

The ECB's monetary policy: towards price stability

Isabel Schnabel
Member of the Executive Board
of the European Central Bank

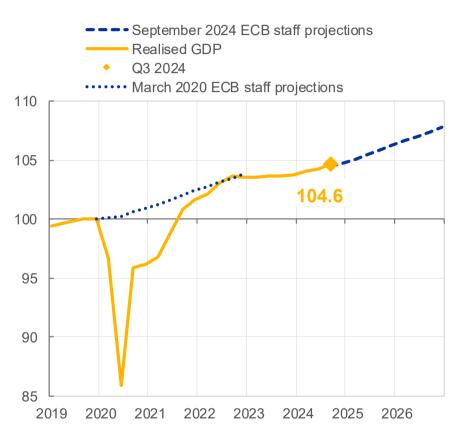


1st CEPR Frankfurt Hub International Conference: Euro at 25 Frankfurt, 30 October 2024

Euro area economy is stagnating while disinflation remains on track

Real GDP

(index: Q4 2019 = 100)

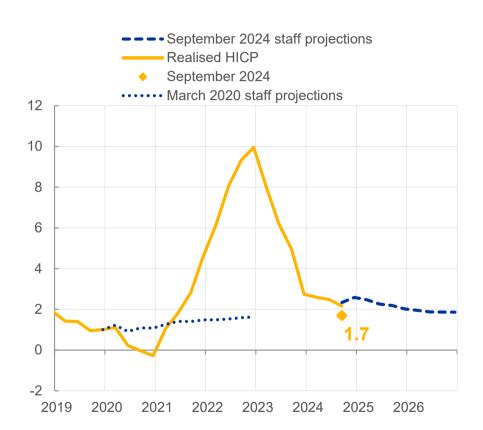


Sources: Eurostat and ECB.

Latest observation: Q3 2024 for realised GDP (diamond).

Inflation

(annual percentage changes, quarterly data)

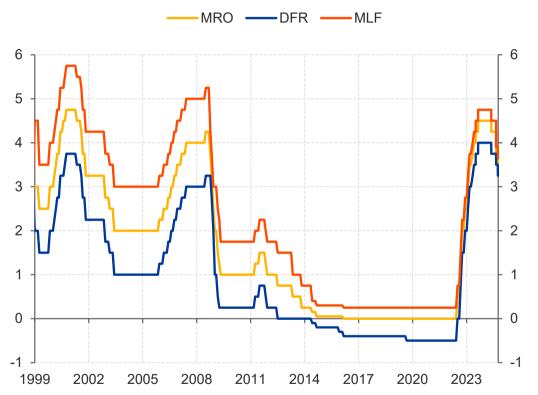


Sources: Eurostat, ECB and Eurosystem.

Latest observation: Q3 2024 for quarterly data, September 2024 for monthly data (diamond).

ECB raised policy rates sharply to tackle inflation and has now started to ease restriction

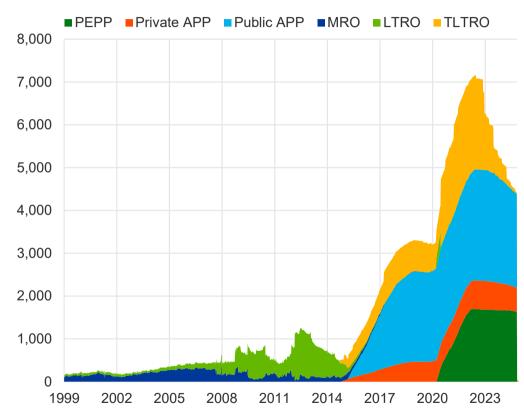
ECB key interest rates (%)



Source: ECB. Latest observation: 29 October 2024.

Monetary policy assets

(EUR billion)



Source: ECB.

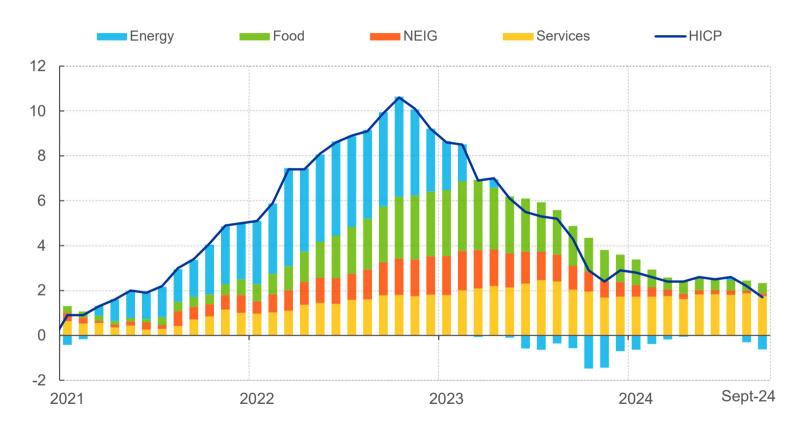
Notes: Public APP is PSPP, Private APP is CBPP3, ABSPP and CSPP.

Latest observation: 29 October 2024.

Fast decline in inflation driven by reversal of supply-side shocks and monetary policy

HICP inflation

(annual percentage changes and percentage point contributions)



Sources: Eurostat and ECB calculations. Latest observation: September 2024.

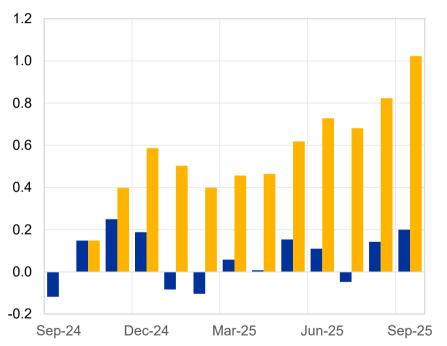
Headline inflation affected strongly by base effects and high volatility of energy prices

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Impact of energy base effects on headline inflation

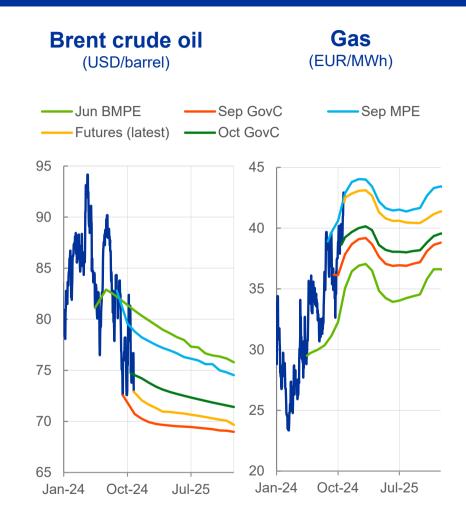
(percentage points)

- Month-on-month base effect
- Cumulative impact of base effects relative to September 2024



Sources: Eurostat and ECB calculations.

Note: Month-on-month base effects show the contribution of the base effect to the change in the annual headline inflation rate from one month to the next. The cumulative impact of base effects is calculated by summing month-on-month base effects and is always shown relative to a specific reference month (September 2024 in this case).

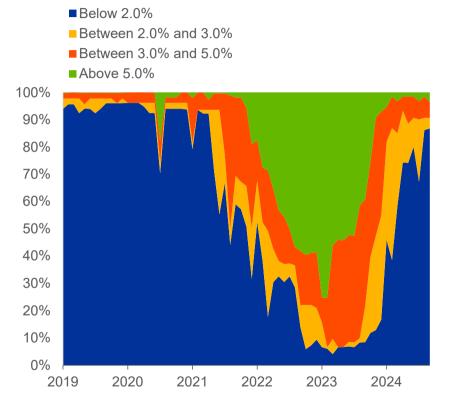


Sources: LSEG and ECB calculations. Latest observations: 28 October 2024.

Goods inflation is dropping quickly while services inflation remains sticky

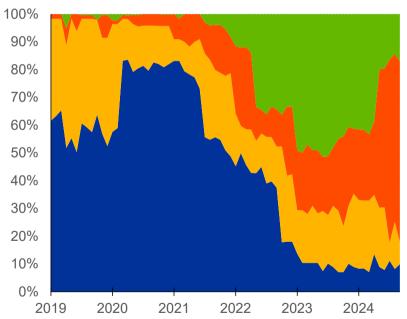
Weighted distribution of price changes





Services





Sources: Eurostat and ECB calculations.

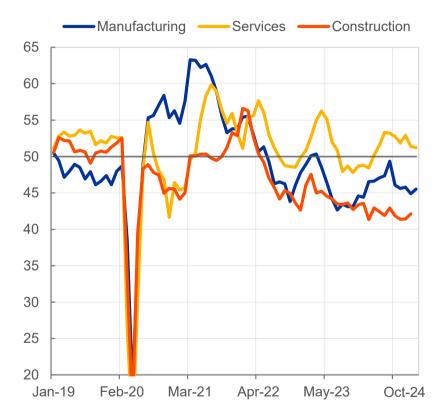
Notes: Based on 39 items for services and 33 items for non-energy industrial goods; the weight of items sums up the weight of items in the HICP basket in the different categories. Latest observation: September 2024.

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Surveys signal slowing economy as demand and labour scarcity limit production

Purchasing Managers' Index (PMI): Output

(diffusion index)



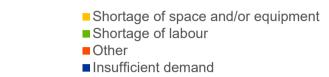
Source: S&P Global.

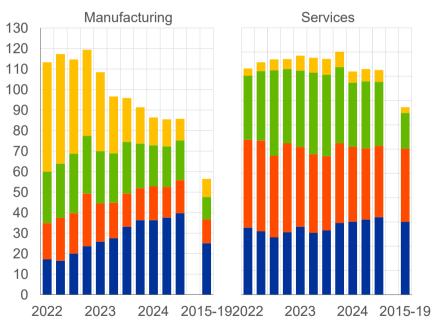
Latest observations: Manufacturing and services: October 2024 (flash estimate);

construction: September 2024.

Limits to production

(percentage balances)





Source: DG-ECFIN.

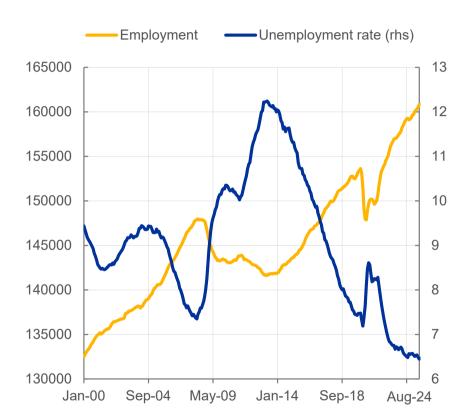
Latest observation: (July) Q3 2024.

Labour market remains resilient but shows increasing signs of softening

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Unemployment rate and employment

(lhs: thousands of persons; rhs: percentage of the labour force)



Source: ECB calculations based on Eurostat data.

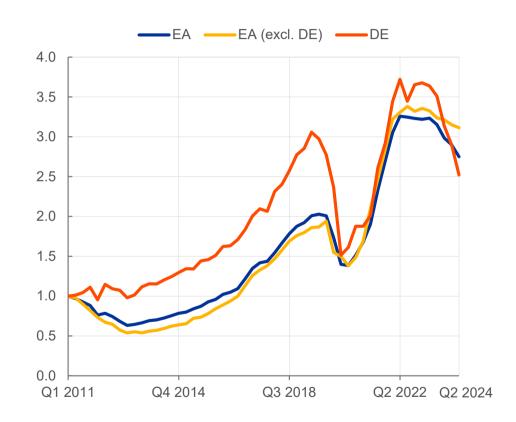
Notes: The monthly employment data have been computed manually as the

difference between labour force and unemployment.

Latest observation: August 2024.

Vacancies to unemployment ratio

(index, 2011 Q1 = 1)

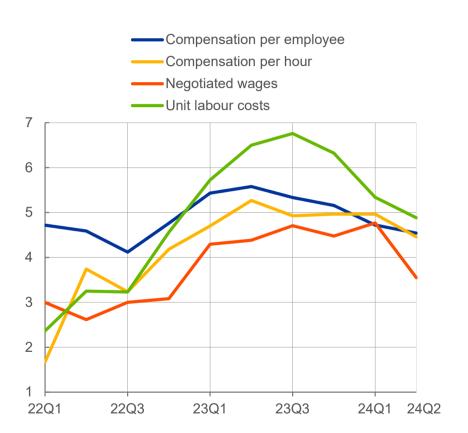


Sources: Eurostat, LFSI and ECB staff calculations. Latest observation: Q2 2024.

Strong wage growth is starting to ease but catch-up process not yet completed

Labour cost indicators

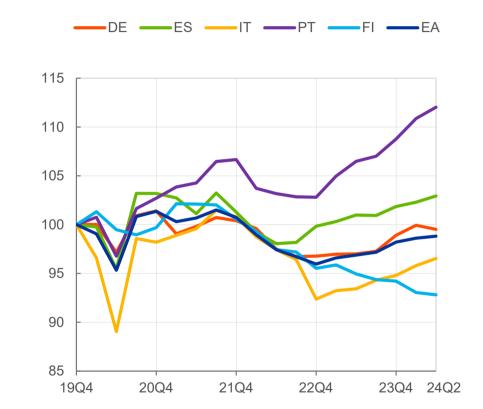
(annual percentage changes)



Sources: Eurostat and ECB staff calculations. Latest observations: 2024 Q2.

Real compensation per employee

(indices: 2019 Q4 = 100)



Sources: ECB, BIS and ECB staff calculations.

Notes: Compensation per employee is deflated by national CPI for Germany (DE), Spain (ES), Italy (IT), Portugal (PT) and Finland (FI). The euro area (EA) is deflated by HICP.

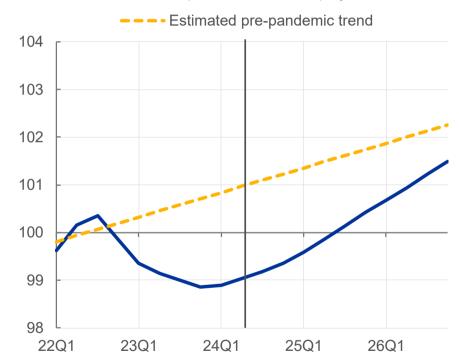
Latest observations: 2024 Q2.

Productivity growth has disappointed but is projected to recover

Labour productivity per person employed: level

(index, 2022=100)

September 2024 staff projections



Source: ECB staff calculations.

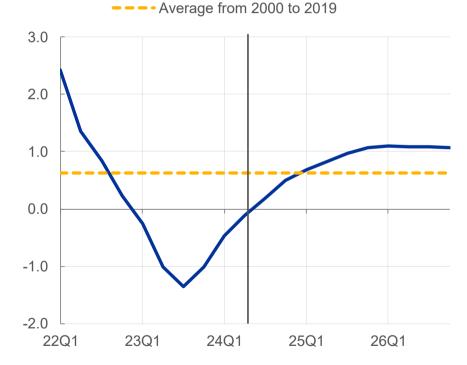
Notes: The vertical line indicates the start of the projection horizon. Estimate of pre-

COVID-19 trend was obtained using data from 2000 to 2019.

Labour productivity per person employed: growth rate

(annual percentage changes)

September 2024 staff projections



Source: ECB staff calculations.

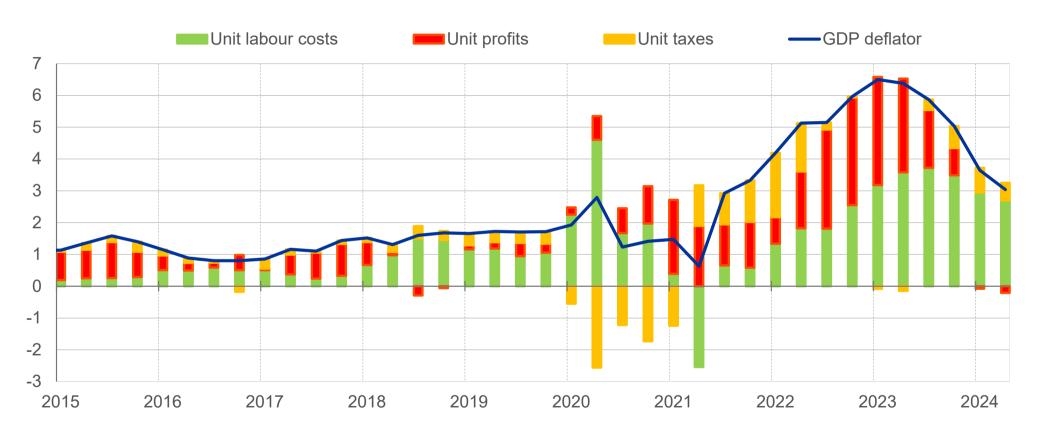
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Notes: The vertical line indicates the start of the projection horizon. Historical average pre-COVID-19 was obtained using data from 2000 to 2019.

Firms increasingly absorb higher wage costs in their profit margins

GDP deflator

(annual percentage changes and percentage change contributions)



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Sources: Eurostat and ECB calculations.

Notes: Unit taxes refer to unit net indirect taxes defined as indirect taxes minus subsidies.

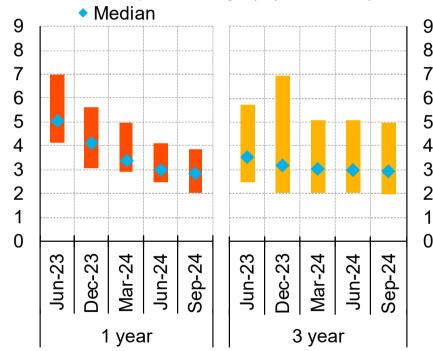
Latest observation: 2024 Q2.

Inflation expectations have dropped significantly but distributions remain tilted to upside

Inflation expectations of euro area firms

(percentages per annum)

- Interquartile range (3 years ahead)
- Interquartile range (1 year ahead)

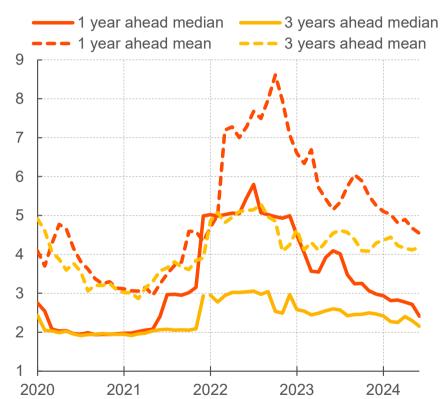


Sources: Survey on the Access to Finance of Enterprises (SAFE) and ECB calculations. Notes: Survey-weighted median and interquartile ranges of firms' expectations for euro area inflation in one year and three years. Quantiles are computed by linear interpolation of the mid-distribution function. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. All enterprises. Preliminary data for Sep-24. Final data to be published on 7 November.

Latest observation: September 2024.

Inflation expectations of euro area households

(annual percentage changes)



Source: ECB Consumer Expectations Survey.

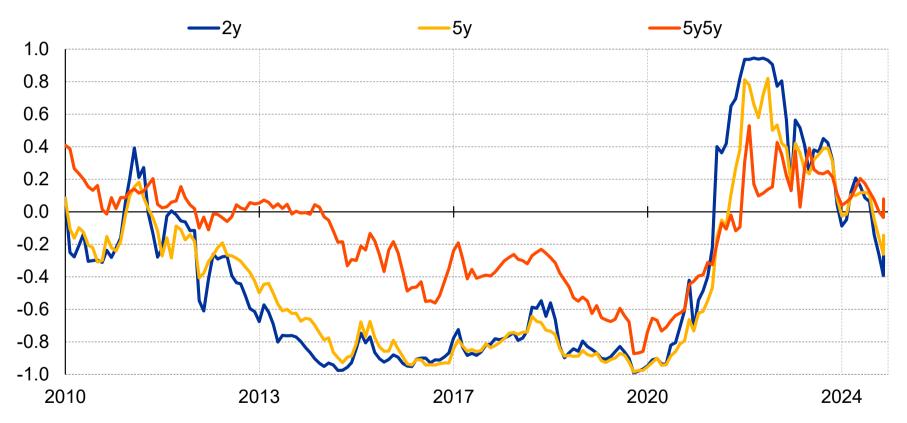
Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. The shift in the yellow time series in April 2022 visualises the change in the composition of the aggregates due to the inclusion of five additional countries (IE, GR, AT, PT and FI).

Latest observation: September 2024.

Balance of risk to inflation in markets tilted slightly to the downside in the medium term

Balance of risk to euro area inflation in financial markets

(percentage points/100)



Sources: Bloomberg and ECB calculations.

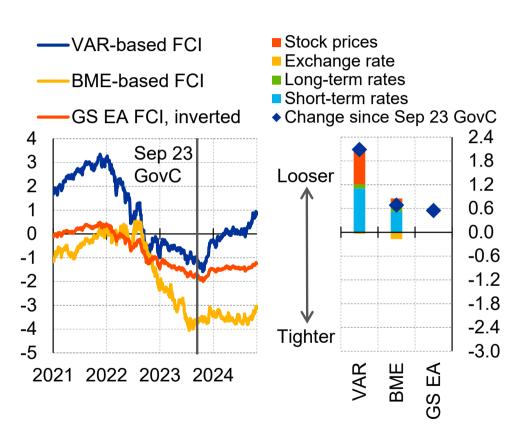
Notes: As a synthetic market indicator of perceived risks to price stability, the balance of risks (BoR) is defined as the difference between the risk-neutral probability assigned to average inflation being above vs. below the 2% quantitative definition of price stability over the lifetime of the option contract (see Garcia, J.A., Gimeno, R., Hinds, P. D., Su, H. and Tretyakov, M. V., 2024).

Latest observation: October 2024 (monthly data).

Financial conditions have eased with real rates not far from neutral

Financial condition indices

(lhs: percentages per annum, rhs: basis points)

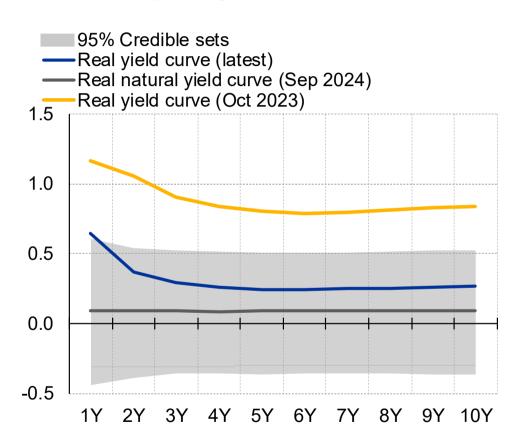


Sources: Bloomberg, LSEG and ECB calculations.

Notes: The VAR- and BME-based FCIs are constructed as weighted averages of the 1y OIS, the 10y OIS, the euro NEER-42 and the EuroStoxx Index. The VAR-based weights are derived from the impulse responses of HICP inflation to a shock in each of the four variables gleaned from individual VAR models. The weights for the BME-based FCI are derived from the Basic Model Elasticities (BMEs). The vertical line refers to the day before the September 2023 GovC meeting (13 September 2023). Latest observation: 28 October 2024.

Real yield curve

(percentages per annum)



Sources: Bloomberg, LSEG and ECB calculations.

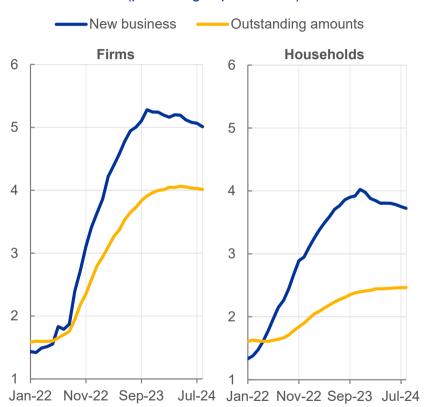
Notes: The credible set is the range that spans the 2.5th and 97.5th percentiles of the natural yield curve posterior distribution (i.e., a Bayesian variant of a confidence interval).

Latest observation: 28 October 2024

Loan rates are coming down from high levels as bank lending starts to pick up

Bank lending rates

(percentages per annum)

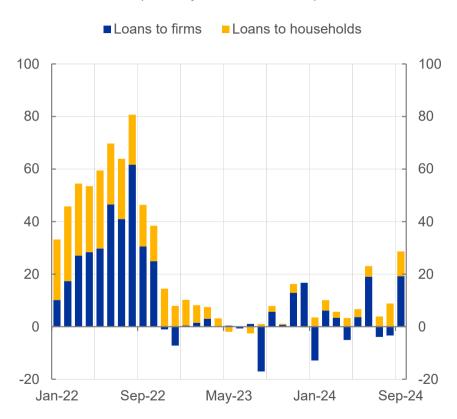


Sources: ECB (MIR) and ECB calculations.

Notes: The indicator for new business volumes corresponds to the cost of borrowing for firms and for households for house purchases is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes. Latest observation: August 2024.

Bank loans

(monthly flows in EUR bn)



Source: ECB (BSI).

Notes: Loans to households and firms are adjusted for sales and securitisation. Loans to firms are also adjusted for cash pooling.

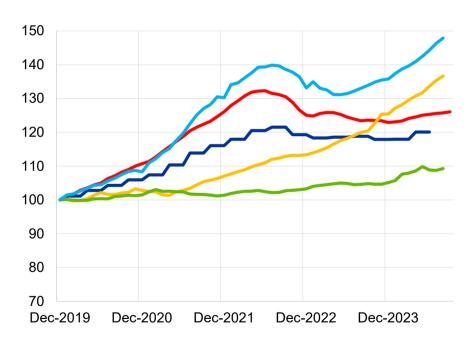
Latest observation: September 2024.

Increase in house prices and surveys may indicate turnaround in housing market

House prices

(December 2019 = 100)





Sources: Europace, Eurostat, Immobiliare.it, Indomio.es and Statistics Netherlands. Notes: Monthly residential real estate price indices. Latest EA observation from Eurostat is for Q2 2024, so several countries with more timely data available are added. For IT and ES an average listing price index is reported. For all other countries the index reported is a hedonic price index based on transaction prices.

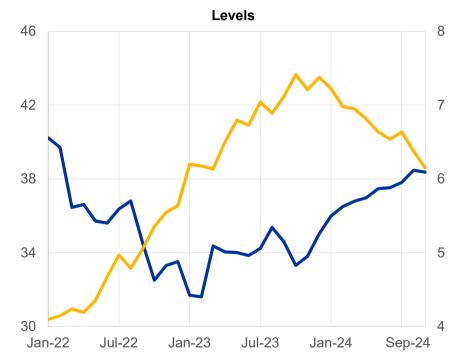
Latest observation: August 2024 for ES, IT and NL, September 2024 for DE, Q2 2024 for EA.

Housing as a good investment and user cost of housing

(lhs: balance, percentage; rhs: percentage)

----Housing as a good investment

Expected user cost of housing (rhs)



Sources: Eurostat, S&P Global, DG-ECFIN, ECB, ECB calculation.

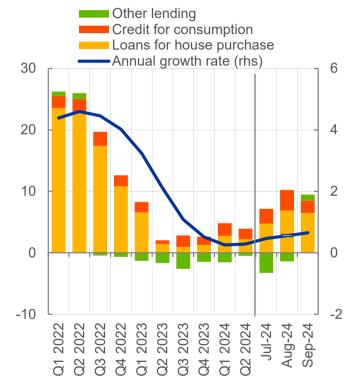
Note: The expected user cost of housing applies the methodology described in this <u>ECB</u> <u>box</u>, using 12-months-ahead expectations of mortgage rates, interest rates on savings and house price growth to measure expectations about debt service costs, foregone income and capital gains, respectively.

Latest observation: September 2024.

Demand for housing loans rises gradually on the back of easier credit conditions

Bank loans to households by purpose

(lhs: average flows over the period in EUR bn, rhs: annual percentage changes)



Sources: ECB (BSI) and ECB calculations.

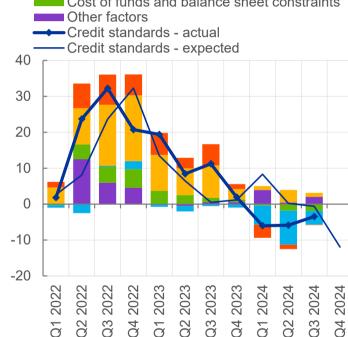
Note: Bank loans are adjusted for sales and securitisation.

Latest observation: September 2024.

Changes in credit standards for housing loans

(net percentages)

Banks' risk tolerance
Risk perceptions
Competition
Cost of funds and balance sheet constraints
Other factors
Credit standards - actual



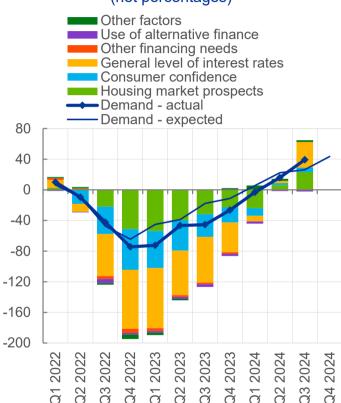
Source: ECB (BLS).

Note: "Other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards.

Latest observation: past until 2024 Q3 and expected for 2024 Q4.

Changes in demand for housing loans

(net percentages)



Source: ECB (BLS).

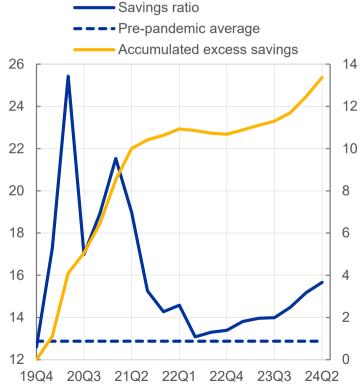
Notes: "Other financing needs" is the average of "debt refinancing/restructuring and renegotiation" and "regulatory and fiscal regime of housing markets". "Use of alternative finance" is the average of "internal finance of house purchase out of savings/down payment", "loans from other banks" and "other sources of external finance". Latest observation: past until 2024 Q3 and expected for 2024 Q4.

Declining deposit rates and improving sentiment should eventually boost consumption

-DFR

Household savings ratio and accumulated savings

(lhs: percentage share of nominal income; rhs: percentage of annual disposable income)

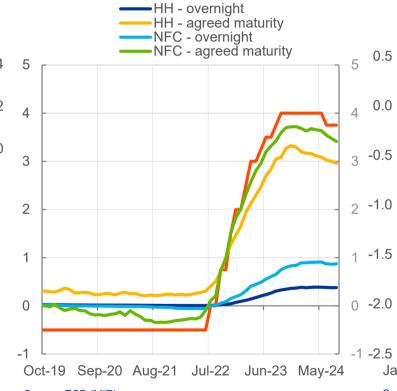


Sources: Eurostat and ECB calculations.

Notes: Pre-pandemic average of savings ratio is calculated over the period 2014 Q4-2019 Q4. Excess savings are defined as in the ECB Blog "Excess savings: To spend or not to spend" of 2 November 2023. Latest observation: 2024 Q2.

Deposit rates

(percentages per annum)



Source: ECB (MIR).

Notes: 'HH' stands for households. 'NFC' stands for non-financial corporations.

Latest observation: August 2024.

Consumer sentiment

(standardised indices)

Consumer confidence (ECFIN)

—Major purchases (ECFIN)



Sources: DG-ECFIN and ECB calculations

Notes: Confidence and purchases are standardised over 1999-2019.

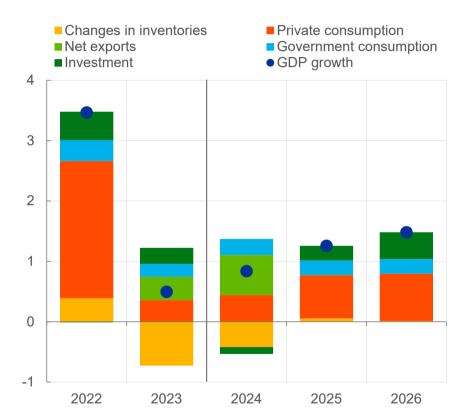
Latest observation: October 2024 for confidence, September 2024 for major purchases.

Private consumption still expected to be main growth driver amid large heterogeneity

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Euro area real GDP growth

(annual percentage changes, percentage point contributions)

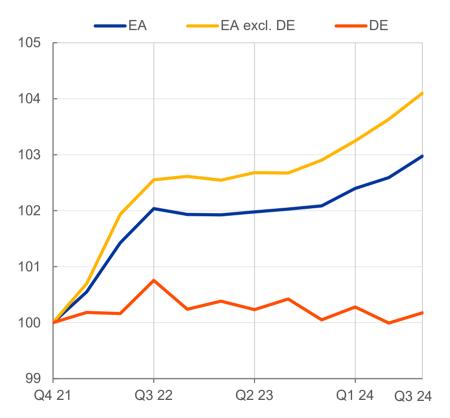


Source: September 2024 projections.

Notes: Historical data may slightly differ from published Eurostat data owing to recent revisions and to differences in the treatment of seasonality of the underlying series.

Real GDP

(index: Q4 2021 = 100)



Sources: Eurostat and ECB staff calculations. Latest observation: Q3 2024 (preliminary flash estimate).

Long-time underperformance of euro area productivity growth relative to the US

GDP per hour worked

Growth in GDP per hour worked



■ TFP

Luio aica

2008-2013

2014-2019

2020-2023

Sources: AMECO data and ECB calculations. Notes: Refers to Euro Area 20.

2002-2007

1995-2001

Capital per hour worked

2.5

2.0

1.5

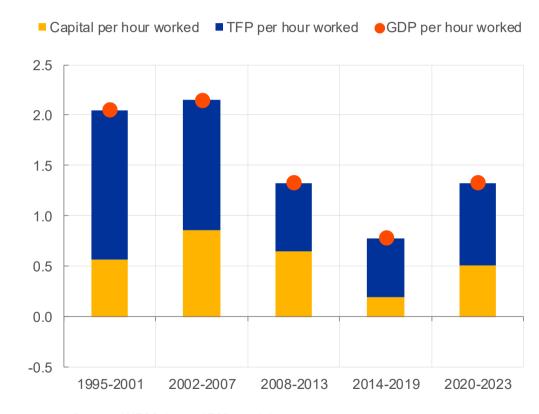
1.0

0.5

0.0

-0.5

United States

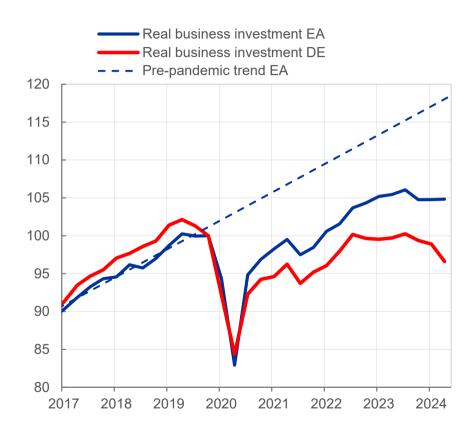


Sources: AMECO data and ECB calculations

Investment well below pre-pandemic trend and subdued average working hours

Real business investment

(index: 2019 Q4 = 100)



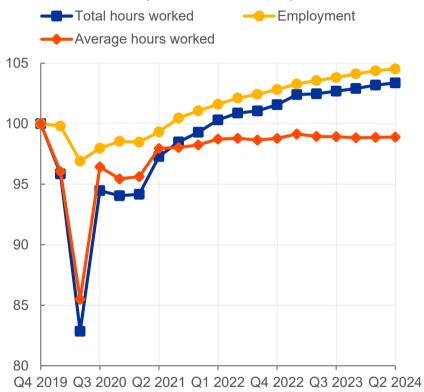
Source: ECB calculation based on Eurostat data.

Notes: Pre-pandemic trend estimated on the basis of quarterly data between 2013 Q1 and 2019 Q4. Real investment adjusted for the statistical volatility of intangible investment in Ireland.

Latest observation: 2024 Q2.

Total hours, employment and average hours

(index 2019 Q4= 100)



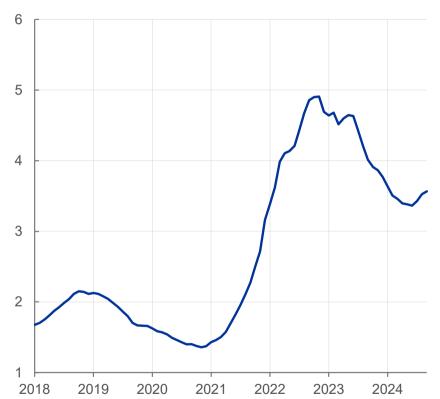
Source: ECB calculation based on Eurostat data. Latest observation: 2024 Q2.

Energy shock threatens to leave permanent scars in the euro area economy

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Energy prices in the euro area relative to the United States

(ratio, 12-month moving average)



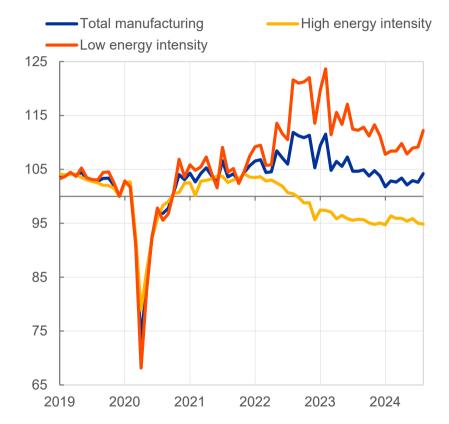
Sources: Trade data monitor, IMF, ADB-MRIO and ECB staff calculations.

Notes: The relative energy price (REP) is the weighted average of the relative natural gas price and relative oil prices in the euro area vs US where each component is respectively weighted by the share of gas and electricity and oil and coal in the energy mix for each industry-country pairs. Aggregation weights are the share of country-sector exports in total euro area exports.

Latest observation: September 2024.

Industrial production: manufacturing sector

(index: December 2019 = 100)

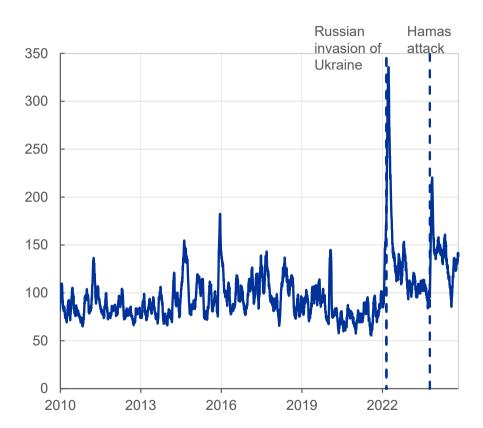


Sources: Eurostat, Trade Data Monitor and ECB staff calculations. Notes: Data are seasonally-adjusted. Industrial production indices for individual sectors are aggregated with value-added weights. Low (high) energy-intensity sectors are defined as those with an energy intensity lower (higher) than that of the median sector. For more details, see Chiacchio., De Santis, Gunnella and Lebastard (2023).

Geopolitical risks can give rise to new supply-side shocks

Geopolitical risks

(index)



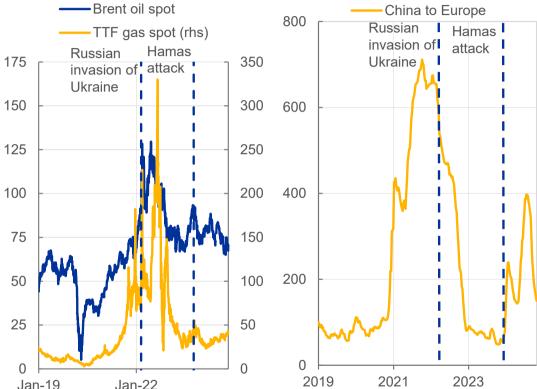
Source: 30-day moving average of the daily geopolitical risk index by Caldara and lacoviello (2022).

Notes: The index is based on ten newspapers and is constructed by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles).

Latest observation: 28 October 2024.

Crude oil and natural gas prices

(oil: EUR/barrel, gas: EUR/MWh)



Sources: Bloomberg and ECB calculations. Latest observation: 28 October 2024.

Sources: Drewry shipping consultants via Haver Analytics and ECB staff calculations. Notes: Drewry freight costs from Shanghai to Rotterdam (for forty-foot equivalent unit shipping container). Latest observation: 28 October 2024.

Shipping prices

(index, Jan 2019 = 100)

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Jan-19 Jan-22

Increasing protectionism and weaponisation of critical raw materials could raise inflation

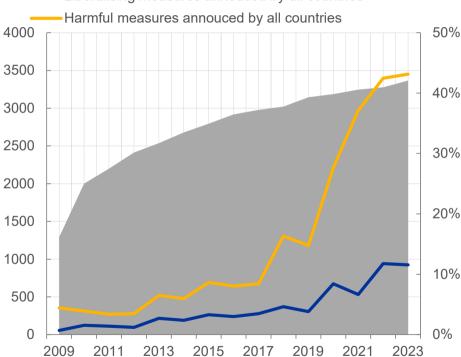
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Global trade measures

(lhs: number; rhs: percentage)

Percentage of G20 exports exposed to trade distortions (rhs)

Liberalising measures annouced by all countries



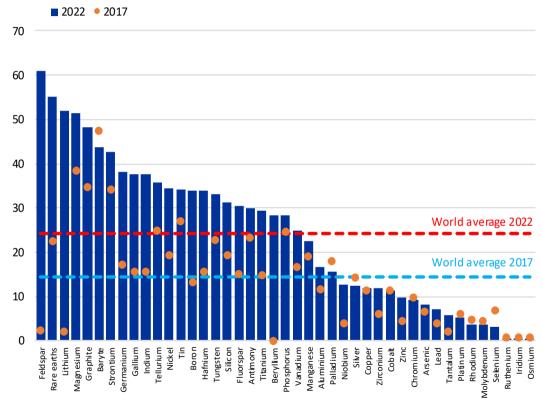
Sources: Global Trade Alert (GTA) and ECB staff calculations.

Notes: Total number of liberalising and harmful measures announced globally each year (adjusted for reporter lag at 31 of December each year). For the rhs series, affected flow includes outward and outward subsidies that are evaluated as red and harmful by the GTA during the coverage period shown without an adjustment for reporting lag.

Latest observation: 2023.

Critical raw materials subject to export restrictions

(% of exports)

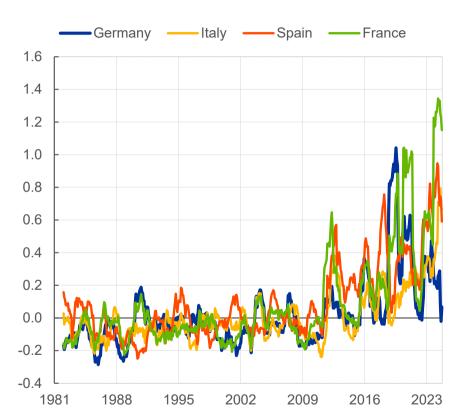


Source: EBRD Transition Report 2023-24.

Higher frequency of extreme weather events puts pressure on food prices

Extreme weather events

(12-month rolling average index)

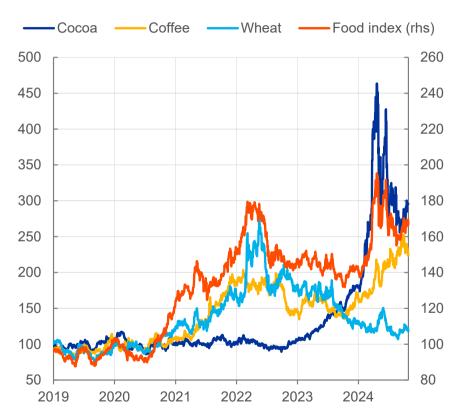


Sources: IFAB and ECB staff calculations.

Notes: The European Extreme Events Climate Index (E3CI) provides an overview of weather-induced hazards by combining 7 components: extreme i) max and min temperature, ii) precipitation, iii) wind , drought, hail, fire. A value over 1 indicates an extreme weather event. The index shows a standardised anomaly with respect to the reference values (based on data from 1981-2010). Latest observation: September 2024.

Food prices

(Index, 2020 = 100)



Sources: HWWI and ECB calculations. Latest observation: 25 October 2024.

Implications for monetary policy

- Disinflation remains on track, which allowed us to lower rates further in October, but the fight against inflation is not yet won
- A gradual approach to removing restriction remains appropriate
 - Risk of meaningful and persistent undershooting of inflation target remains small
 - Projected growth in 2025 close to potential, no need to go below neutral
- Neutral rate is subject to high uncertainty
 - As we soon get closer to neutral territory, we will need more time to assess how restrictive policy still is on the basis of our outlook and incoming data
- Monetary policy cannot resolve structural issues

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Thank you very much for your attention!