

EURO AREA'S RESILIENCE AND RISKS

Rolf Strauch, Chief Economist and Management Board Member

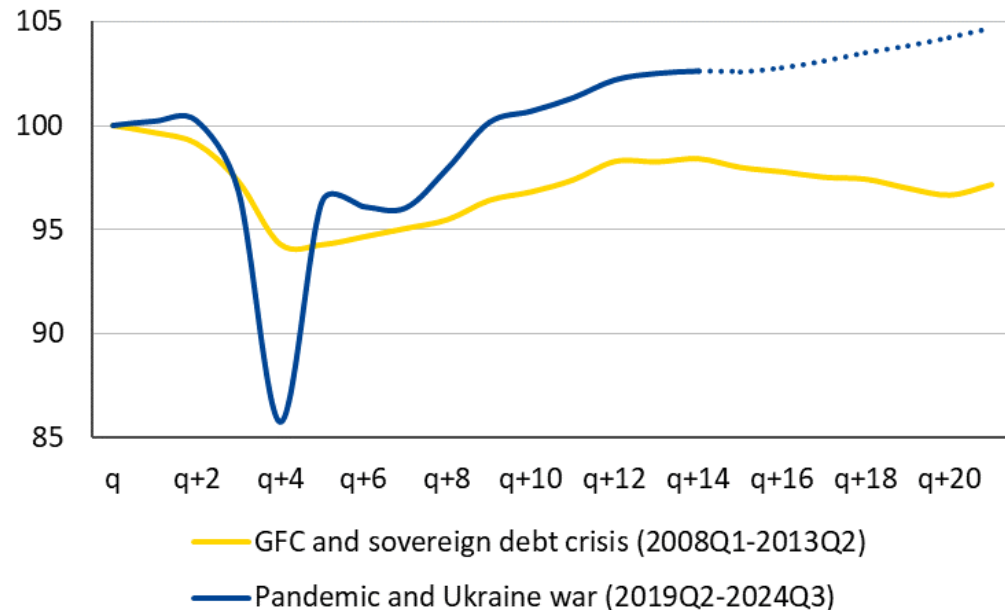
Washington, 13 April 2023



GROWTH AND BALANCE OF PAYMENTS SHOW RESILIENCE

Rebound after the pandemic on track

(Real GDP index q = 100)

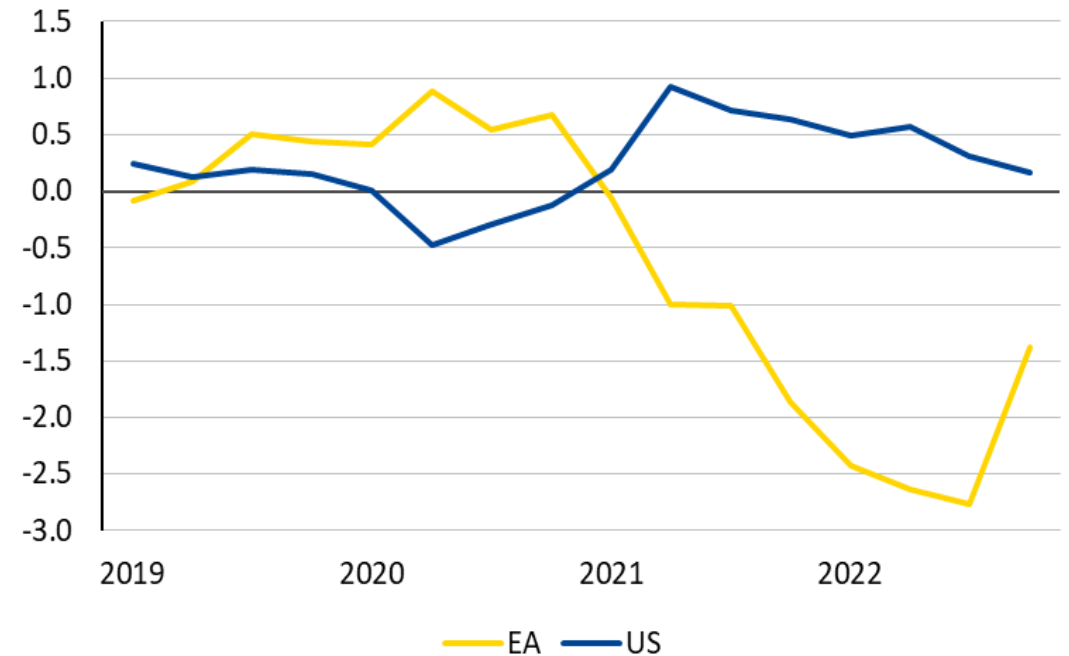


Source: ESM calculations based on Eurostat.

Note: The dashed line are forecasts from EC Winter 2023 Interim Forecast.

Income effect of terms of trade

(% of real GDP)



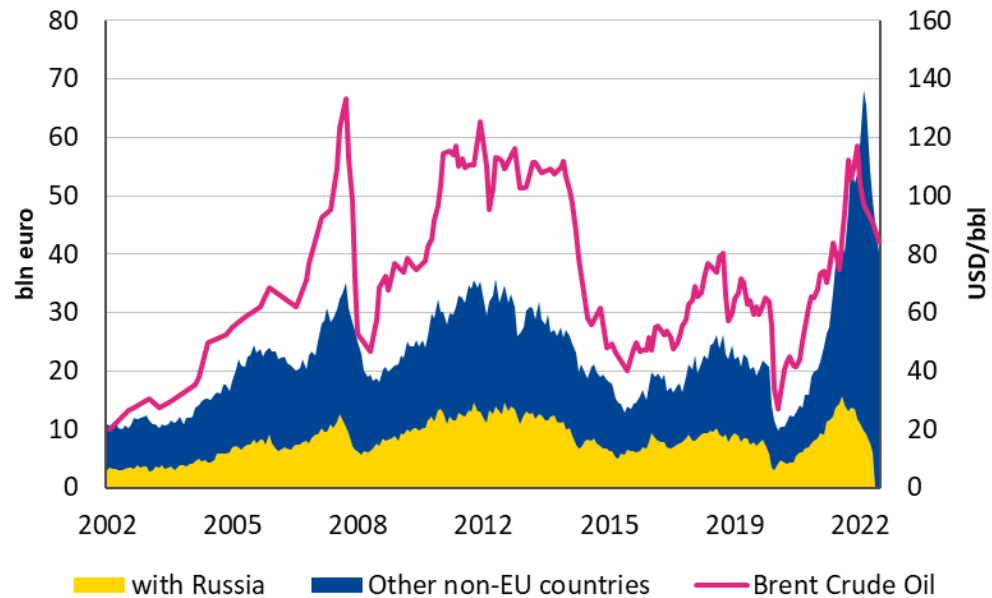
Source: ESM calculations on Eurostat, US data (Haver Analytics)

Note: Data follows AMECO definition of "APTA" series and refers to the four-quarter change in nominal exports divided by the import deflator minus real exports. The four-quarter change is divided by the four-quarter lagged real GDP. Trade data refers to goods and services trade. Latest datapoint is 2022Q4.

OVERCOMING THE ENERGY SHOCK

Cost of EU's energy imports

EU energy trade deficit and oil prices

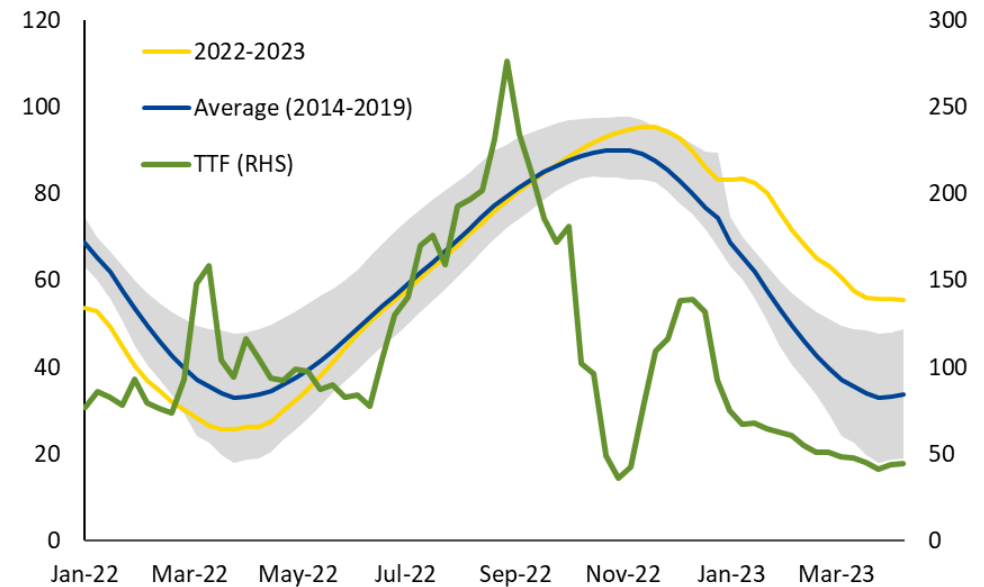


Source: Eurostat and Haver Analytics.

Note: Latest data is January 2023.

EU gas storage vs gas prices

Gas storage levels (% of capacity) and TTF gas prices (€/Mwh, RHS)

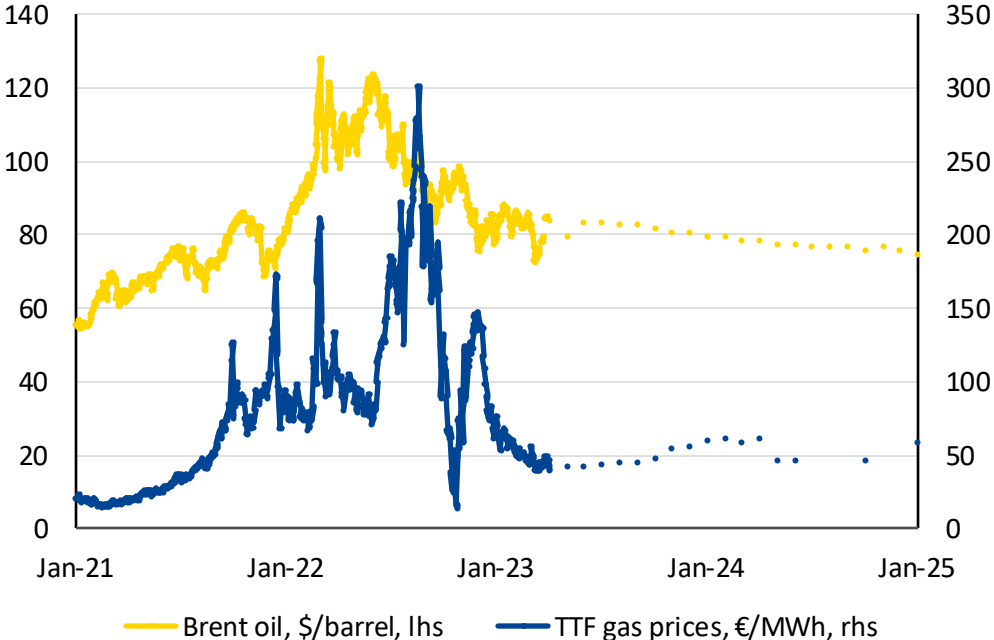


Source: Gas Infrastructure Europe/Haver Analytics and Bloomberg.

Note: The grey area represents the min-max range 2014-2019.

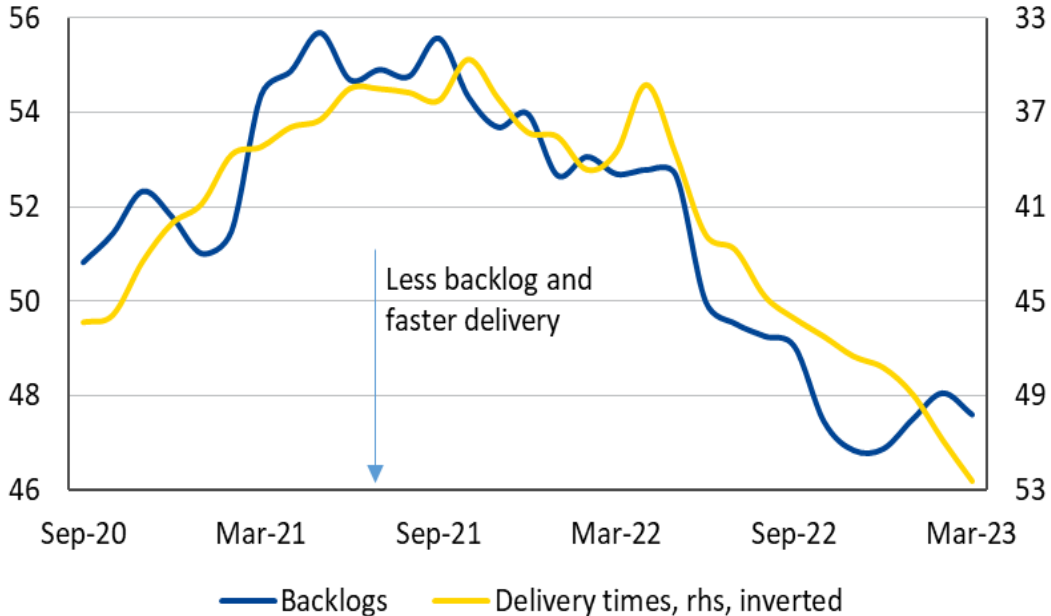
SUPPLY SIDE CONSTRAINTS ARE DIMINISHING

Energy prices and futures



Source: ESM based on Bloomberg.

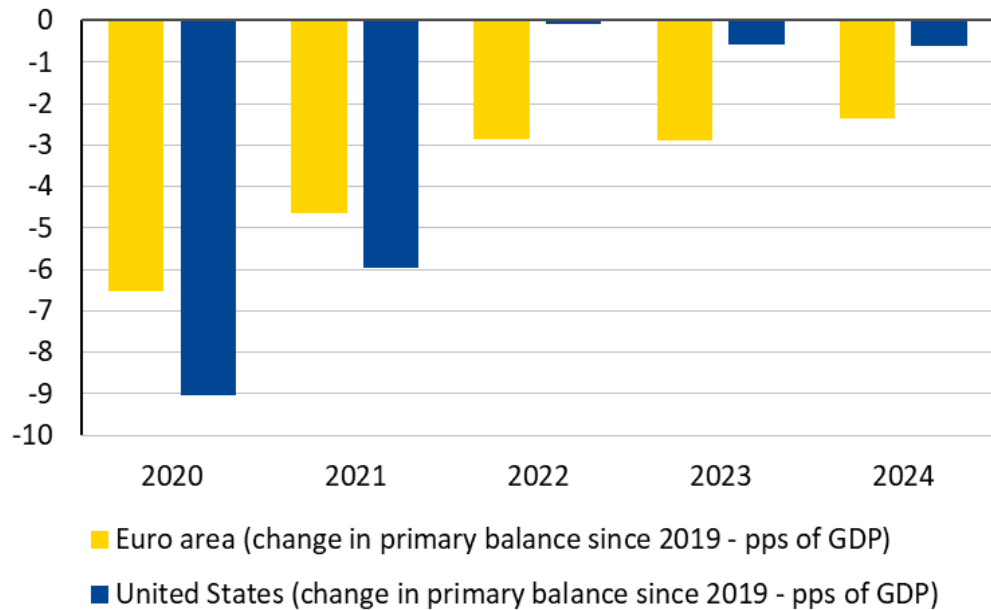
Supply bottlenecks



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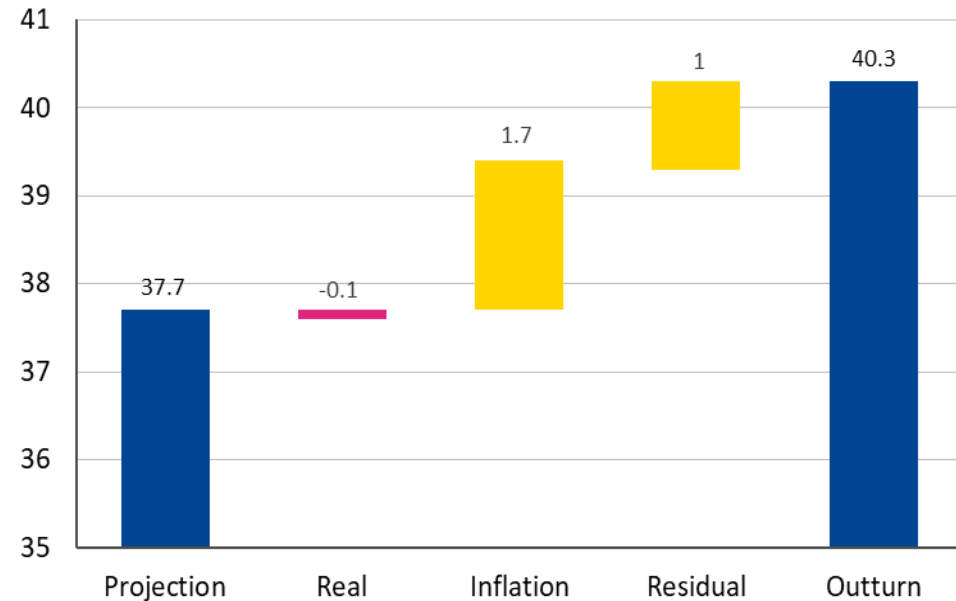
FISCAL POLICY SUPPORT IS DIMINISHING GRADUALLY

Primary fiscal balance: euro area vs US
(% GDP)



Source: European Commission Autumn 2022 forecast.

Euro area tax revenues driven by “inflation tax”
(in % of GDP)

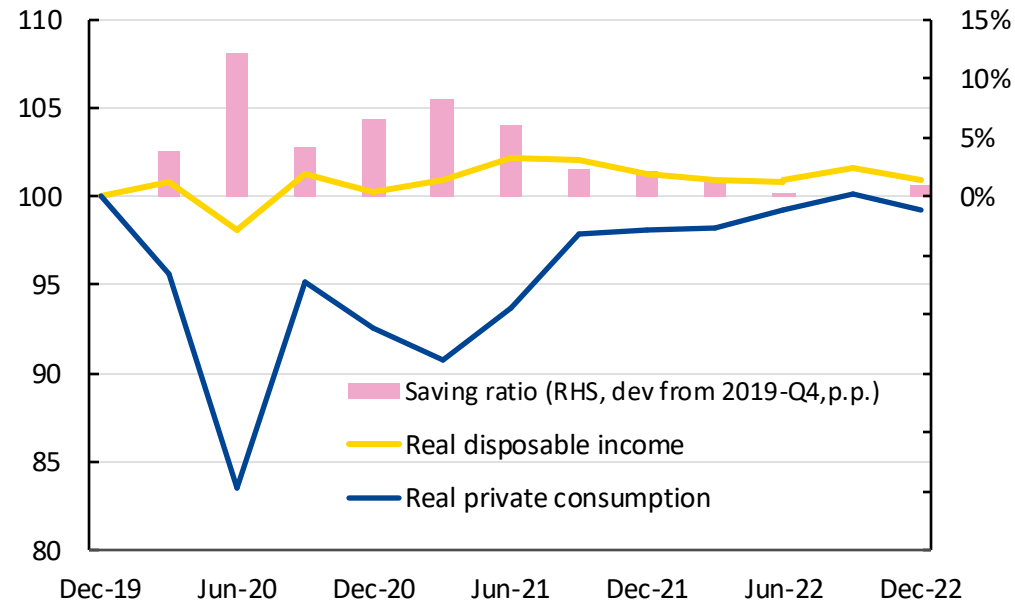


Source: ESM.

HOUSEHOLDS' INCOME, CONSUMPTION AND DEBT DYNAMICS

Resilience of income supported consumption vs high inflation

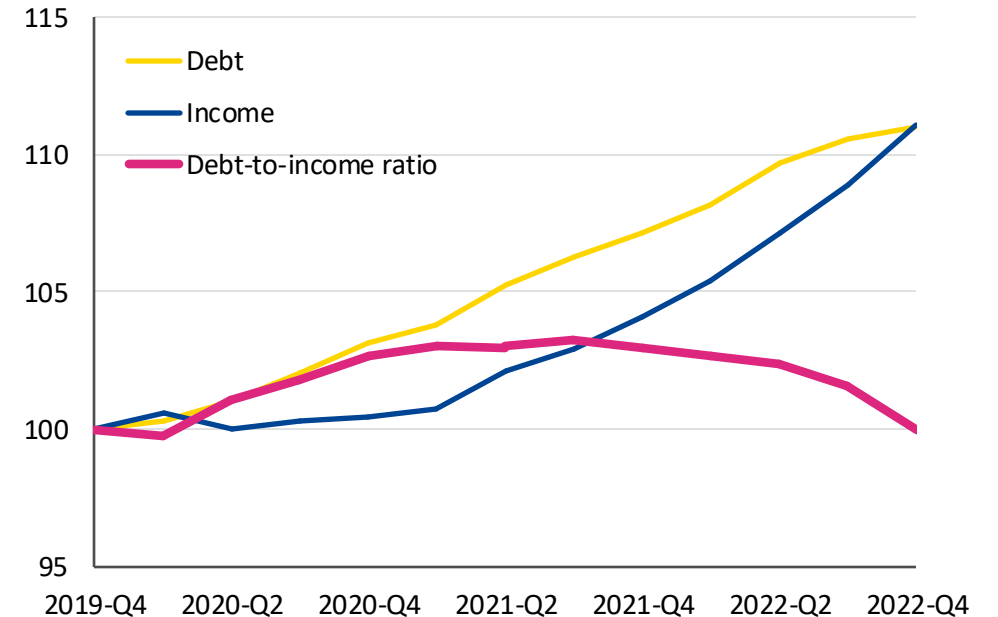
(Index 2019-Q4 = 100, saving ratio in pp deviation from 2019-Q4)



Source: ESM based on Eurostat. Real disposable income and consumption deflated using private consumption deflator

Households debt-to-income ratio back to pre-crisis levels

(Index 2019-Q4 = 100)

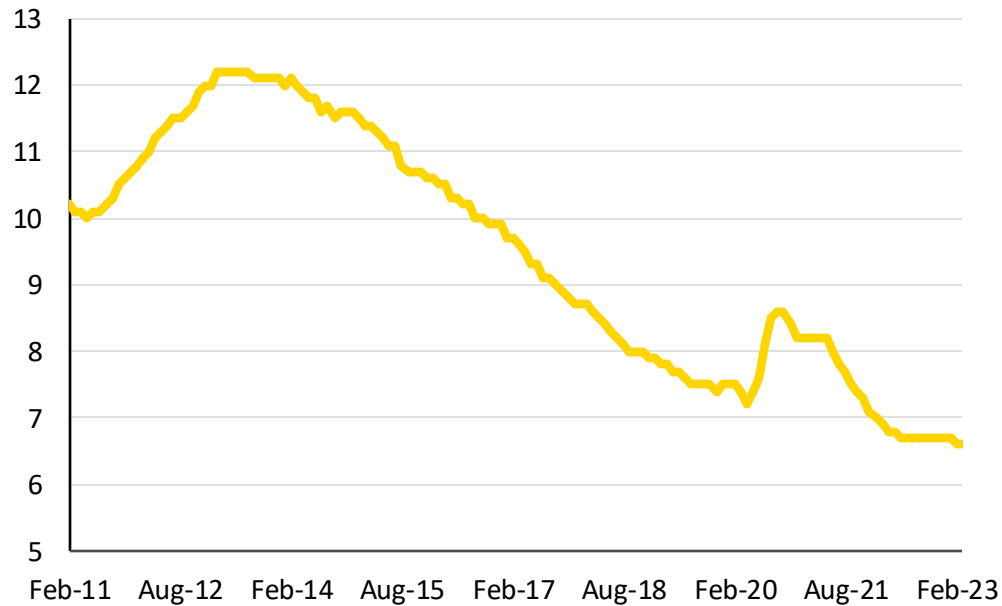


Source: ESM based on ECB and Eurostat. Note: The debt-to-income ratio is measured as a ratio of loans granted to households to the annual moving sum of adjusted gross disposable income. 2022-Q4 data is based on the first release of Quarterly Sectoral Accounts.

LABOUR MARKET REMAINS TIGHT

Unemployment reached an all-time low and remains there

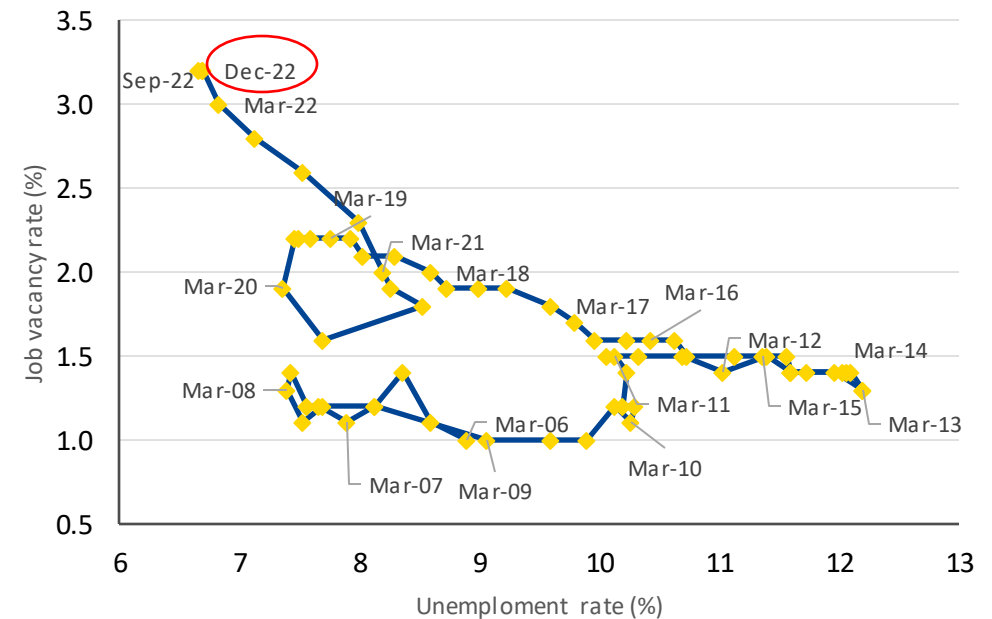
Unemployment rate (in %)



Source: Eurostat

Note: Seasonally and working day adjusted data.

Vacancy rate hovers near its historical highs
Beveridge curve

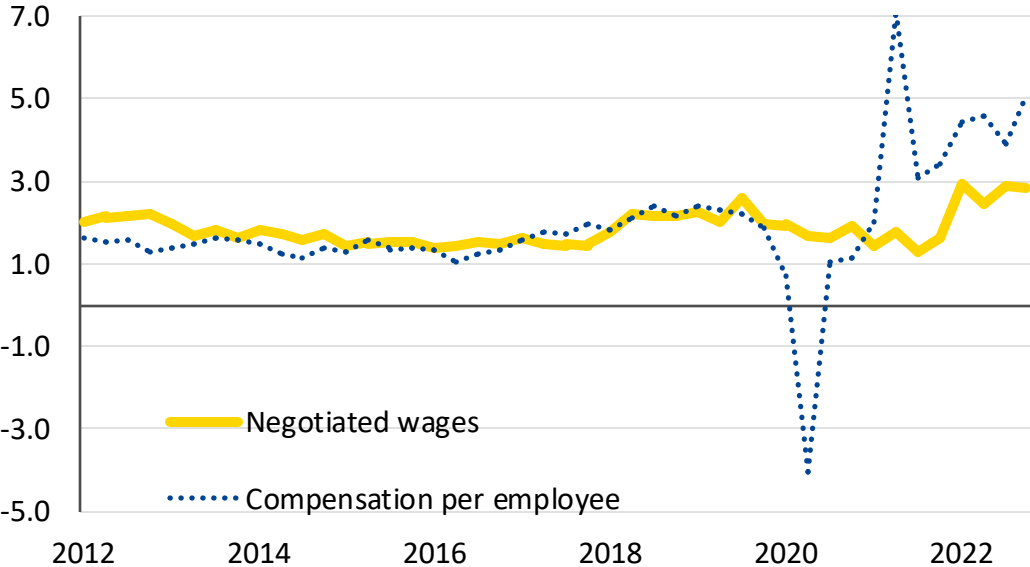


Source: ESM on Eurostat data

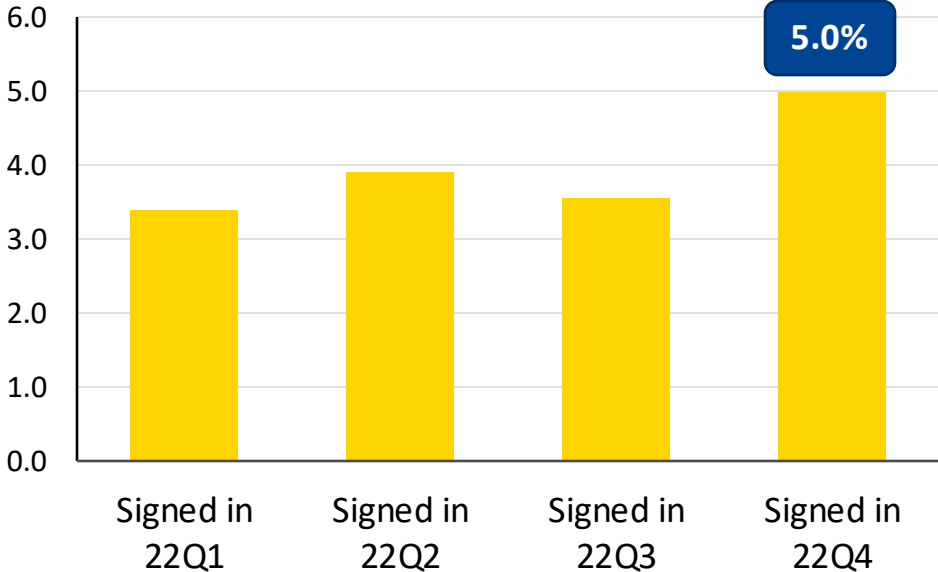
Note: Seasonally and working day adjusted data.

WAGE SETTLEMENTS POINT TO WAGE ACCELERATION IN 2023

EA nominal wage indicators
(nominal, %yoy)



Weighted average of nominal wage agreements
(annual percentage changes)



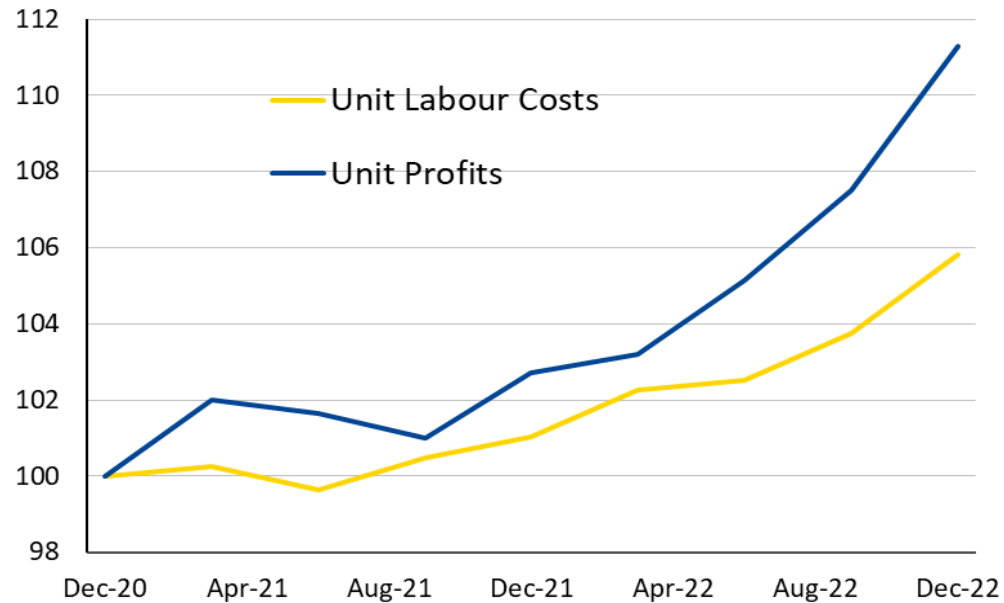
Source: Eurostat, ECB. Compensation per employee: Includes employees’ direct earnings (wages, salaries and bonuses) and all indirect compensation (social security contributions). Negotiated wages (ECB) refers to collectively agreed wage increases. Not fully harmonised in terms of coverage and definition, bonuses not always included.

Source: ECB, Phillips Lane Speech “Inflation and Monetary Policy”, 22 March 2023. The euro area aggregate is based on data from Germany, France, Italy, Spain, the Netherlands, Austria and Greece

FIRM PROFITS SUPPORT BALANCE SHEETS

Firms' profits accelerated and exceeded labour costs

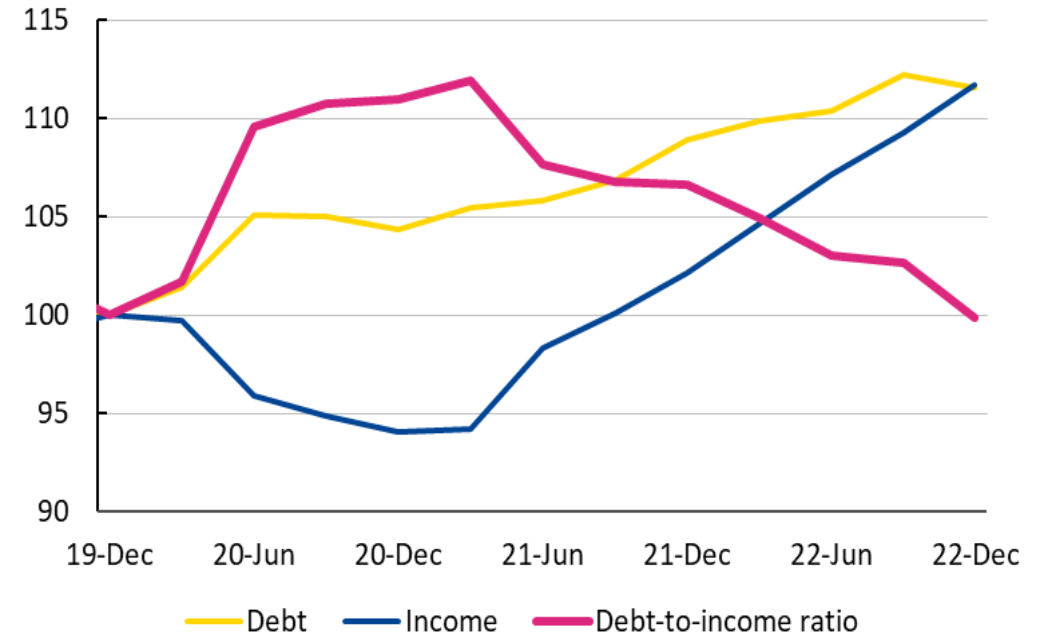
(Index, 2020-Q4=100)



Source: ESM based on Eurostat. Unit profits calculated as ratio of Gross Operating Surplus to Real GDP. Unit Labour costs: total labour costs per unit of real GDP

Corporates' debt to income ratio back to pre-pandemic level

(index, 2019-Q4=100)

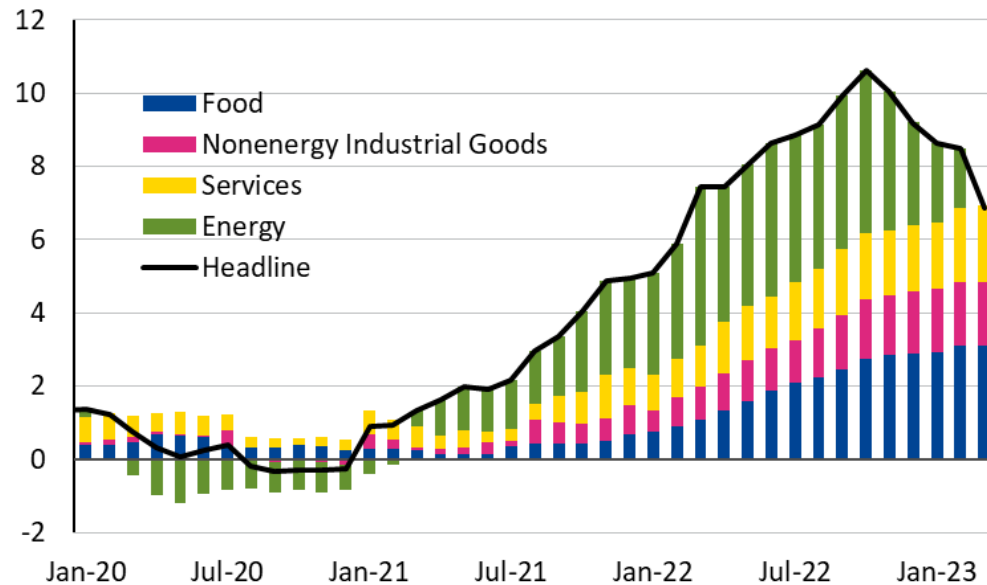


Source: Eurostat. Note: Debt is gross debt, income is gross value added.

INFLATION HAS PEAKED BUT CORE REMAINS STICKY

Inflation peaked, energy prices decline

HICP inflation (% YoY) and components (pps.)

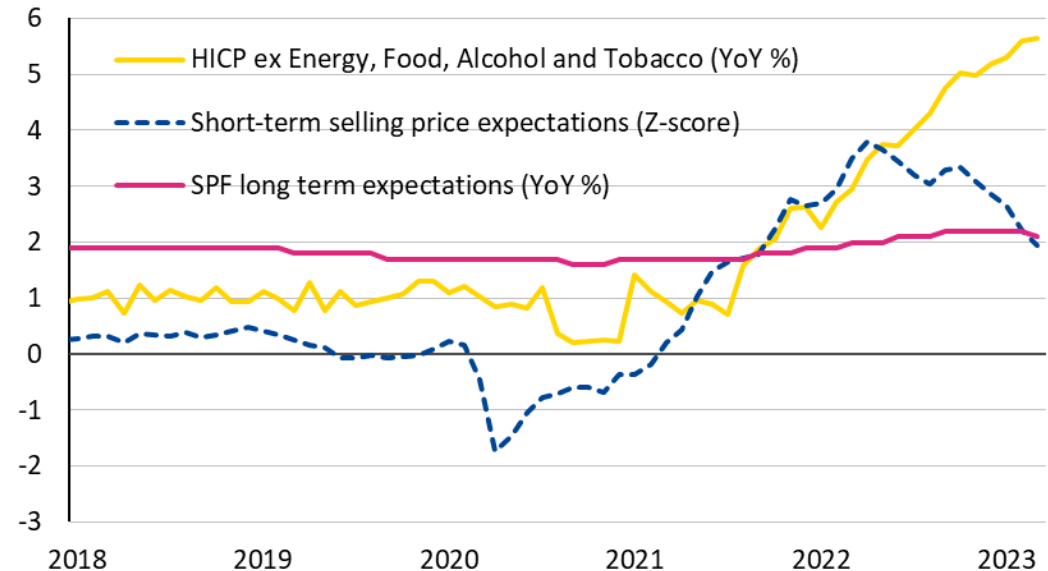


Source: Eurostat.

Note: Last data point reflect Eurostat flash estimate.

Inflation expectations reached a turning point, but core inflation remains sticky

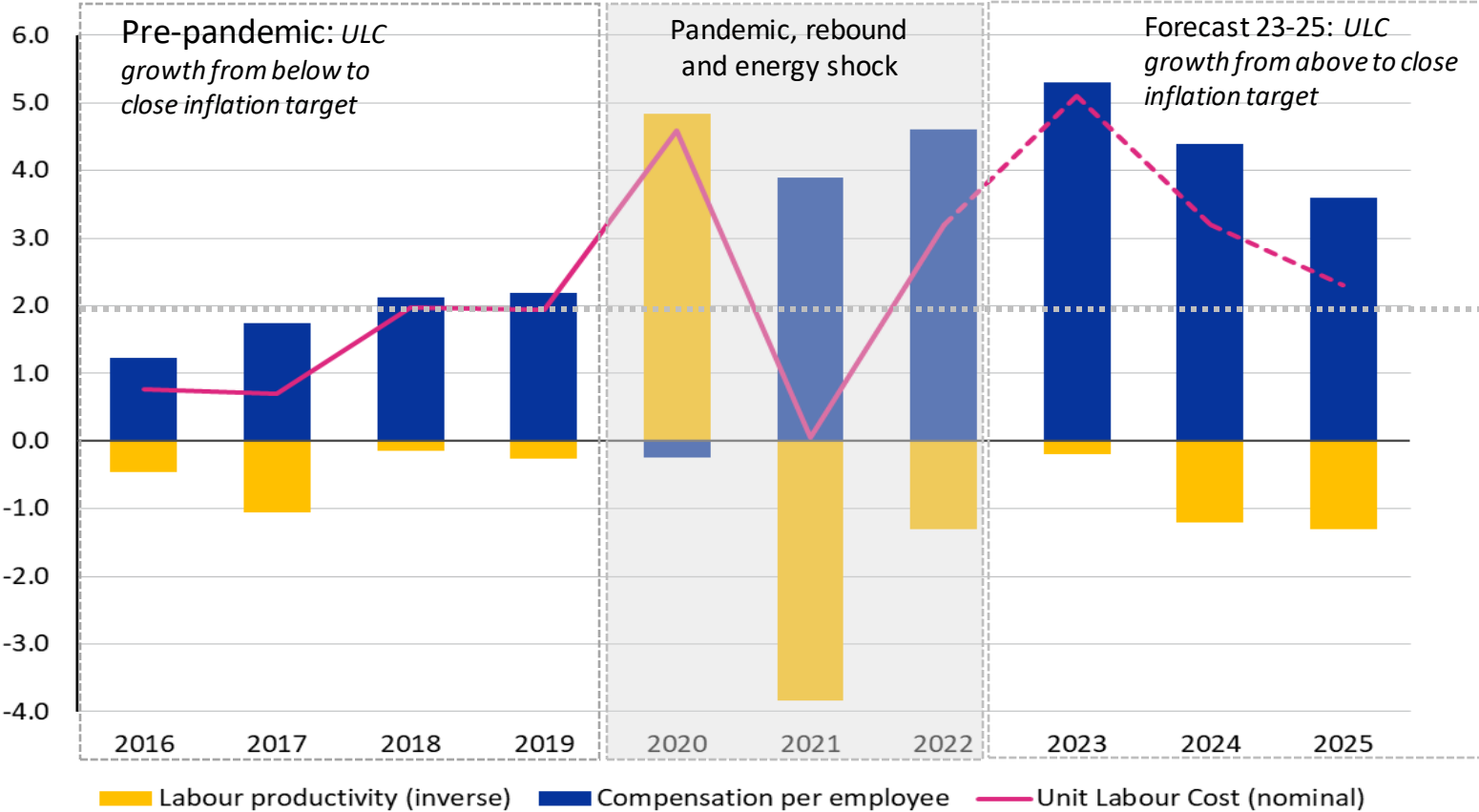
Core inflation (YoY %) and inflation expectations



Source: ESM calculations based on Eurostat, ECB, European Commission. Note: For short-term (3month ahead) selling price expectations, the figure shows z-score composite indicators, as an average of EC expectations in manufacturing, retail, service and construction. SPF stands for Survey of Professional Forecasters.

LOOKING AHEAD, MODERATION IN WAGE GROWTH AND RECOVERY IN PRODUCTIVITY NEEDED TO ENSURE MEDIUM-TERM PRICE STABILITY

Nominal Unit labour costs(yoy)

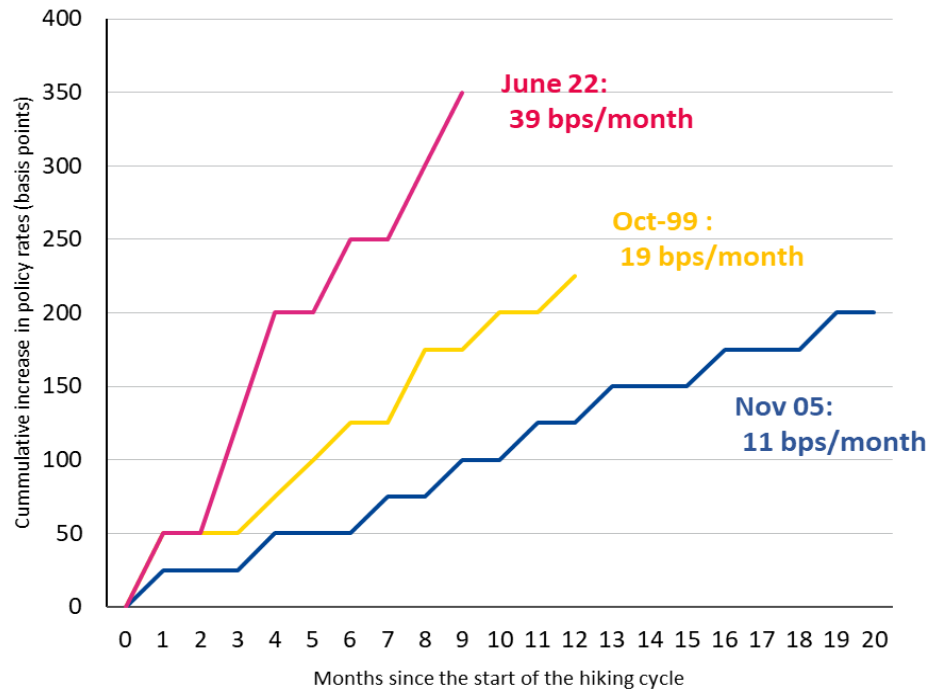


Source: ESM based on Eurostat and latest ECB macroeconomic projections (Mar-23)

IS THERE A MONETARY POLICY DILEMMA?

ECB Policy Rate Increases

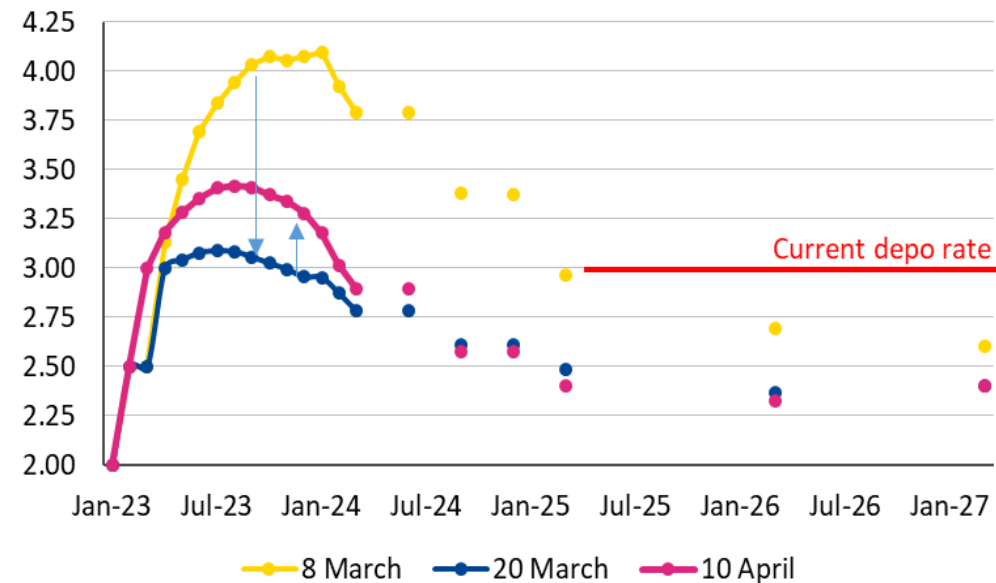
(Starting date and increase/month in bps)



Source: ESM based on ECB/Bloomberg

Expectations of monetary policy shifting – rates may remain higher for longer

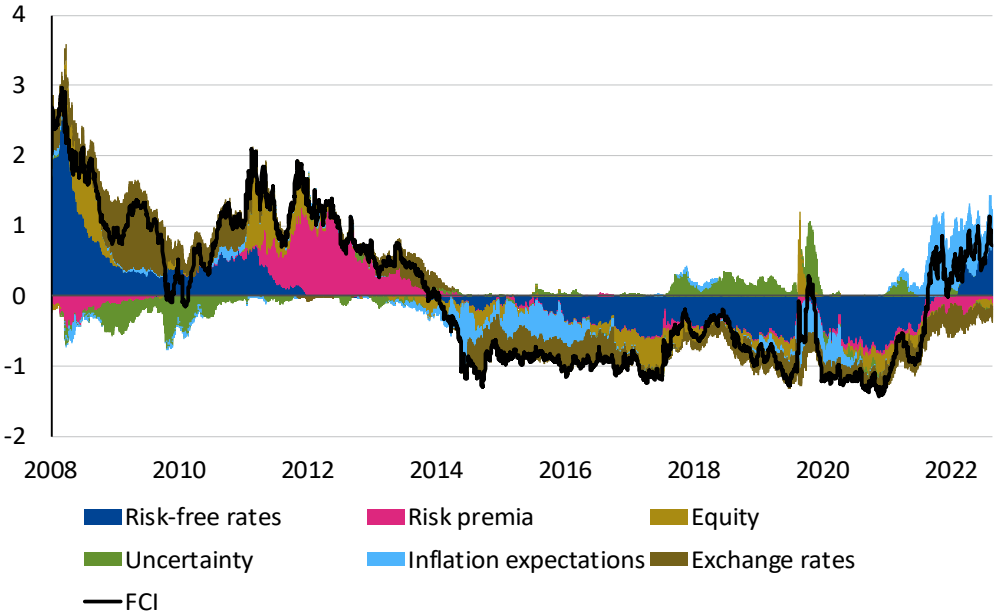
Market-implied path of short-term interest rates in Europe, %



Source: ESM based on Bloomberg

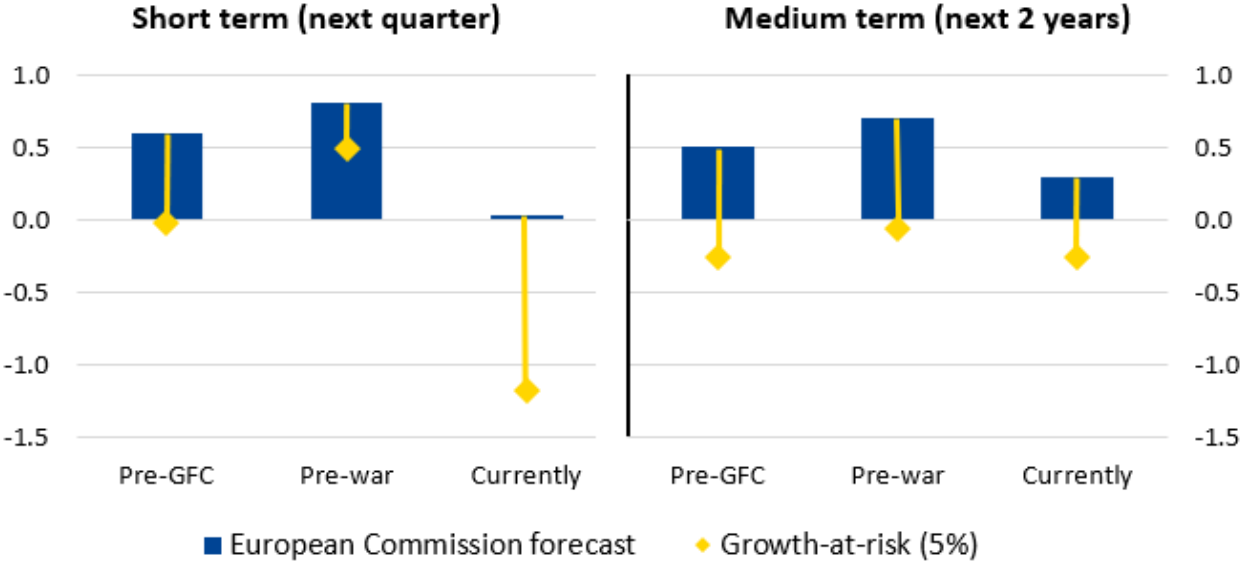
TIGHTENING FINANCIAL CONDITIONS AND GROWTH AT RISK

Financial conditions tightening rapidly – tightest since 2012



Source: ESM based on BdF and Bloomberg. Notes: Risk-free rates (EA OIS curve, DE/US 10-year yields, EURIBOR 3m), risk premia (10-year gov. and corporate bond spreads).

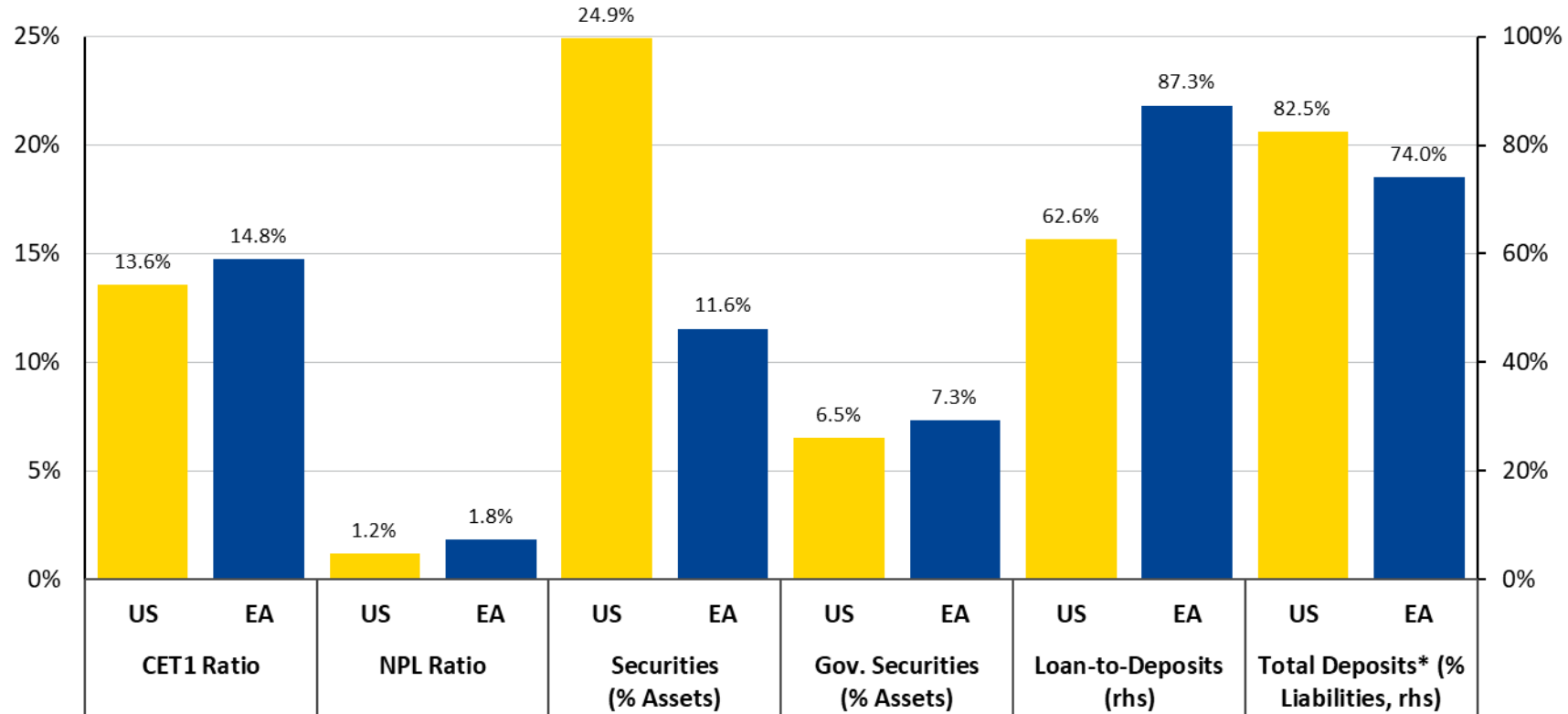
Growth at risk elevated in the short-term, but contained in the medium-term



Source: ESM calculations based on ECB, EC, EABCN, BIS, OECD, and Wu and Xia (2017,2020). Notes: This figure shows real GDP growth forecasts (1/8-quarter a head) based on EC forecasts with “Pre-global financial crisis” data coming from the Autumn 2006 edition, the “Pre-war” data coming from the Autumn 2021 edition, and the “Currently” data coming from the 2023 Winter edition. The forecasts start with the last quarter of the respective year (Q1 in case of 2023). The growth-at-risk estimates for 1/8-quarter-ahead (average) quarterly growth are based on data until Q3 of the respective years and built using quantile regressions (Adrian et al., 2019).

DESPITE BANKING SYSTEMS BEING FUNDAMENTALLY SOUND...

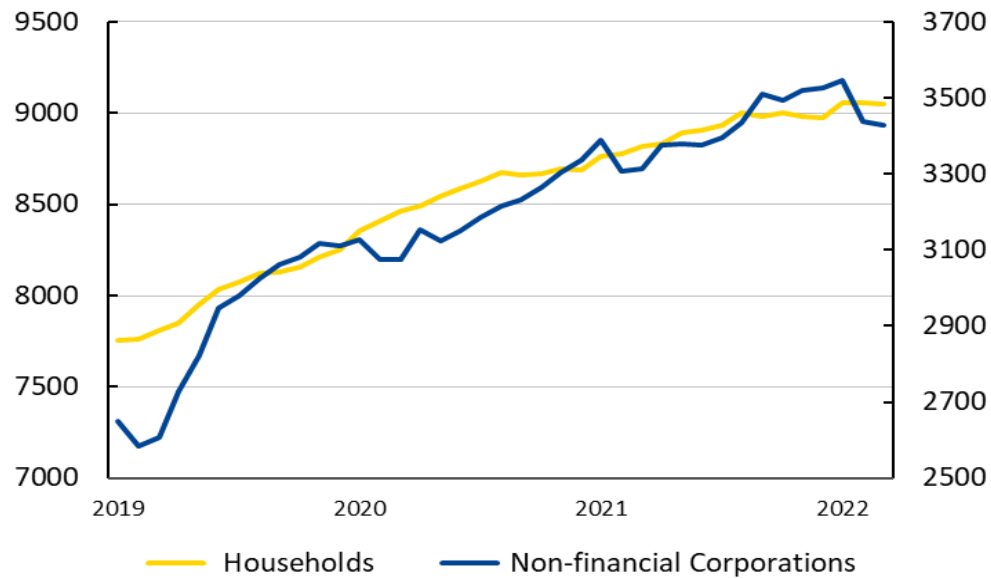
Key Banking Metrics (latest available data)



Source: ECB (latest available reporting date 2022Q3), FDIC, Haver. *Total deposits include deposits from central banks

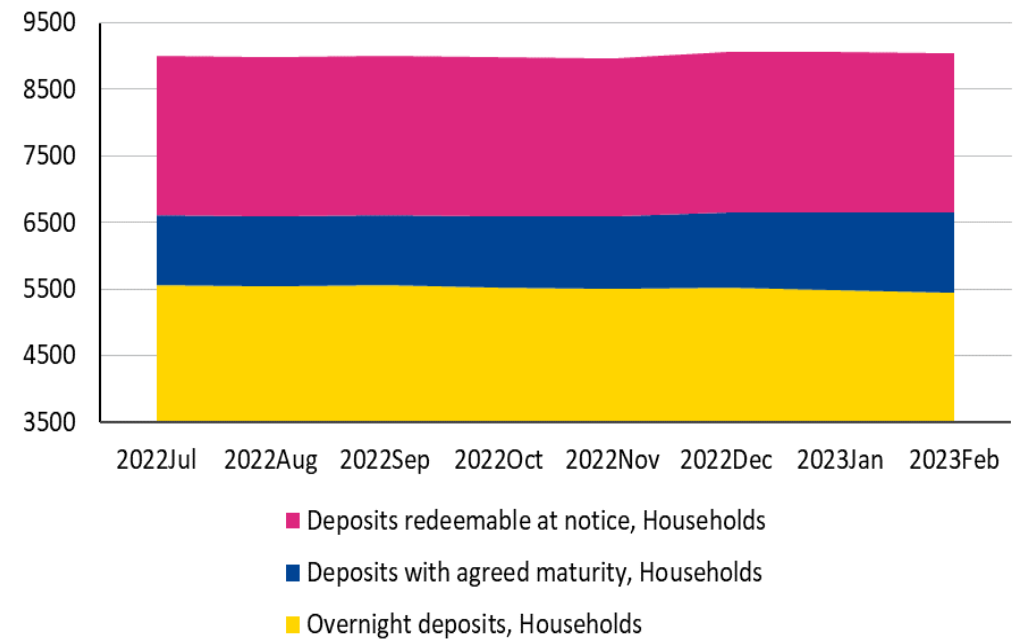
DEPOSITS ARE STICKY IN EUROPE

Outstanding amount of deposits reported by MFIs (EUR bn)



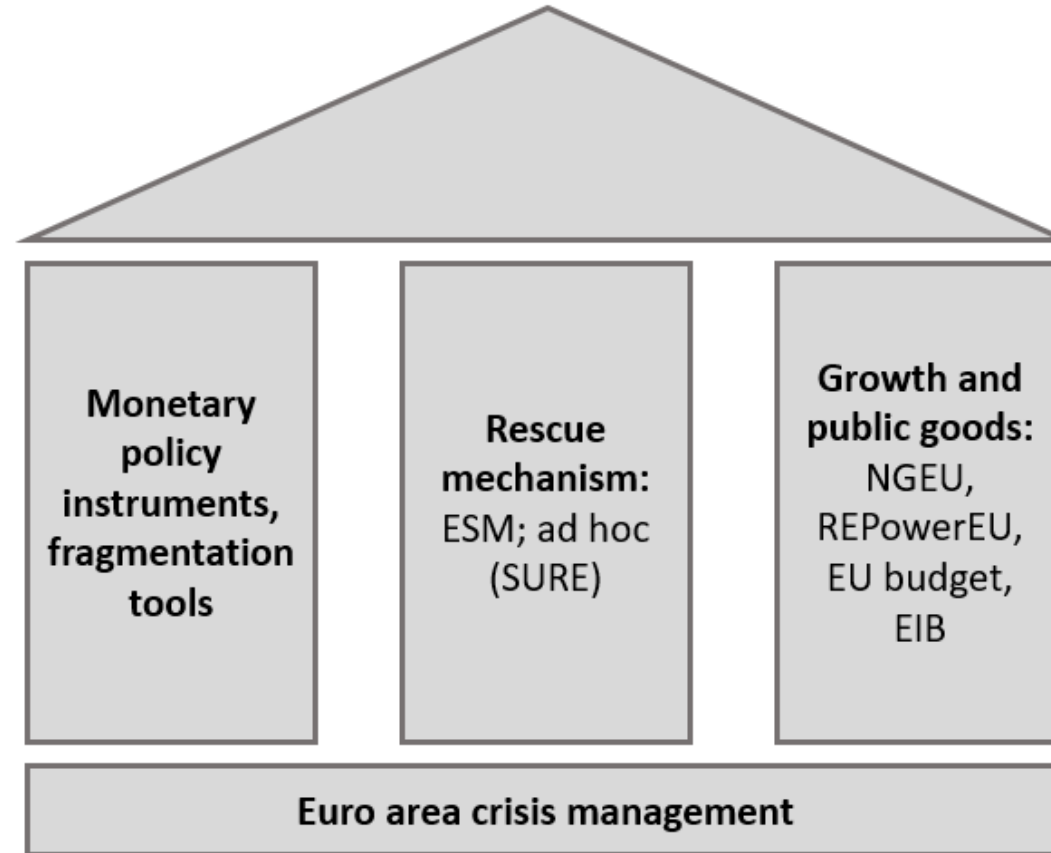
Source: ECB

Outstanding amount of deposits from households reported by MFIs (EUR bn)



Source: ECB

THREE PILLARS OF CRISIS MANAGEMENT IN EUROPE





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