

Research Denmark

Price pressures increase

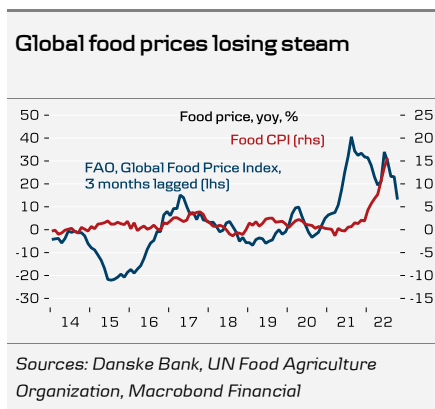
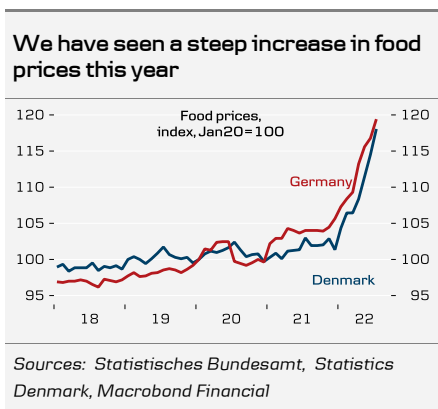
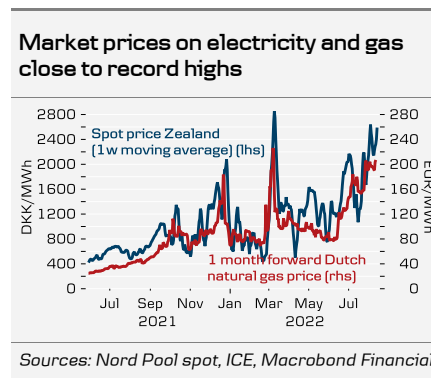
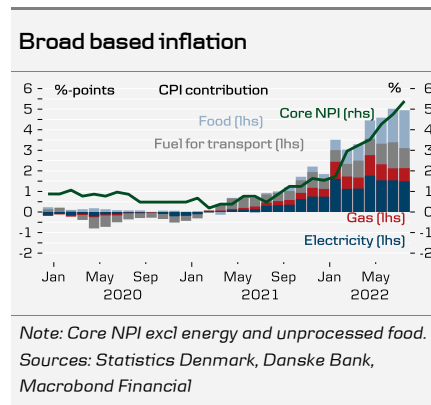
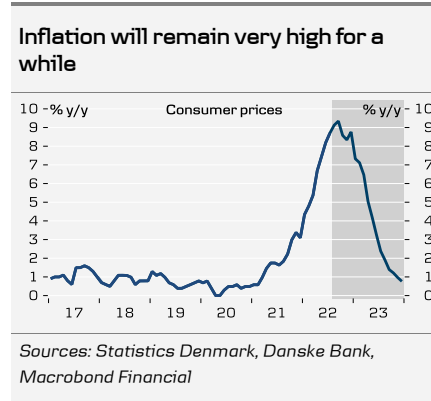
- Energy and food price surge has pulled headline inflation higher, but the underlying price pressure in the economy has also increased.
- We expect core inflation will take over as the key driver of inflation. We see 7.5% for 2022 on average and 3.4% in 2023.

Danish inflation increased from 8.2% in June to 8.7% in July, the highest level in almost 40 years. Energy and food prices are key drivers but inflation is broad based now.

Energy prices remain key for the inflation outlook. The direct effect is currently adding 2.7 percentage points to headline inflation and the indirect effect through increasing costs for businesses in general are currently feeding through on a broad scale. Gasoline prices have declined recently in line with oil prices and will weigh on inflation in August. Consumer prices on electricity remain about 60% above normal levels “pre-COVID and war”, though, and gas is about double compared to normal levels. The high market prices we see now will feed through to consumer prices in August and September and likely pull headline inflation above 9%. District heating, the most common source of heating in Denmark, has also increased somewhat in price this year but only to 2020 levels. Some heating plants are dependent on electricity and gas and we expect to see another surge in prices here, probably by January.

We expect a decline from the current extremely high levels in electricity and gas prices through the remainder of the year but we continue to see very high price levels before we assume a partial normalisation in 2023H2.

Food prices have surged through 2022 and are now up 14.6% yoy driven by a broad increase in prices, particularly meat and dairy products. It looks like momentum is still for higher prices on the back of the surge in global food prices in the beginning of the year and high costs in general as well such as heating/cooling and wages. That said, global food prices declined significantly in July, which should at least put a damper on the price surge later this year. Fertilizer prices are still very high, though, and not all European food markets are well integrated into global markets. We expect food price momentum to wane but price pressures will probably remain high.



Senior Analyst
Bjorn Tangaa Sillemann
+45 45 12 82 29
bjsi@danskebank.dk

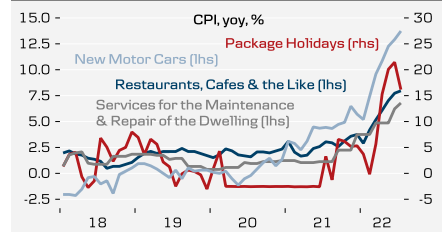
Core inflation has also increased significantly. Services like restaurants, package holidays and household maintenance (e.g. plumbers) and goods like household appliances and cars have all increased markedly in price. The quarterly rent increase in May was also quite high. We expect an increased pressure for higher rents will feed in to inflation with the quarterly prints in August and November and particularly in February. Rents account for 21% of total CPI so the size of the rent increase will be key for the inflation level next year.

Core NPI (CPI excluding taxes and subsidies) inflation stands at 5.4%, much higher compared to when the economy was most overheated in 2008. The big question is how much of the increased cost pressure has yet to feed through to broad inflation. We still have not seen much price increases on clothing (and footwear), which makes up close to 5% of total CPI. The July sale was very modest, though, which leaves prices up 4.7% yoy. As the time to market is much longer for clothing compared to many other products, we expect pressures on clothing prices will increase in H2.

We continue to see more than 60% of retailers expecting to hike prices over the coming 3 months. We pencil in an increasing underlying price pressure lifting core inflation over the coming year, which is also underpinned by the historically tight labour market, even if wage pressures remain have remained modest. The pressure should begin to where off by the end of 2023, on the back of a looser labour market by then, though.

We lift our inflation forecast significantly on the back of particularly higher food prices than expected but also an increased pressure on energy prices, which feeds through to broad inflation. We now expect 7.5% inflation in 2022 (previously 6.4%) and 3.4% in 2023 (previously 2.6%).

Prices rising on a broad scale



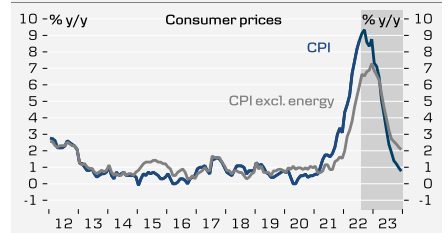
Sources: Statistics Denmark, Macrobond Financial

Majority of retailers expect price increases



Sources: Statistics Denmark, Macrobond Financial

Very high core inflation



Sources: Danske Bank, Statistics Denmark, Macrobond Financial

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Bjørn Tangaa Sillemann, Senior Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Ad hoc

Date of first publication

See the front page of this research report for the date of first publication.

Disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 12 August 2022, 14:15 CET

Report first disseminated: 15 August 2022, 06:00CET