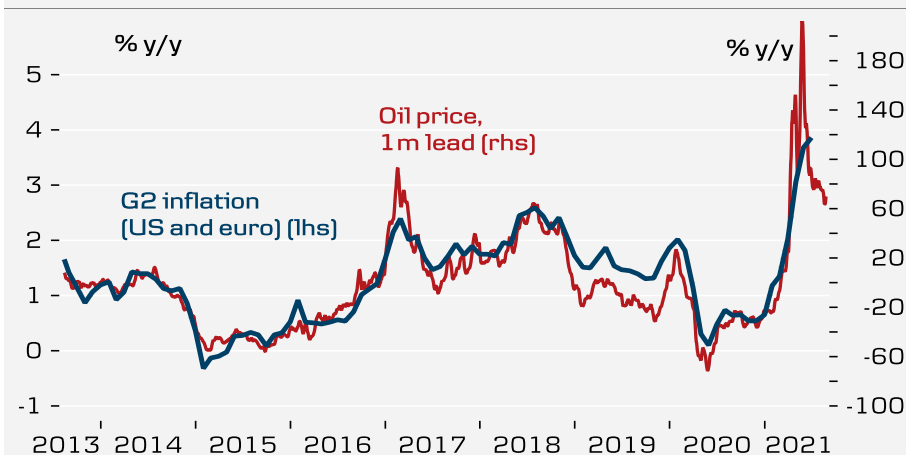


Global Inflation Watch

Lift from commodity prices starting to fade

- *This is the first of our new monthly Global Inflation Watch in which we provide an overview of global trends and drivers.*
- **Global pressures:** Commodity prices have given a sharp lift to inflation, but the effect is fading due to base effects and lower momentum in oil and metals prices. However, bottlenecks remain widespread, delivery times are long and freight rates still very high.
- **Inflation expectations:** Inflation expectations in markets and among consumers remain anchored in 2021 after rising from low levels in 2020.
- **US:** Core inflation increased to the highest level in 30 years hitting 4.5% in June. Apart from the impact of commodity prices, it is mainly driven by effects related to the pandemic and the reopening, which has pushed up prices on used cars, airfares, lodging away from home and restaurants. We expect these effects to be transitory. However, wage pressures are rising from a shortage of labour. We expect US core inflation to come down in 2022 but remain above 2%, see also *Research US – Higher inflation but not spinning out of control due to still well-behaved expectations*, 14 June 2021.
- **Euro:** While headline inflation has risen to 1.9% y/y, core inflation remains low at 0.9% y/y. There is some pipeline pressure on core goods prices from the rise in commodity prices but wage inflation expectations should remain moderate and core inflation stay muted in 2022, see also *Research Euro Area – Mind the inflation gap*, 8 June 2021.
- **China:** Chinese PPI inflation has peaked and PMI outprices have come down. CPI inflation remains far below the 3% target at 1.9% y/y with few signs it will run away. Chinese credit tightening points to downward pressure on commodity prices.

Impact from oil price inflation has peaked



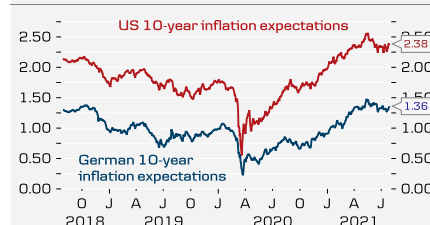
Source: Macrobond Financial, Bloomberg, Danske Bank

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

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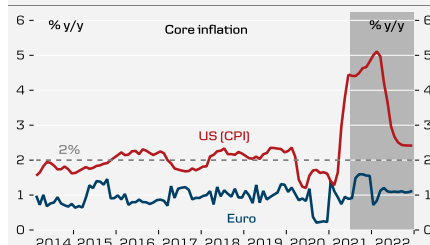
1. Top down overview
2. Country details – US
3. Country details – Euro area
4. Country details – China

Inflation expectations (bond market)



Source: Macrobond Financial, Bloomberg

US and euro core inflation outlook



Source: Macrobond Financial, Bloomberg

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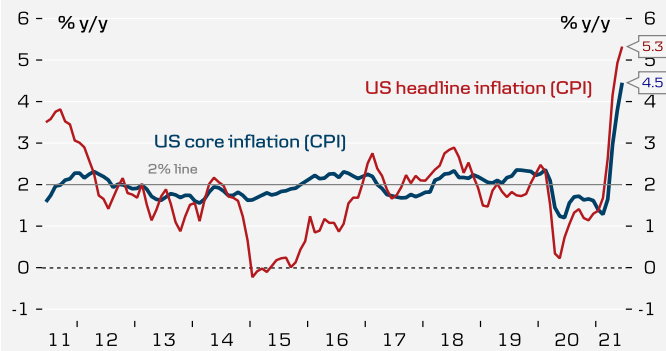
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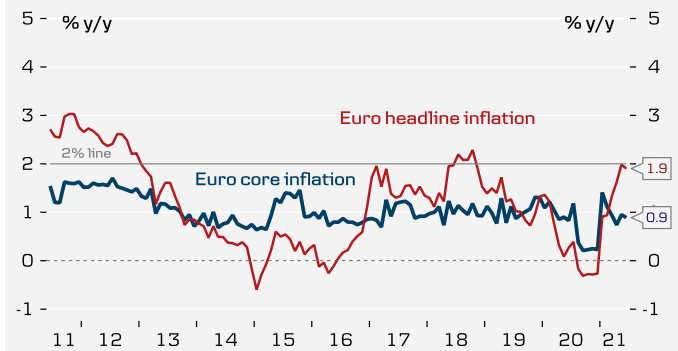
Top down overview

US headline and core inflation (CPI)



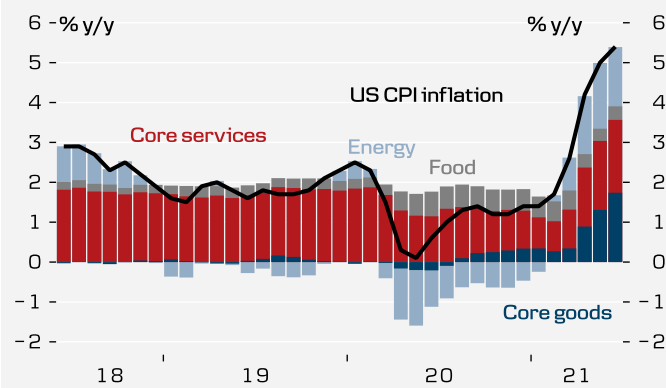
Source: Macrobond Financial, BLS

Euro headline and core inflation



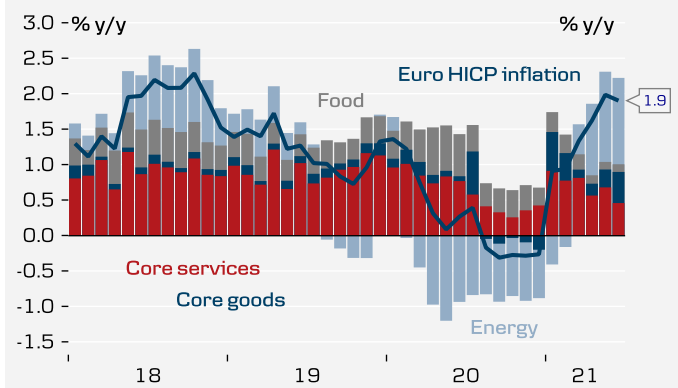
Source: Macrobond Financial, Eurostat

Contributions to US inflation



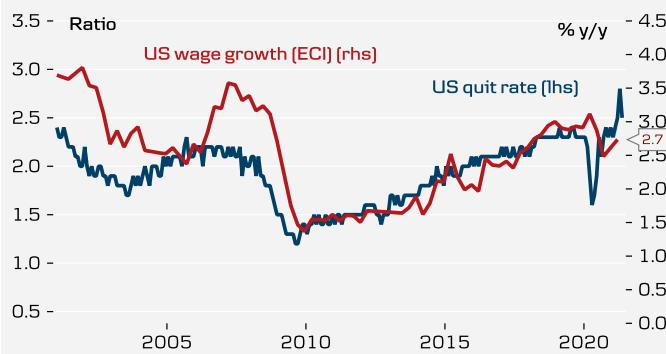
Source: Macrobond Financial, BLS

Contributions to euro inflation



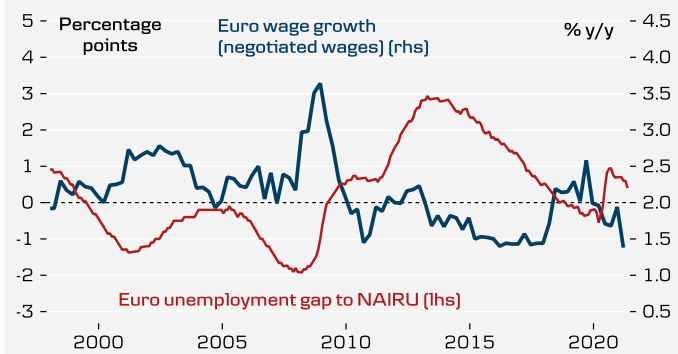
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



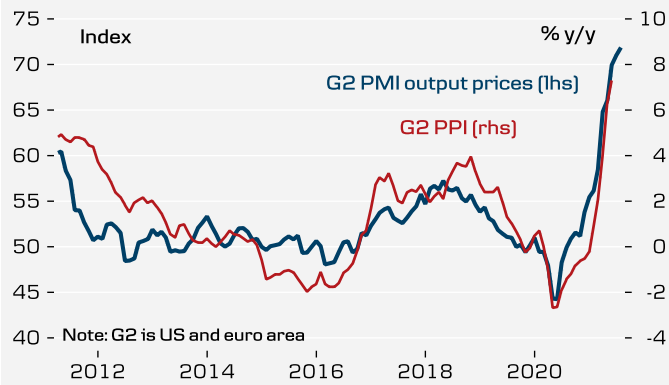
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



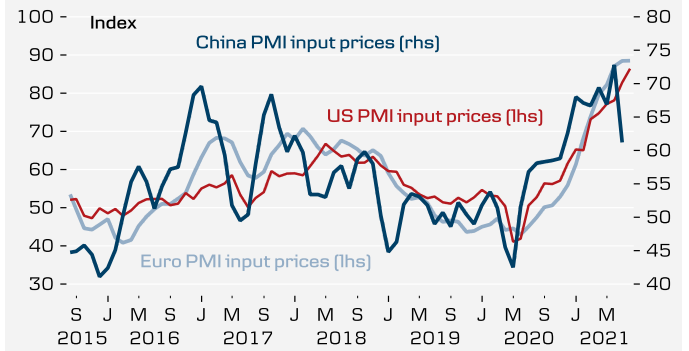
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



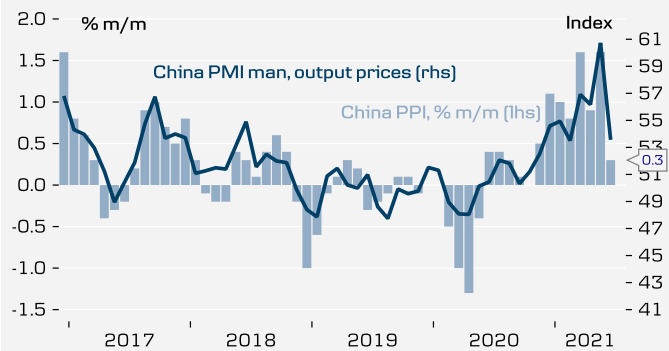
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



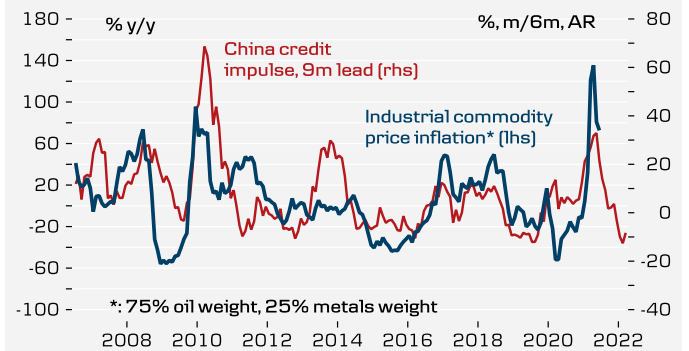
Source: Macrobond Financial, Markit

China PPI inflation momentum



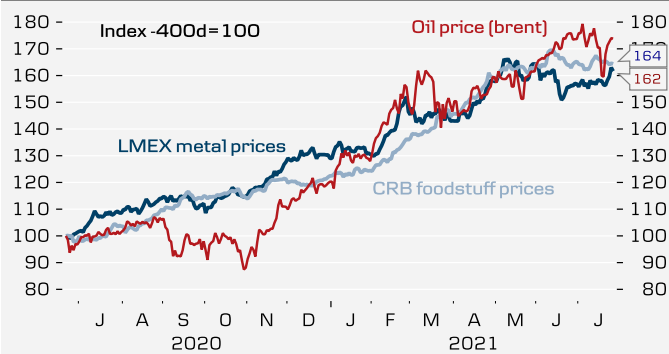
Source: Macrobond Financial, Markit

China credit growth vs. commodity price inflation



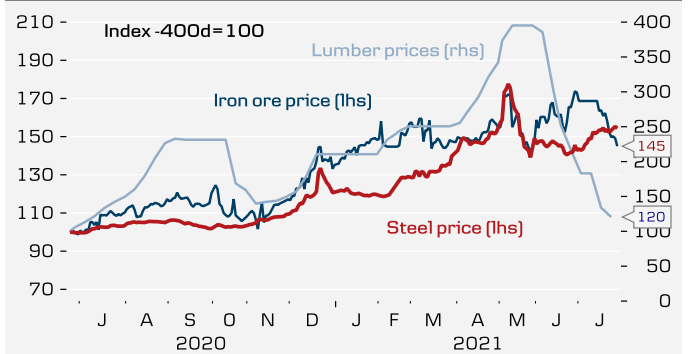
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels - oil, metals and food



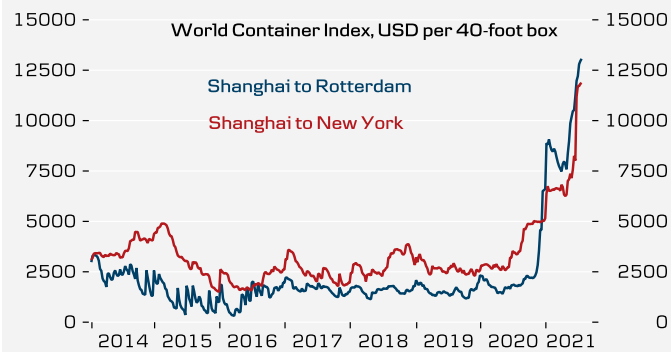
Source: Macrobond Financial, Bloomberg

Commodity price levels - steel, iron ore and lumber



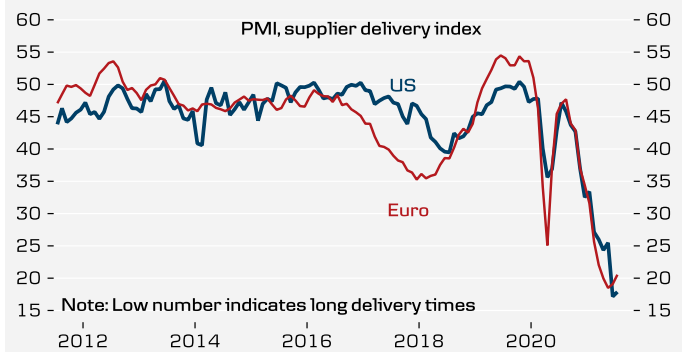
Source: Macrobond Financial, Bloomberg

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

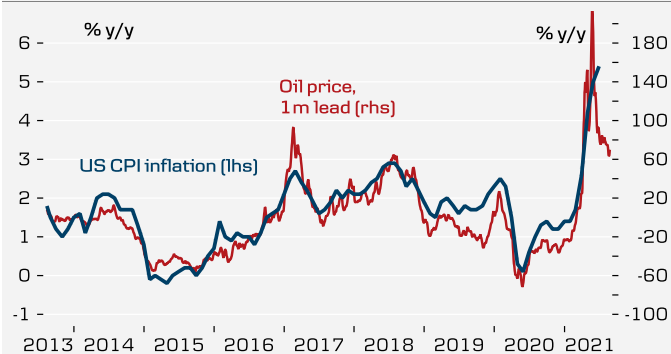


Source: Macrobond Financial, Markit

Country details - US

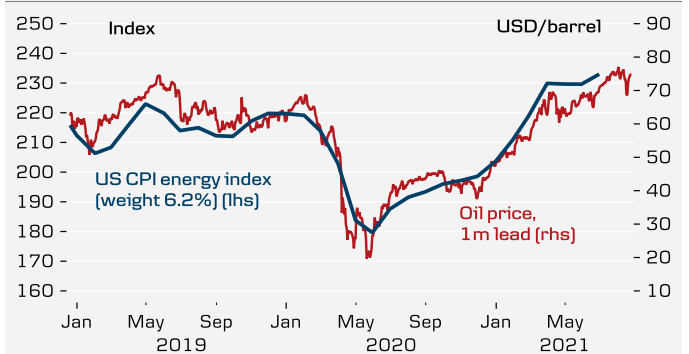
Top down

Headline CPI inflation vs. oil prices



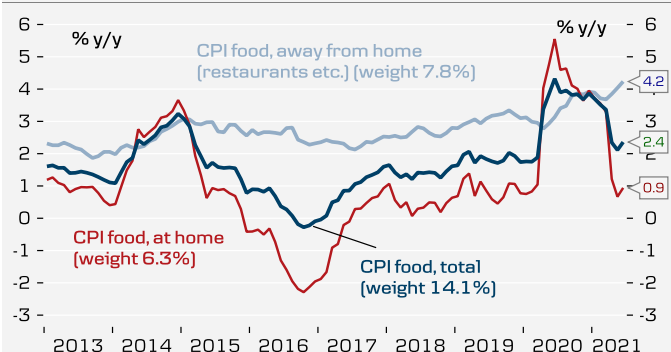
Source: Macrobond Financial, BLS. Note: Past performance is not a reliable indicator of future performance.

CPI energy prices vs oil



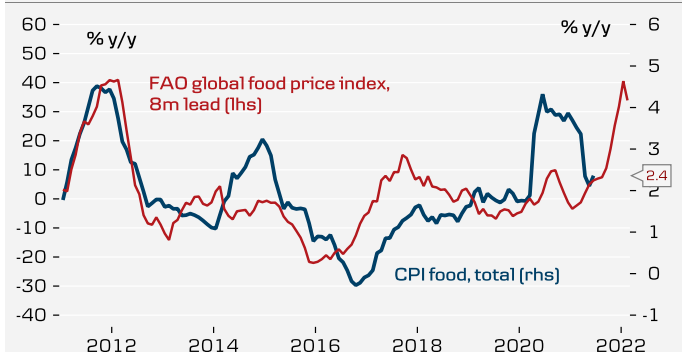
Source: Macrobond Financial, BLS. Note: Past performance is not a reliable indicator of future performance.

Food prices



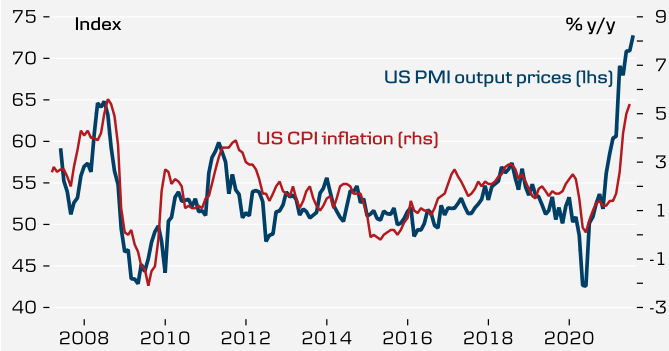
Source: Macrobond Financial, BLS

Food prices vs FAO food price index



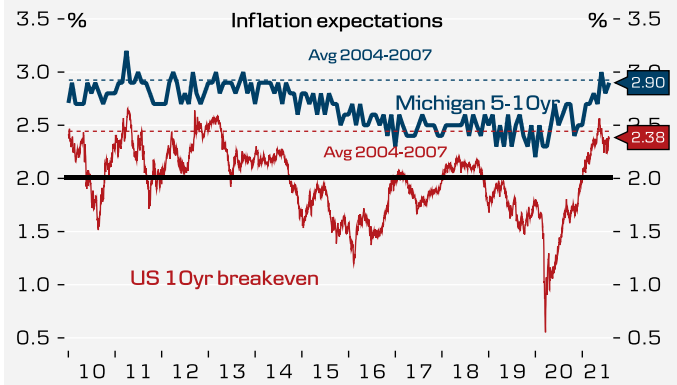
Source: Macrobond Financial, FAO, BLS

US PMI output prices vs CPI inflation



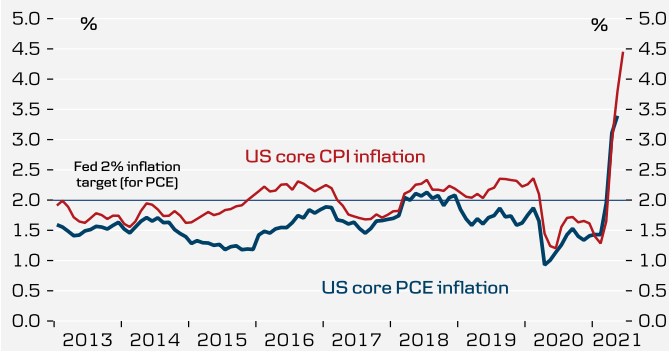
Source: Macrobond Financial, BLS, Markit

Inflation expectations measures



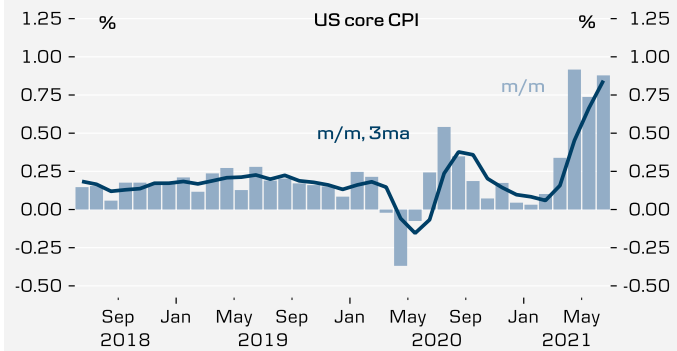
Source: Macrobond Financial, University of Michigan. Note: Past performance is not a reliable indicator of future performance.

Core PCE inflation vs core CPI inflation



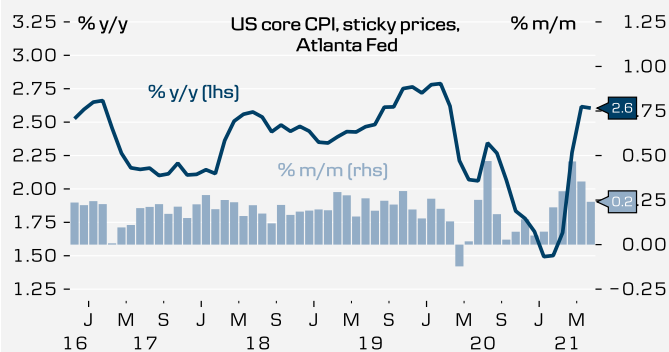
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



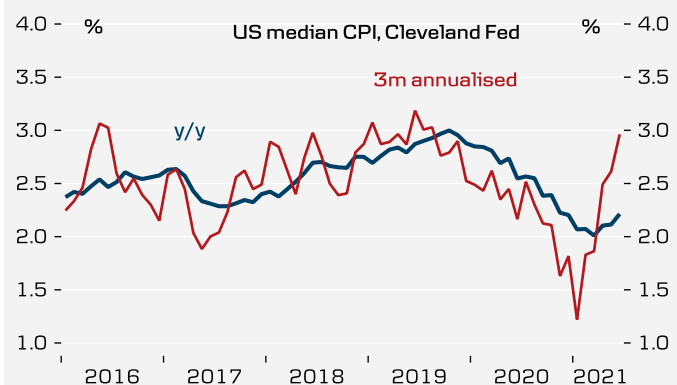
Source: Macrobond Financial, BLS

Core sticky prices inflation (prices changed less frequently)



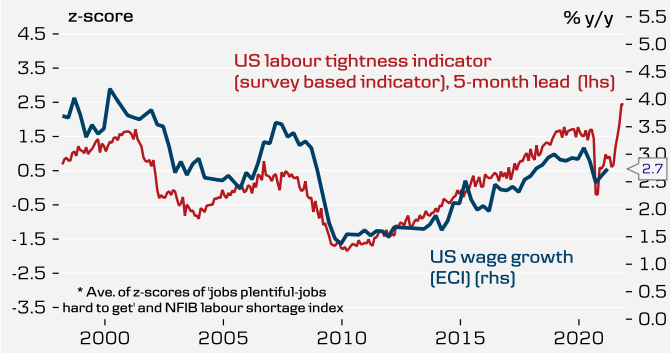
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



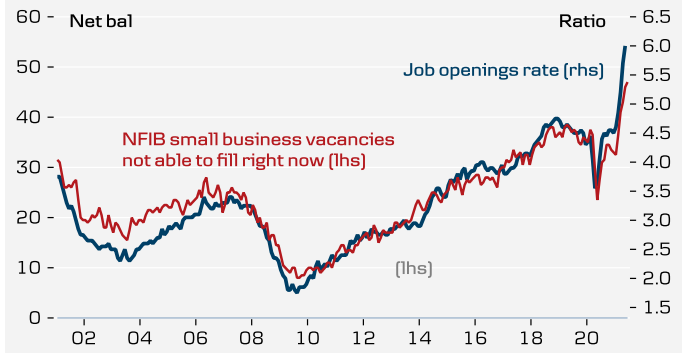
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: Wage growth vs tightness



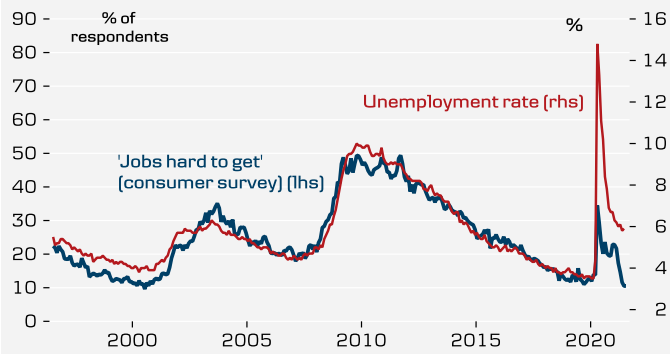
Source: Macrobond Financial, Conference Board, BLS, Danske Bank

Labour market tightness: Job openings and shortage



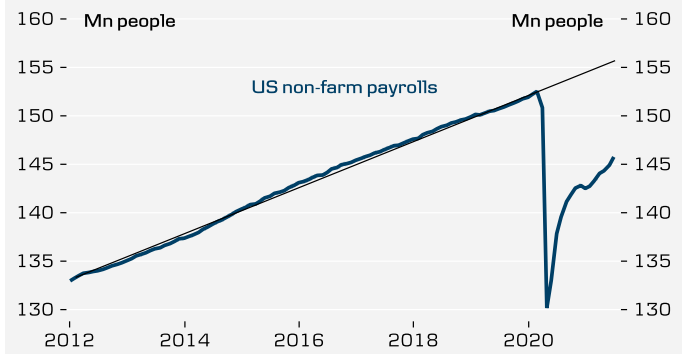
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

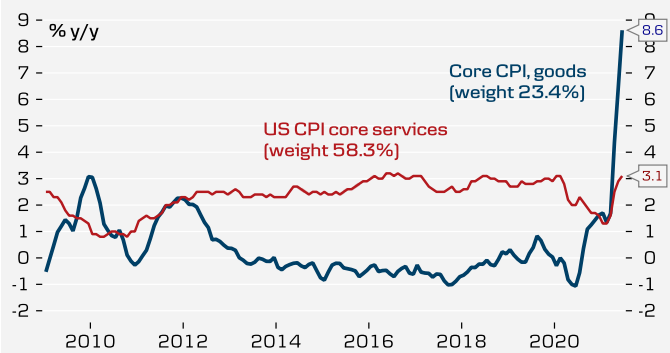
Employment gap



Source: Macrobond Financial, BLS

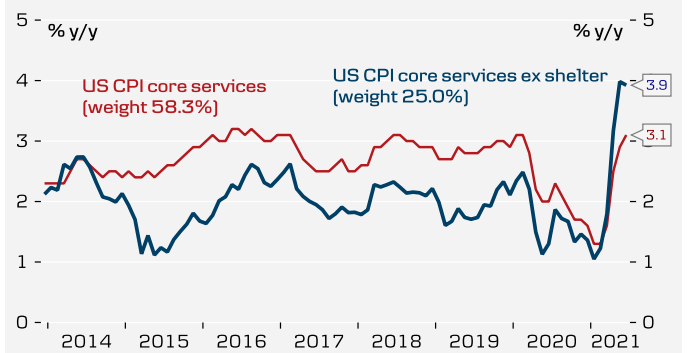
Bottom up

Core goods vs. services



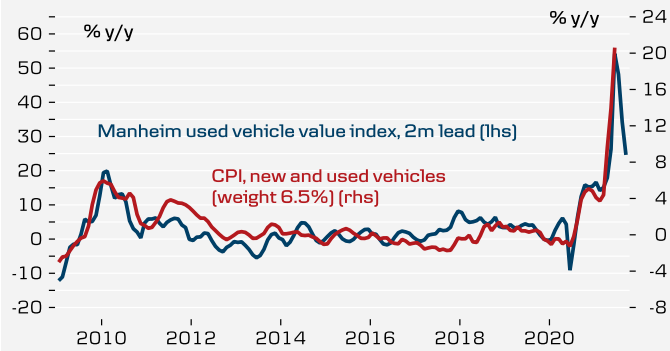
Source: Macrobond Financial, BLS

Core services ex shelter



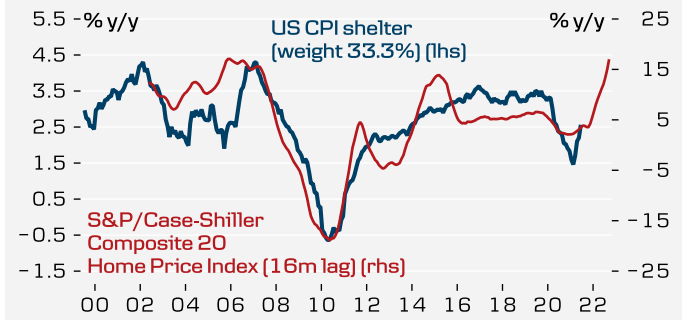
Source: Macrobond Financial, BLS

Used car prices



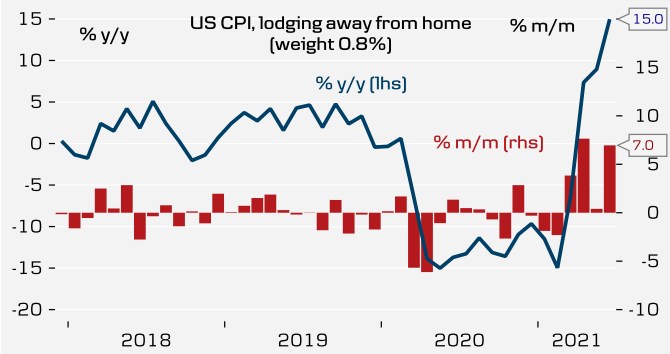
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



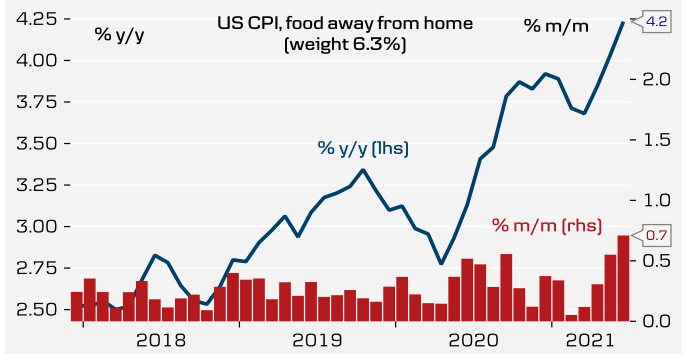
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



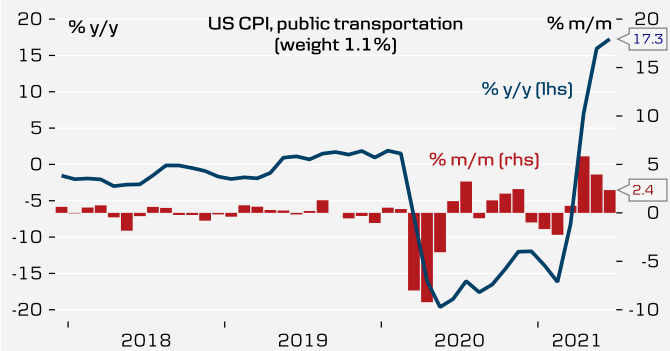
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



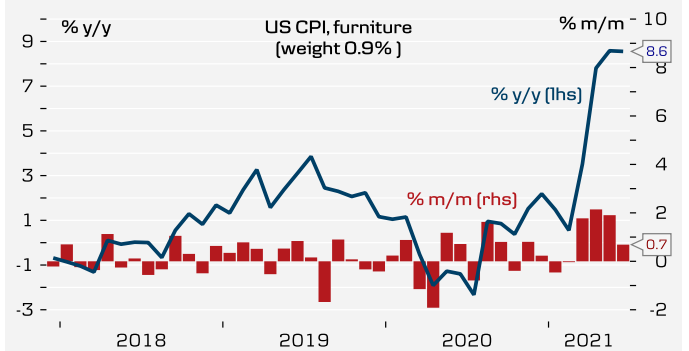
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

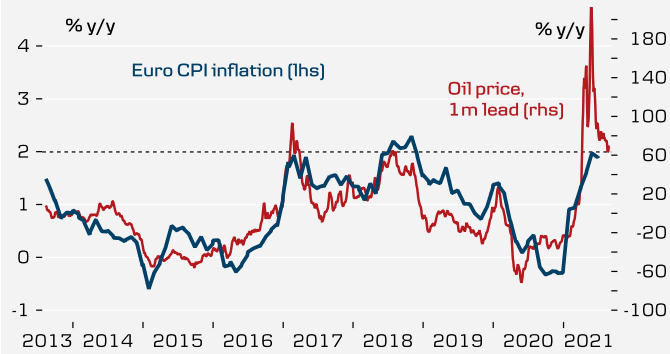


Source: Macrobond Financial, BLS

Country details – Euro

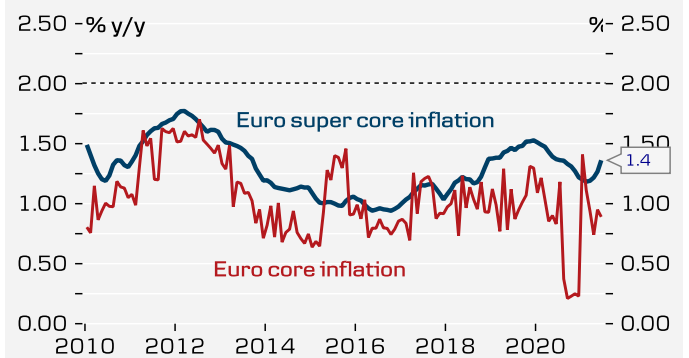
Top Down

Headline vs. oil prices



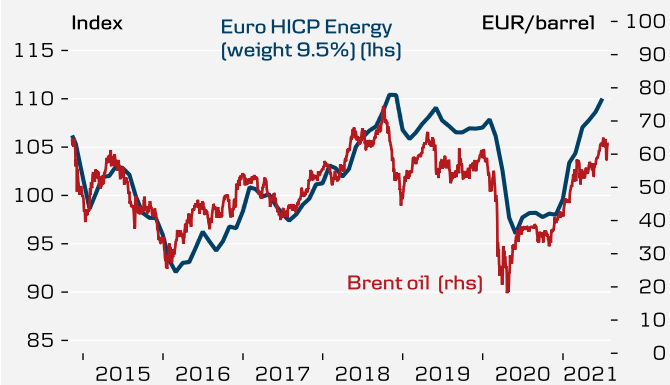
Source: Macrobond Financial, Eurostat

Core inflation



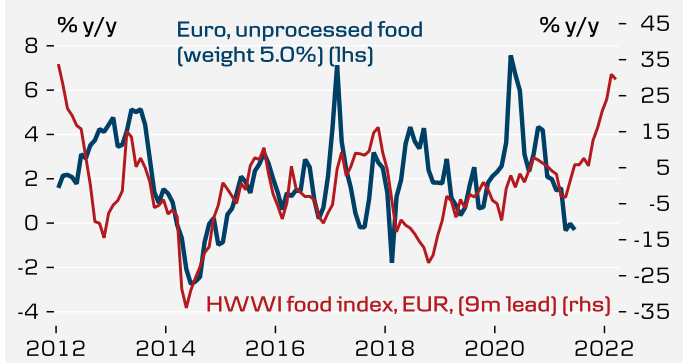
Source: Macrobond Financial, Eurostat, Danske Bank

Energy



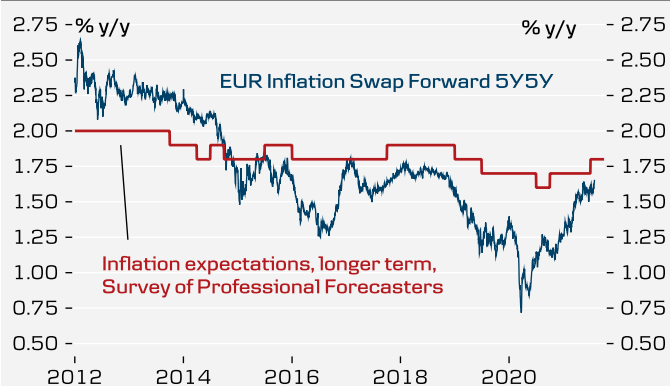
Source: Macrobond Financial, Eurostat

Food



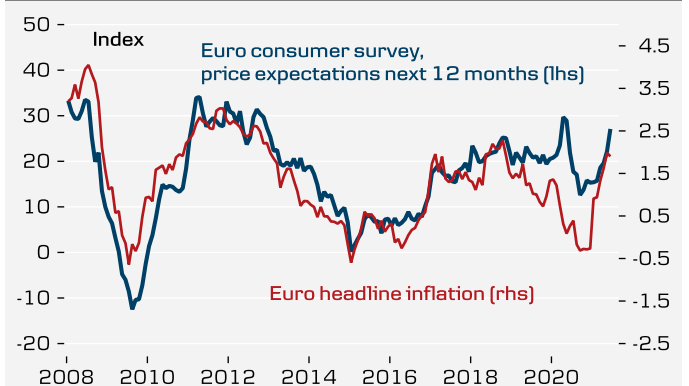
Source: Macrobond Financial

Inflation expectations



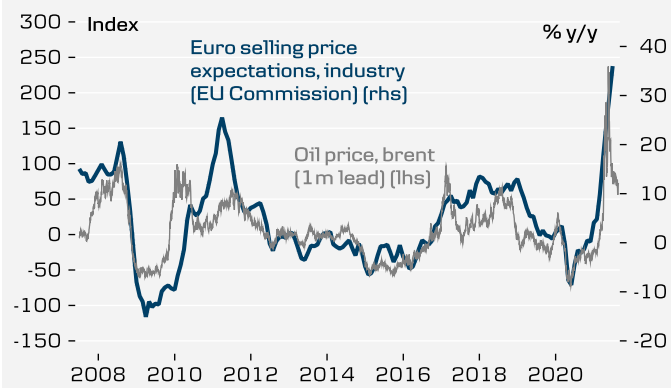
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



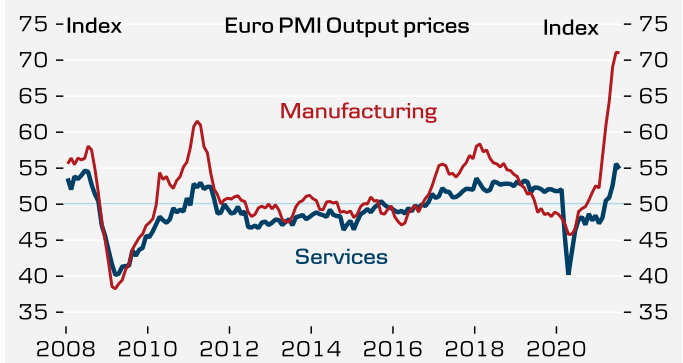
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



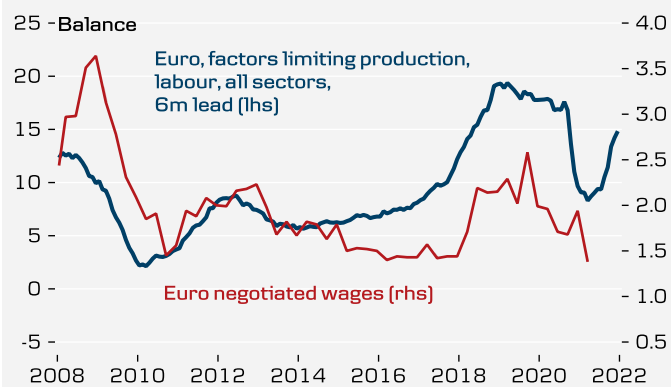
Source: Macrobond Financial, EU Commission

PMI output prices



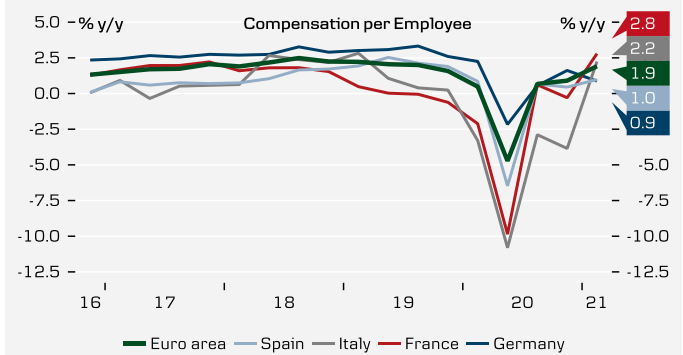
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

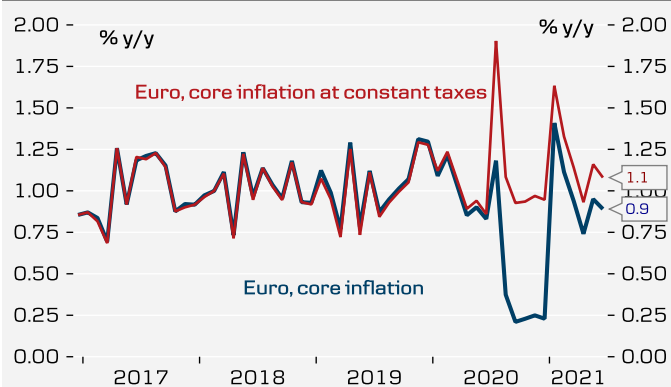
Wage compensation



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

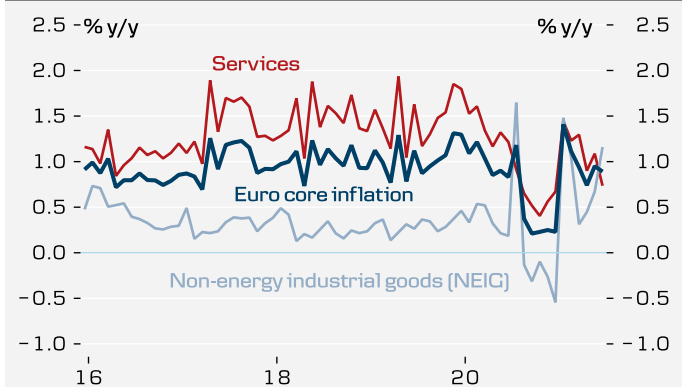
Bottom up

Core inflation, effect from taxes



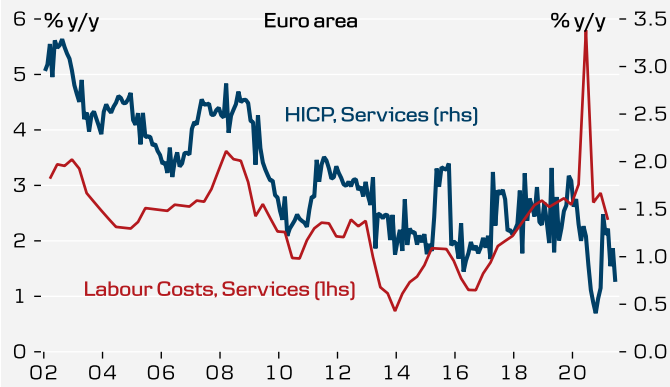
Source: Macrobond Financial, Eurostat

Core inflation components



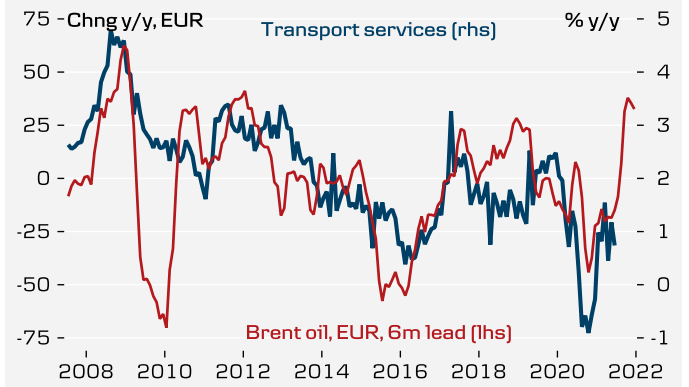
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



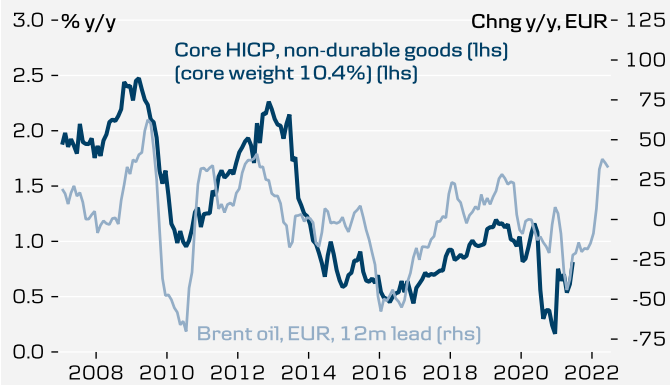
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



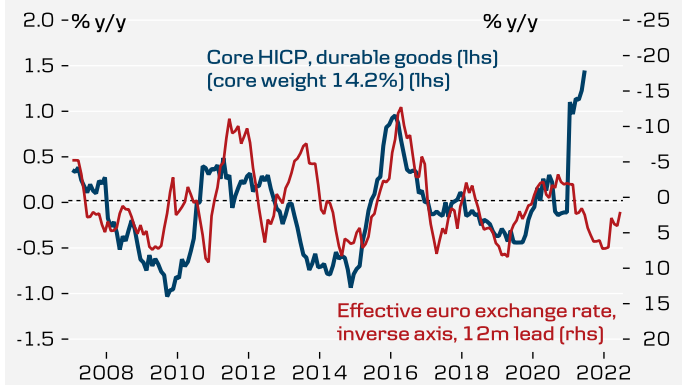
Source: Macrobond Financial, Eurostat, Danske Bank

Core non-durable goods



Source: Macrobond Financial

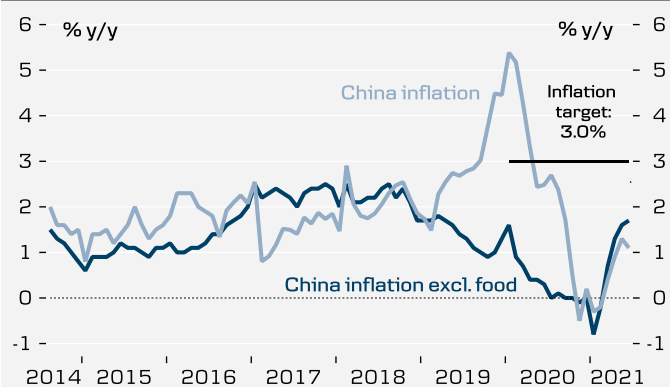
Core durable goods



Source: Macrobond Financial

China

CPI and CPI ex food



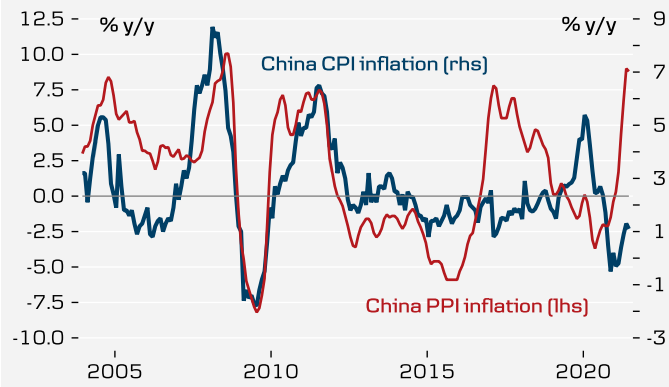
Source: Macrobond Financial, NBS

CPI and food prices



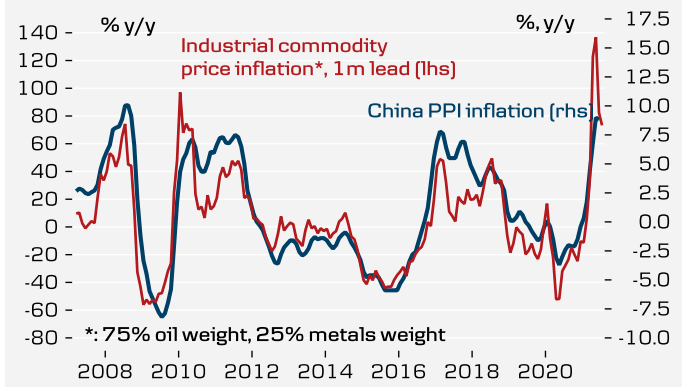
Source: Macrobond Financial, NBS

PPI vs. CPI



Source: Macrobond Financial, NBS

PPI vs. commodity prices



Source: Macrobond Financial, NBS, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report is Allan von Mehren, Chief Analyst, Mikael Olai Milhøj, Chief Analyst, Aila Mihr, Senior Analyst, Bjørn Tangaa Sillemmand, Analyst, Antti Oskari Ilvonen, Analyst and Jakob Ekholdt Christensen, Chief Analyst.

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Date of first publication

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