

Global Inflation Watch

Inflation keeps pushing higher

- Overview:** A rise in commodity prices, tight labour markets and high inflation expectations has lifted inflation further. However, risk of recession may soon be dampening pricing power among businesses. Freight rates are elevated but off the highs. We look for US core inflation to rise further and peak at 6.6% in March 2022 before easing to around 4.6% by end-2022. We expect euro core inflation to rise above 3% in the coming months and stay around ECB's 2% target in 2023.
- Inflation expectations:** Market-based long-term inflation expectations have moved higher. US household long-term inflation expectations are at a 10-year high. Euro household price expectations have stabilized at a high level.
- US:** CPI inflation rose to 7.9% y/y in February and we expect further increases near-term due to higher energy and food prices. Underlying price increases remain high, as CPI and CPI core rose 0.8% m/m and 0.5% m/m, respectively. Inflation expectations remain high (especially near-term) and nearly 50% of small businesses expect to hike prices in 3M. It puts a lot of pressure on the Fed to tighten policy quickly in order to get inflation back towards 2%. Early signs wage growth is peaking based on surveys.
- Euro:** Inflation pressures continue to build at an unrelenting pace, as higher input costs are still working their way through the pricing chain. 60% of core inflation items now have inflation rates above 2%. Headline and core inflation rose to new record highs of 5.8% and 2.7%, respectively, in February. Negotiated wage growth remained moderate in Q4 21 at 1.6% (up from 1.3% in Q3), but inflation rates well above target throughout the year raise the risk of higher inflation expectations fuelling wage adjustments down the line. We expect to see further core inflation increases ahead, keeping pressure high on ECB to normalise policy (read more in *Big Picture - Headwinds to the global economy from Ukraine war and Fed tightening*, 17 March).
- China:** Chinese PPI inflation dropped to 8.8% y/y in February further down from the peak in October at 13.5% y/y. CPI is running at 0.9% y/y held down by food prices.

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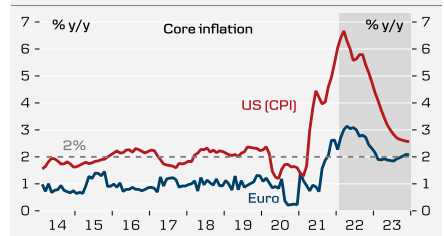
Market inflation expectations have moved higher lately



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

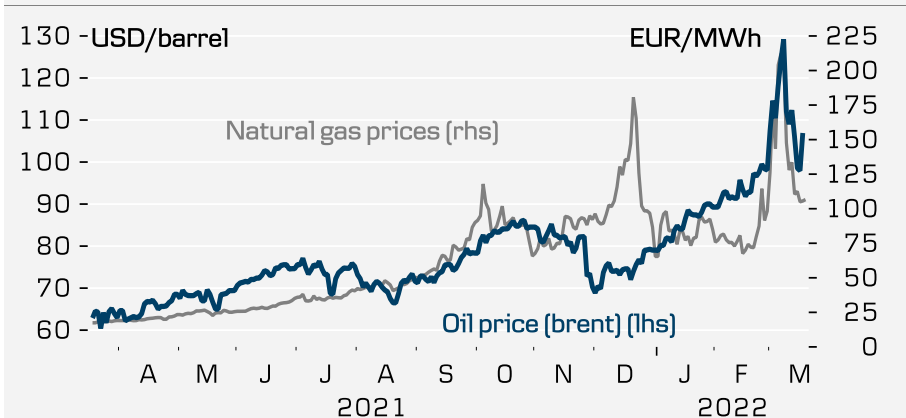
Source: Macrobond Financial, Bloomberg

Core inflation rising but should peak soon



Source: Macrobond Financial, Bloomberg

High oil and gas prices, but they are off the initial peak after Ukraine war broke out



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

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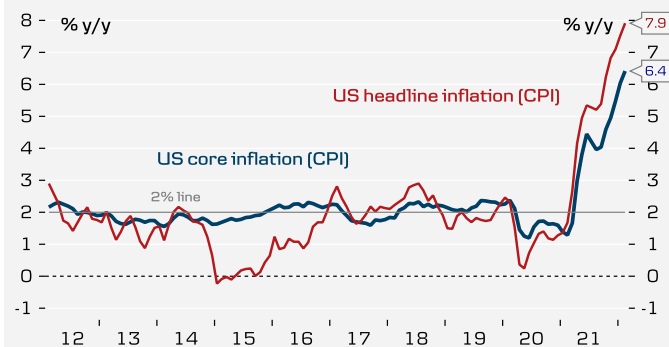
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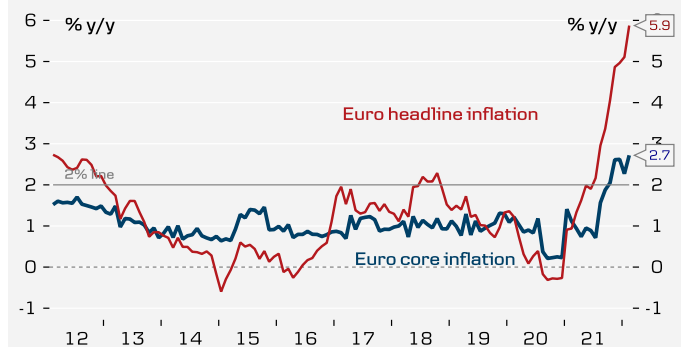
Top down overview

US headline and core inflation (CPI)



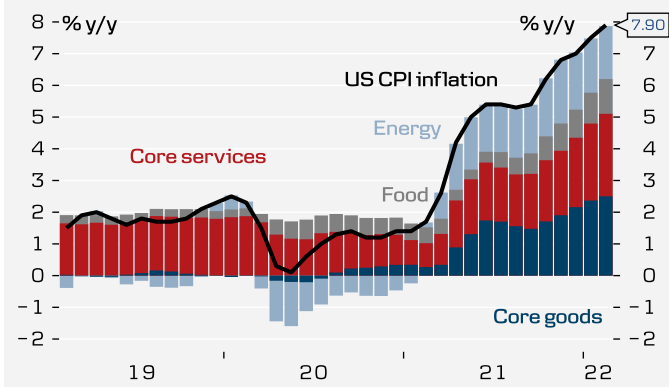
Source: Macrobond Financial, BLS

Euro headline and core inflation



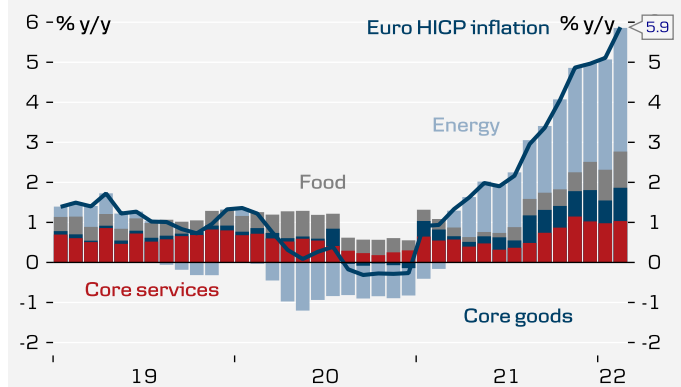
Source: Macrobond Financial, Eurostat

Contributions to US inflation



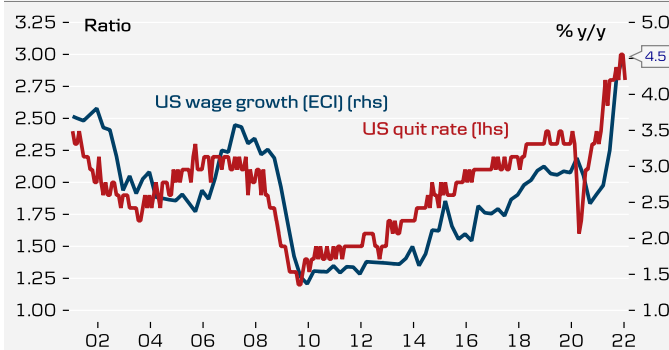
Source: Macrobond Financial, BLS

Contributions to euro inflation



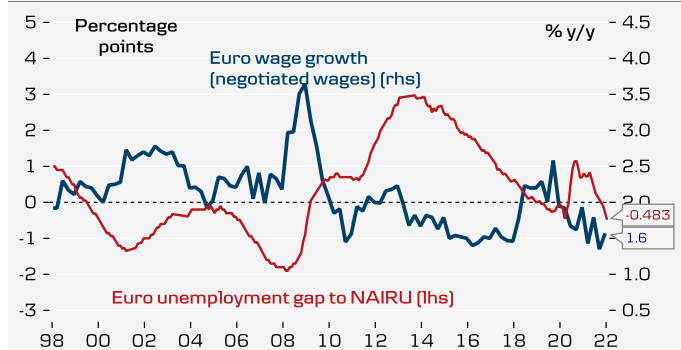
Source: Macrobond Financial, Eurostat

US wage growth and labour market tightness



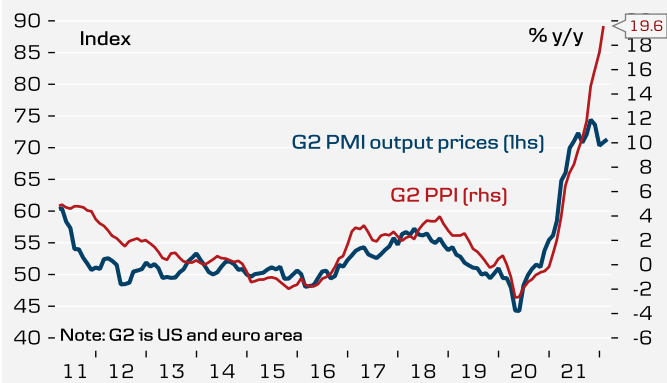
Source: Macrobond Financial, BLS

Euro wage growth and labour market tightness



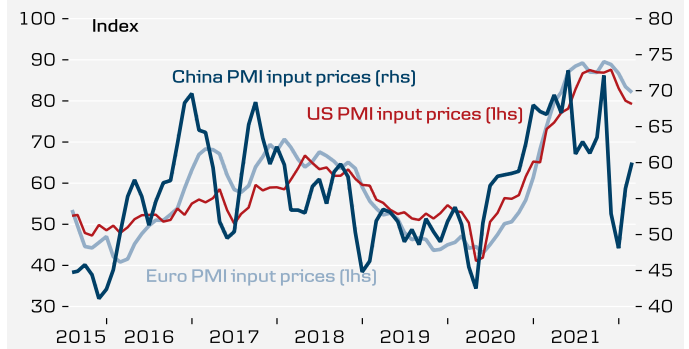
Source: Macrobond Financial, Eurostat, ECB

G2 PPI inflation vs oil price inflation



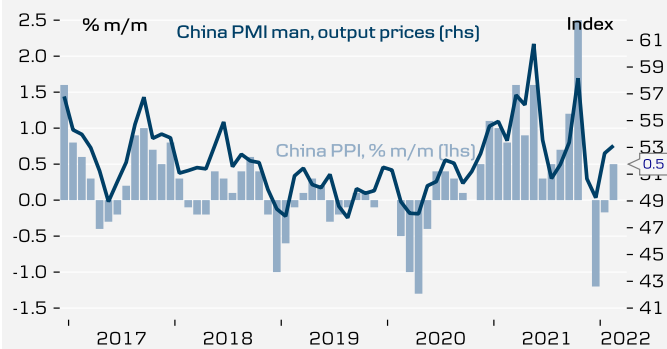
Source: Macrobond Financial, BLS, Eurostat

PMI input price indices US, Euro and China



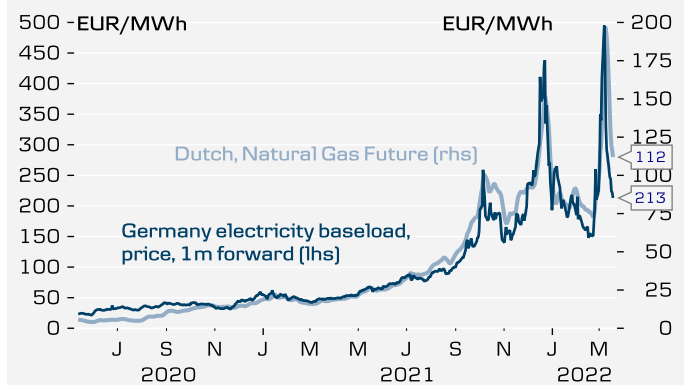
Source: Macrobond Financial, Markit

China PPI inflation momentum



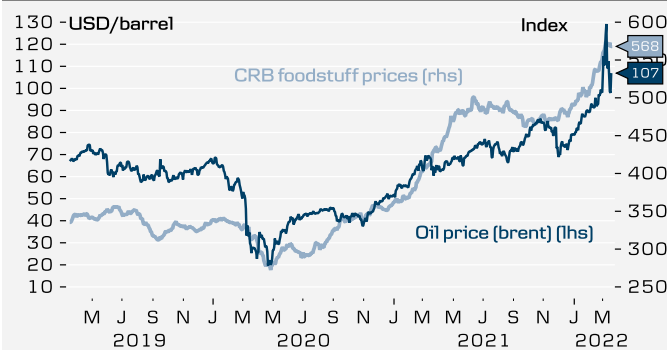
Source: Macrobond Financial, Markit

European natural gas and electricity prices



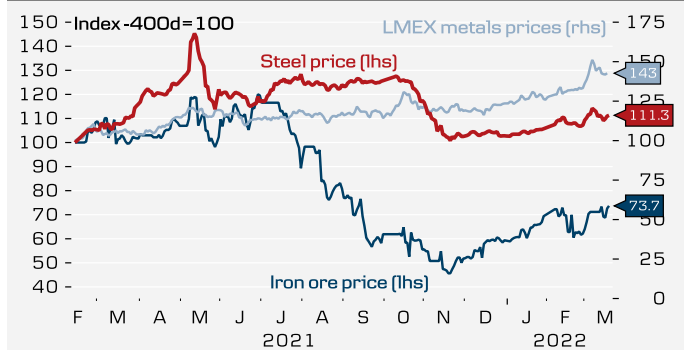
Note: Past or current performance is no guarantee of future performance
Source: Macrobond Financial, PBoC, Danske Bank

Commodity price levels – oil, metals and food



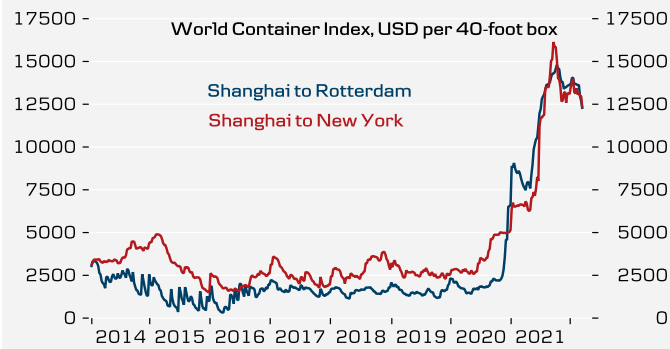
Source: Macrobond Financial, Bloomberg
Note: Past performance is not a reliable indicator of future performance.

Commodity price levels – steel, iron ore and lumber



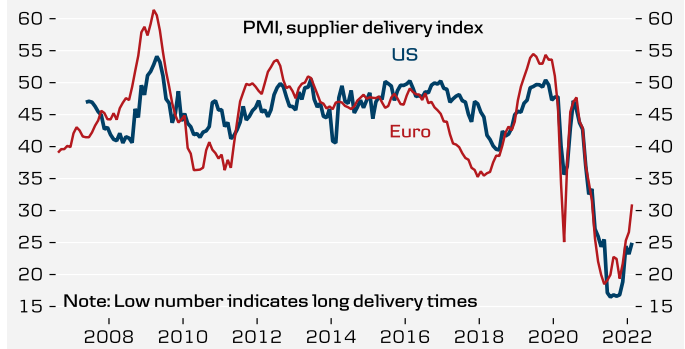
Source: Macrobond Financial, Bloomberg
Note: Past performance is not a reliable indicator of future performance.

Freight rates



Source: Macrobond Financial, Bloomberg, WCI

Bottle necks - supplier delivery indices

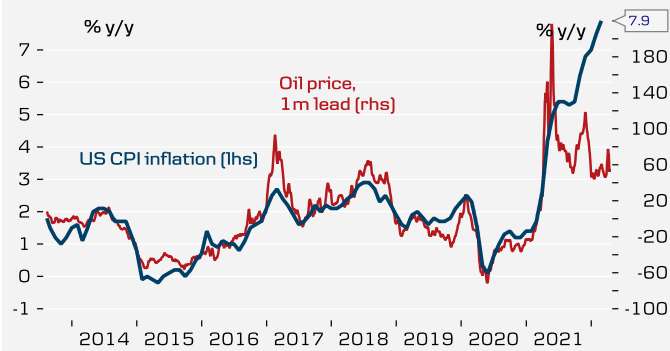


Source: Macrobond Financial, Markit

Country details - US

Top down

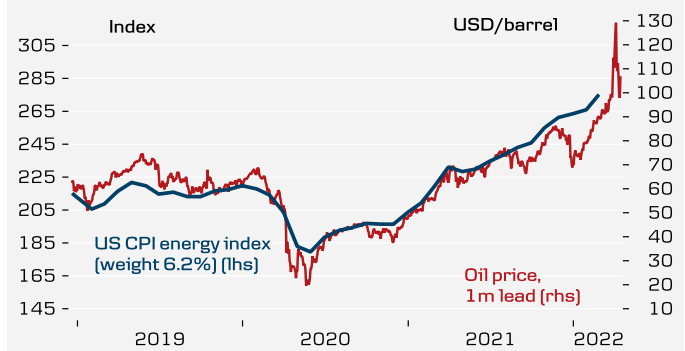
Headline CPI inflation vs. oil prices



Source: Macrobond Financial, BLS.

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

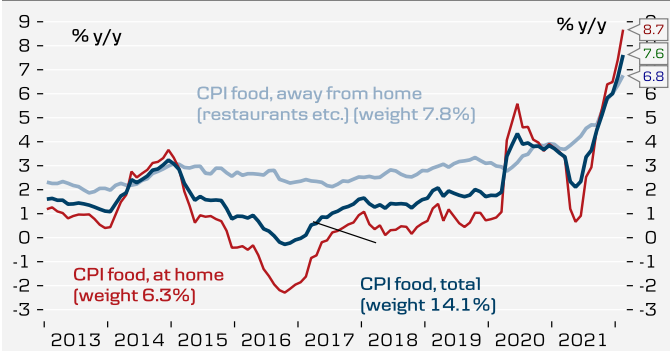
CPI energy prices vs oil



Source: Macrobond Financial, BLS.

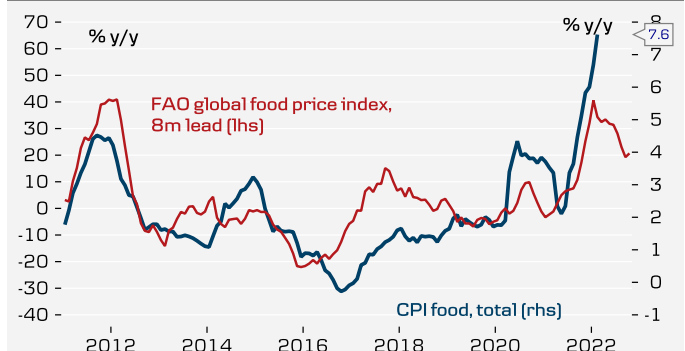
Note: Past performance is not a reliable indicator of future performance.

Food prices



Source: Macrobond Financial, BLS

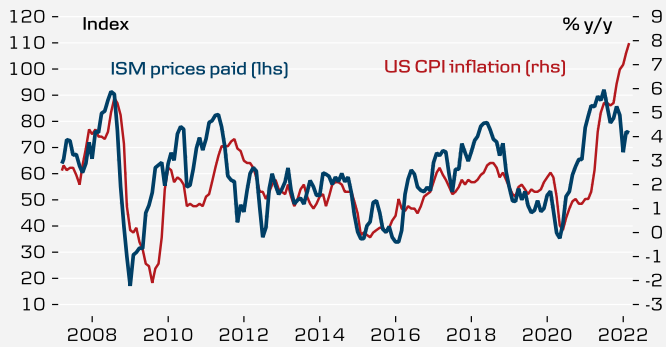
Food prices vs FAO food price index



Source: Macrobond Financial, FAO, BLS

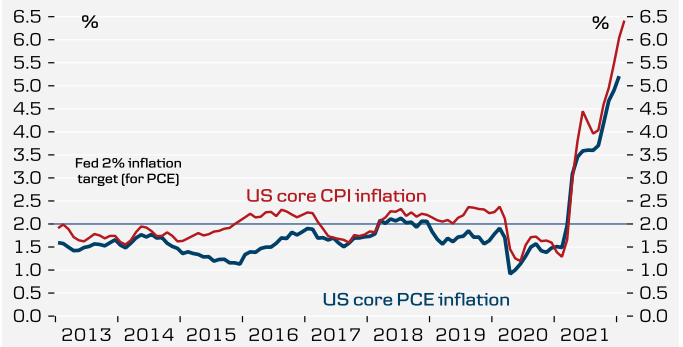
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US PMI output prices vs CPI inflation



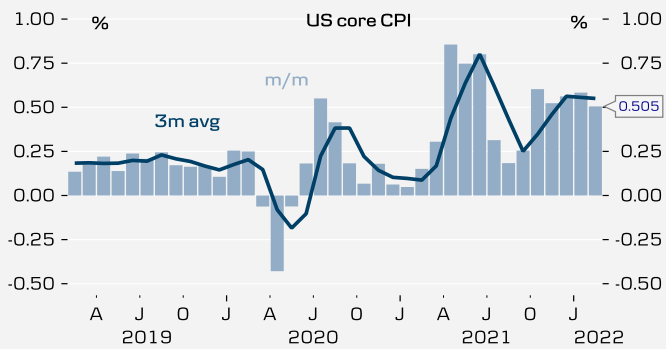
Source: Macrobond Financial, BLS, Markit

Core PCE inflation vs core CPI inflation



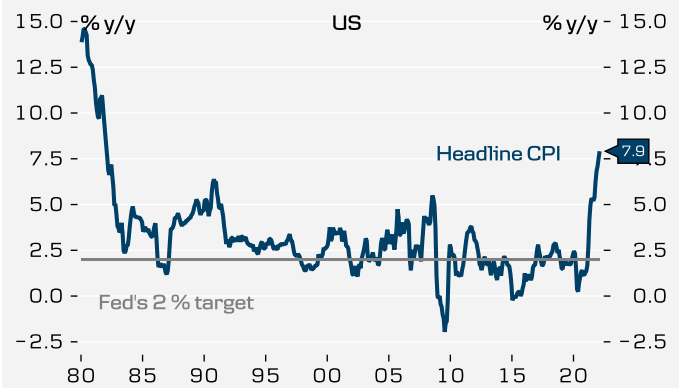
Source: Macrobond Financial, BLS, BEA

Core CPI momentum



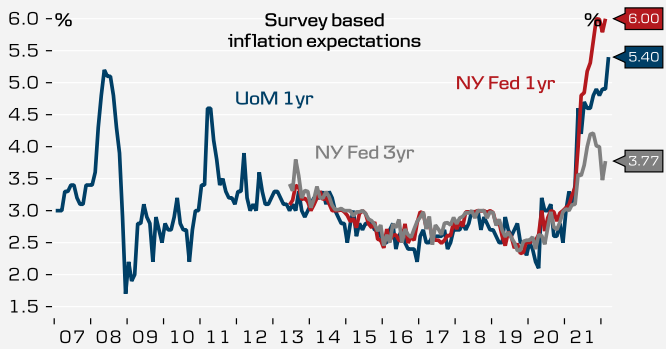
Source: Macrobond Financial, BLS

Headline CPI since 1980



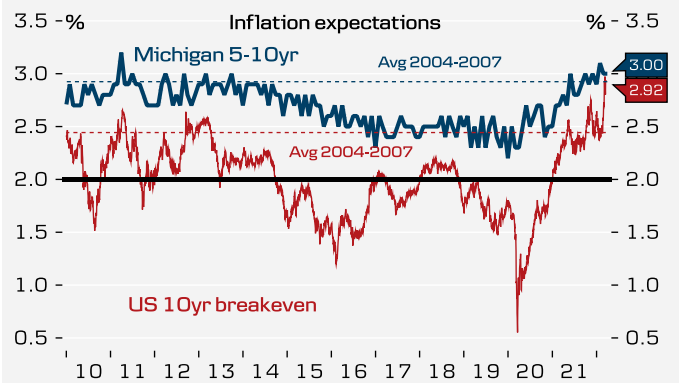
Sources: BEA, BLS, Macrobond Financial

Survey-based inflation expectations



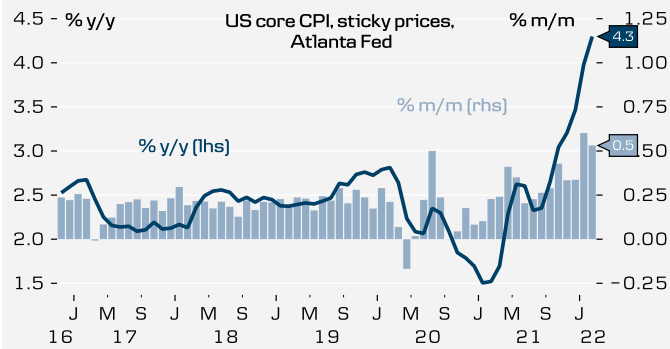
Source: NY Fed, University of Michigan, Macrobond Financial

Long-term inflation expectations



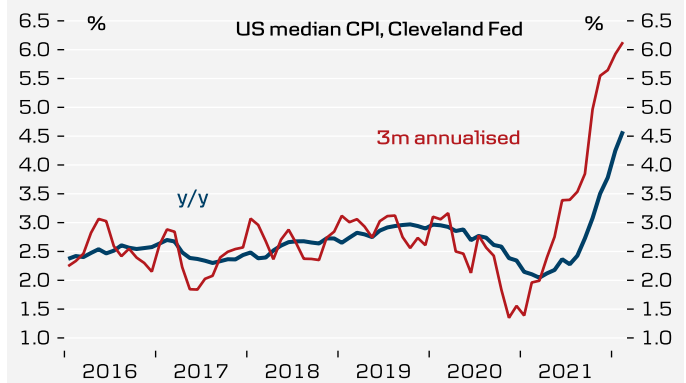
Source: Macrobond Financial, University of Michigan
Note: Past performance is not a reliable indicator of future performance.

Core sticky prices inflation (prices changed less frequently)



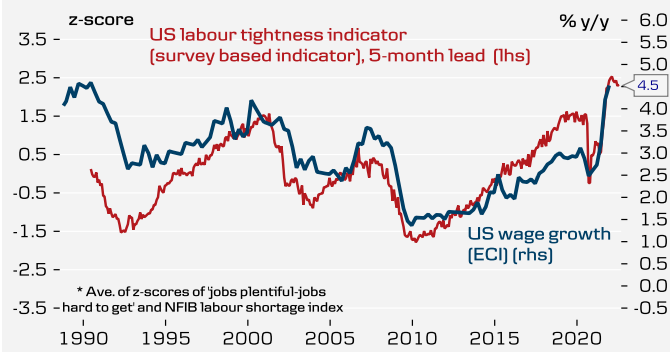
Source: Macrobond Financial, Atlanta Fed

Median CPI inflation



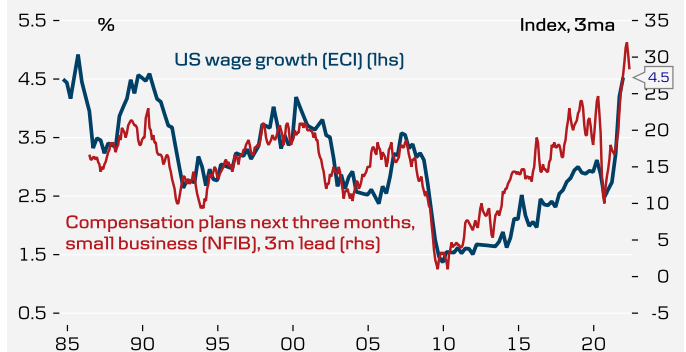
Source: Macrobond Financial, Cleveland Fed

Labour market tightness: Wage growth vs tightness



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

Labour market tightness: Job openings and shortage



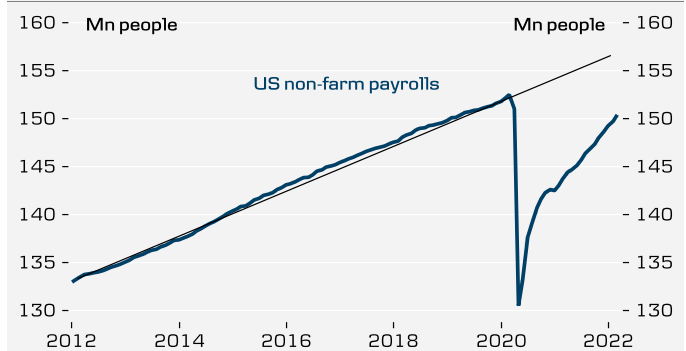
Source: Macrobond Financial, NFIB, BLS

Labour market tightness: Jobs hard to get and unemployment



Source: Macrobond Financial, Conference Board, BLS

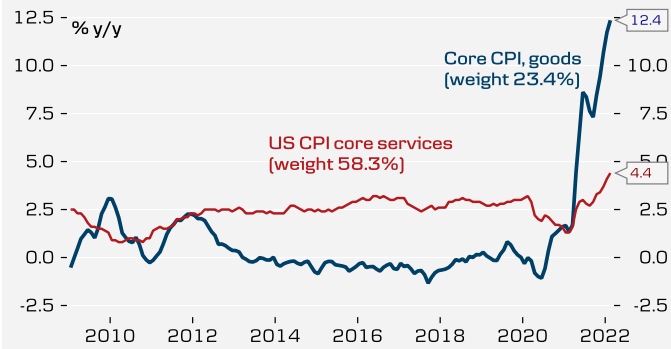
Employment gap



Source: Macrobond Financial, BLS

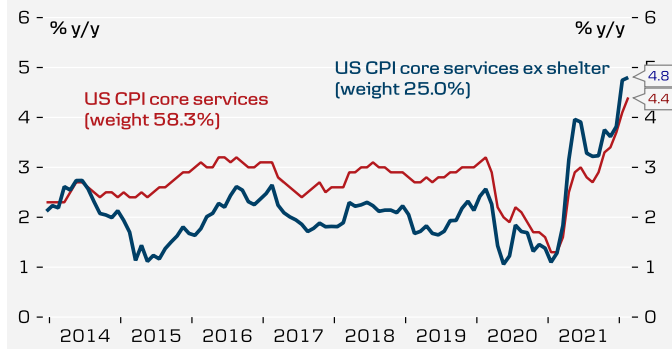
Bottom up

Core goods vs. services



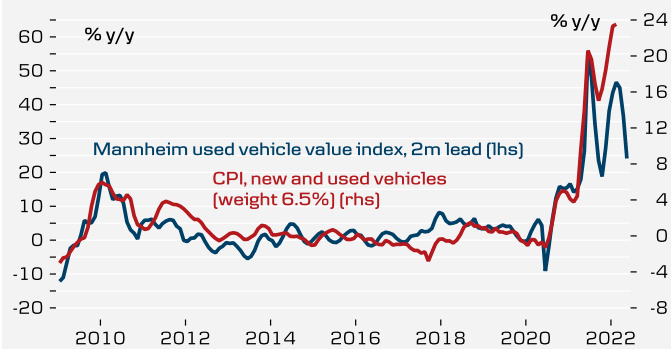
Source: Macrobond Financial, BLS

Core services ex shelter



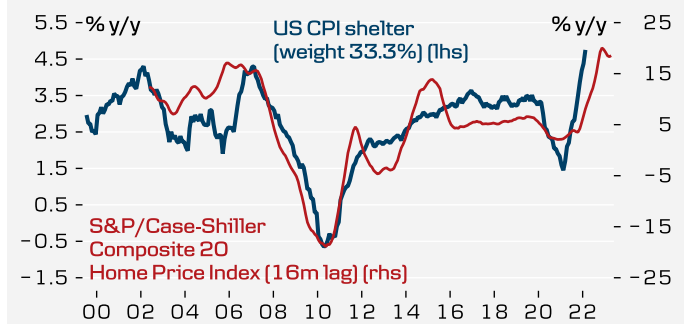
Source: Macrobond Financial, BLS

Used car prices



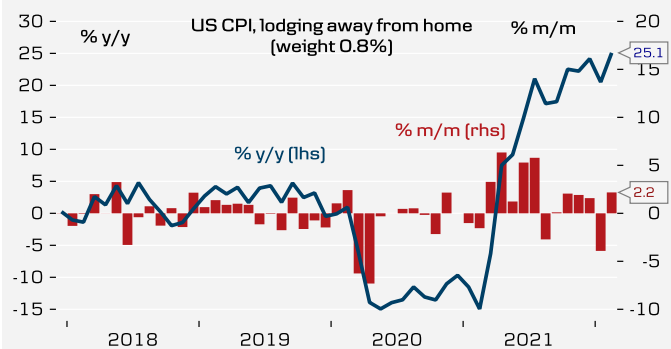
Source: Macrobond Financial, BLS, Manheim Consulting

Rent of shelter



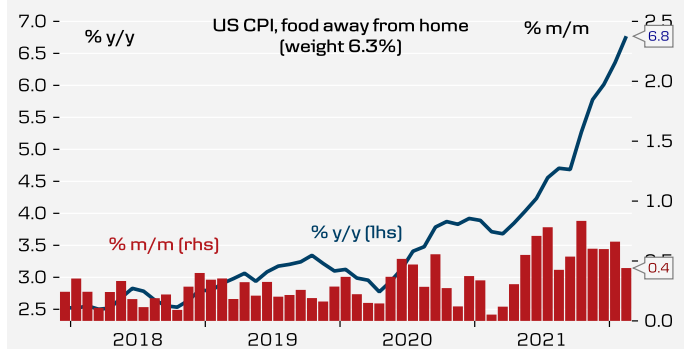
Source: Macrobond Financial, BLS, S&P Dow Jones

Lodging away from home (hotels etc.)



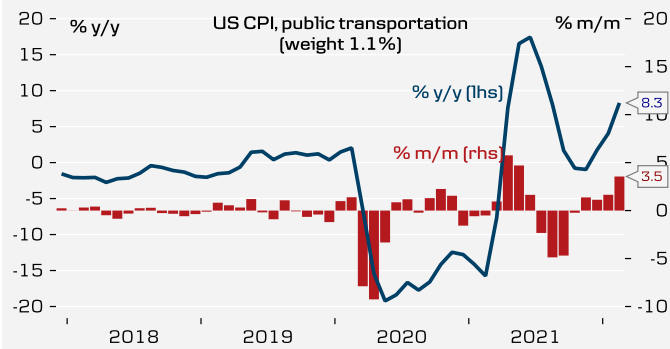
Source: Macrobond Financial, BLS

Food away from home (restaurants etc.)



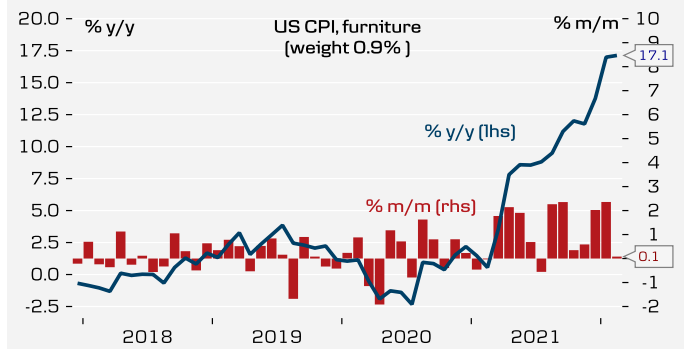
Source: Macrobond Financial, BLS

Public transportation (airfares etc.)



Source: Macrobond Financial, BLS

Furniture

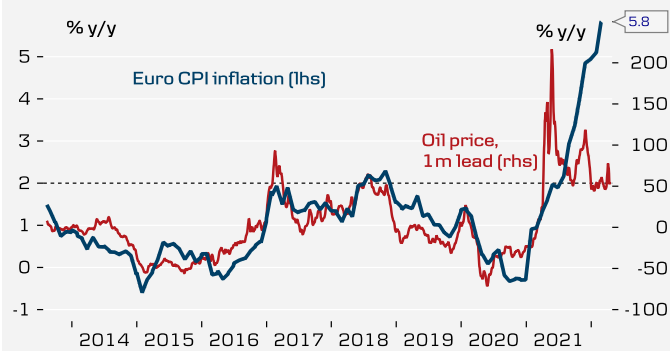


Source: Macrobond Financial, BLS

Country details – Euro

Top Down

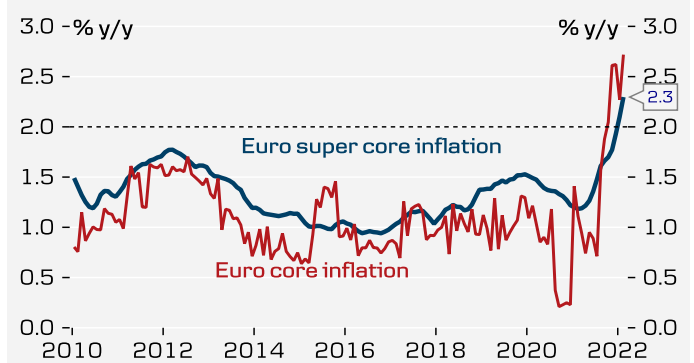
Headline vs. oil prices



Source: Macrobond Financial, Eurostat

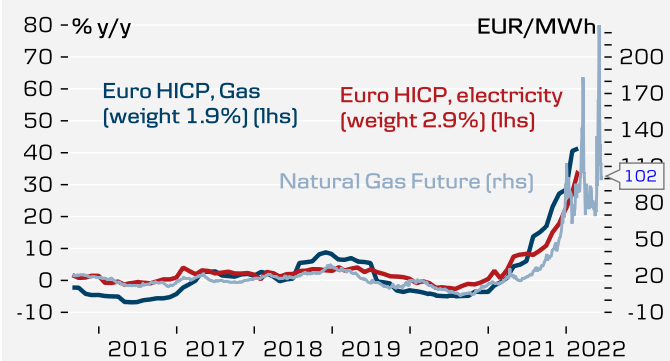
Note: Past performance is not a reliable indicator of future performance.

Core inflation



Source: Macrobond Financial, Eurostat, Danske Bank

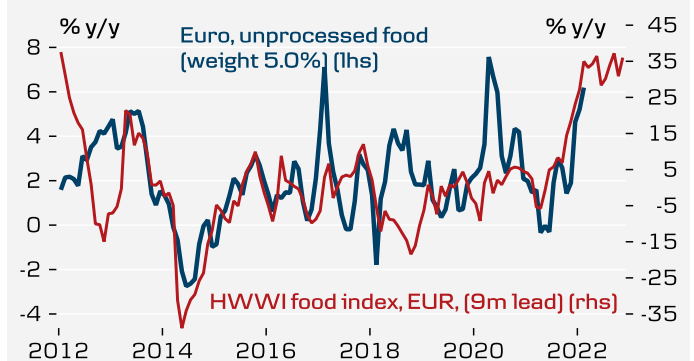
Natural gas & electricity



Source: Macrobond Financial, Eurostat

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

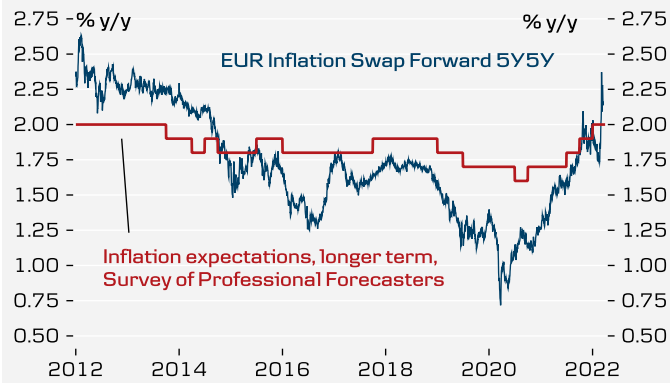
Food



Source: Macrobond Financial

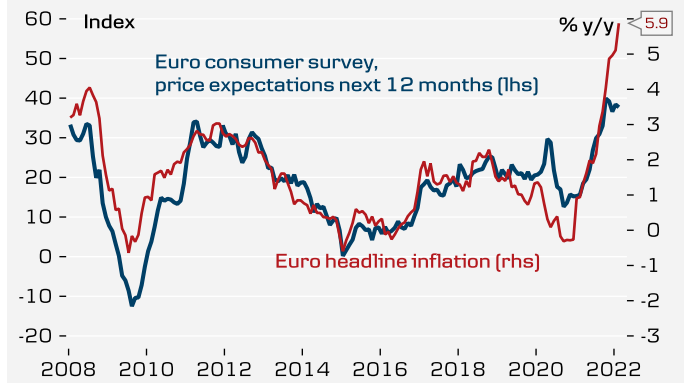
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Inflation expectations



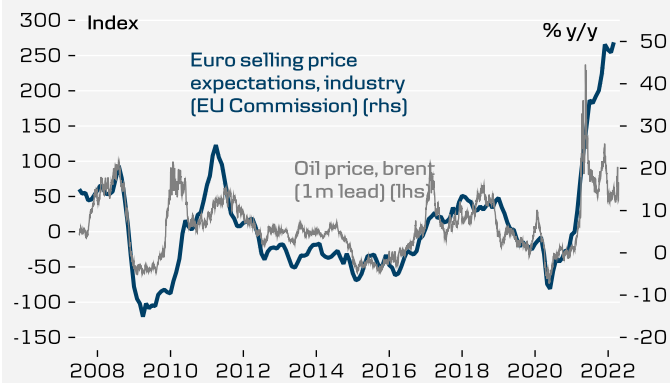
Source: Macrobond Financial, Bloomberg, ECB

Consumer confidence - price expectations



Source: Macrobond Financial, EU Commission, Eurostat

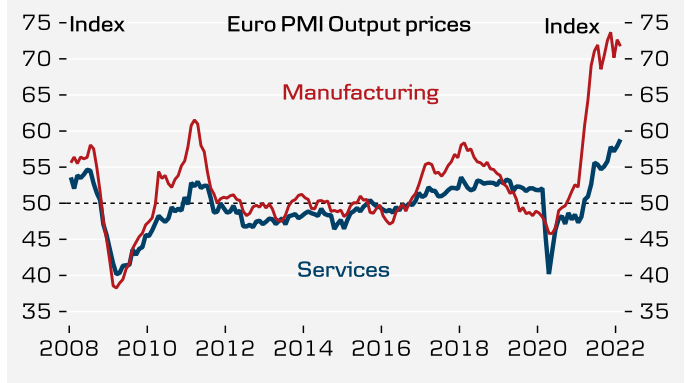
Selling price expectations from companies



Source: Macrobond Financial, EU Commission

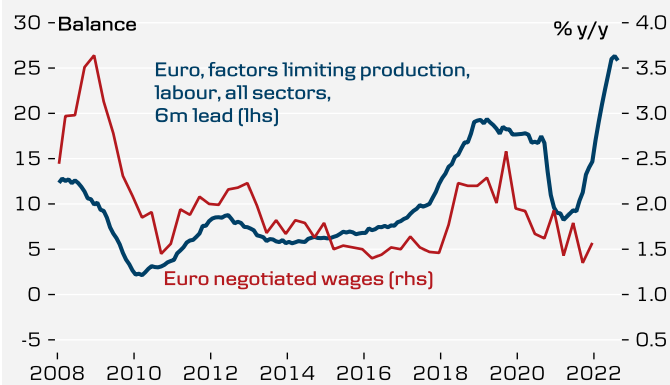
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PMI output prices



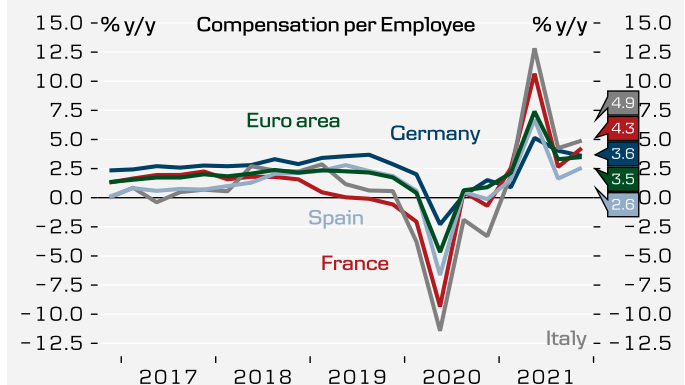
Source: Macrobond Financial, Markit

Labour shortage and wage growth



Source: Macrobond Financial, EU Commission

Wage compensation

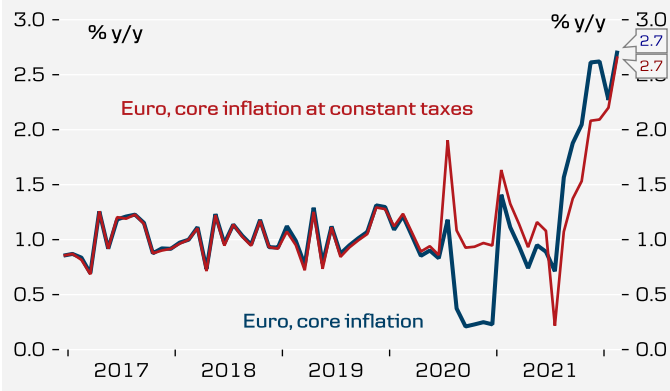


Source: Macrobond Financial, ECB.

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

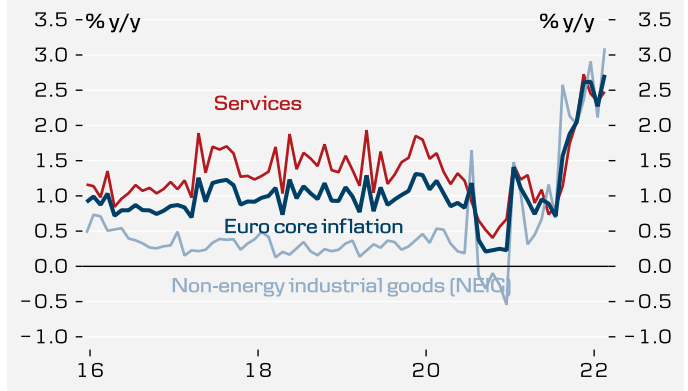
Bottom up

Core inflation, effect from taxes



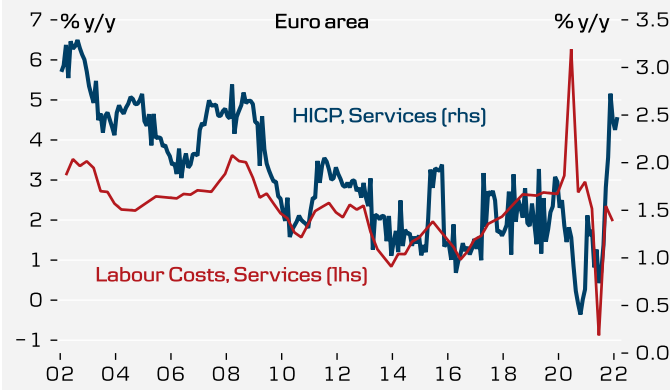
Source: Macrobond Financial, Eurostat

Core inflation components



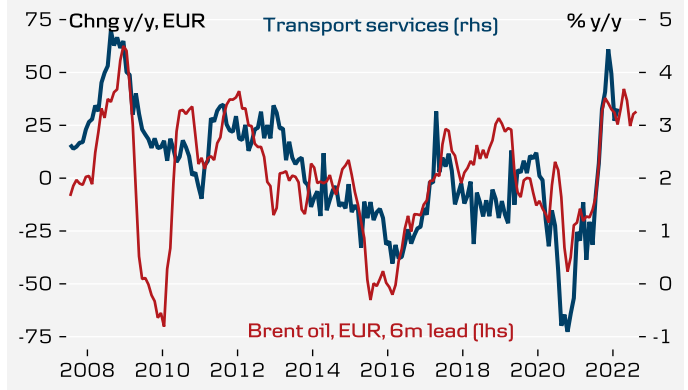
Source: Macrobond Financial, Eurostat, ECB

Service inflation vs. labour costs



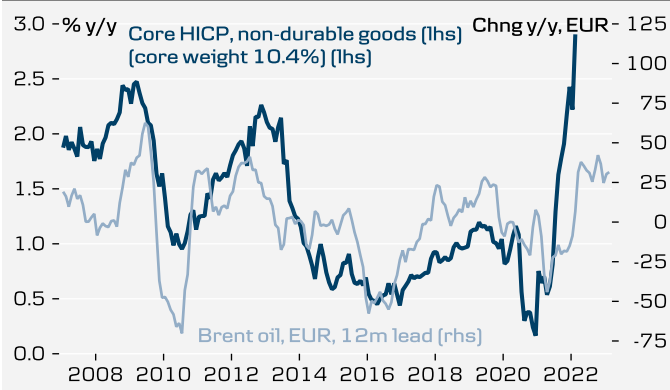
Source: Macrobond Financial, Eurostat, Danske Bank

Transport services vs. oil



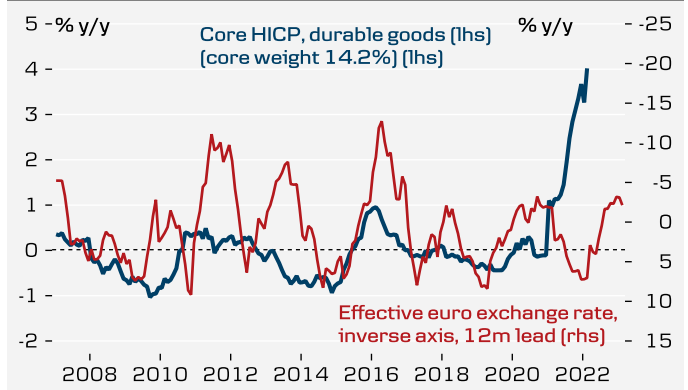
Source: Macrobond Financial, Eurostat, Danske Bank
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Core non-durable goods



Source: Macrobond Financial

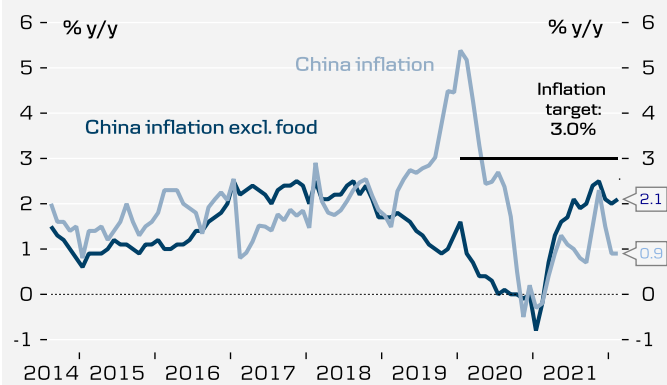
Core durable goods



Source: Macrobond Financial

Country details – China

CPI and CPI ex food



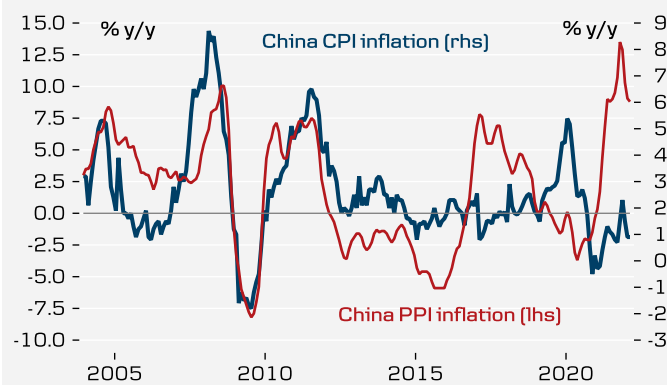
Source: Macrobond Financial, NBS

CPI and food prices



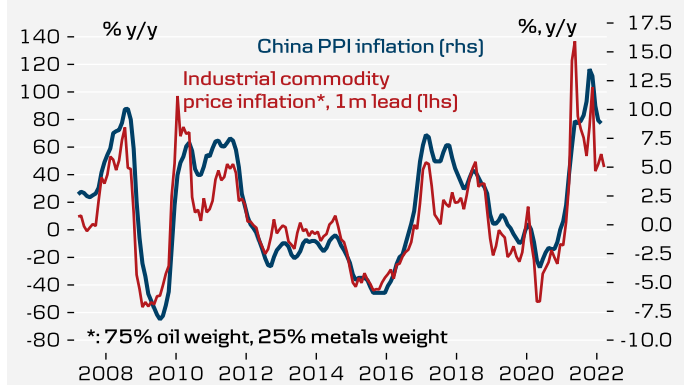
Source: Macrobond Financial, NBS

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 and Aila Mihr, Senior Analyst.

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