

# Flash Comment Denmark

## Inflation remains high but should decrease in coming months

Danish inflation surprised again in August, remaining at 1.5% y/y following a huge jump in July. We had expected a decrease to 1.1%, but several factors surprised. We believe much of the recent increase in CPI is due to temporary factors. We did not get the reversal in August, but we do expect to see some in September.

Of the four biggest contributors to the recent surge in inflation, we only expect one to last, mobile phone services. Last year roaming prices decreased markedly, which has been pulling inflation down by 0.2 %-points for a year. That base effect disappeared in July.

The largest contributor to the inflation increase from June to August is summer houses, as rental prices surged over the summer, despite the poor weather. Usually prices return to pre-season levels in September, even though they may fluctuate somewhat during the summer months. We also expect this contribution to reverse significantly with the September print.

In August, we had a large positive contribution from book prices as well. Prices increased as the summer sale on books ended in August this year as opposed to September last year. This effect should thus be gone in next month's figures.

Food prices have also been a big contributor to the increase in inflation and remain something of a joker this year. European prices have decreased following the price surge at the beginning of the year in the wake of bad weather and a poor vegetable harvest. However, we have not really seen prices come down in Denmark yet. Usually there is a fairly strong link here, at least in the medium term, and we expect food prices to decrease somewhat in the coming months.

Two weeks ago, the Danish government proposed to cut car taxes from the current 105% on the first DKK109,000 and 150% on the value above that to an even 100%. If the proposal is approved, it will make large cars significantly cheaper. However, few Danish people actually drive large cars. Thus, we also expect the impact on Danish CPI inflation to be modest, although not negligible. If we add the proposed removal of the nut fee, which is expected to cost DKK185m, we arrive at an effect on CPI of around -0.15 percentage points. Of course the final tax cut could end up looking significantly different but it looks like a cut and thus decreasing car prices in any case. We expect inflation to decrease to 1.3% y/y in September and further to 1.1% in October on the back of lower car prices.

### CPI contribution in August compared to June

Largest contributions	% points
Summer houses, holiday centers etc.	0.21
Mobilephone services	0.20
Food	0.14
Books	0.12
Transportation fuel	0.11
Electricity, gas and other fuels	0.09

Source: Statistics Denmark

### Danish food prices have remained high



Source: German Federal Statistical Office, Statistics Denmark, Macrobond Financial

### We expect inflation to come down again in coming months



Source: Danske Bank, Statistics Denmark, Macrobond Financial

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