

# Global Inflation Watch

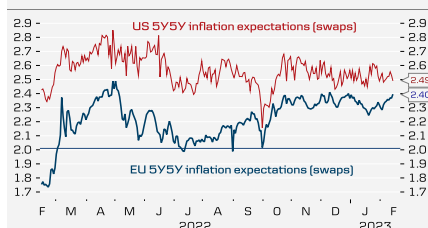
## High services inflation remains a worry for central banks

- Overview:** Inflation drivers continue to paint a mixed picture but inflation is likely to head lower through 2023 in US and the euro area. Price pressures from food and freight rates have clearly eased as has energy and electricity prices in Europe. Labour markets remain tight, but wage pressures have showed tentative signs of easing. Core inflation pressures remained elevated in January both in the euro area and the US, and we expect the ECB and the Fed to react by continuing to hike interest rates in the spring meetings.
- Inflation expectations:** Both US and euro area consumer inflation expectations have remained elevated, but off the peak levels. Some short-term US indicators rose modestly, but market-based long-term inflation expectations remain broadly stable.
- US:** US January CPI came out in line with our expectations: headline +0.5% m/m and core +0.4% m/m. That said, the details suggested that underlying price pressures remained elevated. Core services CPI excl. shelter & health care ticked higher to 0.65% (from 0.35%), and core goods prices rose for the first time in three months (+0.07%). The more positive leading macro indicators and elevated PMI price indices suggest that companies are still able to pass high input costs onto consumer prices. Wage inflation pressures eased towards late 2022, but remain too fast for the Fed. Furthermore, the strong January Jobs Report and higher JOLTs Job Openings point towards further upside risks. Shelter inflation also remains elevated, but while forecasting short-term developments is difficult, we expect it to cool towards the summer.
- Euro:** Euro area headline inflation continued to ease for a third month to 8.5% in January, but with core inflation marking yet another record high at 5.2%, as many firms again used the turn of the year to adjust prices to a new input cost reality. Elevated selling price expectations (especially for services) suggest this process is far from finished. A range of technical mishaps surrounding the German inflation figures leave the risk of upside revisions. With the economy and labour market holding up better than expected (see also *Euro macro notes - From recession to stagnation*, 2 February), 'stickily' high core inflation could remain a worry for ECB for some time yet.
- China:** CPI rose to 2.1% y/y from 1.8% y/y in December, still comfortably below the 3% target. PPI inflation declined to -0.8% y/y from -0.5% y/y.

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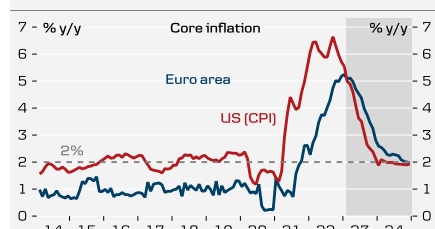
### Market-based inflation expectations sideways lately above 2%



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

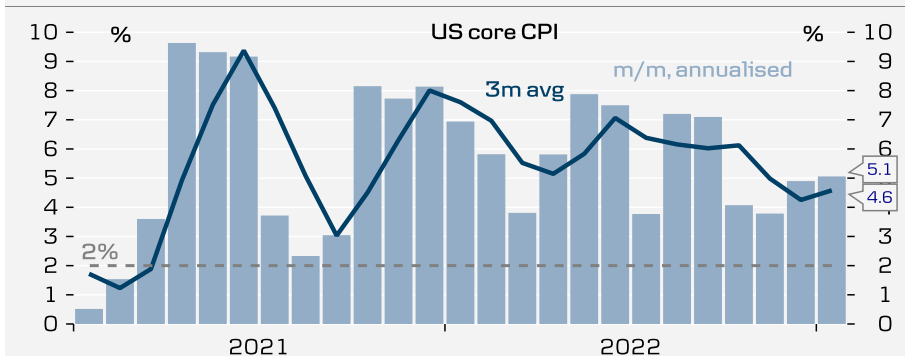
Source: Macrobond Financial, Bloomberg

### Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

### Momentum in US core inflation still too high



Source: Bank of Ireland, Indeed Hiring Lab, Macrobond Financial, Danske Bank

### Chief Analyst

Allan von Mehren  
alvo@danskebank.dk

### Analyst

Antti Ilvonen  
antti.ilvonen@danskebank.com

### Senior Analyst

Aila Mihr  
amih@danskebank.dk

# Top down overview

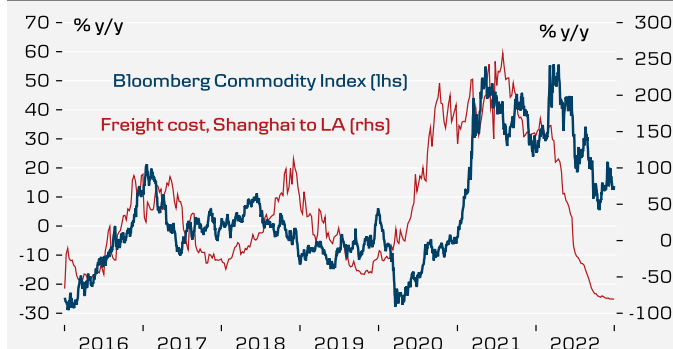
## Trend in inflation pressure moving lower

### Inflation Score Card

Commodity prices	Oil	↓
	Metals	↓
	Food stuff	↓
	Gas	→
Supply Chains	Freight rates	↓
	Delivery times	↓
Wage pressure		↑
Inflation expectations		→
Pricing power		↓

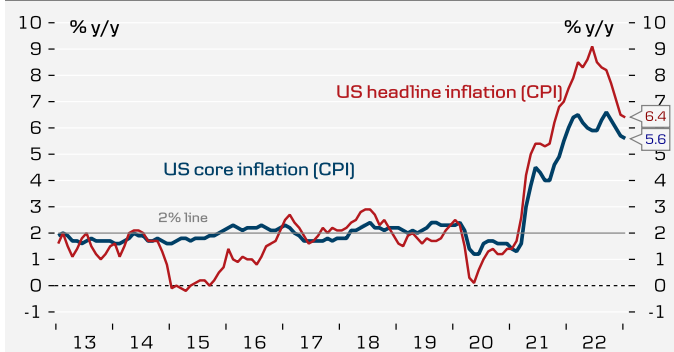
Source: Macrobond Financial, BLS

## Commodity price and freight inflation



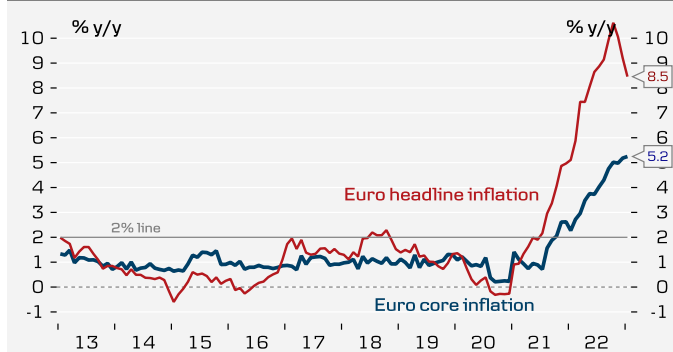
Source: Macrobond Financial, Eurostat

## US headline and core inflation (CPI)



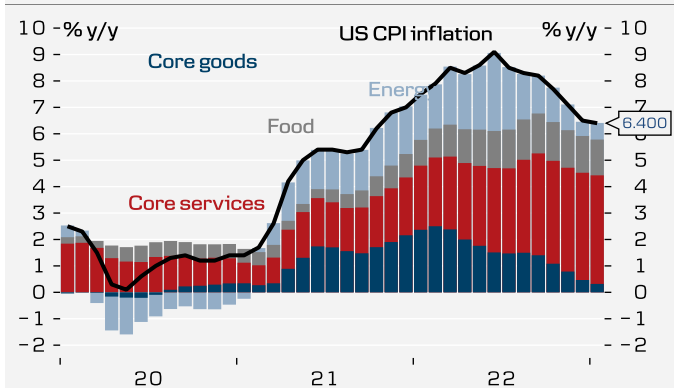
Source: Macrobond Financial, BLS

## Euro headline and core inflation



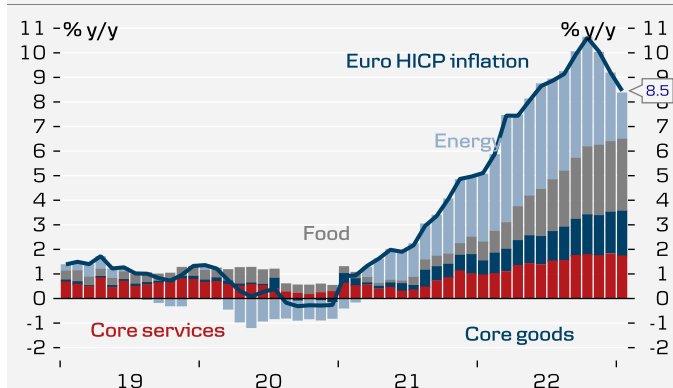
Source: Macrobond Financial, Eurostat

## Contributions to US inflation



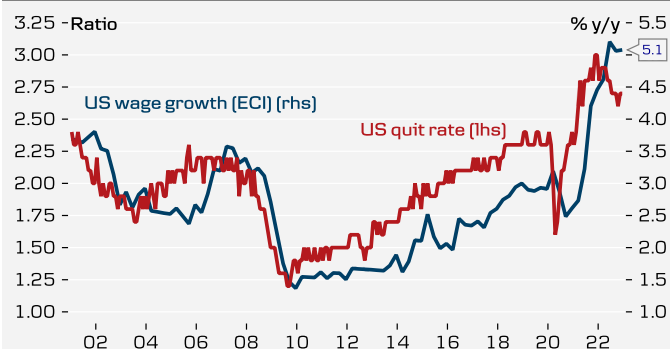
Source: Macrobond Financial, BLS

## Contributions to euro inflation



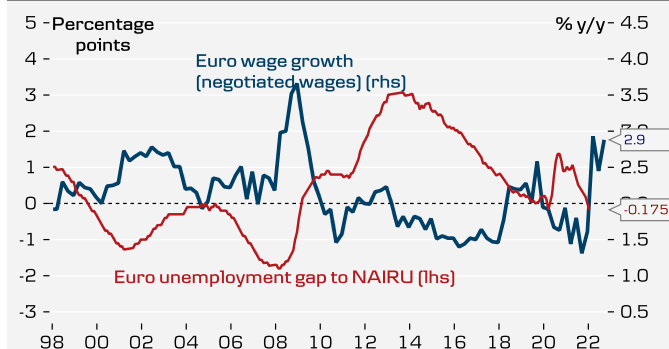
Source: Macrobond Financial, Eurostat

### US wage growth and labour market tightness



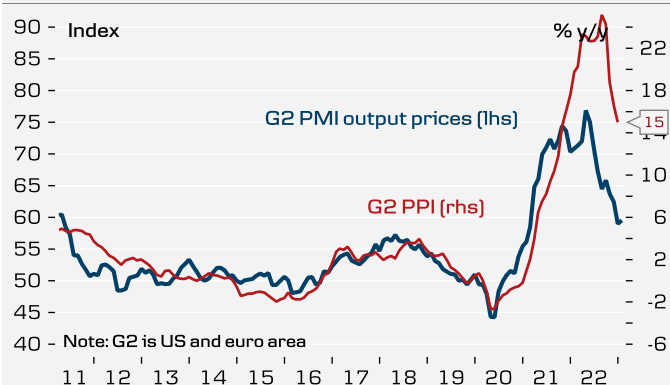
Source: Macrobond Financial, BLS

### Euro wage growth and labour market tightness



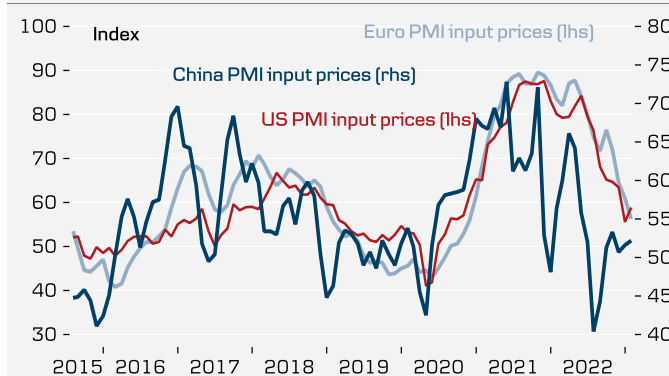
Source: Macrobond Financial, Eurostat, ECB

### G2 PPI inflation vs oil price inflation



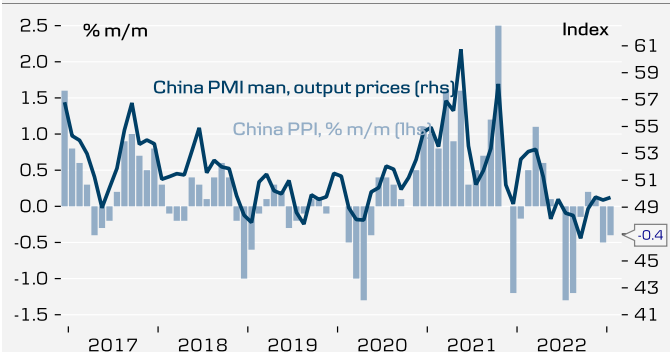
Source: Macrobond Financial, BLS, Eurostat

### PMI input price indices US, Euro and China



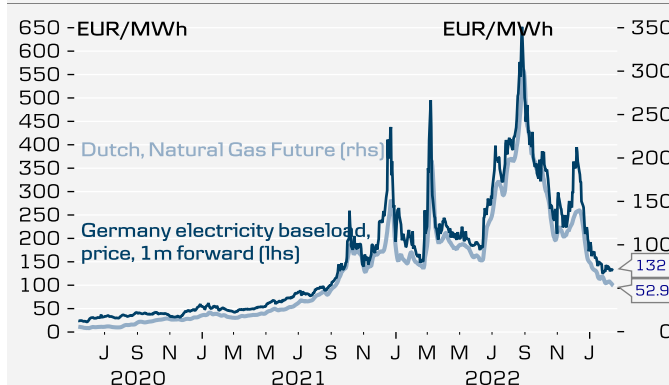
Source: Macrobond Financial, Markit

### China PPI inflation momentum



Source: Macrobond Financial, Markit

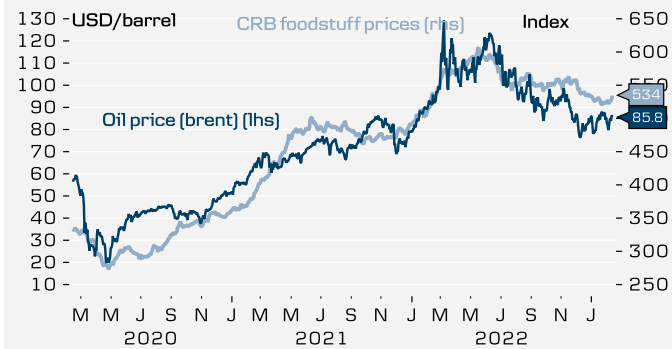
### European natural gas and electricity prices



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

Source: Macrobond Financial, PBoC, Danske Bank

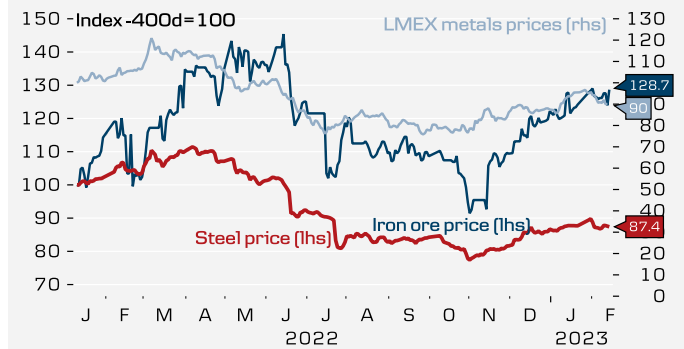
### Commodity price levels – oil, metals and food



Source: Macrobond Financial, Bloomberg

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

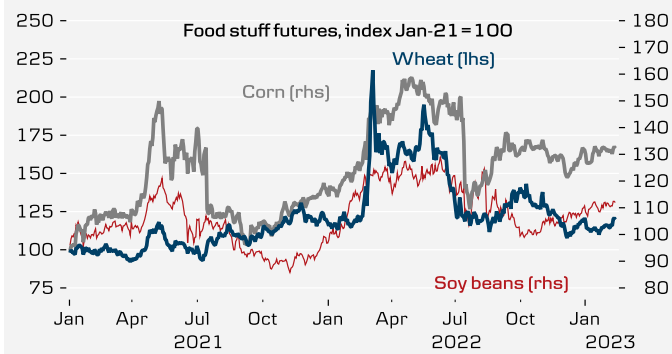
### Commodity price levels – steel, iron ore and lumber



Source: Macrobond Financial, Bloomberg

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

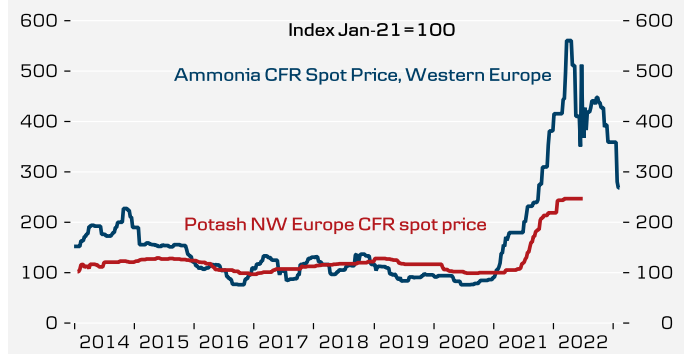
### Grain prices



Source: Macrobond Financial, Bloomberg

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

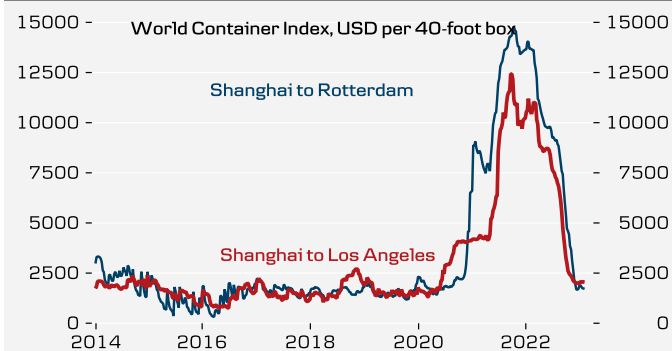
### Fertilizer input prices



Source: Macrobond Financial, Bloomberg

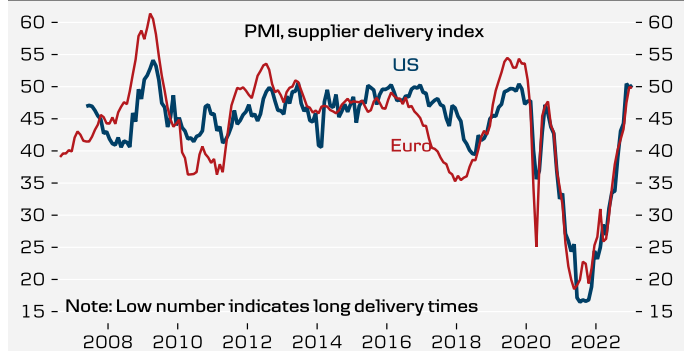
Note: Past performance is not a reliable indicator of future performance.

### Freight rates



Source: Macrobond Financial, Bloomberg, WCI

### Bottle necks - supplier delivery indices

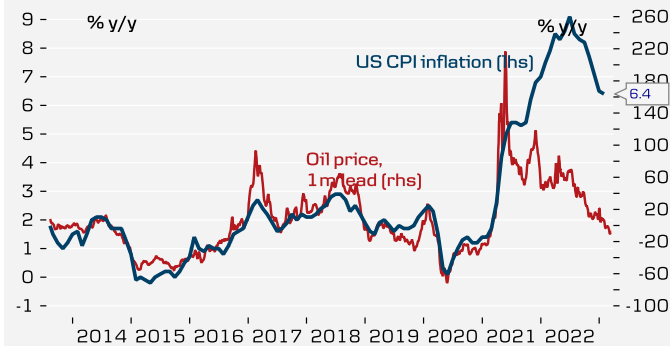


Source: Macrobond Financial, Markit

# Country details - US

## Top down

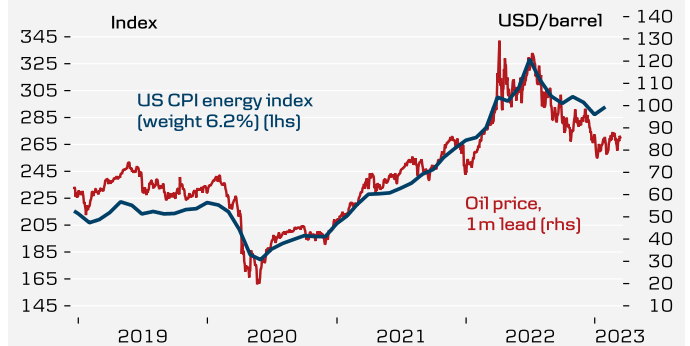
### Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

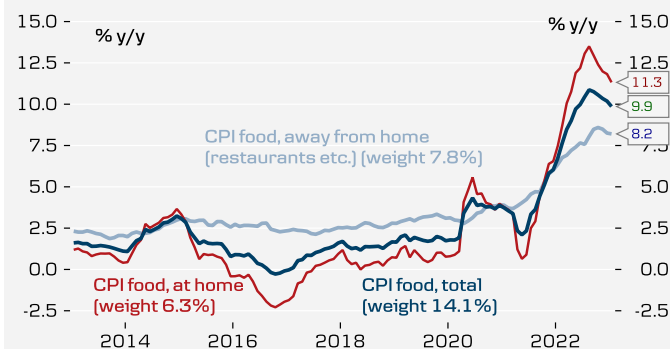
### CPI energy prices vs oil



Source: Macrobond Financial, BLS.

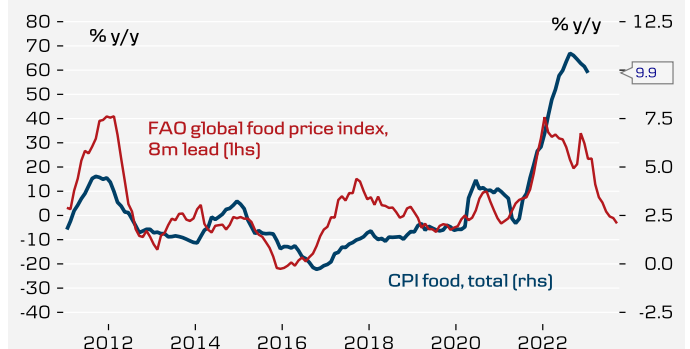
Note: Past performance is not a reliable indicator of future performance.

### Food prices



Source: Macrobond Financial, BLS

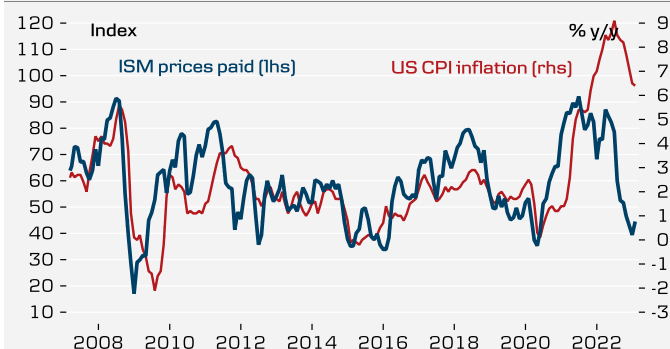
### Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

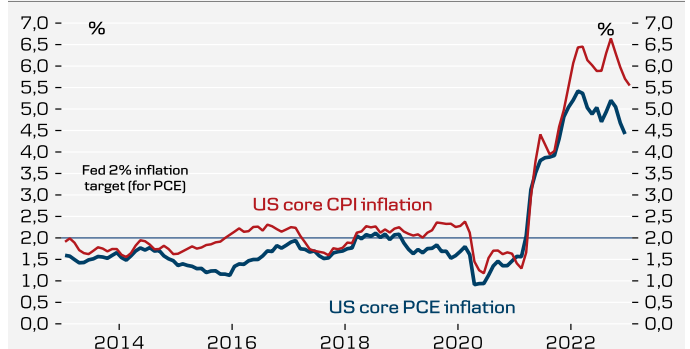
Note: Past performance is not a reliable indicator of future performance.

### US PMI output prices vs CPI inflation



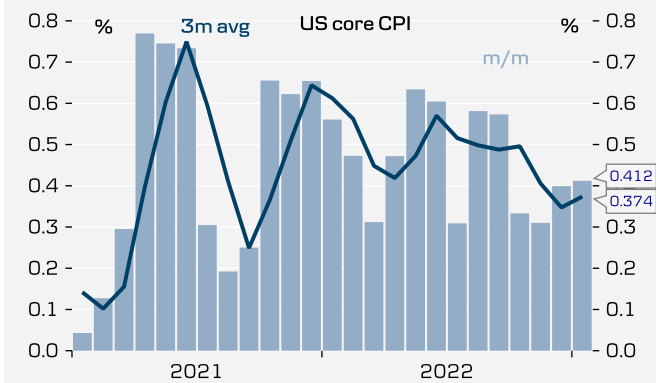
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



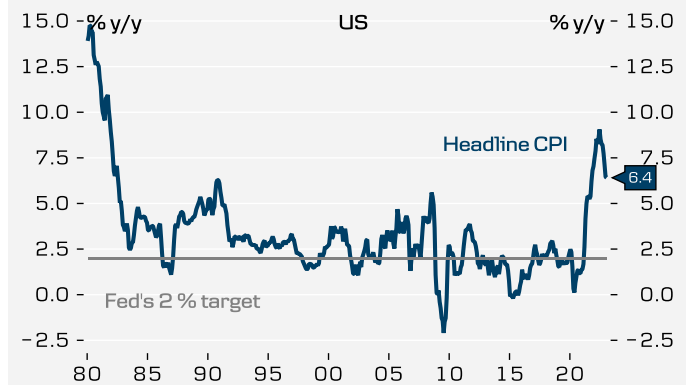
Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



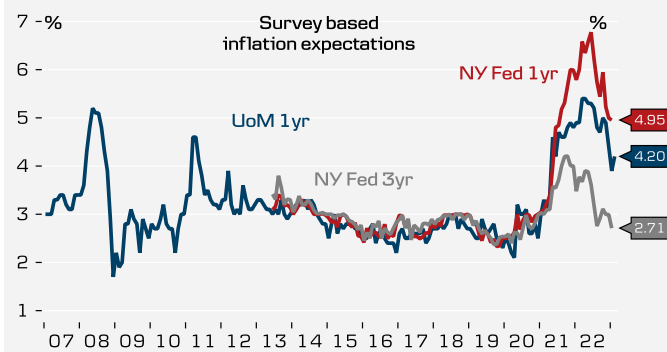
Source: Macrobond Financial, BLS

### Headline CPI since 1980



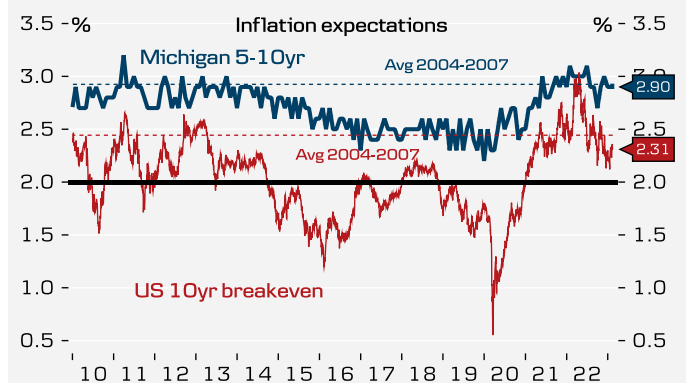
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



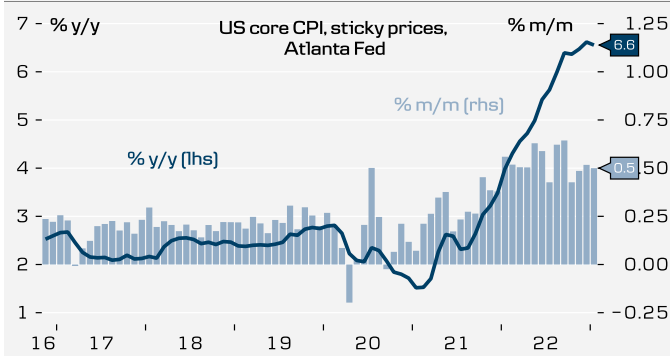
Source: NY Fed, University of Michigan, Macrobond Financial

### Long-term inflation expectations



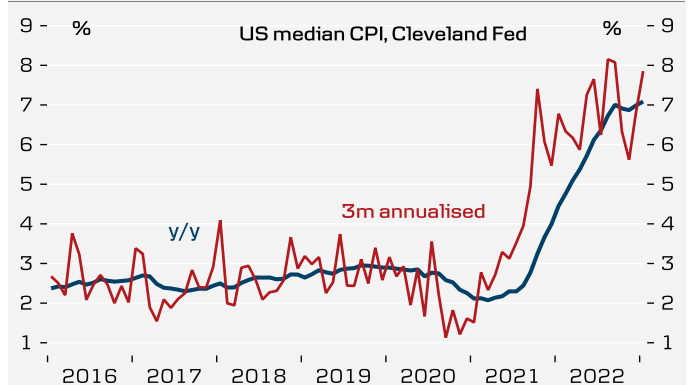
Source: Macrobond Financial, University of Michigan  
Note: Past performance is not a reliable indicator of future performance.

### Core sticky prices inflation (prices changed less frequently)



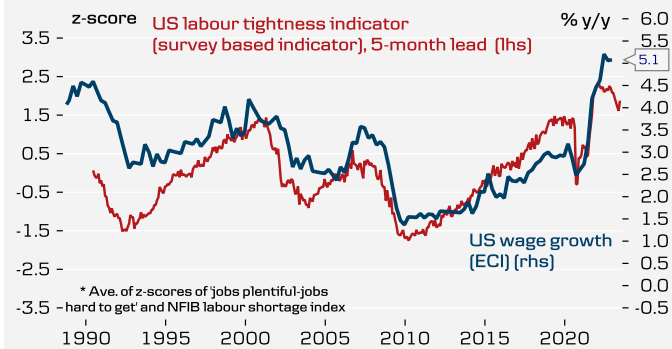
Source: Macrobond Financial, Atlanta Fed

### Median CPI inflation



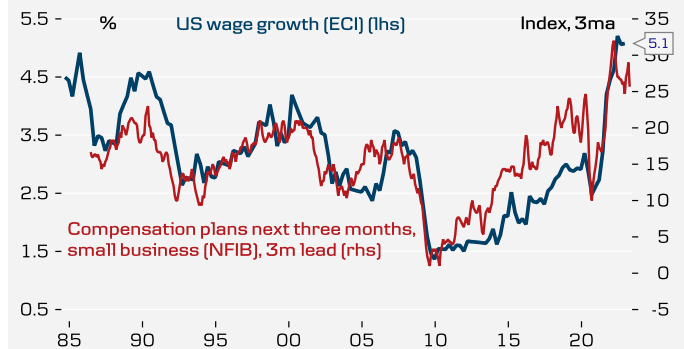
Source: Macrobond Financial, Cleveland Fed

### Labour market tightness: wage growth vs tightness



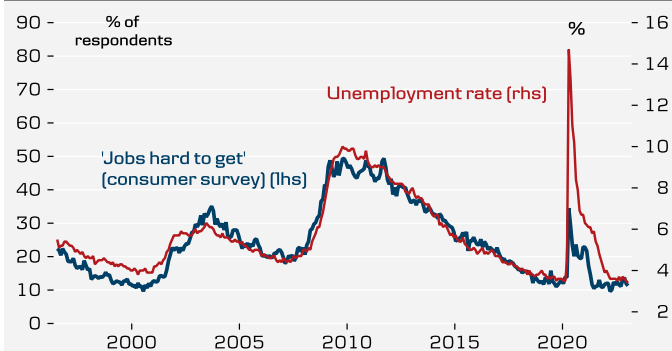
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

### Labour market tightness: job openings and shortage



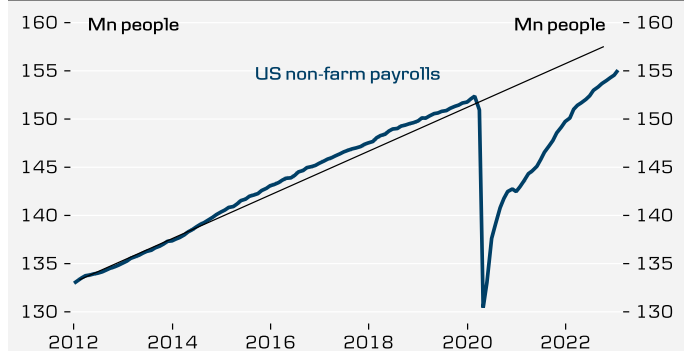
Source: Macrobond Financial, NFIB, BLS

### Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

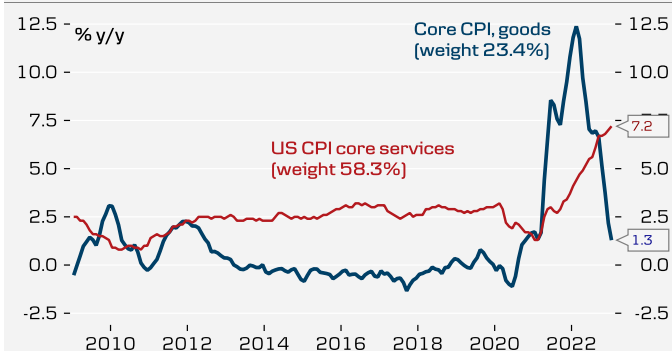
### Employment gap



Source: Macrobond Financial, BLS

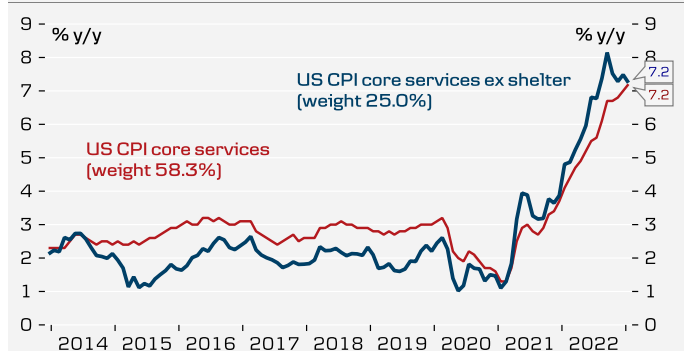
## Bottom up

### Core goods vs. services



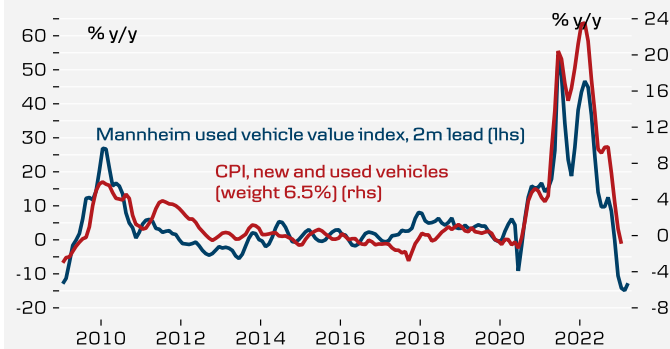
Source: Macrobond Financial, BLS

### Core services ex shelter

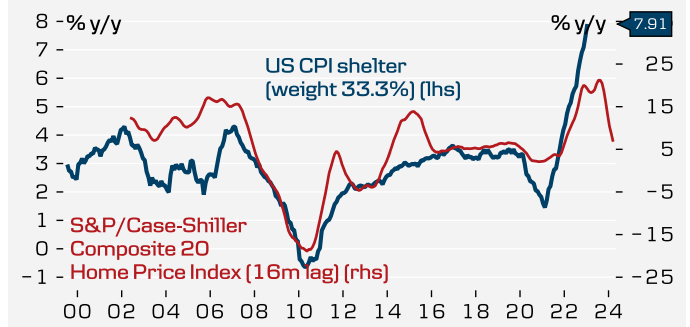


Source: Macrobond Financial, BLS

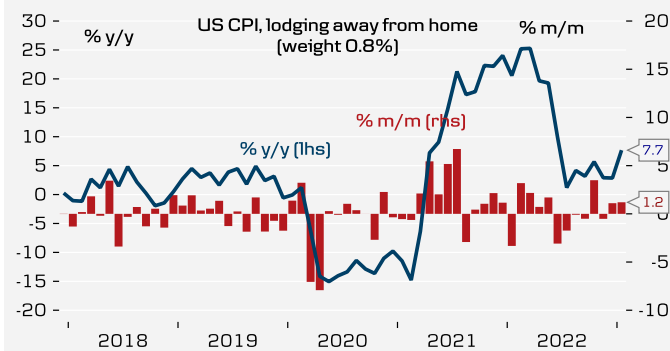
### Used car prices



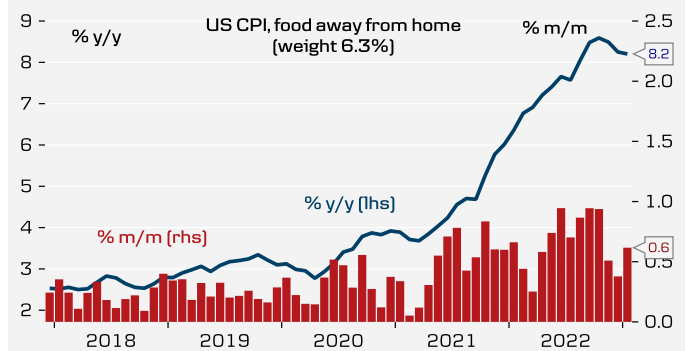
### Rent of shelter



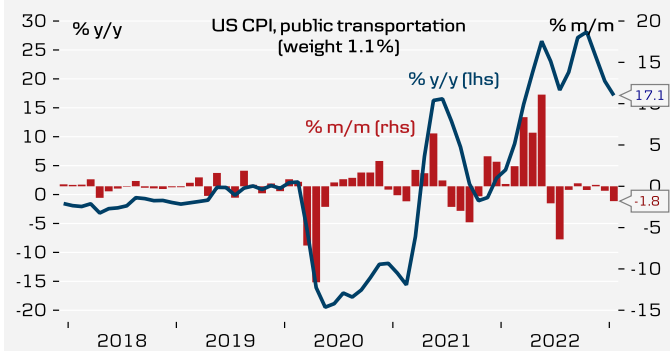
### Lodging away from home (hotels etc.)



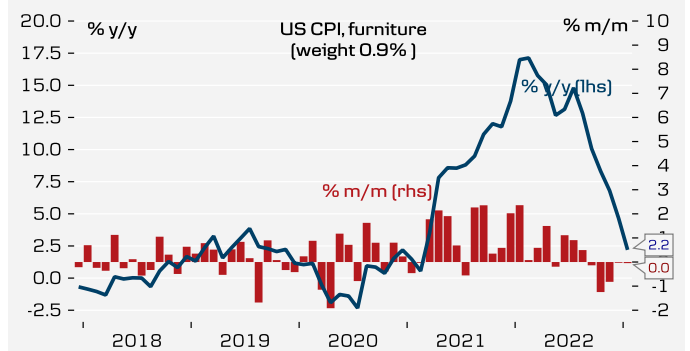
### Food away from home (restaurants etc.)



### Public transportation (airfares etc.)



### Furniture

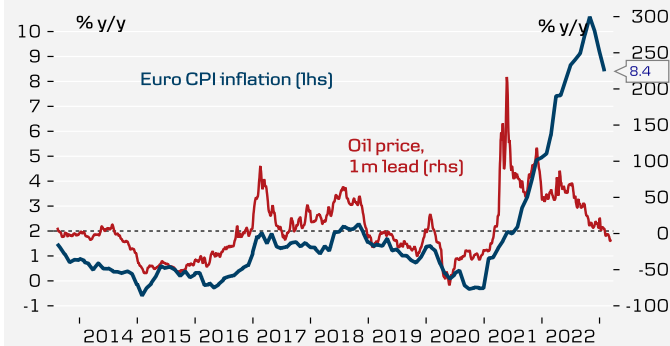




# Country details – Euro

## Top Down

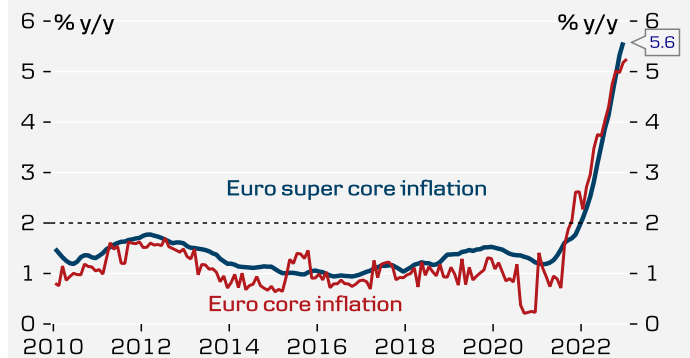
### Headline vs. oil prices



Source: Macrobond Financial, Eurostat

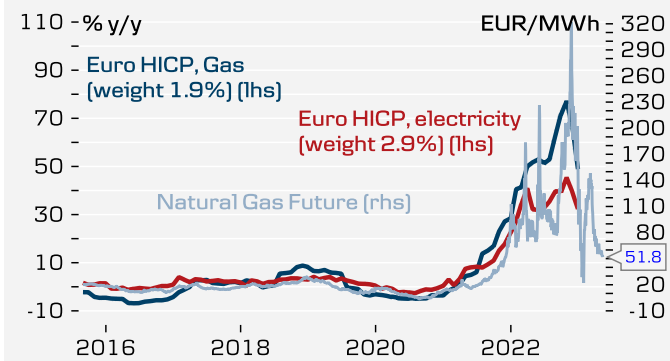
Note: Past performance is not a reliable indicator of future performance.

### Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

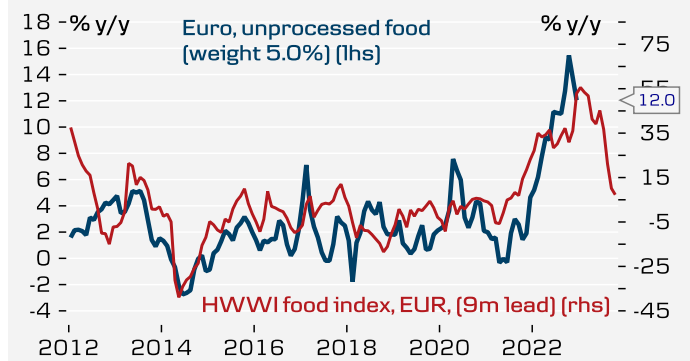
### Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

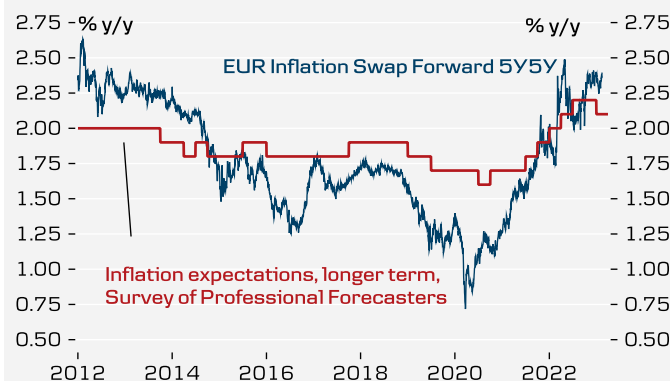
### Food



Source: Macrobond Financial

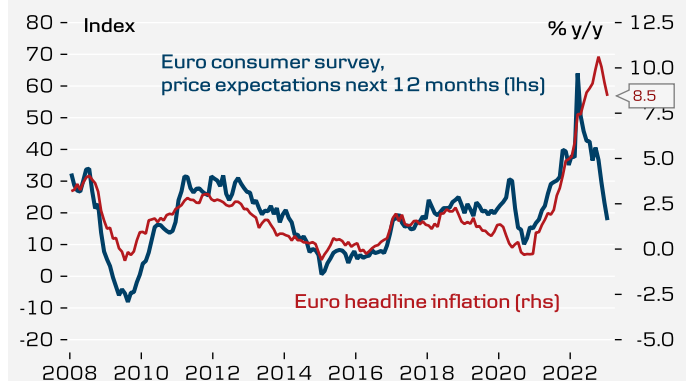
Note: Past performance is not a reliable indicator of future performance.

### Inflation expectations



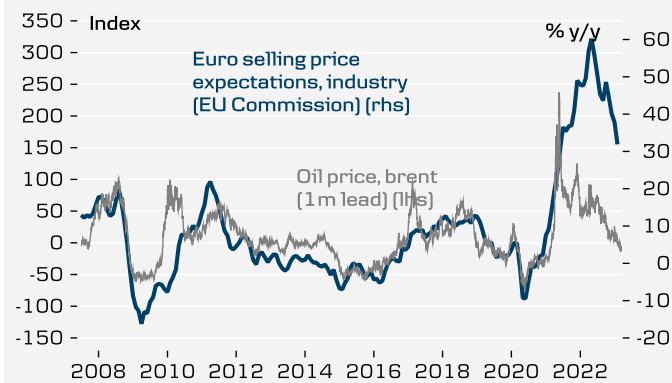
Source: Macrobond Financial, Bloomberg, ECB

### Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

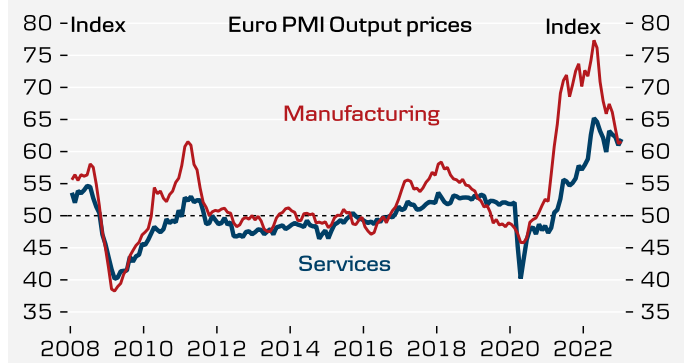
### Selling price expectations from companies



Source: Macrobond Financial, EU Commission

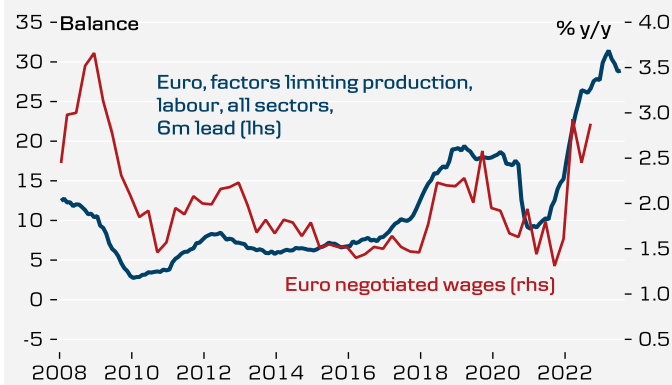
Note: Past performance is not a reliable indicator of future performance.

### PMI output prices



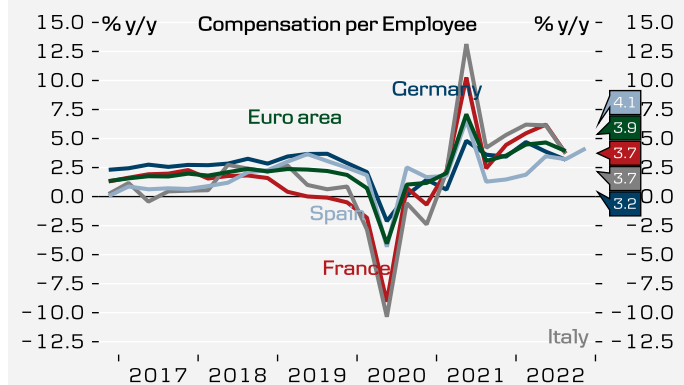
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage compensation

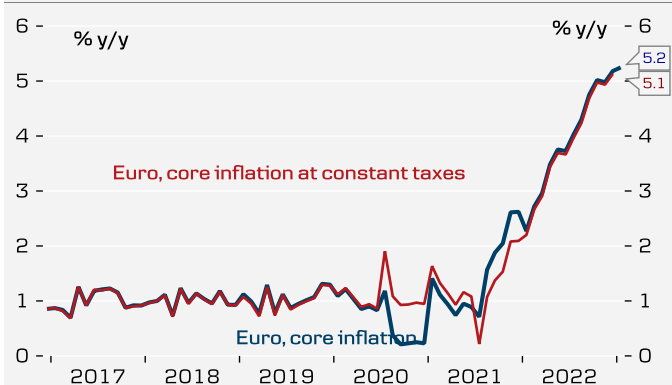


Source: Macrobond Financial, ECB.

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

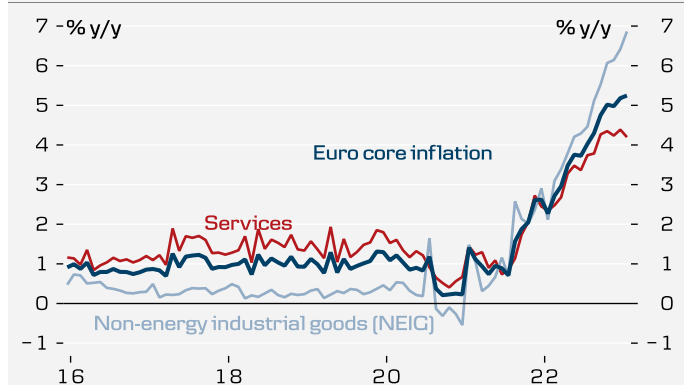
## Bottom up

### Core inflation, effect from taxes



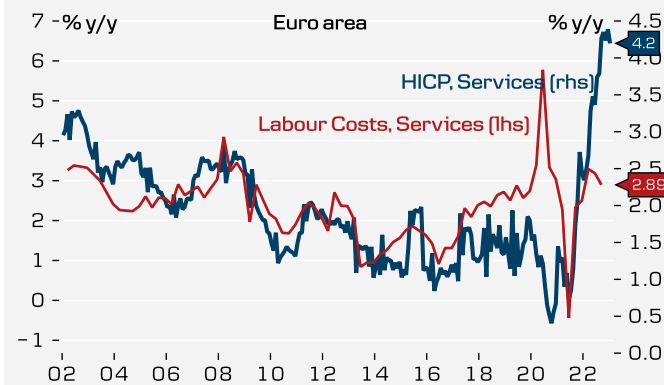
Source: Macrobond Financial, Eurostat

### Core inflation components



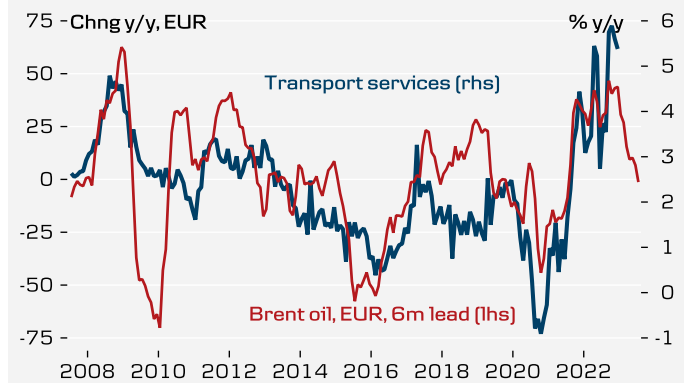
Source: Macrobond Financial, Eurostat, ECB

### Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

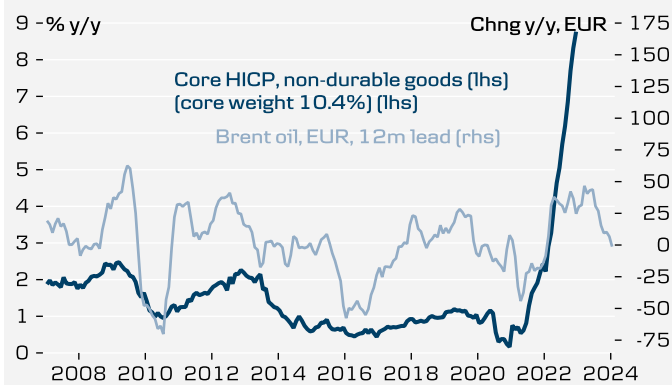
### Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

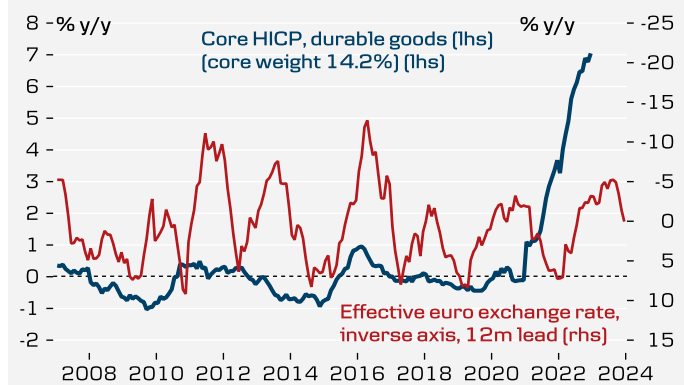
Note: Past performance is not a reliable indicator of future performance.

### Core non-durable goods



Source: Macrobond Financial

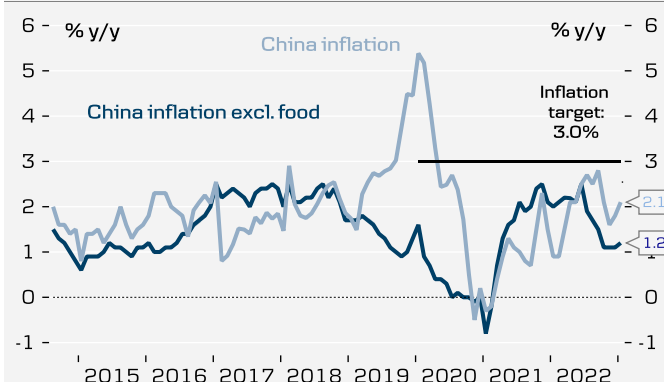
### Core durable goods



Source: Macrobond Financial

## Country details – China

### CPI and CPI ex food



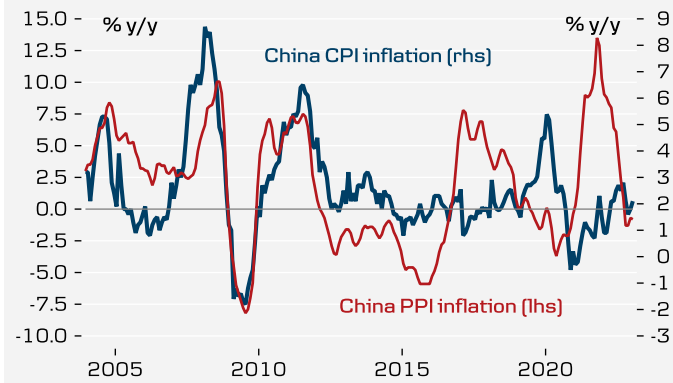
Source: Macrobond Financial, NBS

### 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 Aila Mihr, Associate, Allan von Mehren, Director and Antti Ilvonen, Analyst.

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**Report completed:** 15 February 2023, 10:50 CET

**Report first disseminated:** 15 February 2023, 11:10 CET