

10 October 2024

Global Inflation Watch

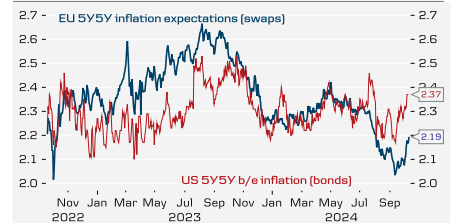
Underlying inflation continues to cool gradually

- Overview:** Underlying inflation has moderated in the US and euro area. Inflation pressures ease gradually with weak goods inflation and in the case of US, cooling job market and lower wage growth. In the euro zone, wage growth remains sticky despite some easing in the latest Q2 data. Commodity prices have caused volatility in both realized and expected inflation as rising tensions in the Middle East and renewed stimulus in China balance still weak global manufacturing outlook. We expect 25bp cuts from both the ECB and the Fed in the coming meetings.
- Inflation expectations:** Market-based inflation expectations have rebounded in October after oil prices rose due to tensions in the Middle East. Consumers' inflation expectations have now moderated close to pre-pandemic averages.
- US:** The September CPI was slightly higher than expected in both headline (+0.2% m/m SA, forecast +0.1%, 2.4% y/y) and core (+0.3% m/m SA, forecast +0.2%, 3.3% y/y) terms. The uptick was driven by food and core goods prices, which are rarely drivers of persistent inflation. Within goods, apparel prices contributed positively, suggesting that anticipation of strikes at US ports could have played a role. On the services side, shelter inflation cooled down after the unexpected uptick seen in August, which markets took as a dovish signal. Price pressures elsewhere in the services sector accelerated, but only modestly.
- Euro:** Inflation fell below 2% for the first time in three years to 1.8% y/y in September as expected. The decline was mainly due to energy inflation while core inflation was stickier at 2.7% y/y (prior: 2.8%) due to high services inflation at 4.0% y/y and low goods inflation at 0.4% y/y. Importantly, momentum in services inflation declined significantly as service prices rose only 0.14% m/m s.a., which was the lowest monthly rate this year. Headline inflation has averaged 2.17% in Q3, below the expectation of 2.3% in the latest ECB projections. Combined with easing services momentum this should make the ECB more confident of inflation returning persistently to target.
- China:** September CPI is due for release on 13 Oct. We expect headline inflation to remain steady, but markets main focus will be on new policy stimulus signals.

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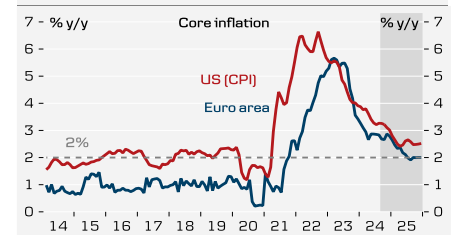
Market-based inflation expectations almost consistent with 2% targets



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

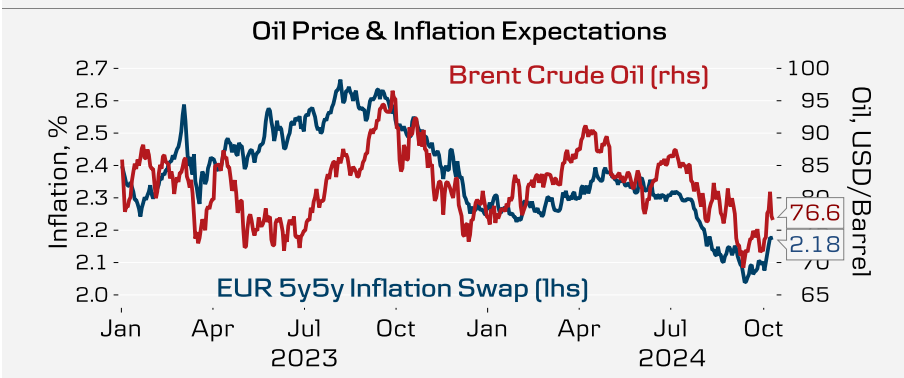
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Volatility in oil prices causes swing in even long-term inflation expectations



Source: Macrobond Financial, Refinitiv, ICE

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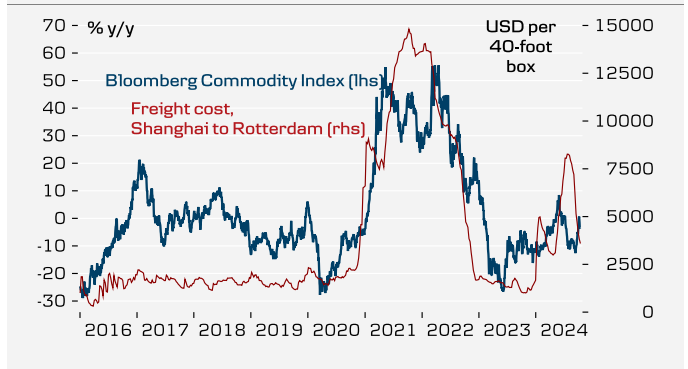
Top down overview

Overview of inflation drivers

Inflation Score Card (3-6M trend)		
Commodity prices	Oil	↓
	Metals	↓
	Food stuff	→
	Gas	→
Supply Chains	Freight rates	↑
	Delivery times	→
Wage pressure		↓
Inflation expectations		↓
Pricing power		↓

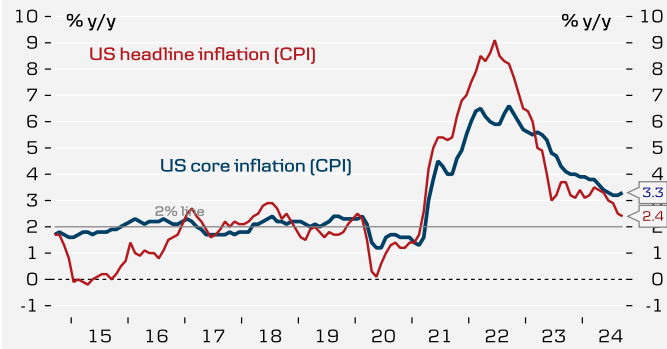
Source: Danske Bank

Commodity price and freight inflation



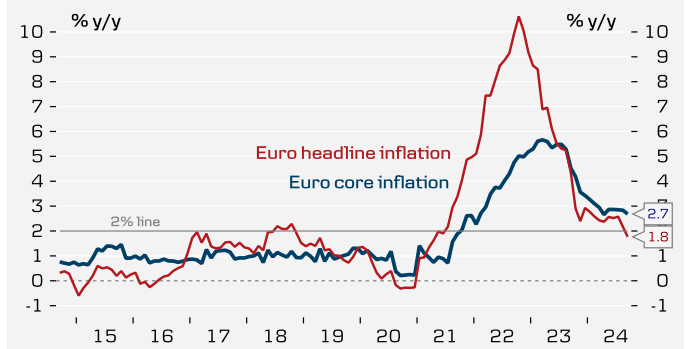
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



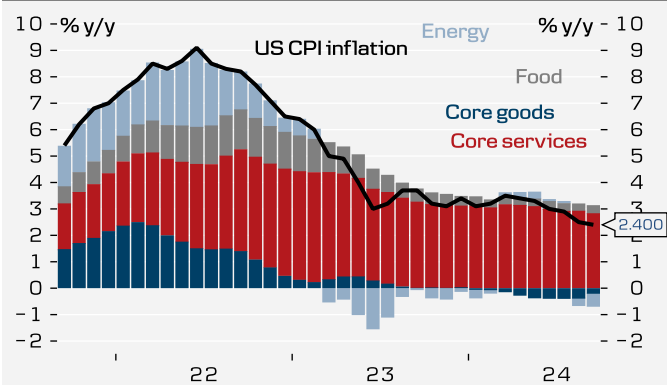
Source: Macrobond Financial, BLS

Euro headline and core inflation



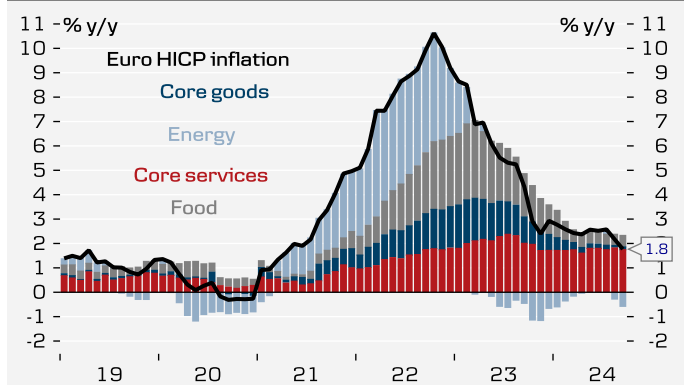
Source: Macrobond Financial, Eurostat

Contributions to US inflation



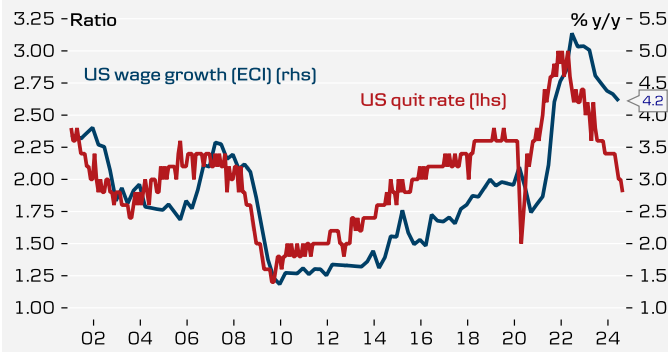
Source: Macrobond Financial, BLS

Contributions to euro inflation



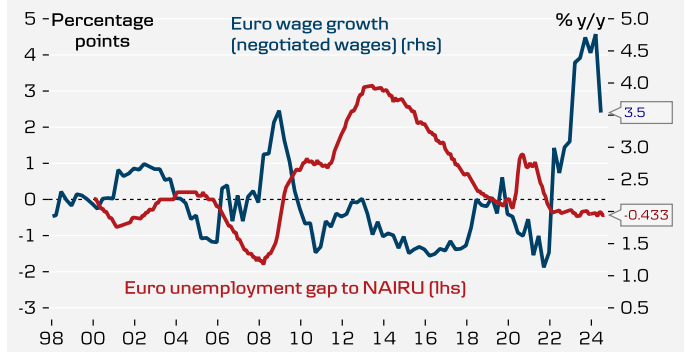
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



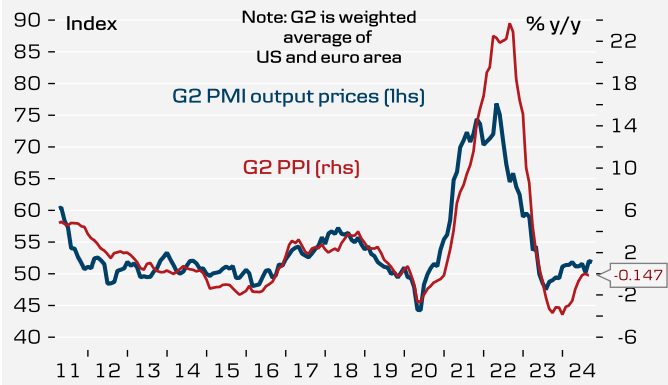
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



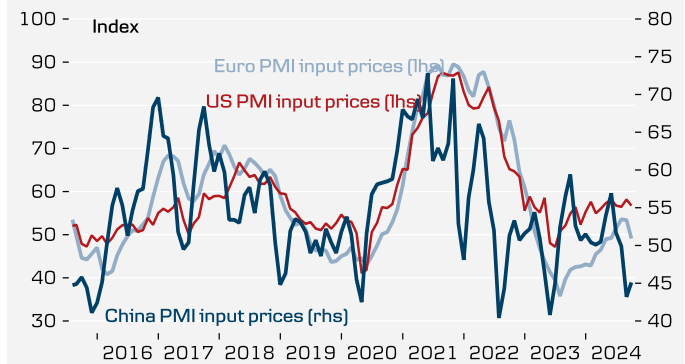
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



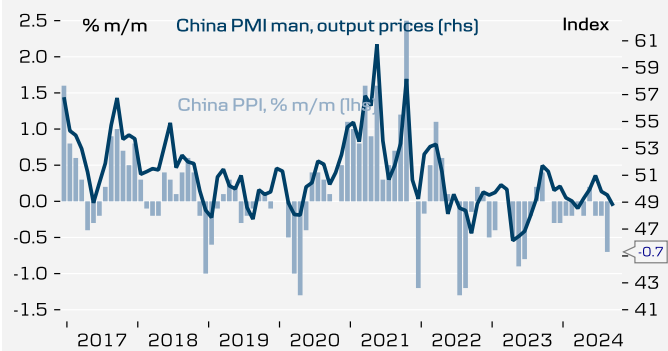
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



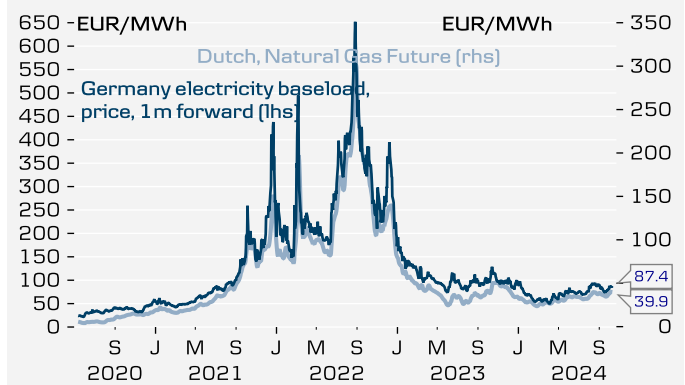
Source: Macrobond Financial, Markit

China PPI inflation momentum



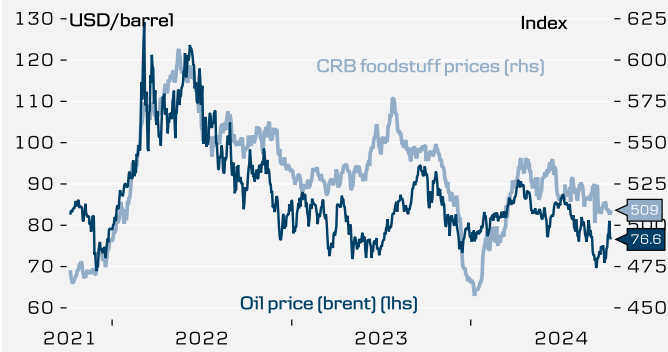
Source: Macrobond Financial, Markit

European natural gas and electricity prices



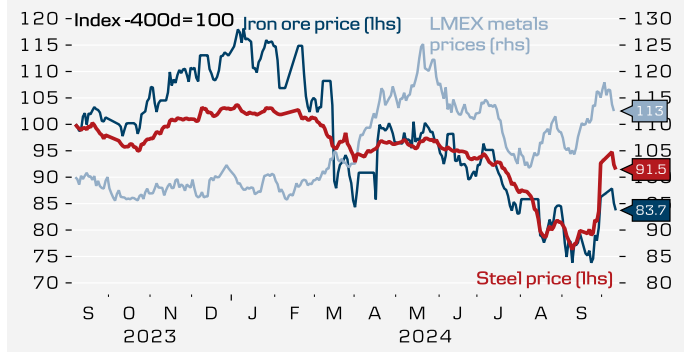
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels - oil and food



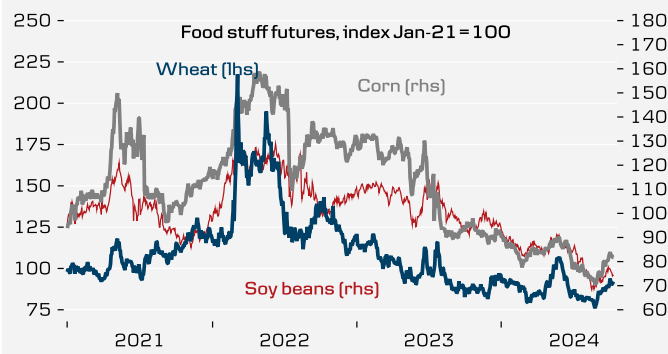
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels - metals and iron ore



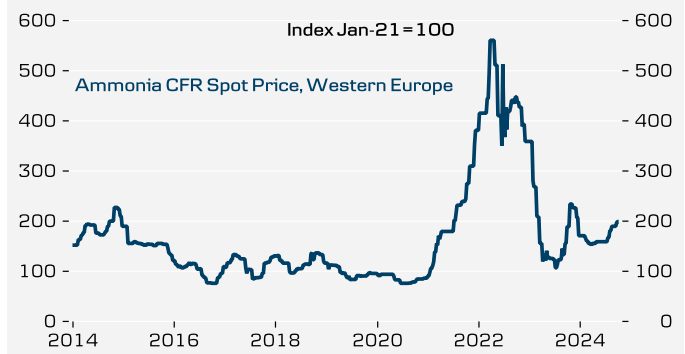
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Grain prices



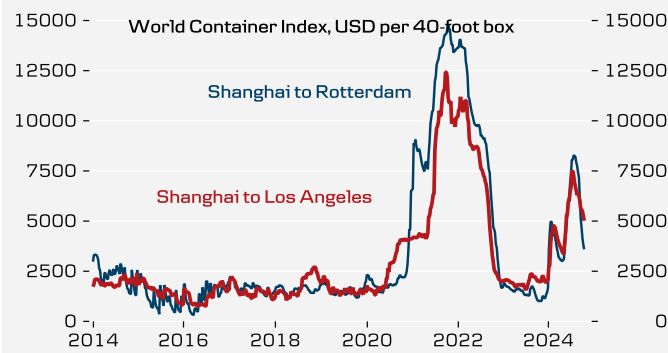
Source: Macrobond Financial, Bloomberg
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Fertilizer input prices



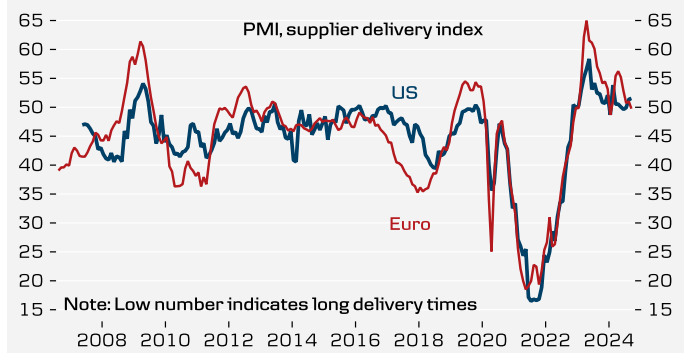
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

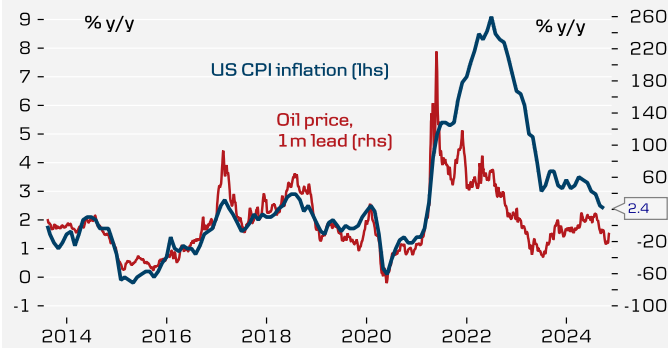


Source: Macrobond Financial, Markit

Country details - US

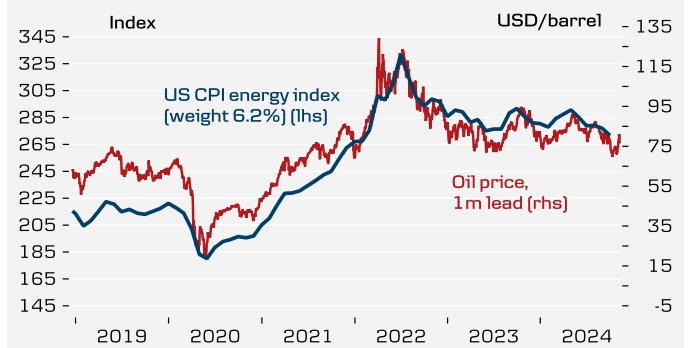
Top down

Headline CPI inflation vs. oil prices



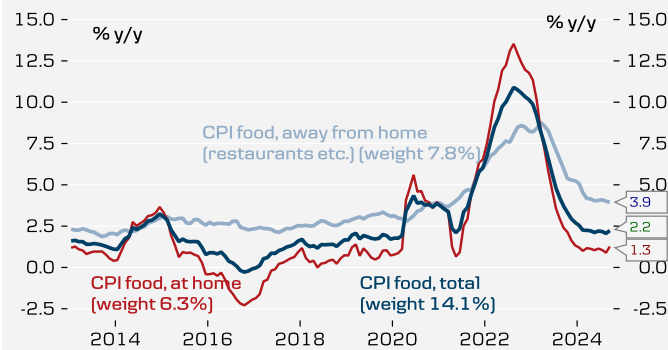
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

CPI energy prices vs oil



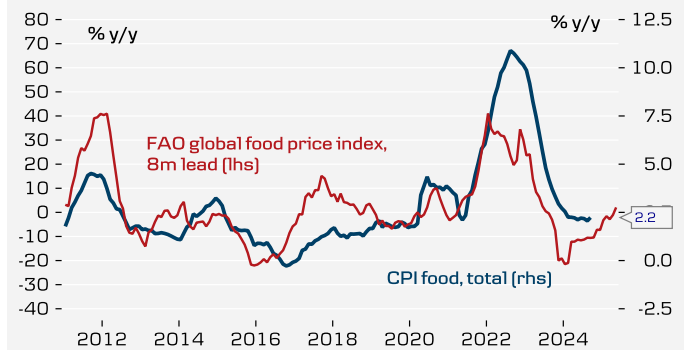
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

Food prices



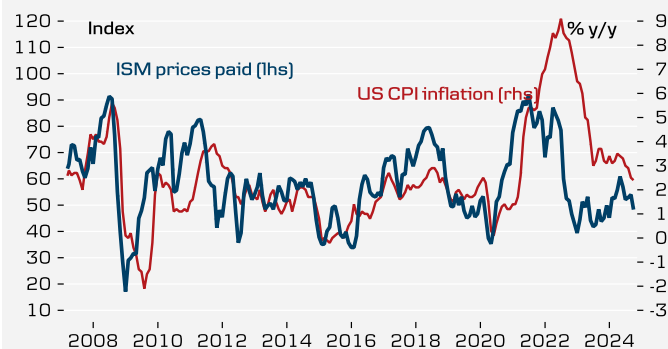
Source: Macrobond Financial, BLS

Food prices vs FAO food price index



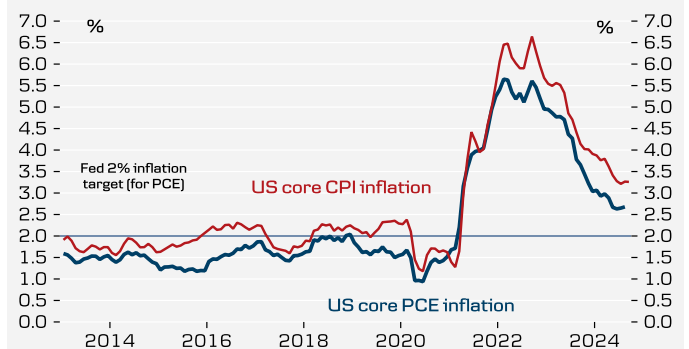
Source: Macrobond Financial, FAO, BLS
 Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



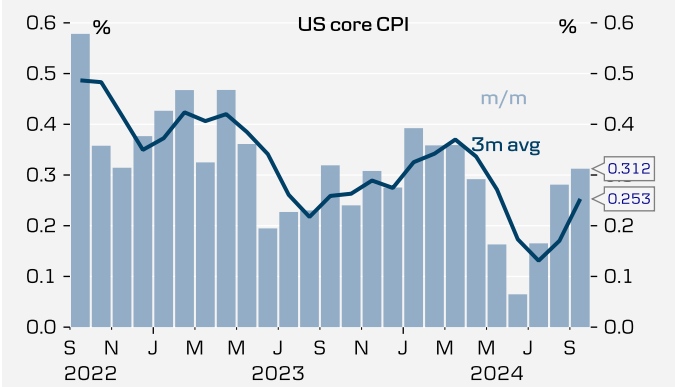
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



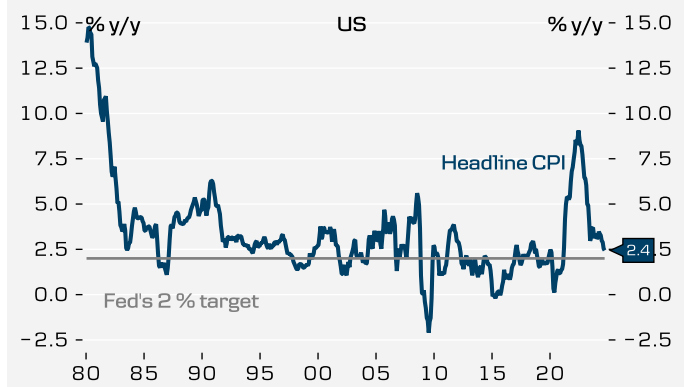
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



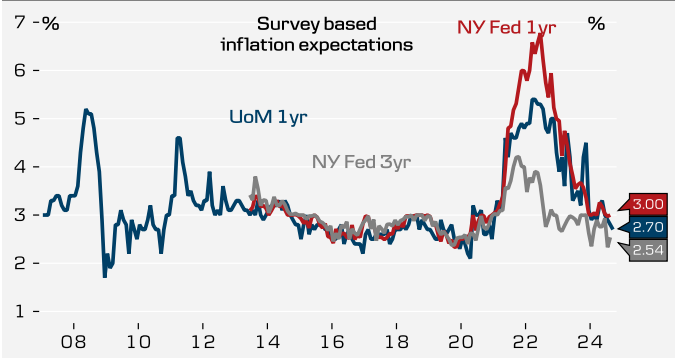
Source: Macrobond Financial, BLS

Headline CPI since 1980



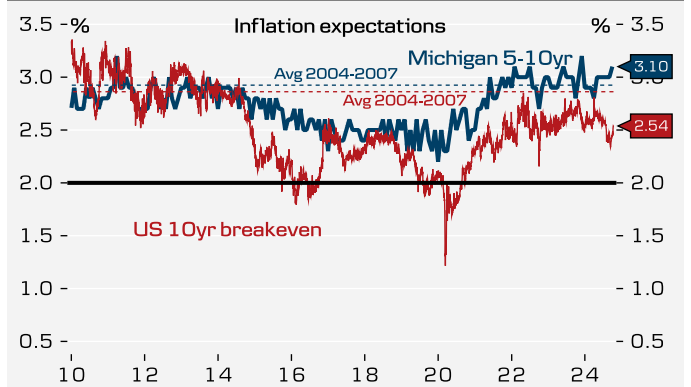
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



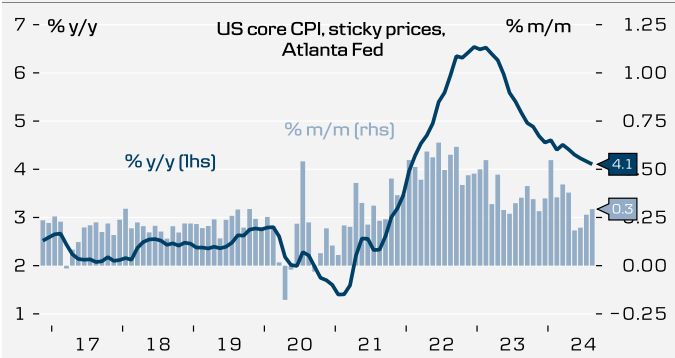
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



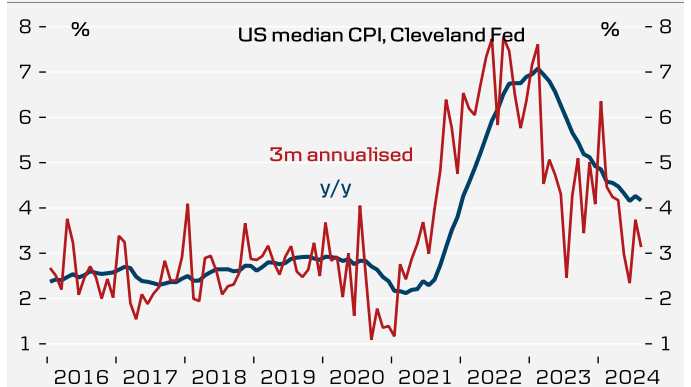
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



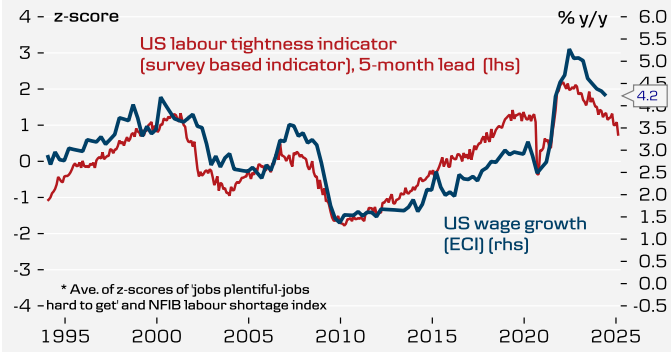
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



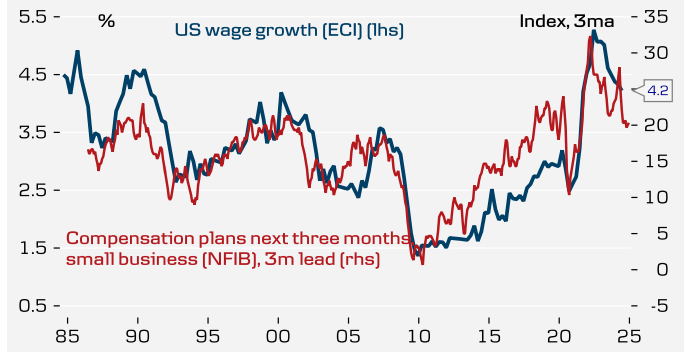
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



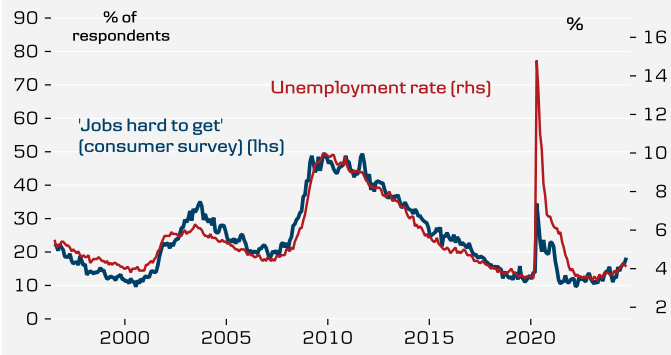
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



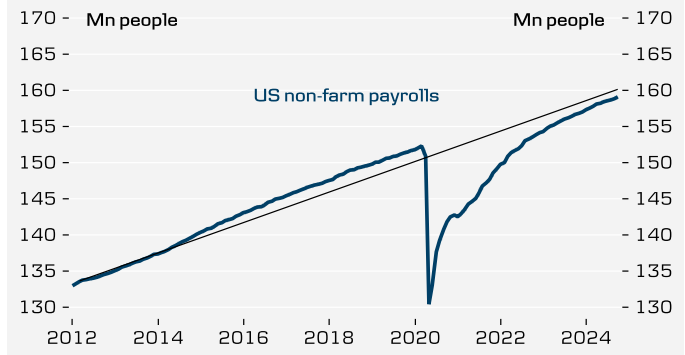
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

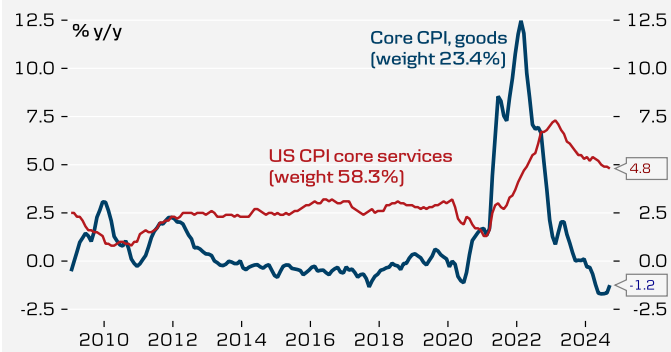
Employment gap



Source: Macrobond Financial, BLS

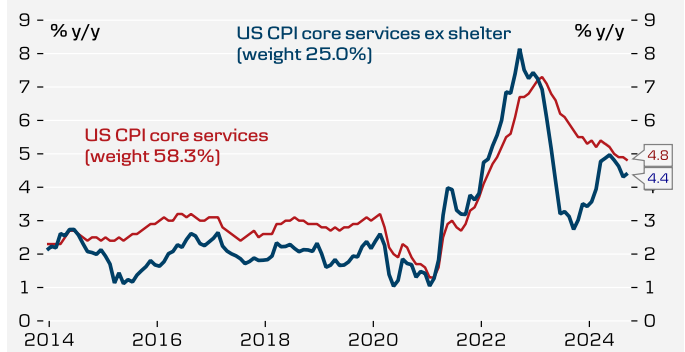
Bottom up

Core goods vs. services



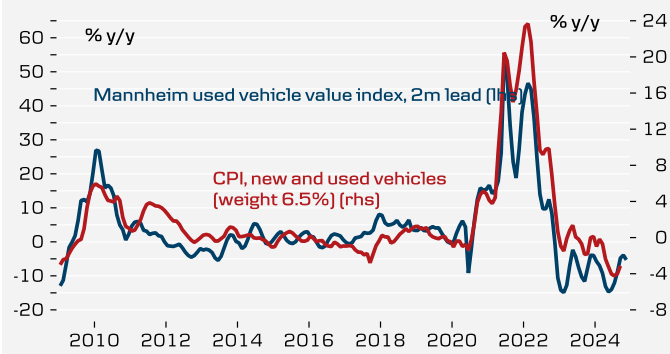
Source: Macrobond Financial, BLS

Core services ex shelter



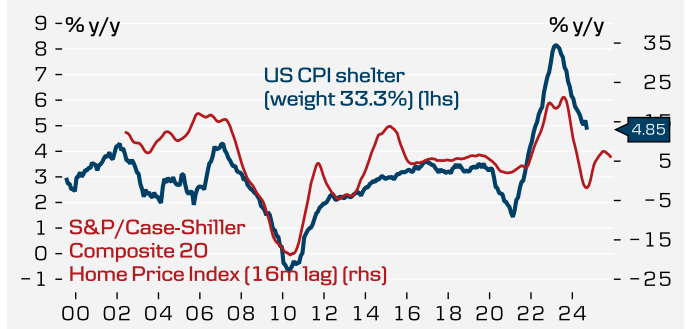
Source: Macrobond Financial, BLS

Used car prices



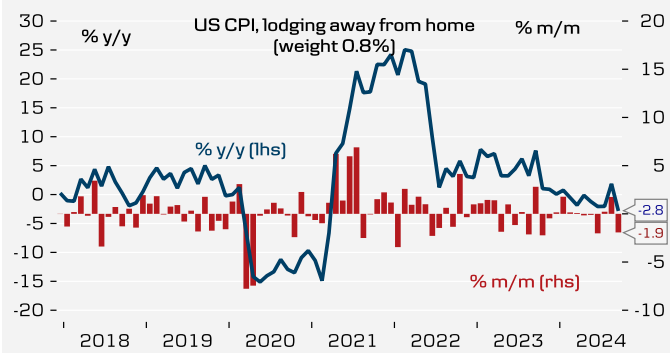
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



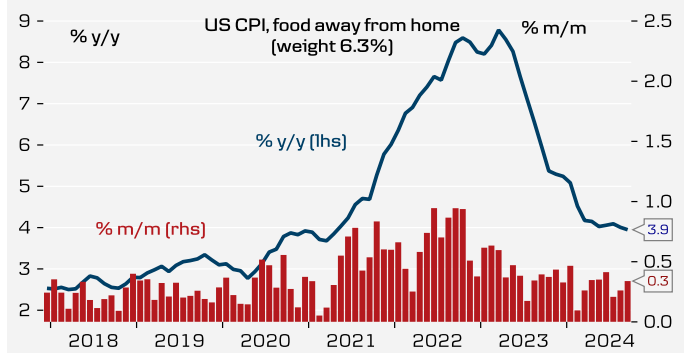
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



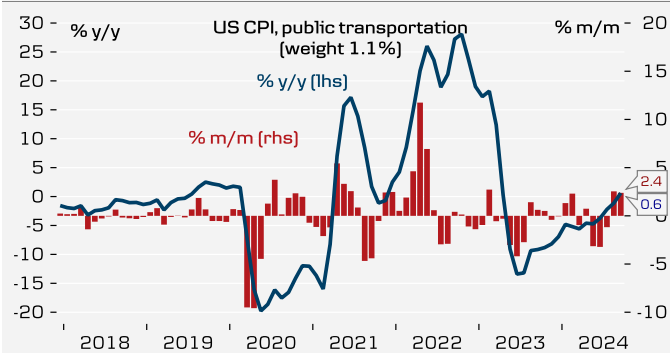
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



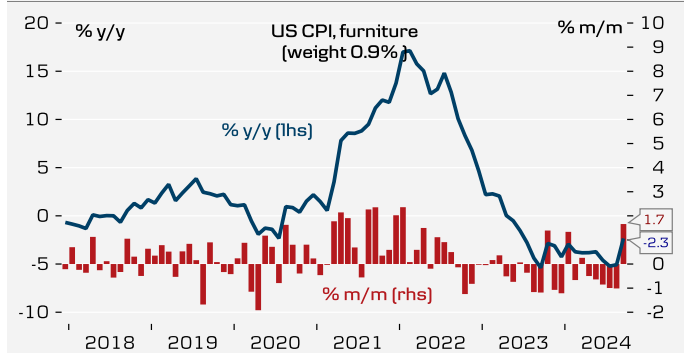
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

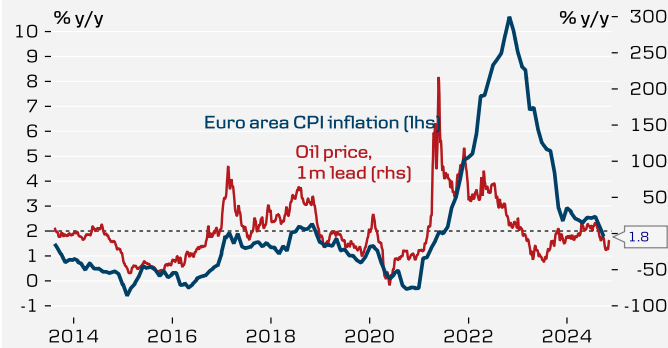


Source: Macrobond Financial, BLS

Country details – Euro area

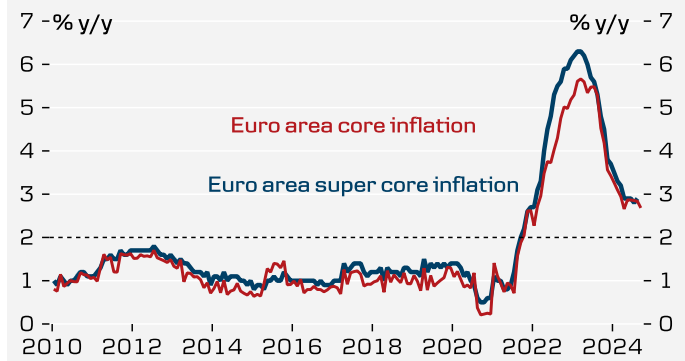
Top Down

Headline vs. oil prices



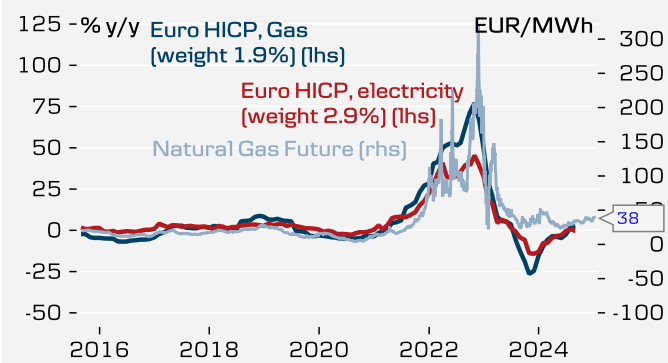
Source: Macrobond Financial, Eurostat
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Core inflation



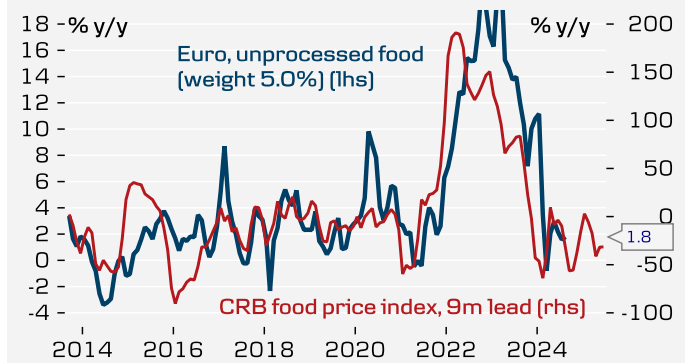
Source: Macrobond Financial, Eurostat, Danske Bank

Natural gas & electricity



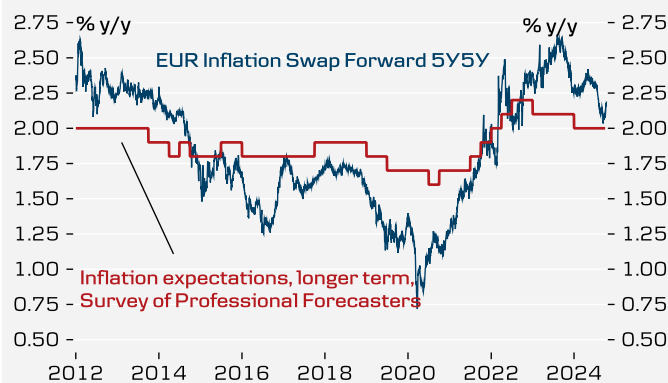
Source: Macrobond Financial, Eurostat
 Note: Past performance is not a reliable indicator of future performance.

Food



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

Inflation expectations



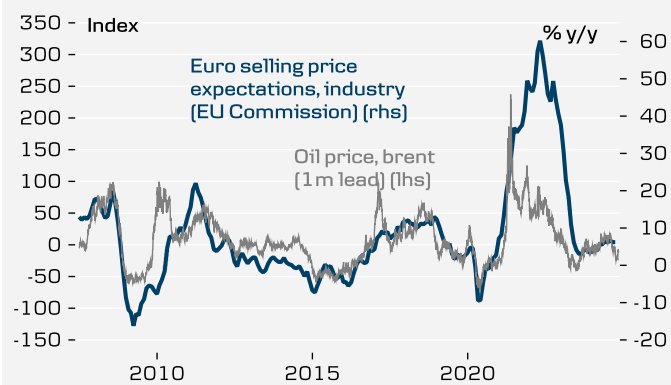
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



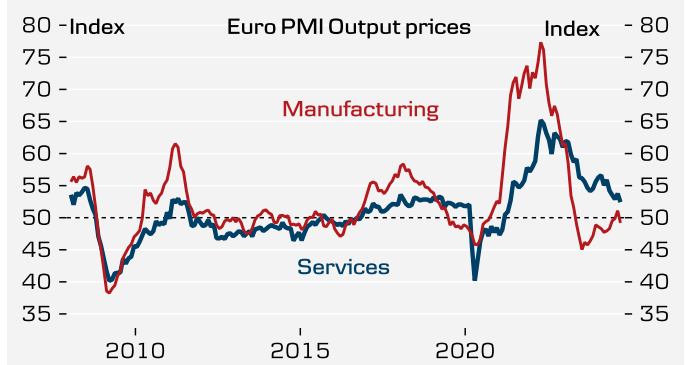
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



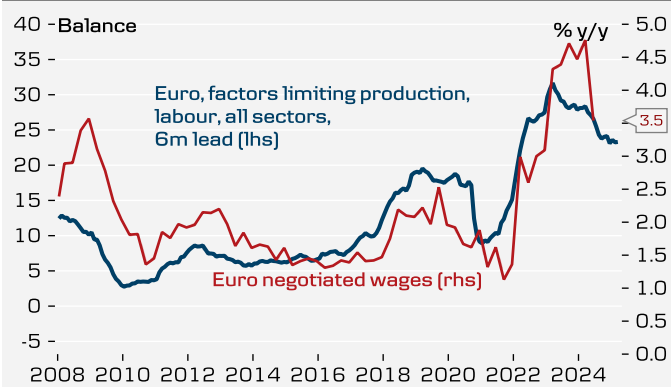
Source: Macrobond Financial, EU Commission
 Note: Past performance is not a reliable indicator of future performance.

PMI output prices



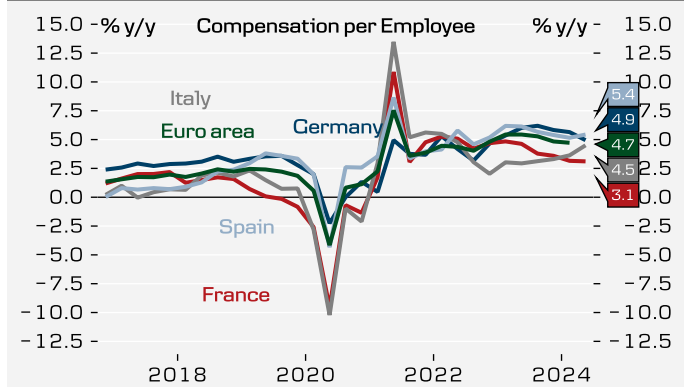
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

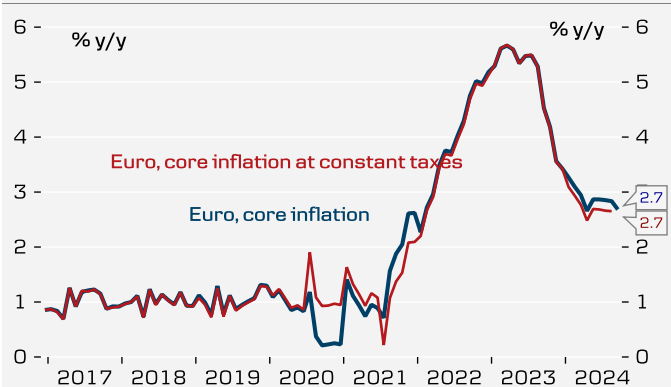
Wage compensation



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

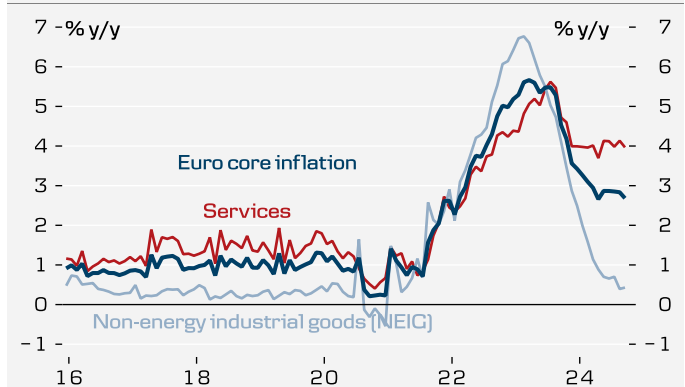
Bottom up

Core inflation, effect from taxes



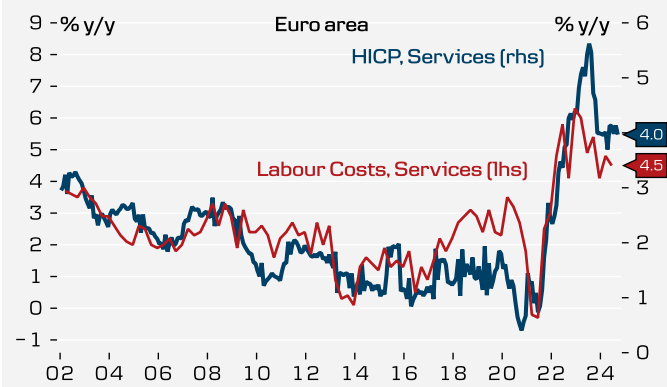
Source: Macrobond Financial, Eurostat

Core inflation components



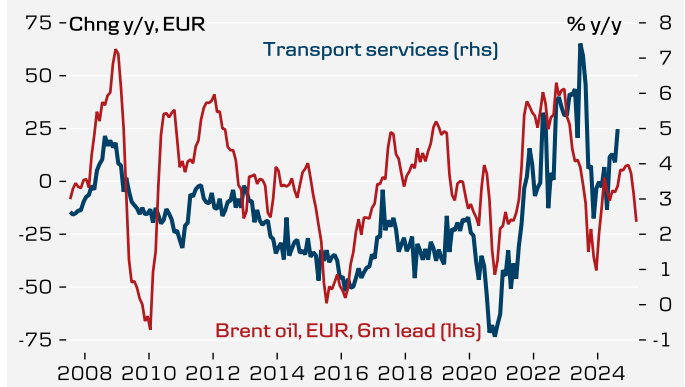
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



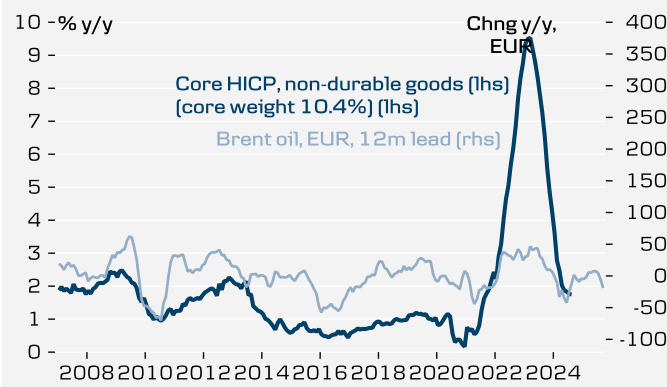
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



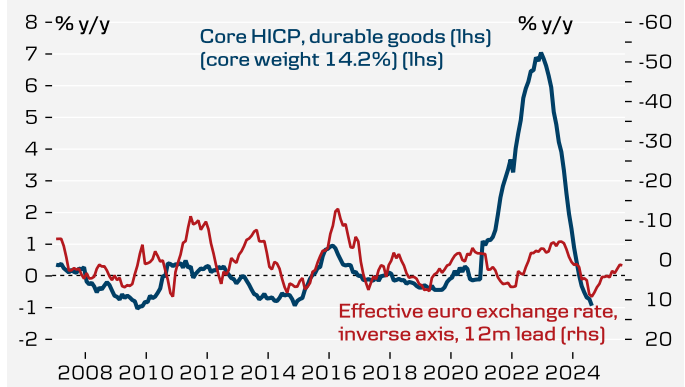
Source: Macrobond Financial, Eurostat, Danske Bank
Note: Past performance is not a reliable indicator of future performance.

Core non-durable goods



Source: Macrobond Financial, Eurostat

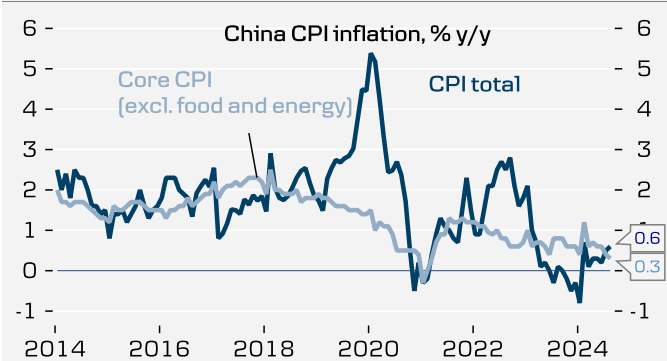
Core durable goods



Source: Macrobond Financial, BIS, Eurostat

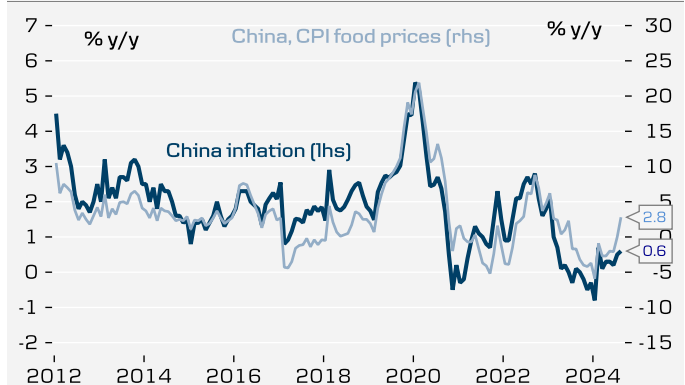
Country details – China

CPI and core CPI



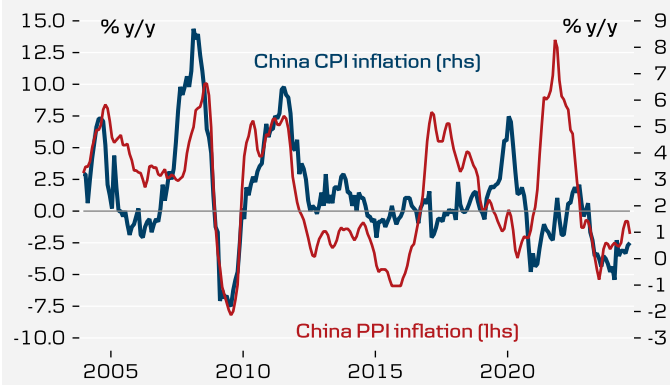
Source: Macrobond Financial, NBS

CPI and food prices



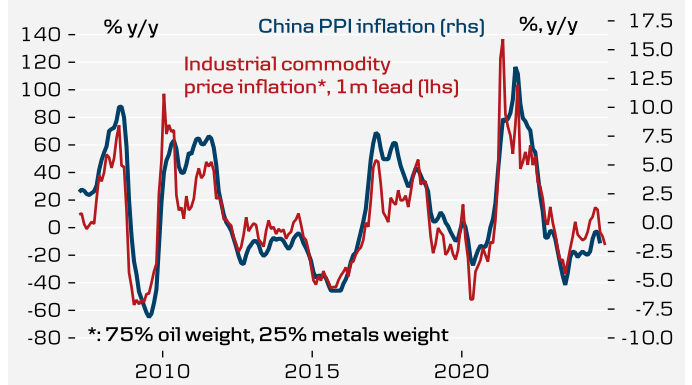
Source: Macrobond Financial, NBS

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 Antti Ilvonen, Senior Analyst, Rune Thyge Johansen, Analyst and Allan von Mehren, Chief Analyst

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Monthly

Date of first publication

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