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Our Economy and the World

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- Reuters: German inflation higher than expected ahead of ECB rates decision
- Reuters: BOJ policymaker hints at rate hike if yen's impact on inflation is big
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- Reuters: Toronto market ends higher as commodity prices climb

Key Global and Regional Developments over the Past Week

CNBC: British retail sales plunge 2.3% in April, missing estimates

U.K. retail sales volumes dropped 2.3% in April as wet weather deterred shoppers, the Office for National Statistics said Friday. Economists polled by Reuters expected a smaller fall of 0.4%. "Sales volumes fell across most sectors, with clothing retailers, sports equipment, games and toys stores, and furniture stores doing badly as poor weather reduced footfall," the ONS said. March's figure was revised from flat to a 0.2% decline.

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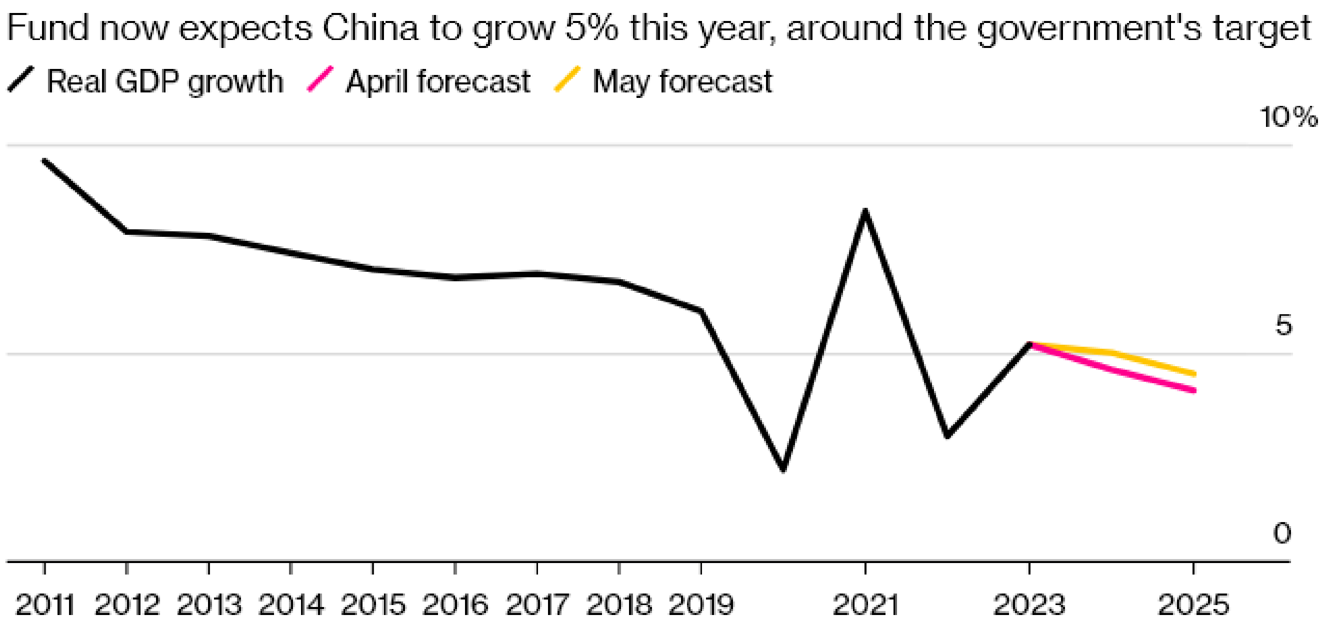
Bloomberg: IMF Lifts China Growth Forecast to 5% Citing Fast 2024 Start

The International Monetary Fund now expects China's economy to grow 5% this year, raising its forecast from 4.6% a few weeks ago to reflect a strong expansion at the start of 2024 and additional support from the government. The Fund expects the momentum to continue, raising its gross domestic product forecast for next year to 4.5% from 4.1%, according to a press release published Wednesday. China is targeting growth of around 5% this year. In the first quarter it reported a better-than-expected expansion of 5.3%, although a drawn-out slump in housing continues to weigh on domestic demand.



Source: China's National Bureau of Statistics, International Monetary Fund

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[Reuters: German inflation higher than expected ahead of ECB rates decision]

German inflation rose slightly more than forecast to 2.8% in May, although economists said an increase had been expected and should not alarm European Central Bank policymakers ahead of their interest rate decision next week. Analysts polled by Reuters had forecast a reading of 2.7%, after a year-on-year increase in consumer prices of 2.4% in April, based on data harmonised to compare with other European Union countries.

[(Read Full Article)]

Reuters: BOJ policymaker hints at rate hike if yen's impact on inflation is big

The Bank of Japan may raise interest rates if sharp falls in the yen boost inflation or the public's perception of future prices move more than expected, board member Seiji Adachi said on Wednesday While short-term currency moves alone would not trigger a policy shift, the central bank could raise interest rates if excessive yen falls persist and have a big impact on inflation expectations, Adachi said in a speech.

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Reuters: ECB revamps its annual health checks on banks

The European Central Bank is streamlining its health checks on the euro zone's banks, allowing it to train its focus on pressing lapses and get tough on laggards. The central bank's supervisory chief, Claudia Buch, said while the revamp would make its annual checks less cumbersome, it would also make greater use of powers to penalise and force changes.

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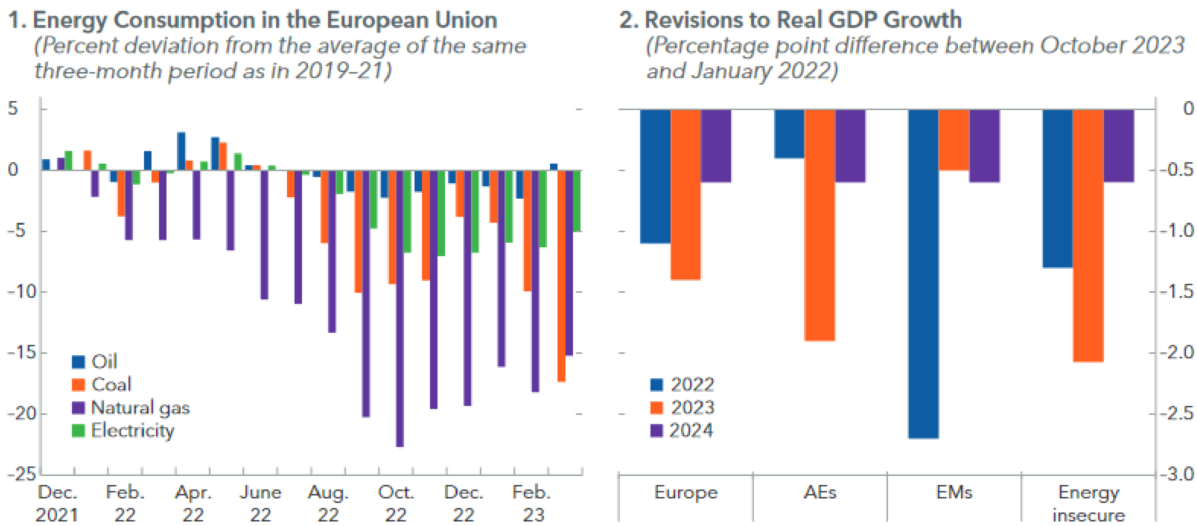
Special Analysis

IMF: The Energy Security Gains from Strengthening Europe's Climate Action

Following the 2022 energy crisis, this paper investigates whether Europe's ongoing efforts to cut greenhouse gas emissions can also enhance its energy security. The global computational general equilibrium model analysis finds that individual policy tools, including carbon pricing, energy efficiency standards, and accelerated permitting procedures for renewables, tend to improve energy security. Compared to carbon pricing, sector-specific regulations deliver larger energy security gains and spread those more evenly across countries, benefitting also some fossil-fuel-intensive economies in Central and Eastern Europe. This finding strengthens the case for a broad climate policy package, which can both achieve Europe's emissions-reduction goals and deliver sizeable energy security co-benefits. An illustrative package, which would cut emissions in the EU, UK, and EFTA by 55 percent with respect to 1990 levels by 2030, is estimated to improve the two energy security metrics used in this paper by close to 8 percent already by 2030. Beyond the policies analyzed in the model, the paper also discusses the technology, market design, and supply chain reforms that Europe needs for an energy-secure green transition.

Figure 1. Europe's Energy Crisis Severely Affected Energy Consumption and the Economy



Sources: Eurostat; IMF, World Economic Outlook database; and authors' calculations.
Note: In panel 1, consumption each month is smoothed using three-month rolling averages, then the deviation is calculated from the average for the same three-month window over 2018-21. Energy-insecure economies include Austria, Czech Republic, Germany, Hungary, Italy, and Slovak Republic, as identified in Di Bella and others (2022). AEs = advanced European economies; EMs = European emerging market economies.

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Developments in Financial and Commodity Markets in the Past Week

CNBC: U.S. crude oil gains nearly 3% as market looks to OPEC+ meeting on production levels

U.S. crude oil gained nearly 3% on Tuesday after booking a loss last week as the market focuses on an upcoming key OPEC+ meeting. OPEC+ will hold a virtual meeting on Sunday to review its production policy. Several OPEC+ members are voluntarily holding 2.2 million barrels per day off the market to support prices.

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Reuters: Toronto market ends higher as commodity prices climb

Canada's main stock index rose on Monday as higher commodity prices boosted resource shares and the market transitioned to a faster trade settlement standard, while investors looked ahead to bank earnings reports this week. The Toronto Stock Exchange's S&P/TSX composite index (.GSPTSE), opens new tab ended up 52.51 points, or 0.2%, at 22,373.38, moving closer to the record closing high it posted last Tuesday at 22,468.16.

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