

Global Inflation Watch

Euro area inflation expectations continue to decline

- Overview:** Realized inflation landed slightly below expectations in December across the euro area and the US. Remaining sticky inflation is largely explained by services, while tariff-driven goods inflation remains very limited even in the US. Commodity price developments remain mixed, with rising industrial metal prices, but steady energy prices despite the geopolitical uncertainty.
- Inflation expectations:** Short-term market-based inflation expectations have declined significantly in the euro area, now seeing 2026Q1 HICP averaging 1.65% y/y. Survey-based inflation expectations, and long-term market-based inflation expectations have moved sideways both in the US and Europe.
- US:** December CPI landed close to expectations, with headline inflation at +0.3% m/m SA and 2.7% y/y (Nov +0.3% / 2.7%). Core inflation was slightly below expectations at +0.24% m/m and 2.6% y/y (Nov +0.16% / 2.6%). As the delayed November release was likely distorted by Black Friday discounts, we expected a modest rebound in price pressures. This materialized in housing and non-housing services as well as food prices, but core goods prices remained flat in m/m terms. Given the potential distortions and the Fed's focus on services inflation, we do not expect the release to significantly alter the policy rate outlook.
- Euro area:** December inflation came in weaker than expected with headline inflation falling to 2.0% y/y from 2.1% y/y and core inflation declining to 2.3% y/y from 2.4% y/y. Falling energy prices was behind the move in headline inflation while significantly lower than expected core goods inflation drove the downward surprise in core inflation. At the same time service inflation declined slightly to 3.4% y/y but with momentum consistent to recent months, it remains sticky and a key argument for the hawk camp in the ECB. The recent decline in energy prices has lowered market expectations for Q1 2026 inflation to 1.65% (see chart below).
- China:** November CPI increased from 0.7% y/y to 0.8% y/y lifted by food inflation. Core CPI was again flat at 1.2% y/y. PPI stayed in deflation at -1.9% y/y.

Today's key points

1. *Top down overview*
2. *Country details – US*
3. *Country details – Euro area*
4. *Country details - China*

Market based long-term inflation expectations moving sideways.



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

Source: Bloomberg, Macrobond

Core inflation outlook



Source: BLS, Eurostat, Danske Bank, Macrobond

Inflation markets in Europe pricing significantly lower inflation than ECB projects in 2026

Euro area HICP inflation



Source: ECB, Danske Bank, Macrobond

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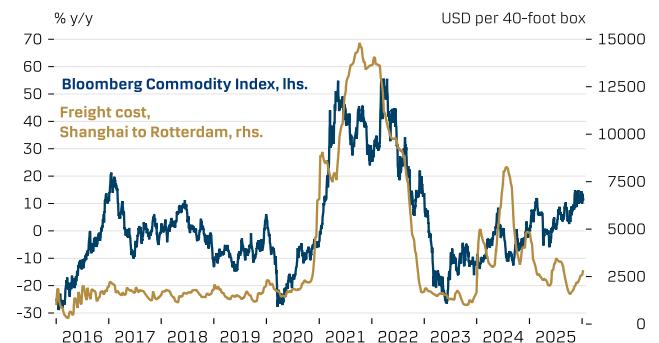
Top down overview

Overview of inflation drivers

Inflation Dashboard (3-6M trend)		
Commodity prices	Oil	⬇️
	Metals	⬆️
	Food stuff	↗️
Supply Chains	Freight rates	⬇️
Wage pressure		⬇️
Productivity growth		↗️
Inflation expectations		↗️
Pricing power		↗️

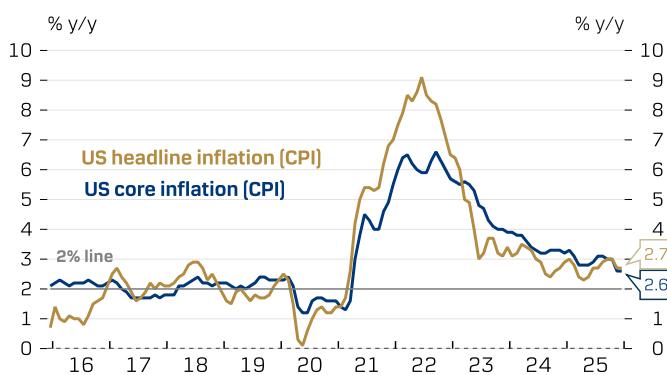
Source: Danske Bank

Commodity price and freight inflation



Source: Macrobond Financial, Eurostat, Bloomberg US headline and core inflation (CPI)

US headline and core inflation (CPI)



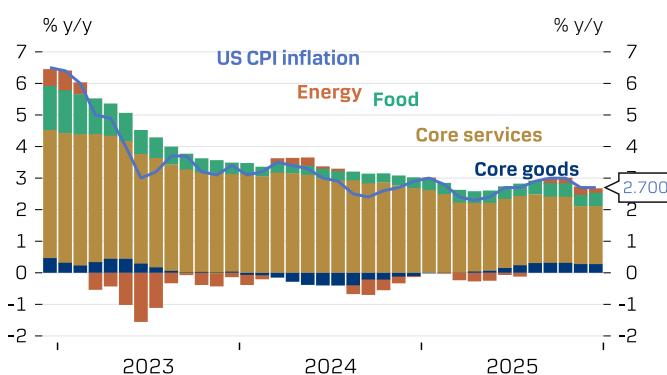
Source: Macrobond Financial, BLS

Euro headline and core inflation



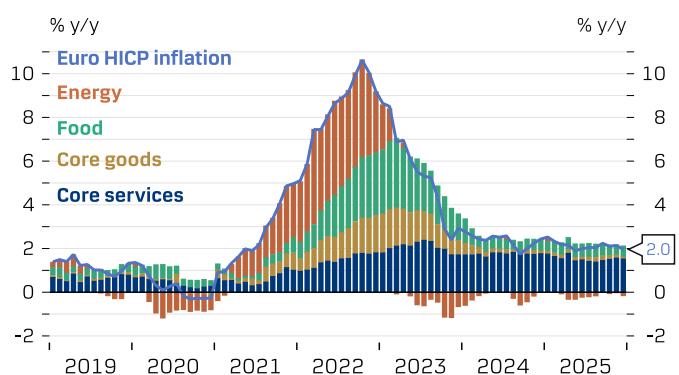
Source: Macrobond Financial, Eurostat

Contributions to US inflation

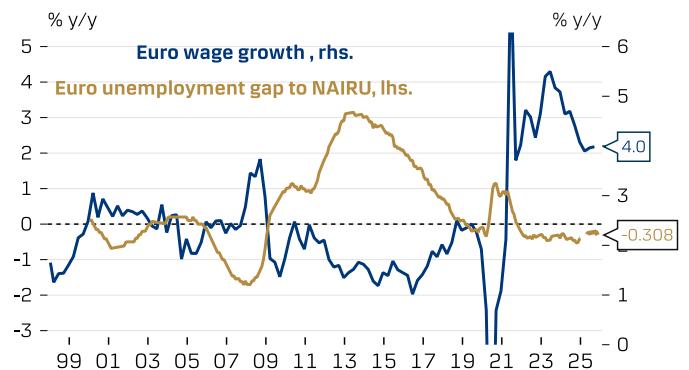
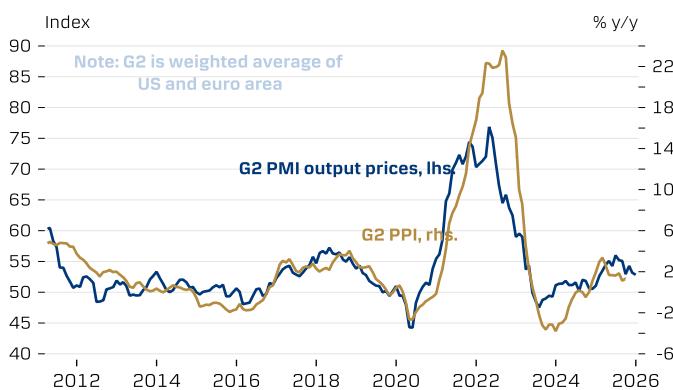
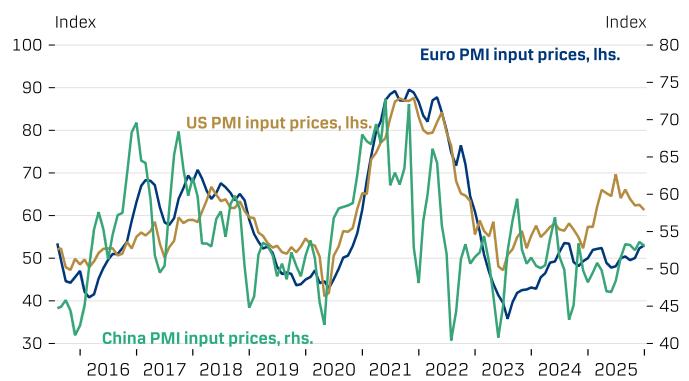
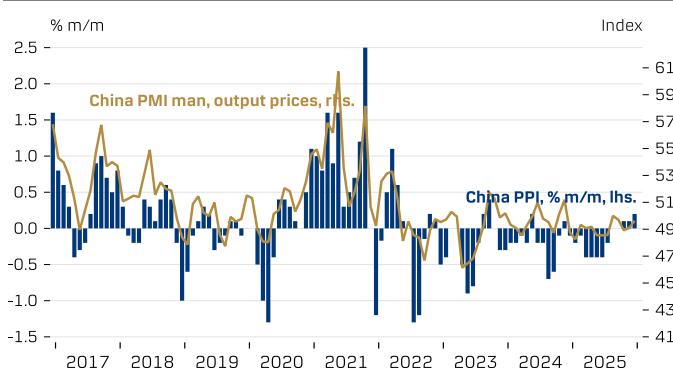
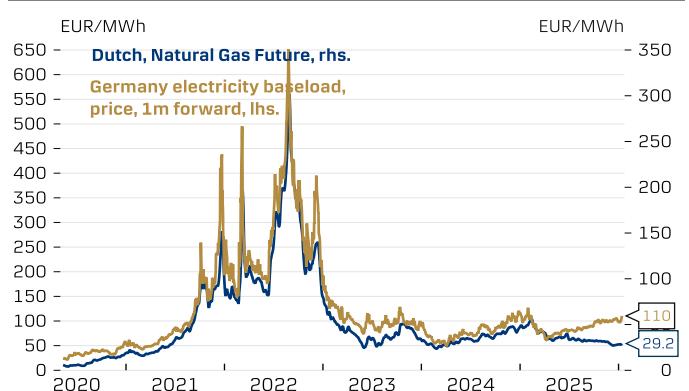


Source: Macrobond Financial, BLS Source: Macrobond Financial, Eurostat

Contributions to euro inflation

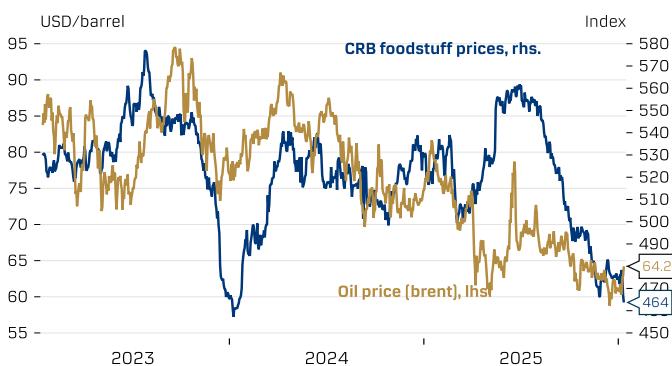
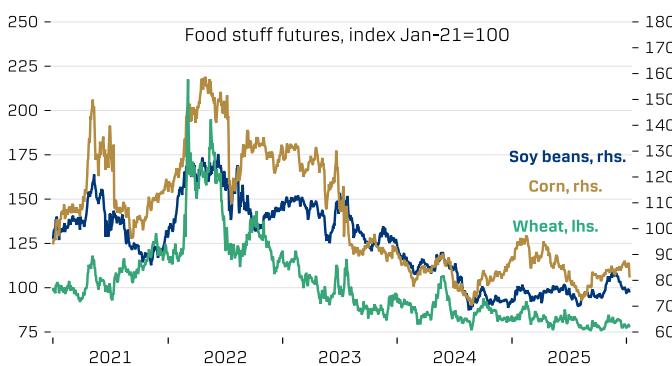
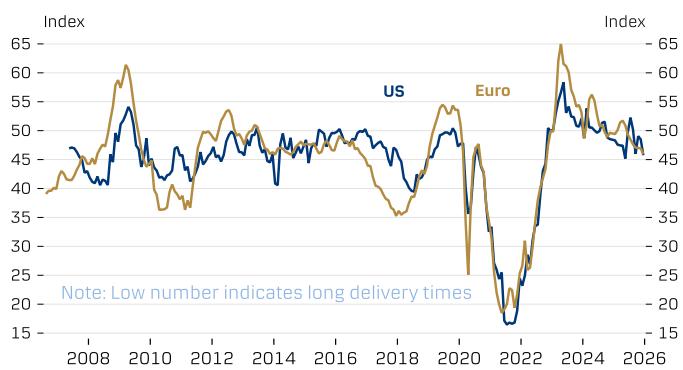


Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness**Euro wage growth and labour market tightness****G2 PPI inflation vs oil price inflation****PMI input price indices US, Euro and China****China PPI inflation momentum****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 and food**Commodity price levels – metals and iron ore****Grain prices****Fertilizer input prices****Freight rates****Bottle necks – PMI supplier delivery indices**

Country details - US

Top down

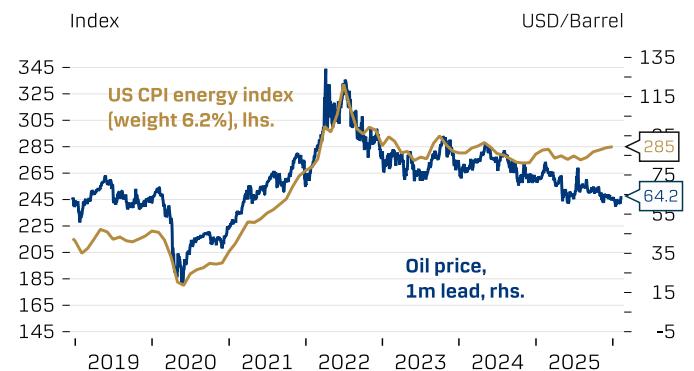
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

CPI energy prices vs oil



Source: Macrobond Financial, BLS.

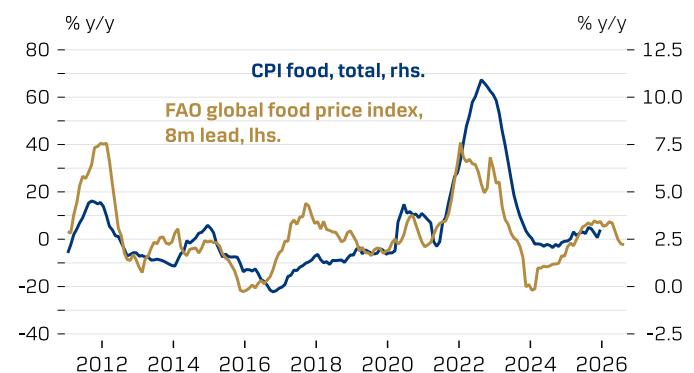
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

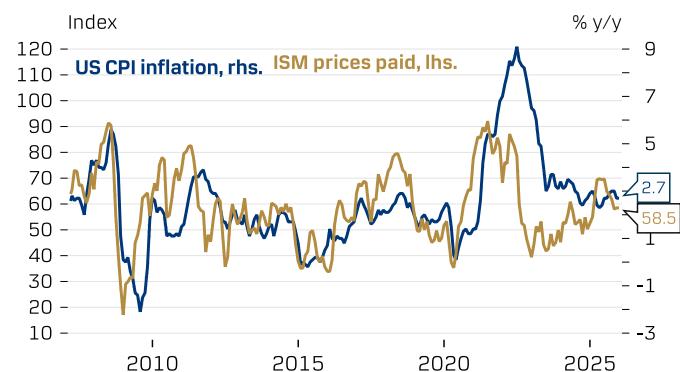
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

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

US PMI output prices vs CPI inflation

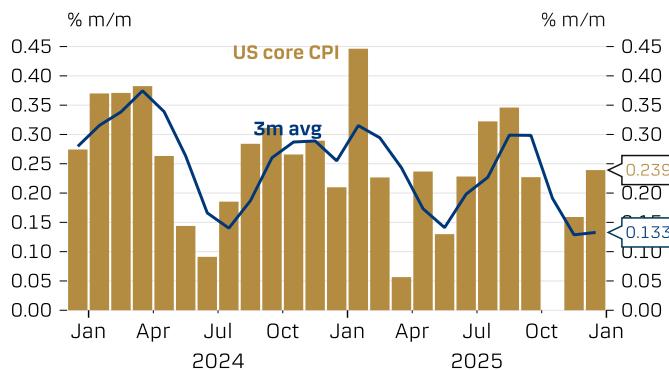
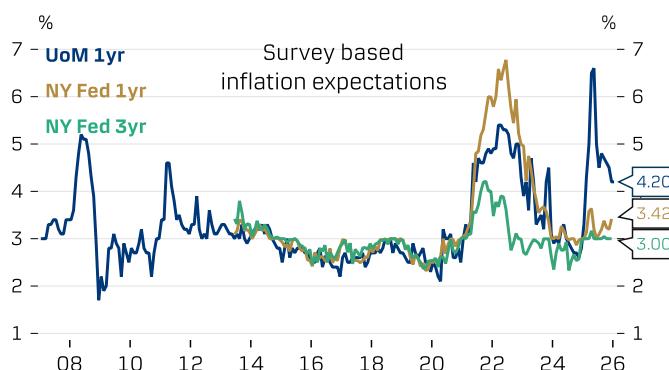
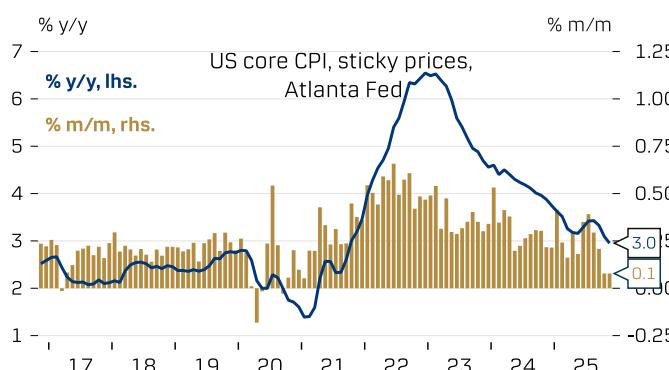
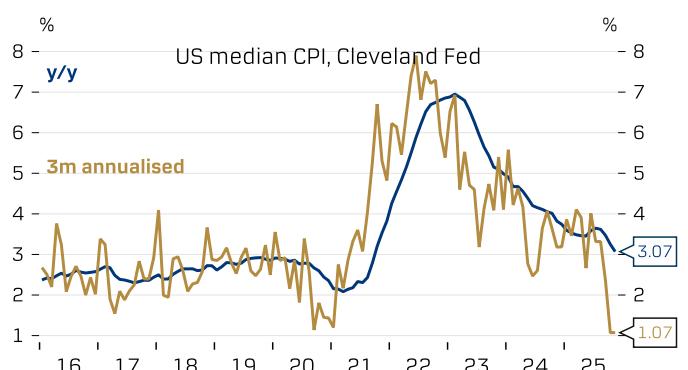


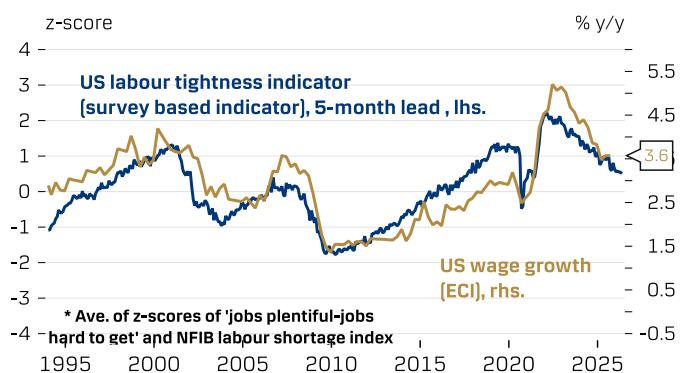
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



Source: Macrobond Financial, BLS, BEA

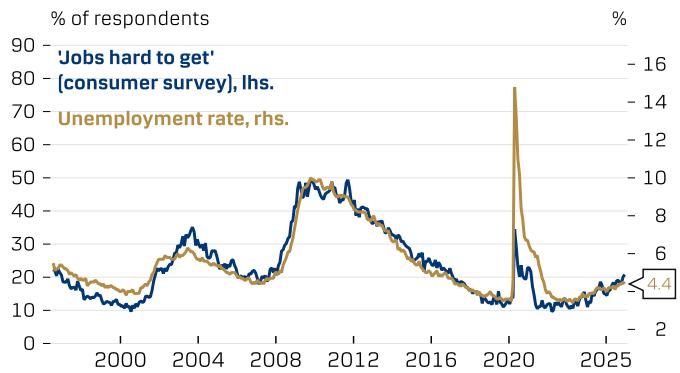
Core CPI momentum**Headline CPI since 1980****Survey-based inflation expectations****Long-term inflation expectations****Core sticky prices inflation (prices changed less frequently)****Median CPI inflation**

Labour market tightness: wage growth vs tightness

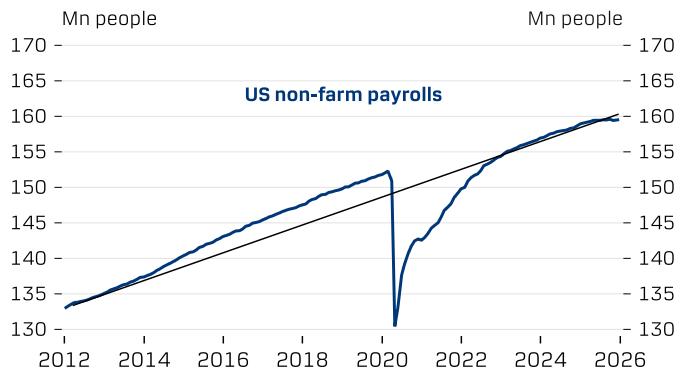
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage

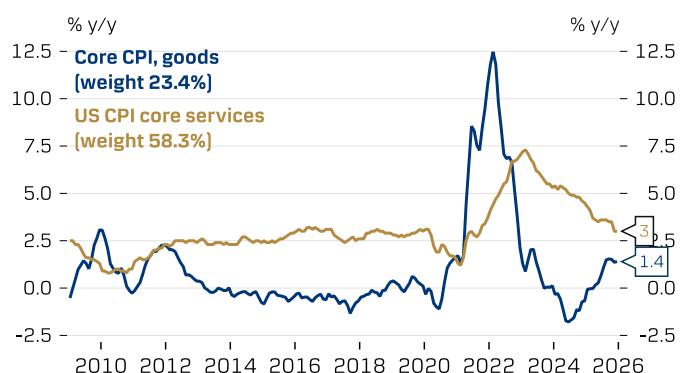
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment

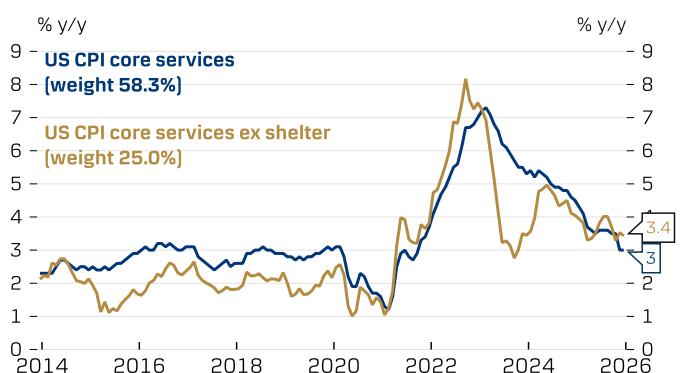
Source: Macrobond Financial, Conference Board, BLS

Employment gap

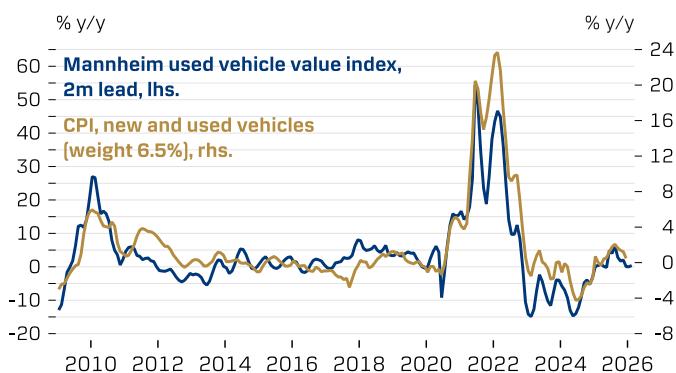
Source: Macrobond Financial, BLS

Bottom up**Core goods vs. services**

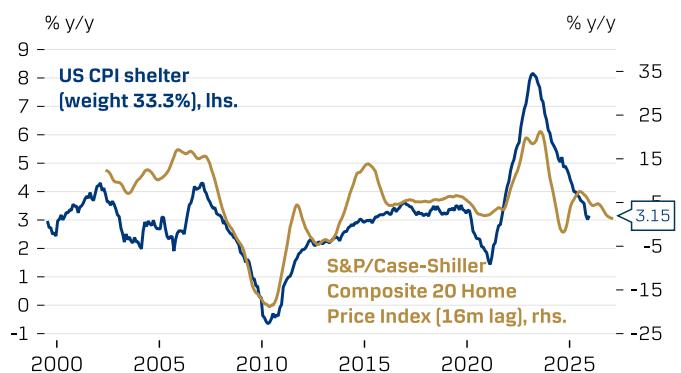
Source: Macrobond Financial, BLS

Core services ex shelter

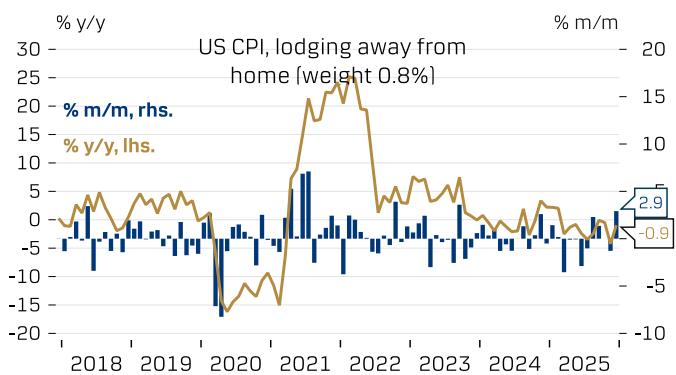
Source: Macrobond Financial, BLS

Used car prices

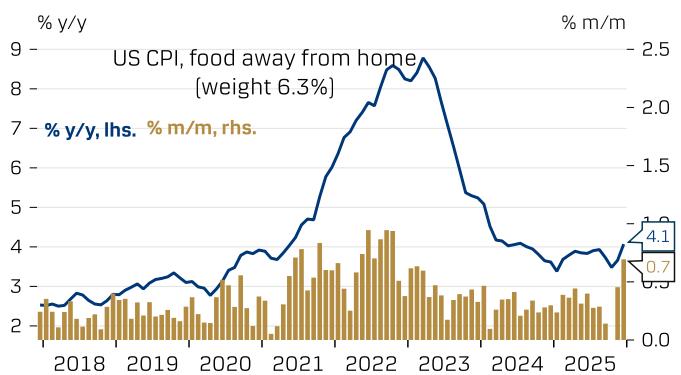
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter

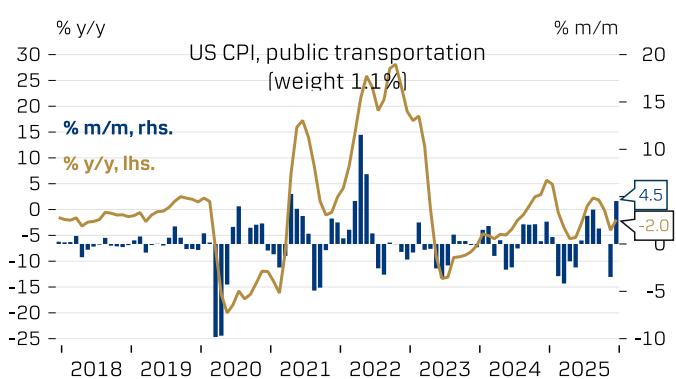
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)

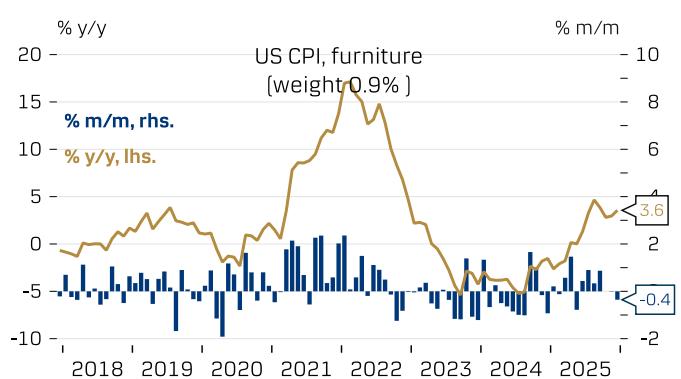
Source: Macrobond Financial, BLS

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 area

Top Down

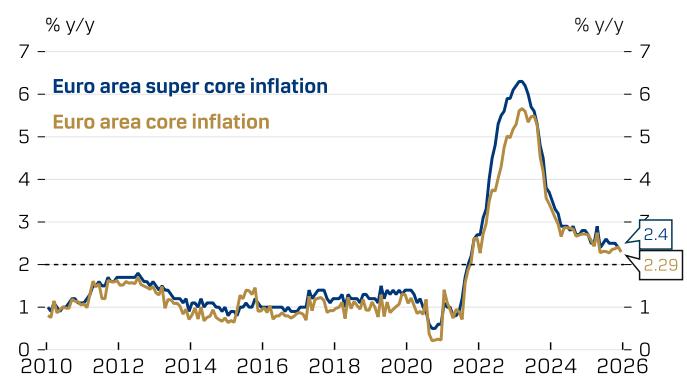
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

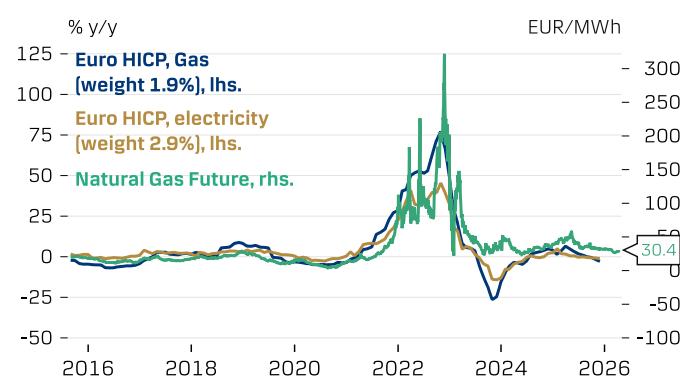
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

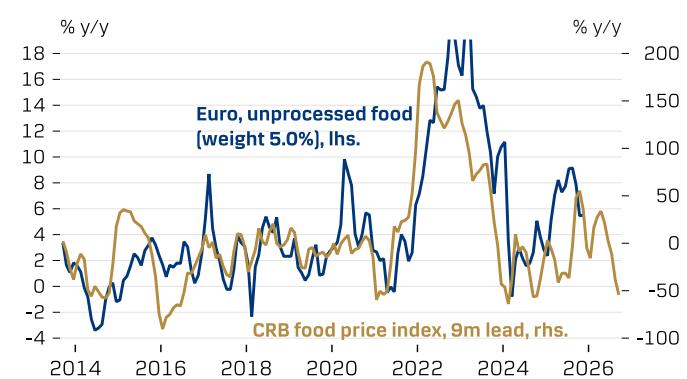
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

Food



Source: Macrobond Financial

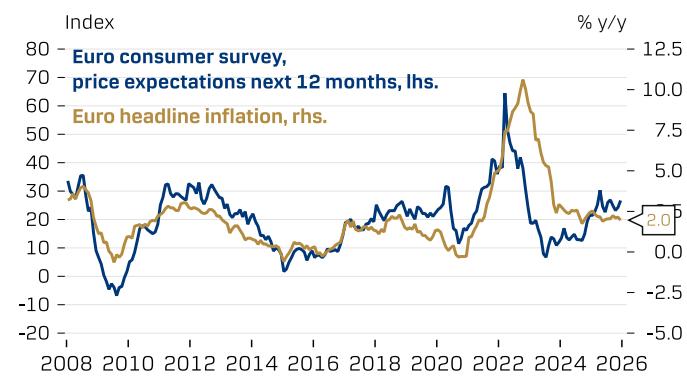
Note: Past performance is not a reliable indicator of future performance.

Inflation expectations



Source: ECB, Bloomberg, Macrobond Financial

Consumer confidence - price expectations

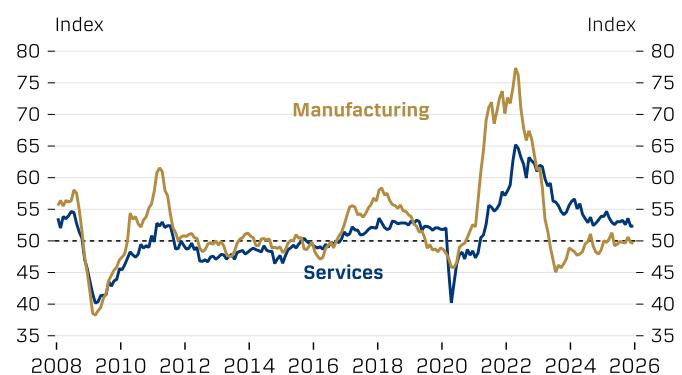


Source: Macrobond Financial, EU Commission, Eurostat

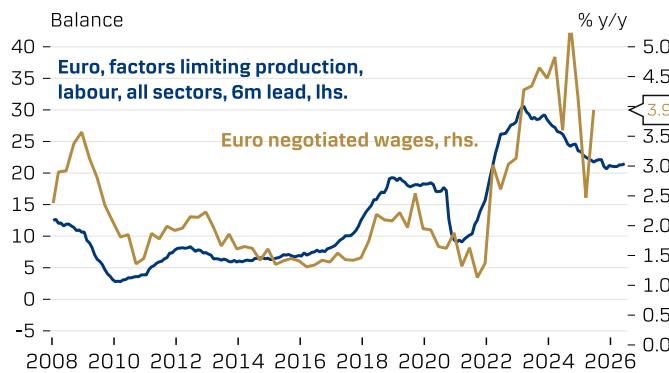
Selling price expectations from companies

Source: Macrobond Financial, EU Commission

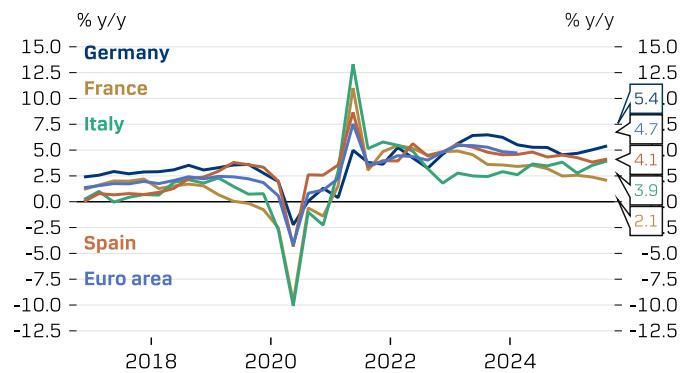
Note: Past performance is not a reliable indicator of future performance.

PMI output prices

Source: Macrobond Financial, Markit

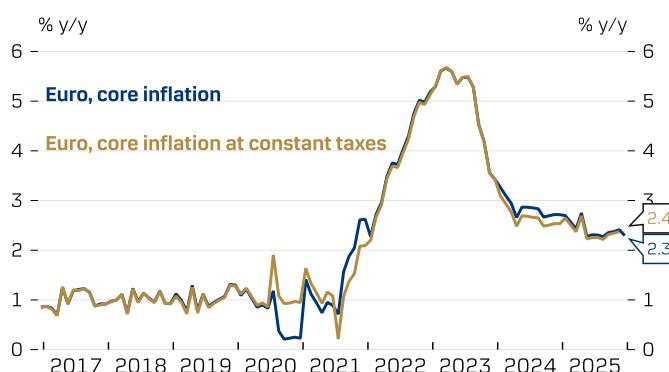
Labour shortage and wage growth

Source: Macrobond Financial, EU Commission

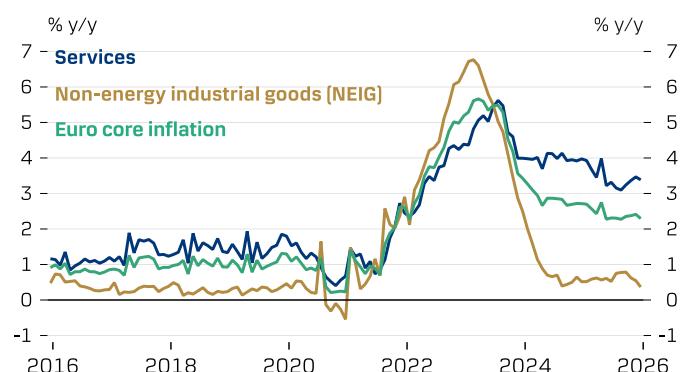
Wage growth (compensation per employee)

Source: Macrobond Financial, ECB.

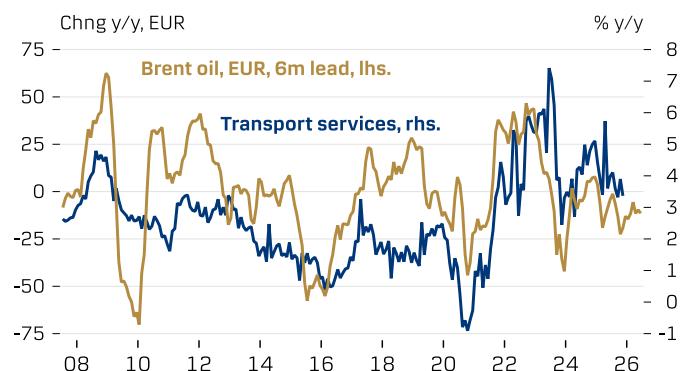
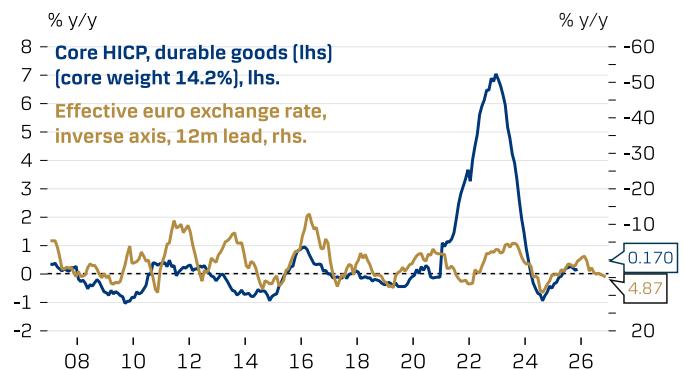
Note: Compensation is affected by changes in working hours in contrast to negotiated wages, which is per hour worked.

Bottom up**Core inflation, effect from taxes**

Source: Macrobond Financial, Eurostat

Core inflation components

Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs**Transport services vs. oil****Core non-durable goods****Core durable goods****Country details – China****CPI and core CPI****CPI and food prices**

PPI vs. CPI**PPI vs. commodity prices**

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

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