

Flash comment Denmark

Higher inflation as price of cigarettes surges

- **Higher price of cigarettes set to lift Danish inflation significantly over the coming years.**
- **The timing will depend highly on stock building dynamics. It is uncertain as new data methods have been implemented since the last price hike in 2010.**
- **We forecast inflation of 0.8% in 2019 and 1.3% in 2020.**

Monday night, the Danish minority government reached a budget agreement with a parliamentary majority. The price of a pack of cigarettes will increase from approximately DKK41 to DKK55 from 1 April 2020 and to DKK60 in 2022. That is three times as big a price increase as in the government's budget proposal from October, which is also what was imbedded in our forecast for 2020. The risk has always been to the upside, though. See also *Nordic Outlook*, 1 October 2019, and *Research Denmark*, 29 May 2019.

Several other fees have also been increased, for instance on plastic bags and disposable cutlery. For these the inflation effect is insignificant.

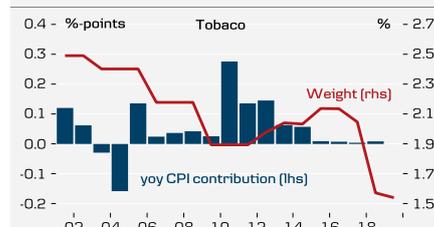
Unlike euro inflation linked bonds, the Danish ones are linked to the CPI index including tobacco and thus a hike in the tobacco fee leads to a price increase in the Danish inflation linked bonds.

The number of smokers has declined significantly in recent years and the CPI-weight of tobacco has fallen accordingly. Still, an increase of 50%, which is largely what it will be by 2022, amounts to almost 0.8 percentage points on headline inflation, more than double the effect we saw in 2010 when the price of a 20-pack of cigarettes was increased by DKK2-3.

The price increase is unlikely to take effect already on 1 April, as cigarettes have a tax stamp, which determines the price. If convenient stores and kiosks build stocks, 'cheap' cigarettes will probably be sold for some time after 1 April. Since tobacco prices are recorded with barcode data by Statistics Denmark, this effect should be caught in CPI. In 2010, when the fee was last hiked, barcode data had, however, not yet been implemented. According to CPI data, the price increase took effect immediately back then, but because of the new data method it cannot be used as a benchmark for how the implementation will look this time.

We expect a gradual implementation during Q2 20 and thus adjust our forecast for inflation in 2020 from 1.2 to 1.3%. The effect from the tobacco fee is almost 0.4%-points. In 2021, this will increase inflation by 0.2%-points with the assumption of unchanged weights.

Tobacco weight has fallen but remains high enough to cause serious CPI fluctuation



Source: Statistics Denmark, Macrobond Financial

Higher inflation next year



Source: Statistics Denmark, Danske Bank

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Expected updates

None

Date of first publication

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