

# Global Inflation Watch

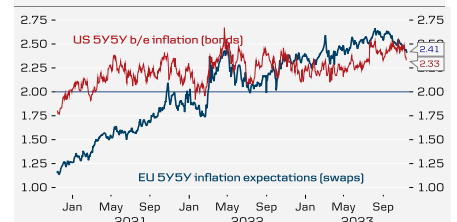
## Signs of weaker demand ease inflation risks in October

- Overview:** Inflation drivers continue to paint a mixed picture, but inflation is likely to head lower towards 2024 in the US and euro area. Price pressures from food and freight have clearly eased, and oil prices have also turned lower recently despite the ongoing war in Gaza. Underlying inflation and wage growth have begun to ease in the US, but remain sticky in the euro area. Tight labour markets continue to support upside risks to core inflation in both areas going forward. We think that most western central banks are now done with their respective hiking cycles.
- Inflation expectations:** Euro area inflation expectations have remained steady over the past month, while some US consumer surveys and longer-term market based indicators have showed rising expectations. However, inflation expectations still generally remain consistent with the central banks' targets.
- US:** October CPI surprised to the downside in both headline (+0.04% m/m SA; consensus +0.1%, Sep +0.40%) and core (+0.23% m/m SA; consensus +0.3%; Sep +0.32%) terms. Shelter inflation returned to a declining trend after a surprising uptick in September, in line with more timely rental prices indicators. UAW's strike had little impact on car prices, and overall core goods CPI continued its modest decline. Health insurance inflation rose in line with expectations due to the lagged calculation method, but inflation elsewhere in the services sector eased. As underlying price pressures continue to moderate, we still expect the Fed to cut rates in March 2024.
- Euro:** Inflation fell significantly again in October due to base effects from energy and food prices but also waning inflationary momentum. Headline inflation declined to 2.9% y/y (from 4.3%; consensus: 3.1%) and core inflation ticked down to 4.2% y/y (from 4.5%; consensus 4.2%). The underlying inflationary momentum again showed positive developments with core inflation increasing just 0.11 m/m s.a. (from: 0.17%) due to lower goods price inflation while service inflation remained elevated due to the recent wage increases. Going forward, we expect the decline in core and food inflation to continue while energy inflation provides some upside risks to headline inflation.
- China:** October inflation fell to -0.2% y/y from 0.0% y/y in September driven by a sharp decline in pork prices of 30%. Core CPI fell to 0.6% y/y from 0.8% y/y.

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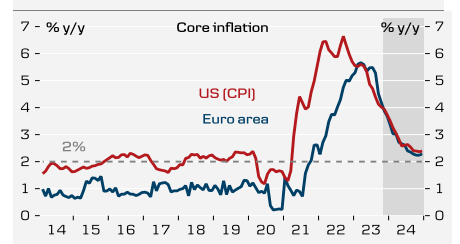
### Market-based inflation expectations still above 2%



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

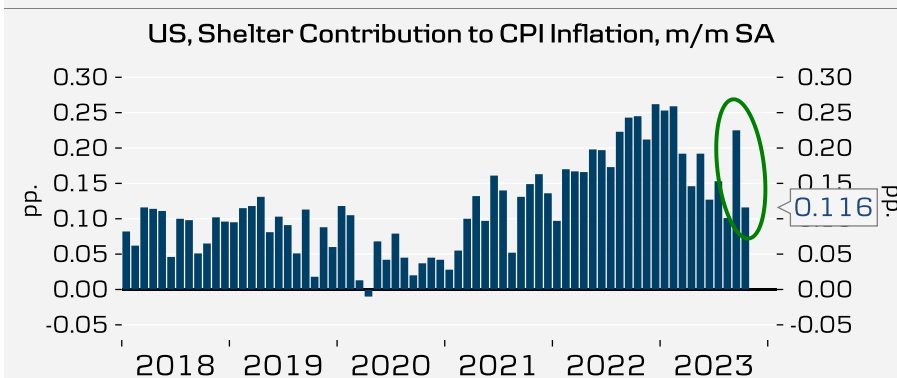
Source: Macrobond Financial, Bloomberg

### Core inflation outlook



Source: Macrobond Financial, Eurostat, Danske Bank

### Housing disinflation continues in the US after the September uptick



Source: BLS, Danske Bank, Macrobond Financial

#### Analyst, US

Antti Ilvonen  
antti.ilvonen@danskebank.com

#### Analyst, euro area

Rune Thyge Johansen  
rujo@danskebank.dk

#### Chief Analyst, China

Allan von Mehren  
alvo@danskebank.dk

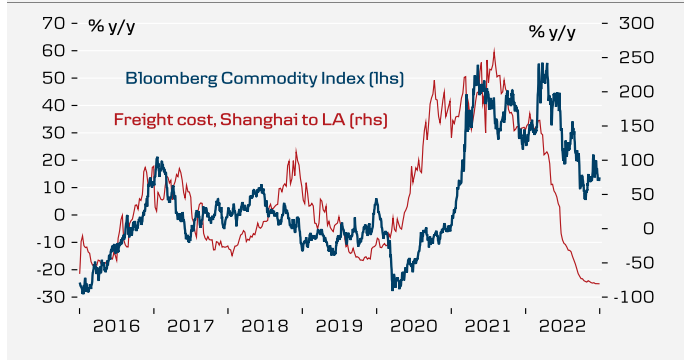
# Top down overview

## 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		↓

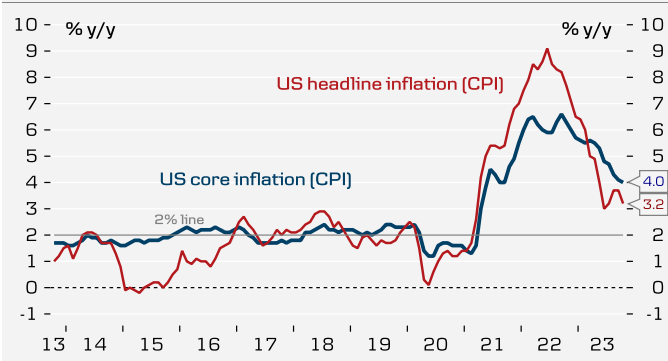
Source: Macrobond Financial, BLS

## Commodity price and freight inflation



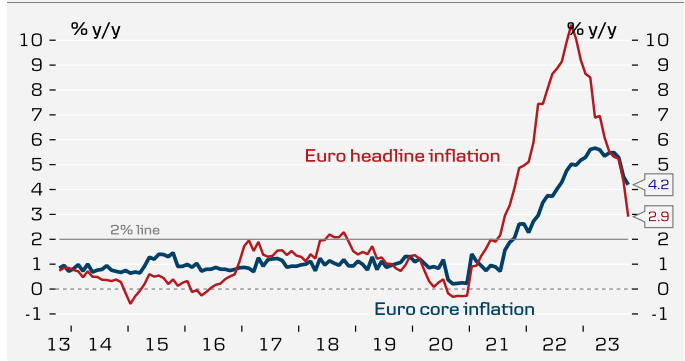
Source: Macrobond Financial, Eurostat

## US headline and core inflation (CPI)



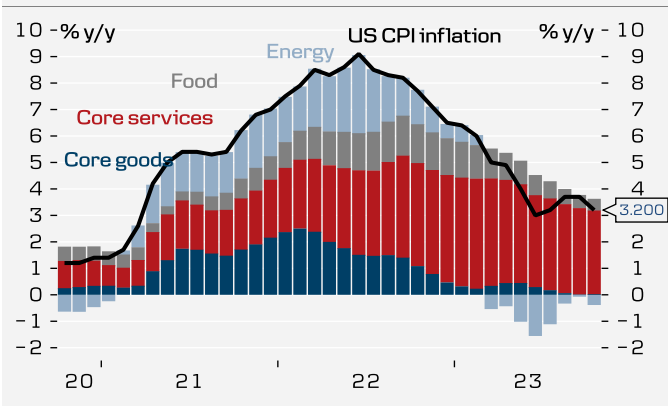
Source: Macrobond Financial, BLS

## Euro headline and core inflation



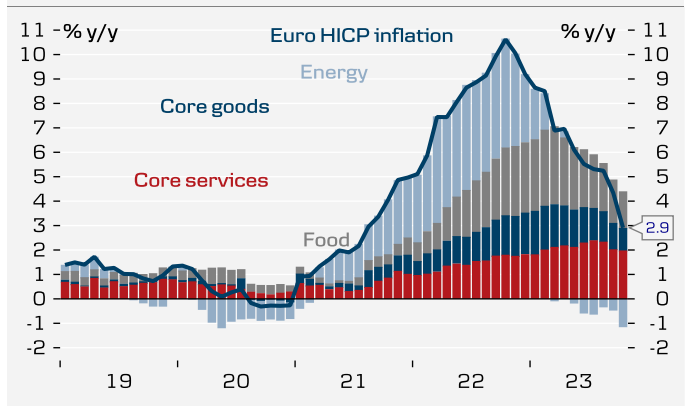
Source: Macrobond Financial, Eurostat

## Contributions to US inflation



Source: Macrobond Financial, BLS

## Contributions to euro inflation



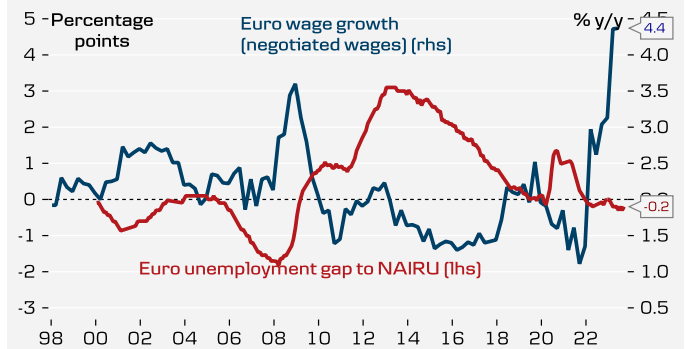
Source: Macrobond Financial, Eurostat

### US wage growth and labour market tightness



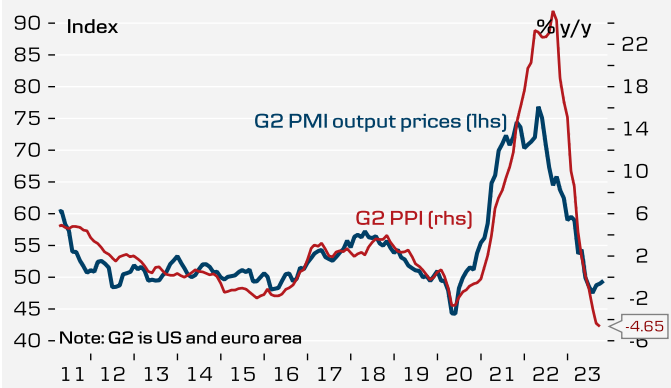
Source: Macrobond Financial, BLS

### Euro wage growth and labour market tightness



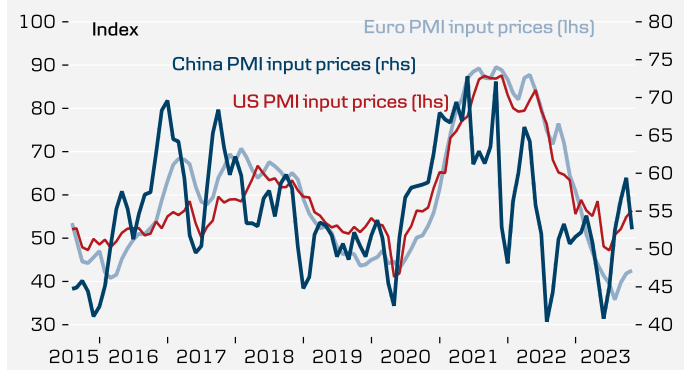
Source: Macrobond Financial, Eurostat, ECB

### G2 PPI inflation vs oil price inflation



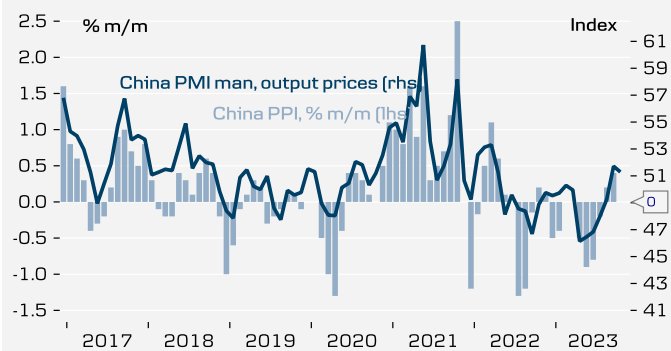
Source: Macrobond Financial, BLS, Eurostat

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



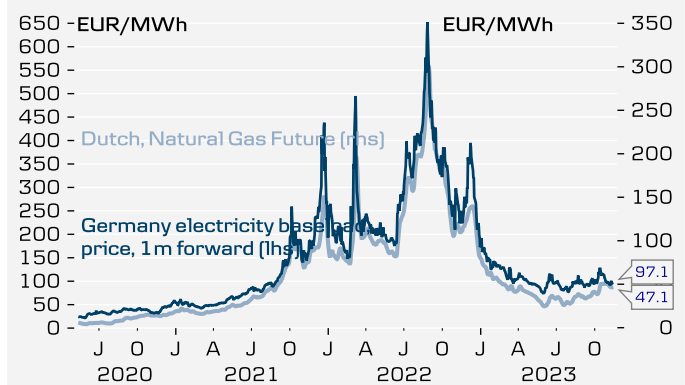
Source: Macrobond Financial, Markit

### China PPI inflation momentum



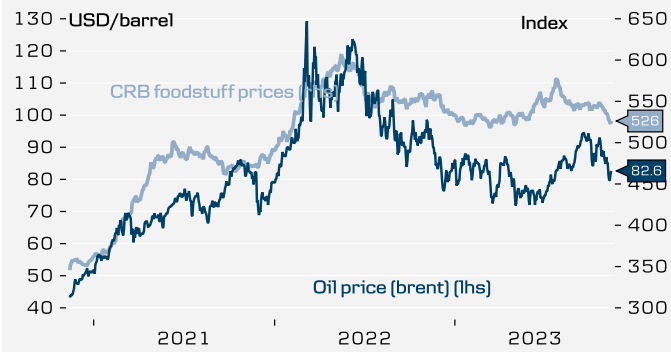
Source: Macrobond Financial, Markit

### European natural gas and electricity prices



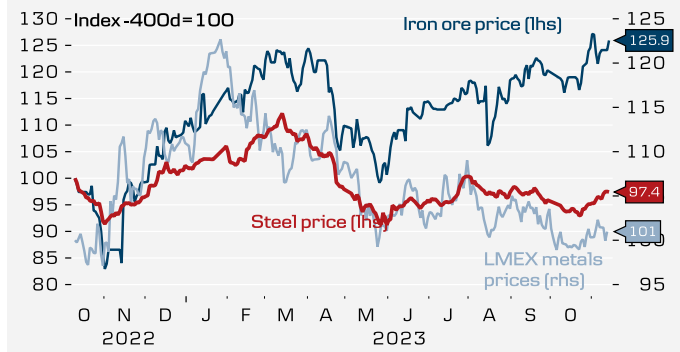
Note: Past or current performance is no guarantee of future performance  
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



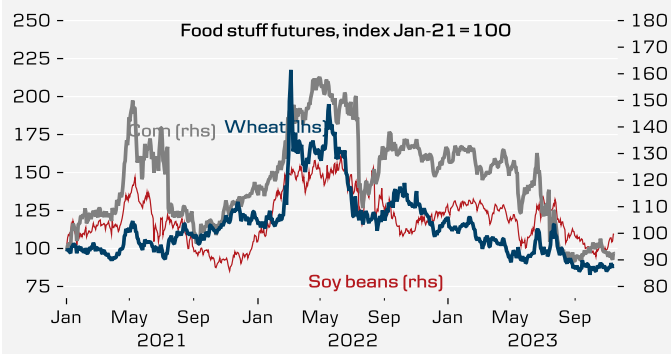
Source: Macrobond Financial, Bloomberg  
 Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



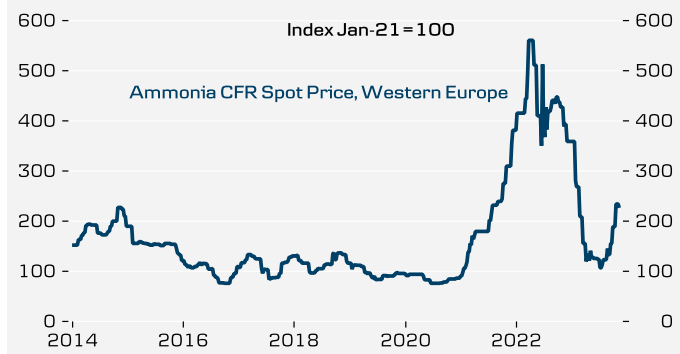
Source: Macrobond Financial, Bloomberg  
 Note: Past performance is not a reliable indicator of future performance.

Grain prices



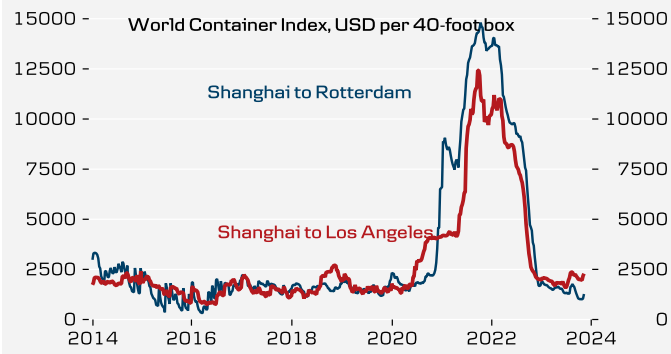
Source: Macrobond Financial, Bloomberg  
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Fertilizer input prices

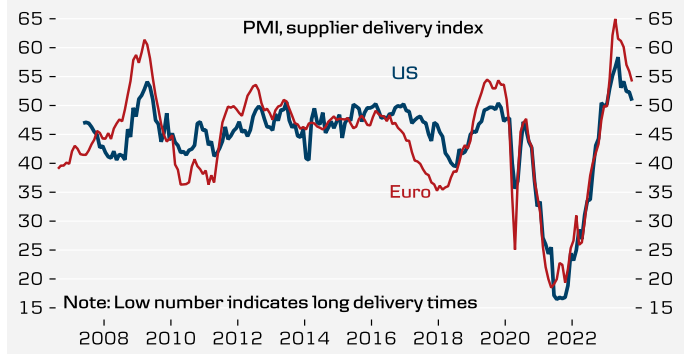


Source: Macrobond Financial, Bloomberg  
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Freight rates



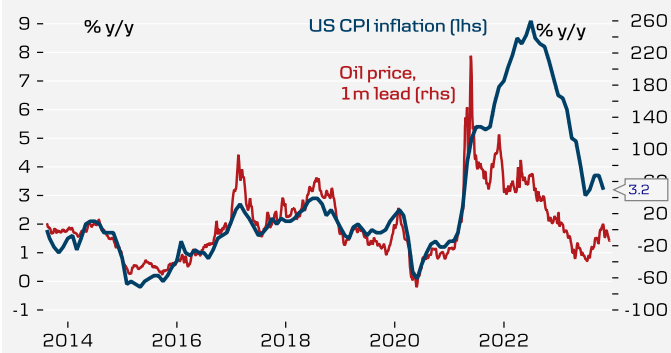
Bottle necks - supplier delivery indices



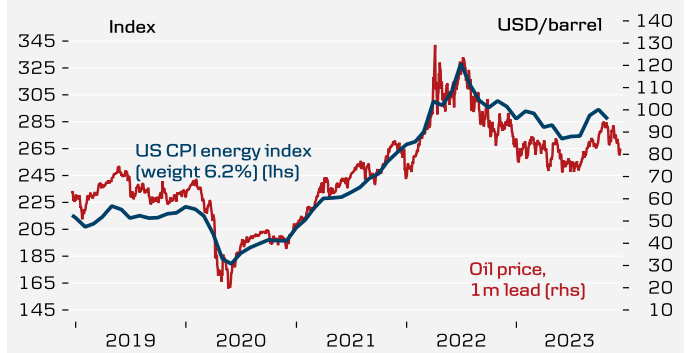
# Country details - US

## Top down

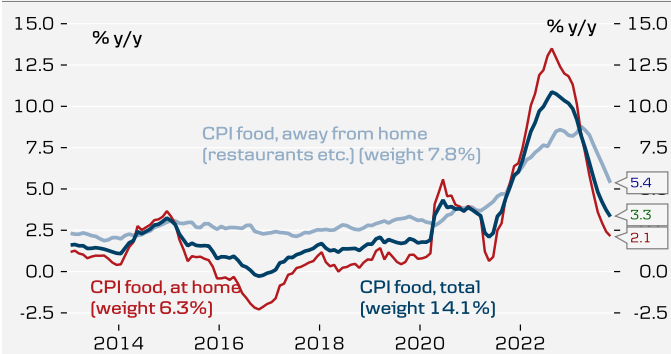
Headline CPI inflation vs. oil prices



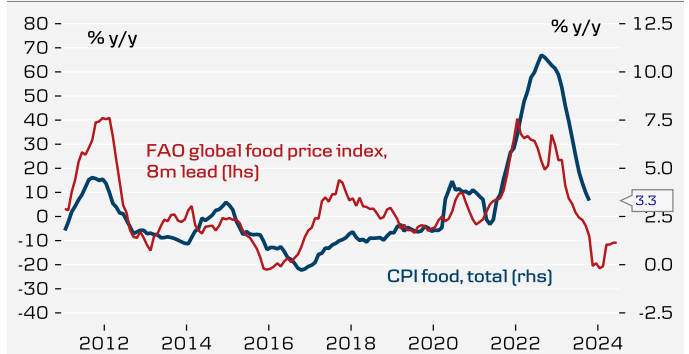
CPI energy prices vs oil



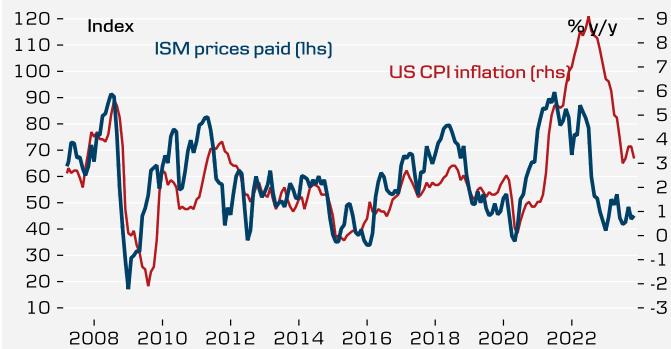
Food prices



Food prices vs FAO food price index

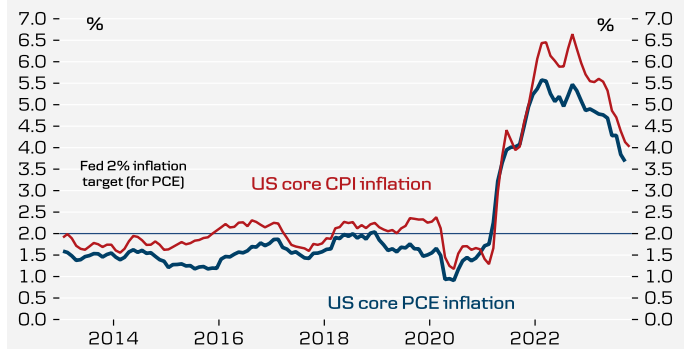


### US PMI output prices vs CPI inflation



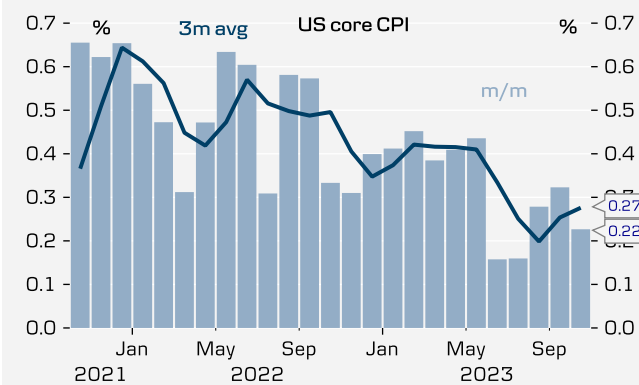
Source: Macrobond Financial, BLS, Markit

### Core PCE inflation vs core CPI inflation



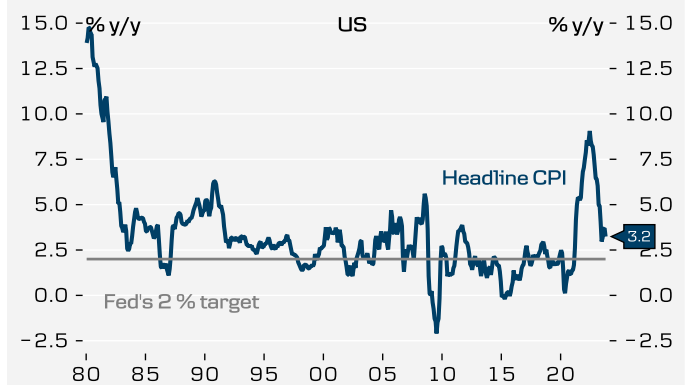
Source: Macrobond Financial, BLS, BEA

### Core CPI momentum



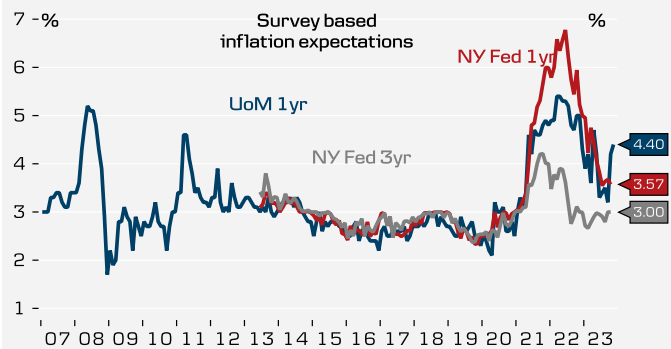
Source: Macrobond Financial, BLS

### Headline CPI since 1980



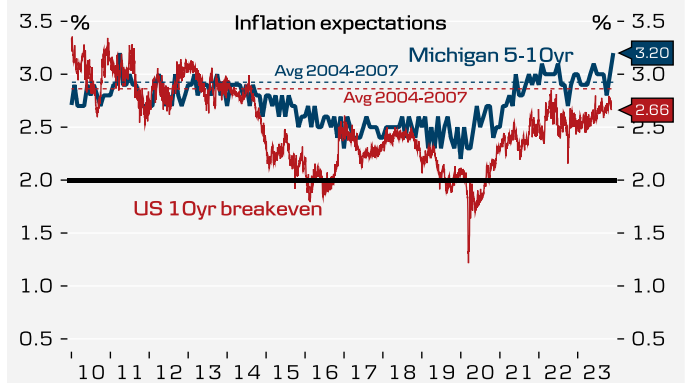
Sources: BEA, BLS, Macrobond Financial

### Survey-based inflation expectations



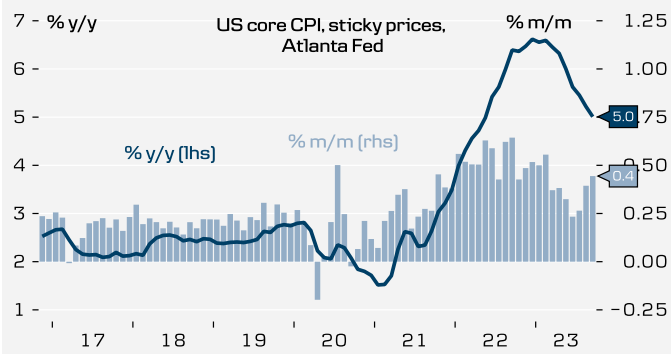
Source: NY Fed, University of Michigan, Macrobond Financial

### Long-term inflation expectations



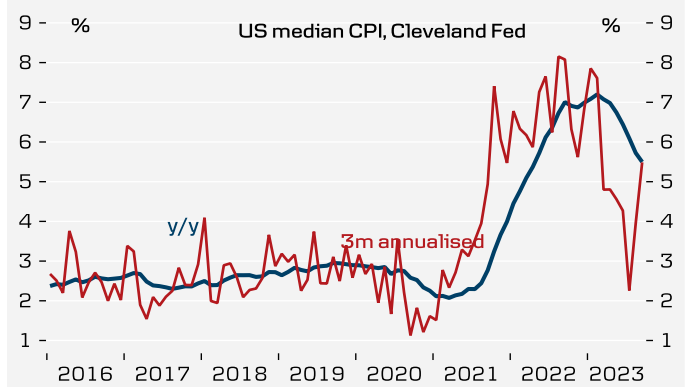
Source: Macrobond Financial, University of Michigan  
 Note: Past performance is not a reliable indicator of future performance.

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



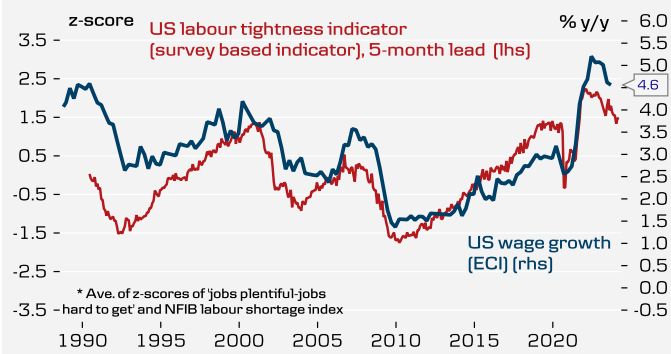
Source: Macrobond Financial, Atlanta Fed

**Median CPI inflation**



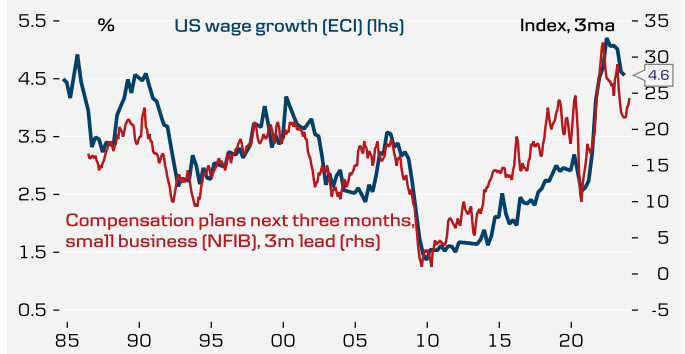
Source: Macrobond Financial, Cleveland Fed

**Labour market tightness: wage growth vs tightness**



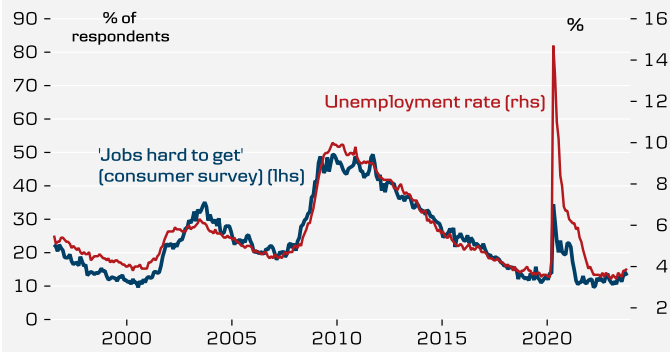
Source: Macrobond Financial, Conference Board, NFIB, BLS, Danske Bank

**Labour market tightness: job openings and shortage**



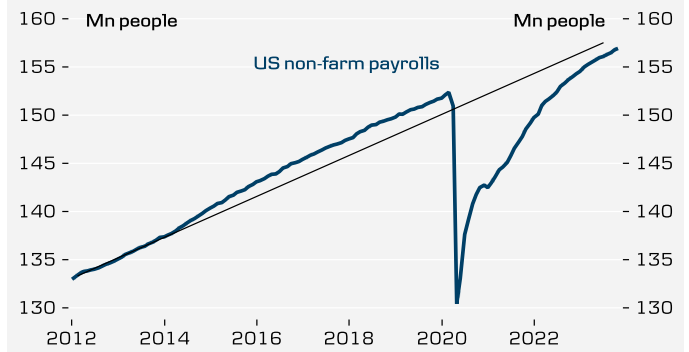
Source: Macrobond Financial, NFIB, BLS

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



Source: Macrobond Financial, Conference Board, BLS

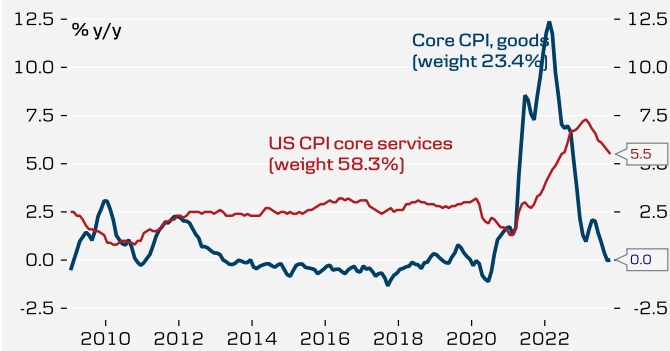
### Employment gap



Source: Macrobond Financial, BLS

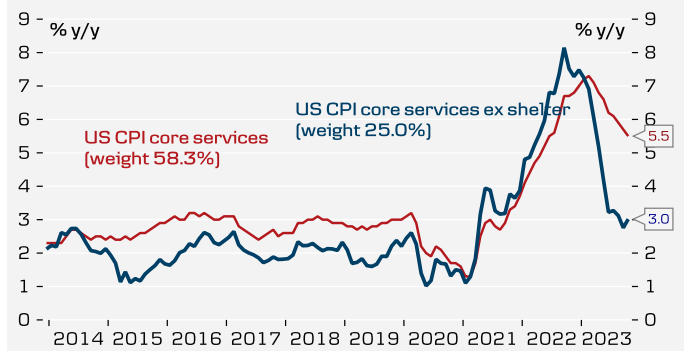
## Bottom up

### Core goods vs. services



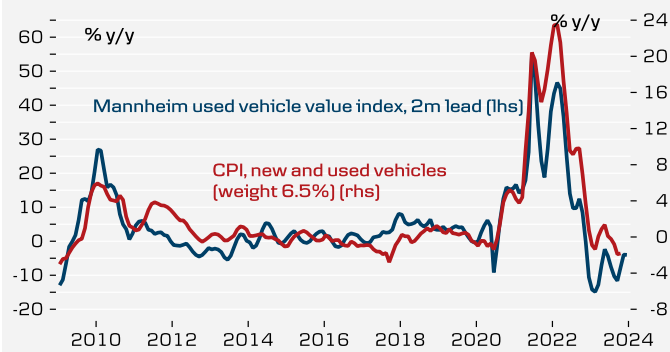
Source: Macrobond Financial, BLS

### Core services ex shelter



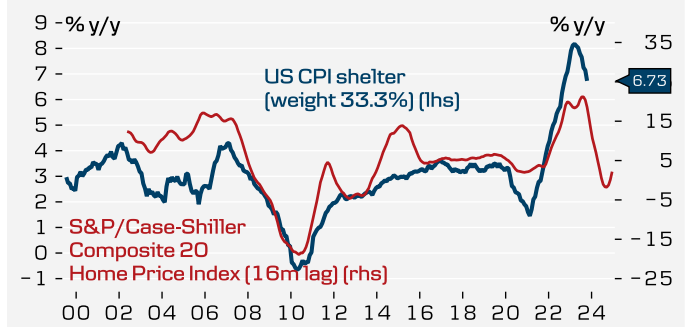
Source: Macrobond Financial, BLS

### Used car prices



Source: Macrobond Financial, BLS, Manheim Consulting

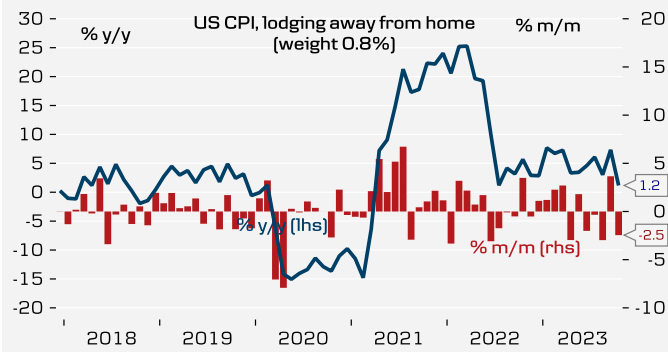
### Rent of shelter



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

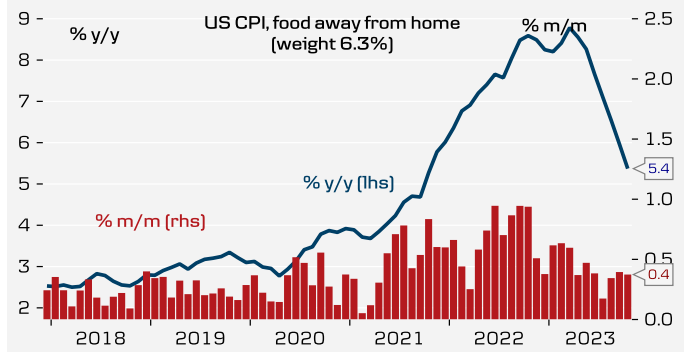


**Lodging away from home (hotels etc.)**



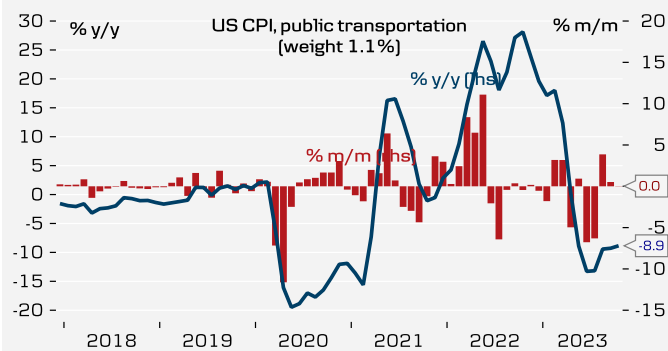
Source: Macrobond Financial, BLS

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



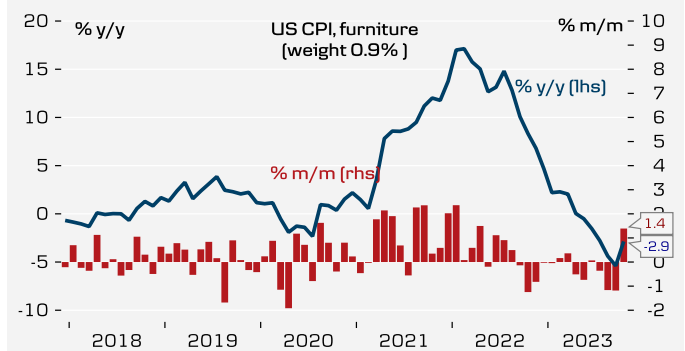
Source: Macrobond Financial, BLS

**Public transportation (airfares etc.)**



Source: Macrobond Financial, BLS

**Furniture**

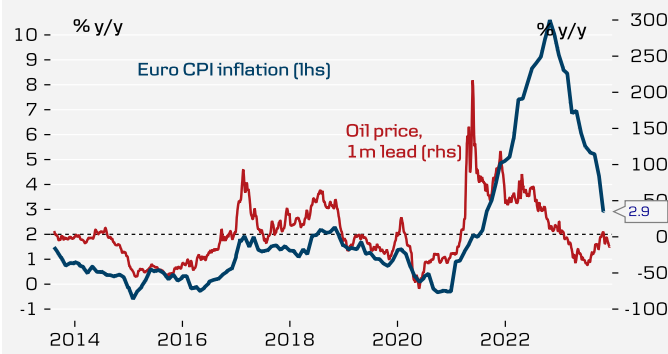


Source: Macrobond Financial, BLS

# Country details – Euro

## Top Down

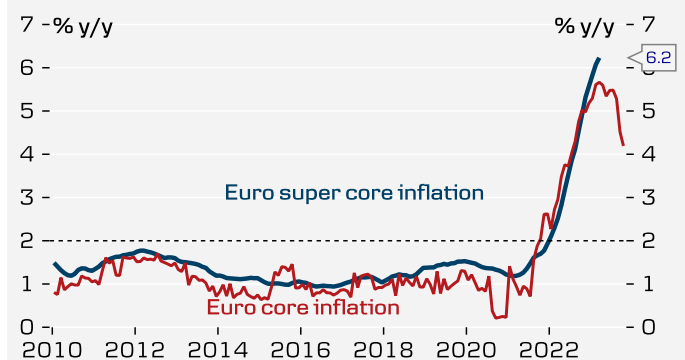
**Headline vs. oil prices**



Source: Macrobond Financial, Eurostat

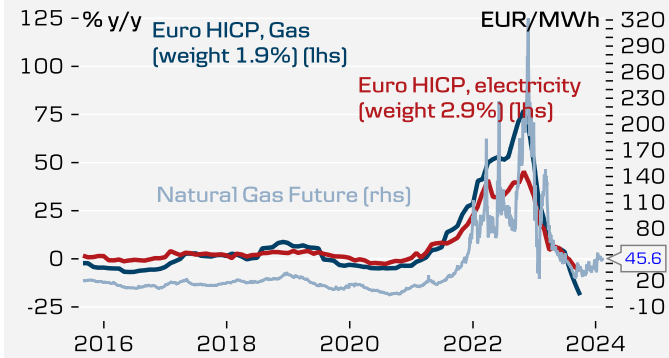
Note: Past performance is not a reliable indicator of future performance.

**Core inflation**



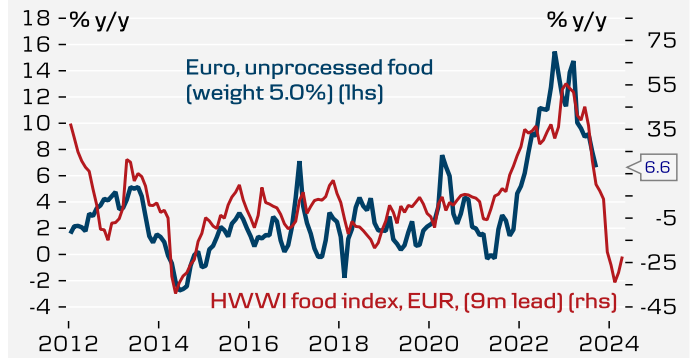
Source: Macrobond Financial, Eurostat, Danske Bank

### Natural gas & electricity



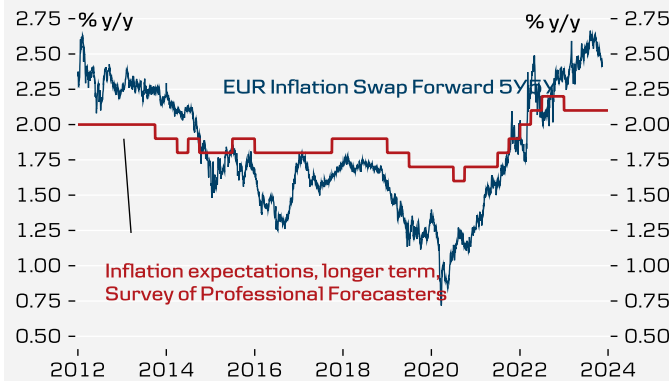
Source: Macrobond Financial, Eurostat  
 Note: Past performance is not a reliable indicator of future performance.

### Food



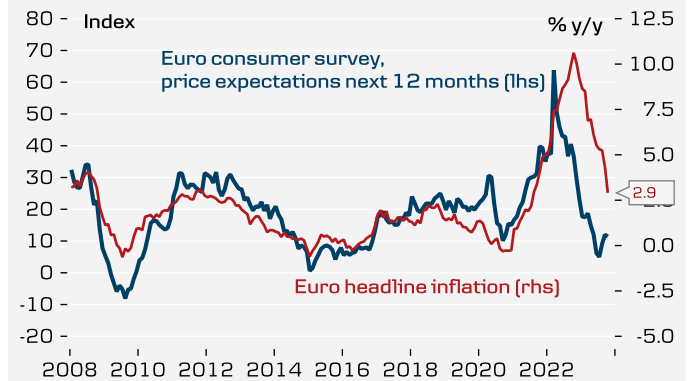
Source: Macrobond Financial  
 Note: Past performance is not a reliable indicator of future performance.

### Inflation expectations



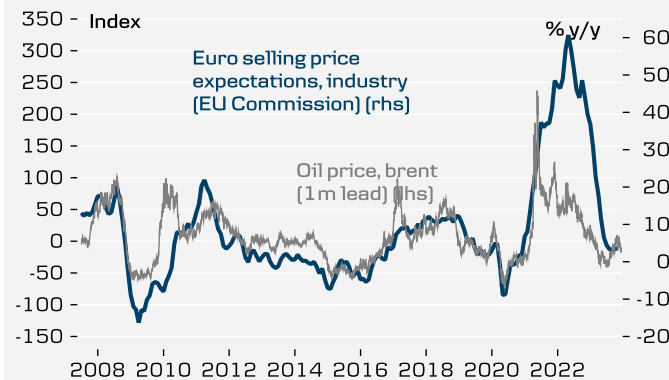
Source: Macrobond Financial, Bloomberg, ECB

### Consumer confidence - price expectations



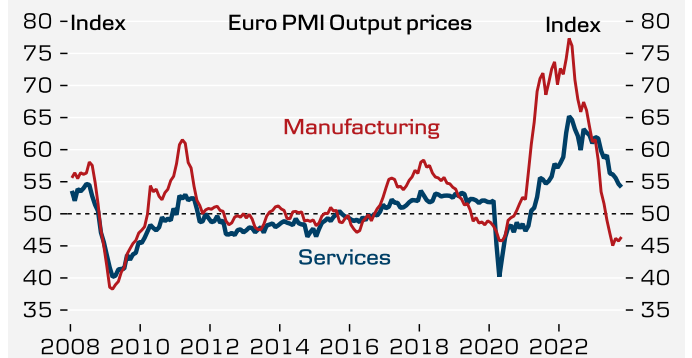
Source: Macrobond Financial, EU Commission, Eurostat

### Selling price expectations from companies



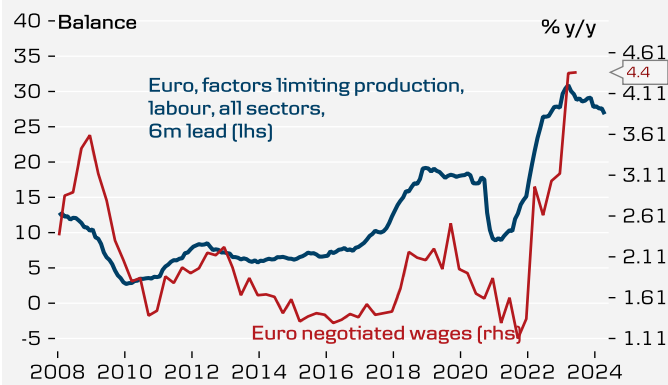
Source: Macrobond Financial, EU Commission  
 Note: Past performance is not a reliable indicator of future performance.

### PMI output prices



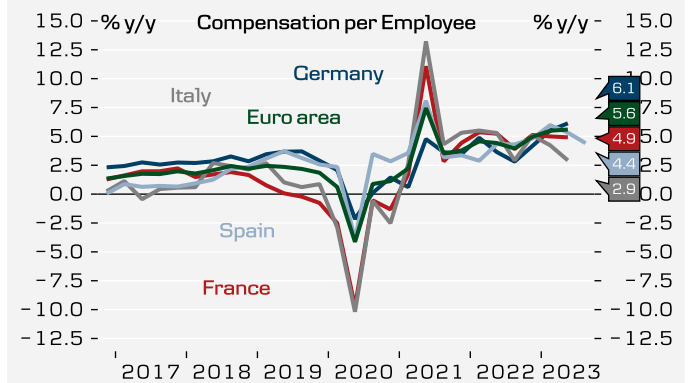
Source: Macrobond Financial, Markit

### Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

### Wage compensation

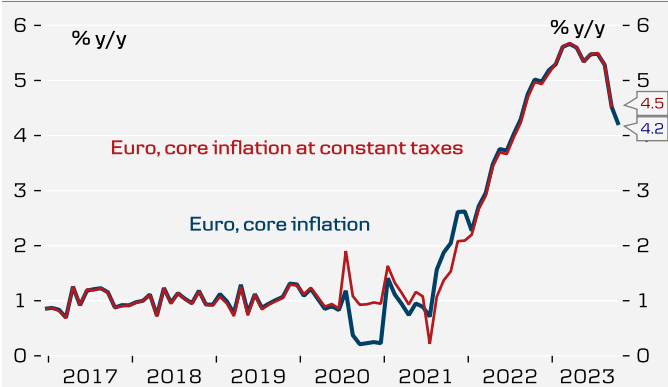


Source: Macrobond Financial, ECB.

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

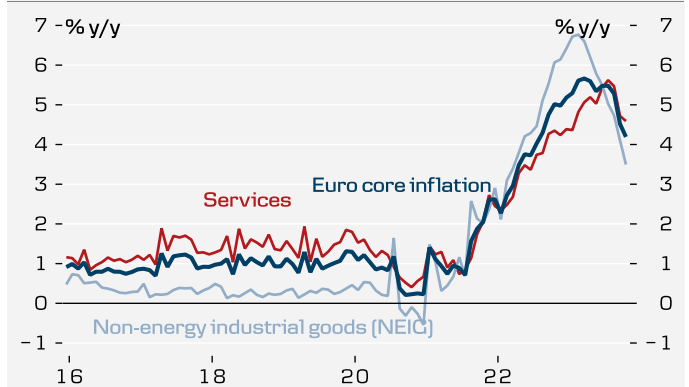
## Bottom up

### Core inflation, effect from taxes



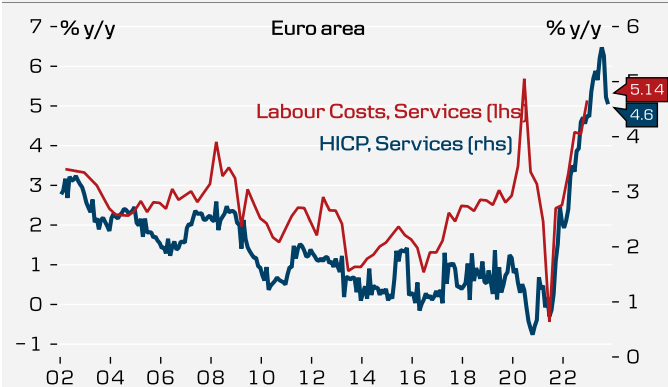
Source: Macrobond Financial, Eurostat

### Core inflation components



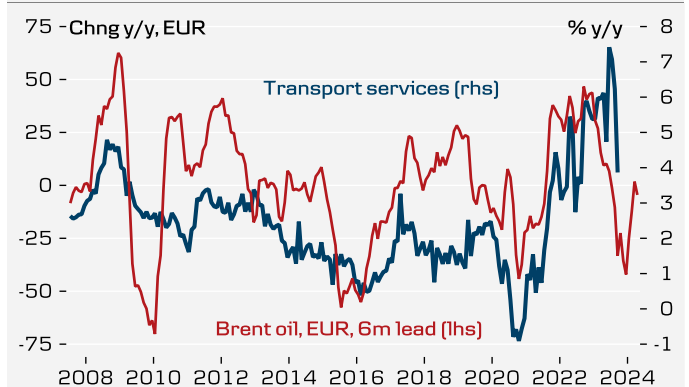
Source: Macrobond Financial, Eurostat, ECB

### Service inflation vs. labour costs



Source: Macrobond Financial, Eurostat, Danske Bank

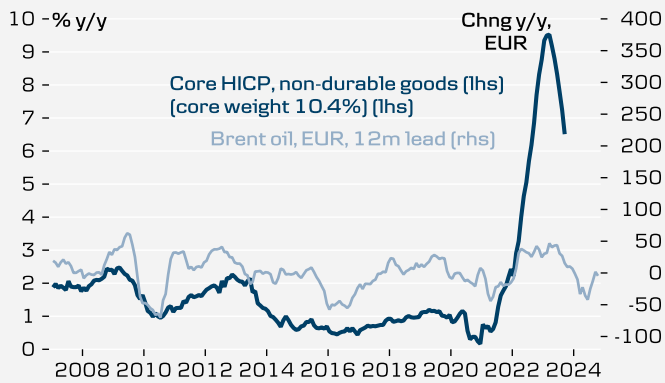
### Transport services vs. oil



Source: Macrobond Financial, Eurostat, Danske Bank

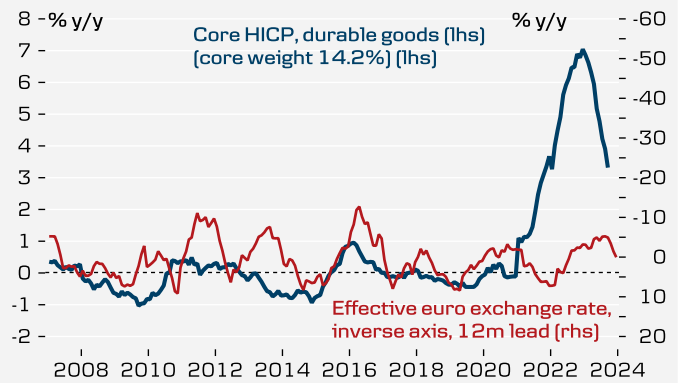
Note: Past performance is not a reliable indicator of future performance.

### Core non-durable goods



Source: Macrobond Financial

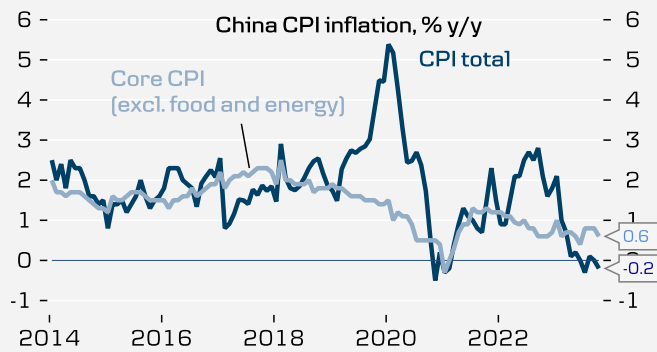
### Core durable goods



Source: Macrobond Financial

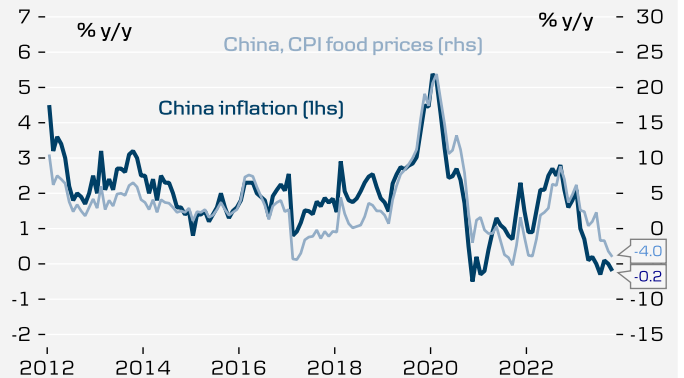
## Country details – China

### CPI and core CPI



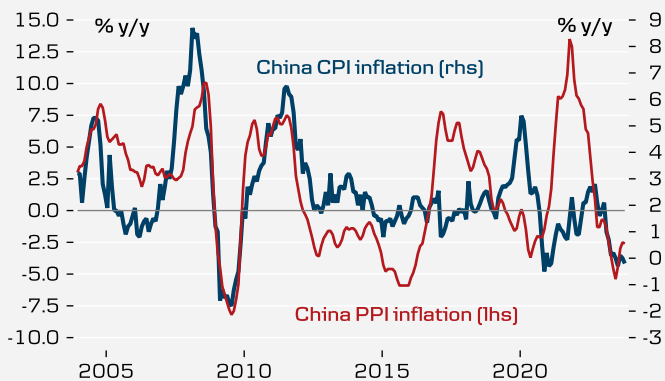
Source: Macrobond Financial, NBS

### CPI and food prices



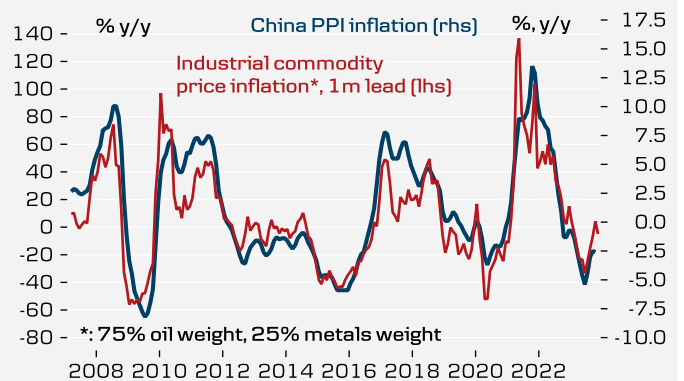
Source: Macrobond Financial, NBS

### 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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