

Global Inflation Watch

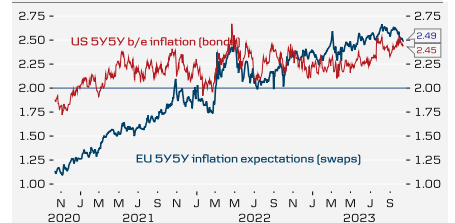
Underlying price pressures remain sticky

- Overview:** Inflation drivers continue to paint a mixed picture, but inflation is likely to head lower through 2023 in the US and euro area. Price pressures from food and freight have clearly eased, and while oil prices have risen since summer, contribution to annual inflation still remains negative. Underlying inflation and wage growth have begun to ease in the US, but remain sticky in the euro area. Tight labour markets continue to support upside risks to core inflation in both areas going forward. We think that most western central banks are now done with their respective hiking cycles.
- Inflation expectations:** Consumers' short-term inflation expectations have moderated especially in the US, but still remain somewhat above pre-pandemic levels. Markets' longer-term inflation expectations edged slightly higher in the US over the past month, but remain consistent with the Fed's target for now.
- US:** September CPI surprised to the upside for the second month in a row, as headline CPI rose by 0.4% m/m SA (from 0.6%; consensus 0.3%). Core CPI was better aligned with expectations at +0.3% m/m (from +0.3%; consensus 0.3%). Energy contribution declined, although slightly less than expected. The upside surprise was driven especially by shelter and health care inflation, both of which are distorted by lagged calculation. On other core services sectors, broader price pressures eased (0.42%; from 0.71%) reflecting past moderation in wage inflation. Core goods prices declined (-0.39%), as the UAW strike has not yet had a significant impact on used car prices.
- Euro:** Inflation fell significantly in September, but it was mainly due to base effects. The decline in inflation was broad-based as headline inflation declined to 4.3% y/y from 5.3% y/y in August and core inflation ticked down to 4.5% y/y from 5.3% y/y. Yet, the monthly growth rates also showed positive signs as core inflation increased at the slowest pace since April 2021. Overall, the print is positive news for the fight to bring down inflation, but the underlying inflationary pressure is still worrying for the ECB. Looking ahead we expect base effects and declining momentum to pull inflation lower with average inflation in 2023Q4 of 3.2% y/y compared to 5.0% y/y in 2023Q3.
- China:** CPI for September fell to 0.0% y/y from 0.1% y/y in August while core CPI stayed was flat at 0.8% y/y. PPI rose to -2.5% y/y in September from -3.0% y/y.

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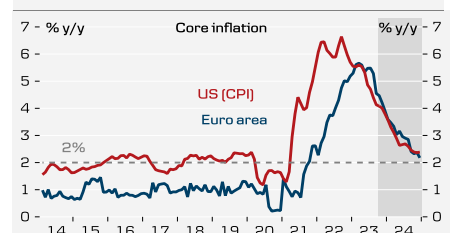
Market-based inflation expectations still above 2%



Note: Past or current performance is no guarantee of future performance

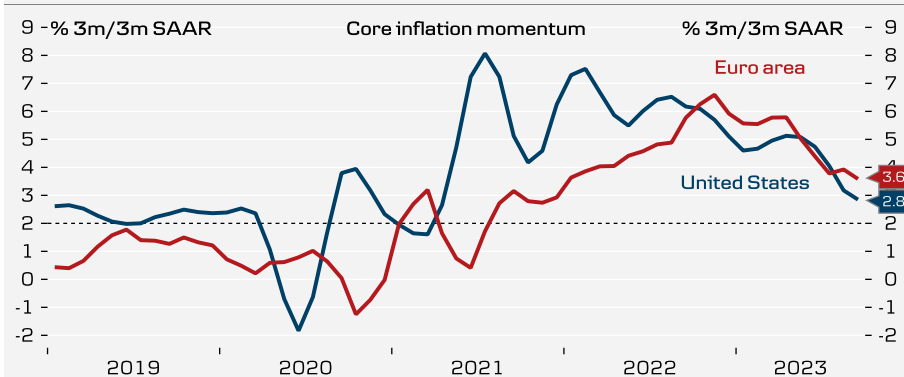
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Core inflation momentum is easing in both the euro area and the United States



Source: ECB, Danske Bank, Macrobond Financial

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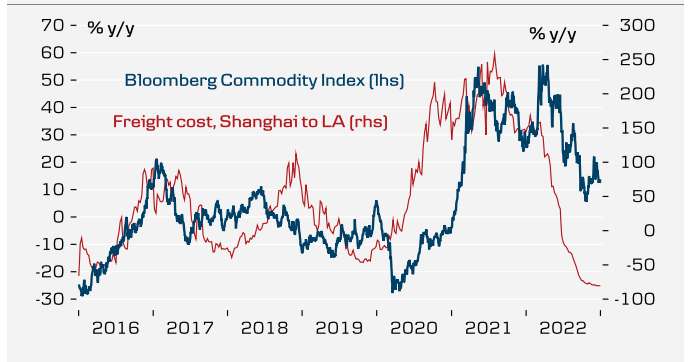
Top down overview

Trend in inflation pressure moving lower

Inflation Score Card		
Commodity prices	Oil	↓
	Metals	↓
	Food stuff	↓
	Gas	↓
Supply Chains	Freight rates	↓
	Delivery times	↓
Wage pressure		↗
Inflation expectations		→
Pricing power		↓

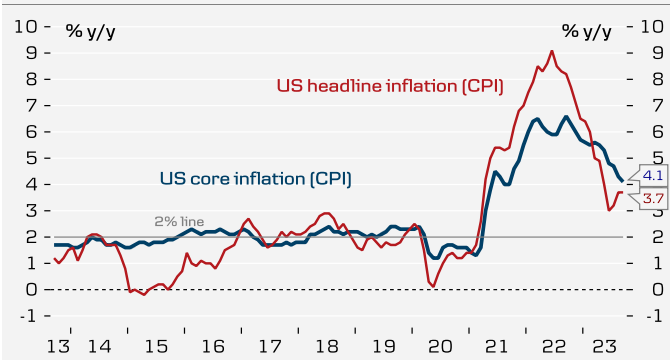
Source: Macrobond Financial, BLS

Commodity price and freight inflation



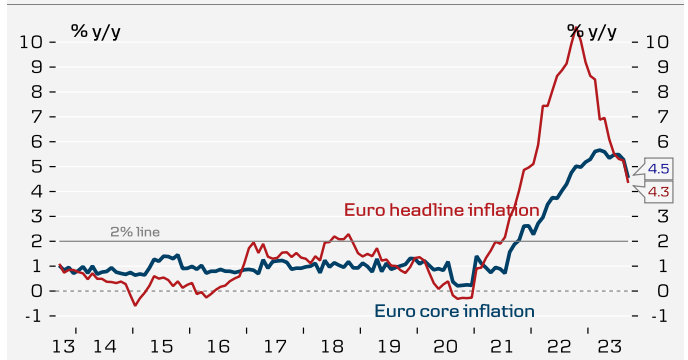
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



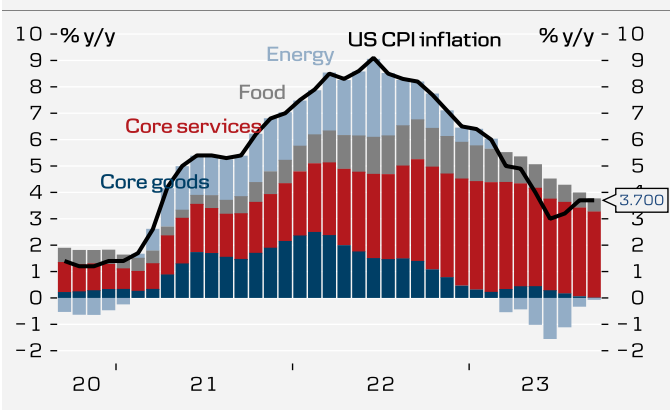
Source: Macrobond Financial, BLS

Euro headline and core inflation



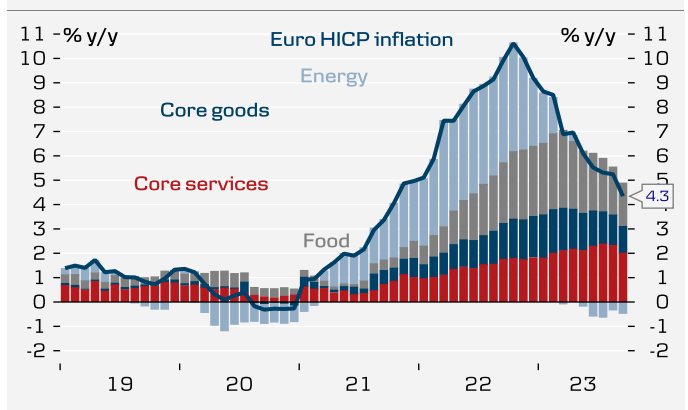
Source: Macrobond Financial, Eurostat

Contributions to US inflation



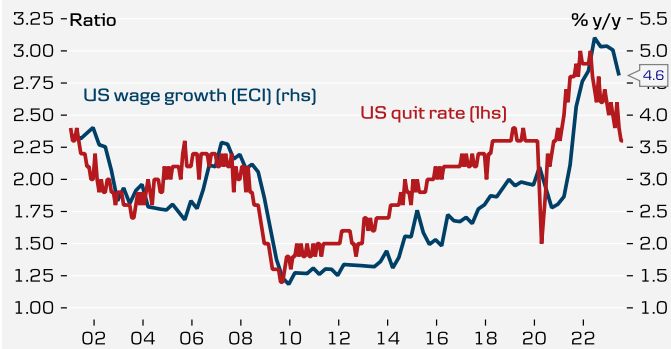
Source: Macrobond Financial, BLS

Contributions to euro inflation



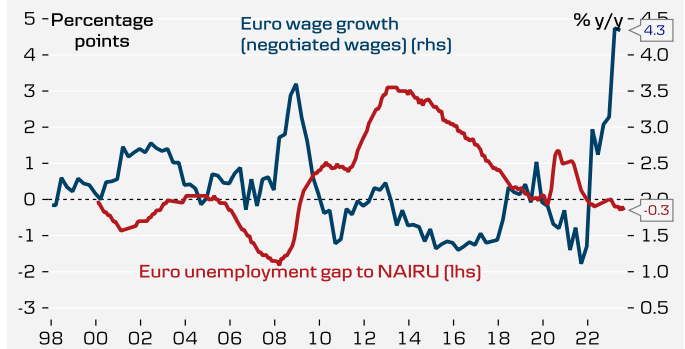
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



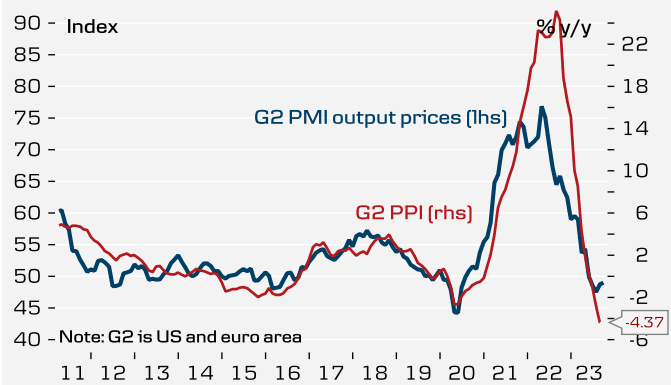
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



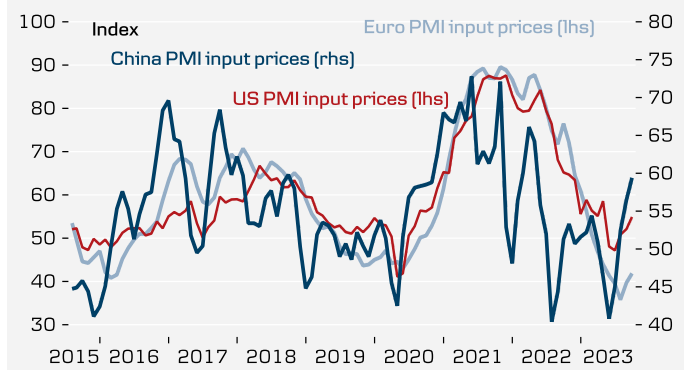
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



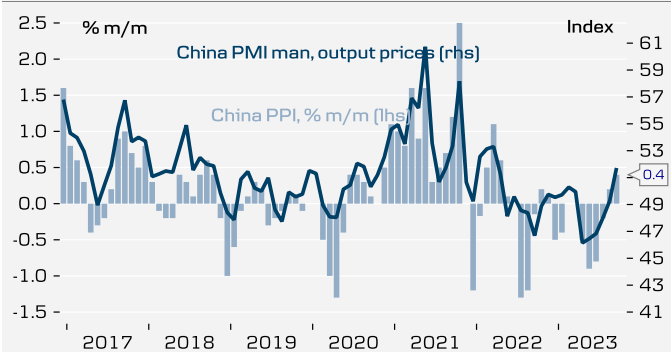
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



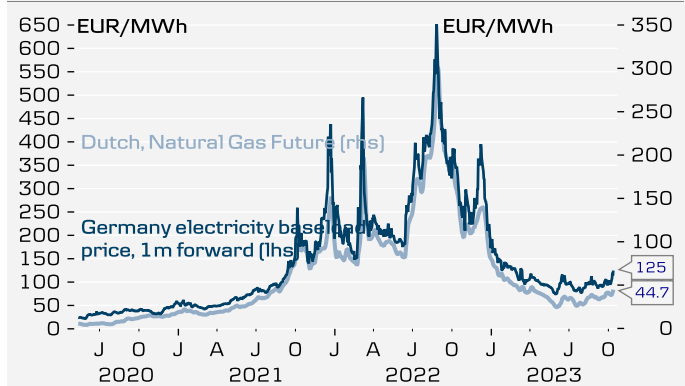
Source: Macrobond Financial, Markit

China PPI inflation momentum



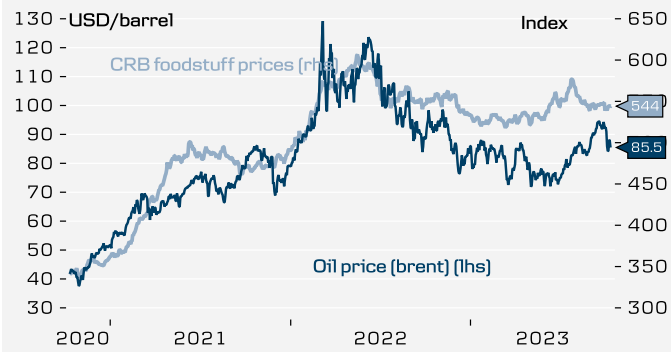
Source: Macrobond Financial, Markit

European natural gas and electricity prices



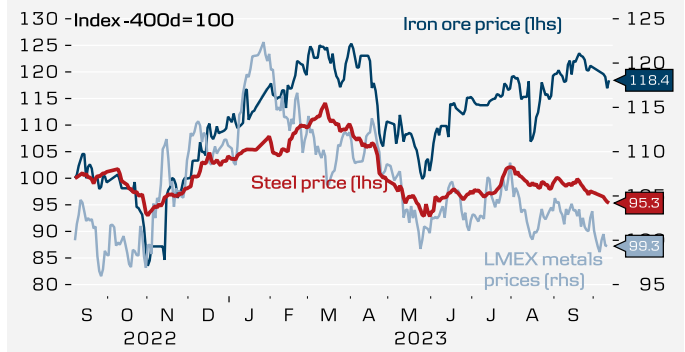
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



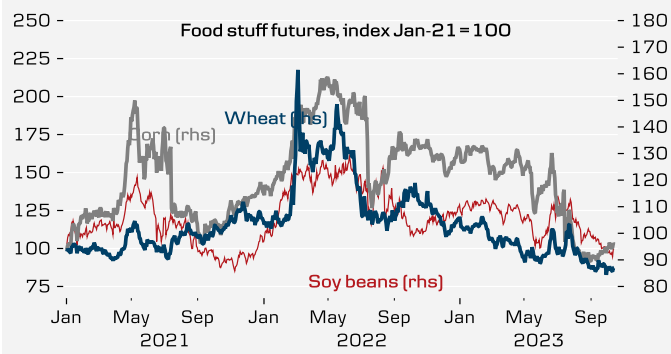
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



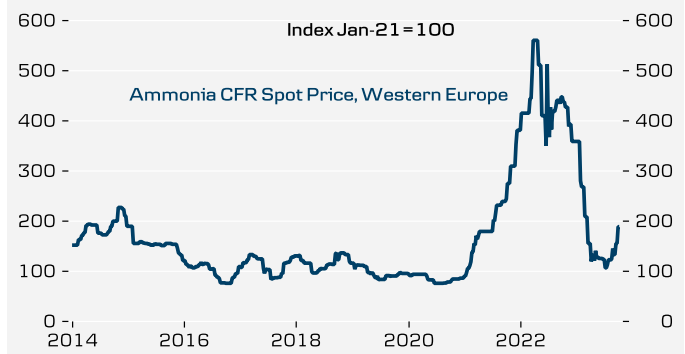
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Grain prices



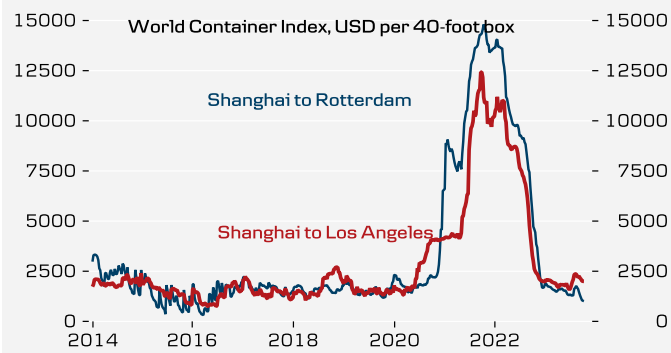
Source: Macrobond Financial, Bloomberg
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Fertilizer input prices



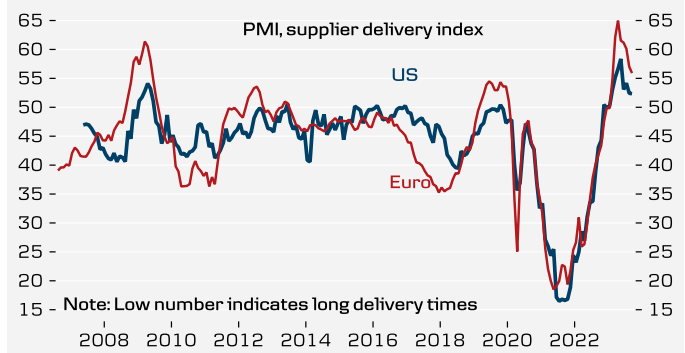
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

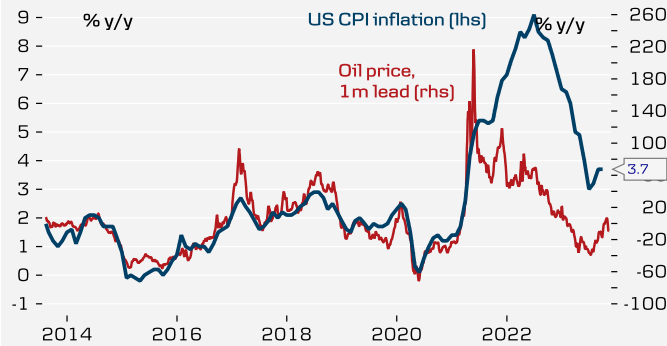


Source: Macrobond Financial, Markit

Country details - US

Top down

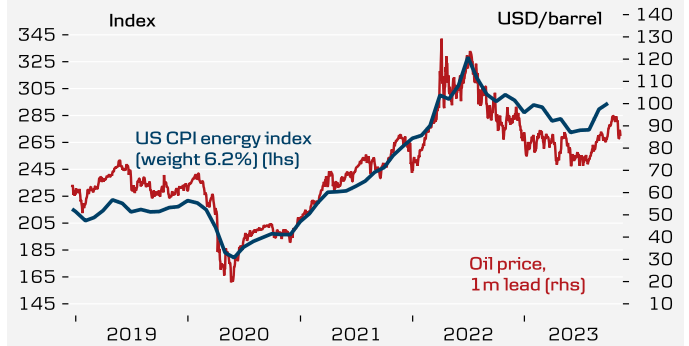
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

Note: Past performance is not a reliable indicator of future performance.

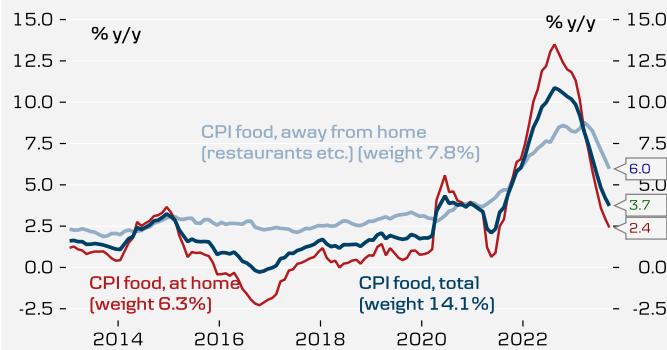
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

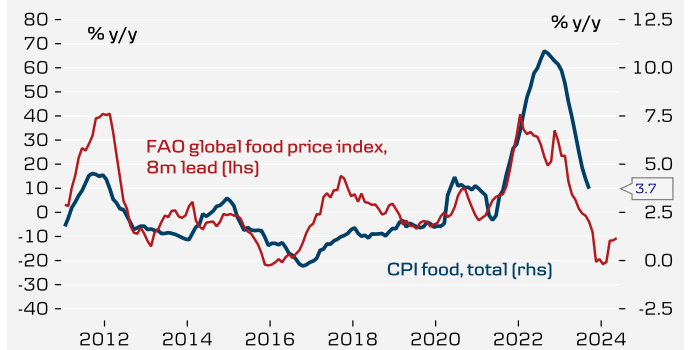
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

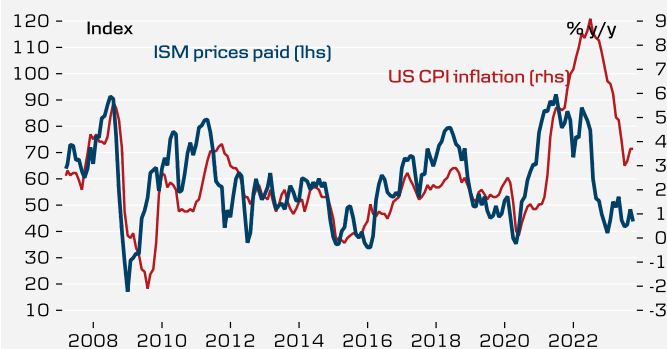
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

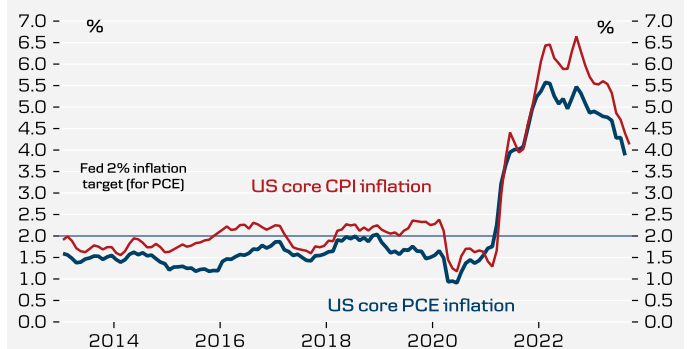
Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



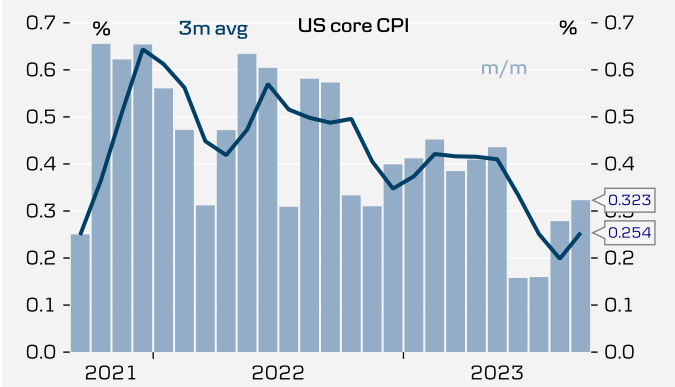
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



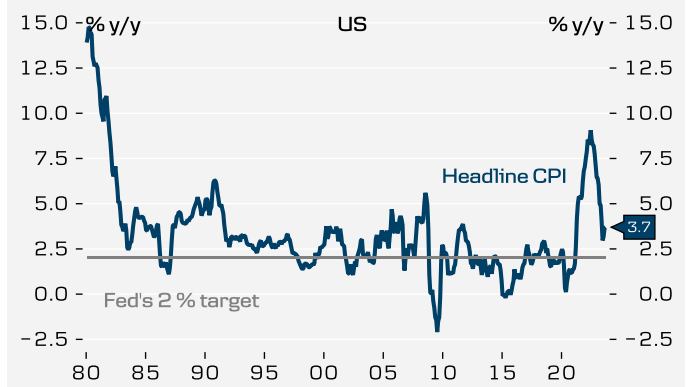
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



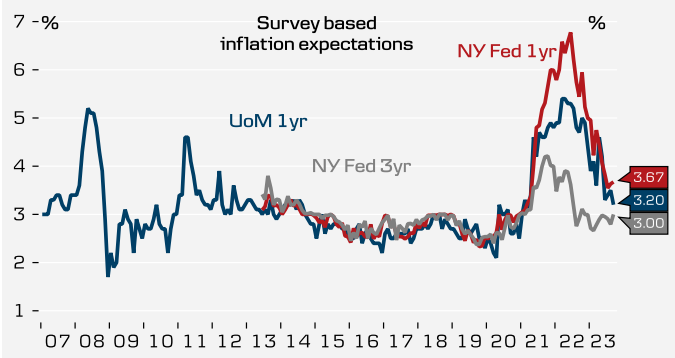
Source: Macrobond Financial, BLS

Headline CPI since 1980



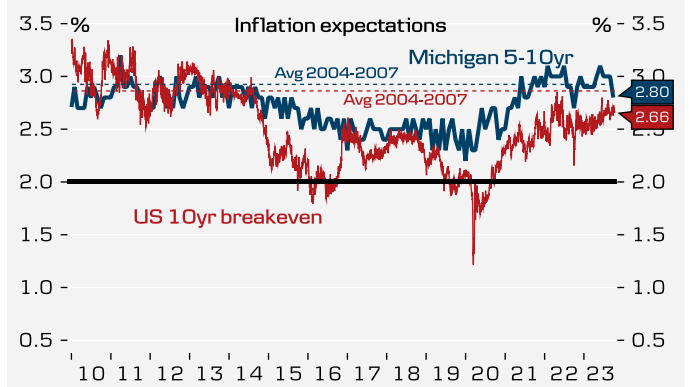
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



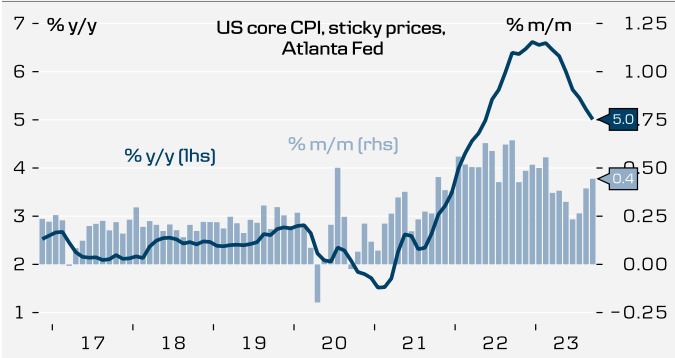
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



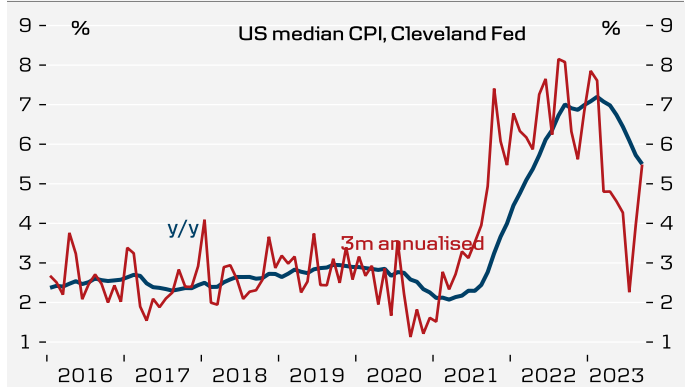
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



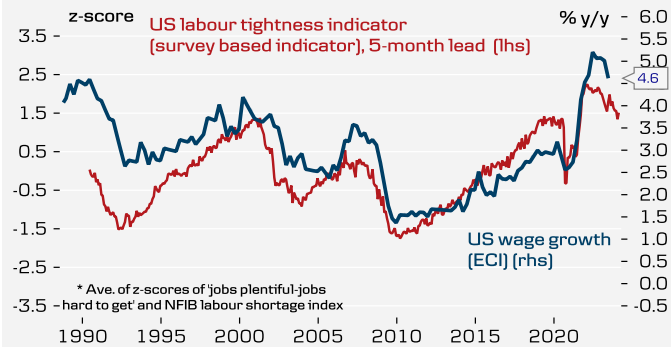
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



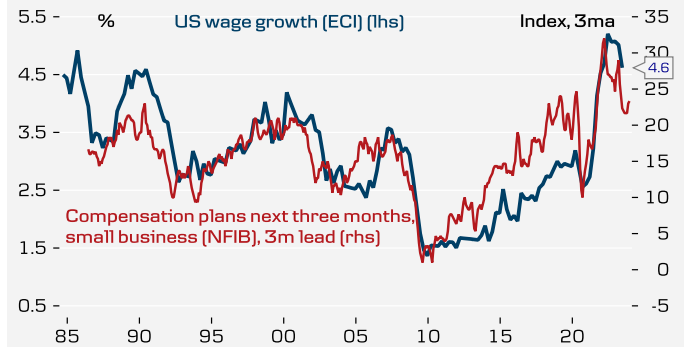
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



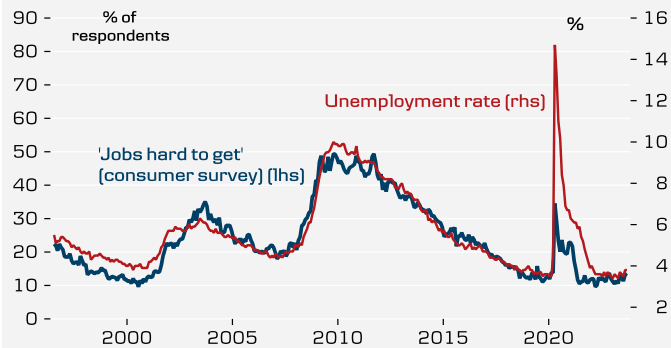
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



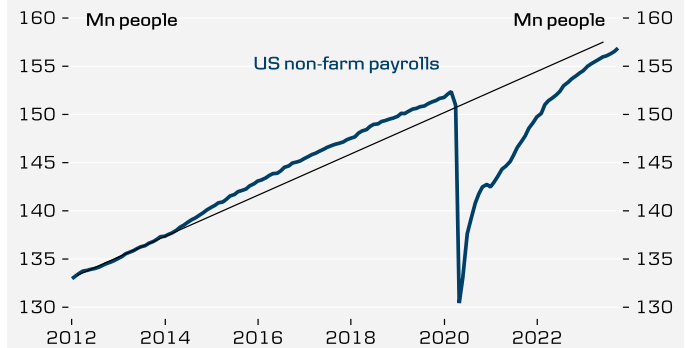
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

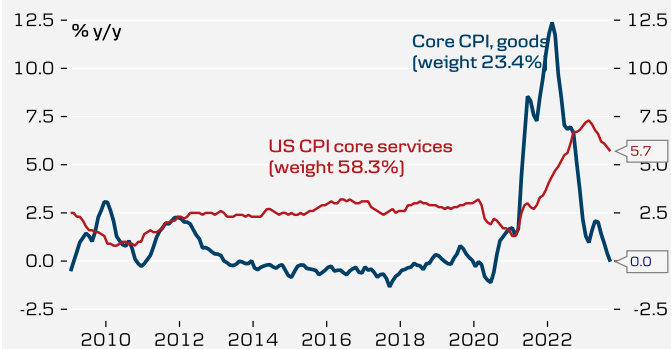
Employment gap



Source: Macrobond Financial, BLS

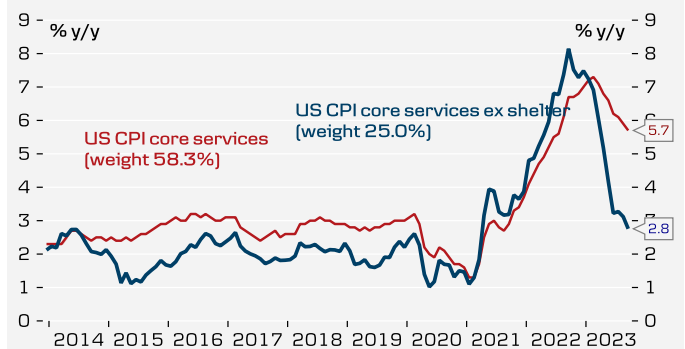
Bottom up

Core goods vs. services



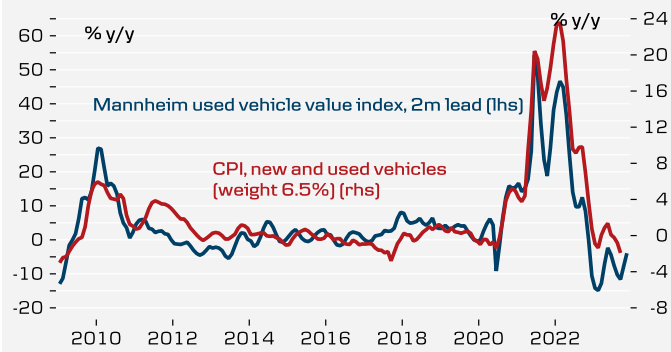
Source: Macrobond Financial, BLS

Core services ex shelter



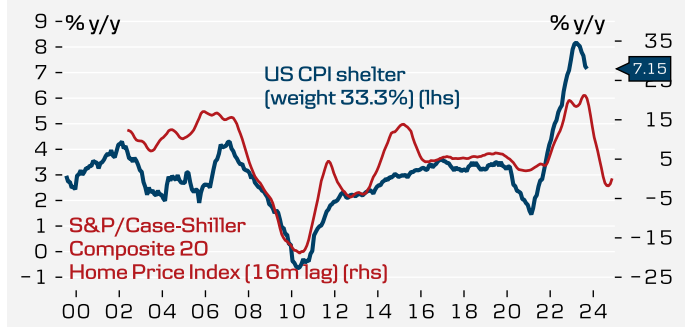
Source: Macrobond Financial, BLS

Used car prices



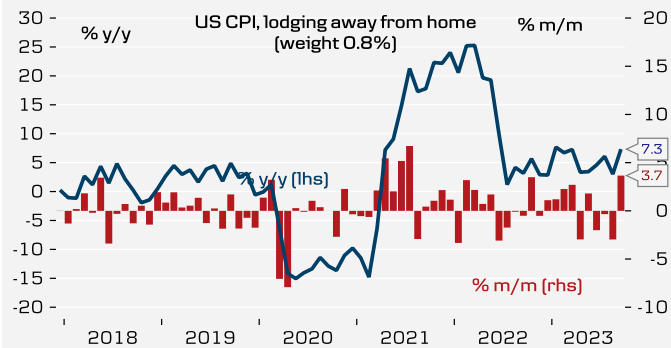
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



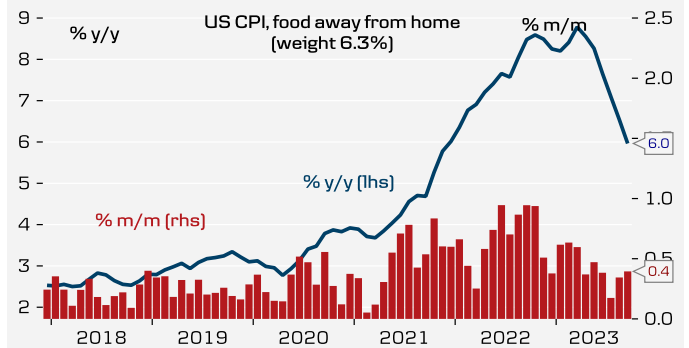
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



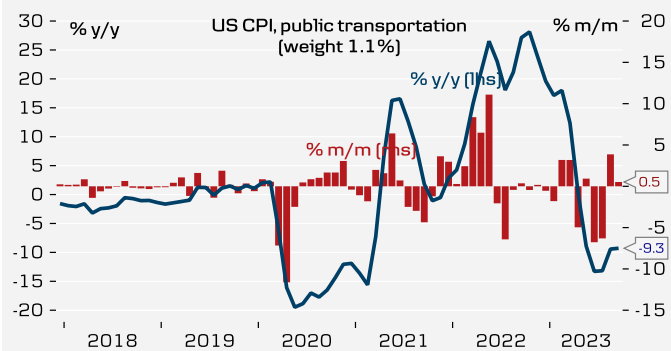
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



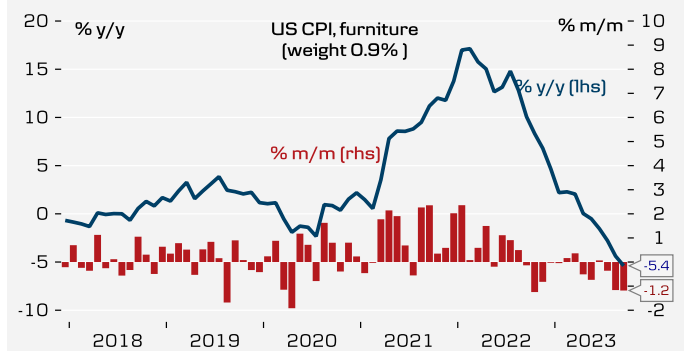
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

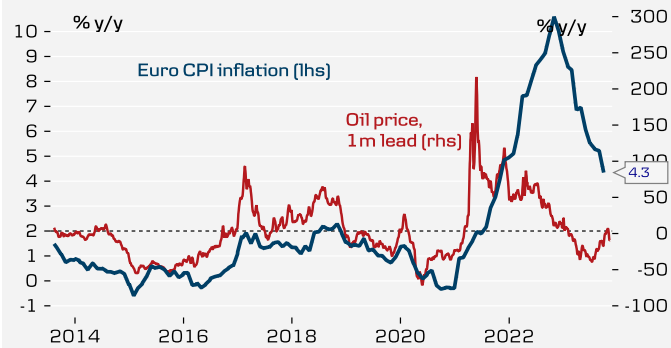


Source: Macrobond Financial, BLS

Country details – Euro

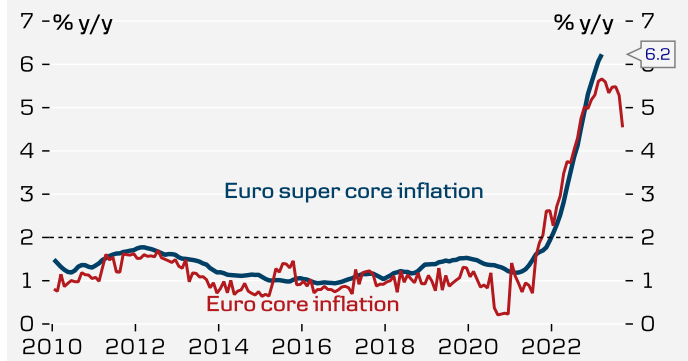
Top Down

Headline vs. oil prices



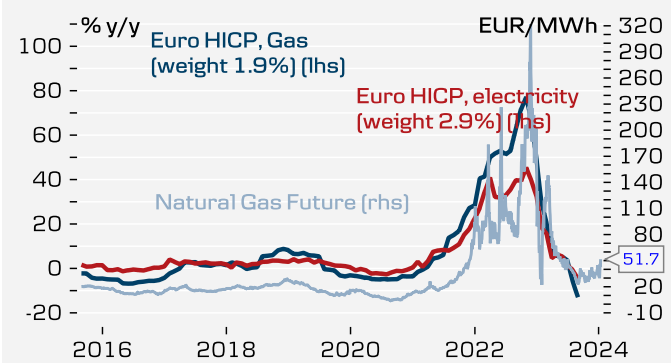
Source: Macrobond Financial, Eurostat
 Note: Past performance is not a reliable indicator of future performance.

Core inflation



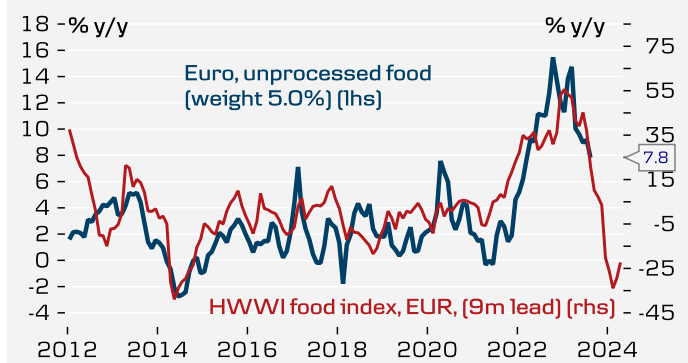
Source: Macrobond Financial, Eurostat, Danske Bank

Natural gas & electricity



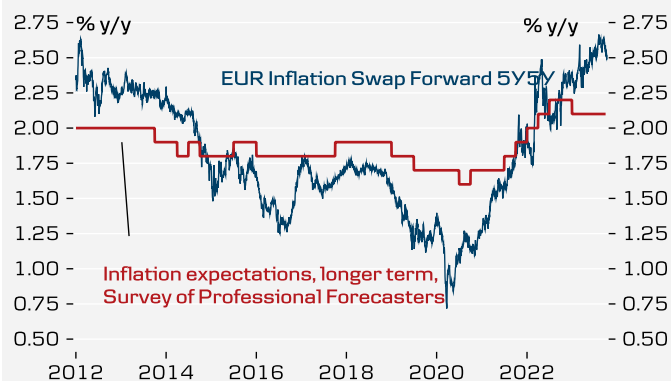
Source: Macrobond Financial, Eurostat
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Food



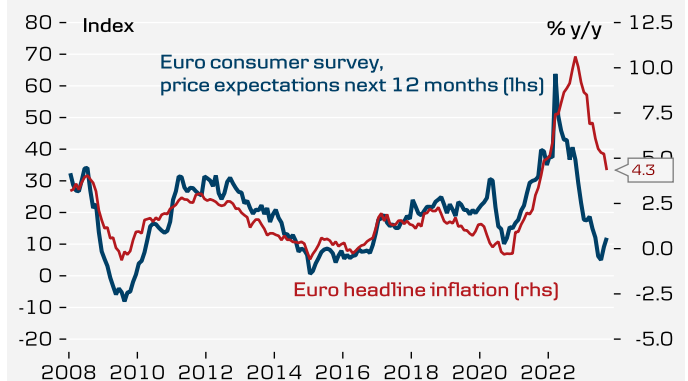
Source: Macrobond Financial
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Inflation expectations



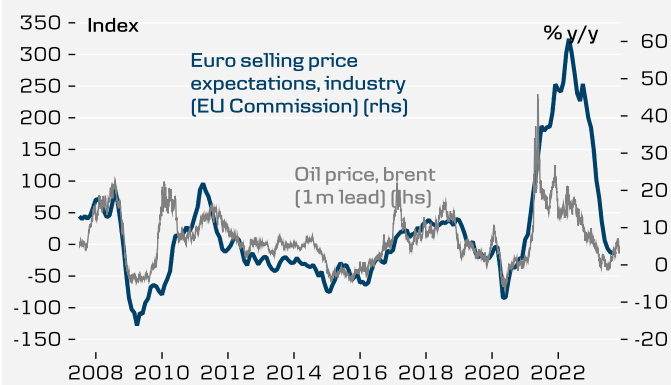
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



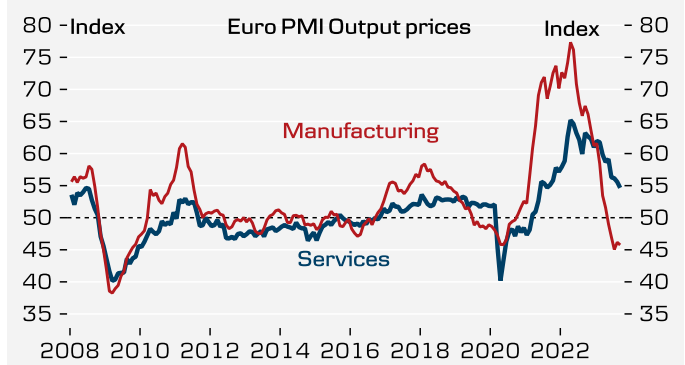
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



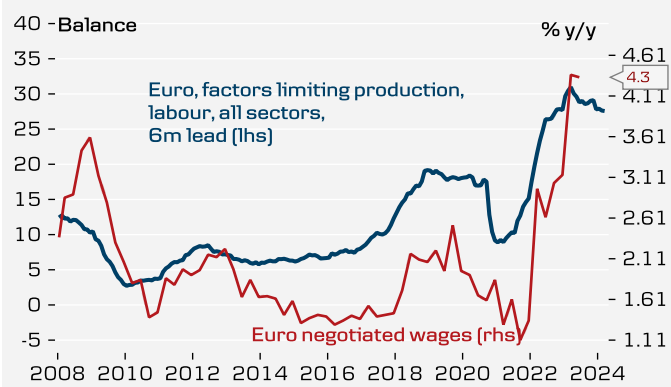
Source: Macrobond Financial, EU Commission
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PMI output prices



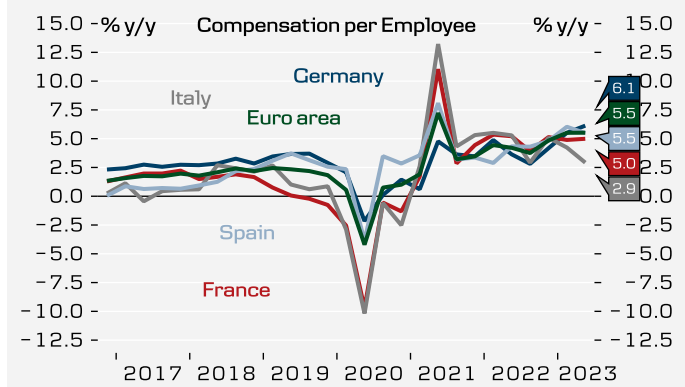
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

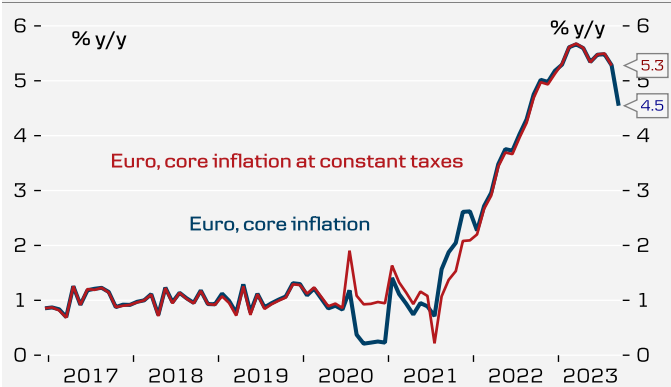
Wage compensation



Source: Macrobond Financial, ECB.
 Note: Compensation is affected by changes in working hours in contrast to negotiated wages, which is per hour worked.

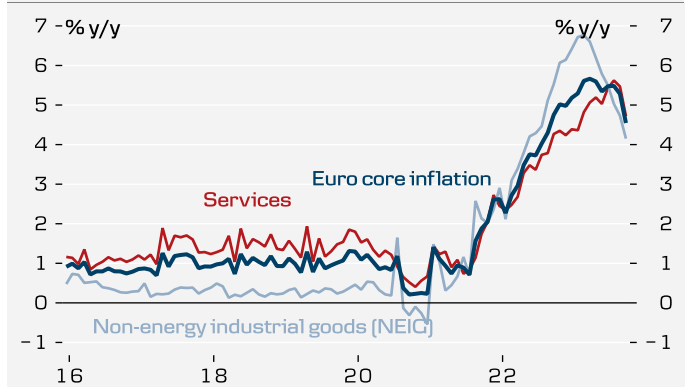
Bottom up

Core inflation, effect from taxes



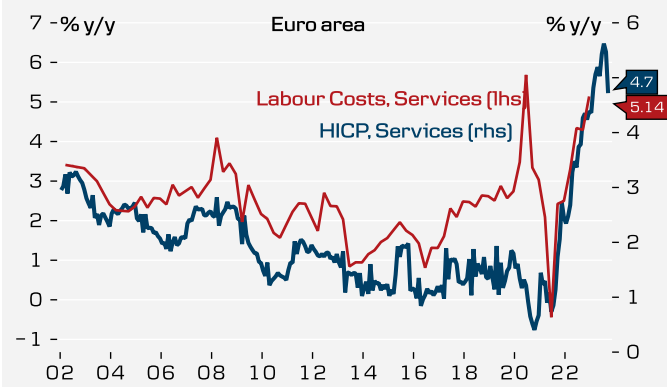
Source: Macrobond Financial, Eurostat

Core inflation components



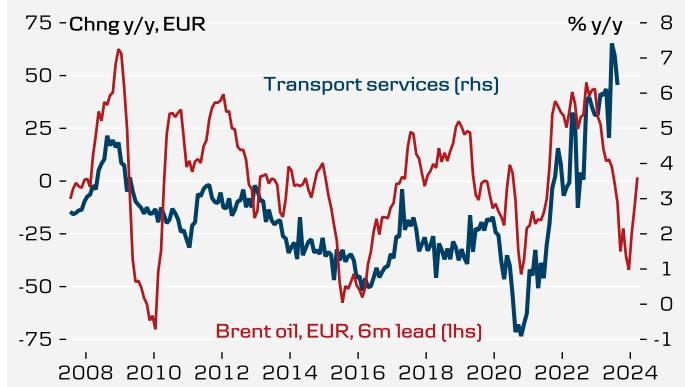
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



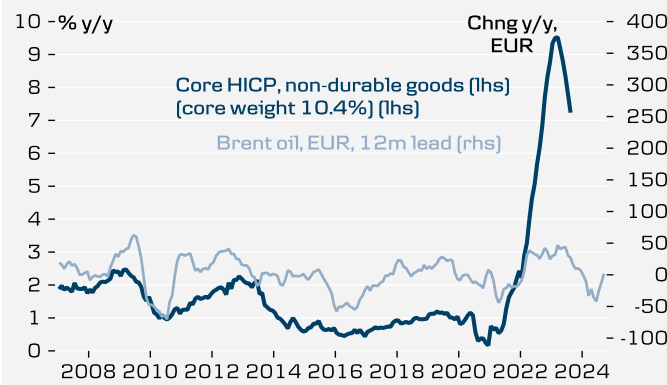
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



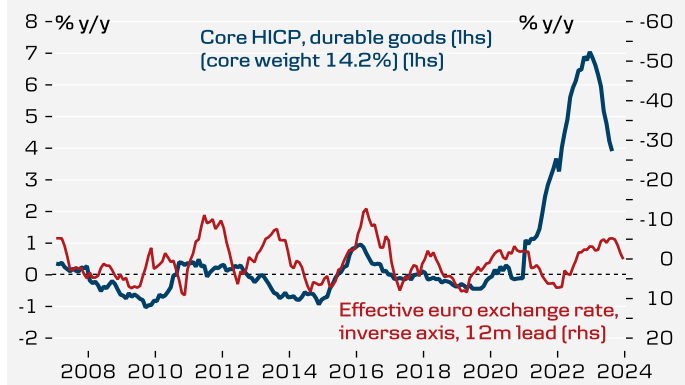
Source: Macrobond Financial, Eurostat, Danske Bank
Note: Past performance is not a reliable indicator of future performance.

Core non-durable goods



Source: Macrobond Financial

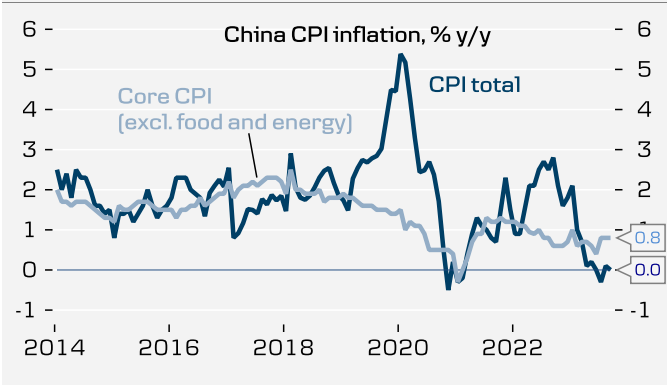
Core durable goods



Source: Macrobond Financial

Country details – China

CPI and core CPI



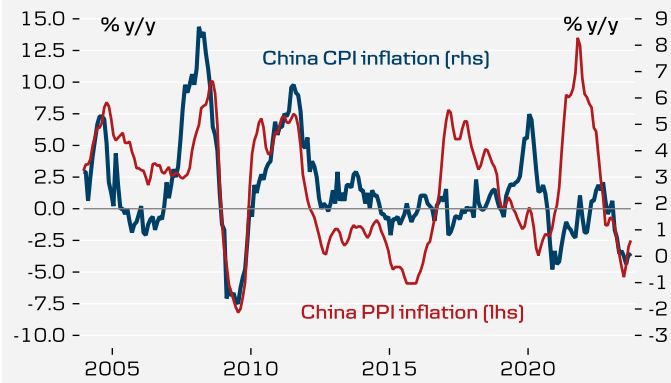
Source: Macrobond Financial, NBS

CPI and food prices



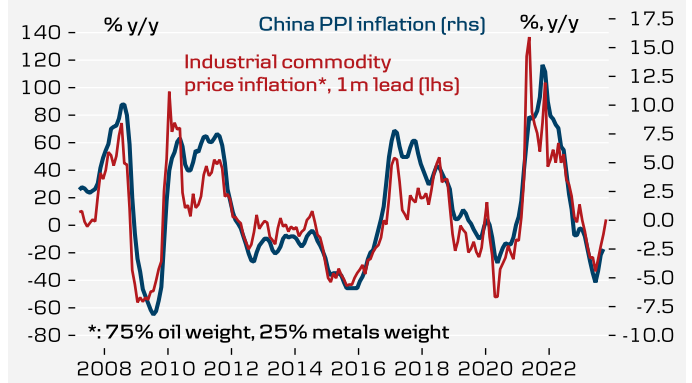
Source: Macrobond Financial, NBS

PPI vs. CPI



Source: Macrobond Financial, NBS

PPI vs. commodity prices



Source: Macrobond Financial, NBS, Danske Bank

Note: Past performance is not a reliable indicator of future performance.

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Antti Ilvonen, Analyst, Rune Thyge Johansen, Analyst and Allan von Mehren, Chief Analyst

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Monthly

Date of first publication

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