

Global Inflation Watch

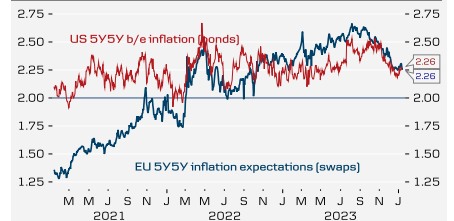
Diverging signals in December

- Overview:** Inflation drivers continue to paint a mixed picture, but inflation is likely to trend lower in 2024. The slowdown in underlying inflation momentum has been more pronounced in the euro area than in the US over the most recent months. Freight rates have picked up due to the tensions in the Red Sea, but not to the extent that we would expect another significant pick-up in core goods inflation. Both oil and gas prices have continued trending lower despite the cold weather in the Nordics. Tight labour markets continue to support upside risks to core inflation going forward. We expect the Fed to begin cutting rates in March followed by the ECB in June.
- Inflation expectations:** Both market and consumer survey based inflation expectation measures have declined further over the past month. Decline in oil prices likely explains part of the move, but it could also signal expectations of weakening demand ahead.
- US:** December CPI came out slightly above expectations, with headline inflation at +0.3% m/m SA (Nov +0.1%). The uptick was largely driven by fading negative contribution from energy prices, but core inflation also accelerated slightly (+0.31%, Nov +0.28%). Core goods prices were unchanged, while services development was mixed. Housing and health care inflation accelerated but broader core services inflation cooled down, which is a positive signal for the Fed. That said, the recent signs of easing financial conditions, uptick in wage sum growth and a rebound in housing markets could increase risks of more persistent underlying inflation in the US in 2024-2025.
- Euro:** Headline inflation picked up to 2.9% y/y (0.2% m/m) in December, as expected, from 2.4% in November driven by energy base effects, while core inflation fell to 3.4% y/y from 3.6%. Most importantly, the underlying momentum continued to ease, and the 3m/3m SAAR inflation rate fell to new lows of 1.4%. Yet, this decline mainly reflects core goods prices while service inflation momentum is still above 2%. The service price momentum in tandem with a tight labour market (the November unemployment rate declined to all-time lows of 6.4%) and the many wage negotiations schedules for 2024Q1 underscore that it is still too early to declare victory over inflation.
- China:** December CPI increased to -0.3% y/y from -0.5% y/y in November. CPI is still held down by a big decline in pork prices. Core CPI was unchanged at 0.6% y/y.

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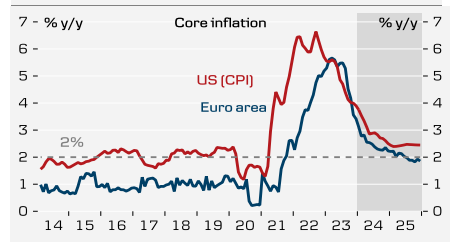
Market-based inflation expectations decline, yet remain above 2%



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

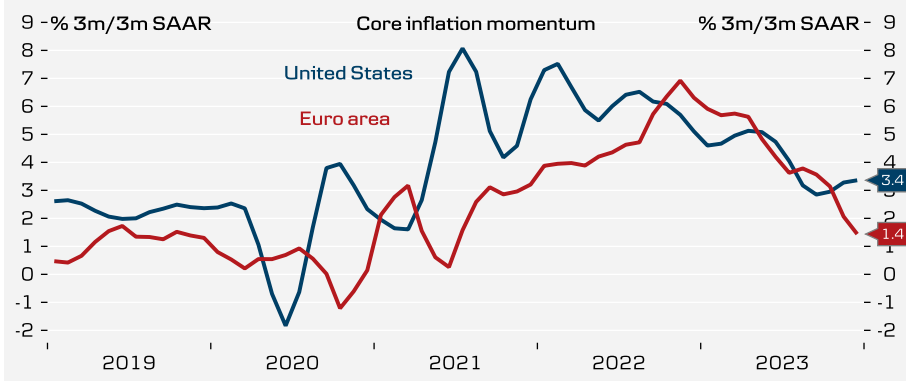
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Inflation momentum is key to follow as negative base effects fade



Source: BLS, ECB, Danske Bank, Macrobond Financial

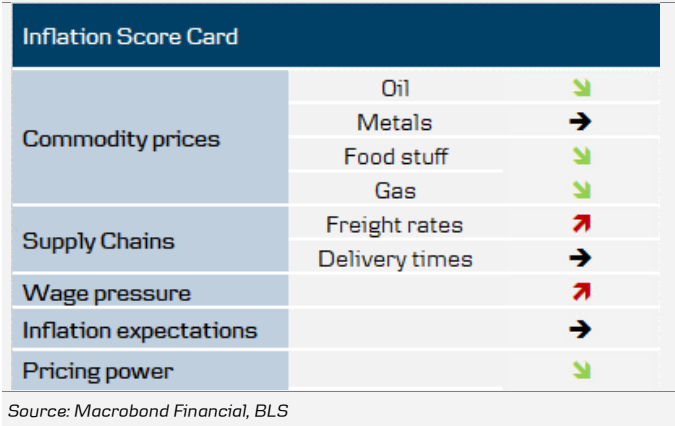
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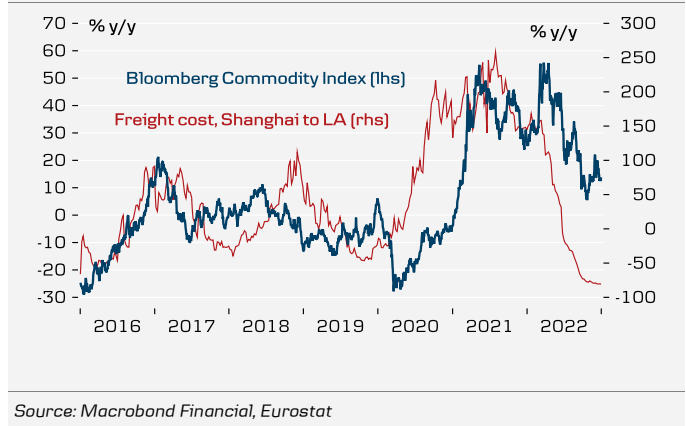
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Allan von Mehren
alvo@danskebank.dk

Top down overview

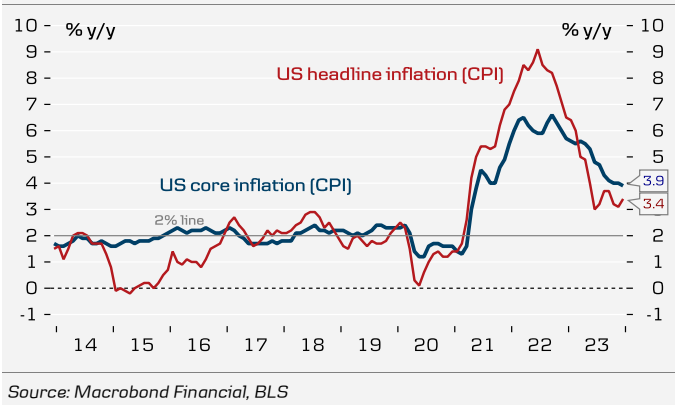
Trend in inflation pressure more mixed lately



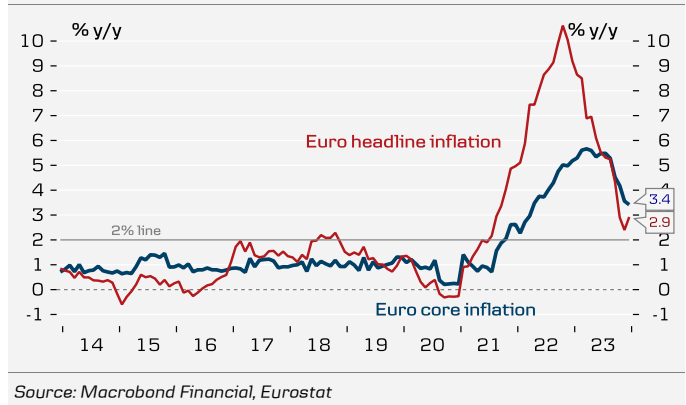
Commodity price and freight inflation



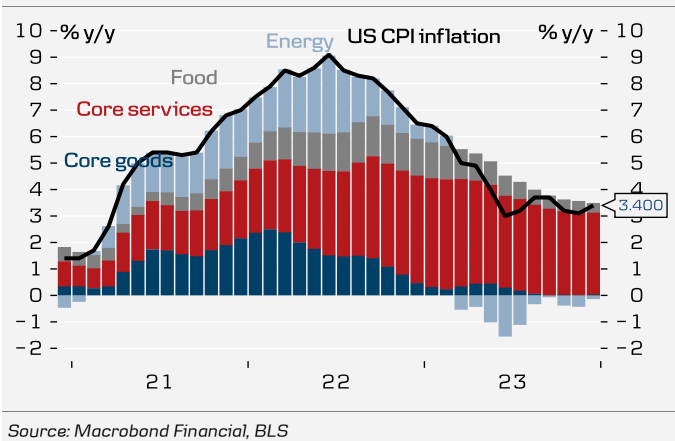
US headline and core inflation (CPI)



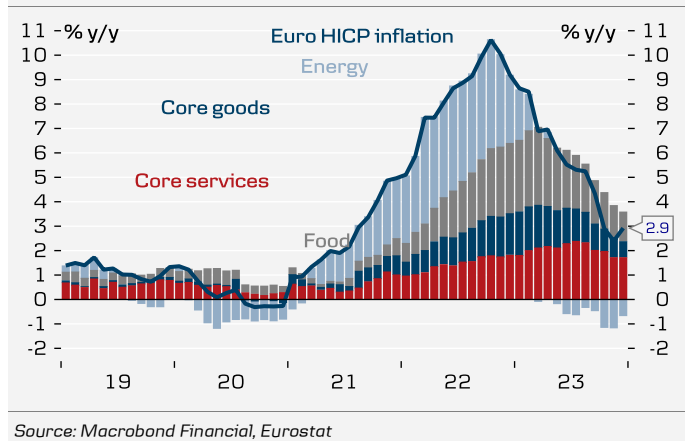
Euro headline and core inflation



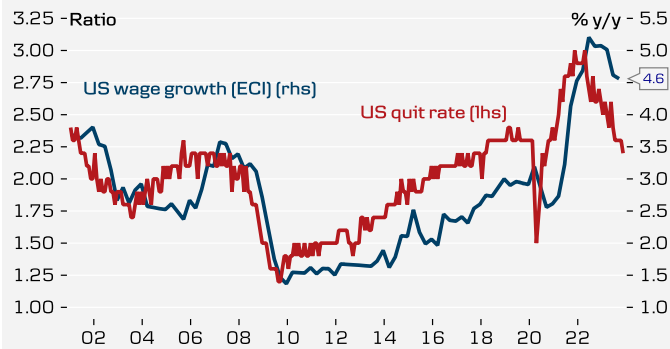
Contributions to US inflation



Contributions to euro inflation

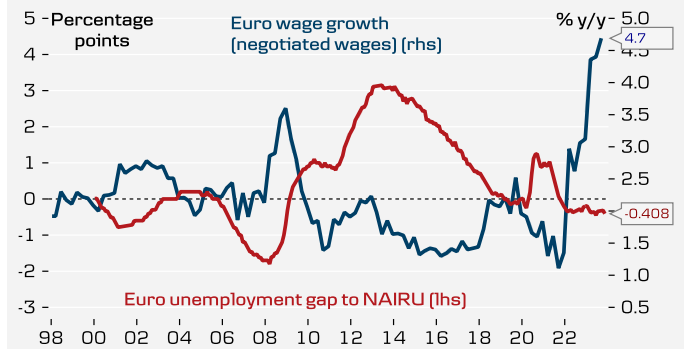


US wage growth and labour market tightness



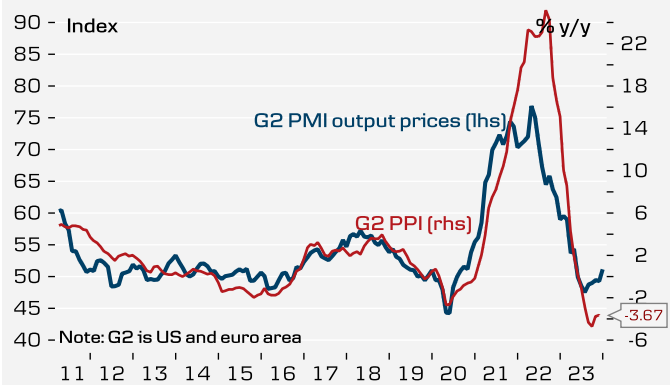
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



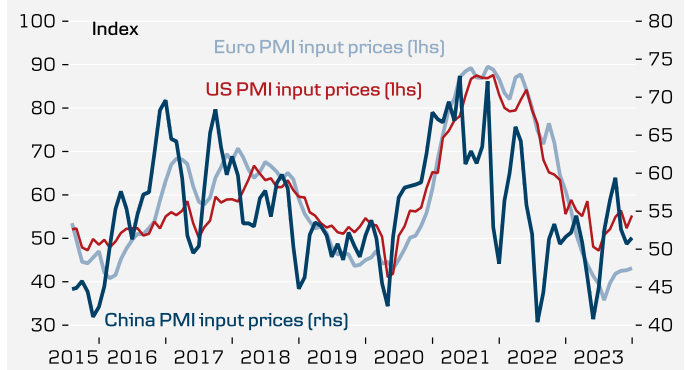
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



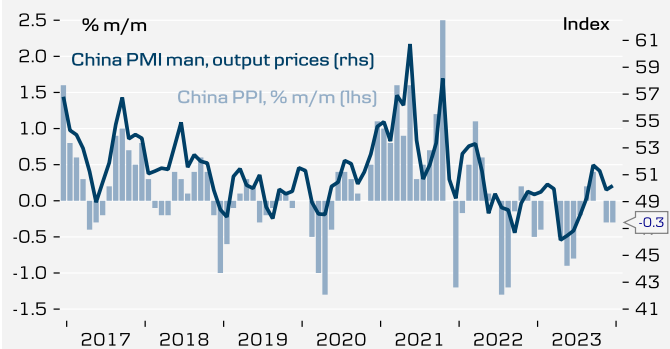
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



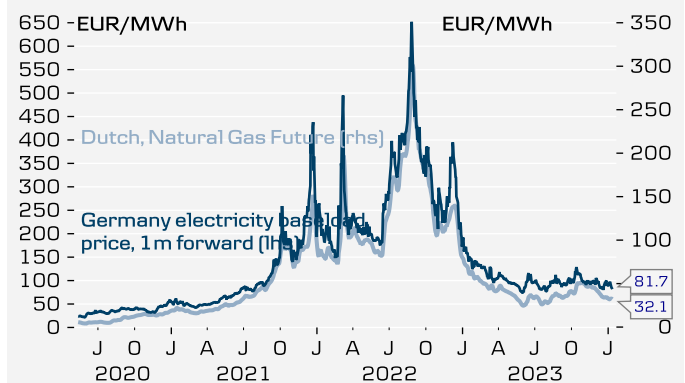
Source: Macrobond Financial, Markit

China PPI inflation momentum



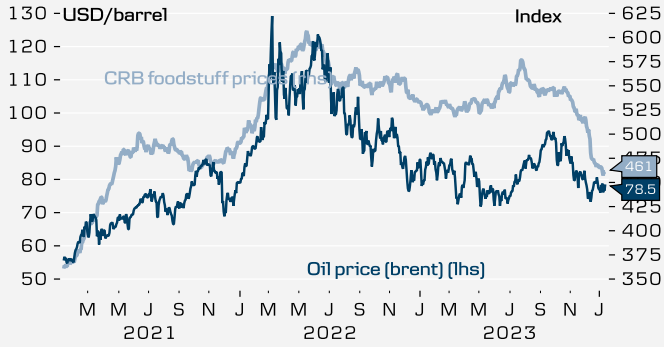
Source: Macrobond Financial, Markit

European natural gas and electricity prices



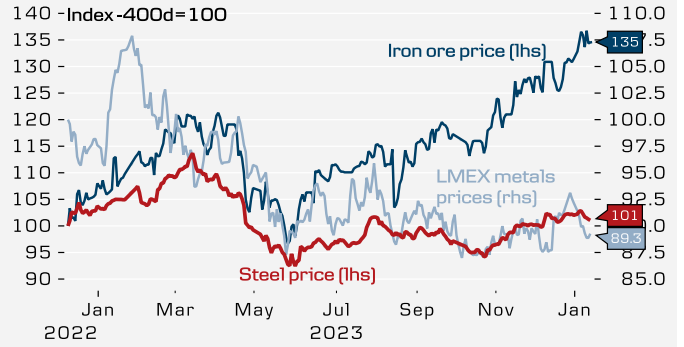
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



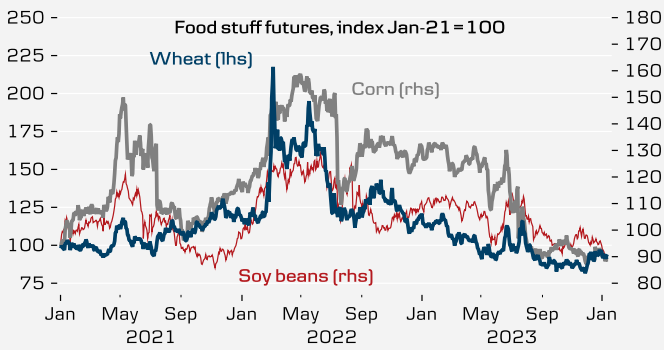
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



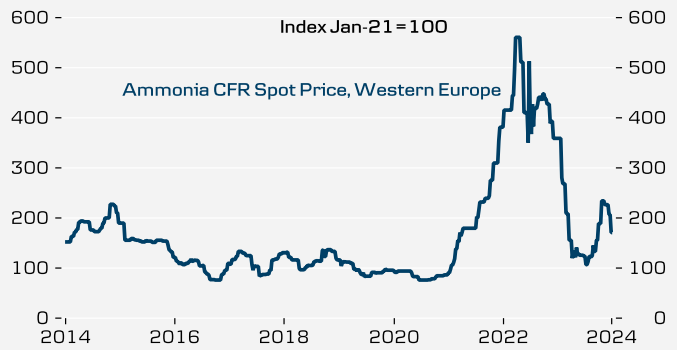
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Grain prices



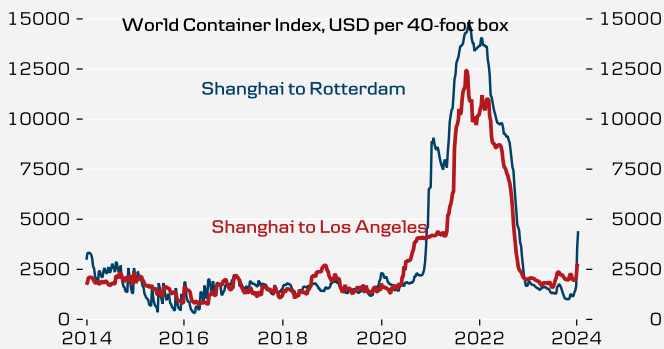
Source: Macrobond Financial, Bloomberg
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Fertilizer input prices



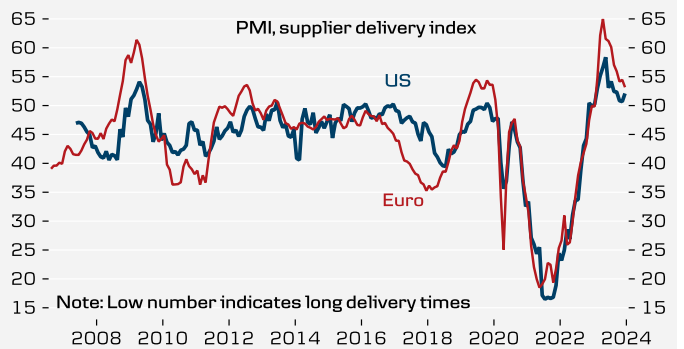
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

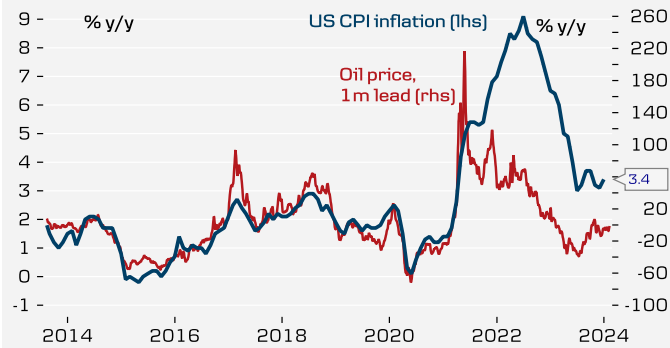


Source: Macrobond Financial, Markit

Country details - US

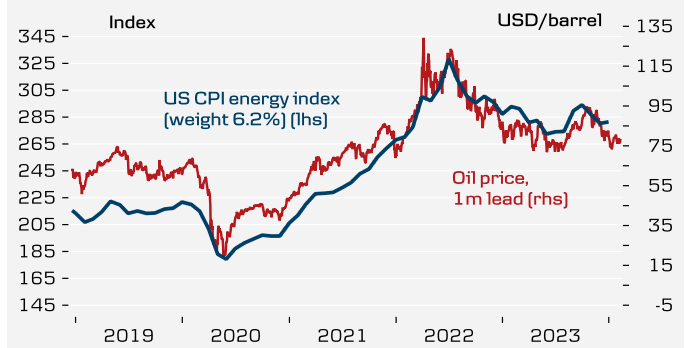
Top down

Headline CPI inflation vs. oil prices



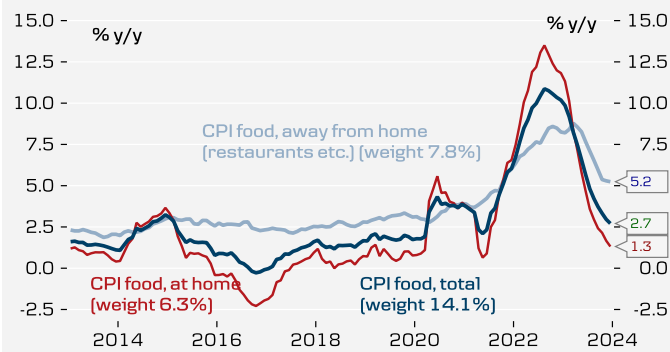
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

CPI energy prices vs oil



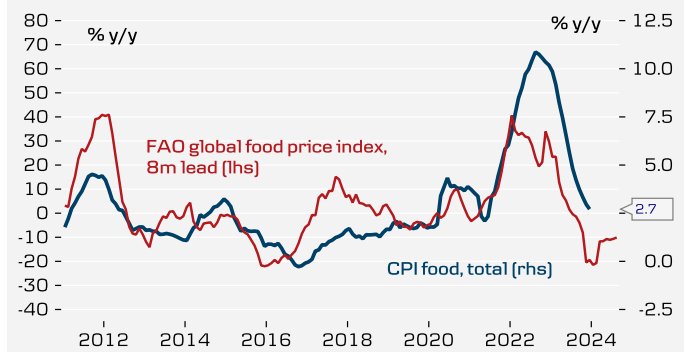
Source: Macrobond Financial, BLS.
 Note: Past performance is not a reliable indicator of future performance.

Food prices



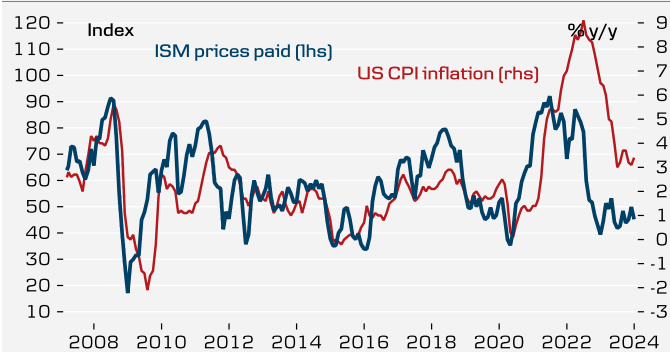
Source: Macrobond Financial, BLS

Food prices vs FAO food price index



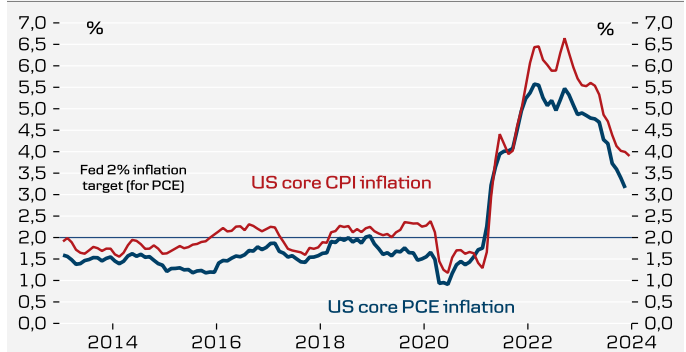
Source: Macrobond Financial, FAO, BLS
 Note: Past performance is not a reliable indicator of future performance.

US PMI output prices vs CPI inflation



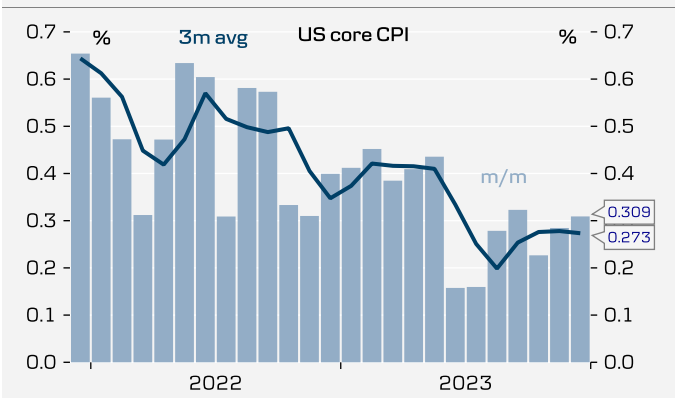
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



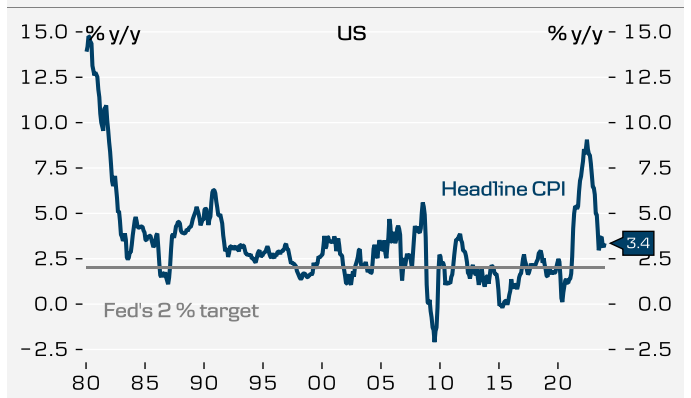
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



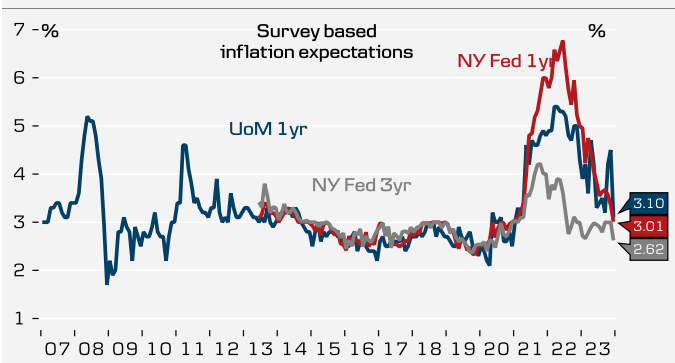
Source: Macrobond Financial, BLS

Headline CPI since 1980



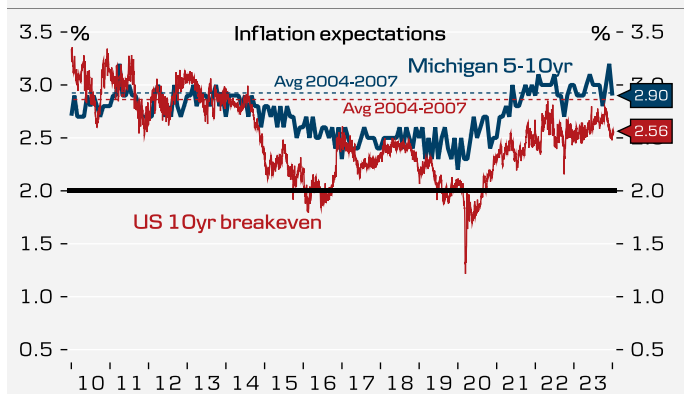
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



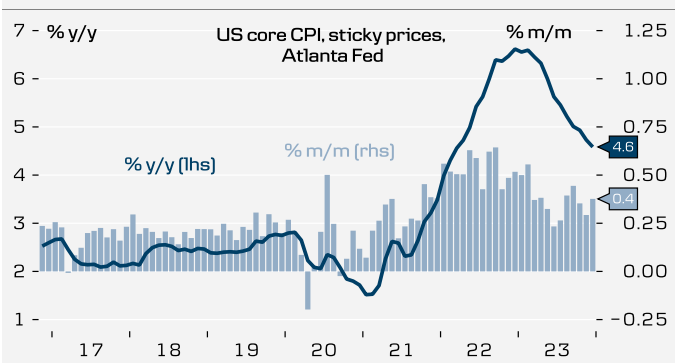
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



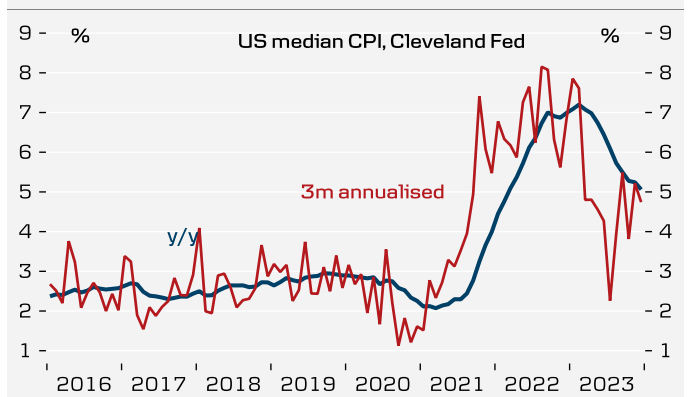
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



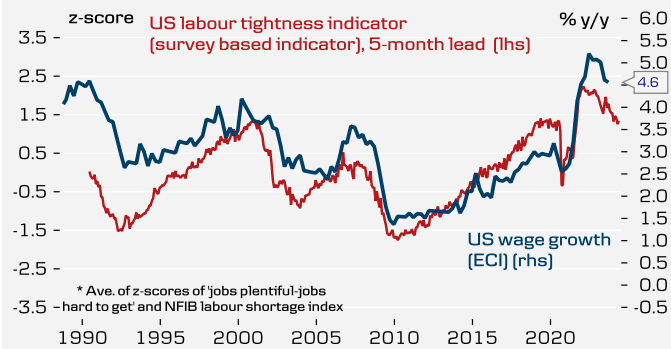
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



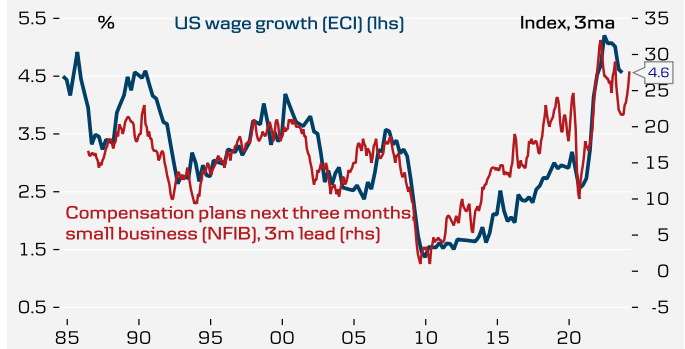
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



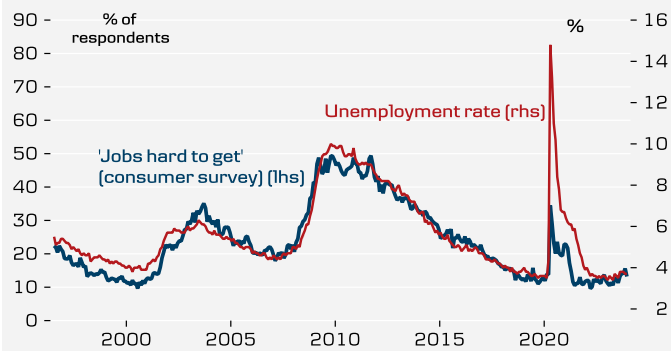
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



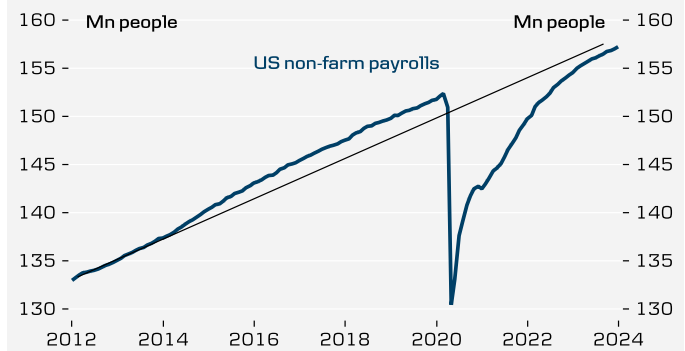
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

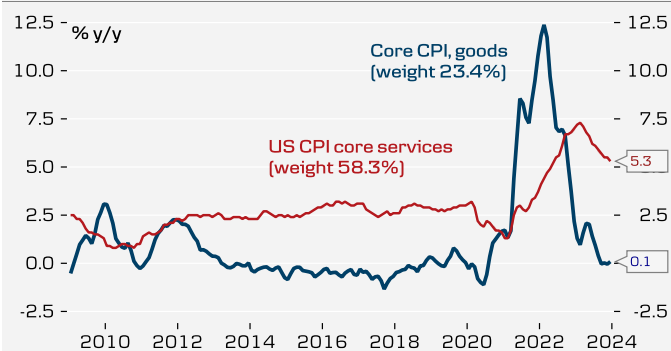
Employment gap



Source: Macrobond Financial, BLS

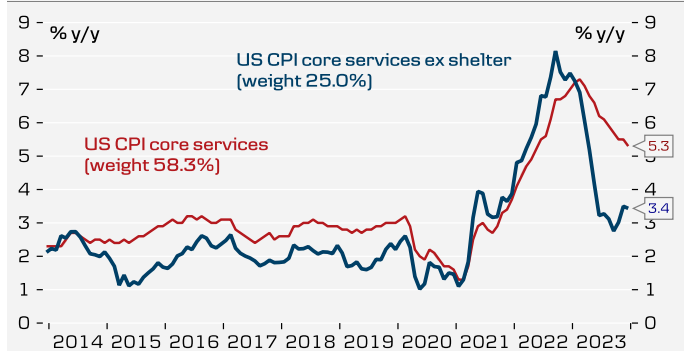
Bottom up

Core goods vs. services



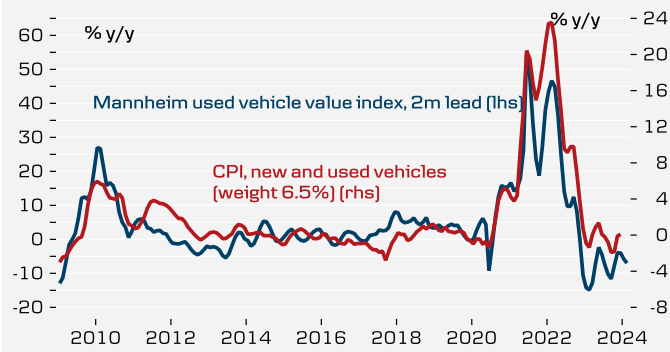
Source: Macrobond Financial, BLS

Core services ex shelter



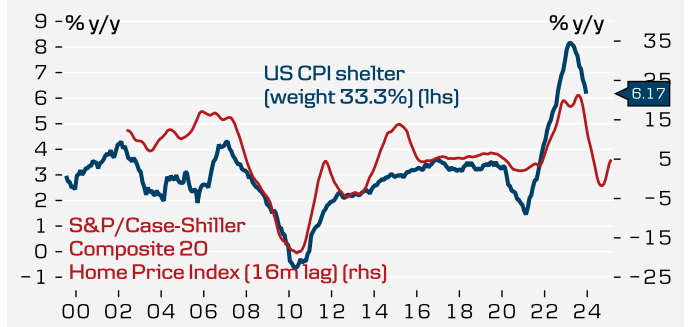
Source: Macrobond Financial, BLS

Used car prices



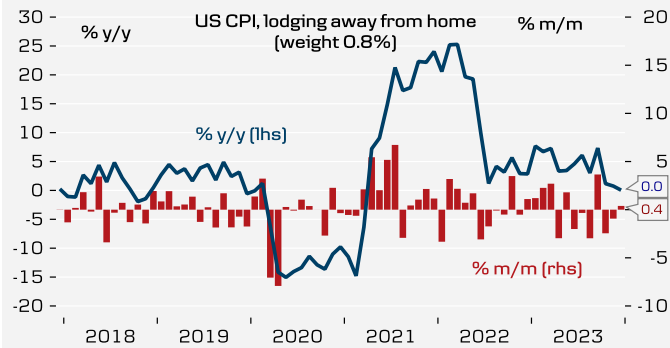
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



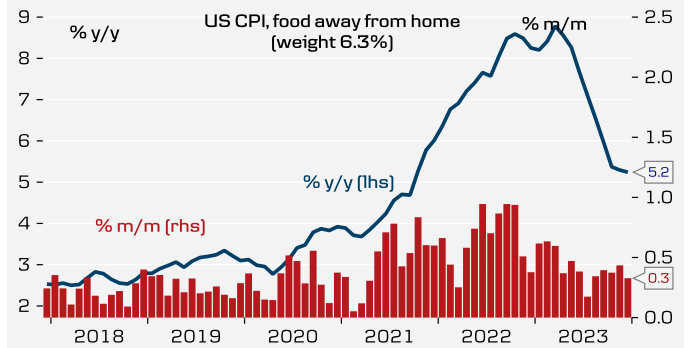
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



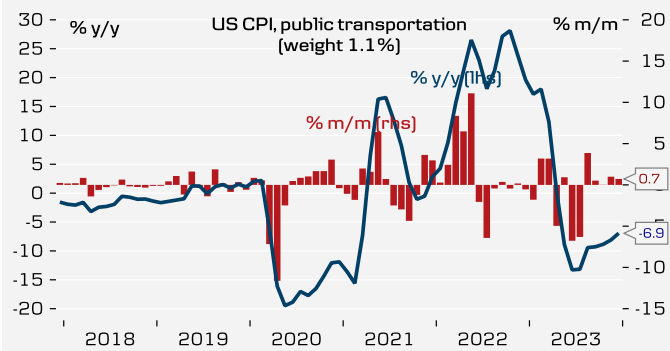
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



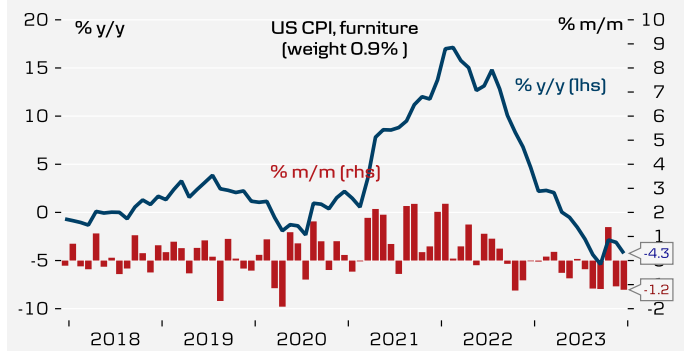
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

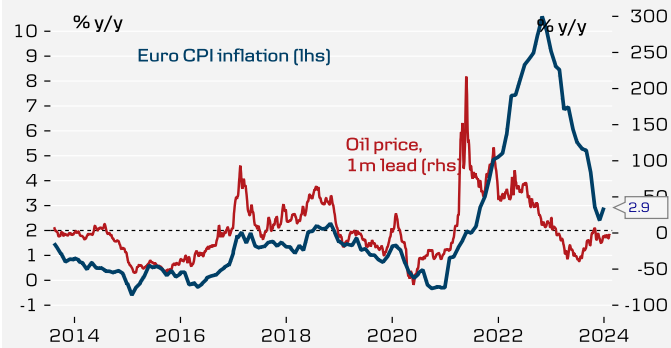


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

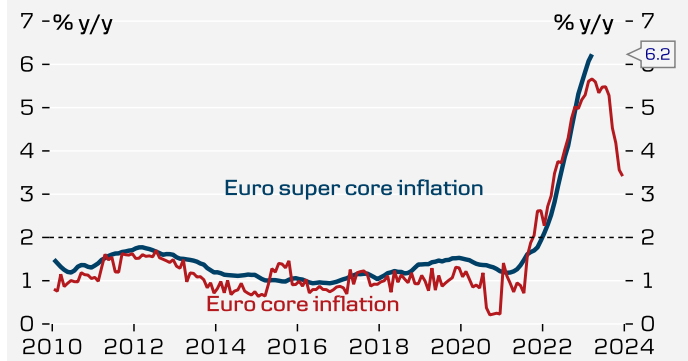
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

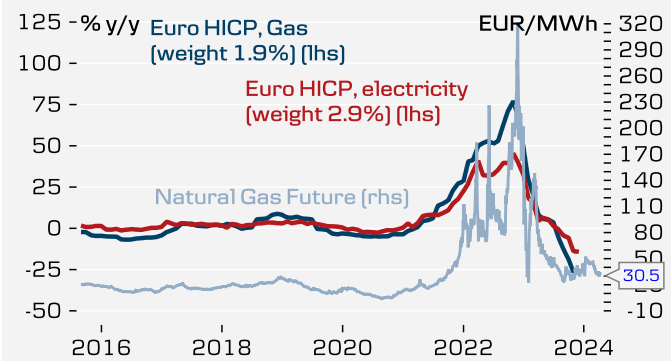
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

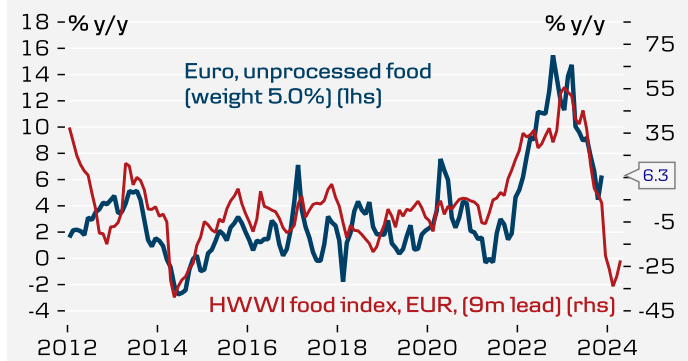
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

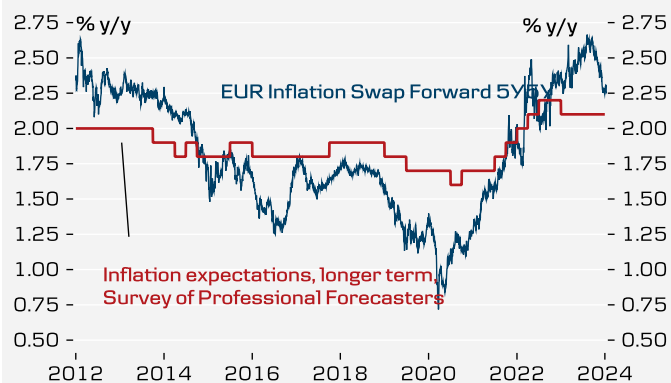
Food



Source: Macrobond Financial

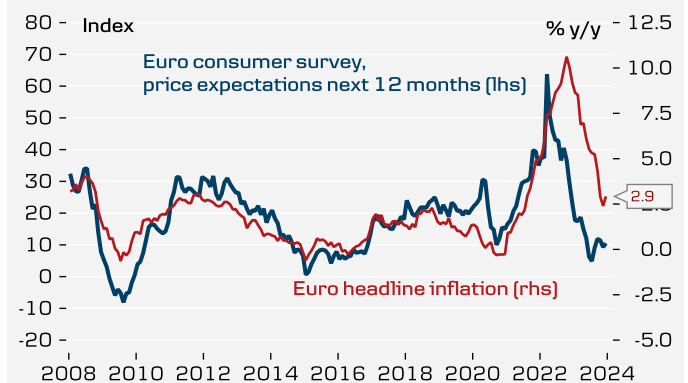
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Inflation expectations



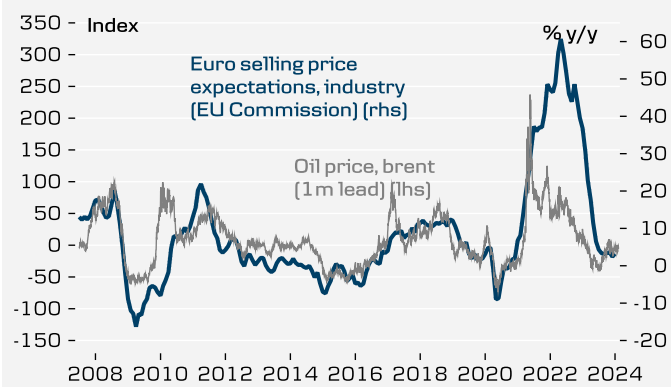
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



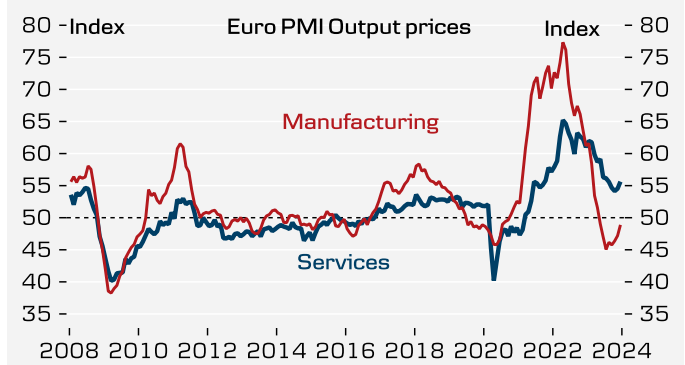
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



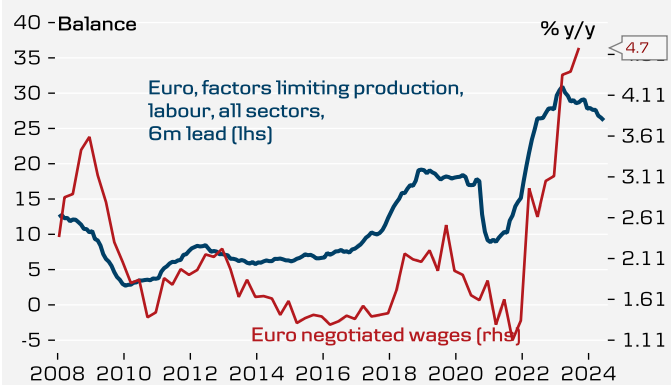
Source: Macrobond Financial, EU Commission
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PMI output prices



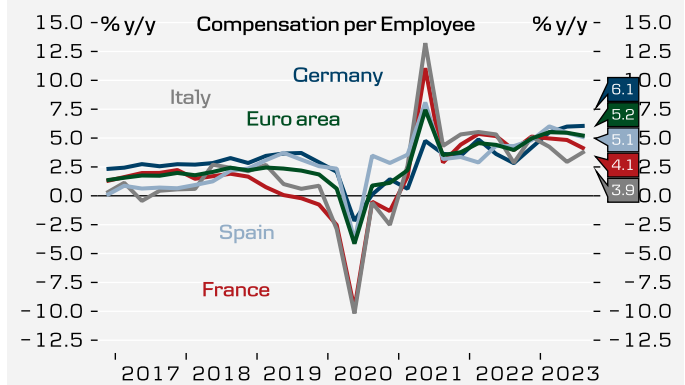
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

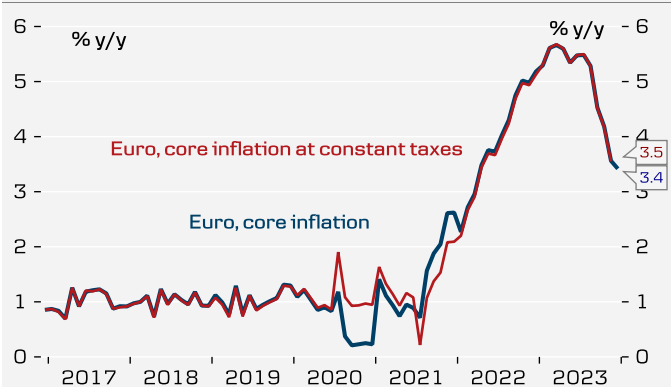
Wage compensation



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

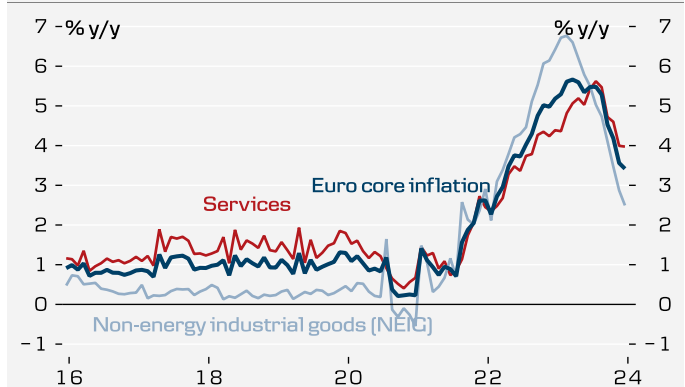
Bottom up

Core inflation, effect from taxes



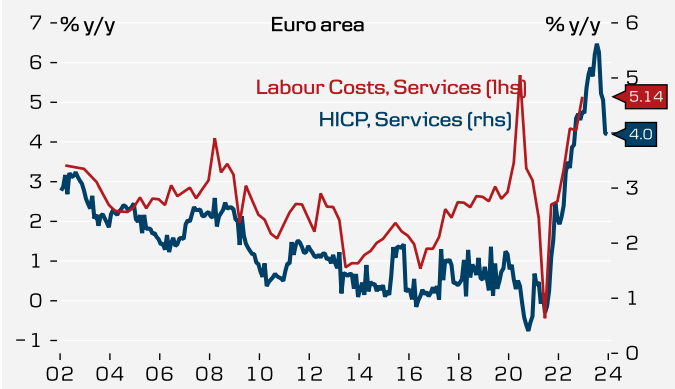
Source: Macrobond Financial, Eurostat

Core inflation components



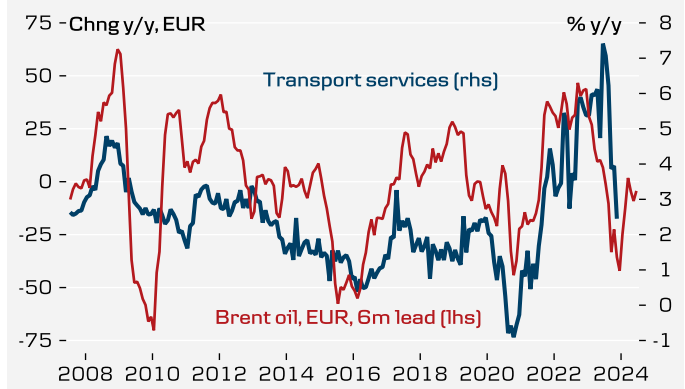
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



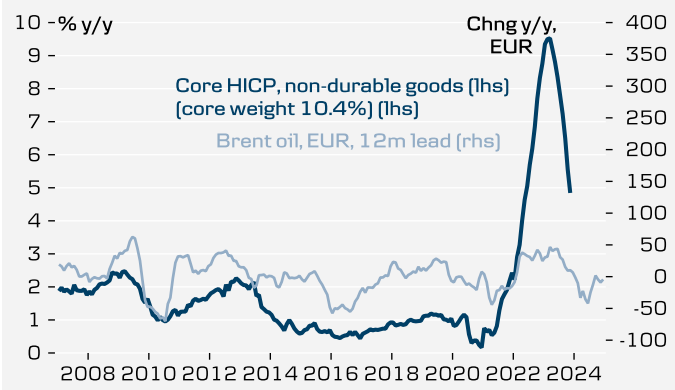
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



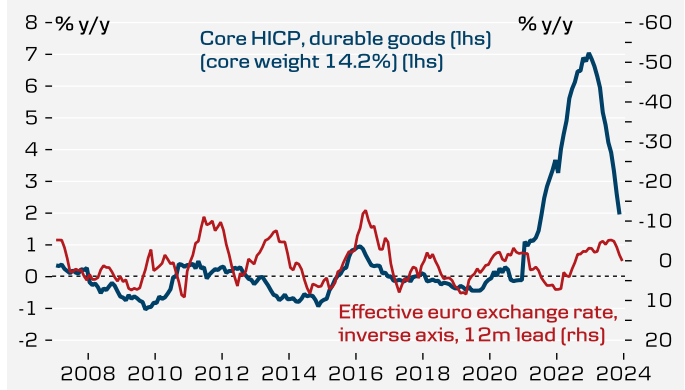
Source: Macrobond Financial, Eurostat, Danske Bank
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Core non-durable goods



Source: Macrobond Financial

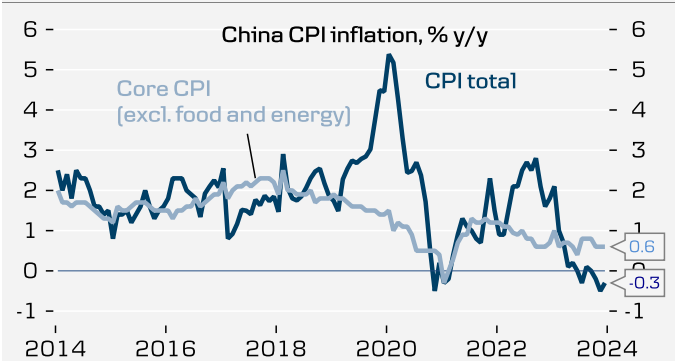
Core durable goods



Source: Macrobond Financial

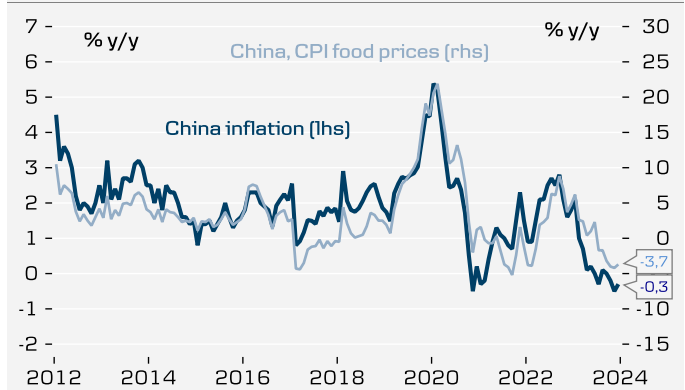
Country details – China

CPI and core CPI



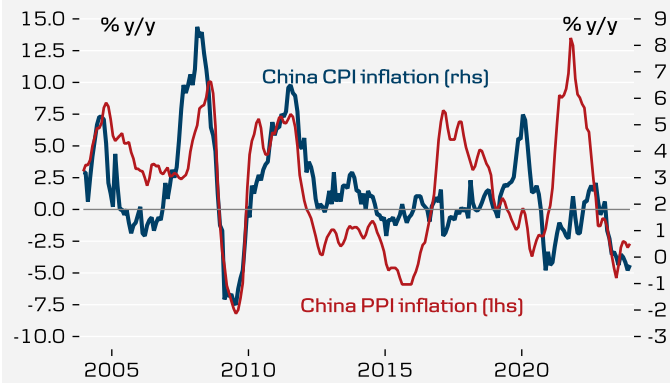
Source: Macrobond Financial, NBS

CPI and food prices



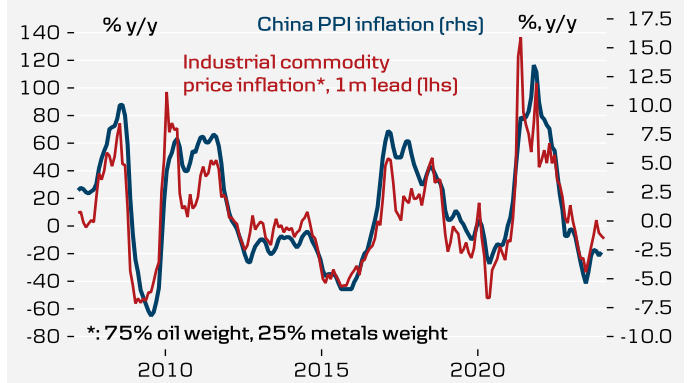
Source: Macrobond Financial, NBS

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

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