

12 February 2025

Global Inflation Watch

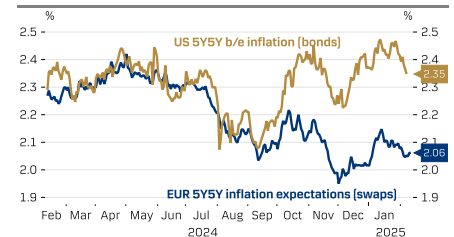
Tariff uncertainty blurs the outlook

- Overview:** Underlying inflation continues to moderate both in the euro area and in the US. Inflation pressures ease gradually with weak goods inflation and in the case of the US, a more balanced job market. In the euro zone, wage growth remains elevated but is also now cooling. Markets' inflation expectations have remained relatively steady despite the high trade policy uncertainty. Oil prices have moderated over past weeks, but natural gas prices in Europe have edged higher.
- Inflation expectations:** Market-based inflation expectations have remained relatively steady and close to the 2% target despite the trade uncertainty. US consumers' short-term inflation expectations rose sharply in the latest University of Michigan survey, although alternative measures remain well-behaved.
- US:** January CPI surprised sharply to the upside as headline CPI grew by 0.5% m/m SA (cons. +0.3%, Dec +0.4%) and core inflation accelerated to 0.4% m/m SA (cons. +0.3%, Dec. +0.2%). Larger annual price increases at the start of the year have caused similar volatility to January readings over past years as well, but the upside surprise was still very broad-based across price categories. Especially car insurance and egg prices recorded unusually large jumps, but also broad non-housing services inflation accelerated sharply. We will evaluate our dovish Fed view of four rate cuts in 2025 over coming days.
- Euro:** Euro area inflation rose to 2.5% y/y (0.3% m/m s.a.) in January, slightly above expectations, and up from 2.4% in December, driven by sharply higher energy costs. Core inflation remained stable at 2.7%, with services inflation persistently high at 3.9% y/y. The monthly price increase in services inflation was around 0.30% m/m s.a., so slightly to the high side. However, as many services prices are only adjusted in January, January's data offers modest relief to the ECB, as the ongoing softer momentum in underlying inflation continued. The figures align with ECB President Lagarde's view that inflation may fluctuate due to energy prices while slowing toward the 2% target as underlying inflation continues to ease.
- China:** January CPI increased from 0.1% to 0.5% y/y while core CPI rose to 0.6% y/y from 0.4% y/y. PPI increased was flat at -2.3% y/y.

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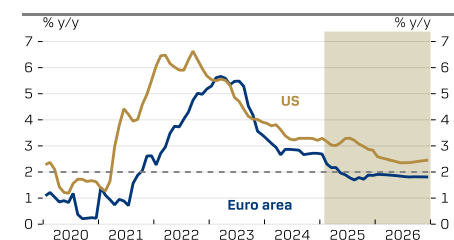
US elections caused markets' inflation expectations to diverge



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

Source: Bloomberg, Macrobond Financial

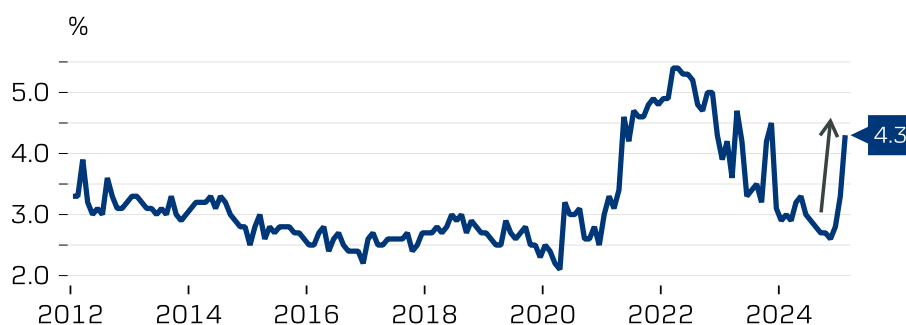
Core inflation outlook



Source: BLS, Eurostat, Danske Bank, Macrobond Financial

Tariff-fears lift American consumers' inflation expectations

US, University of Michigan's 1y Inflation Expectations



Source: Macrobond Financial, University of Michigan

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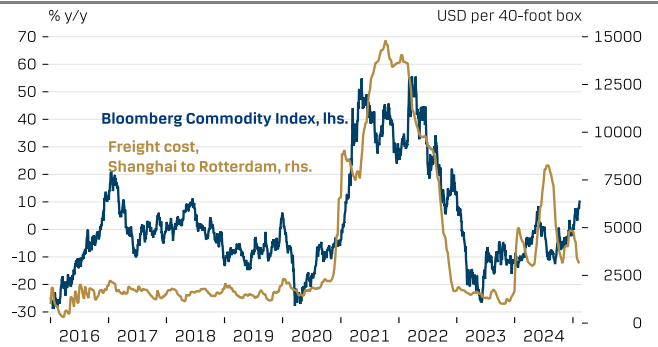
Top down overview

Overview of inflation drivers

Inflation Dashboard (3-6M trend)		
Commodity prices	Oil	↓
	Metals	↓
	Food stuff	↑
Supply Chains	Freight rates	→
Wage pressure		↓
Productivity growth		↓
Inflation expectations		→
Pricing power		→

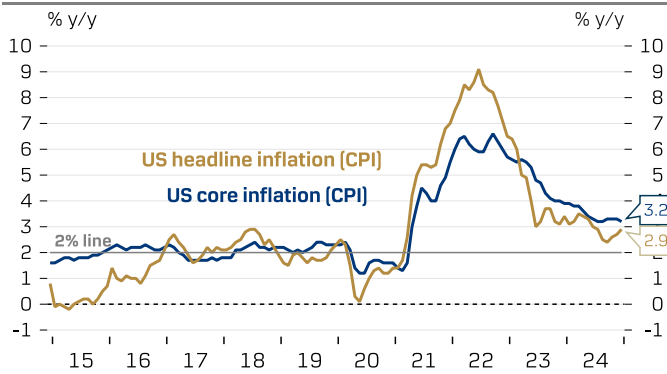
Source: Danske Bank

Commodity price and freight inflation



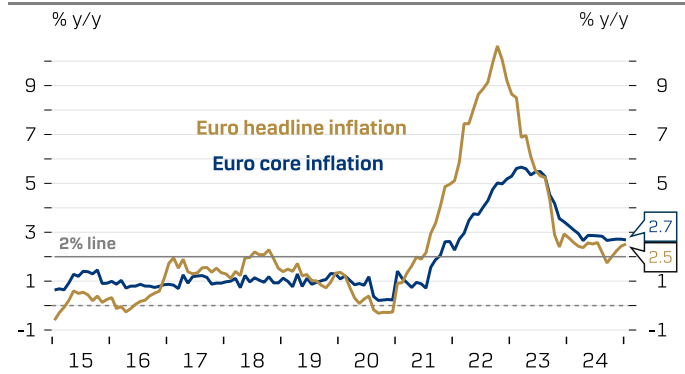
Source: Macrobond Financial, Eurostat, Bloomberg

US headline and core inflation (CPI)



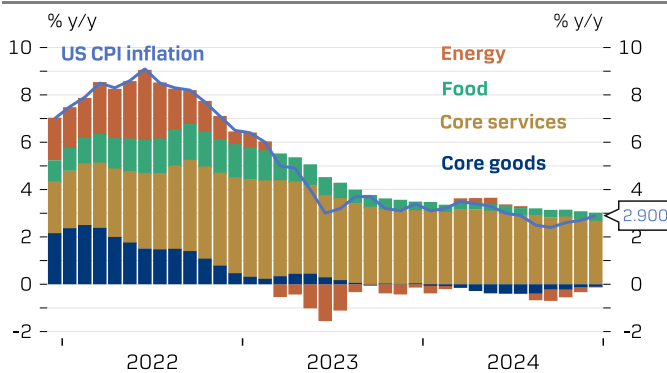
Source: Macrobond Financial, BLS

Euro headline and core inflation



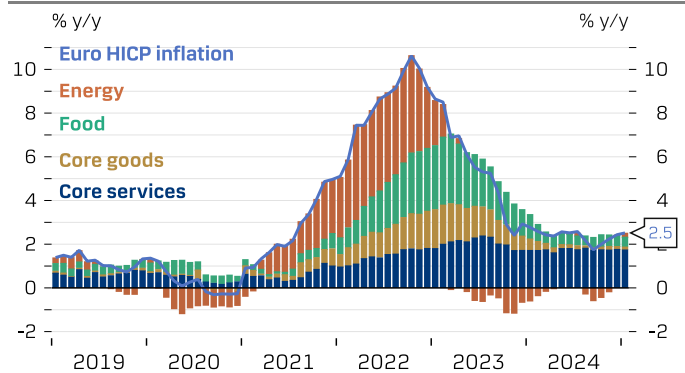
Source: Macrobond Financial, Eurostat

Contributions to US inflation



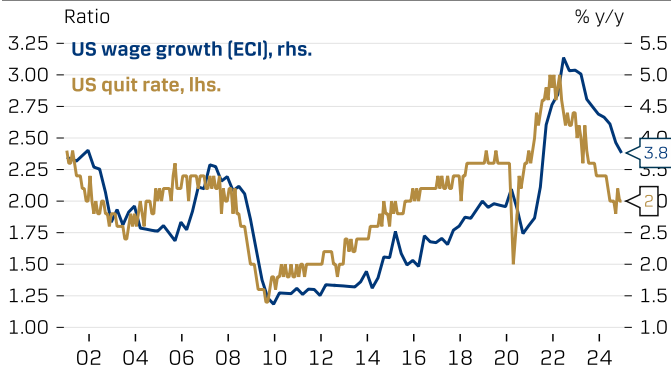
Source: Macrobond Financial, BLS

Contributions to euro inflation



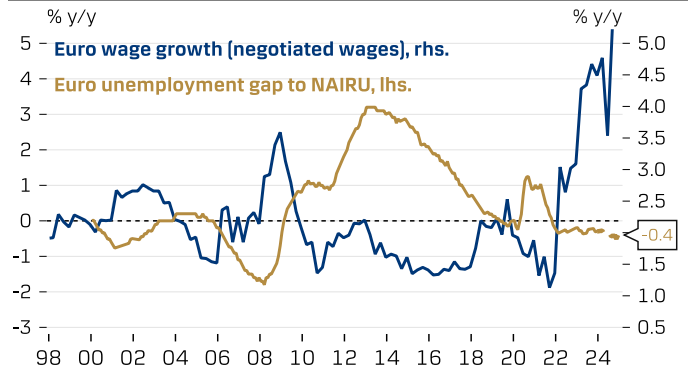
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



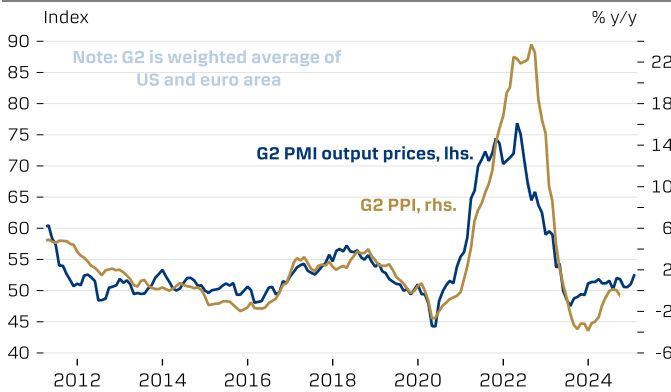
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



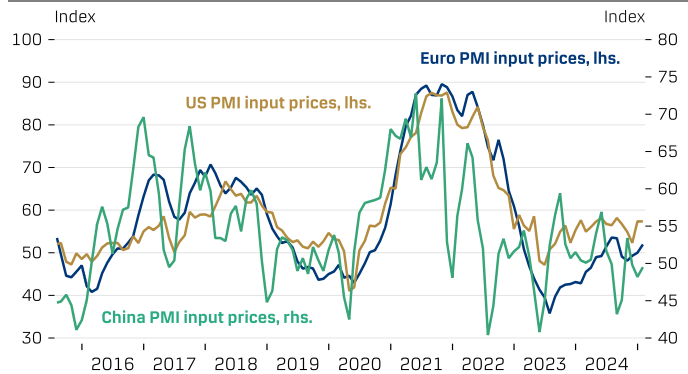
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



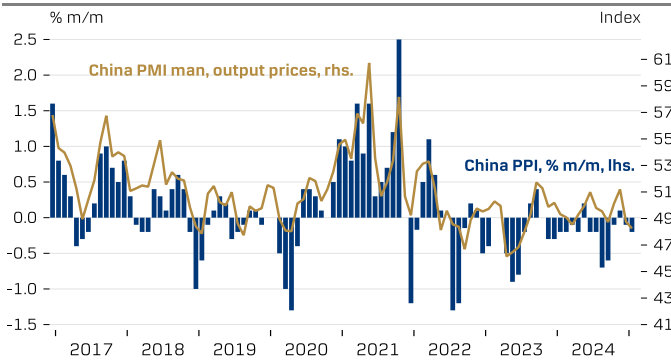
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



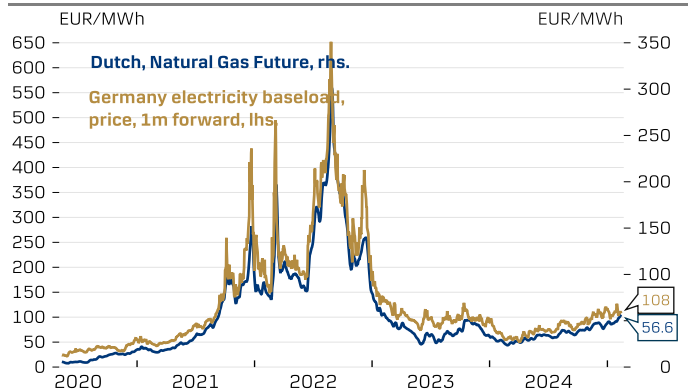
Source: Macrobond Financial, Markit

China PPI inflation momentum



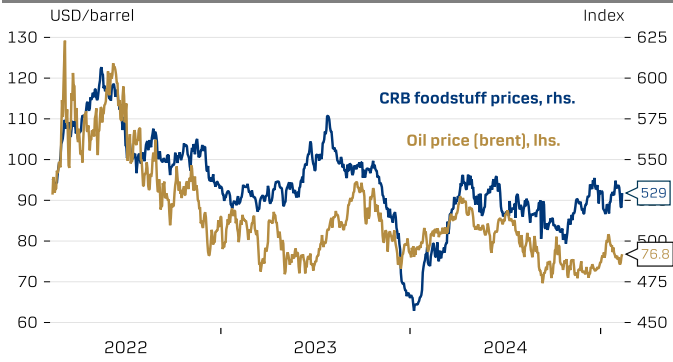
Source: Macrobond Financial, Markit

European natural gas and electricity prices



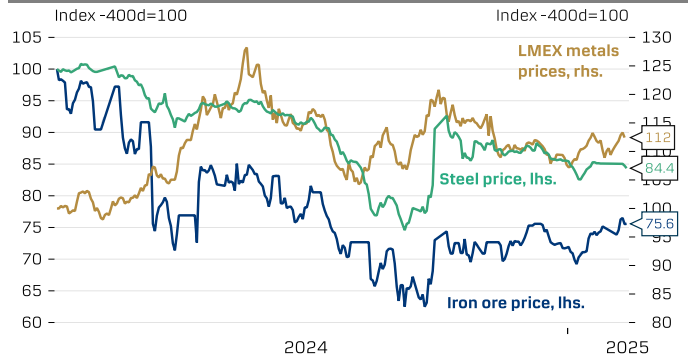
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil and food



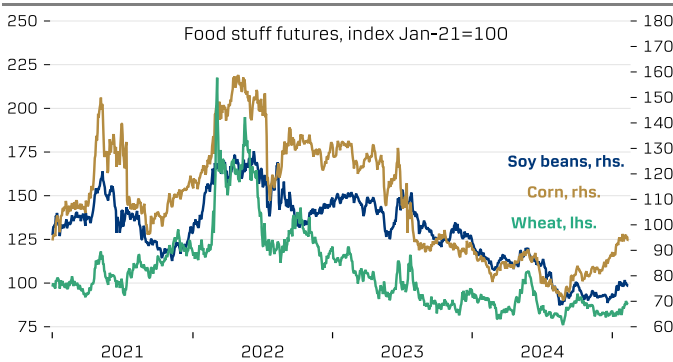
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – metals and iron ore



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

Grain prices



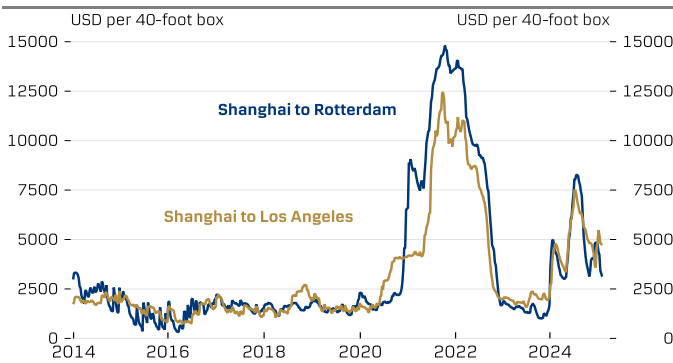
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Fertilizer input prices



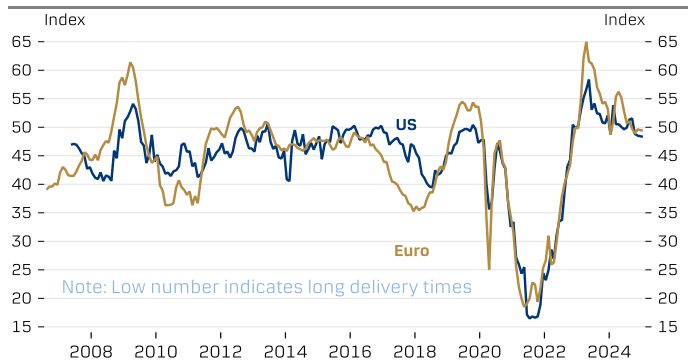
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks – PMI supplier delivery indices

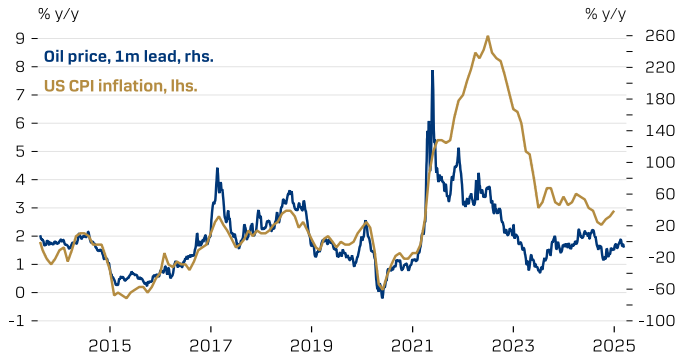


Source: S&P Global, Macrobond Financial

Country details - US

Top down

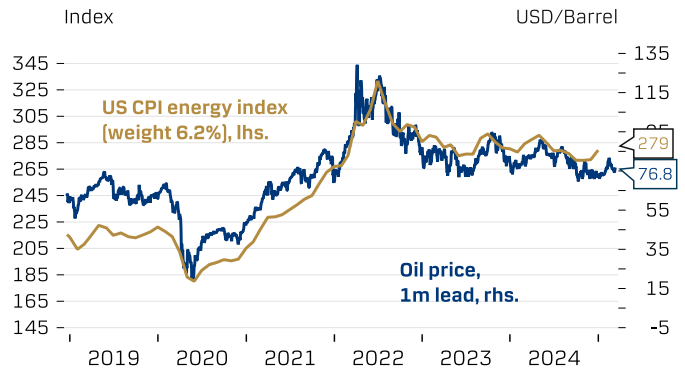
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

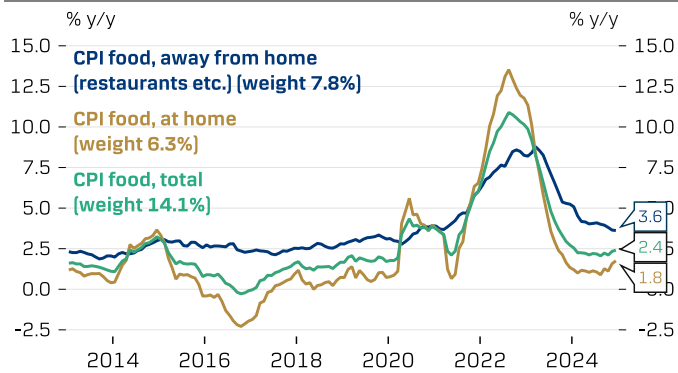
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

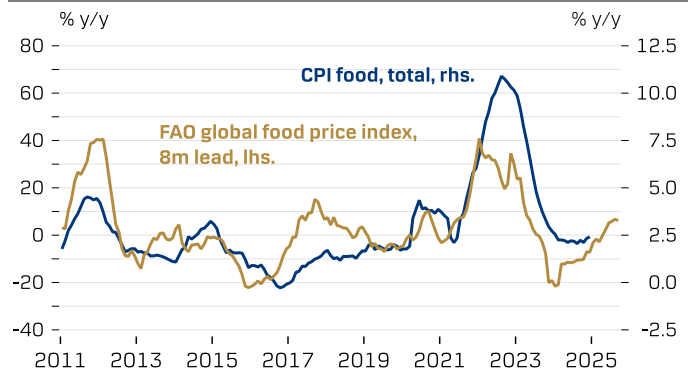
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

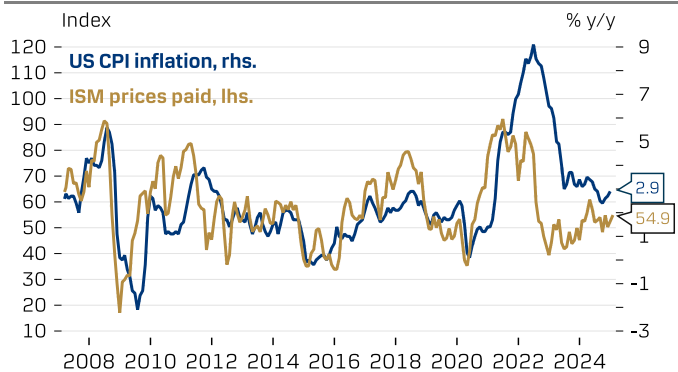
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

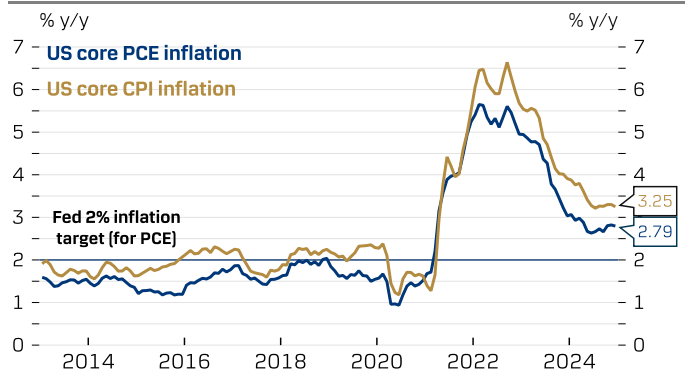
Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



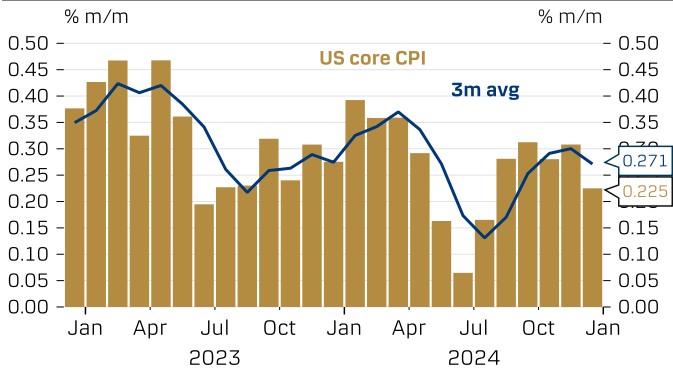
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



Source: Macrobond Financial, BLS, BEA

Core CPI momentum



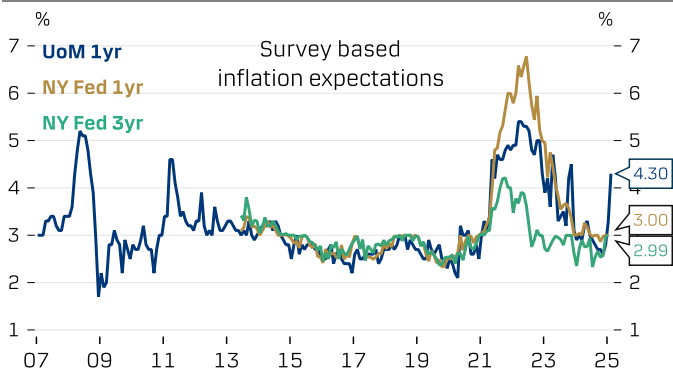
Source: Macrobond Financial, BLS

Headline CPI since 1980



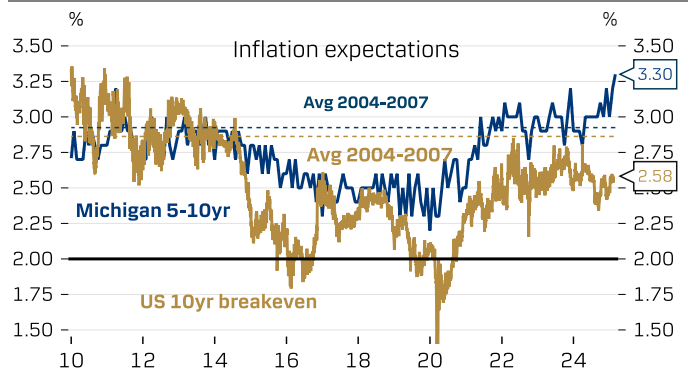
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



Source: NY Fed, University of Michigan, Macrobond Financial

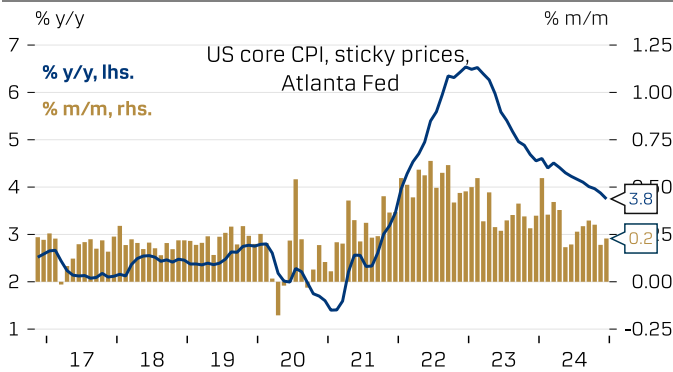
Long-term inflation expectations



Source: Macrobond Financial, University of Michigan

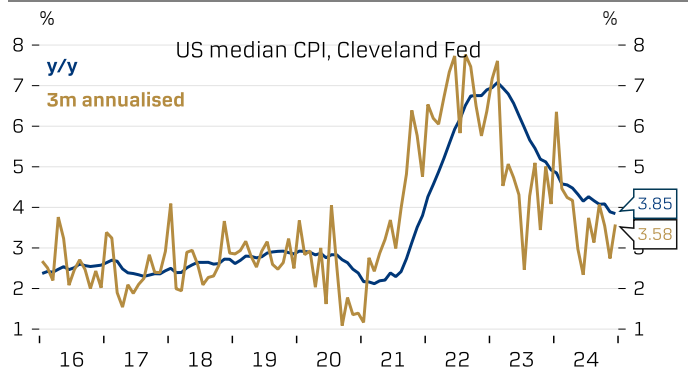
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



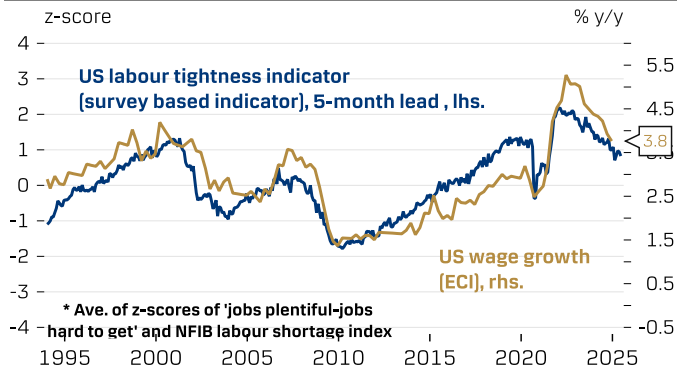
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



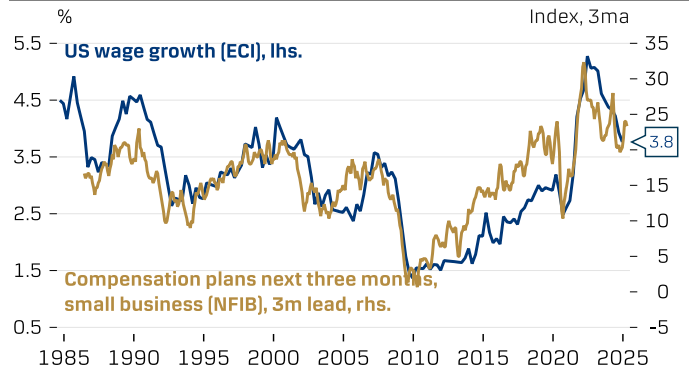
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



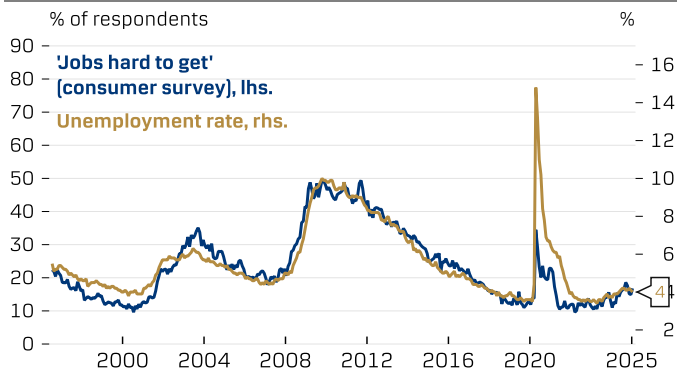
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



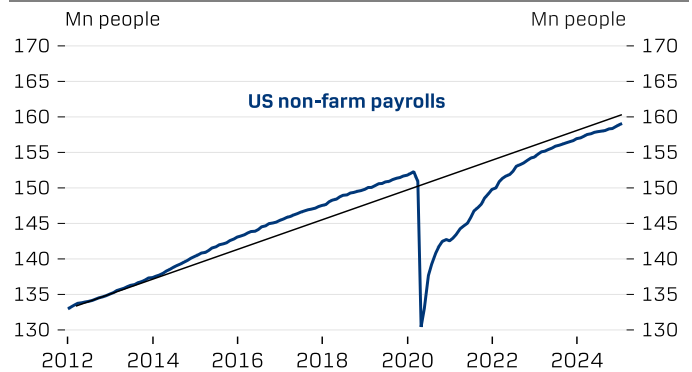
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

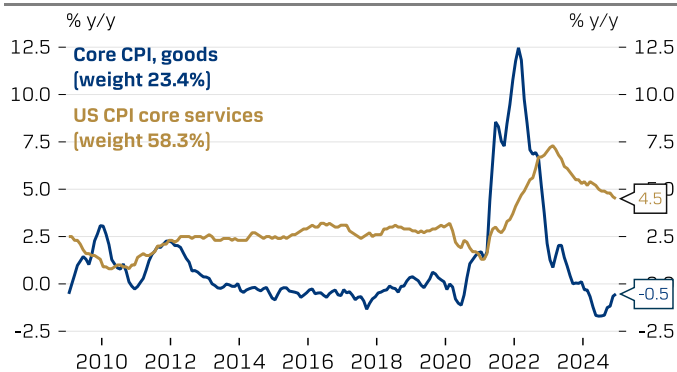
Employment gap



Source: Macrobond Financial, BLS

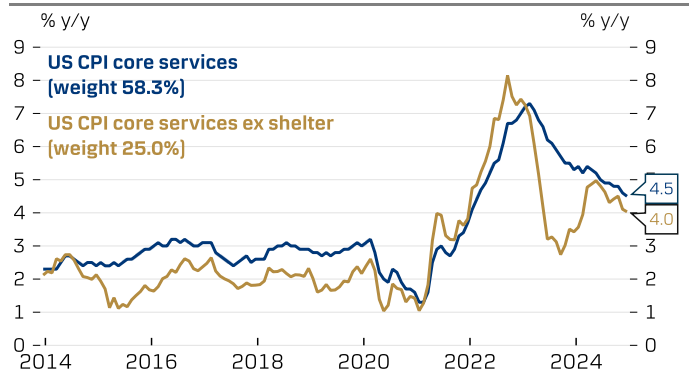
Bottom up

Core goods vs. services



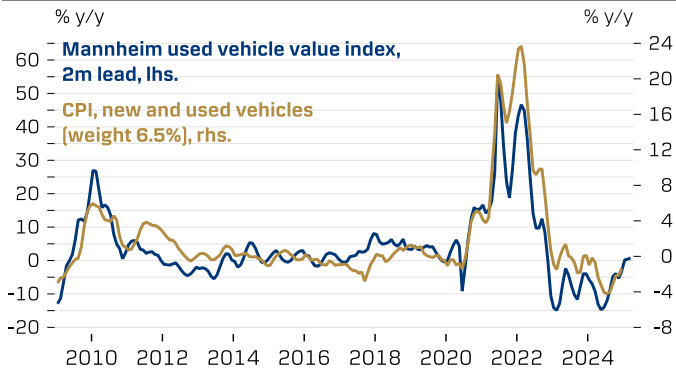
Source: Macrobond Financial, BLS

Core services ex shelter



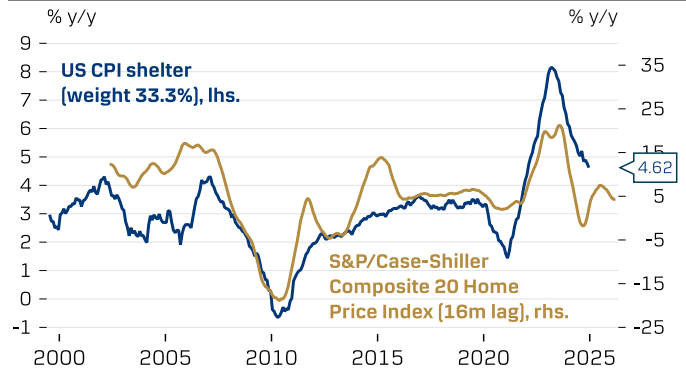
Source: Macrobond Financial, BLS

Used car prices



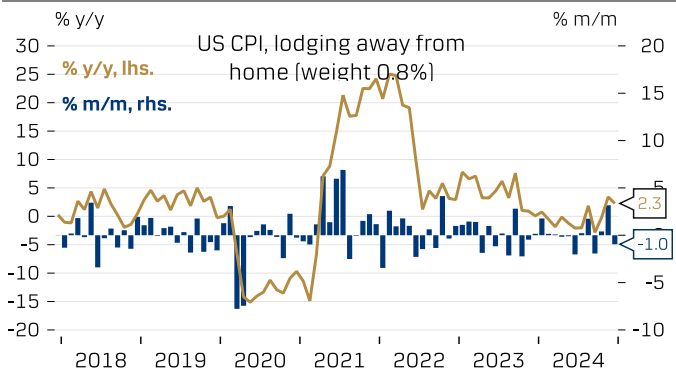
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



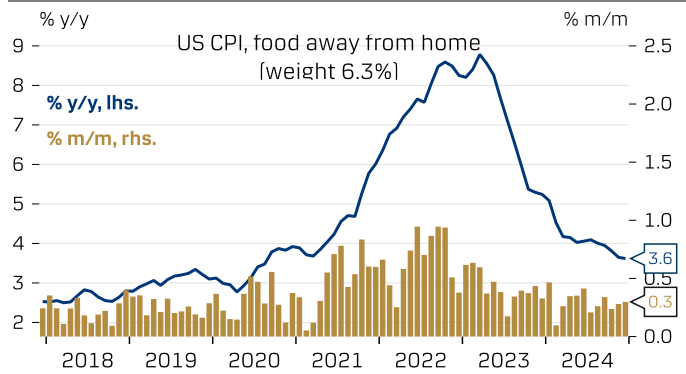
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



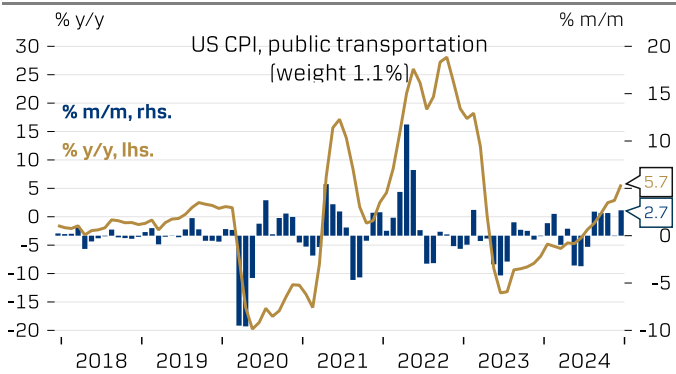
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



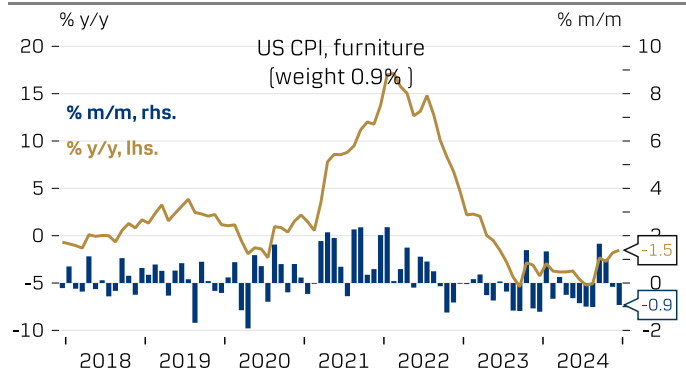
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

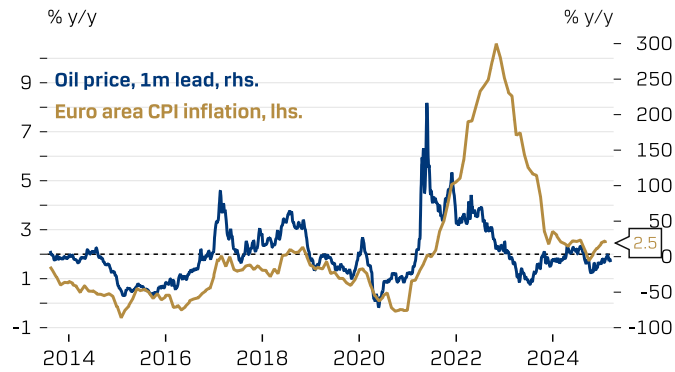


Source: Macrobond Financial, BLS

Country details – Euro area

Top Down

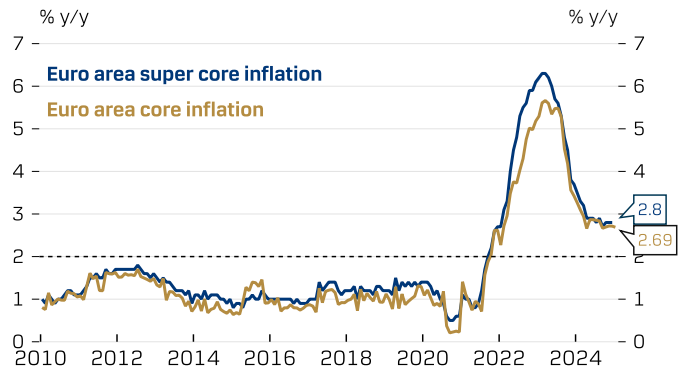
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

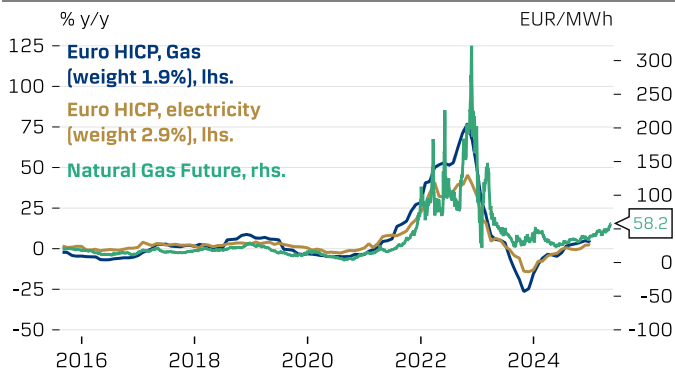
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

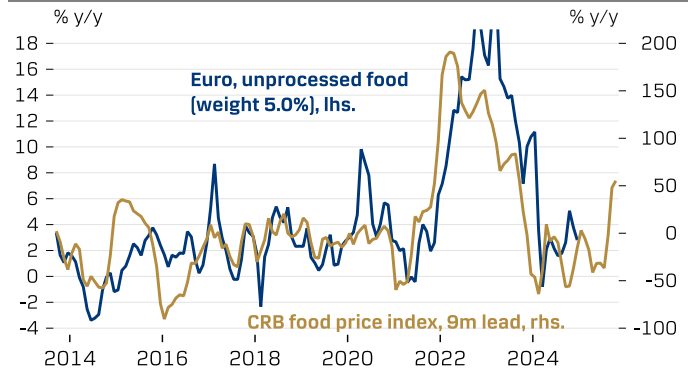
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

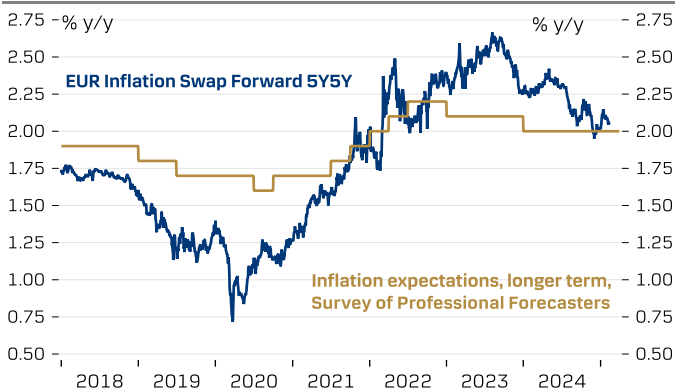
Food



Source: Macrobond Financial

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

Inflation expectations



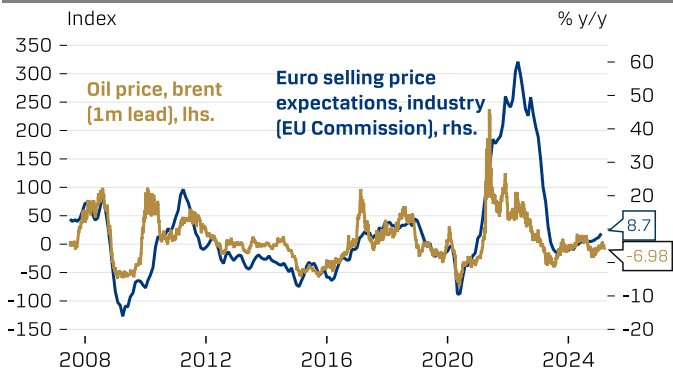
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

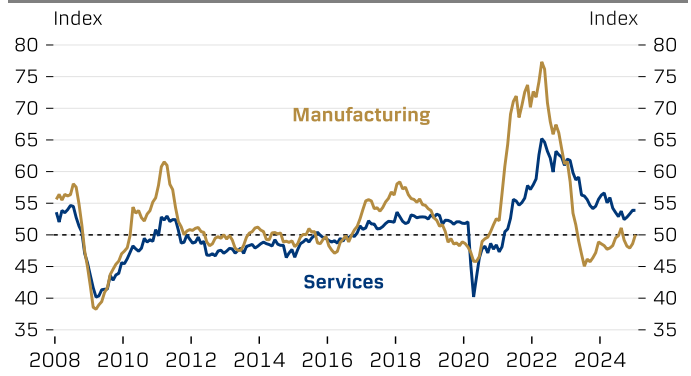
Selling price expectations from companies



Source: Macrobond Financial, EU Commission

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

PMI output prices



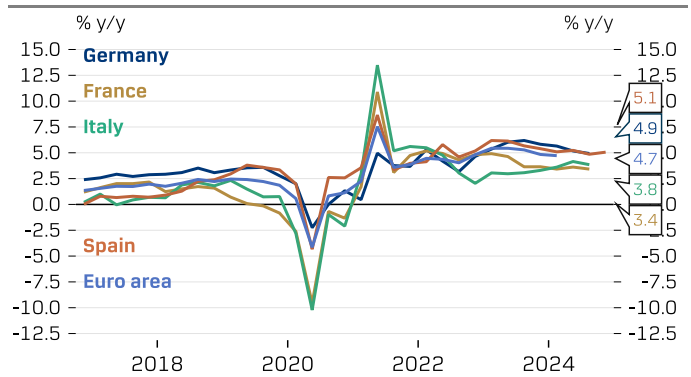
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage growth (compensation per employee)

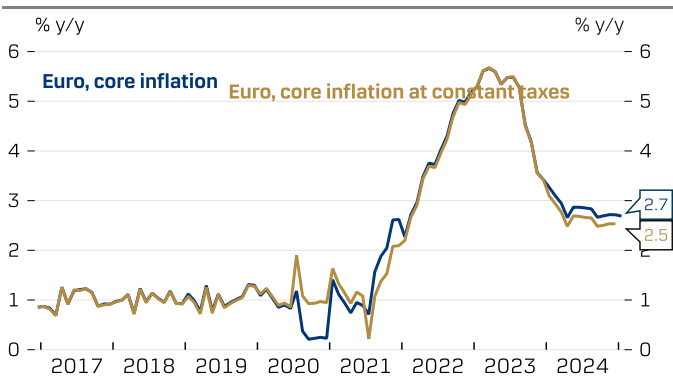


Source: Macrobond Financial, ECB.

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

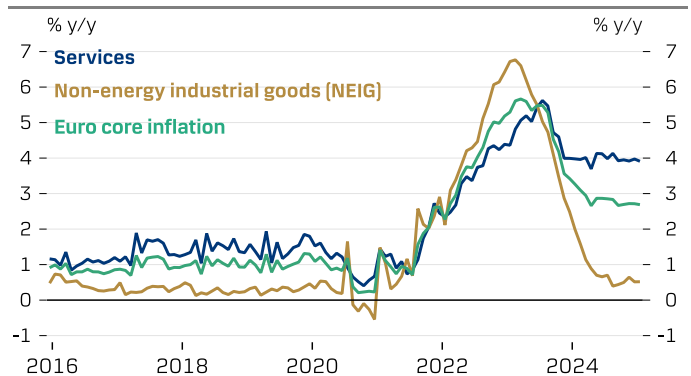
Bottom up

Core inflation, effect from taxes



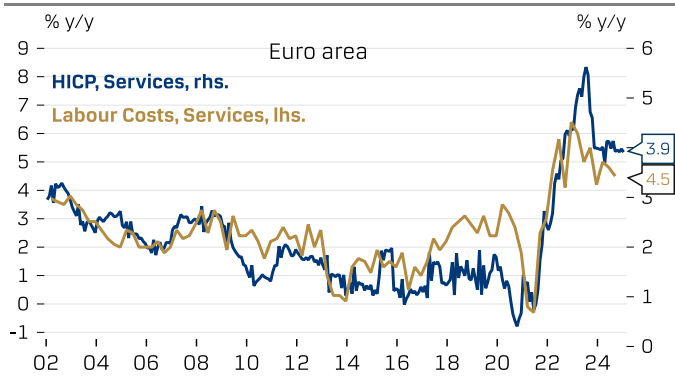
Source: Macrobond Financial, Eurostat

Core inflation components



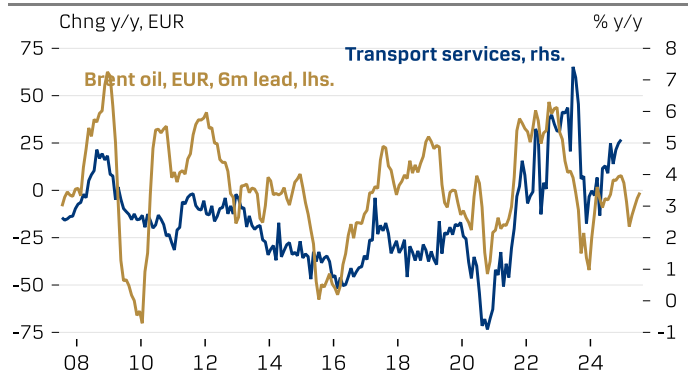
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

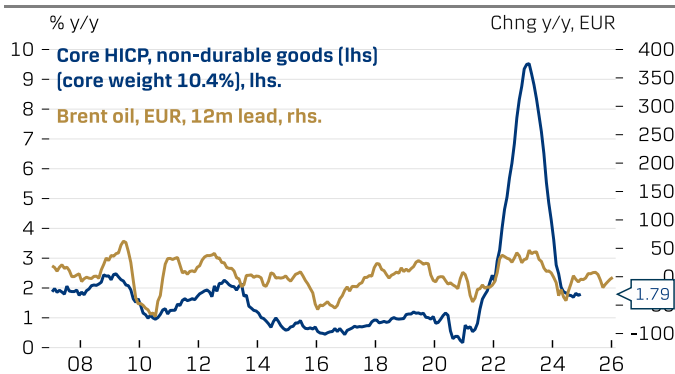
Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

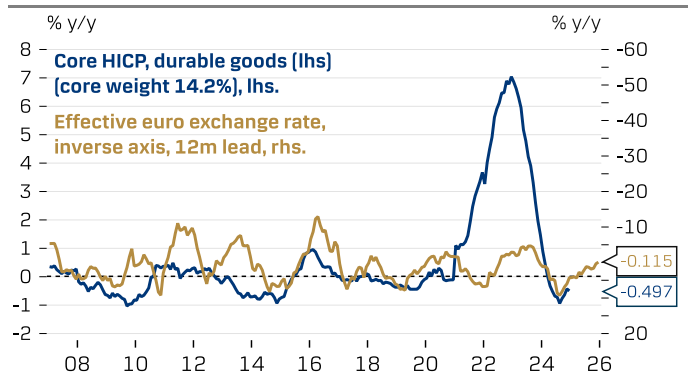
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Core non-durable goods



Source: Macrobond Financial, Eurostat

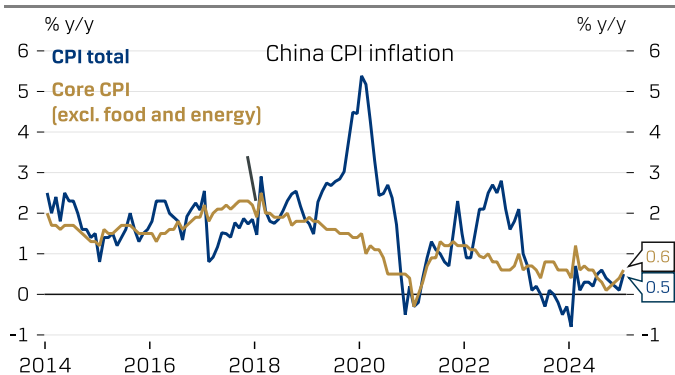
Core durable goods



Source: Macrobond Financial, BIS, Eurostat

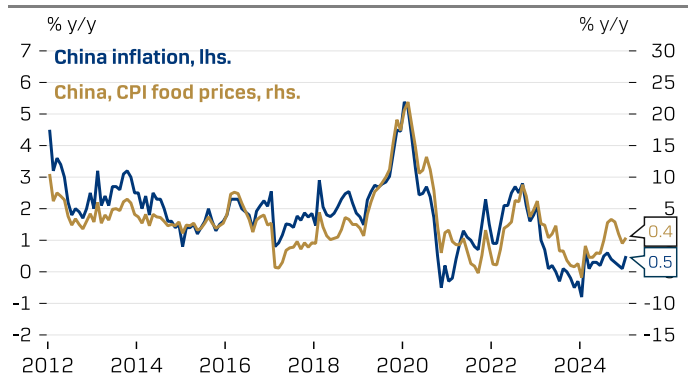
Country details – China

CPI and core CPI



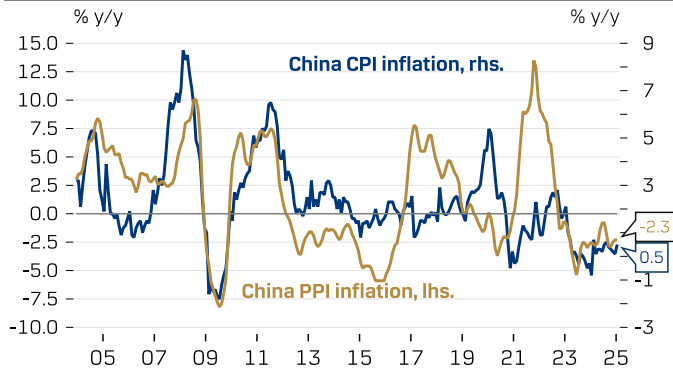
Source: Macrobond Financial, NBS

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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