Reflation, not stagflation

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Rapid economic growth is accompanied by declining unemployment.

**Real euro area GDP growth**
(annualised quarter-on-quarter changes)

**Euro area unemployment rate**
(percentage)

Source: Eurostat and ECB staff calculations.
Latest observation: 2021Q3.

Source: Eurostat.
Latest observation: September 2021.
Supply-side disruptions are proving more persistent

Suppliers’ delivery times in manufacturing
(diffusion index)

Corporate Telephone Survey: persistence of supply constraints and input price pressures
(percentage of respondents)

Source: Markit.

Source: Corporate Telephone Survey (CTS).
Latest observation: The chart presents the ECB staff interpretation of what contacts said about the likely duration of the supply constraints and input price pressures currently faced by their industry, including those related to the scarcity of inputs, transport delays, energy costs and labour shortages. The views are expressed as a percentage of the respondents who said that their firm or industry was experiencing supply constraints and/or input price pressures.

Business-oriented sectors comprise intermediate and capital goods, construction, transport and business services. Consumer-oriented sectors comprise consumer goods (including food), retail and consumer services.
Supply-side constraints are mainly driven by strong demand.

**PMI global suppliers’ delivery times: model decomposition**
(points; increase denotes rising delivery times)

Source: ECB staff calculations.
Note: PMI suppliers’ delivery time historical decomposition obtained with a two variable Bayesian VAR with PMI output and PMI suppliers’ delivery times, identified through sign restrictions. Last observation: October 2021.

**Developments in euro area real disposable income after economic recessions**
(2008Q3, 2011Q3 and 2019Q4 = 100)

Source: Eurostat and ECB calculations.
Note: Starting points correspond to the business cycle peaks identified by the CEPR business cycle dating committee. Nominal disposable income is deflated with the consumption deflator. Latest observation: 2021Q2.
Expected capacity utilisation close to record high level

Euro area industrial production and new orders
(index; 2019 = 100)

Source: Eurostat and ECB staff calculations.

Euro area: expected capacity constraints in industry
(percent balance)

Source: ECFIN and ECB staff calculations.
Notes: Negative balances (capacity less than sufficient) indicate high levels of capacity utilisation. Latest observation: 2021Q4.
Economy has become less vulnerable to rising oil prices

**Oil intensity**

(number of barrels per 1,000 USD of GDP)

Source: Bloomberg and ECB staff calculations.
Notes: Oil intensity defined as oil demand relative to GDP (barrel per 1000 USD of GDP in 2010 prices).

**Response of global industrial production to oil supply shocks**

(impulse responses to shock after 48 months; median and 15th and 85th percentiles, percentage points)

Sources: IEA, FRED and CB staff calculations.
Notes: The response is estimated using a SVAR with sign restrictions. The oil supply shock is identified assuming that it lowers oil production and industrial production but raises the price of oil. The responses are calibrated to a 10 percent shock to the price of oil.
Consumer confidence and a further reopening of economy will support demand.

European Commission consumer survey
(percentage balances)

Source: EC consumer survey.

Services sector developments:
value added by sector
(Q4 2019 = 100)

Source: ECB calculations using Eurostat and ECFIN data.
Notes: Data for the third quarter of 2021 are based on quarterly data for value added in (1) manufacturing and other industry (referred to as "manufacturing" in the text), (2) construction and (3) other sectors. These data are imputed from available monthly data up to September for (1) industrial production excluding construction, (2) construction production and (3) residual with respect to real GDP according to the flash release.
Growth forecasts were revised down only moderately, especially in the euro area

Consensus 2022 real GDP growth expectations
(annual percentage change)

Source: Bloomberg.
Rising inflation is driven to a large extent by higher energy prices

**Euro area HICP inflation**
(annual percentage changes)

- Source: Eurostat.

**Contribution of energy to euro area HICP inflation**
(annual percentage changes, percentage point contributions)

- Source: Eurostat and ECB staff calculations.
Inflation of high-contact services and durable goods is increasing sharply

High and low-contact services inflation
(annual percentage change, at constant 2020 weights; percentage point contributions)

-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5
2.0
2.5
3.0
3.5


High-contact HICP
Low-contact HICP
Services HICP

Euro area HICP inflation for durable goods
(annual percentage changes)

-3.5
-3.0
-2.5
-2.0
-1.5
-1.0
-0.5
0.0
0.5
1.0
1.5


EA HICP Durables

Sources: Eurostat and ECB staff calculations.
Note: The impacts of weights on services in October may change with the final HICP release.

Source: Eurostat.
Latest observation: September 2021.
Financial markets are expecting inflation to stabilise around 2% target.

Eurosystem inflation projections and inflation swap forward curve
(percentages per annum)

Sources: Bloomberg, Refinitiv, ECB calculations.
Notes: HICPxT refers to HICP excluding Tobacco.
Latest observation: September 2021 (HICPxT).
Uncertainty around future path of short-term rates has increased measurably.

Probabilities of future evolution of 3-month Euribor as of 23 July 2021 (post-July GovC) (percentage)

-0.7
-0.6
-0.5
-0.4
-0.3
-0.2
-0.1
0.0

Historical EURIBOR 3M

Probabilities of future evolution of 3-month Euribor as of 12 November 2021 (percentage)

-0.7
-0.6
-0.5
-0.4
-0.3
-0.2
-0.1
0.0

Historical EURIBOR 3M

Source: ECB calculations.
Inflation was overestimated pre-pandemic and underestimated in the pandemic.

**Eurosysten inflation projections over time**

(annual percentage change)

Source: ECB.
Distribution of inflation risk is increasingly skewed to the upside

Option-implied risk-neutral distribution of average inflation over the next 5 years (percentages)

Distribution of inflation rates across items included in HICPX inflation (percentages)

Sources: Bloomberg, Refinitiv, ECB calculations.
Notes: Probabilities implied by five-year zero-coupon inflation options smoothed over 5 business days. Risk neutral probabilities may differ significantly from physical, or true, probabilities.

Sources: Eurostat and ECB staff calculations.
Notes: HICPX refers to the HICP excluding food and energy.
Latest observation: September 2021.
Oil production is responding more slowly to rising oil prices

**Oil price and US shale production**
(Ihs: USD per barrel, rhs: number of oil rigs)

Sources: Bloomberg and Baker Hughes.
Latest observation: 12/11/2021 (oil price), 05/11/2021 (rig count).

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**Response of world crude oil production**
three months after oil demand shocks
(percent)

Sources: Bloomberg, Refinitiv, IEA and ECB staff calculations.
Latest observation: August 2021.
Thank you for your attention!