

Inflation Tracker

Andrew Hencic, Senior Economist | 416-944-5307

Matt Palucci, Research Analyst

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Highlights

- Consumer Price Index (CPI) inflation is nearing the 2.0% target in several G-7 economies, driven by sharply moderating goods price growth.
- Recent upside inflation surprises have affected the expected timing of interest rate reductions.
- China's excess capacity and soft foreign demand are reflected in export prices that have been negative in year-on-year terms since May 2023.

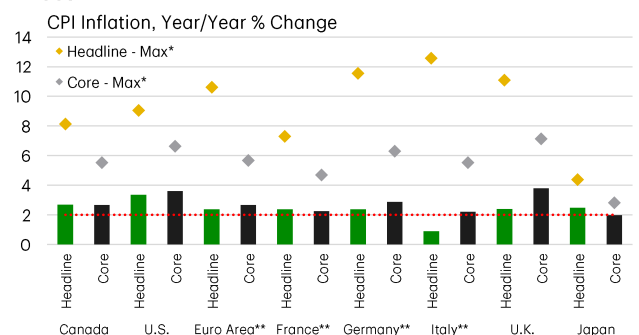
Advanced Economies

Consumer Price Index (CPI) inflation is nearing the 2.0% target in several G-7 economies (Chart 1), driven by sharply moderating goods price growth. In the Euro Area, this year's earlier declines in energy prices helped headline CPI growth slow to 2.4% year-on-year (y/y) in April. This marks a notable decline from the 10.6% peak in October 2022 and the seventh consecutive month below 3.0%. Inflation rates in France (2.4% y/y) and Germany (2.4% y/y) are also within reach of 2.0%, while price growth in Italy (0.9% y/y) has remained below target since the beginning of Q4 2023.

In contrast, disinflation progress has been slower in Canada (2.7% y/y) and the U.S. (3.4% y/y). Persistent housing-related forces have kept Canada's headline rate near 3.0% y/y since October 2023. Similarly, the U.S. faced a string of upside inflation surprises during the first quarter due to red-hot price gains in shelter and non-housing services. However, despite the similarity in stickiness in top-line inflation rates, the underlying price growth shows a diverging trend between the countries.

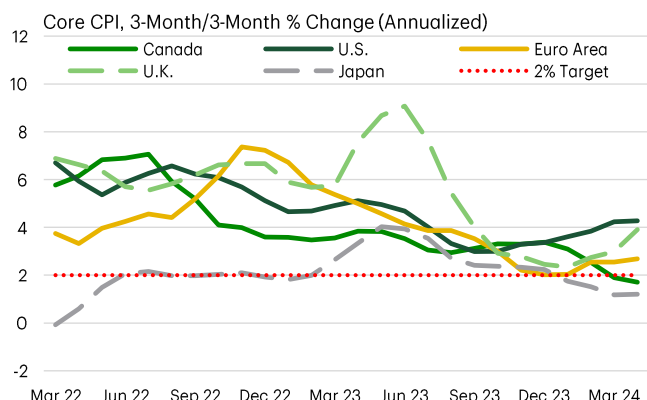
On a rolling quarterly basis (3-mo/3-mo), core inflation (CPI excluding food and energy) is decelerating in Canada, with the rate falling below 2.0% (annualized) for the first time in three years (Chart 2). With the 3-mo/3-mo rate below the annual

Chart 1: Inflation in Advanced Economies Continues To Ease



*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: April 2024.

Chart 2: Core Inflation Accelerates in the U.S.



Source: National Statistical Agencies, Haver Analytics, TD Economics.
Last Observation: April 2024.

pace of growth, further downward pressure on Canada's annual rate is expected to materialize in the coming months. Conversely, in the U.S., 3-mo/3-mo core price gains have risen to 4.3%, indicating that annual U.S. inflation is unlikely to cool in the near-term. In the Euro Area, core inflation has stabilized within the 2.0-3.0% range over the past two quarters.

Goods and Services Prices

Services prices continue to underpin inflationary pressures in Europe and North America (Chart 3), with disinflationary forces primarily coming through the goods channel (Chart 4). Stripping out the effects of homeownership on the Canadian and U.S. indexes to make them more comparable with the euro area and U.K. measures, shows a notable reacceleration in service prices across most countries. Canada is the outlier here where the 3-mo/3-mo rate has firmed to 3.1% as of April, well short of the 4.8%, 5.5%, and 7.2% readings registered in the euro area, U.K., and U.S., respectively. Looking forward, policymakers will be focused on the domestically driven services sector to look for signs of the rebalancing of supply and demand needed to help restore low and stable inflation.

The offset to strong services inflation continues to come from the goods sector where price growth remains relatively subdued. In Canada, the euro area, and the U.S. core goods prices have been declining in recent months. For the U.S., in particular, the rolling quarterly rate of goods inflation has been below zero since September 2023, while in Canada the near-term

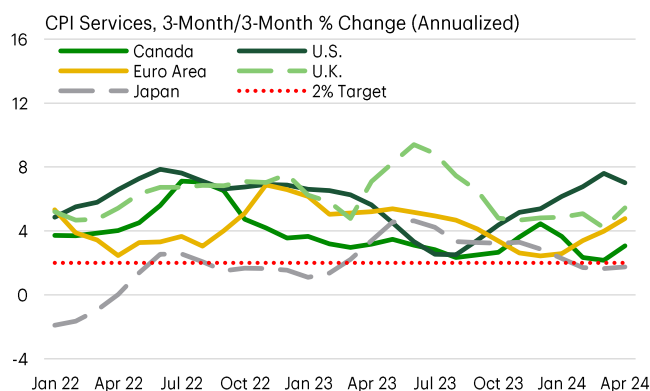
pace of deflation touched 2.6% (annualized, 3-mo/3-mo basis) in April.

Inflation Expectations

Markets-based measures of long-term inflation expectations have risen since the beginning of the year (see Table 1 in the Appendix). The U.K. is the standout where five-year expectations are now at levels not seen since mid-2022 (Chart 5). In the U.S. and Germany, pricing reflects an outlook for longer-term price growth in the 2.0-2.5% range, reflecting market confidence in central banks' ability to steer price growth back to target.

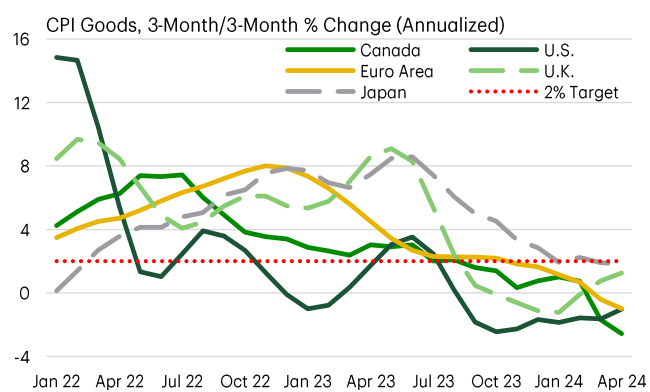
Recent inflation dynamics have produced mixed survey results across countries as well (Table 1). Relative to the market, U.S. households and businesses have responded more strongly to stubborn domestic inflationary pressures. According to the latest University of

Chart 3: Services Sector Powers Price Gains...



Note: CPI Services Excluding Home Ownership. Source: National Statistical Agencies, Haver Analytics, TD Economics. Last Observation: April 2024.

Chart 4: ... While Goods Prices Provide Offset

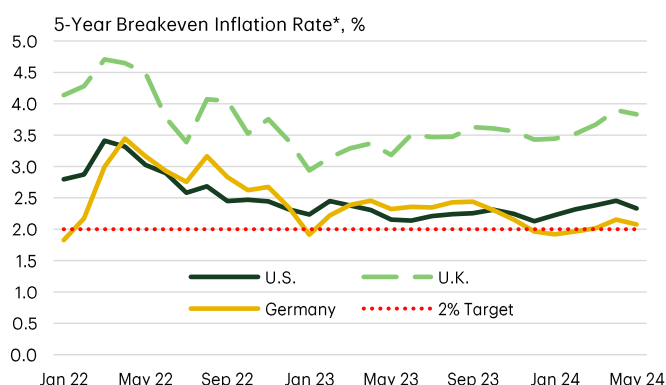


Note: CPI Goods Excluding Food and Energy. Source: National Statistical Agencies, Haver Analytics, TD Economics. Last Observation: April 2024.

Michigan consumer survey, one- and five-year expected inflation rates rose to 3.3% and 3.0%, respectively, marking the highest readings since November of last year. Similarly, Duke University's CFO Survey indicates that one-year inflation expectations among firms increased from 4.1% at the end of last year to 4.7%.

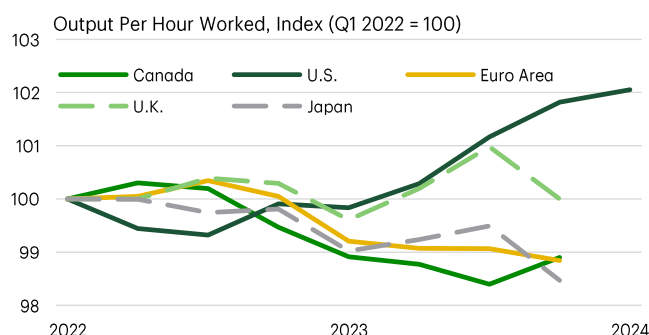
In contrast, survey measures have improved in economies where the outlook for price growth is more favourable. In Canada, Germany, and the U.K., household inflation expectations continue to normalize. While five-year expectations in Canada increased to 3.1% in the first quarter, they remain below their pre-pandemic average. Business inflation expectations have broadly declined as well. The Euro Area's Survey of Professional Forecasters maintained a steady forecast this quarter, with expectations remaining well-anchored to the 2.0% target. Similarly, firms in Canada, Italy, and the U.K. have lowered their shorter-term inflation expectations.

Chart 5: U.K. Inflation Expectations Remain Elevated



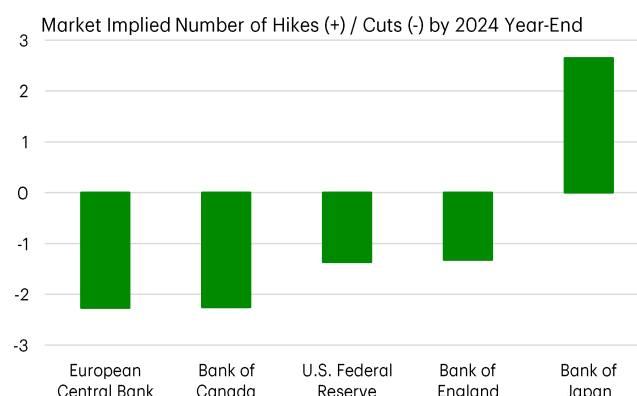
*Monthly Average of Daily Data. Source: Federal Reserve Board, Bank of England, Deutsche Bundesbank, TD Economics. Last Observation: May 22nd, 2024.

Chart 6: U.S. Productivity Gains Stand Apart from Pack



Note: Japan productivity calculated as seasonally-adjusted weighted average of Mining, Manufacturing, Service Industry and Construction labor productivity indexes for firms with five or more employees, weighted by share of gross value added. Source: National Statistical Agencies, TD Economics. Last Observation: Q1 2024 - U.S., Q4 2023 - CA, EA, U.K., JPN.

Chart 7: Interest Rate Cuts are on the Horizon



Note: Market Pricing as of May 24th, 2024. Bank of Japan Hikes/Cuts in 10 Basis Point Increments. Source: Bloomberg, TD Economics.

Wage Growth

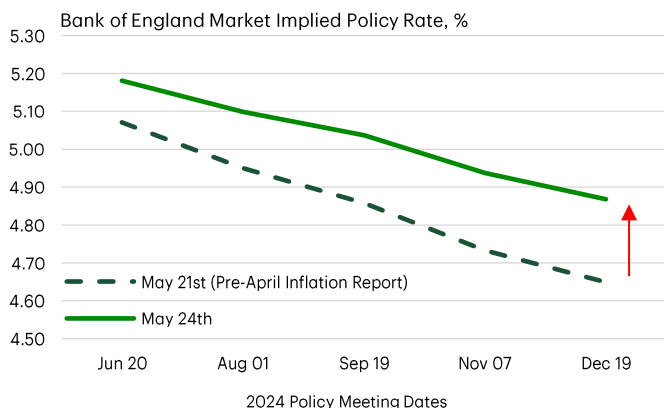
In most jurisdictions, nominal wage growth has cooled relative to the peaks registered during the pandemic (Table 2). That said, labor markets in advanced economies remain historically tight, despite recent upticks in unemployment rates. As such, bargaining power continues to be skewed towards workers, and is helping to maintain healthy wage growth.

The key factor to monitor on this front is the extent to which productivity growth can rebound. Unlike the U.S., real output per hour has sagged in the euro area, U.K., Canada, and Japan (Chart 6). Rising productivity means that firms can sustain profitability without having to pass on higher input costs to end consumers. So, policymakers are focused on whether hourly output growth will return, allowing for healthy wage gains to be sustained, without the associated rise in consumer prices.

Policy Rates

Several major central banks are likely to cut interest rates in the coming months as inflation continues its descent towards target levels (Chart 7). The European Central Bank (ECB), Bank of England (BoE), and Bank of Canada (BoC) are expected to be at the forefront of the policy shift. The ECB has already indicated a clear easing bias, suggesting that rate cuts could take place as early as June, as noted in the account from their April policy meeting¹. Similarly, officials from the BoC have recently expressed increased confidence that interest

Chart 8: U.K. Inflation Surprise Lifts Rate Expectations



Source: Bloomberg, TD Economics.

rate reductions are coming into view, provided there are no material surprises in upcoming inflation data. And material surprises can happen, as last week's upside inflation surprise in the U.K. pushed back expectations of a rate cut (Chart 8).

The resurgence of inflationary pressures in the U.S. have postponed the anticipated timing of Federal Reserve (Fed) rate cuts. Policymakers are now less optimistic that inflation will reach target levels without a slowdown in economic growth or a weakening in the labour market. However, Fed Chair Powell has emphasized patience, viewing additional interest rate hikes as unlikely². Instead, the current policy stance will need to be maintained for longer than initially anticipated, with the Fed now projected to begin cutting rates in Q4 2024.

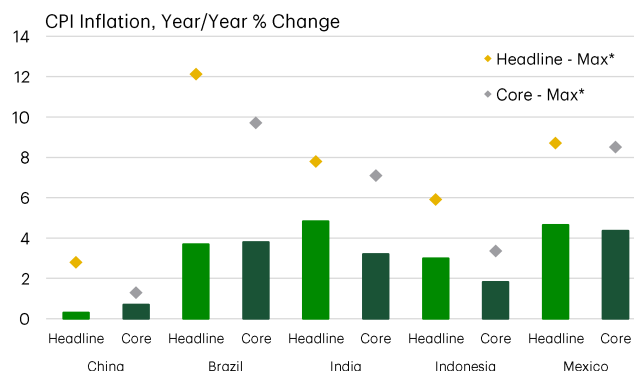
Emerging Markets

In major emerging markets, inflation has cooled substantially from its peak (Chart 9), however progress has slowed in recent months. India's pace of headline CPI gains registered 4.8% y/y in April, above the four percent target, but within the two to six percent band the Reserve Bank of India tolerates. Consumer inflation in Indonesia and Brazil also remained within their respective central banks' control bands, with headline price gains registering 3.0% y/y and 3.7% y/y, respectively.

The situation is slightly different in Mexico. Inflation has ticked up from 4.2% last October to 4.7% in April, holding above the central bank's two to four percent target band. Mercifully, price growth excluding food and energy continues to trend lower clocking in at 4.4% April, down from 4.6% in March.

The outlier to the group is China, where both headline and core consumer price gains remain barely perceptible – up 0.3% and 0.7% y/y, respectively. As we have [highlighted](#), the struggles with pervasive excess capacity in the economy are limiting pricing power for firms. These trends look to continue in the near-term as the rolling quarterly rates of headline and core consumer price growth registered 0.1% and 0.9% (annualized) through April. With domestic demand still unable to absorb excess capacity, and foreign demand softening after the post-pandemic bump, export prices growth has been negative in year-on-year terms since May 2023 (Chart 10). For advanced economies still looking to tame inflation, this should come as a welcome development. However, concerns about trade practices have led to anti-dumping investigations^{3,4}, in the E.U. and [new tariffs](#) from the U.S. – limiting some of the potential disinflationary impulse.

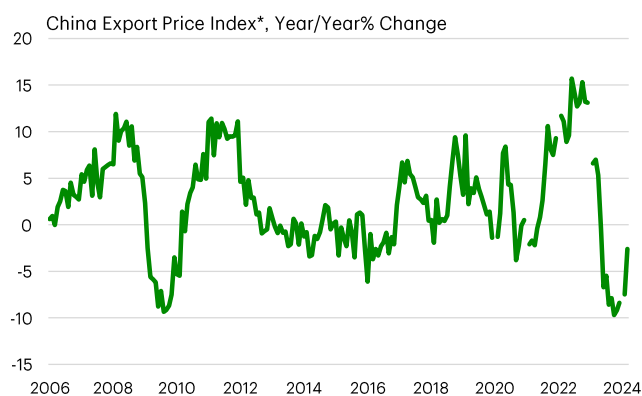
Chart 9: Inflation in Emerging Markets



*January 2021-Present.

Source: National Statistical Agencies, TD Economics. Last Observation: April 2024.

Chart 10: China's Exporter Prices Have Fallen



*Not Seasonally Adjusted. Source: GACC, Haver Analytics, TD Economics.

Appendix

Table 1: Inflation Expectations					
Financial Measures*					
Country	Measure	Unit	Current Value	Change From Prior 3 Months	Last Obs.
Canada	10-Year Breakeven Inflation Rate	%	1.8	Increased	May
U.S.	5-Year Breakeven Inflation Rate	%	2.3	Increased	May
U.S.	10-Year Breakeven Inflation Rate	%	2.3	Increased	May
Germany	5-Year Breakeven Inflation Rate	%	2.1	Increased	May
Germany	10-Year Breakeven Inflation Rate	%	2.1	Increased	May
U.K.	5-Year Breakeven Inflation Rate	%	3.8	Increased	May
U.K.	10-Year Breakeven Inflation Rate	%	3.6	Increased	May
Consumer Survey Measures					
Canada	Bank of Canada - Survey of Consumer Expectations				
	Inflation Expectations - 2 Years Ahead	%	3.8	Decreased	Q1
	Inflation Expectations - 5 Years Ahead	%	3.1	Increased	Q1
U.S.	University of Michigan - Surveys of Consumers				
	Inflation Expectations - 1 Year Ahead	%	3.3	Increased	May
	Inflation Expectations - 5 Years Ahead	%	3.0	Increased	May
Euro Area	European Commission - Business and Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	12.0	Unchanged	Apr
Germany	Deutsche Bundesbank - Survey on Consumer Expectations				
	Inflation Expectations - 1 Year Ahead	%	2.9	Decreased	Apr
	Inflation Expectations - 5 Years Ahead	%	3.6	Decreased	Apr
Italy	ISTAT - Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	-1.0	Increased	Apr
U.K.	Bank of England/Ipsos - Inflation Attitudes Survey				
	Inflation Expectations - 1 Year Ahead	%	3.0	Decreased	Q1
	Inflation Expectations - 5 Years Ahead	%	3.1	Decreased	Q1
France	INSEE - Consumer Confidence Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	-50.6	Increased	Apr
Japan	Bank of Japan - Opinion Survey				
	Inflation Expectations - 1 Year Ahead	%	9.4	Decreased	Q1
Business Survey Measures					
Canada	Bank of Canada - Business Outlook Survey				
	Share of Firms Expecting Inflation Above 3% - 2 Years Ahead	%	40.0	Decreased	Q1
U.S.	Duke University - CFO Survey				
	Inflation Expectations - 1 Year Ahead	%	4.7	Increased	Q1
Euro Area	European Central Bank - Survey of Professional Forecasters				
	Inflation Forecast - 1 Year Ahead	%	2.0	Unchanged	Q2
	Inflation Forecast - 2 Years Ahead	%	2.0	Unchanged	Q2
	Inflation Forecast - Long-Term	%	2.0	Unchanged	Q2
	Inflation Forecast - 1 Year Ahead (Core)	%	2.1	Unchanged	Q2
	Inflation Forecast - 2 Years Ahead (Core)	%	2.0	Unchanged	Q2
	Inflation Forecast - Long-Term (Core)	%	2.0	Unchanged	Q2
Germany	ZEW - Financial Market Survey				
	Inflation Expectations - 6 Months Ahead	% Balance	-41.0	Increased	May
Italy	Bank of Italy - Survey on Inflation and Growth Expectations				
	Inflation Expectations - 1 Year Ahead	%	1.5	Decreased	Q1
	Inflation Expectations - 2 Years Ahead	%	1.5	Decreased	Q1
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	1.2	Increased	Apr
	Inflation Forecast - Services	% Balance	3.3	Decreased	Apr
Japan	Bank of Japan - Tankan Survey				
	Inflation Expectations - 1 Year Ahead	%	2.7	Increased	Q1
	Inflation Expectations - 3 Years Ahead	%	4.0	Increased	Q1
	Inflation Expectations - 5 Years Ahead	%	4.7	Increased	Q1

*Monthly Average of Daily Data, as of May 24th, 2024. **Q3 2023.
Source: National Statistical Agencies, TD Economics.

Table 2: Hourly Wage Growth

Measures	Canada	U.S.	Germany*	Italy*	U.K.**	France	Japan***
Current (Y/Y % Change)	4.8	3.9	4.0	3.0	5.9	4.4	3.6
2022-2024 Max (Y/Y % Change)	5.7	5.9	3.0	7.3	8.2	5.4	3.6
2017-2019 Average (Y/Y % Change)	2.4	3.0	2.6	1.0	2.9	1.5	1.5
Last Observation	Apr	Apr	Mar	Mar	Mar	Dec	Mar

*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.

Endnotes

1. ECB (April 10-11 2024), "Account of the Monetary Policy Meeting": <https://www.ecb.europa.eu/press/accounts/2024/html/ecb.mg240510-6505e9dac3.en.html>
2. Reuters, (May 14, 2024) "Fed's Powell: PPI 'mixed,' next move unlikely to be a rate hike": [https://www.reuters.com/markets/us/feds-powell-ppi-mixed-next-move-unlikely-be-rate-hike-2024-05-14/#:~:text=AMSTERDAM%2C%20May%2014%20\(Reuters\),came%20in%20higher%20than%20expected.](https://www.reuters.com/markets/us/feds-powell-ppi-mixed-next-move-unlikely-be-rate-hike-2024-05-14/#:~:text=AMSTERDAM%2C%20May%2014%20(Reuters),came%20in%20higher%20than%20expected.)
3. European Commission (Oct. 4, 2023), "Commission Launches Investigation on Subsidised Electric Cars from China: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4752
4. Reuters (May 16, 2024) "EU launches trade investigation into Chinese tinplate steel": <https://www.reuters.com/markets/commodities/eu-launches-trade-investigation-into-chinese-tinplate-steel-2024-05-16/>

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