

Global Inflation Watch

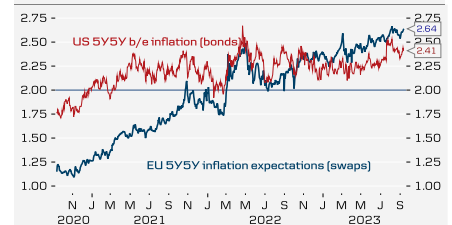
Underlying price pressures remain sticky

- Overview:** Inflation drivers continue to paint a mixed picture, but inflation is likely to head lower through 2023 in the US and euro area. Price pressures from food, freight and energy have clearly eased. Underlying inflation and wage growth have begun to ease in the US, but still remain uncomfortably high for now. In euro area, broader price pressures remain high, with tight labour markets continuing to point towards sticky core inflation going forward. We expect the ECB to hike rates for a final time in September, while the Fed is already likely done with its hiking cycle.
- Inflation expectations:** Consumers' short-term inflation expectations have edged lower especially in the US, but still remain somewhat above pre-pandemic levels. Markets' longer-term inflation expectations have remained relatively stable over the past month, following steady rise in euro area expectations earlier in the year.
- US:** August CPI surprised to the upside, with Core CPI rising by 0.3% m/m (July 0.2%). Headline CPI rose more sharply, reflecting higher oil prices (0.6% m/m, July 0.2%). Services explained most of the uptick in Core CPI, with especially airfares contributing to the rise (+4.9% m/m SA, July -8.1%). But even excluding the latter, underlying price pressures seem to have remained slightly stronger than expected in Q3. Core goods prices remained stable, while shelter contribution continues to moderate largely as expected. Wage growth has eased as labour markets are becoming more balanced, and we continue to expect further disinflationary signs over the coming months.
- Euro:** Inflation in August was slightly higher than expected. Headline inflation remained at 5.3% and core inflation ticked down from 5.5% to 5.3% y/y. NEIG declined to 4.8% from 5.0% while service inflation edged lower to 5.5% from 5.6% in July. The overall message from the inflation figures was that the disinflationary process is underway, but not at a pace that can make the ECB confident in a timely return to the 2% target. Lower energy prices will push inflation further down in 2023, but the underlying price pressures particularly in services are apparent. Tight labour markets will support core inflation where momentum is still close to 4% (3m/3m SAAR).
- China:** CPI in August rose to 0.1% y/y from -0.3% y/y in July while core CPI stayed flat at 0.8% y/y. PPI rose to -3.0% y/y in August from -4.4% y/y lifted by oil prices.

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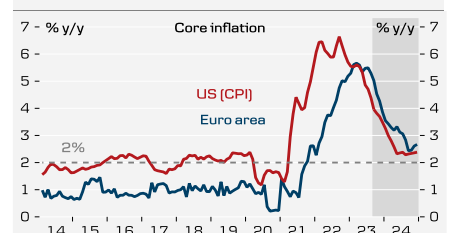
Market-based inflation expectations still above 2%



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

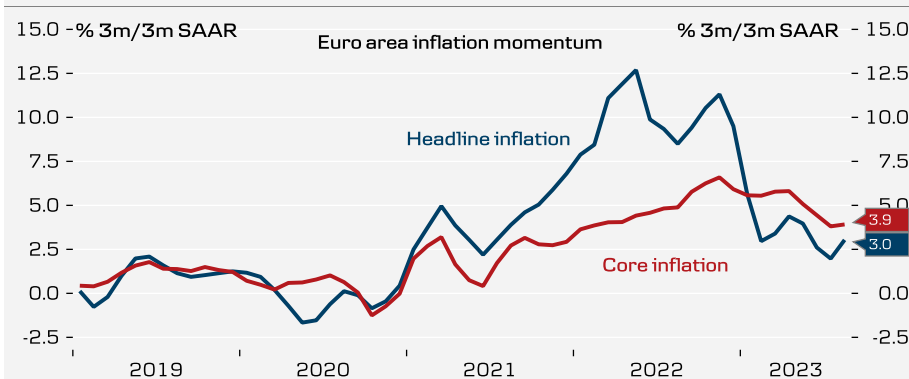
Source: Macrobond Financial, Bloomberg

Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

Inflation momentum in the euro area is still strong



Source: ECB, Danske Bank, Macrobond Financial

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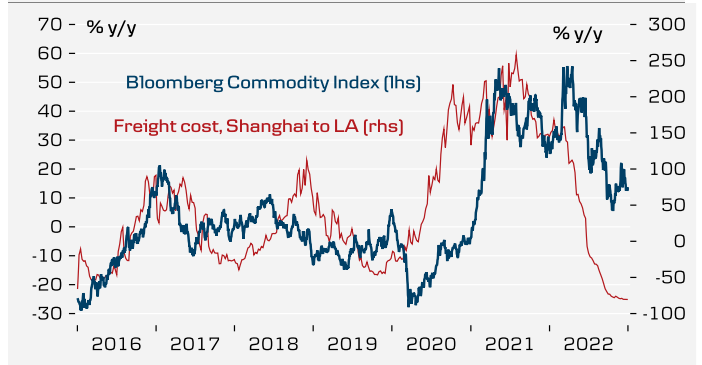
Top down overview

Trend in inflation pressure moving lower

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

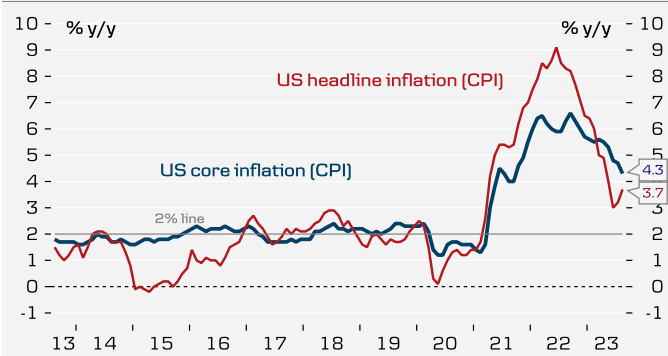
Source: Macrobond Financial, BLS

Commodity price and freight inflation



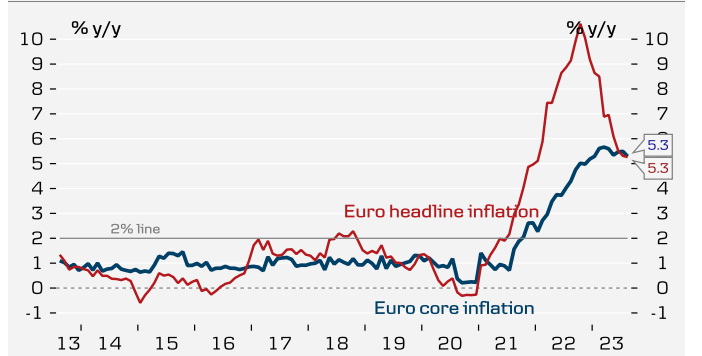
Source: Macrobond Financial, Eurostat

US headline and core inflation (CPI)



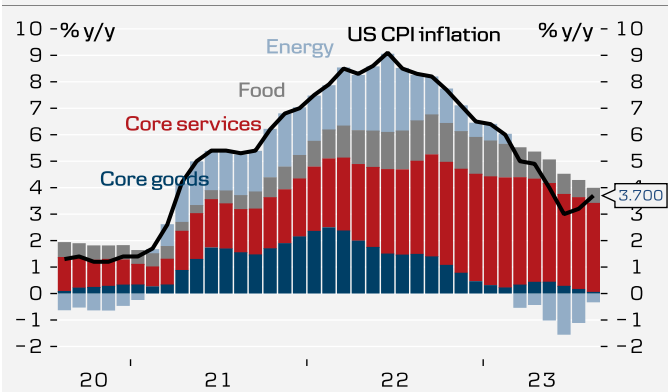
Source: Macrobond Financial, BLS

Euro headline and core inflation



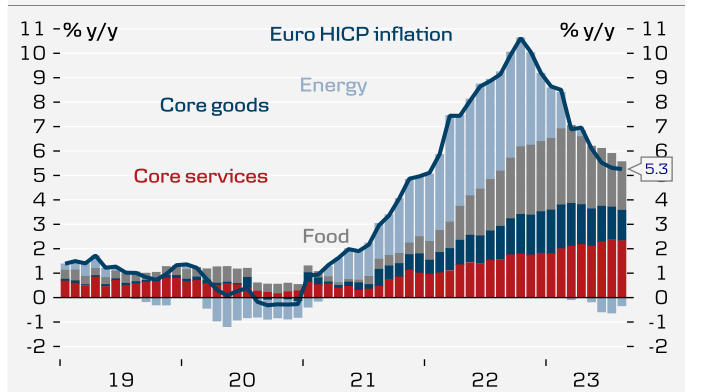
Source: Macrobond Financial, Eurostat

Contributions to US inflation



Source: Macrobond Financial, BLS

Contributions to euro inflation



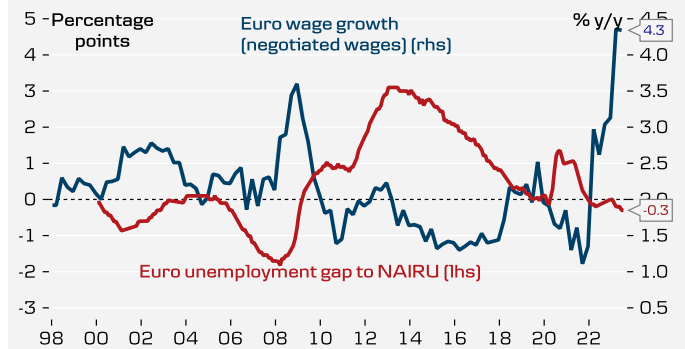
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



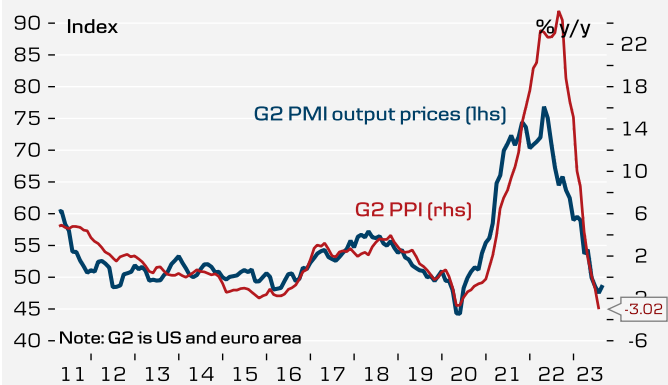
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



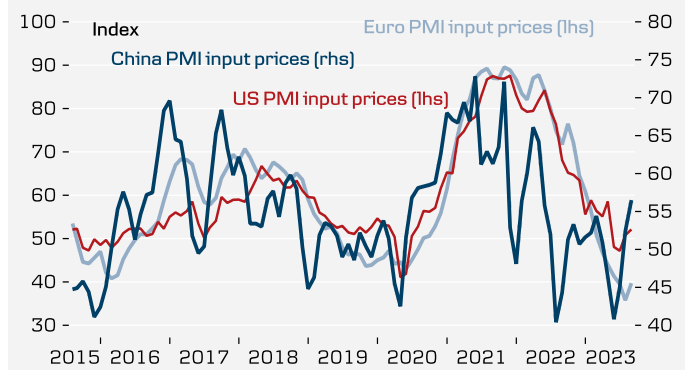
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



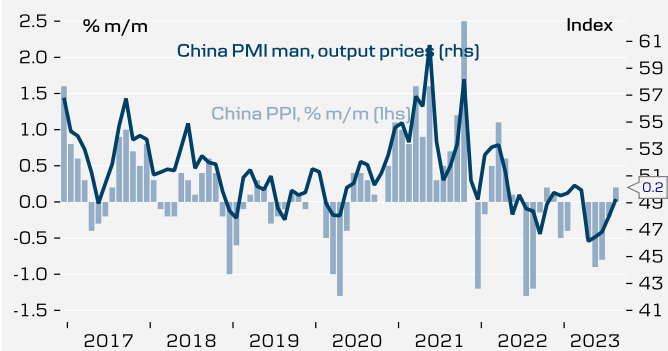
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



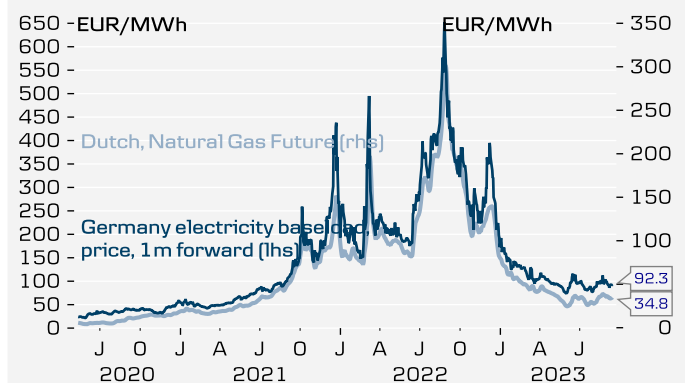
Source: Macrobond Financial, Markit

China PPI inflation momentum



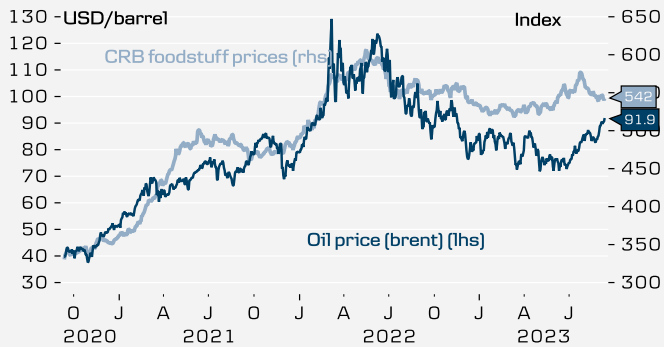
Source: Macrobond Financial, Markit

European natural gas and electricity prices



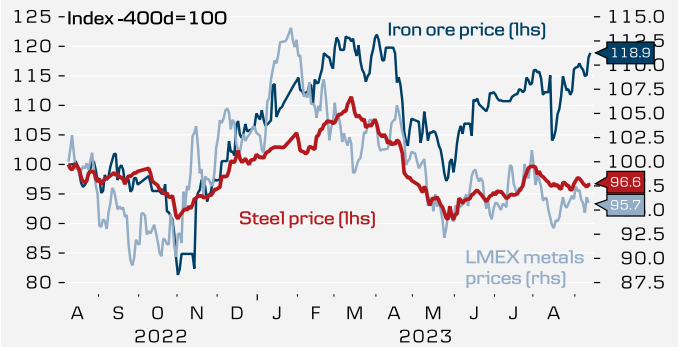
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



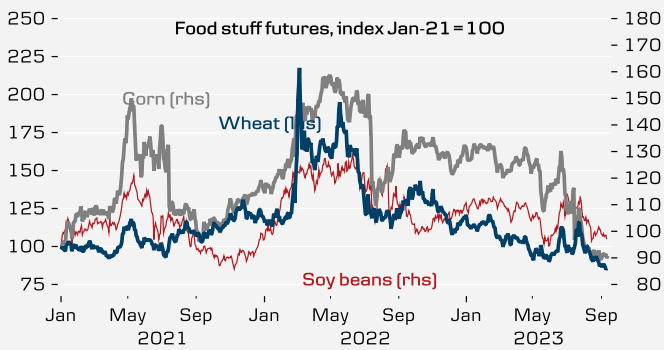
Source: Macrobond Financial, Bloomberg
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



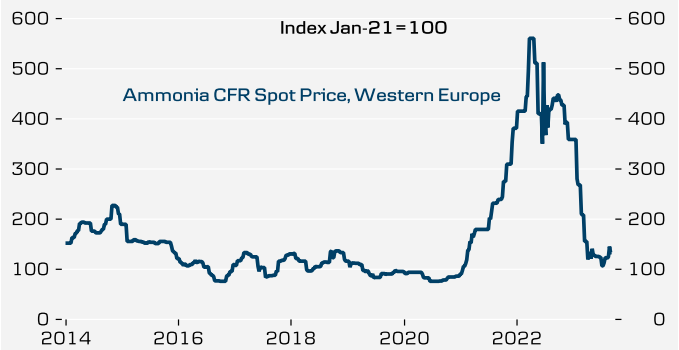
Source: Macrobond Financial, Bloomberg
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Grain prices



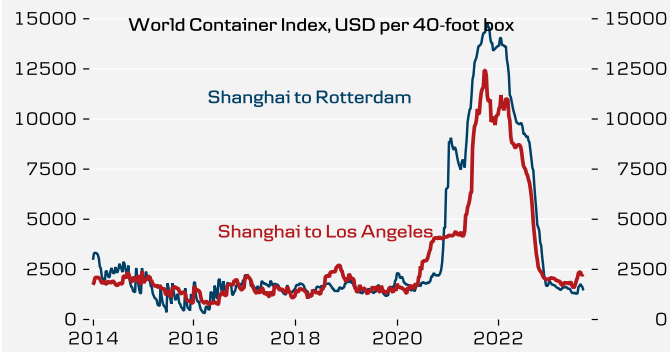
Source: Macrobond Financial, Bloomberg
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Fertilizer input prices

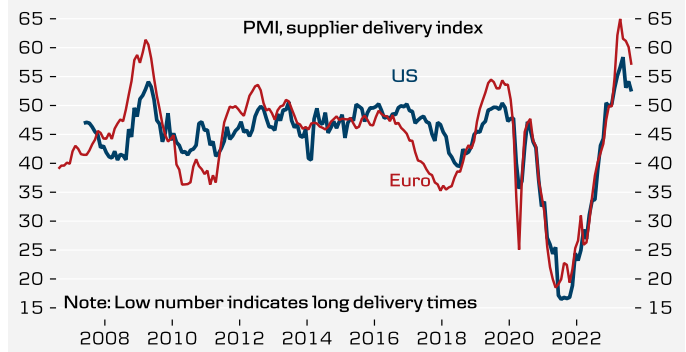


Source: Macrobond Financial, Bloomberg
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Freight rates



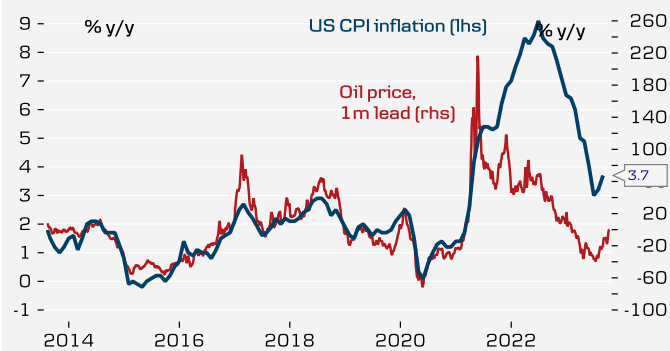
Bottle necks - supplier delivery indices



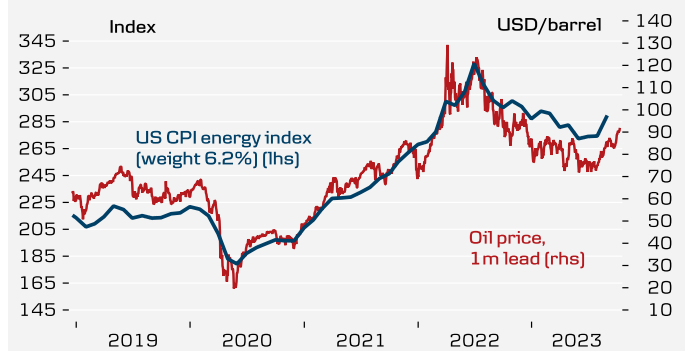
Country details - US

Top down

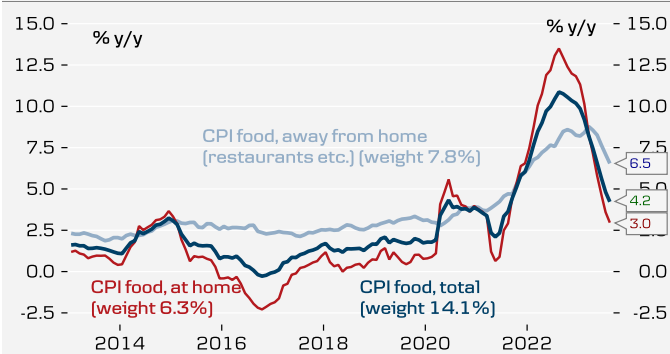
Headline CPI inflation vs. oil prices



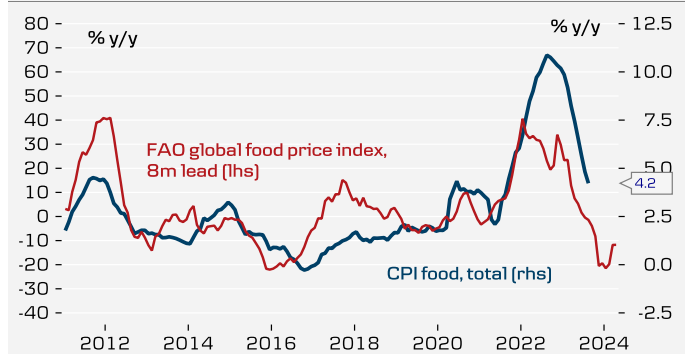
CPI energy prices vs oil



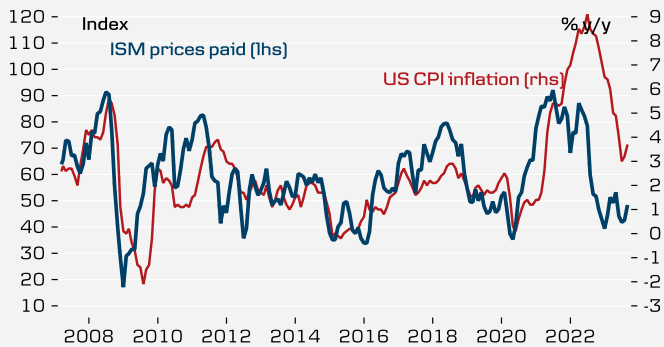
Food prices



Food prices vs FAO food price index

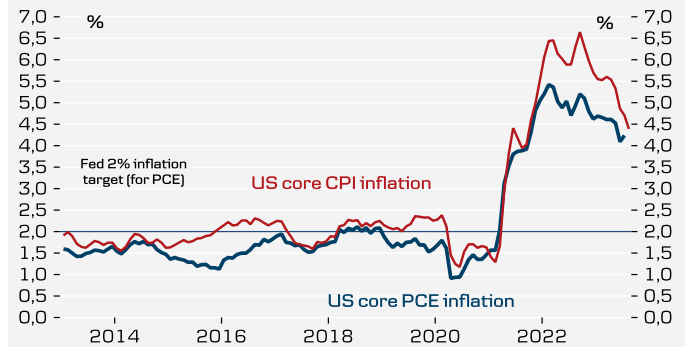


US PMI output prices vs CPI inflation



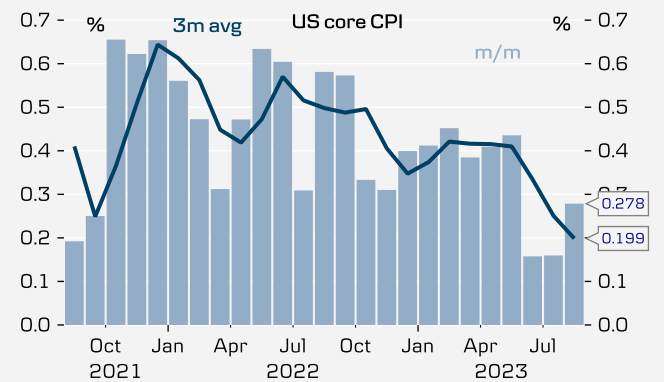
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



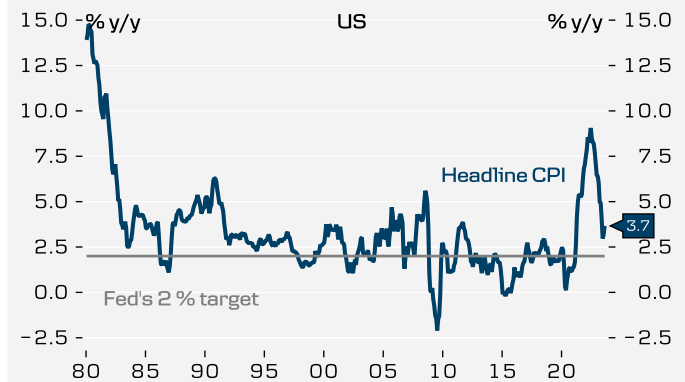
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



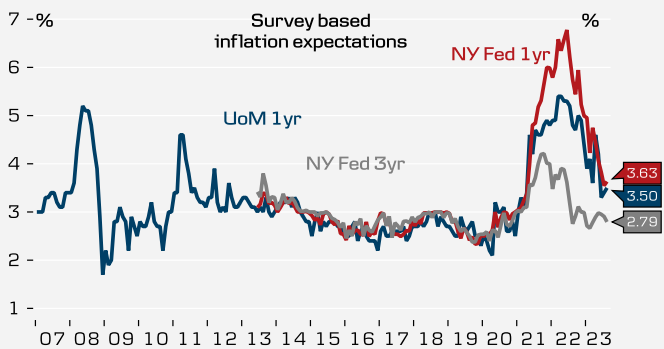
Source: Macrobond Financial, BLS

Headline CPI since 1980



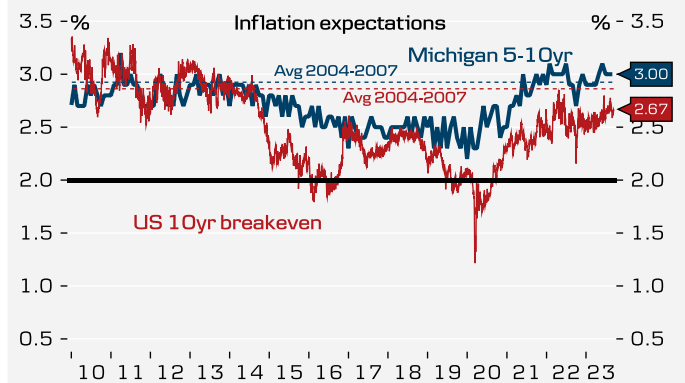
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



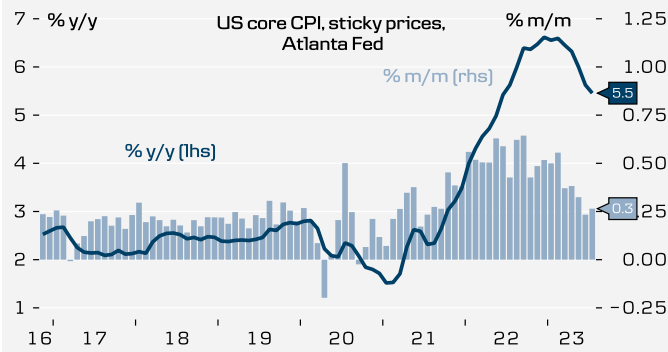
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



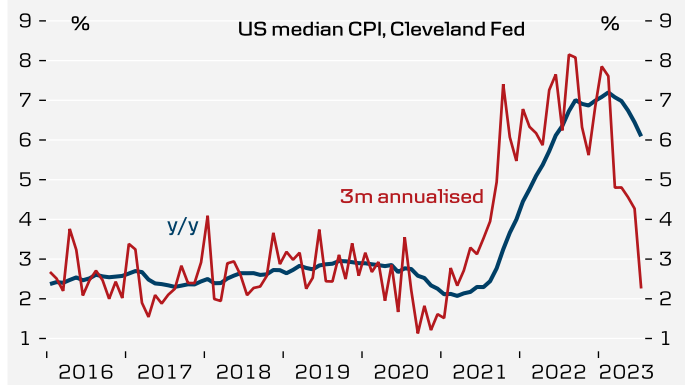
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



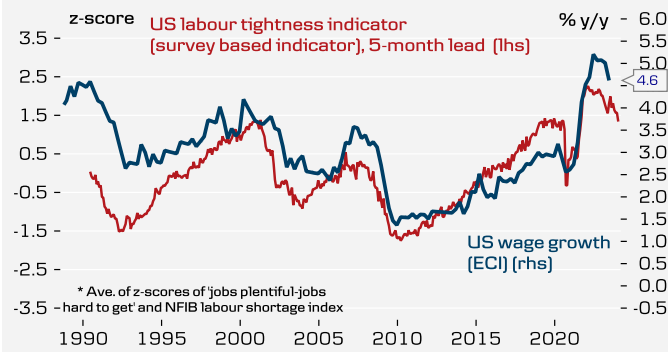
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



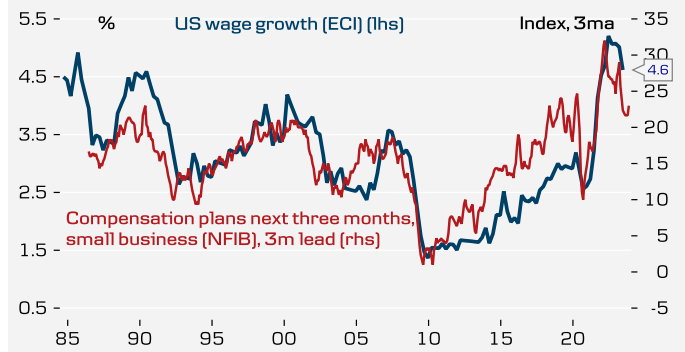
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: wage growth vs tightness



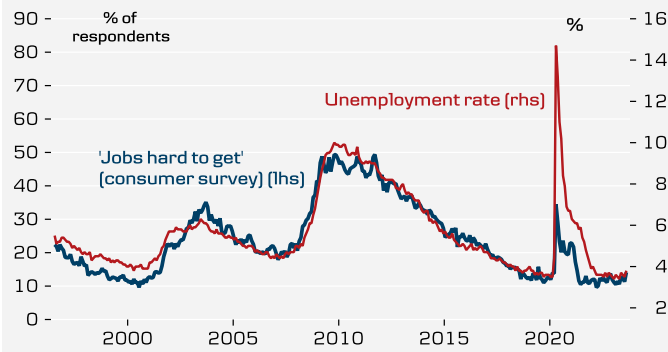
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

Labour market tightness: job openings and shortage



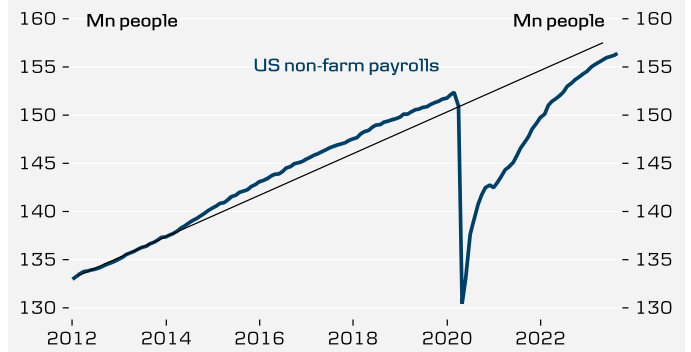
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

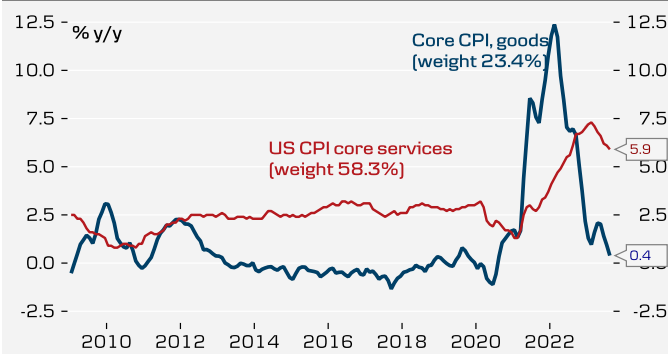
Employment gap



Source: Macrobond Financial, BLS

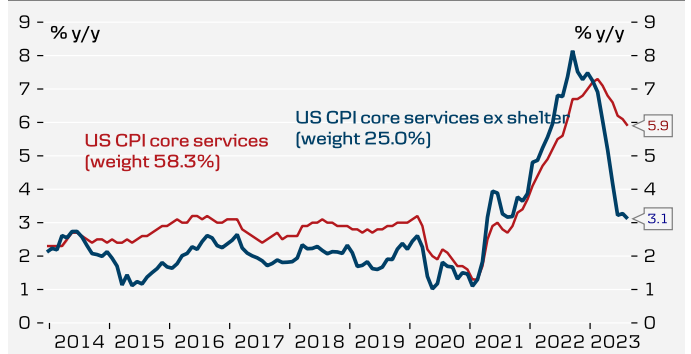
Bottom up

Core goods vs. services



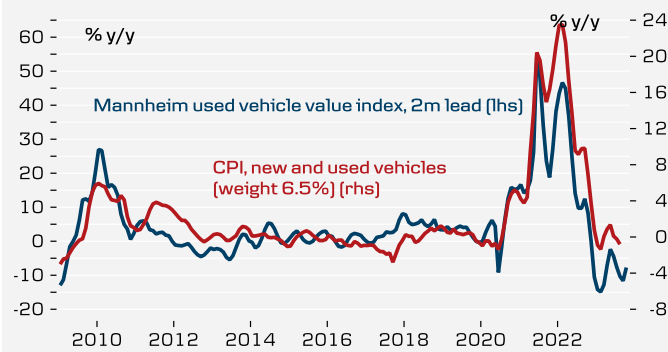
Source: Macrobond Financial, BLS

Core services ex shelter



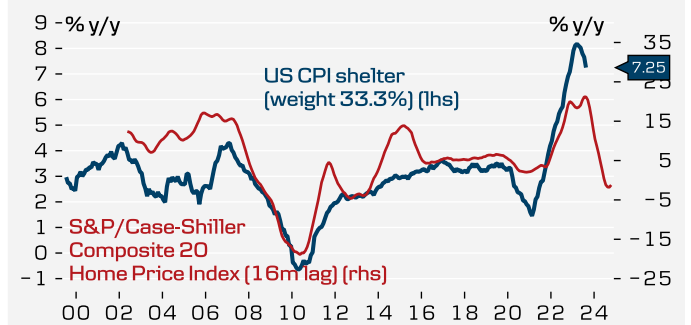
Source: Macrobond Financial, BLS

Used car prices



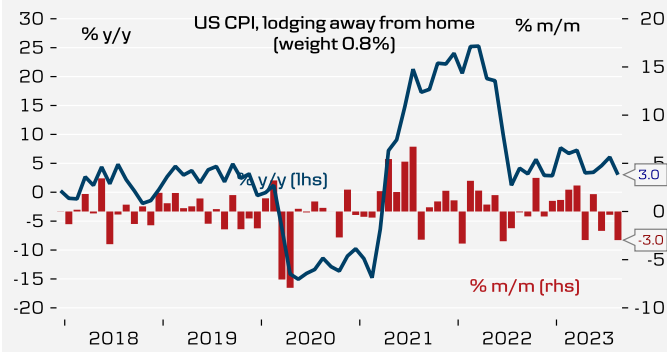
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



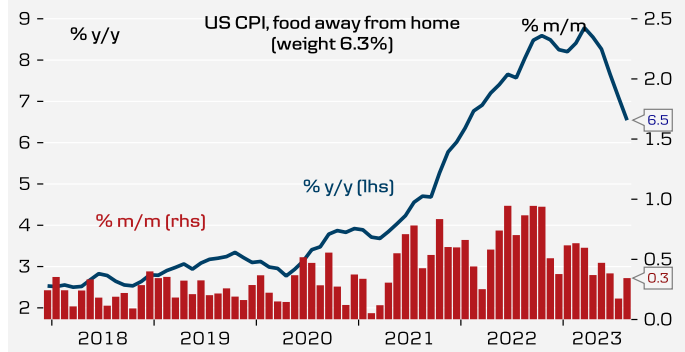
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



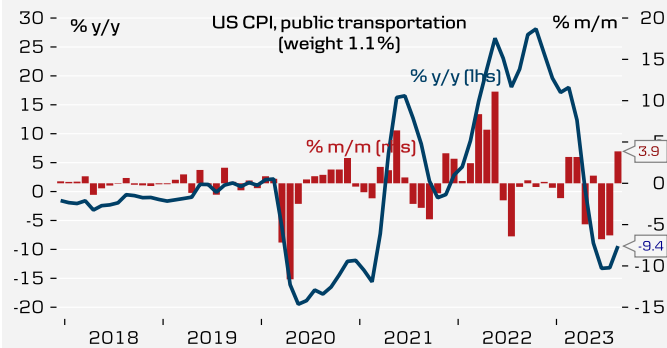
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



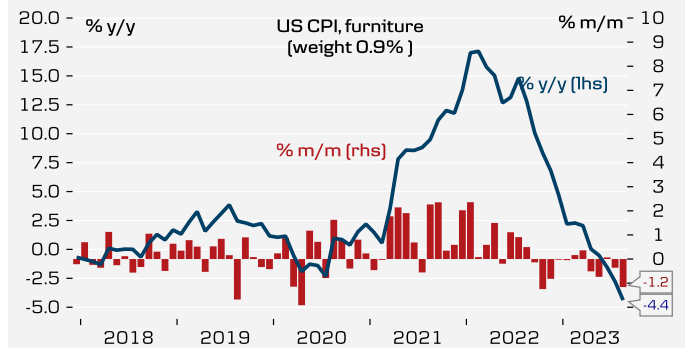
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

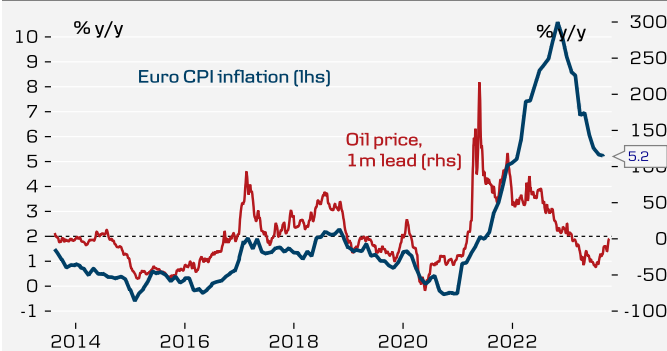


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

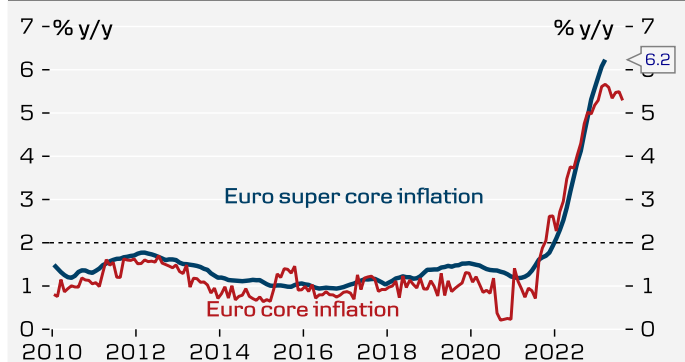
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

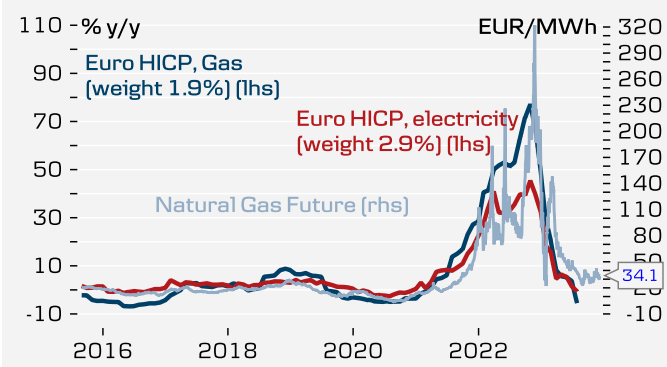
Note: Past performance is not a reliable indicator of future performance.

Core inflation



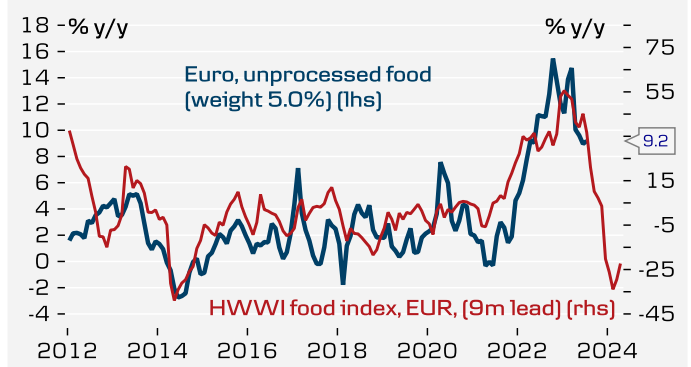
Source: Macrobond Financial, Eurostat, Danske Bank

Natural gas & electricity



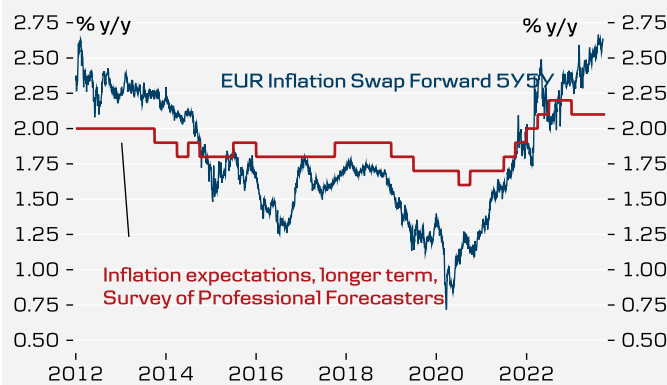
Source: Macrobond Financial, Eurostat
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Food



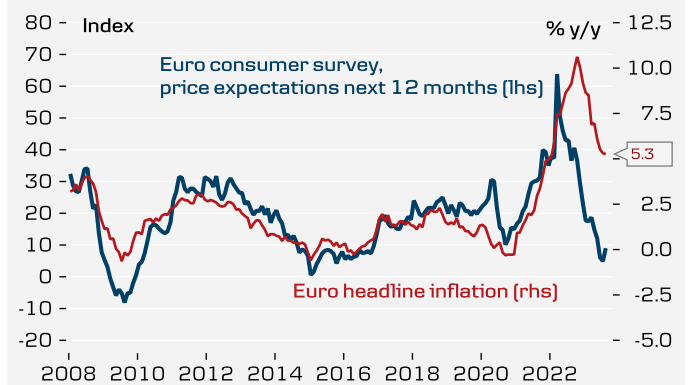
Source: Macrobond Financial
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Inflation expectations



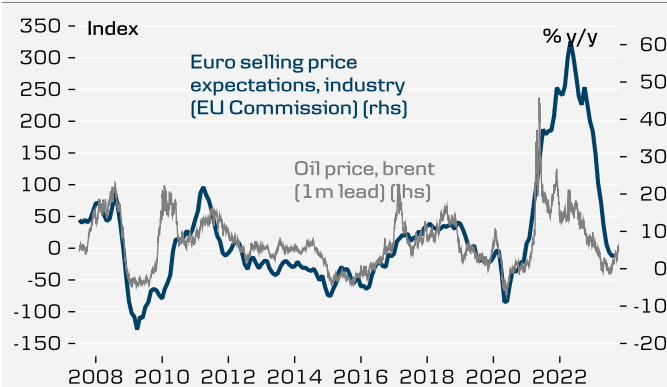
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



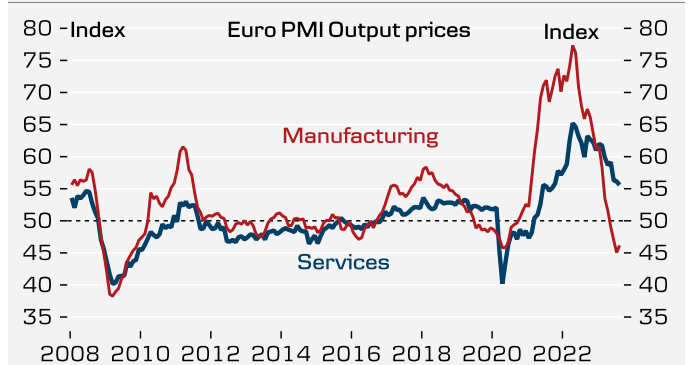
Source: Macrobond Financial, EU Commission, Eurostat

Selling price expectations from companies



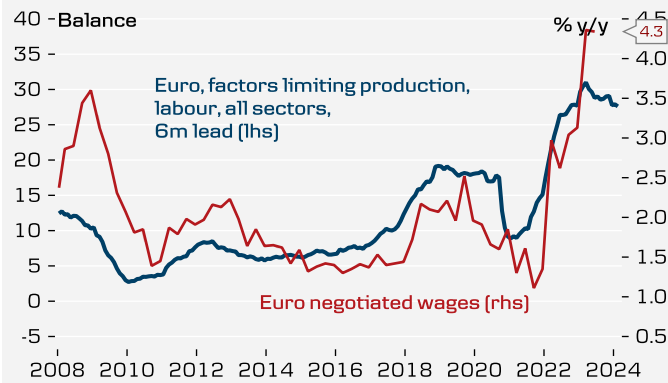
Source: Macrobond Financial, EU Commission
 Note: Past performance is not a reliable indicator of future performance.

PMI output prices



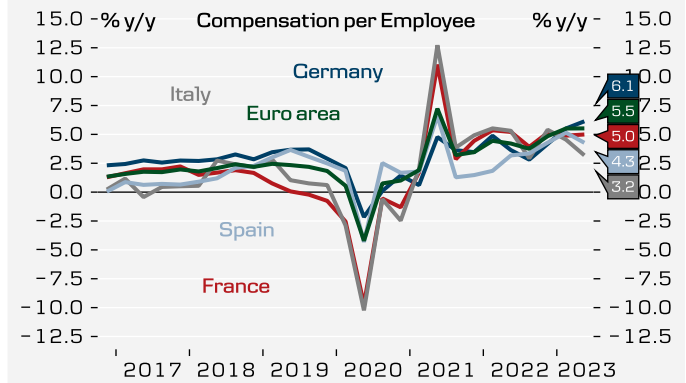
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage compensation

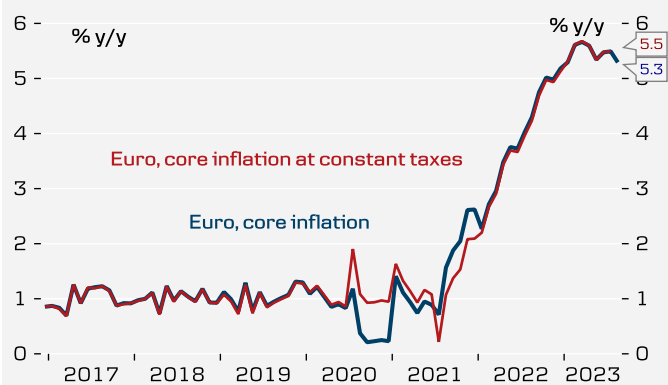


Source: Macrobond Financial, ECB.

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

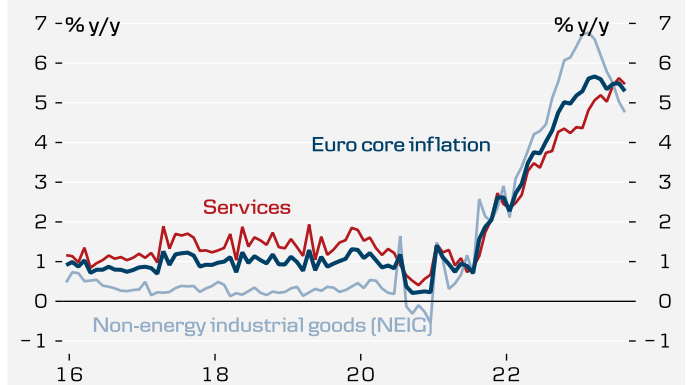
Bottom up

Core inflation, effect from taxes



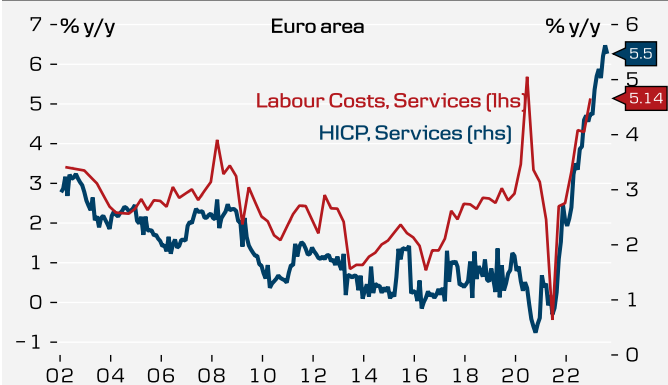
Source: Macrobond Financial, Eurostat

Core inflation components



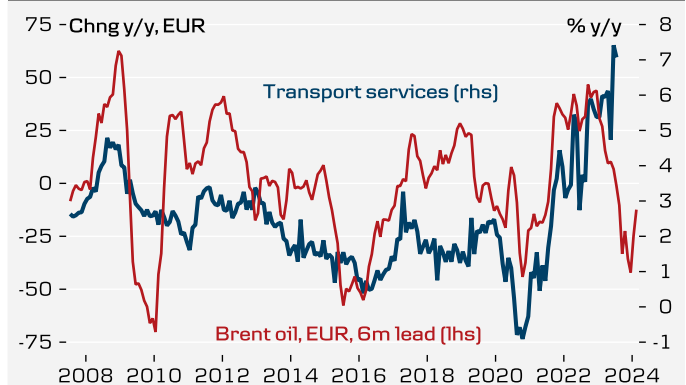
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

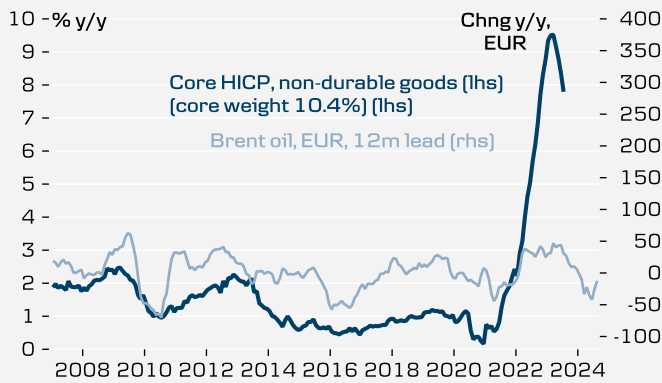
Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

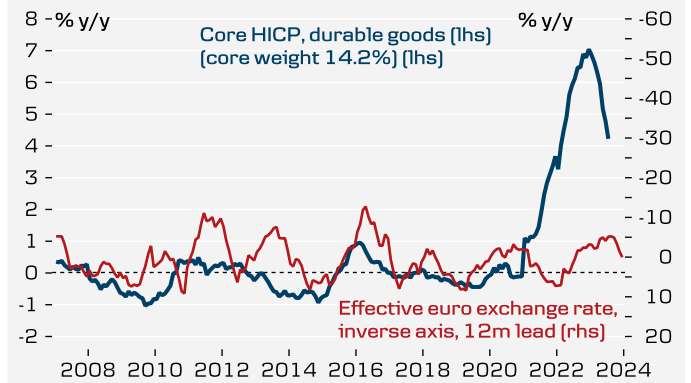
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Core non-durable goods



Source: Macrobond Financial

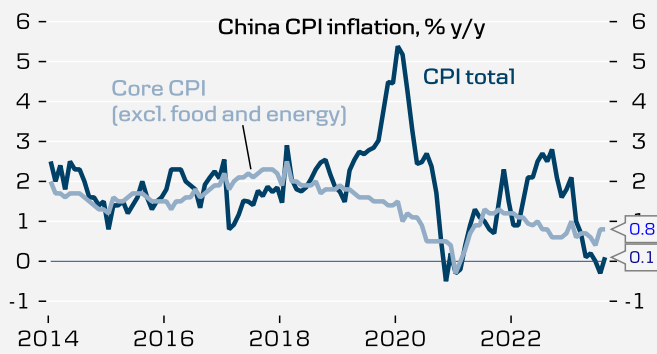
Core durable goods



Source: Macrobond Financial

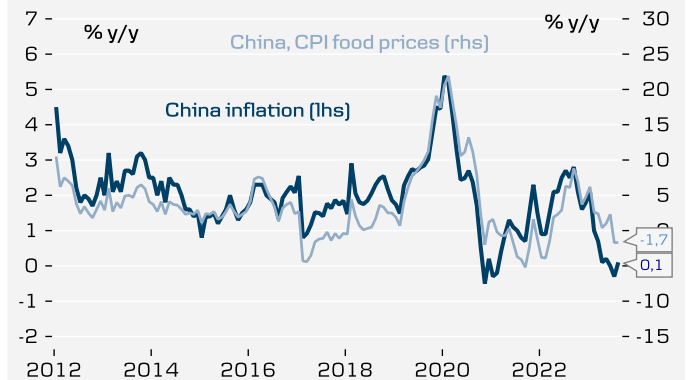
Country details – China

CPI and core CPI



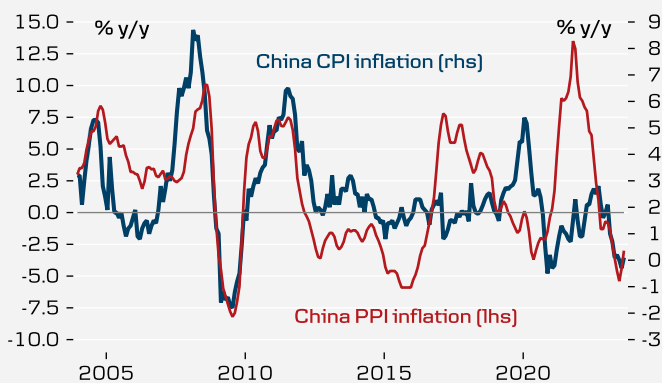
Source: Macrobond Financial, NBS

CPI and food prices



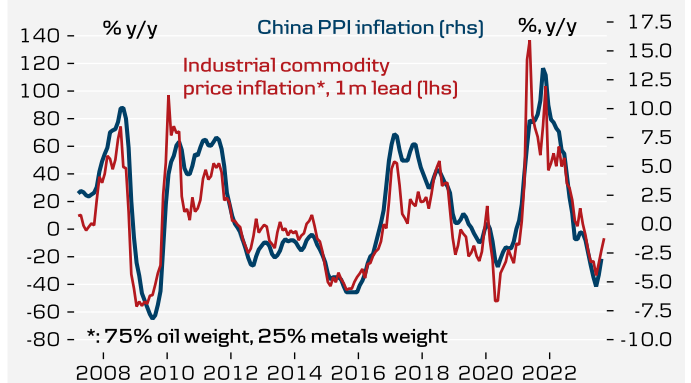
Source: Macrobond Financial, NBS

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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