

# 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

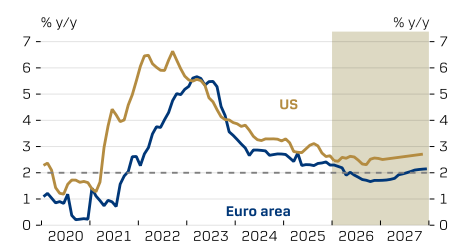
### Market based long-term inflation expectations moving sideways.



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

Source: Bloomberg, Macrobond

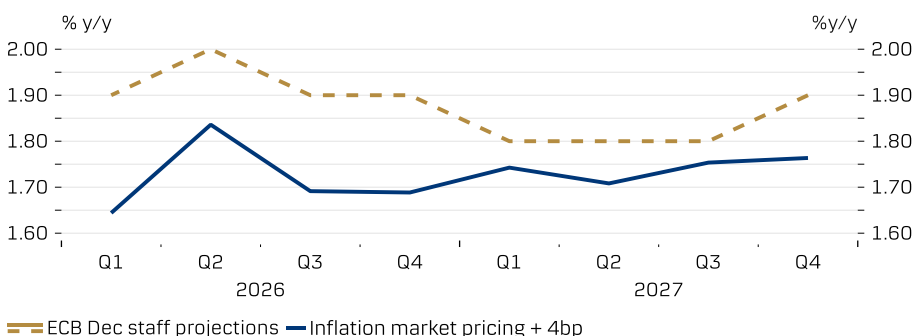
### Core inflation outlook



Source: BLS, Eurostat, Danske Bank, Macrobond

### Inflation markets in Europe pricing significantly lower inflation that ECB projects in 2026

#### Euro area HICP inflation



Source: ECB, Danske Bank, Macrobond

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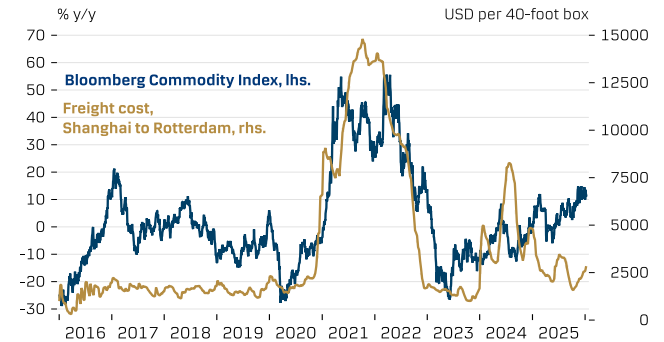
# Top down overview

## 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		→

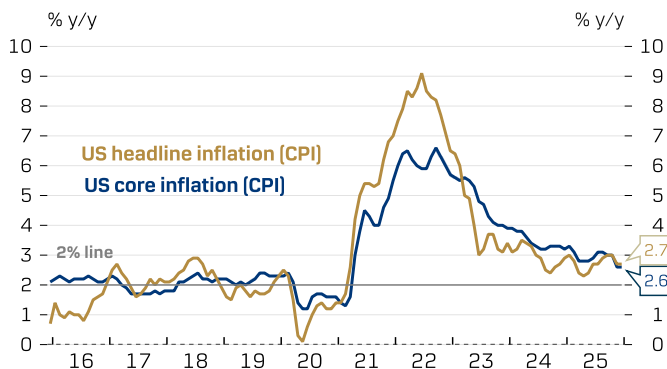
Source: Danske Bank

## Commodity price and freight inflation



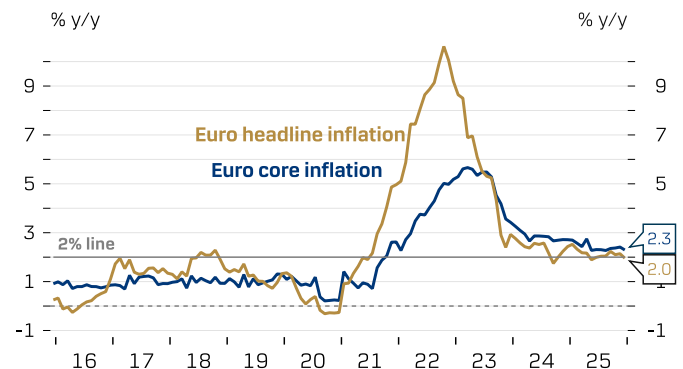
Source: Macrobond Financial, Eurostat, Bloomberg US headline and core inflation (CPI)

## US headline and core inflation (CPI)



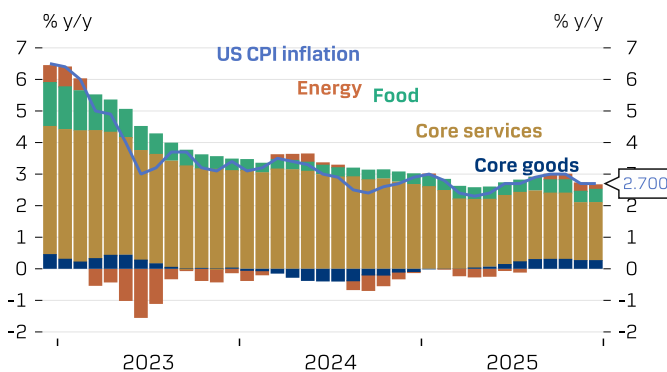
Source: Macrobond Financial, BLS

## Euro headline and core inflation



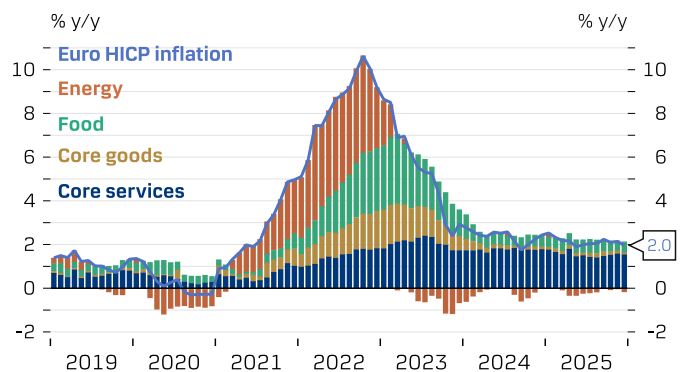
Source: Macrobond Financial, Eurostat

## Contributions to US inflation



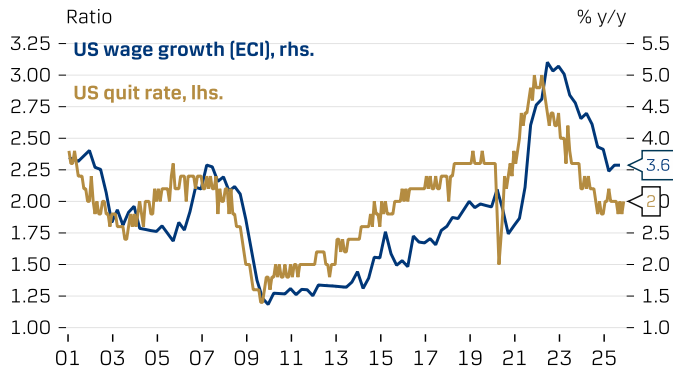
Source: Macrobond Financial, BLS Source: Macrobond Financial, Eurostat

## Contributions to euro inflation



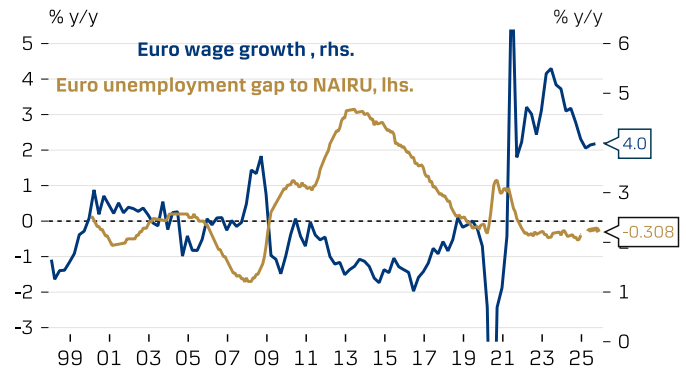
Source: Macrobond Financial, Eurostat

### US wage growth and labour market tightness



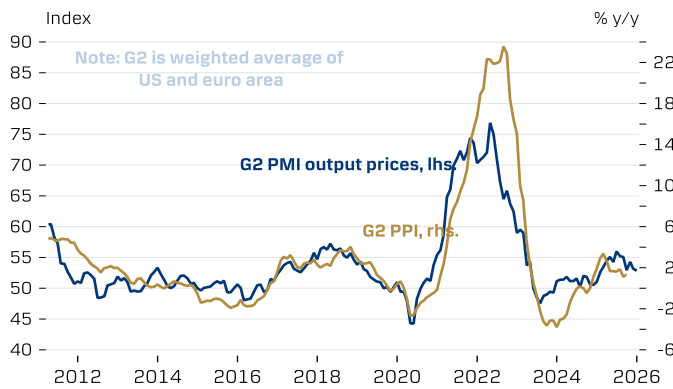
Source: Macrobond Financial, BLS

### Euro wage growth and labour market tightness



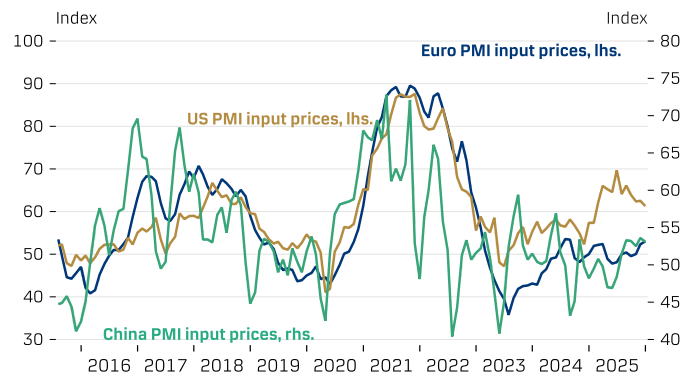
Source: Macrobond Financial, Eurostat, ECB

### G2 PPI inflation vs oil price inflation



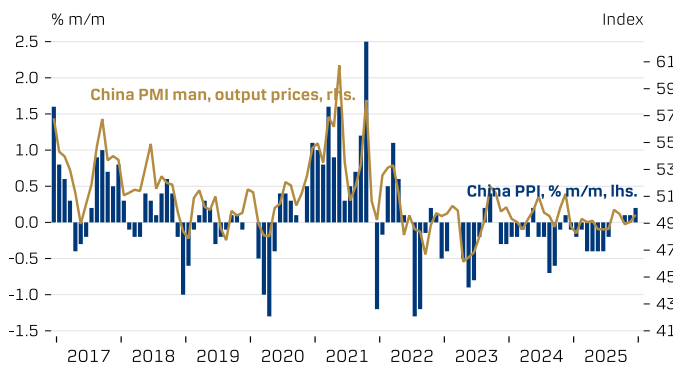
Source: Macrobond Financial, BLS, Eurostat

### PMI input price indices US, Euro and China



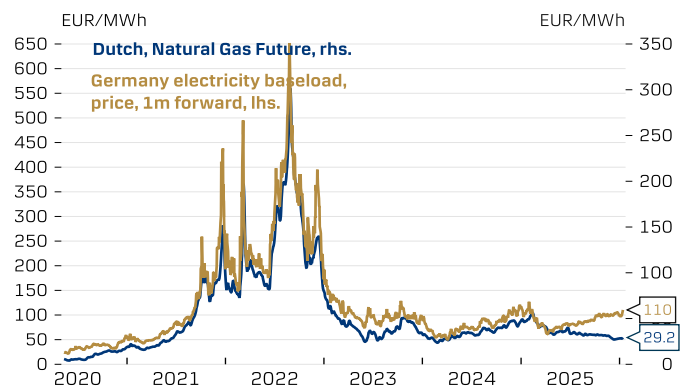
Source: Macrobond Financial, Markit

### China PPI inflation momentum



Source: Macrobond Financial, Markit

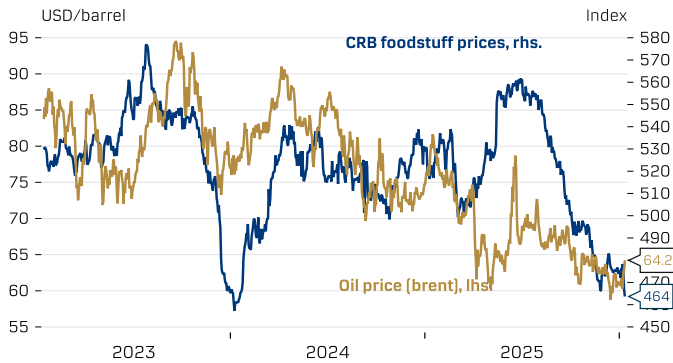
### European natural gas and electricity prices



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

Source: Macrobond Financial, PBoC, Danske Bank

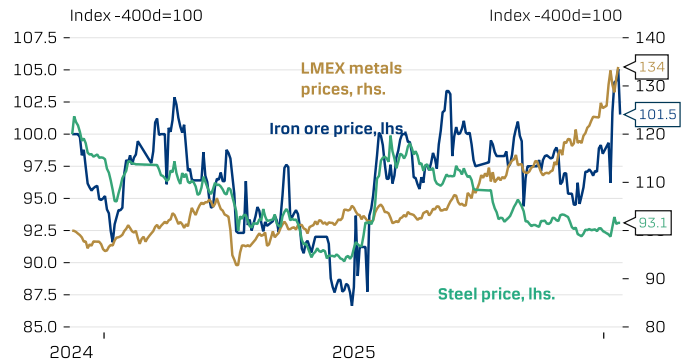
### Commodity price levels – oil and food



Source: Macrobond Financial, Bloomberg

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

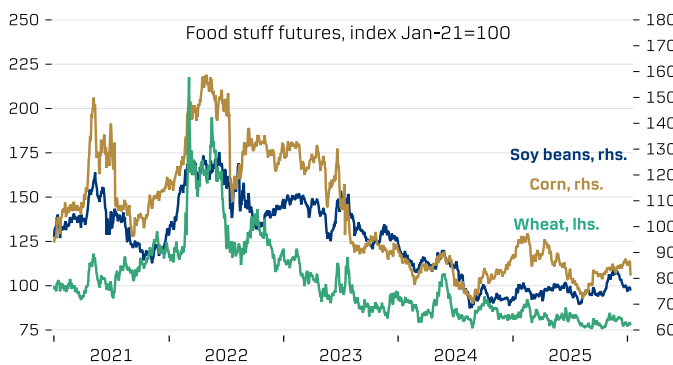
### Commodity price levels – metals and iron ore



Source: Macrobond Financial, Bloomberg

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

### Grain prices



Source: Macrobond Financial, Bloomberg

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

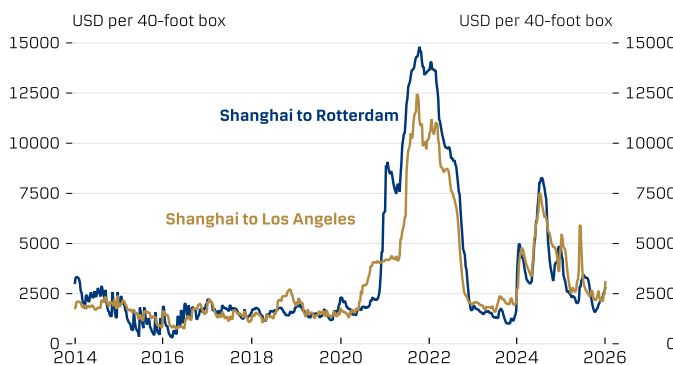
### Fertilizer input prices



Source: Macrobond Financial, Bloomberg

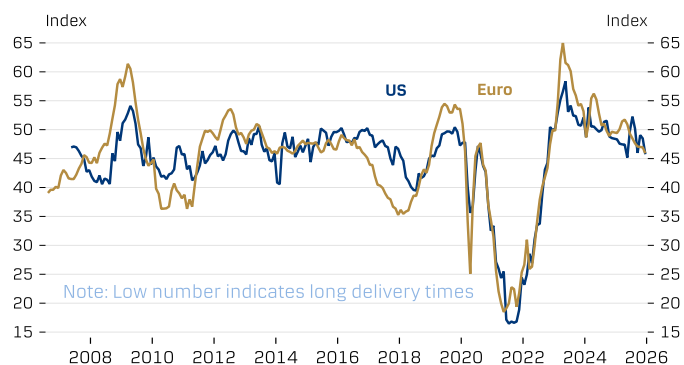
Note: Past performance is not a reliable indicator of future performance.

### Freight rates



Source: Macrobond Financial, Bloomberg, WCI

### Bottle necks – PMI supplier delivery indices



Source: S&P Global, Macrobond Financial

# Country details - US

## Top down

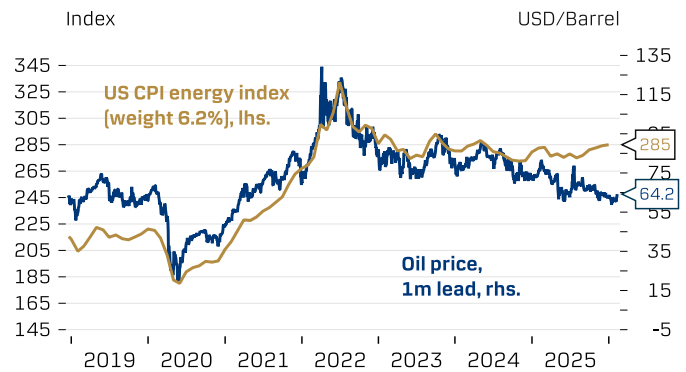
### Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

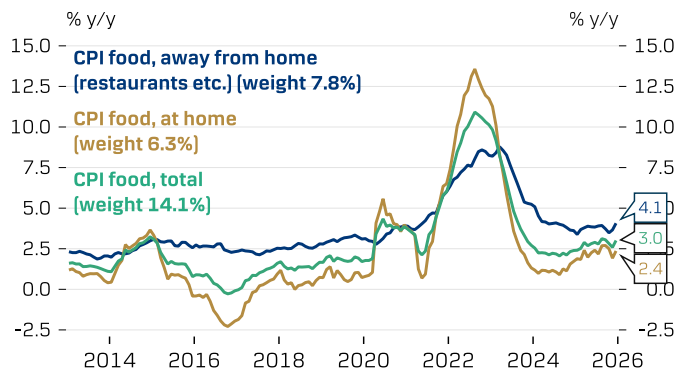
### CPI energy prices vs oil



Source: Macrobond Financial, BLS.

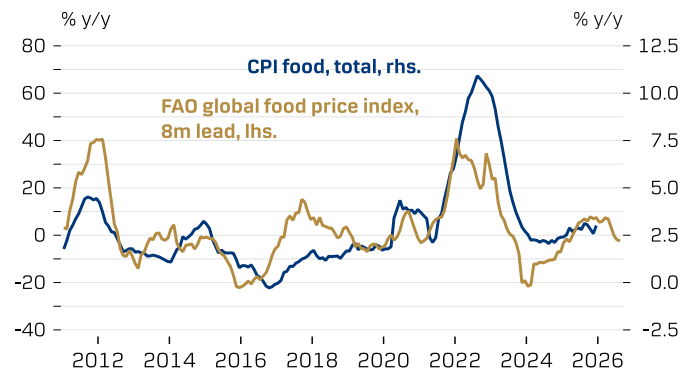
Note: Past performance is not a reliable indicator of future performance.

### Food prices



Source: Macrobond Financial, BLS

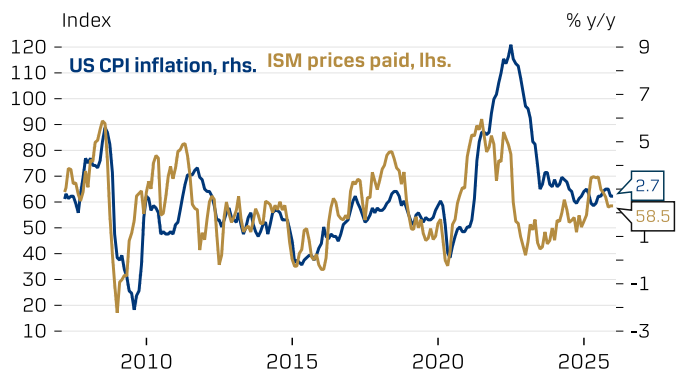
### Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

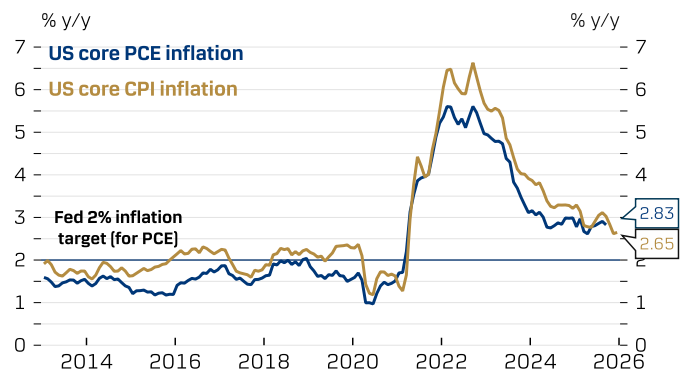
Note: Past performance is not a reliable indicator of future performance.

### US PMI output prices vs CPI inflation



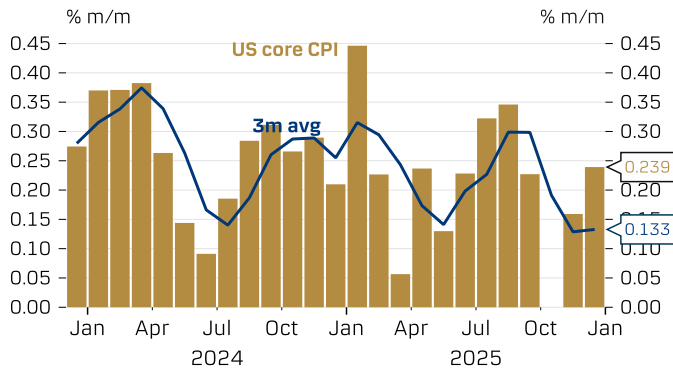
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



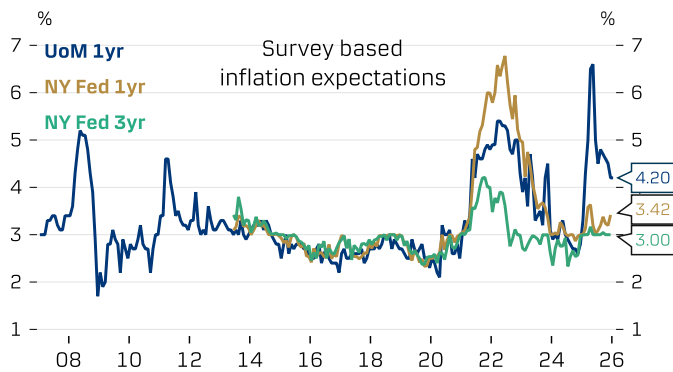
Source: Macrobond Financial, BLS

### Headline CPI since 1980



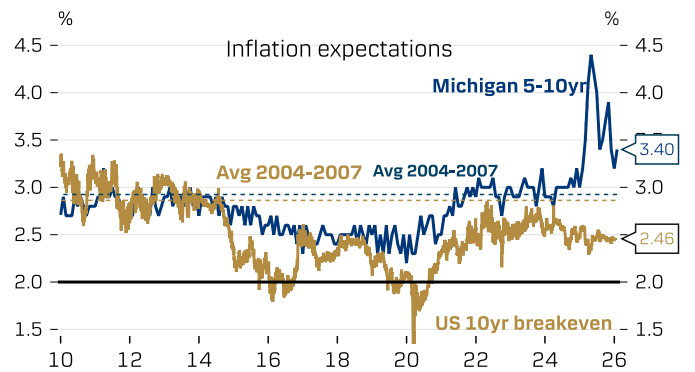
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



Source: NY Fed, University of Michigan, Macrobond Financial

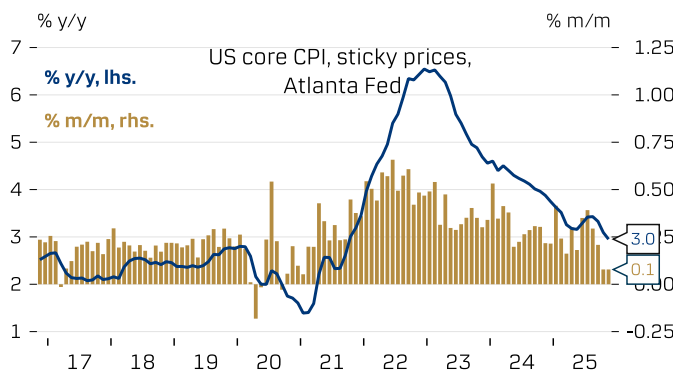
### Long-term inflation expectations



Source: Macrobond Financial, University of Michigan

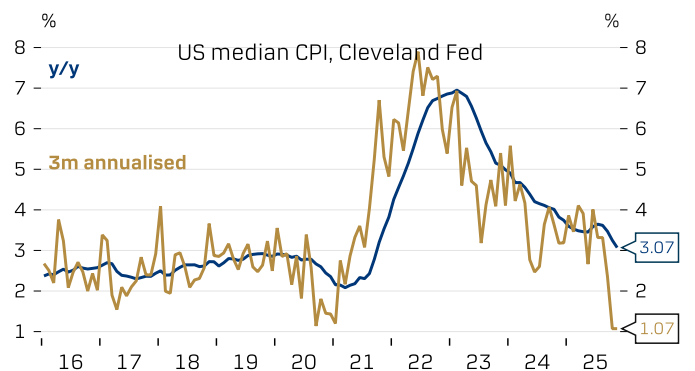
Note: Past performance is not a reliable indicator of future performance.

### Core sticky prices inflation (prices changed less frequently)



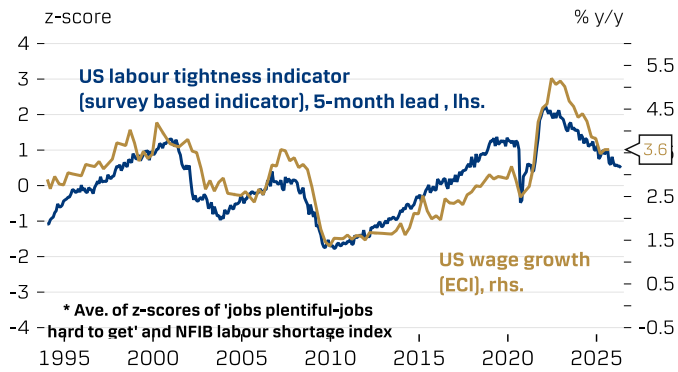
Source: Macrobond Financial, Atlanta Fed

### Median CPI inflation



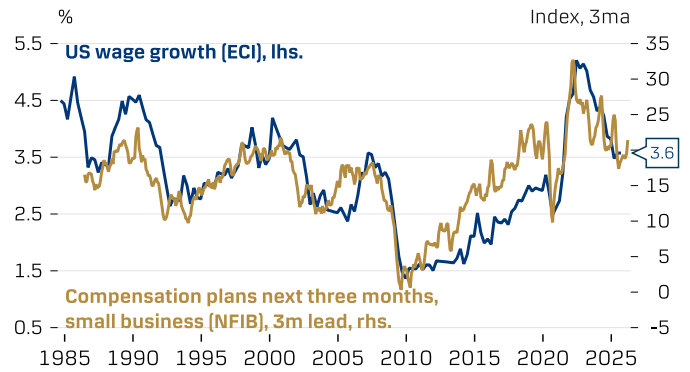
Source: Macrobond Financial, Cleveland Fed

### Labour market tightness: wage growth vs tightness



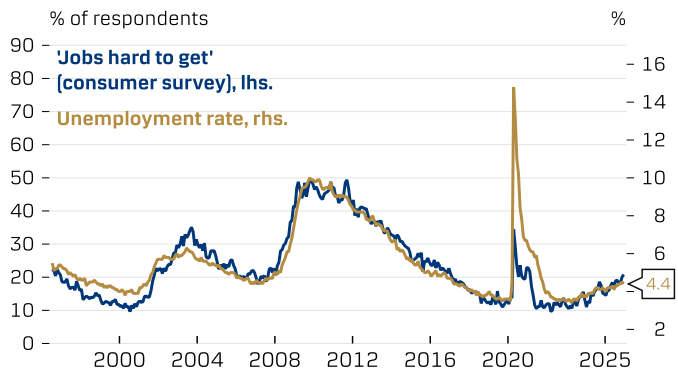
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

### Labour market tightness: job openings and shortage



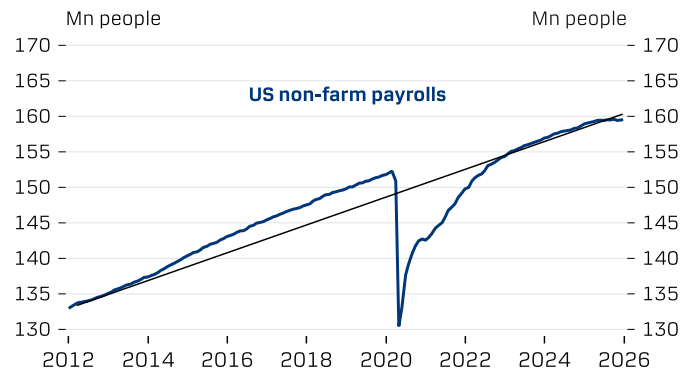
Source: Macrobond Financial, NFIB, BLS

### Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

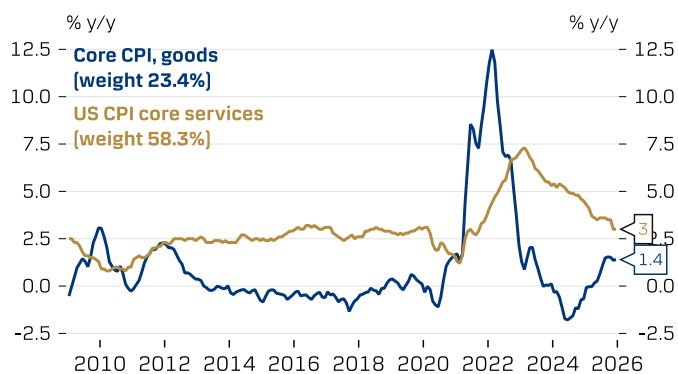
### Employment gap



Source: Macrobond Financial, BLS

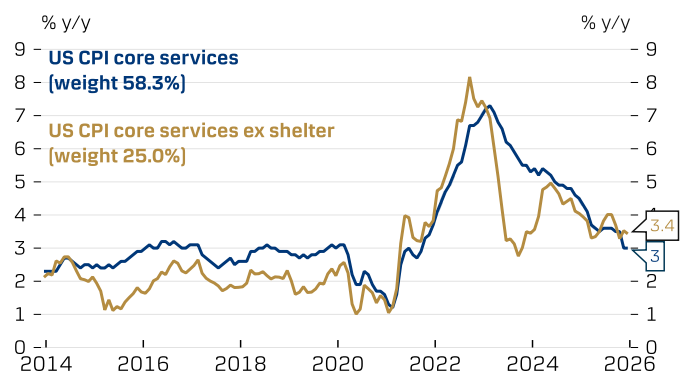
## Bottom up

### Core goods vs. services



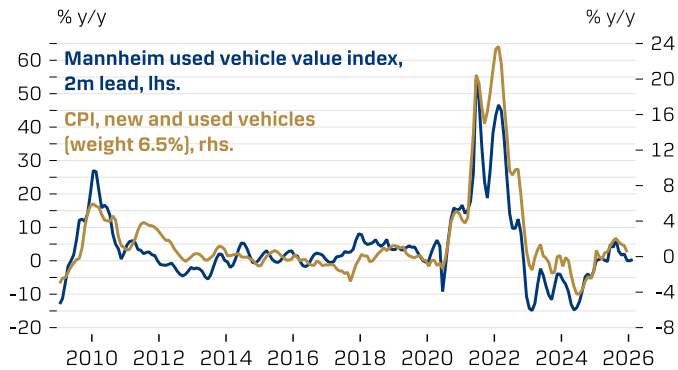
Source: Macrobond Financial, BLS

### Core services ex shelter



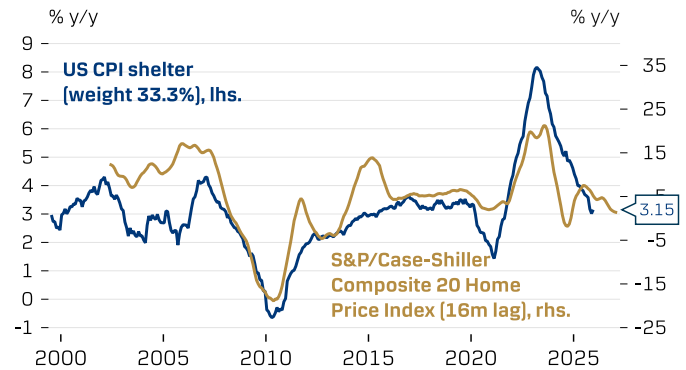
Source: Macrobond Financial, BLS

### Used car prices



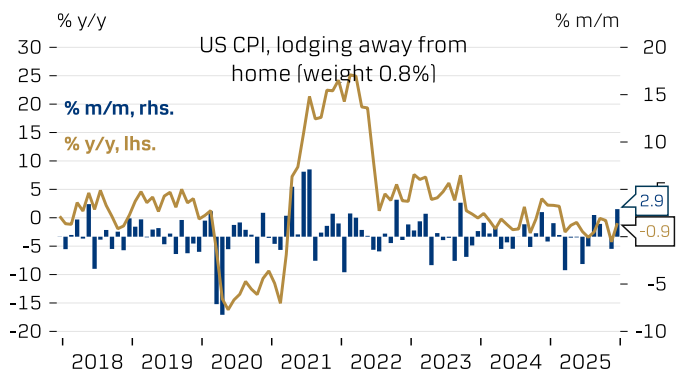
Source: Macrobond Financial, BLS, Manheim Consulting

### Rent of shelter



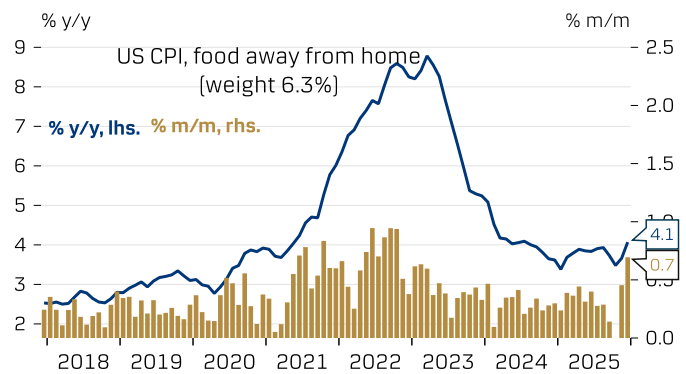
Source: Macrobond Financial, BLS, S&P Dow Jones

### Lodging away from home (hotels etc.)



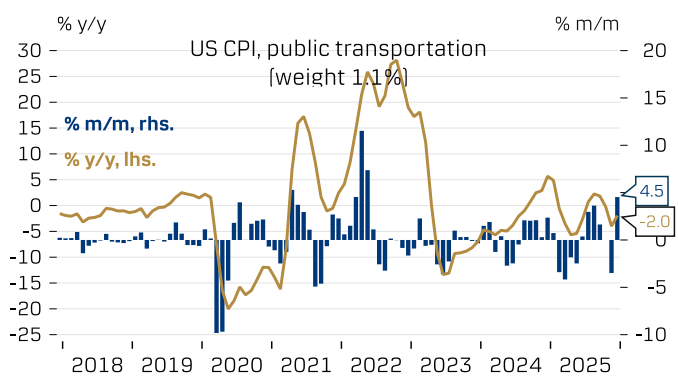
Source: Macrobond Financial, BLS

### Food away from home (restaurants etc.)



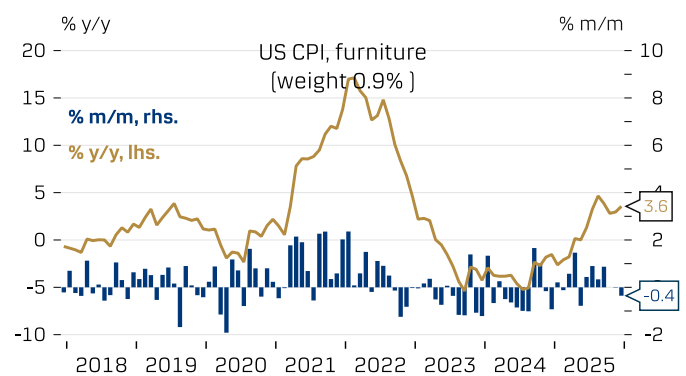
Source: Macrobond Financial, BLS

### Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

### Furniture



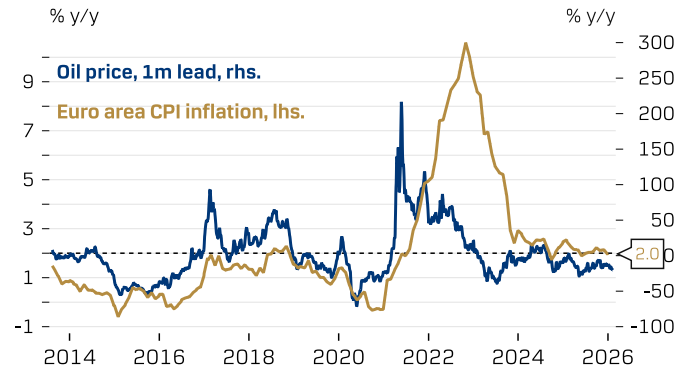
Source: Macrobond Financial, BLS



# Country details – Euro area

## Top Down

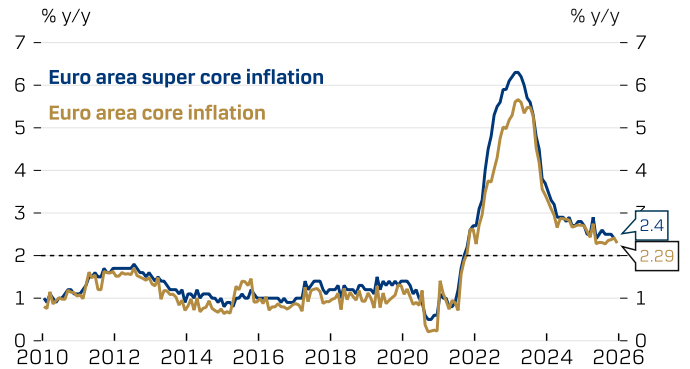
### Headline vs. oil prices



Source: Macrobond Financial, Eurostat

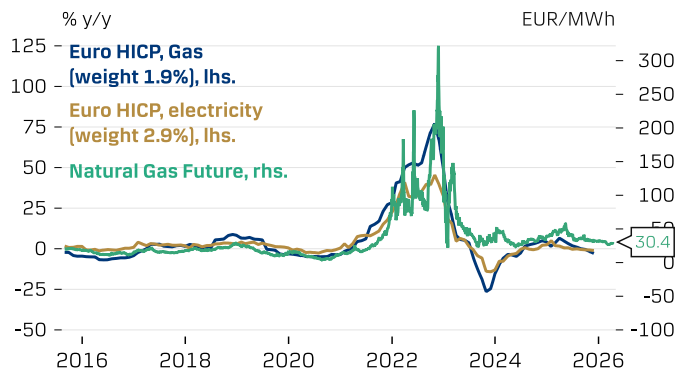
Note: Past performance is not a reliable indicator of future performance.

### Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

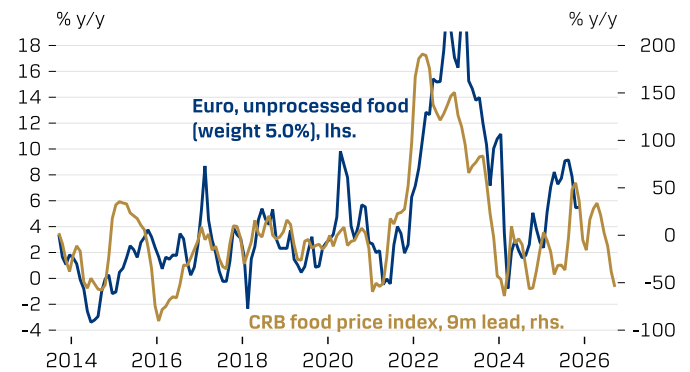
### Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

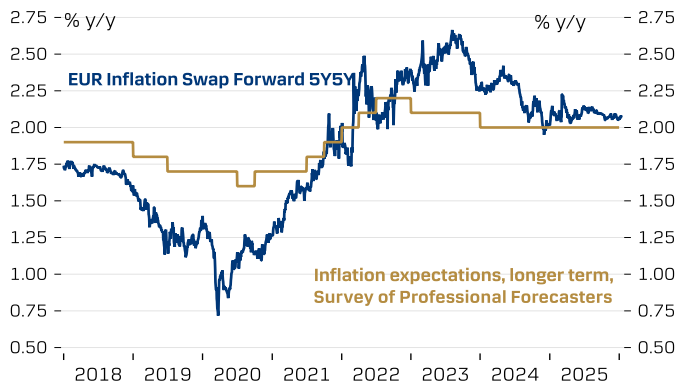
### Food



Source: Macrobond Financial

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

### Inflation expectations



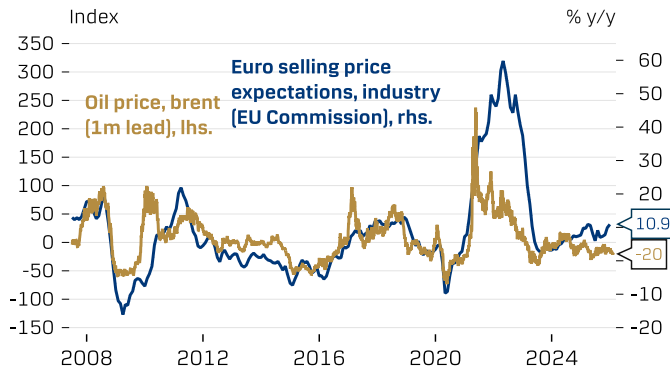
Source: ECB, Bloomberg, Macrobond Financial

### Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

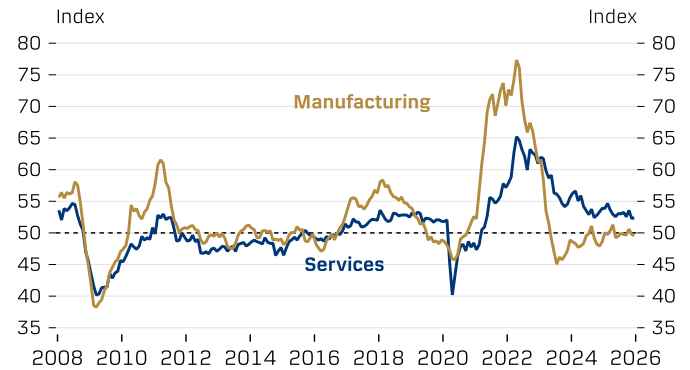
### Selling price expectations from companies



Source: Macrobond Financial, EU Commission

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

### PMI output prices



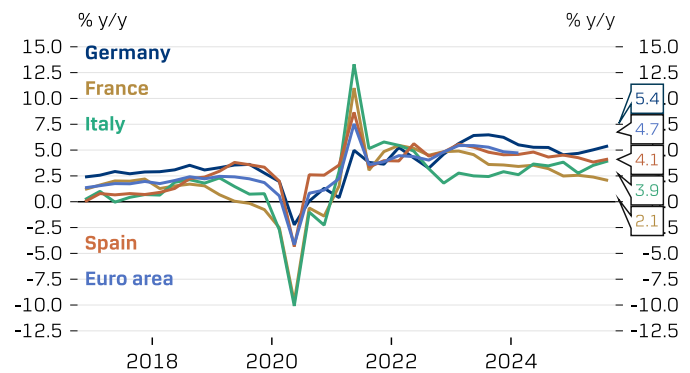
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage growth (compensation per employee)

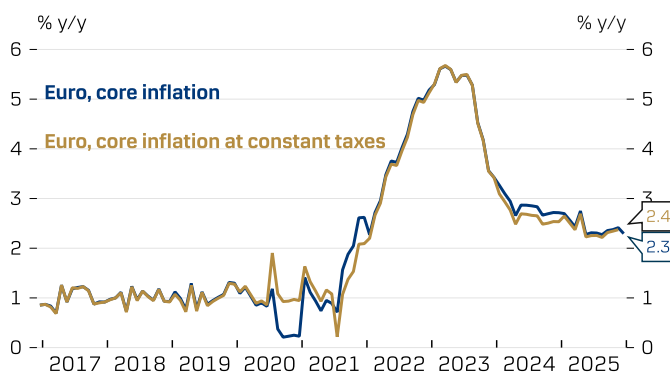


Source: Macrobond Financial, ECB.

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

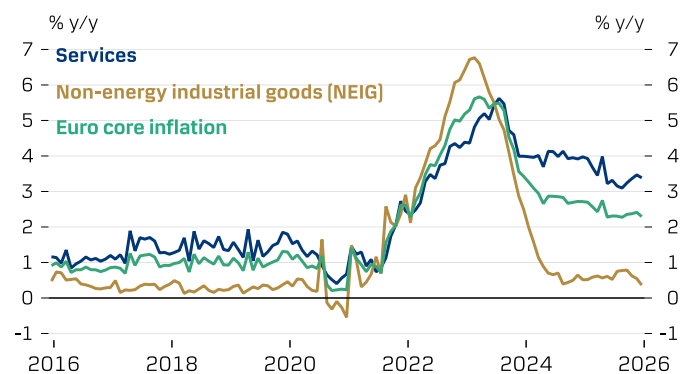
## Bottom up

### Core inflation, effect from taxes



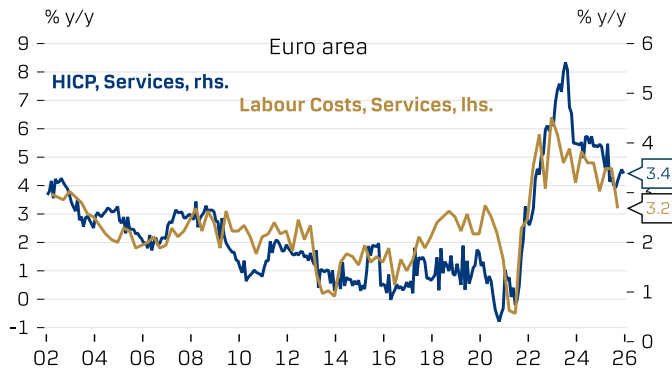
Source: Macrobond Financial, Eurostat

### Core inflation components

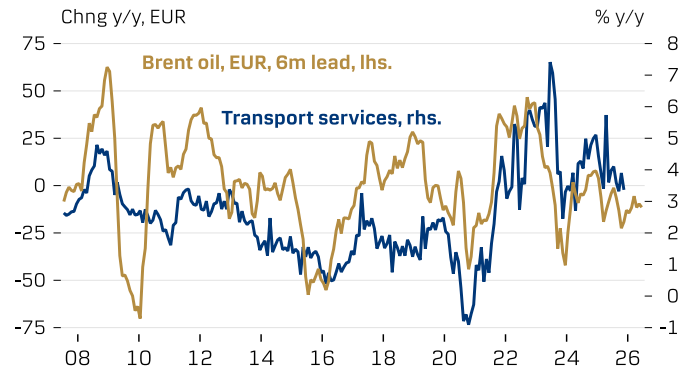


Source: Macrobond Financial, Eurostat, ECB

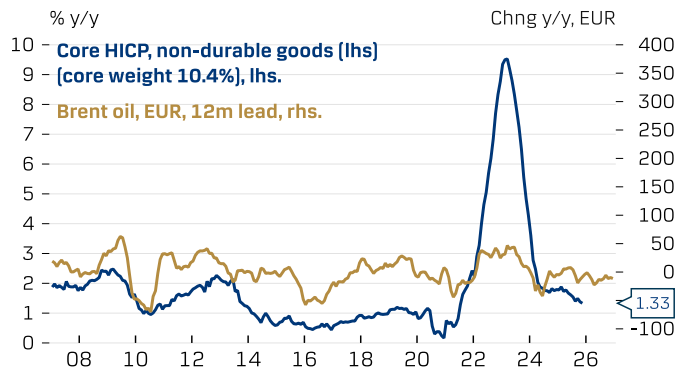
### Service inflation vs. labour costs



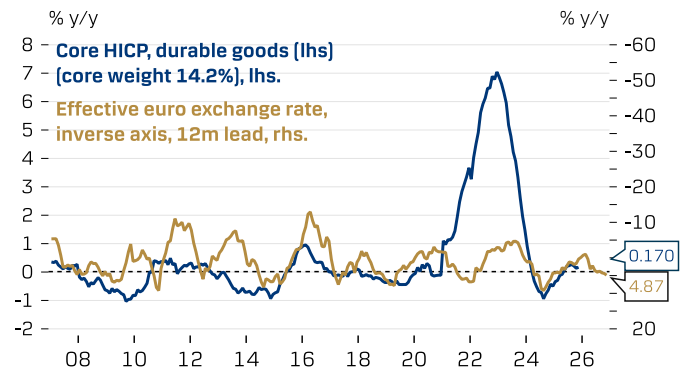
### Transport services vs. oil



### Core non-durable goods

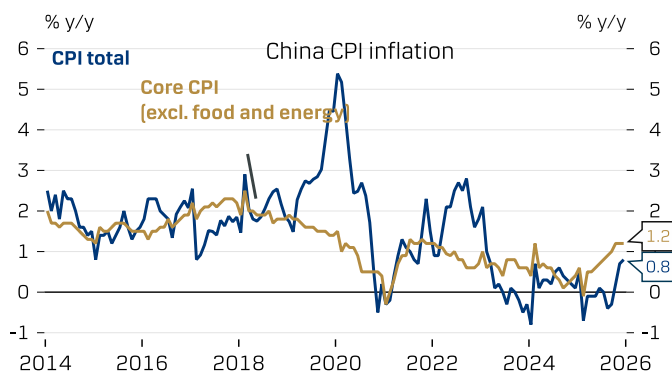


### Core durable goods

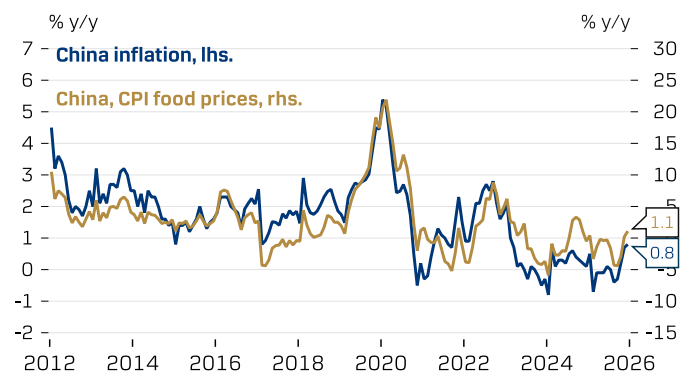


## Country details – China

### CPI and core CPI



### CPI and food prices



## PPI vs. CPI



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, Senior Analyst, Rune Thyge Johansen, Analyst and Allan von Mehren, Chief Analyst.

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### Expected updates

Ad hoc

### Date of first publication

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