

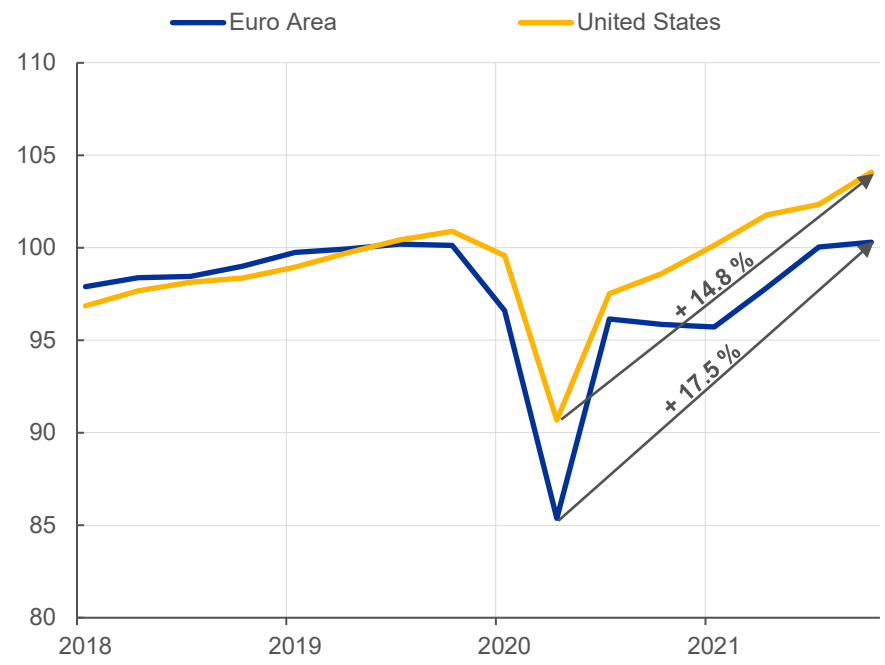
Managing policy trade-offs

Isabel Schnabel, Member of the ECB's Executive Board

*Remarks at a workshop organised by the European House Ambrosetti on
“The Agenda for Europe: Macroeconomic and Structural Policy Challenges”,
Cernobbio, 2 April 2022*

Developments in real GDP

(index: 2019=100)

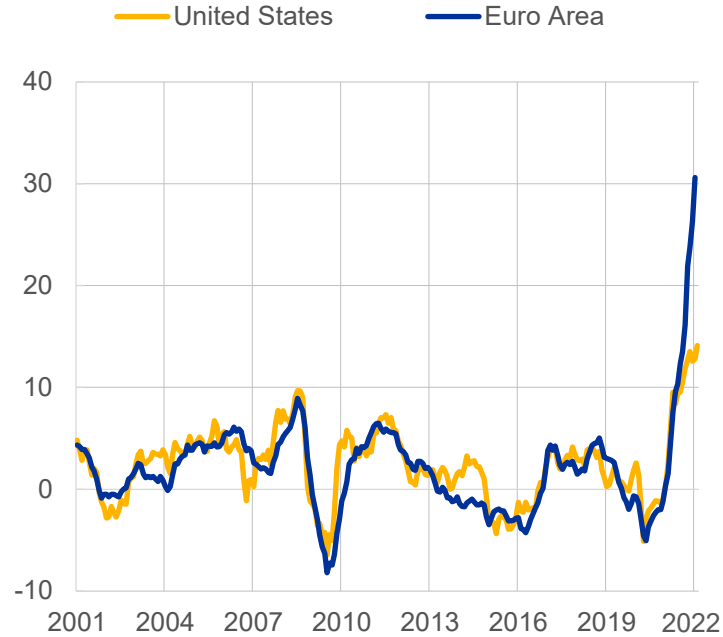


Sources: Eurostat, Bureau of Economic Analysis and ECB staff calculations.
Last observation: 2021Q4.

Pipeline pressures are at unprecedented levels, driven by both demand and supply

Headline producer price inflation

(annual percentage changes)



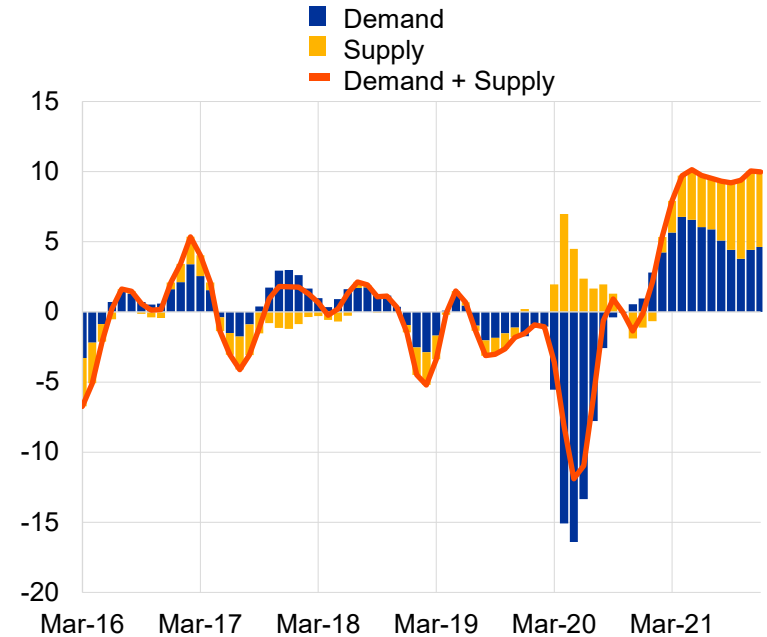
Source: Haver DLX and Eurostat.

Notes: Non-seasonally adjusted domestic PPI for industry excluding construction.

Last observation: January 2022 for the euro area, February 2022 for the US.

Contributions to euro area producer price fluctuations

(deviation from trend; annual percentage changes)



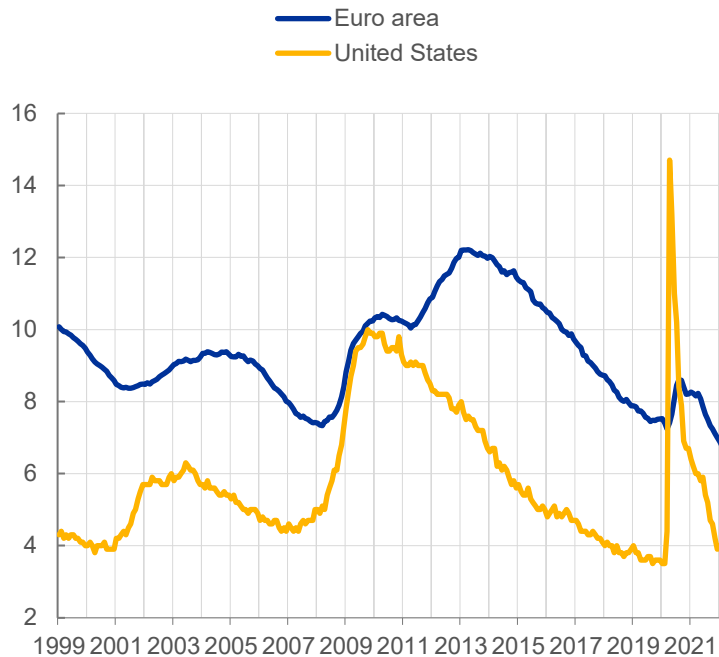
Source: Celasun et al. (2022), "Supply Bottlenecks: Where, Why, How Much, and What Next", IMF Working Paper, 22/31.

Notes: Based on the seasonally-adjusted domestic manufacturing PPI.

Last observation: December 2021.

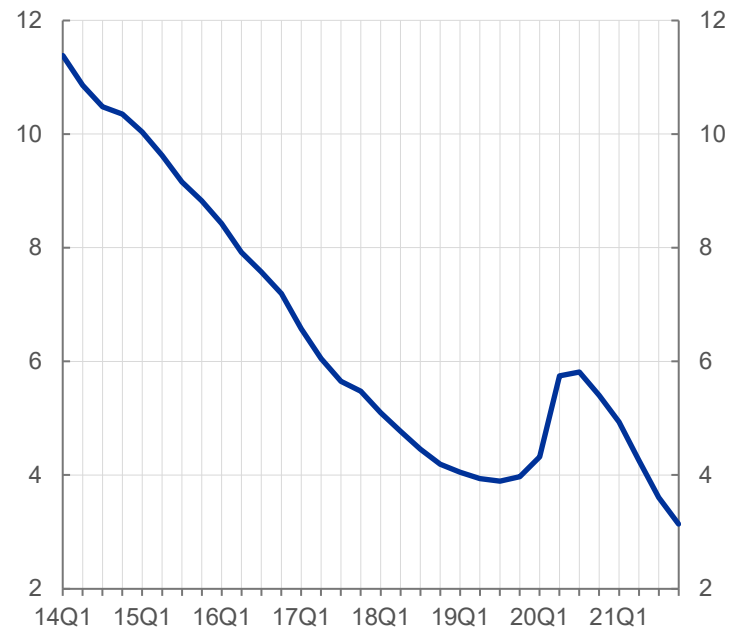
Euro area labour market is increasingly tight but churn rate is still muted

Unemployment rate (percent)



Source: Labour Force Survey and US Bureau of Labour Statistics.
Last observation: February 2022.

Euro area unemployment to job vacancies (ratio)

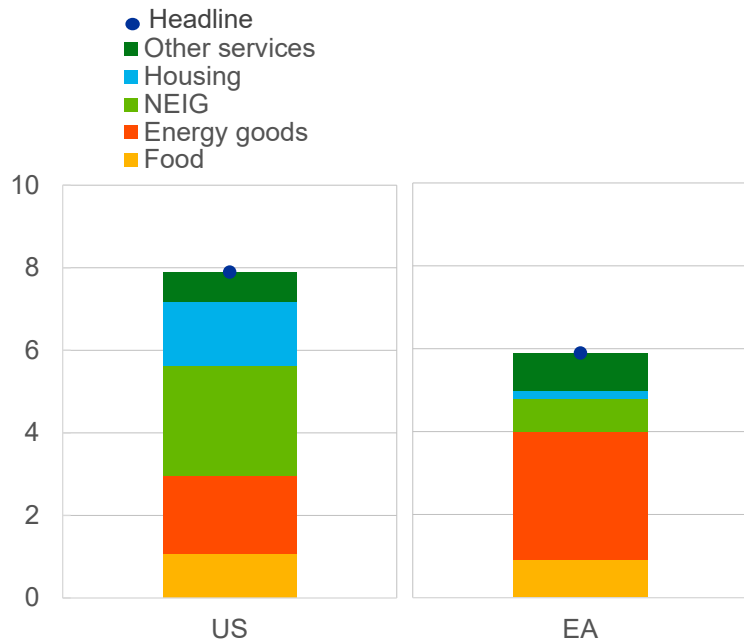


Source: Labour Force Survey and Job Vacancy Statistics.
Last observation: 2021Q4
Notes: Data not available for IT. Data for FR only available for size-class greater than 10 employees. EE data extrapolated until 2021Q4 using historical data.

Measured inflation would be higher if owner-occupied housing were included

Inflation drivers in February 2022

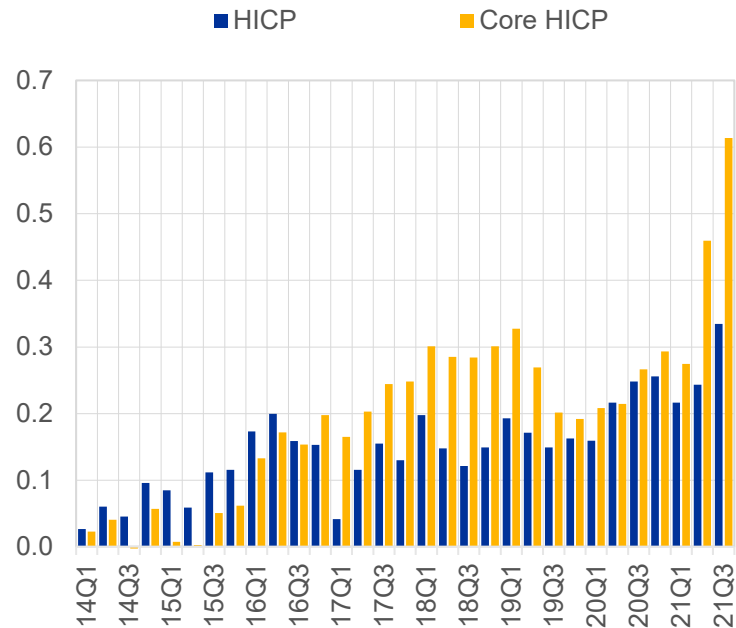
(annual percentage changes, percentage point contributions)



Source: Haver DLX and Eurostat.

Impact of including owner-occupied housing on measured inflation

(percentage points)

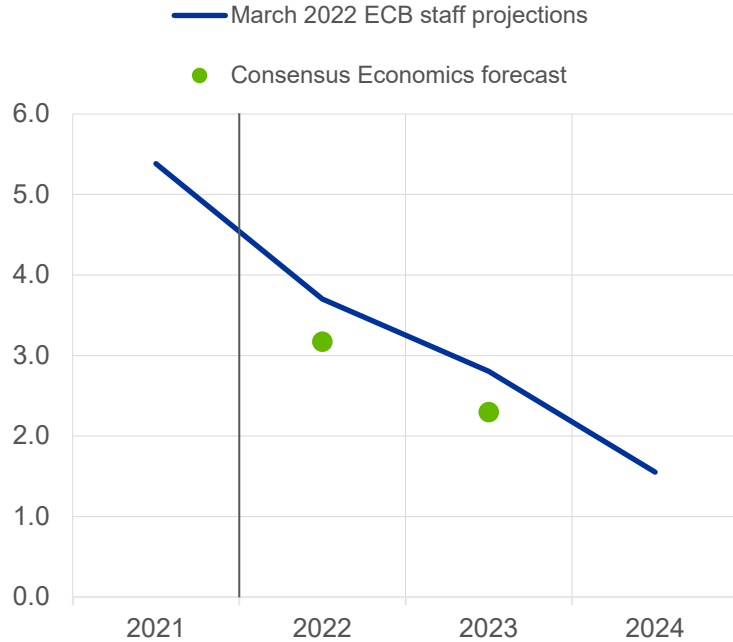


Source: Eurostat, ECB and ECB calculations.
Last observation: 2021Q3.

War hits euro area at a time of broad underlying economic strength

Real GDP growth projections

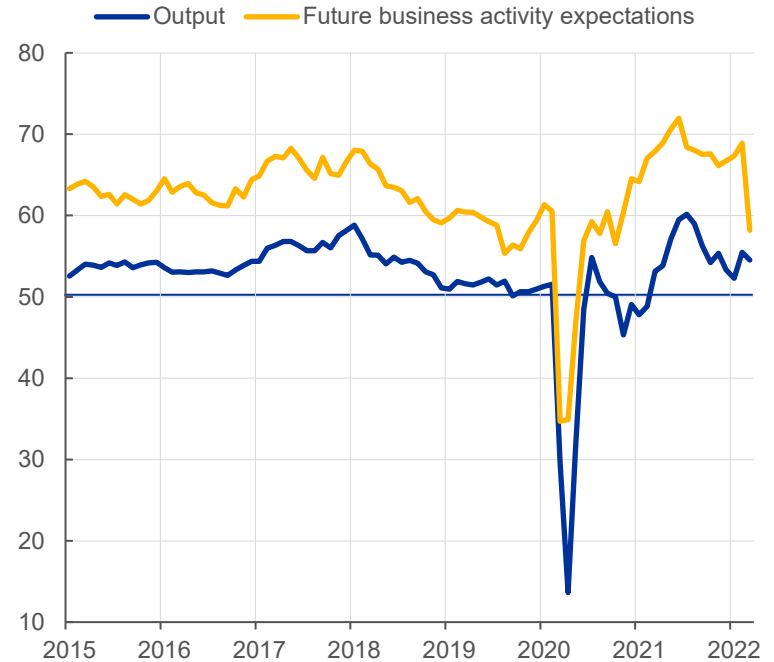
(annual percentage changes)



Sources: ECB and Eurosystem staff projections, ECB calculations and Consensus Economics forecast (14 March 2022 survey, published on 17 March 2022).

Euro area composite PMIs

(diffusion index)



Source: Markit.

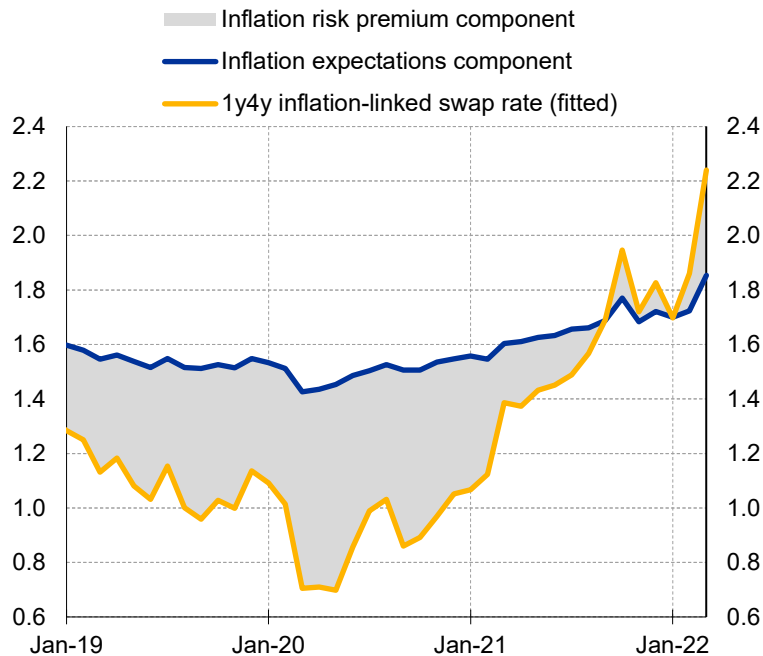
Last observation: March 2022.

Notes: Future business activity expectations correspond to 12 months ahead.

Inflation risk premium is rising, while actual inflation is affecting inflation expectations

Inflation rate expected in 4 years' time

(percentages per annum)

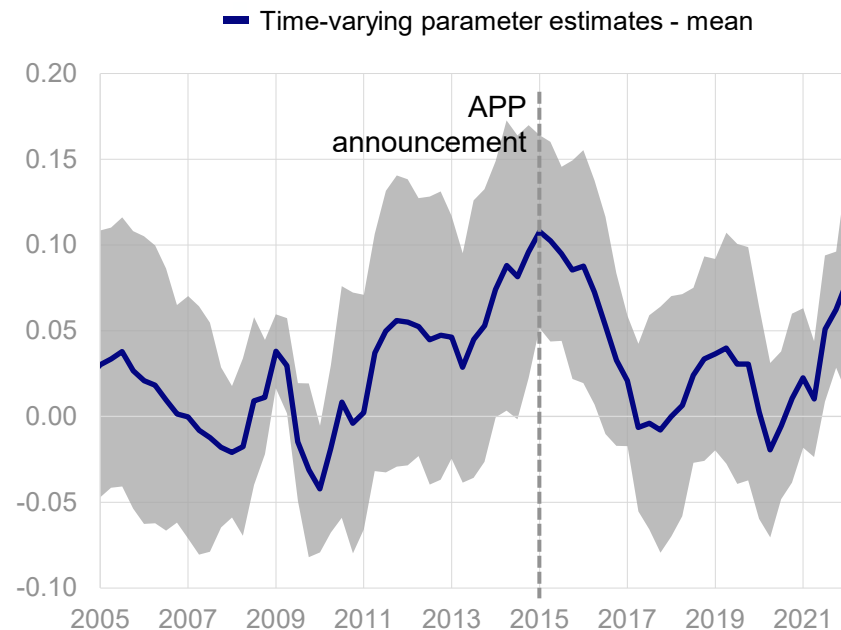


Source: Bloomberg, Refinitiv and ECB calculations.

Note: The premia-adjusted 1y4y ILS rate represents average estimates based on two affine term structure models following Joslin, Singleton and Zhu (2011) applied to ILS rates adjusted for the indexing lag; for further details see Burban et al. (2022), ECB Economic Bulletin Issue 8, 2021, Box 4. Last observation: March 2022 (monthly data).

Impact of actual inflation on long-term inflation expectations by professional forecasters

(percentage points; mean and 16/84 percentiles)



Source: ECB staff calculations.

Notes: Estimates of the pass-through coefficient of inflation over the previous two quarters to changes in long-term inflation expectations over the previous two quarters. The model is estimated with Bayesian techniques and allows for stochastic volatility. Last observation: 2022 Q1.

As monetary policy focuses on price stability, fiscal policy can buffer demand impact

1-year real OIS rate in 3 years' time

(percentages per annum)



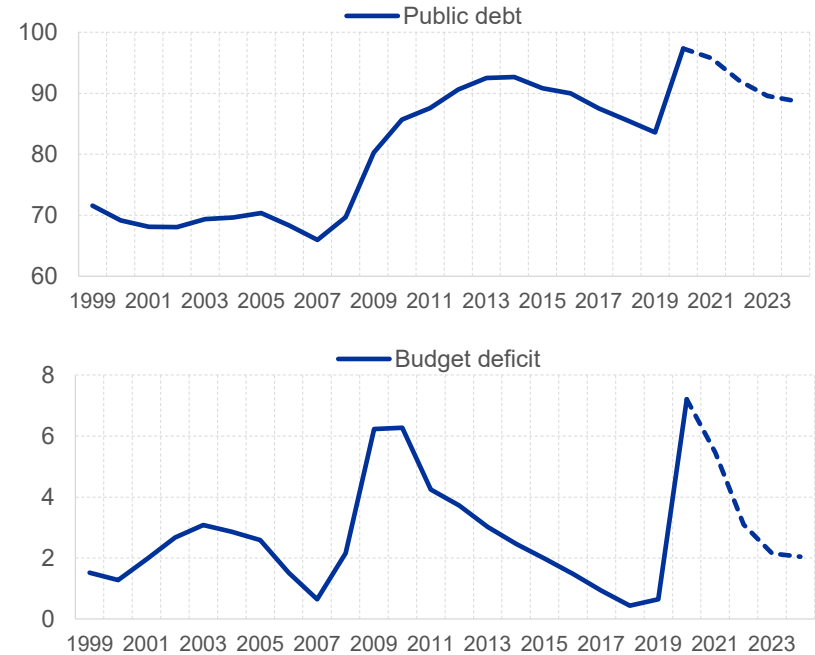
Source: Bloomberg, Refinitiv and ECB calculations.

Note: Real rates are calculated by subtracting inflation-linked swap rates from nominal OIS rates.

Last observation: 31 March 2022.

Euro area fiscal headline measures

(% of GDP)



Source: Eurostat and ECB staff projections.

Thank you for your attention!