Managing policy trade-offs

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Before the invasion the euro area was on track for one of its fastest economic recoveries.

Developments in real GDP
(index: 2019=100)

Sources: Eurostat, Bureau of Economic Analysis and ECB staff calculations.
Last observation: 2021Q4.
Pipeline pressures are at unprecedented levels, driven by both demand and supply.

**Headline producer price inflation**
(annual percentage changes)

- United States
- Euro Area

**Contributions to euro area producer price fluctuations**
(deviation from trend; annual percentage changes)

Source: Haver DLX and Eurostat.
Notes: Non-seasonally adjusted domestic PPI for industry excluding construction.
Last observation: January 2022 for the euro area, February 2022 for the US.

Notes: Based on the seasonally-adjusted domestic manufacturing PPI.
Last observation: December 2021.
Euro area labour market is increasingly tight but churn rate is still muted

Unemployment rate

(percent)

Last observation: February 2022.

Euro area unemployment to job vacancies

(ratio)

Source: Labour Force Survey and Job Vacancy Statistics.
Last observation: 2021Q4
Notes: Data not available for IT. Data for FR only available for size-class greater than 10 employees. EE data extrapolated until 2021Q4 using historical data.
Measured inflation would be higher if owner-occupied housing were included.

Inflation drivers in February 2022
(annual percentage changes, percentage point contributions )

Impact of including owner-occupied housing on measured inflation
(percentage points)

Source: Haver DLX and Eurostat.

Source: Eurostat, ECB and ECB calculations.
Last observation: 2021Q3.
War hits euro area at a time of broad underlying economic strength

Real GDP growth projections
(annual percentage changes)

- March 2022 ECB staff projections
- Consensus Economics forecast


Euro area composite PMIs
(diffusion index)

Source: Markit.
Last observation: March 2022.
Notes: Future business activity expectations correspond to 12 months ahead.
Inflation risk premium is rising, while actual inflation is affecting inflation expectations.

**Inflation rate expected in 4 years’ time**  
(percentages per annum)

![Graph showing the expected inflation rate over 4 years.](image)

Source: Bloomberg, Refinitiv and ECB calculations.  
Note: The premia-adjusted 1y4y ILS rate represents average estimates based on two affine term structure models following Joslin, Singleton and Zhu (2011) applied to ILS rates adjusted for the indexation lag; for further details see Burban et al. (2022), ECB Economic Bulletin Issue 8, 2021, Box 4  
Last observation: March 2022 (monthly data).

**Impact of actual inflation on long-term inflation expectations by professional forecasters**  
(percentage points; mean and 16/84 percentiles)

![Graph showing the impact of actual inflation on long-term inflation expectations.](image)

Source: ECB staff calculations.  
Notes: Estimates of the pass-through coefficient of inflation over the previous two quarters to changes in long-term inflation expectations over the previous two quarters. The model is estimated with Bayesian techniques and allows for stochastic volatility.  
Last observation: 2022 Q1.
As monetary policy focuses on price stability, fiscal policy can buffer demand impact.

**1-year real OIS rate in 3 years’ time**

(percentages per annum)

![Graph showing 1-year real OIS rate in 3 years’ time](image)

Source: Bloomberg, Refinitiv and ECB calculations.
Note: Real rates are calculated by subtracting inflation-linked swap rates from nominal OIS rates.
Last observation: 31 March 2022.

**Euro area fiscal headline measures**

(% of GDP)

![Graph showing Euro area fiscal headline measures](image)

Source: Eurostat and ECB staff projections.
Thank you for your attention!