



EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB's monetary policy: towards price stability

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*Member of the Executive Board
of the European Central Bank*

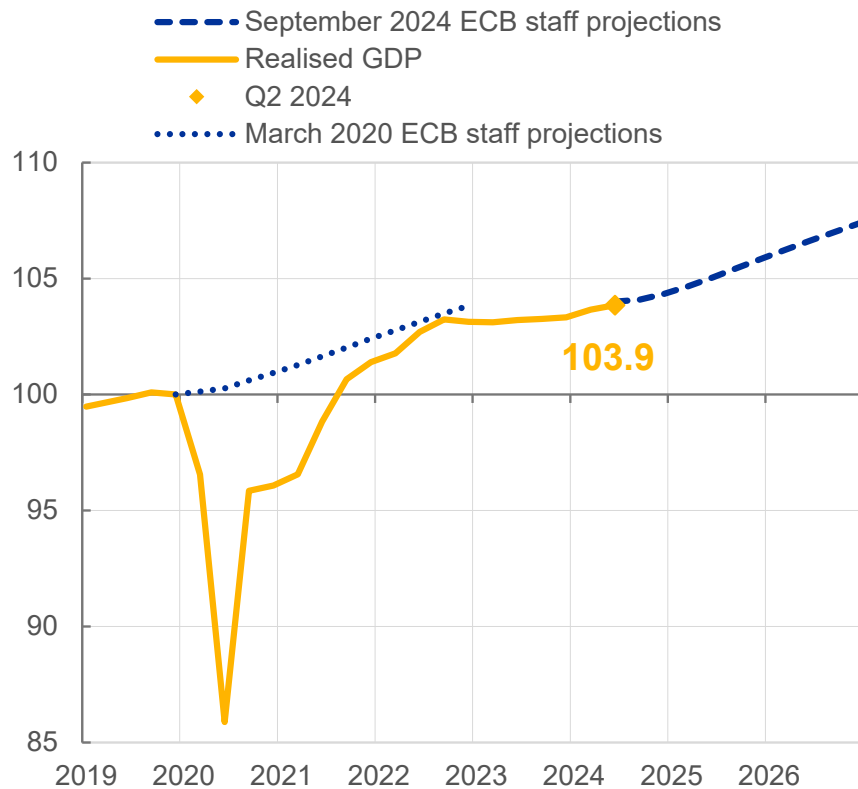


Wirtschaftsrat der CDU
Stuttgart, 26 September 2024

Euro area economy is stagnating while disinflation remains on track

Real GDP

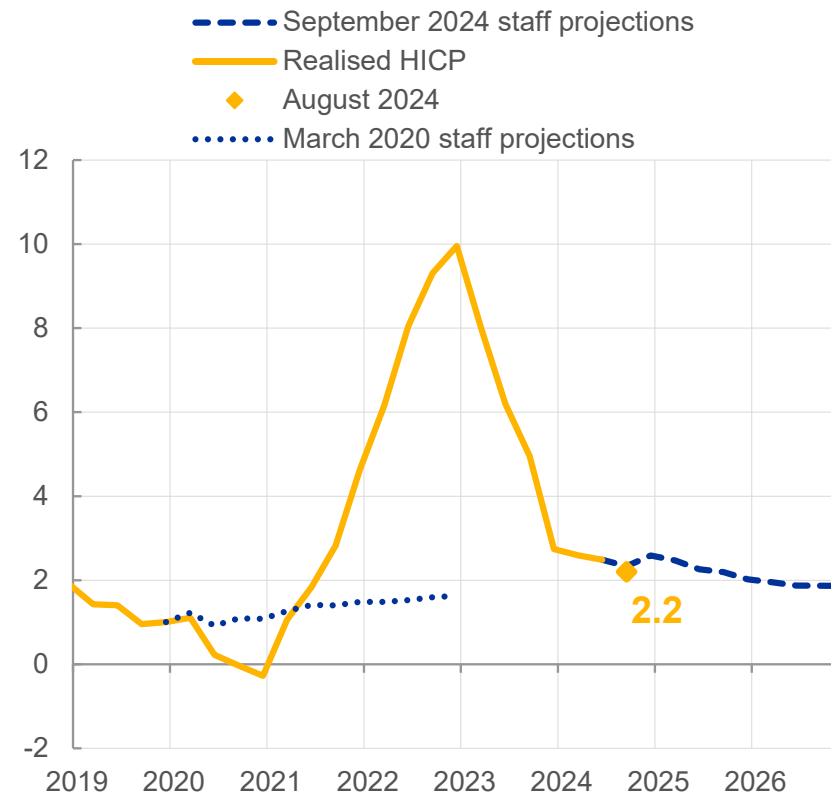
(index: Q4 2019 = 100)



Sources: Eurostat and ECB.
Latest observation: Q2 2024 for realised GDP (diamond).

Inflation

(annual percentage changes, quarterly data)

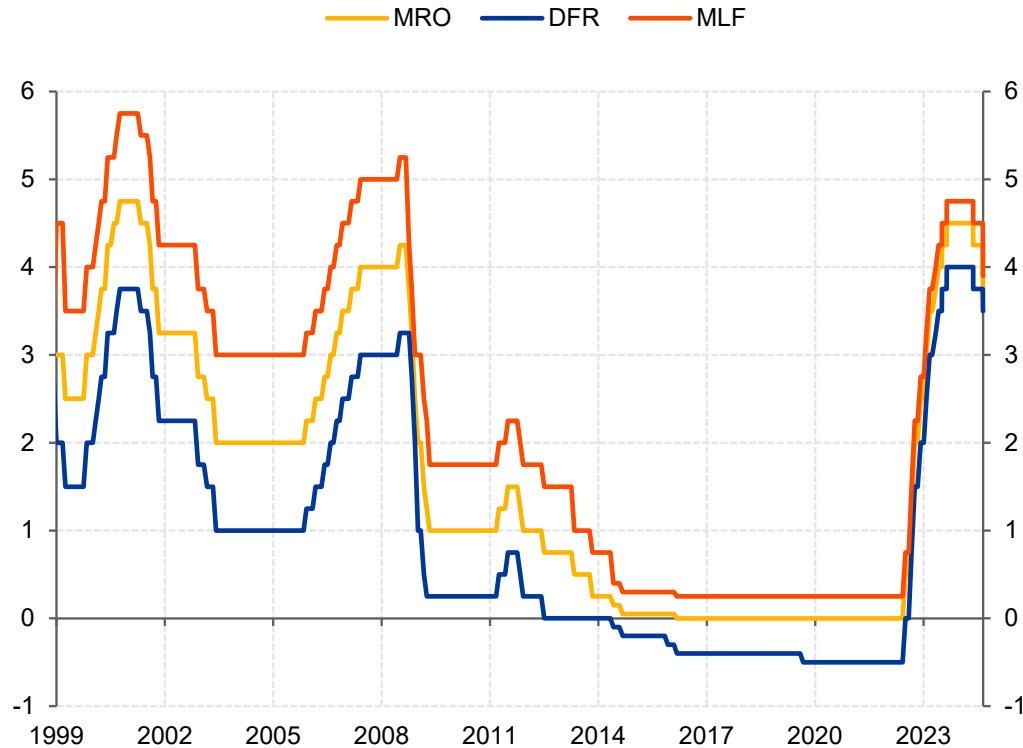


Sources: Eurostat, ECB and Eurosystem.
Latest observation: Q2 2024 for quarterly data, August 2024 for monthly data (diamond).

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

ECB key interest rates

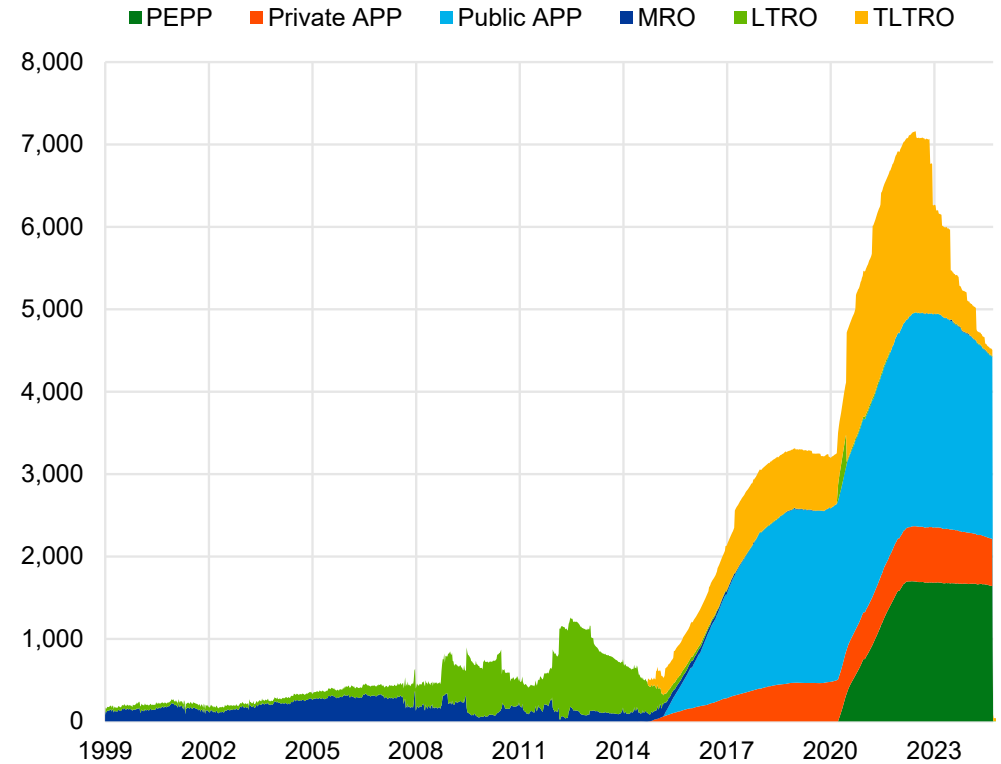
(%)



Source: ECB.
Latest observation: 20 September 2024.

Monetary policy assets

(EUR billion)

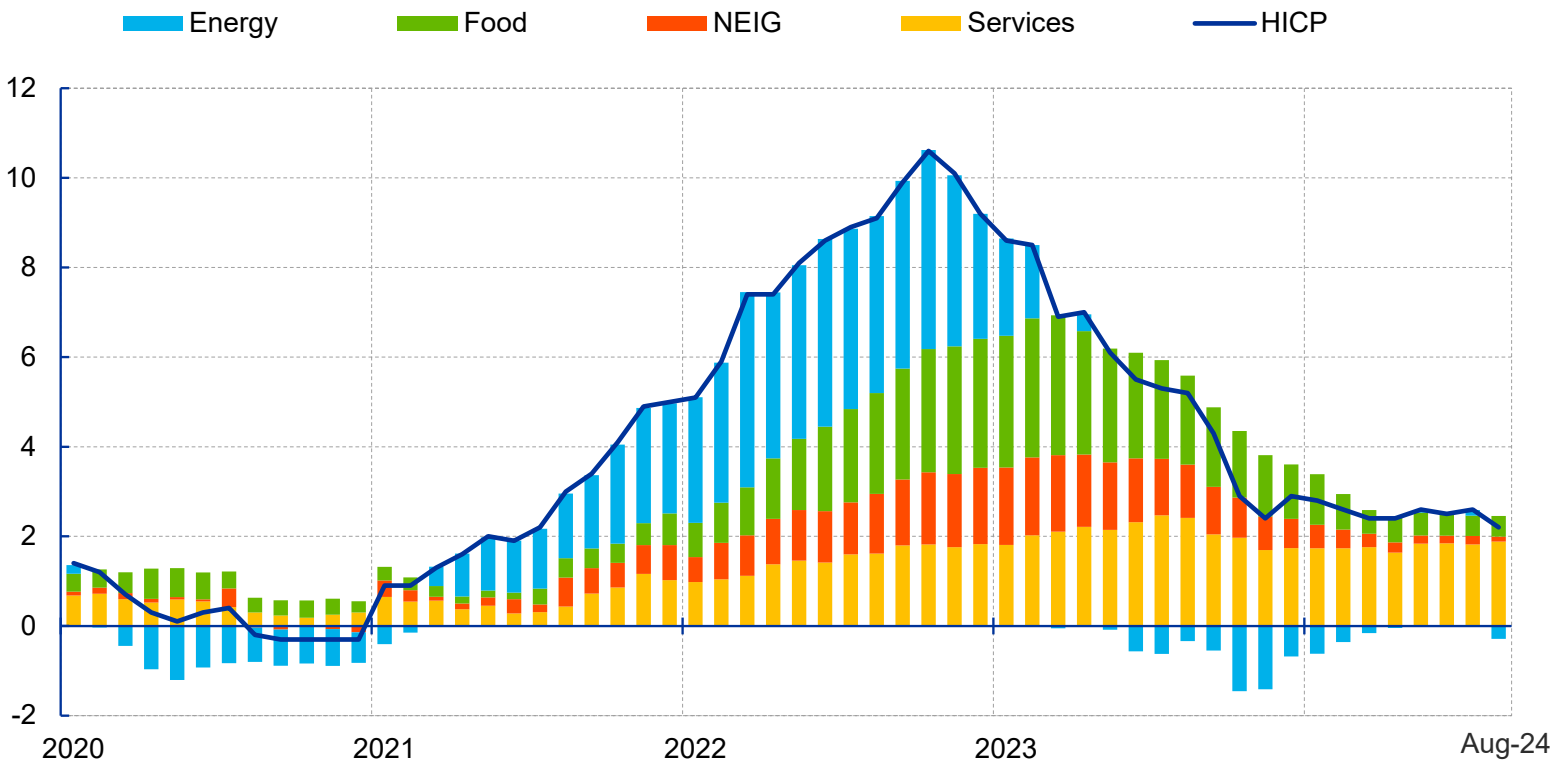


Source: ECB.
Notes: Public APP is PSPP, Private APP is CBPP3, ABSPP and CSPP.
Latest observation: 20 September 2024.

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: August 2024.

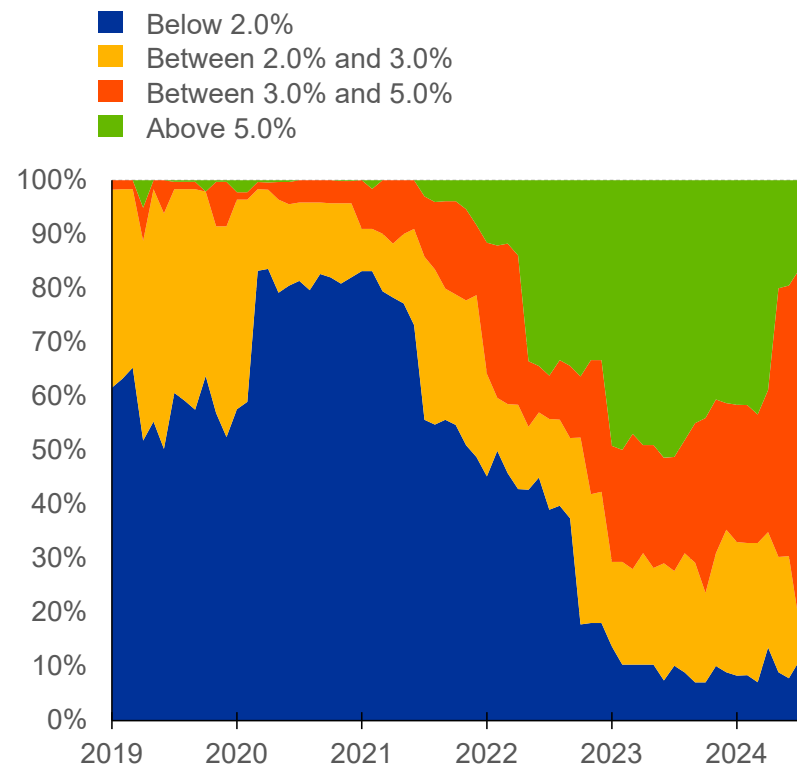
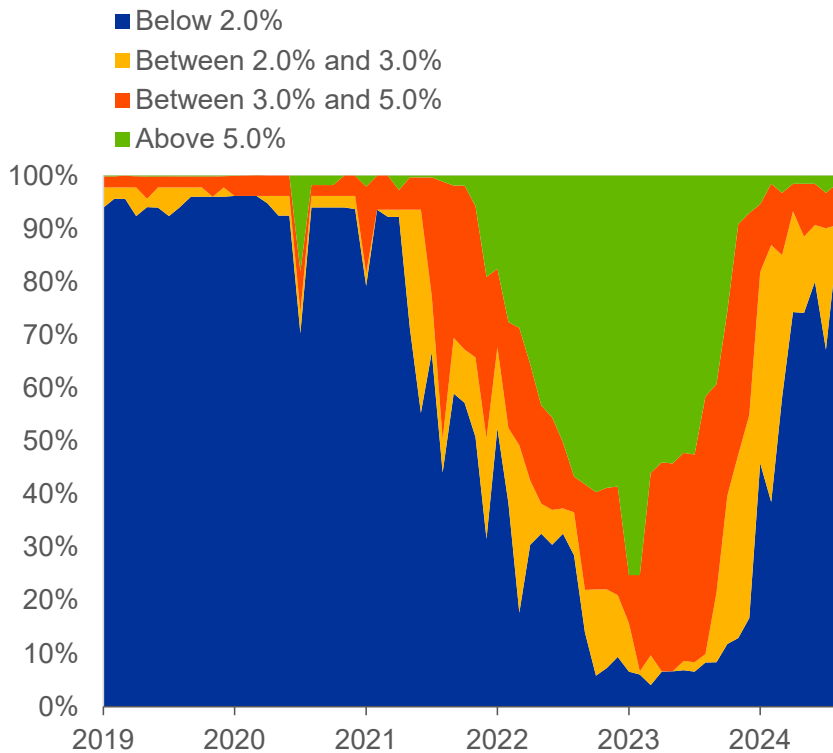
Goods inflation is dropping quickly, while services inflation proves sticky

Weighted distribution of price changes

(%)

Non-energy industrial goods

Services



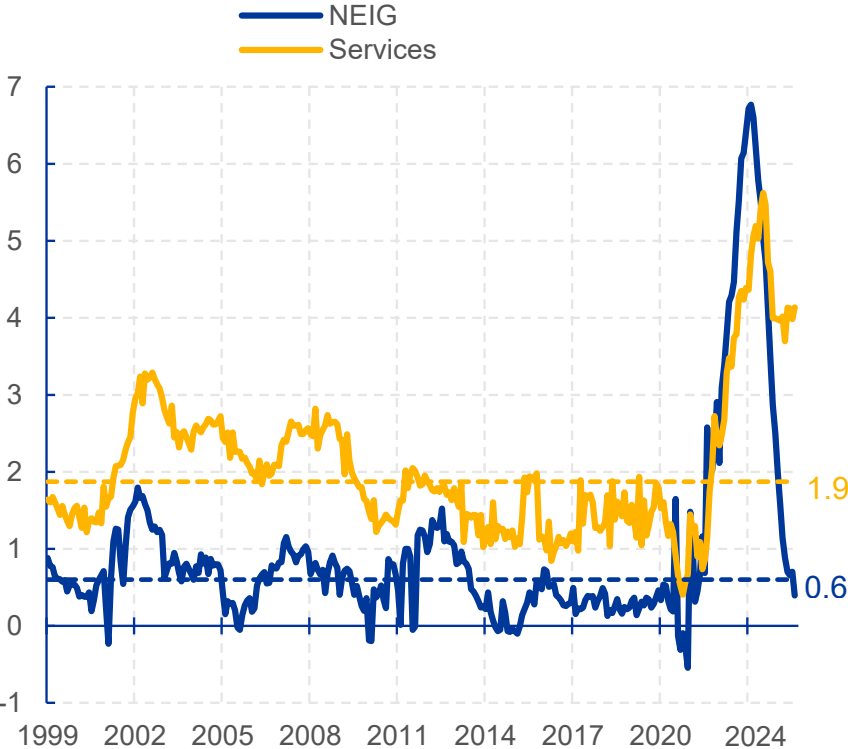
Sources: Eurostat and ECB calculations.

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: August 2024.

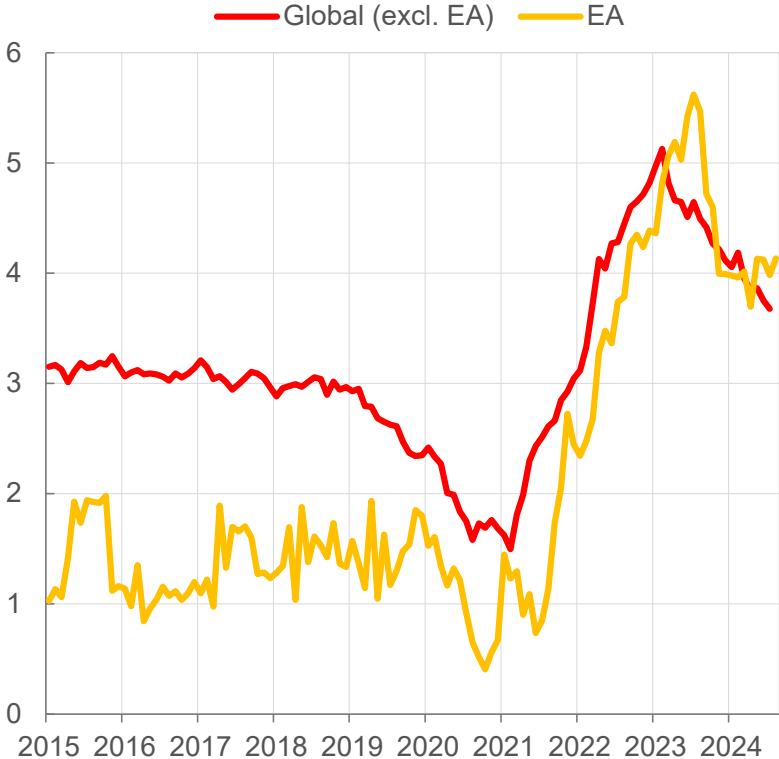
Services inflation is keeping core inflation at elevated level globally

Core inflation: Non-energy industrial goods and services (annual percentage changes)



Sources: Eurostat and ECB calculations.
Notes: The dashed lines indicate the historical averages from 1999-2019.
Latest observation: August 2024.

Services inflation (annual percentage changes)



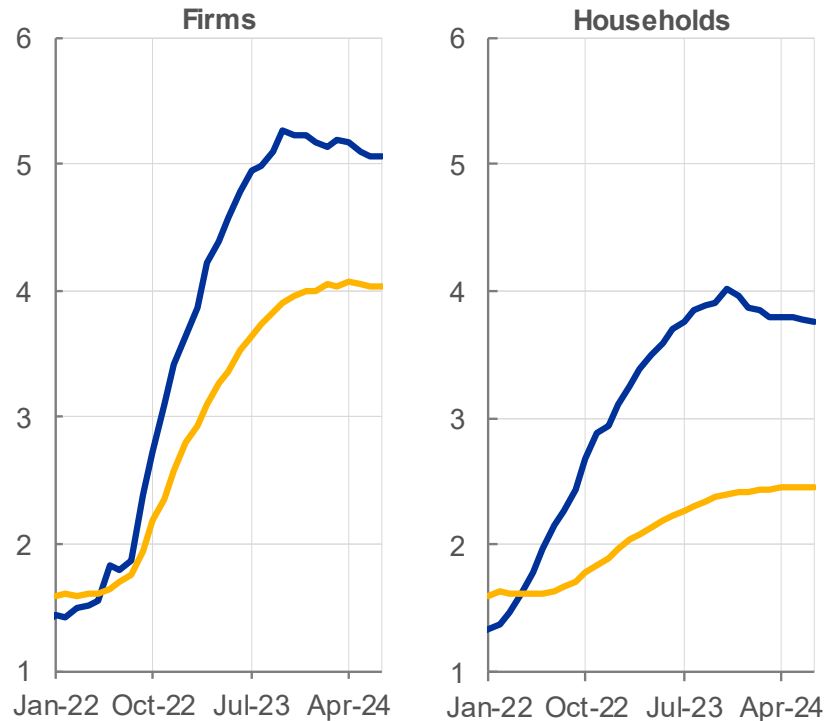
Sources: Eurostat, national sources and OECD via Haver Analytics and ECB staff calculations.
Notes: Global (excl. EA) aggregate is a weighted average calculated based on 22 countries, including 7 advanced economies (US, UK, JP, CA, NO, DK, CH, SE) and 14 emerging economies (CN, TW, KR, ZA, MX, CL, RU, MY, CO, EG, CZ, IN, BR, HK), covering roughly 72% of global (excl. EA) GDP-PPP. Core inflation excludes food and energy.
Notes: The dashed lines indicate the historical averages from 2006-2019.
Latest observation: July 2024 (Global) and August 2024 (EA).

Loan rates have started to come down from high levels, but bank lending remains muted

Bank lending rates

(percentages per annum)

— New business — Outstanding amounts



Sources: ECB (MIR) and ECB calculations.

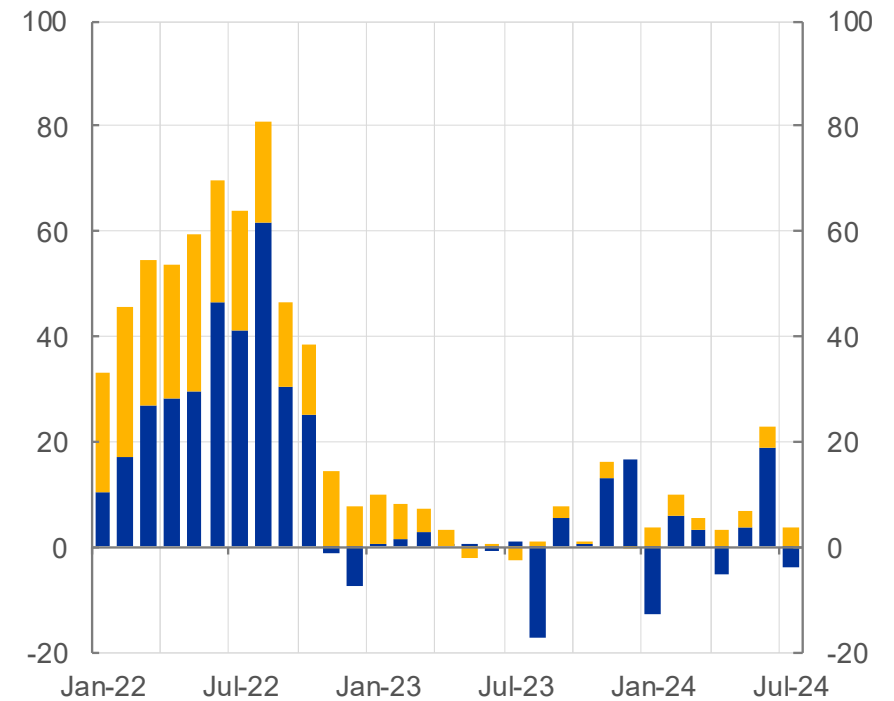
Notes: The indicator for new business volumes corresponds to the cost of borrowing for firms and for households for house purchases is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

Latest observation: July 2024.

Bank loans

(monthly flows in EUR bn)

■ Loans to firms ■ Loans to households



Source: ECB (BSI).

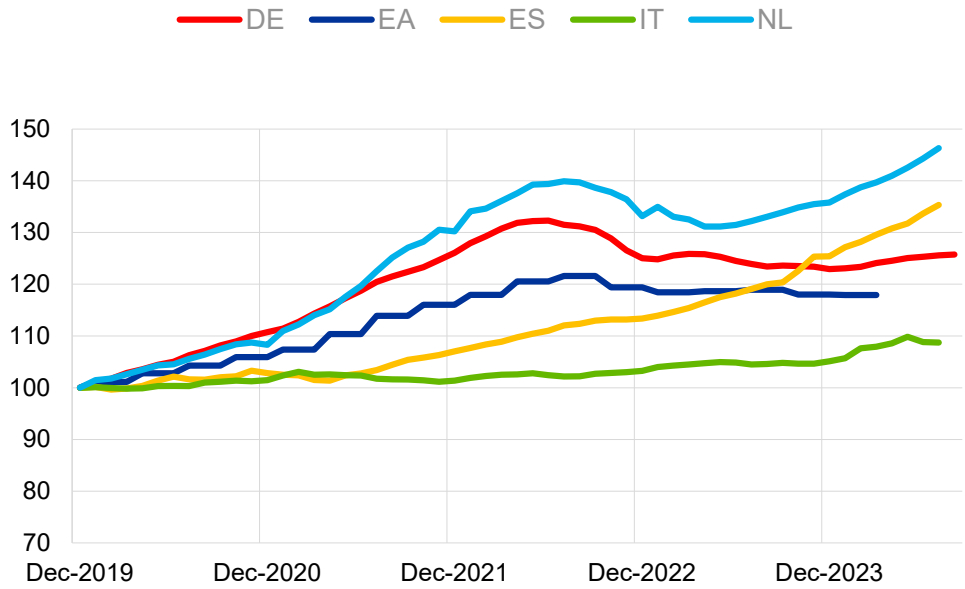
Notes: Loans to households and firms are adjusted for sales and securitisation. Loans to firms are also adjusted for cash pooling.

Latest observation: July 2024.

Structural changes in real estate markets seem to dominate impact of interest rates

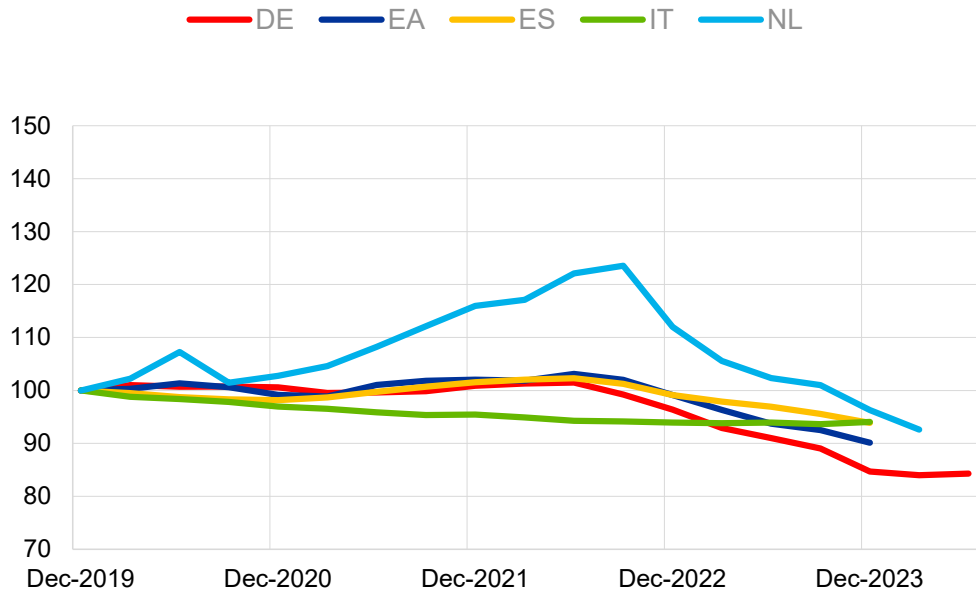
House prices

(December 2019 = 100)



Commercial real estate prices

(December 2019 = 100)



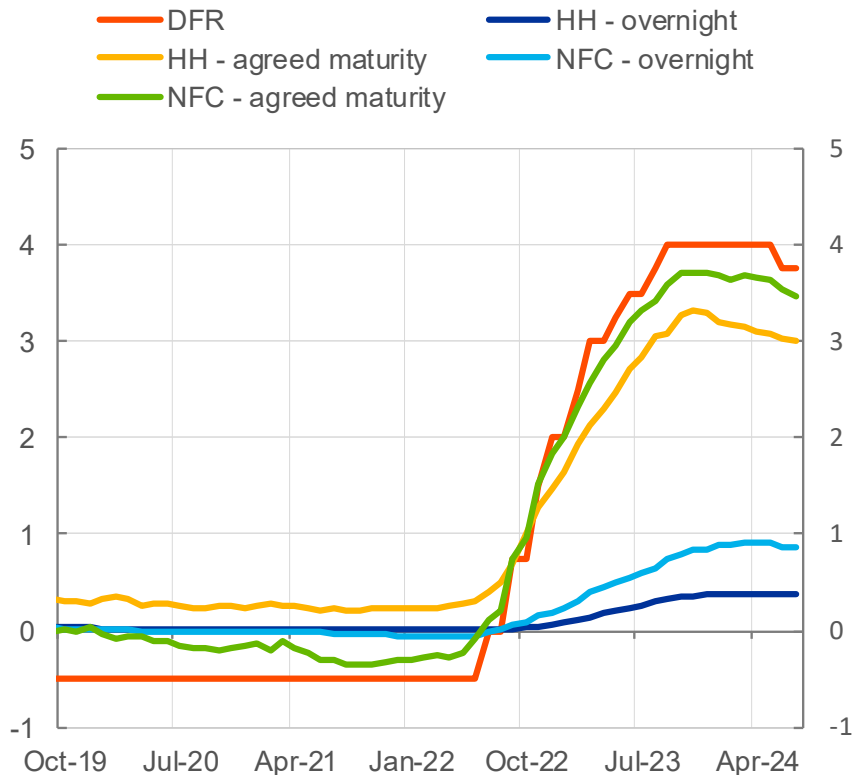
Sources: Europace, Eurostat, Immobiliare.it, Indomio.es and Statistics Netherlands.
 Notes: Monthly residential real estate price indices. Latest EA observation from Eurostat is for Q4 2023, so several countries with more timely data available are added. For IT and ES an average listing price index is reported. For all other countries the index reported is a hedonic price index based on transaction prices.
 Latest observation: July 2024 for ES, IT and NL, August 2024 for DE, Q1 2024 for EA.

Source: ECB.
 Notes: Quarterly commercial real estate price indices. 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 Q2, NL: 2024 Q1, all others: 2023 Q4.

High savings due to large uncertainty and higher deposit rates

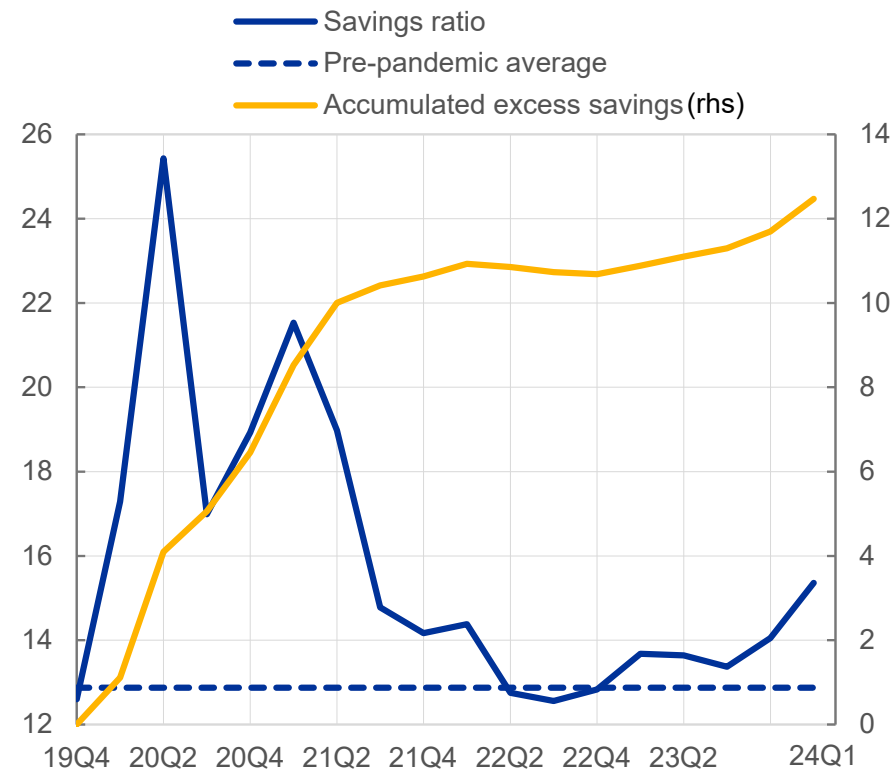
Deposit rates

(percentages per annum)



Household savings ratio and accumulated savings

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



Source: ECB (MIR).

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

Latest observation: July 2024.

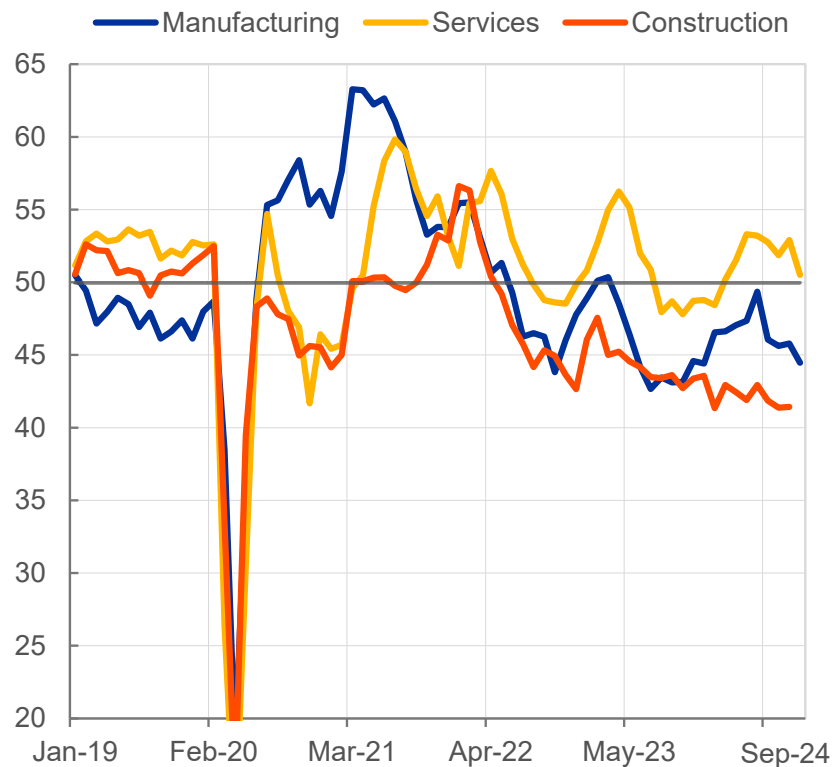
Sources: Eurostat and ECB calculations.

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 Q1.

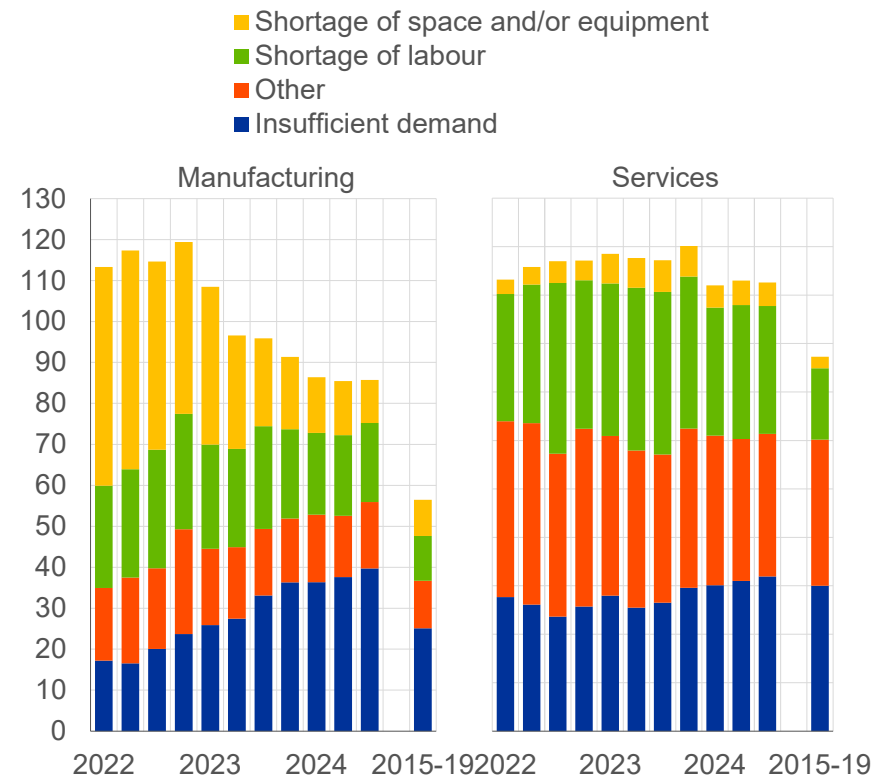
Surveys signal slowing economy amid persisting labour scarcity

Purchasing Managers' Index (PMI): Output (diffusion index)



Source: S&P Global.
Latest observations: September 2024 for manufacturing and services, August 2024 for construction.

Limits to production (percentage balances)

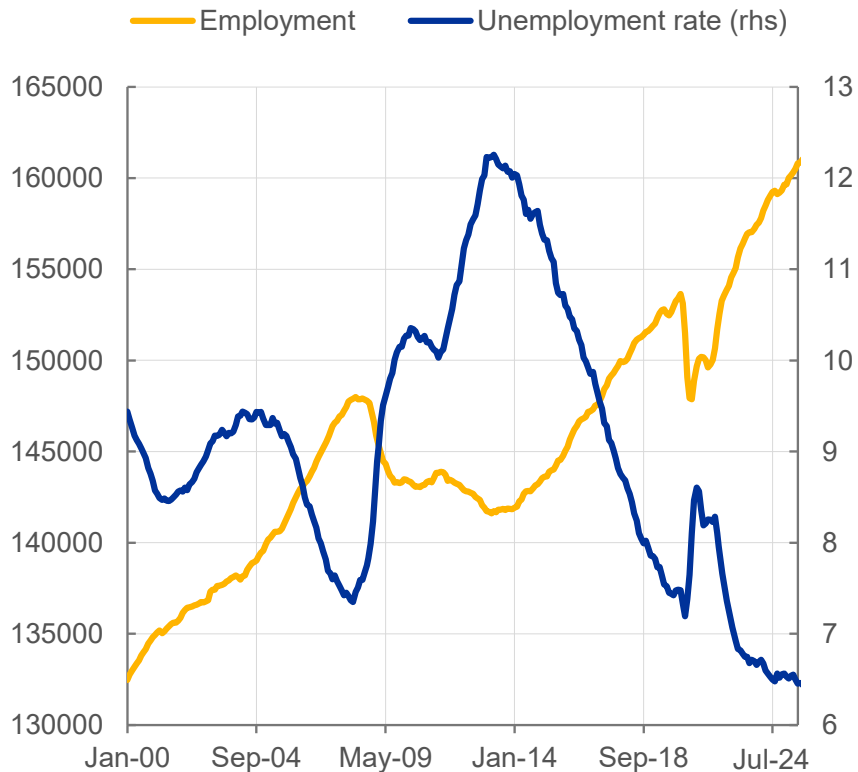


Source: DG-ECFIN.
Latest observation: (July) Q3 2024.

Labour market remains resilient but increasing signs of softening

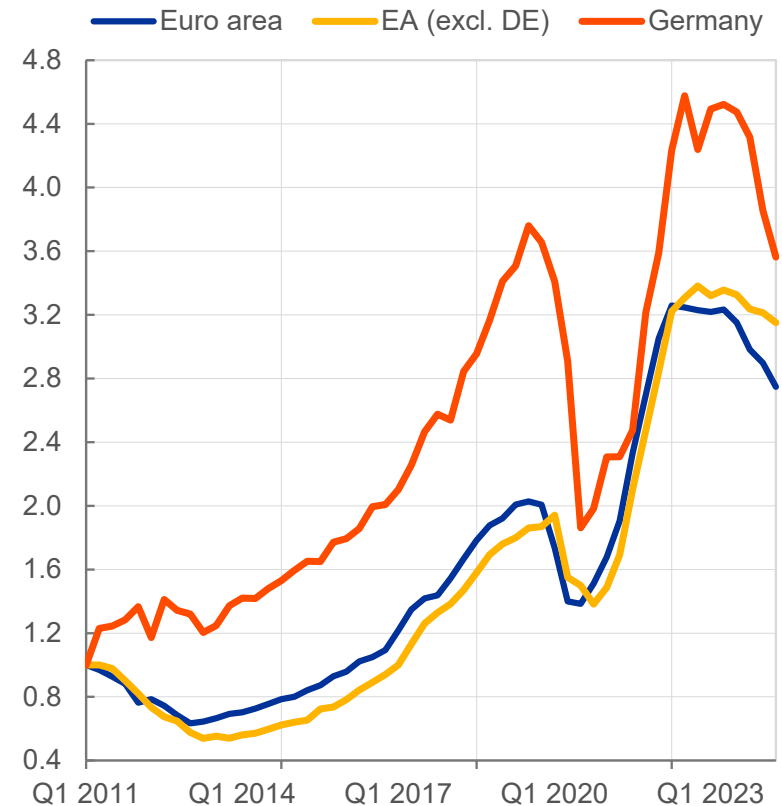
Unemployment rate and employment

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



Vacancies to unemployment ratio

(index, 2011 Q1 = 1)



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: July 2024.

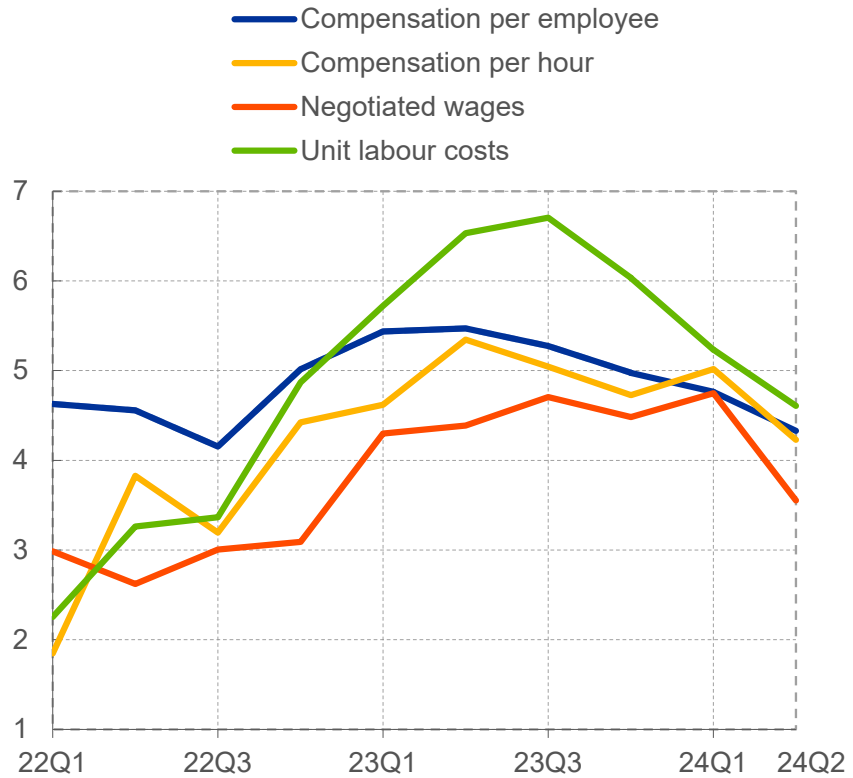
Sources: Eurostat, LFSI and ECB staff calculations.

Latest observation: Q2 2024.

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

Labour cost indicators

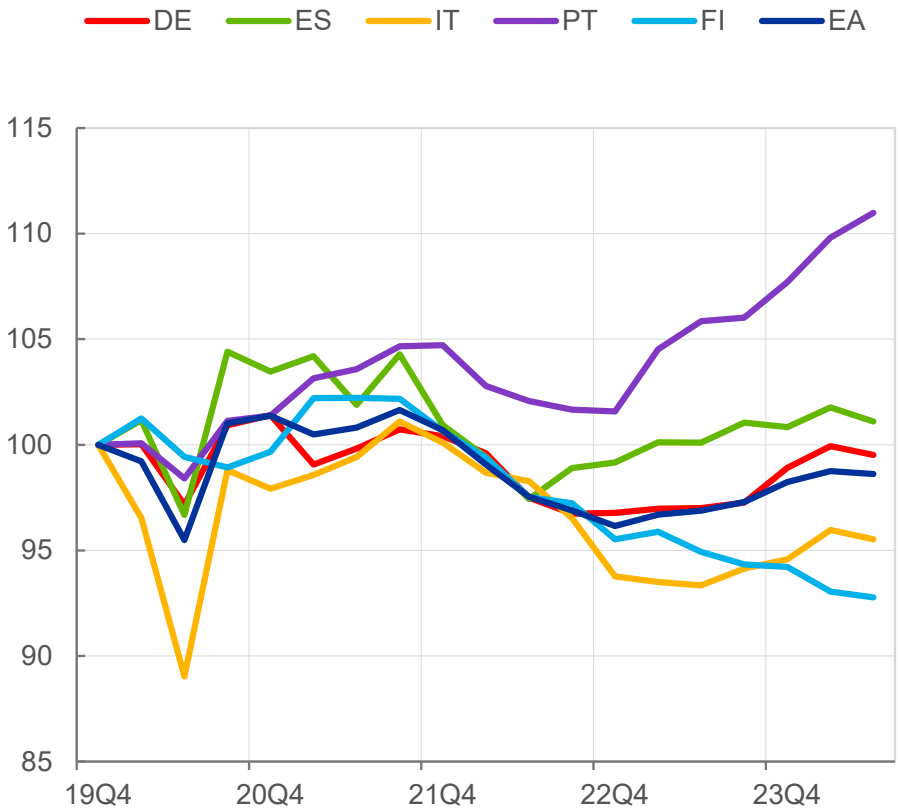
(annual percentage changes)



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

Real compensation per employee

(indices: 2019 Q4 = 100)



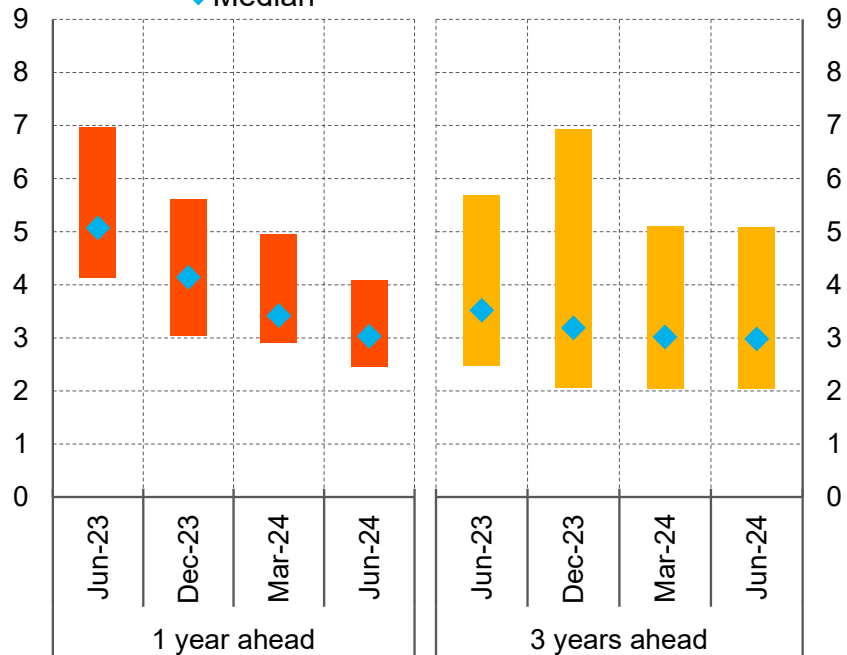
Sources: ECB, BIS and ECB staff calculations.
Notes: Compensation per employee is deflated by national CPI for Germany (DE), Spain (ES), Italy (IT), Portugal (PT) and Finland (FI). The euro area (EA) is deflated by HICP.
Latest observations: 2024 Q2.

Inflation expectations of firms and households have come down significantly

Inflation expectations of euro area firms

(percentages per annum)

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

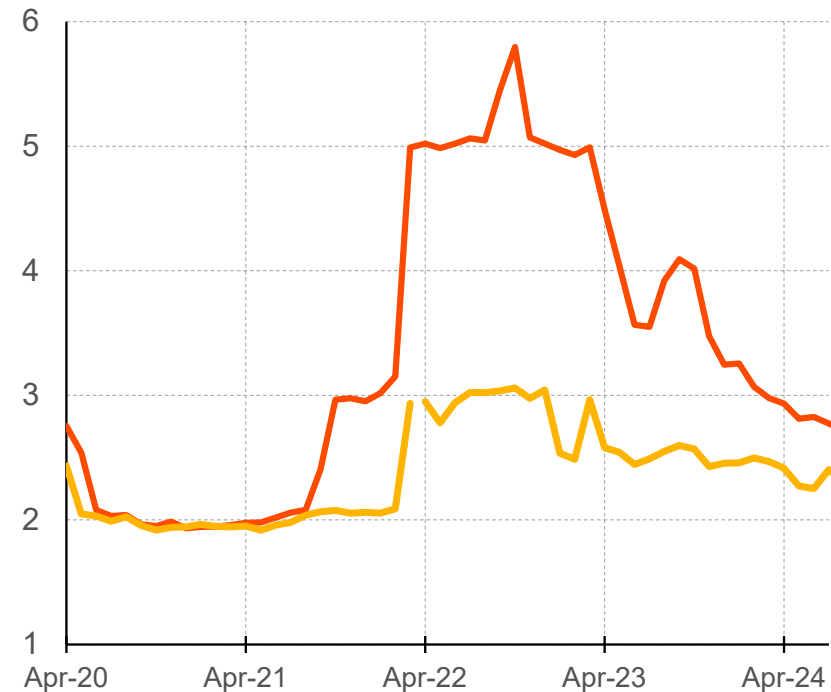


Sources: Survey on the Access to Finance of Enterprises (SAFE) and ECB calculations.
 Notes: Survey-weighted median and interquartile ranges of firms' expectations for euro area inflation in one year and three years. Quantiles are computed by linear interpolation of the mid-distribution function. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. All enterprises.
 Latest observation: June 2024.

Inflation expectations of euro area households

(annual percentage changes)

- 1 year ahead
- 3 years ahead

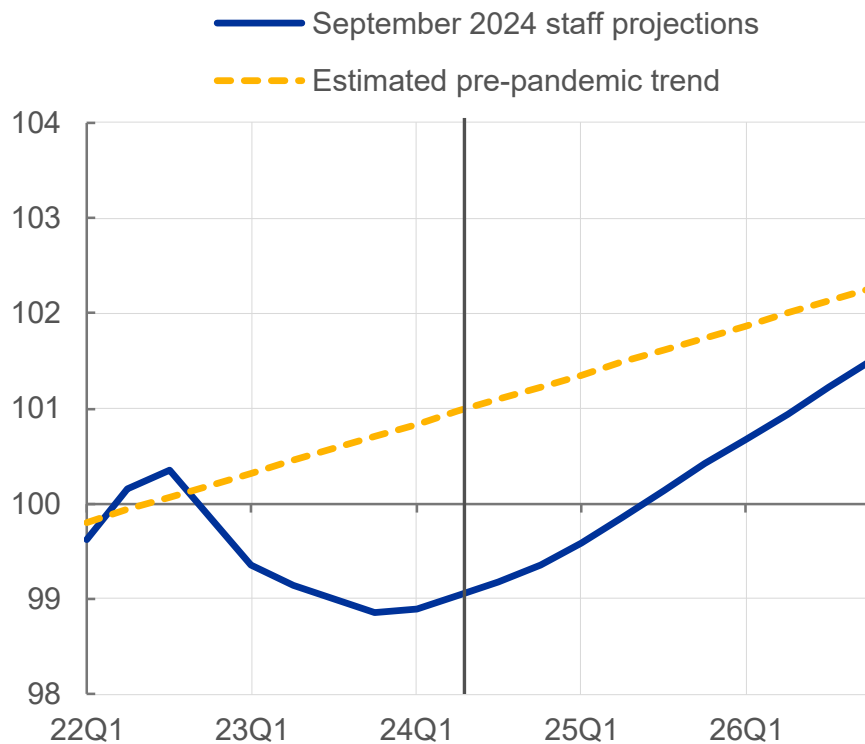


Source: ECB Consumer Expectations Survey.
 Notes: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. The shift in the yellow time series in April 2022 visualises the change in the composition of the aggregates due to the inclusion of five additional countries (IE, GR, AT, PT and FI).
 Latest observations: July 2024.

Productivity growth has disappointed but is projected to recover

Labour productivity per person employed: level

(index, 2022=100)

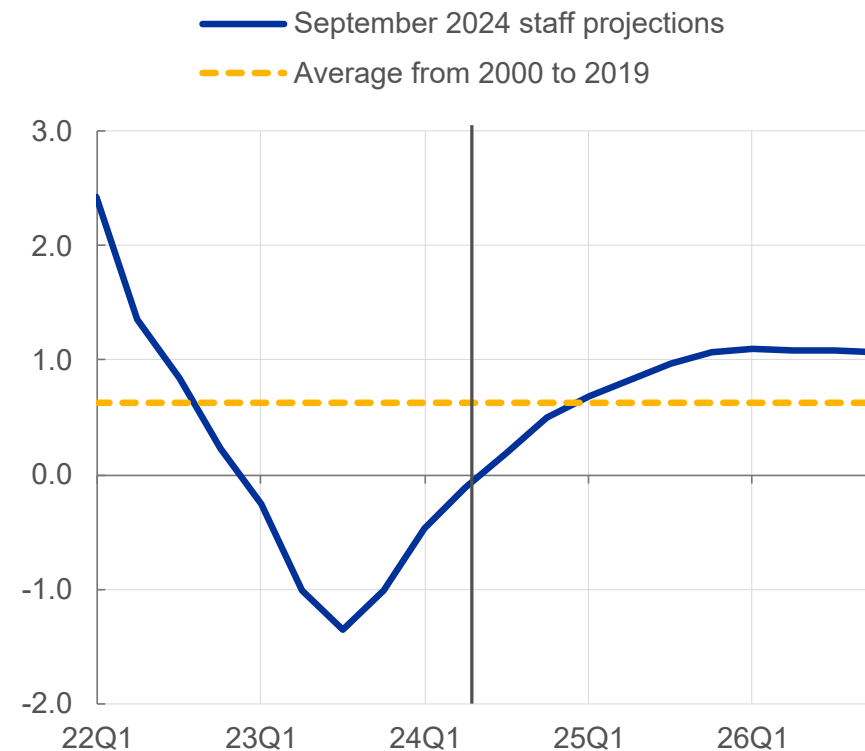


Sources: ECB staff calculations

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)



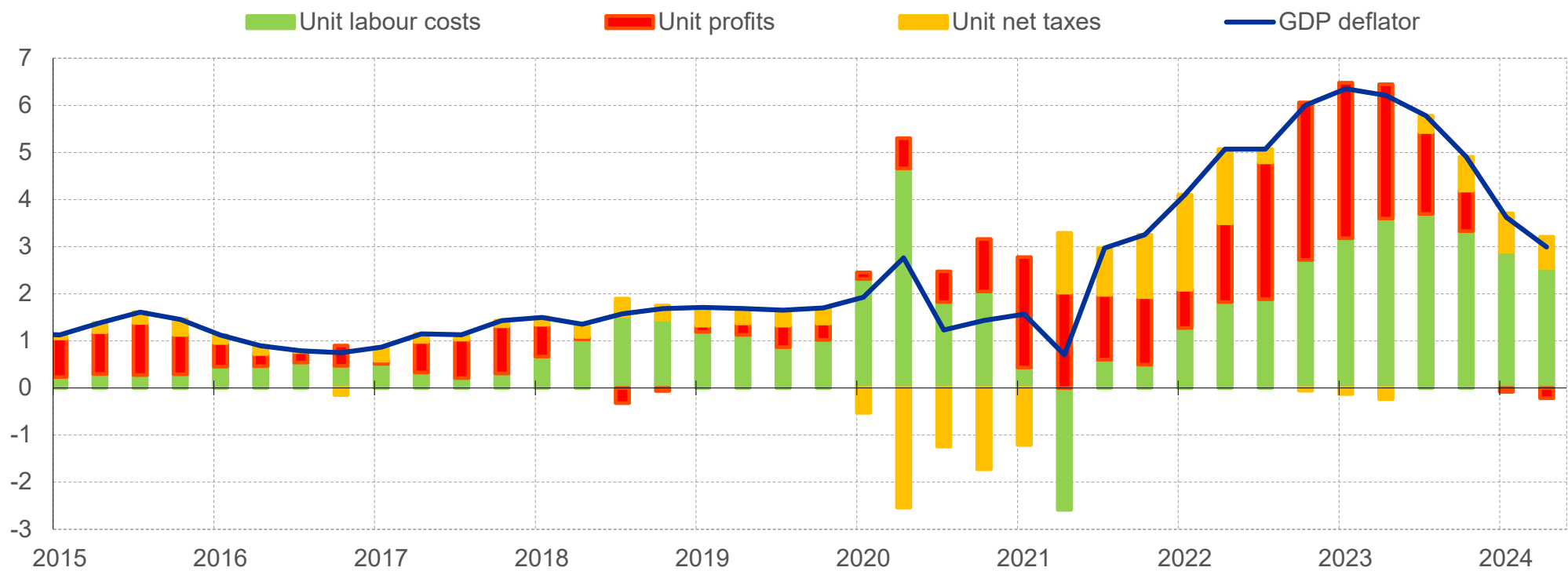
Sources: ECB staff calculations

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)

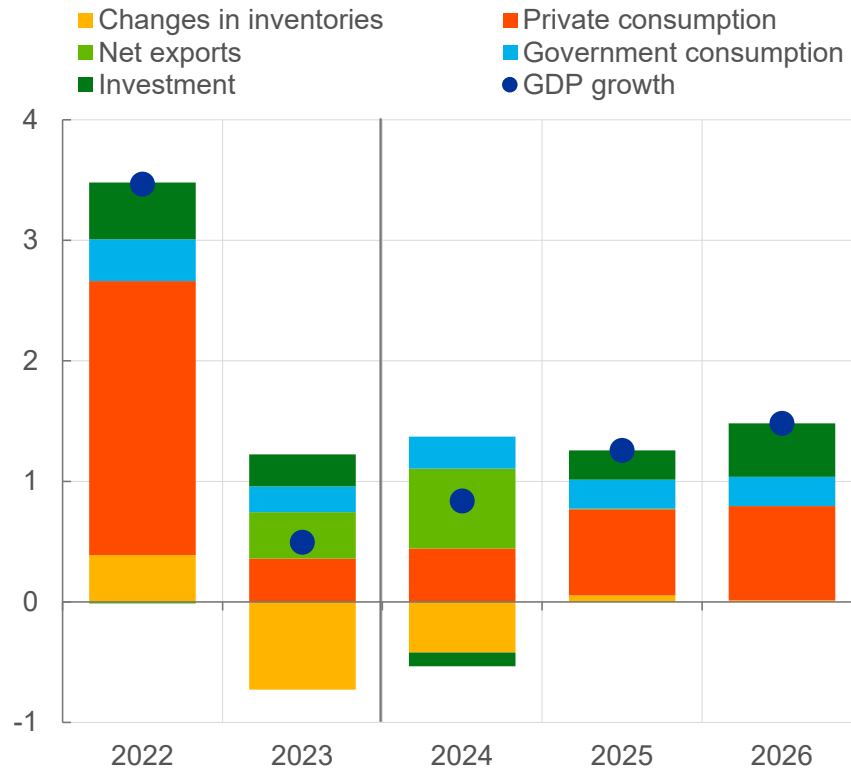


Sources: Eurostat and ECB calculations.
Notes: Unit taxes refer to unit net indirect taxes defined as indirect taxes minus subsidies.
Latest observation: 2024 Q2.

Private consumption still expected to be main growth driver as Germany underperforms

Euro area real GDP growth

(annual percentage changes, percentage point contributions)

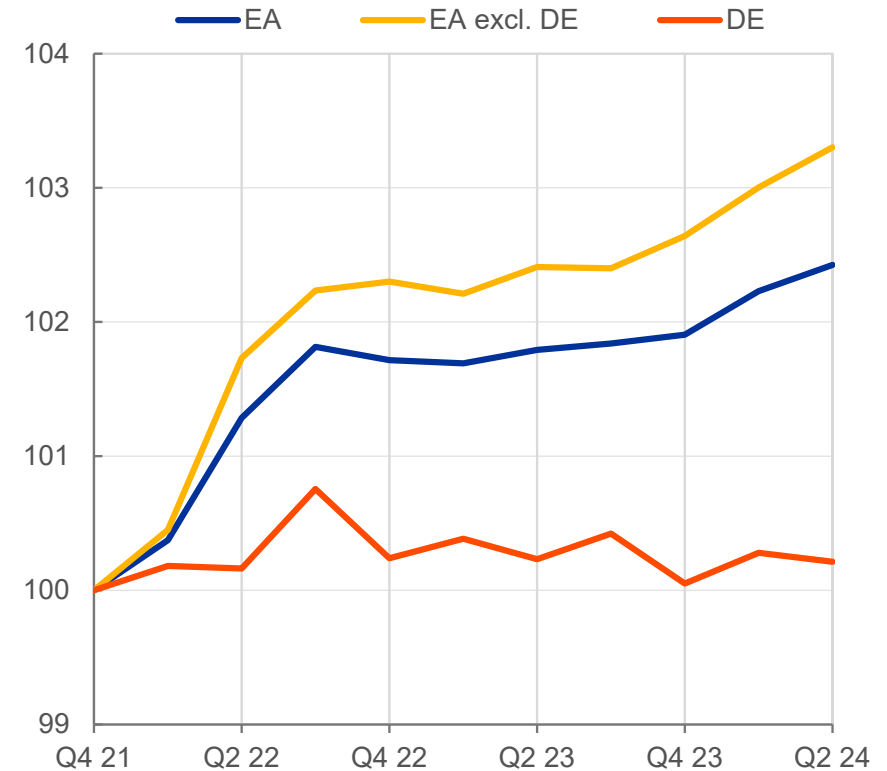


Source: September 2024 projections.

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.

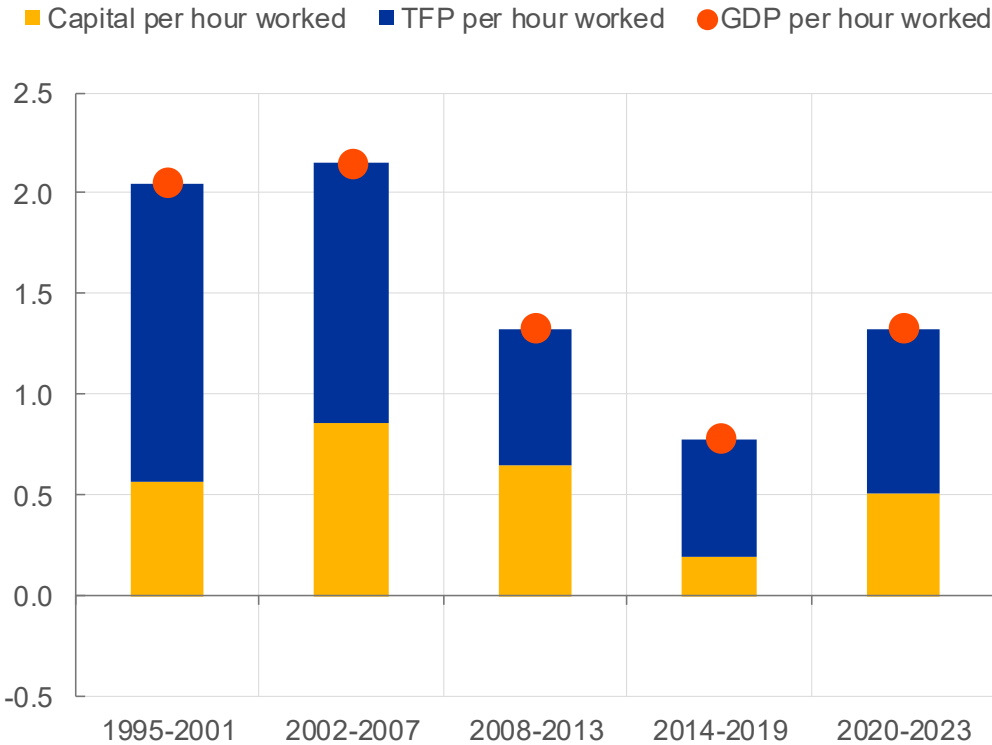
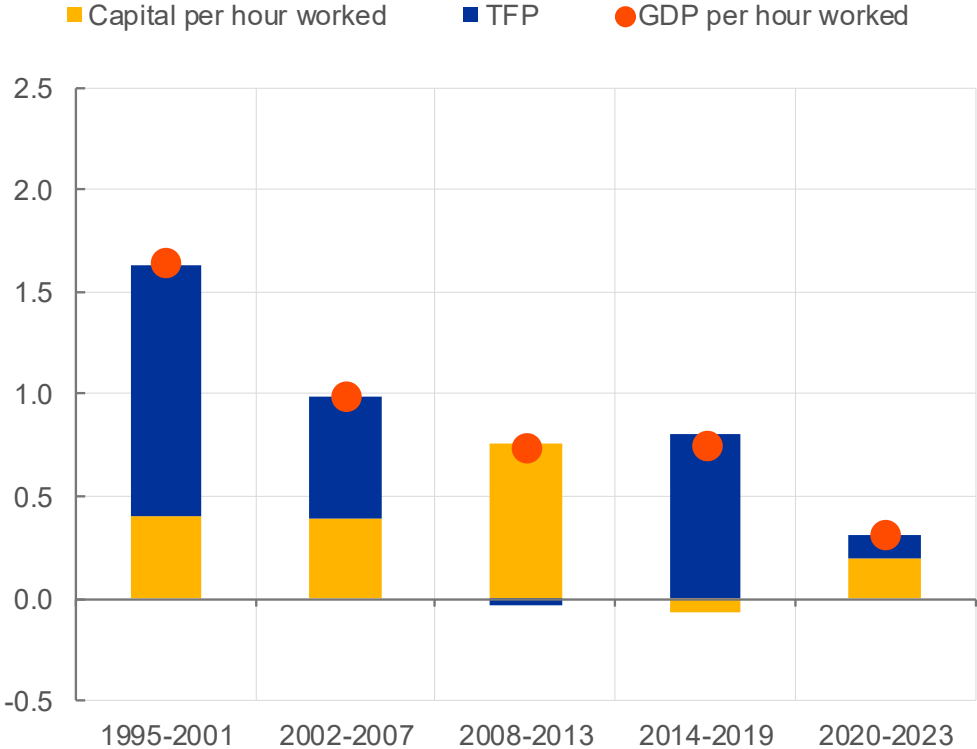
Latest observation: Q2 2024.

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

Growth in GDP per hour worked (%)

Euro area

United States



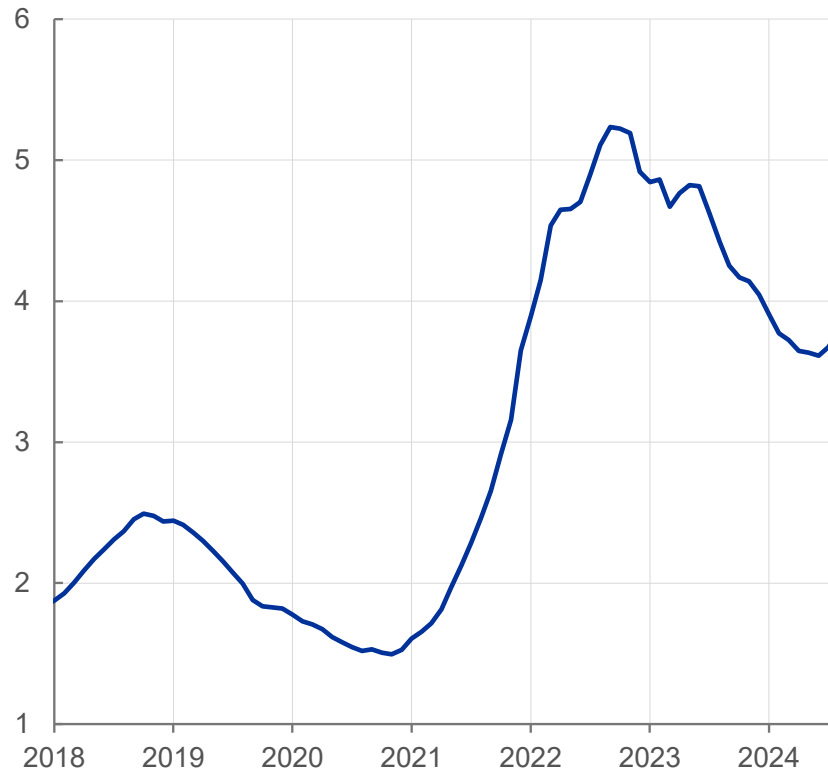
Sources: AMECO data and ECB calculations.
Notes: Refers to Euro Area 20.

Sources: AMECO data and ECB calculations.

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

Energy prices in the euro area relative to the United States

(ratio, 12-month moving average)



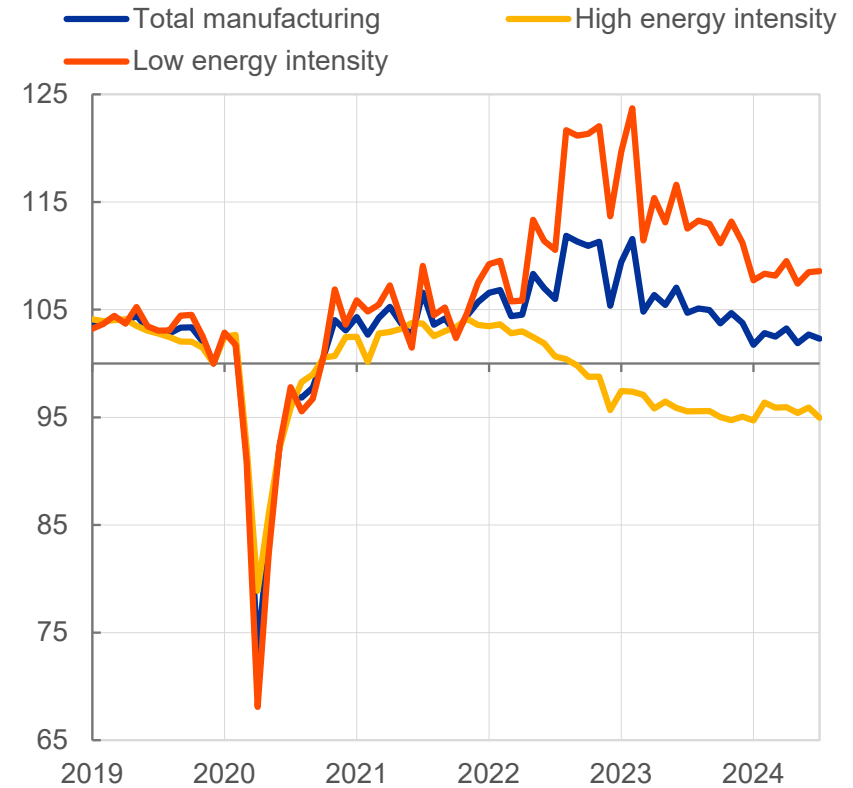
Sources: Trade data monitor, IMF, ADB-MRIO and ECB staff calculations.

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: August 2024.

Industrial production: manufacturing sector

(index: December 2019 = 100)



Sources: Eurostat, Trade Data Monitor and ECB staff calculations.

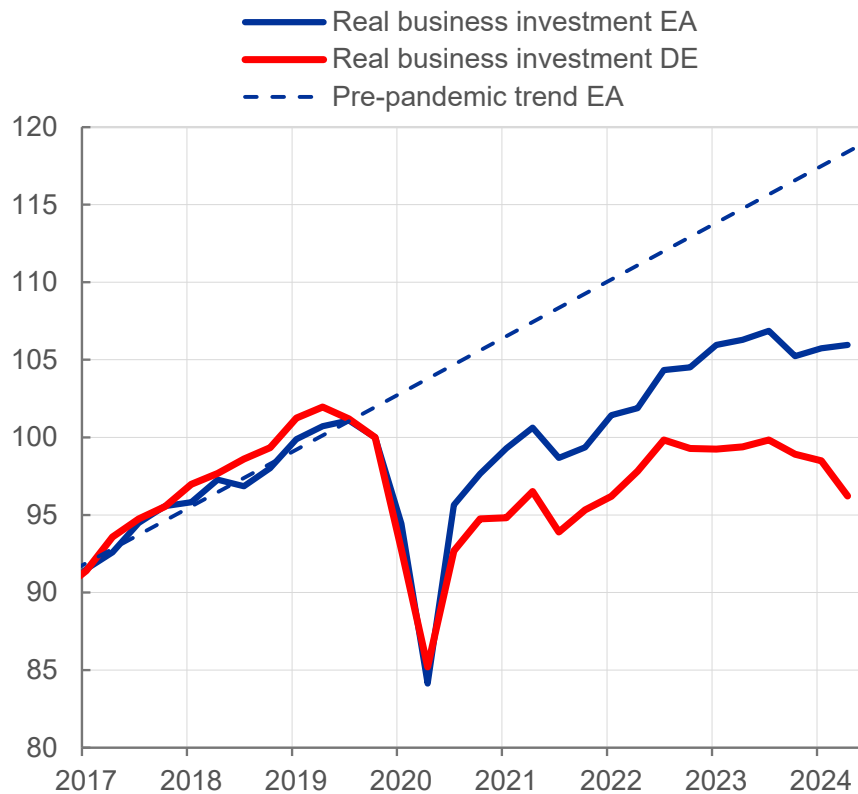
Notes: Data are seasonally-adjusted. Industrial production indices for individual sectors are aggregated with value-added weights. Low (high) energy-intensity sectors are defined as those with an energy intensity lower (higher) than that of the median sector. For more details, see [Chiacchio, De Santis,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

Latest observation: July 2024.

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

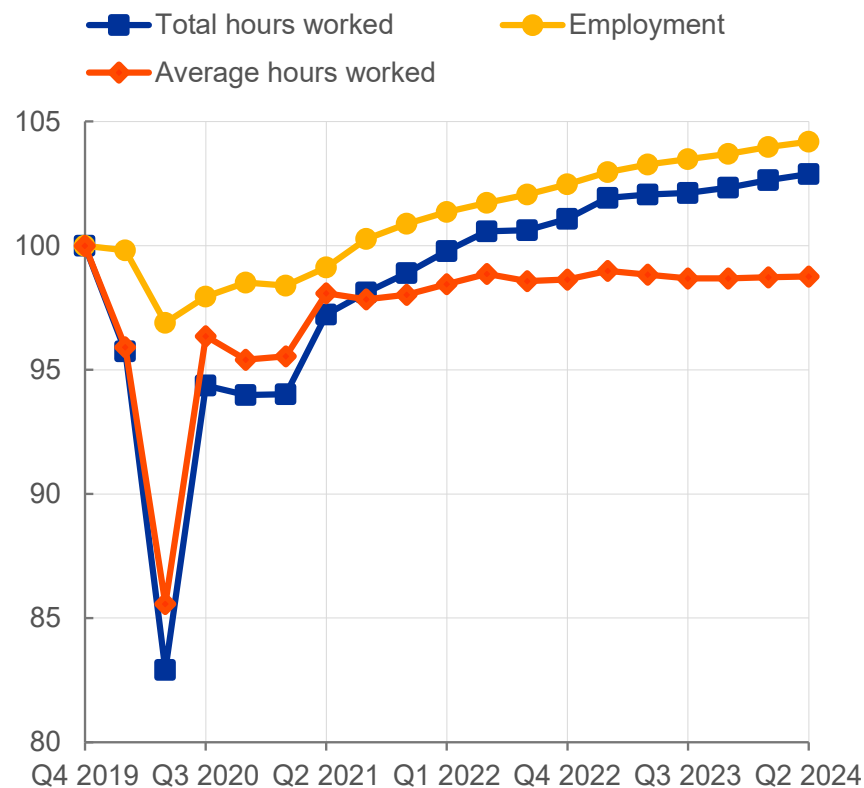
Real business investment

(index: 2019 Q4 = 100)



Total hours, employment and average hours

(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.

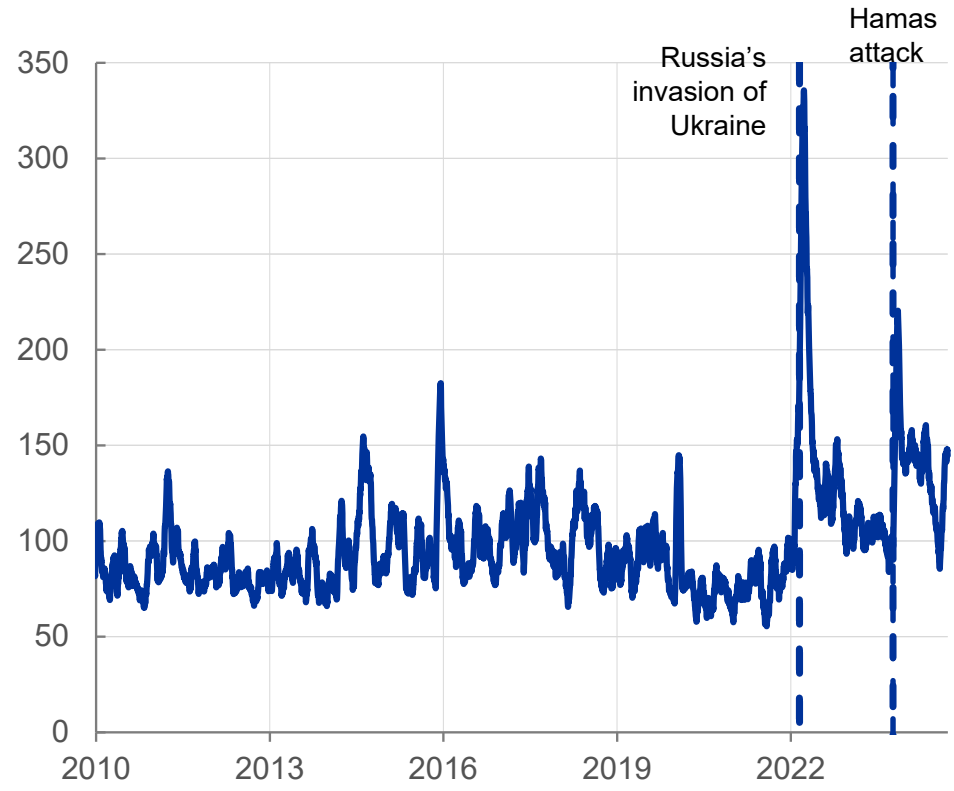
Latest observation: 2024 Q2.

Source: ECB calculation based on Eurostat data.

Latest observation: 2024 Q2.

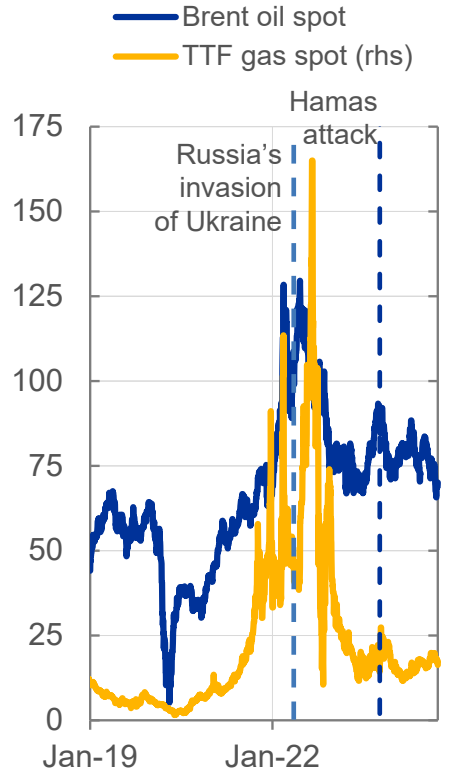
Geopolitical risks can give rise to new supply-side shocks

Geopolitical risks (index)



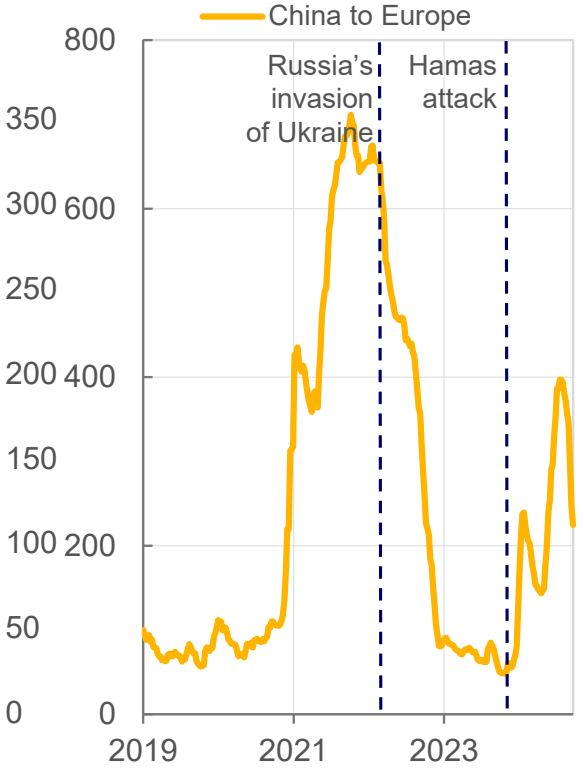
Source: 30-day moving average of the daily geopolitical risk index by Caldara and Iacoviello (2022). Notes: The index is based on ten newspapers and is constructed by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles). Latest observation: 16 September 2024.

Crude oil and natural gas prices (oil: EUR/barrel, gas: EUR/MWh)



Sources: Bloomberg and ECB calculations. Latest observation: 19 September 2024.

Shipping prices (index, Jan 2019 = 100)

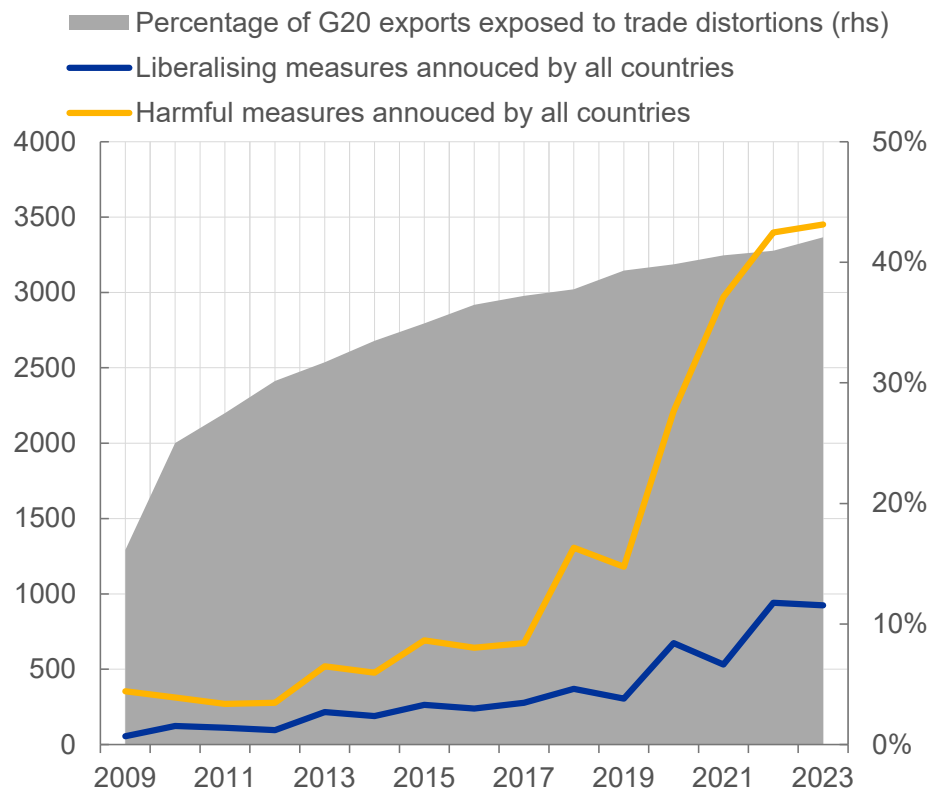


Sources: Drewry shipping consultants via Haver Analytics and ECB staff calculations. Notes: Drewry freight costs from Shanghai to Rotterdam (for forty-foot equivalent unit shipping container). Latest observation: 19 September 2024.

Increasing protectionism and weaponisation of critical raw materials could raise inflation

Global trade measures

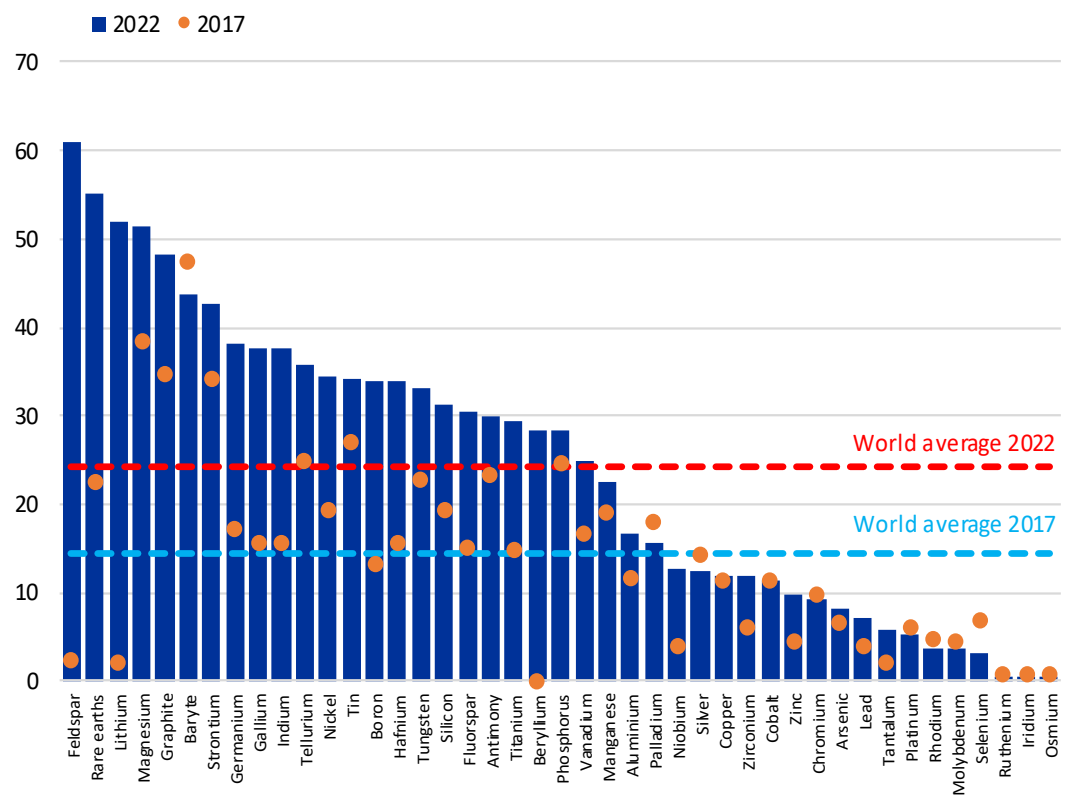
(lhs: number; rhs: percentage)



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

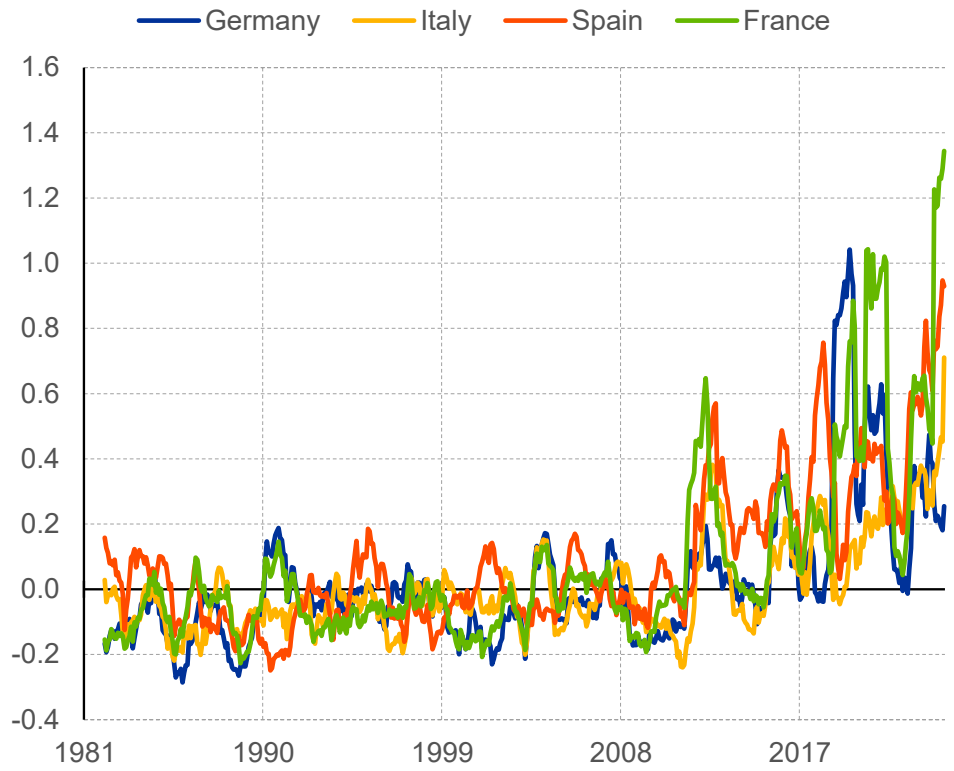
(% of exports)



Source: EBRD Transition Report 2023-24.

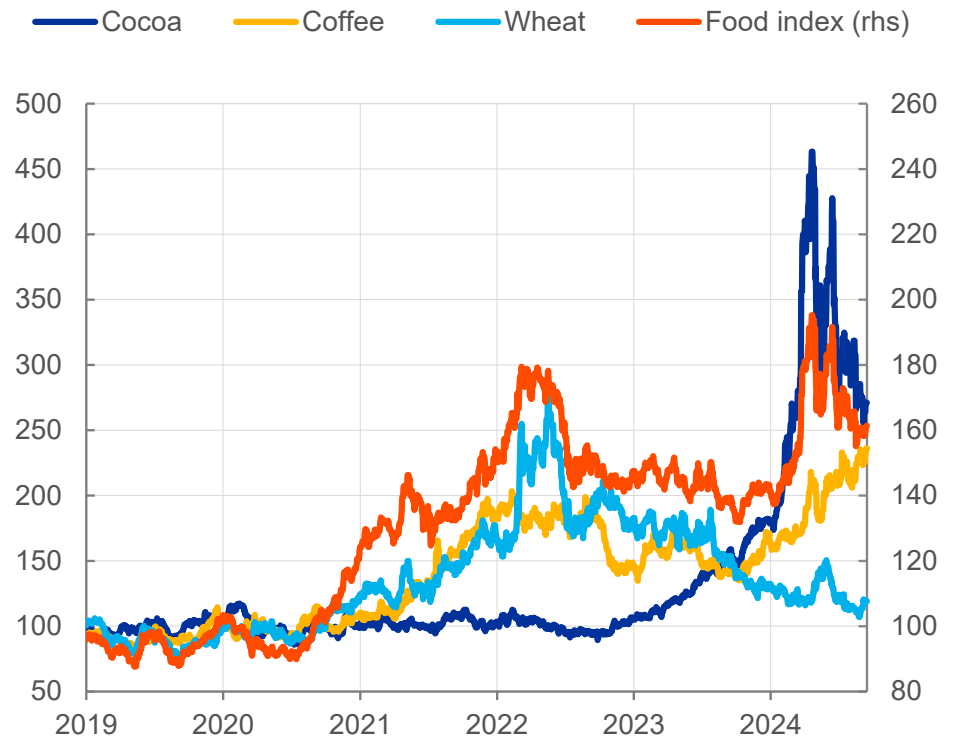
Higher frequency of extreme weather events puts pressure on food prices

Extreme weather events (12-month rolling average index)



Sources: IFAB and ECB staff calculations.
 Notes: The European Extreme Events Climate Index (E3CI) provides 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: June 2024.

Food prices (Index, 2020 = 100)



Sources: HWWI and ECB calculations.
 Latest observation: 20 September 2024.

Thank you very much for your attention!