

Global Inflation Watch

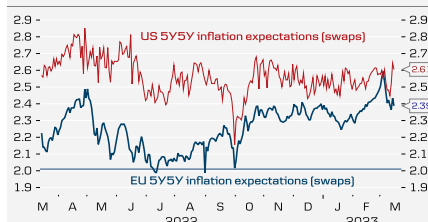
Central banks balance inflation and financial stability risks

- 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, freight and energy have clearly eased. Labour markets remain tight, and while wage pressures have showed tentative signs of easing, underlying price pressures remain sticky. Especially the services sector drove upside surprises in the February core inflation prints. Despite the uncertainty around financial stability risks, we expect both the ECB and the Fed to continue hiking interest rates in the spring meetings.
- Inflation expectations:** Both US and euro area consumer inflation expectations have remained elevated, but off the peak levels. Markets' short-term expectations declined temporarily amid the SVB uncertainty but longer-term expectations remain stable.
- US:** US February CPI came out close to expectations (0.37%; forecast 0.4%), but core CPI surprised modestly to the upside (0.45% m/m; forecast 0.4%) driven by faster services inflation. While the shelter component explained part of the uptick, broader core services ex. shelter & healthcare picked to 0.8% m/m (from 0.65%). And even though core goods and energy CPI declined slightly, Fed is more focused on the stickier components of inflation, which still remain elevated. On a more positive note, average hourly earnings growth continued to ease to 0.24% m/m amid signs of recovering labour supply. That said, the still very high labour demand suggests that wage inflation pressures have not yet fully subsided.
- Euro:** headline inflation continued to ease for a fourth month to 8.5% in February on the back of lower energy prices, but with core inflation coming in red hot and marking yet another record high at 5.6%. Declining input and producer prices suggest a peak in core inflation should not be too far off, but with the economy and labour market holding up better than expected, 'stickily' high core inflation will remain a worry for the ECB for some time yet. The growing importance of services prices in driving underlying inflation pressures is increasingly visible, with PMI manufacturing output prices falling rapidly, while services output prices remained elevated. Negotiated wage growth remained a modest 2.9% in Q4 22 (similar to Q3 22), but more high frequency wage measures based on jobs ads point to wage growth running closer to 5%, which is not consistent with the ECB's 2% inflation target.
- China:** CPI dropped to 1% y/y from 2.1%; hence China still has no inflation problem. PPI declined to -1.4% y/y from -0.8% y/y on the back of low commodity price inflation.

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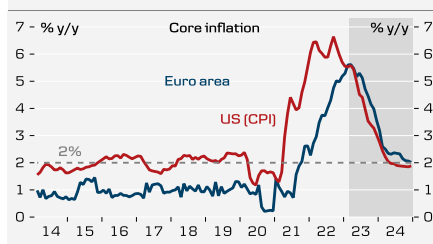
Market-based inflation expectations sideways lately above 2%



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

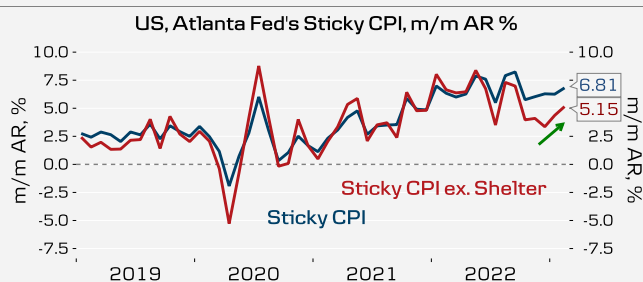
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Underlying price pressures remain too high, or even accelerate



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

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Top down overview

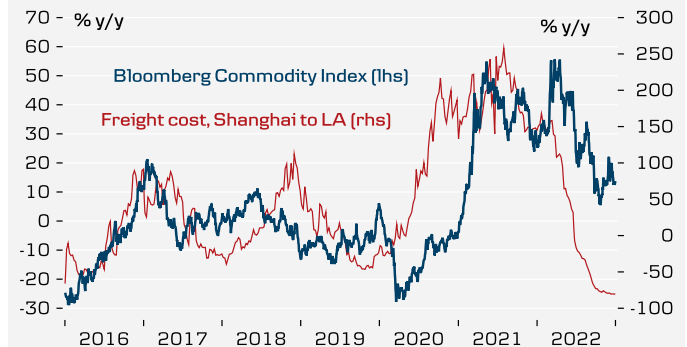
Trend in inflation pressure moving lower

Inflation Score Card

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

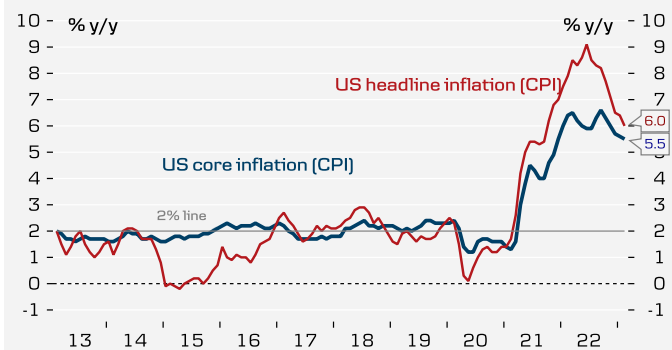
Source: Macrobond Financial, BLS

Commodity price and freight inflation



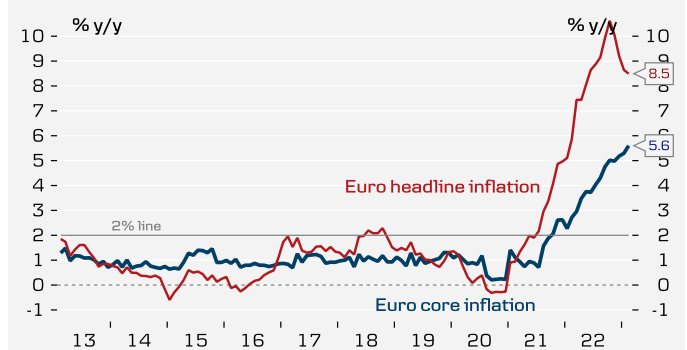
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



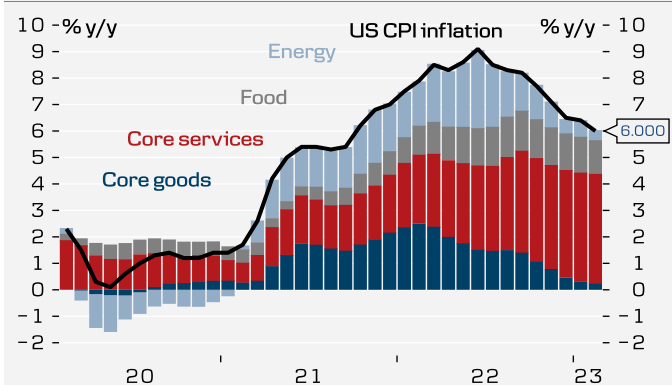
Source: Macrobond Financial, BLS

Euro headline and core inflation



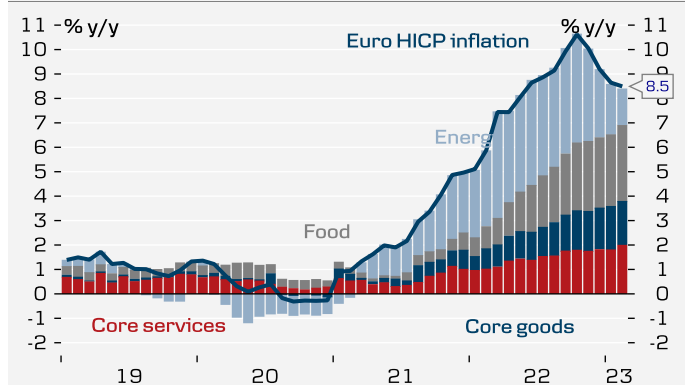
Source: Macrobond Financial, Eurostat

Contributions to US inflation



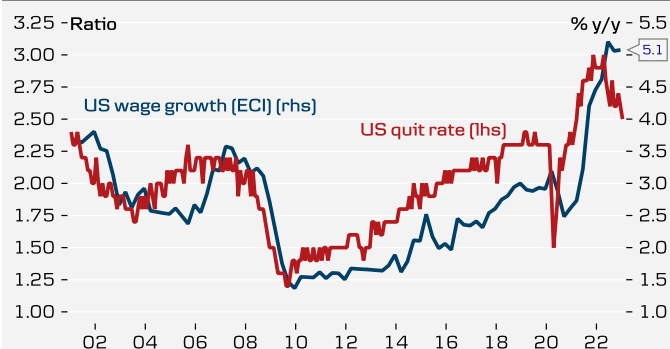
Source: Macrobond Financial, BLS

Contributions to euro inflation



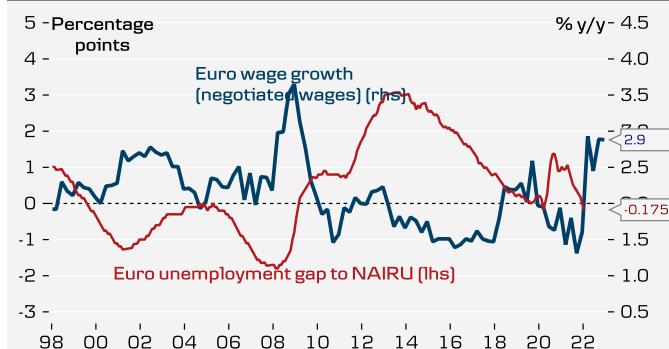
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



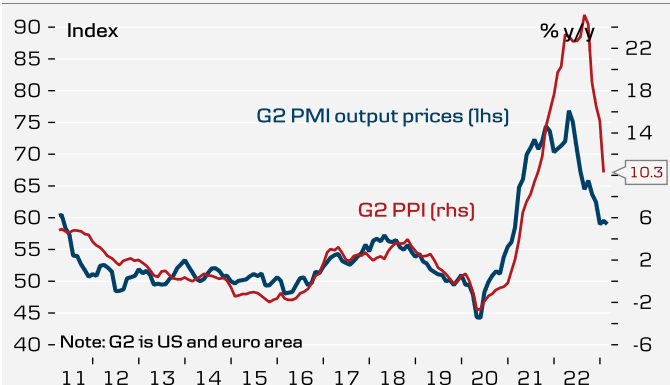
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



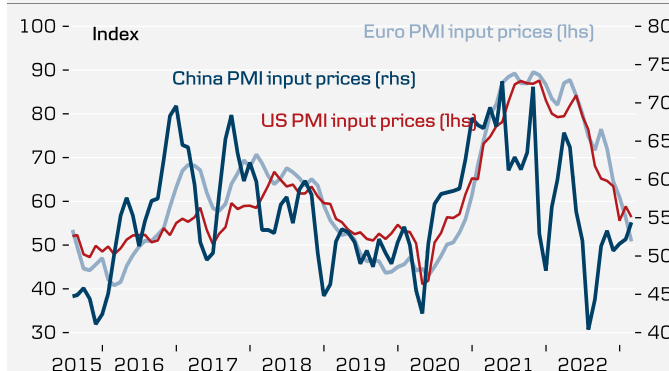
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



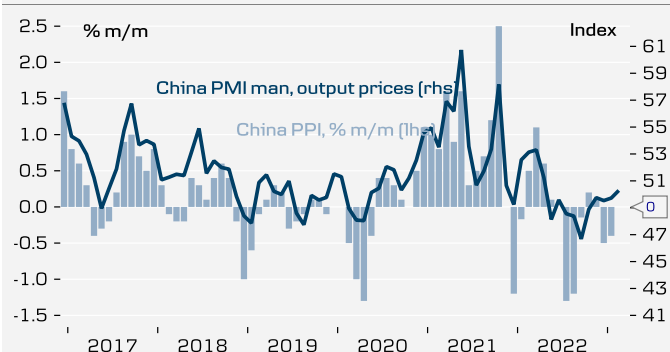
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



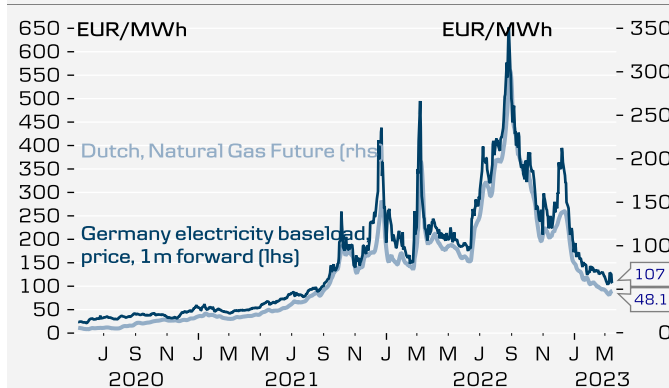
Source: Macrobond Financial, Markit

China PPI inflation momentum



Source: Macrobond Financial, Markit

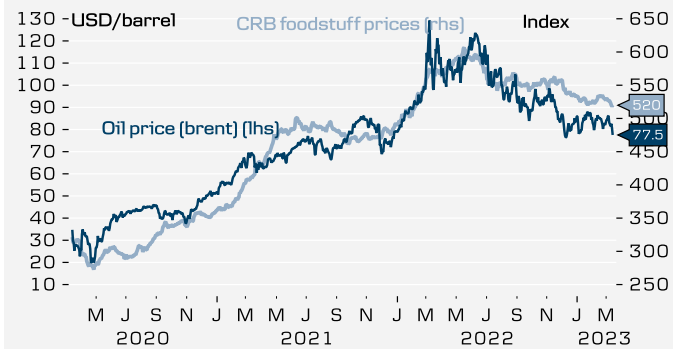
European natural gas and electricity prices



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

Source: Macrobond Financial, PBoC, Danske Bank

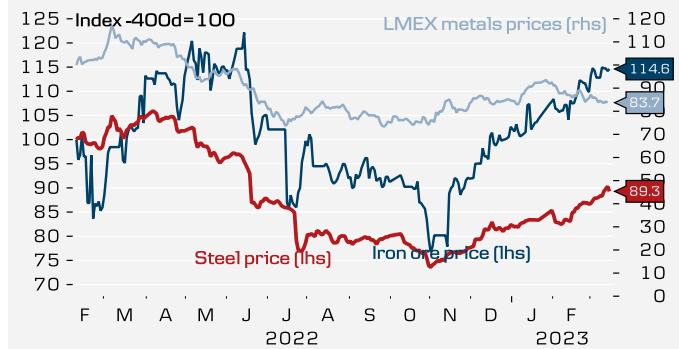
Commodity price levels – oil, metals and food



Source: Macrobond Financial, Bloomberg

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

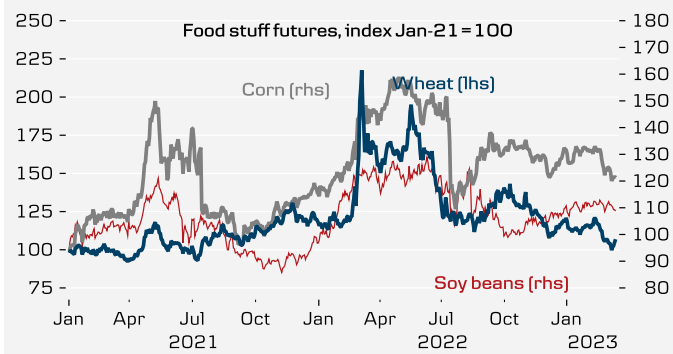
Commodity price levels – steel, iron ore and lumber



Source: Macrobond Financial, Bloomberg

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

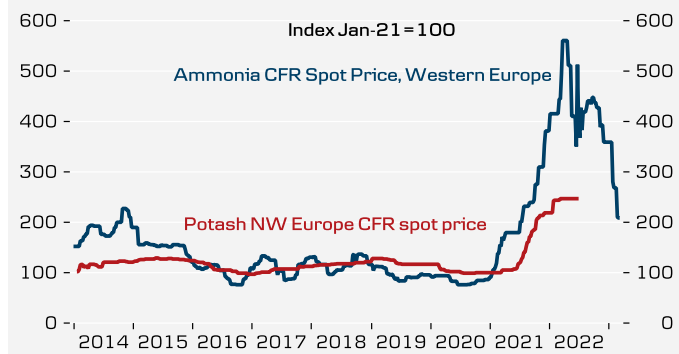
Grain prices



Source: Macrobond Financial, Bloomberg

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

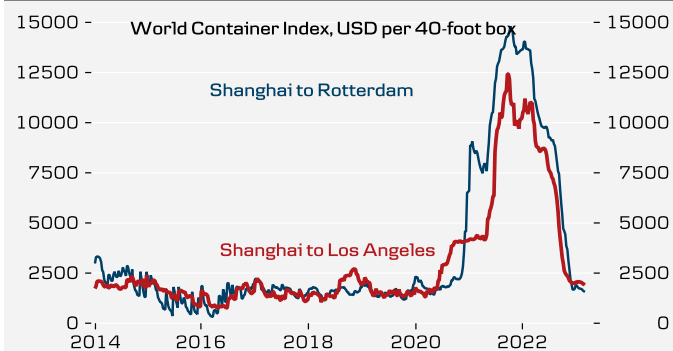
Fertilizer input prices



Source: Macrobond Financial, Bloomberg

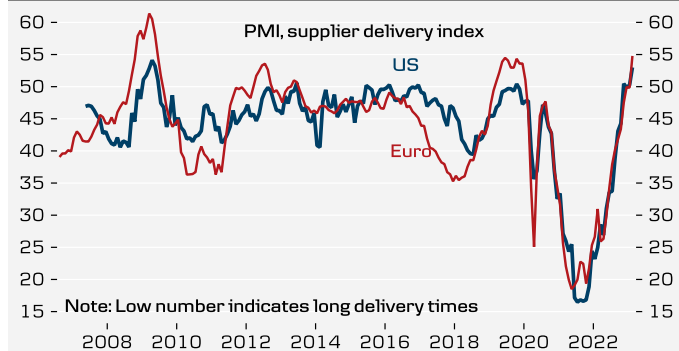
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Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

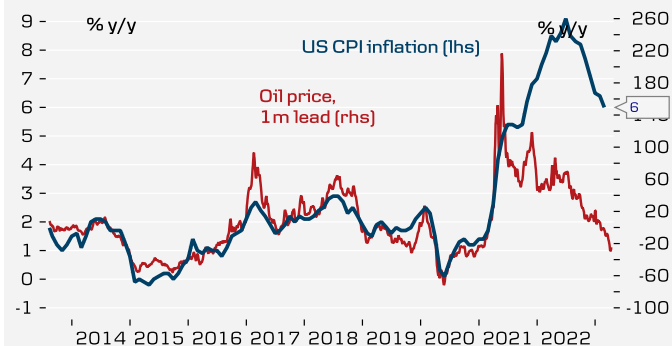


Source: Macrobond Financial, Markit

Country details - US

Top down

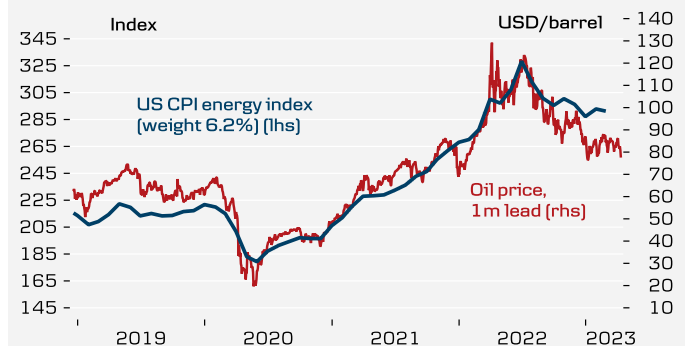
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

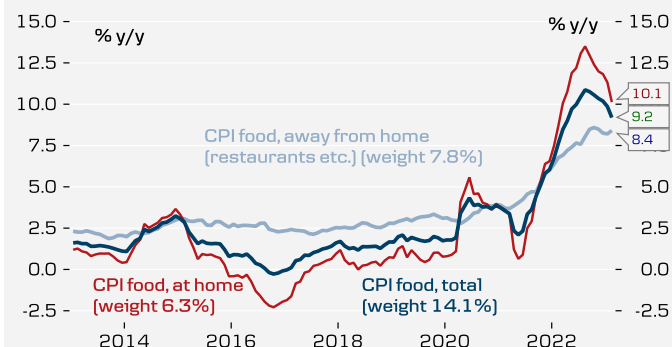
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

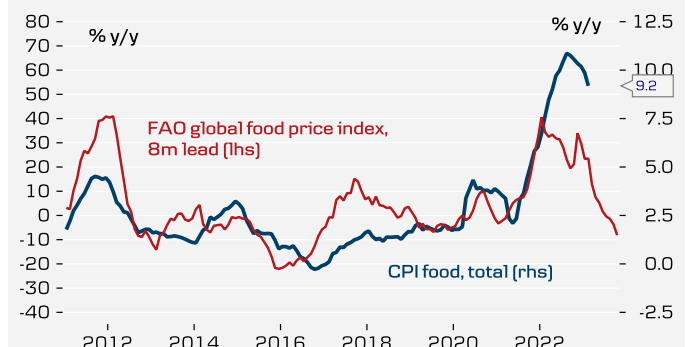
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

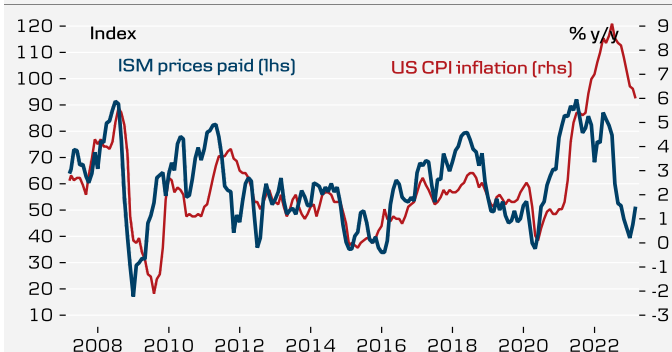
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

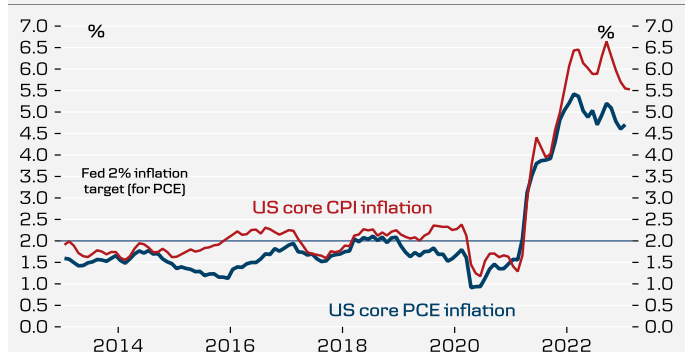
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US PMI output prices vs CPI inflation



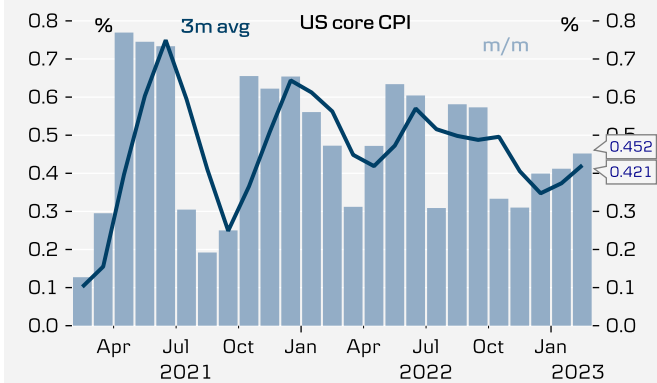
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



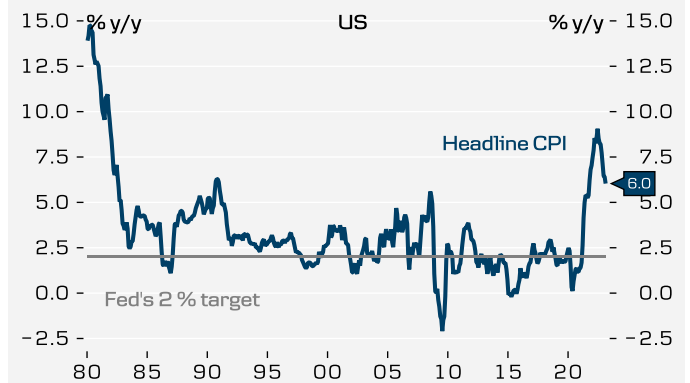
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



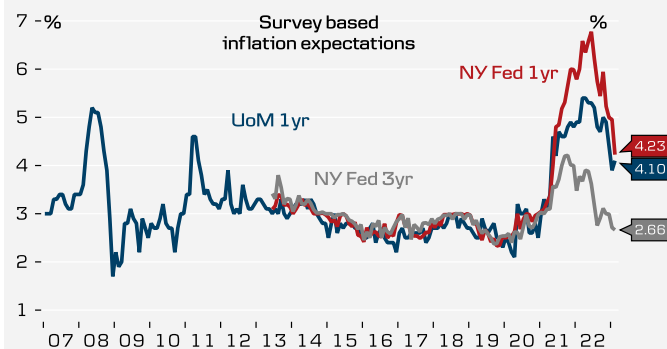
Source: Macrobond Financial, BLS

Headline CPI since 1980



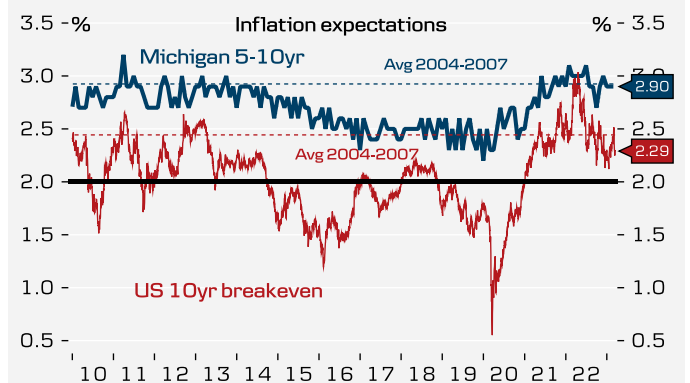
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



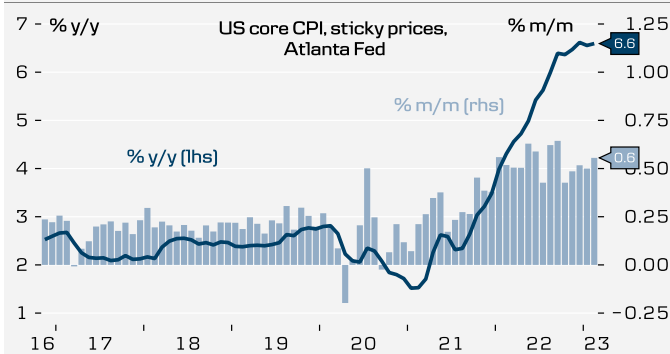
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



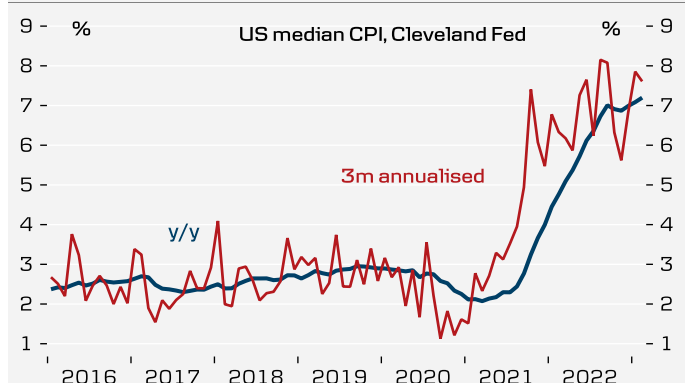
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



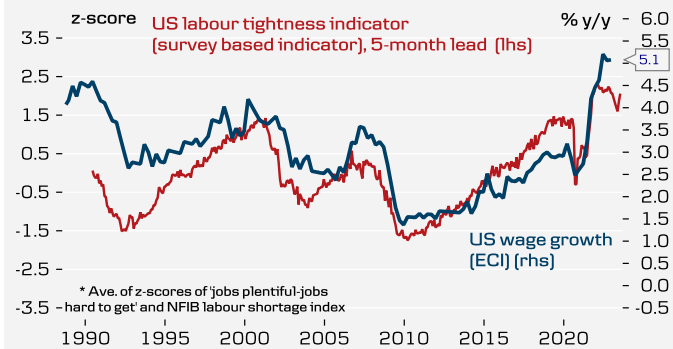
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



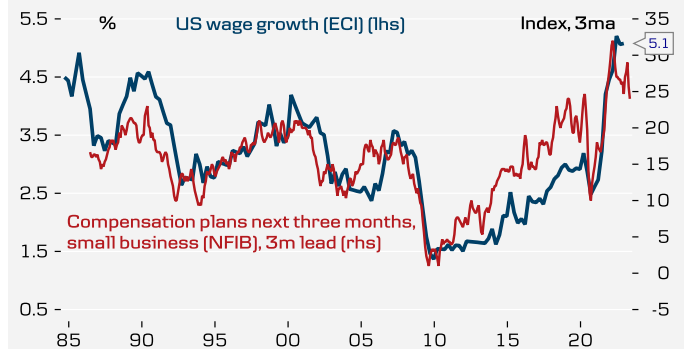
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



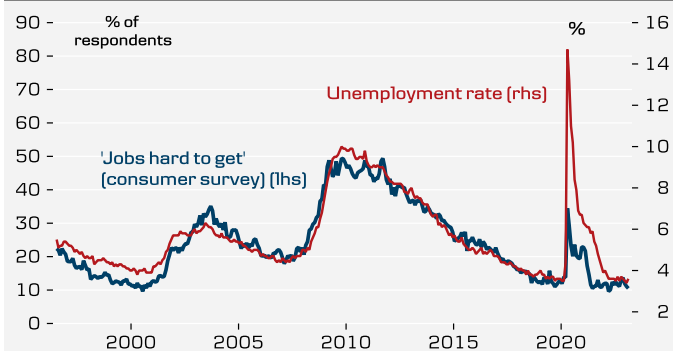
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



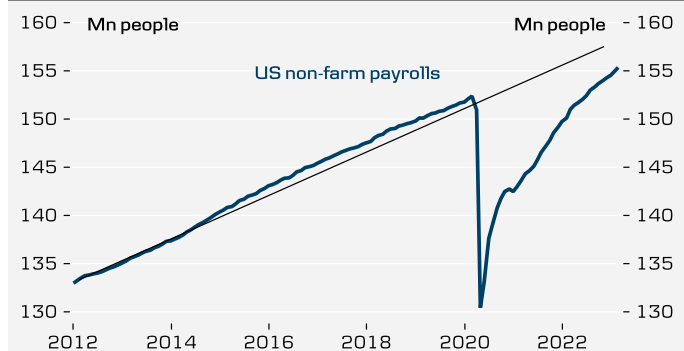
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

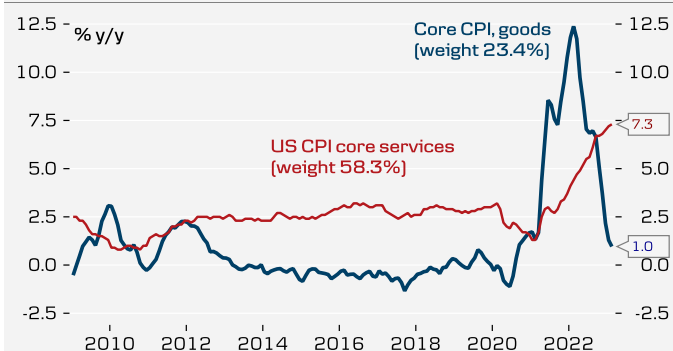
Employment gap



Source: Macrobond Financial, BLS

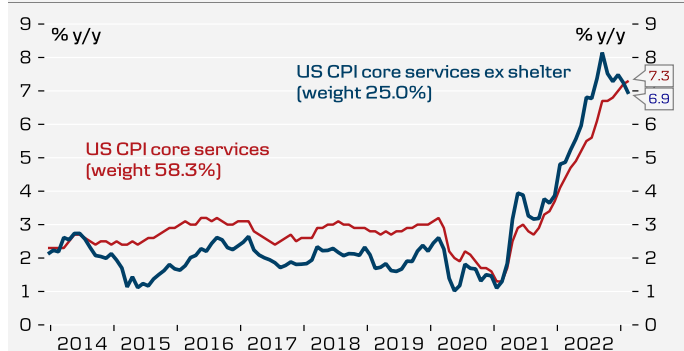
Bottom up

Core goods vs. services



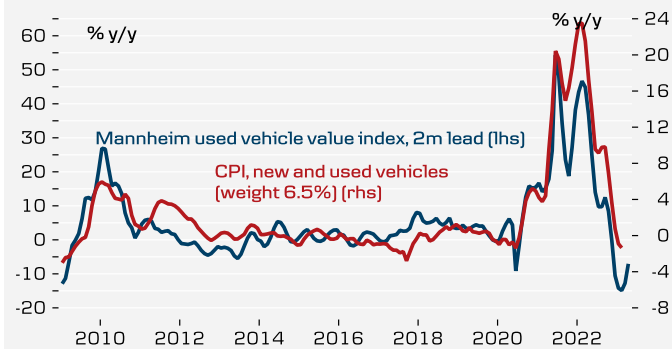
Source: Macrobond Financial, BLS

Core services ex shelter



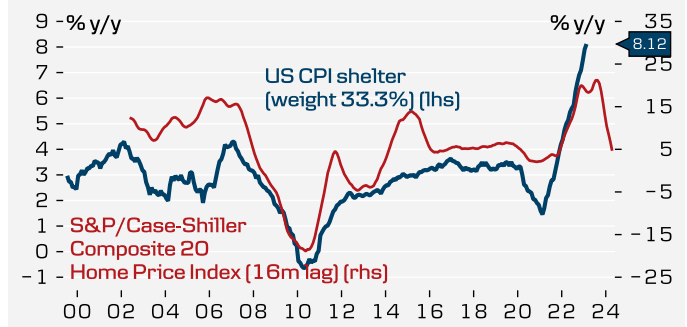
Source: Macrobond Financial, BLS

Used car prices



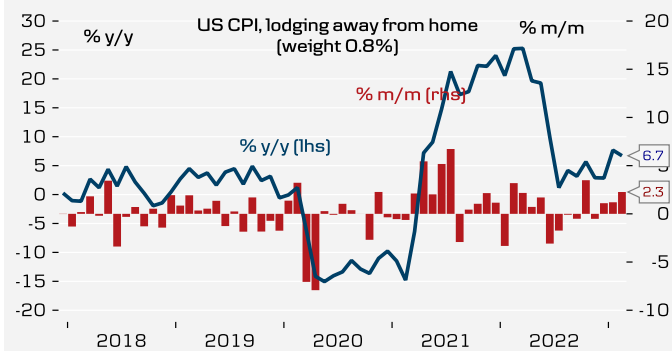
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



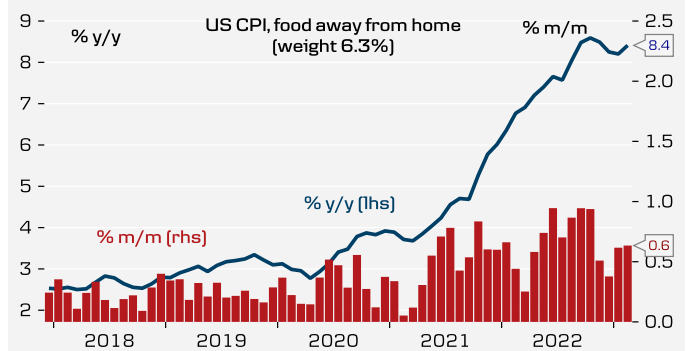
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



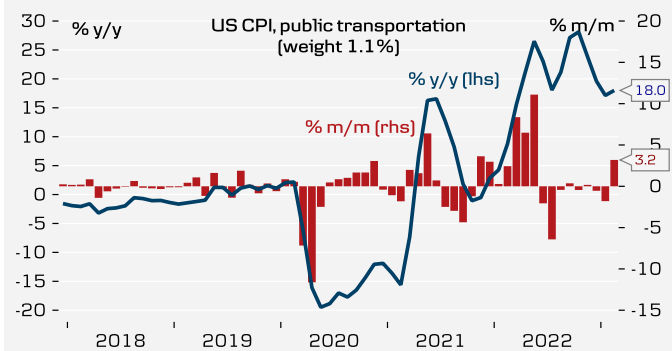
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



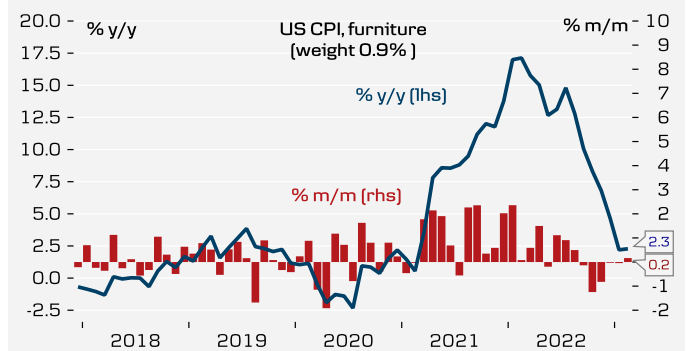
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

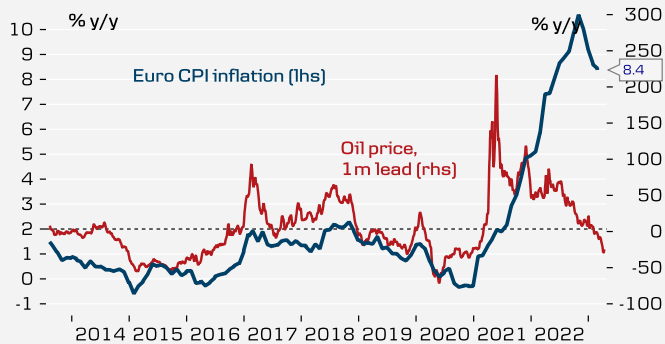


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

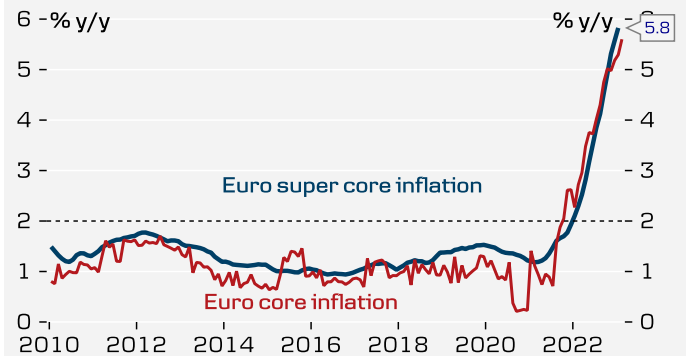
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

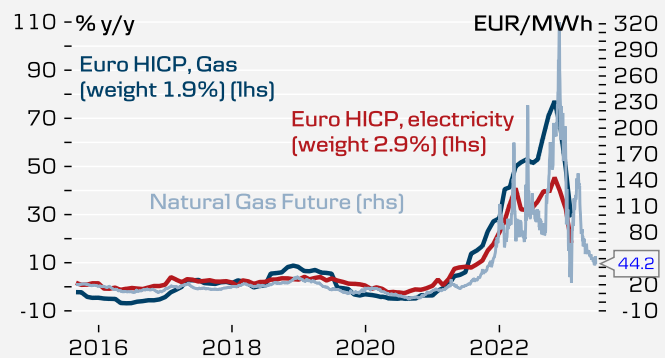
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

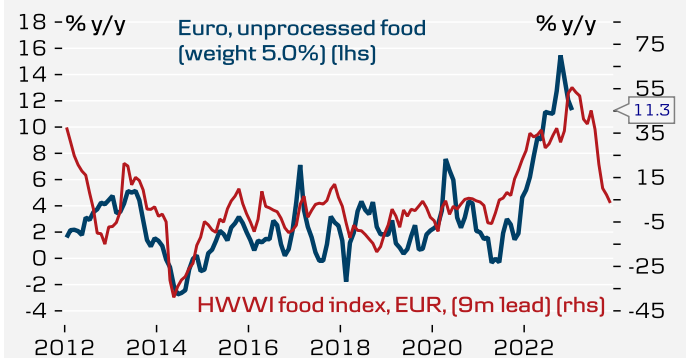
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

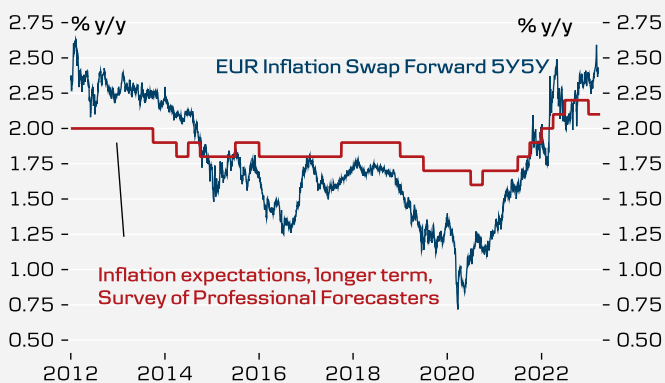
Food



Source: Macrobond Financial

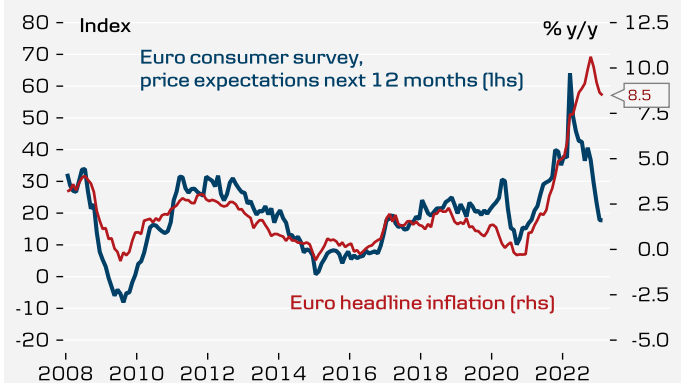
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Inflation expectations



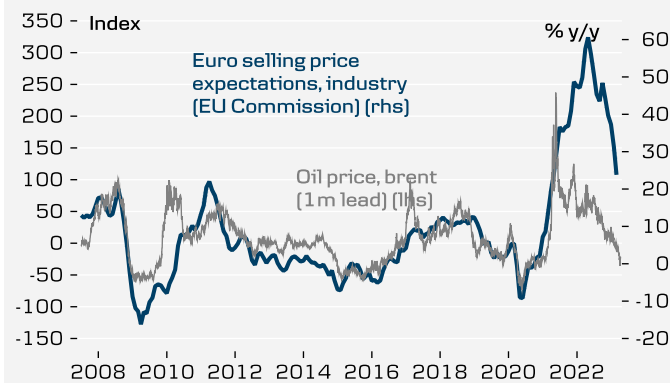
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

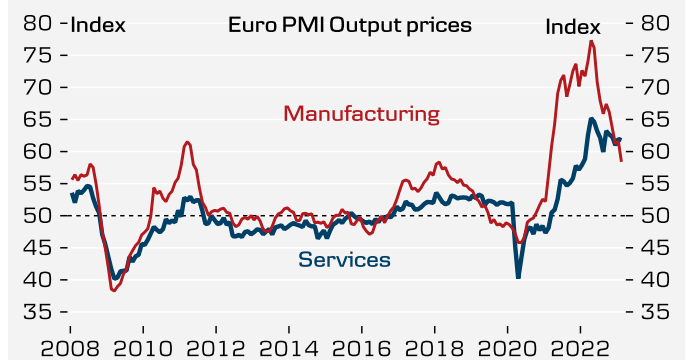
Selling price expectations from companies



Source: Macrobond Financial, EU Commission

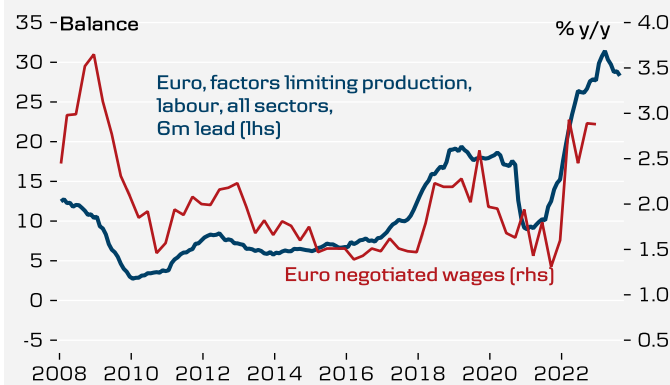
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PMI output prices



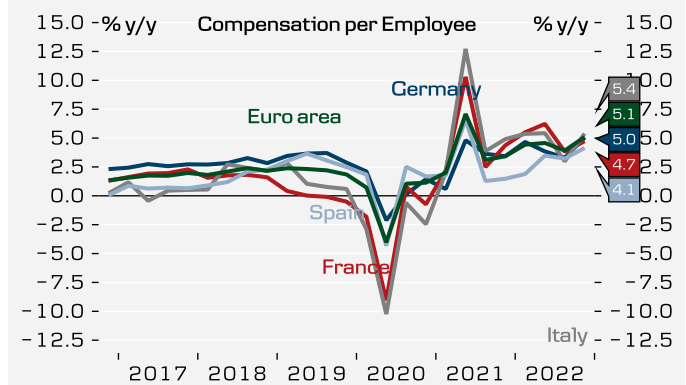
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage compensation

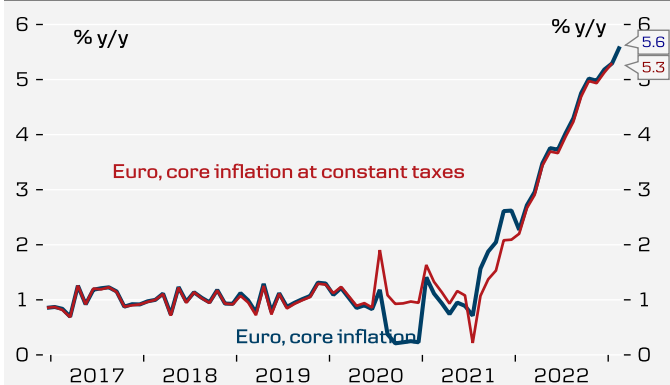


Source: Macrobond Financial, ECB.

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

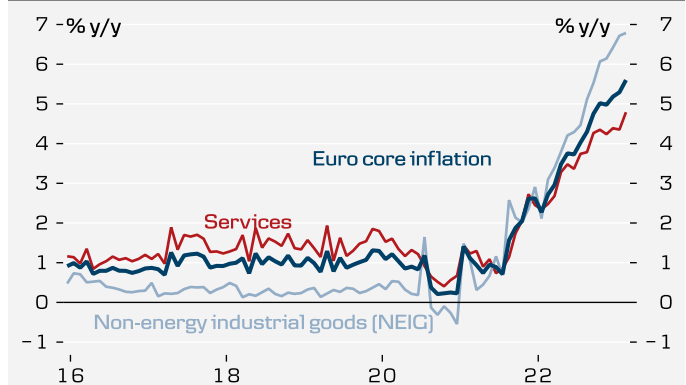
Bottom up

Core inflation, effect from taxes



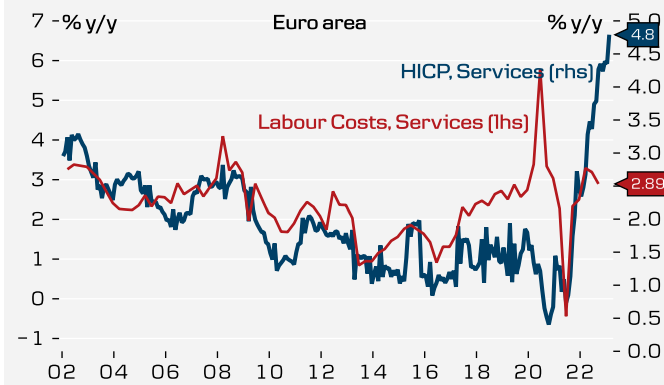
Source: Macrobond Financial, Eurostat

Core inflation components



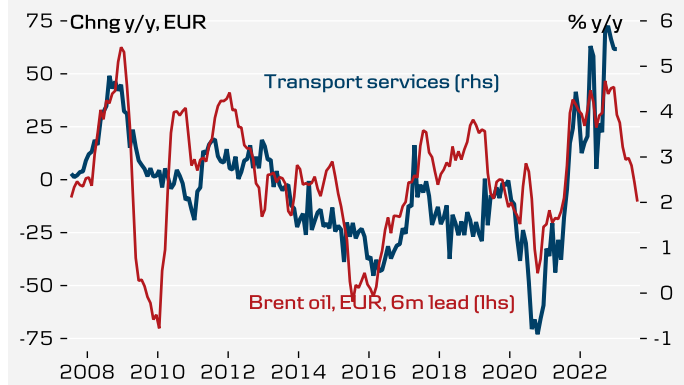
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

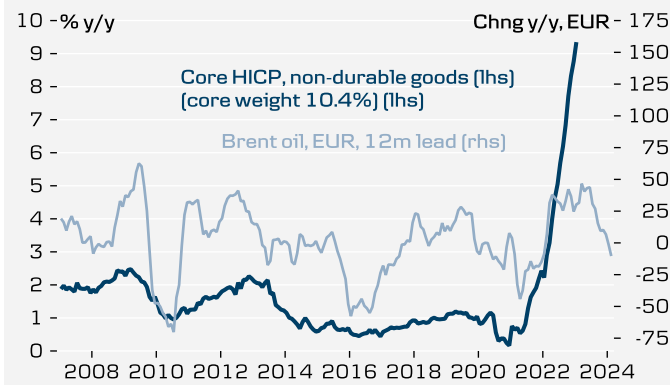
Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

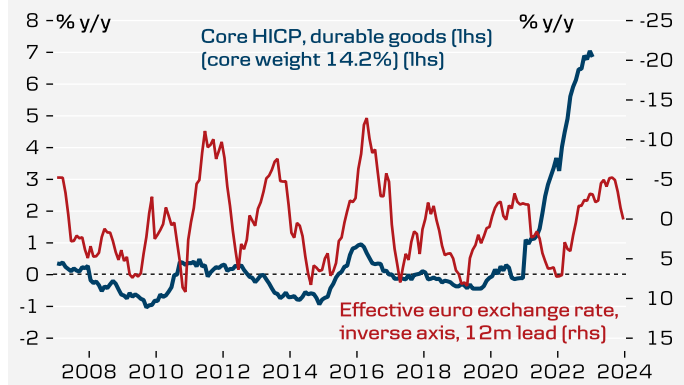
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Core non-durable goods



Source: Macrobond Financial

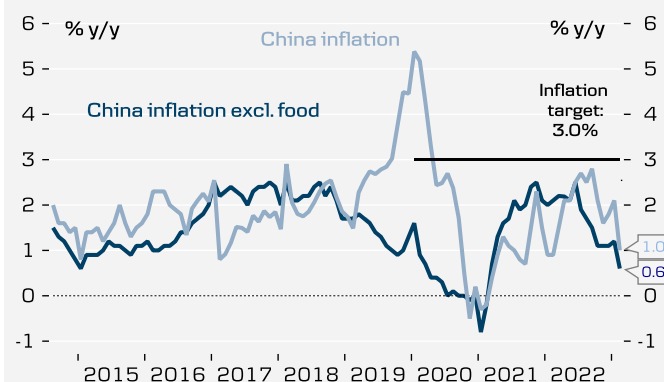
Core durable goods



Source: Macrobond Financial

Country details – China

CPI and CPI ex food



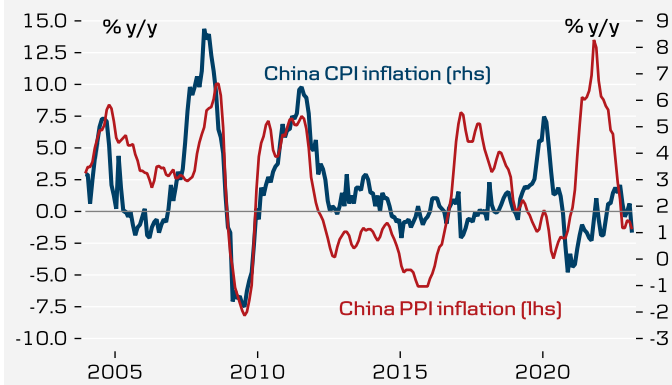
Source: Macrobond Financial, NBS

CPI and food prices



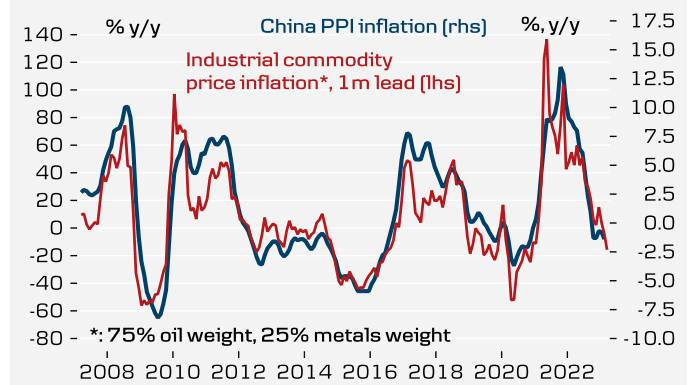
Source: Macrobond Financial, NBS

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

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Monthly

Date of first publication

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