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Member of the Executive Board

The euro area outlook: selected issues

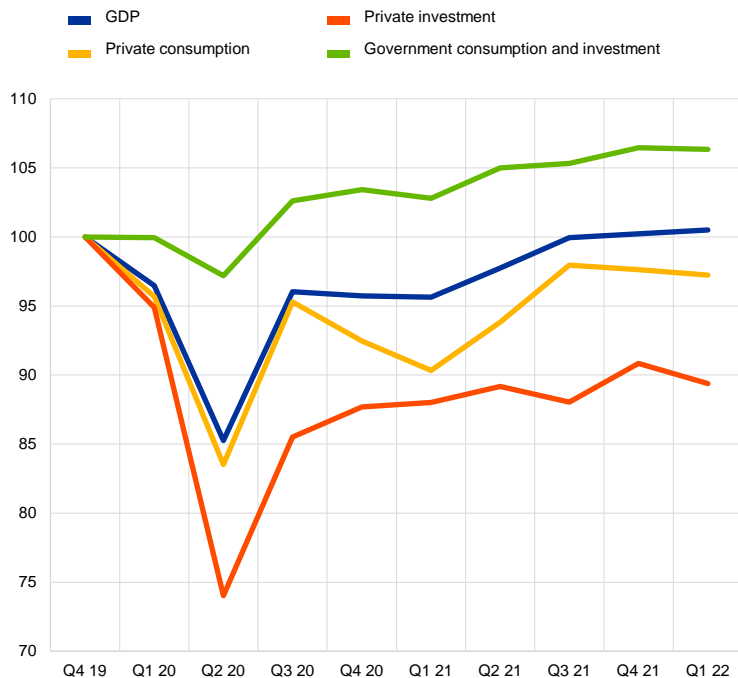
**Conference to mark the 20th anniversary of the creation of
the Germán Bernácer Prize —**

**organised by Observatorio del Banco Central Europeo
(OBCE), CEPR and Fundación Ramón Areces**

Madrid, 25 May 2022

GDP components and forecasts

(chart: index Q4 2019 = 100)



Source: Eurostat, ECB projections and calculations.

Notes: The latest observations are for the first quarter of 2022.

European Commission forecasts for annual GDP growth

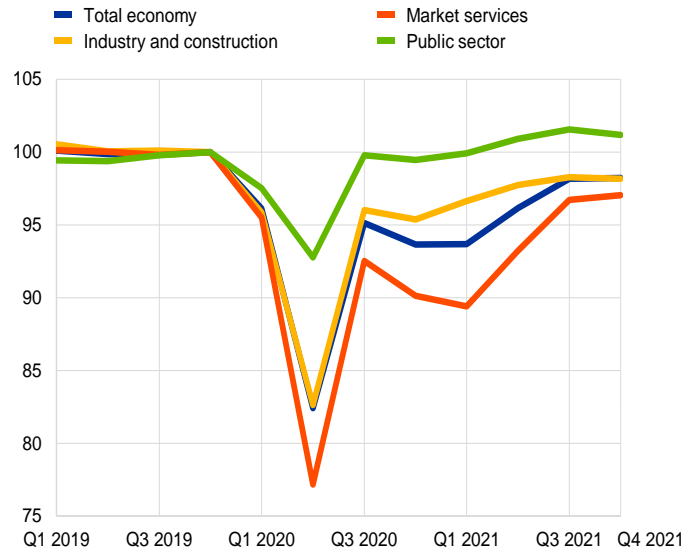
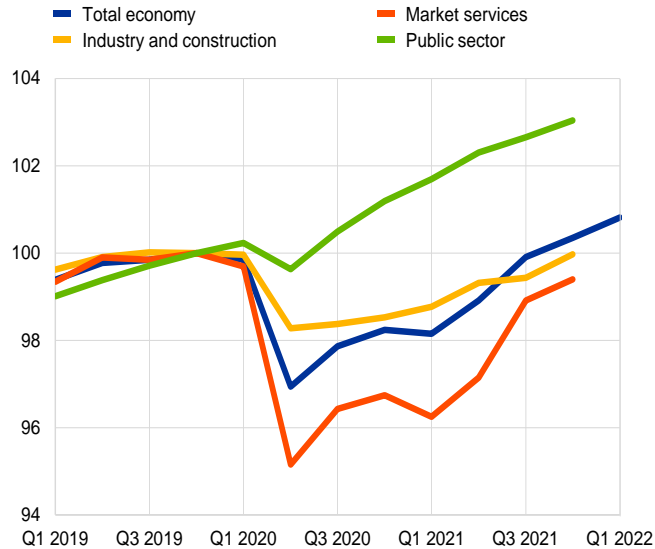
(percentages)

	2022	2023
Spring 2022	2.7	2.3
Autumn 2021	4.3	2.4

Source: European Commission.

Labour market: employment and hours worked by sector

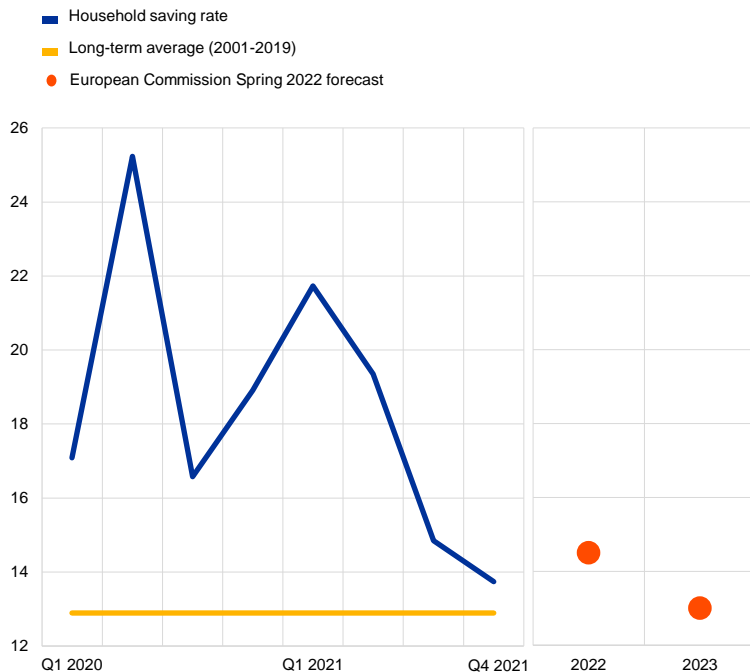
(index: Q4 2019 = 100; left panel: persons employed; right panel: total hours worked)



Source: Eurostat.

Notes: The latest observations are for first quarter of 2022 for total economy employment and fourth quarter of 2021 for the rest.

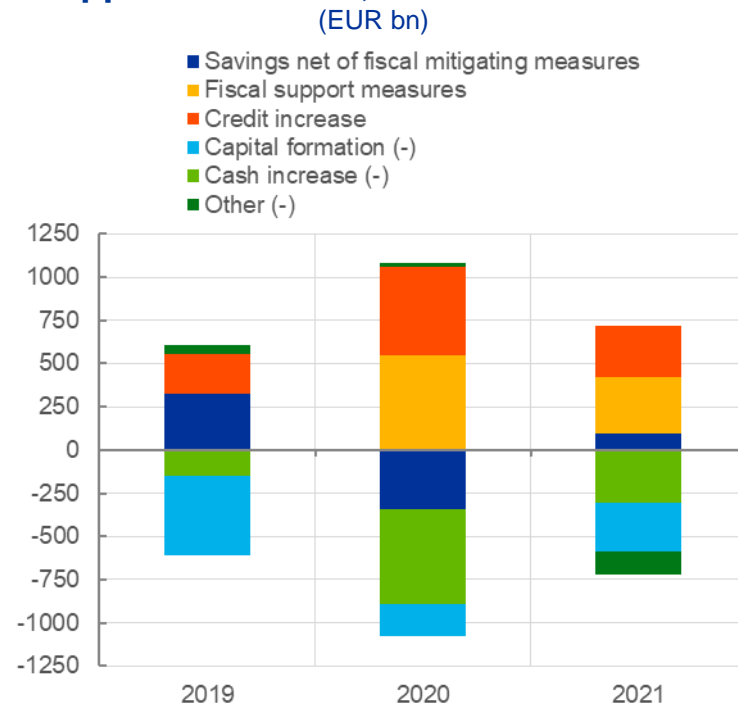
Household saving rate (percentages of disposable income)



Sources: Eurostat, European Commission and ECB calculations.

Notes: The latest observation is for the last quarter of 2021. The data are seasonally adjusted.

Uses and sources of funds, including fiscal support measures, for euro area firms (EUR bn)

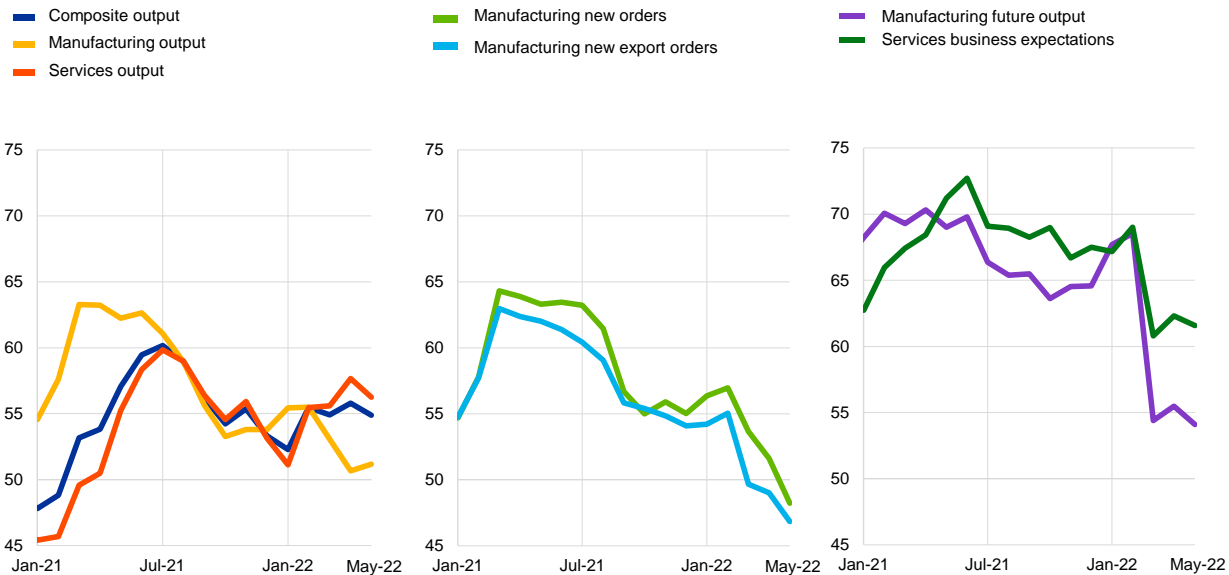


Sources: Eurostat, ECB and ECB estimates.

Notes: "Fiscal support" is defined as the sum of the wage bill savings of firms due to job retention schemes, the effect of moratoria on loan interest payments and rents, tax deferrals and direct grants to firms. "Savings" is gross savings minus consumption of capital. "Credit" includes borrowing from banks and net issuance of debt securities, while "cash" includes currency and deposits. "Capital formation" is gross fixed capital formation plus change in inventories minus consumption of capital. Latest observation: 2021.

PMI confidence indicators

(diffusion index: 50 = no change)

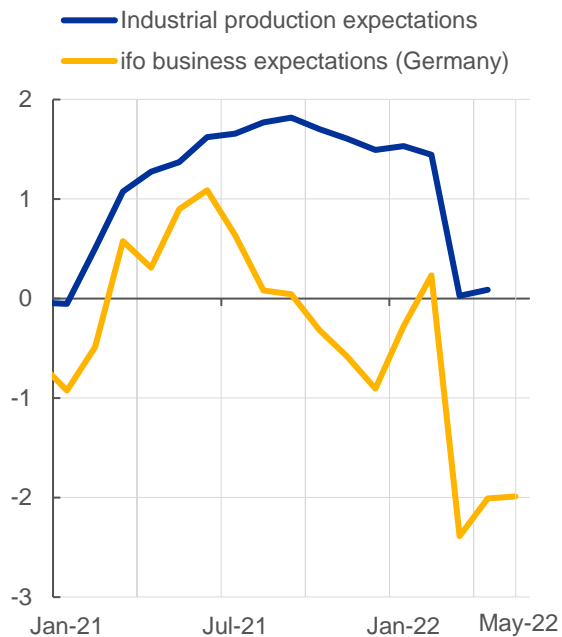


Source: Markit.

Notes: The latest observations are for May 2022.

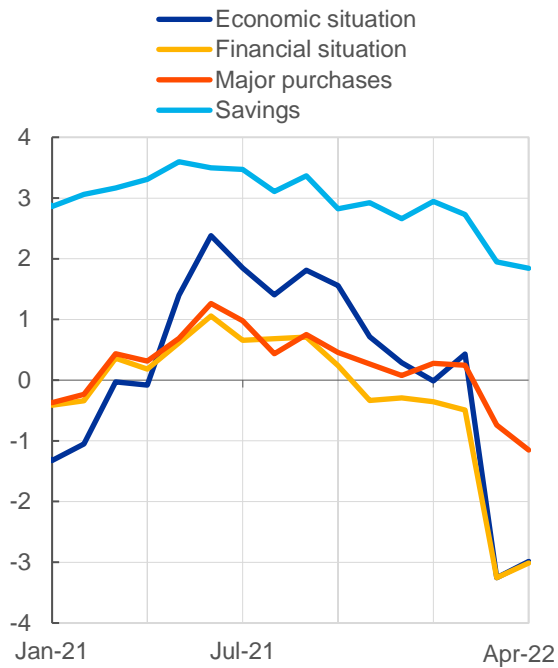
Firm confidence indicators

(standardised percentage balances)



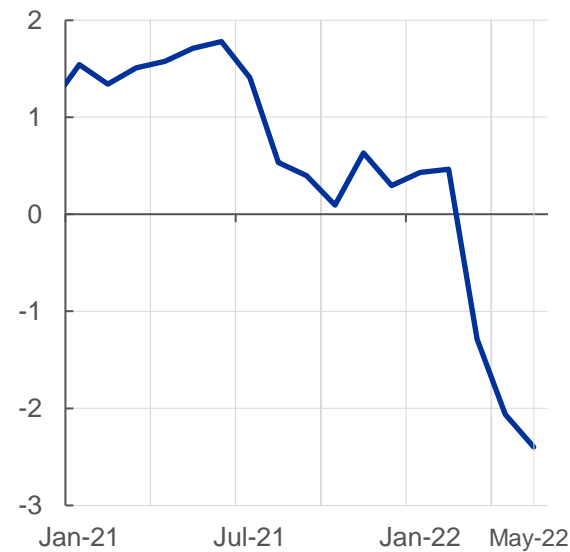
Household confidence indicators

(standardised percentage balances)



Sentix indicator for investors

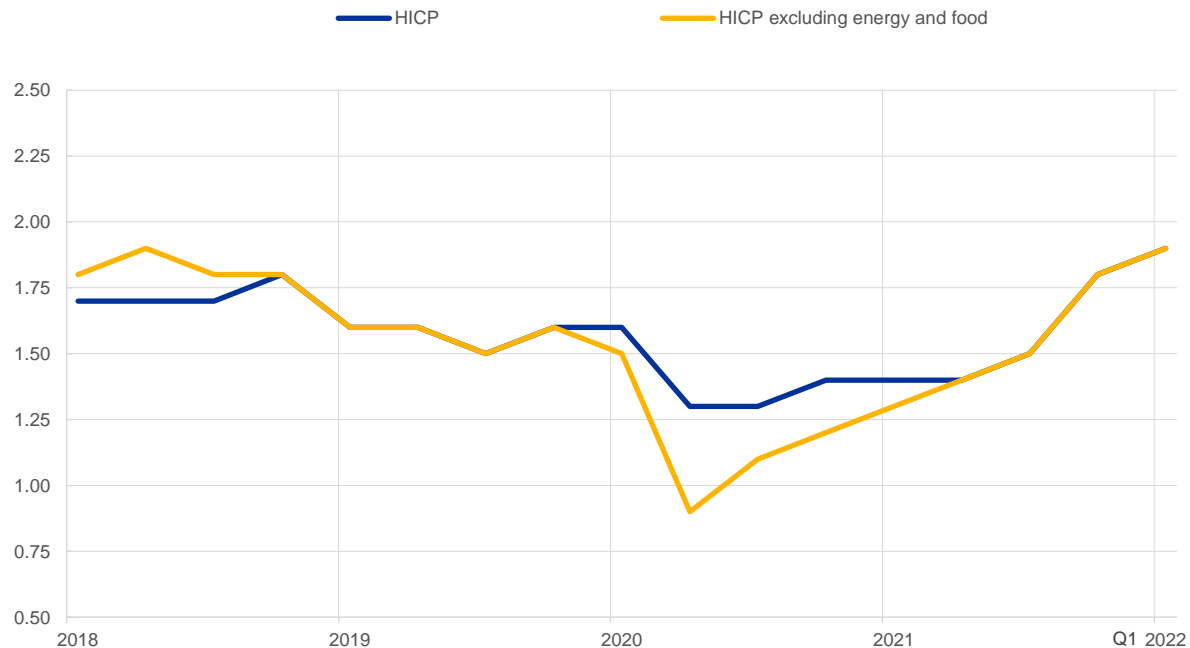
(standardised percentage balances)



Sources: European Commission, ifo Institute, Sentix and ECB staff calculations.

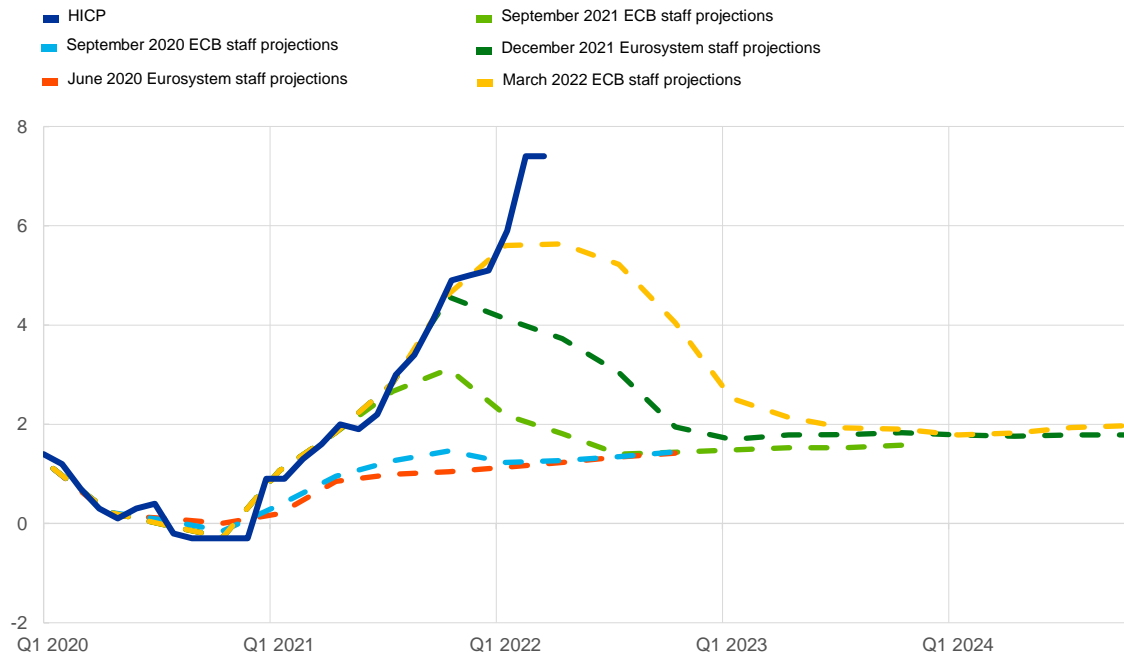
Notes: The standardisation is based on the average and standard deviation of the series from 2000 to 2019. The latest observations are for May 2022 for ifo and Sentix and April 2022 for the other indicators.

End-of horizon projections for HICP and HICPX inflation in the ECB/Eurosystem staff projections (percentages per annum)



Source: ECB/Eurosystem staff macroeconomic projection exercise, ECB calculations.
Notes: The last observation is for the March 2022 macroeconomic projection exercise.

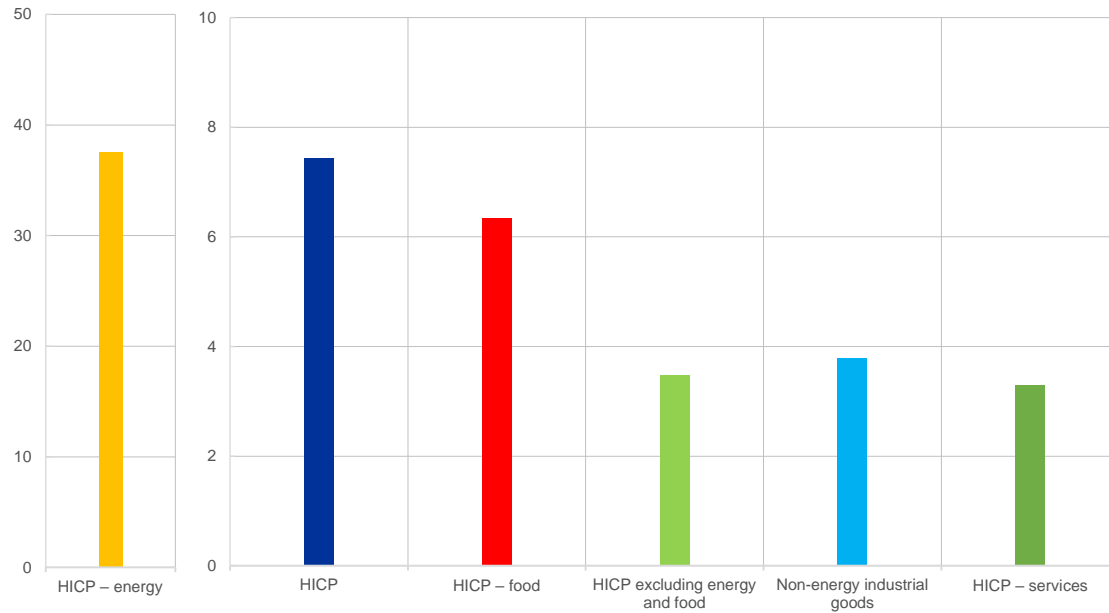
HICP and ECB/Eurosystem staff projections (annual percentage change)



Sources: Eurostat and ECB/Eurosystem staff projections.

Notes: Historical data are at monthly frequency. Forecast data are at quarterly frequency. The latest observation is for April 2022 for HICP.

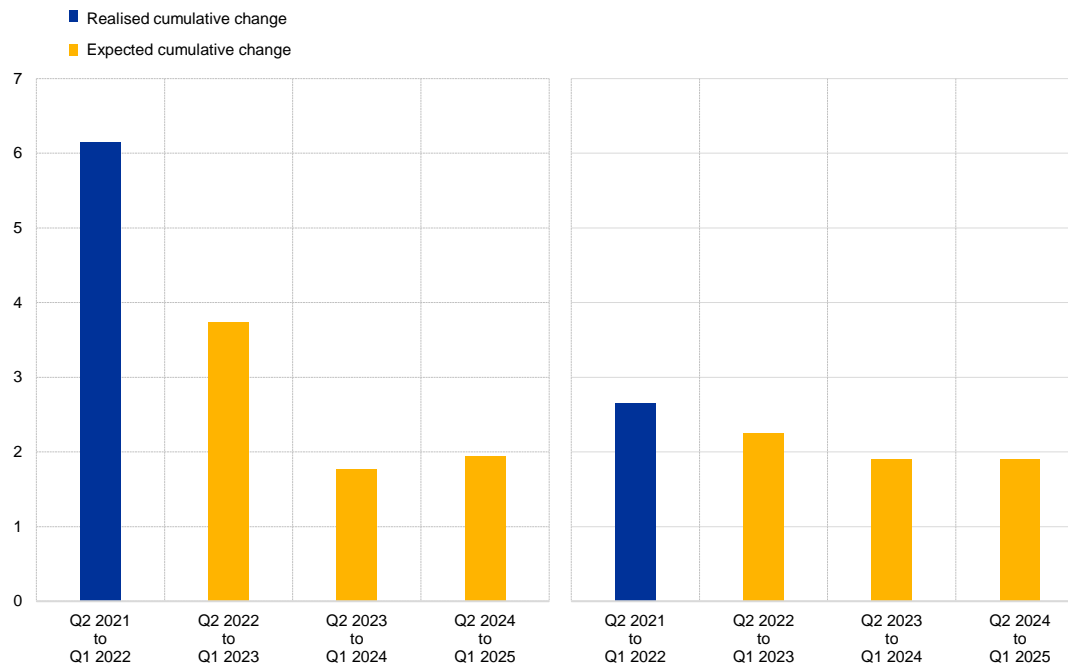
Energy, food, goods and services inflation (annual percentage changes)



Sources: Eurostat and ECB calculations.

Note: The HICP - food series shown is HICP food including alcohol and tobacco. The latest observations are for April 2022.

Realised and expected level of HICP (left) and HICP excluding energy and food (right) (percentages)

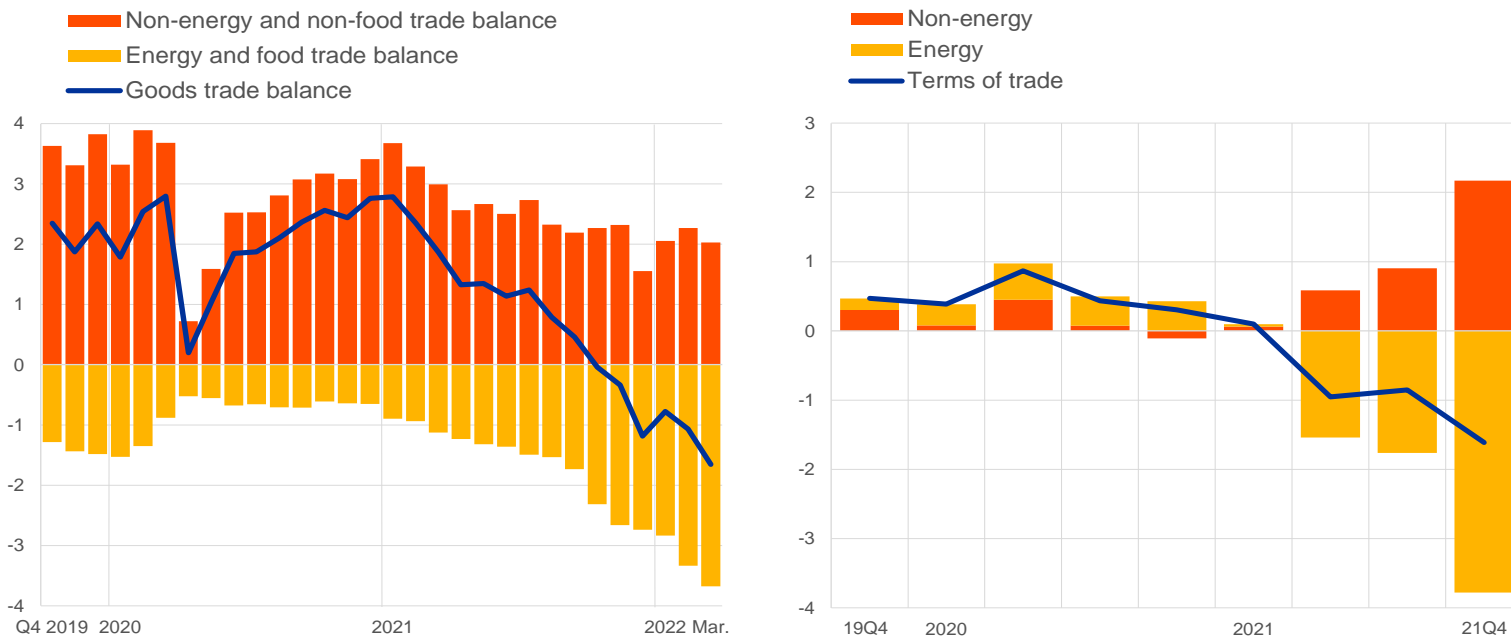


Source: Survey of Monetary Analysts.

Note: Expectation is based on the median from the April 2022 Survey of Monetary Analysts.

Goods trade balance and income effect of terms of trade

(left panel: in percentages of GDP; right panel: quarterly percentage point impact in terms of annual GDP growth)



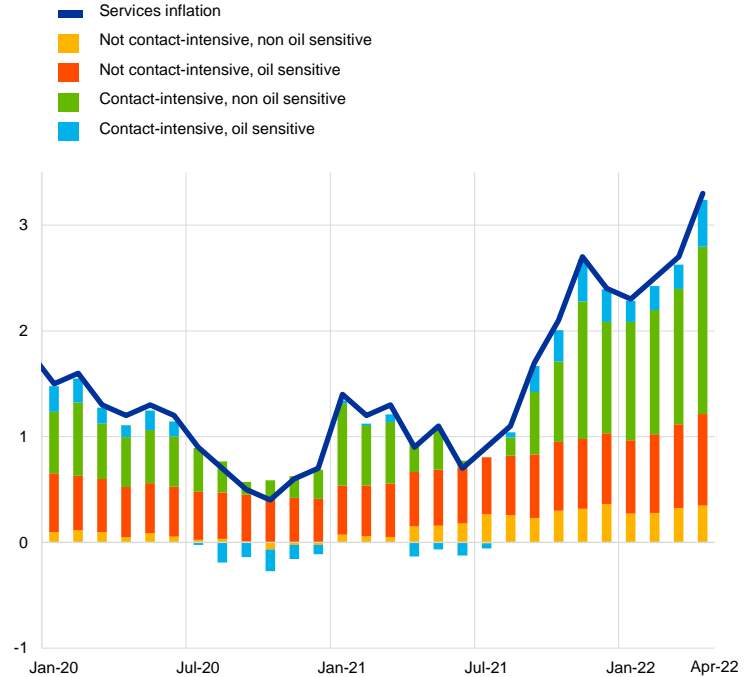
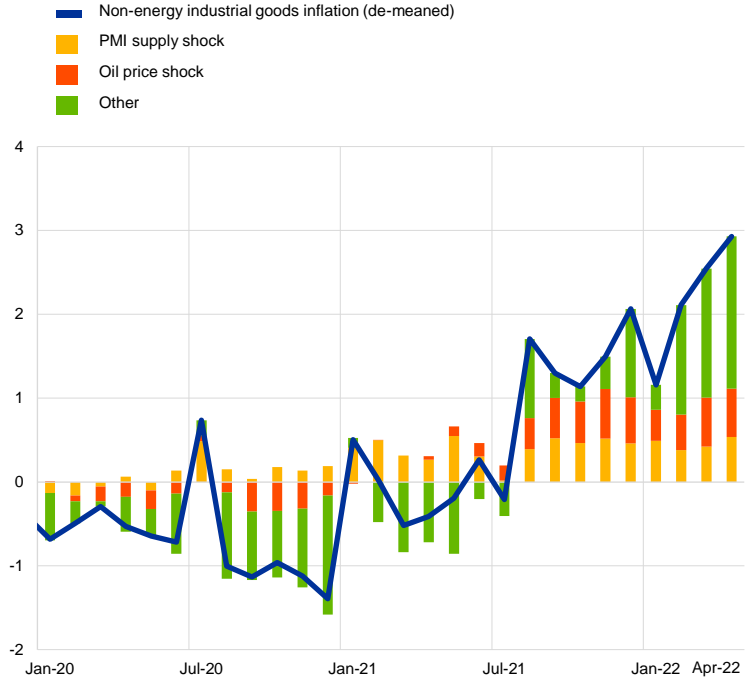
Source: Eurostat and ECB calculations.

Notes: left panel: The value for GDP in Q1 2022 is forecasted; right panel: The income effect of terms of trade is calculated by weighing export and import price changes by their respective volumes and considered as a percentage share of GDP.

Latest observations: left panel: March 2022; right panel: Q4 2021.

Decomposition of inflation in non-energy industrial goods and services inflation

(annual percentage changes; percentage point contributions)

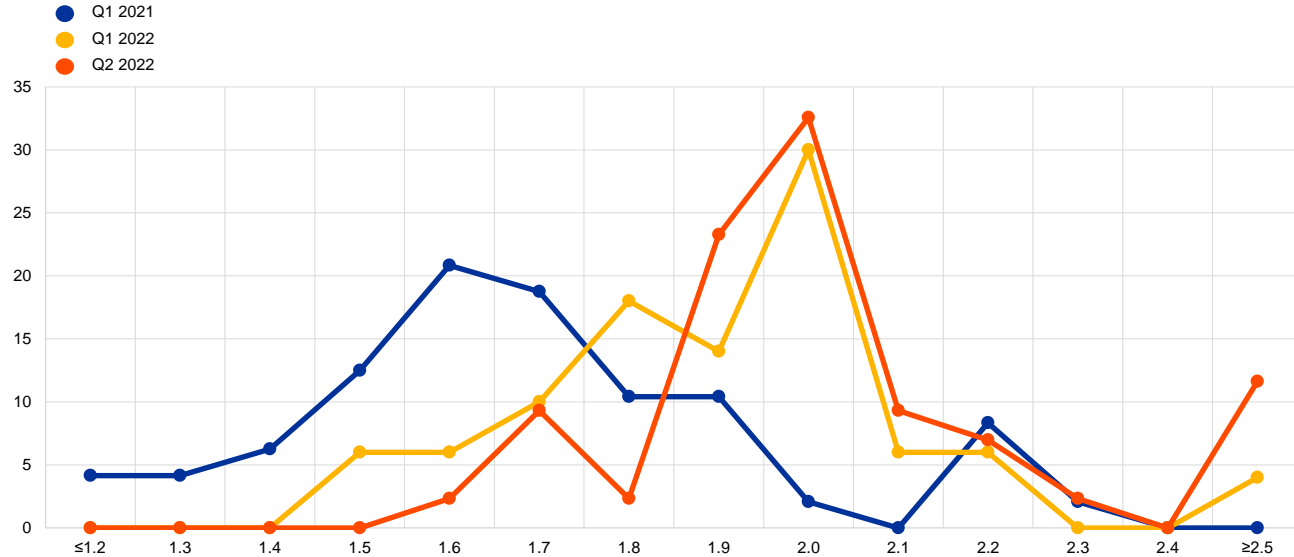


Sources: Eurostat, Narrow Inflation Projections Exercise and ECB calculations.

Notes: HICP non-energy industrial goods inflation is de-meaned by the model mean over the sample from July 2009 to February 2022. Services inflation is decomposed with non-constant weights. The latest observations are for April 2022.

Long-term inflation expectations

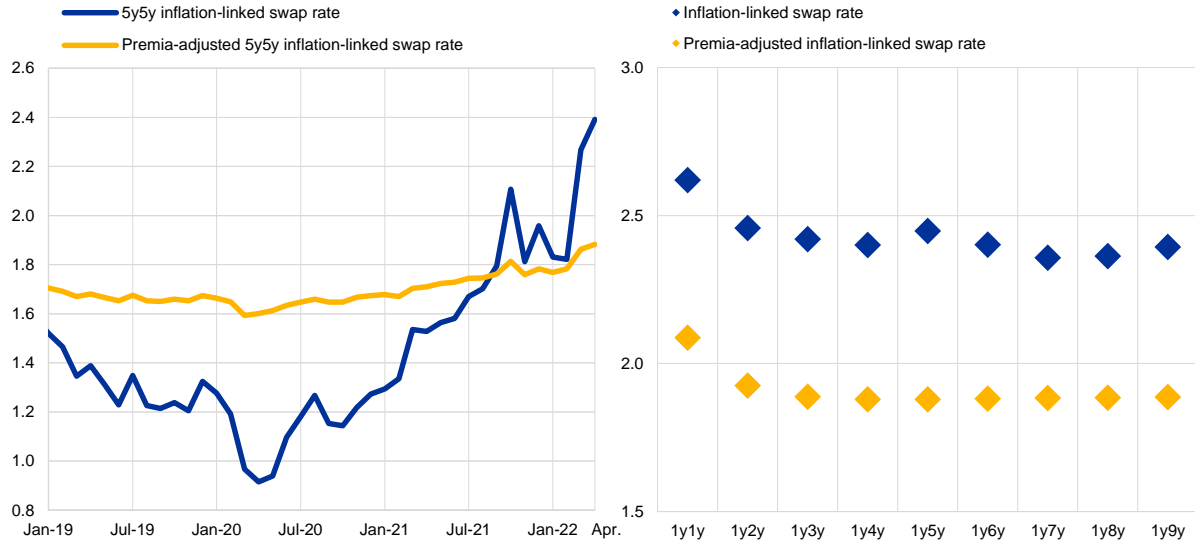
(annual percentage changes; percentages of respondents)



Source: ECB Survey of Professional Forecasters.

Notes: Respondents are asked to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the distribution of point forecast responses.

Inflation-linked swap rate (percentages per annum)

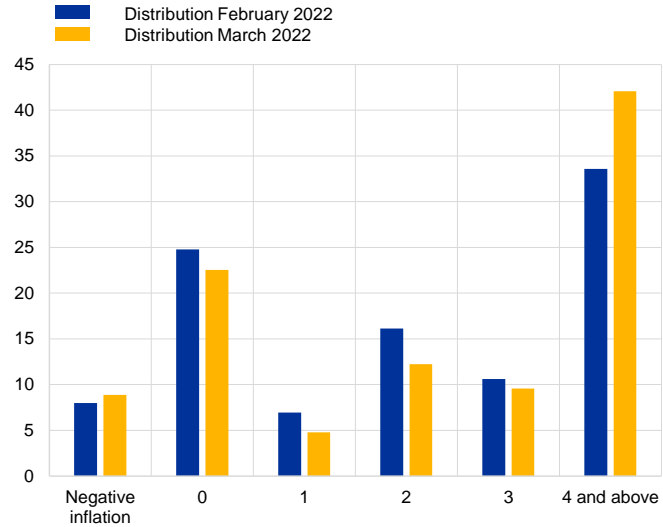
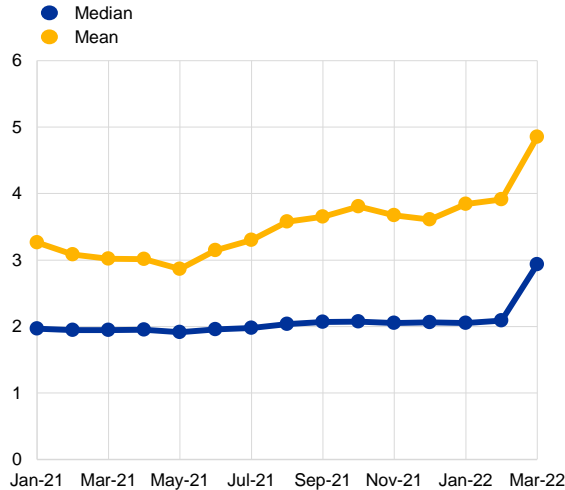


Sources: Refinitiv and ECB calculations.

Notes: Premia-adjusted average estimates based on two affine term structure models following Joslin, Singleton and Zhu (2011) applied to ILS rates adjusted for the indexation lag (monthly data), as in Camba-Mendez and Werner (2017); see Burban et al. (2021), "Decomposing market-based measures of inflation compensation into inflation expectations and risk premia", Economic Bulletin, Issue 8, ECB. The latest observations are for the end of April 2022 (monthly models).

Inflation expectations in the ECB Consumer Expectations Survey

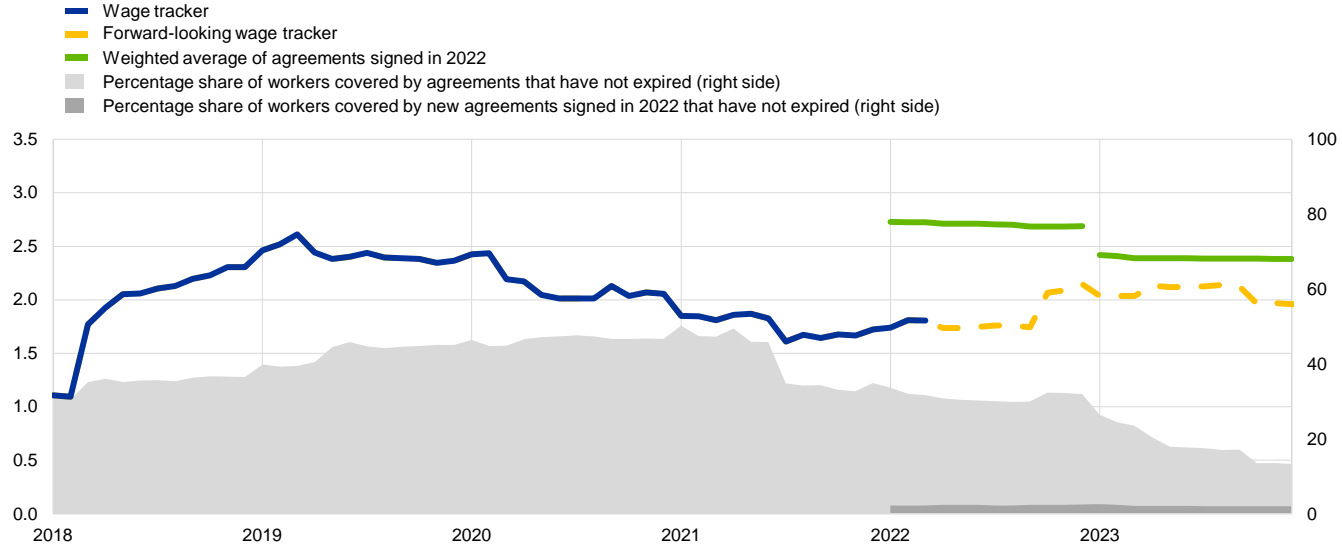
(left panel: annual percentage changes; right panel: annual percentage changes; percentages of respondents)



Sources ECB Consumer Expectations Survey and ECB staff calculations.

Notes: "Median" refers to the median across individual respondents. The data are winsorised at the 2nd and 98th percentile. The latest observations are for March 2022.

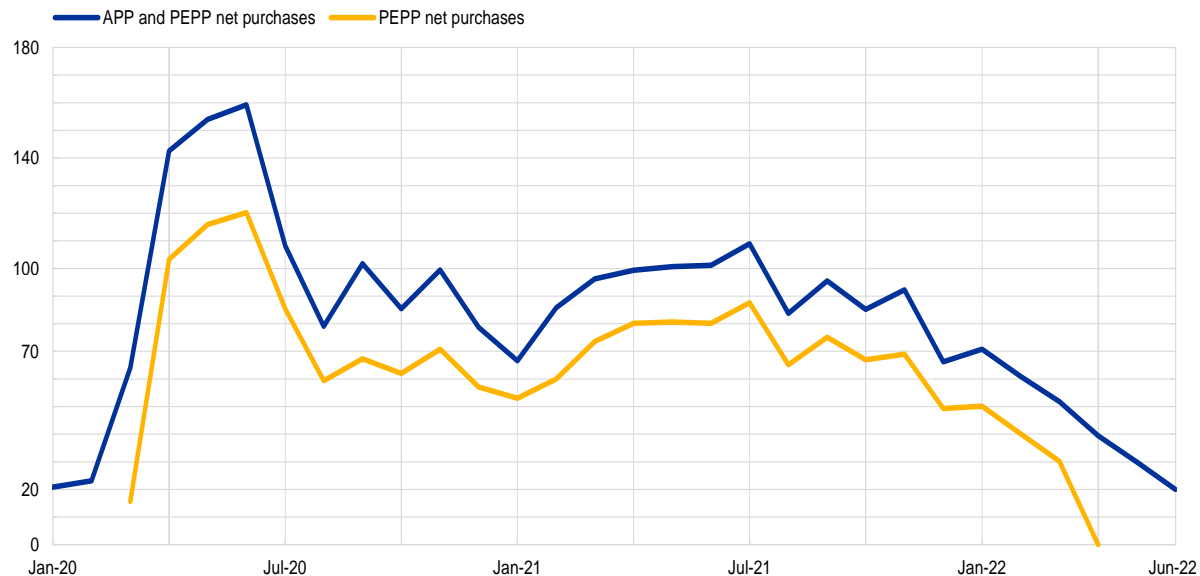
Forward-looking euro area wage tracker (annual percentage changes; percentage share)



Sources: Calculated based on microdata on wage agreements in Germany, Italy, Spain and the Netherlands. Data for the Netherlands is based on the database maintained by the Dutch employer association AUVN. For Italy the data comes from Istat (contratti collettivi e retribuzioni contrattuali), for Spain from the Ministerio de Trabajo y Economía Social and for Germany from Bundesbank.

Notes: Experimental euro area wage tracker includes weighted average of Germany, Italy (data from July 2021 to September 2022) Spain and the Netherlands. The orange line shows the weighted average of wage increases in agreements that have not yet expired, weighted by the number of workers covered by these agreements. The green lines show weighted averages of wage increases in agreements that were concluded in 2022, weighted by the number of workers covered by these agreements. Latest observations: Last agreements signed in NL and ES April 2022, IT and DE in March 2022.

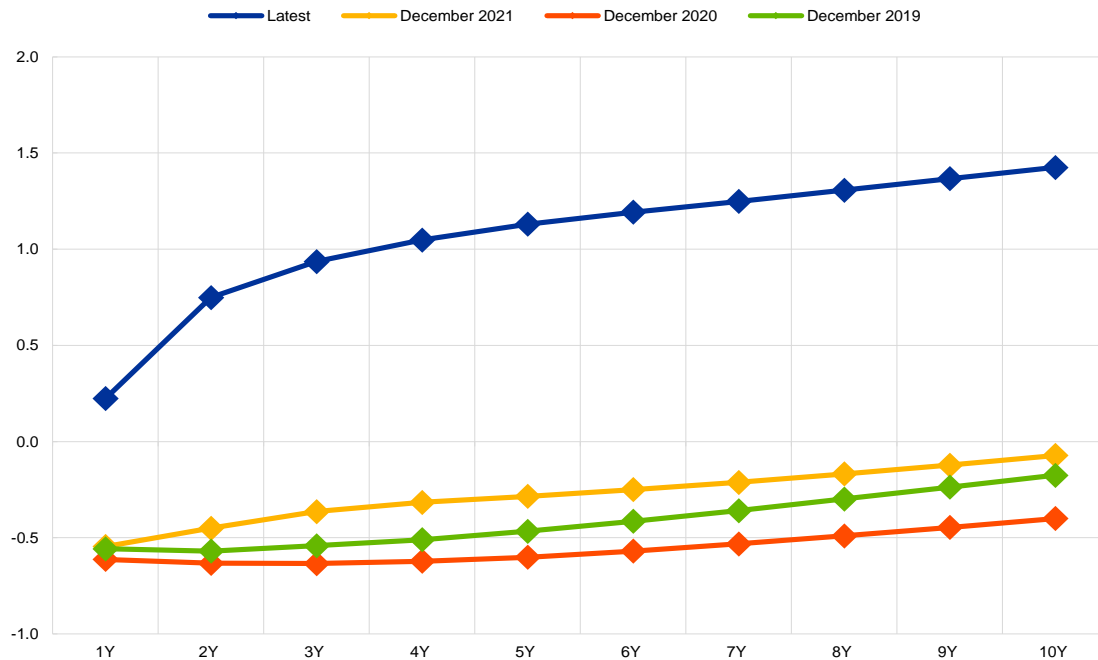
Monthly flow of net purchases under APP and PEPP (EUR billions)



Source: ECB.

Notes: The chart shows aggregated net purchases under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) at month-end. The latest observations are for April 2022. The values for May and June 2022 reflect the ECB's most recent monetary policy announcement.

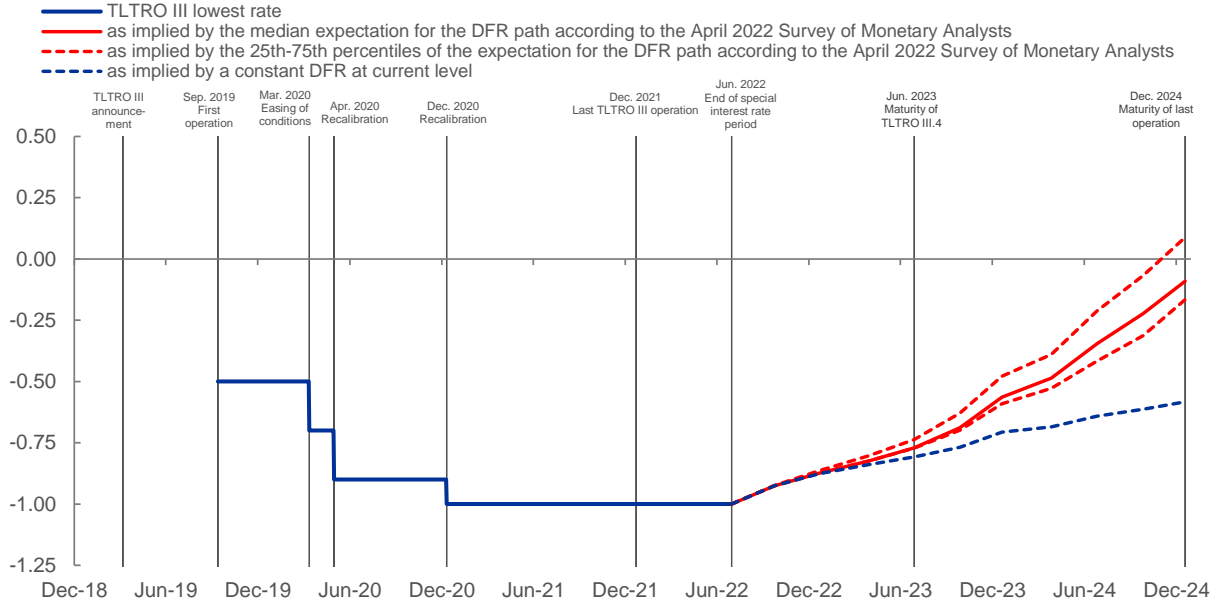
Overnight interest rate swap yield curve (percentages per annum)



Sources: Bloomberg, Refinitiv and ECB calculations.

Note: The curves refer to the day before the respective Governing Council meetings (15 December 2021, 9 December 2020 and 11 December 2019). The latest observations are for 23 May 2022.

TLTRO III: lowest rate (percentages per annum)



Sources: ECB and ECB calculations.

Notes: The TLTRO III lowest rate is the one achievable by a bank meeting all the lending performance thresholds. The solid blue line shows the minimum TLTRO rate after each subsequent recalibration: the minimum rate after the March 2020 and April 2020 recalibrations is the lowest possible rate achievable by repaying the funds at the earliest possible date, while from December 2020 it is the lowest possible rate achievable by repaying the funds at the end of the extended period of temporary rate reduction in June 2022. The dashed blue line after June 2022 shows the evolution of the lowest rate TLTRO III implied by a constant deposit facility rate (DFR) at current levels (-0.5%); the red lines show the lowest TLTRO rate based on the expectations for the DFR as reported in the April 2022 Survey of Monetary Analysts: median (solid line) and 25th-75th percentiles (dashed lines). The rates displayed after June 2022 represent the lowest achievable rate in each quarter assuming that all outstanding funds are repaid in that quarter, where the outstanding funds in a given quarter are calculated as the funds that are outstanding as of now minus all operations maturing by that time.

Conclusions

- Monetary policy normalisation appropriate
- Initial steps: clear and robust
- Further steps: state-contingent (gradualism, optionality, flexibility)
- Overall commitment:

“We stand ready to adjust all of our instruments within our mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at our two per cent target over the medium term.”