



EUROPEAN CENTRAL BANK

EUROSYSTEM

# The euro area inflation outlook: a scenario analysis

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19 September 2024

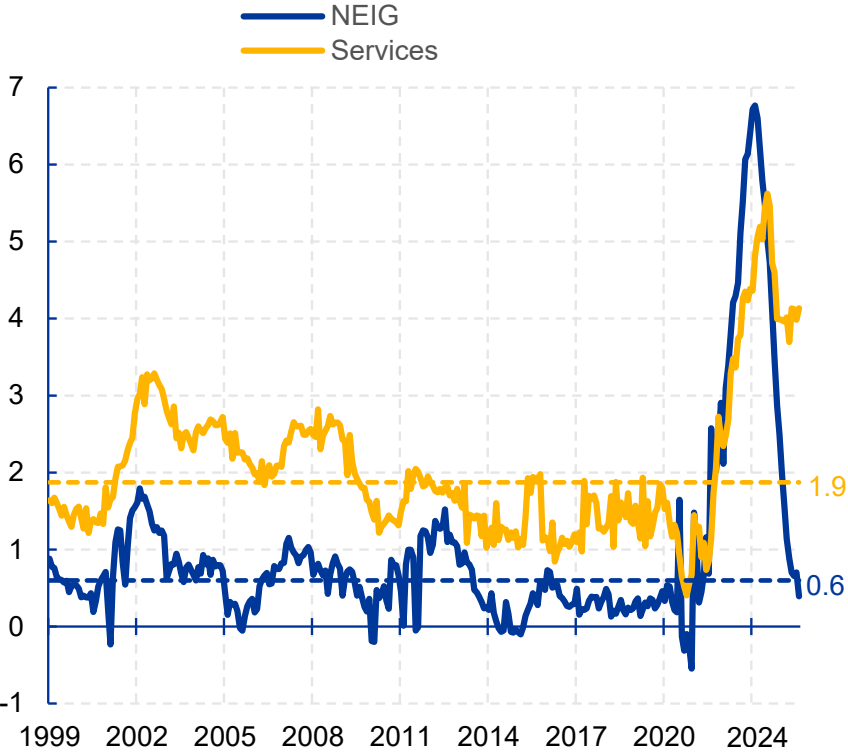
Isabel Schnabel, Member of the Executive Board of the ECB  
Meeting of the Economic and Monetary Policy Committee,  
Association of German Banks



# Sticky services inflation is keeping headline inflation at elevated level

## Non-energy industrial goods (NEIG) and services inflation

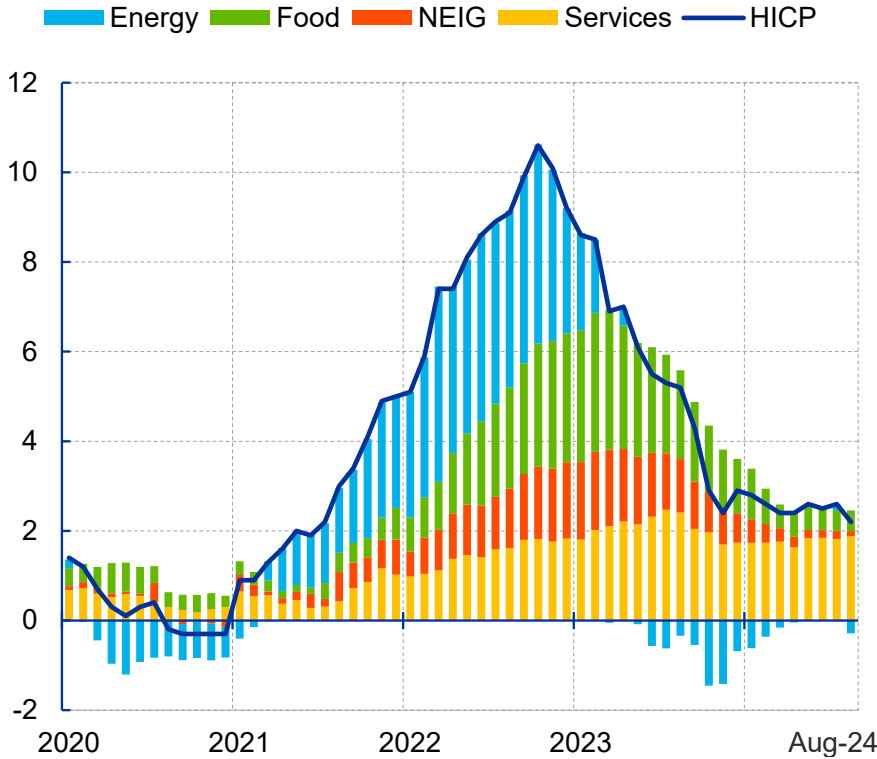
(annual percentage changes)



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

## HICP inflation

(annual percentage changes and percentage point contributions)

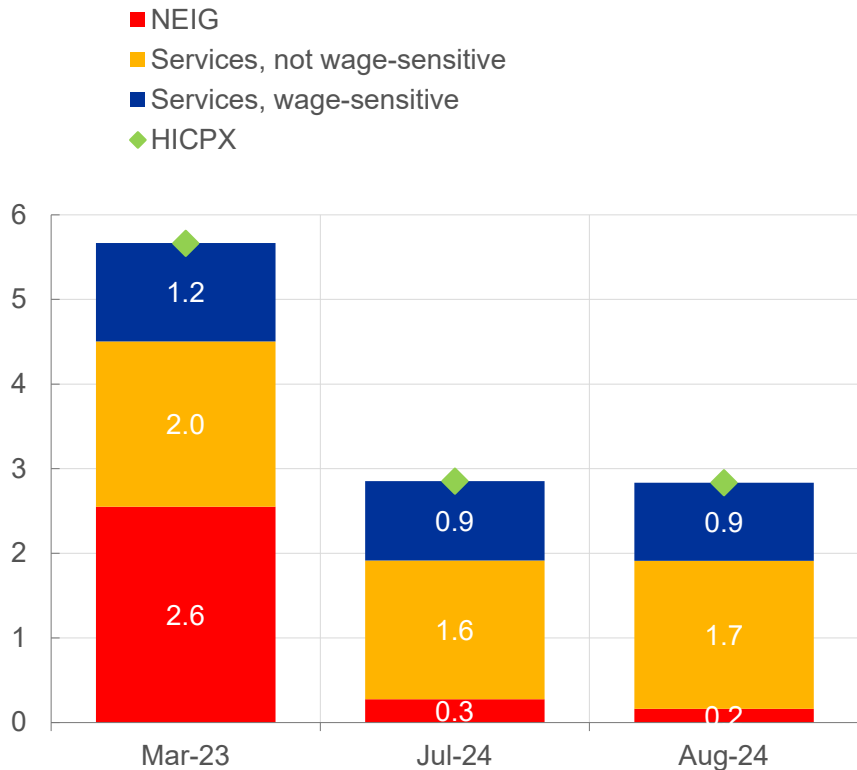


Sources: Eurostat and ECB calculations.  
 Latest observation: August 2024.

# Price pressures in the services sector are broad-based and global

## Decomposition of HICPX inflation

(annual percentage changes and percentage point contributions)



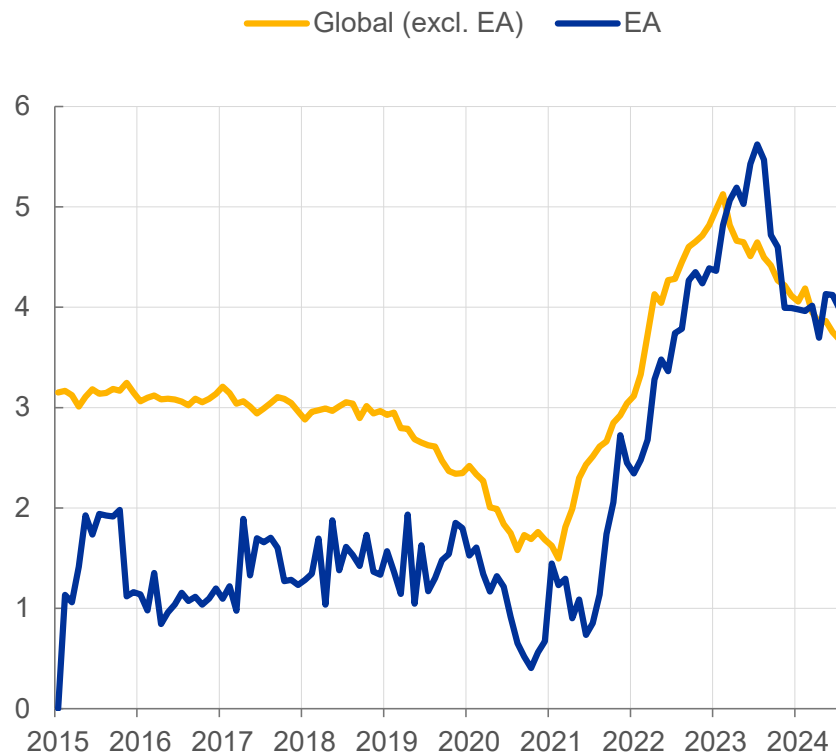
Sources: Eurostat and ECB calculations.

Notes: Wage-sensitive services items are those with wage costs above 38% of direct input costs.

Latest observation: August 2024.

## Global (excluding euro area) and euro area core services inflation

(annual percentage changes)



Sources: Eurostat, national sources and OECD via Haver Analytics and ECB staff calculations.

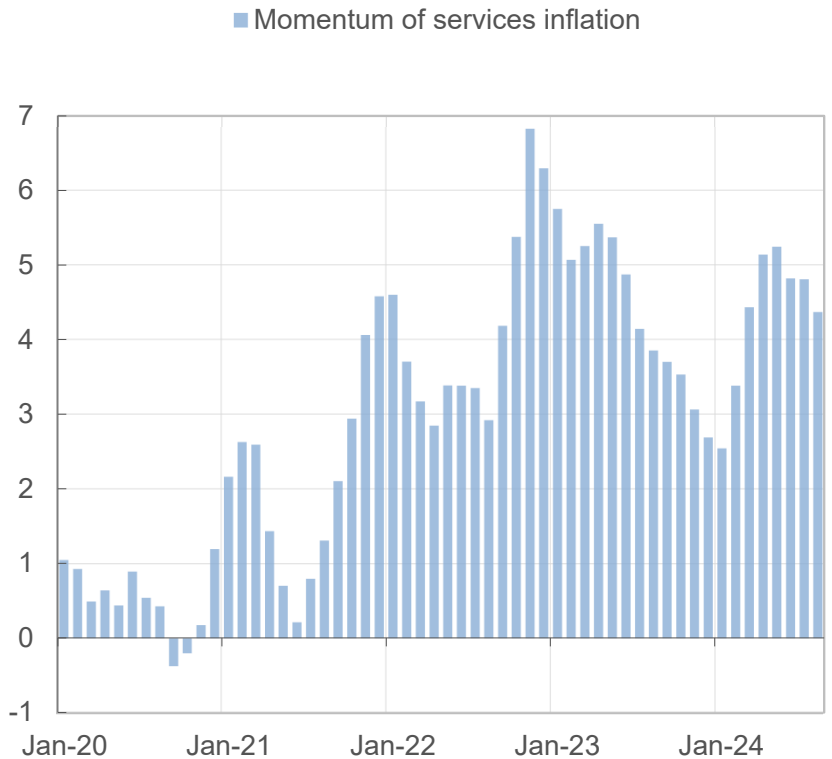
Notes: Global (excl. EA) aggregate is a weighted average calculated based on 22 countries, including 7 advanced economies (US, UK, JP, CA, NO, DK, CH, SE) and 14 emerging economies (CN, TW, KR, ZA, MX, CL, RU, MY, CO, EG, CZ, IN, BR, HK), covering roughly 72% of global (excl. EA) GDP-PPP. Core inflation excludes food and energy.

Latest observation: July 2024 (Global) and August 2024 (EA).

# Momentum in services remains high and above levels consistent with price stability

## Services inflation: momentum

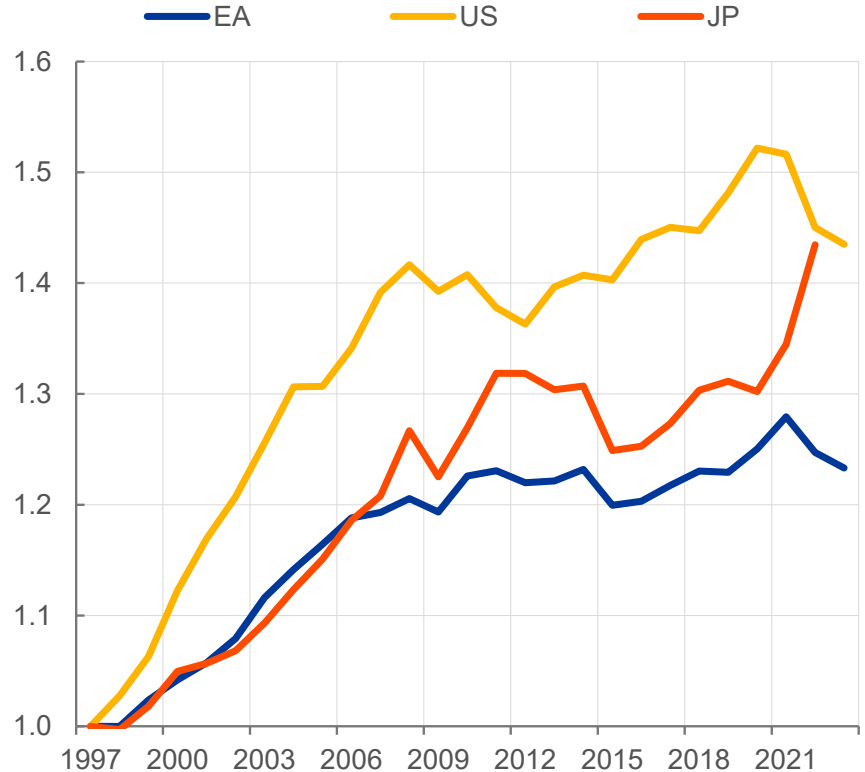
(annualised 3-month-on-3-month percentage changes)



Sources: Eurostat and ECB calculations.  
Notes: Calculated using seasonally adjusted data.  
Latest observation: August 2024.

## Gross value-added deflator of services over manufacturing

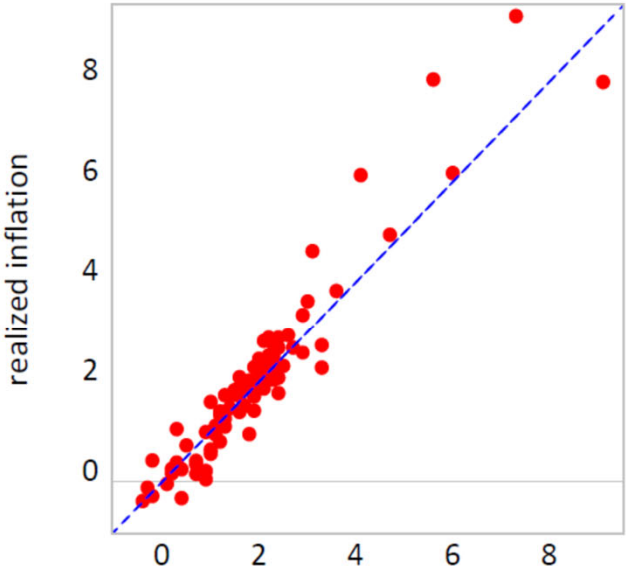
(indices 1997 = 1)



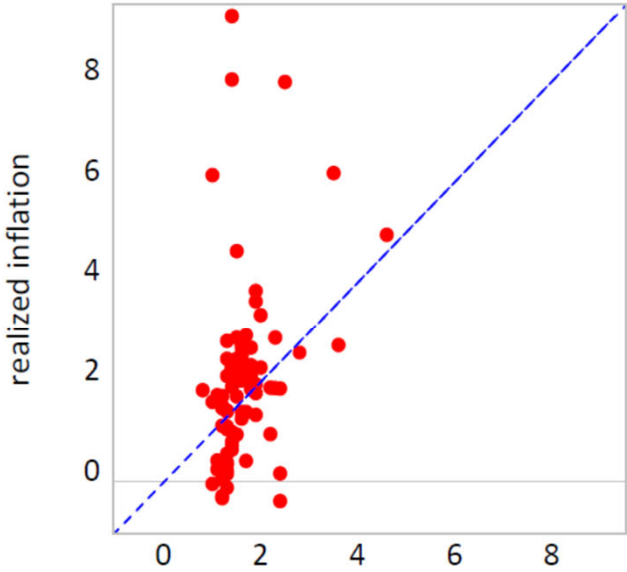
Sources: Eurostat, Bureau of Economic Analysis and Cabinet Office of Japan via Haver Analytics and ECB staff calculations.  
Latest observation: 2022 (Japan) and 2023 (US and EA).

# Medium-term inflation projections often clustered around 2% target

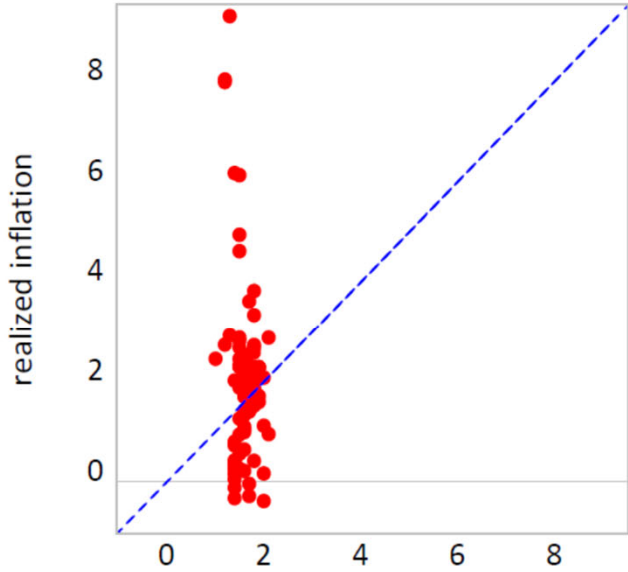
## Realised inflation and inflation projections (annual percentage changes)



1-quarter-ahead projection



4-quarter-ahead projection

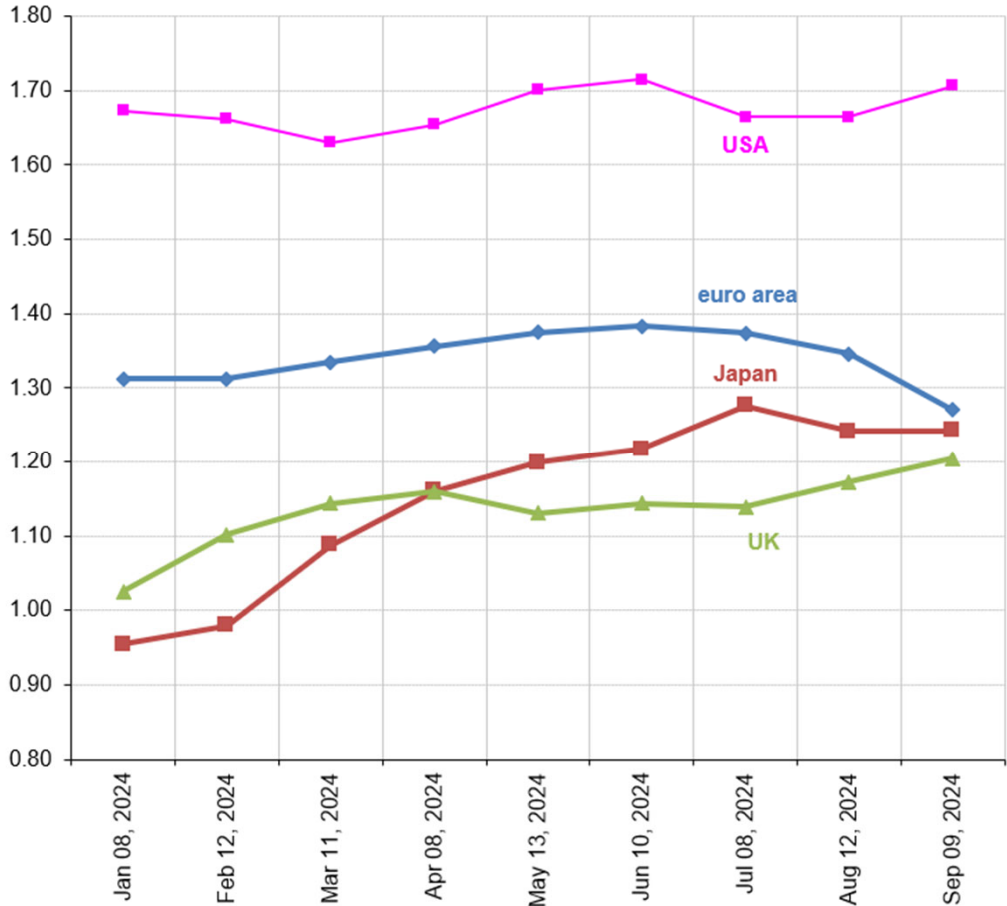


8-quarter-ahead projection

Sources: Conrad, C. and Enders, Z. (2024), "The limits of the ECB's inflation projections", SUERF Policy Brief No. 945.  
Notes: Scatterplot for period 2001 Q2 to 2024 Q1.

# Private sector forecasts suggest conditions for soft landing remain in place

## GDP growth projections for 2025 for major economies (% change)



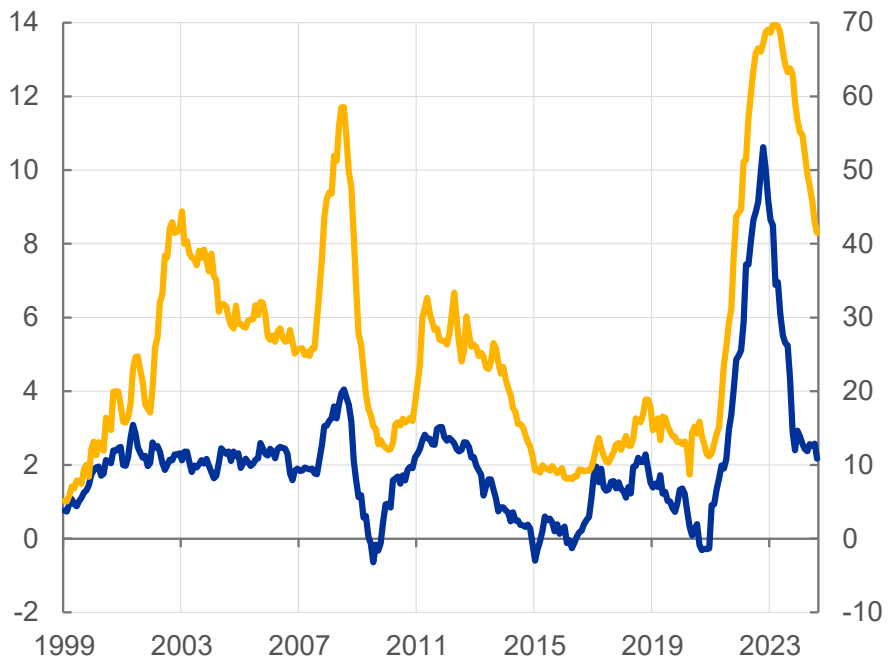
Source: Consensus Forecasts.  
Latest observation: 09 September 2024.

# Inflation perceptions remain high, making expectations more fragile to new shocks

## Headline inflation and inflation perceptions

(annual percentage changes; percentages)

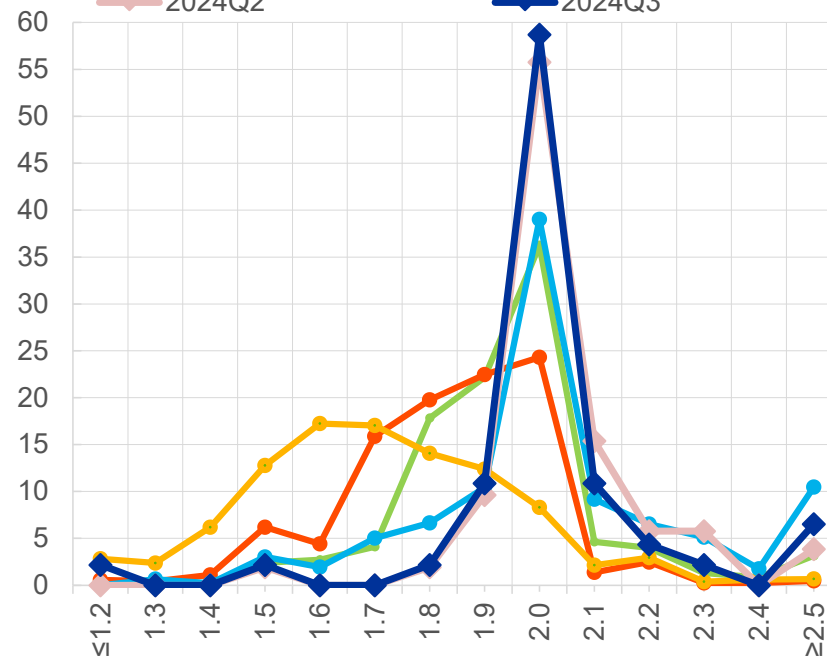
— HICP  
 — Perceptions: inflation has risen a lot over last 12 month (rhs)



Sources: European commission and Eurostat.  
 Notes: Price trends over last 12 months are non-seasonally adjusted.  
 Latest observations: August 2024.

## Survey of professional forecasters (SPF): Cross-sectional distribution of long-term inflation point forecasts (percent)

— 2003Q3-2014Q1  
 — 2014Q2-2018Q4  
 — 2019Q1-2021Q3  
 — 2021Q4-2024Q1  
 — 2024Q2  
 — 2024Q3



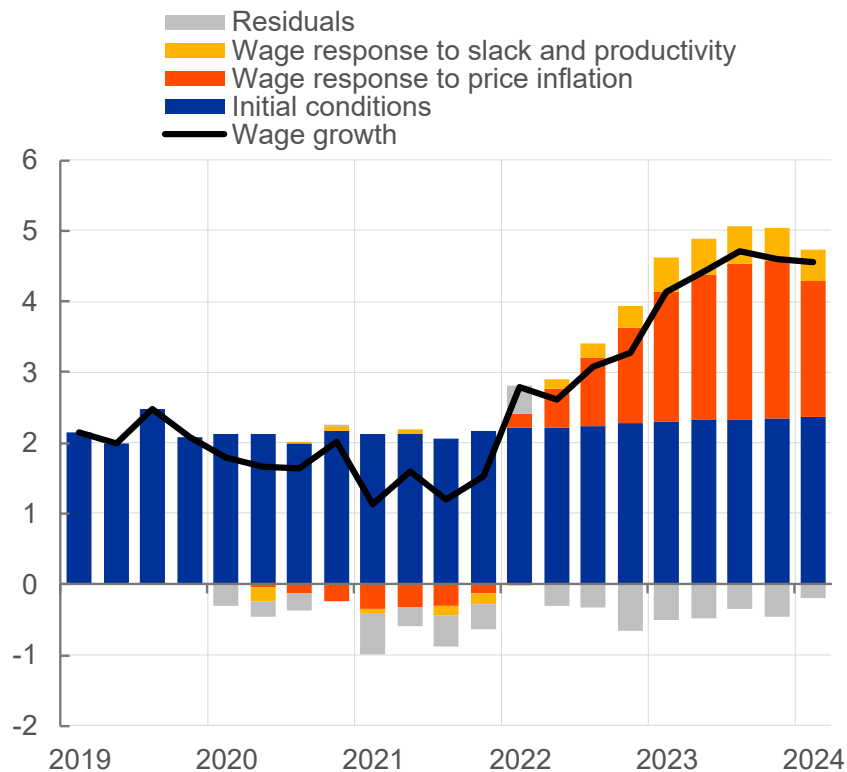
Sources: SPF and ECB calculations.  
 Notes: Vertical axis shows percent of respondents; horizontal axis shows the HICP inflation rate. Longer-term expectations refer to 4-5 years ahead.  
 Latest observation: Q3 2024 SPF.



# Wage growth expected to slow down as past price shocks unwind

## Model-based decomposition of negotiated wage growth

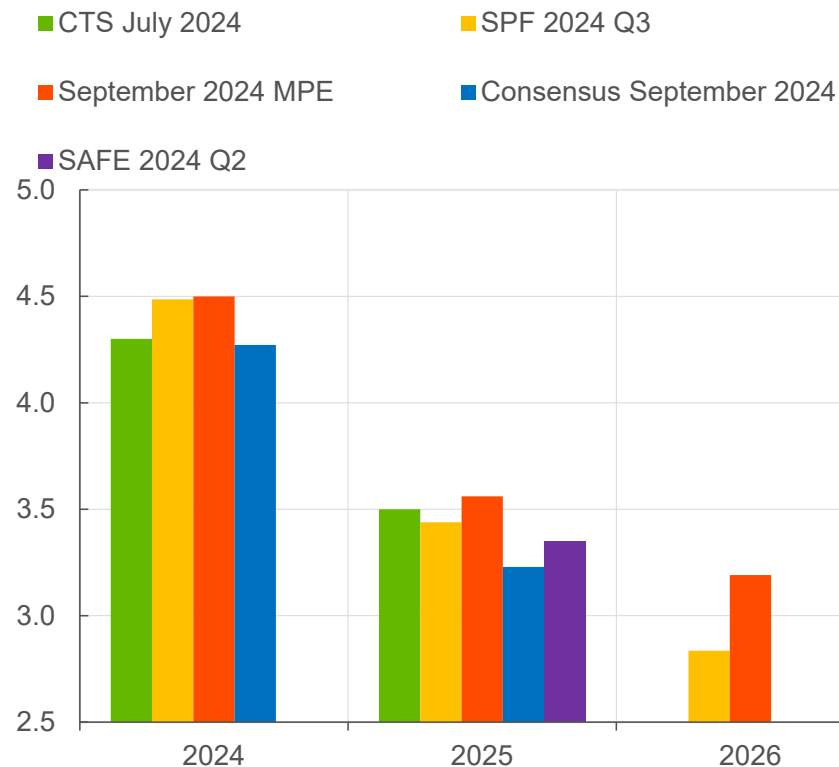
(year-on-year growth rate, percentage point contributions)



Source: ECB calculation is based on Arce, O., Ciccarelli, M., Kornprobst, A. and Montes-Galdon, C. (2024), "[What caused the euro area post-pandemic inflation?](#)", Occasional Paper Series, No 343, ECB.  
Latest observation: 2024 Q1.

## Survey-based wage growth expectations

(annual percentage changes)



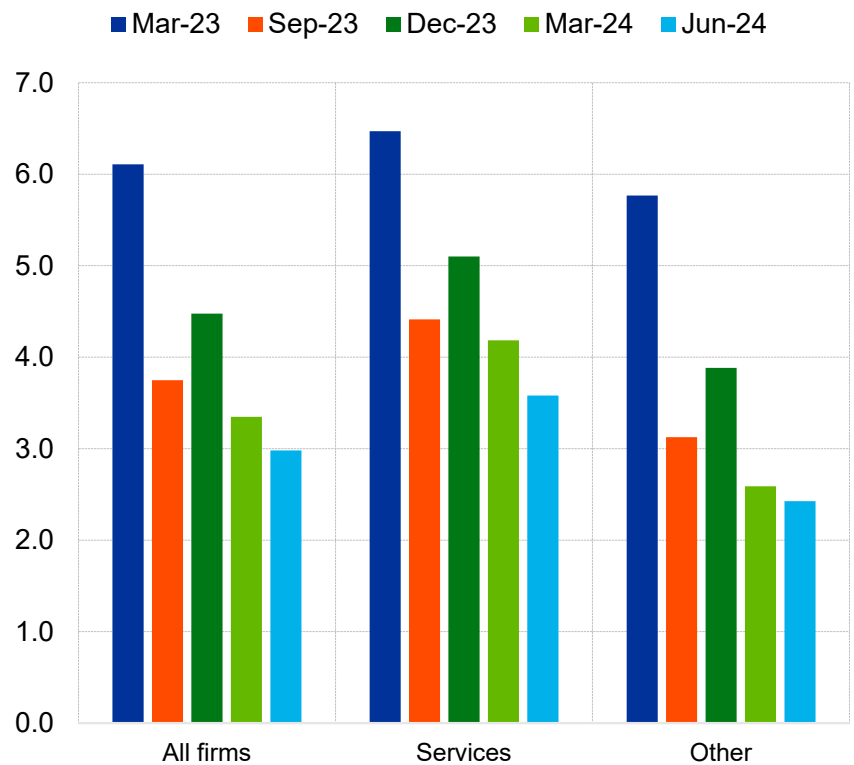
Sources: July 2024 Corporate Telephone Survey (CTS), Q3 2024 Survey of Professional Forecasters (SPF), September 2024 MPE, September 2024 Consensus economics and Q2 2024 Survey on the Access to Finance of Enterprises (SAFE).



# Firms expect selling price increases to moderate as profit margins buffer higher wages

## SAFE: Average expectations for selling prices one year ahead

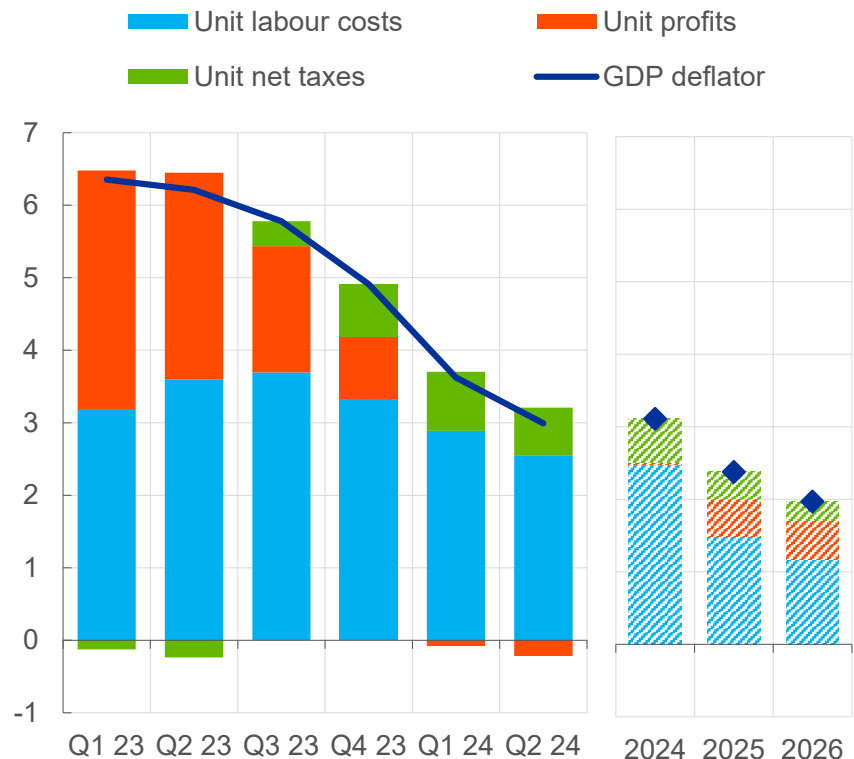
(percentage changes over the next 12 months)



Source: Survey on the Access to Finance of Enterprises (SAFE).  
 Notes: The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles.  
 Last observation: Q2 2024.

## GDP deflator

(annual percentage changes and percentage point contributions)



Sources: Eurostat, September MPE and ECB calculations.  
 Notes: Unit taxes reflect taxes minus subsidies. When the contribution of subsidies on products is larger than the contribution of indirect taxes, the unit tax contribution turns negative.  
 Latest observation: Q2 2024.

# Monetary policy is incentivising people to save more and spend less

## Expected savings over the next 12 months

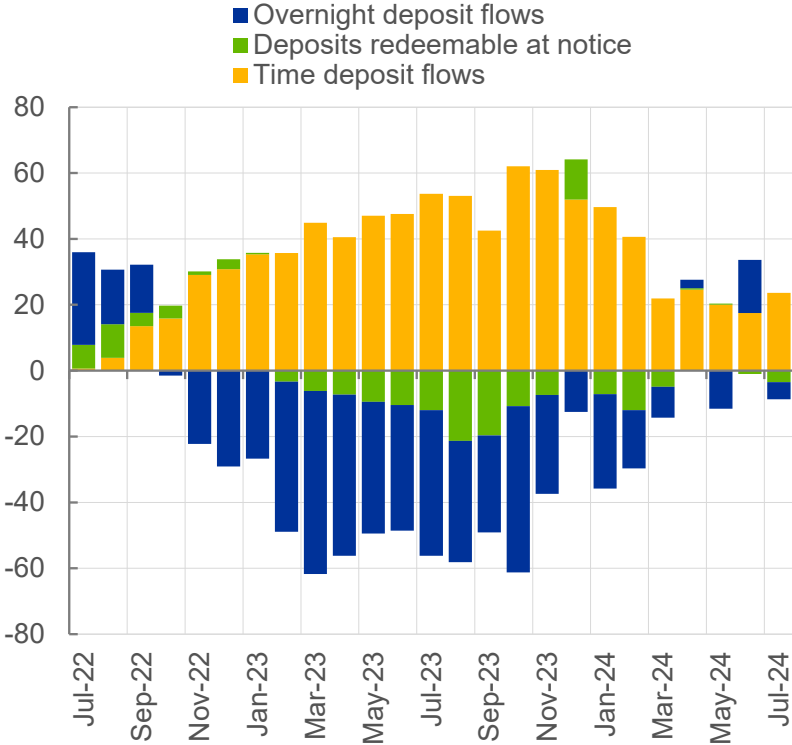
(net percentage balances)



Source: European Commission Survey.  
Latest observation: August 2024.

## M3 deposits by households

(monthly flows in € bn)

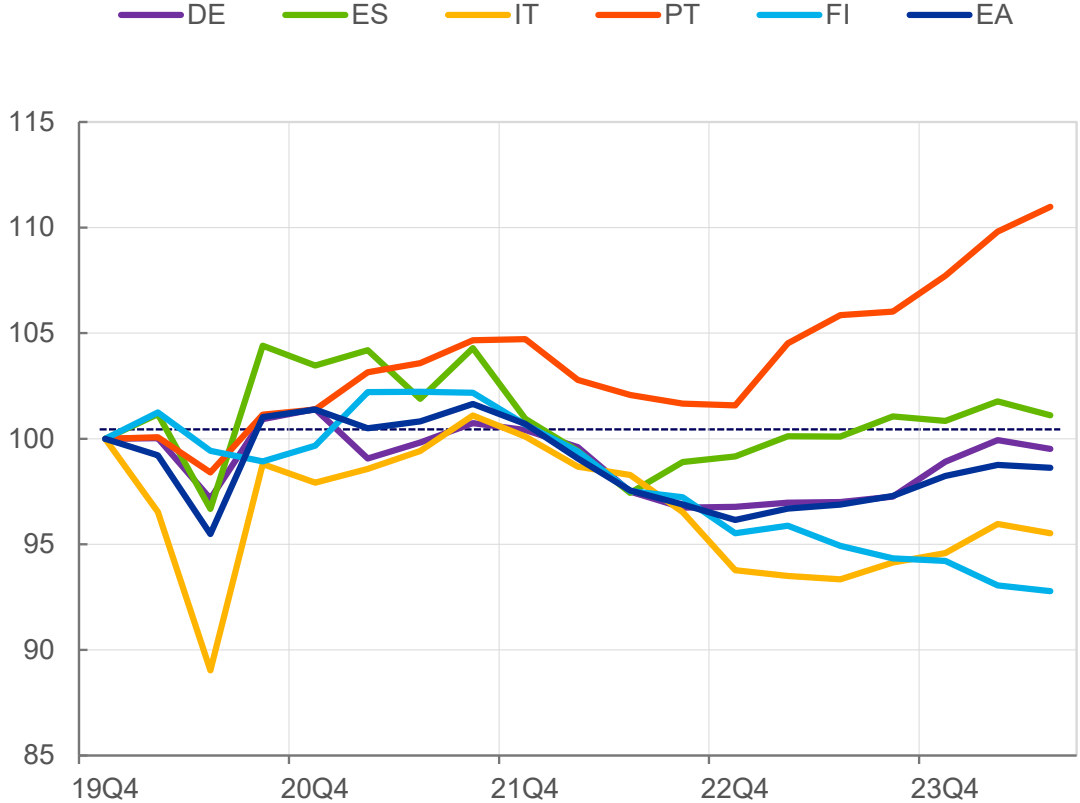


Sources: ECB (BSI) and ECB calculations.  
Notes: M3 time deposits are those with a maturity of up to two years; M3 deposits redeemable at notice are those up to three months.  
Latest observations: July 2024.

# Real wage catch-up remains incomplete in large parts of the euro area

## 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.  
Last observations: 2024 Q2.

## Vacancies to unemployment ratio

(vacancies over unemployed people)



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

## Services: Labour as a factor limiting business

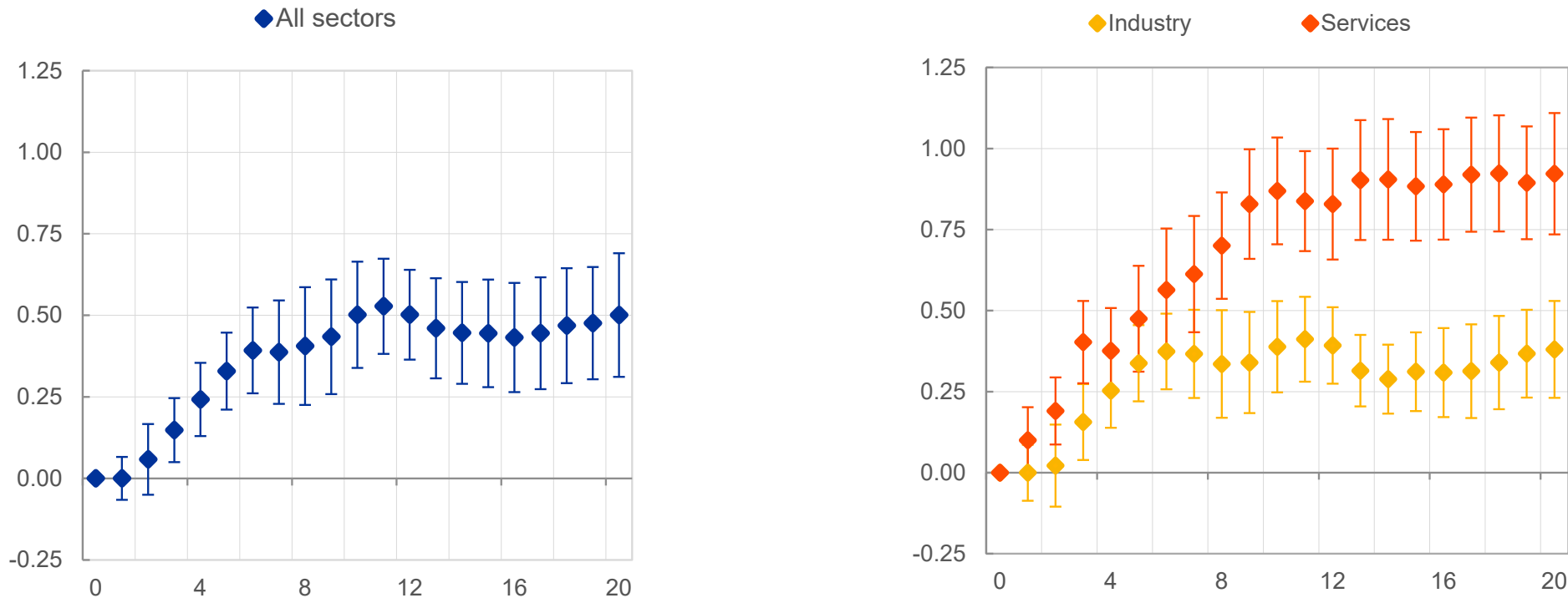
(percentages)



Source: European Commission.  
Last observation: Q3 2024.

# Pass-through of higher wages to producer prices is stronger in the services sector

## Wage-producer price pass-through (coefficients)



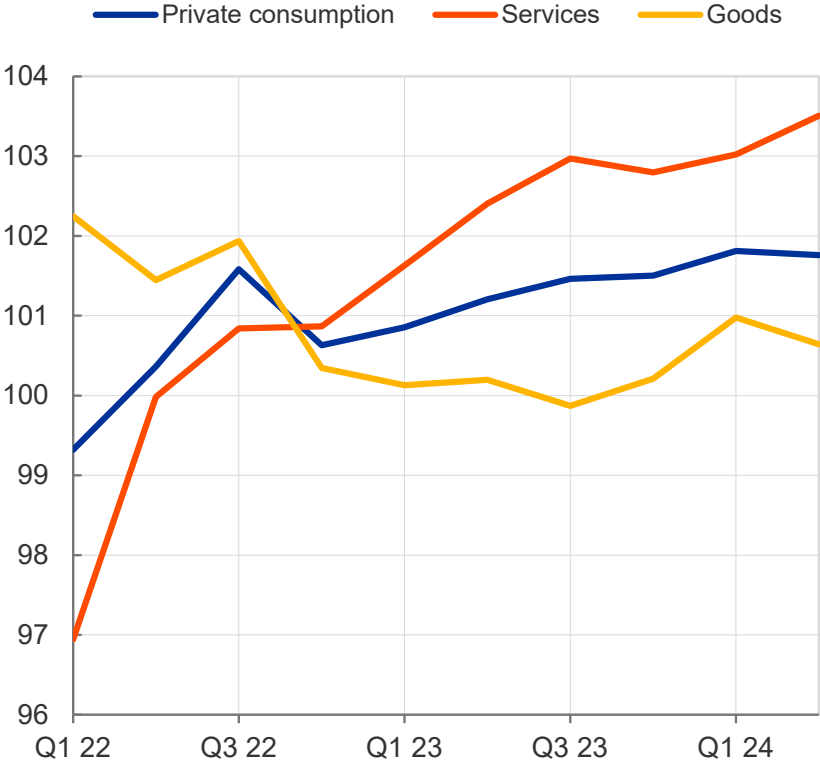
Source: Ampudia, Lombardi and Renault (forthcoming).

Notes: Vertical axis shows response in cumulated producer price inflation to a 1% increase in cumulated wage growth. Horizontal axis shows the window length (in quarters). Industry covers mining, manufacturing and utilities. Services include retail and wholesale trade, transportation, accommodation, food services, information and communication. The lines show 90% confidence intervals.

# Demand for services has been resilient but is starting to weaken

## Euro area private consumption

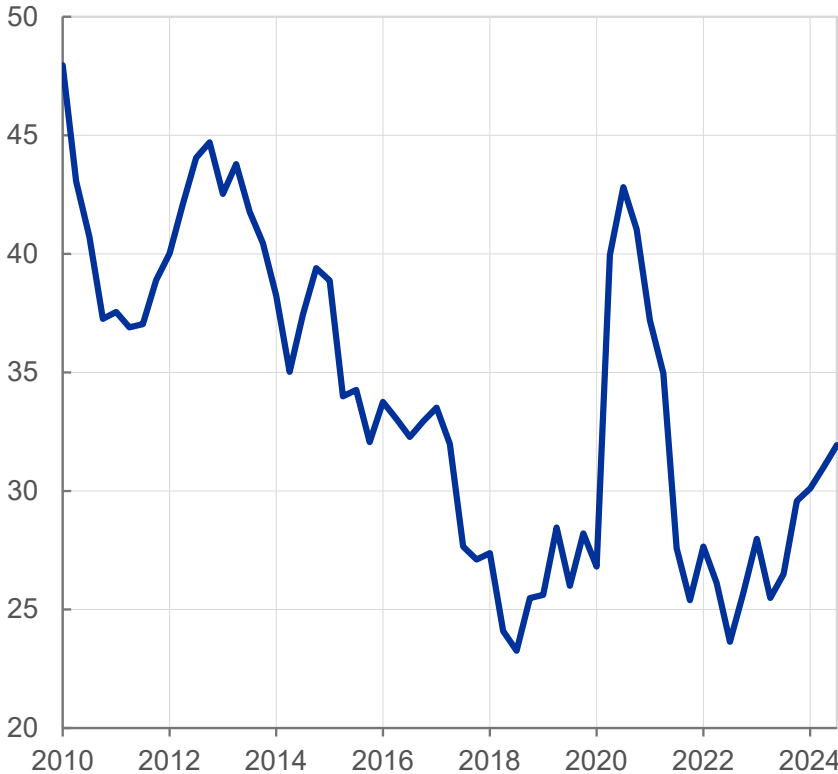
(index: Q4 2019 = 100)



Sources: Eurostat and ECB staff calculations.  
Notes: Goods and services consumption based on aggregation of domestic household consumption.  
Latest observation: Q2 2024.

## Services: Demand as a factor limiting business

(percentages)

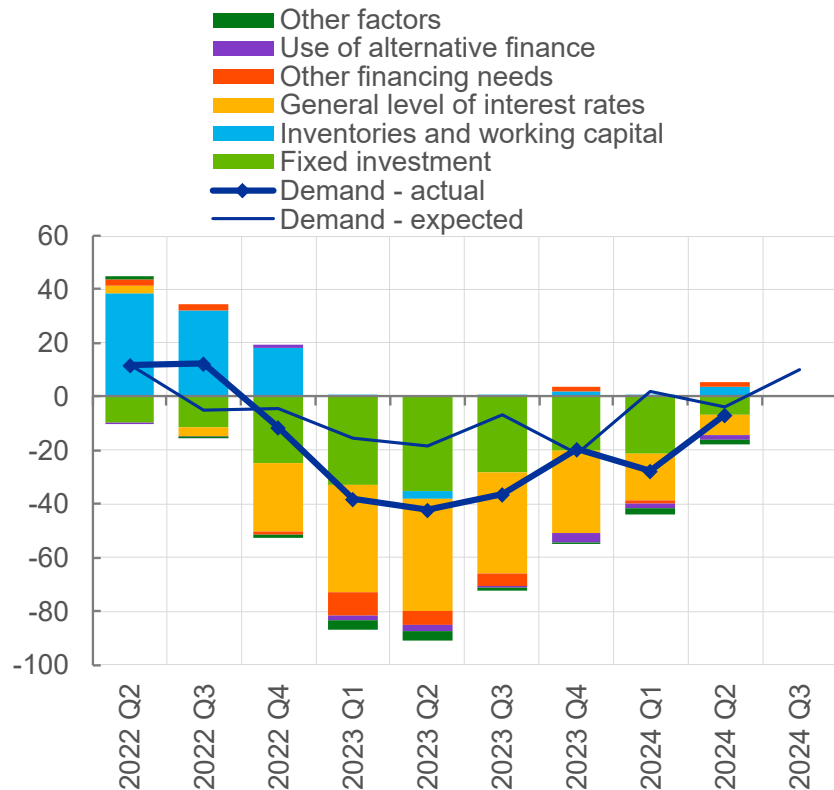


Source: European Commission.  
Latest observation: Q3 2024.

# Signs that transmission of monetary policy tightening is weakening

## Changes in demand for loans to enterprises

(net percentages of banks reporting an increase in demand)

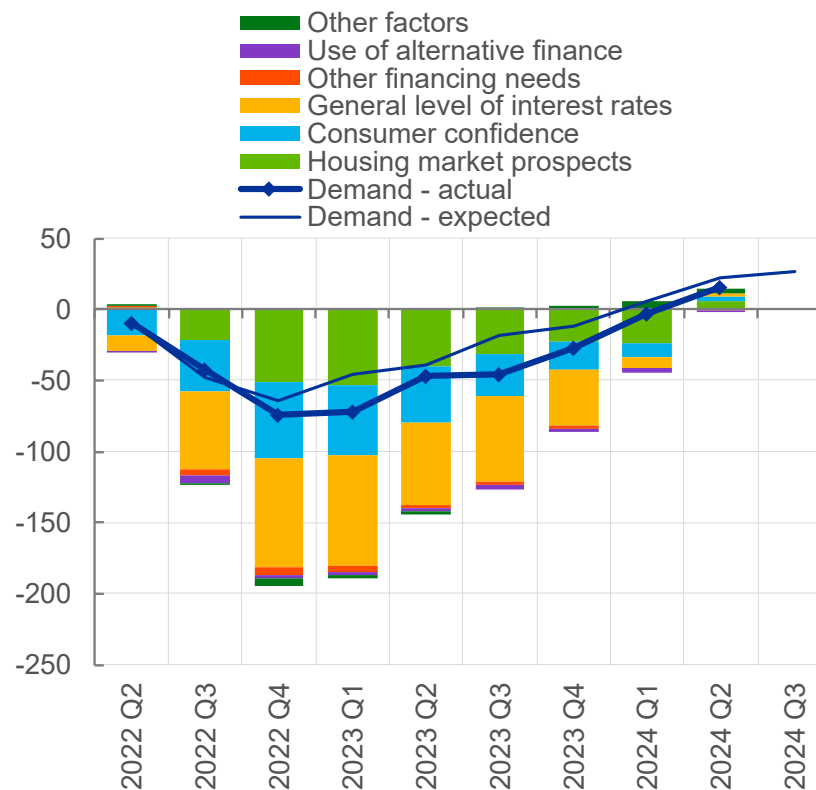


Source: ECB Bank Lending Survey, Second Quarter of 2024.

Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably".

## Changes in demand for loans to households

(net percentages of banks reporting an increase in demand)



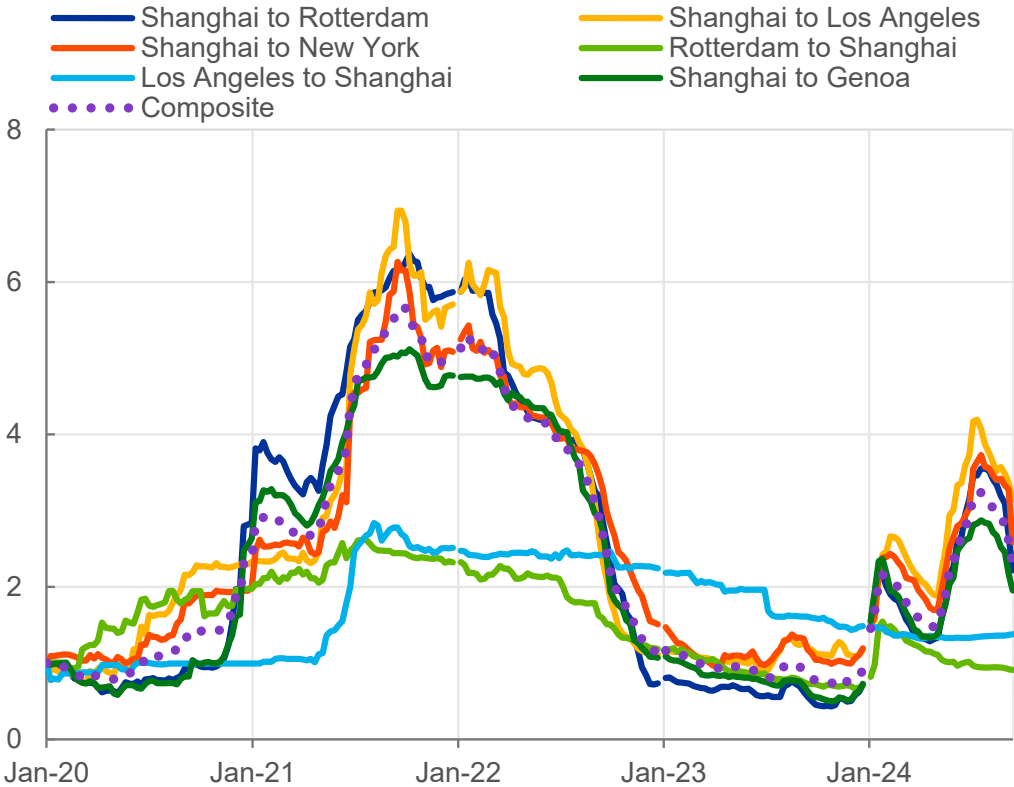
Source: ECB Bank Lending Survey, Second Quarter of 2024.

Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably".



# Geopolitical uncertainty remains a key risk to the outlook

## Shipping prices (indices, January 2020 = 1)

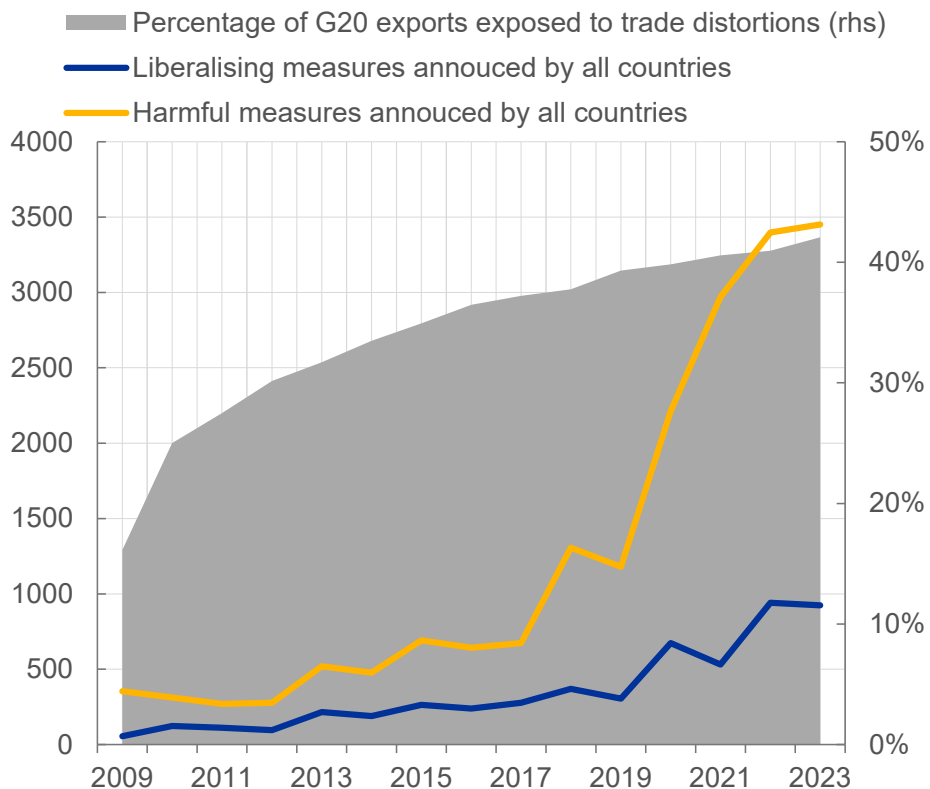


Sources: Drewry and ECB staff calculations.  
Notes: Drewry freight costs (for forty-foot equivalent unit shipping container).  
Latest observation: 12 September 2024.

# Measurable rise in global trade measures, especially on critical raw materials

## Global trade measures

(lhs: number; rhs: percentage)



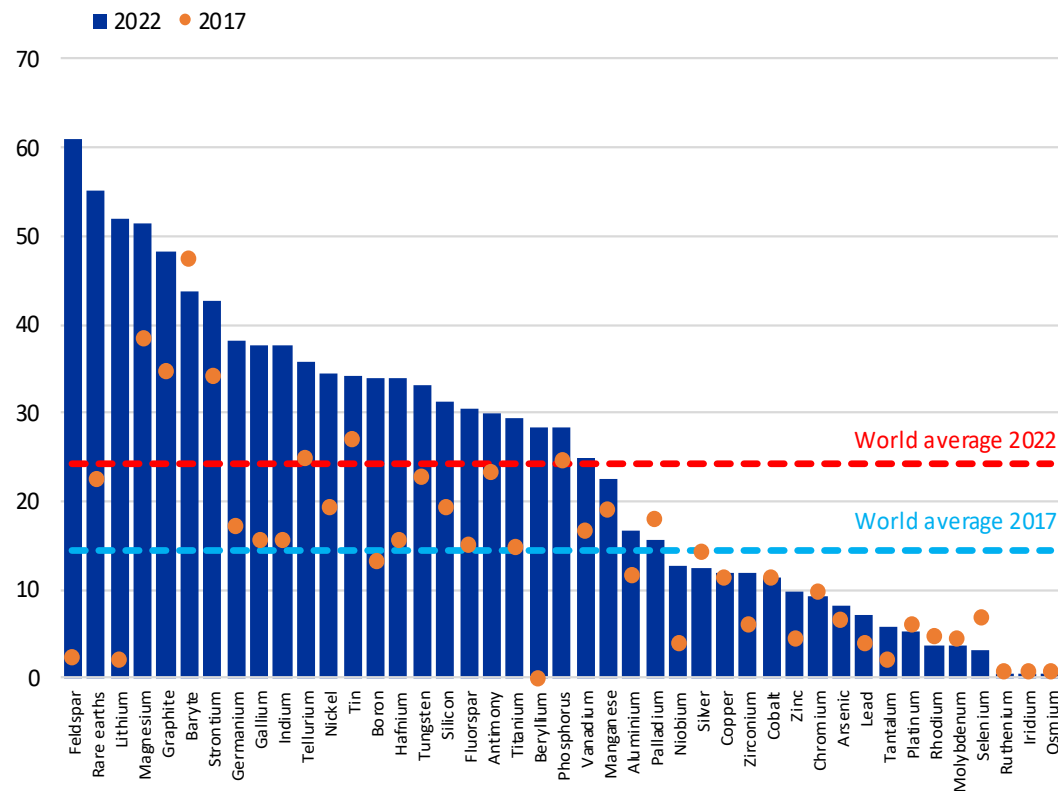
Sources: Global Trade Alert (GTA) and ECB staff calculations.

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.

**Thank you very much for your attention!**