

12 June 2024

Global Inflation Watch

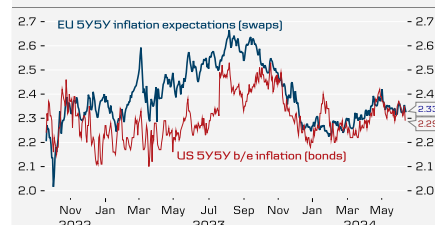
The Fed welcomes easing supercore inflation

- Overview:** Underlying inflation momentum has moderated in the US and remained elevated in euro area so far in Q2. Inflation drivers paint a mixed picture with weak goods inflation and strong services inflation, but inflation is likely to edge lower in 2024. Energy and metal prices have moved lower 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.
- Inflation expectations:** Short-term inflation expectations have edged higher in the US according to both markets & consumer surveys and remain steady in the euro area. Longer-dated measures remain well anchored close to the 2% target level.
- US:** May CPI surprised to the downside in both headline (+0.01% m/m SA; forecast +0.19%) and core (+0.16% m/m SA; forecast +0.25%) terms. Importantly, May marked the 2nd consecutive month of cooling across housing and non-housing ('supercore') services inflation, with the latter accounting for the majority of the downside surprise in core inflation. This is a signal of further easing in underlying price pressures and supports our call for two Fed cuts in 2024. Energy contribution was negative with lower oil prices, while core goods deflation continued in line with expectations. Food price inflation remains close to past months' average levels.
- Euro:** The May inflation figures were higher than expected, with headline at 2.6% y/y (cons: 2.5%), and core at 2.9% y/y (cons: 2.7%). The uptick was mainly driven by continued elevated service inflation, which rose to 4.1% y/y. Service prices increased 0.53% m/m s.a., which sent the 3m/3m SAAR rate to 5.3%. Hence, the print corroborated the narrative we have seen in recent months, namely that service prices continue to fuel strong underlying inflation pressure. The strong services inflation poses an upside risk to the inflation and ECB policy rate outlook. Yet, we expect headline inflation will flatline over the summer and then decline from the second half of 2024 as inflation momentum outside services is well-behaved.
- China:** May CPI was unchanged at 0.3% y/y (cons: 0.4%). Core CPI fell to 0.6% y/y from 0.7% y/y. PPI increased from -2.5% y/y to -1.4% y/y.

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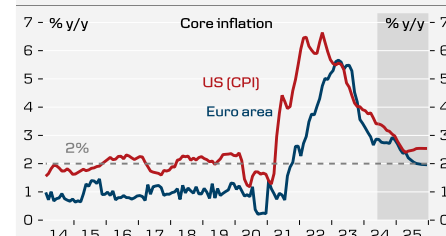
Market-based inflation expectations almost consistent with 2% targets



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

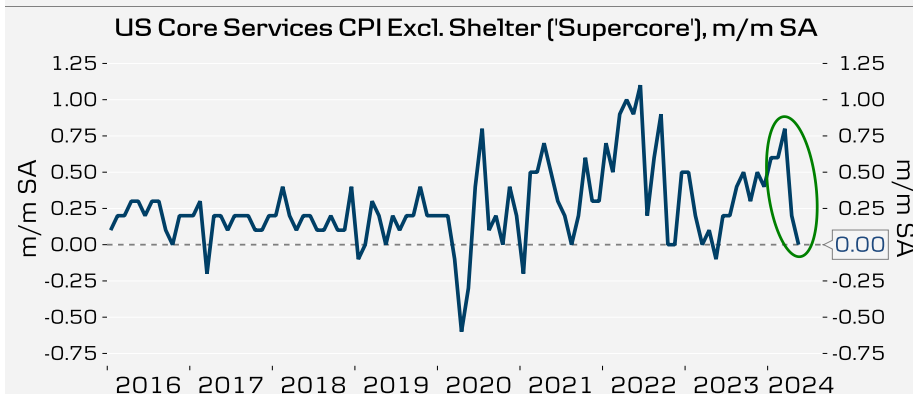
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Services inflation momentum has moderated in the US in April and May



Source: Macrobond Financial, U. S. Bureau of Labor Statistics

Senior Analyst, US

Antti Ilvonen
antti.ilvonen@danskebank.com

Analyst, euro area

Rune Thyge Johansen
rujo@danskebank.dk

Chief Analyst, China

Allan von Mehren
alvo@danskebank.dk

Top down overview

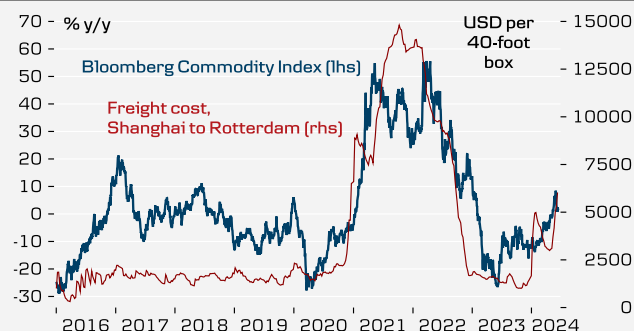
Downward trend in inflation drivers have stalled

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 | | ↘ |

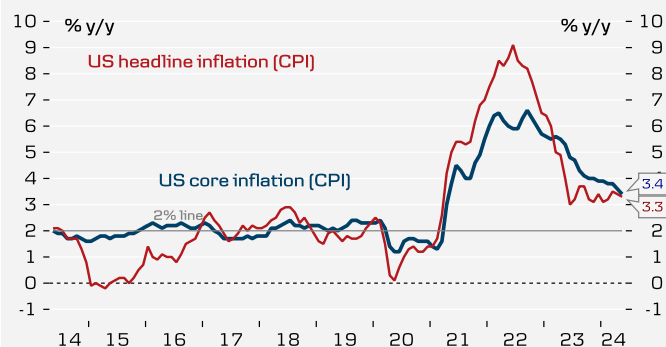
Source: Macrobond Financial, BLS

Commodity price and freight inflation



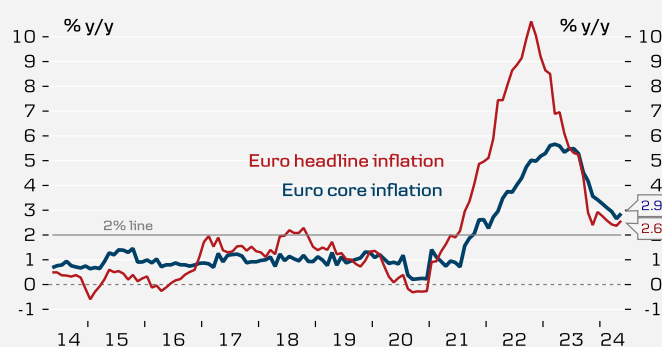
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



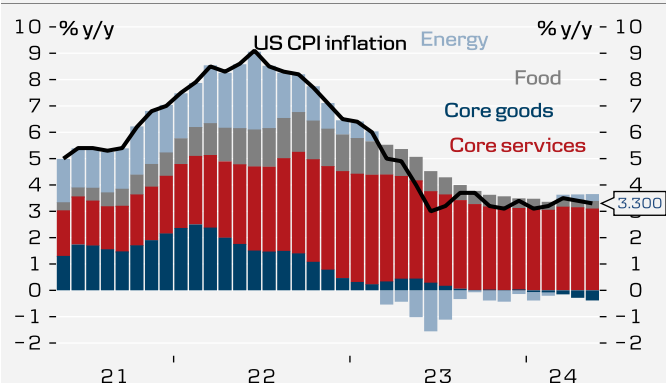
Source: Macrobond Financial, BLS

Euro headline and core inflation



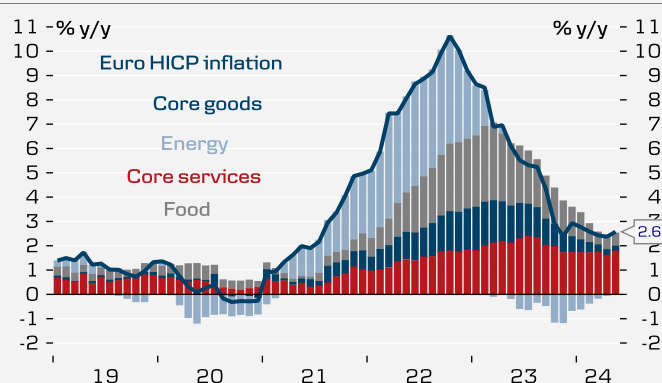
Source: Macrobond Financial, Eurostat

Contributions to US inflation



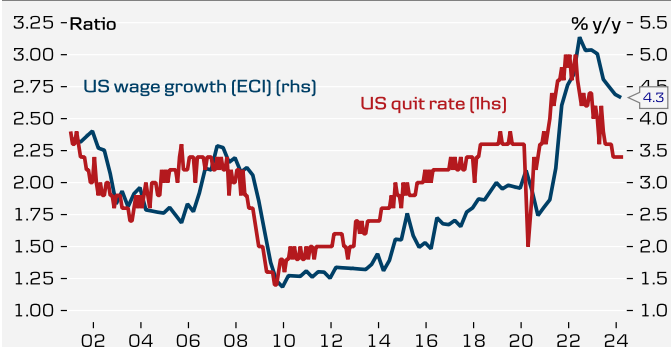
Source: Macrobond Financial, BLS

Contributions to euro inflation



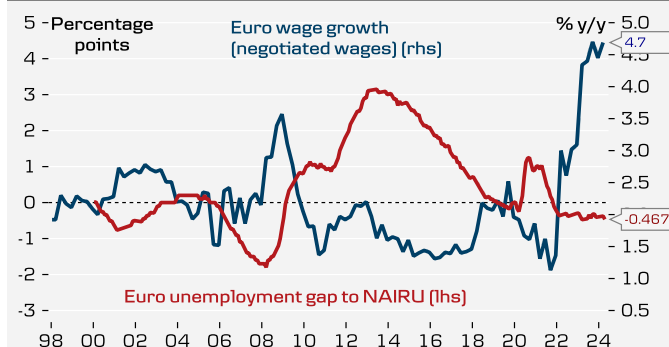
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



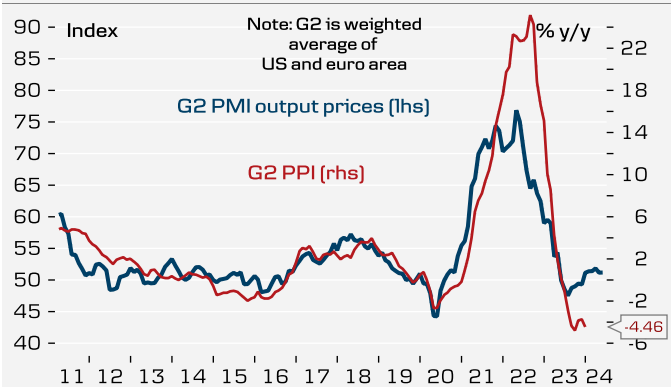
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



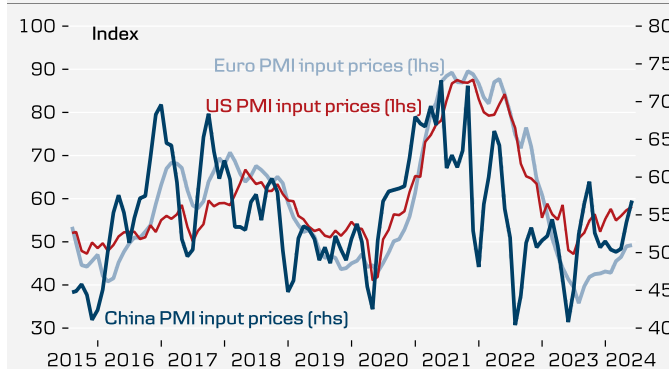
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



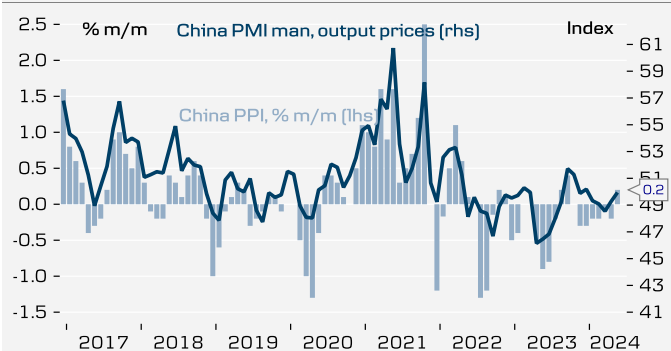
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



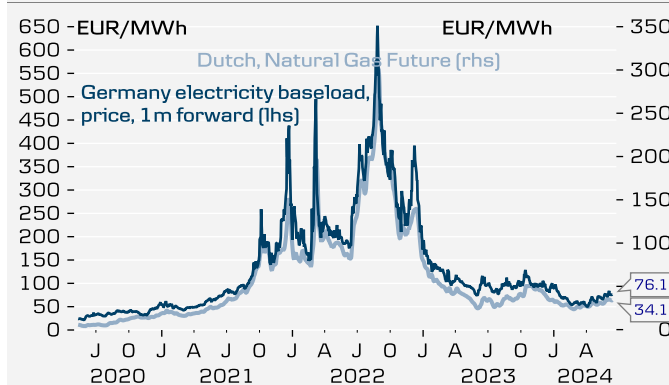
Source: Macrobond Financial, Markit

China PPI inflation momentum



Source: Macrobond Financial, Markit

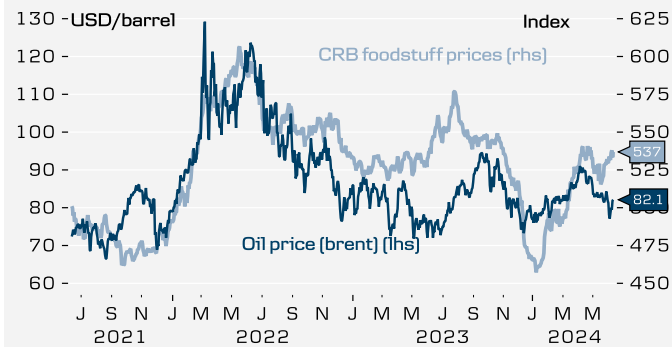
European natural gas and electricity prices



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

Source: Macrobond Financial, PBoC, Danske Bank

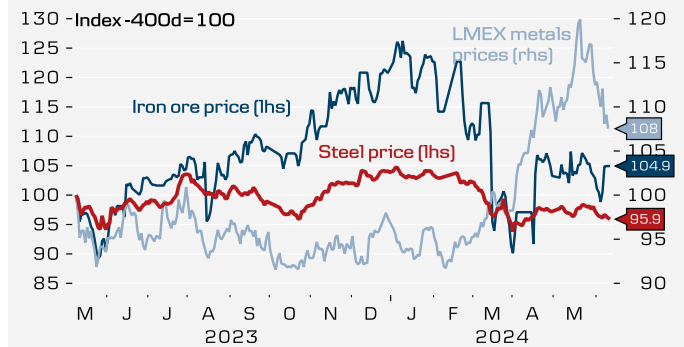
Commodity price levels – oil and food



Source: Macrobond Financial, Bloomberg

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

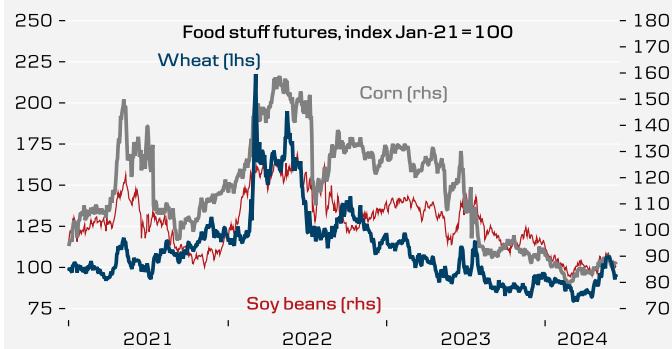
Commodity price levels – metals and iron ore



Source: Macrobond Financial, Bloomberg

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

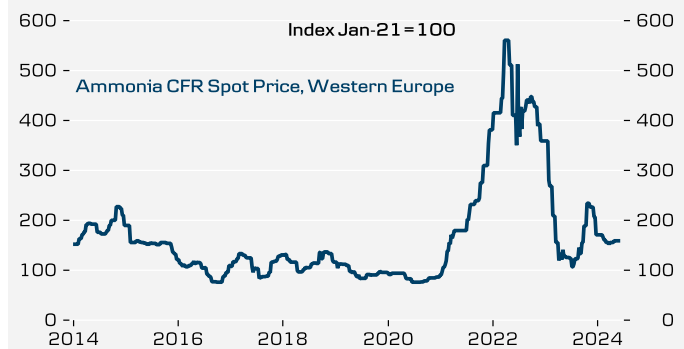
Grain prices



Source: Macrobond Financial, Bloomberg

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

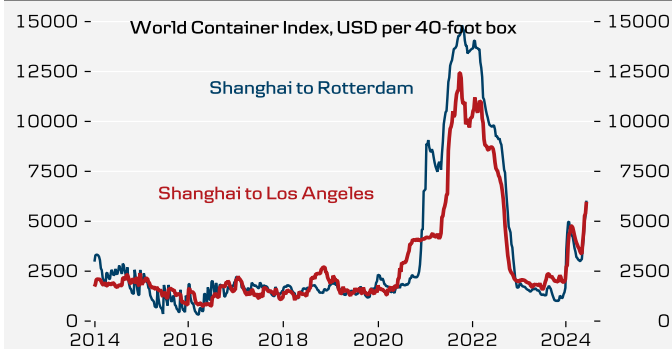
Fertilizer input prices



Source: Macrobond Financial, Bloomberg

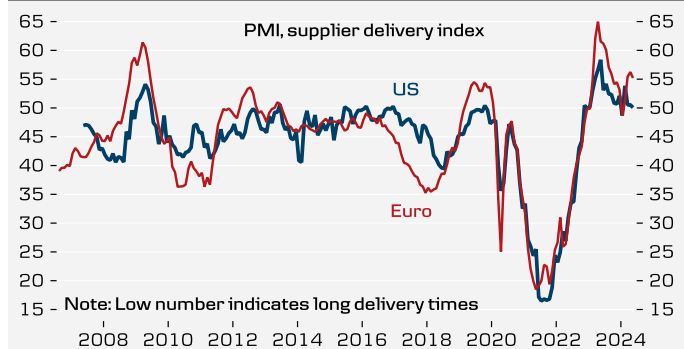
Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

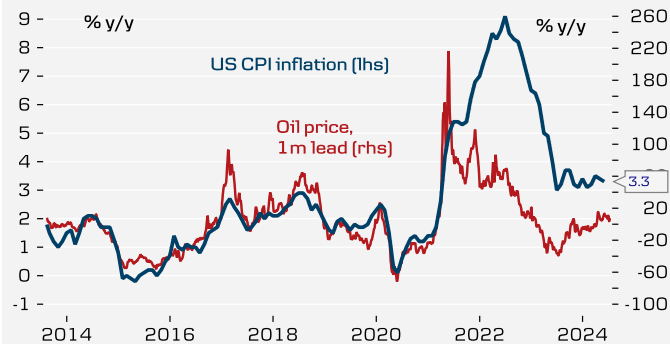


Source: Macrobond Financial, Markit

Country details - US

Top down

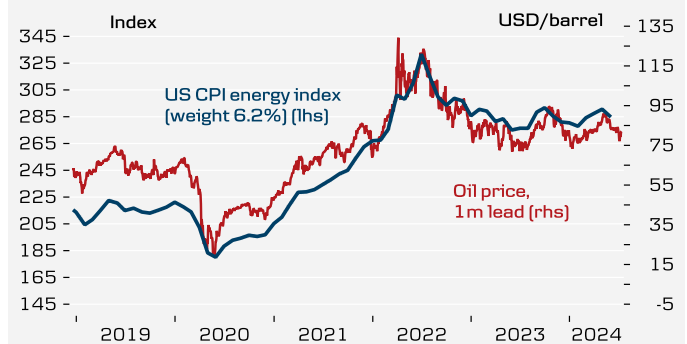
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

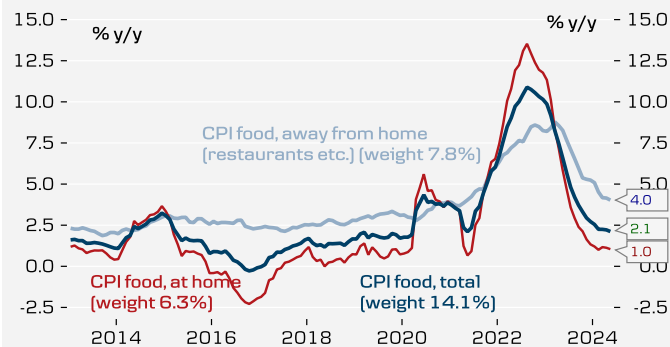
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

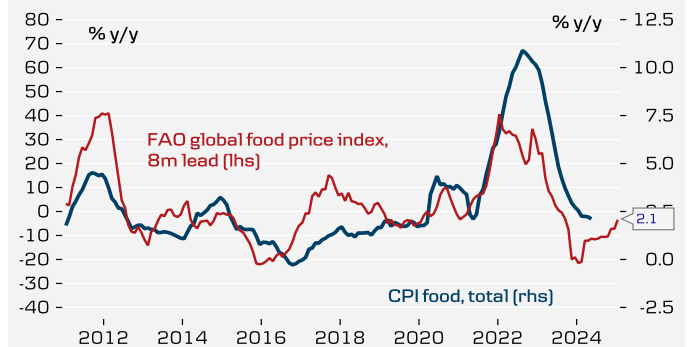
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

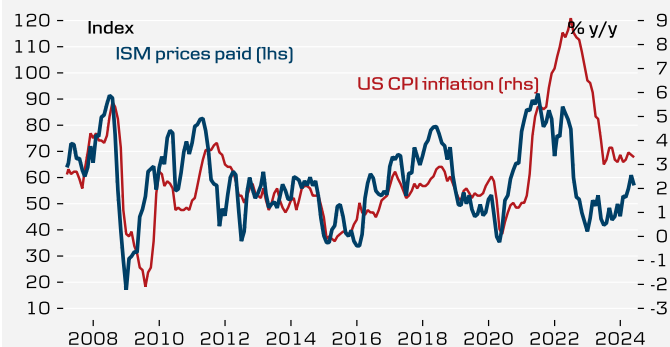
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

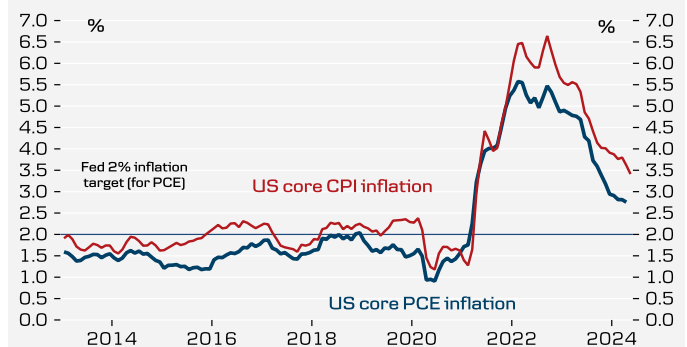
Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



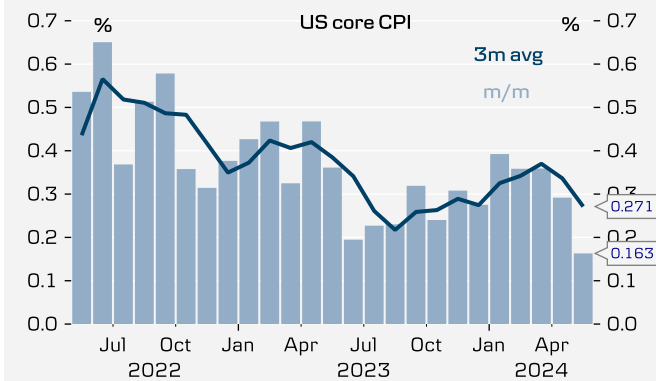
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



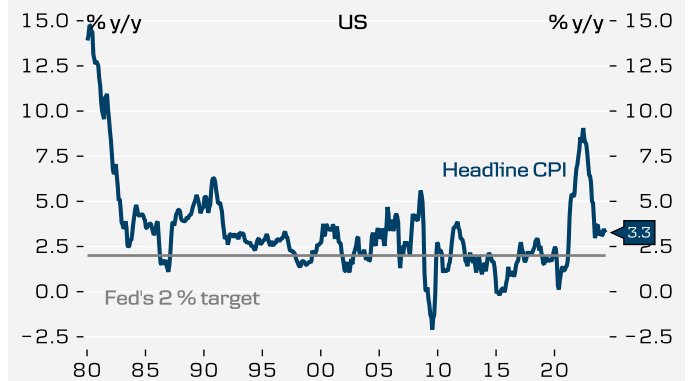
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



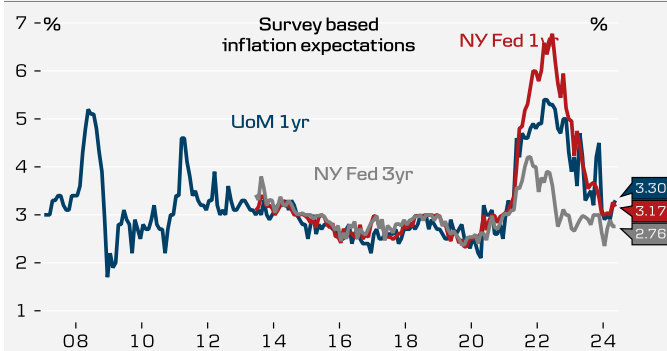
Source: Macrobond Financial, BLS

Headline CPI since 1980



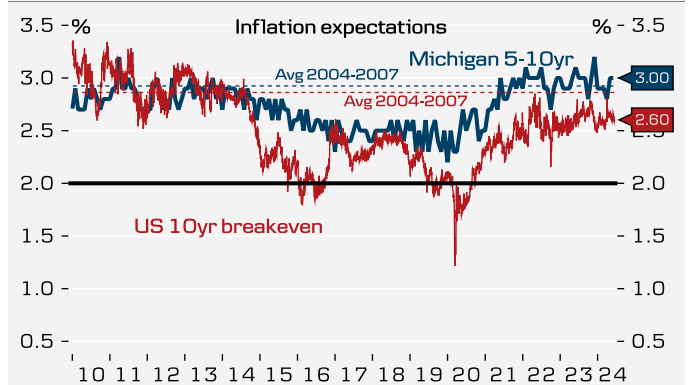
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



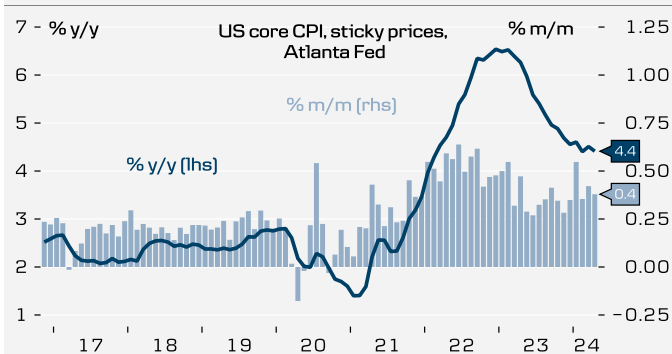
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



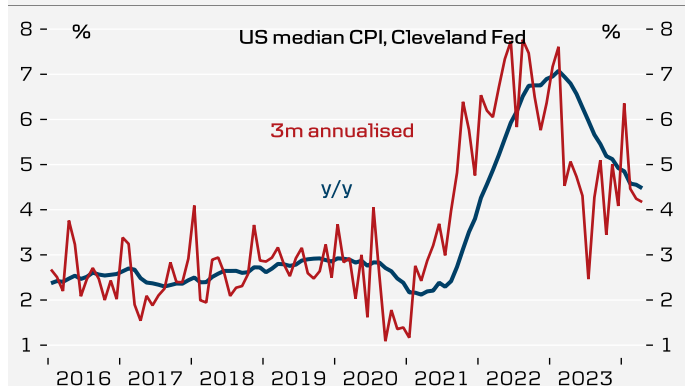
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



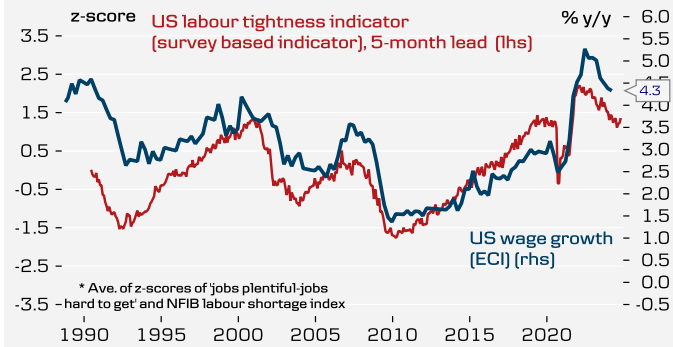
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



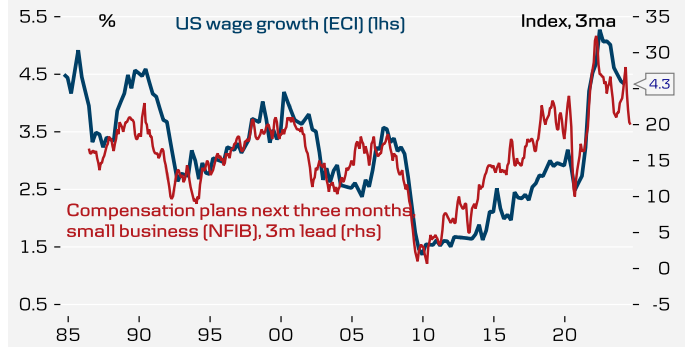
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



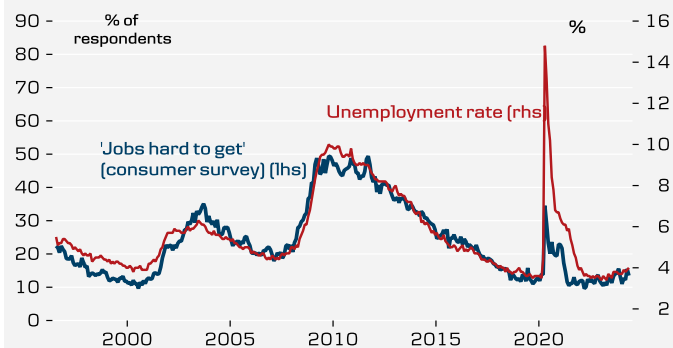
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



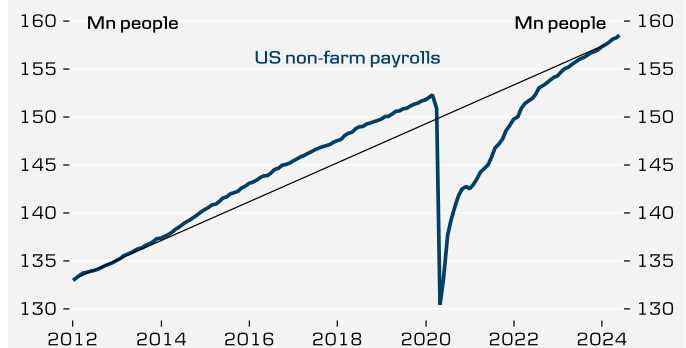
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

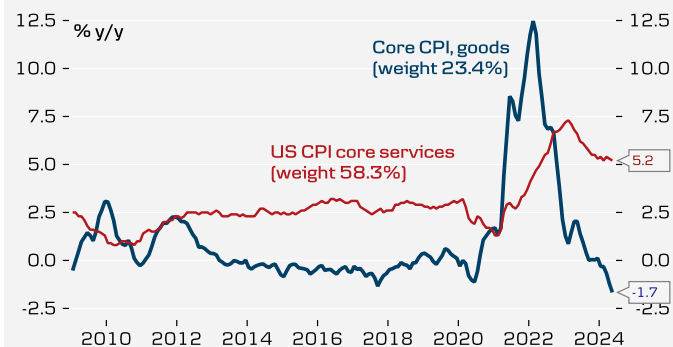
Employment gap



Source: Macrobond Financial, BLS

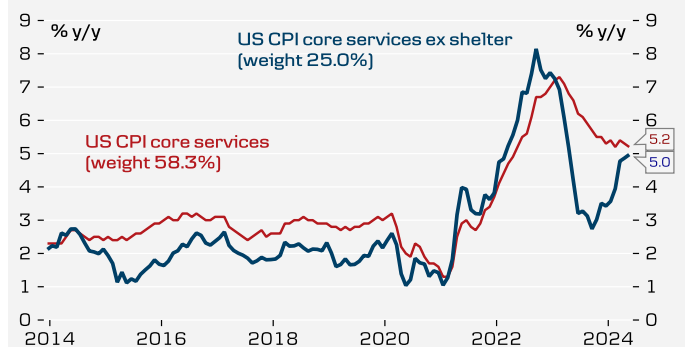
Bottom up

Core goods vs. services



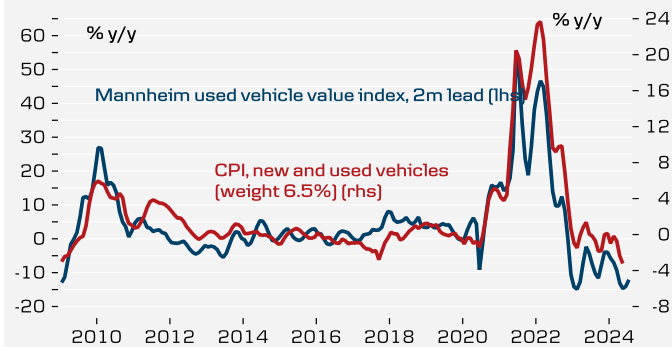
Source: Macrobond Financial, BLS

Core services ex shelter



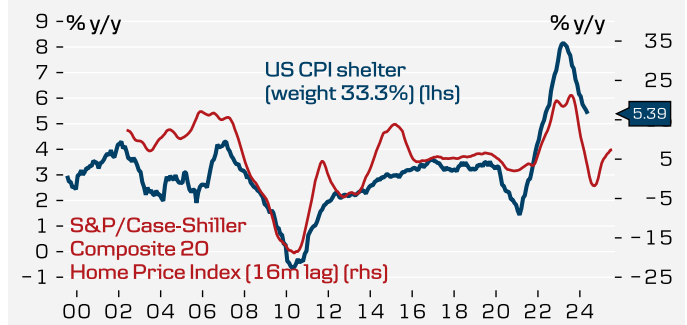
Source: Macrobond Financial, BLS

Used car prices



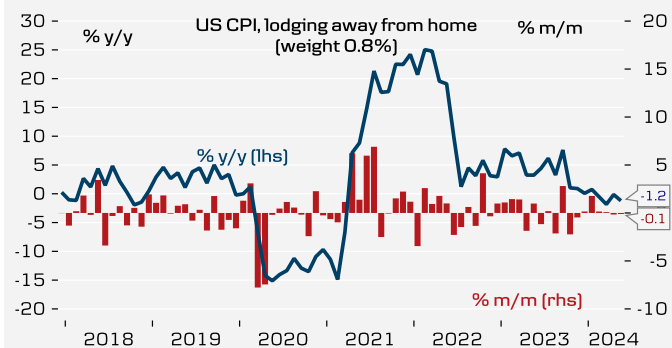
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



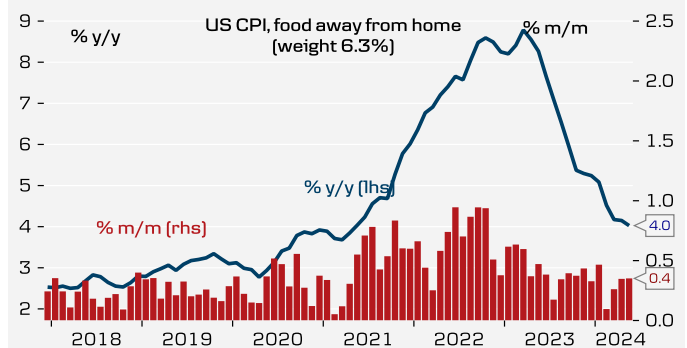
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



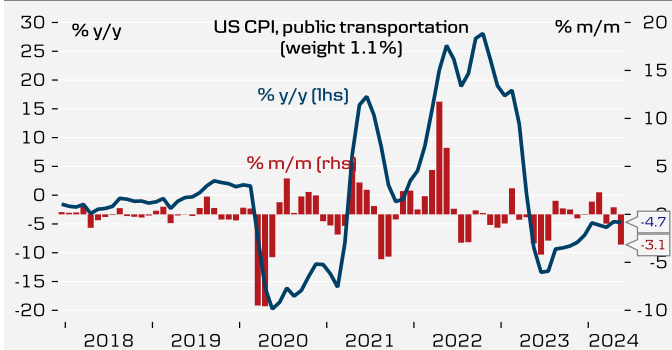
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



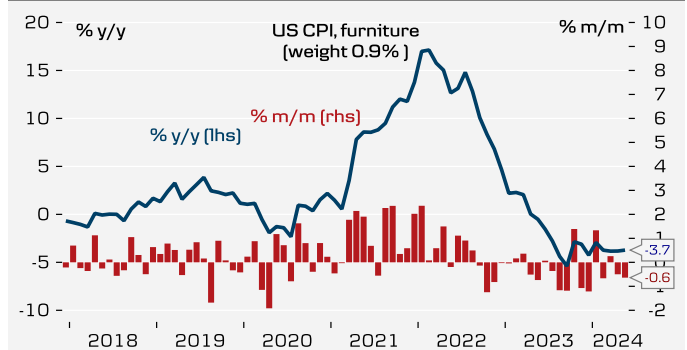
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

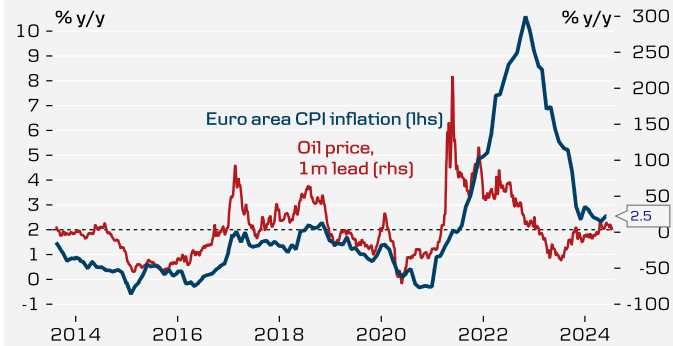


Source: Macrobond Financial, BLS

Country details – Euro area

Top Down

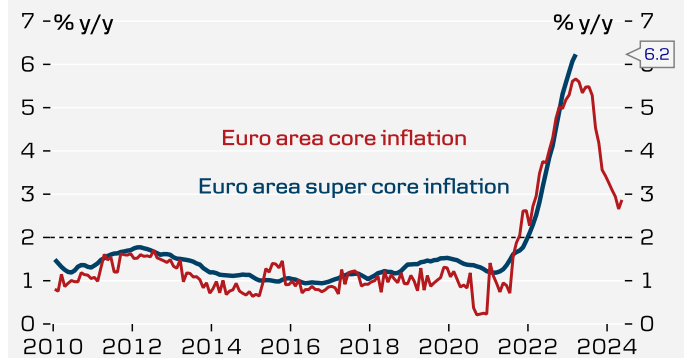
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

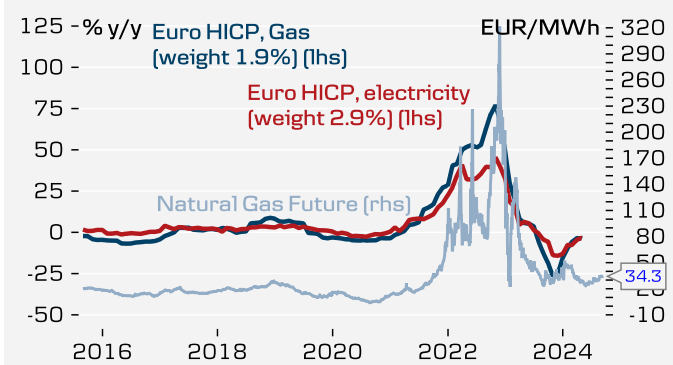
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

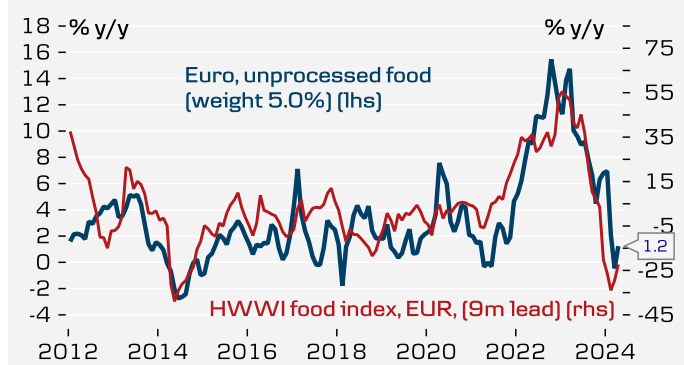
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

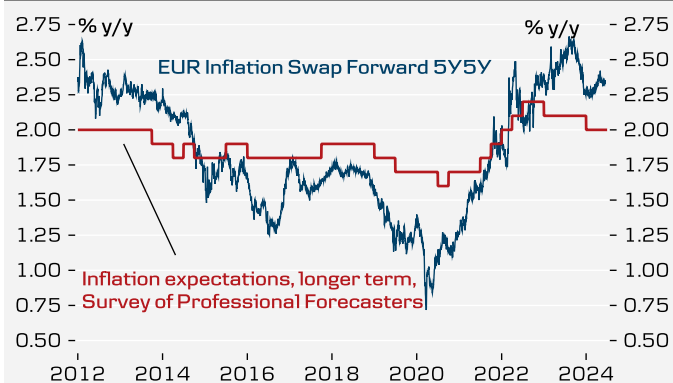
Food



Source: Macrobond Financial

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

Inflation expectations



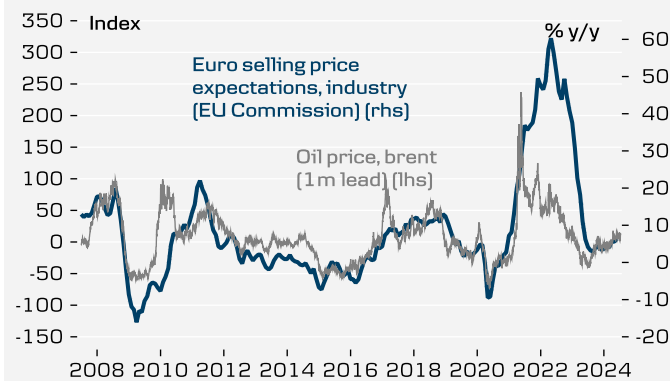
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

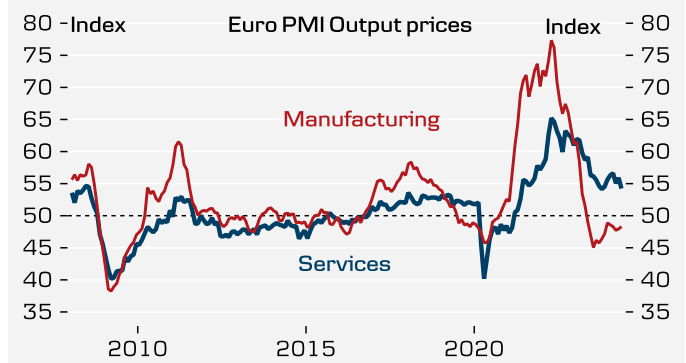
Selling price expectations from companies



Source: Macrobond Financial, EU Commission

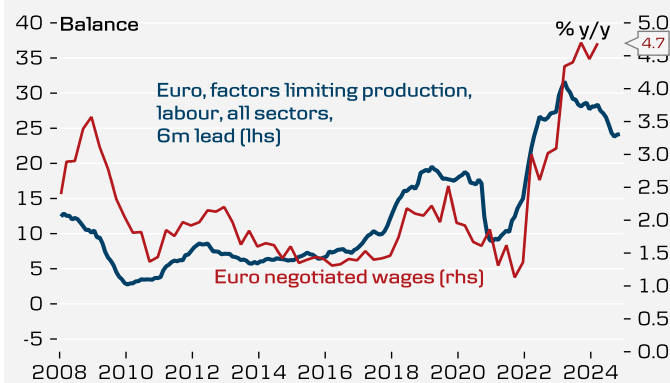
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PMI output prices



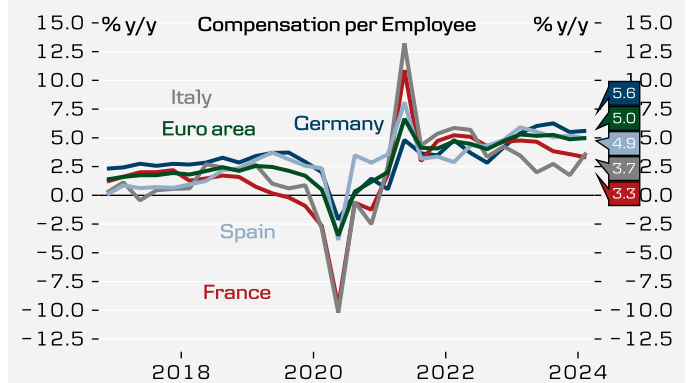
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage compensation

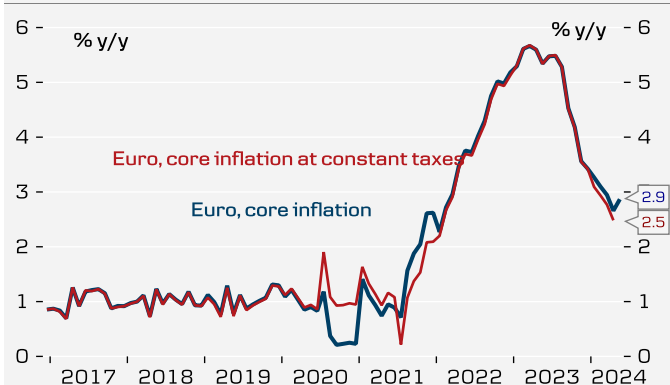


Source: Macrobond Financial, ECB.

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

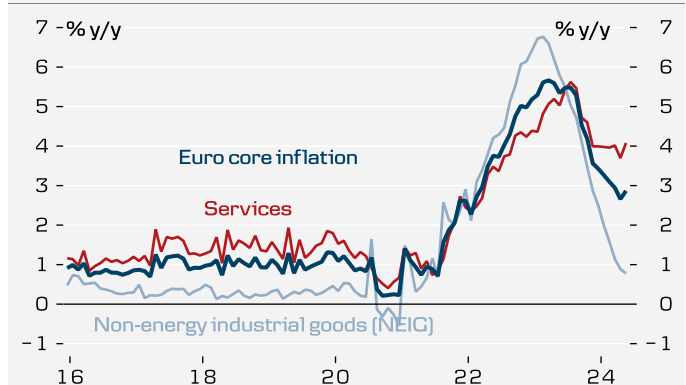
Bottom up

Core inflation, effect from taxes



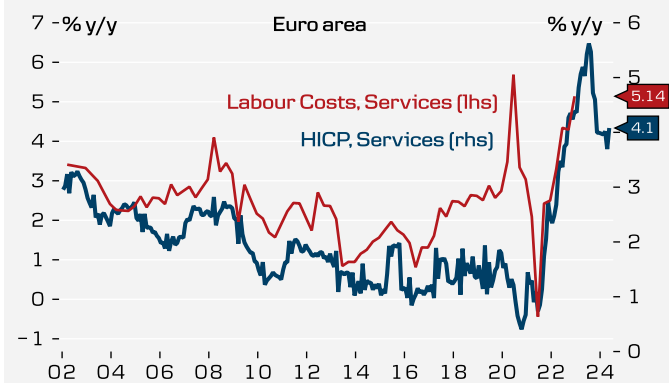
Source: Macrobond Financial, Eurostat

Core inflation components



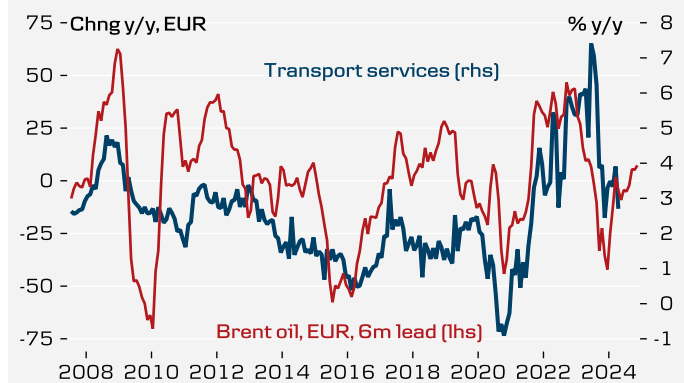
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

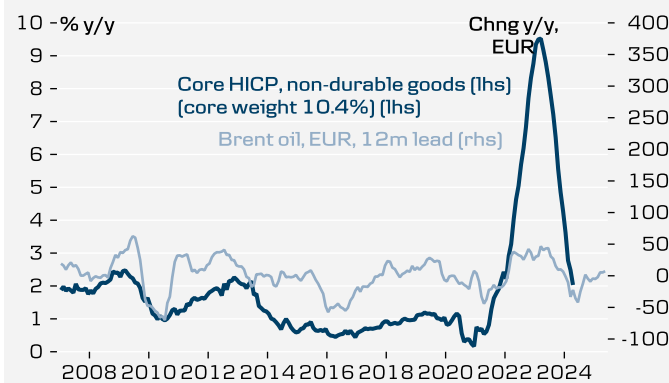
Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

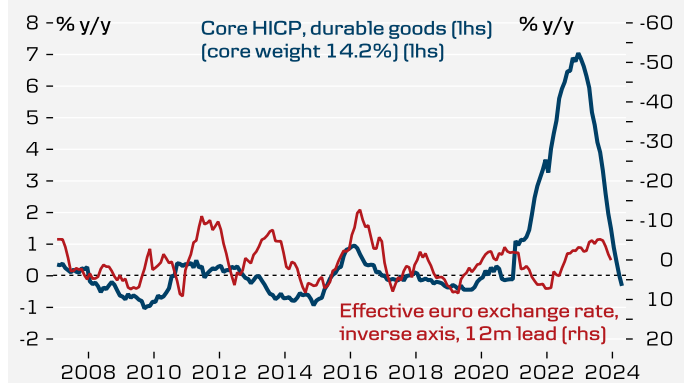
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Core non-durable goods



Source: Macrobond Financial

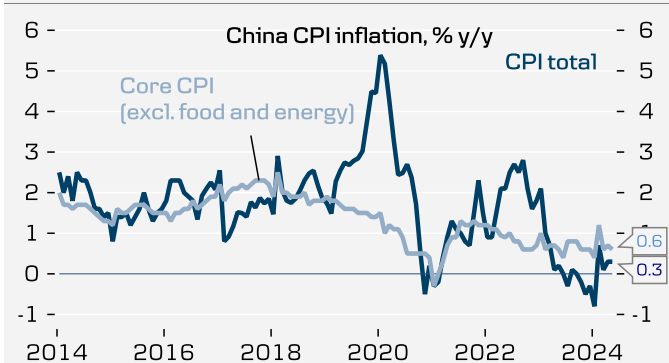
Core durable goods



Source: Macrobond Financial

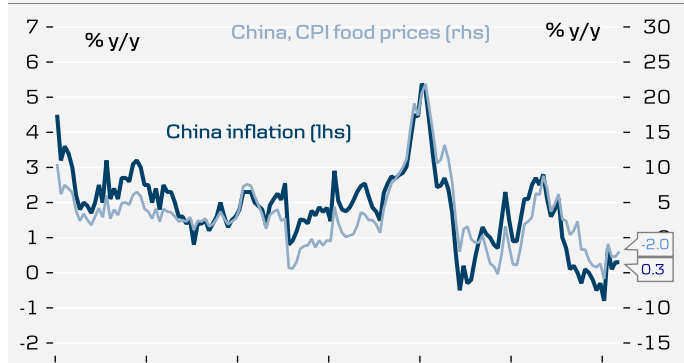
Country details – China

CPI and core CPI



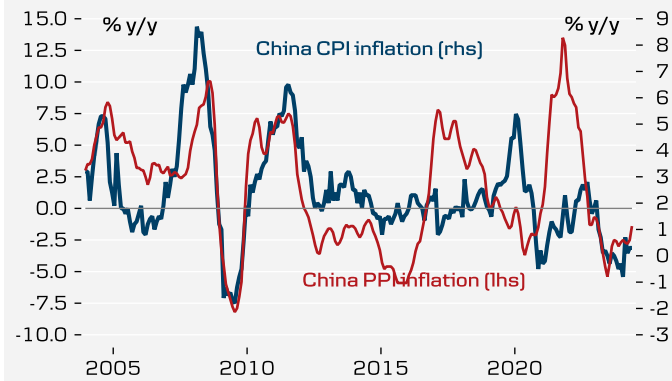
Source: Macrobond Financial, NBS

CPI and food prices



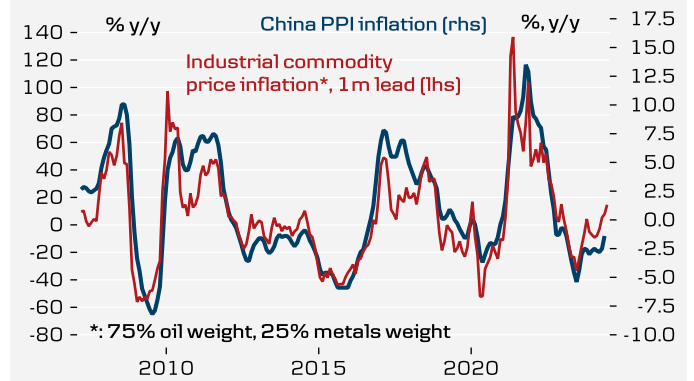
Source: Macrobond Financial, NBS

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

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