EUROPEAN CENTRAL BANK

EUROSYSTEM

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Summary of the Non-Financial Business Sector Dialogue on 13 November 2024 in Frankfurt am Main

Participants

- Members of the Governing Council of the ECB or their alternates
- Representatives of ABB Ltd., Accenture Plc, Brenntag SE, C&A Mode GmbH & Co. KG, CMA CGM, Condor Flugdienst GmbH, Decathlon S.A., ebm-papst Mulfingen GmbH & Co. KG, EDEKA ZENTRALE Stiftung & Co. KG, Festo SE & Co. KG, FiberCop S.p.A, Grimaldi Group, Ingka Holding B.V., Mango, Miele & Cie. KG, Moeve, Randstad Group, Repsol S.A , REWE-ZENTRALFINANZ eG, RIU Hotels & Resorts, Rohde & Schwarz GmbH & Co. KG, Roland Berger GmbH, Schindler Holding Ltd, Schwarz Corporate Solutions KG, Sopra Steria SE, Telefónica S.A., Umdasch Group AG, Volkswagen Group, Vos Logistics
- Senior ECB officials from the Directorate General Economics, Directorate General Monetary Policy, Directorate General Communications and Directorate General Secretariat, as well as from the Counsel to the Executive Board, and the ECB's Chief Compliance and Governance Officer

The ECB President welcomed the representatives of the participating companies and recalled the nature of the Non-Financial Business Sector Dialogue, saying it was a forum that enabled the ECB and non-financial companies to interact at the highest level. The objective of the dialogue was to give the ECB an insight into the view of the non-financial business sector on the economic situation and thereby deepen its understanding of economic developments and issues relevant to policymakers. In line with established practice, the agenda, list of participating companies and summary minutes would be published on the ECB's website.

Outlook for the euro area economy

In accordance with the agenda, discussion was focused around the following set of issues: (i) the outlook for business activity and employment across different sectors (ii) drivers of recent trends in – and the outlook for – consumer spending, (iii) the main drivers of – and barriers to – investment, (iv) external trade and competitiveness and (v) expectations and balance of risks for wage and price growth over the next year and in the medium-term.

The discussion was preceded by a short presentation by Philip Lane summarising some of the key trends and features of the euro area economy over the past year. These included (i) subdued GDP growth and rather downbeat survey data; (ii) a contracting manufacturing sector offset by growth in services, mainly led by business services and in particular information and communication; (iii) a still strong labour market but lower average working hours and lower output per hour compared to pre-pandemic trends; (iv) still subdued growth in consumer spending notwithstanding steadily recovering real incomes and consumer confidence; (v) falling investment in buildings and machinery but growing intangible investment; (vi) survey evidence that firms were more concerned about costs of production, availability of labour and regulation than about access to finance; and (vii) falling inflation but still persistent price pressures, especially coming from wage growth.

In the discussion that followed, comments on the conjunctural situation were limited but generally gave a somewhat downbeat assessment of the outlook for activity in the short-term. Those whose firms were engaged in manufacturing saw some bottoming out of demand but did not anticipate a strong recovery next year. Current low levels of demand and increased international competition left some parts of industry (such as automotive and chemicals) with significant over capacity. In the case of the automotive sector this reflected a combination of factors including lower structural demand for vehicles overall and disappointing demand for electric vehicles (in view of high prices and a lack of charging infrastructure) coupled with increased import competition. This made it important to focus on regaining competitiveness, including labour costs, by reducing employment and moderating wage growth. Even in the information technology sector, which had been growing rapidly in recent years, participants reported a slowdown; and in telecommunications, growth was said to be modest in a very competitive environment and could only be achieved by adding services to existing product offers that tended to reduce margins. Retailers also pointed to a very challenging competitive environment, in which consumers seeking lower prices were turning to Chinese online retailers who were gaining significant market share. The efficient Chinese online business model presented the retail industry with a significant challenge, not least as it exploited an unlevel playing field, as goods were air freighted directly to consumers thereby avoiding customs duties and controls on production standards in relation to environmental and labour standards.

Several participants described a tough competitive environment amid high and/or rising costs and squeezed margins which, coupled with continued or growing uncertainty surrounding geo-politics and tariffs, created a difficult environment for investment. 2024 was therefore not a big investment year and investment was tilted towards efficiency rather than growth. Moreover, in areas where there was strong growth in investment (such as data centres, renewables, clean rooms) this tended to be much greater in the United States and Asia than in Europe.

Against this background most of the discussion focused on the structural challenges facing the euro area economy to maintain or regain competitiveness in global markets while simultaneously delivering on the green transition. In relation to the latter, two main themes emerged. Firstly, the excessive reporting burden resulting, especially, from the Corporate Sustainability Reporting Directive. In this regard some participants referred to the hundreds of paragraphs that their Environmental, Social and Governance teams had to draft, which meant that these teams were increasingly absorbed in administrative work rather than actually delivering sustainable change. Secondly, the need for a more comprehensive approach, both across and within sectors, focused not only on electrification but also the decarbonisation of liquids and gas. In this regard, it was pointed out that the only viable transition in sectors such as shipping, aviation and road haulage was through the use of cleaner bio or synthetic fuels. However, investment in the production of such fuels was threatened by banks' increasing unwillingness to lend to the companies who could develop and produce such fuels. Overall, while no one questioned the objective of the green transition and saw the future as a cleaner, better one, there was emphasis on this being a journey that needed to be travelled differently. In particular, investment in sustainability needed to have a business case.

Many remarks then also focused on what could be done to bridge the gap between subdued economic growth in Europe and more dynamic growth in the US and Asia in an increasingly challenging geo-political environment. Several expressed concerns about the impact of likely US tariffs and about dependency on China in global supply chains. In this context, it was important for Europe to have bargaining power by being relevant in terms of the production of crucial components. Several participants emphasised the need for greater innovation. This included the need to seize the opportunities presented by AI in order to avoid another lost decade characterised by Europe's relative slowness in embracing digitalisation. Such innovation required better harnessing the talents of some of the world's best education systems. A shrinking population also made it necessary for people to work longer and to have a constructive approach to migration. Some stressed that growth could be boosted by finally creating a truly single EU market. It was still too often the case in the EU that companies had to deal with too many administrations (such as the 30 air traffic control centres in Europe despite more than 20 years of the Single European Sky). Others called for a mindset change in which, instead of focusing on how to regulate companies, the focus would be on how to help businesses and entrepreneurs.