

Global Inflation Update

Vikram Rai, Senior Economist | 416-923-1692

Paul Kim, Economic Analyst

May 13, 2026

Highlights

- The global energy price spike due to the Middle East conflict has driven a sharp pickup in headline inflation across advanced economies, with early signs that we will see this in emerging markets soon.
- Headline inflation has picked up across the board, but some developed markets, such as Japan, the euro area, and Canada, have yet to see core prices move up.
- As a result, central banks have shifted to a more hawkish stance as this has complicated the policy outlook by pushing prices up even as it weighs on activity and already-softening labour markets.

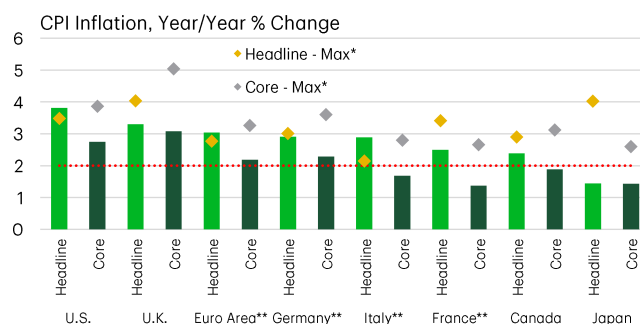
Advanced Economies

Inflation across G-7 economies has accelerated following the run up in global energy prices stemming from the conflict in Iran. But the magnitude of the impact on inflation from this supply shock has been relatively larger for G7 members more reliant on oil and LNG from the Middle East, such as Japan, Germany, and Italy.

On a year-over-year (y/y) basis, U.S. headline inflation reached 3.8% in April, a leap from 2.4% in February, as energy prices soared 17.9% y/y (Chart 1). Over in the euro area, inflation rose to 3.0% in April from 1.9% in February, marking the highest level since September 2023. Headline inflation in France and Germany started picking up in March and reached 2.5% and 2.9% y/y, respectively, by April. Italy saw a more delayed reaction, with little movement in March, but inflation there also reached 2.9% y/y in April. However, on a rolling quarterly basis (3-month average/3-month average, annualized), inflation in Italy (5.7%) is running hotter than in Germany (2.9%) or France (2.1%). Across the euro area, energy prices rose 10.9% over the past year to April, flipping from February's deflationary pace of -3.0%.

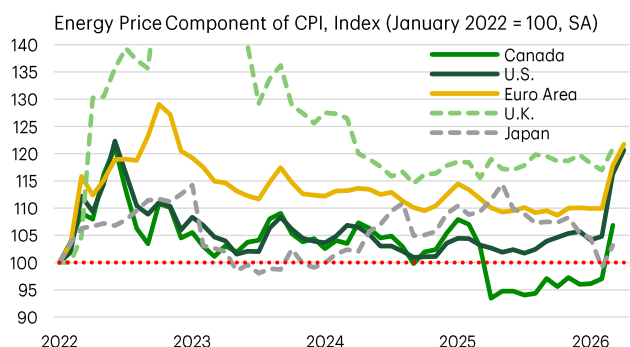
Outside of the euro area and the U.S., the latest data are still mainly for the month of March. Canada's reignited energy inflation (3.9% y/y) — which for the past year was a significant source of disinflation following the removal of the con-

Chart 1: Oil Price Shock Pushes Headline Inflation Higher



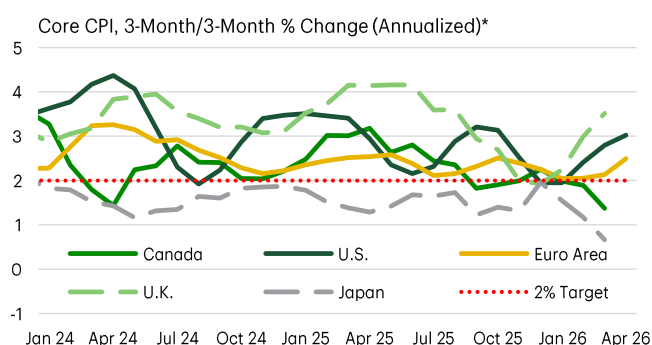
*January 2024-Present. **Harmonized CPI.
 Note: Core CPI excludes Food, Energy, Alcohol, and Tobacco in Euro Area countries and U.K.
 Core CPI excludes Food and Energy in U.S., Canada, and Japan (Western Core).
 Source: National Statistical Agencies, TD Economics.
 Last Observation: April 2026 for euro area and U.S.; March 2026 for Canada, Japan and U.K.

Chart 2: Global Energy Prices Jump To Multi-Year Highs On Middle East Conflict



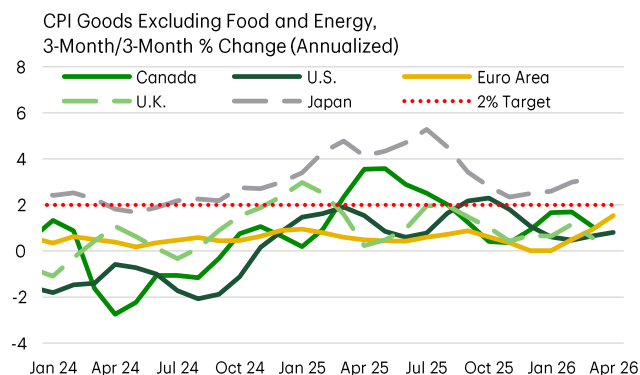
Source: National Statistical Agencies, Haver Analytics, TD Economics.
Last Observation: April 2026 for euro area and U.S.; March 2026 for Canada, Japan and U.K.

Chart 3: Core Inflation Diverges Acutely Among Countries



*Calculated as 3-month annualized percent change of 3-month moving averages.
Source: National Statistical Agencies, Haver Analytics, TD Economics.
Last Observation: April 2026 for euro area and U.S.; March 2026 for Canada, Japan and U.K.

Chart 4: Good Prices Are Contained, For Now



Source: National Statistical Agencies, Haver Analytics, TD Economics.
Last Observation: April 2026 for euro area and U.S.; March 2026 for Canada, Japan and U.K.

sumer carbon levy — brought headline inflation (2.4% y/y) closer to the upper range of the past two years.

Meanwhile, Japan's March inflation data showed a more muted response (1.4% y/y) with the surcharge on gasoline axed back in January and new subsidies rolled out to cap gasoline and other fuel prices soothing the impact. Nevertheless, energy prices have increased sharply on the month (4.1%), lessening their previous drag on headline inflation (Chart 2). At the same time, the tick-up in Tokyo CPI in April to 1.5% y/y points to some acceleration in national inflation ahead. U.K. consumer prices (3.3% y/y) were relatively insulated from the price shock thanks to the Ofgem¹ gas and electricity price cap, though the shock did feed through to higher motor fuel prices (4.9% y/y). That second quarter Ofgem cap was ruled right before the Iranian conflict implies the inflationary impact from energy will be in full swing by in July, assuming prices remain at current levels.

Core And Input Prices

Stripping away the direct effect of the energy price shock and volatile food prices, core inflation measures show a diverging trend between countries (Chart 3). April readings from the euro area showed core inflation (2.5%, 3m/3m annualized) sitting not far from the ECB's target, though price pressures in France (2.1%) and Italy (2.8%) have started to pick up. The quarterly measure showed a steady rise in U.S. core prices, inching higher to 3.0% from 2.8% in March and 2.4% in February. Elsewhere based on March observations, a deceleration in core inflation in Canada (1.4%) and Japan (0.7%) juxtaposed the rise in the U.K. (3.5%).

Services prices excluding housing has been growing at a rate above central bank targets outside of Japan (0.5%, 3m/3m, annualized) where it has slowed over the past few months. In contrast, services inflation has gained momentum in the U.K. (5.0% 3m/3m), with price increases attributable to rising travel, transportation, recreational and personal services prices.

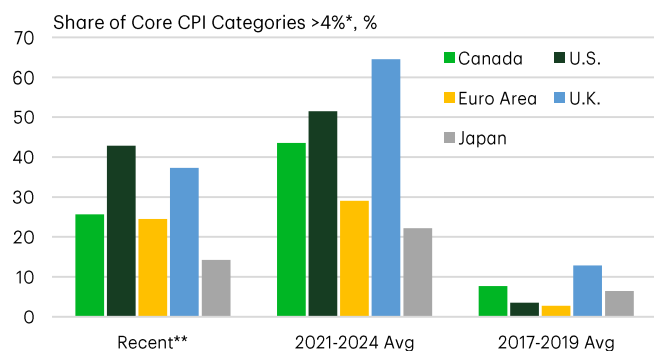
Core goods inflation has remained modest so far, coming in below the 2-handle on a rolling quarterly basis (Chart 4). The exception again was in Japan, where price growth picked up to 3.2% as rising import prices continued to meaningfully affect goods prices.

While the breadth of core inflation across the G7 has eased from its 2021-2024 average, it remains well-above pre-pandemic norms. In a troubling sign for the Fed, 43% of CPI categories in the U.S. saw price gains above 4% in April (3m/3m ann.), while the share of CPI categories experiencing deflation, at 18%, was lower than G7 peers. By comparison, Canada faced the energy shock from a better starting point. Not only was the share of deflating prices, at 36%, above the 2021-2024 average, but the share of items seeing elevated price growth has so far been contained at 26% (Chart 5).

Central banks will be on the lookout for signs of inflation broadening out to non-energy goods as the conflict continues to drag on. Price pressures have quickly built throughout production pipelines since the oil price breakout, with inflation in intermediate goods heading higher in the euro area (6.5% 3m/3m), U.K (8.2%) and the U.S (9.5%) according to March data.

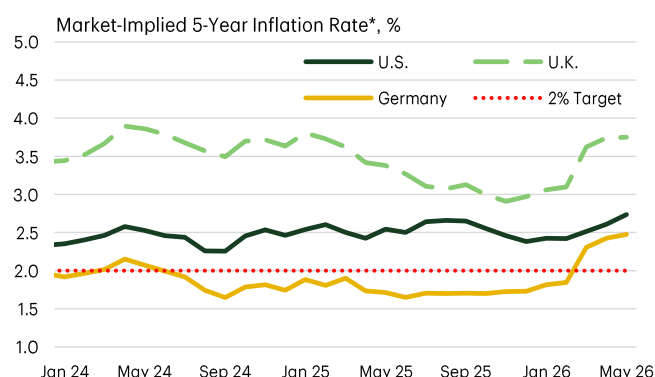
In the case of Japan, persistent yen weakness has contributed to surging import prices (25.2% in March; 3m/3m). As the country relies critically on energy imports to meet domestic production needs, passthrough to consumers could occur in relatively short order. As for Canada, prices of raw materials surged 24% y/y in March, driven not only by the recent run-up in energy prices but also the upward trend in non-energy crude materials (22% y/y) that began last year. In turn, producer selling prices have increased 7.8% y/y as of March, pointing to increased pressure for consumer-facing businesses to raise prices

Chart 5: Breadth of Elevated Price Gains Not Back to Post-Pandemic Levels



*3-Month/3-Month annualized basis. **April 2026 for U.S.; March 2026 for rest. Source: National Statistical Agencies, TD Economics.

Chart 6: Inflation Expectations Have Picked Up Globally



*Monthly average of daily data. 5-year breakeven rates for U.K. and Germany; 5-year inflation swap rate for the U.S. Source: Bloomberg, Federal Reserve Board, Bank of England, Deutsche Bundesbank, TD Economics. Last Observation: May 12th, 2026.

Inflation Expectations

Market-based measures of inflation expectations have quickly latched on to higher energy prices (Chart 6). Based on the few data points we have for May, 5-year breakeven inflation rates are at multi-year highs, hovering around 2.5% in Germany, 2.7% in the U.S. while nearing 4% in the U.K. Germany's ZEW Financial Market Survey complements the market view, with net 64.6% of participants now expecting a higher inflation backdrop over the next 6-months.

Owing to differences in survey periods, some surveys have not yet fully captured how consumers and businesses are responding to the energy price shock. Nevertheless, more timely indicators show significant increases in short-term inflation expectations, reflecting consumers' immediate exposure to higher fuel prices. As of May 4th, retail gasoline prices in the U.S and Canada have gone up 50% since last December, while diesel prices in the euro area were 30% higher.

As such, the University of Michigan's consumer survey showed U.S. one- and five-year inflation expectations rising to 4.7% and 3.5% in April before declining to 4.5% and 3.4% in May, respectively. Increased optimism for a U.S.-Iran deal at the time had sent oil prices lower and helped taper further rise in inflation expectations. Nevertheless, they represent a significant deviation from February levels.

While a dated picture, the European Commission's Business and Consumer Survey showed the net balance of respondents expecting higher inflation rising to a four-year high in April (49%). In tune with this messaging were the survey responses from euro area's professional forecasters who now see headline and core inflation rising to 2.1% and 2.2% y/y, both up from 2.0%, respectively. In an uncomfortable development for the ECB, consumer and business inflation expectations across Germany, France, and Italy have been rising in tandem since March, raising the risk that inflation expectations in its biggest member states become unanchored. More material declines in energy prices are likely required for expectations to return to pre-conflict levels.

Wage Growth

Wage growth across major economies has cooled significantly since their 2023/2024 peaks in line with cooler labour markets in most jurisdictions. While unemployment rates have come off their peaks, they remain above their pre-pandemic averages in Canada, U.S., U.K., and Japan. And in a tell-tale sign of lukewarm labour demand, employment growth outside of the U.K. has effectively flatlined—if not contracted—over the past year.

Productivity growth remains subdued in advanced economies with the sole exception of the U.S. Growing AI adoption among businesses is expected to further bolster the U.S.'s productivity supremacy. At the same time, AI's disruptive role in tech and professional service occupations is a growing downside risk to wage growth.

A crucial difference in today's inflation backdrop versus the post-pandemic inflation surge is that job markets are softer now. This has so far allowed central banks to opt for a "wait-and-see" approach as opposed to precautionary hikes to prevent repeating the mistake of labeling inflation as "transitory."

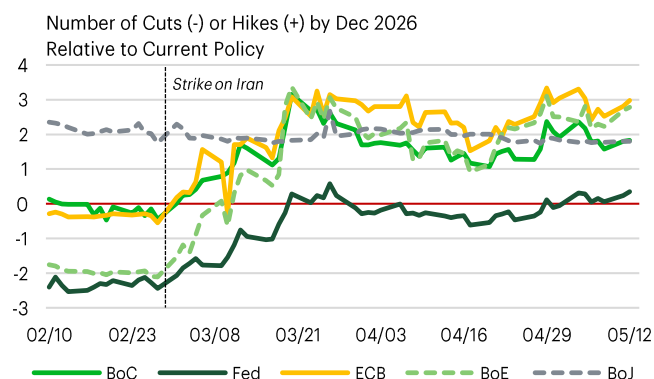
Policy Rates

The shock to global energy prices has complicated outlooks for central bank policy. Before the conflict, labour markets had cooled visibly, and an array of uncertainties weighed on demand. But the shock to oil prices and global shipping has jerked inflation up once again. Now energy prices are near-certain to remain

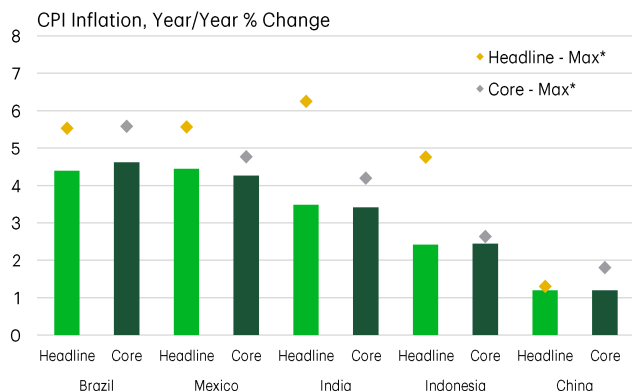
elevated without any meaningful progress towards a resolution of the conflict that would allow transit through the Strait of Hormuz to return to pre-conflict levels. This raises the likelihood that energy inflation spills over to broader categories of consumer goods. Such concerns were on full display during the string of central bank announcements at the end of April. Forward guidance struck a hawkish tone as central banks marked their inflation forecasts higher for 2026 even as rates remained on hold. With GDP growth running close to potential across advanced economies, our view is that higher energy prices will leave a dent on demand, dampening the knock-on effects of the energy shock on broader goods and services.

Market expectations for year-end policy rates have shifted accordingly (Chart 7). The Bank of Canada (BoC) is now expected to conduct two hikes by the end of 2026, up from zero in February. The rate pricing for the European Central Bank (ECB), which was also widely anticipated to stay on hold this year prior to the conflict, has jumped to three hikes as traders focus on the bloc's heavy reliance on imported energy. Expectations swung widest for the Bank of England (BoE), as markets moved from pricing in two cuts back in February to three full hikes. As for the Federal Reserve (Fed), rate cut expectations for this year have evaporated despite the impending confirmation of Kevin Warsh, a Trump appointee, as the new Fed chair, and hike pressures are now building. Policy rate expectations for the Bank of Japan (BoJ) moved little since the onset of the Middle East conflict, though this is in part because rate

Chart 7: Markets Reprice Policy Rate Expectations Higher

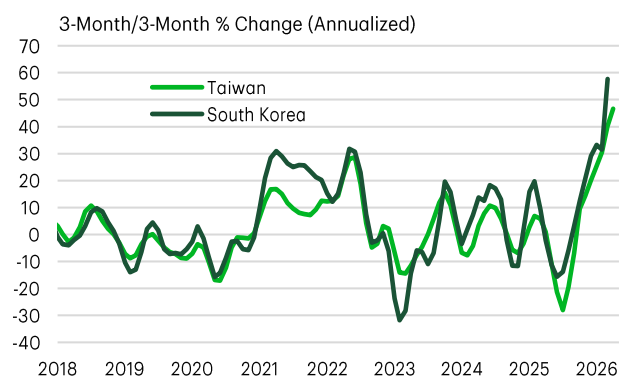


Source: Bloomberg, TD Economics. Last Observation: May 12, 2026.

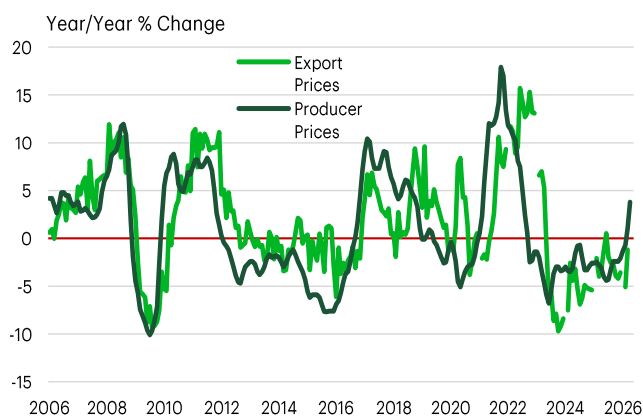
Chart 8: Inflation in Emerging Markets

*January 2024-Present.

Source: National Statistical Agencies, TD Economics. Last Observation: April 2026.

Chart 9: Chip Producers' Export Prices Soar On AI-Related Demand and Higher Input Costs

Source: Bank of Korea, DBGAS, TD Economics.

Chart 10: China's Disinflationary Impulse Has Diminished

*Source: CNBS, GACC, Haver Analytics, TD Economics.

hikes were already priced in and now the economic outlook is weaker. If anything, growing inflation pressures should allow for faster normalization of central bank policy in Japan.

Emerging Markets

April inflation data for major emerging market countries collectively pointed to a renewed pickup in inflation pressures (Chart 8). Headline inflation in Vietnam (8.3% 3m/3m), Mexico (5.9%), South Korea (2.5%), Thailand (3.2%), Brazil (4.9%) and China (1.1%) accelerated from March while remaining generally unchanged in Indonesia (3.8%) and Taiwan (2.3%). India's inflation pulled back to 7.0% in April from an elevated level of 8.3% in March.

Signs that price pressures have broadened out emerged as core price growth in South Korea (2.9%), Taiwan (4.0%), and Vietnam (6.8%) have picked up notably on the month. With energy prices still elevated, those equipped with domestic energy production capabilities are expected to better absorb the inflation impact, as was the case so far in Indonesia. Inflation trends across ASEAN economies will be closely monitored by global central banks, as the region's prominent role in global manufacturing could transmit price pressures to advanced economies through higher import costs.

For example, prices of semiconductors and related components were grinding higher prior to the conflict. Higher energy costs have amplified that trend as production is deeply dependent on inputs derived from crude oil and natural gas, building on top of an already-squeezed global supply. In turn, Taiwan's export prices have climbed by 46.6% (3m/3m annualized) as of April, while South Korea's March data showed prices rising by 57.7% (Chart 9). The key risk here is that chipflation could reach beyond AI to broader categories of consumer and business electronics, ultimately anchoring consumer expectations of inflation higher.

Adding to the list of worries for central bankers is China's export prices, which look to be exiting a multi-year era of deflation as producer goods inflation accelerated in April (+3.8%) (Chart 10). Prolonged closure of the Strait raises the expectation that export prices will climb higher from here, marking the end of a once-dominant source of global disinflation.

Bottom Line

The current inflation shock is being driven first and foremost by energy costs, but the bigger risk is whether it starts to broaden into core goods, services and inflation expectations. For now, headline inflation is uniformly higher across advanced economies, while core inflation remains contained in places like Canada, Japan and the euro area, but is firmer in the U.S. and U.K.

Input-cost pressures are also building, particularly through intermediate goods, raw materials and import prices. To that extent, rising inflation in emerging markets, particularly in manufacturing-heavy economies, is expected to add upside pressure to consumer prices in importing advanced economies. Amidst rising inflation expectations, central banks are expected to remain cautious even as softer demand limits the risk of a broad-based acceleration in core inflation. The policy backdrop has become more complicated, with elevated energy prices driving the hawkish narrative of markets.

Exhibits

Table 1: Inflation Expectations					
Financial Measures*					
Country	Measure	Unit	Current Value	Change From Prior 3 Months	Last Obs.
Canada	10-Year Breakeven Inflation Rate	%	2.1	Increased	May
U.S.	5-Year Breakeven Inflation Rate	%	2.7	Increased	May
U.S.	10-Year Breakeven Inflation Rate	%	2.5	Increased	May
Germany	5-Year Breakeven Inflation Rate	%	2.5	Increased	May
Germany	10-Year Breakeven Inflation Rate	%	2.4	Increased	May
U.K.	5-Year Breakeven Inflation Rate	%	3.7	Increased	May
U.K.	10-Year Breakeven Inflation Rate	%	3.4	Increased	May
Consumer Survey Measures					
Canada	Bank of Canada - Survey of Consumer Expectations				
	Inflation Expectations - 2 Years Ahead	%	3.6	Decreased	Q1
	Inflation Expectations - 5 Years Ahead	%	3.0	Decreased	Q1
U.S.	University of Michigan - Surveys of Consumers				
	Inflation Expectations - 1 Year Ahead	%	4.5	Increased	May
	Inflation Expectations - 5 Years Ahead	%	3.4	Increased	May
Euro Area	European Commission - Business and Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	49.0	Increased	Apr
Germany	Deutsche Bundesbank - Survey on Consumer Expectations				
	Inflation Expectations - 1 Year Ahead	%	3.5	Increased	Mar
	Inflation Expectations - 5 Years Ahead	%	3.3	Decreased	Mar
Italy	ISTAT - Consumer Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	84.0	Increased	Apr
U.K.	Bank of England/Ipsos - Inflation Attitudes Survey				
	Inflation Expectations - 1 Year Ahead	%	3.2	Decreased	Q1
	Inflation Expectations - 5 Years Ahead	%	3.7	Decreased	Q1
France	INSEE - Consumer Confidence Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	11.1	Increased	Apr
Japan	Bank of Japan - Opinion Survey				
	Inflation Expectations - 1 Year Ahead	%	11.4	Decreased	Q1
Business Survey Measures					
Canada	Bank of Canada - Business Outlook Survey				
	Share of Firms Expecting Inflation Above 3% - 2 Years Ahead	%	11.0	Decreased	Q1
U.S.	Duke University - CFO Survey				
	Inflation Expectations - 1 Year Ahead	%	3.6	Decreased	Q1
Euro Area	European Central Bank - Survey of Professional Forecasters				
	Inflation Forecast - 1 Year Ahead	%	2.1	Increased	Q2
	Inflation Forecast - 2 Years Ahead	%	2.0	Decreased	Q2
	Inflation Forecast - Long-Term	%	2.0	Unchanged	Q2
	Inflation Forecast - 1 Year Ahead (Core)	%	2.2	Increased	Q2
	Inflation Forecast - 2 Years Ahead (Core)	%	2.1	Increased	Q2
	Inflation Forecast - Long-Term (Core)	%	2.0	Unchanged	Q2
Germany	ZEW - Financial Market Survey				
	Inflation Expectations - 6 Months Ahead	% Balance	64.6	Increased	May
Italy	Bank of Italy - Survey on Inflation and Growth Expectations				
	Inflation Expectations - 1 Year Ahead	%	1.7	Unchanged	Q1
	Inflation Expectations - 2 Years Ahead	%	1.7	Decreased	Q1
U.K.	Confederation of British Industry - Distributive Trades Survey				
	Inflation Expectations - 1 Year Ahead	% Balance	1.7	Increased	Q1
France	Bank of France - Monthly Business Survey				
	Inflation Forecast - Finished Goods	% Balance	11.1	Increased	Mar
	Inflation Forecast - Services	% Balance	4.8	Increased	Mar
Japan	Bank of Japan - Tankan Survey				
	Inflation Expectations - 1 Year Ahead	%	3.1	Increased	Q1
	Inflation Expectations - 3 Years Ahead	%	4.6	Increased	Q1
	Inflation Expectations - 5 Years Ahead	%	5.6	Increased	Q1

*Monthly average of daily data, as of May 12th, 2026.

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)	4.6	3.6	3.0	2.4	3.2	1.7	3.4
2022-2024 Max (Y/Y % Change)	5.6	5.9	7.0	7.3	8.2	5.4	4.8
2017-2019 Average (Y/Y % Change)	2.4	3.0	2.6	1.0	2.8	1.5	1.5
Last Observation	Apr	Apr	Feb	Mar	Feb	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. The [Ofgem price cap](#) sets the maximum unit rates and standing charges that energy suppliers in Great Britain can charge households on standard variable/default tariffs.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.