

Global Inflation Watch

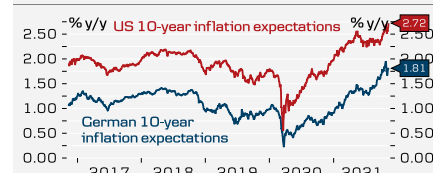
Highest US wage growth in more than 10 years

- Overview:** Labour shortages persist pushing US wage inflation to the highest level in 10 years. Commodity prices eased over the past month, though, as gas, oil and coal prices are off the peaks. Bottlenecks continue to drive unusually long delivery times. Freight rates have stabilized at very high levels. *We look for US core inflation to rise further and peaking somewhat above 5% in February 2022 before easing to around 2½% by end-2022. In the euro we expect core inflation to peak now.*
- Inflation expectations:** Market-based inflation expectations have moved to new cycle highs in both US and Europe over the past month (although it has declined from the peak over the past week). Survey-based inflation expectations are also on the rise in both US and euro area (especially short-term expectations).
- US:** CPI inflation was once again higher than anticipated in October, now running at 6.2% y/y, the highest rate since December 1990. Price increases are becoming more broad-based and not only driven by surging energy and food prices. Survey-based short-term inflation expectations remain very high but long-term measures remain well-anchored for now. 10yr breakeven inflation expectations are once again above the 2004-07 average. Wage growth is increasing, most likely reflecting shortage of labour (not least within “leisure and hospitality” where wage growth is above 11% y/y).
- Euro:** HICP inflation rose to 4.1% in October, a new all-time high. Energy continues to be the main driver accounting for 2.3pp of the increase, due to higher natural gas and electricity prices. Although natural gas prices have declined some 40% from the peak, elevated energy price inflation is likely to stay with us in the coming months. As we enter 2022 and some of the inflation distortions will fade, it will be important to keep a close eye on wage developments, not least the big German bargaining rounds, see *Research Euro Area - German wages: what to watch in 2022*, 25 October.
- China:** Chinese PPI inflation rose to 10.7% in September, the highest rate in more than 25 years. CPI inflation is still well behaved at 0.7%.

Table of contents

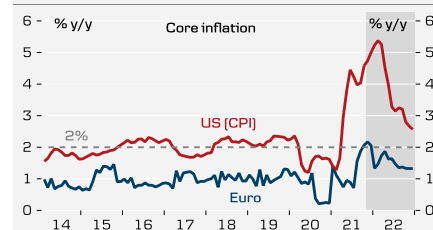
1. Top down overview
2. Country details - US
3. Country details - Euro area
4. Country details - China

Market inflation expectations hit new cycle highs over the past month



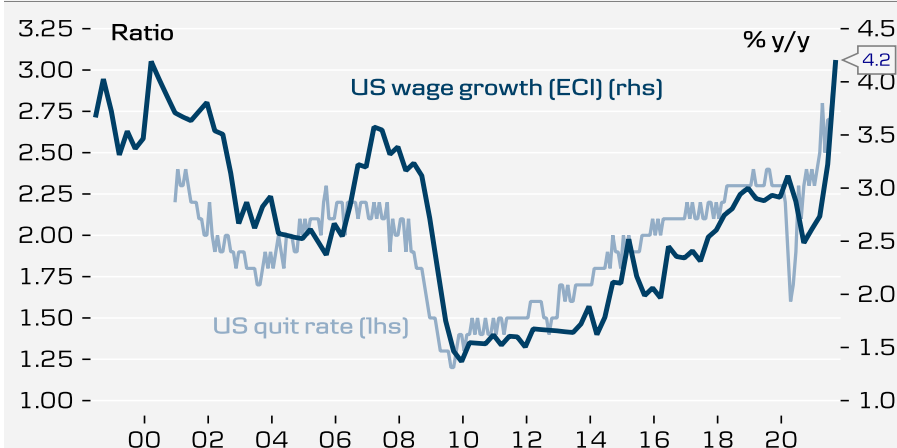
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, Bloomberg

US and euro core inflation is set to move lower eventually



Source: Macrobond Financial, Bloomberg

Upward pressure on euro area inflation from higher energy prices



Source: Eurostat, BEA, Macrobond Financial

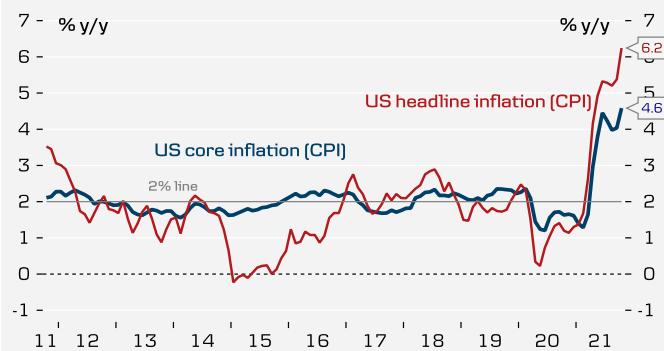
Chief Analyst
Allan von Mehren
alvo@danskebank.dk

Chief Analyst
Mikael Olai Milhoj
milh@danskebank.dk

Senior Analyst
Aila Mihr
amih@danskebank.dk

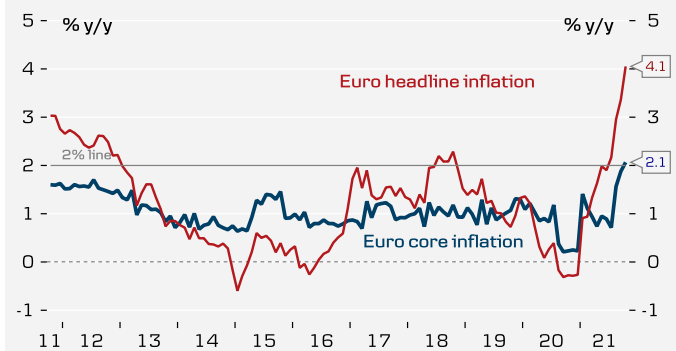
Top down overview

US headline and core inflation (CPI)



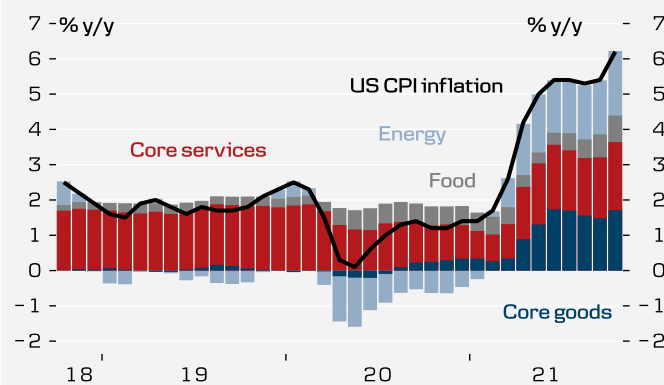
Source: Macrobond Financial, BLS

Euro headline and core inflation



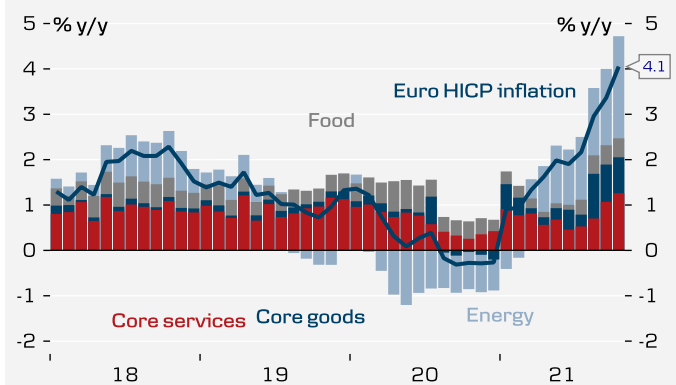
Source: Macrobond Financial, Eurostat

Contributions to US inflation



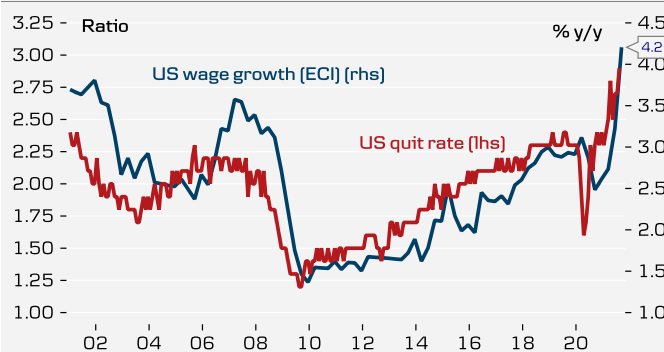
Source: Macrobond Financial, BLS

Contributions to euro inflation



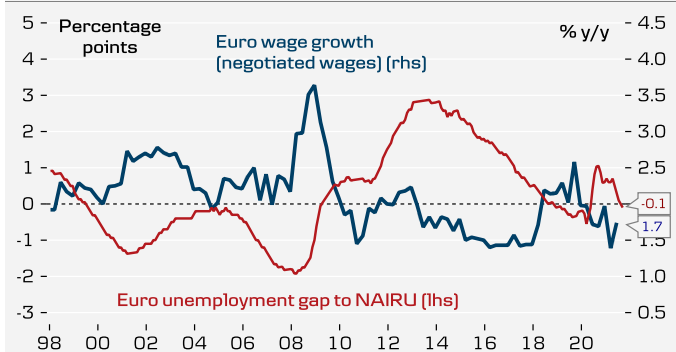
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



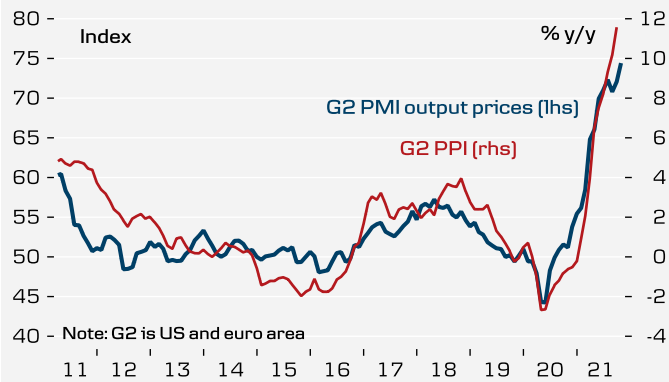
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



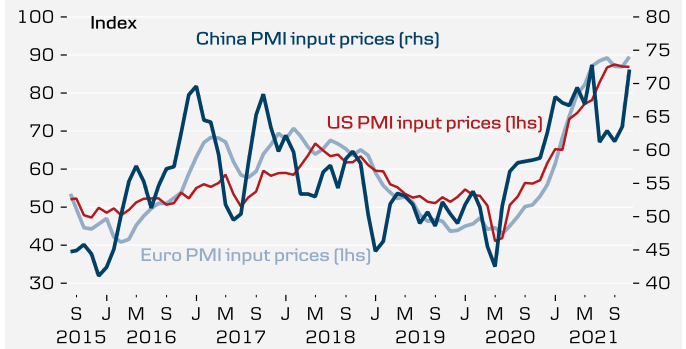
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



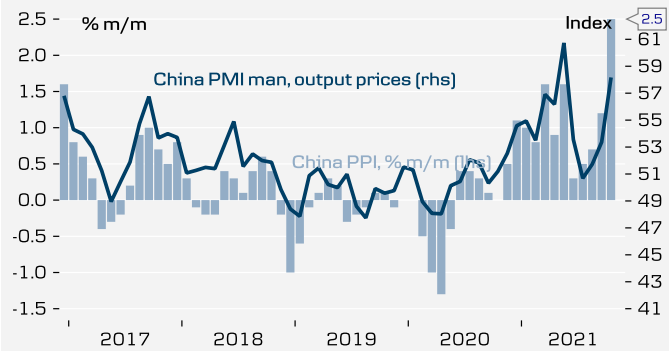
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



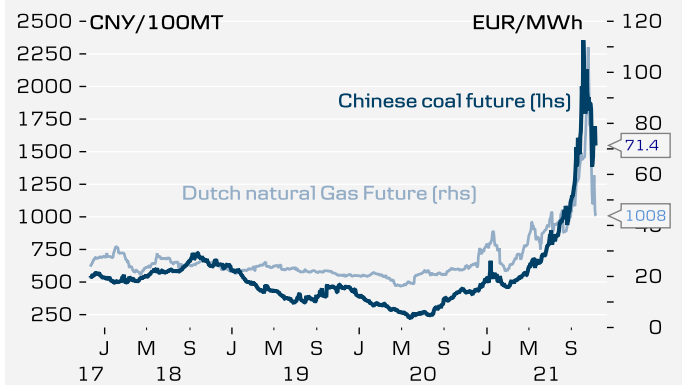
Source: Macrobond Financial, Markit

China PPI inflation momentum



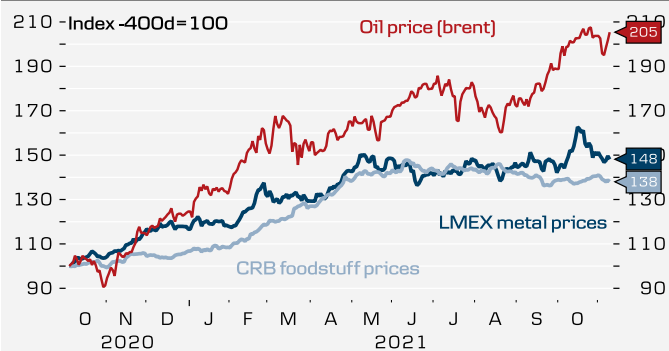
Source: Macrobond Financial, Markit

Natural gas and coal prices down from the peak



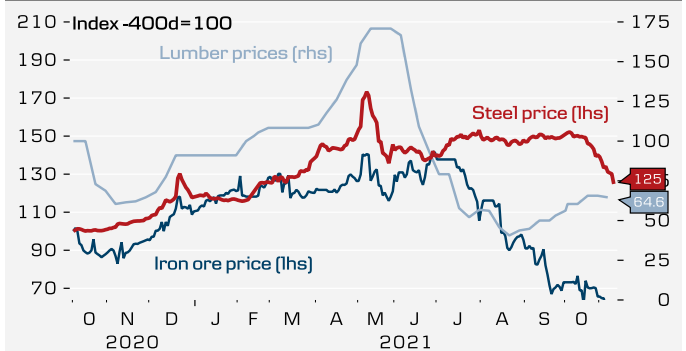
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



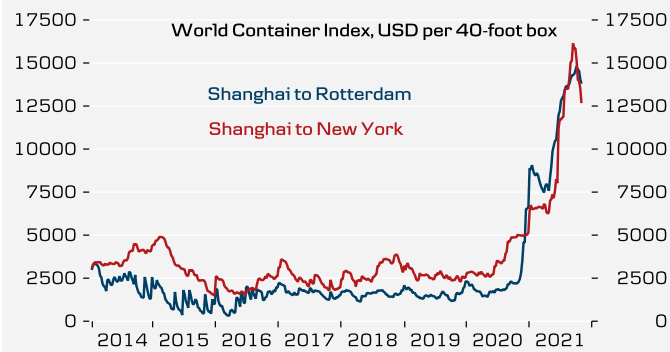
Source: Macrobond Financial, Bloomberg
Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



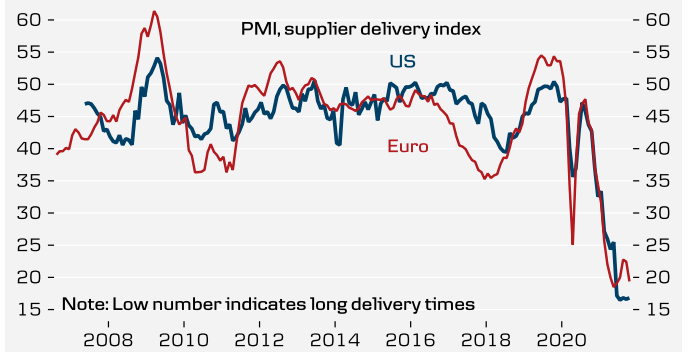
Source: Macrobond Financial, Bloomberg
Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

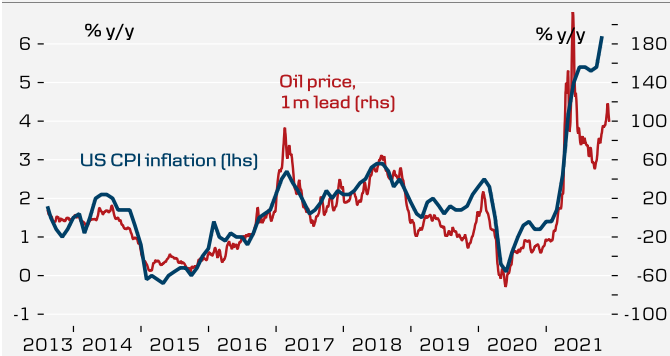


Source: Macrobond Financial, Markit

Country details - US

Top down

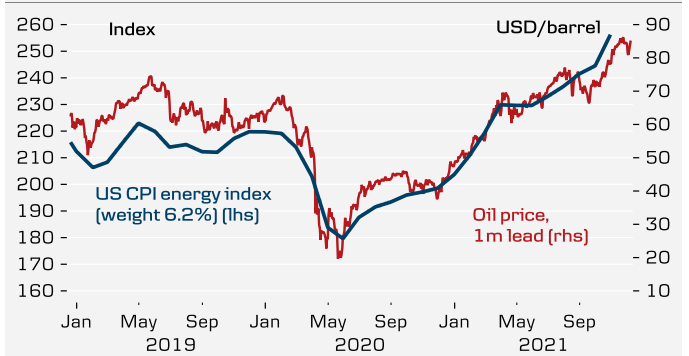
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

Note: Past performance is not a reliable indicator of future performance.

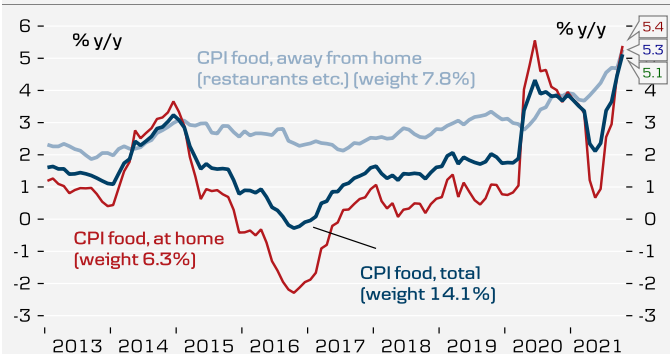
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

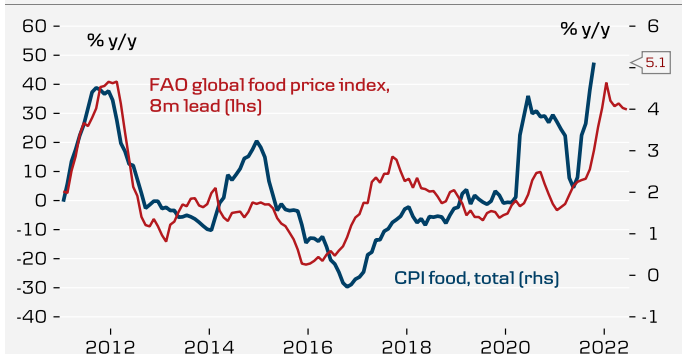
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

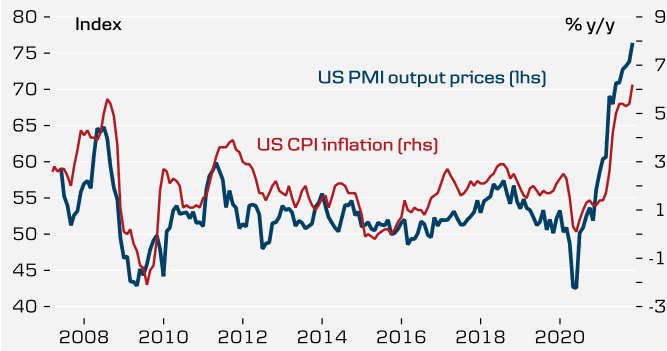
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

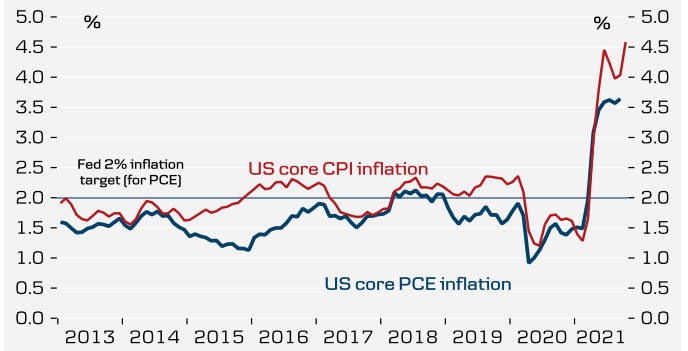
Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



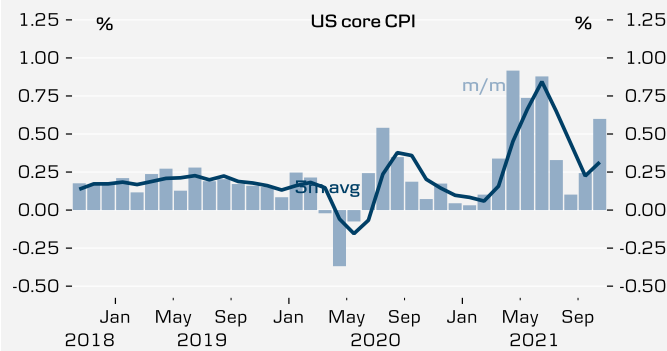
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



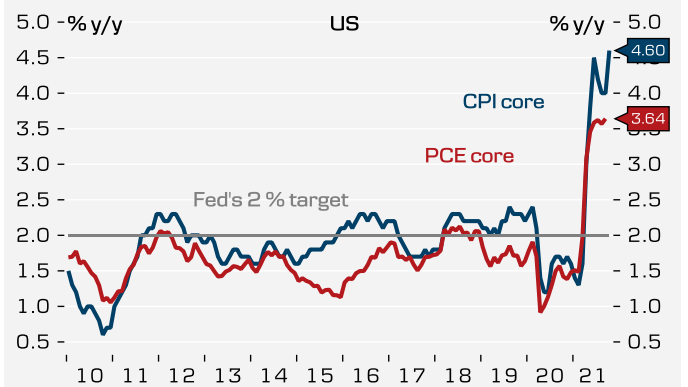
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



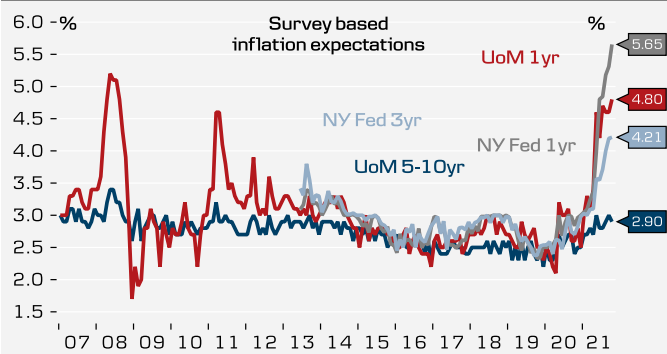
Source: Macrobond Financial, BLS

CPI vs. PCE



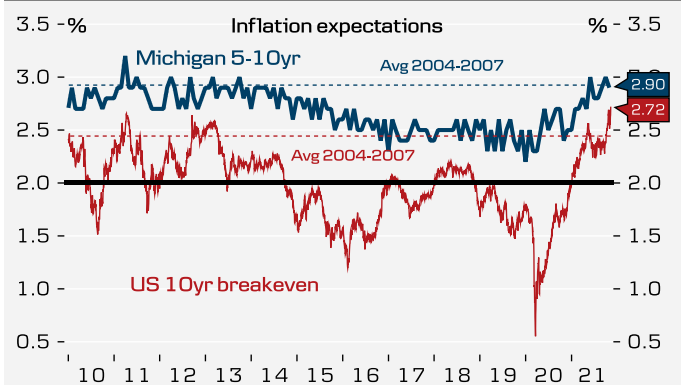
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



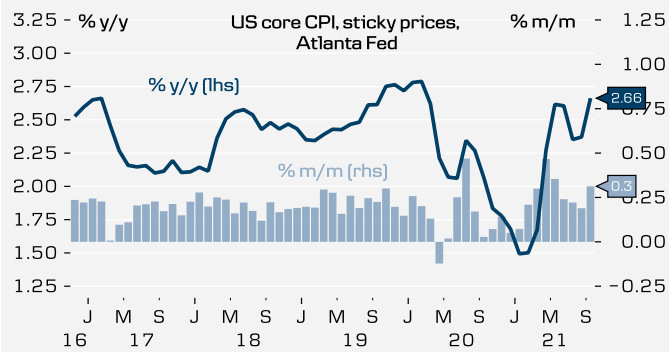
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



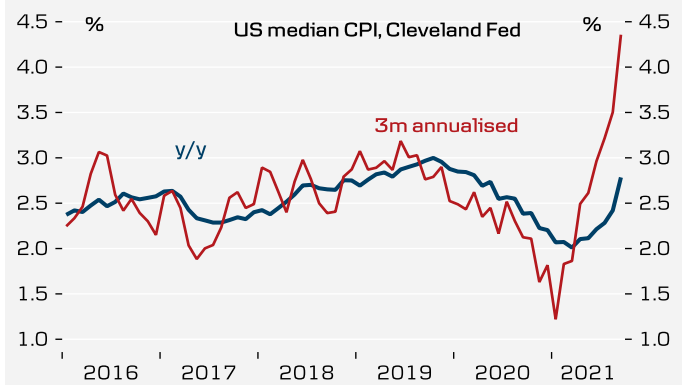
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



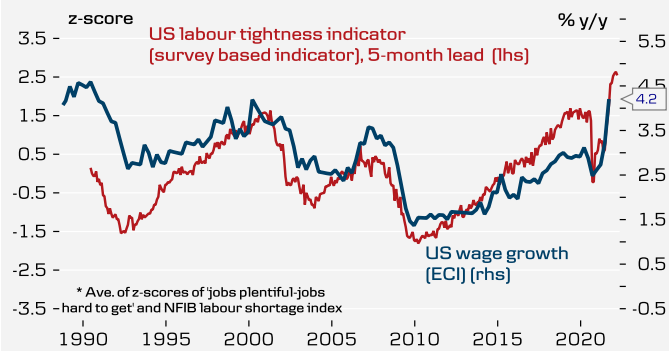
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



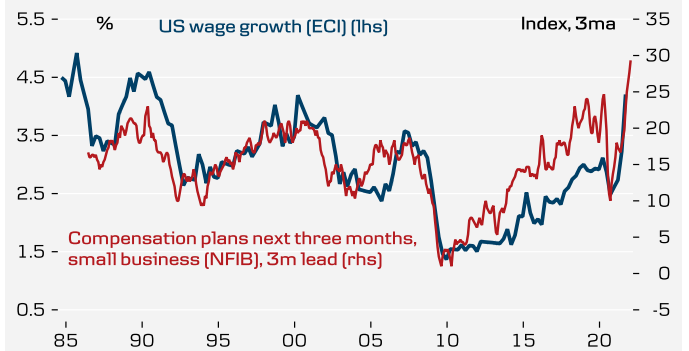
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: Wage growth vs tightness



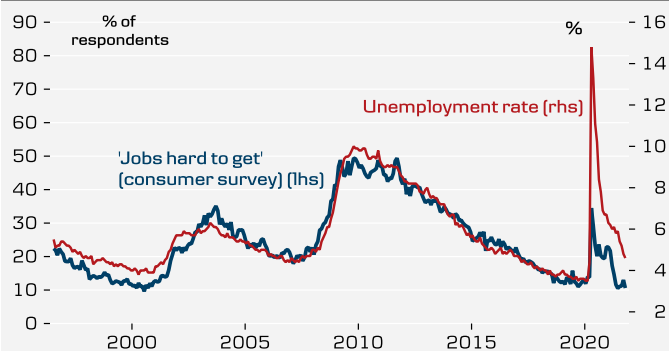
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: Job openings and shortage



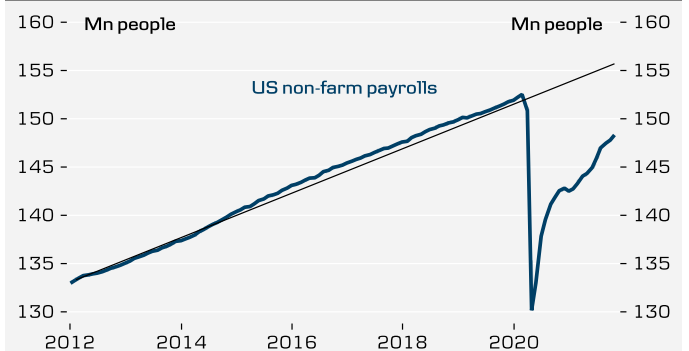
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

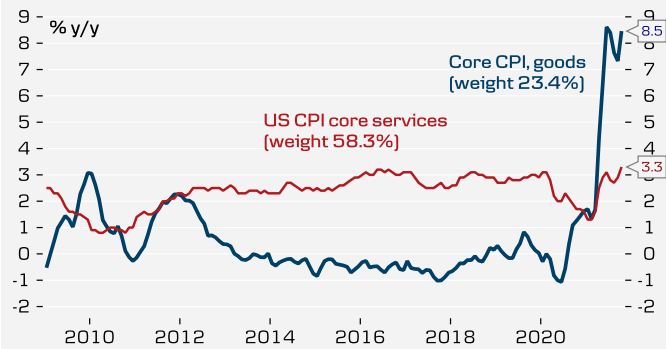
Employment gap



Source: Macrobond Financial, BLS

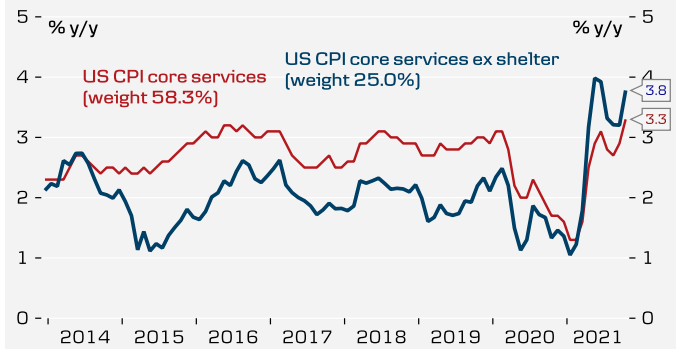
Bottom up

Core goods vs. services



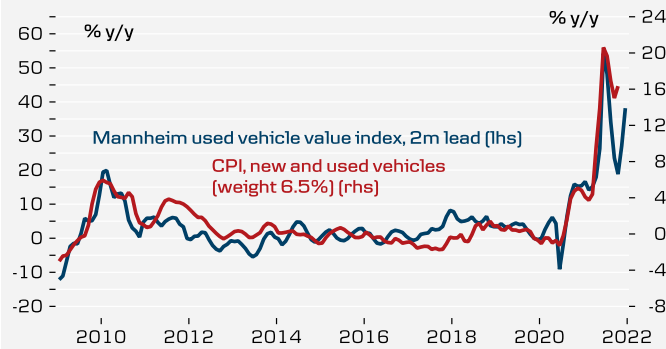
Source: Macrobond Financial, BLS

Core services ex shelter



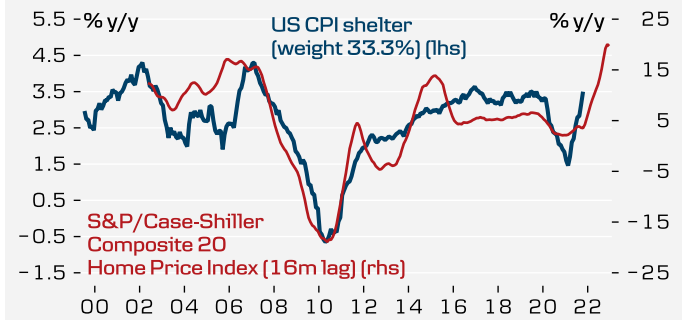
Source: Macrobond Financial, BLS

Used car prices



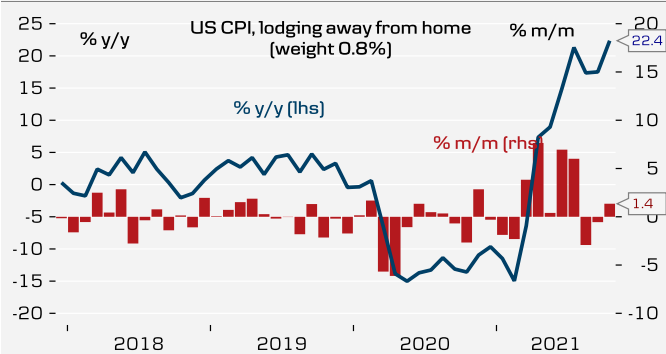
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



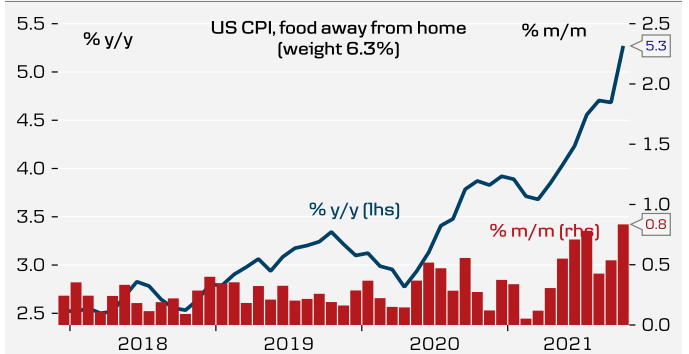
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



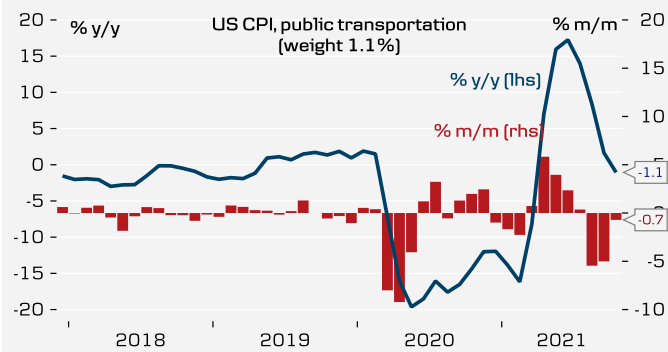
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



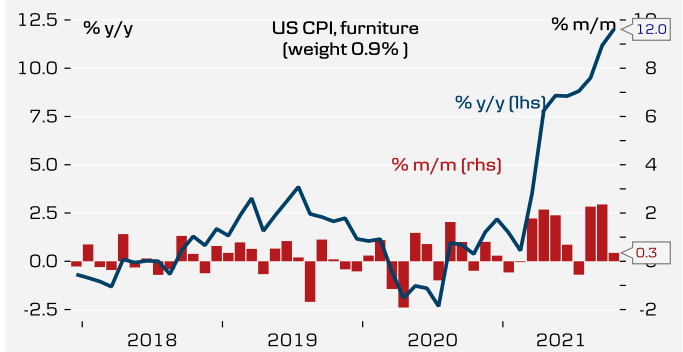
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

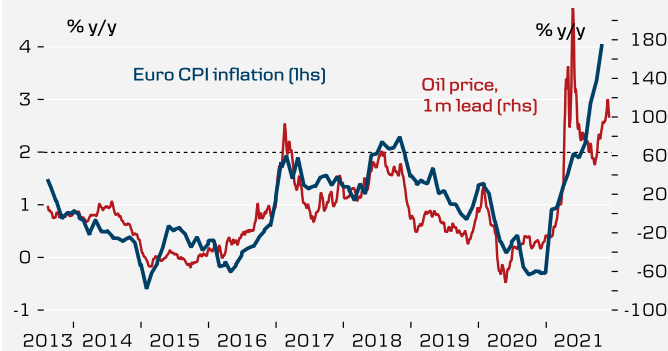


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

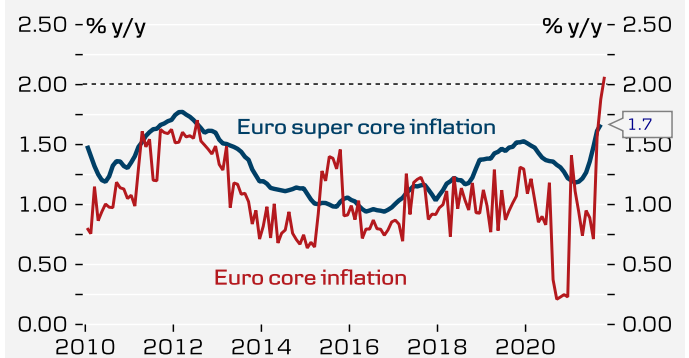
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

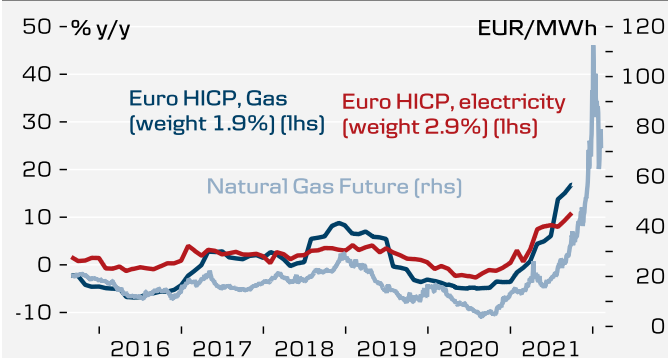
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

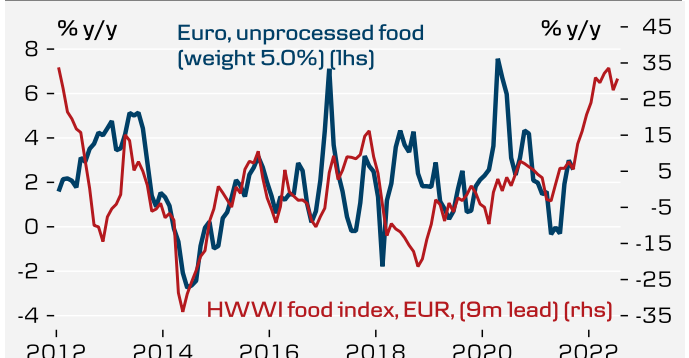
Natural gas & electricity



Source: Macrobond Financial, Eurostat

Note: Past performance is not a reliable indicator of future performance.

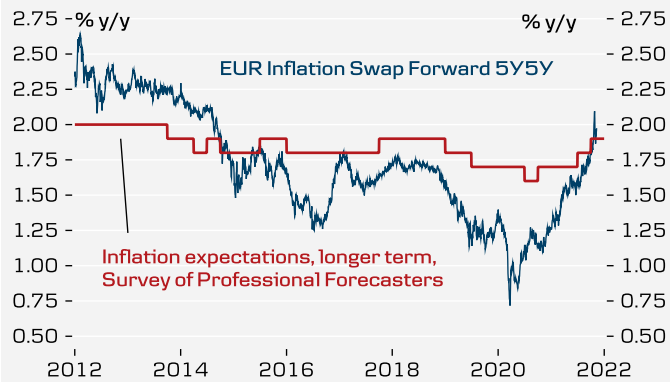
Food



Source: Macrobond Financial

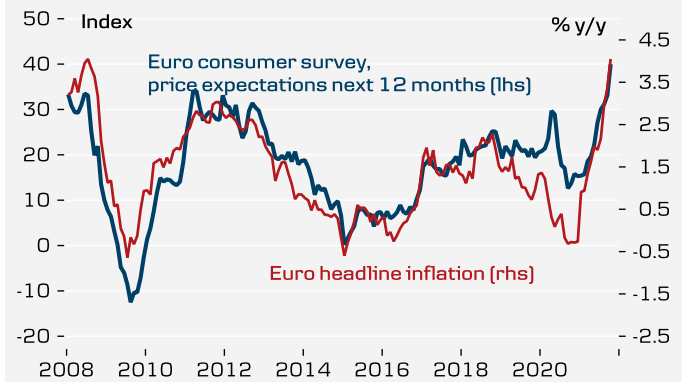
Note: Past performance is not a reliable indicator of future performance.

Inflation expectations



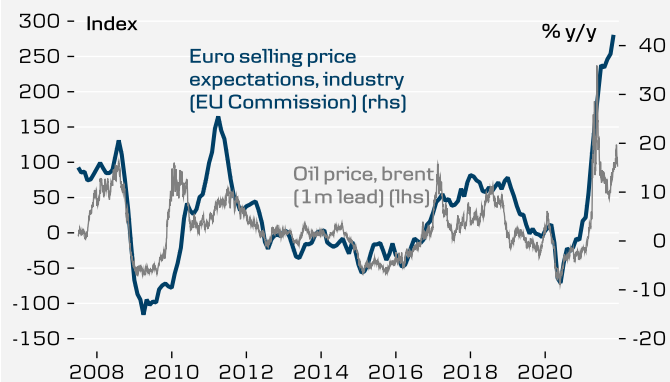
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

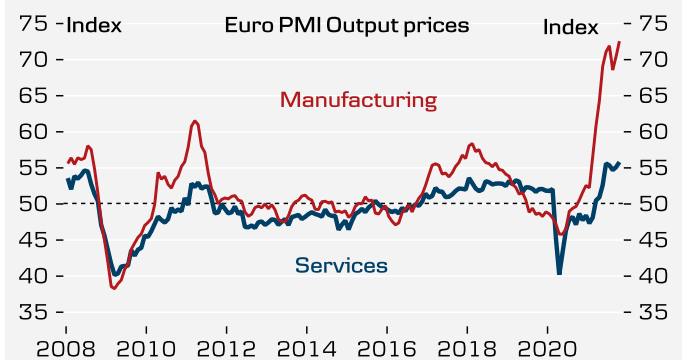
Selling price expectations from companies



Source: Macrobond Financial, EU Commission

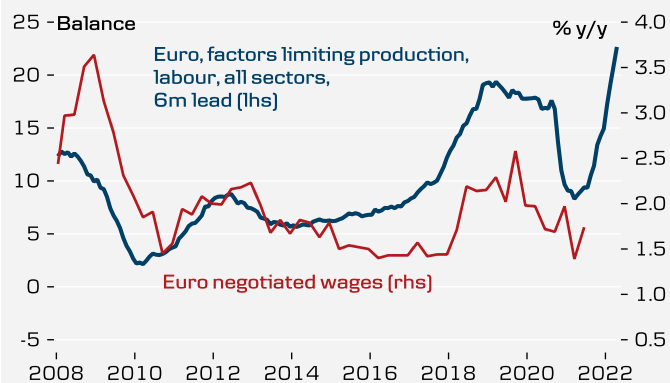
Note: Past performance is not a reliable indicator of future performance.

PMI output prices



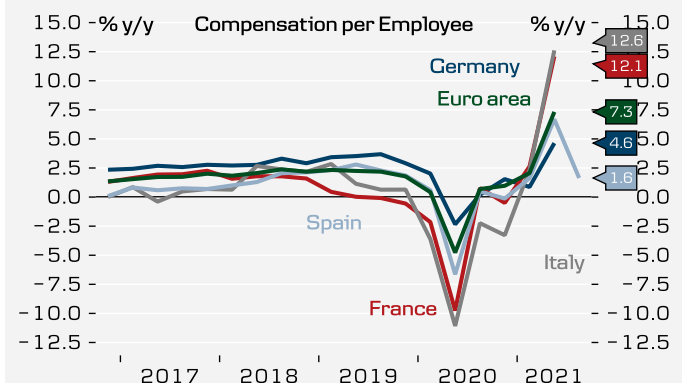
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage compensation

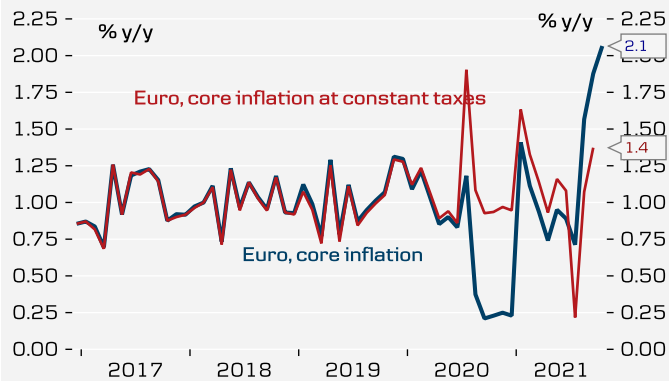


Source: Macrobond Financial, ECB.

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

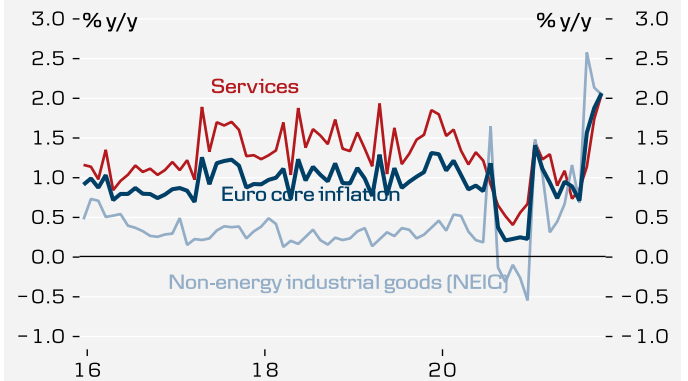
Bottom up

Core inflation, effect from taxes



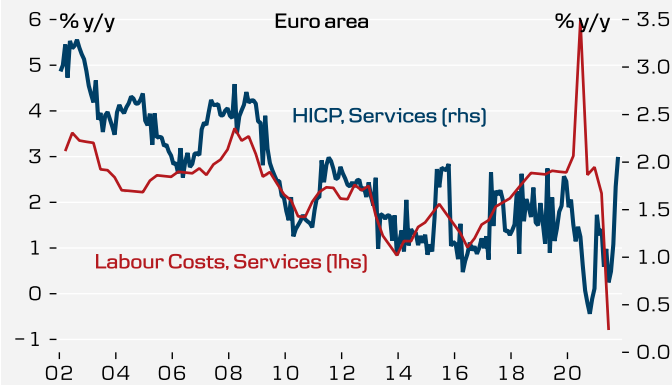
Source: Macrobond Financial, Eurostat

Core inflation components



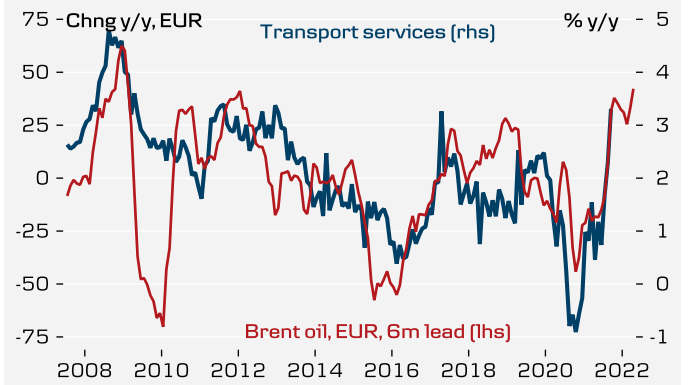
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



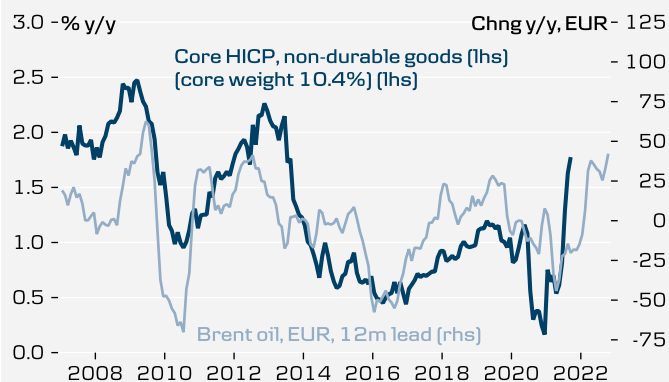
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



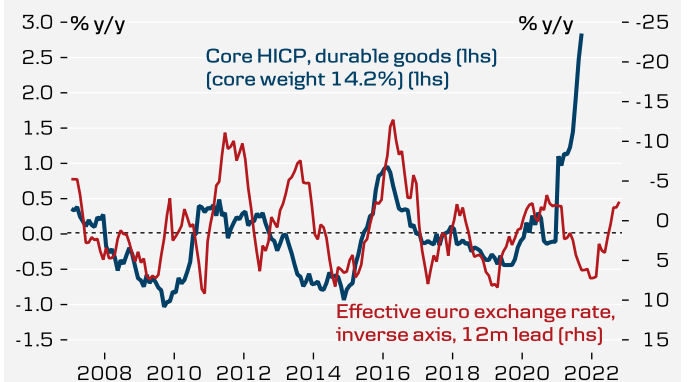
Source: Macrobond Financial, Eurostat, Danske Bank
Note: Past performance is not a reliable indicator of future performance.

Core non-durable goods



Source: Macrobond Financial

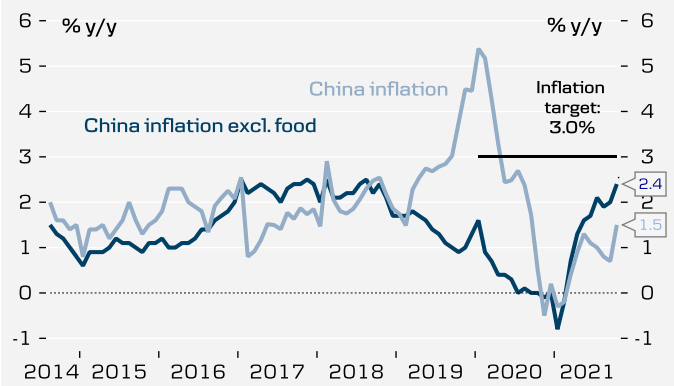
Core durable goods



Source: Macrobond Financial

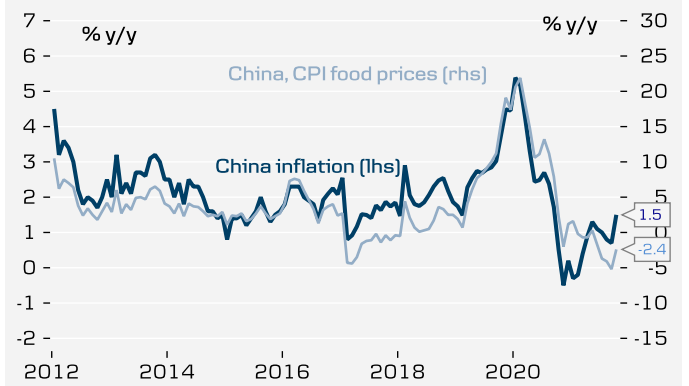
Country details – China

CPI and CPI ex food



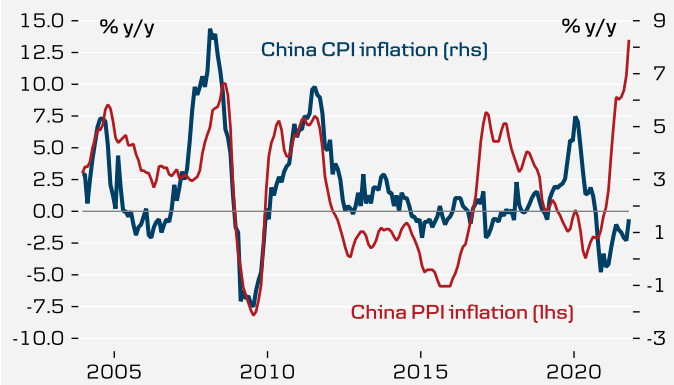
Source: Macrobond Financial, NBS

CPI and food prices



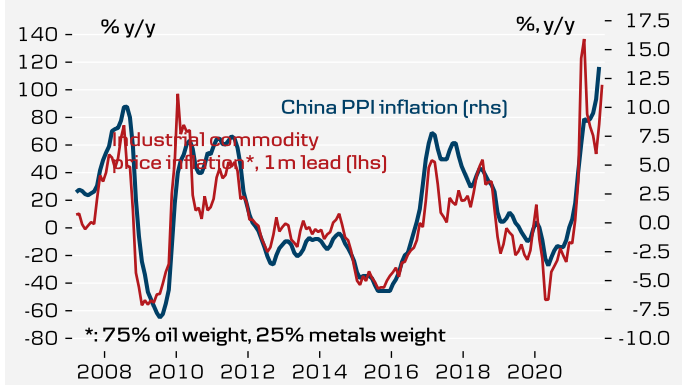
Source: Macrobond Financial, NBS

PPI vs. CPI



Source: Macrobond Financial, NBS

PPI vs. commodity prices



Source: Macrobond Financial, NBS, Danske Bank

Note: Past performance is not a reliable indicator of future performance.

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 Sillemann, Analyst, Antti Oskari Ilvonen, Analyst and Jakob Ekholdt Christensen, Chief 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.

Date of first publication

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

General 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: 10 November 2021, 16:30 CET

Report first disseminated: 11 November 2021, 06.40 CET