How Alberta's supercharged economy defies the laws of price inflation

By Todd Hirsch
January 3, 2014 – *The Globe and Mail*

Most of us were taught that price inflation is driven by a fundamental imbalance: too much money chasing too few goods.

In Canada, the data seem to support this theory. Real economic growth wallowed below 2 per cent for most of last year, and average weekly earnings rose a paltry 1.4 per cent in the year to October, 2013. Not surprisingly, consumer price inflation in Canada is benign. Over the past twelve months, the annual inflation rate has averaged a mere 1.3 per cent.

But Alberta appears to be defying economic gravity. Unlike the national economy, Alberta's real GDP has been expanding at a pace above 3 per cent for the past few years.

Average weekly earnings are 3.2 per cent higher than a year ago. The labour market is growing and thousands of job-seeking migrants are flocking to the province. All of this should, in theory, provide the ingredients for some splendid price inflation.

Instead, Alberta's inflation rate over the past twelve months has averaged 1.3 per cent – exactly the same as the national rate. Even more confusing, prices for discretionary items in the basket of consumer products that should, in theory, be driven higher by the principle of too much money chasing too few goods are falling in price.

Home furnishings and equipment in Alberta are lower by 1.8 per cent, and electronics are lower by 6 per cent.

Part of the explanation – as the Bank of Canada has pointed out several times recently – is the impact of retail competition. New players entering the Canadian market have made their presence known, and Alberta's high income levels have American retailers salivating.

This has stirred the pot for Canadian retailers, many of which had become quite content divvying up the domestic market among themselves, using loyalty programs rather than price to lure in consumers.

Another factor is cheap imports, especially for home electronics and toys that are being mass produced in China. But at some point, this factor has to drop out of the equation. China is no longer a new entrant into the global trade game, and certainly the bulk of the price deflation North American consumers have enjoyed over the past two decades has not come in the past twelve months. In fact, with wages now starting to rise in China, the days of continual price deflation are coming to an end.

Still, none of this explains why Alberta's strong economy and wages – both of which are growing at more than double the national average – have resulted in consumer price inflation no higher than elsewhere in Canada. There may be a larger shift in consumer behaviour taking place.

High wages or not, Albertans are like most Canadians in their penchant for a good deal. Online resources – most of which did not exist a decade ago – are fantastic information tools to help consumers find the lowest price. This is permanently changing the way consumers shop.

As well, retailers are getting much better at anticipating consumer demand and ensuring that shelves are stocked. Today's inventory management and just-in-time delivery systems are far better than in previous eras, when an empty shelf meant a rain cheque would be issued for some product that was sold out. There's now no such thing as too few goods.

Because of improved price information and superior product management by retailers, the notions of empty shelves and consumers paying too much are anachronisms.

That means the laws of consumer price inflation are changing. It may no longer be the simple rule of "too much money chasing too few goods" that drives prices – Alberta is a test case for that notion. The link between economic growth and inflation may be breaking down.

Alberta cannot defy inflation gravity, but it is demonstrating that rising wages and GDP are less perfect predictors of price increases than they once were. Inflation (when it does arrive) may be driven by distinctly 21st-century factors: rising wages in China, higher transportation costs and exchange fluctuations – none of which can be directly controlled by domestic monetary policy.

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