



EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area economic outlook

Panel session “Global Economic Outlook”
organised by the National Association for
Business Economics (NABE)

2023 ASSA Annual Meeting, New Orleans

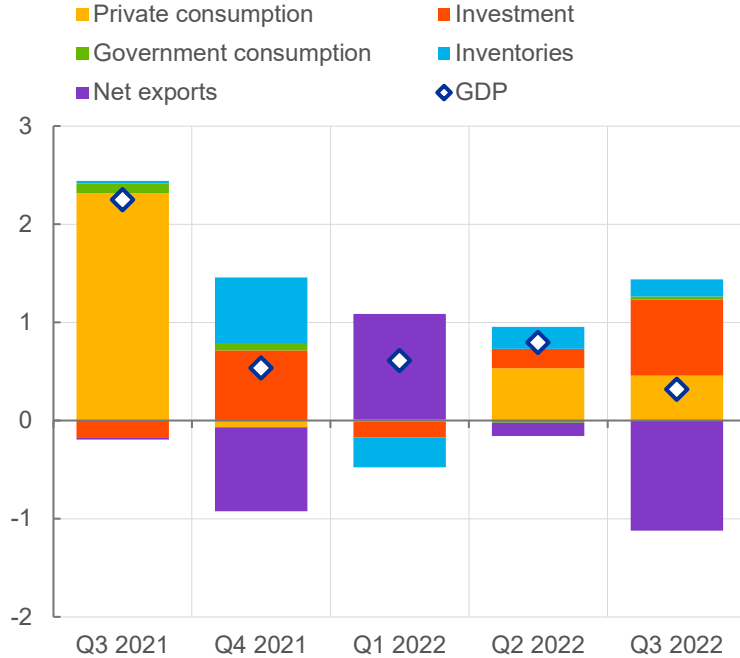


6 January 2023

Philip R. Lane
Member of the Executive Board

GDP decomposition

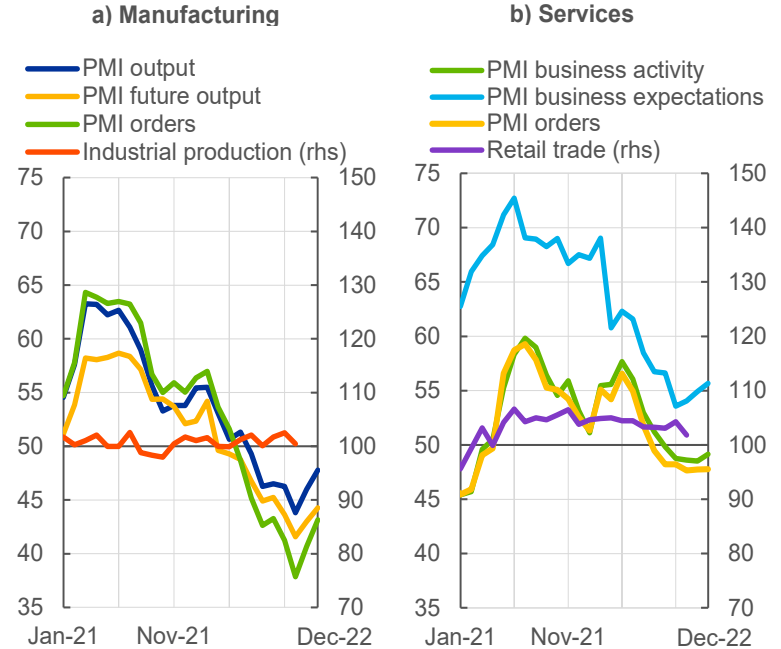
(year-on-year percentage change and percentage point contributions)



Sources: Eurostat and ECB calculations.

Manufacturing and services

(diffusion indices; indices: February 2020 = 100)

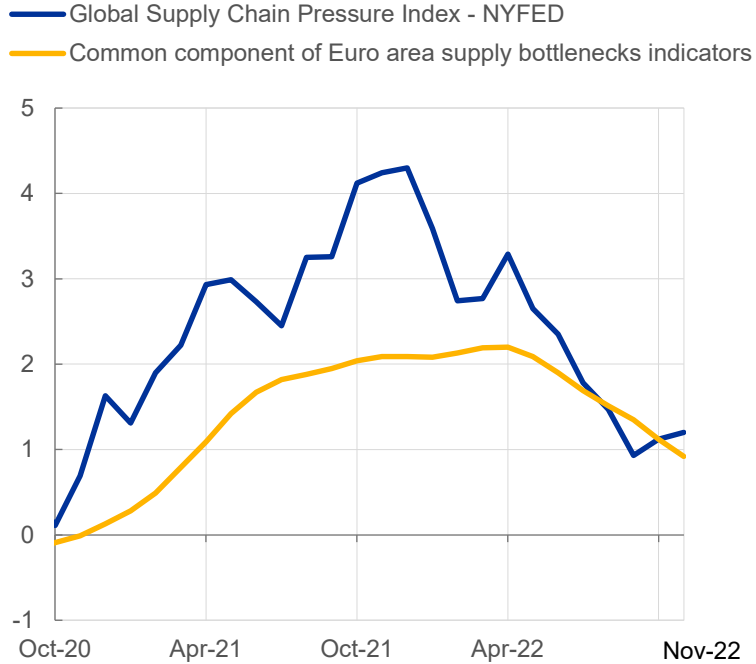


Sources: S&P Global and Eurostat.

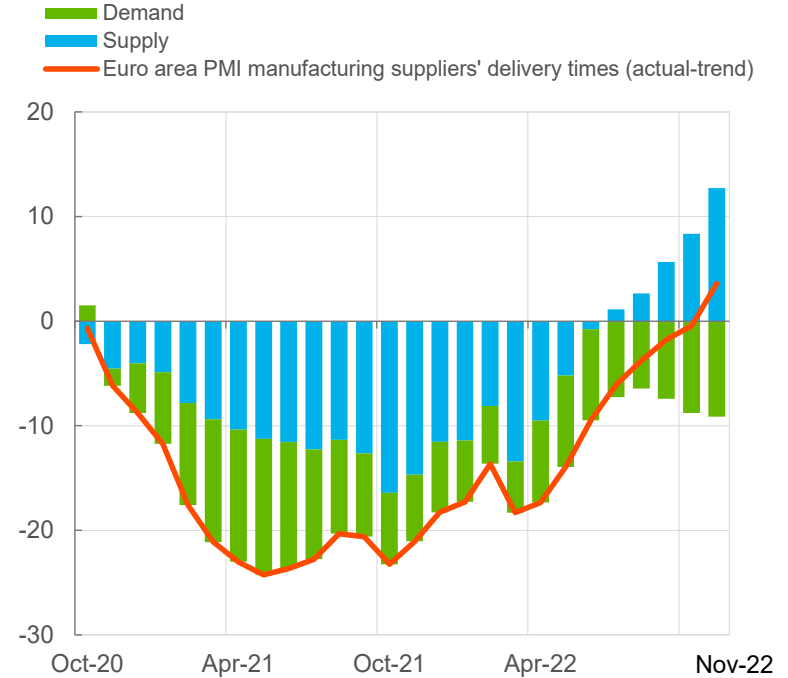
The latest observations are for December 2022 for PMIs and October 2022 for industrial production and retail trade.

Supply bottlenecks

Supply bottlenecks indicators (standard deviations)



Decomposition of suppliers' delivery times (diffusion index in deviation from trend)



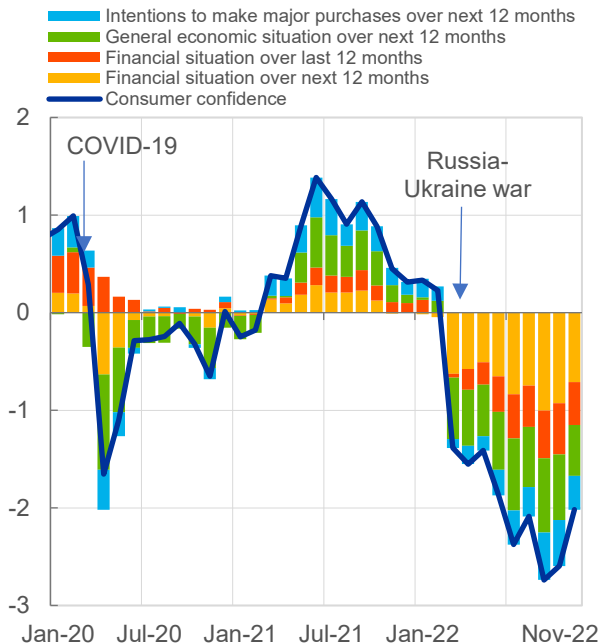
Sources: Federal Reserve Bank of New York (NYFED), S&P Global, Harper Petersen (HARPEX) shipping cost index, European Commission, Eurostat and ECB calculations.

Notes: The common component in the left panel is computed using a dynamic factor model analysis on a range of supply bottlenecks indicators (see "Supply chain bottlenecks in the euro area and the United States: where do we stand?", *Economic Bulletin*, Issue 2, ECB, 2022). The SVAR model in the right panel shows the contribution of aggregate demand (due to demand and interest rate shocks) and aggregate supply forces (due to supply-chain disruption, energy and other cost-push shocks), see also De Santis, R., *Economic Bulletin*, Issue 8, ECB, 2021. The model is identified using sign and narrative restrictions as in Antolín Díaz, J. and Rubio-Ramírez, J.F., "Narrative Sign Restrictions for SVARs", *American Economic Review*, Vol. 108, No 10, 2018, pp. 2802-2829.

The latest observations are for November 2022.

Household expectations

(standardised percentage balances; contributions)



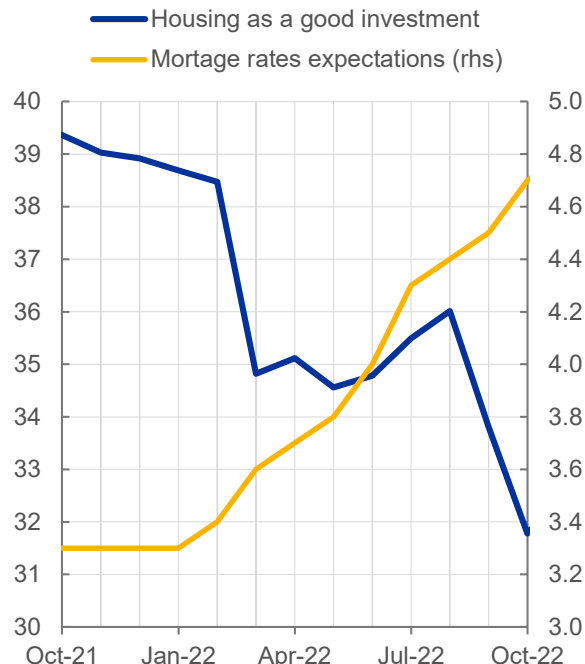
Source: European Commission and ECB calculations.

Note: The indicators are standardised using the mean and standard deviation over the period from January 2000 to November 2020.

The latest observation is for November 2022.

CES housing market perceptions

(percentage)



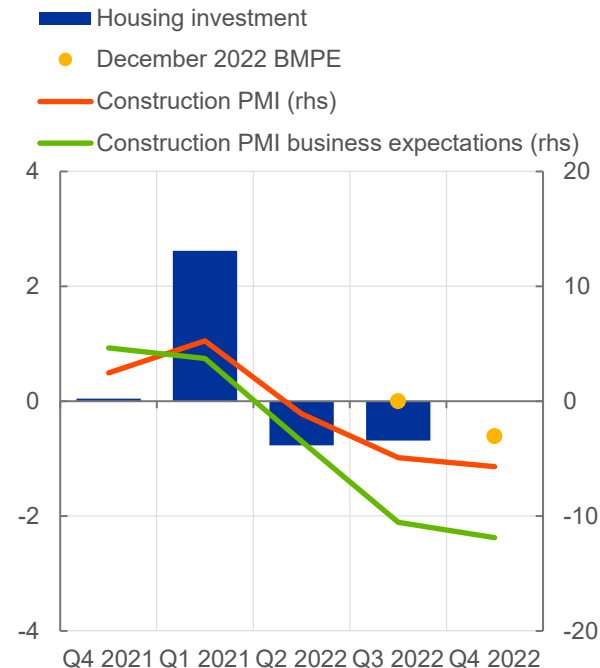
Source: ECB Consumer Expectations Survey (CES).

Notes: The blue line shows the percentage of respondents who say housing is a good or very good investment. The yellow line shows the mean of the responses to the question: "In 12 months from now, what do you think will be the interest rate on mortgages in the country you currently live in?"

The latest observation is for October 2022.

Housing investment

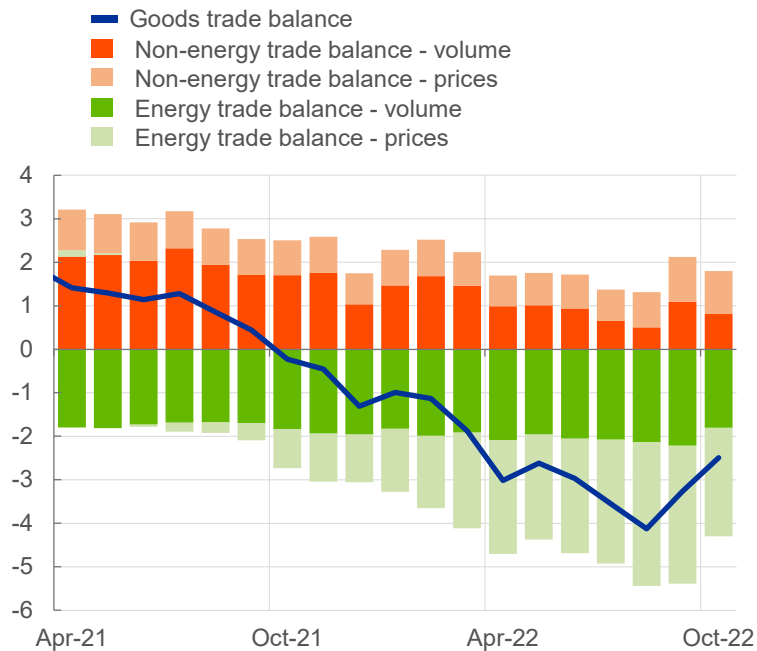
(quarter-on-quarter percentage changes; balances indicators)



Sources: Eurostat, S&P Global and December 2022 Broad Macroeconomic Projection Exercise (BMPE).

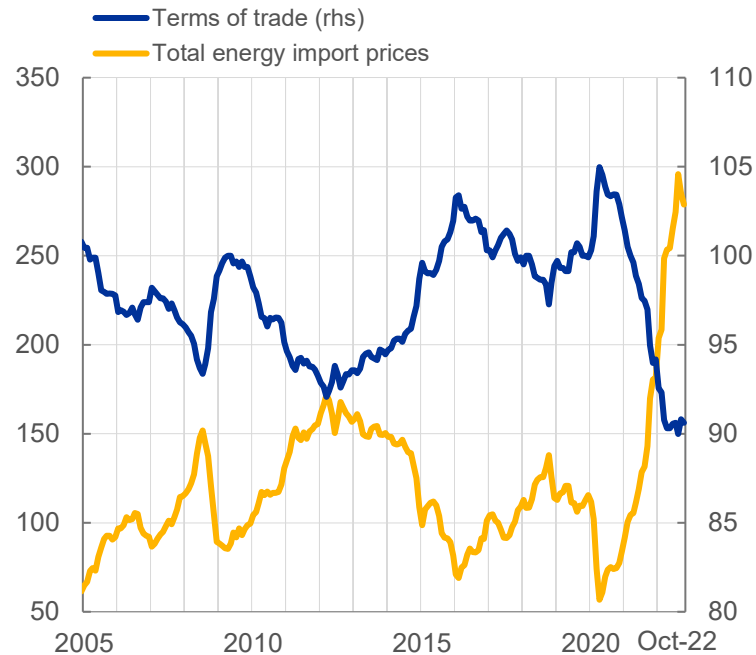
Note: The PMI indicators are expressed as a difference from 50. The latest observations are for the third quarter of 2022 for housing investment and the fourth quarter of 2022 for PMIs (based on October and November data).

Goods trade balance (in percentages of GDP)



Euro area terms of trade and energy import prices

(left-hand scale: index, right-hand scale: ratio)



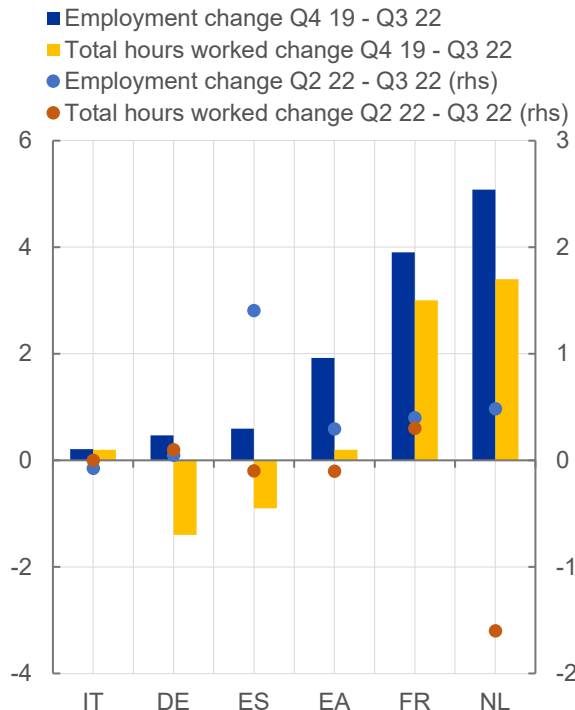
Sources: Eurostat, ECB and ECB calculations.

Note: The volume component is calculated by dividing nominal imports and exports by import and export price growth with respect to 2010, for energy and non-energy sectors. The GDP for the fourth quarter of 2022 is forecasted. The latest observation is for October 2022.

Sources: Eurostat.

Notes: The terms of trade are expressed as the ratio of export and import prices. The latest observations are for October 2022.

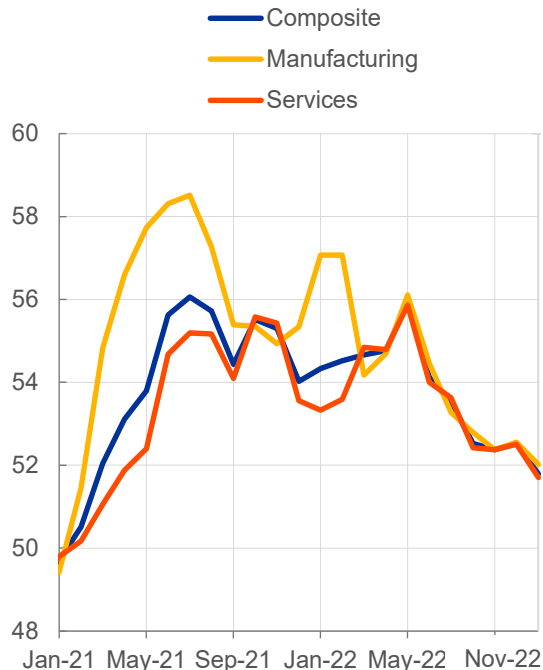
Employment growth (percentage changes)



Sources: Eurostat and ECB calculations.

Note: The chart shows the cumulative percentage change between the fourth quarter of 2019 and the third quarter of 2022 and the quarter-on-quarter percentage change between the second and third quarters of 2022. Countries ranked in ascending order of employment growth for the period from the fourth quarter of 2019 to the third quarter of 2022.

PMI assessment of employment (diffusion index)

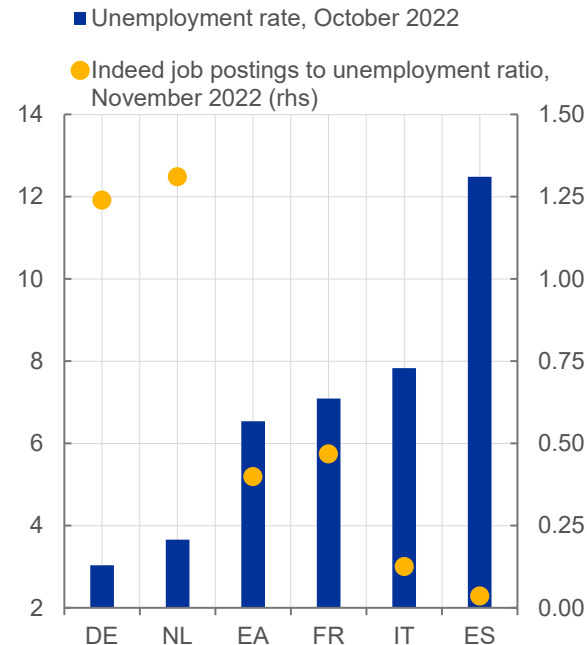


Source: S&P Global Market Intelligence.

The latest observation is for November 2022.

Ratio of *indeed* job postings to unemployment

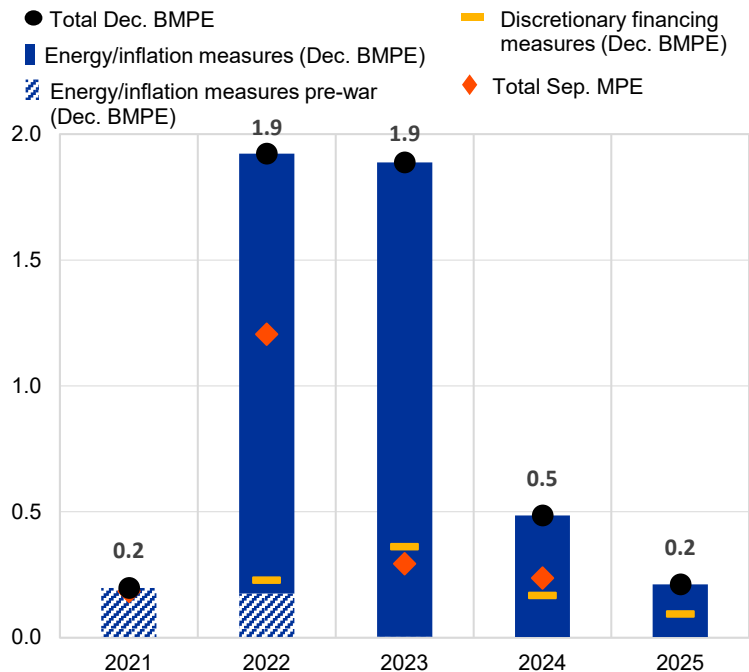
(left-hand scale: percentage of the labour force; right-hand scale: job postings per unemployed person)



Sources: *Indeed*, Eurostat and ECB calculations.

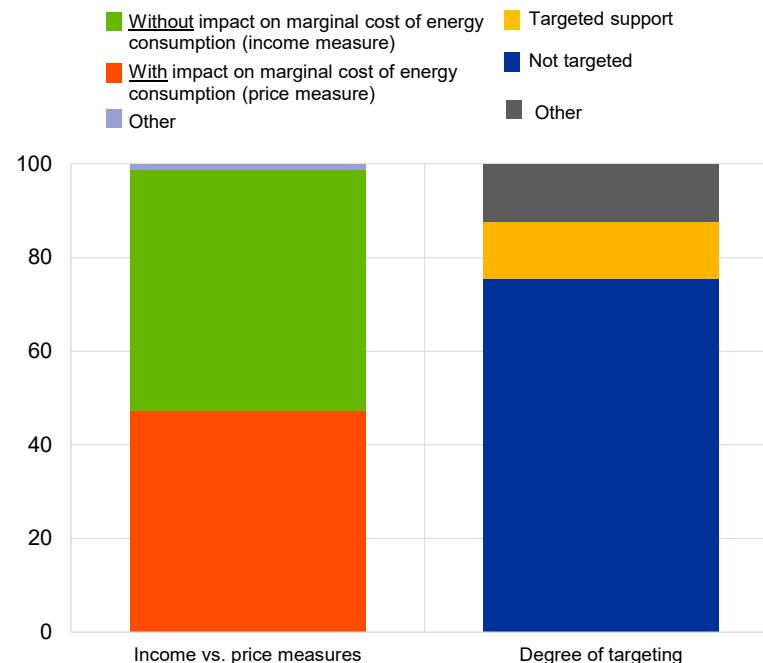
Notes: *Indeed* job postings to unemployment ratio based on the largest five euro area countries; job postings for November and unemployment for October. Countries ranked in ascending order of the unemployment rate.

Euro area fiscal support (percent of GDP)



Sources: December 2022 Broad Macroeconomic Projection Exercise (BMPE) and September 2022 Macroeconomic Projection Exercise (MPE), Working Group of Public Finances fiscal questionnaire.
Notes: The numbers above the bars represent fiscal stimulus (in terms of gross budget impact of measures). The yellow lines show the discretionary financing measures, which take mainly the form of taxes on energy companies and in some countries cuts in subsidies.

Euro area energy measures: price vs income and targeted vs untargeted support (percent of total support in 2022 and 2023)



Sources: Working Group of Public Finances, December 2022 BMPE and ECB calculations.
Notes: The classification of budgetary policy measures to mitigate the impact of high energy prices on households and firms is in line with the European Commission methodology and also reflects the Eurosystem staff assessment. The shares are calculated based on the total policy measures in 2022 and 2023. The category "Other" includes measures such as government purchases to fill gas storage. The degree of targeting refers to support targeted at vulnerable households and firms. For households, a measure is considered targeted if there is some form of means testing. For firms, a measure is considered targeted if it applies to specific energy-intensive activities as defined by the European Commission.

Fiscal projections and impact of the measures

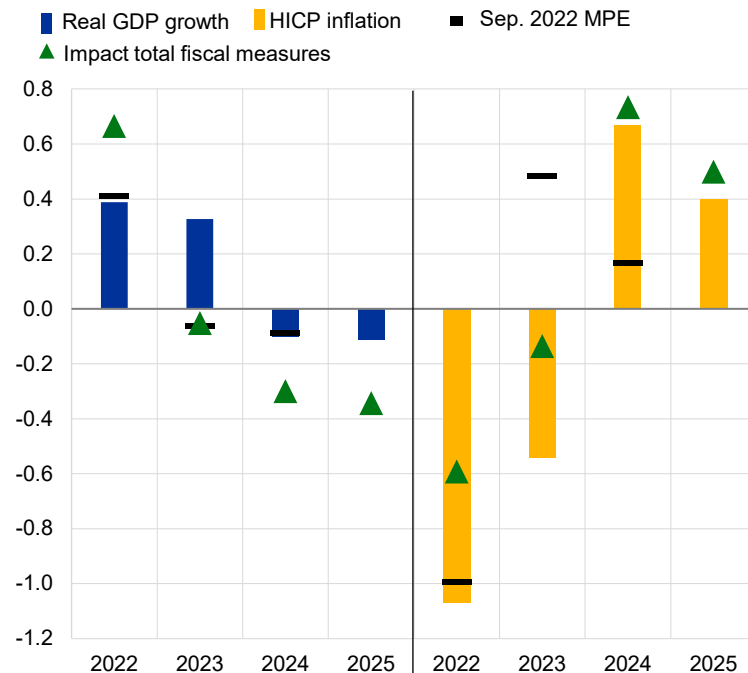
Euro area fiscal projections and revisions since September 2022 MPE (percent of GDP)

	December 2022 BMPE (percentage of GDP)							Revisions since September 2022 MPE (percentage points)			
	2019	2020	2021	2022	2023	2024	2025	2021	2022	2023	2024
Government budget balance	-0.6	-7.0	-5.1	-3.5	-3.7	-2.7	-2.6	0.0	0.3	-0.9	0.0
Interest expenditure	1.6	1.5	1.5	1.7	1.7	1.8	1.8	0.0	0.0	0.1	0.2
Primary balance	1.0	-5.5	-3.6	-1.8	-2.0	-1.0	-0.8	0.0	0.3	-0.7	0.2
Cyclical component	0.3	-2.2	-1.6	-0.4	-0.4	-0.3	-0.1	0.1	0.2	0.0	-0.1
Cyclically adjusted primary balance	0.7	-3.4	-2.0	-1.3	-1.6	-0.7	-0.7	-0.1	0.2	-0.8	0.3
Gross debt	83.9	97.0	95.3	91.5	90.6	89.2	88.0	-0.4	-0.9	-0.1	-0.7
Interest rate-growth differential	-1.2	5.4	-5.3	-5.3	-2.6	-2.8	-2.3	0.0	-0.3	0.0	-0.5
Deficit-debt adjustment	0.1	2.2	-0.1	-0.3	-0.3	0.3	0.3	-0.1	0.2	0.1	0.0
Fiscal stance	-0.4	-4.2	1.0	0.5	-0.3	1.0	0.1	-0.1	0.4	-1.0	1.0
NGEU grants	0.0	0.0	0.3	0.5	0.5	0.4	0.3	0.0	-0.1	-0.1	0.0

Sources: December 2022 BMPE and September 2022 MPE.

Notes: Fiscal stance is adjusted for Next Generation EU grants on the revenue side, which do not have a macroeconomic impact. The cyclically adjusted primary balance is not adjusted for this factor to ensure consistency with the (primary) budget balance figures.

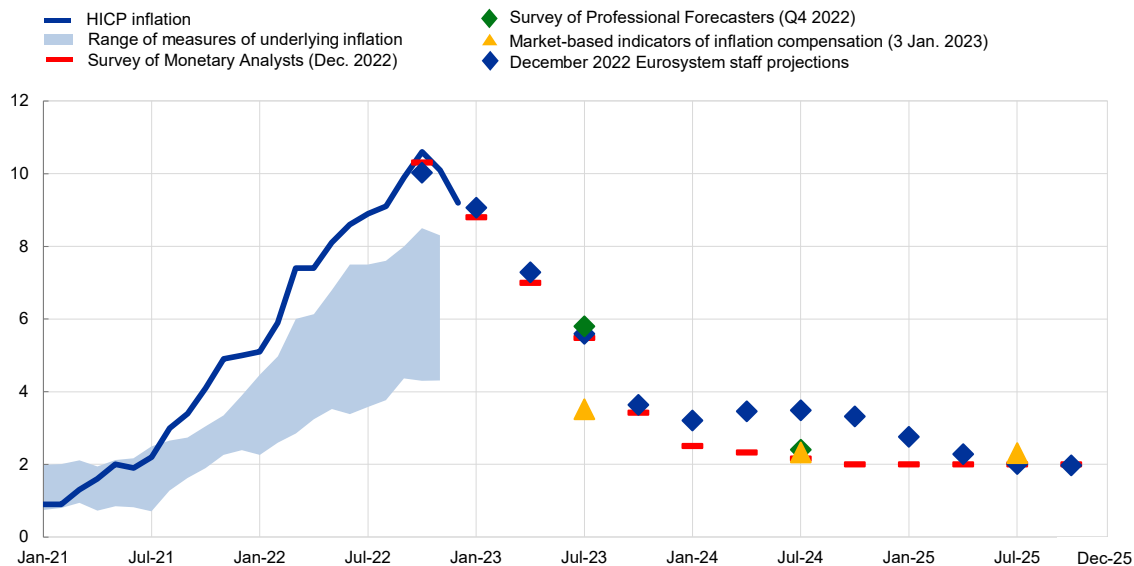
Estimated impact of fiscal support (percentage points)



Source: ECB calculations based on structured questionnaire of Working Group of Forecasting.

Notes: The bars show the impact of the energy support measures. The green triangles show the impact of all discretionary fiscal measures included in the December 2022 BMPE baseline.

Headline inflation, measures of underlying inflation, and inflation projections and expectations (annual percentage changes)

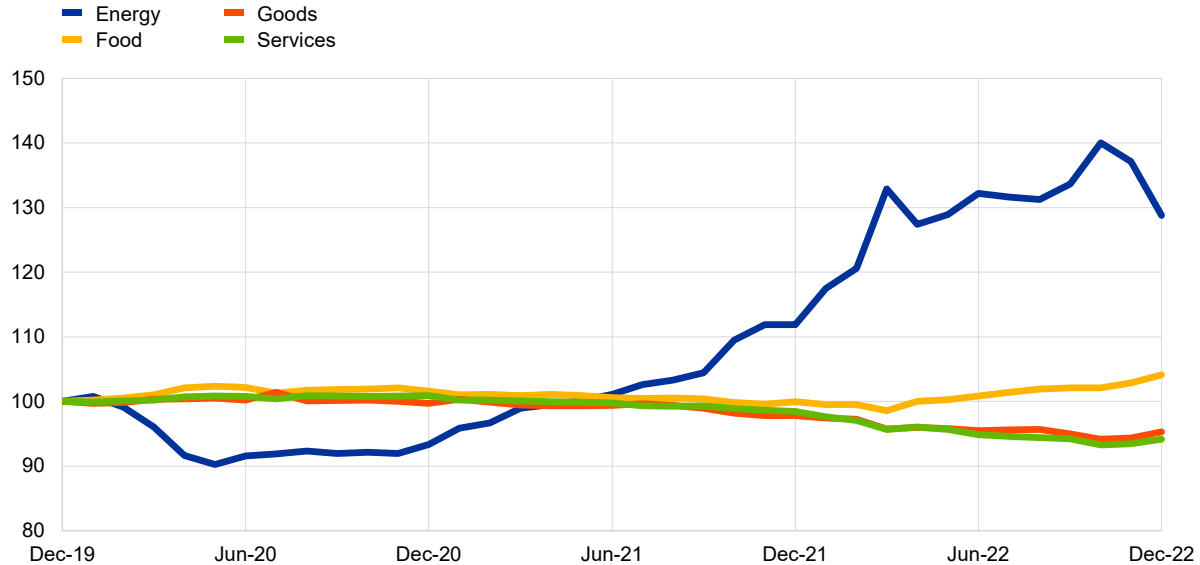


Sources: Eurostat and ECB calculations.

The latest observations are December 2022 (flash) for HICP and November 2022 for the range of measures of underlying inflation. The latest observations for market-based indicators of inflation compensation are for 3 January 2023. The SPF data show expected annual percentage changes for the year 2022, 2023 and 2024. The Survey of Monetary Analysts and the September 2022 ECB staff projections show quarterly forecasts. The cut-off date for data included in the Eurosystem staff macroeconomic projections was 30 November.

Price developments relative to HICP for different subcomponents

(index: December 2019 = 100)

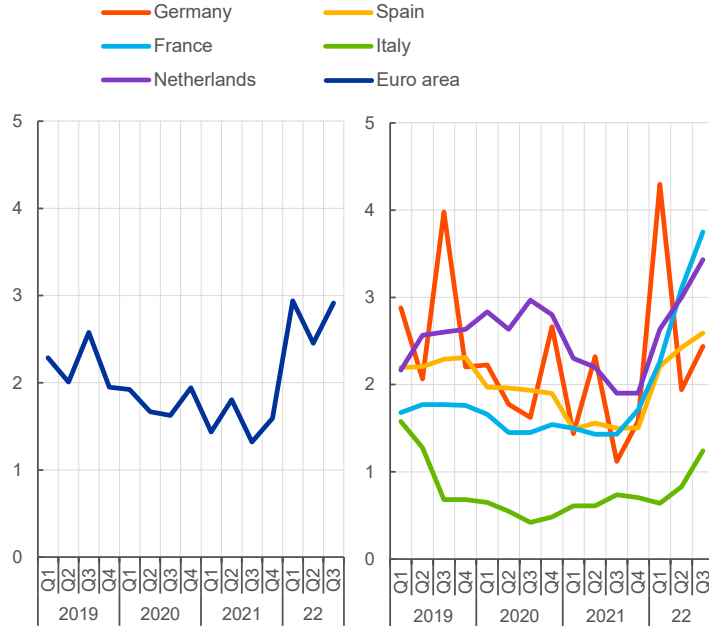


Source: Eurostat.

Notes: Seasonally adjusted data for HICP, food, goods and services. Seasonally adjusted series for energy are not available. The goods category here only includes non-energy industrial goods (NEIG).

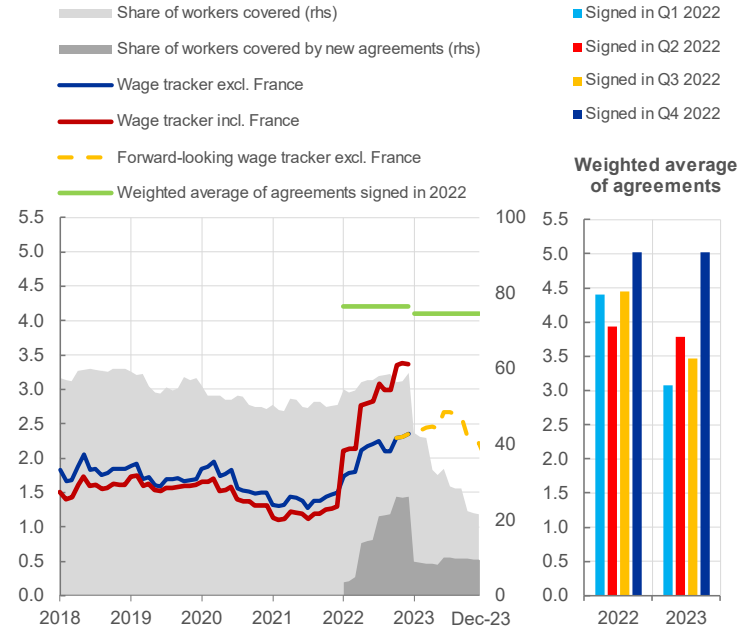
The latest observations are for December 2022 (flash).

Negotiated wage growth in the euro area and the largest countries (annual percentage changes)



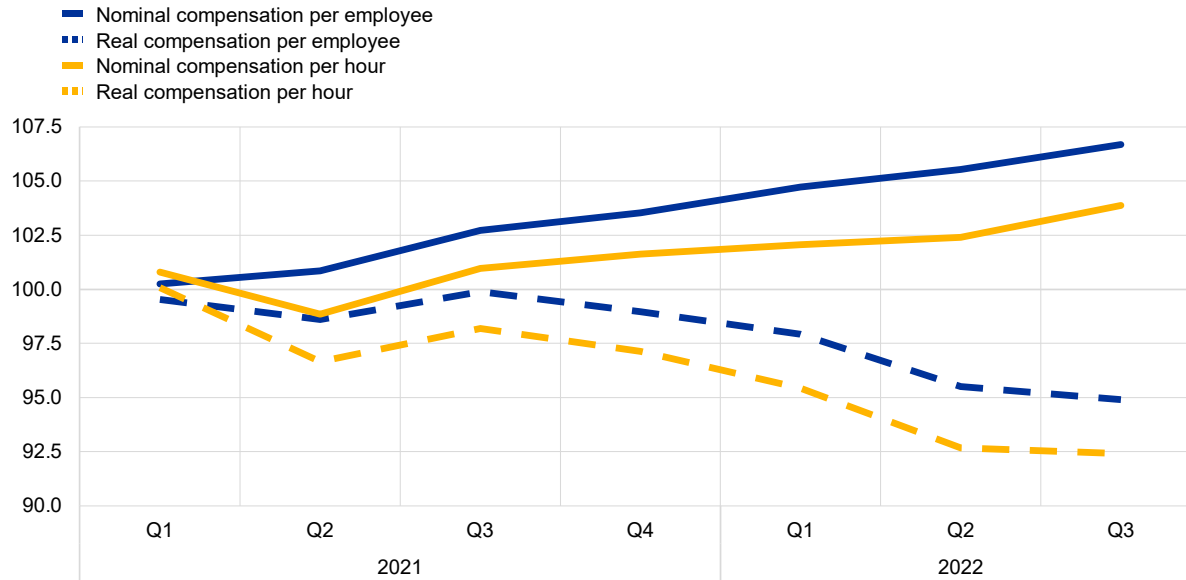
Source: ECB.
The latest observation is for the third quarter of 2022.

Forward-looking wage tracker (annual percentage changes)



Sources: Calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Oesterreichische Nationalbank, Bank of Greece, Banca d'Italia and Banque de France. Data for France are based on an updated version of: Gautier, E. (2022): "Negotiated wage rises for 2022: the results so far".
Notes: Euro area aggregate based on Germany, Greece, Spain, France, Italy, Austria and Netherlands as of December 2022. In the bar chart, for France, the average wage increase across quarters is used.

Nominal and real wage growth (consumer wages) (index: Q4 2020 = 100)

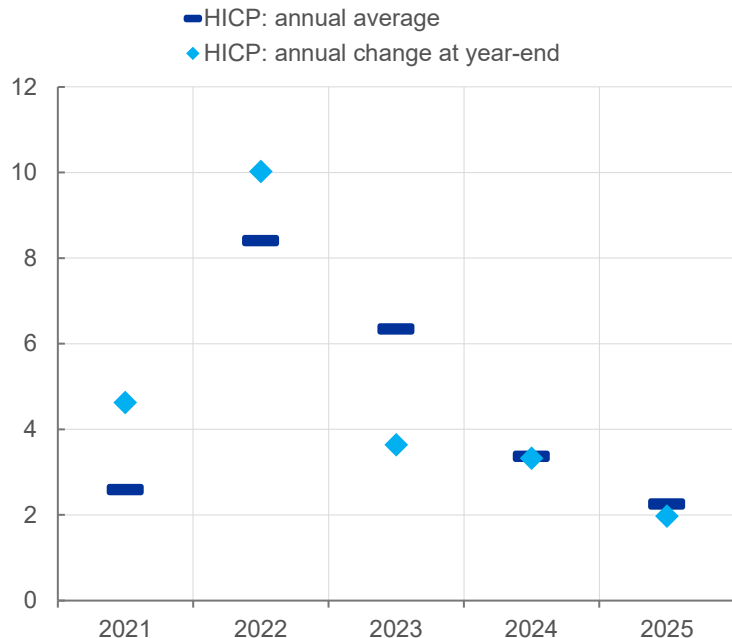


Sources: Eurostat and ECB staff calculations.

Notes: Real compensation per employee and per hour are calculated using HICP (consumer wages).
The latest observations are for the third quarter of 2022.

December 2022 Eurosystem staff macroeconomic projections: inflation

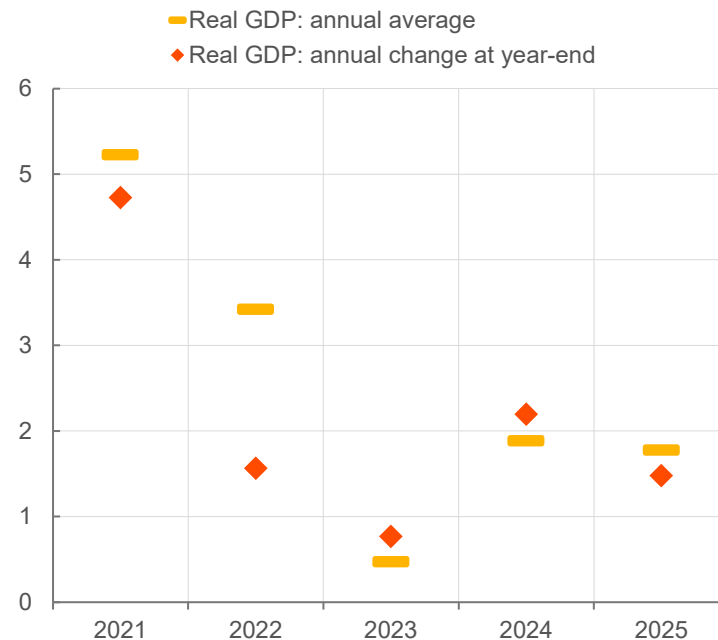
(annual percentage changes)



Source: December 2022 BMPE projections.

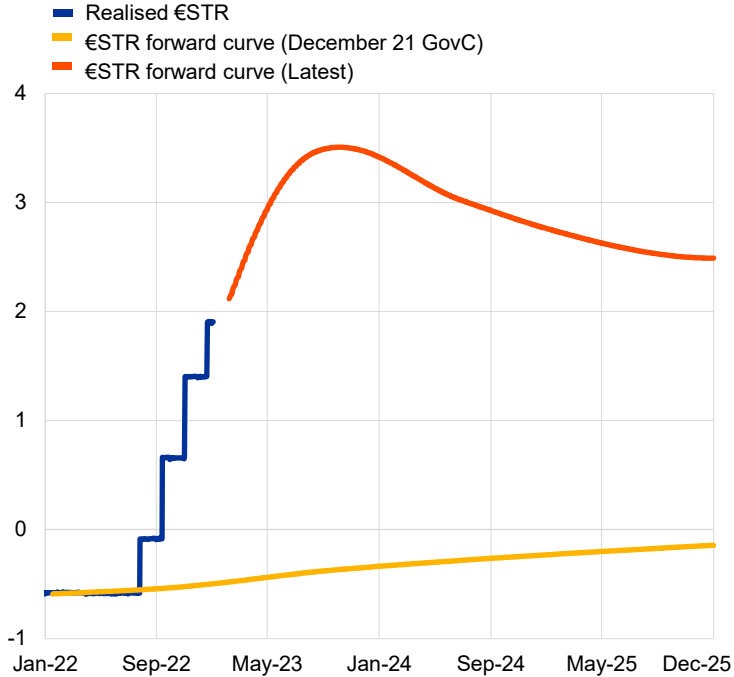
December 2022 Eurosystem staff macroeconomic projections: real GDP

(annual percentage changes)



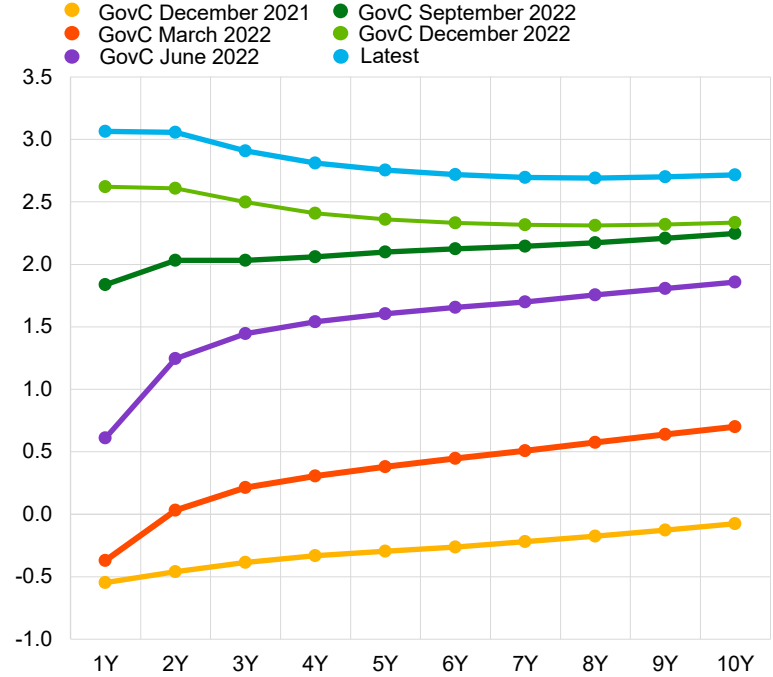
Source: December 2022 BMPE projections.

€STR forward curve (percentages per annum)



Sources: Bloomberg, Refinitiv, and ECB calculations.
The latest observation is for 3 January 2023.

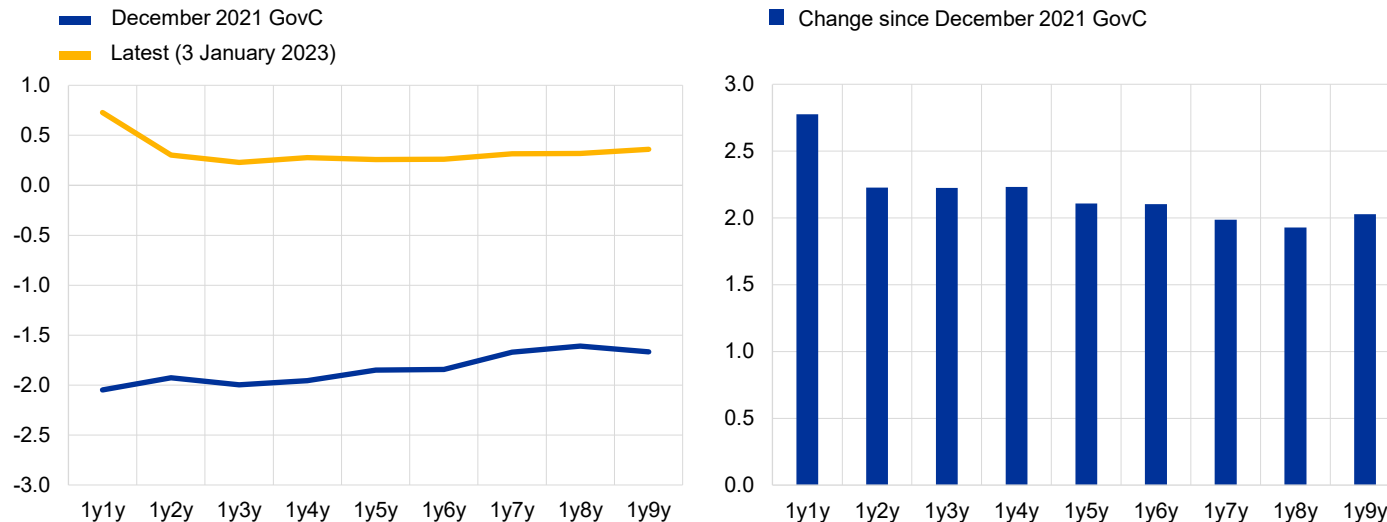
OIS term structure (percentages per annum)



Source: ECB calculations.

Notes: The curves for the Governing Councils meetings refer to the day before the respective Governing Council meeting.
The latest observation is for 3 January 2023.

Term structure of real forward rates (percentages per annum)



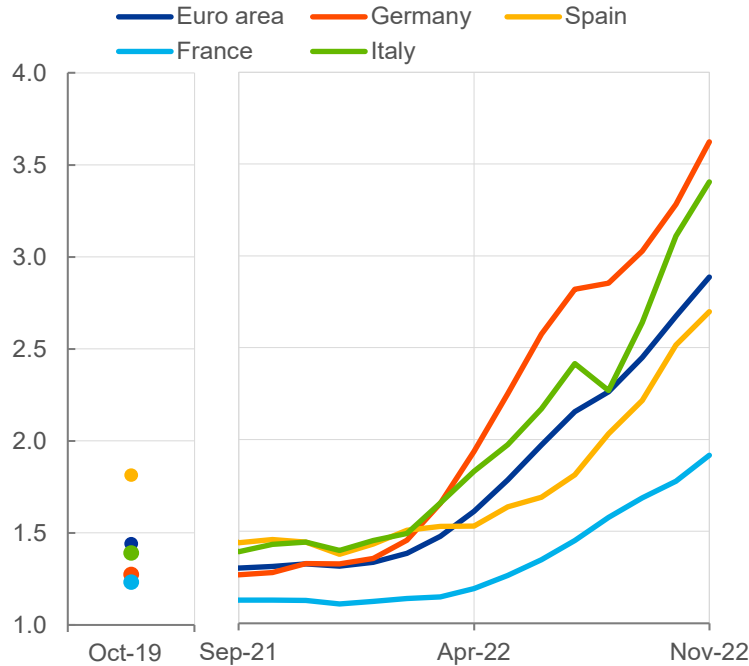
Sources: Refinitiv and ECB calculations.

Notes: Real forward rates are calculated by subtracting the inflation-linked swap forward rates from the nominal OIS forward rates for each maturity. The blue curve refers to the day before the December 2021 Governing Council meeting (14 Dec 2021). The latest observation is for 3 January 2022.

Cost of borrowing: households and firms

Cost of borrowing for households for house purchase

(percentages per annum)



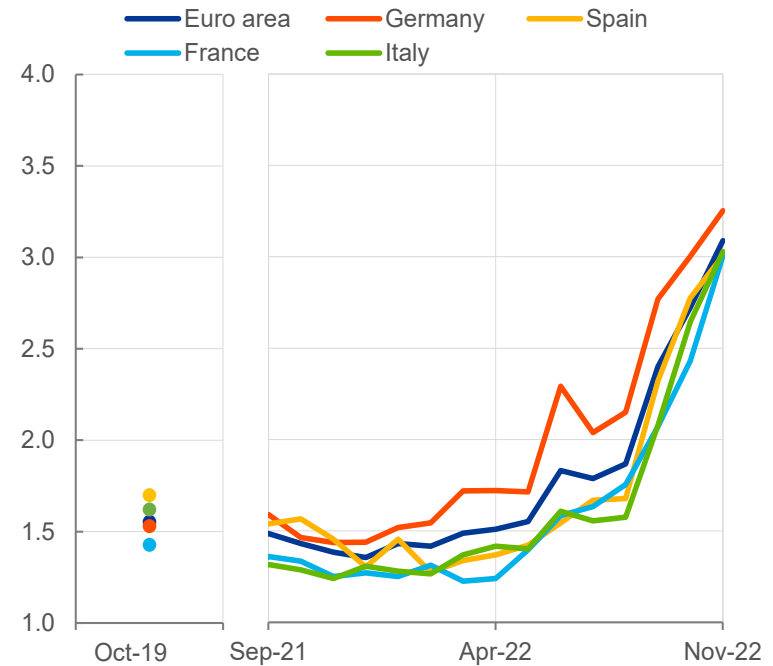
Source: ECB (MIR statistics).

Notes: The indicator for the total cost of borrowing for households for house purchase is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

The latest observation is for November 2022.

Cost of borrowing for firms

(percentages per annum)



Source: ECB (MIR statistics).

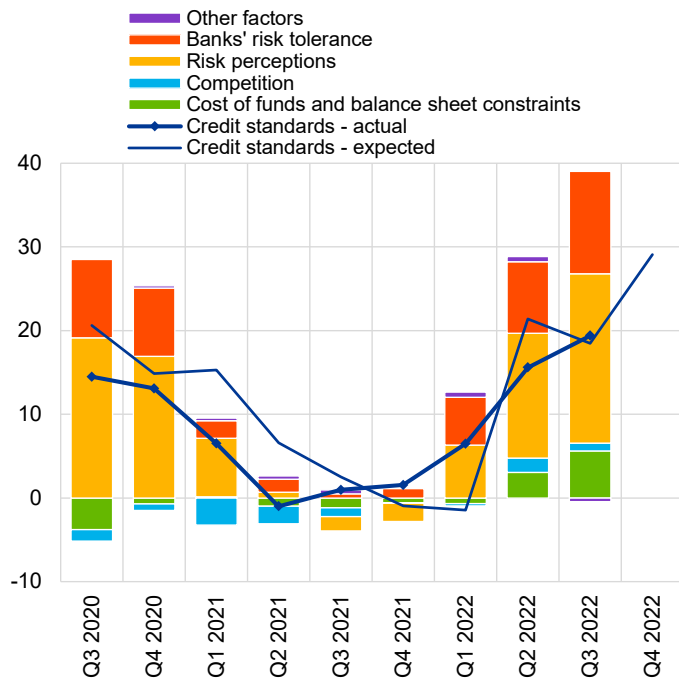
Notes: The indicator for the total cost of borrowing for firms is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

The latest observation is for November 2022.

Bank lending survey: loans to euro area firms

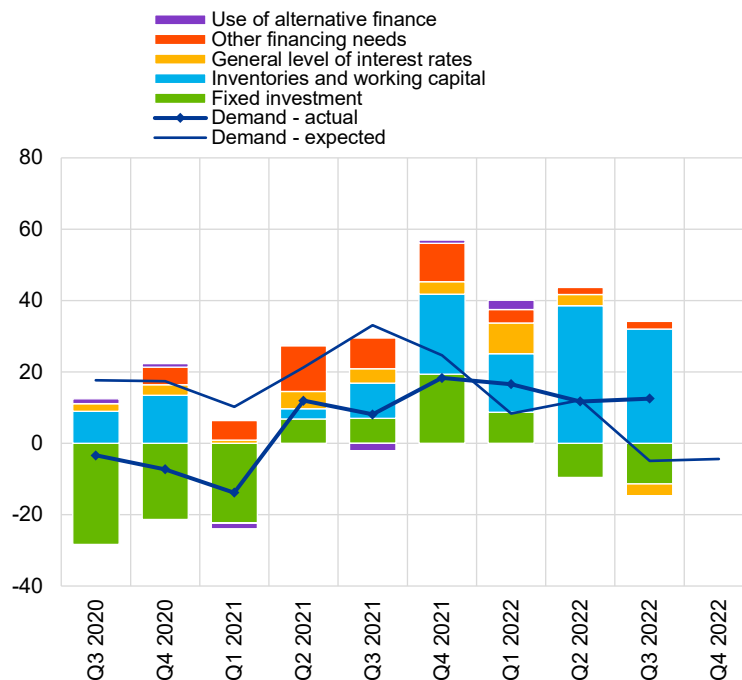
Credit standards and contributing factors

(net percentages)



Demand for loans and contributing factors

(net percentages)



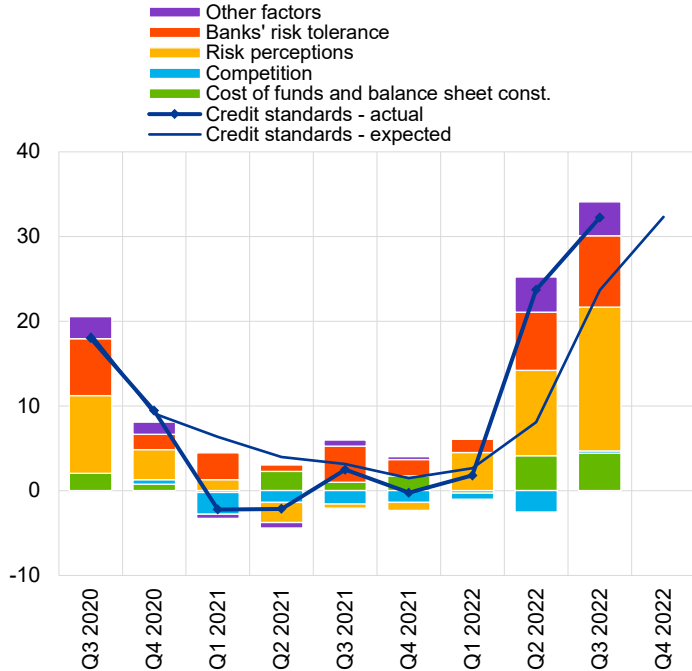
Source: ECB bank lending survey (BLS).

Notes: "Actual" values refer to changes reported by banks over the past three months, while "expected" values are changes anticipated by banks over the next three months. Net percentages for the questions on credit standards are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". 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". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards. The latest observation is for the October 2022 BLS.

Bank lending survey: loans to euro area households for house purchase

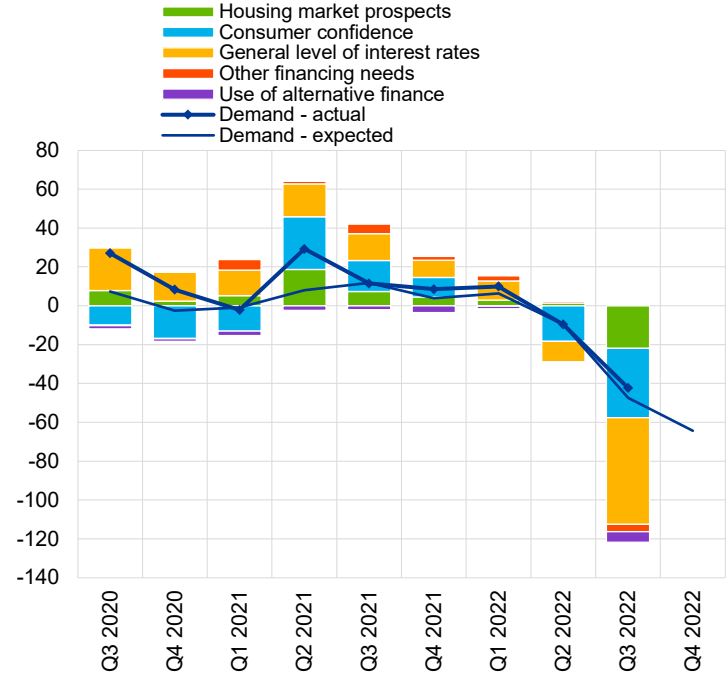
Credit standards and contributing factors

(net percentages)



Demand for loans and contributing factors

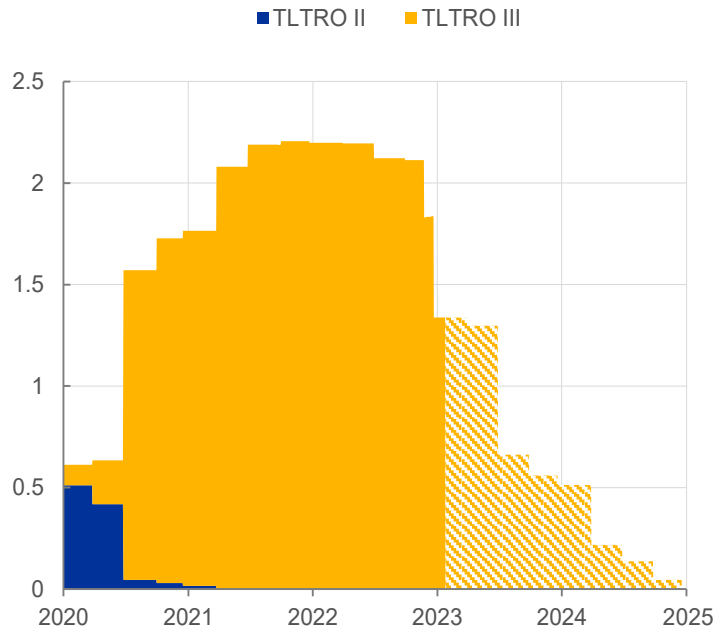
(net percentages)



Source: ECB bank lending survey (BLS).

Notes: "Actual" values refer to changes reported by banks over the past three months, while "expected" values are changes anticipated by banks over the next three months. Net percentages for the questions on credit standards are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". 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". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards. The latest observation is for the October 2022 BLS.

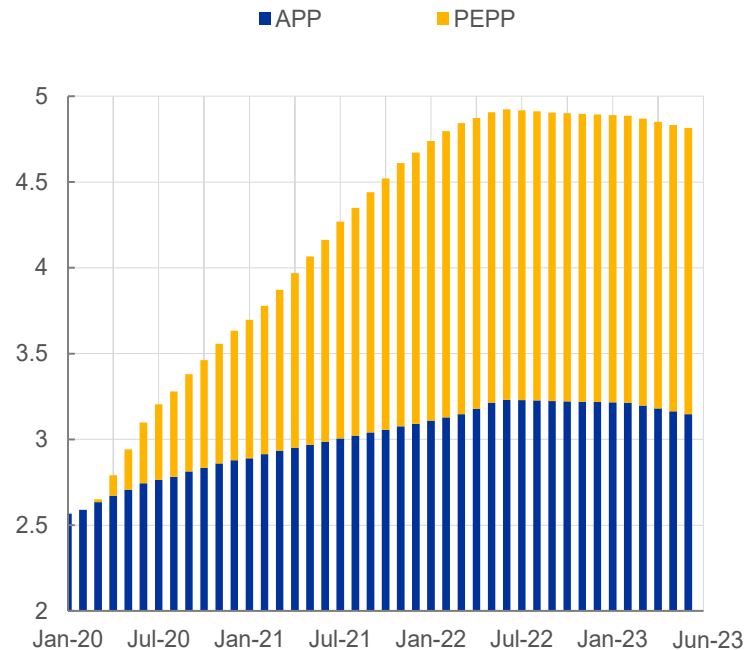
Targeted longer-term refinancing operations (EUR trillion)



Source: ECB.

Notes: Blue and yellow areas show outstanding amounts under the targeted longer-term refinancing operations (TLTROs) in book amortised values. The solid yellow area depicts a full repayment of all operations on the earliest possible date (25 January 2023). The shaded yellow area shows the evolution of TLTROs if all funds are held until maturity. The latest observation is for 3 January 2023.

APP and PEPP portfolio holdings (EUR trillion)



Source: ECB.

Notes: Blue and yellow bars show holdings under the asset purchase programme (APP) and pandemic emergency purchase programme (PEPP) in book amortised values. The latest observation is for December 2022.

Interest rate policy

- *“The Governing Council decided to raise the three key ECB interest rates by 50 basis points and, based on the substantial upward revision to the inflation outlook, we expect to raise them further. In particular, we judge that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to our two per cent medium-term target.”*

Balance sheet

- *“From the beginning of March 2023 onwards, the asset purchase programme (APP) portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time.”*