EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

2 December 2021

Summary of the Non-Financial Business Sector Dialogue on 10 November 2021 in Frankfurt am Main via video conference

Participants

- Members of the Governing Council of the ECB or their alternates
- Representatives of ABB Ltd, Aena SME S.A., Benetton Group S.r.l., BMW Group, Borealis AG, Buzzi Unicem S.p.A., Daimler AG, Dassault Systèmes SE, Doka GmbH, ebm-papst Mulfingen GmbH & Co. KG, Enel S.p.A., Grimaldi Group, Gruppo Pam, Haier Europe, Heraeus Holding GmbH, Hornbach Management AG, Kerry Group, Klöckner & Co SE, Logwin AG, Mango, ManpowerGroup, Max Mara Fashion Group S.r.l., MediaMarktSaturn Retail Group, Michelin, Miele & Cie. KG, Nestlé S.A., PageGroup, Pandora A/S, Robert Bosch GmbH, Royal FreislandCampina, Salzgitter Flachstahl GmbH, Securitas AB, SES S.A., UPM-Kymmene Corporation, Vodafone Group Plc, Volvo Group
- 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's President welcomed 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 forum's objective was to give the ECB an insight into the business sector's views on the economic situation and thereby deepen its understanding of economic developments and issues relevant to policymakers. The President also highlighted the value of the ECB's contact with non-financial companies, particularly during the coronavirus (COVID-19) pandemic. 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

The discussion focused mainly on the following issues: (i) supply and demand conditions across different sectors, including the effects of the ongoing supply chain disruption; (ii) the persistence of resulting pipeline price pressures and the extent of the pass-through to consumer prices; (iii) challenges related to decarbonisation; and (iv) conditions in the euro area labour market and the implications for future wage growth.

With regard to economic activity, most of the participants were of the view that demand remained strong in sectors that had recovered quickly from the pandemic, while confidence was also building gradually in those sectors that were still recovering. In that context, they emphasised that supply conditions were currently posing the greatest challenge, saying that supply chains were stretched for several reasons, namely shortages of materials and equipment, problems in transport and logistics, and shortages of labour.

Participants from a range of industries reported that the scarcity of materials was making it difficult to supply customers and delaying investments. The strength of the global manufacturing recovery in the second half of 2020 had reduced inventories, and although businesses had sought to rebuild them in 2021 these were often stuck in transit. Given the sharp rise in the prices of many inputs and freight rates, a significant portion of these costs had to be passed on to customers and, ultimately, to consumers. Many participants highlighted that the difficulties with materials shortages and transport logistics were likely to persist for the next 6-12 months at least, but nevertheless considered the problem to be a temporary one. In their view, the price pressures related to materials shortages and transport logistics would therefore stabilise and ease off at some point.

In the discussion on labour market conditions, there was much less certainty about the causes and likely duration of the increasing labour shortages reported by many companies. Labour shortages were more widespread and acute in some other parts of the world than in the euro area, where the situation varied significantly depending on skill set, sector and geographical area. Some participants alluded to the “disappearing workforce”, with varying suggestions as to the cause, including pandemic-induced early retirement and changes in preferences regarding work-life balance. Problems were identified in relation to the supply of labour at different skill levels. In particular, education systems in Europe were not producing sufficient graduates with the necessary scientific and engineering background to meet firms’ needs for the digital and environmental transformation. Meanwhile, attitudes to work had changed to some extent during the pandemic, making it difficult to recruit staff to work night and/or rotating shifts, for example. Given the increasing labour shortages, as well as the currently higher level of consumer price inflation, participants anticipated there would be some pick-up in wage inflation in 2022. They also commented that labour shortages would spur investment in automation where possible, but that there was also a need to “re-evaluate the value of people”.

Turning to the issue of decarbonisation, several participants highlighted their company’s commitment to reducing emissions, explaining the progress that had been made and the challenges they were facing in relation to climate change. In that regard, while some were increasingly optimistic, there were some who also had concerns about greenwashing and the actual degree of commitment from some companies and governments. It was argued that there was a need to develop new key performance indicators, moving away from an almost exclusive focus on profit maximisation and GDP. Emphasis was placed on the need for innovation in order to deliver new, affordable technologies and on the importance of realistic pricing for both CO_2 and renewables in Europe compared with the rest of the world. Some concerns were expressed about regulatory initiatives sometimes being undertaken before the complexities of a particular issue or industry were fully understood. As decarbonisation concerned the sourcing of not only energy, but also sustainable materials, the current supply chain disruption was an opportunity to catalyse change. The reduced lifetime of assets coupled with the destruction of some existing supply chains meant that the environmental transition was likely to make a positive contribution to inflation in the coming years.