

# Global Inflation Watch

## Highest US wage growth in more than 10 years

- Overview:** Labour shortages persist pushing US wage inflation to the highest level in 10 years. Commodity prices eased over the past month, though, as gas, oil and coal prices are off the peaks. Bottlenecks continue to drive unusually long delivery times. Freight rates have stabilized at very high levels. *We look for US core inflation to rise further and peaking somewhat above 5% in February 2022 before easing to around 2½% by end-2022. In the euro we expect core inflation to peak now.*
- Inflation expectations:** Market-based inflation expectations have moved to new cycle highs in both US and Europe over the past month (although it has declined from the peak over the past week). Survey-based inflation expectations are also on the rise in both US and euro area (especially short-term expectations).
- US:** CPI inflation was once again higher than anticipated in October, now running at 6.2% y/y, the highest rate since December 1990. Price increases are becoming more broad-based and not only driven by surging energy and food prices. Survey-based short-term inflation expectations remain very high but long-term measures remain well-anchored for now. 10yr breakeven inflation expectations are once again above the 2004-07 average. Wage growth is increasing, most likely reflecting shortage of labour (not least within “leisure and hospitality” where wage growth is above 11% y/y).
- Euro:** HICP inflation rose to 4.1% in October, a new all-time high. Energy continues to be the main driver accounting for 2.3pp of the increase, due to higher natural gas and electricity prices. Although natural gas prices have declined some 40% from the peak, elevated energy price inflation is likely to stay with us in the coming months. As we enter 2022 and some of the inflation distortions will fade, it will be important to keep a close eye on wage developments, not least the big German bargaining rounds, see *Research Euro Area - German wages: what to watch in 2022*, 25 October.
- China:** Chinese PPI inflation rose to 13.5% in October, the highest rate in more than 26 years. CPI inflation is still well behaved at 1.5%.

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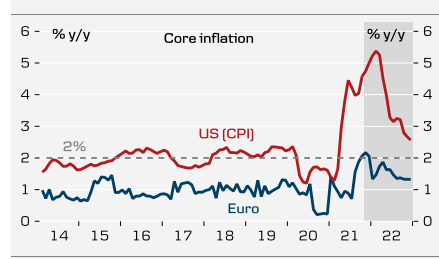
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### Market inflation expectations hit new cycle highs over the past month

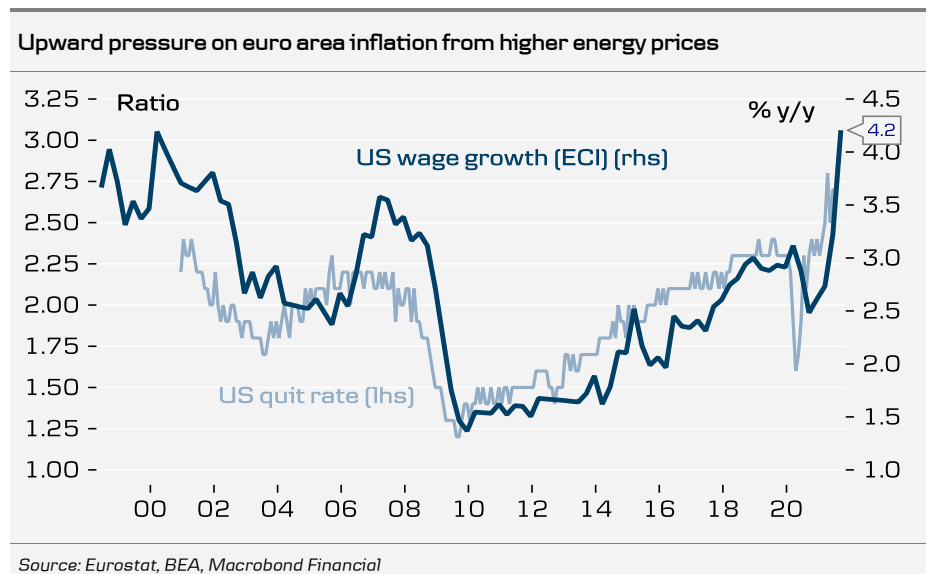


Note: Past or current performance is no guarantee of future performance  
 Source: Macrobond Financial, Bloomberg

### US and euro core inflation is set to move lower eventually



Source: Macrobond Financial, Bloomberg



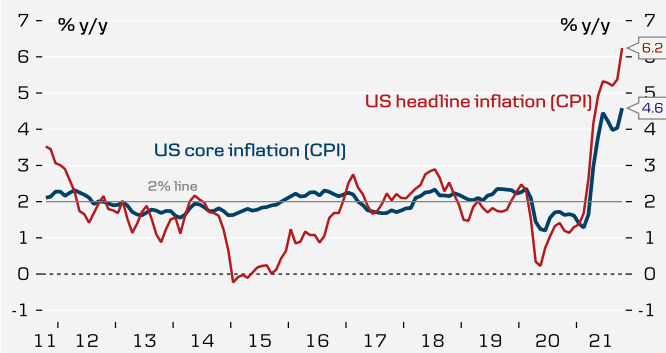
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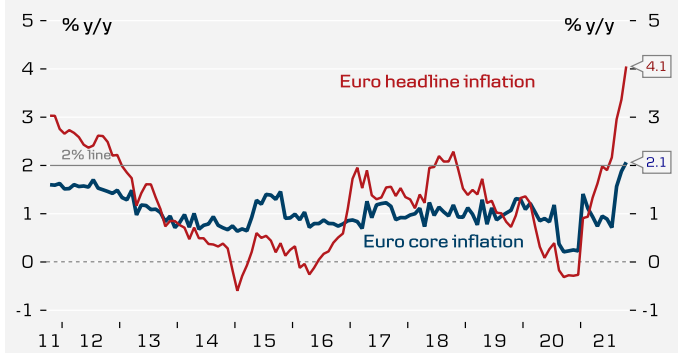
# Top down overview

US headline and core inflation (CPI)



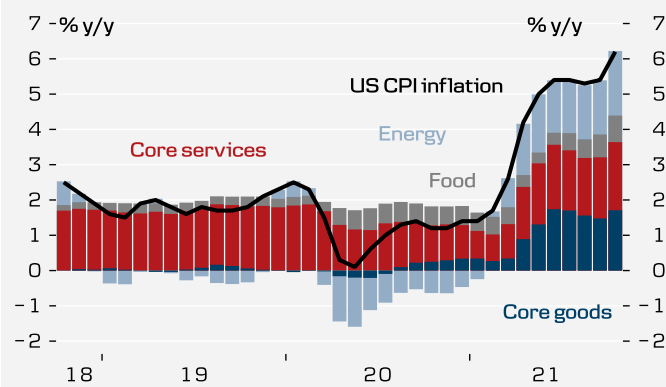
Source: Macrobond Financial, BLS

Euro headline and core inflation



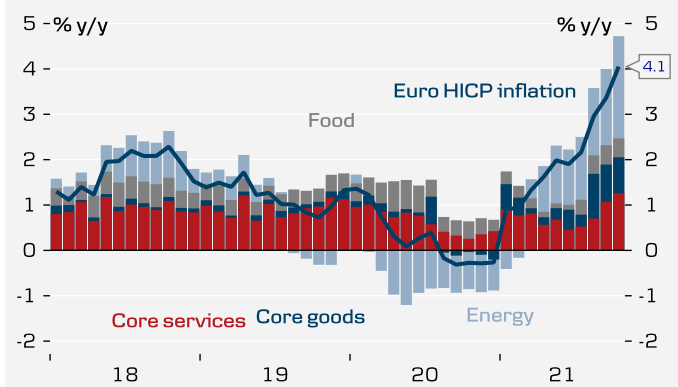
Source: Macrobond Financial, Eurostat

Contributions to US inflation



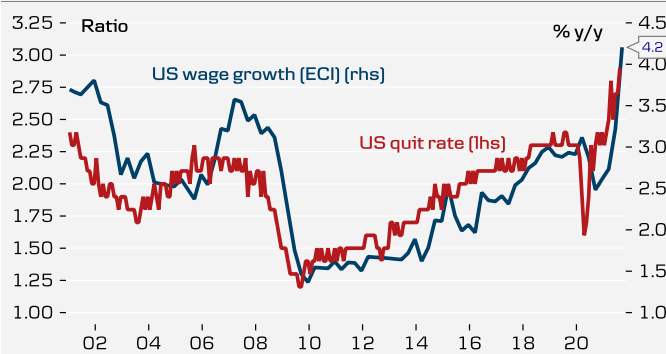
Source: Macrobond Financial, BLS

Contributions to euro inflation



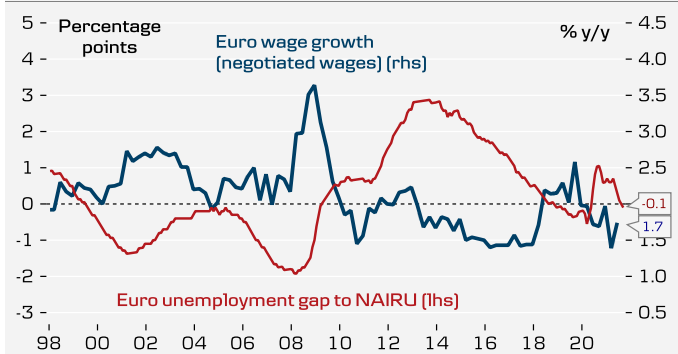
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



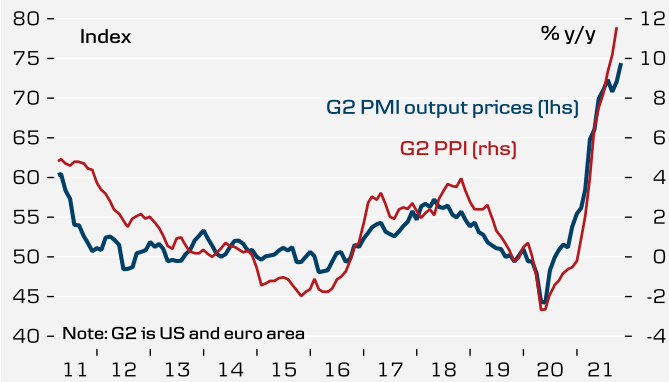
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



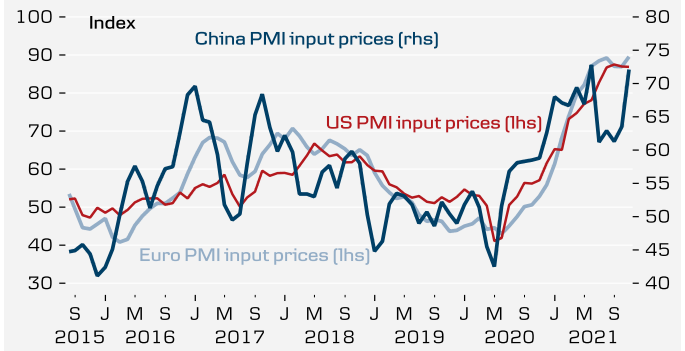
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



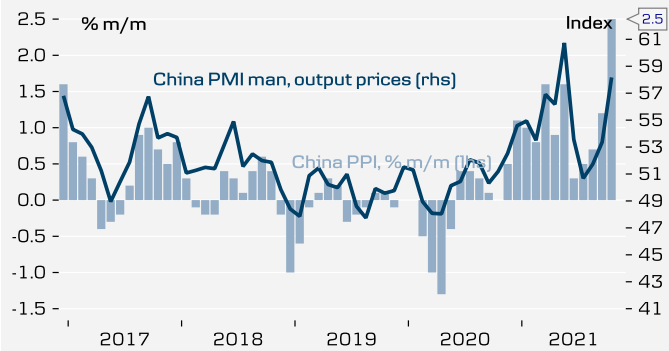
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



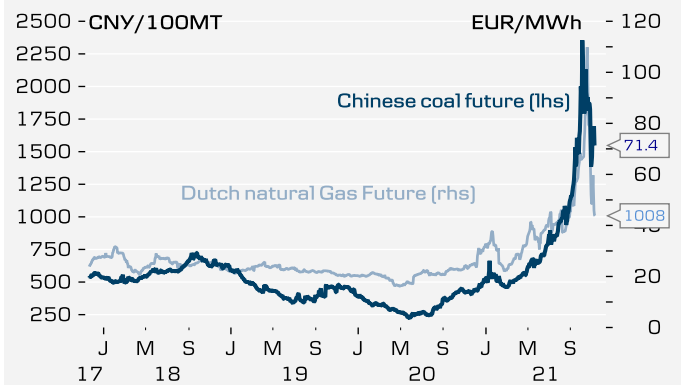
Source: Macrobond Financial, Markit

China PPI inflation momentum



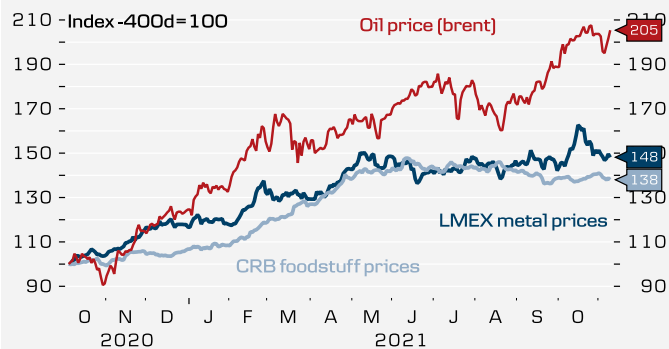
Source: Macrobond Financial, Markit

Natural gas and coal prices down from the peak



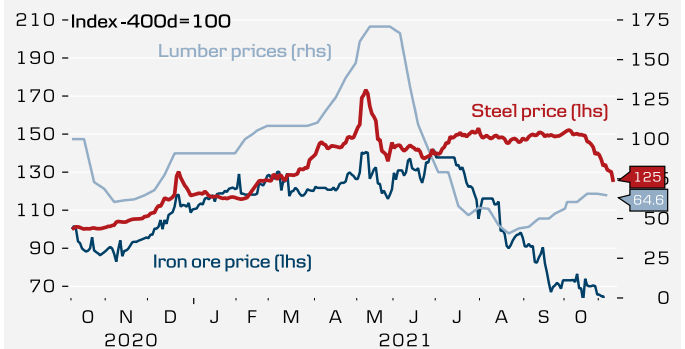
Note: Past or current performance is no guarantee of future performance  
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



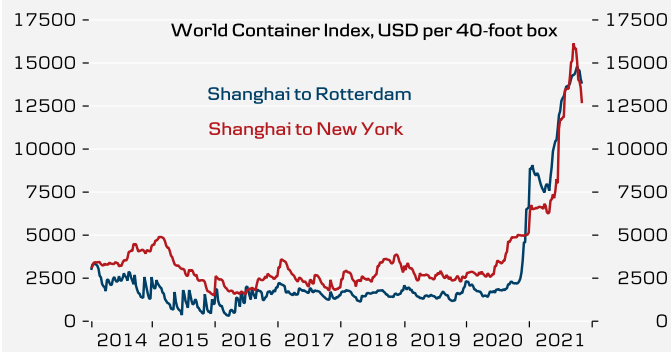
Source: Macrobond Financial, Bloomberg  
Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



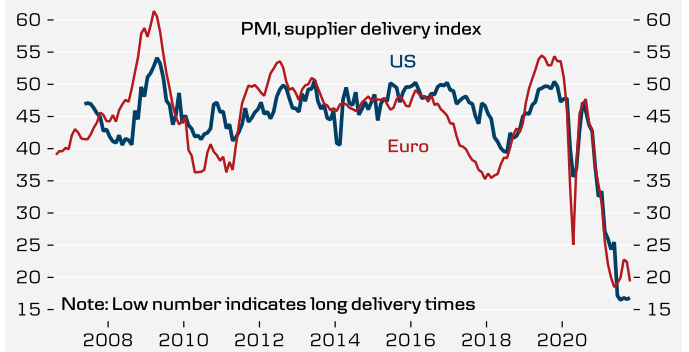
Source: Macrobond Financial, Bloomberg  
Note: Past performance is not a reliable indicator of future performance.

### Freight rates



Source: Macrobond Financial, Bloomberg, WCI

### Bottle necks - supplier delivery indices

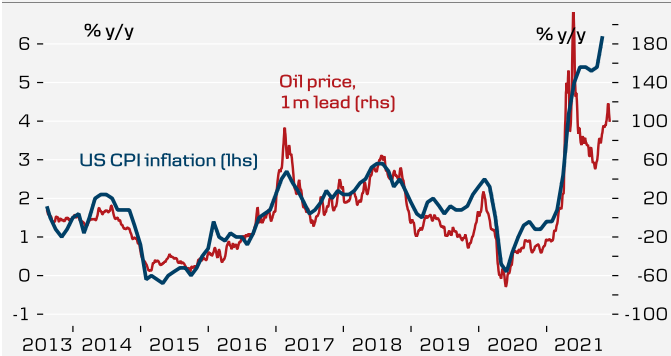


Source: Macrobond Financial, Markit

## Country details - US

### Top down

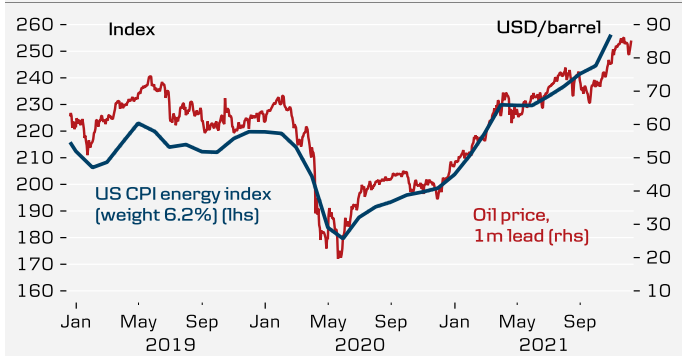
#### Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

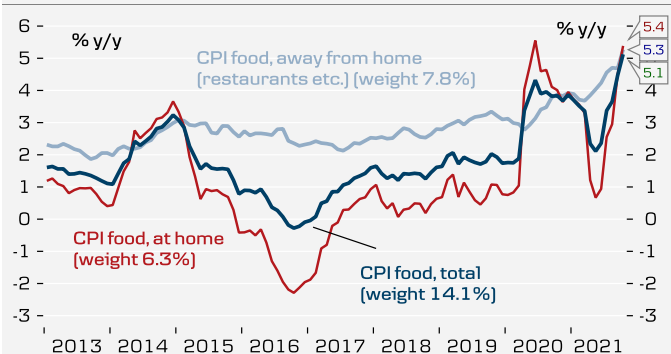
#### CPI energy prices vs oil



Source: Macrobond Financial, BLS.

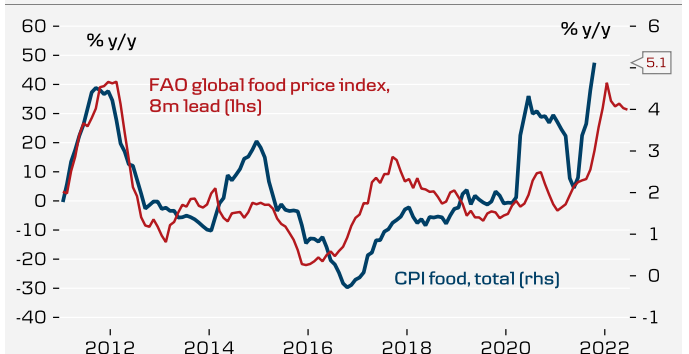
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#### Food prices



Source: Macrobond Financial, BLS

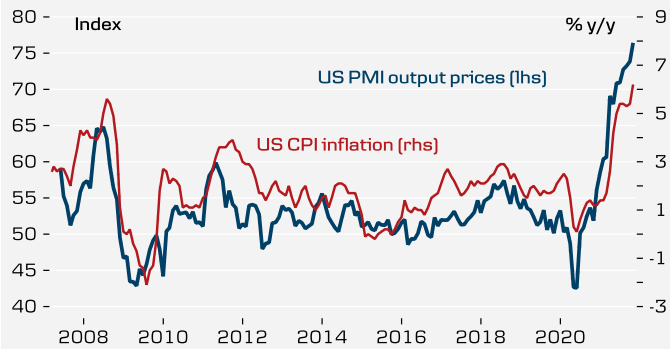
#### Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

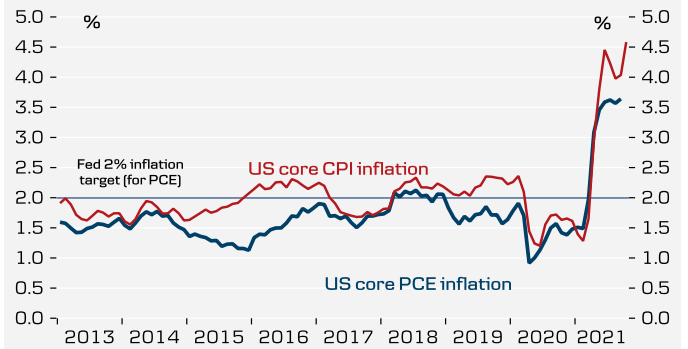
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### US PMI output prices vs CPI inflation



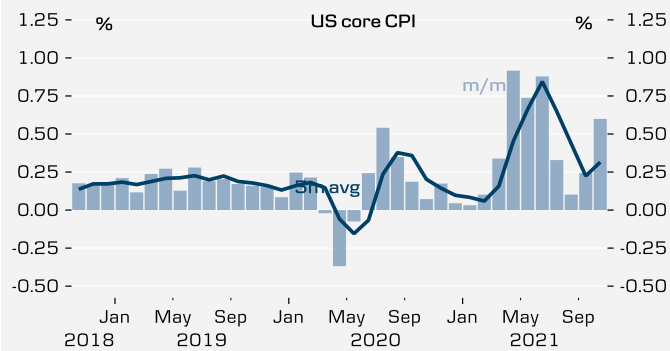
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



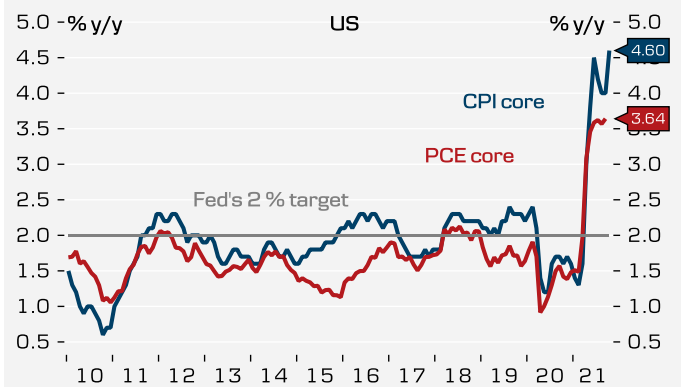
Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



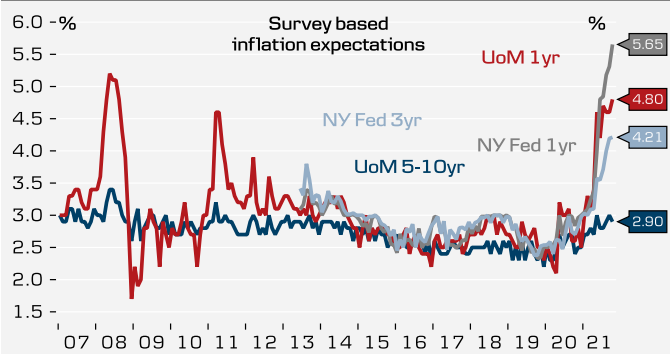
Source: Macrobond Financial, BLS

### CPI vs. PCE



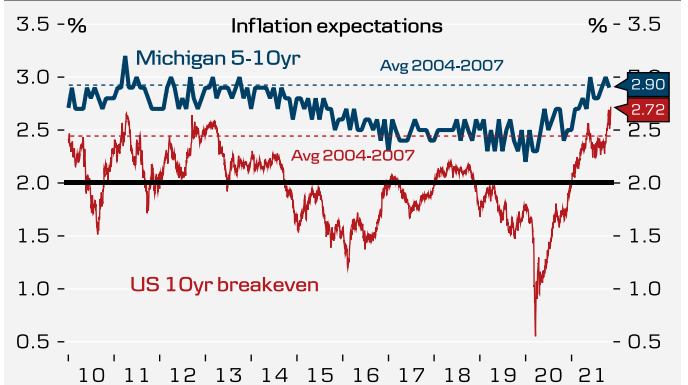
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



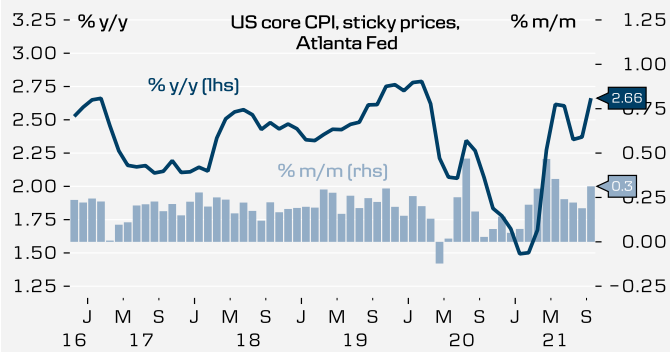
Source: NY Fed, University of Michigan, Macrobond Financial

### Long-term inflation expectations



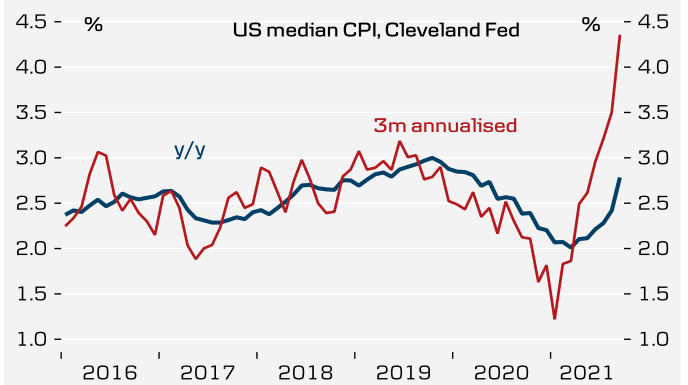
Source: Macrobond Financial, University of Michigan  
Note: Past performance is not a reliable indicator of future performance.

### Core sticky prices inflation (prices changed less frequently)



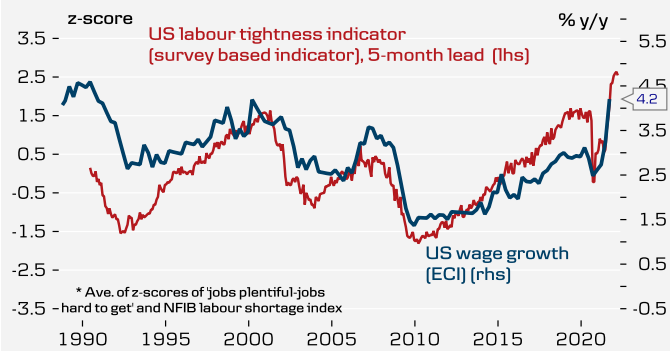
Source: Macrobond Financial, Atlanta Fed

### Median CPI inflation



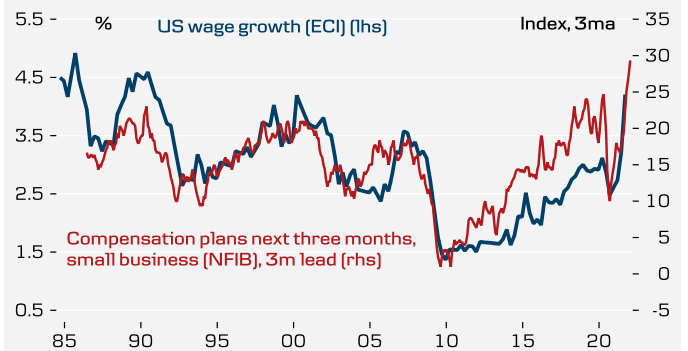
Source: Macrobond Financial, Cleveland Fed

### Labour market tightness: Wage growth vs tightness



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

### Labour market tightness: Job openings and shortage



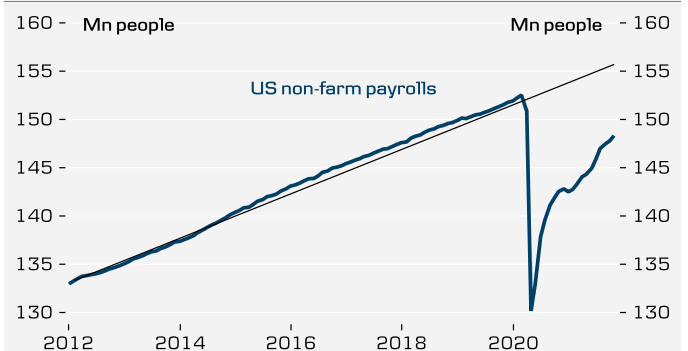
Source: Macrobond Financial, NFIB, BLS

### Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

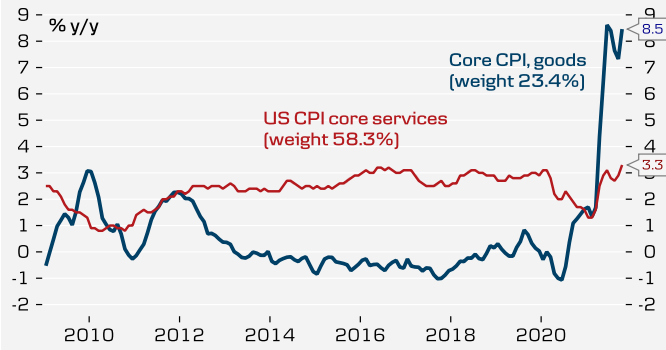
### Employment gap



Source: Macrobond Financial, BLS

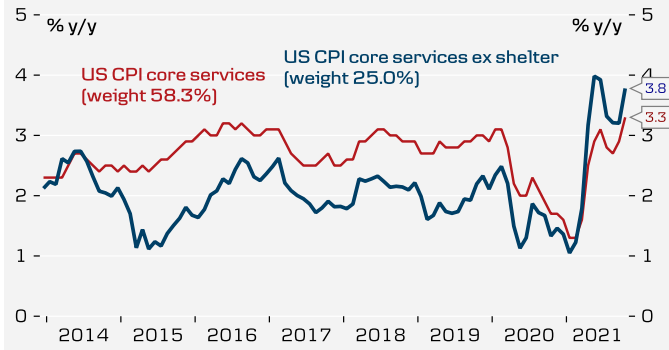
Bottom up

Core goods vs. services



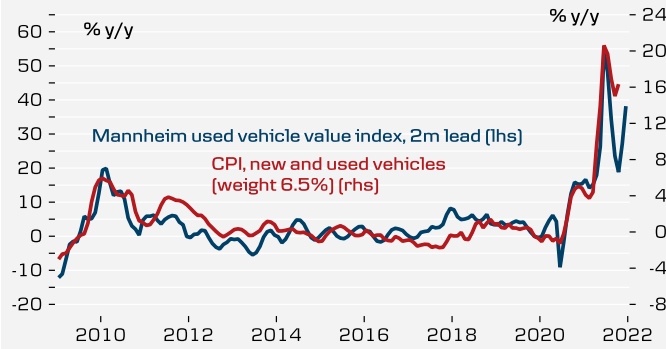
Source: Macrobond Financial, BLS

Core services ex shelter



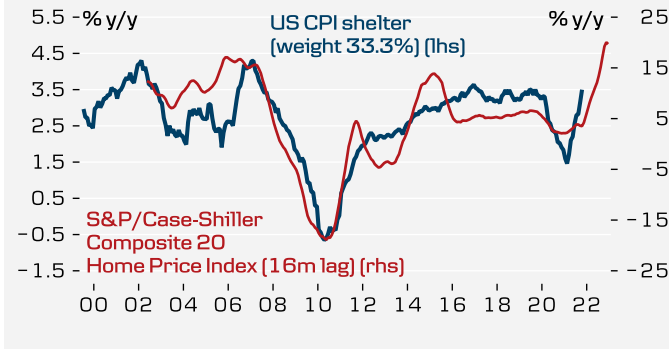
Source: Macrobond Financial, BLS

Used car prices



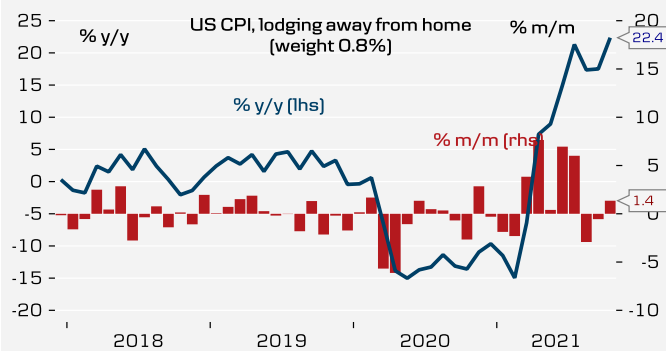
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



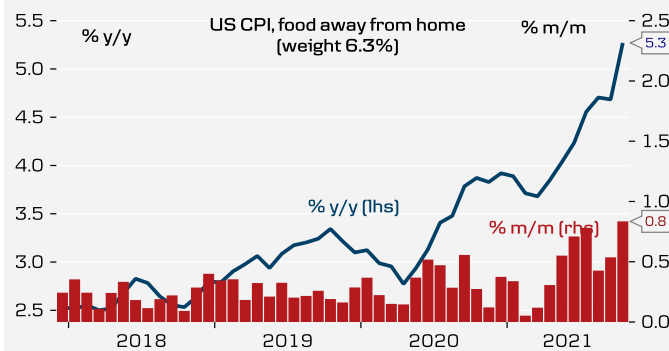
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



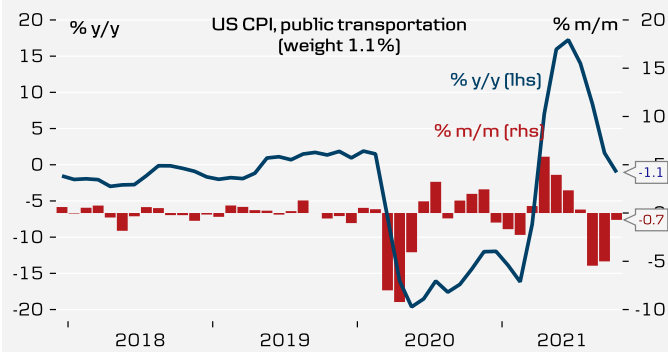
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



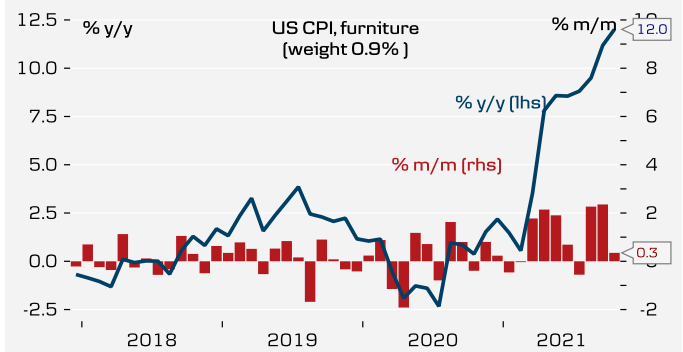
Source: Macrobond Financial, BLS

### Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

### Furniture

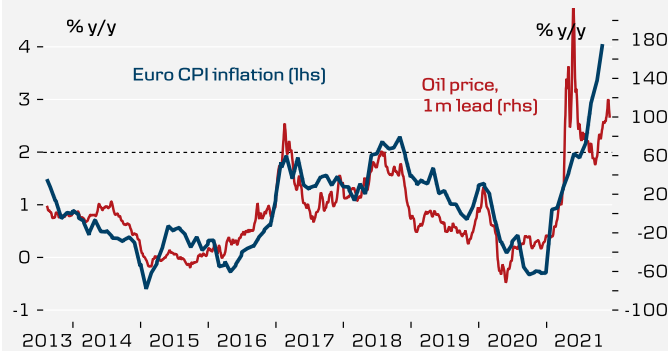


Source: Macrobond Financial, BLS

## Country details – Euro

### Top Down

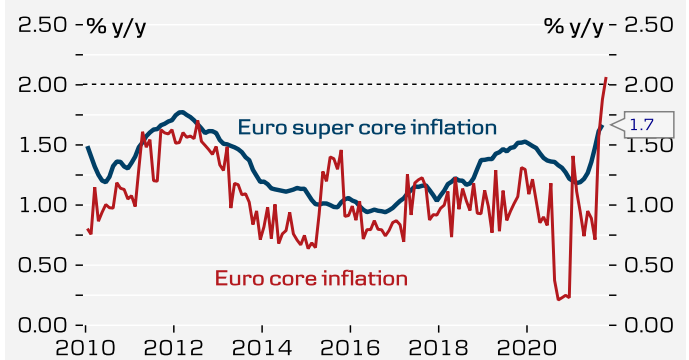
#### Headline vs. oil prices



Source: Macrobond Financial, Eurostat

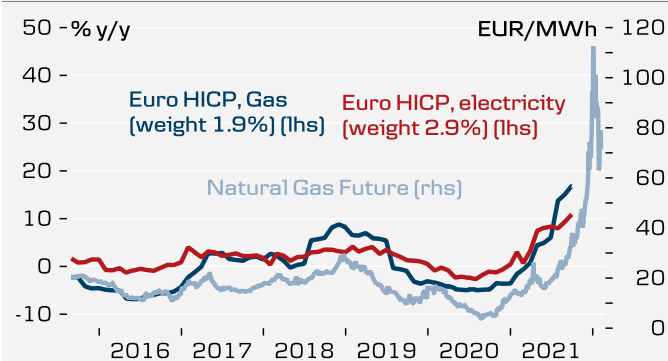
Note: Past performance is not a reliable indicator of future performance.

#### Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

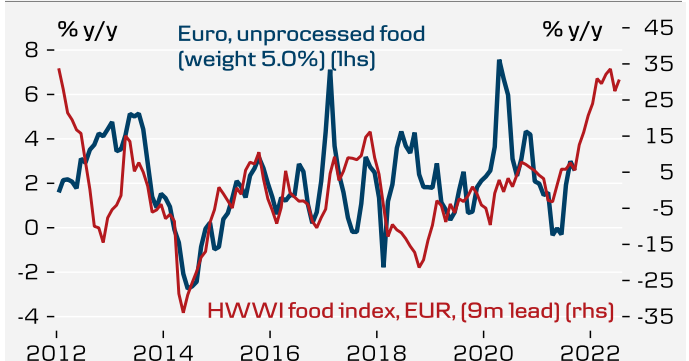
#### Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

#### Food

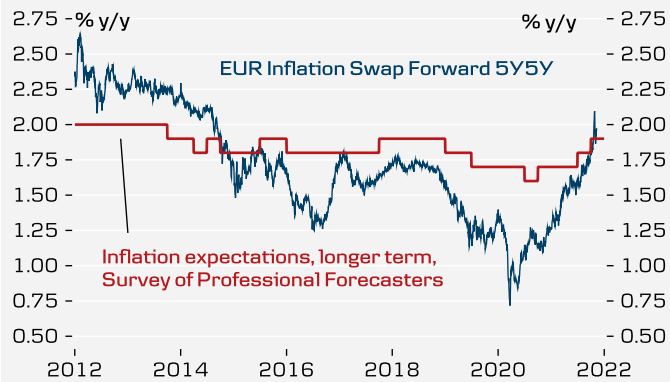


Source: Macrobond Financial

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

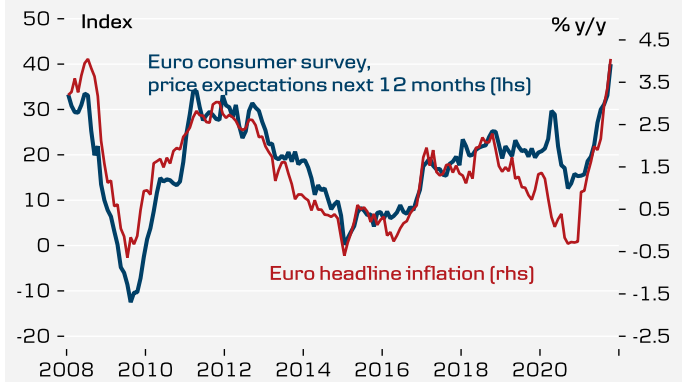


### Inflation expectations



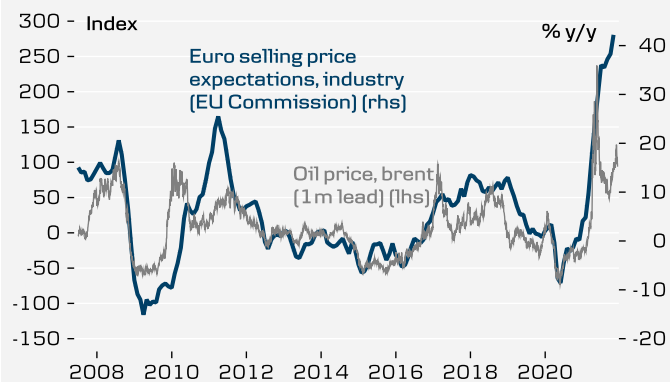
Source: Macrobond Financial, Bloomberg, ECB

### Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

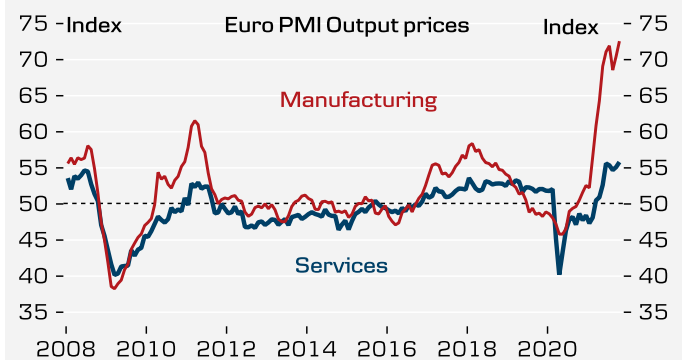
### Selling price expectations from companies



Source: Macrobond Financial, EU Commission

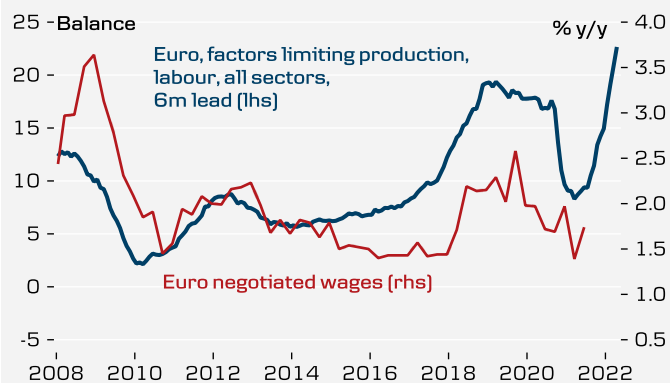
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### PMI output prices



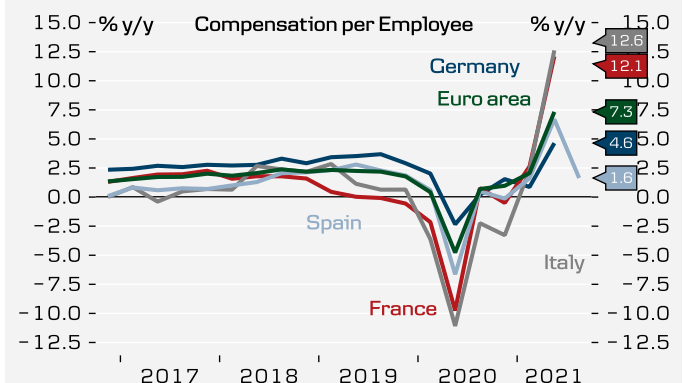
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage compensation

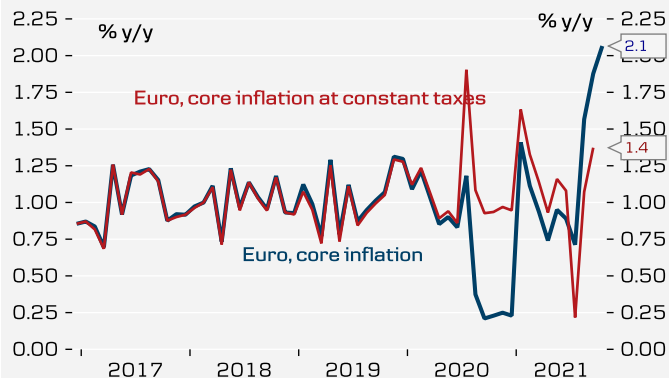


Source: Macrobond Financial, ECB.

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

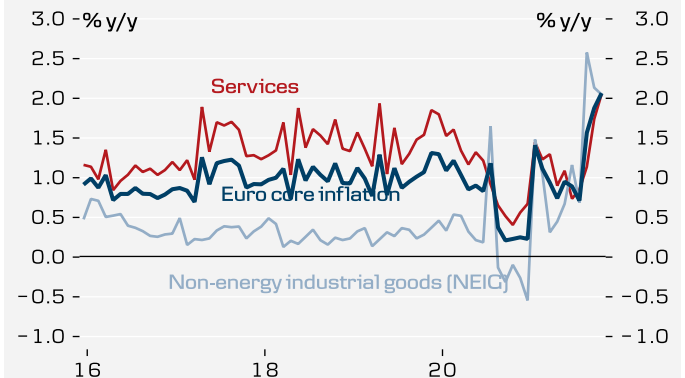
Bottom up

Core inflation, effect from taxes



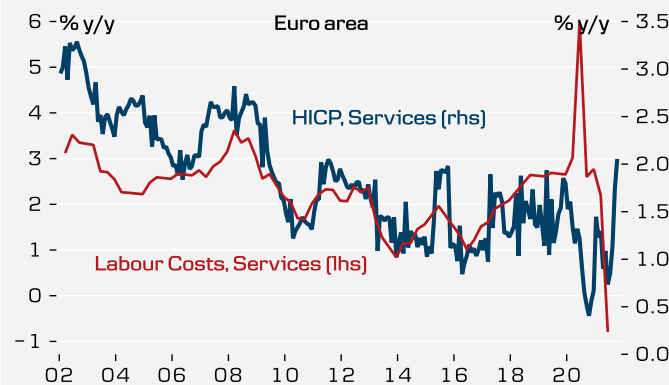
Source: Macrobond Financial, Eurostat

Core inflation components



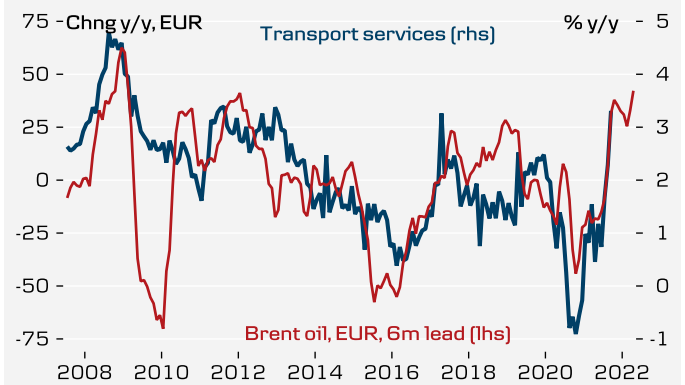
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



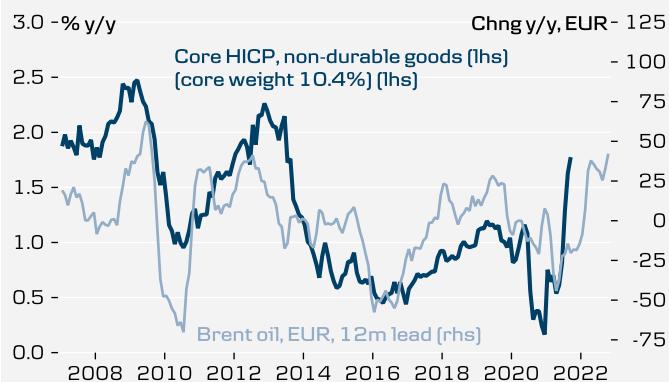
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



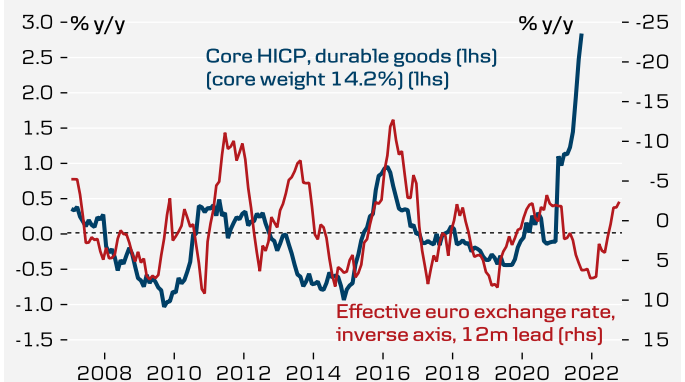
Source: Macrobond Financial, Eurostat, Danske Bank  
Note: Past performance is not a reliable indicator of future performance.

Core non-durable goods



Source: Macrobond Financial

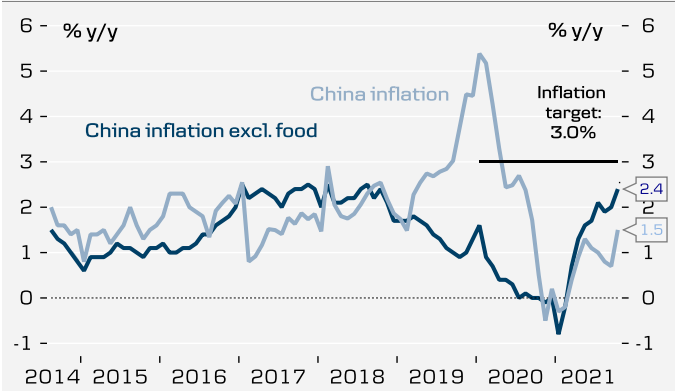
Core durable goods



Source: Macrobond Financial

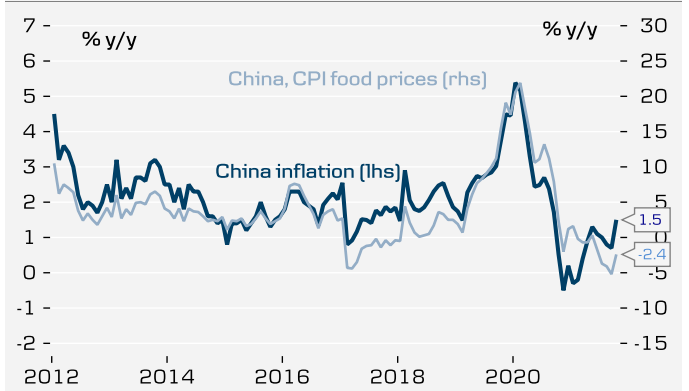
# Country details – China

CPI and CPI ex food



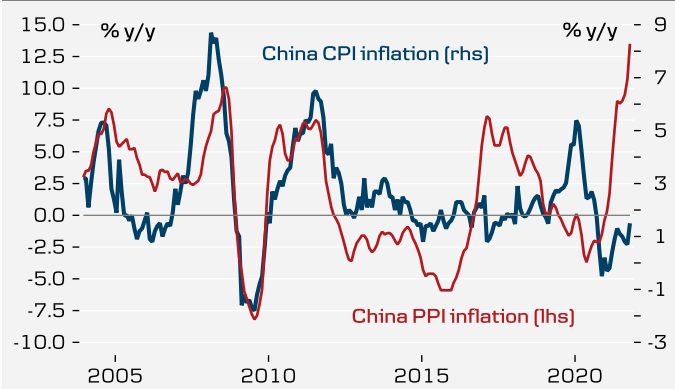
Source: Macrobond Financial, NBS

CPI and food prices



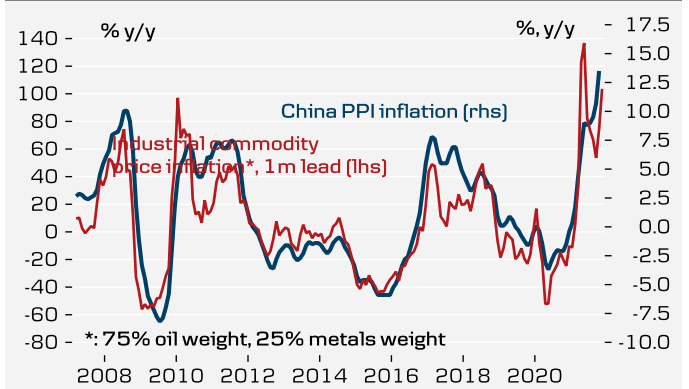
Source: Macrobond Financial, NBS

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 is Allan von Mehren, Chief Analyst, Mikael Olai Milhøj, Chief Analyst, Aila Mihr, Senior Analyst, Bjørn Tangaa Sillemann, Analyst, Antti Oskari Ilvonen, Analyst and Jakob Ekholdt Christensen, Chief Analyst.

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