

Weekly Focus

UK joins the “10% inflation club”

Macroeconomic indicators this week pointed to further headwinds for the global economy. In the US, the New York Empire Manufacturing Index slumped to -31.3 (from 11.1) in August, the lowest level since slump after the first Covid-19 lockdown. The sharp drop was driven by weaker current conditions, while the expectations index improved slightly. The current Empire level implies US Manufacturing PMI clearly below 50, in line with what the new orders index predicted already in July.

Also in Europe, there were weak indicators with the German ZEW expectations diving further during August to the lowest level since October 2008. The ZEW signals further declines in PMI ahead and increasing recession risk in the German economy, which is also our base case for the second half of this year, see [Research Germany - Zeitenwende](#), 25 July. Our forward looking macroeconomic model, MacroScope, this week also pointed to further weakening momentum in the global economy across regions over the next six months, see [MacroScope: rising recession risks](#), 18 August.

On the inflation front, UK CPI inflation surprised to the upside creeping above 10% in July. The UK is thereby joining the “club” of countries, mostly in Eastern Europe and emerging markets, with double digit inflation rate. We think this highlights the need for Bank of England (BoE) to continue to frontload rate hikes, although a looming recession may curtail its hiking intentions into next year. The EUR/GBP cross initially moved lower on the back of the print, but later rebounded amid weak global risk sentiment.

Another central bank that is upping its policy rate hikes is Norges Bank, which yesterday as expected carried out a 50bps rate hike. The move comes after the upward inflation surprise in July. The central bank dropped its specific forward guidance for the September meeting, just indicating that the policy rate “will most likely be raised further in September”. We expect the Bank to raise its policy rate at that meeting by 25bps against market expectation of a bigger 50bps move.

In financial markets the clear winner was the USD while both equity markets and rates markets traded mostly sideways. We published our new FX Forecast Update this week, [FX Forecast Update - USD to shrug off recession fears](#), 17 August, and see USD strength continuing with EUR/USD falling below parity over the next 12M due to Europe suffering from an energy related negative terms of trade shock and further tightening of global financial conditions.

Looking into next week, a key focus will be August flash PMIs out in most western economies on Tuesday. In Europe, further declines – as also signaled by ZEW – will probably be in store, as the energy crisis is taking its toll on demand in manufacturing and services and recession fears are rising. In the US, lower gasoline prices and rebound in real incomes may support service sector demand. Look also out for the US personal expenditure data on Friday. The Jackson Hole Symposium will take place from Thursday until Saturday. Here Federal Reserve officials may outline their view on monetary policy amid a weakening economy.

Key global views

- High risk of recession in Europe in H2. We expect the US to fall into recession in Q22023
- US inflation to peak in Q3, wage growth to stay high. Euro inflation to stay elevated in Q3 on higher electricity prices. Easing pressure from oil, metals, freight and food to pull global inflation lower in 2023.
- Fed to hike by another 125bp this year, then stop. ECB to hike a further 100bp this year, then stop.

Key market movers

- Tue: Flash manufacturing and service August PMIs
- Thu: German IFO for August
- Fri: US personal consumption data

Thu-Sat: Fed's Jackson Hole Symposium

Selected reading from Danske Bank

[Reading the Markets Norway - Norges Bank: Front-loaded and 'data-dependent'](#), 18 Aug

[FX Forecast Update - USD to shrug off recession fears](#), 17 Aug

[Research China: The risk of a Taiwan war and what it implies - part 1](#), 11 Aug

Editor

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Scandi market movers

- In **Denmark**, June's employment figures are due on Monday. The Danish labour market has long looked very strong, with a record number of people on the labour market. Employment has been growing for 16 months in a row now, and still by relatively large increments. Looking ahead, we expect employment to slow. However, given the latest unemployment figures, there is no indication that the slowdown will materialise in next week's figures.

August's consumer confidence numbers are due on Tuesday. Consumer confidence remains at historical lows, driven, in particular, by high inflation and rising interest rates. These challenges have not yet dissipated, so a further fall is not unrealistic. Nevertheless, the current very low level makes further large declines difficult to imagine, so relatively unchanged consumer confidence is probably the most realistic outcome.

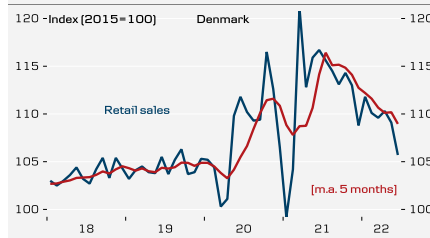
Retail sales figures for July are scheduled for Friday. The first half of 2022 has been difficult for the retail trade, which experienced declining revenues in four out of the year's first six months. Nevertheless, retail sales remain high historically speaking, with the consumption of goods particularly high during the pandemic. Whereas consumers were previously buying goods at a brisk pace, consumption has now shifted towards greater consumption of services and experiences, which has left its mark on retailers. We therefore expect retail sales to decline further in the time ahead.

- Next week provides more information about the developments in the **Swedish** housing market as July figures are published. Up until June, house prices were down by around 3% s.a. and according to our own Housing indicator (Boprisinikatorn) for Stockholm, the downturn accelerated further during July. And Stockholm usually is a quite good flash estimate for the direction in Sweden in total and so far prices is down by 10% from the price top in March.

Also the Labour Force Survey is out next week. The unemployment rate index continue to be volatile but the survey will give more details regarding hours worked and the employment. So far monthly surveys continue give signals of high demand on workers. Labour market indicators will however be key to follow coming months since a shift there would worsen the economic outlook quite sharply.

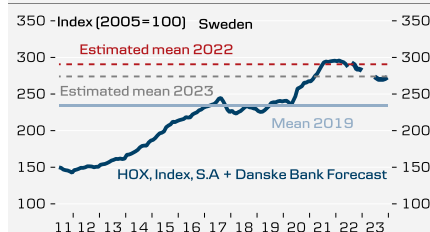
- In **Norway**, declining purchasing power as a result of high inflation, coupled with a shift in consumption from goods to services, has pulled down retail sales in recent months. Further high inflation and the prospect of much higher interest rates have caused consumer confidence to plummet to a record low. We expect this to mean that retail sales continue to tumble, with a drop of 1.5% m/m in July.

Retail sales under pressure



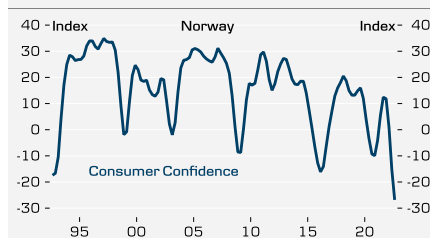
Source: Danske Bank, Statistics Denmark

We expect housing prices to decrease further



Source: Valueguard, Danske Bank

Consumers deeply pessimistic



Source: Macrobond, Danske Bank

Scandi update

Denmark – Impressive growth in Q2 22

Overall economic growth in Q2 22 came in at 0.7% relative to the previous quarter. That surpassed our expectations and far outpaced the slowdown that Danmarks Nationalbank's model for quarterly GDP had indicated. We cannot yet see detailed figures that would show what specifically has driven growth, but industrial production has significantly improved and many service industries have picked up after a Q1 that was still under the shadow of lockdown. The past quarter has otherwise been one where most have become somewhat poorer due to prices rising faster than wages, though this has seemingly not been sufficient to slow the overall economy. Looking ahead, we probably have to expect sales to dip. Companies in, for example, the construction sector have begun to report a drop in demand, which is unsurprising when consumers in Denmark and abroad have been hit hard by price increases, while market rates have risen steeply. We expect a period in which the overall economy more or less stagnates.

Figures from the Confederation of Danish Employers show private sector wage costs rose by 3.4% in Q2 22 compared to the same period last year. That was lower than in Q1 and thus indicates that wage pressures eased in Q2 this year. Given the current high level of inflation, low unemployment and record-high employment in Q2, wage pressures easing now comes as a surprise. In truth, this is the perfect cocktail for increasing wage pressure, which nevertheless remains absent for now. On the other hand, still modest wage growth combined with high inflation adds up to a marked decline in real wages. We would have to go three years back to find lower real wages in the private sector.

Sweden – Very high inflation but peak approaching

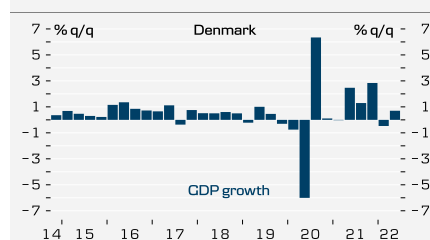
First of all, after July inflation outcome, we have lifted the path for core CPI inflation (CPIF excl. Energy) this fall further up so that it now hovers close to 7 % yoy until year-end. The main reason behind that change is food prices which is now expected to peak at 17 % yoy late this year. We also expect furniture and household appliance prices growth to remain double digit. Other core categories such as cars, transportation services and hotel/restaurant prices will be close 10 % yoy.

Secondly, looking at the energy component, we have pencilled in electricity prices in area 3 (including Stockholm and Gothenburg) to gradually rise to SEK 225 öre/KWh in January 2023 before falling back again. As a comparison we expect an average price of SEK 200 öre/KWh for the Dec-Mar period compared with about SEK 145 öre/KWh the previous period (i.e. year on year). That means an increase of some 40 %.

Looking at risks for core CPIF, they are probably clearly skewed to the upside over the short-term. In particular, food prices appear extra exposed to this risk. However, globally there are signs of deflationary pressures from container freight rates, raw industrials and base metals. Furthermore, in principle all other commodities including chemicals are falling in price although not in yoy terms (but yoy peak was in mid-2021). All of these will eventually exert a downward pressure on core inflation components, but the time lag is extremely hard to pinpoint.

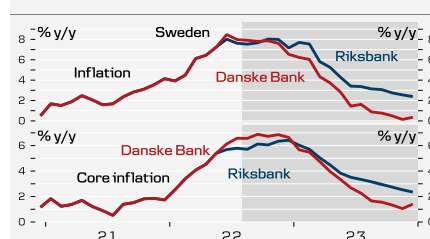
Headline CPIF is exposed to forces of energy and risk distribution is probably more balanced around our forecasts. Hence, we cannot preclude that electricity nor oil/fuel moves even higher than assumed, but it could likewise turn out lower than expected. Developments are dictated by global demand for oil and Russian gas warfare and extent of

Impressive growth in the Danish economy in Q2 22



Source: Danske Bank, Macrobond Financial

Sweden: higher forecast, but approaching peak



Source: SCB, Danske Bank, Riksbank

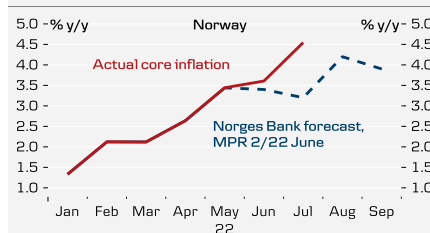
summer drought on continental Europe, Swedish precipitation (water reservoirs), wind and temperatures later this fall as nuclear plannable power has been reduced over the past couple of years.

The inflation forecast table with specific numbers will be published on Danske Bank's Research portal as usual.

Norway – Policy rate raised again

As expected, Norges Bank raised its policy rate by 50bp to 1.75% at its meeting during the week. The background is that inflation has been much higher than expected and is likely to remain high for some time. This was one of the bank's interim meetings, with no monetary policy report or press conference, only a press release – which concluded: “Based on the Committee's current assessment of the outlook and balance of risks, the policy rate will most likely be raised further in September.” This means that while the bank expects to raise the policy rate again at the September meeting, it is keeping its options open as to whether it hikes by 25bp or 50bp. The outcome will depend on whether or not the inflation outlook changes, and the inflation numbers for August published on 9 September will be crucial here. Our forecasts indicate that core inflation will increase only marginally to 4.6% y/y in August, in which case we would expect the bank to settle for 25bp, but there is considerable uncertainty. For example, the committee notes that “a markedly higher policy rate is needed to ease the pressures in the Norwegian economy and to bring inflation down towards the target”, which could be interpreted as the committee anticipating another double hike in September – but if this were clear-cut it would presumably have been stated explicitly in the conclusion. We still expect a clear downturn in both the global and the domestic economy during the autumn, with the result that the policy rate peaks at the end of the year.

Inflation has been much higher than expected



Source: Macrobond, Danske Bank

Calendar – 22-26 August 2022

Monday, August 22, 2022				Period	Danske Bank	Consensus	Previous
Tuesday, August 23, 2022				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Aug			52.1
2:30	JPY	Markit PMI services, preliminary	Index	Aug			50.3
8:00	DKK	Consumer confidence	Net. bal.	Aug			-25.6
9:15	FRF	PMI manufacturing, preliminary	Index	Aug		49.3	49.5
9:15	FRF	PMI services, preliminary	Index	Aug		53.4	53.2
9:30	DEM	PMI manufacturing, preliminary	Index	Aug		48.3	49.3
9:30	DEM	PMI services, preliminary	Index	Aug		49.0	49.7
10:00	EUR	PMI manufacturing, preliminary	Index	Aug		49.4	49.8
10:00	EUR	PMI composite, preliminary	Index	Aug		48.8	49.9
10:00	EUR	PMI services, preliminary	Index	Aug		50.5	51.2
10:30	GBP	PMI manufacturing, preliminary	Index	Aug		51.2	52.1
10:30	GBP	PMI services, preliminary	Index	Aug		52.0	52.6
15:45	USD	Markit PMI manufacturing, preliminary	Index	Aug		52.0	52.2
15:45	USD	Markit PMI service, preliminary	Index	Aug		50.2	47.3
16:00	EUR	Consumer confidence, preliminary	Net bal.	Aug		-28.0	-27.0
16:00	USD	New home sales	1000 (m/m)	Jul		580	590.0 (-8.1%)
Wednesday, August 24, 2022				Period	Danske Bank	Consensus	Previous
1:00	USD	Fed's Kashkari speaks					
8:00	NOK	Credit indicator (C2)	y/y	Jul			5.1%
14:30	USD	Core capital goods orders, preliminary	%	Jul			0.7%
16:00	USD	Pending home sales	m/mly/y	Jul		-2.5%L	-8.6%L-19.8%
16:00	USD	Fed's George speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-7056
Thursday, August 25, 2022				Period	Danske Bank	Consensus	Previous
8:00	SEK	Household lending	y/y	Jul			6.2%
8:00	DEM	GDP, final	q/qly/y	2nd quarter		0.0% 1.4%	0.0% 1.4%
8:00	DEM	Private consumption	q/q	2nd quarter		0.5%	-0.1%
8:00	DEM	Government consumption	q/q	2nd quarter		0.5%	0.1%
8:00	DEM	Gross fixed investments	q/q	2nd quarter		-0.2%	2.7%
8:45	FRF	Business confidence	Index	Aug		101.0	103.0
10:00	DEM	IFO - business climate	Index	Aug		86.9	88.6
10:00	DEM	IFO - current assessment	Index	Aug		96.5	97.7
10:00	DEM	IFO - expectations	Index	Aug		78.9	80.3
14:30	USD	GDP, ___ release	q/q AR	2nd quarter		-0.009	-0.009
14:30	USD	Initial jobless claims	1000				250
14:30	USD	PCE core	q/q AR	2nd quarter			0.044
Friday, August 26, 2022				Period	Danske Bank	Consensus	Previous
8:00	SEK	PPI	m/mly/y	Jul			2.5% 25.6%
8:00	NOK	Retail sales, s.a.	m/m	Jul	-1.5%		0.0%
8:00	DEM	GfK consumer confidence	Net. Bal.	Sep		-31.5	-30.6
8:00	DKK	Retail sales	m/mly/y	Jul			-3.2% -9.0%
8:45	FRF	Consumer confidence	Index	Aug		79.0	80.0
10:00	EUR	Money supply (M3)	y/y	Jul		5.5%	5.7%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Jul		5.5%	5.7%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Jul		5.5%	5.7%
14:30	USD	Personal spending	m/m	Jul		0.3%	1.1%
14:30	USD	PCE core	m/mly/y	Jul	0.3% 4.7%	0.3% 4.8%	0.6% 4.8%
14:30	USD	PCE headline	m/mly/y	Jul	0.0% 6.4%	0.1%L	1.0% 6.8%
14:30	USD	Advance goods trade balance	USD bn	Jul		-99.0	-98.6
16:00	USD	Fed chair Powell speaks					
16:00	USD	University of Michigan Confidence, final	Index	Aug		55.1	55.1

Source: Danske Bank

Macroeconomic forecast

Macro forecast. Scandinavia

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2021	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.7	2.6	36.7	8.3
	2022	3.5	2.1	-0.3	3.3	4.1	1.9	7.5	3.7	2.5	1.0	31.9	8.8
	2023	0.7	1.3	0.9	-0.4	2.2	2.5	3.4	4.0	2.7	0.7	29.9	8.1
Sweden	2021	4.8	6.1	2.6	5.9	7.6	9.3	2.2	2.7	8.8	-0.2	37.3	5.2
	2022	1.1	2.6	0.1	-0.3	5.4	6.3	6.4	2.0	7.4	-0.3	33.0	4.9
	2023	1.6	1.7	1.2	1.3	3.9	3.4	3.5	2.1	7.2	0.3	31.0	5.2
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	3.6	6.7	1.3	3.1	6.0	7.5	4.6	3.7	1.8	-	-	-
	2023	1.6	2.5	1.3	2.0	4.0	4.0	2.0	3.7	2.1	-	-	-

Macro forecast. Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	2021	5.3	3.6	3.9	3.9	10.4	8.1	0.0	0.0	7.7	-5.1	97.4	3.2
	2022	2.9	2.5	1.4	3.1	5.6	7.0	0.0	0.0	6.8	-3.7	94.7	2.4
	2023	0.5	0.6	2.4	2.2	2.6	4.8	0.0	0.0	6.8	-2.5	92.7	2.9
Germany	2021	2.6	0.3	2.9	1.0	9.5	9.0	0.0	0.0	3.6	-3.7	69.3	7.4
	2022	1.0	2.4	0.7	2.6	1.8	6.8	0.0	0.0	3.0	-2.5	66.4	6.4
	2023	0.0	0.2	2.8	2.5	2.1	4.8	0.0	0.0	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.6	2.7	1.1	5.6	5.6	2.2	2.3	7.7	-2.6	72.3	0.9
	2022	1.5	1.6	1.5	4.0	1.0	2.5	6.0	2.8	6.4	-2.8	65.0	-0.6
	2023	1.6	2.5	1.0	2.5	2.0	3.5	2.5	2.6	6.3	-2.3	64.8	-0.2

Macro forecast. Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	2.4	2.9	-0.8	3.9	2.9	9.6	7.9	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	0.1	1.1	-1.2	-2.3	-1.7	3.7	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	2.8	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	2.5	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets										
		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD	19-Aug	2.50	2.98	3.61	2.98	100.6	-	739.3	979.4	1055.5
	+3m	3.50	3.94	3.75	3.30	98.0	-	758.9	1061.2	1081.6
	+6m	3.75	4.00	3.75	3.30	96.0	-	775.5	1062.5	1125.0
	+12m	3.75	3.99	3.40	2.80	95.0	-	784.2	1031.6	1157.9
EUR	19-Aug	0.00	0.43	1.65	2.01	-	100.6	743.8	985.2	1061.8
	+3m	0.75	0.98	1.70	2.15	-	98.0	743.8	1040.0	1060.0
	+6m	1.00	1.12	1.80	2.20	-	96.0	744.5	1020.0	1080.0
	+12m	1.00	1.12	1.70	2.00	-	95.0	745.0	980.0	1100.0
JPY	19-Aug	-0.10	-0.01	0.11	0.38	120.5	136.6	617	8.18	8.81
	+3m	-0.10	-	-	-	131.3	134.0	566	7.92	8.07
	+6m	-0.10	-	-	-	127.7	133.0	583	7.99	8.46
	+12m	-0.10	-	-	-	118.8	125.0	627	8.25	9.26
GBP*	19-Aug	1.75	-	3.46	2.61	84.9	118.5	876.4	1160.9	1251.1
	+3m	2.50	-	2.55	2.30	86.0	114.0	864.8	1209.3	1232.6
	+6m	2.50	-	2.55	2.35	85.0	112.9	875.9	1200.0	1270.6
	+12m	2.50	-	2.35	2.05	84.0	113.1	886.9	1166.7	1309.5
CHF*	19-Aug	-0.75	-	0.89	1.46	96.2	95.6	773.0	1024.0	1103.5
	+3m	0.25	-	-	-	95.0	96.9	782.9	1094.7	1115.8
	+6m	0.75	-	-	-	94.0	97.9	792.0	1085.1	1148.9
	+12m	0.75	-	-	-	93.0	97.9	801.1	1053.8	1182.8
DKK	19-Aug	-0.10	0.73	1.95	2.28	743.77	739.33	-	132.47	142.76
	+3m	0.65	1.17	2.00	2.45	743.75	758.93	-	139.83	142.52
	+6m	0.90	1.30	2.10	2.50	744.50	775.52	-	137.00	145.06
	+12m	0.90	1.30	2.00	2.30	745.00	784.21	-	131.54	147.65
SEK	19-Aug	0.75	1.31	2.66	2.47	1061.8	1055.5	70.0	92.8	100.0
	+3m	1.25	1.95	2.70	2.40	1060.0	1081.6	70.2	98.1	-
	+6m	2.00	2.25	2.65	2.50	1080.0	1125.0	68.9	94.4	-
	+12m	2.00	2.25	2.50	2.40	1100.0	1157.9	67.7	89.1	-
NOK	19-Aug	1.75	2.46	3.72	3.24	985.2	979.4	75.5	100.0	107.8
	+3m	1.75	2.53	3.05	3.35	1040.0	1061.2	71.5	-	101.9
	+6m	2.25	2.60	2.95	3.40	1020.0	1062.5	73.0	-	105.9
	+12m	2.25	2.60	2.85	3.20	980.0	1031.6	76.0	-	112.2

*Notes: GBP swaps are SONIA and CHF swaps are SHARON.

We have updated our Norges Bank forecasts after yesterday's Norges Bank meeting but not yet our Norwegian yield outlook

Commodities

	19-Aug	2022				2023				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023	
ICE Brent	95	98	112	115	100	95	95	95	95	106	95	

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Jakob Ekholdt Christensen, Chief Analyst.

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