



STAFF REPORT
Corporate Services

Title: Core Consumer Price Index Update
Report Number: CORP2018-071
Author: Kim Reger & Brad Witzel
Meeting Type: Finance & Strategic Planning Committee Meeting
Council/Committee Date: November 12, 2018
File: N/A
Attachments: N/A
Ward No.: City-Wide

Recommendation:

Information

A. Executive Summary

As directed by financial policy Core Consumer Price Index FC-019, staff is reporting back on the index's yearly rolling average. The 12 month rolling average of the CPIX as per the September Statistics Canada published data (Sept. 2017 to Aug. 2018) is 1.31%.

B. Financial Implications

The staff recommended 2019 operating and capital budgets will be released on December 10, 2018. The staff recommended 2019 operating is being developed in accordance with policy FC-019, which states that CPIX will act as a guideline for property tax increase (base budget + efficiencies + operating impact of capital). Additionally a menu list will be developed to include other known pressures outside the proposed budget and further reduction opportunities for Council's consideration.

C. Technology Implications

N/A

D. Legal Considerations

N/A

E. Link to Strategic Plan

(Strategic Priorities: Multi-modal Transportation, Infrastructure Renewal, Strong Community, Environmental Leadership, Corporate Excellence, Economic Development)

- Corporate Excellence - Employ fiscally-responsible practices and policies that ensure a balanced social, cultural, economic and environmental approach

F. Previous Reports on this Topic

- CORP2015-049 – CPIX vs. MPI
- CORP2015-076 – Core Consumer Price Index
- CORP2017-002 – Inflationary Index Review & Budget Ceiling Policy

G. Approvals

Name	Signature	Date
Author: Kim Reger & Brad Witzel		
Director: Filipa Reynolds		
Commissioner: Keshwer Patel		
Finance: Keshwer Patel		

CAO



**Core Consumer Price Index Update
CORP2018-071**

Section #1 - Core Consumer Price Index

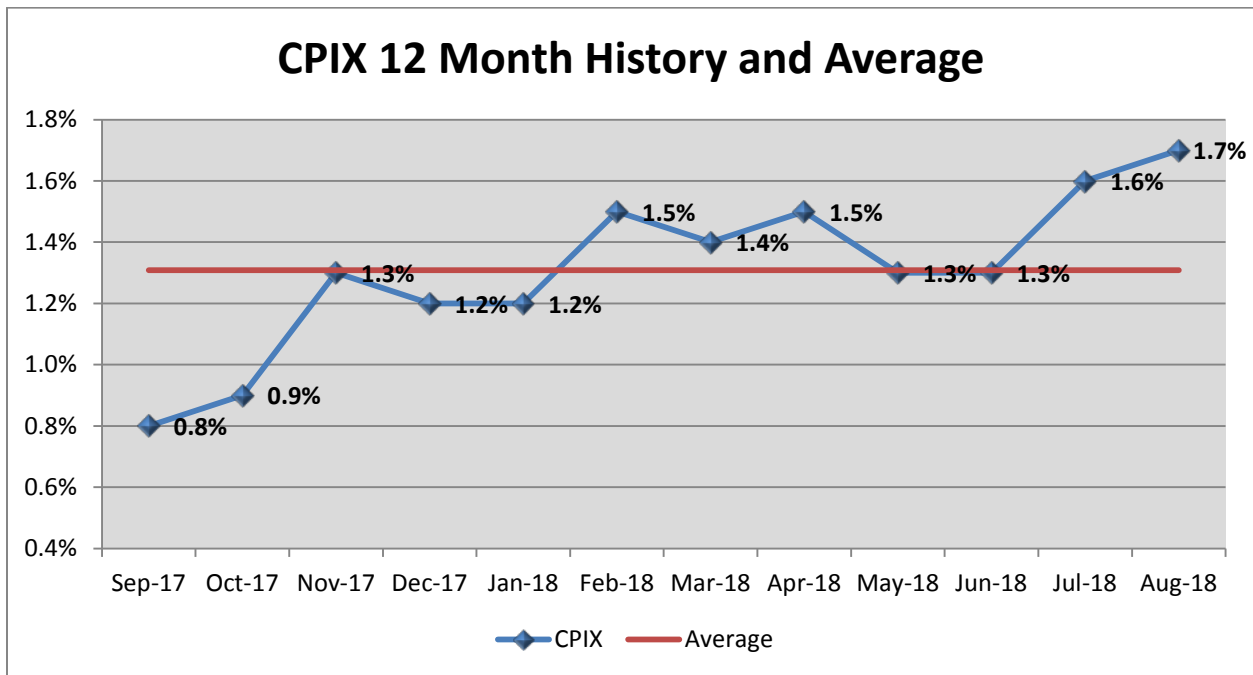
As per the Core Consumer Price Index Policy FC-019 staff is directed to report to Council a yearly rolling average of the Core Consumer Price Index (CPIX).

The Consumer Price Index (CPI) provides a broad measure of the cost of living in Canada. While there are other ways to measure price changes, the CPI is the most important indicator because of its widespread use. Through the CPI, Statistics Canada track on a monthly basis, the retail price of a representative shopping basket of about 600 goods and services from an average household's expenditures on food, housing, transportation, furniture, clothing and recreation.

The Core CPI or CPIX is the CPI excluding eight of the most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products) as well as the effect of changes in indirect taxes on the remaining components.

The September published CPIX was 1.7%. The rolling 12 month average of CPIX (Sept. 2017 to Aug. 2018) is 1.31%.

Graph 1 – CPIX 12 Month History and Average



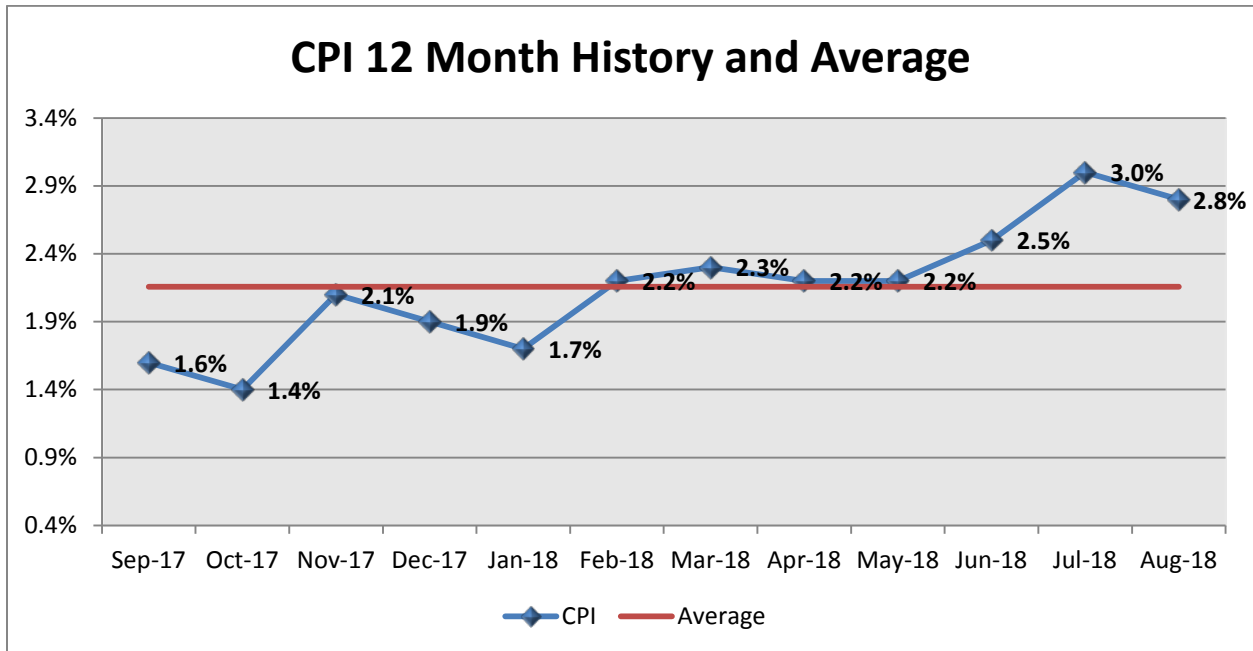
The average of 1.31% (red line) is lower than the most recent inflation measure of 1.7% in August. A lower core inflation rate between the months of September 2017 and January 2018 are the driver of the lower average.

For comparison purposes two other indices are observed for comparability and trend analysis.

Section #2 - Consumer Price Index (Canada)

The rolling 12 month average (Sept. 2017 to Aug. 2018) of 2.16% (red line) is lower than the most recent inflation measure of 2.8% in August. Again, lower inflation rates during 2017 and the beginning of 2018 are the cause of the lower average. Energy and shelter prices were lower at the beginning of the period and rose steadily driving the current rate to 2.8%.

Graph 2 – CPI 12 Month History and Average



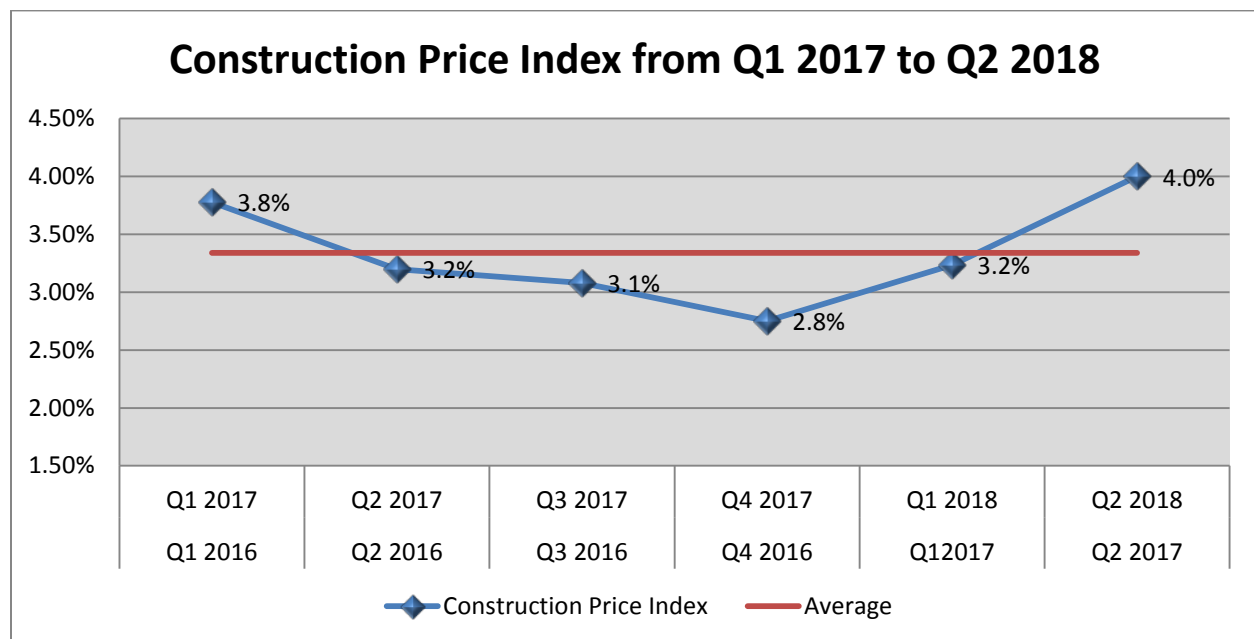
Section #3 - Construction Price Index

The Construction Price Index utilised by the city is the Greater Toronto Area, Non-Residential version.

An update to that measure, is the 2nd quarter 2017 to 2nd quarter 2018 for Toronto Non-Residential Construction Price Index is 4.00% (calculated by Q2 2017 (100.0) to Q2 2018 (104.0)). This updated percentage is not utilized in any corporate calculations but is provided for context to demonstrate that construction costs are increasing.

See graph 3 below for a year over year change in the index since Q1 2017.

Graph 3 – Construction Price Index History and Average



Note: The Q3-2016 to Q3-2017 result was changed from 2.96% to 3.1% by Statistics Canada as 2017 was restated as a base year for the index. Base years are periodically introduced to keep data current. The previously reported figure of 2.96% by stats can was used in the 2017 Development Charges By-Law and also what is being used in the Proposed 2019-2028 Capital Budget & Capital forecast.

Putting all these measures on a combined Graph 4 it is evident all these economic indicators are trending upwards. CPIX remains much lower than CPI over the prior 12 months.

Graph 4 – CPI, CPIX and Construction Index Combined

