10 May 2021

Flash comment Denmark

Temporarily higher inflation kicks in

- **Inflation is set to hit highest level since 2012 in coming months on the back of transitory factors.**
- **Underlying inflation remains low, although higher prices for hairdressers indicate increasing price pressure could pick up as labour market tightens.**
- **We revise our CPI forecast up and now expect 1.2% inflation in both 2021 and 2022.**

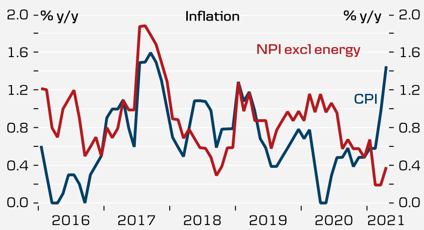
Danish CPI inflation surprised to the upside in April with a 0.5 %-point increase to 1.5%. Base effects after last years' huge oil price decline in April was one contributing factor to the increase although expected. What surprised us most was clothing, where we saw no signs of early summer sale to make up for the lockdown. Food and alcohol prices also increased quite significantly, driven by a rebound in meat prices and a big increase in butter – notoriously volatile. Noticeably, hairdressers hiked prices by 2 percent, in itself insignificant to inflation, but interesting as it indicates we could see higher service price inflation as the economy reopens and the labour market tightens. So far, this is a standalone case and we have not seen higher price increases in e.g. restaurants. However, it will be interesting to see if prices increase when restaurant access becomes easier as more people are vaccinated and a 30 minutes ahead reservation requirement was scrapped recently. So far, inflation excluding energy and taxes remains at just 0.4%, though.

In the coming months, we expect inflation to peak at 1.7% as base effects from energy prices kick in even further and some technical factors concerning lower weights on traveling will pull inflation higher. During the fall, inflation will decline somewhat again, as the contribution from pricier tobacco slowly exits the inflation measure and base effects wear off.

We have revised our inflation forecast from 0.9% to 1.2% for 2021 as a whole as we call off our expectations of any significant early summer sale in clothing and we incorporate recent oil price increases. A significant comeback to food prices also adds to inflation, as we only expect a small part of it to reverse again. We think lack of materials and soaring commodity prices will have to remain a theme for a longer period in order to significantly affect consumer prices.

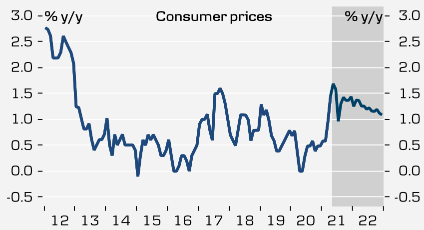
We continue to expect 1.2% inflation in 2022, when cigarette prices increase further and oil prices continue higher but base effects from last year's price decline wear off. Traveling remains a joker, as CPI prints have relied on imputed prices for more than a year now. When airfares and package holiday prices are once again collected, there is potential for big price corrections. That said, it is probably more a 2023 story as the low CPI weights on travel this year and likely in 2022 as well, means price volatility will have less impact on inflation.

Energy and tobacco have pulled inflation higher



Note: Net price inflation is consumer price inflation excl. duties.
Sources: Statistics Denmark, Danske Bank, Macrobond Financial

Highest inflation in eight years ahead – but temporary



Sources: Danske Bank, Statistics Denmark, Macrobond Financial

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Ad hoc

Date of first publication

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