

for energy and passenger vehicles. Transportation and shelter combined account for just over 45 percent of the total weight of the CPI basket of goods and services.

Transportation costs were 4.3 percent higher in 2010, after falling 5.4 percent the year before. The increase was primarily the result of higher gasoline and passenger vehicle prices.

The single most important factor in 2010 was the increase in the price of gasoline. Energy prices rose 6.7 percent in 2010, following a 13.5-percent decline in 2009. Prices for gasoline increased 9.1 percent, after falling 17.5 percent the year before. Electricity prices increased 4.8 percent following a 1.8-percent rise in 2009. Natural gas prices declined 1.8 percent, a much slower rate than the 20.1-percent decline in 2009.

Prices for passenger vehicles rose 3.5 percent in 2010, after falling 5.9 percent in 2009 and 6.9 percent in 2008.

Shelter costs rose 1.4 percent, following a 0.3-percent decrease in 2009. Property taxes increased 4.1 percent. In addition to higher electricity prices, accommodation replacement costs increased 3.7 percent, after decreasing 2.6 percent in 2009. However, mortgage interest costs declined 4.4 percent in 2010, after increasing 0.3 percent the previous year.

Price pressures eased for five of the six remaining CPI major components compared with 2009. These components were: food; household operations, furnishings and equipment; clothing and footwear; health and personal care; and alcoholic beverages and tobacco products.

Food prices in particular rose more slowly last year than in 2009 (1.4 percent versus 4.9 percent). Prices for food purchased

from stores rose 1.0 percent, significantly slower than the 5.5-percent increase in 2009. The smaller increase in food prices can be largely explained by falling prices for fresh fruits and vegetables, which declined 2.7 percent after rising 8.1 percent in 2009, and by softer price increases for meat as well as for bakery and cereal products.

Prices for clothing and footwear fell 1.9 percent in 2010, following a 0.4-percent decline in 2009. It was the ninth consecutive year in which the price index for this component has decreased.

Finally, prices for recreation, education, and reading advanced 0.9 percent in 2010, the same pace as in 2009. Rapid technological advancements, improvement in product features and quality and market competition by low-cost producing countries continued to push prices for home entertainment equipment down in 2010, while education, reading, and other cultural costs were up over the year.

Provincially, price increases were strongest in Ontario (2.5 percent), and the Atlantic provinces of Newfoundland and Labrador (2.4 percent), Nova Scotia (2.2 percent) and New Brunswick (2.1 percent). Price increases were lowest in Manitoba and the Yukon (0.8 percent), while prices fell 0.7 percent in Nunavut.

The Bank of Canada core index<sup>1</sup> also increased 1.7 percent for 2010 as a whole, following a 1.8-percent increase in 2009.

## The Canadian dollar

After depreciating against the U.S. dollar in 2009, the Canadian dollar rose against the U.S. dollar in 2010 (Figure 3-5). Averaging US97.09¢ in 2010, the Canadian dollar was worth US9.53¢ more than in 2009, an

1 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 percent 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.