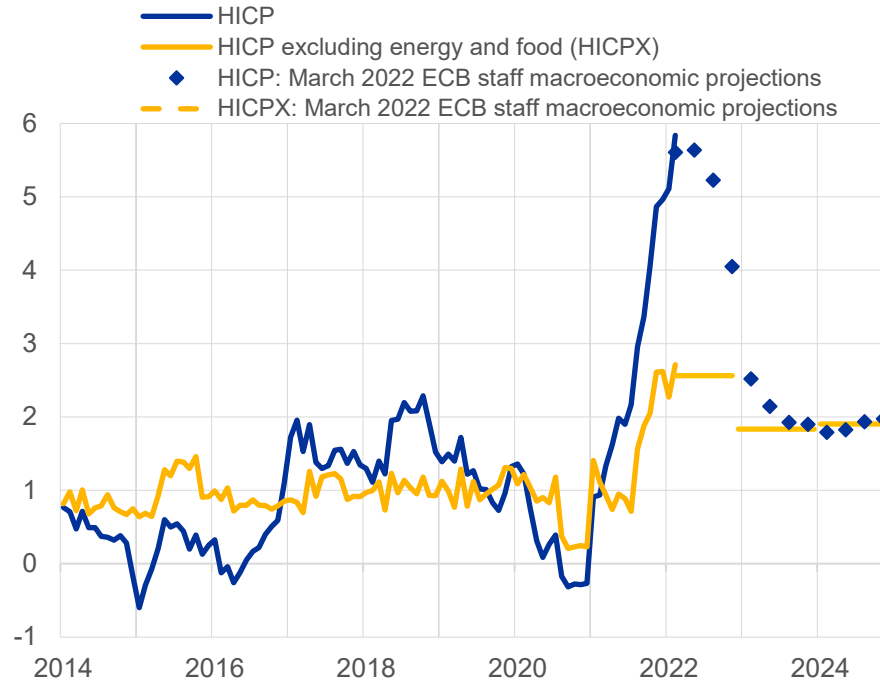


Philip R. Lane

# The euro area outlook and monetary policy

The ECB and Its Watchers XXII  
17 March 2022

## Headline and core inflation in the euro area (annual percentage changes)



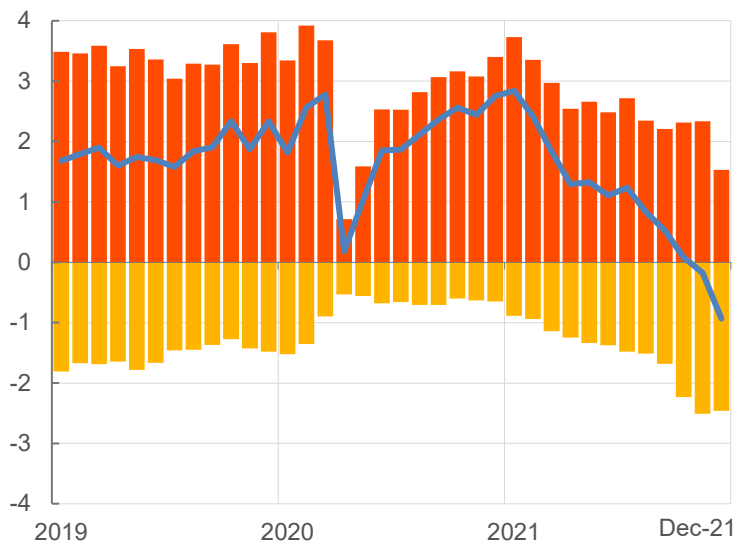
Sources: Eurostat, ECB calculations and March MPE ECB staff projections.

Note: Historical data are at monthly frequency, forecast data at quarterly frequency for HICP and at annual frequency for HICPX. Forecast starts in 2022Q1. Latest observation: February 2022 flash release.

## Euro area goods trade balance

(in percentages of GDP)

■ Non-energy and non-food trade balance  
■ Energy and food trade balance  
— Goods trade balance

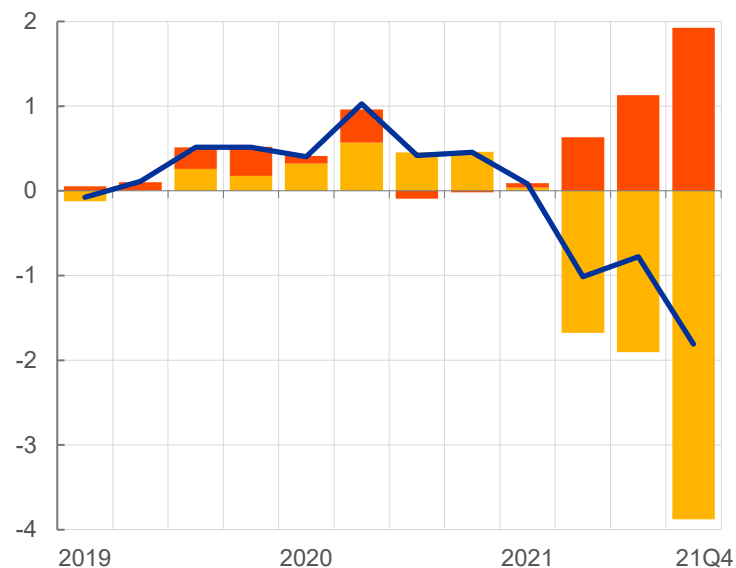


Sources: Eurostat and ECB calculations.  
 Notes: The value for GDP in Q4 2021 is forecast.  
 Latest observation: December 2021.

## Income effect of terms of trade by component contribution for the euro area

(quarterly percentage point impact in terms of annual GDP growth)

■ Energy ■ Non-energy — Terms of trade

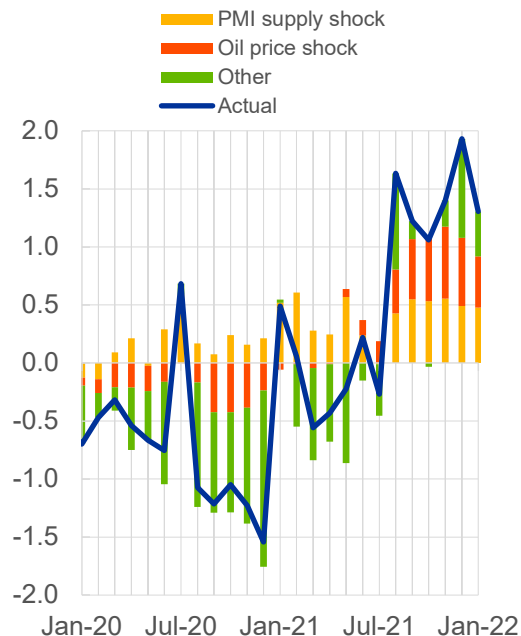


Sources: Eurostat and ECB staff calculations.  
 Notes: The income effect of terms of trade is calculated by weighing export and import price changes by their respective volumes and considered as a percentage share of GDP.  
 Latest observation: Q4 2021.

# Drivers of HICP inflation excluding energy and food

## Decomposition of NEIG inflation

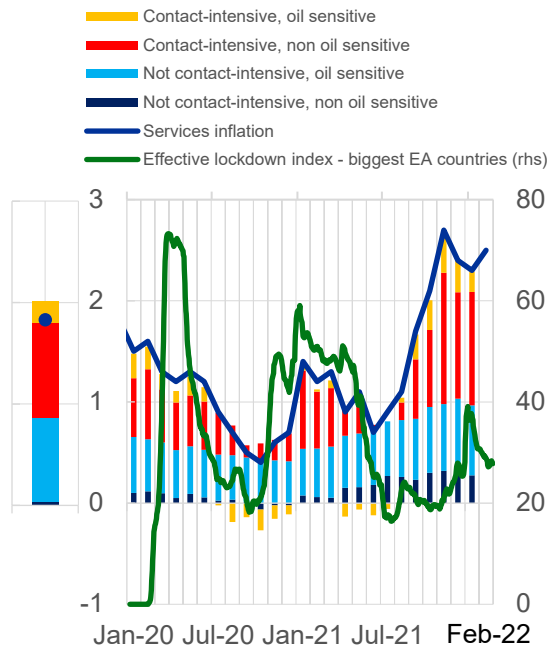
(annual percentage changes and percentage point contributions)



Sources: Eurostat, NIPE and ECB staff calculations.  
Notes: All series are demeaned.  
Latest observation: January 2022.

## Decomposition of services inflation

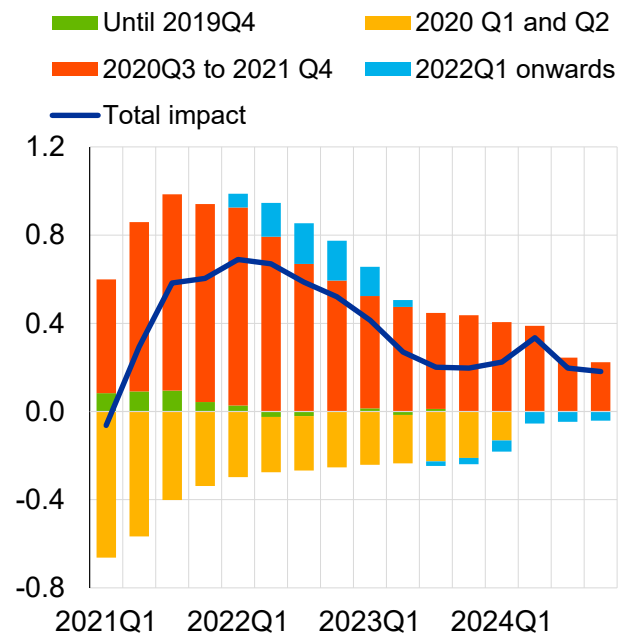
(annual percentage changes and percentage point contributions)



Sources: Eurostat, ECB staff calculations and Goldman Sachs (GS).  
Notes: Decomposed with non-constant weights. GS effective lockdown index. The column on the left shows the average contributions.  
Latest observations: Services inflation February 2022 (flash), Effective lockdown index 24/02/22, the rest January 2022.

## Impact of oil price changes on HICPX

(percentage points)



Sources: ECB and ECB staff calculations.  
Notes: The impact of oil price changes on HICP excluding energy and food are computed using basic model elasticities of the forecasting models in use in the national central banks in the Eurosystem.

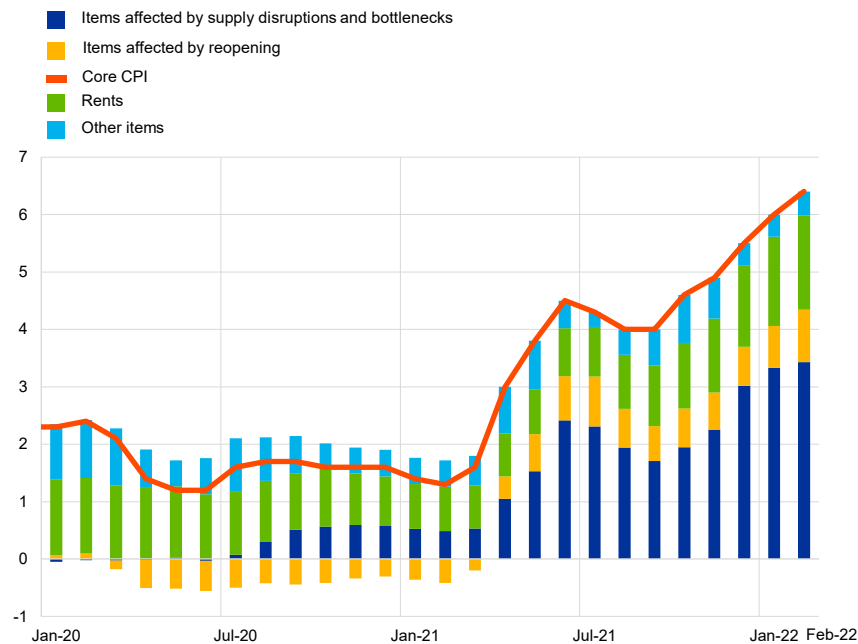
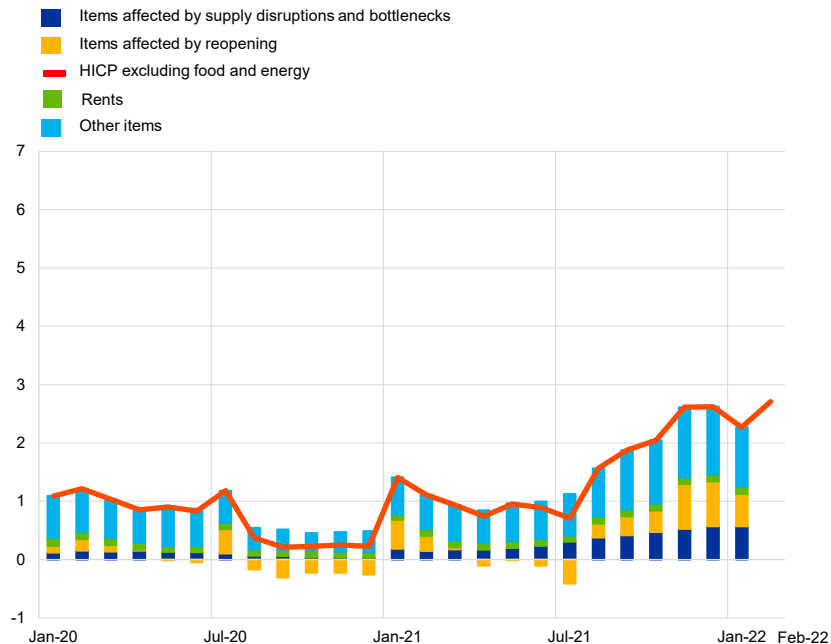
# Euro area vs. United States: Inflation excluding food and energy

## Euro area

(annual percentage changes and percentage point contributions)

## United States

(annual percentage changes and percentage point contributions)



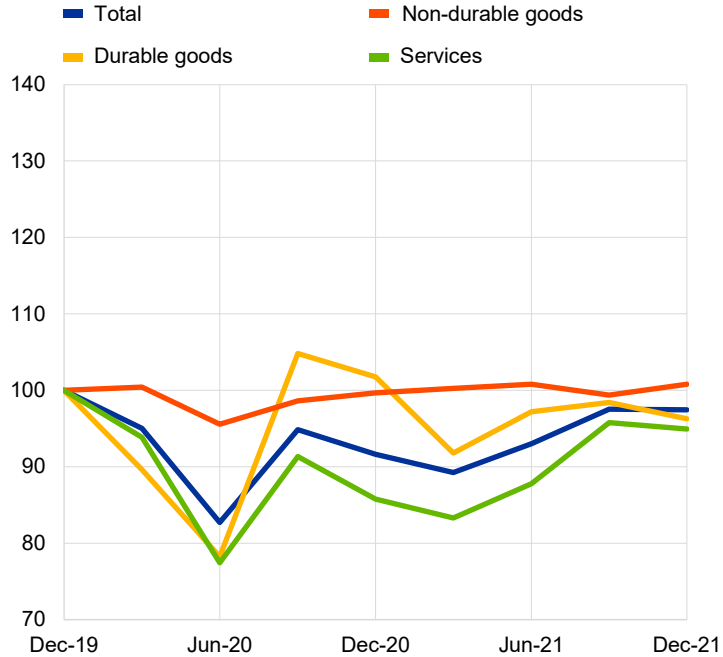
Sources: Eurostat, Haver and ECB staff calculations.

Notes: For the euro area, the panel shows the HICP excluding food and energy, as well as the contributions to it. For the United States the panel shows the CPI excluding food and energy, as well as the contributions to it. Items affected by bottlenecks include new motor cars, second-hand motor cars, spare parts and accessories for personal transport equipment, and furnishings and household equipment. Items affected by reopening include clothing and footwear, recreation and culture, recreation services, hotels and motels, and domestic and international flights. Rents include actual rents paid by tenants, and for the United States also imputed rents for owner-occupied housing. The latest observations are for February 2022 for CPI excluding food and energy and the contributions in the United States and HICP excluding food and energy in the euro area, otherwise January 2022.

# Euro area vs. United States: Real consumption expenditure

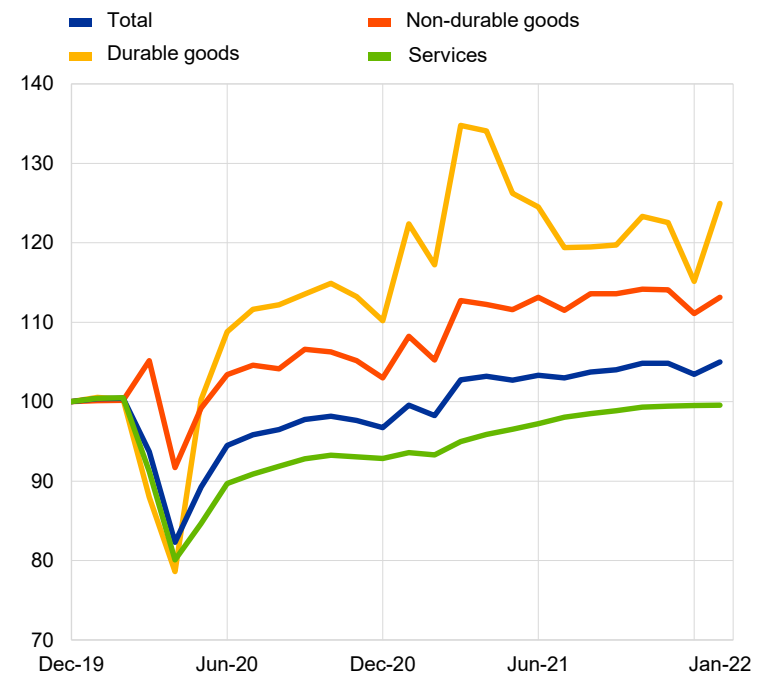
## Euro area

(index: Q4 2019 = 100)



## United States

(index: December 2019 = 100)



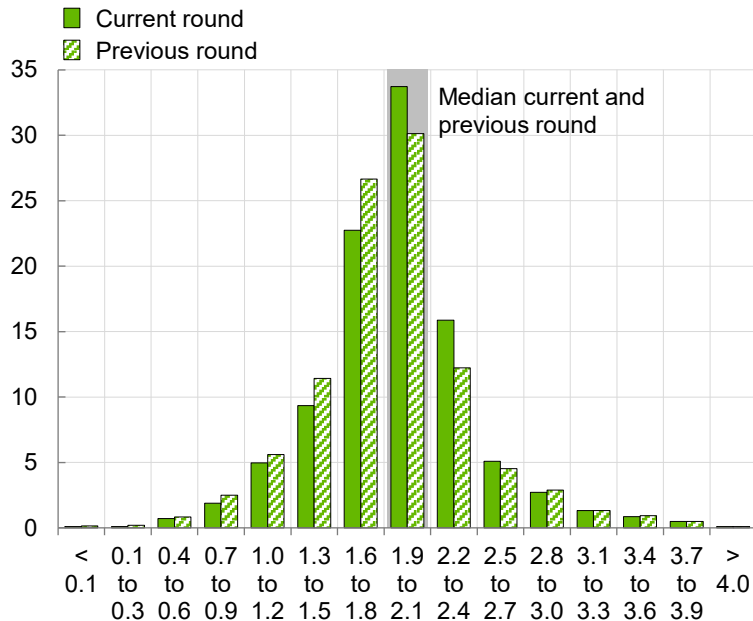
Sources: Eurostat and ECB staff calculations for the euro area, and US Bureau of Labor Statistics and ECB staff calculations for the United States.

Note: The latest observations are for the fourth quarter of 2021 for the euro area and January 2022 for the United States.

# Inflation expectations in the Survey of Monetary Analysts

## Long-term inflation expectations

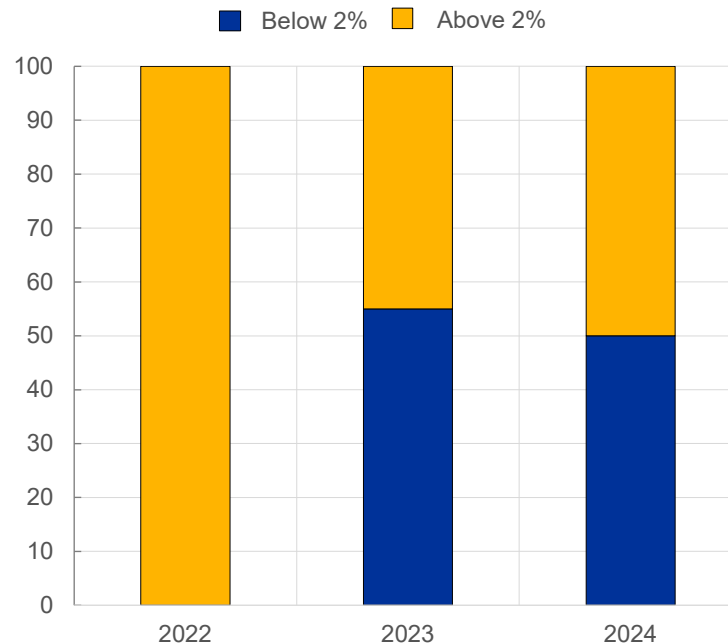
(pooled probability distribution)



## Probability distribution of inflation around target

target

(average probability)



Sources: March 2022 SMA and February 2022 SMA.

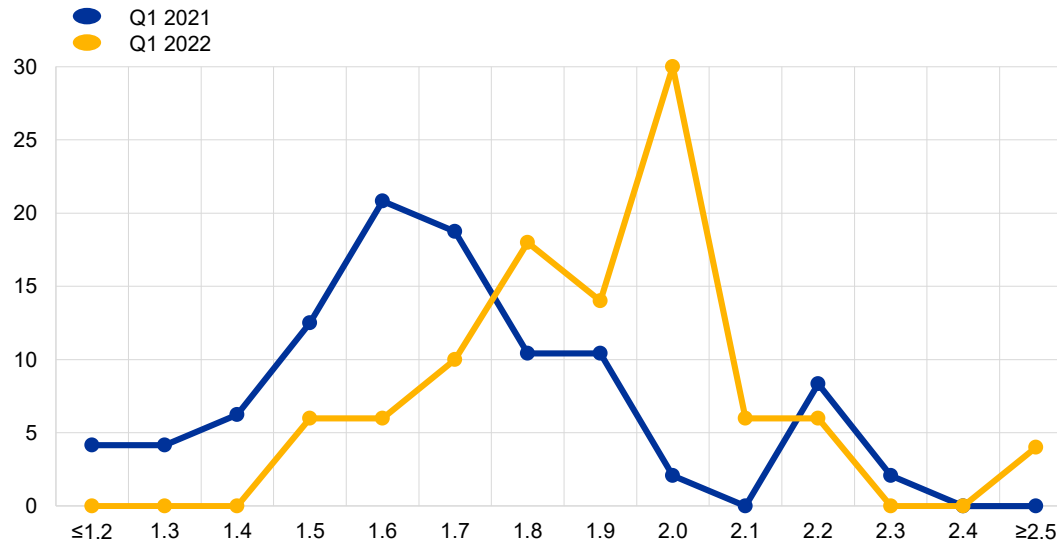
Notes: Maximum number of respondents is 23 for March 2022 SMA and 22 for February 2022. Grey area denotes the median.

Source: March 2022 SMA.

Note: Number of respondents for March 2022 SMA is 21.

## Euro area long-term HICP inflation expectations

(x-axis: annual percentage changes; y-axis: percentages of respondents)

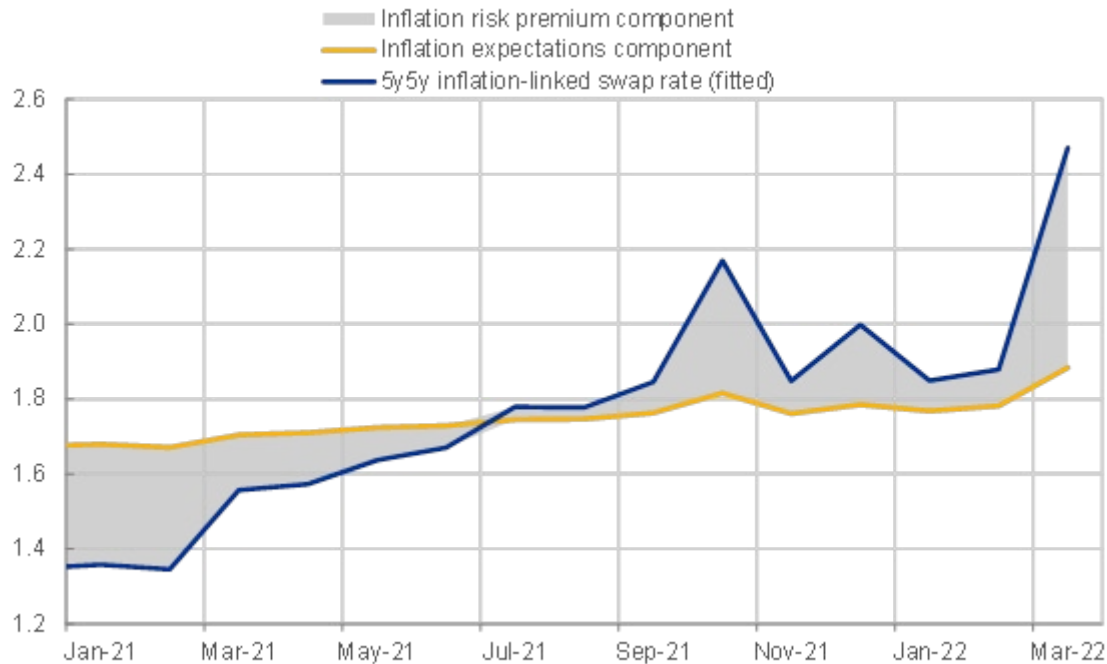


Sources: ECB Survey of Professional Forecasters.

Notes: Respondents are asked to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the distribution of point forecast responses.



## Euro area 5y5y inflation-linked swap rate (percentages per annum)



Sources : Refinitiv and ECB calculations.

Notes: Average estimates based on two affine term structure models following Joslin, Singleton and Zhu (2011) applied to ILS rates adjusted for the indexation lag (monthly data); see Burban et al. (2022), ECB Economic Bulletin Issue 8, 2021, Box 4.

Latest data point (15 March) based on average estimates from the same two models applied to the ILS rate of 15 March not adjusted for the indexation lag.

Latest observation: 15 March 2022.

## March 2022 ECB staff macroeconomic projections: baseline

(annual percentage changes)

	2021	2022	2023	2024
<b>Real GDP</b>	<b>5.4</b>	<b>3.7</b>	<b>2.8</b>	<b>1.6</b>
<b>Domestic demand contribution to GDP</b>	3.4	3.0	2.2	1.3
<b>Net exports contribution to GDP</b>	1.5	0.7	0.5	0.3
<b>Unemployment rate</b>	7.7	7.3	7.2	7.0
<b>HICP</b>	<b>2.6</b>	<b>5.1</b>	<b>2.1</b>	<b>1.9</b>
<b>HICP excluding energy and food</b>	1.5	2.6	1.8	1.9
<b>Compensation per employee</b>	4.0	3.6	3.4	2.9

Source: March 2022 ECB staff macroeconomic projections.

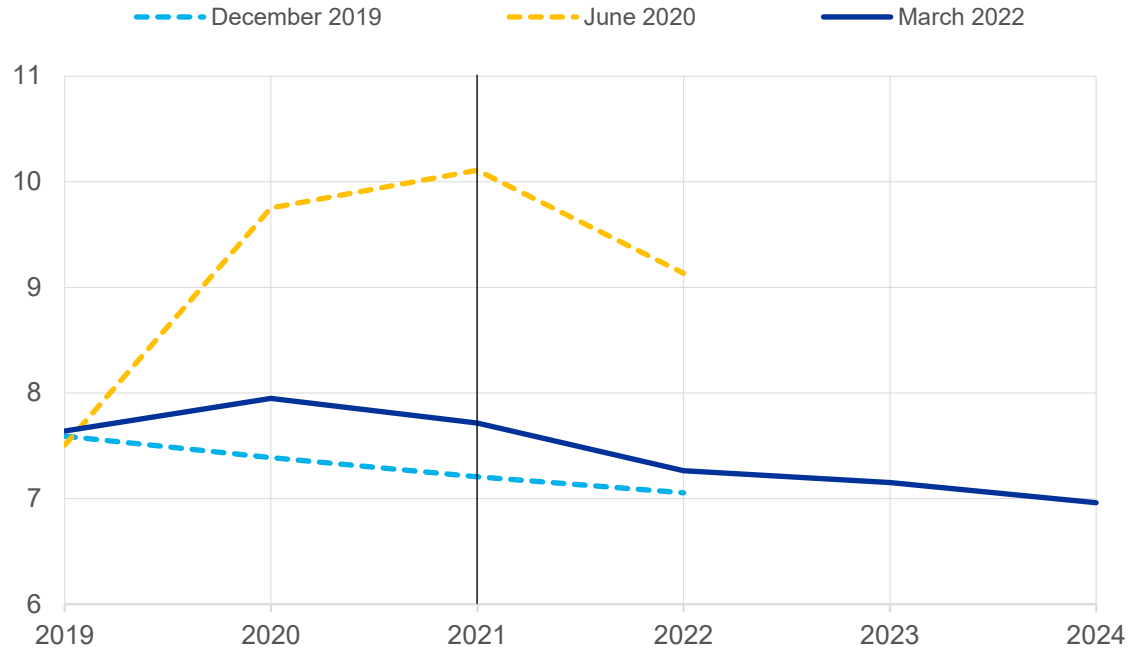
## Alternative scenarios for real GDP and HICP inflation

(annual percentage changes)

	March 2022 projections				Adverse scenario				Severe scenario			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
<b>Real GDP</b>	5.4	3.7	2.8	1.6	5.4	2.5	2.7	2.1	5.4	2.3	2.3	1.9
<b>HICP inflation</b>	2.6	5.1	2.1	1.9	2.6	5.9	2.0	1.6	2.6	7.1	2.7	1.9

Source: March 2022 ECB staff macroeconomic projections.

## Unemployment rate in ECB and Eurosystem staff macroeconomic projections (percentages of labour force)



Sources: ECB and Eurosystem staff macroeconomic projections.

## Asset purchase programme (APP)

- Monthly net purchases under the APP will amount to €40 billion in April, €30 billion in May and €20 billion in June.
- The calibration of net purchases for the third quarter will be data-dependent and reflect its evolving assessment of the outlook.
- If the incoming data support the expectation that the medium-term inflation outlook will not weaken even after the end of its net asset purchases, the Governing Council will conclude net purchases under the APP in the third quarter.
- If the medium-term inflation outlook changes and if financing conditions become inconsistent with further progress towards the 2% target, the Governing Council stands ready to revise its schedule for net asset purchases in terms of size and/or duration.

## Key ECB interest rates

- “Any adjustments to the key ECB interest rates will take place some time after the end of the Governing Council’s net purchases under the APP and will be gradual.
- Accordingly, the Governing Council expects the key ECB interest rates to remain at their present levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.”