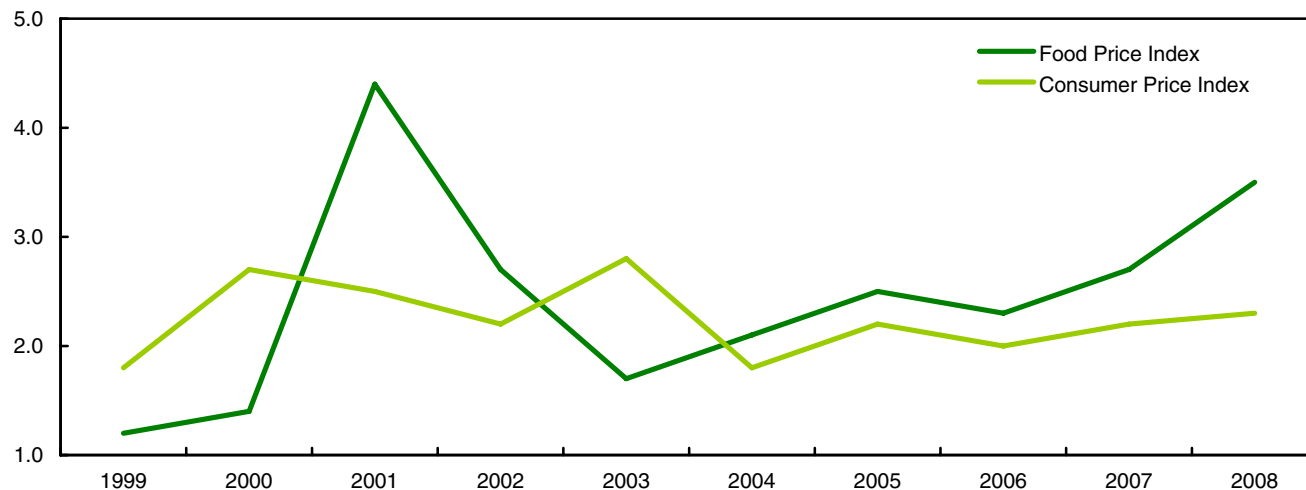
5 Food prices outpace growth in the all-items index for fifth consecutive year

Food prices continued to climb in 2008, reflecting worldwide agricultural supply and demand conditions and the influence of higher energy prices. Overall, Canadian consumers paid 3.5% more to purchase food in 2008, after paying 2.7% more a year earlier. With the exception of the 1.7% rise in 2003, food prices remained fairly stable from 2002 to 2007, hovering around 2.5%.

While food commodity prices began to take off in many countries in 2007, food prices in Canada remained relatively stable. However, the cost of food for consumers turned up in 2008, becoming an increasingly important contributor to the overall rise in consumer prices. After accounting for about 20% of the increase in consumer prices in 2007 and 2006, food prices accounted for roughly 26% of the increase in the CPI in 2008.

Chart 5
Food prices outpace overall increase in CPI

Annual growth rate (percent)



Over the course of the year, prices for food increasingly contributed to the overall growth in consumer prices. In the final quarter of the year, the food price index accounted for over 60% of the increase in the CPI, compared to the more moderate 6% in the first quarter.

Given its 17% weight in the CPI and the frequency with which a consumer purchases food items, higher prices for food can have a larger impact on consumer confidence and also have a greater impact on those individuals in the bottom income quartile, for whom food, as a share of total expenditures, is much larger.¹⁰

Sustained strength in prices for food purchased from stores continued to be the primary driver of higher overall consumer food prices. Prices for food purchased from stores gained momentum for the fifth consecutive year in 2008, advancing 3.9%. This increase came on the heels of a 2.7% rise posted in 2007. Prices for food staples such as bread, rice, flour, milk and eggs rose sharply in 2008. Higher transportation costs resulting from rising gasoline prices, surging commodity prices and increasing demand for food in emerging markets were among the many reasons for the rise in food costs.

Price increases for bakery and cereal products were the largest upward contributors, as the surge in prices for grains transferred to higher costs at the kitchen table. As measured by the Farm Product Price Index (FPPI), prices received by farmers for grains rose 17.7% in 2008, following the 53.7% rise in 2007.

Thanks primarily to a 15.1% rise in the price for bread, the bakery product price index rose 11.2% in 2008, more than double the 4.6% rise in 2007. Likewise, prices for cereal products accelerated sharply in 2008, rising 13.8%, more than four times the 2.9% increase posted in 2007. Sharp accelerations in prices for flour (from 1.5% in 2007 to 34.5% in 2008), pasta (from 6.4% in 2007 to 31.9% in 2008) and rice (from 2.5% in 2007 to 17.4% in 2008) largely contributed to the growth in cereal product prices in 2008.

Prices for dairy products also remained buoyant in 2008, advancing 3.9% after rising 3.6% in 2007. A 5.2% hike in prices for fresh milk, the largest increase since 1984, was the main contributor to the rise. Also driving up prices for food in 2008 was a 4.1% rise in egg prices, following the 5.8% increase in 2007.

10. See Radu Chiru, "Does Inflation Vary with Income," *Analysis in Brief*, June 2005, Statistics Canada catalogue no. 11-621M2005030, <http://www.statcan.gc.ca/pub/11-621-m/11-621-m2005030-eng.htm> (accessed March 2, 2009).

Prices for fats and oils also posted large increases in 2008. After rising 3.5% in 2007, fat and oil prices climbed 13.6% in 2008, the highest annual rate of growth posted since the inception of that index in 1979.

While prices for fresh or frozen chicken continued to post strong increases in 2008, advancing 4.1%, the rise was smaller than the 7.2% increase recorded in 2007. However, thanks to more subdued price increases for other meat products such as fresh or frozen pork (+1.4%) and fresh or frozen beef (+2.0%), the meat price index rose only 2.1% in 2008, following the 3.0% rise in 2007.

While Canadian consumers contended with higher prices for food purchased from stores (+3.9%), the overall price increase was relatively moderate by world standards. Prices for food purchased from stores jumped 6.4% in the United States (after increasing 4.2% in 2007), 9.1% in the United Kingdom (after increasing 4.5% in 2007) and 6.8% in the European Union (after increasing 4.0% in 2007) in 2008.¹¹

Fresh fruit prices rose only 1.6% in 2008. An 8.4% drop in the price of oranges helped to offset an 8.2% and 15.6% rise in prices for apples and bananas, respectively.

After rising 8.0% in 2007, likely the result of a large drop in production levels as a result of challenging weather conditions, prices for oranges returned to more normal levels, thanks to improved harvests in 2008. While higher costs for transportation affected fruit prices, supply interruptions also impacted apple and banana prices. A cool winter in Central America and flooding in Ecuador hampered the supply of bananas.¹² As well, increased demand from Europe also supported higher banana prices.¹³

After declining by a slight 0.1% in 2007, fresh vegetable prices climbed 1.4% in 2008. Price increases for various fresh vegetable products such as potatoes, tomatoes and lettuce were partially offset by a 0.9% decline in the price index for other fresh vegetable products.

Compared to prices for food purchased from stores, prices for food purchased from restaurants were more contained in 2008, advancing 2.5%, down from the 2.7% rise in 2007. A slowdown in prices for food purchased from fast food restaurants, from 3.2% in 2007 to 2.0% in 2008, largely contributed to the slower pace of increase in prices for restaurant meals.

6 Many items produced in the global market post price declines

Applying significant downward pressure on the CPI were continual price declines for purchasing and leasing passenger vehicles, clothing and footwear products and various electronic items. Robust global competition, technological advances and quality enhancements all helped to reduce prices for these items. Also contributing to the fall in prices for clothing and footwear and electronic items was the growing presence of imported goods from emerging Asia economies.

While the cost of fuelling a motor vehicle rose substantially in 2008, the price to purchase a new vehicle fell sharply. After falling 1.5% in 2007, prices to purchase passenger vehicles fell a further 6.9% in 2008. This was the single largest annual drop recorded since the inception of the price index for purchasing passenger vehicles in 1949.

Auto retailers and manufacturers offered numerous incentives to consumers over the course of 2008. In addition, thanks to the sustained strength of the Canadian dollar relative to its US counterpart for most of the year, Canadian auto dealers continued to reduce the price gap between Canadian and US auto prices.¹⁴

A 3.3% drop in prices for clothing and a 2.2% fall in footwear prices also helped to contain consumer inflation in 2008. This was the seventh consecutive year that clothing and footwear prices fell. Largely responsible for the decline in clothing and footwear prices over time is the greater intensity of low-cost imports of clothing and footwear from China.

11. See Organization for Economic Co-operation and Development, *OECD Stat Extracts*, <http://stats.oecd.org/wbos/Index.aspx?querytype=view&queryname=221> (accessed January 29, 2009).

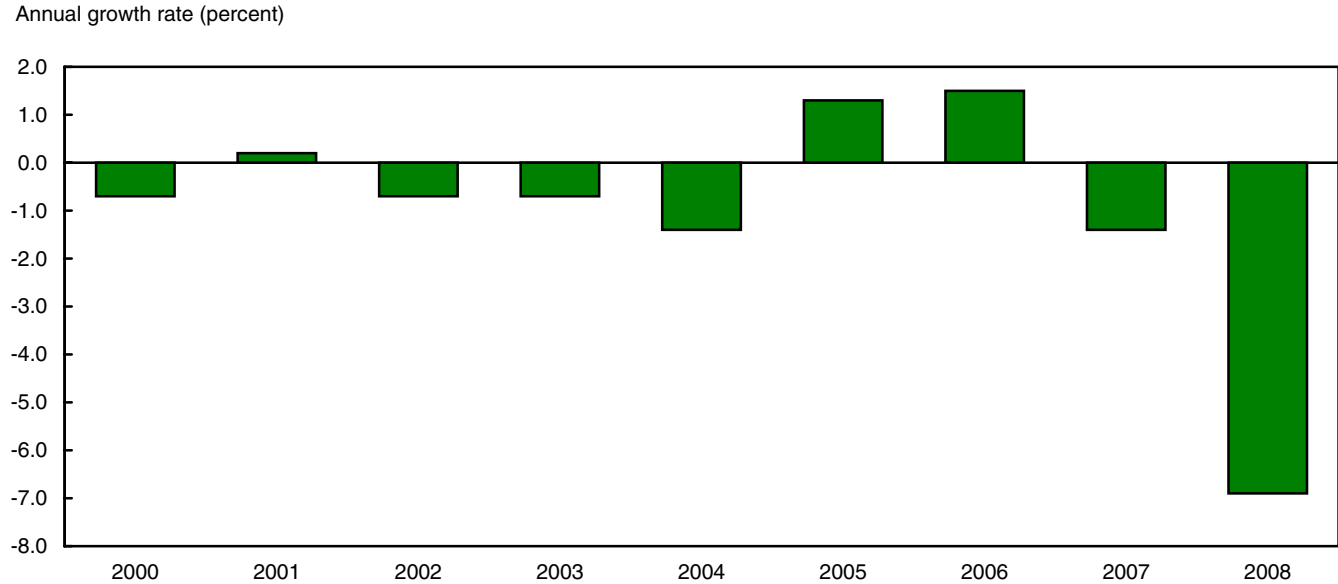
12. See Cynthia David, "Bananas still cost peanuts, even with prices rising," *The Star*, March 26, 2008, <http://www.thestar.com/printArticle/350649> (accessed on January 12, 2009).

13. *Ibid.*

14. See Douglas Porter, "Uh Oh...The Price is Still Wrong," *Focus. A weekly financial digest*, BMO Capital Markets, June 13, 2008, p. 5-6. <http://www.bmonesbittburns.com/economics/focus/20080613/focus.pdf> (accessed on March 3, 2009).

Imports from China are replacing the more costly clothing and footwear domestically produced as well as imports of these items from the United States.

Chart 6
Prices to purchase and lease passenger vehicles drop by record amount



Source(s): Statistics Canada, CANSIM table 326-0021.

Rapid technological advancements, improvement in product features and quality and robust imports from lower cost producing countries continued to push down prices for consumer electronic items in 2008. Computer equipment and supplies fell a further 13.3% in 2008 after falling 17.1% in 2007. Although prices for computer equipment and supplies continue to fall, declines have been moderating since the 20.8% drop recorded in 2005. On the other hand, prices for photographic equipment and supplies have gone the other way, with price drops having accelerated for the third consecutive year, falling 15.0% in 2008 after drops of 9.7% and 8.9% in 2007 and 2006, respectively.

Price indexes for audio (-6.6%) and video equipment (-9.2%) items also continued to post declines in 2008.

Other items within the CPI basket that have a large import content, such as books (-9.4%), furniture (-1.9%) and household appliances (-3.1%), also helped to temper the increase in consumer prices in 2008. During the year, many book retailers reduced prices in order to reduce the gap between Canadian and US book prices.

A high intensity of imports in the context of a relatively high Canadian dollar and international competition, among other things, helped to reduce prices for some consumer goods.¹⁵ Much of the upward pull in the CPI came from higher prices for consumer services, household expenditures that are not as likely to be tradable. On average, prices for various services in the CPI basket rose 3.4% compared to the more subdued increase of 1.3% for goods in the CPI basket in 2008. Higher prices for food and gasoline primarily accounted for the increase in prices for good items. Excluding energy and food, the goods price index fell 2.7% in 2008.

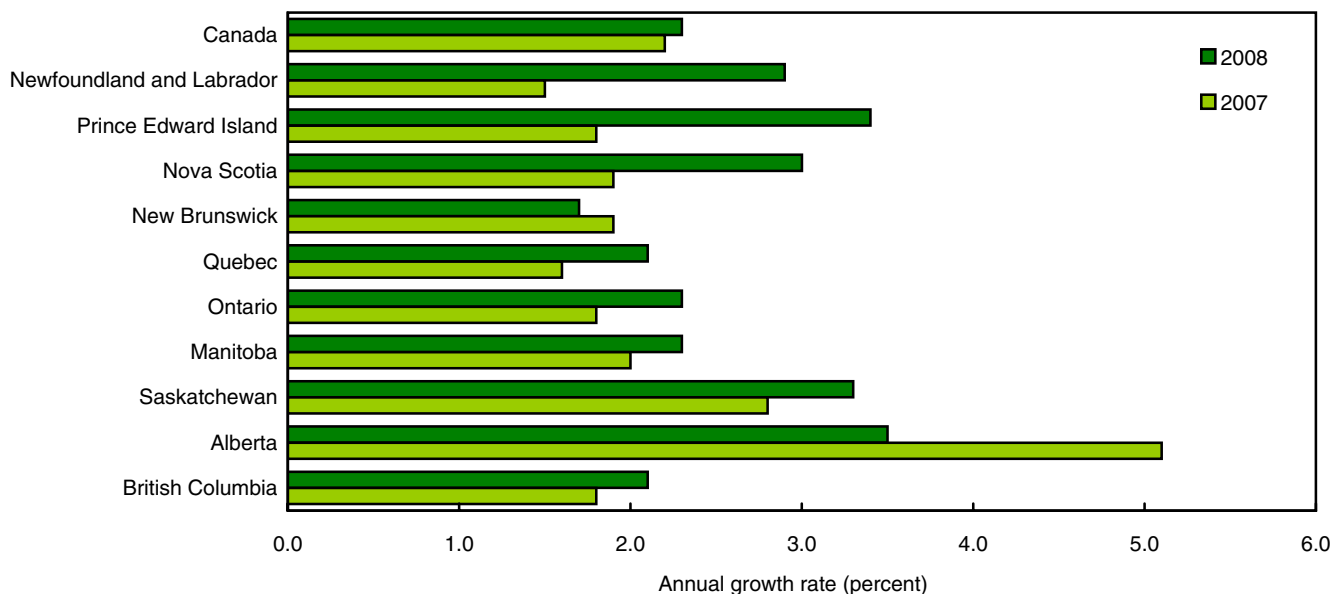
Most services within the CPI basket posted robust price gains over the year. Services related to shelter, particularly mortgage interest and replacement costs, were the primary contributors to the rise in service prices. However, childcare (+6.0%), telephone (+4.2%), services related to household furnishings and equipment (+7.6%), water (+10.2%), finance (+4.3%), passenger vehicle insurance (+4.7%), public transportation (+5.9%), dental care (+3.5%) and travel (+2.7%) services also posted notable gains and forced consumers to dig deeper into their pockets.

¹⁵ The value of the Canadian dollar fluctuated widely throughout 2008, on average its value rose 0.8% against its US counterpart compared to 2007.

7 Consumer prices in all provinces except Alberta and New Brunswick gain momentum

On a provincial basis, growth in consumer prices continued to vary considerably across the country in 2008, but less than in 2007. Increases ranged from a high of 3.4% in Prince Edward Island to a low of 1.7% in New Brunswick. Differences in increasing costs for shelter were largely responsible for the large disparity among the provinces. Shelter cost increases ranged from 3.1% in British Columbia to 9.7% in Saskatchewan.

Chart 7
Consumer prices gain momentum in most provinces



Source(s): Statistics Canada, CANSIM table 326-0021.

New Brunswick and Alberta were the only provinces where consumer prices eased between 2007 and 2008. However, despite the slowdown in price growth, price increases in Alberta continued to be higher than in any other province. A substantial slowdown in owned accommodation costs in Alberta, easing from 15.1% in 2007 to 7.0% in 2008, largely accounted for the slowdown in growth of consumer prices in that province. Slower price increases for replacement and mortgage interest costs primarily accounted for the slower increase in shelter costs.

In New Brunswick, a slowdown in prices for electricity (from 11.8% in 2007 to 0.6% in 2008) and a 4.9% drop in prices for clothing, after the 0.2% rise in 2007, largely accounted for the slowdown in consumer prices. Stronger price declines for purchasing new vehicles also contributed to the slowdown in consumer prices in both Alberta and New Brunswick.

Consumers in Prince Edward Island realized the greatest gain in momentum in consumer prices, advancing from 1.8% in 2007 to 3.4% in 2008. Shelter cost increases in the province was the primary reason behind this advance as the 7.9% increase in 2008 was more than double the 2.8% increase posted in 2007. Strong price increases for electricity (+18.9%) and for fuel oil and other fuels (+28.8%) were largely responsible for shelter cost price increases over the year in Prince Edward Island.

As was the case at the national level, much of the upward pull on consumer prices in all provinces came from higher costs for energy products, mortgage interest costs and rising food prices. Helping to dampen the rise in consumer prices in all provinces were price declines for purchasing and leasing new vehicles, clothing and footwear items

and various other highly traded and infrequently purchased items such as computer equipment and supplies and furniture and appliance items.

With the exception of New Brunswick, consumers in the Atlantic Provinces experienced stronger price increases compared to the national average. Stronger price increases for shelter, as a result of higher costs for utilities (electricity, fuel oil and other fuel and water) were primarily responsible for the larger increase in consumer prices in Prince Edward Island (+3.4%), Nova Scotia (+3.0%) and Newfoundland and Labrador (+2.9%). Overall, the Maritime Provinces were more largely impacted by the jump in fuel oil prices relative to other provinces. Consumers in these provinces rely more on fuel oil for heating compared to the rest of the country. In Newfoundland and Labrador, homeowners were also hit hard with increasing mortgage interest and replacement costs in addition to higher prices for utilities.

Consumers in Saskatchewan also experienced greater price increases compared to the national average. Higher price increases for shelter components in Saskatchewan (+9.7%) compared to the national average (+4.4%) was the primary cause for higher increases in consumer prices in this province.

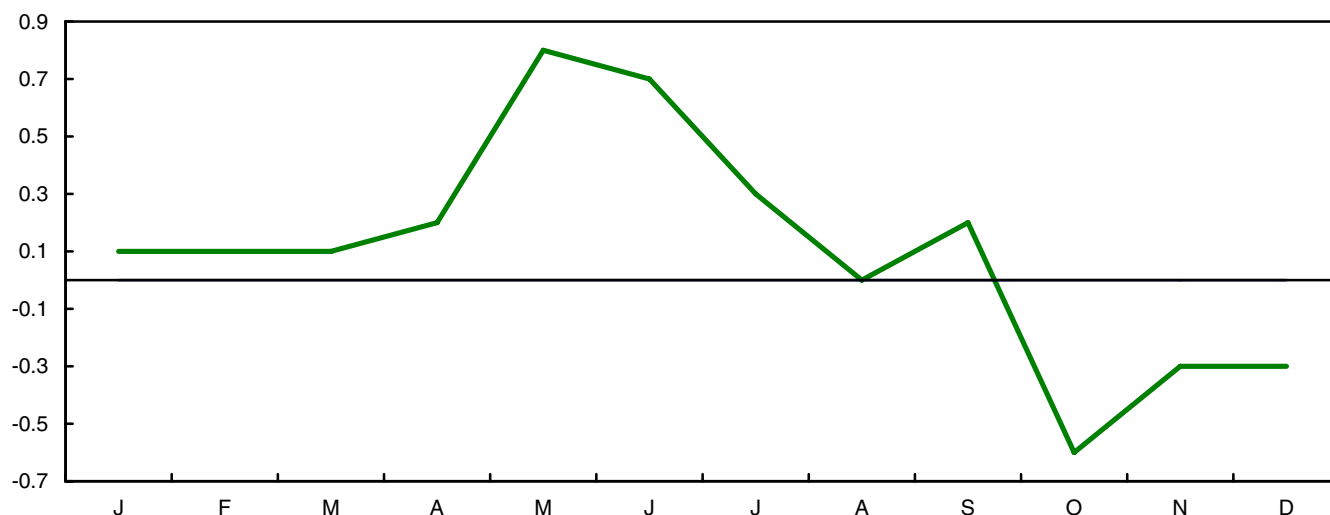
Consumers in Ontario (+2.3%), Manitoba (+2.3%), Quebec (+2.1%) and British Columbia (+2.1%) saw price increases more in-line with the national average (+2.3%).

8 The cyclical nature of consumer prices in 2008

As a result of the swing in prices for several consumer goods and services over the course of the year, consumer prices experienced the largest degree of variability in the month-to-month change in the seasonally adjusted CPI since 2003.

Chart 8
Consumer prices fluctuate considerably on a month-to-month basis, seasonally adjusted, 2008

Month-to-month percentage change, seasonally adjusted



Source(s): Statistics Canada, CANSIM table 326-0022.

On a seasonally adjusted monthly basis, consumer prices rose by an average of 0.1% in the first quarter of the year (compared to the 0.3% increase posted in the final quarter of 2007), before climbing to an average increase of 0.6% in the second quarter. In the later half of the year, the seasonally adjusted monthly CPI averaged an increase of 0.2% in the third quarter and ended the year off with an average drop of 0.4% in the final quarter.

This trend is consistent with both the shelter and transportation price indexes and is largely the result of the price pattern witnessed in the energy price market, a key component of both indexes. Price changes for energy products, particularly gasoline and fuel oil and other fuels followed identical patterns over the course of the year.

The price of West Texas Intermediate crude oil fluctuated substantially over the year, rising to a high of US\$133.93 (\$CAN136.17) in June before retreating to a low of US\$41.02 (CAN\$50.64) in December. The decline at the end of the year was due to a number of factors including a worsening US and global economic outlook.

A slowdown in new housing prices also helped to contribute to the slowdown in shelter costs over the year by slowing the increase in replacement and mortgage interest costs.

While the transportation and shelter price indexes followed this broad trend, the food price index exhibited a different pattern. The rate of growth in the seasonally adjusted food price index began the year with a modest 0.2% rise in prices in January and posted stronger price increase throughout the year, reaching a high of 1.1% in November. From November to December, food prices held steady.

Overall, the month-to-month seasonally adjusted CPI peaked at a high of 0.8% in May and posted a price decline of 0.6% in October followed by price declines of 0.3% in both November and December. This was the greatest degree of variability in consumer prices recorded since 2003, when the seasonally adjusted consumer price index reached a peak of 0.9% in January and a low of -0.7% in April.

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