Persistence of inflation in the euro area

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Banka Slovenije, Ljubljana, 10 November 2022
Strong momentum in underlying inflation points to higher persistence

Measures of underlying inflation
(annual percentage changes)

- HICP excl. energy and food (HICPX)
- PCCI (persistent and common component of inflation)
- Supercore
- Trimmed mean (10%)
- Trimmed mean (30%)

Sources: ECB and ECB staff calculations.
Notes: HICPX, Supercore and Trimmed means are non-seasonally adjusted, while PCCI is based on seasonally adjusted price series.
Latest observation: October 2022 for HICPX (flash estimate), September 2022 for the rest.

HICP and core inflation
(annual percentage changes)

Sources: Eurostat and ECB calculations.
Notes: month-on-month changes are based on seasonally adjusted data.
Latest observation: October 2022 (flash estimate).
Inflation expectations remain broadly anchored but risks of de-anchoring

Survey of Professional Forecasters:
Inflation expectations in the longer-term (LHS) and 2024 (RHS)
(LHS: annual percentage changes; RHS: percent)

Sources: ECB SPF.
Latest observations: 2022 Q4 (October).

Consumer Expectations Survey:
Inflation expectations 3 years ahead
(LHS: annual percentage changes; RHS: x-axis: annual percentage changes; y-axis: 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. Mean values are 4.69% and 4.76% for August and September respectively. Median values are 2.98% and 3.00% for August and September respectively.
Latest observations: September 2022.
Current high inflation may feed into higher inflation expectations

Effect of revisions in inflation perceptions on short- and medium-term inflation expectations (coefficient)

- Dependent variable: change in expectations one year ahead
- Dependent variable: change in expectations three years ahead

Risk-neutral probabilities for inflation outcomes implied by options (percentages)

- Above 3 percent, 5-year, 5-year forward
- Below 1 percent, 5-year, 5-year forward

Sources: Bloomberg, Refinitiv and ECB calculations.
Notes: 5-days moving average risk-neutral probabilities of inflation higher than 3% and lower than 1% implied by five-year and ten-year zero-coupon inflation options. The depicted probabilities are risk-neutral probabilities affected by risk premia and should therefore not be interpreted as "real world" (or physical) probabilities. Latest observation: 07 November 2022.
Wage growth has picked up significantly in light of sharply declining real wages.

**Negotiated wage growth and nominal wage growth in job ads**
(annual percentage changes)

- Negotiated wages
- Nominal wage growth in job postings, 3-months moving average (Indeed)

**Real compensation per employee**
(index: 2017Q1 = 100)

Sources: Adrjan, Pawel & Reamonn Lydon (2022), *Wage Growth in Europe: Evidence From Job Ads* – Central Bank of Ireland - Economic letter - Vol 2022, No. 7 (November) and ECB.
Latest observation: 2022 Q2 for negotiated wages and October 2022 for Indeed data.

Source: Eurostat and ECB calculations.
Notes: Compensation per employee is deflated using the HICP.
Latest observation: 2022Q2.
Labour scarcity constrains production amid historically tight labour markets

### Unemployment and vacancies

(left-hand scale: percentages; right-hand scale: ratio)

Sources: Eurostat, Haver Analytics and ECB staff calculations.

Notes: Eurostat vacancies are reported only in firms with 10 or more employees in France. Latest observations: 2022 Q2.

### Limits to production – shortage of labour

(percentage balances)

Source: European Commission.

Notes: Survey in industry and the services sector: percentage of firms who indicate labour shortages as limits on production and business. Latest observation: 2022 Q3 (August 2022).
Thank you for your attention!