

# Flash Comment Denmark

## Higher inflation as retailers refrain from price cuts

- **Cigarette prices and end of tourism boost set to pull inflation higher.**
- **We revise our CPI forecast higher on the back of higher-than-expected clothing prices and a modest pass-through of the government's summer package.**
- **We forecast inflation at 0.6% and 1.3% in 2020 and 2021, respectively.**
- **The uncertain future for air travel in particular adds uncertainty.**

Over the summer, inflation has surprised on the upside. The government's summer package has weighed on inflation but by less than we had expected. Administration costs for lowering museum prices and so on may have been larger than we had expected and cheaper train tickets have not been registered at all in the CPI.

Clothing has been a joker over the summer, as retailers lost significant revenues during the lockdown. We had assumed some element of price competition to increase turnover but we have not seen much of this. On the contrary, prices in July were actually up 1.8% y/y and the CPI contribution in July is around 0.25pp higher than we had expected back in June. Book prices also remain high at 35% y/y, which adds 0.14pp to inflation.

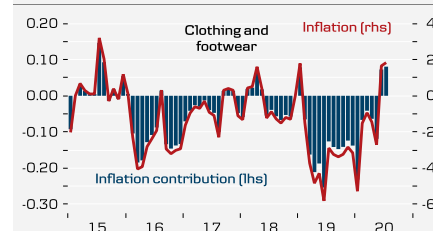
The large demand for vacation rentals over the summer, which has driven up prices does not have any effect on the registered price though, as they are collected around New Year. However, if travel restrictions are still relevant at the end of the year, it is likely the prices registered for the 2021 season could be higher.

Looking ahead, we expect inflation to climb further over the rest of 2020, driven largely by rising tobacco prices in the wake of the April tax increase. So far, we have seen only around 30% of the increase in store for cigarettes, although prices started to climb significantly in July, with a 7% increase. We assume increases of this magnitude will continue in August and September before we get the rest of the effect throughout the remainder of the year. Adding to the upward pressure on inflation in coming months is the rebound in prices for museums and so on as the summer package runs out. Around one-third of the effect of reduced prices remains in August, as the last couple of days of the school holidays (and thus low prices) will be part of the data collection week.

Price collection has been cancelled for several services in the past couple of months. Domestic flights re-entered the index in June, with a significant increase (it has a very low weight though). With the entry of international flights in July, we did not see the same reaction but the unclear future for air travel adds uncertainty. Package holidays are still imputed with seasonal patterns but the potential re-entry in the autumn is a joker as well.

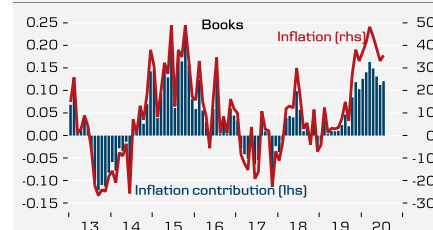
We expect inflation to increase over coming months and we revise our forecast up by 0.1pp for 2020 and 2021 to 0.6% and 1.3%, respectively.

### Odd time for clothing prices to spike?



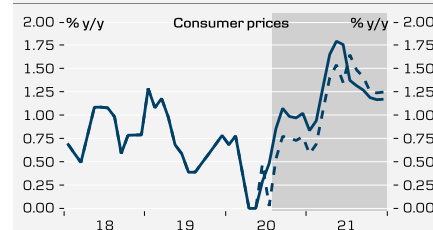
Source: Statistics Denmark, Macrobond financial

### Expensive books add to inflation



Source: Statistics Denmark, Macrobond financial

### Higher inflation ahead



Note: Dotted line is old forecast

Source: Statistics Denmark, Macrobond Financial, Danske Bank

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