

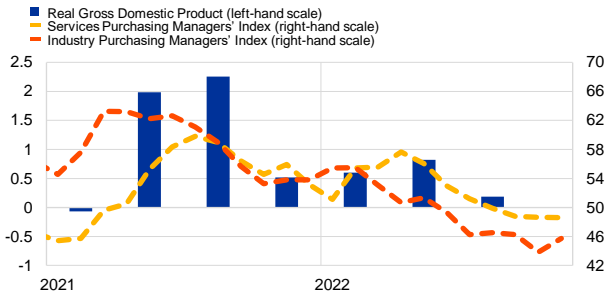


# Introductory statement in three charts

ECON hearing with the ECB President on 28 November 2022

## Real GDP growth and sectoral PMIs

(quarter-on-quarter percentage change; diffusion index)



Sources: Eurostat and S&P Global.  
 Note: The Purchasing Managers' Indices (PMIs) reflects whether purchasing managers perceive output to be higher (>50), lower (<50) or unchanged (=50) since last month. The latest observations are for the third quarter 2022 for GDP and for November 2022 for PMIs.

## Economic activity

### Euro area GDP growth slowed to 0.2 per cent in the third quarter of 2022.

- The slowdown was broad-based across sectors, as the re-opening boost in spring from services declined, and high energy costs and uncertainty continued to weigh on manufacturing and construction.

### We expect the economy to slow further in the coming quarters. An output contraction in the short-term is increasingly likely.

- High inflation, lower global demand, tighter financing conditions and falling confidence are dampening activity.
- However, fiscal support, a resilient labour market and a still large volume of savings could cushion the impact.

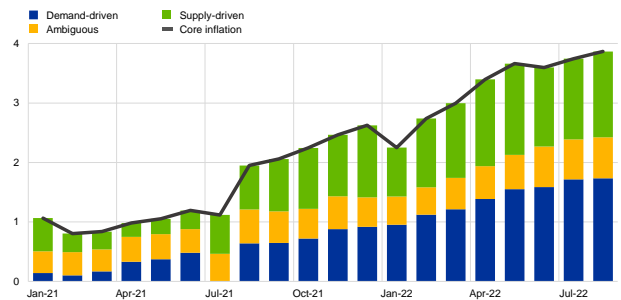
## Inflation

### Core inflation (excluding energy and food) has picked up to very high levels in recent months, reflecting both demand and supply side factors.

- The surge in core inflation was initially mainly supply-driven, but the importance of demand factors increased over time as the economy reopened.
- Demand factors are slightly more important for services due to effects of the reopening, while supply factors are somewhat more important for non-energy industrial goods due to global bottlenecks and input costs.

## Supply and demand factors of core inflation

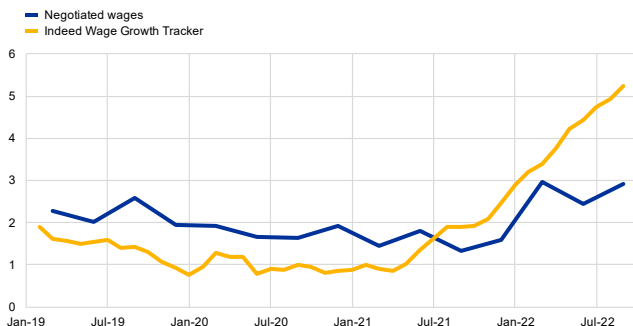
(annual percentage change; percentage point contributions)



Source: Eurostat and ECB staff calculations.  
 Note: Based on approach by Adam Shapiro (2022). For information, see [The role of demand and supply in underlying inflation – decomposing HICPX inflation into components](#).

## Wage growth

(annual percentage changes)



Source: Eurostat, ECB staff calculations, Hiring Lab indeed-wage-tracker.  
 Note: Latest observations are Q3 2022 for negotiated wages and October 2022 for Indeed Wage Growth Tracker.

## Wage developments

### Strong labour markets observed so far are likely to support higher wages, as is some catch-up in wages to compensate for higher inflation.

- Incoming wage data and recent wage agreements point to some pick-up in wage growth. Negotiated wages (including one-off payments) stood at 2.9% in the third quarter of this year, up from 2.5% in the second quarter.
- New data derived from online job ads for roughly 81% of the euro area employment points to large increases in wage growth for new jobs over the last quarters.

## WANT TO KNOW MORE?

- [Economic Bulletin Issue 7, 2022](#)



# Topic 1: Inflation differentials

The divergence of inflation rates across euro area member countries has increased significantly in recent months and currently stands at a record high.

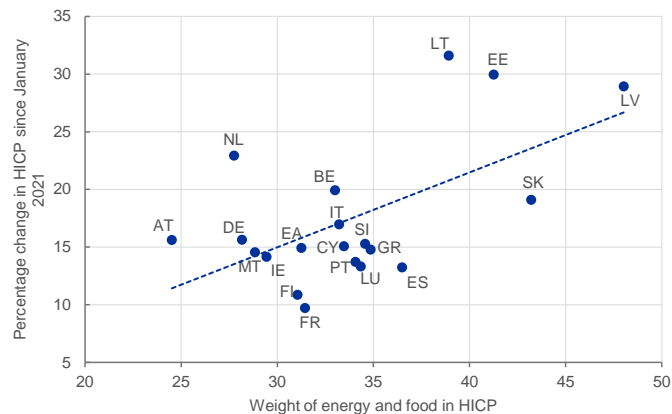
- Both headline and core inflation differentials have widened significantly.
- October data shows a 15.4 percentage points difference between the lowest observed headline inflation rate and the highest (7.1% in France vs. 22.5% in Estonia).

The divergence is mostly due to different degrees of exposure to the commodity and energy price shocks, as well as persistent pandemic-related factors.

- The commodity price shocks are shared but can lead to different increases in HICP inflation if the weights of energy and food in the consumption basket are greater, as is the case in the Baltic countries.
- We expect the differential impact of the shocks to be reduced and the divergences to normalise over time.

## Cumulative change in HICP inflation since 2021 and weight of energy and food in HICP

(horizontal axis: percentages; vertical axis: percentage points)



Source: Eurostat and ECB calculations.

Note: The weight of energy and food in the Harmonised Index of Consumer Prices (HICP) refers to 2021. The latest observation is for October 2022 (flash estimate).

# Topic 2: Inflation as a global challenge

The response to global inflationary pressures has led to tighter financing conditions in recent months in both advanced and emerging market economies.

- When central banks adjust their policies simultaneously, particularly in advanced economies, they may amplify the impact of each other's actions.

Incorporating international developments in our assessment is essential to set the right path for our policy normalisation.

- Our regular analyses and projections account for the monetary policies of other jurisdictions, including the implications for the euro exchange rate, foreign demand and the euro area financial conditions and growth and inflation outlook.

## Financial conditions indices in advanced and emerging market economies

(standardised indices)



Source: Refinitiv, Bloomberg and ECB staff calculations.

Notes: The financial conditions indices includes foreign exchange rates, equity prices, short and long-term yields, and sovereign and corporate bond spreads. National financial conditions indices are aggregated using GDP purchasing power parity shares. The latest observations are for 17 November 2022.

### WANT TO KNOW MORE?

- [Financial Stability Review, November 2022](#)