

Global Inflation Tracker

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Highlights

- Consumer Price Index (CPI) inflation continues to moderate across the G-7 with energy prices providing a drag on headline figures.
- Core price inflation has cooled across major economies. Moreover, the breadth of high price gains continues to shrink underscoring the easing supply-demand imbalance.
- Outright deflation in China persists, reflecting the economy’s excess capacity that forms a key storyline heading into 2024.

Advanced Economies

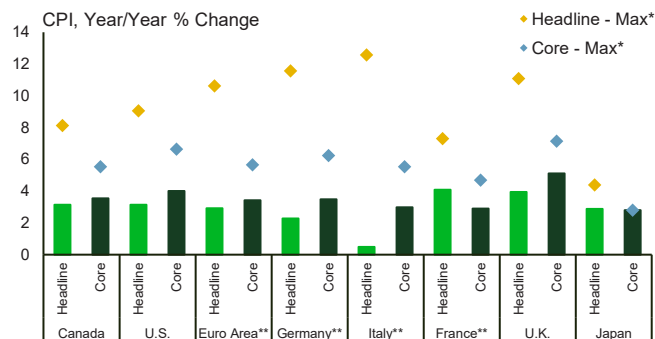
Consumer Price Index (CPI) inflation continues to moderate across G-7 economies on the back of falling energy prices and improving global supply chains. Following a brief uptick this summer, the latest headline CPI figures in Canada and the U.S. eased to 3.1% year-on-year (y/y), marking a notable decline from the eye-popping levels reached in 2022 (Chart 1). Similar disinflation trends can be observed for the euro area as price growth has fallen below 3% y/y. However, declaring victory in the fight against inflation would be premature as headline CPI gains still sit above the 2% target in most advanced economies.

Across the G-7, food prices are significantly above pre-pandemic levels after two years of steep price gains. In Canada, the U.S., euro area and U.K., the food price component of the CPI is between 22 and 30 percent above January 2020 levels. Japan is the relative outlier with prices a “mere” 16% higher than before the pandemic. The silver lining is that much of the inflationary impulse appears to be fading, with recent price growth slowing sharply (Chart 2). Going forward, food price growth is expected to continue moderating as commodity and transportation costs continue to fall. Similarly, energy prices have been falling since their peak in mid- to late-2022. This has provided a deflationary impulse for consumer prices and taken some cost pressures off producers – helping take some steam out of end-user prices. Though we don’t [anticipate energy prices to continue falling](#), we also don’t expect a large rally to lead to another surge in inflation.

Core Prices

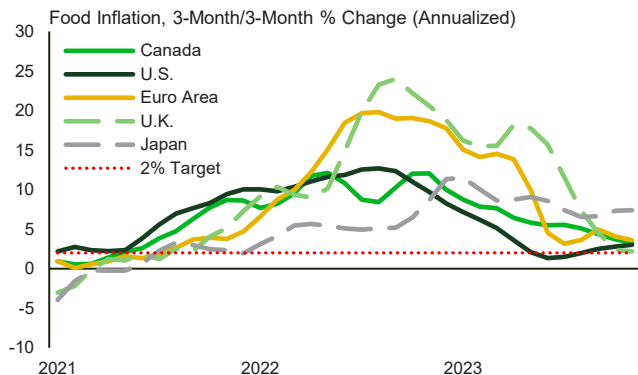
Near-term core price inflation (CPI excluding food and energy) has slowed sharply in the euro area, U.K. and Japan (Chart 3). On a rolling quarterly basis core inflation clocked at 2.5% in the U.K., and 2.3% in Japan in November, while the euro area’s flash print for December is a tepid 0.8%. Conversely, core price inflation has recently re-accelerated in Canada and the U.S., registering 3.8% and 3.3%, respectively. This development is partially attributable to recent volatility in the price data, but sticky core inflation is surely to weigh on central bankers’ minds.

Chart 1: Inflation in Advanced Economies Continues To Moderate



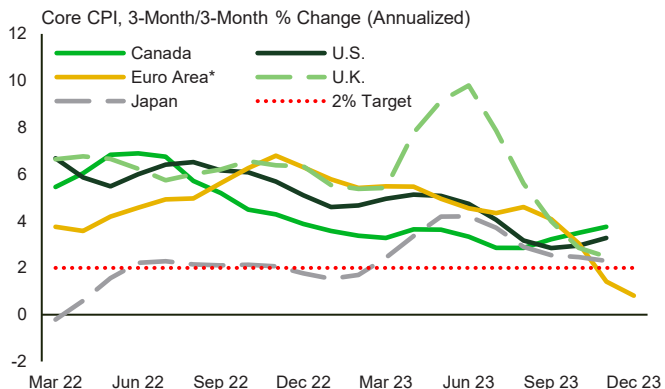
*January 2021-Present. **Harmonized CPI.
 Note: Core CPI excludes Food, Energy, Alcohol, and Tobacco in Euro Area countries and U.K. Core CPI excludes Food and Energy in U.S., Canada, and Japan (Western Core).
 Source: National Statistical Agencies, TD Economics.
 Last Observation: December 2023 in Euro Area, France, Italy. November 2023 All Else.

Chart 2: Food Inflation Cools, but Prices Remain Far Above Pre-Pandemic Levels



Source: National Statistical Agencies, Haver Analytics, TD Economics.
Last Observation: November 2023.

Chart 3: Core Inflation Ticks Higher in Canada & U.S.



*December 2023 Flash Estimate.
Source: National Statistical Agencies, Haver Analytics, TD Economics.

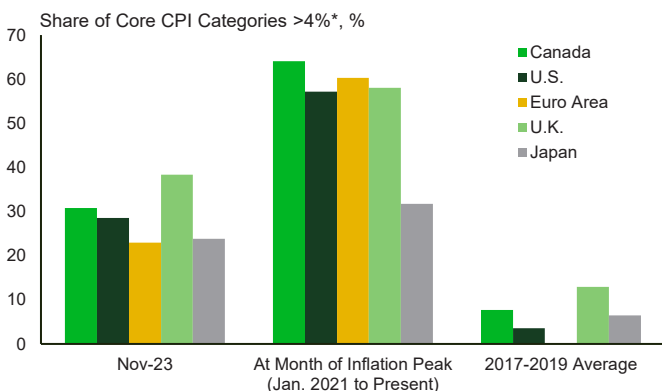
That said, most prices have come off the boil, as the widespread “inflation in everything” from 2022 has faded. Since the reported CPI (and its core complement) is a weighted average of price gains, things like shelter have a (deservedly) large influence on the total measure. However, to get a sense of how widespread inflation is, simply counting the individual categories shows the total breadth of price gains. Here we see that, across major advanced economies, the share of individual core categories whose rolling quarterly rate of inflation is running north of 4% (annualized) has roughly halved compared to their respective peaks (Chart 4). Moreover, the share of goods and services reporting outright declines (Chart 5), has jumped amid softening demand and fading second-round effects from the surge in input prices. This signals that the inflationary impulse has narrowed, suggesting that the pervasive excess demand conditions that underpinned the past two years of price growth continue to fade.

Inflation Expectations

In the U.S. and Germany, five-year implied inflation rates are back to hovering around 2% (Chart 6). However, in the U.K., high inflation has been more persistent, leaving markets still bracing for price growth north of three percent.

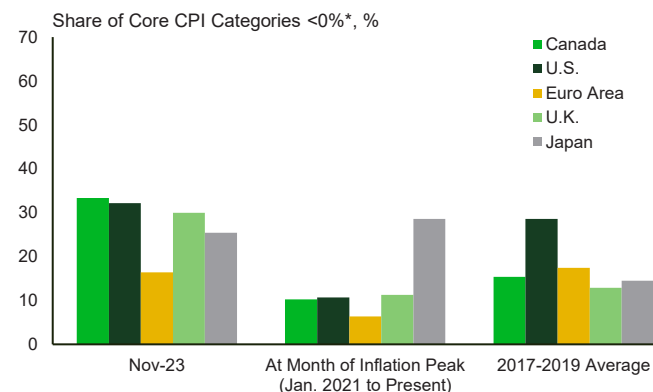
Consumer expectations for inflation are continuing to normalize in most advanced economies (see Table 2 in the Appendix). Short-term expectations have declined in the U.K. and throughout the euro area as tumbling energy prices offer relief to household’s budgets. In the U.S., the University of Michigan’s consumer survey shows the one-year expected inflation rate has decreased to 3.1% for the first time since early 2021. While five-year inflation expectations have risen slightly in the U.S. and U.K., they remain close to their historical trends.

Chart 4: Breadth of Elevated Price Gains Narrows...



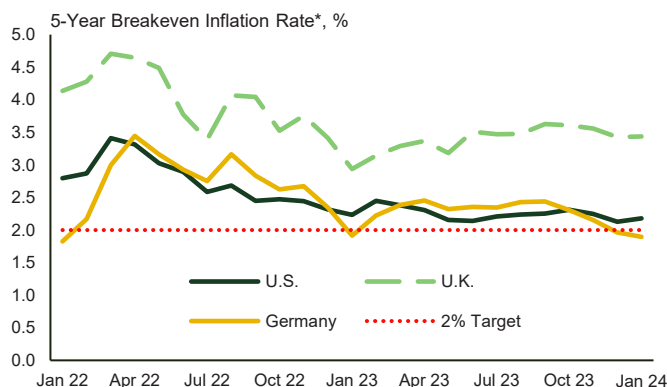
*Three-Month on Three-Month Annualized Basis.
Source: National Statistical Agencies, TD Economics.

Chart 5: ... While Breadth of Deflation in Core CPI Grows



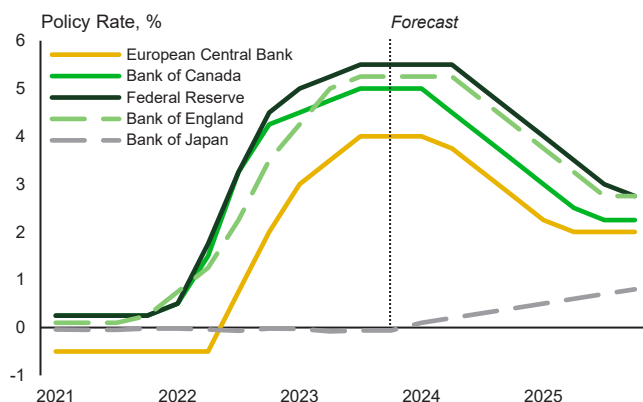
*Three-Month on Three-Month Annualized Basis.
Source: National Statistical Agencies, TD Economics.

Chart 6: U.K. Inflation Expectations Remain Above Target



*Monthly Average of Daily Data.
Source: Federal Reserve Board, Bank of England, Deutsche Bundesbank, TD Economics.

Chart 7: Central Banks Transition To Fine-Tuning Stage



Source: BoC, FRB, ECB, BoE, BoJ, TD Economics.

With respect to businesses, inflation expectations are improving in tandem with consumers. In Canada, the share of firms expecting inflation to persist above 3.0% two years from now fell to 53% in Q3 2023, a notable decrease from the 79% recorded at the beginning of the year. From the euro area’s Survey of Professional Forecasters, expectations for core inflation were revised downwards across the forecast horizon. Additionally, business inflation expectations have fallen in the U.S., Italy, U.K., France, and Japan. Continued improvement in consumer and firm inflation expectations are expected as central banks remain steadfast in their commitment to restoring price stability.

loop, slowing wage gains and stabilizing inflation expectations are a positive development. Moreover, healthy wage growth coupled with fading inflation should help begin to restore consumer buying and support real economic growth.

Japan remains a notable outlier, where more entrenched wage gains would be seen as supportive of policy normalization. Focus will be on this spring’s annual wage bargaining after unions last year secured average raises over three percent. A strong outcome in 2024 could help reinforce underlying inflation and facilitate policy normalization.

Wage Growth

Despite recent signs of cooling, labor markets in most advanced economies remain tight. Relatively low unemployment rates continue to be supportive of healthy wage gains (Table 1). That said, the pace has slowed from the peaks coming out of the pandemic.

Policy Rates

As restrictive interest rates continue to dampen demand and steer inflation back to target in advanced economies, it is increasingly clear that most major central banks have reached the peak of their monetary tightening campaigns (Chart 7). In the U.S., rhetoric from Federal Reserve (Fed) officials has transitioned from debating the need for additional interest rate hikes to considering when it would be appropriate to begin cutting the policy rate. The Fed’s latest Summary of Economic Projections reflected

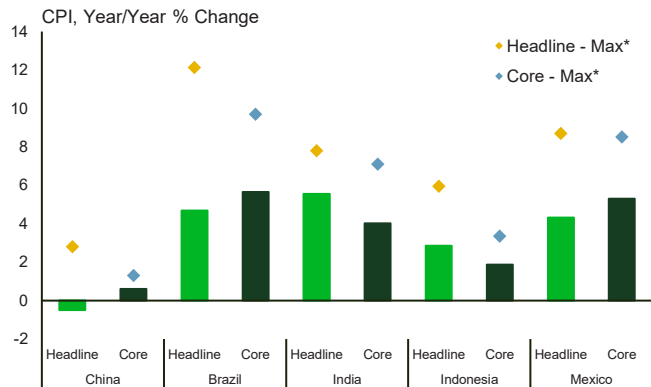
For central banks concerned about the feedback of higher prices and wage demands creating a self-fulfilling feedback

Table 1: Hourly Wage Growth

Measures	Canada	U.S.	Germany*	Italy*	U.K.**	France	Japan***
Current (Y/Y % Change)	5.4	4.1	2.5	2.7	7.3	4.7	1.0
2022-2023 Max (Y/Y % Change)	5.7	5.9	3.0	3.1	8.2	5.4	2.5
2017-2019 Average (Y/Y % Change)	2.4	3.0	2.6	1.0	2.9	1.5	1.5
Last Observation	Dec	Dec	Oct	Nov	Oct	Sep	Oct

*Negotiated Hourly Wages. **Average Weekly Earnings, 3-Month Moving Average. ***Ratio of Scheduled Weekly Earnings to Scheduled Weekly Hours Worked, 3-Month Moving Average.
Source: National Statistical Agencies, TD Economics.

Chart 8: Inflation in Emerging Markets



*January 2021-Present.
Source: National Statistical Agencies, TD Economics. Last Observation: November 2023.

this dovish pivot, as the majority of officials signaled they believe several rate cuts will occur in 2024.

In contrast, policymakers from the Bank of Canada (BoC), European Central Bank (ECB), and Bank of England (BoE) have been hesitant to publicly discuss the timing of rate cuts to prevent further easing in financial conditions and a resurgence in inflationary pressures. However, given

the slowdown in economic activity and on-going moderation of inflation in these regions, we expect that the BoC and ECB will begin cutting rates in the first half of 2024, with the BoE likely to follow suit in Q3 2024.

Emerging Markets

Broadly speaking, inflation continues to cool across emerging markets (EMs). Indeed, in Brazil (4.7% y/y) and Indonesia (2.9%) price growth has fallen to within their respective central banks' target bands (Chart 8).

China remains the interesting global outlier. Headline CPI inflation slipped back into deflation territory in November (-0.5% y/y), while prices excluding food and energy products rose a tepid 0.6%. Soft consumer price growth reflects an economy dealing with excess capacity. Despite recent trends towards reshoring and increased trade barriers, China remains the lynchpin of global goods supply chains and should provide a disinflationary force into 2024.

Table 2: Inflation Expectations					
Financial Measures*					
Country	Measure	Unit	Current Value	Change From Prior 3 Months	Last Obs.
Canada	10-Year Breakeven Inflation Rate	%	1.6	Decreased	Jan
U.S.	5-Year Breakeven Inflation Rate	%	2.2	Decreased	Jan
U.S.	10-Year Breakeven Inflation Rate	%	2.2	Decreased	Jan
Germany	5-Year Breakeven Inflation Rate	%	1.9	Decreased	Jan
Germany	10-Year Breakeven Inflation Rate	%	2.0	Decreased	Jan
U.K.	5-Year Breakeven Inflation Rate	%	3.4	Decreased	Jan
U.K.	10-Year Breakeven Inflation Rate	%	3.4	Decreased	Jan
Consumer Survey Measures					
Canada	Bank of Canada - Survey of Consumer Expectations				
	Inflation Expectations - 2 Years Ahead	%	4.0	Increased	Q3
	Inflation Expectations - 5 Years Ahead	%	2.8	Decreased	Q3
U.S.	University of Michigan - Surveys of Consumers				
	Inflation Expectations - 1 Year Ahead	%	3.1	Decreased	Dec
	Inflation Expectations - 5 Years Ahead	%	2.9	Increased	Dec
Euro Area	European Commission - Business and Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	9.0	Unchanged	Nov
Germany	Deutsche Bundesbank - Survey on Consumer Expectations				
	Inflation Expectations - 1 Year Ahead	%	4.0	Decreased	Nov
	Inflation Expectations - 5 Years Ahead	%	4.4	Decreased	Nov
Italy	ISTAT - Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	-13.0	Decreased	Dec
U.K.	Bank of England/Ipsos - Inflation Attitudes Survey				
	Inflation Expectations - 1 Year Ahead	%	3.3	Decreased	Q4
	Inflation Expectations - 5 Years Ahead	%	3.2	Increased	Q4
France	INSEE - Consumer Confidence Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	-48.9	Decreased	Dec
Japan	Bank of Japan - Opinion Survey				
	Inflation Expectations - 1 Year Ahead	%	10.7	Increased	Q3
Business Survey Measures					
Canada	Bank of Canada - Business Outlook Survey				
	Share of Firms Expecting Inflation Above 3% - 2 Years Ahead	%	53.0	Decreased	Q3
U.S.	Duke University - CFO Survey				
	Inflation Expectations - 1 Year Ahead	%	4.1	Decreased	Q4
Euro Area	European Central Bank - Survey of Professional Forecasters				
	Inflation Forecast - 1 Year Ahead	%	2.7	Unchanged	Q4
	Inflation Forecast - 2 Years Ahead	%	2.1	Decreased	Q4
	Inflation Forecast - Long-Term	%	2.1	Unchanged	Q4
	Inflation Forecast - 1 Year Ahead (Core)	%	2.9	Decreased	Q4
	Inflation Forecast - 2 Years Ahead (Core)	%	2.2	Decreased	Q4
	Inflation Forecast - Long-Term (Core)	%	2.0	Decreased	Q4
Germany	ZEW - Financial Market Survey				
	Inflation Expectations - 6 Months Ahead	% Balance	-56.9	Increased	Dec
Italy	Bank of Italy - Survey on Inflation and Growth Expectations				
	Inflation Expectations - 1 Year Ahead	%	4.7	Decreased	Q3
	Inflation Expectations - 2 Years Ahead	%	4.2	Decreased	Q3
U.K.	Confederation of British Industry - Distributive Trades Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	2.3	Decreased	Q3
France	Bank of France - Monthly Business Survey				
	Inflation Forecast - Finished Goods	% Balance	1.0	Decreased	Nov
	Inflation Forecast - Services	% Balance	4.1	Decreased	Nov
Japan	Bank of Japan - Tankan Survey				
	Inflation Expectations - 1 Year Ahead	%	2.6	Decreased	Q4
	Inflation Expectations - 3 Years Ahead	%	3.7	Decreased	Q4
	Inflation Expectations - 5 Years Ahead	%	4.4	Unchanged	Q4

*Monthly Average of Daily Data, as of January 5th, 2024.
Source: National Statistical Agencies, TD Economics.

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