

12 March 2023

Global Inflation Watch

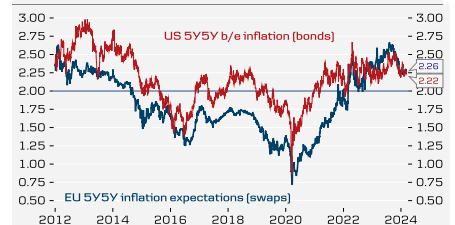
Underlying services inflation remains elevated

- Overview:** Underlying inflation momentum remains elevated in the US and is more well-behaved in euro area. Inflation drivers paint a mixed picture with weak goods inflation and strong service inflation, but inflation is likely to trend lower in 2024. Energy prices have moved mostly sideways over the past month. Tight labour markets continue to support upside risks to core inflation despite signs of gradual easing. We expect central banks to take a cautious approach to cutting policy rates later in the year.
- Inflation expectations:** Short-term market-based inflation expectations have edged higher in the US and remained steady in the euro area. Longer-dated and survey-based measures remain well anchored close to the 2% target level.
- US:** February CPI came once again above expectations, with headline CPI at +0.44% m/m SA (Cons. +0.4%; Jan. +0.31%) and core CPI at +0.36% m/m SA (Cons. +0.3%; Jan. +0.39%). Energy contribution pulled the headline figure higher, while food price inflation stalled. Non-housing services inflation remained steady from January, but contribution from often volatile/distorted health care prices fell sharply. Excluding health care, broader services price pressures accelerated, which is a concerning sign for the Fed. Core goods inflation turned modestly positive following several months of deflation, while OER contribution moderated after an upside surprise in January.
- Euro:** The disinflationary trend continued in February amid core services reminding us about upside risks to the inflation outlook. Headline inflation fell to 2.6% y/y from 2.8%, while core inflation was much stronger than expected at 3.1% (consensus: 2.9%). Core inflation increased 0.30% m/m s.a., driven by a large uptick in service inflation to 0.39% m/m s.a. Hence, inflation momentum measured as the 3m/3m s.a. annualized rate rose to 2.39%. Despite being just one month with strong core inflation, the print reminded us about the key upside risk to our and ECBs inflation forecast from service inflation given the strong labour market, low productivity, and high wage growth.
- China:** February CPI increased to 0.7% y/y (cons: 0.3%) from -0.8% y/y in January. The positive figures are attributed to a spending boom following the Lunar New Year.

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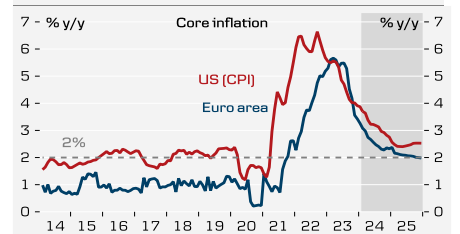
Market-based inflation expectations almost consistent with 2% targets



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

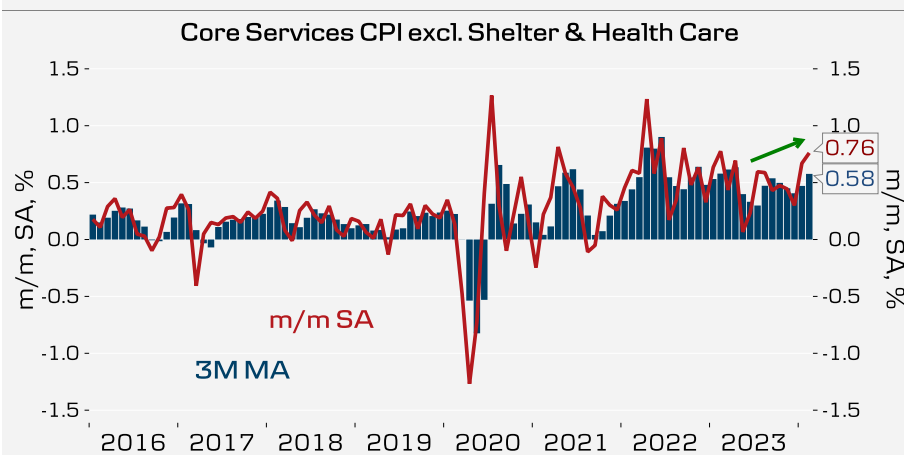
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

In the US, underlying service price pressures have edged higher in early 2024



Source: BLS, ECB, Danske Bank, Macrobond Financial

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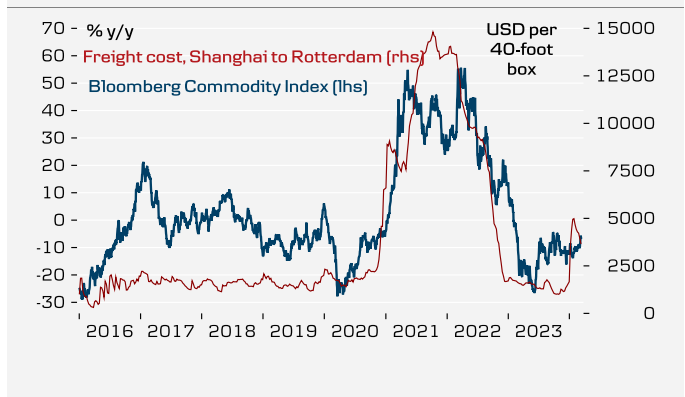
Top down overview

Trend in inflation pressure more mixed lately

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		↘

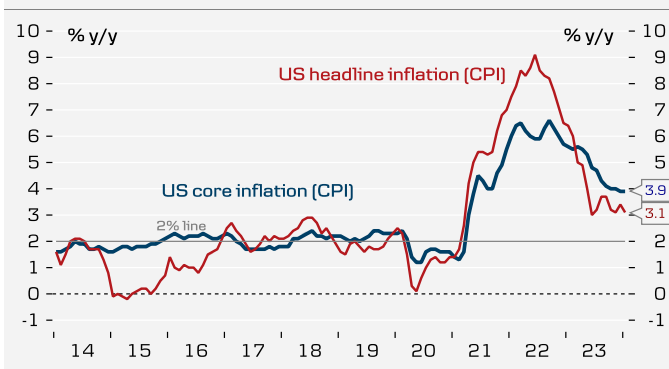
Source: Macrobond Financial, BLS

Commodity price and freight inflation



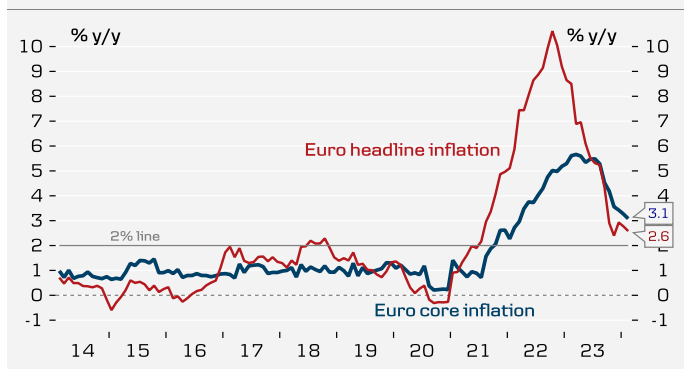
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



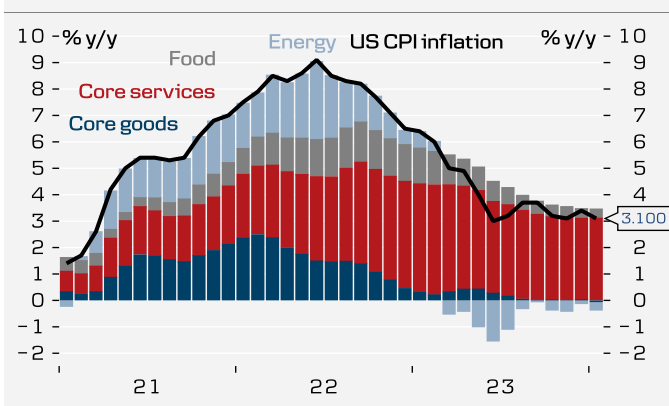
Source: Macrobond Financial, BLS

Euro headline and core inflation



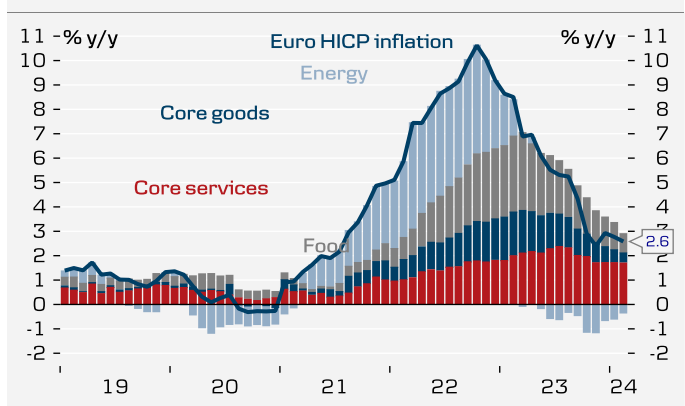
Source: Macrobond Financial, Eurostat

Contributions to US inflation



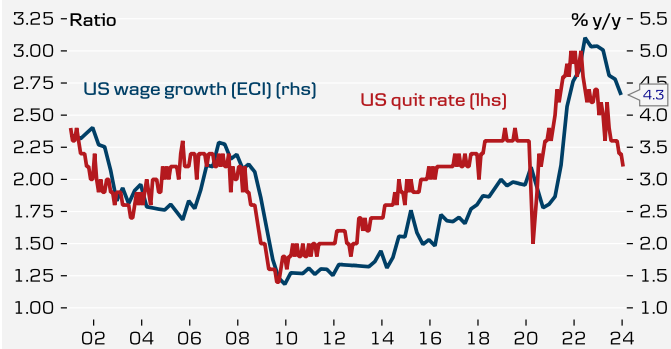
Source: Macrobond Financial, BLS

Contributions to euro inflation



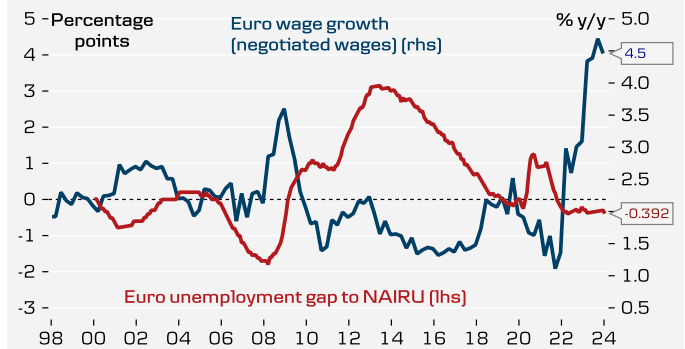
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



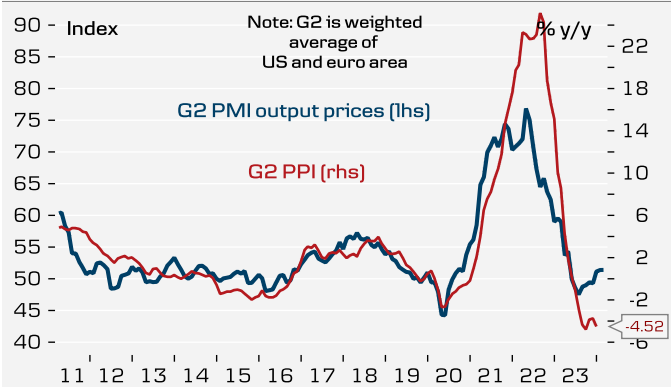
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



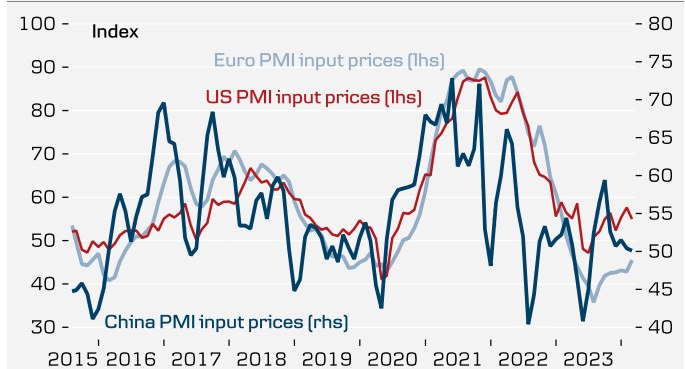
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



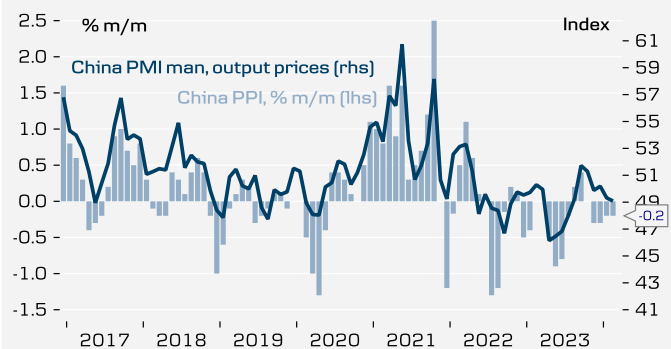
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



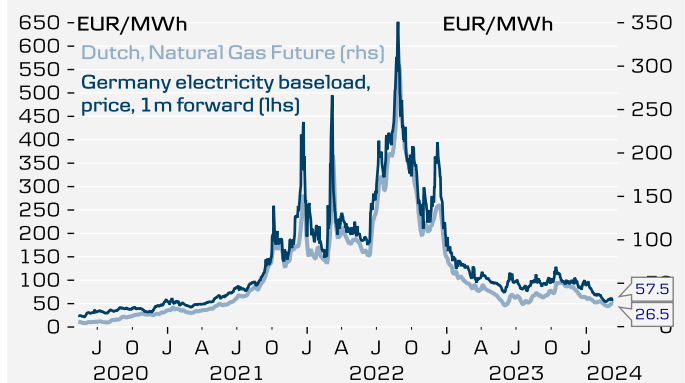
Source: Macrobond Financial, Markit

China PPI inflation momentum



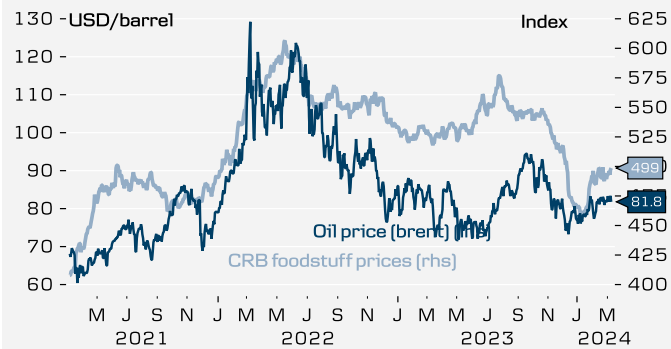
Source: Macrobond Financial, Markit

European natural gas and electricity prices



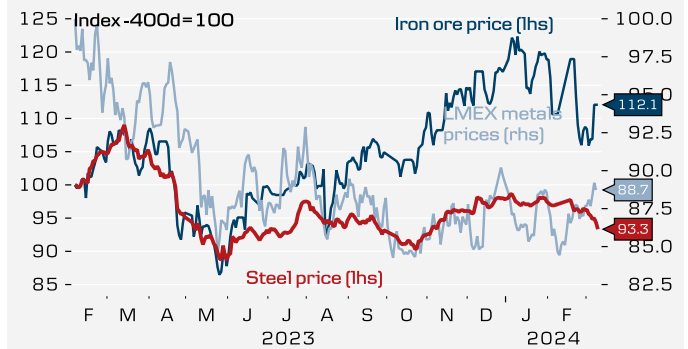
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



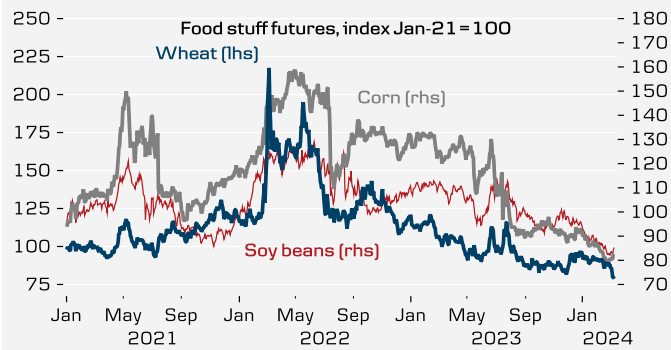
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



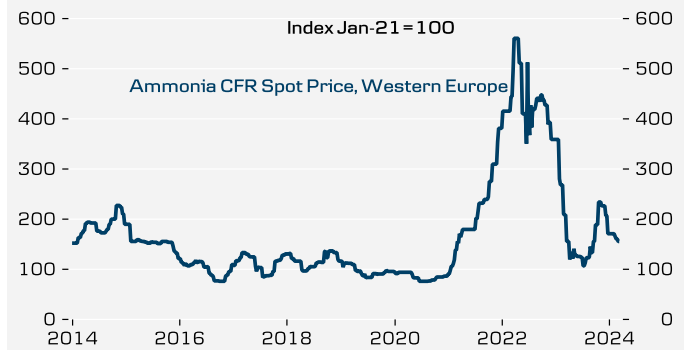
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Grain prices



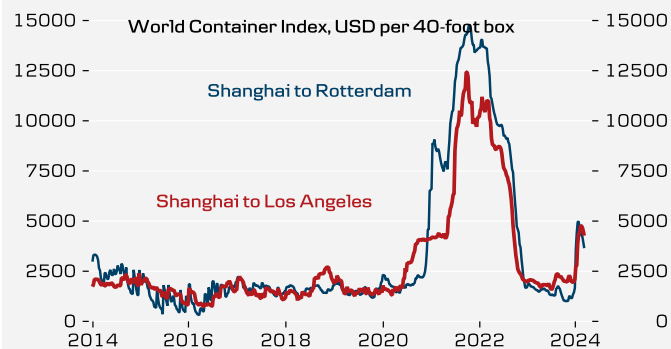
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Fertilizer input prices



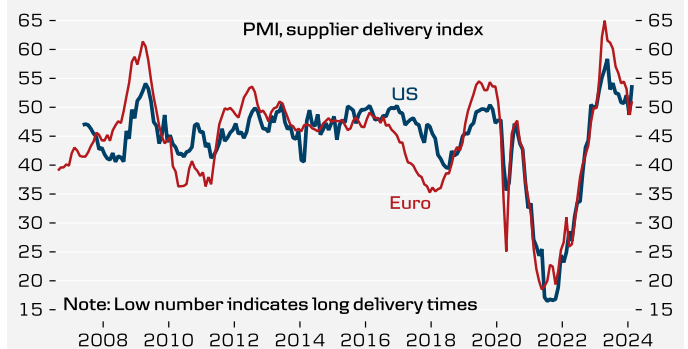
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

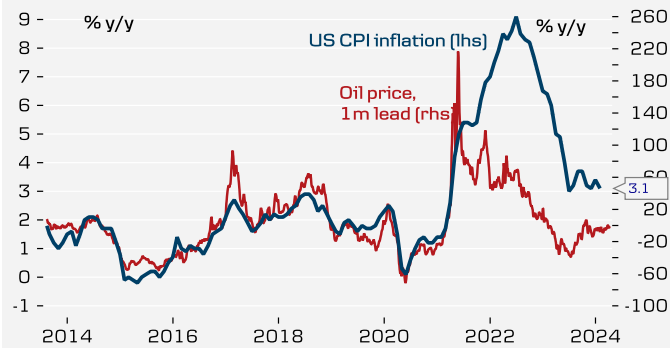


Source: Macrobond Financial, Markit

Country details - US

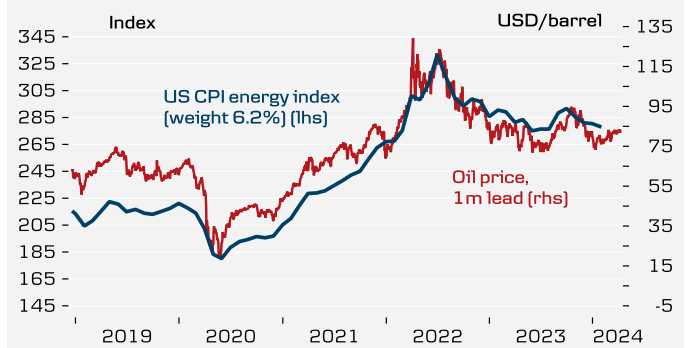
Top down

Headline CPI inflation vs. oil prices



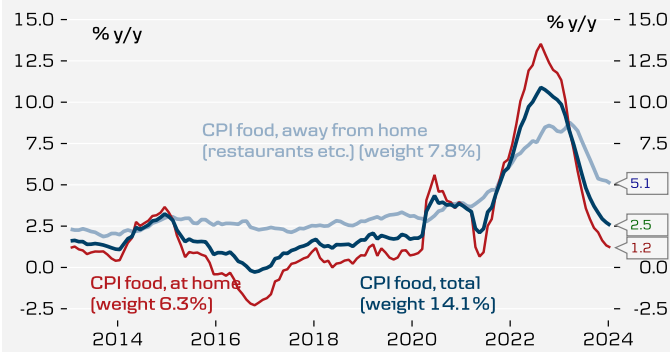
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

CPI energy prices vs oil



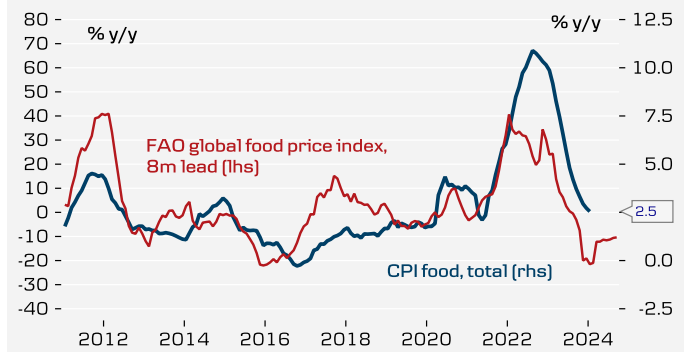
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

Food prices



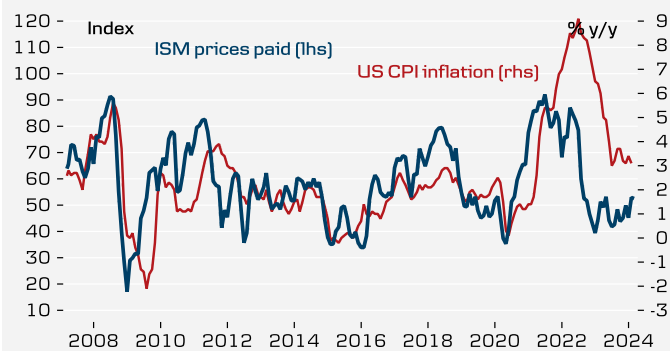
Source: Macrobond Financial, BLS

Food prices vs FAO food price index



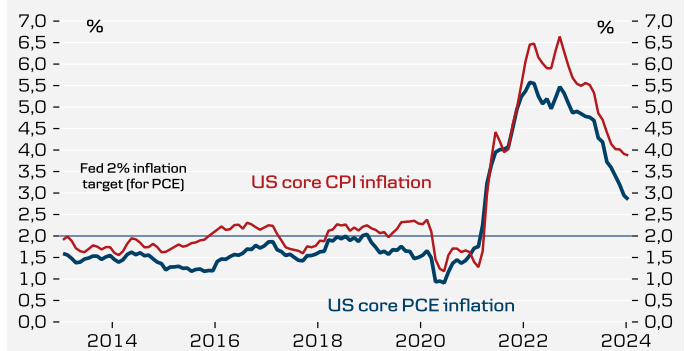
Source: Macrobond Financial, FAO, BLS
 Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



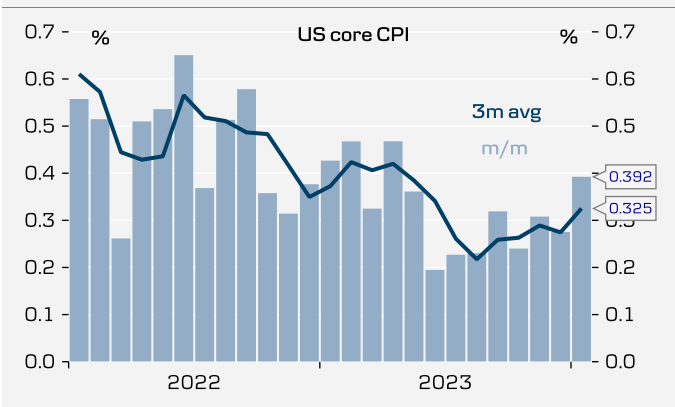
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



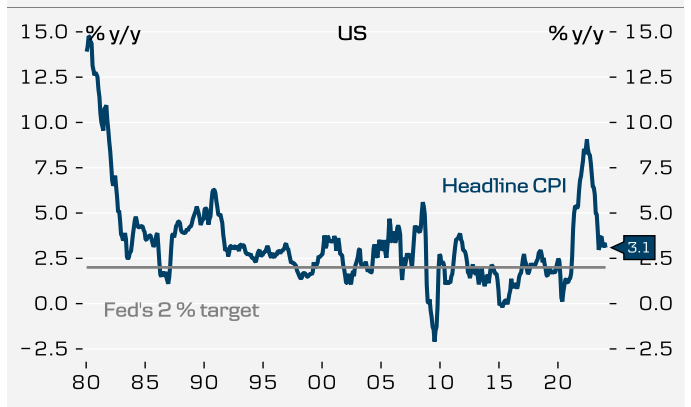
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



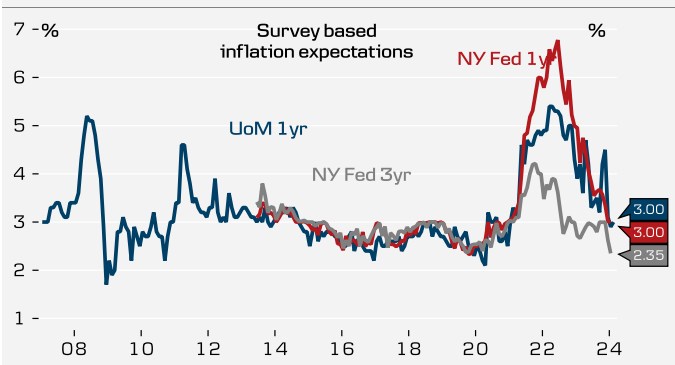
Source: Macrobond Financial, BLS

Headline CPI since 1980



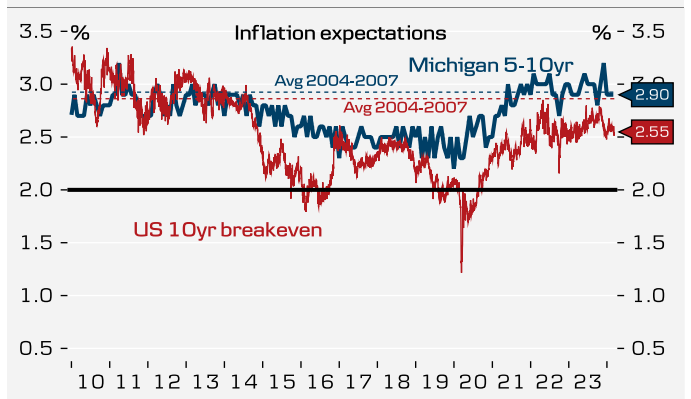
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



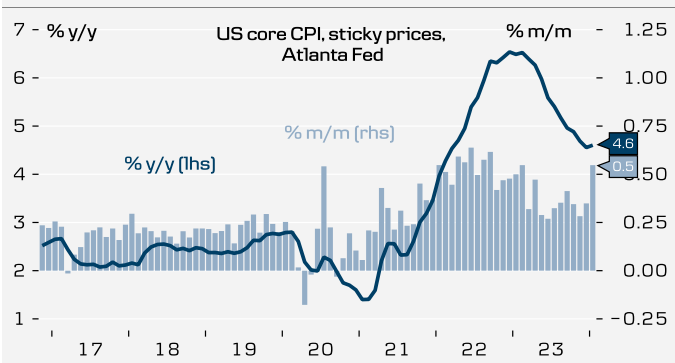
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



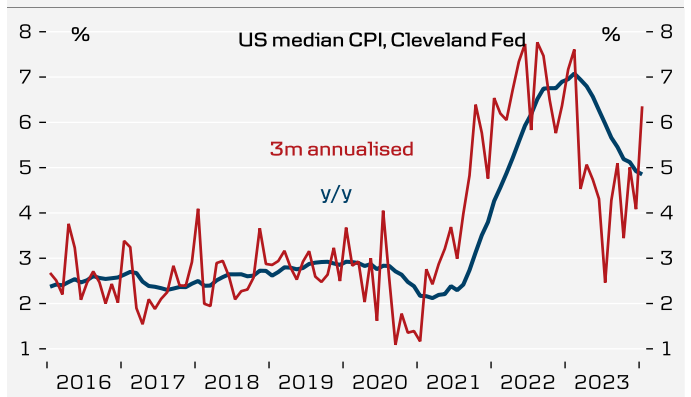
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



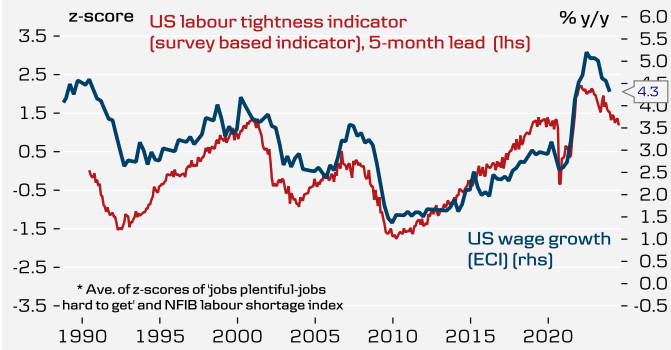
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



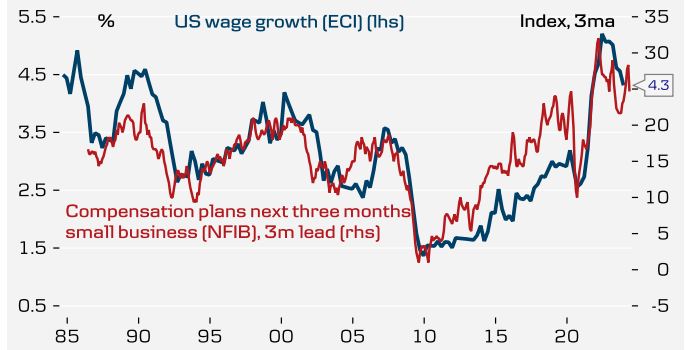
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



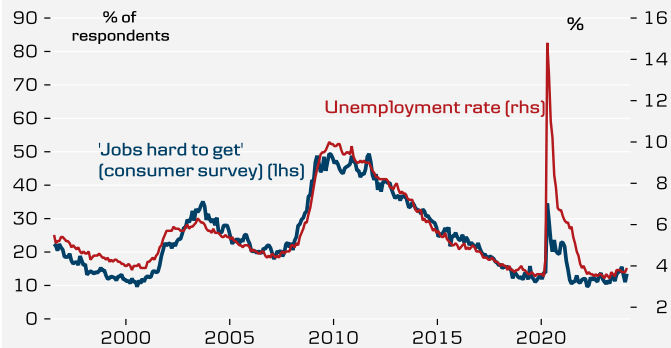
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



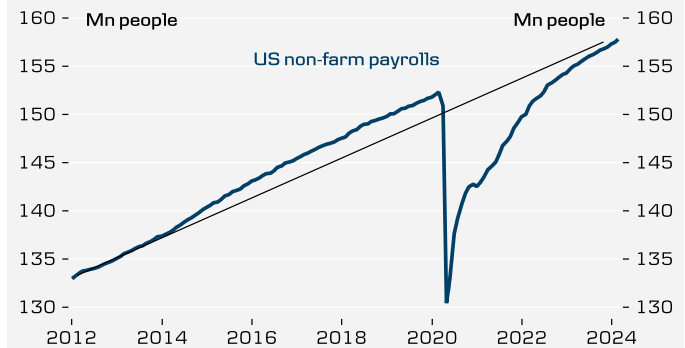
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

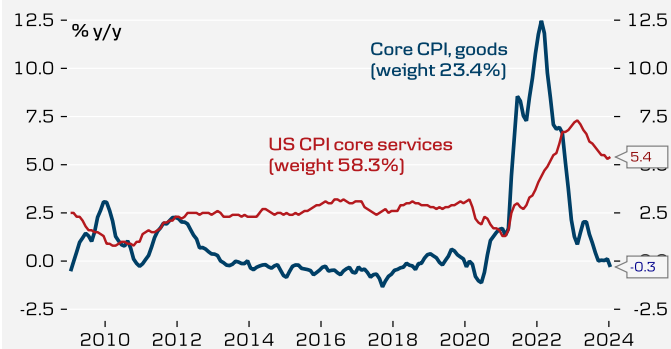
Employment gap



Source: Macrobond Financial, BLS

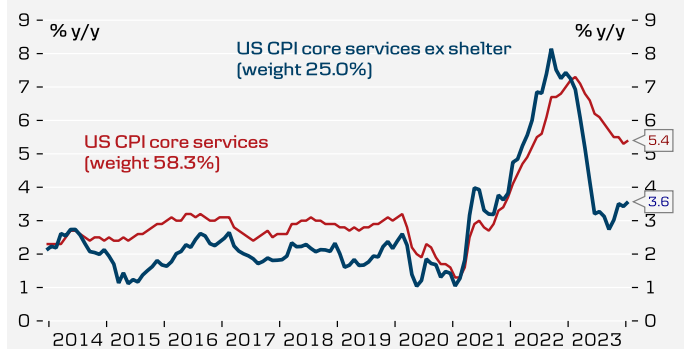
Bottom up

Core goods vs. services



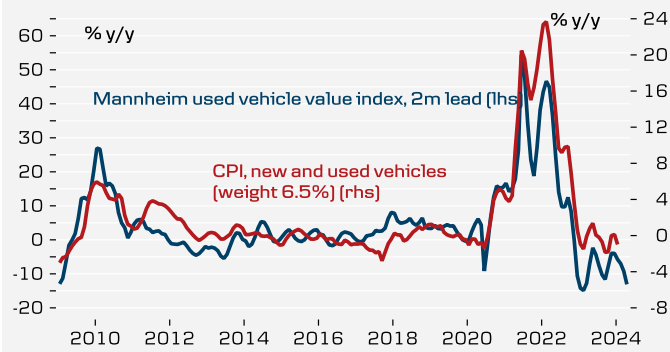
Source: Macrobond Financial, BLS

Core services ex shelter



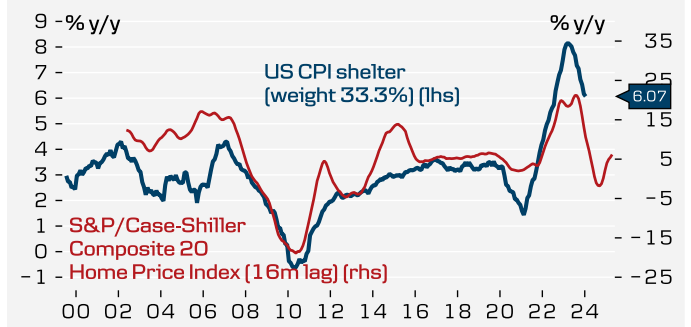
Source: Macrobond Financial, BLS

Used car prices



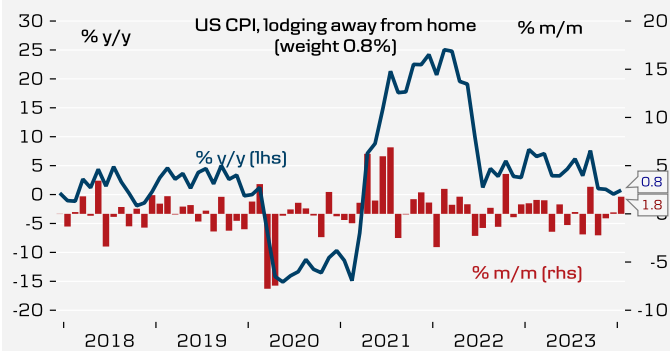
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



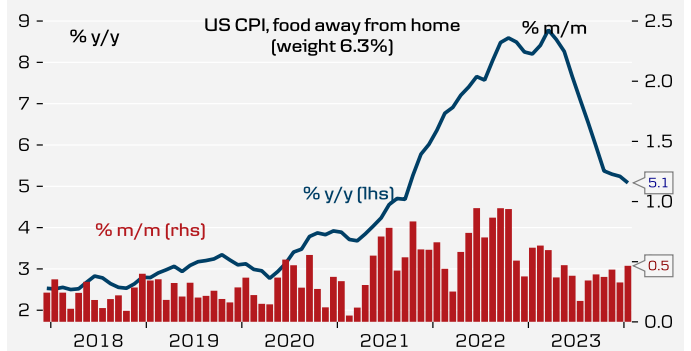
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



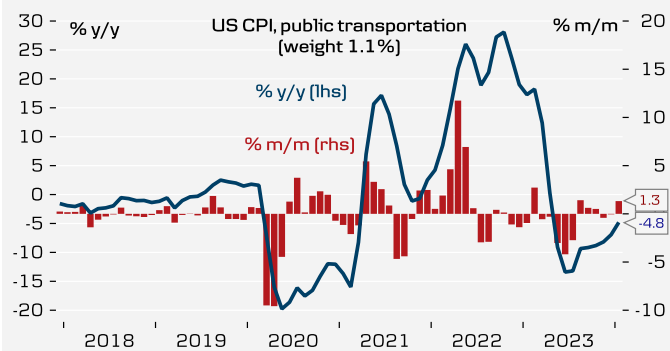
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



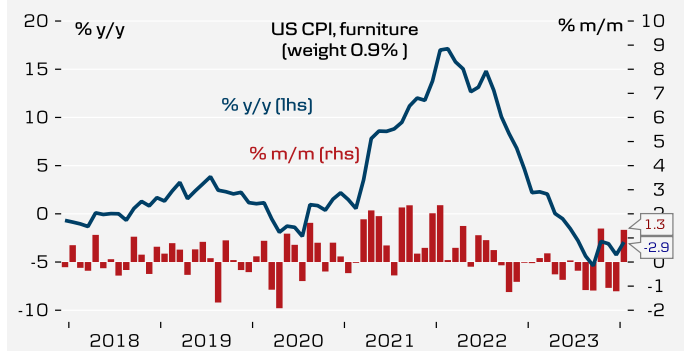
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

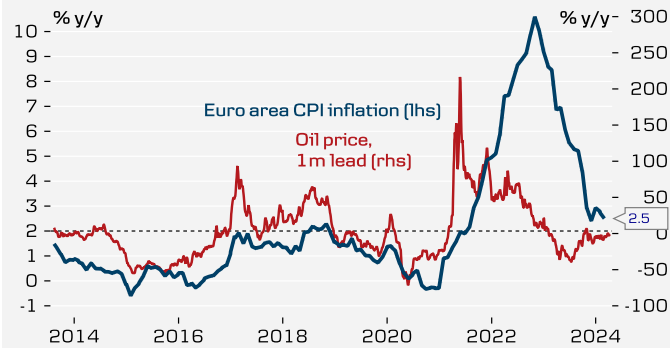


Source: Macrobond Financial, BLS

Country details – Euro area

Top Down

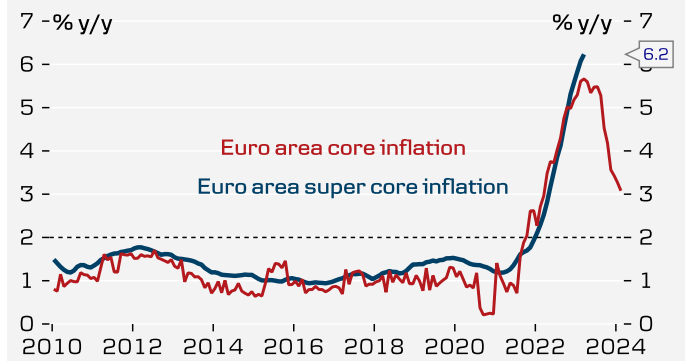
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

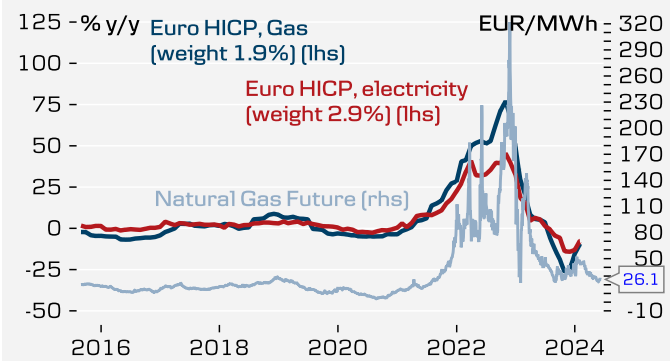
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

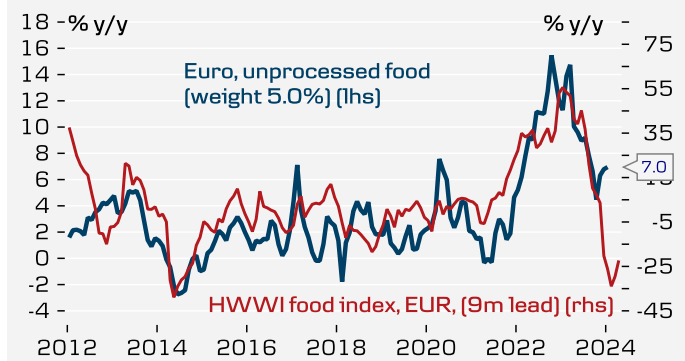
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

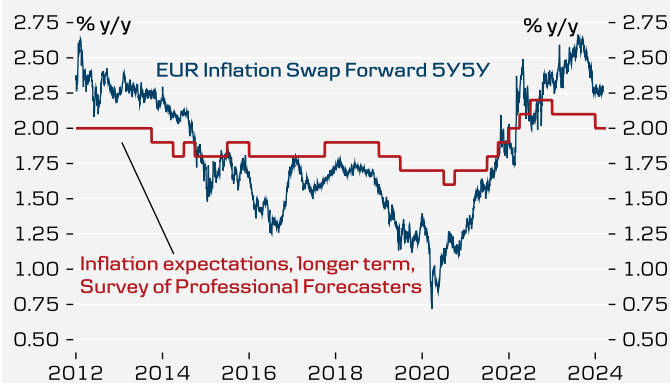
Food



Source: Macrobond Financial

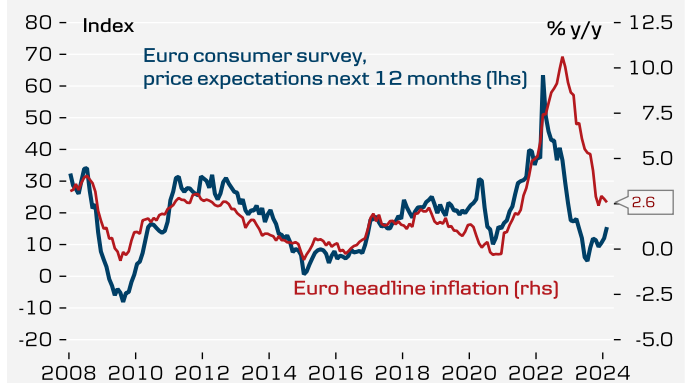
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Inflation expectations



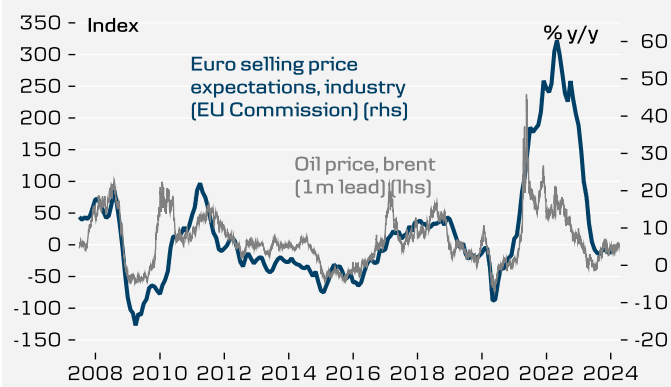
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



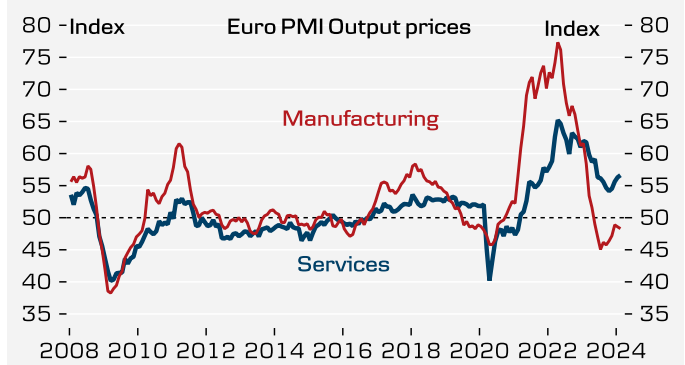
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



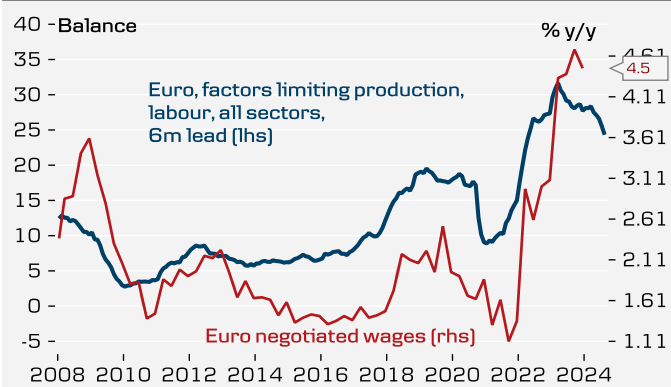
Source: Macrobond Financial, EU Commission
 Note: Past performance is not a reliable indicator of future performance.

PMI output prices



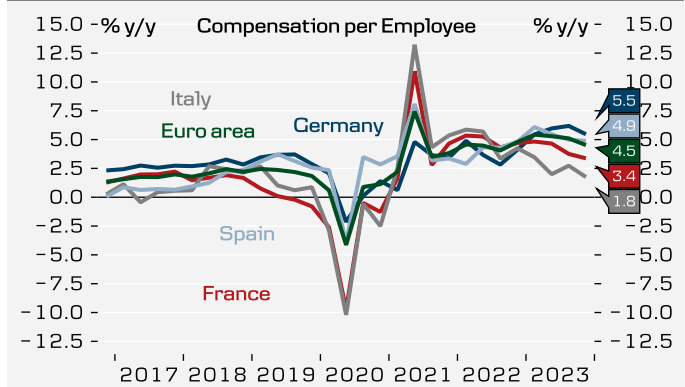
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

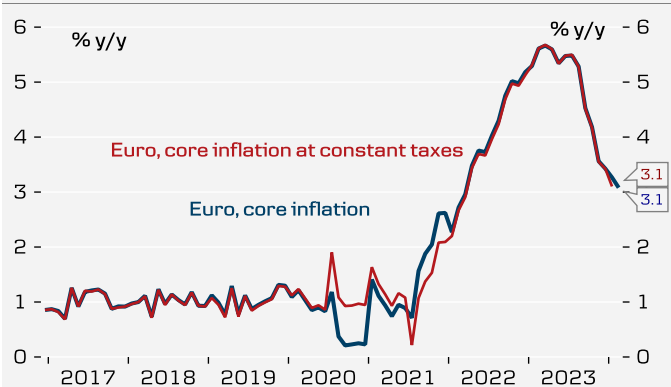
Wage compensation



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

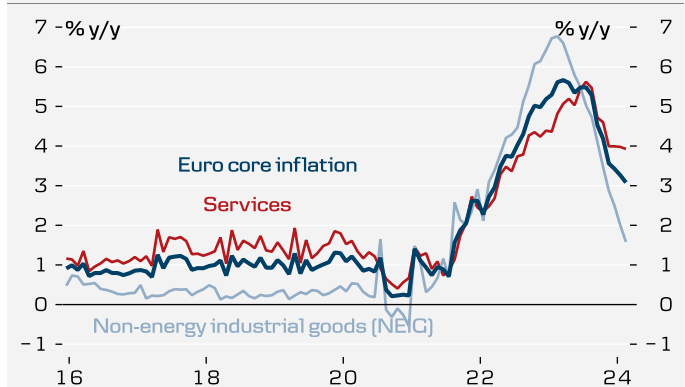
Bottom up

Core inflation, effect from taxes



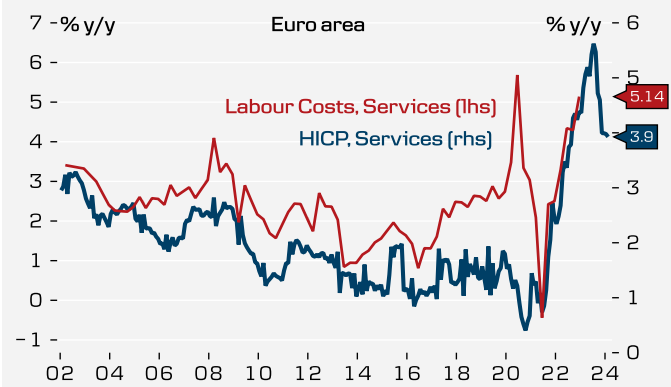
Source: Macrobond Financial, Eurostat

Core inflation components



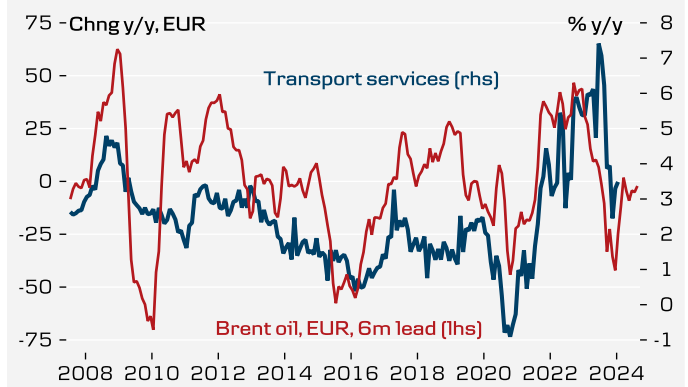
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



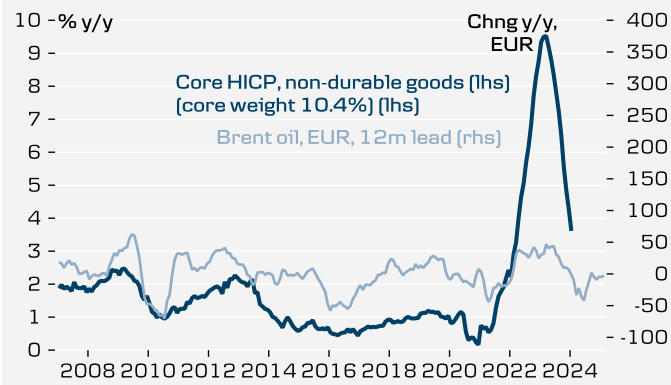
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



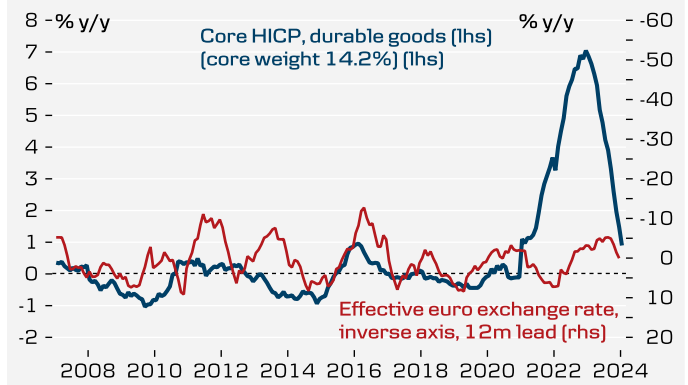
Source: Macrobond Financial, Eurostat, Danske Bank
Note: Past performance is not a reliable indicator of future performance.

Core non-durable goods



Source: Macrobond Financial

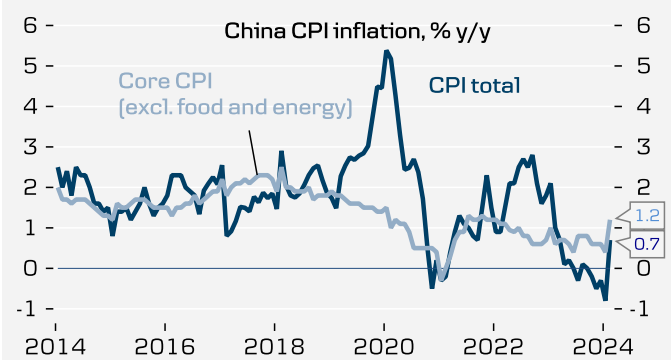
Core durable goods



Source: Macrobond Financial

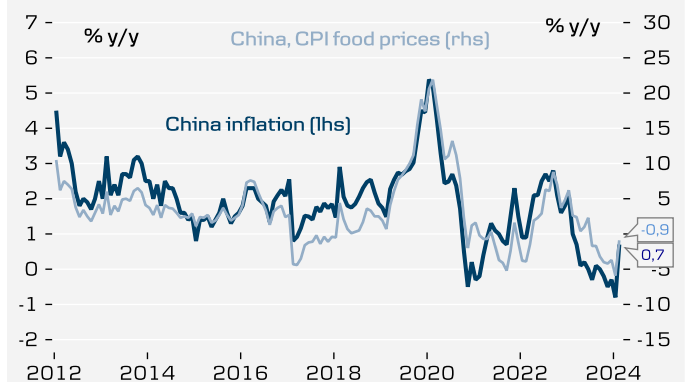
Country details – China

CPI and core CPI



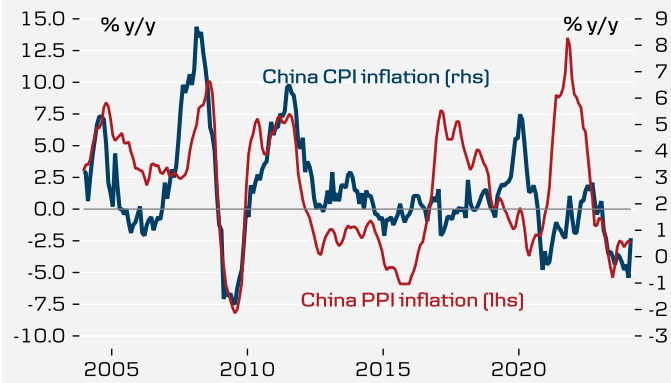
Source: Macrobond Financial, NBS

CPI and food prices



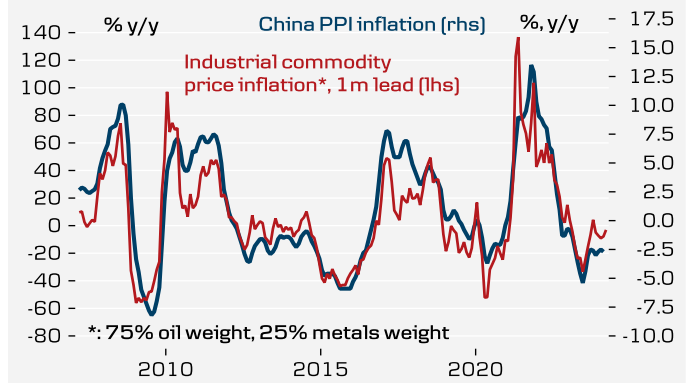
Source: Macrobond Financial, NBS

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 Rune Thyge Johansen, Analyst and Allan von Mehren, Chief Analyst

Analyst certification

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