

# Global Inflation Watch

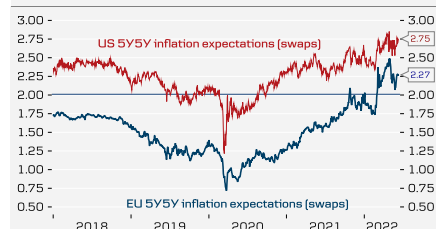
## Still no sign of easing US and Euro inflation pressure

- **Overview:** Higher oil prices and very tight labour markets continue to keep inflation pressures high. There is some relief, though, from lower gas prices and some foodstuff prices. The decline in freight rates has come to a halt lately but they are still lower from the peak. Inflation expectations are high but not yet de-anchored. US gasoline prices have continued higher now nearing USD5 per gallon. While we look for a peak in inflation soon in the US and euro area, it is expected to remain high into 2023.
- **Inflation expectations:** Market-based long-term inflation expectations are moving broadly sideways and still above 2%. US household inflation expectations are still high. Euro consumer inflation expectations are also high but declined in May.
- **US:** CPI increased 1.0% in May compared to 0.3% in April. The higher inflation was primarily driven by increases in the energy index of 3.9% and the food index of 1.2% during the month. However, all items less food and energy still increased by 0.6% which highlights that inflation is broadly based and not only driven by rising energy prices. Inflation rose 8.6% for the 12 month ending in May, which is the largest increase since December 1981. The high underlying inflation adds fuel to the Federal Reserve's plan to raise interest rates. We expect that core inflation to stay elevated for the rest of the year.
- **Euro:** Headline inflation rose to yet a new record high of 8.1% in May, driven by a further surge in food, energy and goods prices. Rising input costs are still working their way through the pricing chain, keeping goods price inflation elevated well into 2023 in our view. Service price inflation also remains supported by pent-up demand for travel and recreational services. Overall, we project core inflation to remain above target, averaging 3.5% in 2022 and 2.9% in 2023. The continued building of underlying inflation pressures leaves little room for complacency for ECB, especially as producer prices have yet to see a peak, inflation expectations still stand above the 2% goal and negotiated wage growth picked up to 2.8% in Q1 (from 1.6% in Q4 21, although partly due to one-off payments in Germany).
- **China:** CPI inflation remained low in May at 2.1% leaving room for Chinese stimulus. PPI inflation declined from 8.0% y/y in April to 6.4% y/y in May.

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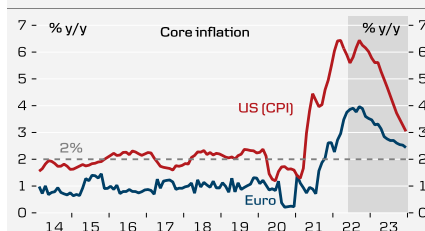
### Market-based inflation expectations sideways lately above 2%



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

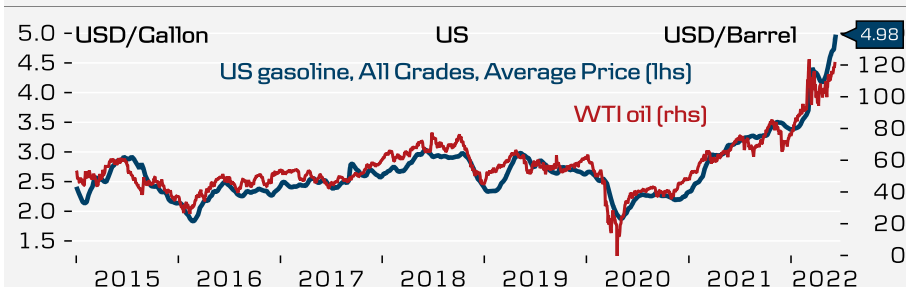
Source: Macrobond Financial, Bloomberg

### CPI inflation peaking soon but to remain high into 2023



Source: Macrobond Financial, Bloomberg

### US gasoline prices have risen more than suggested by oil prices



Source: Bloomberg, Macrobond Financial.

Note: Past performance is no guarantee of future performance

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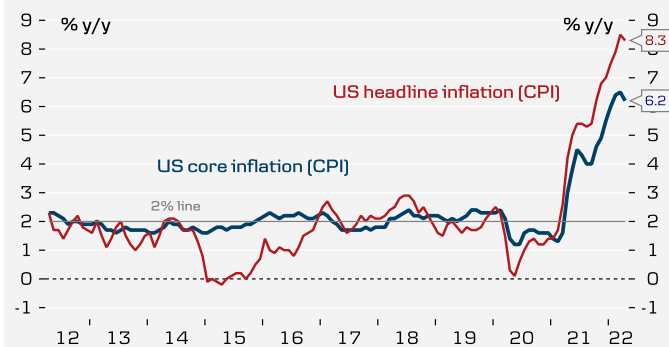
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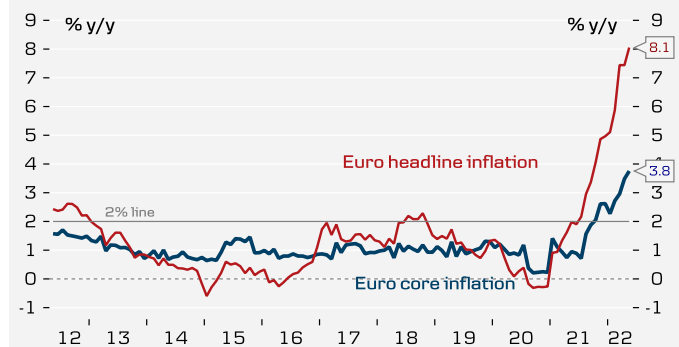
# Top down overview

US headline and core inflation (CPI)



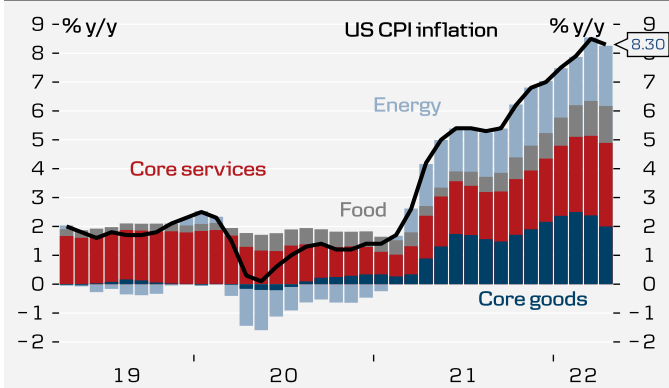
Source: Macrobond Financial, BLS

Euro headline and core inflation



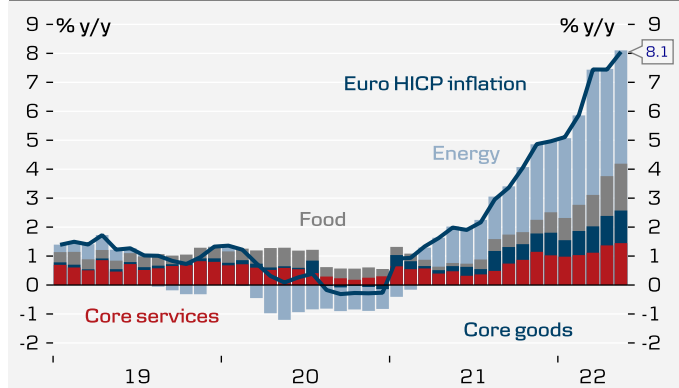
Source: Macrobond Financial, Eurostat

Contributions to US inflation



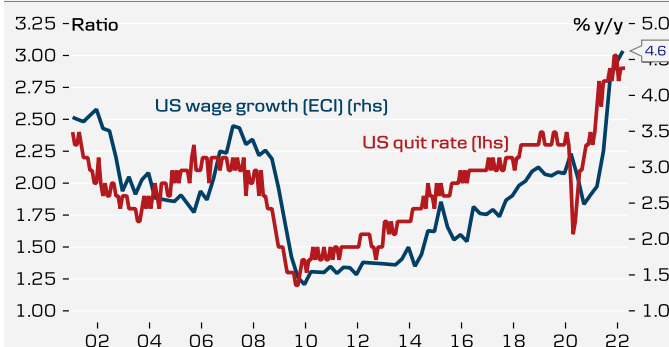
Source: Macrobond Financial, BLS

Contributions to euro inflation



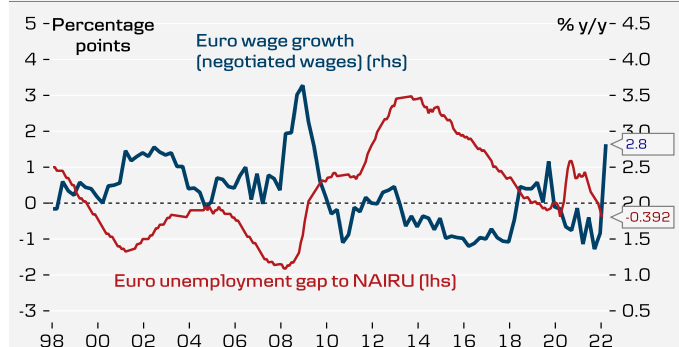
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



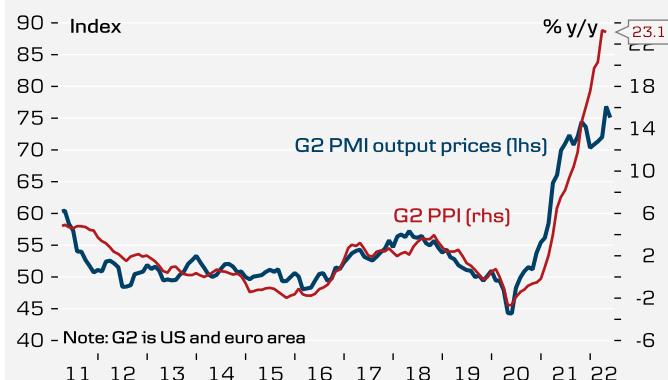
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



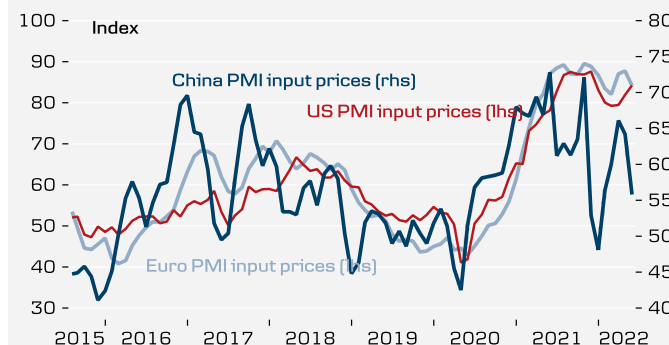
Source: Macrobond Financial, Eurostat, ECB

### G2 PPI inflation vs oil price inflation



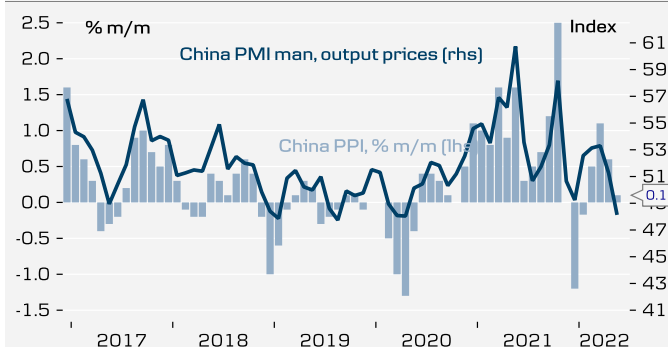
Source: Macrobond Financial, BLS, Eurostat

## PMI input price indices US, Euro and China



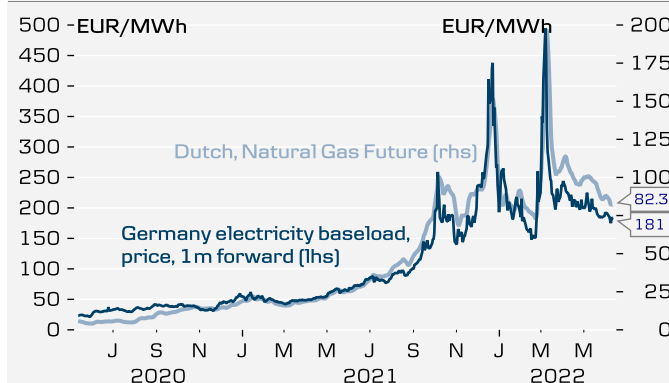
Source: Macrobond Financial, Markit

## China PPI inflation momentum



Source: Macrobond Financial, Markit

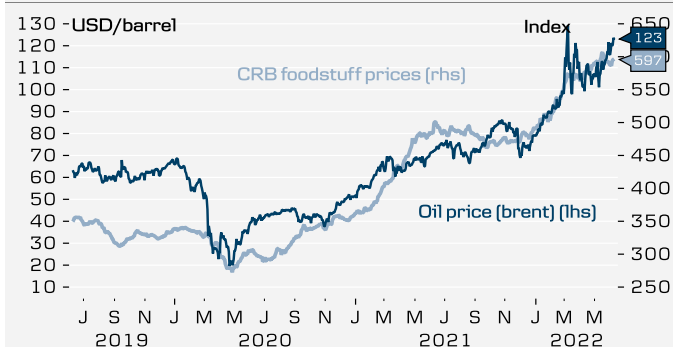
### European natural gas and electricity prices



*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.*

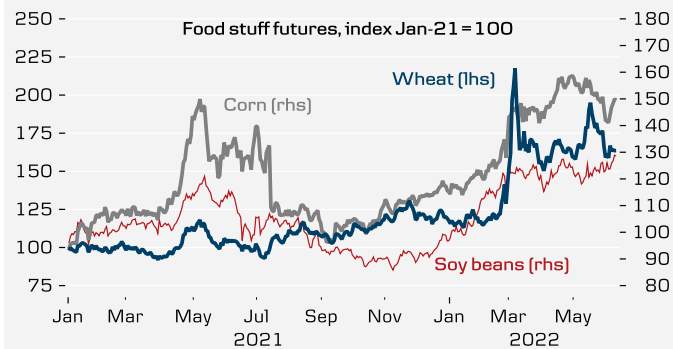
### Commodity price levels – steel, iron ore and lumber



Source: Macrobond Financial, Bloomberg.

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

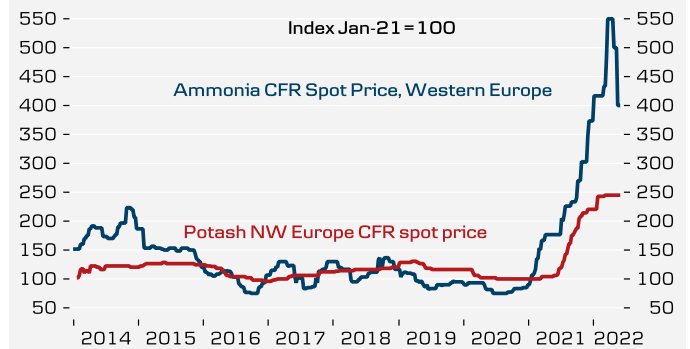
## Grain prices



Source: Macrobond Financial, Bloomberg

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

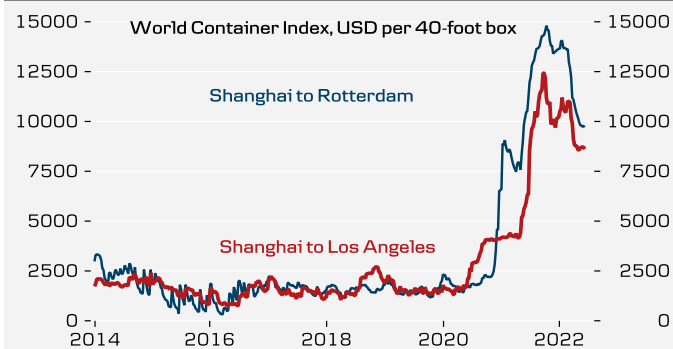
## Fertilizer input prices



Source: Macrobond Financial, Bloomberg

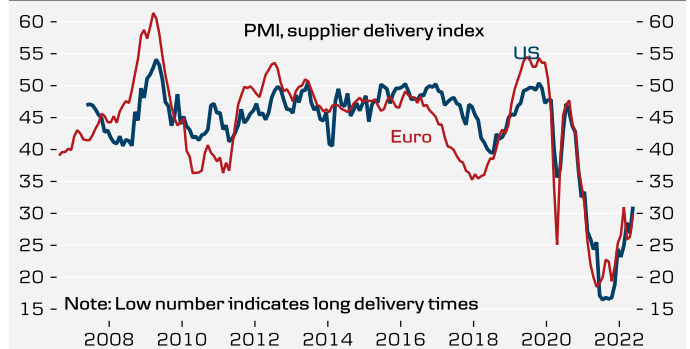
Note: Past performance is not a reliable indicator of future performance.

## Freight rates



Source: Macrobond Financial, Bloomberg, WCI

## Bottle necks - supplier delivery indices

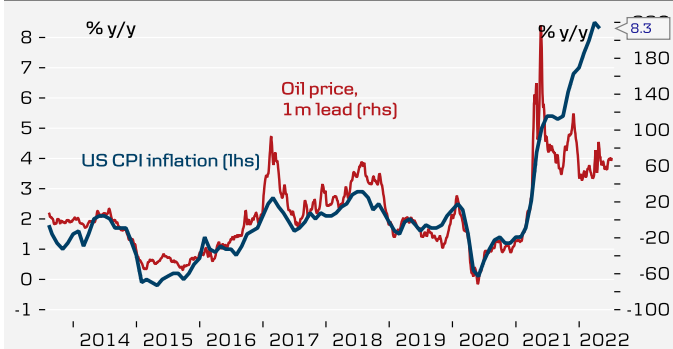


Source: Macrobond Financial, Markit

# Country details - US

## Top down

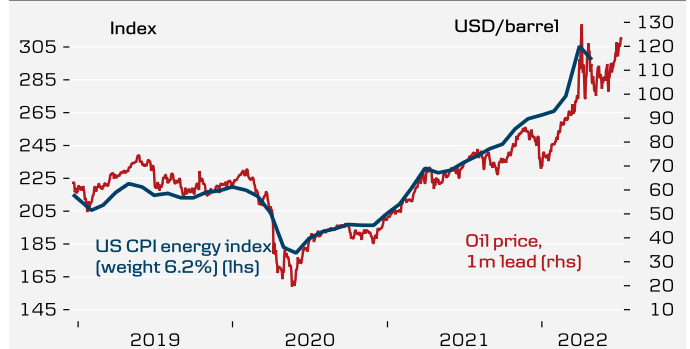
### Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

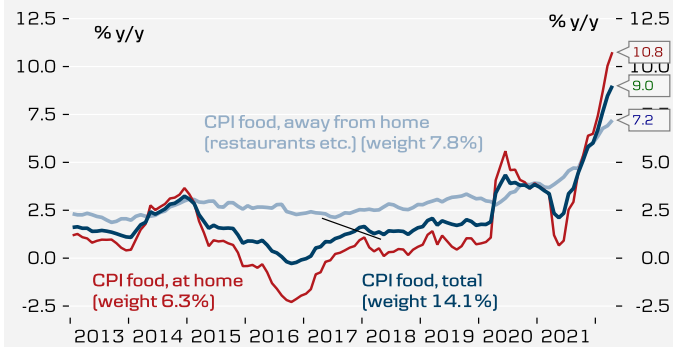
### CPI energy prices vs oil



Source: Macrobond Financial, BLS.

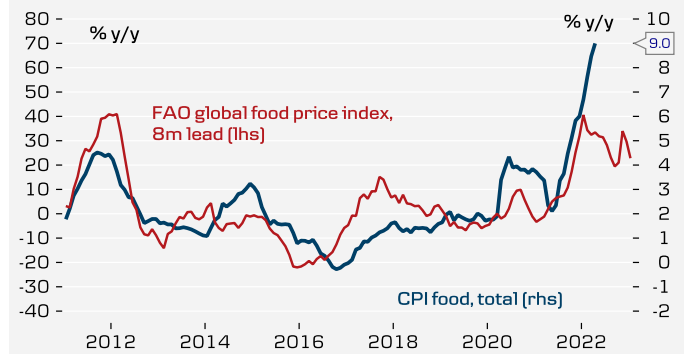
Note: Past performance is not a reliable indicator of future performance.

### Food prices



Source: Macrobond Financial, BLS

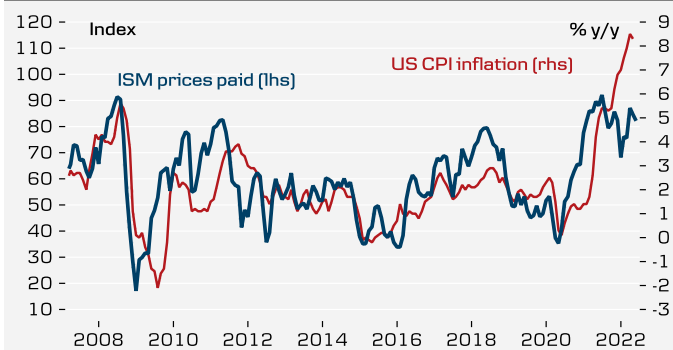
### Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

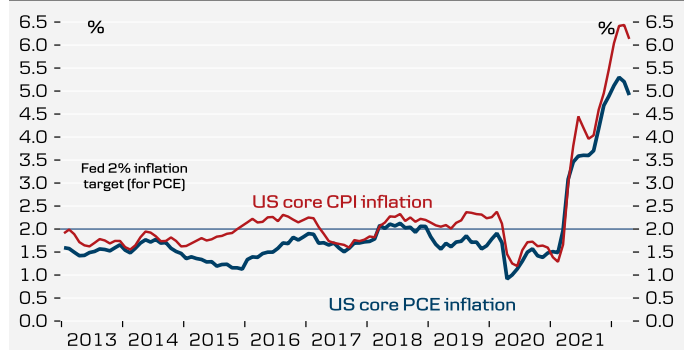
Note: Past performance is not a reliable indicator of future performance.

### US PMI output prices vs CPI inflation



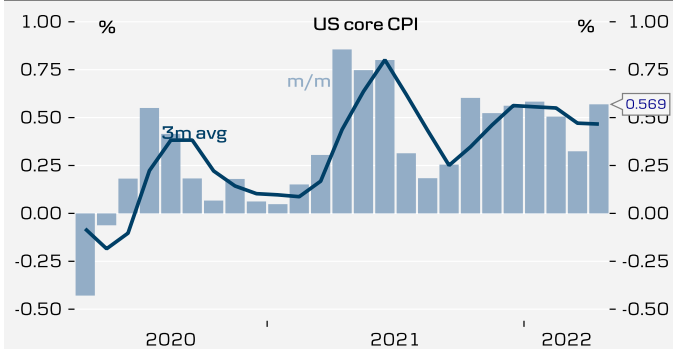
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



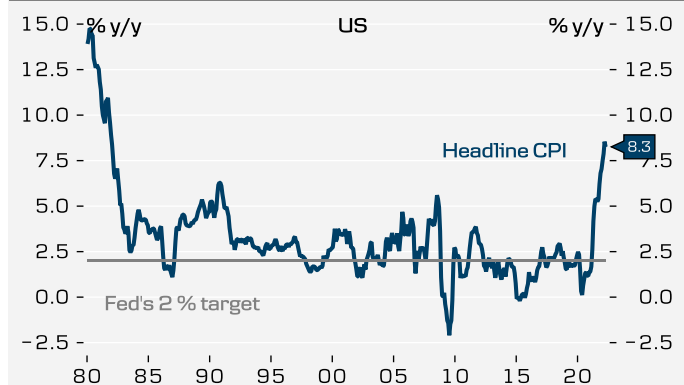
Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



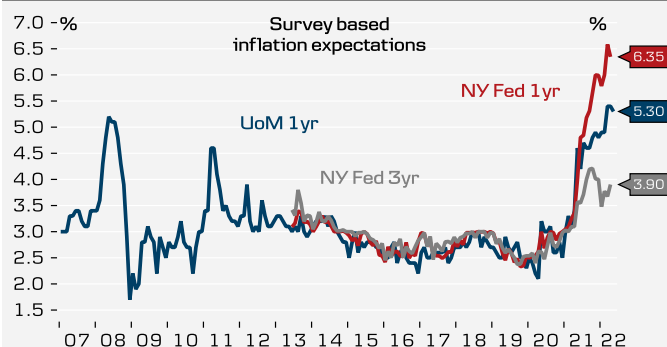
Source: Macrobond Financial, BLS

### Headline CPI since 1980



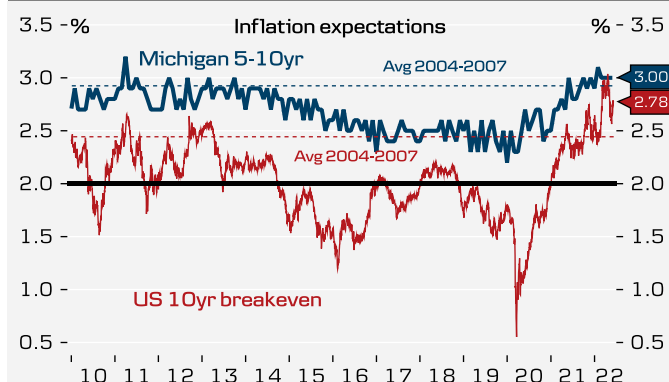
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



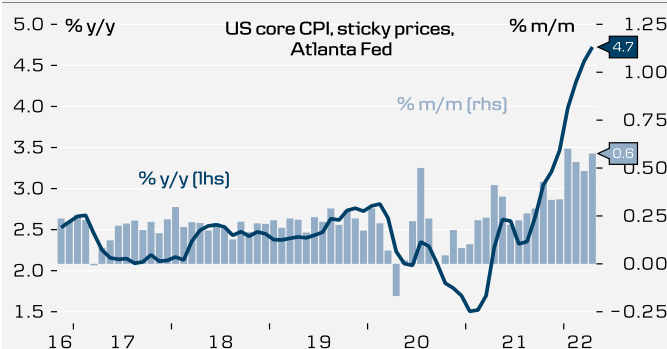
Source: NY Fed, University of Michigan, Macrobond Financial

### Long-term inflation expectations



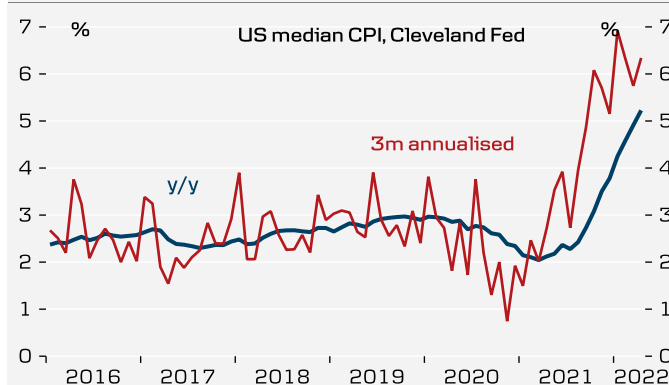
Source: Macrobond Financial, University of Michigan  
Note: Past performance is not a reliable indicator of future performance.

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



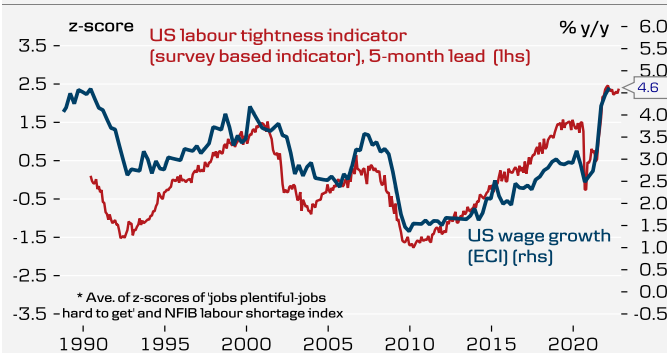
Source: Macrobond Financial, Atlanta Fed

### 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



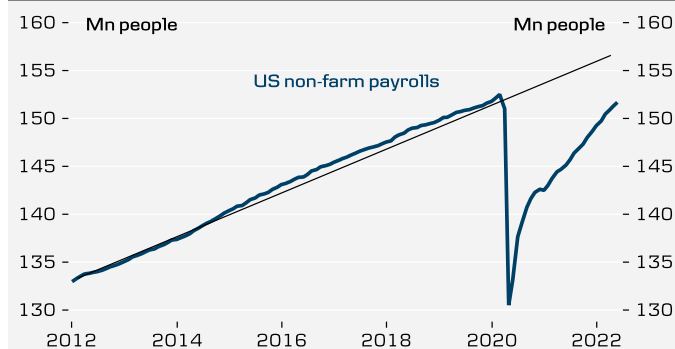
Source: Macrobond Financial, NFIB, BLS

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



Source: Macrobond Financial, Conference Board, BLS

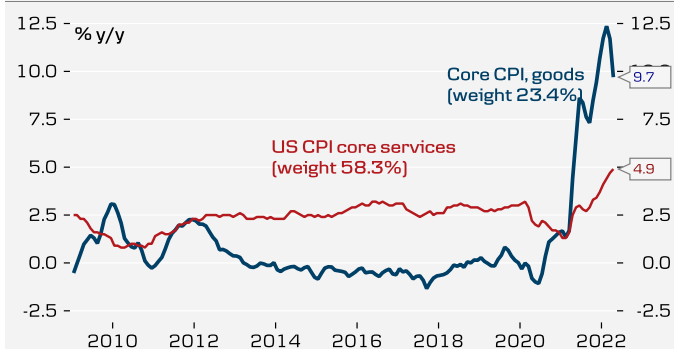
### Employment gap



Source: Macrobond Financial, BLS

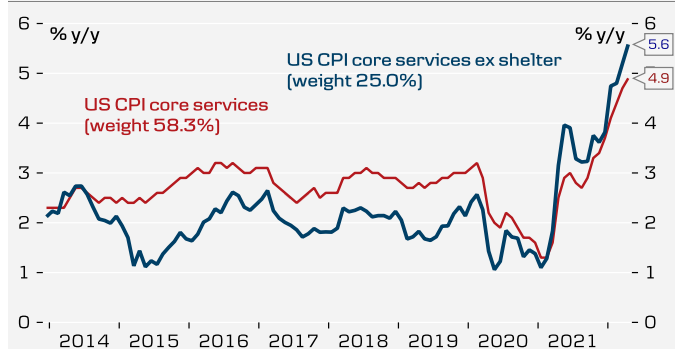
## Bottom up

### Core goods vs. services



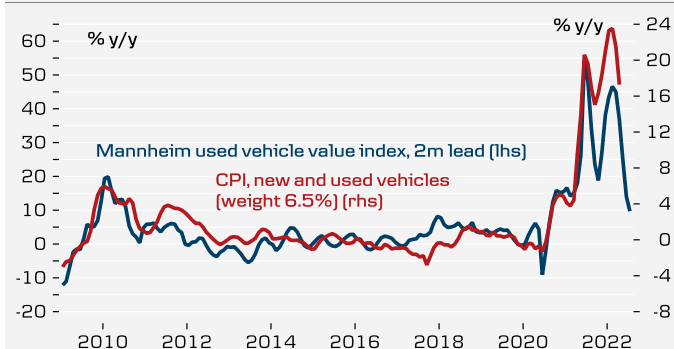
Source: Macrobond Financial, BLS

### Core services ex shelter



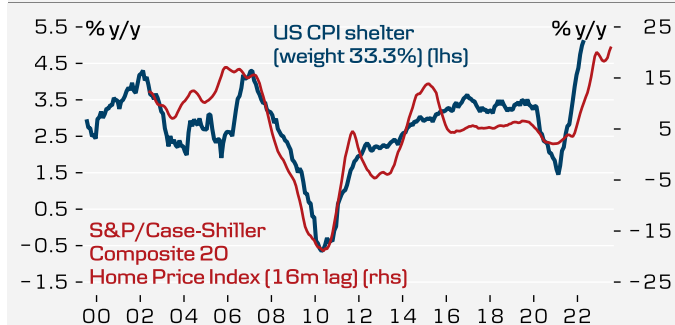
Source: Macrobond Financial, BLS

### Used car prices



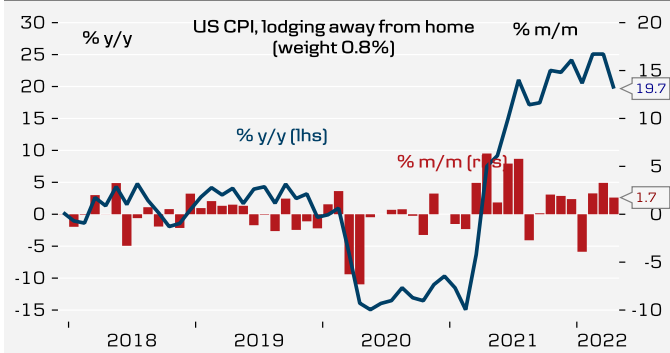
Source: Macrobond Financial, BLS, Manheim Consulting

### Rent of shelter

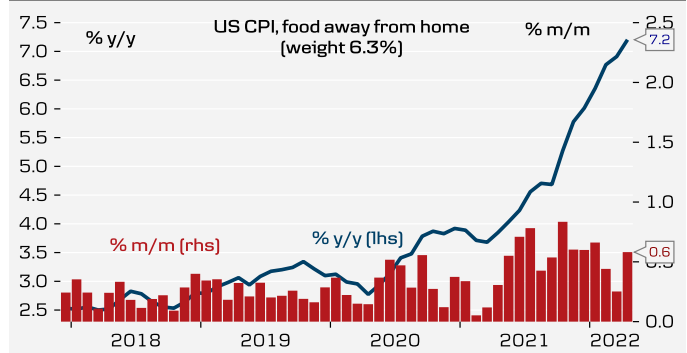


Source: Macrobond Financial, BLS, S&P Dow Jones

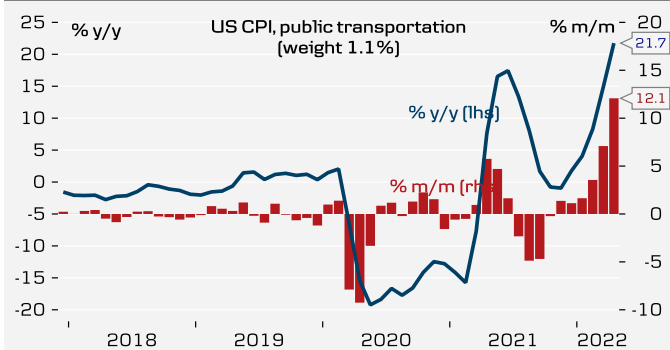
### Lodging away from home (hotels etc.)



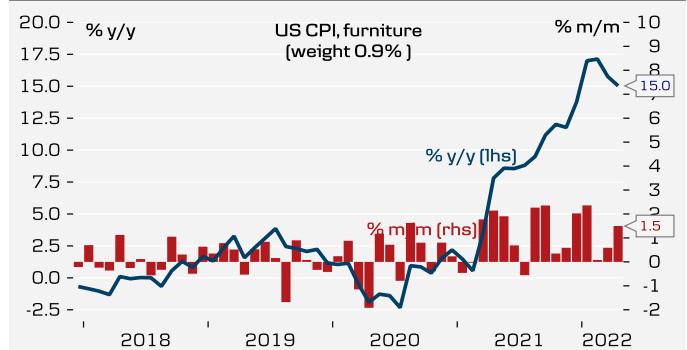
### Food away from home (restaurants etc.)



### Public transportation (airfares etc.)



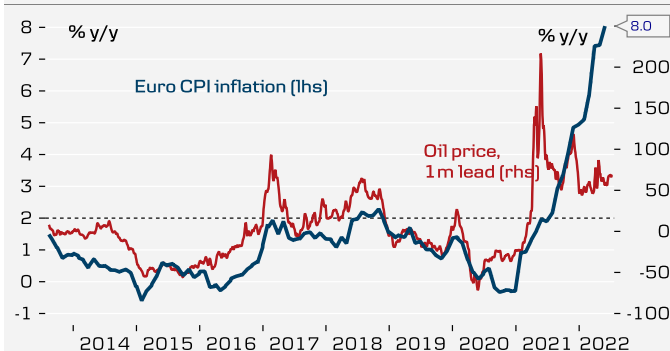
### Furniture



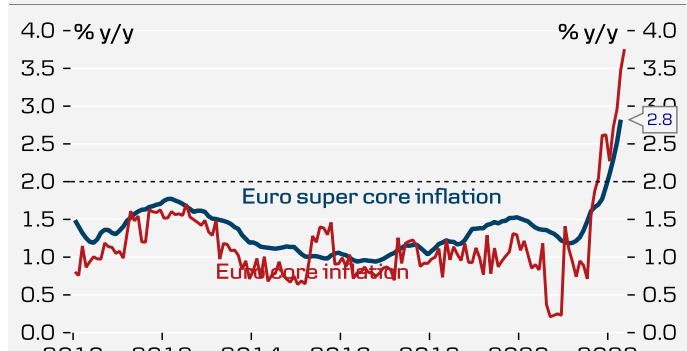
## Country details – Euro

### Top Down

#### Headline vs. oil prices

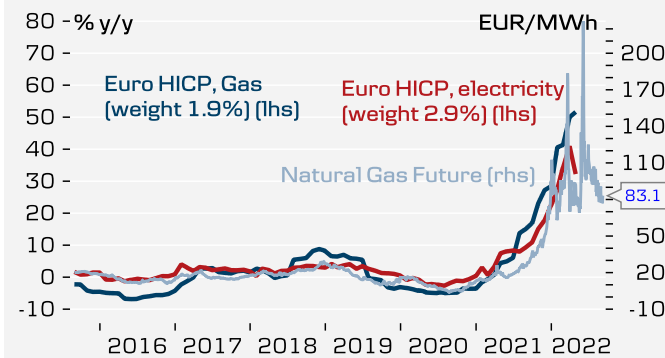


#### Core inflation





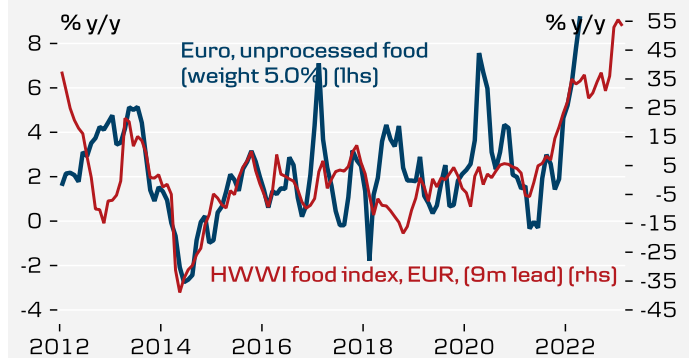
### Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

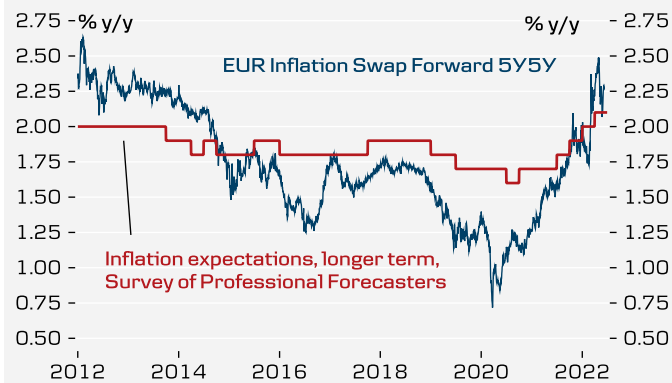
### Food



Source: Macrobond Financial

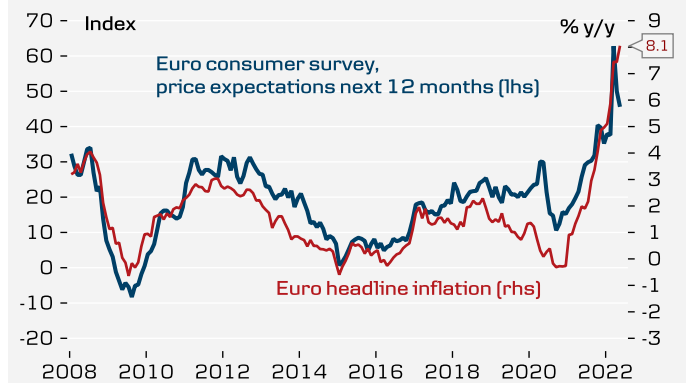
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### Inflation expectations



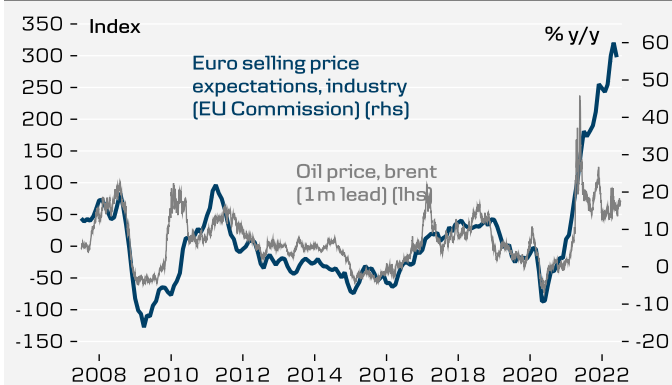
Source: Macrobond Financial, Bloomberg, ECB

### Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

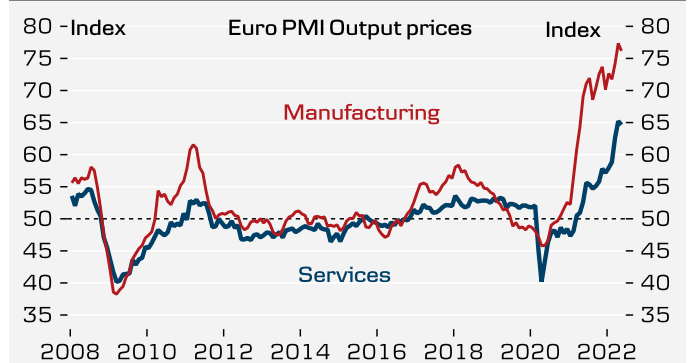
### Selling price expectations from companies



Source: Macrobond Financial, EU Commission

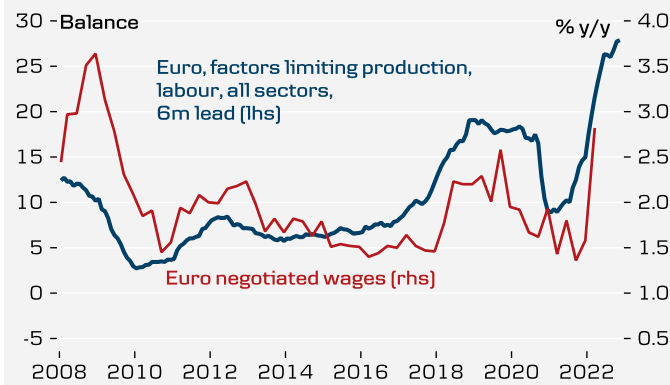
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### PMI output prices



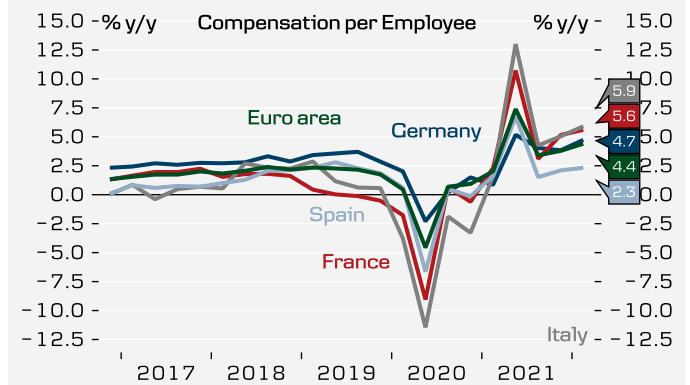
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage compensation

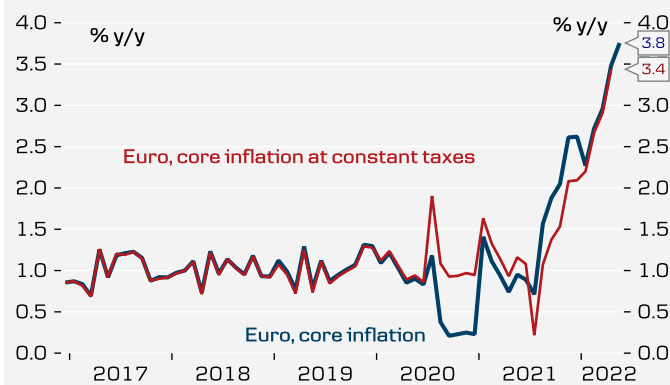


Source: Macrobond Financial, ECB.

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

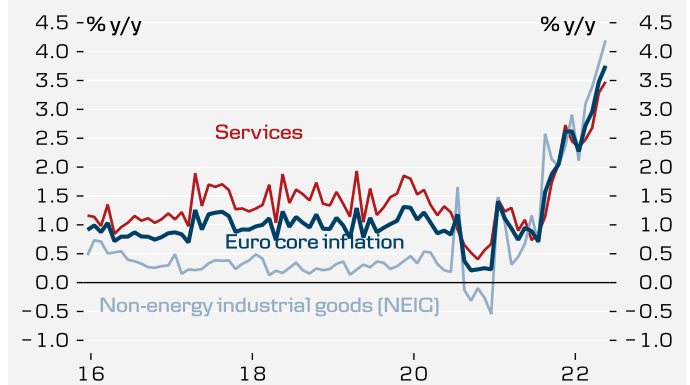
## Bottom up

### Core inflation, effect from taxes



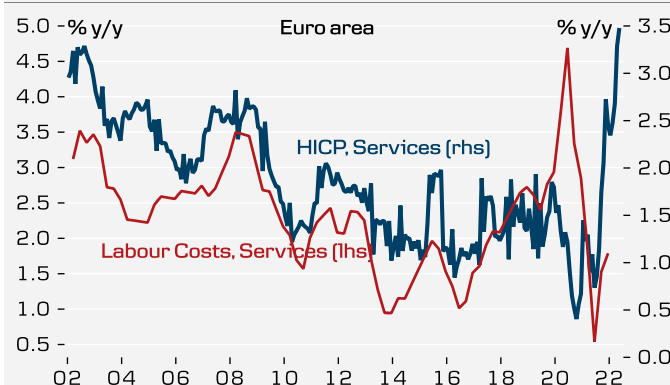
Source: Macrobond Financial, Eurostat

### Core inflation components



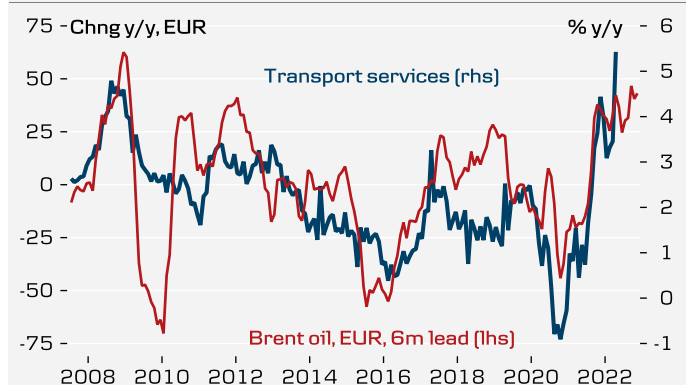
Source: Macrobond Financial, Eurostat, ECB

### Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

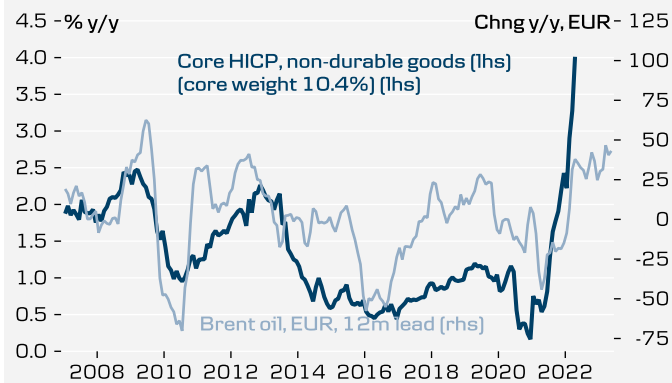
### Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

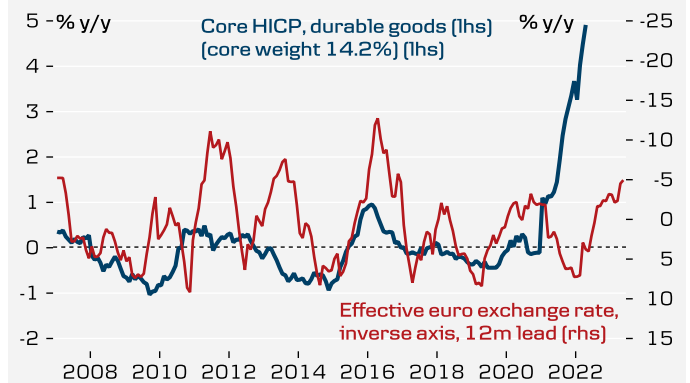
Note: Past performance is not a reliable indicator of future performance.

### Core non-durable goods



Source: Macrobond Financial

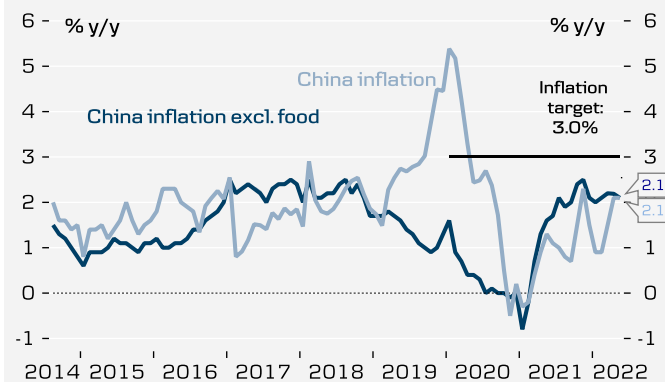
### Core durable goods



Source: Macrobond Financial

## Country details – China

### CPI and CPI ex food



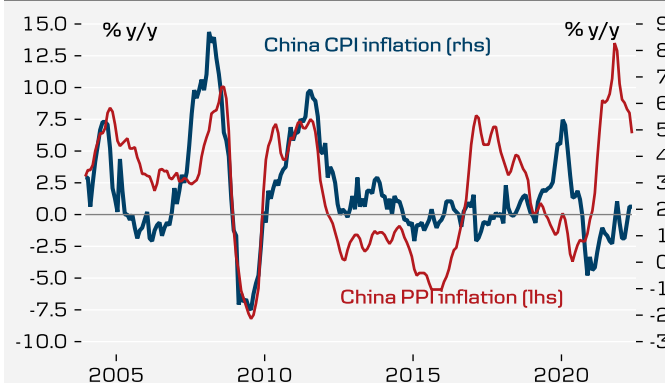
Source: Macrobond Financial, NBS

### CPI and food prices



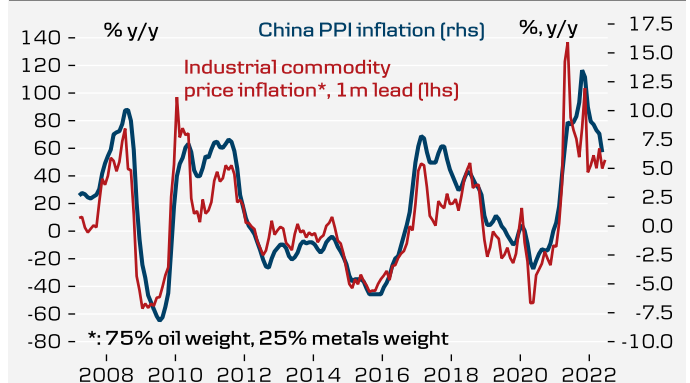
Source: Macrobond Financial, NBS

### 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, and Peter Tøjner Götke, Assistant Analyst.

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