

Flash Comment Denmark

January surprise paves way for another year of muted inflation – we revise down our forecast

- **Low January print will drag inflation lower this year and have repercussions for 2019.**
- **We expect inflation to stay muted until the summer and then begin to edge higher – 0.9% this year and 1.4% in 2019.**

Danish inflation has decreased markedly in recent months, falling from 1.6% y/y in September to 0.7% in January. A large chunk of the decrease was expected owing to technical factors but we had expected inflation to remain unchanged at 1.0% in January; however, several factors surprised. With the January print we revise down our inflation outlook for 2018 and 2019 – an outlook that was already at the low end versus other forecasts.

One of the reasons was that sewage collection deducted 0.10 percentage points from the January inflation and toll and parking meters deducted 0.07 percentage points with a 15% decrease in the fee to pass the Storebælt Bridge. Both contributions will constitute a drag on inflation throughout the rest of the year. In addition, we have seen a surprisingly large decrease in food prices recently, which we expect to correct somewhat in coming months. The large contributions from rising food prices experienced last year are probably over, though in part because of the burst of the ‘butter bubble’ after half a year of very high butter prices and because meat and vegetable prices have come down significantly recently.

The lower inflation level will have implications for 2019 as well, as part of the rent increase is dependent on the net price index (NPI). NPI has decreased by the same magnitude as CPI since September. Rent regulation prevents landlords from increasing rents by more than the growth in the NPI in the year running up to the previous summer. Thus, lower inflation now and in the coming months induces a drag on rents in 2019.

Going forward, slightly higher wage pressures are likely to be reflected in inflation via prices on services. As in the rest of Europe, however, this process appears to be slow and will probably only begin to provide a pickup in inflation next year. We expect inflation to stand at 0.9% this year and 1.4% in 2019.

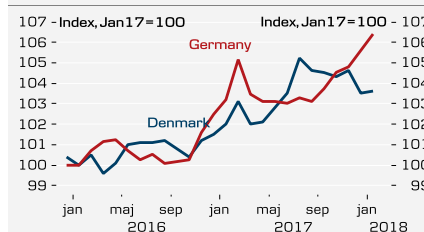
There is a risk to the outlook if the increasingly stronger European labour market should translate into higher inflation. Even if the same does not happen in Denmark, higher European inflation will have a significant impact on Danish inflation as well through higher import prices.

CPI contribution in January compared to September 2017

Primary contributors to decrease	% points
Food	-0.24
Transportation fuel	-0.12
Sewage collection	-0.10
Packaged international holidays	-0.09
Clothing	-0.07
Toll facilities and parking meters	-0.07

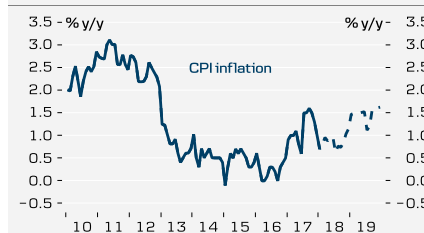
Source: Statistics Denmark

Danish food prices have decreased by more than expected recently



Source: German Federal Statistical Office, Statistics Denmark, Macrobond Financial

We expect inflation to stay muted for the coming months



Source: Statistics Denmark, Macrobond Financial, Danske Bank

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Expected updates

None.

Date of first publication

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