

Research Denmark

Underlying price pressure remains modest despite highest inflation in nine years

- Inflation will remain close to 2% through the remainder of the year, primarily driven by energy prices and travel.
- Underlying price pressures have picked up but remain modest.
- We revise our CPI forecast up and now expect 1.5% inflation in 2021 and 1.3% in 2022.

Energy prices still the main source of higher inflation

Danish CPI inflation increased to 1.8%, a nine year high in August. It has surprised to the upside over the summer, as energy prices have surged. Increasing oil has pulled fuel prices higher and electricity prices have increased sharply as the water level in Nordic reservoirs are low this summer following a year with limited rain. The underlying price pressure in the Danish economy on the other hand continues to be modest with net core inflation at just 0.9%. Worth highlighting however, airfares and package holidays have pulled inflation lower over the summer due to weight change alone. This technicality pulled inflation 0.2%-point lower in August.

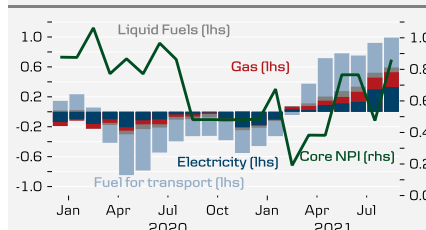
With higher rent increases, very low inflation days are over

We expect inflation to remain at the current level for the remainder of the year with the expectation that electricity (and gas) prices start to decline slightly again as rain returns in the fall and the base effects from higher tobacco prices fade. On the other hand, the seasonality in package holidays and airfares will pull inflation higher, as prices decline through H2, contributing to overall CPI with a much smaller weight compared to last year. We think lack of materials and higher commodity prices will have limited impact on Danish consumer prices apart from energy because of limited weight and reluctance of pass-through to consumer prices. We have revised our inflation forecast from 1.2% to 1.5% for 2021 primarily on the back of the higher than expected energy prices.

In 2022, cigarette prices increase another DKK5 for a 20 pack. New rules from the government limit the amount of extra old tax stamps that can be acquired before the tax increases from 5% to 2% extra compared to normal turnover. At the same time, it will be forbidden to sell cigarettes at the old price just three months after the tax increase, and thus the pass-through to prices will be quicker than what we saw with the DKK15 price increase in 2020. A tighter labour market and early signs salaries are starting to pick up could start to put a higher pressure on service prices as we have already seen with restaurants and hairdressers.

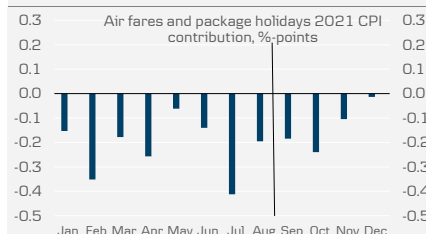
In 2022, we expect a slightly higher increase in rents compared to this year as higher net price inflation during the previous year will allow property owners to increase rents on regulated housing by the most in nine years. We expect a rent increase of 1.4% in February 2022, up from 1.3% in February 2021, which will be a boost to inflation through the whole year. We have revised our 2022 inflation forecast up by 0.1%-point to 1.3%.

Energy prices have pulled inflation significantly higher...



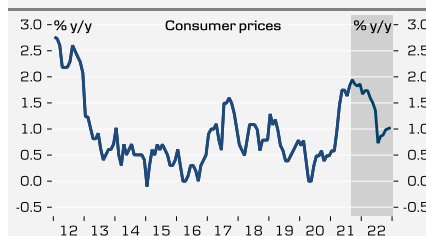
Sources: Statistics Denmark, Danske Bank, Macrobond Financial

... but technicalities are counterweighing



Sources: Statistics Denmark, Danske Bank

Highest inflation in nine years will linger for some time



Sources: Danske Bank, Statistics Denmark, Macrobond Financial

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Ad hoc

Date of first publication

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