

# Global Inflation Watch

## Inflation keeps surprising to the upside

- Overview:** A combo of renewed increases in commodity prices, very tight labour markets and high consumer inflation expectations continues to keep upward pressure on inflation intact. On a positive note, electricity prices in Europe have come down. Freight rates are still at high levels and delivery times very long. *We look for US core inflation to rise further and peak at 6.6% in March 2022 before easing to around 4.6% by end-2022. We expect euro core inflation to peak now and fall below 2% in Q4.*
- Inflation expectations:** Market-based long-term inflation expectations still move sideways, but US household long-term inflation expectations are at a 10-year high. Euro household price expectations for next 12 months stayed elevated in December.
- US:** CPI inflation rose to 7.5% y/y in December and once again the increase was higher than anticipated, implying an even higher pressure on the Fed to tighten sooner and faster (markets are now pricing in six rate hikes from the Fed in 2022). Energy and food prices (and usual suspects like used car prices) are explaining a lot but price increases are broad-based. Around 50% of small businesses expect to hike output prices within three months and long-term consumer inflation expectations are now 3.1% y/y, which is indeed in the upper end of what the Fed can tolerate, in our view.
- Euro:** In contrast to expectations, HICP inflation rose to yet another all-time high of 5.1% in January, as soaring food prices and strengthening core inflation pressures more than made up for German VAT base effects falling out of the equation. 'Saved-up' price increases by companies likely also played a role at the turn of the year, leaving core inflation elevated at 2.3%. The continued inflation upside surprises were an important trigger for the communication shift from ECB at the February meeting and with inflation risks still seen on the upside, we now expect two 25bp hikes (read more in *ECB Review: New call - ECB to hike in Dec22 and Mar23*, 3 February).
- China:** Chinese PPI inflation dropped from 12.5% to 10.3% in December. We look for a further moderation in coming months but recent increases in commodity prices will moderate the decline. CPI is running at 1.5% y/y, clearly below the 3% target.

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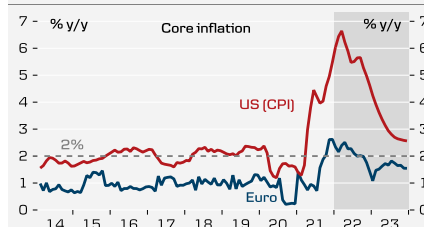
1. Top down overview
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### Market inflation expectations sideways despite high inflation prints



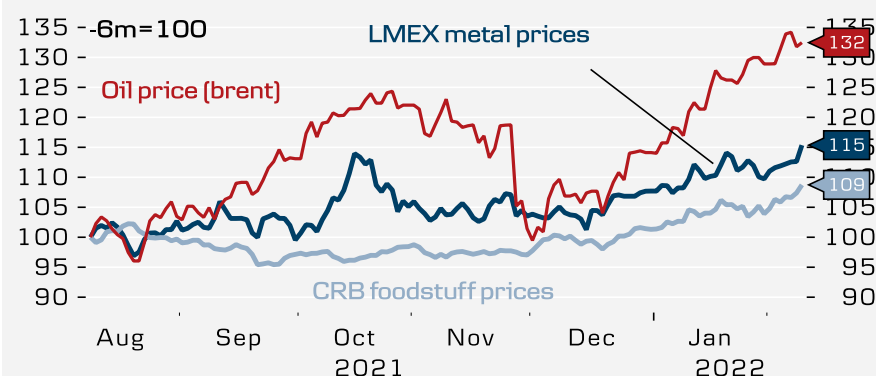
Note: Past or current performance is no guarantee of future performance  
Source: Macrobond Financial, Bloomberg

### We see euro core inflation peaking now, US core set to peak in March



Source: Macrobond Financial, Bloomberg

### Commodity prices on the rise again



Source: Eurostat, Bloomberg, Macrobond Financial. Note: Past performance is no guarantee of future performance

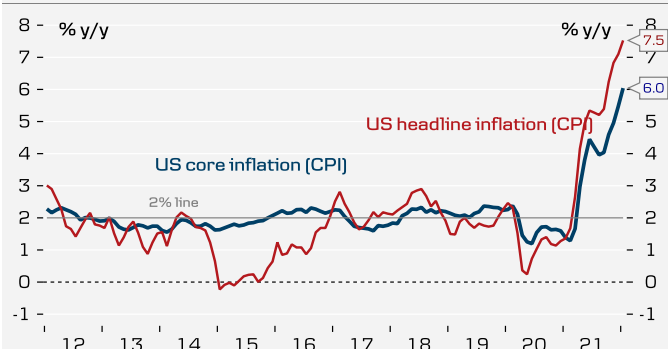
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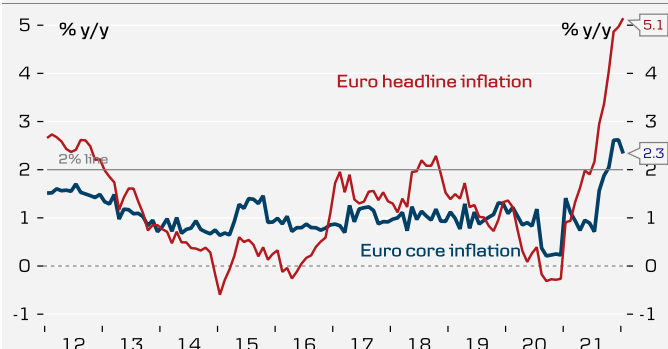
# Top down overview

US headline and core inflation (CPI)



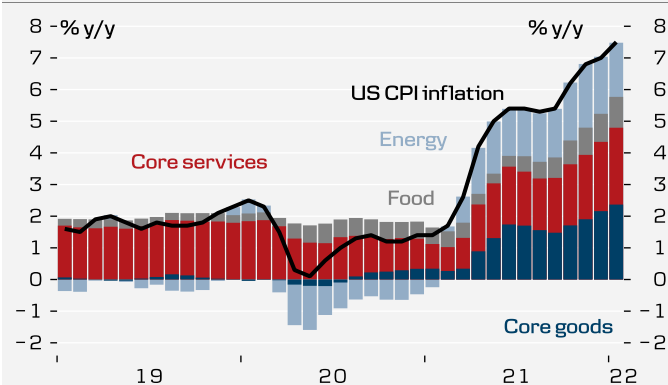
Source: Macrobond Financial, BLS

Euro headline and core inflation



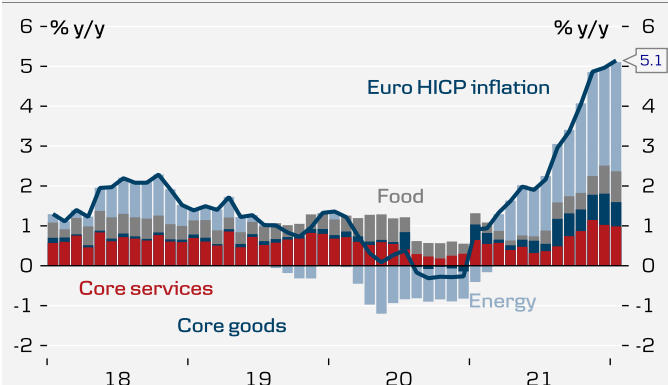
Source: Macrobond Financial, Eurostat

Contributions to US inflation



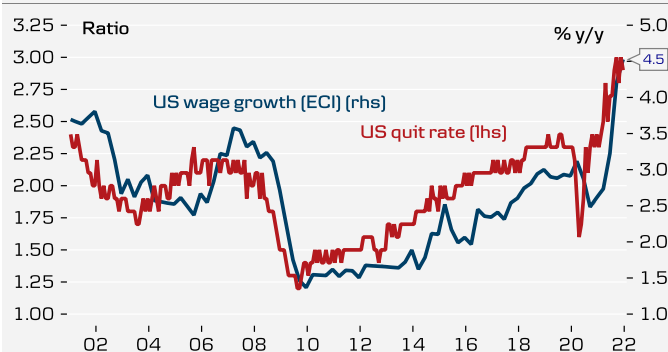
Source: Macrobond Financial, BLS

Contributions to euro inflation



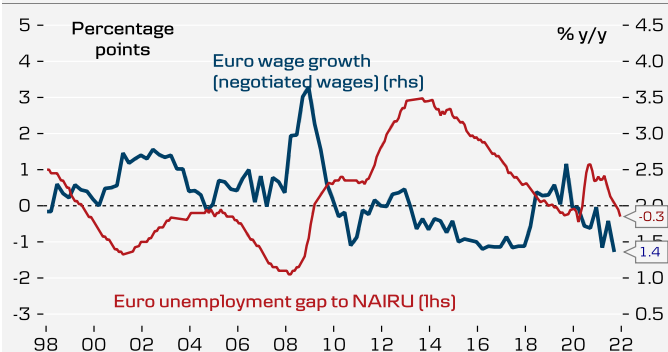
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



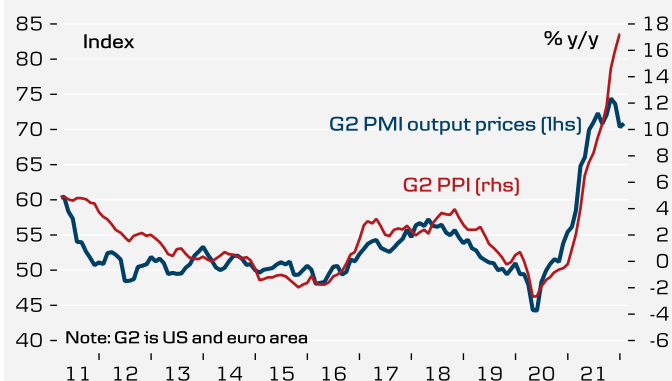
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



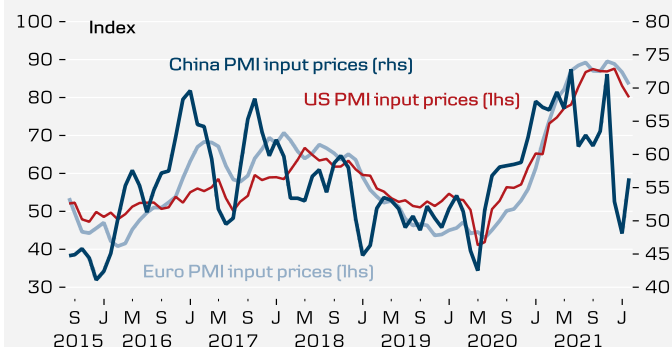
Source: Macrobond Financial, Eurostat, ECB

### G2 PPI inflation vs oil price inflation



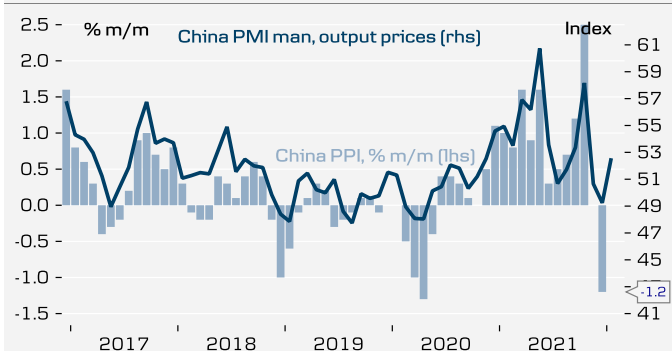
Source: Macrobond Financial, BLS, Eurostat

### PMI input price indices US, Euro and China



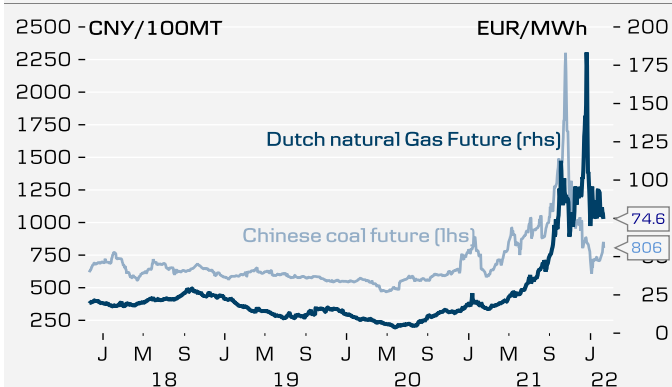
Source: Macrobond Financial, Markit

### China PPI inflation momentum



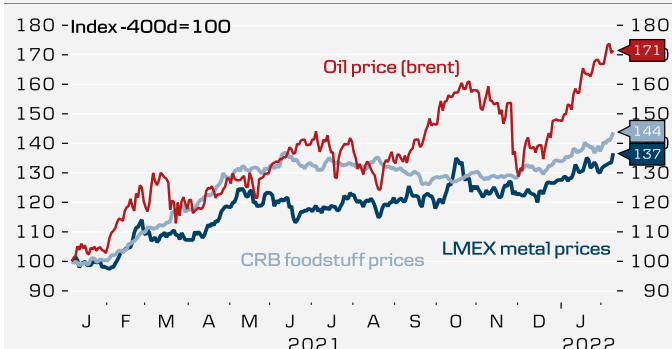
Source: Macrobond Financial, Markit

### European natural gas and Chinese coal prices



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

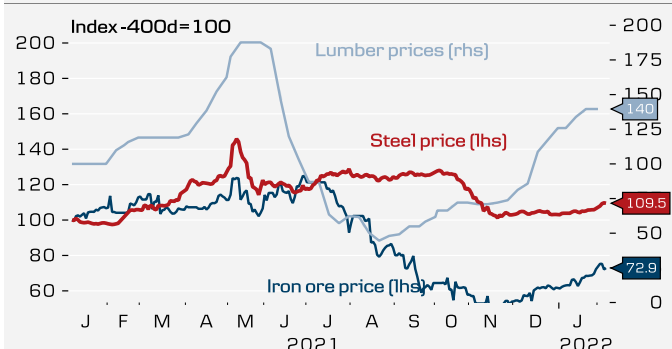
### Commodity price levels – oil, metals and food



Source: Macrobond Financial, Bloomberg

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

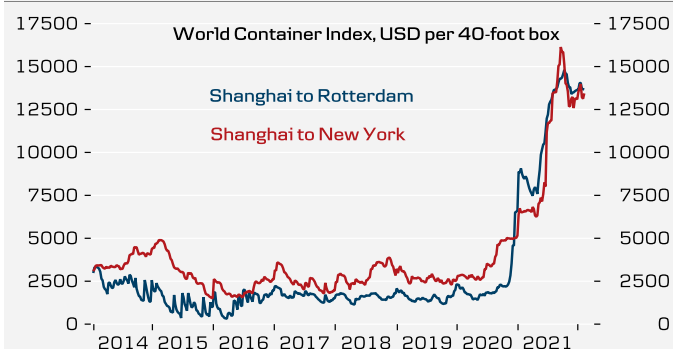
### Commodity price levels – steel, iron ore and lumber



Source: Macrobond Financial, Bloomberg

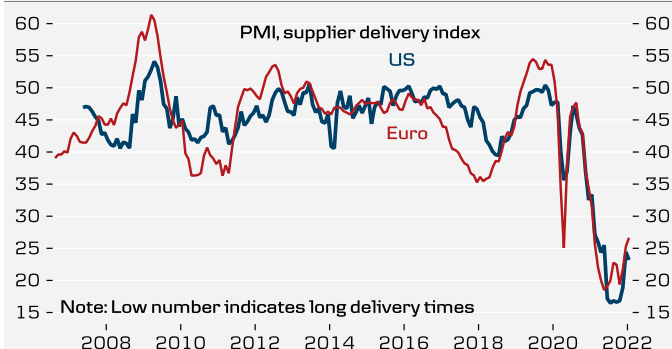
Note: Past performance is not a reliable indicator of future performance.

## Freight rates



Source: Macrobond Financial, Bloomberg, WCI

## Bottle necks - supplier delivery indices

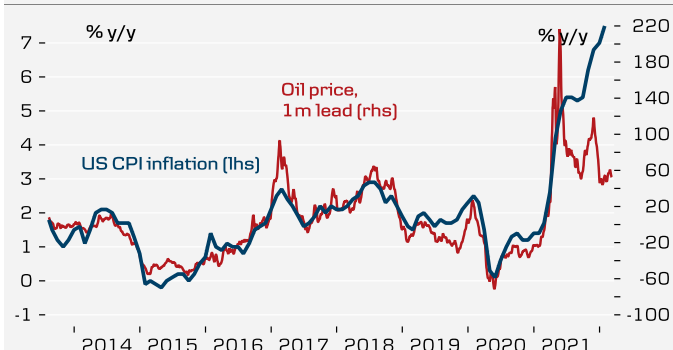


Source: Macrobond Financial, Markit

# Country details - US

## Top down

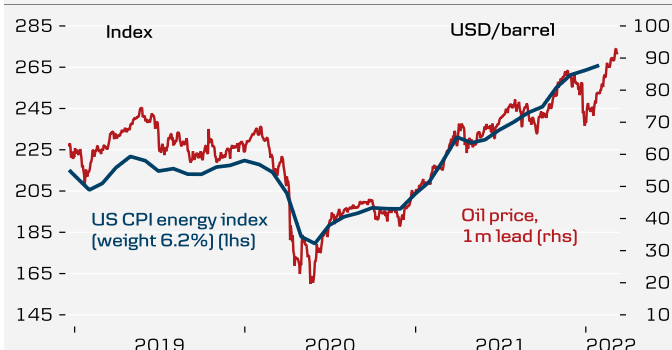
### Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

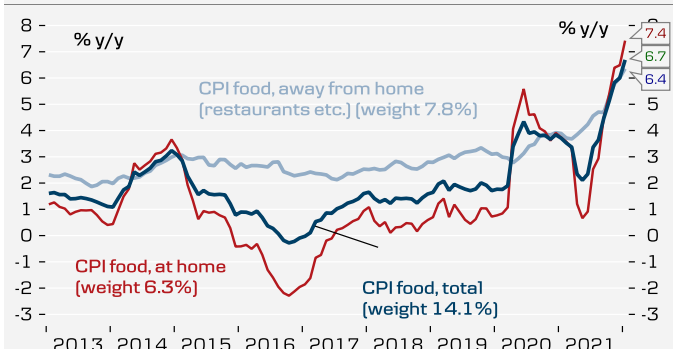
### CPI energy prices vs oil



Source: Macrobond Financial, BLS.

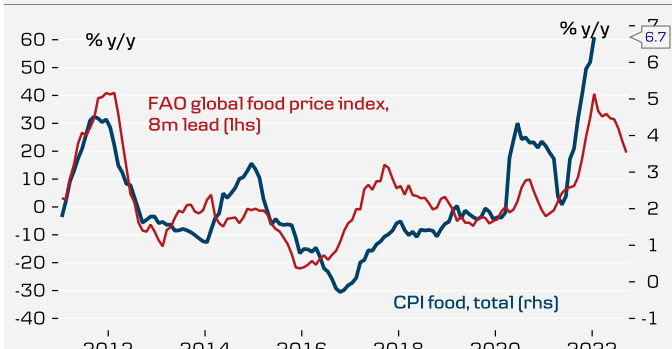
Note: Past performance is not a reliable indicator of future performance.

### Food prices



Source: Macrobond Financial, BLS

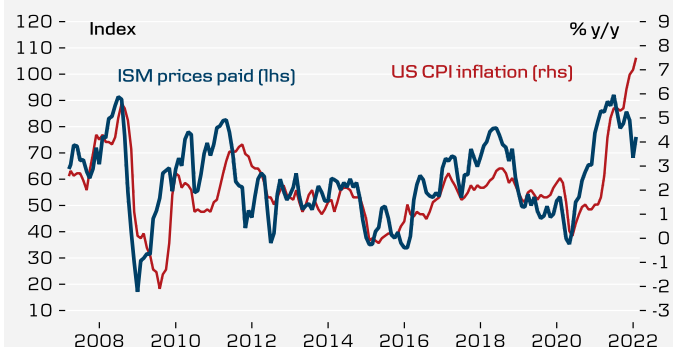
### Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

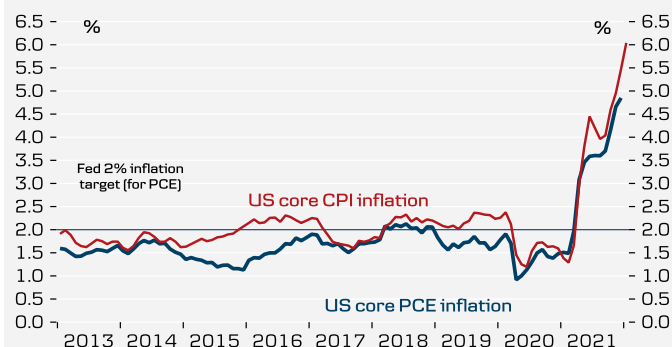
Note: Past performance is not a reliable indicator of future performance.

### US PMI output prices vs CPI inflation



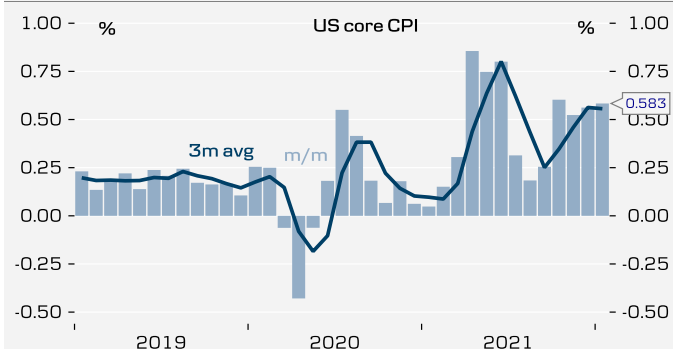
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



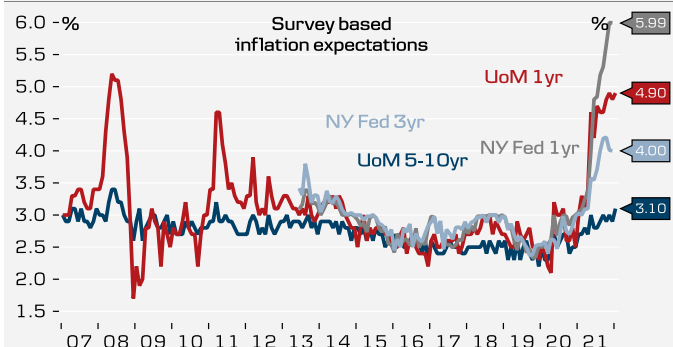
Source: Macrobond Financial, BLS

### Headline CPI since 1980



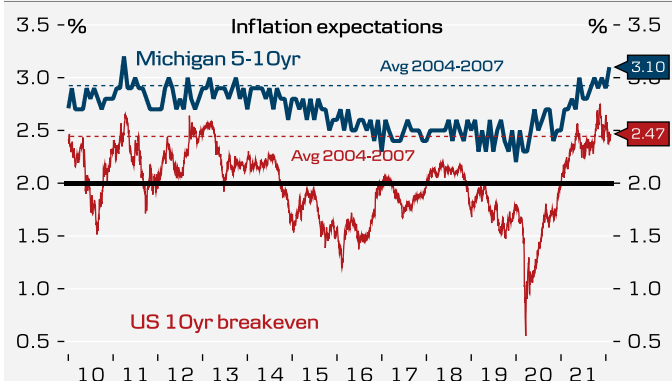
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



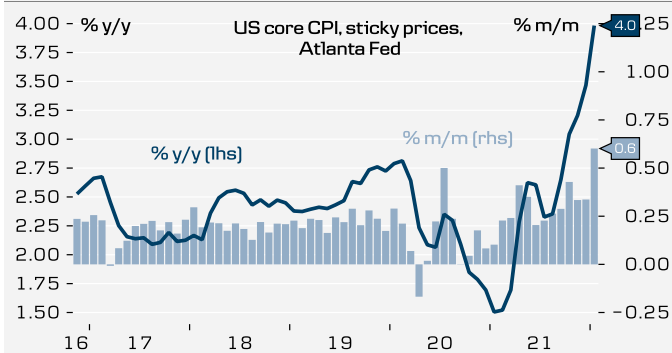
Source: NY Fed, University of Michigan, Macrobond Financial

### Long-term inflation expectations



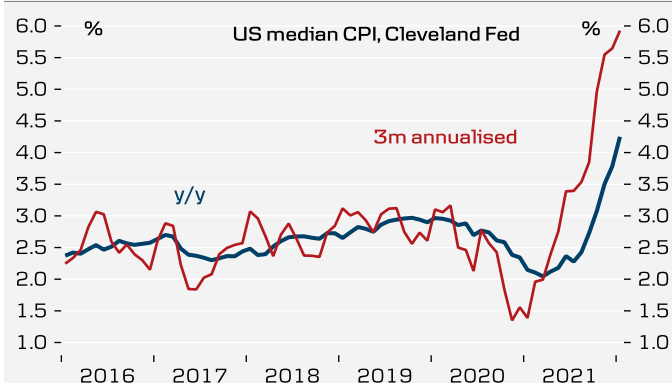
Source: Macrobond Financial, University of Michigan  
Note: Past performance is not a reliable indicator of future performance.

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



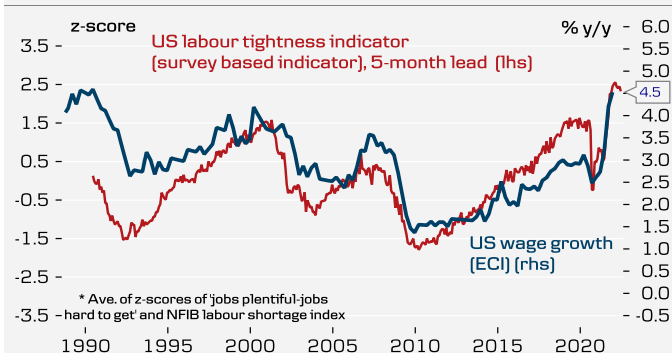
Source: Macrobond Financial, Atlanta Fed

### 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



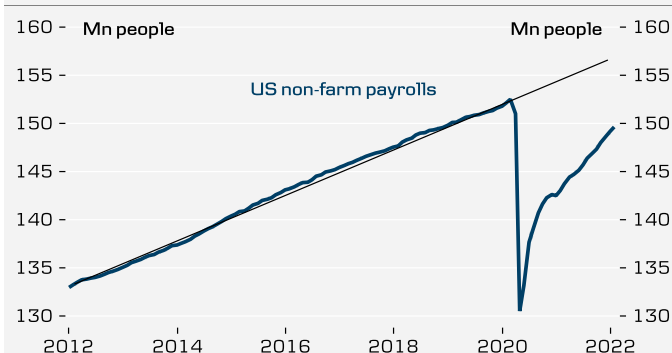
Source: Macrobond Financial, NFIB, BLS

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



Source: Macrobond Financial, Conference Board, BLS

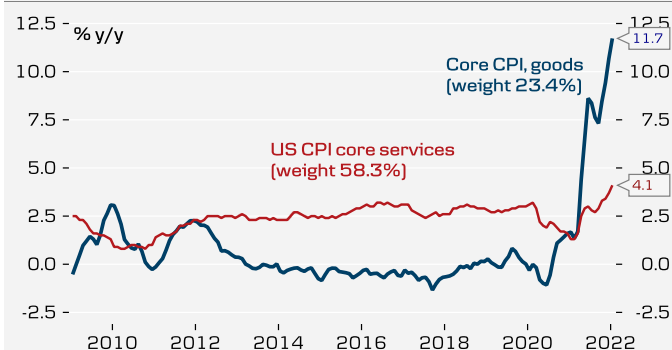
### Employment gap



Source: Macrobond Financial, BLS

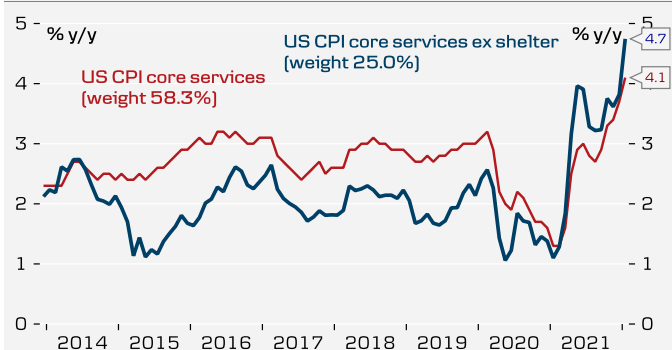
## Bottom up

### Core goods vs. services



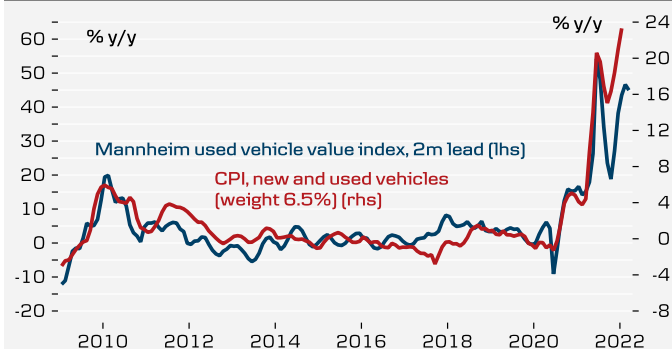
Source: Macrobond Financial, BLS

### Core services ex shelter



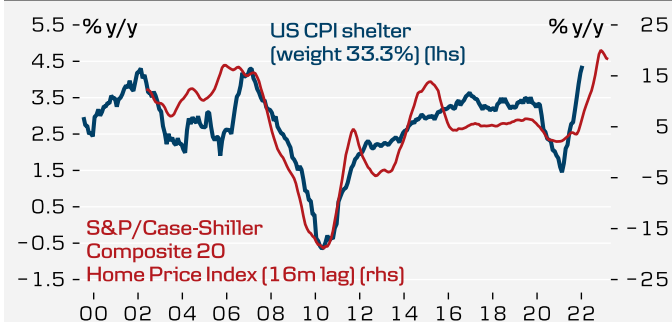
Source: Macrobond Financial, BLS

### Used car prices



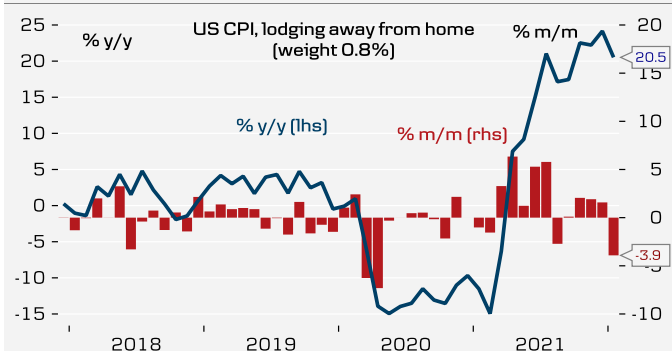
Source: Macrobond Financial, BLS, Manheim Consulting

### Rent of shelter



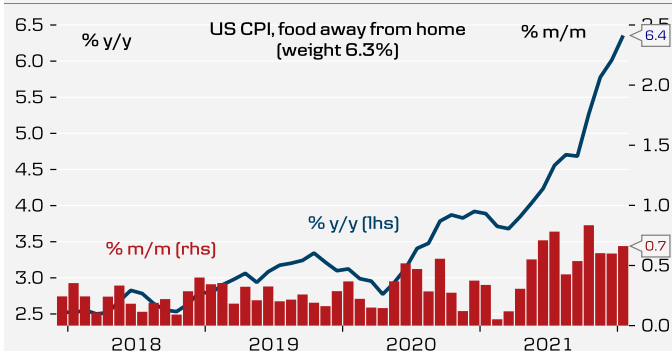
Source: Macrobond Financial, BLS, S&P Dow Jones

### Lodging away from home (hotels etc.)



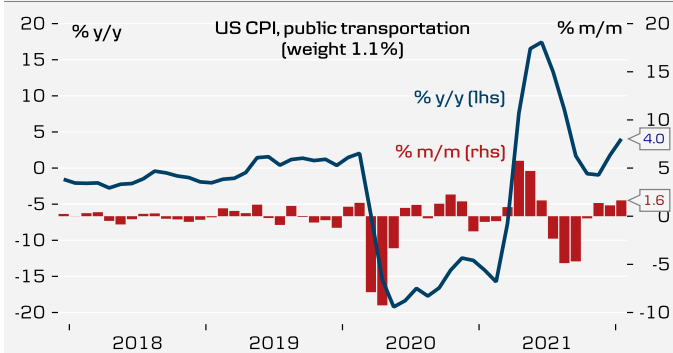
Source: Macrobond Financial, BLS

### Food away from home (restaurants etc.)

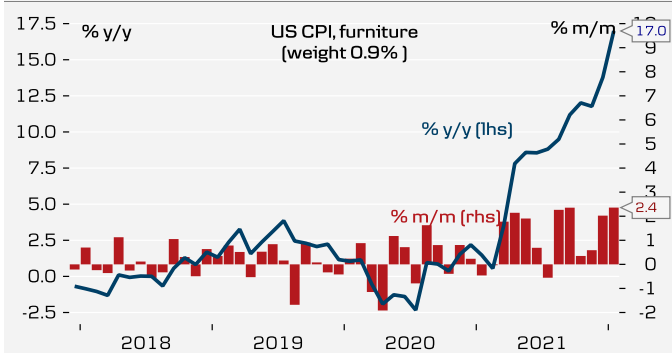


Source: Macrobond Financial, BLS

### Public transportation (airfares etc.)



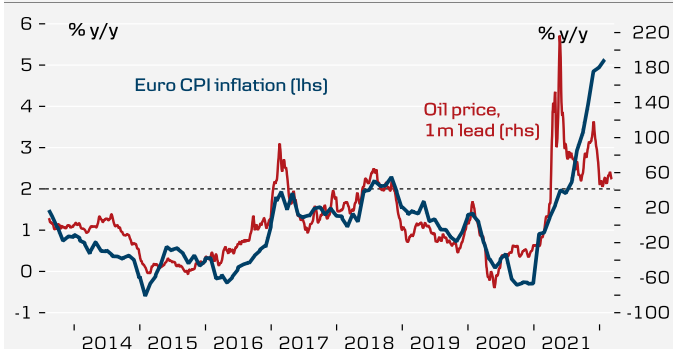
### Furniture



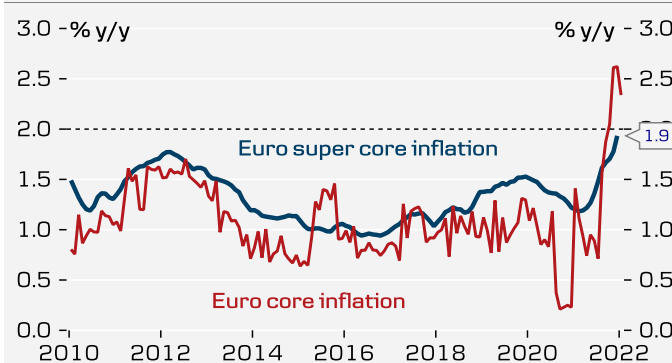
## Country details – Euro

### Top Down

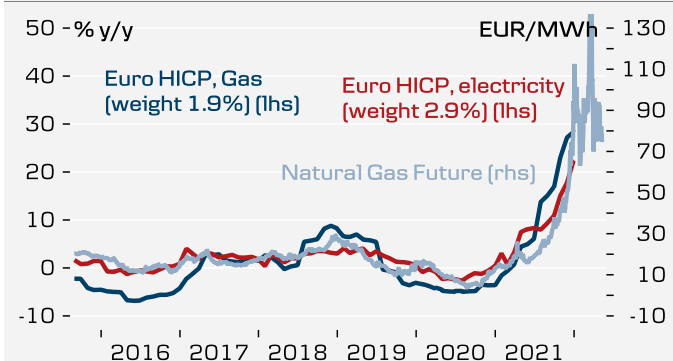
#### Headline vs. oil prices



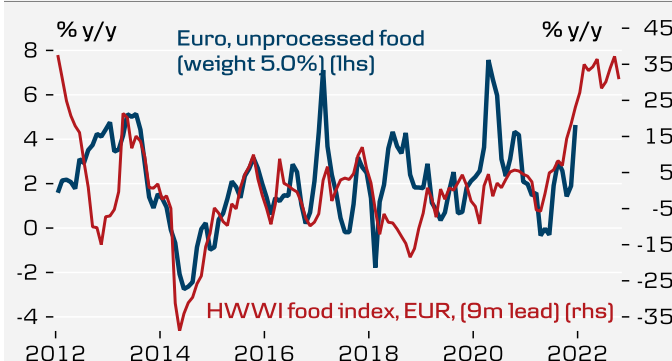
#### Core inflation



#### Natural gas & electricity



#### Food



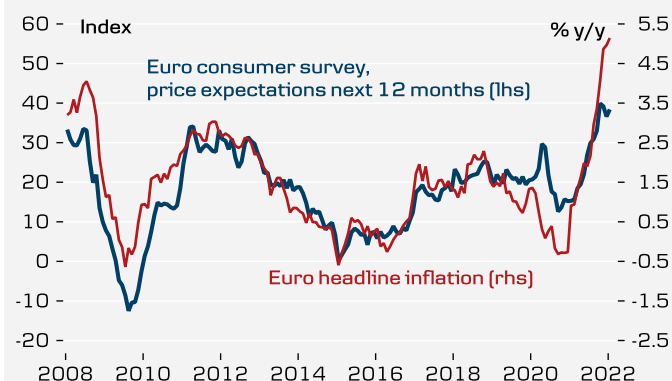


### Inflation expectations



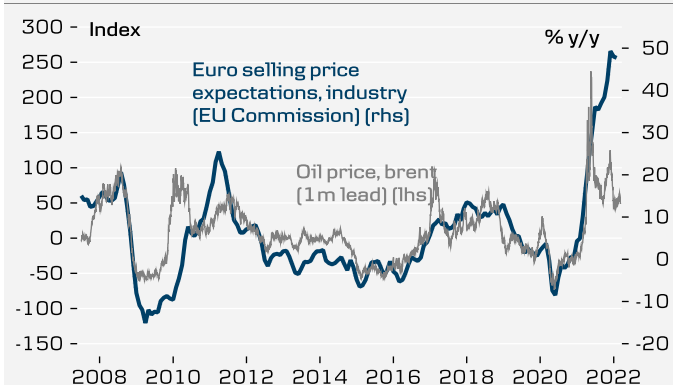
Source: Macrobond Financial, Bloomberg, ECB

### Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

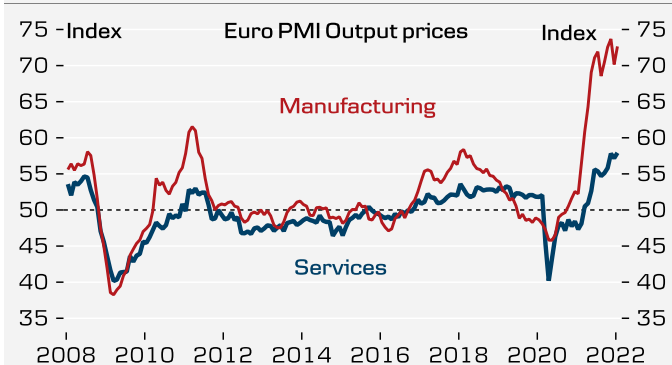
### Selling price expectations from companies



Source: Macrobond Financial, EU Commission

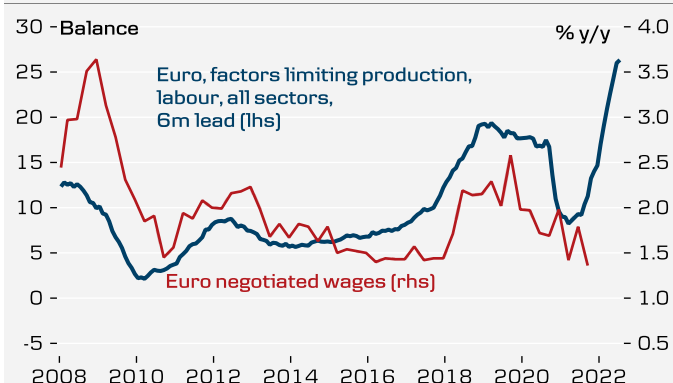
Note: Past performance is not a reliable indicator of future performance.

### PMI output prices



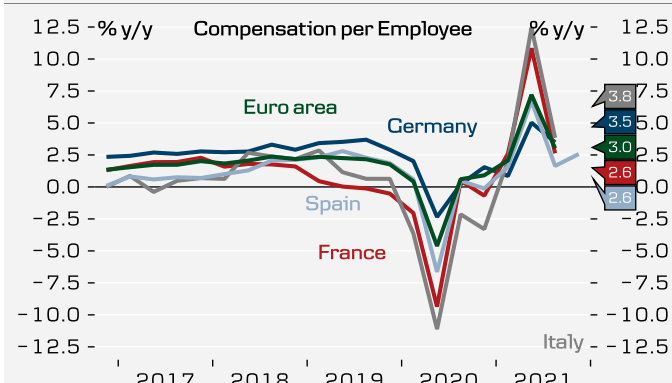
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage compensation

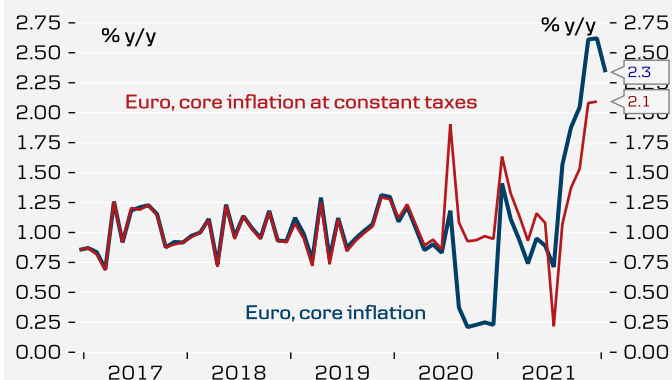


Source: Macrobond Financial, ECB.

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

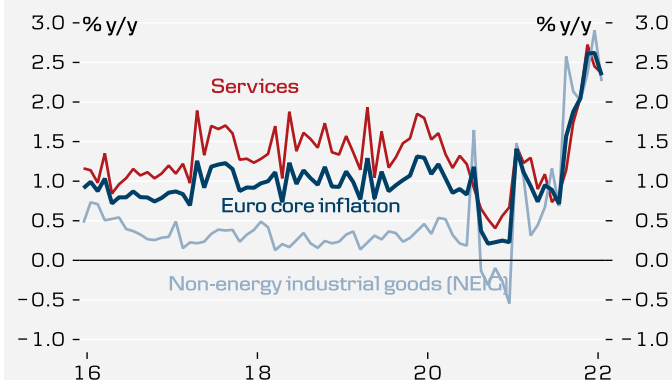
## Bottom up

### Core inflation, effect from taxes



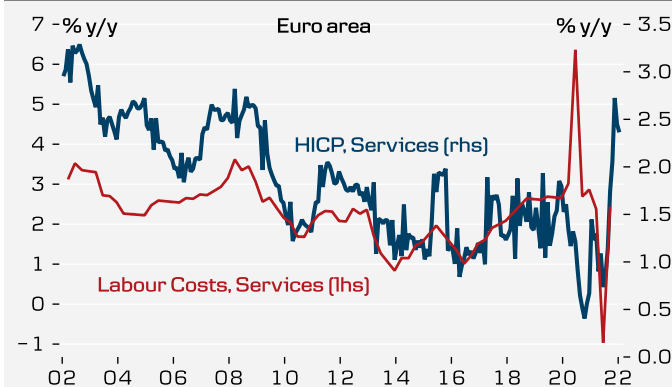
Source: Macrobond Financial, Eurostat

### Core inflation components



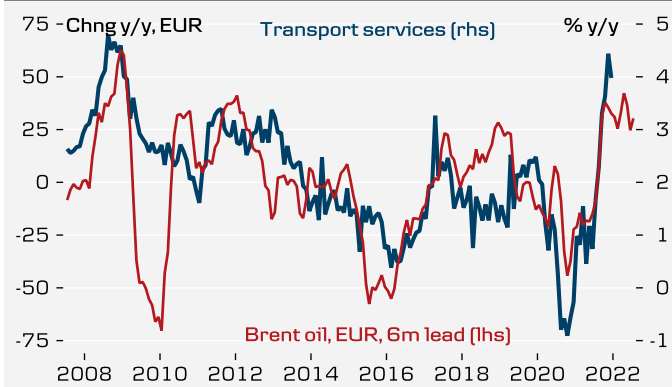
Source: Macrobond Financial, Eurostat, ECB

### Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

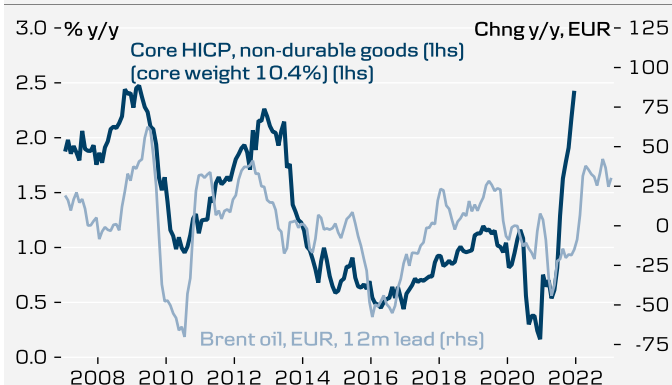
### Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

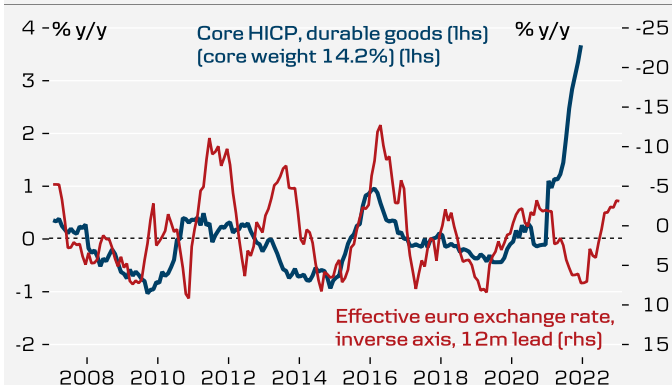
Note: Past performance is not a reliable indicator of future performance.

### Core non-durable goods



Source: Macrobond Financial

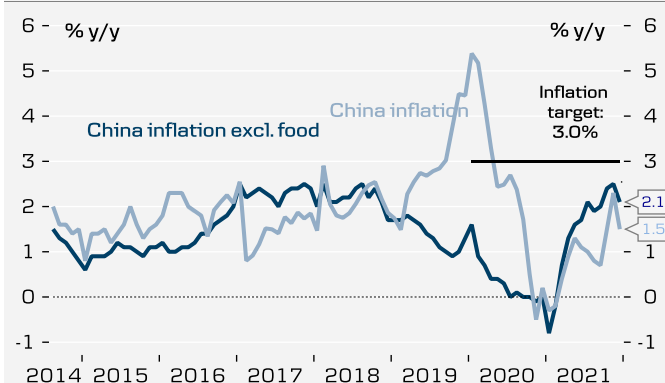
### Core durable goods



Source: Macrobond Financial

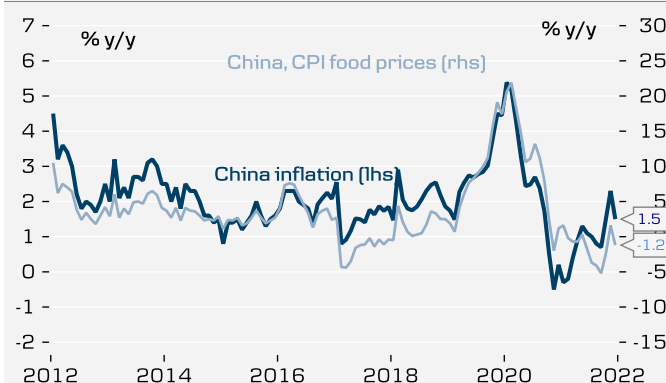
# Country details – China

CPI and CPI ex food



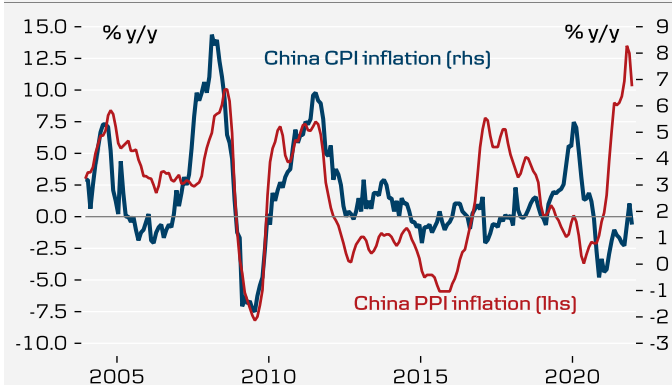
Source: Macrobond Financial, NBS

CPI and food prices



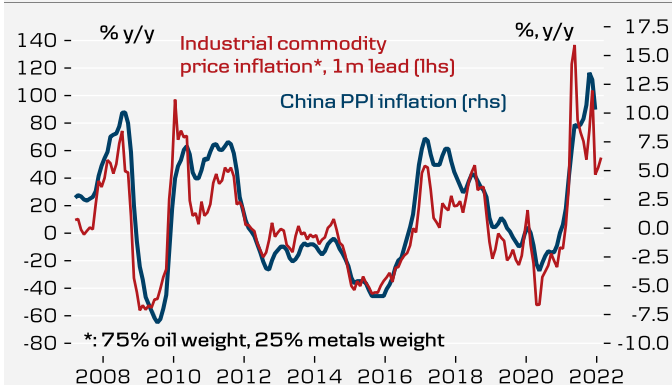
Source: Macrobond Financial, NBS

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.

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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 and Aila Mihr, Senior Analyst.

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**Report completed:** 11 February 2022, 05.23 CET

**Report first disseminated:** 11 February 2022, 06.55 CET