



EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB's monetary policy: towards price stability

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of the European Central Bank*



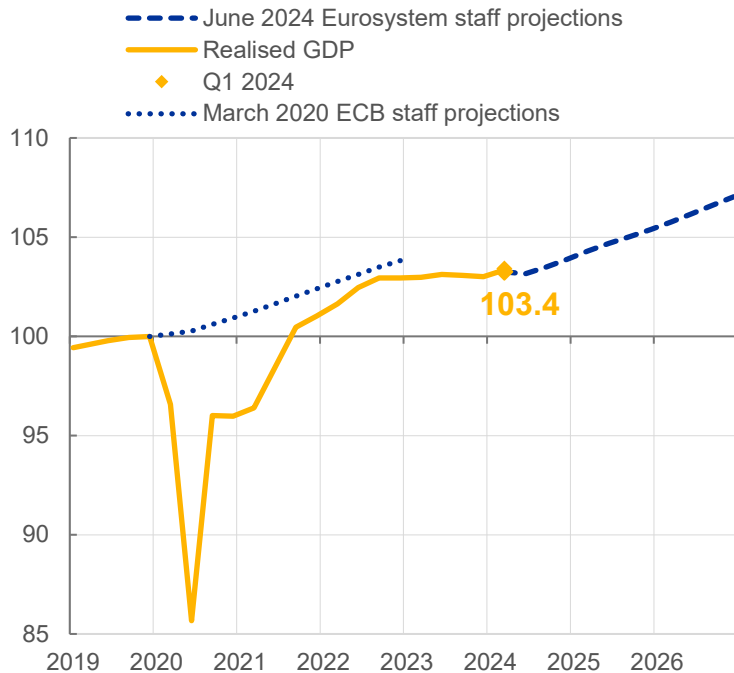
Finanzausschuss – Deutscher Bundestag

Berlin, 12 June 2024

Economy is recovering gradually, but “last mile” of disinflation is proving bumpy

Real GDP

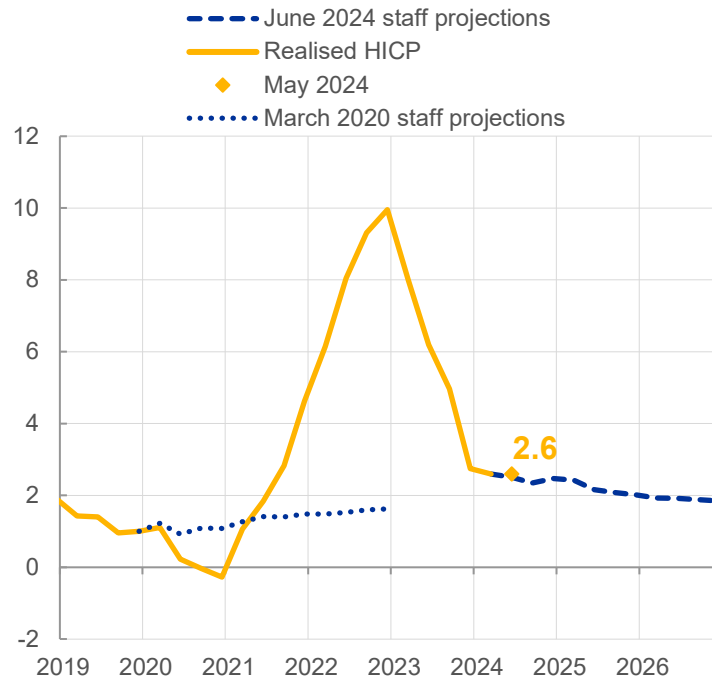
(index: Q4 2019 = 100)



Sources: Eurostat, ECB and Eurosystem.
Latest observation: Q1 2024 for realised GDP (diamond).

Inflation

(annual percentage changes, quarterly data)



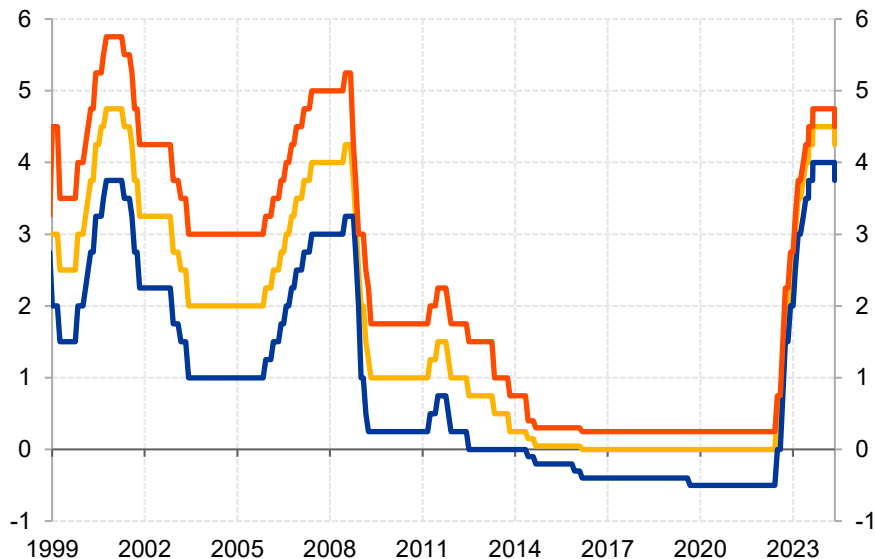
Sources: Eurostat, ECB and Eurosystem.
Latest observation: Q1 2024 for quarterly data, May 2024 (flash) for monthly data (diamond).

ECB has taken determined policy action to tackle unprecedented inflation surge

ECB key interest rates

(%)

— MRO — DFR — MLF

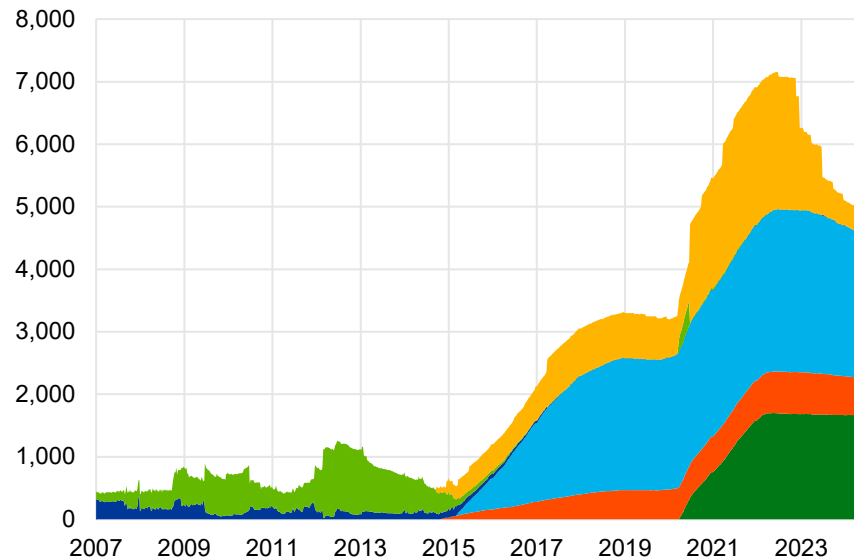


Source: ECB.
Latest observation: 12 June 2024.

Monetary policy assets

(EUR billion)

■ PEPP ■ Private APP ■ Public APP ■ MRO ■ LTRO ■ TLTRO

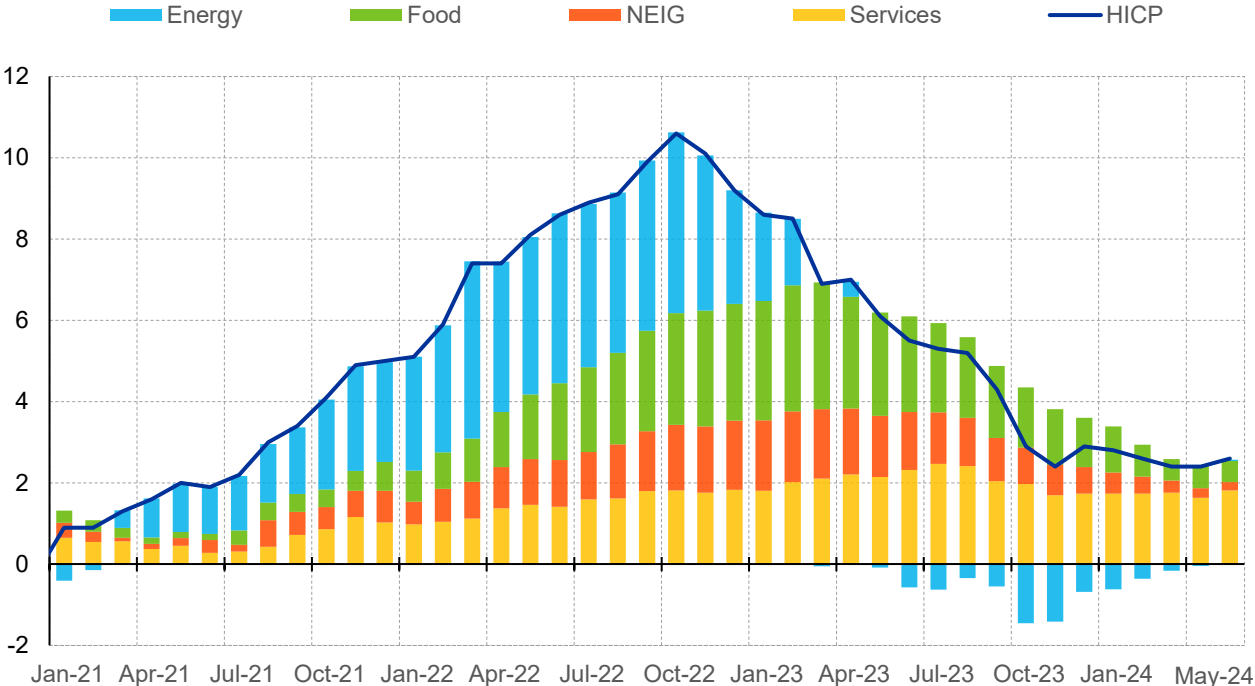


Source: ECB.
Notes: Public APP is PSPP, Private APP is CBPP3, ABSPP and CSPP.
Latest observation: May 2024.

Decline in inflation largely driven by reversal of previous supply-side shocks

HICP inflation

(annual percentage changes and percentage point contributions)

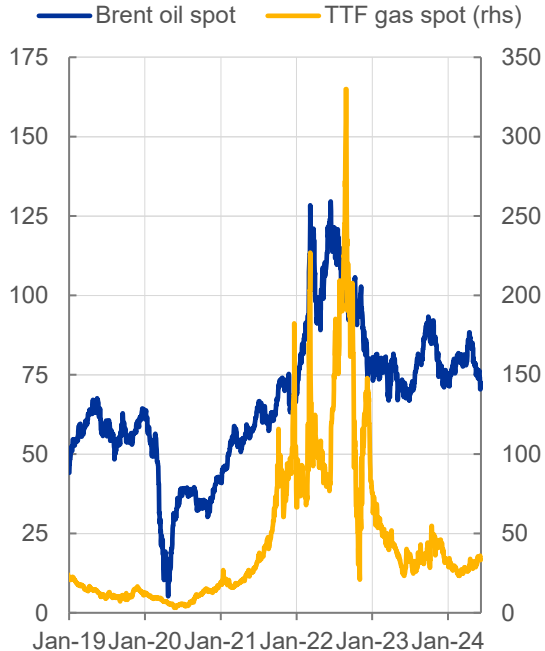


Sources: Eurostat and ECB calculations.
Latest observation: May 2024 (flash).

Energy and food price shocks as well as supply chain disruptions receded

Crude oil and natural gas prices

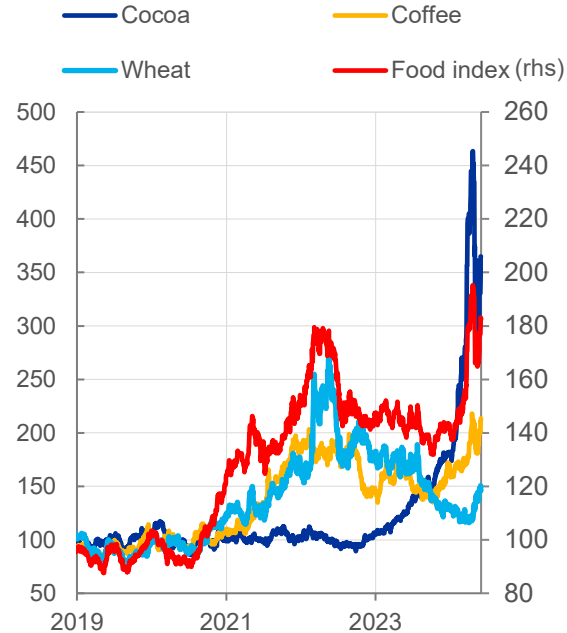
(oil: EUR/barrel, gas: EUR/MWh)



Sources: Bloomberg and ECB calculations.
Latest observation: 7 June 2024.

Food prices

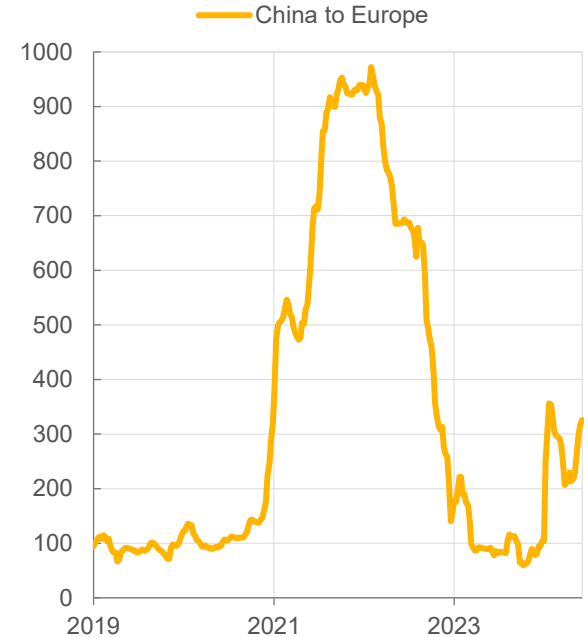
(Index, 2020 = 100)



Sources: HWWI and ECB calculations.
Latest observation: 7 June 2024.

Shipping prices

(index, Jan 2019 = 100)

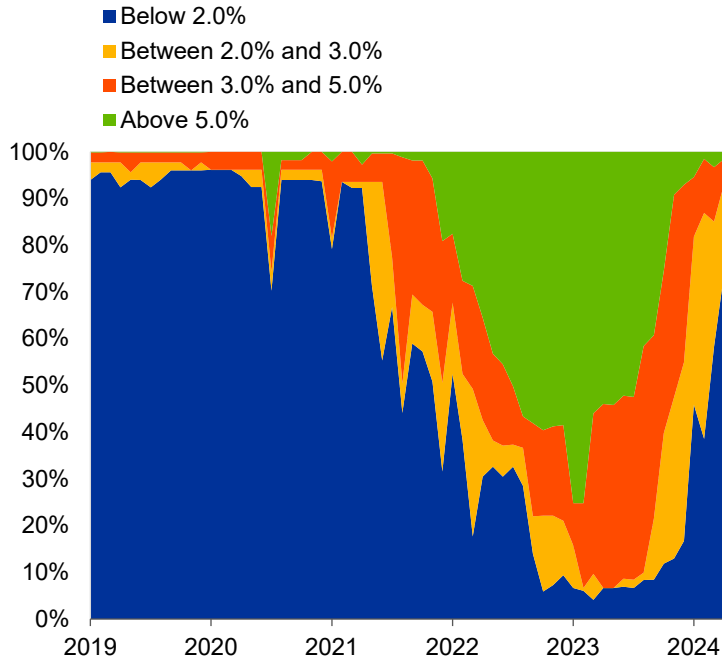


Sources: Refinitiv, Freightos and ECB staff calculations.
Notes: Freightos baltic directional freight costs (for forty-foot equivalent unit shipping container).
Latest observation: 9 June 2024.

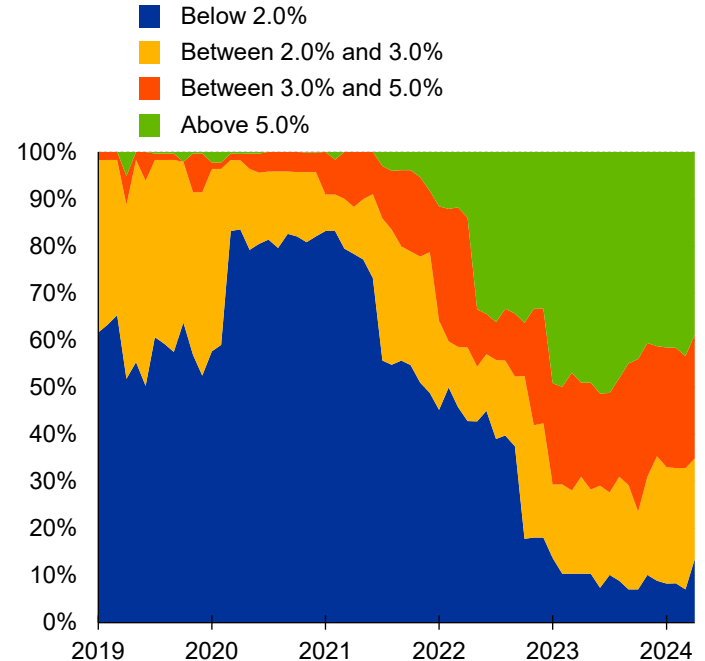
Goods inflation is dropping quickly, while services inflation proves sticky

Weighted distribution of price changes (%)

Non-energy industrial goods



Services



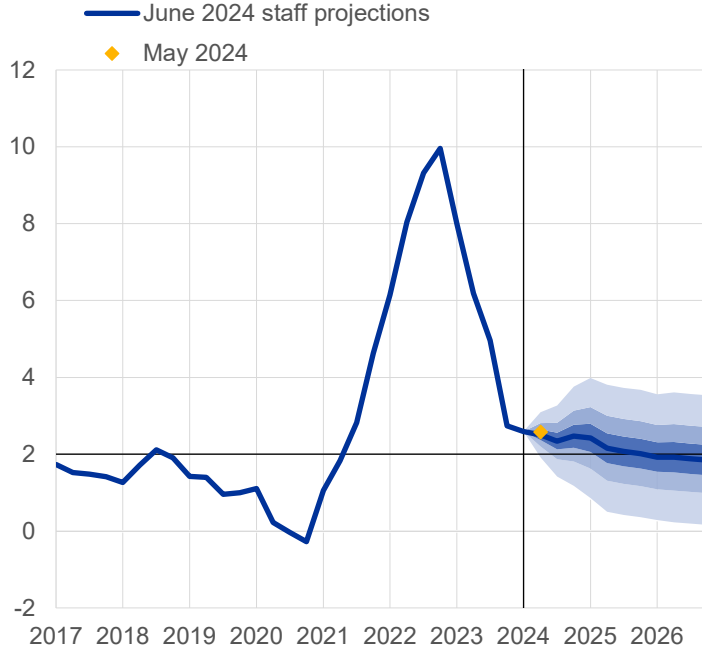
Sources: Eurostat and ECB calculations.

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.

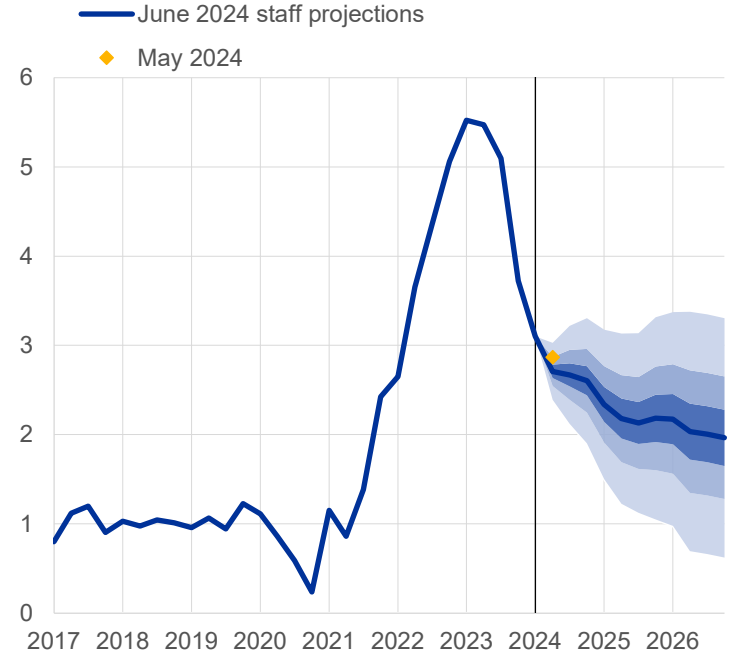
Latest observation: April 2024.

Projections point towards “last mile” of disinflation being more difficult

HICP inflation projections (annual percentage changes)



HICP excluding energy and food inflation projections (annual percentage changes)



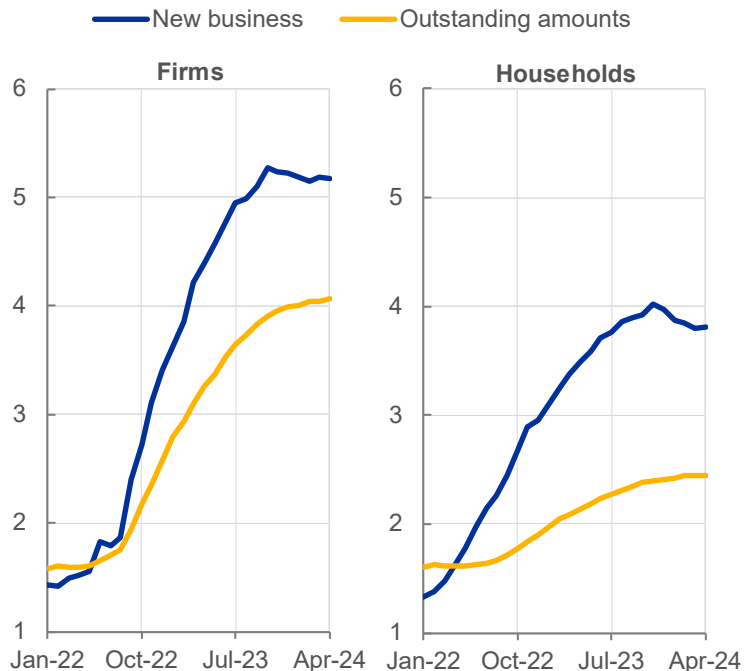
Sources: June 2024 Eurosystem staff projections and Eurostat.

Notes: The ranges shown around the central projections are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome will fall within the respective intervals. For more information, see Box 6 of the March 2023 ECB staff macroeconomic projections for the euro area.

Latest observation: May 2024 for monthly data (diamond).

Sharply rising loan rates have led to a notable slowdown in bank lending

Bank lending rates to firms and households (percentages per annum)

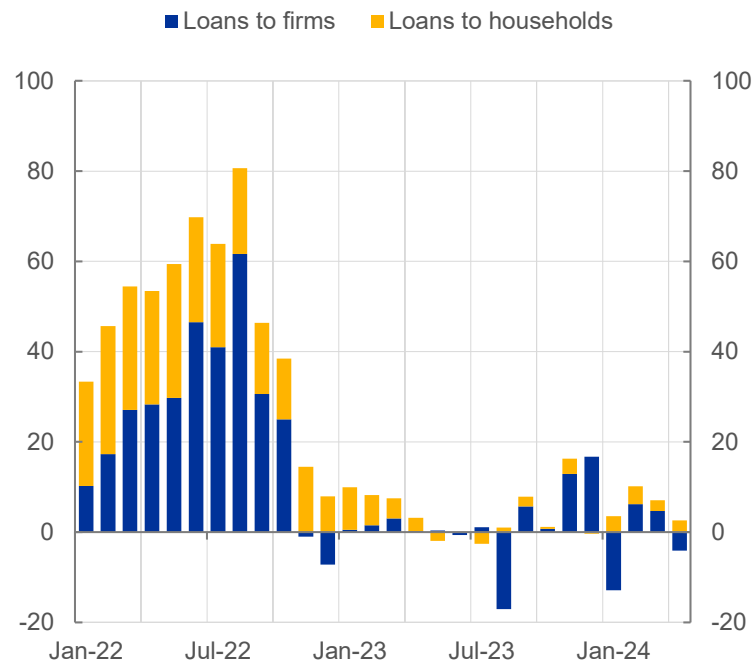


Sources: ECB (MIR) and ECB calculations.

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: April 2024.

Bank loans to firms and households (monthly flows in EUR bn)



Source: ECB (BSI).

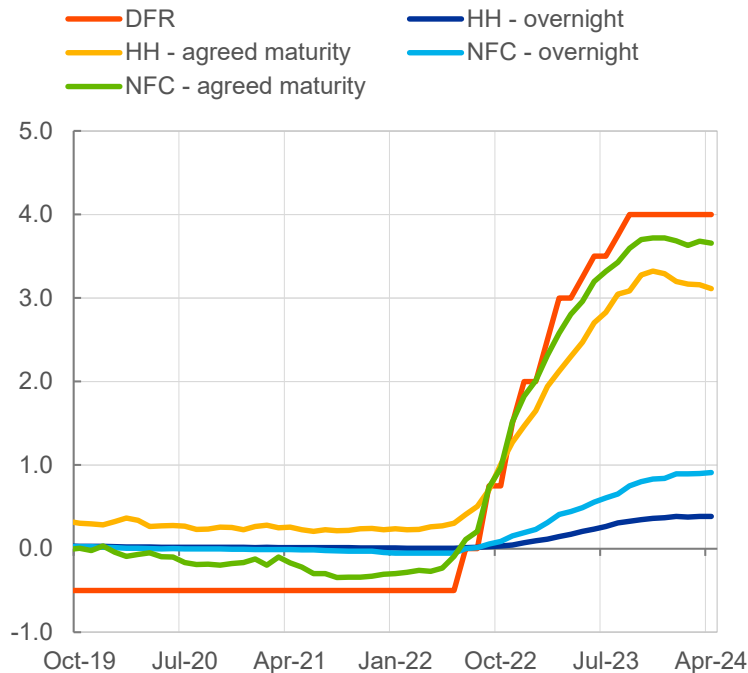
Notes: Loans to households and firms are adjusted for sales and securitisation. Loans to firms are also adjusted for cash pooling.

Latest observation: April 2024.

Higher deposit rates encourage higher saving, implying less consumption

Deposit rates

(percentages per annum)



Source: ECB (MIR).

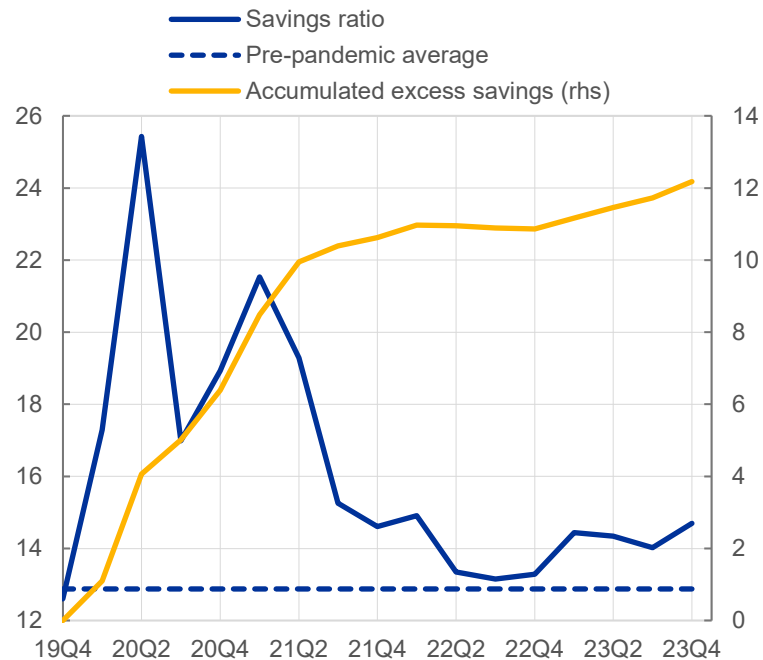
Notes: 'HH' stands for households. 'NFC' stands for non-financial corporations.

Latest observation: April 2024.

Household savings ratio and accumulated savings

(lhs: percentage share of nominal income;

rhs: percentage of annual disposable income)



Sources: Eurostat and ECB calculations.

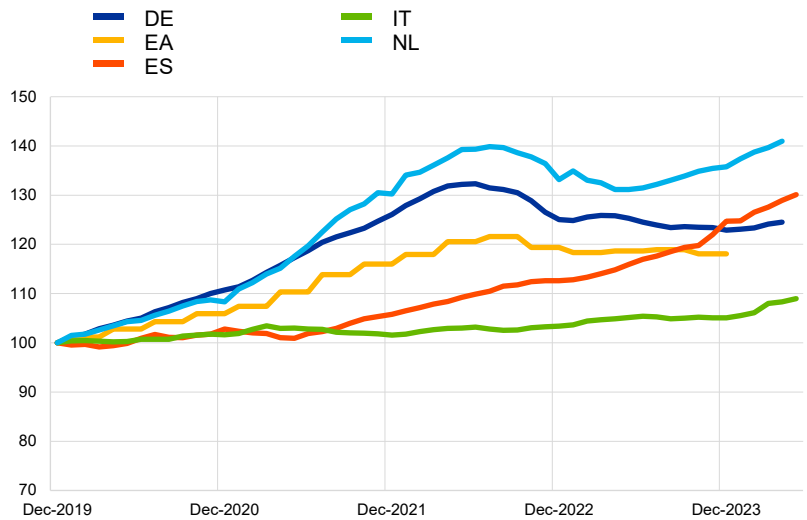
Notes: Pre-pandemic average of savings ratio is calculated over the period 2014 Q4-2019 Q4. Excess savings are defined as in the ECB Blog "Excess savings: To spend or not to spend" of 2 November 2023.

Latest observation: 2023 Q4.

Cooling of euro area real estate markets with large heterogeneity

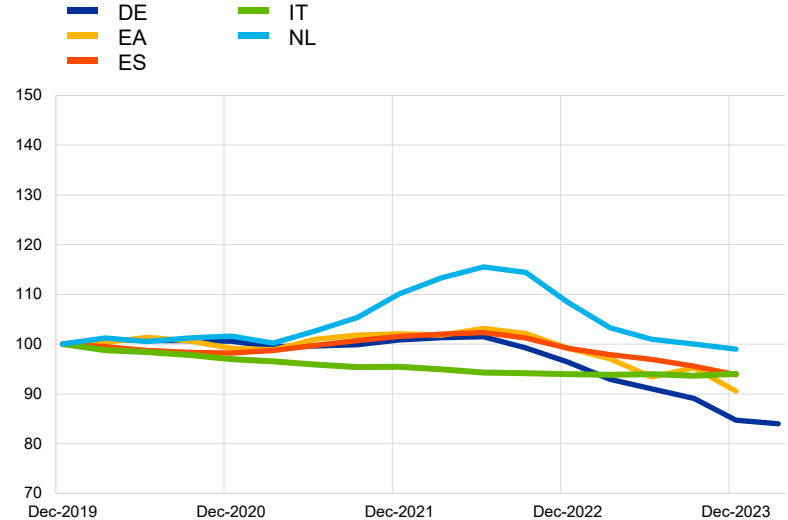
House prices

(monthly RRE price indices: December 2019 = 100)



Commercial real estate prices

(quarterly CRE price indices: December 2019 = 100)

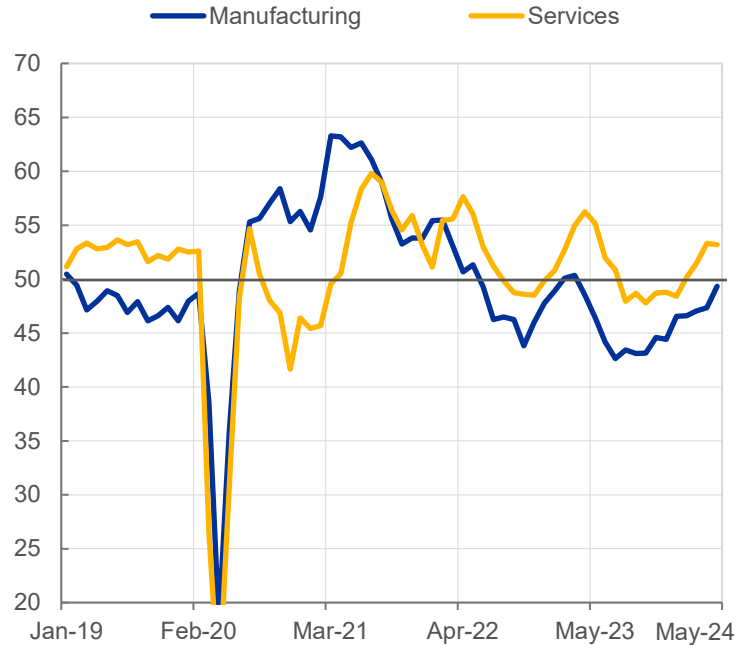


Sources: Europace, Eurostat, Immobiliare.it, Indomio.es and Statistics Netherlands.
 Notes: RRE stands for Residential Real Estate. Last EA observation from Eurostat is for Q4 2023, so several countries with more timely data available are added. For IT and ES an average listing price index is reported. For all other countries the index reported is a hedonic price index based on transaction prices.
 Latest observation: May 2024 for ES and IT, April 2024 for DE and NL, Q4 2023 for EA.

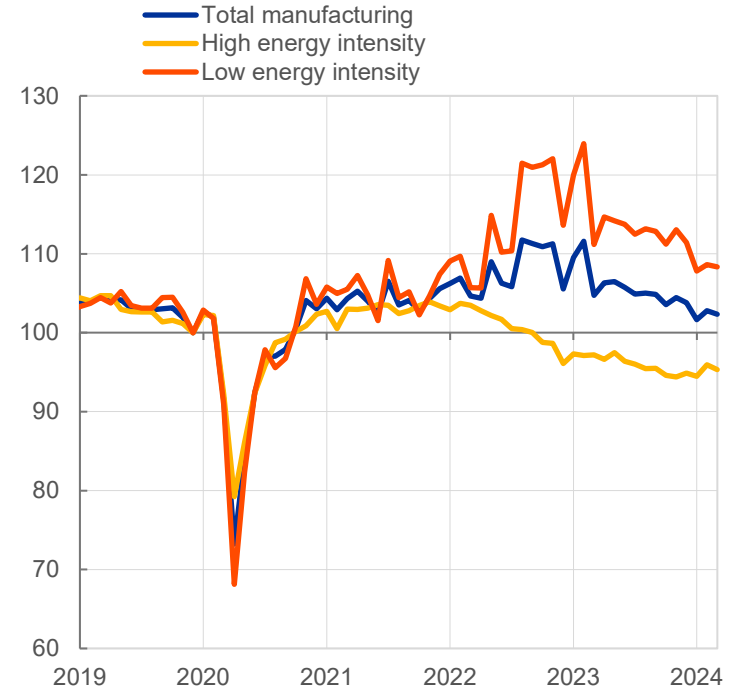
Source: ECB.
 Notes: Methodologies used in index construction vary across countries shown, with DE, EA and IT based on transacted/ open market prices and ES and NL based on valuation estimates.
 Latest observation: DE: 2024 Q1, all others: 2023 Q4.

Services outperform manufacturing amid structural challenges

PMI output (diffusion index)



Industrial production: manufacturing sector (index: December 2019 = 100)

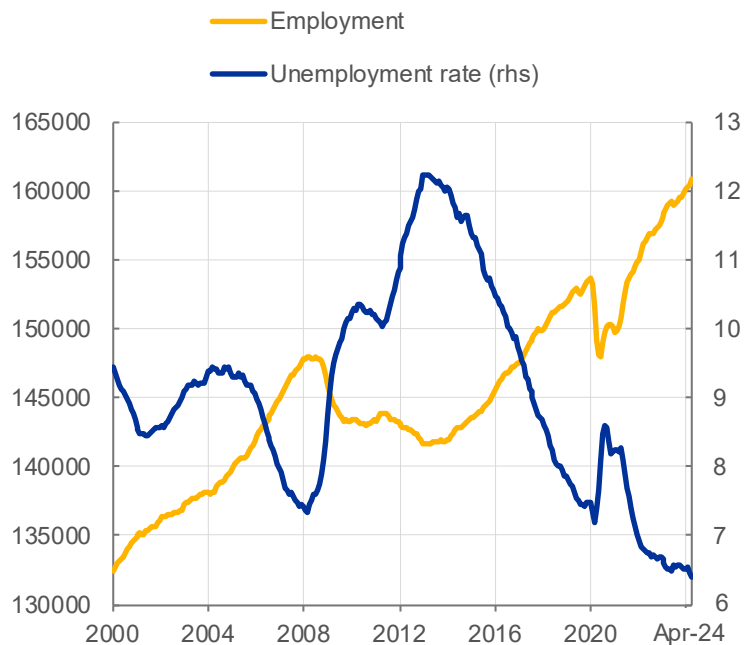


Source: S&P Global.
Latest observation: May 2024.

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 \(2023\)](#).
Latest observation: March 2024.

Unemployment rate and employment

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



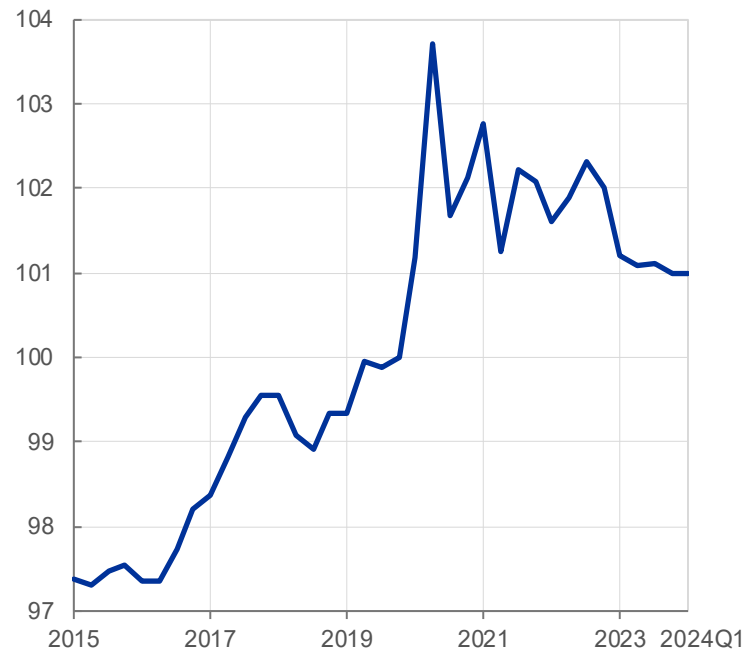
Source: ECB calculations based on Eurostat data.

Notes: The monthly employment data have been computed manually as the difference between labour force and unemployment.

Latest observation: April 2024.

Labour productivity per hour

(index: 2019 Q4 = 100)



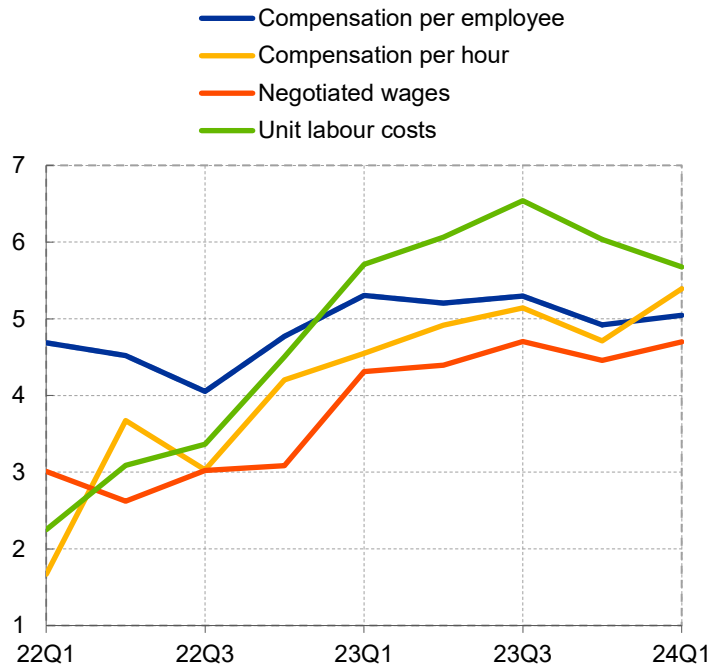
Source: ECB calculation based on Eurostat data.

Latest observation: 2024 Q1.

First indications of easing wage growth, supported by declining inflation expectations

Labour cost indicators in the euro area

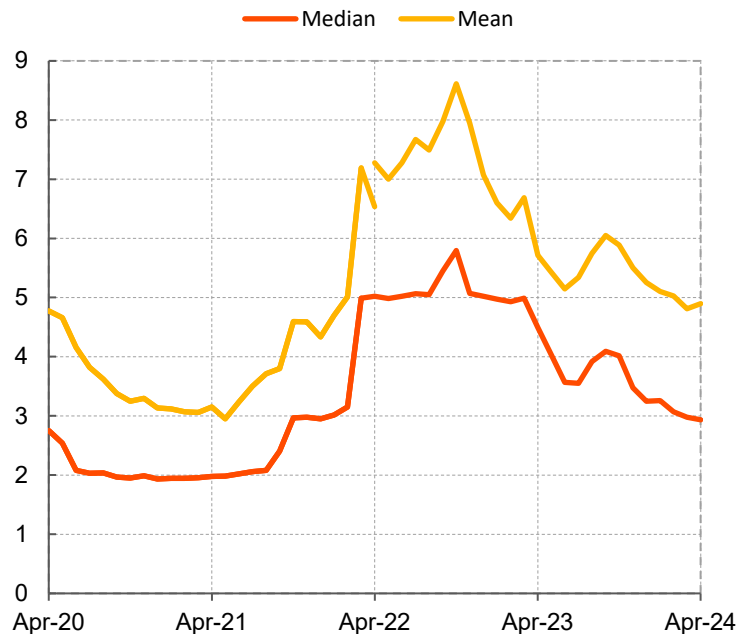
(annual percentage changes)



Sources: Eurostat and ECB staff calculations.
Latest observations: 2024 Q1.

Inflation expectations over the next 12 months

(annual percentage changes)



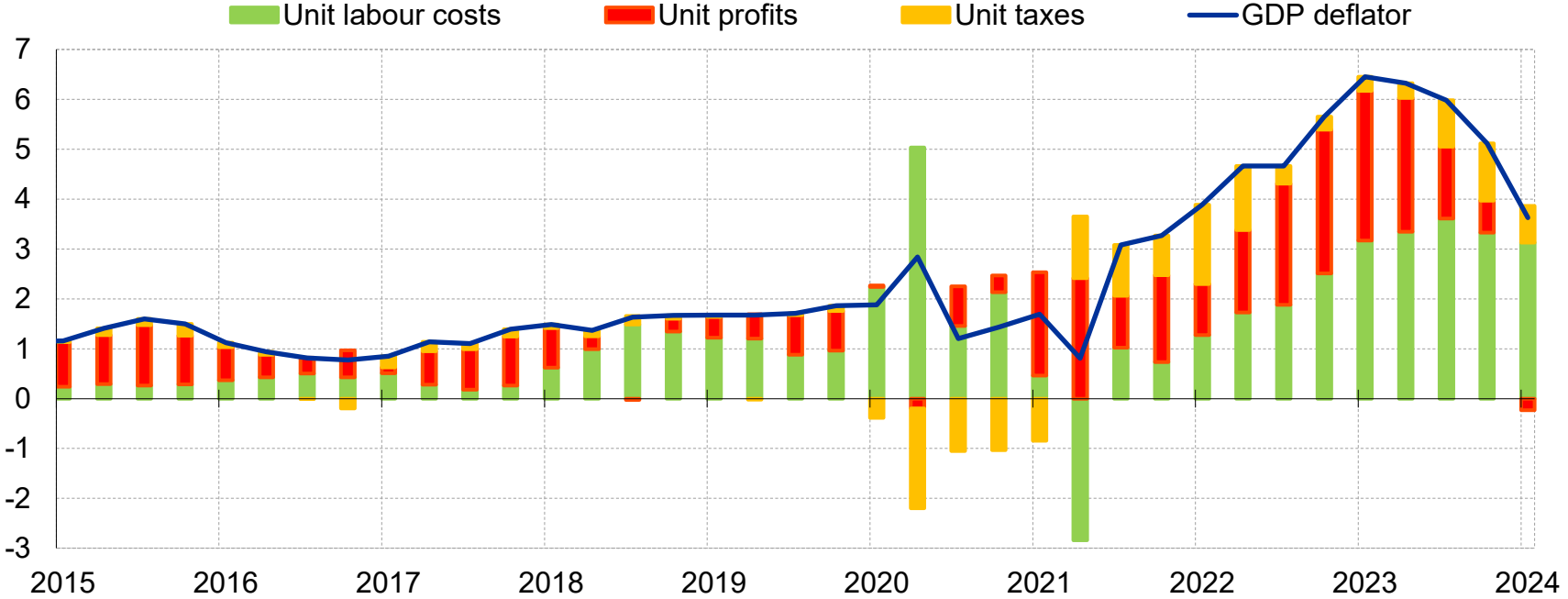
Source: ECB Consumer Expectations Survey.

Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. Mean values are winsorised at the 2nd and 98th percentiles of each survey round and country. The shift in the 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 observations: April 2024.

Firms are starting to absorb higher wage costs in their profit margins

GDP deflator

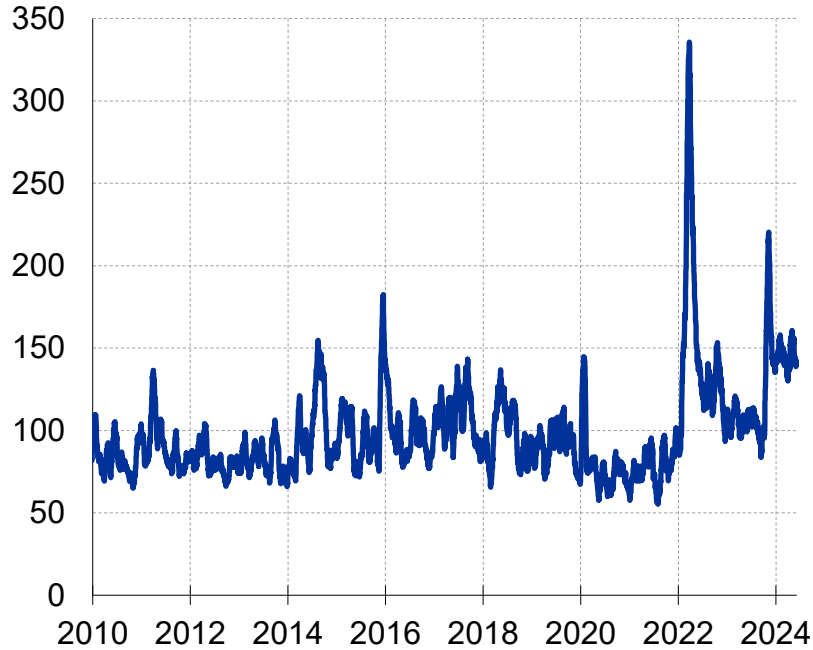
(annual percentage changes and percentage change contributions)



Sources: Eurostat and ECB calculations.
Notes: Unit taxes refer to unit net indirect taxes defined as indirect taxes minus subsidies.
Latest observation: 2024 Q1.

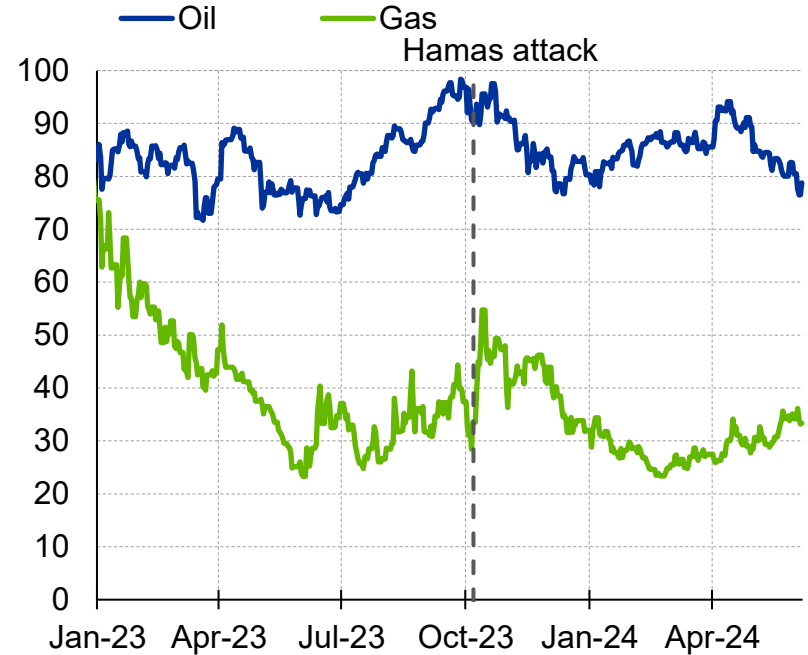
New supply-side shocks: geopolitical risk and energy prices

Geopolitical risk (index)



Source: 30-day moving average of the daily geopolitical risk index by Caldara and Iacoviello (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: 5 June 2024.

Oil and gas prices (oil: USD per barrel, gas: EUR per MWh)

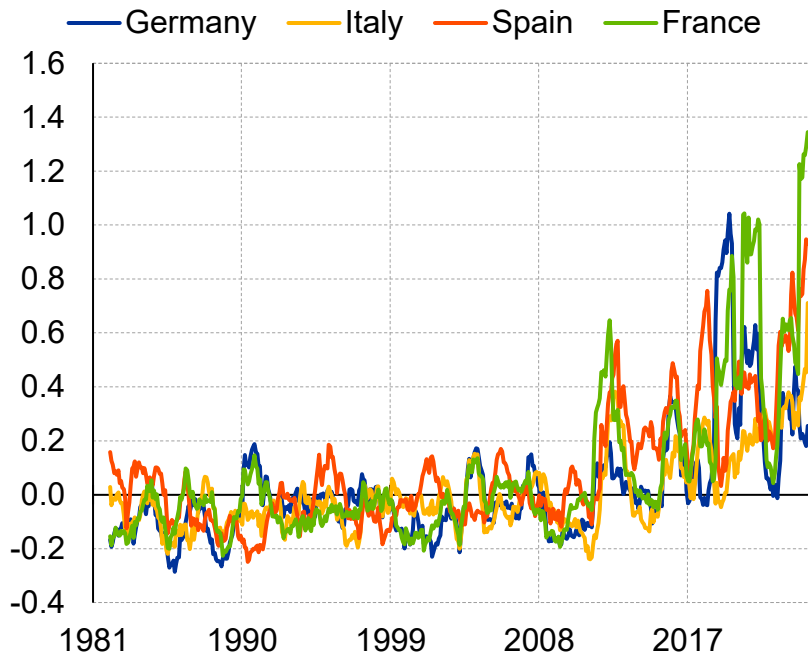


Sources: Refinitiv and ECB staff calculations.
Latest observation: 7 June 2024.

New supply-side shocks: extreme weather events and food prices

Extreme weather events

(12-month rolling average index)

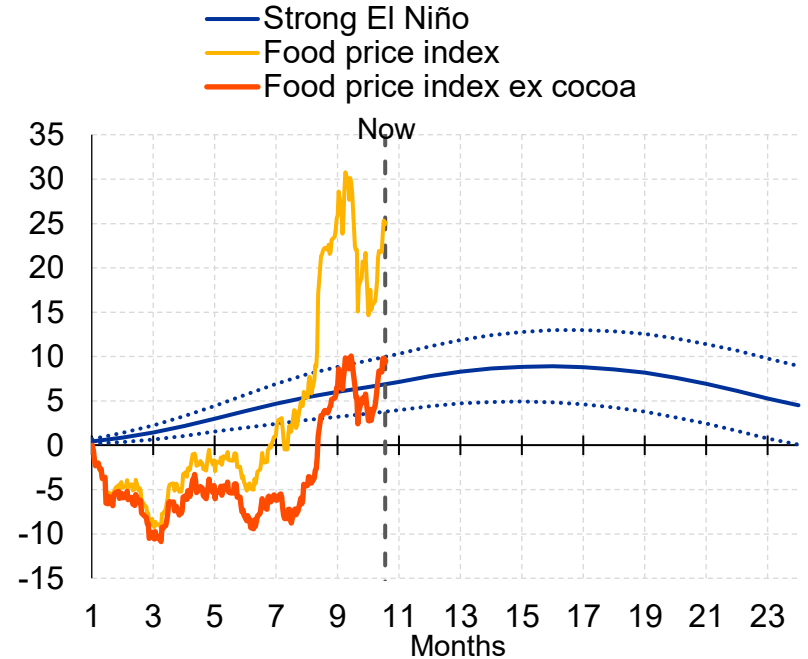


Sources: IFAB and ECB staff calculations.

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

Price effects following the start of a strong El Niño period and food prices

(percent changes)



Sources: Adolfsen and Lappe (2023), HWWI, LSEG and ECB staff calculations.

Notes: Estimated price effect shows the impact of a 1.0-degree Celsius increase in ocean surface temperatures during El Niño phenomenon, controlling for fertiliser and oil prices as input costs in food production and for global industrial activity as an indicator of the global business cycle. Impulse response functions have been estimated with local projections following Jordà, Ó., "Estimation and Inference of Impulse Responses by Local Projections", Vol. 95, No 1, 2005, pp. 161-182. The charts show 68% confidence intervals. Latest observation: 7 June 2024 (weekly data).

Thank you very much for your attention!