

Global Inflation Watch

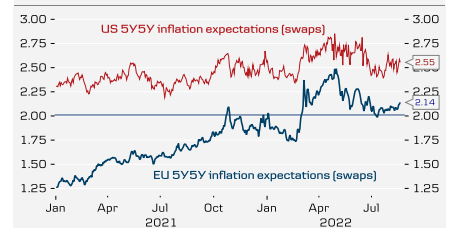
Euro inflation shock keeps getting worse

- Overview:** Inflation pressures from oil, metals, food and freight rates have come down, but labour markets remain tight in US and Europe keeping wage pressures high. The euro area was hit by a further inflation shock over the summer from the sharp rise in gas and electricity prices. Looking forward, we expect inflation to stay high in the short term (rise further in the euro area), but decline during 2023 as recession looms.
- Inflation expectations:** Market-based long-term inflation expectations are moving broadly sideways and still above 2%. US and euro household inflation expectations show tentative signs of rolling over but are still high.
- US:** CPI inflation fell below expectations to 8.5% y/y in July, as CPI growth stalled on m/m basis due to a clear decline in gasoline prices. Core inflation moderated as well due to easing energy prices feeding into lower air fares and transportation costs. Supply chain challenges in Asia have also showed signs of easing. That said, fast wage inflation supported by very tight labour market conditions continues to fuel underlying price pressures. A rebound in purchasing power supported the downbeat consumer sentiment in August, and the level of private consumption remains brisk.
- Euro:** Another record high for HICP (8.9%) and core inflation (4.0%) during July, keeps the pressure for another 50bp September ECB hike alive, as inflation concerns still take precedence over the clouding growth outlook. Firms' pricing power is coming under pressure from the weaker demand environment and inflation expectations (both survey and market-based) have moderated amid rising recession fears. That said, the inflation drag from Germany's energy relief measures will vanish at the end of August and higher consumer gas prices will bring another boost to energy price inflation in Q4. The drought in Europe, low water levels in the Rhine and surging electricity prices are also adding to pro-inflationary risks. All this makes any significant retreat of headline inflation in 2022 unlikely and in our view it will take at least until mid-2023 before negative base effects pull the headline rate towards 2% again.
- China:** CPI moved up to 2.7% y/y in July from 2.5% y/y but it was driven by pork prices. CPI ex food rose 1.9% y/y. PPI inflation fell further to 4.2% in July from 6.1%.

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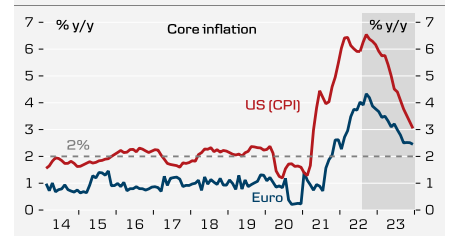
Market-based inflation expectations sideways lately above 2%



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

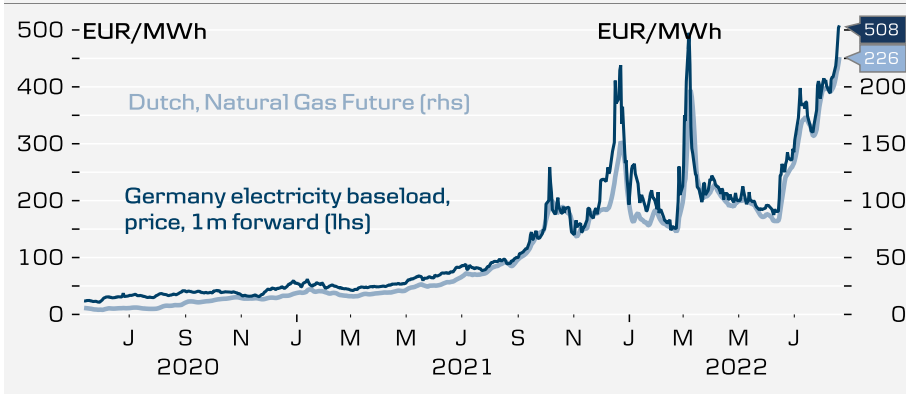
Source: Macrobond Financial, Bloomberg

CPI inflation peaking soon and head lower in 2023



Source: Macrobond Financial, Bloomberg

Gas and electricity to push euro inflation higher still



Source: Bloomberg, Macrobond Financial.

Note: Past performance is no guarantee of future performance

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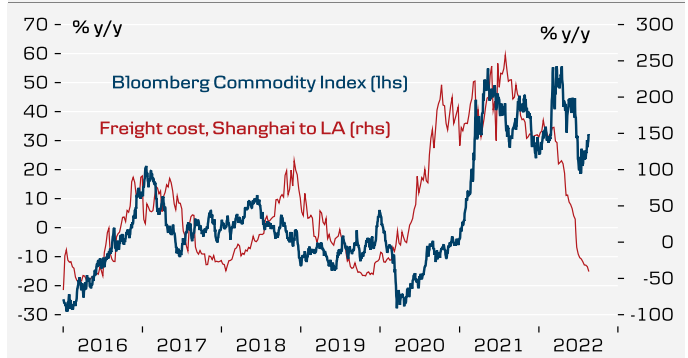
Top down overview

Trend in inflation pressure over recent months

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

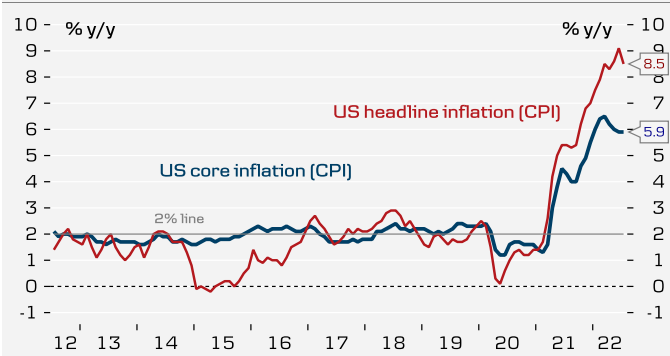
Source: Macrobond Financial, BLS

Commodity price and freight inflation



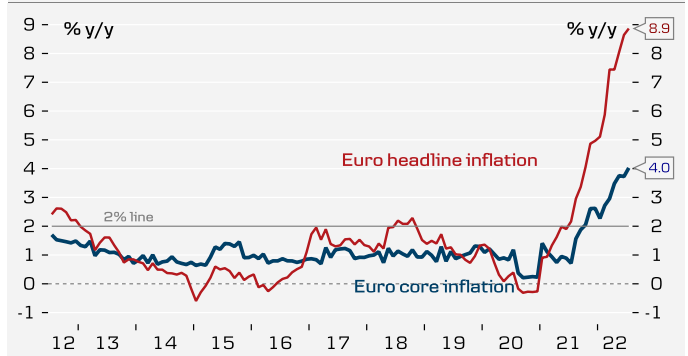
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



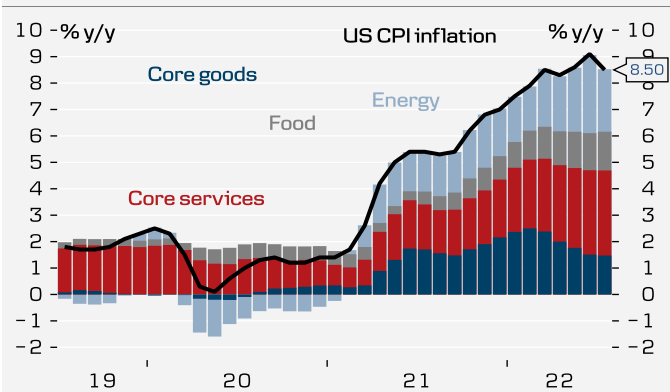
Source: Macrobond Financial, BLS

Euro headline and core inflation



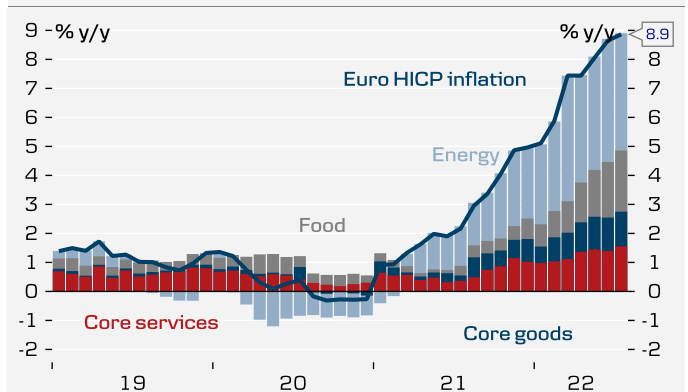
Source: Macrobond Financial, Eurostat

Contributions to US inflation



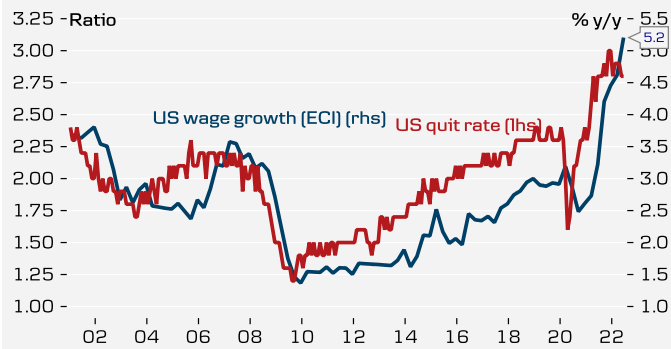
Source: Macrobond Financial, BLS

Contributions to euro inflation



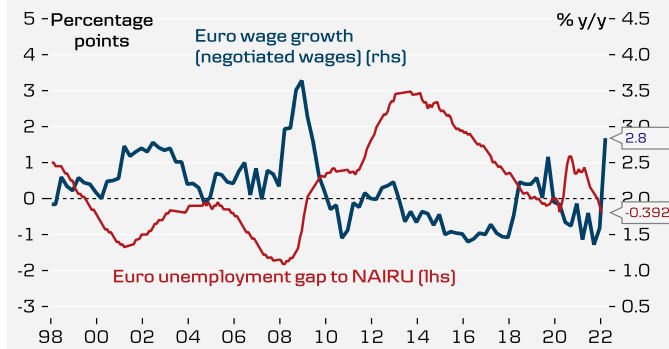
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



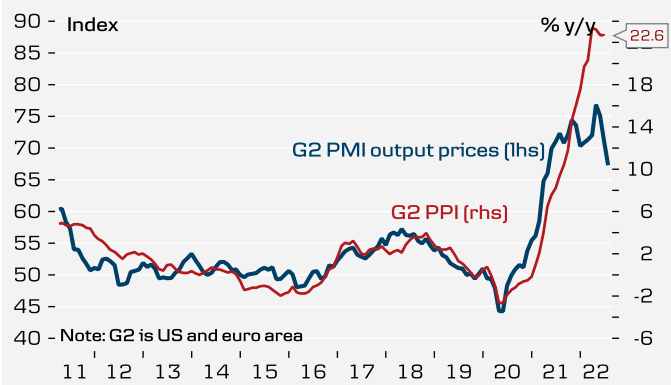
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



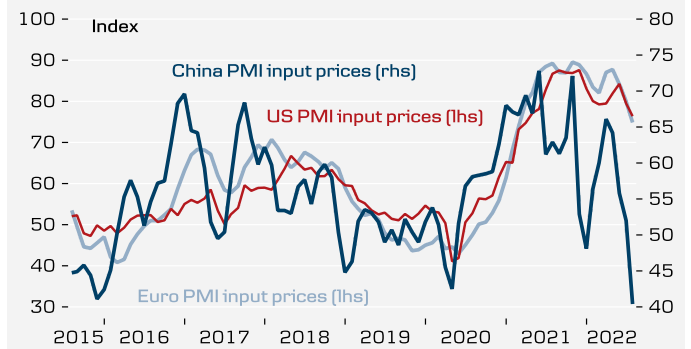
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



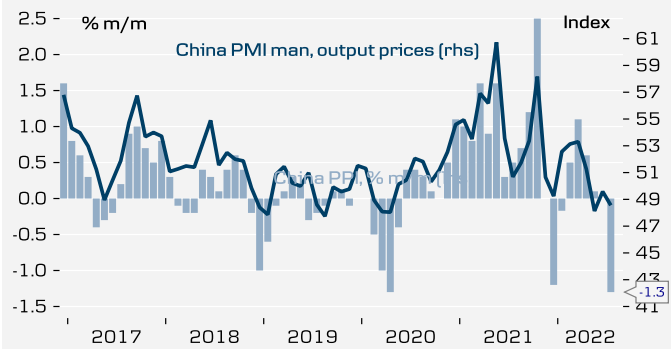
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



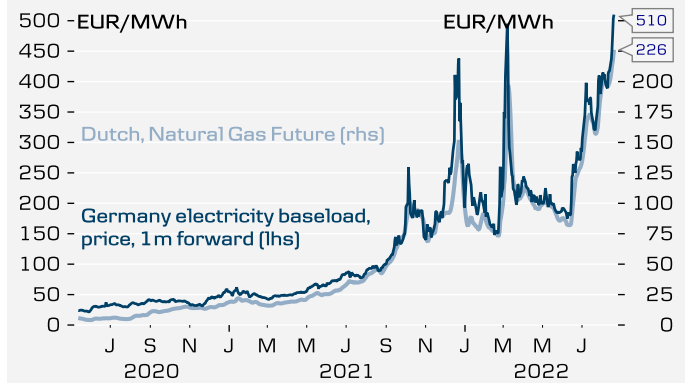
Source: Macrobond Financial, Markit

China PPI inflation momentum



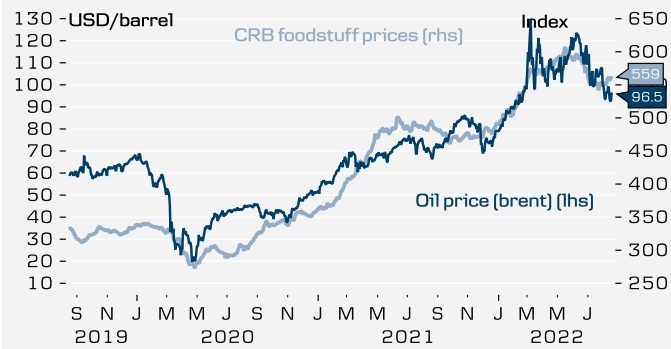
Source: Macrobond Financial, Markit

European natural gas and electricity prices



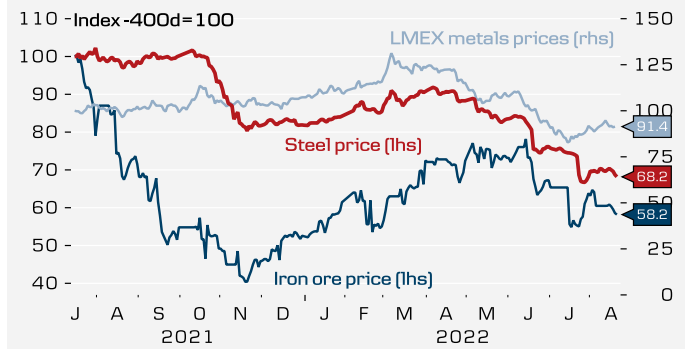
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



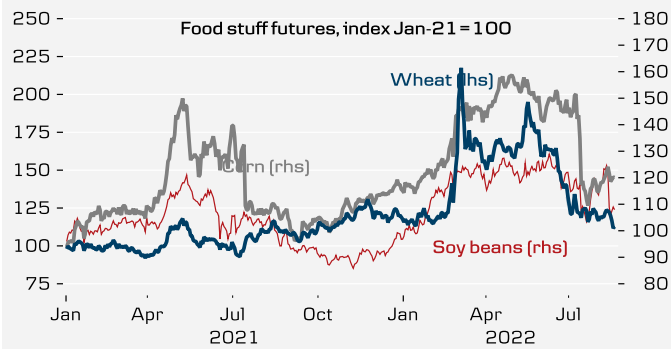
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



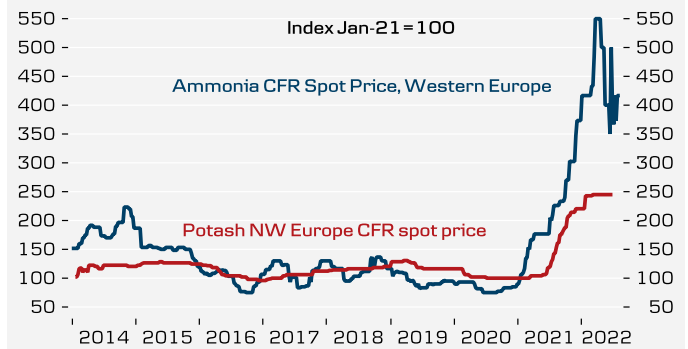
Source: Macrobond Financial, Bloomberg
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Grain prices



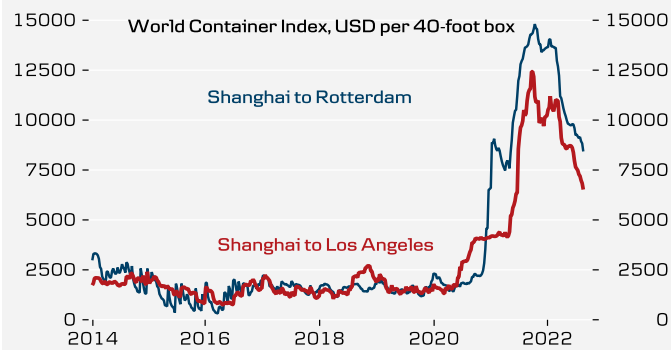
Source: Macrobond Financial, Bloomberg
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Fertilizer input prices



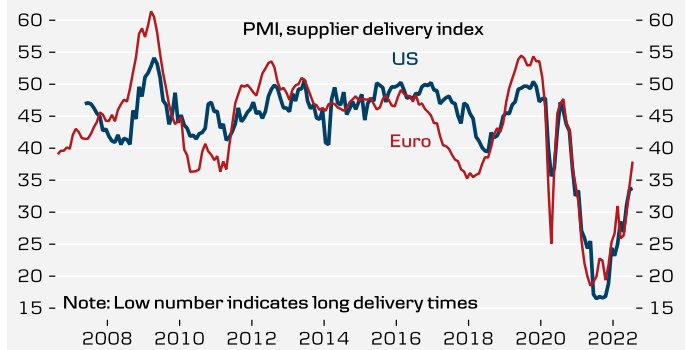
Source: Macrobond Financial, Bloomberg
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Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

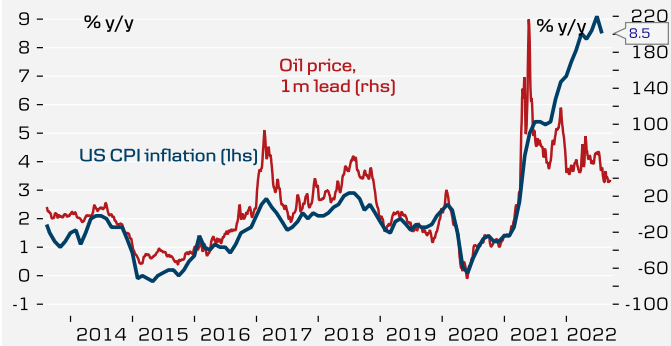


Source: Macrobond Financial, Markit

Country details - US

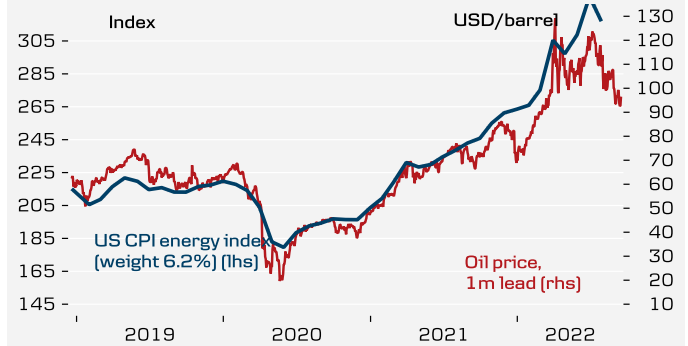
Top down

Headline CPI inflation vs. oil prices



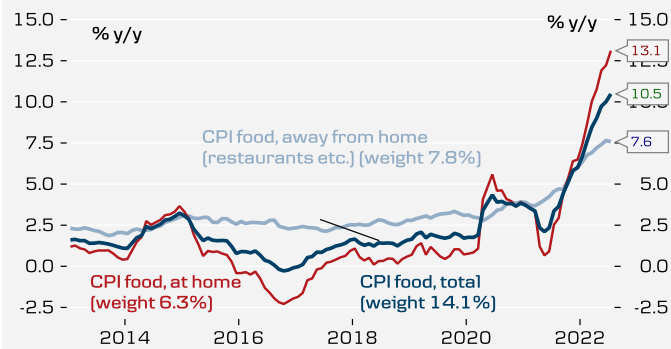
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

CPI energy prices vs oil



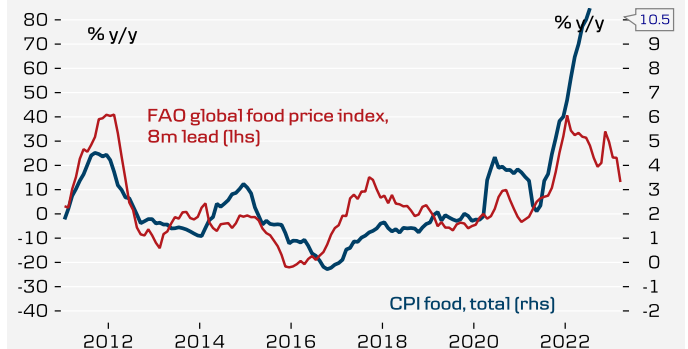
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

Food prices



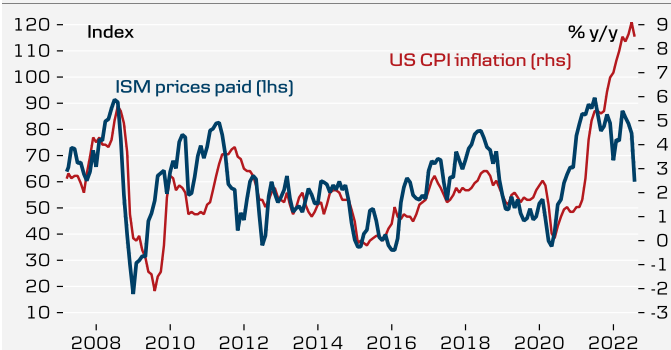
Source: Macrobond Financial, BLS

Food prices vs FAO food price index



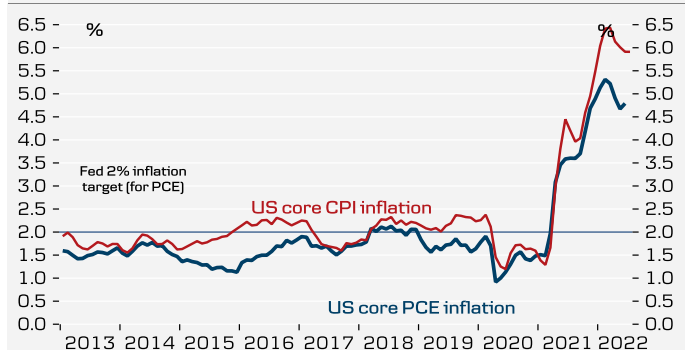
Source: Macrobond Financial, FAO, BLS
 Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



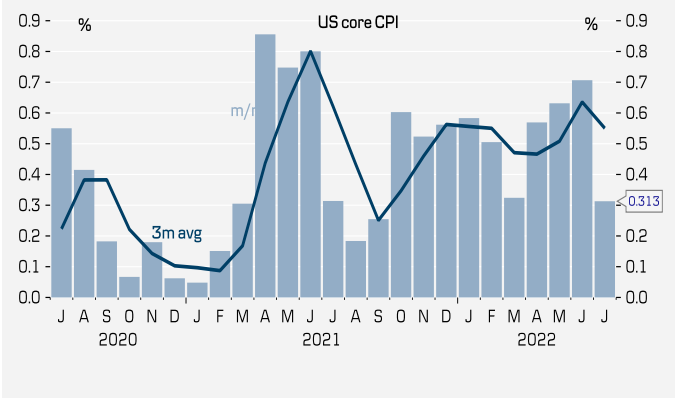
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



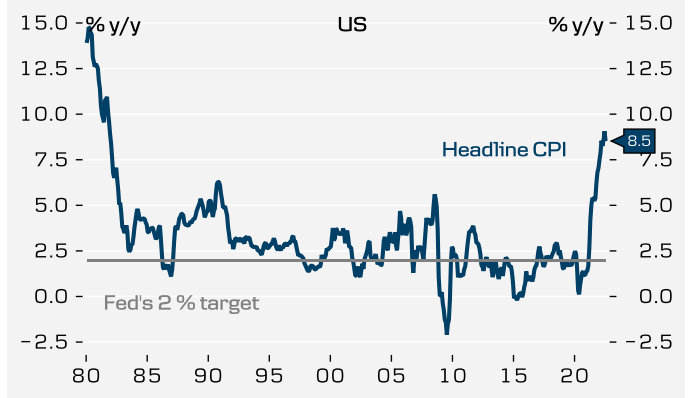
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



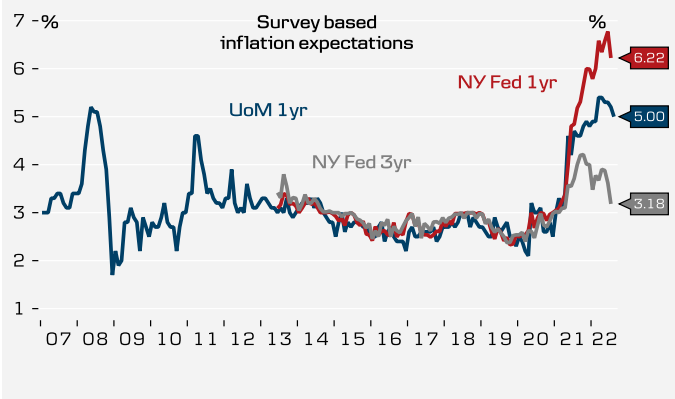
Source: Macrobond Financial, BLS

Headline CPI since 1980



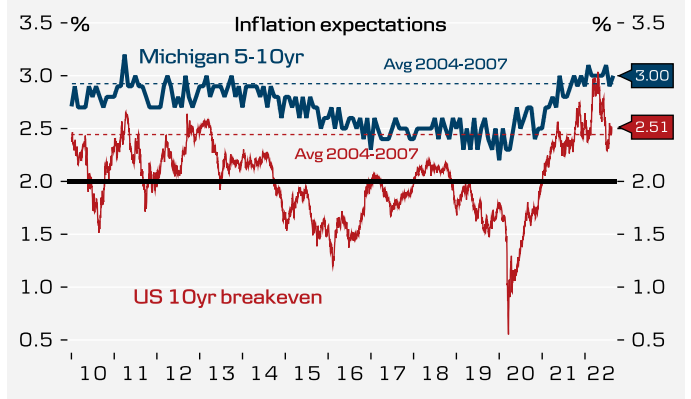
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



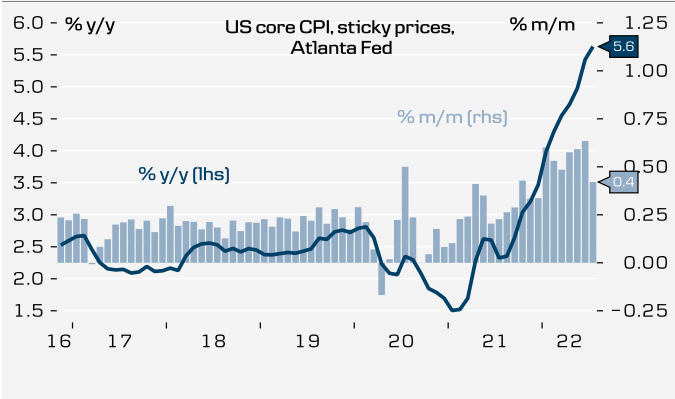
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



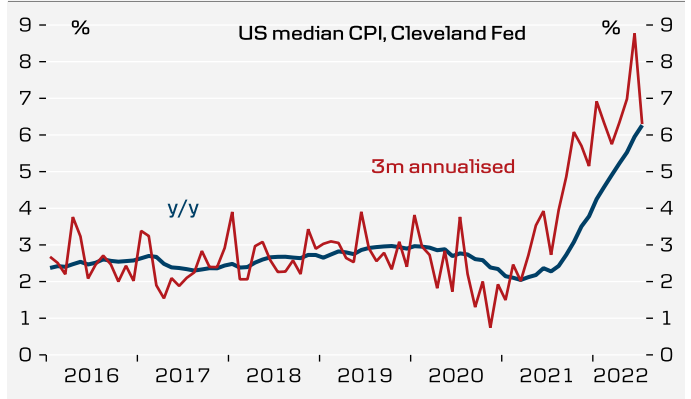
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



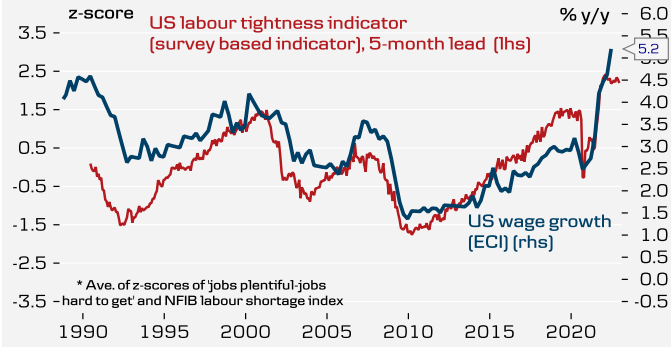
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



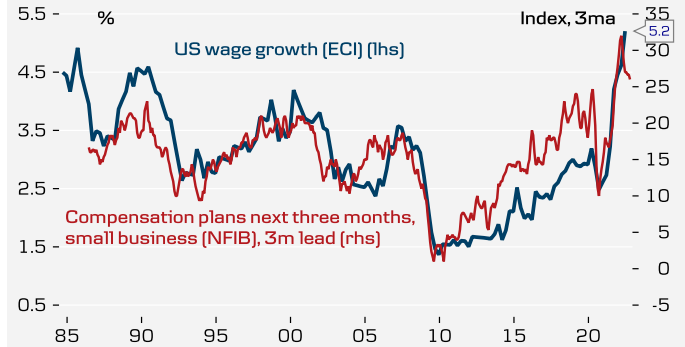
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



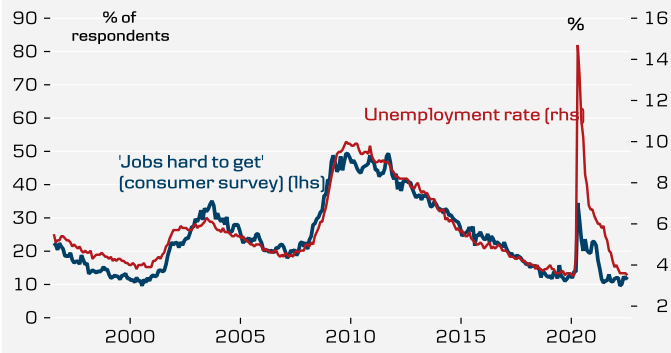
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



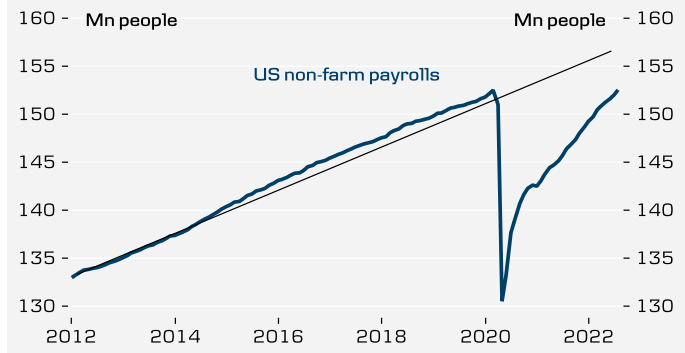
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

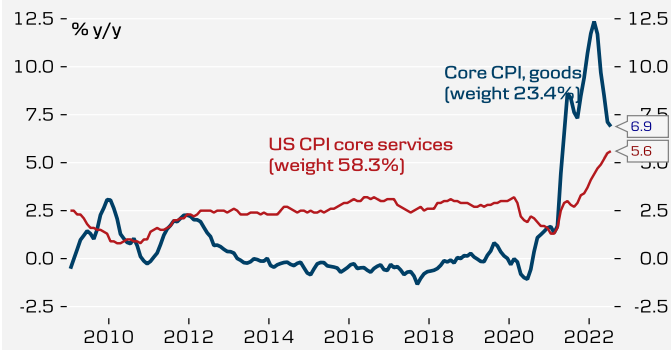
Employment gap



Source: Macrobond Financial, BLS

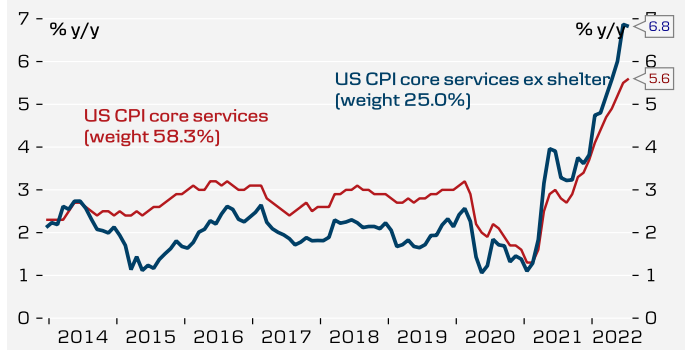
Bottom up

Core goods vs. services



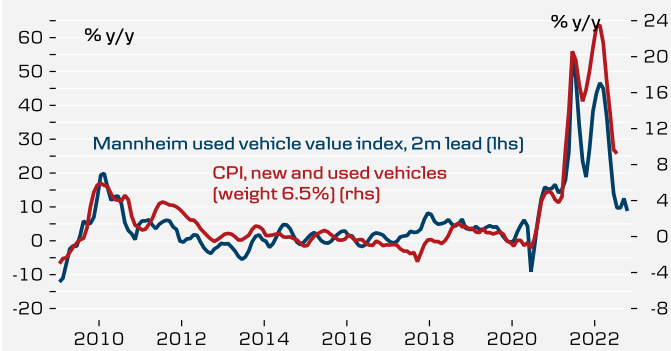
Source: Macrobond Financial, BLS

Core services ex shelter



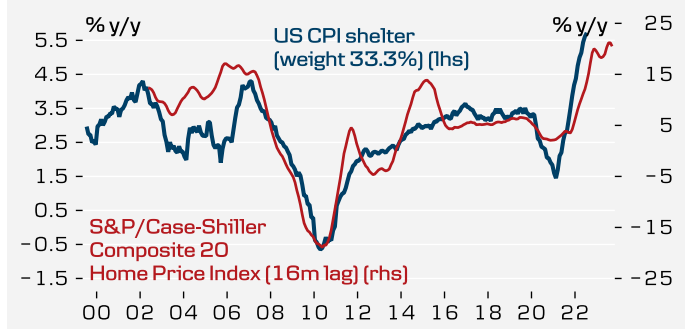
Source: Macrobond Financial, BLS

Used car prices



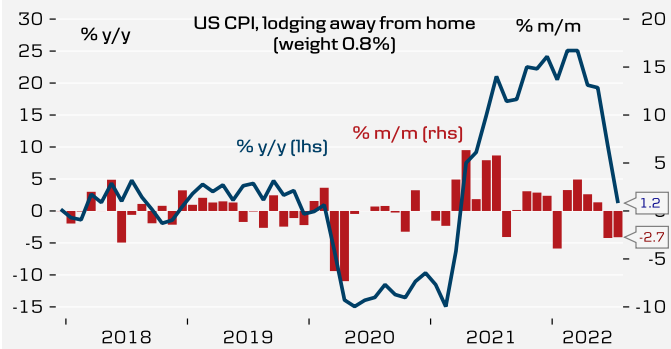
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



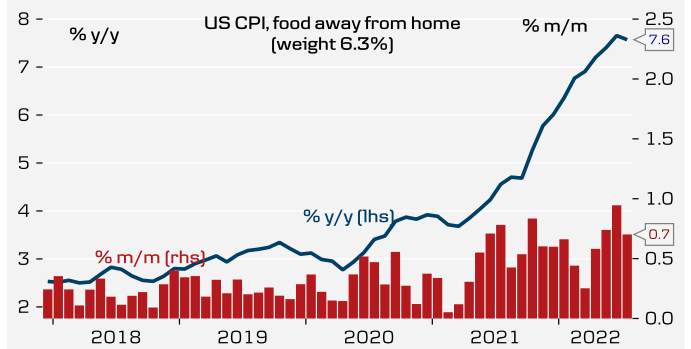
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



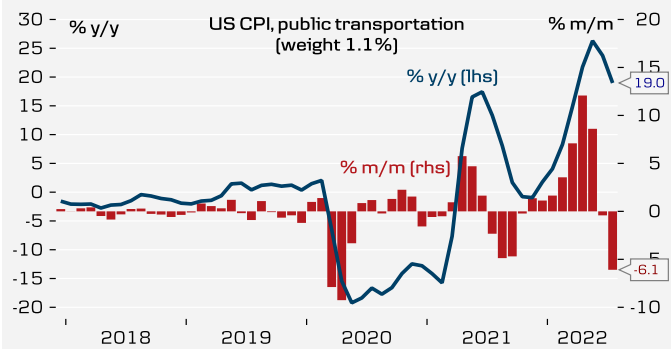
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



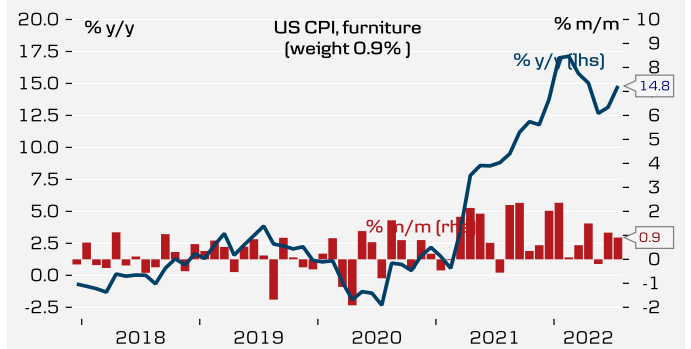
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

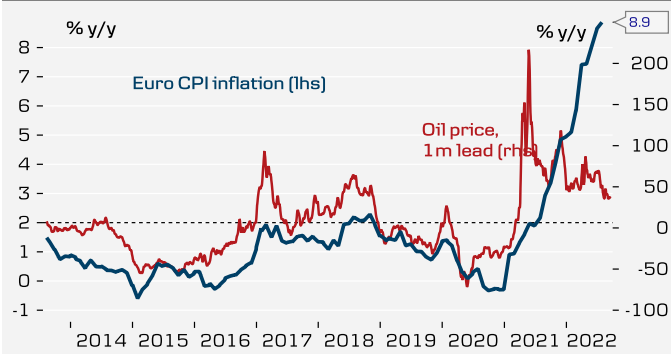


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

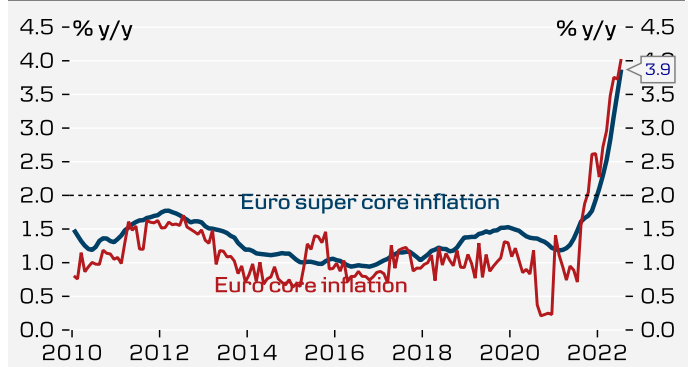
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

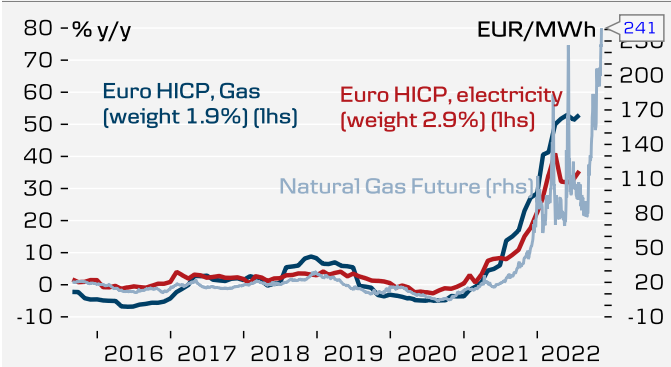
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

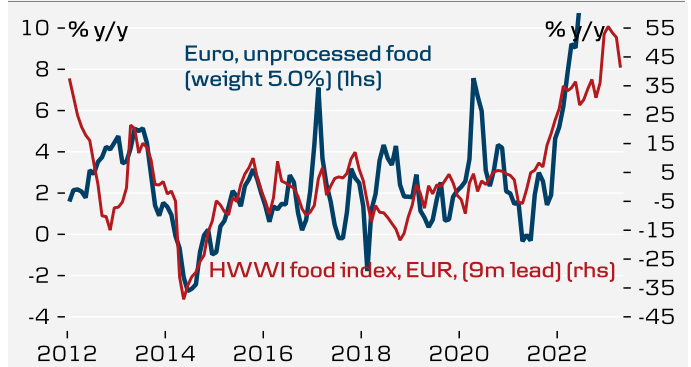
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

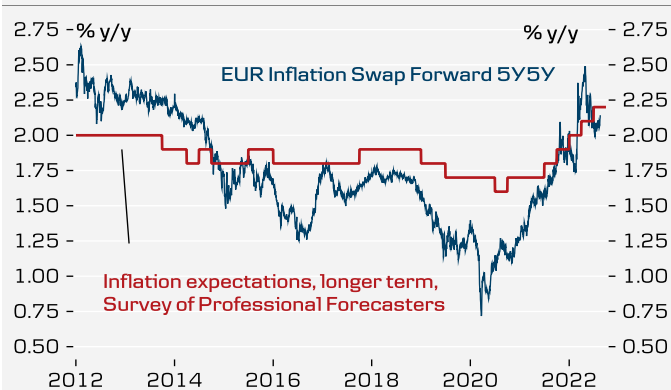
Food



Source: Macrobond Financial

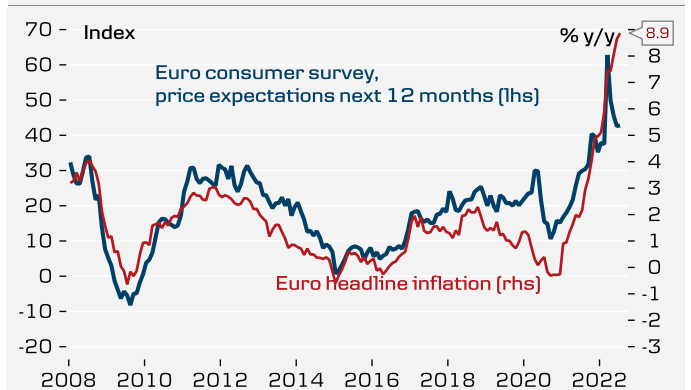
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Inflation expectations



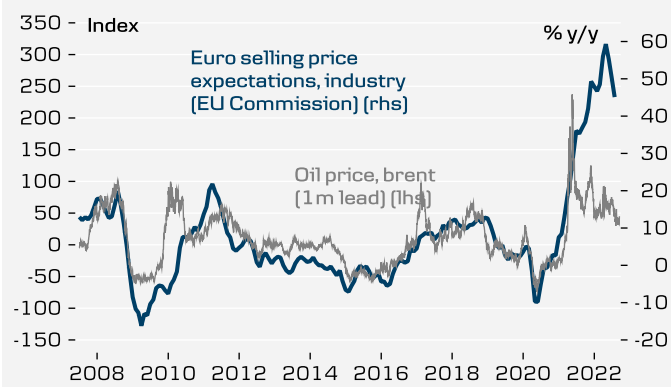
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



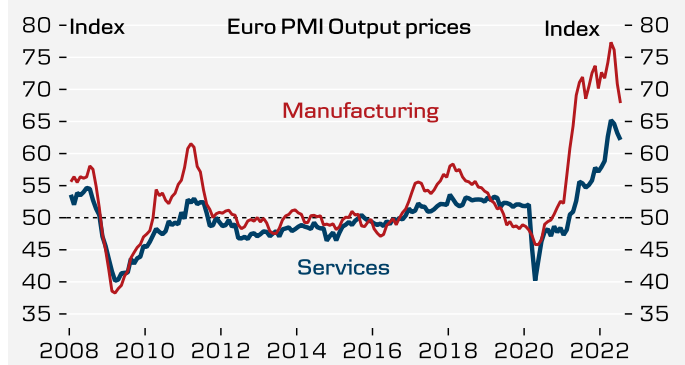
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



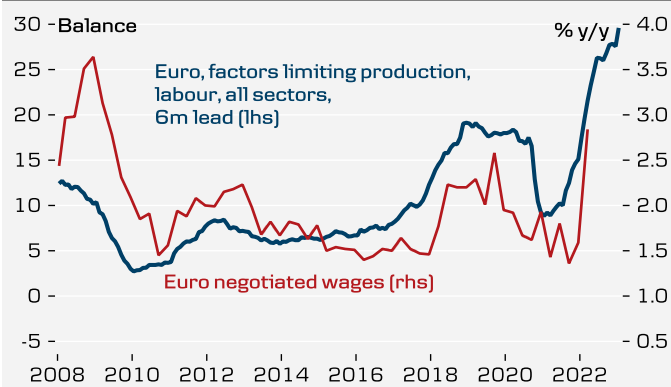
Source: Macrobond Financial, EU Commission
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PMI output prices



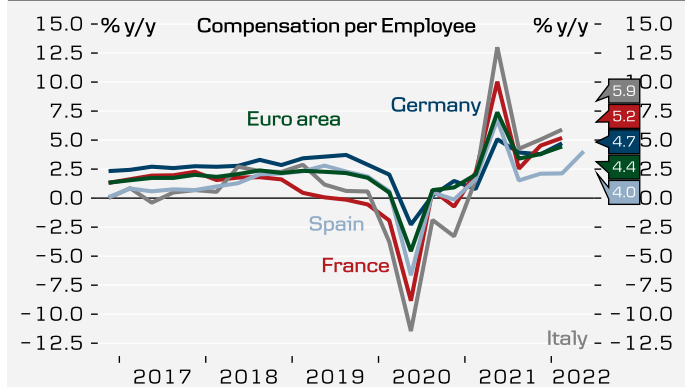
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

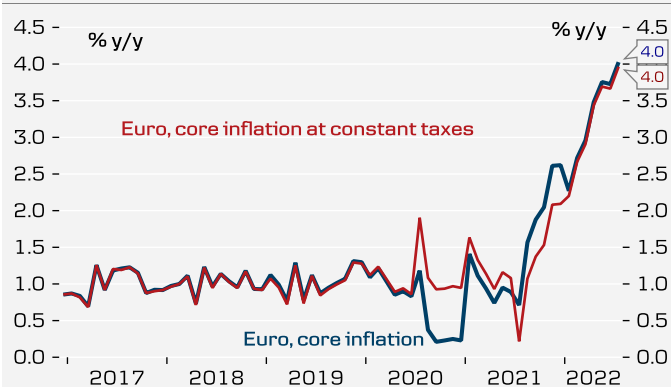
Wage compensation



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

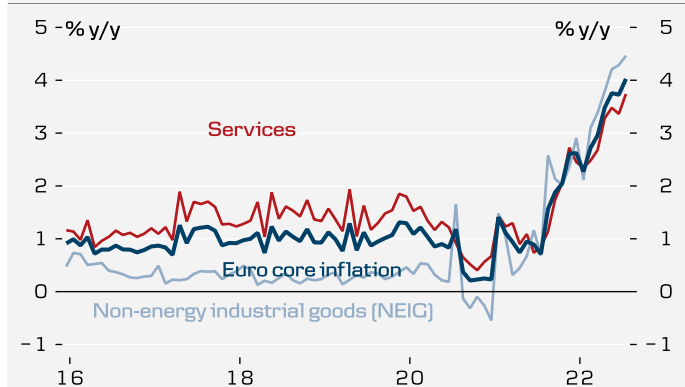
Bottom up

Core inflation, effect from taxes



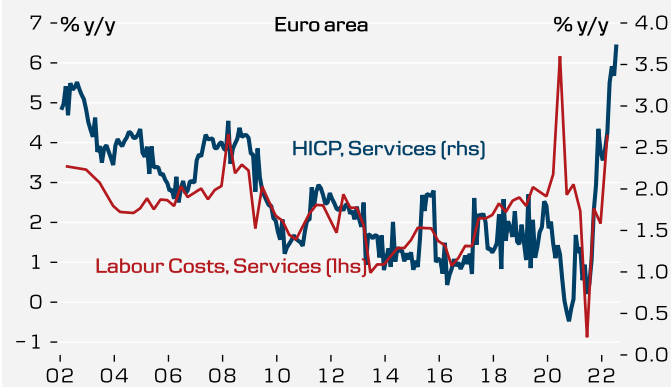
Source: Macrobond Financial, Eurostat

Core inflation components



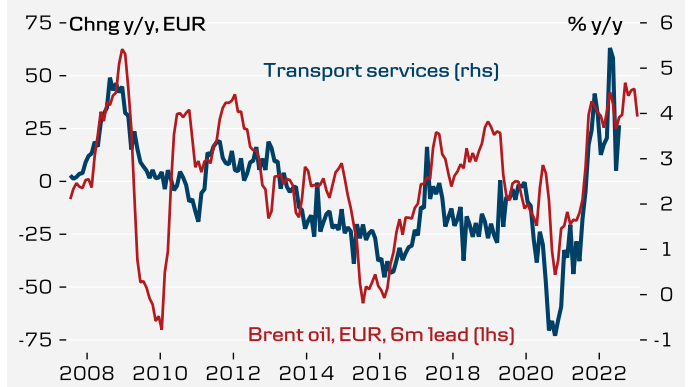
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

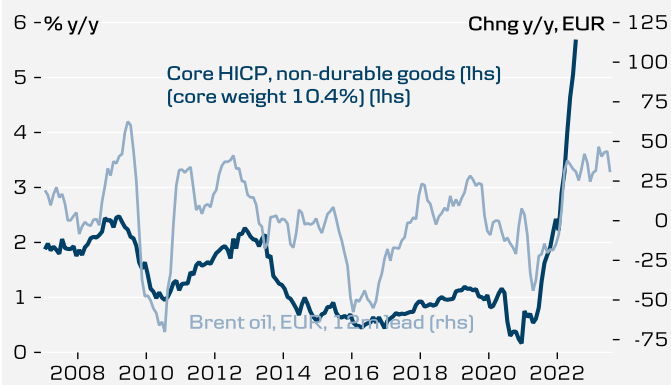
Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

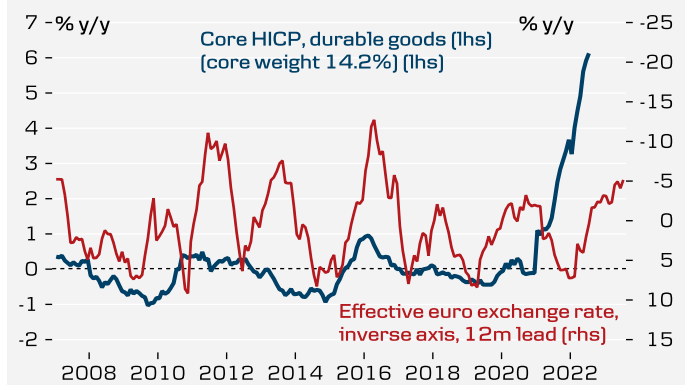
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Core non-durable goods



Source: Macrobond Financial

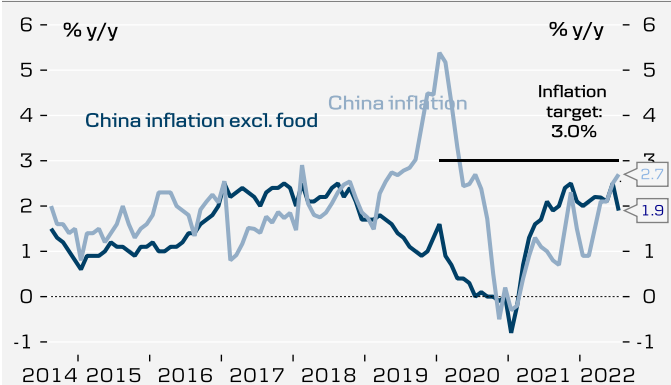
Core durable goods



Source: Macrobond Financial

Country details – China

CPI and CPI ex food



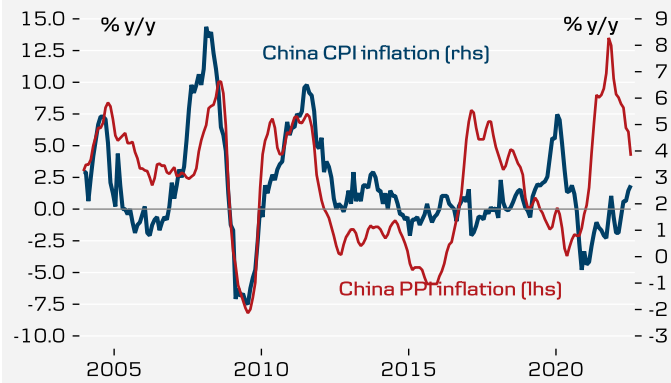
Source: Macrobond Financial, NBS

CPI and food prices



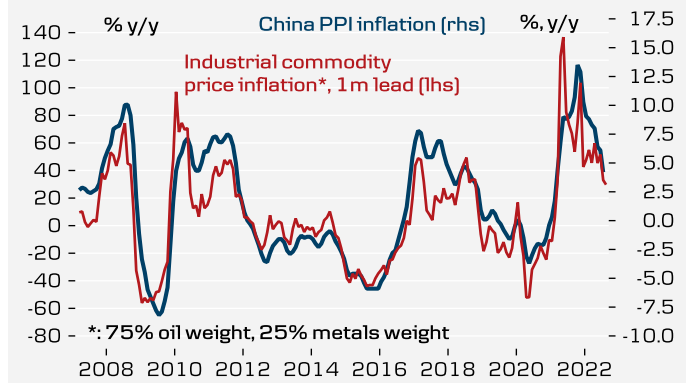
Source: Macrobond Financial, NBS

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 Allan von Mehren, Chief Analyst, Antti Ilvonen, Analyst and Aila Mihr, Senior Analyst.

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