



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Euro area outlook and monetary policy

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*AIECE Autumn Meeting 2024*

Brussels, 22 November 2024

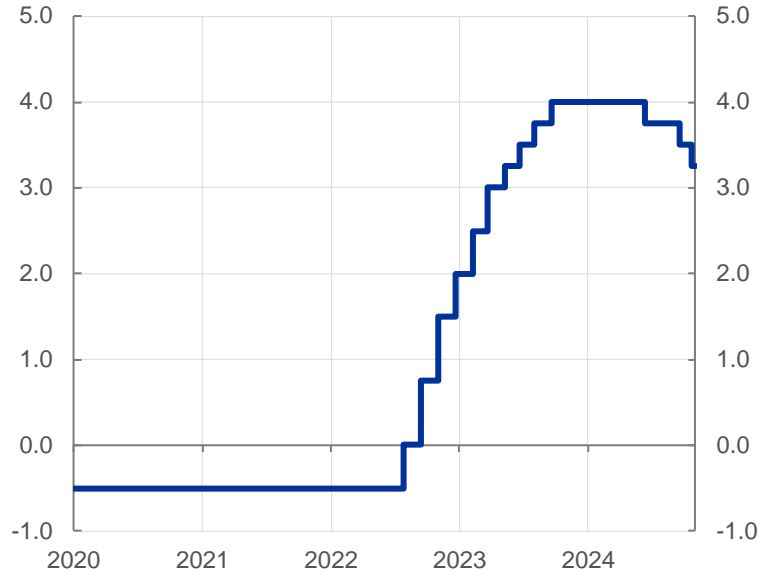
**Alexia Ventula Veghazy, Monetary Policy Strategy**

*The views expressed here are those of the speaker and do not necessarily reflect the views of the ECB or Eurosystem*



## Deposit facility rate

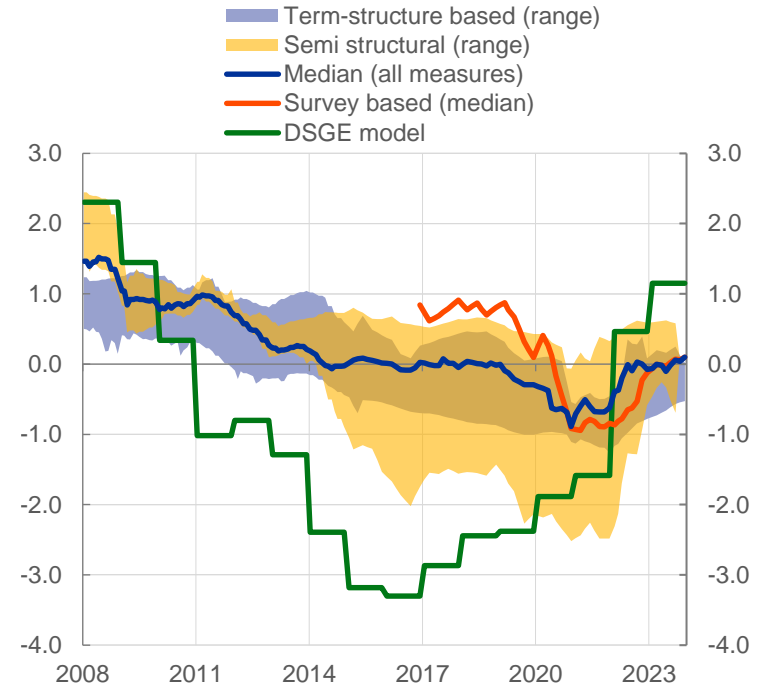
(percentages per annum)



Source: ECB.  
Latest observation: 17 December 2024 (end of the current MP).

## Real natural rates of interest in the euro area

(percentages per annum)

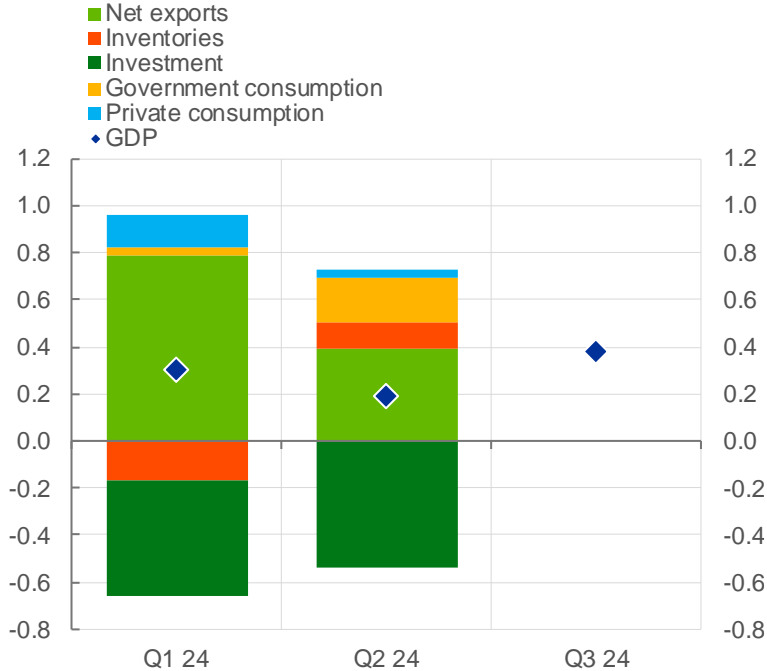


Sources: Eurosystem estimates, ECB calculations, Federal Reserve Bank of New York and Consensus Economics. Notes: See Brand C., Lisack N. and Mazelis F., "Estimates of the natural interest rate for the euro area: an update", ECB Economic bulletin, Issue 1/2024 for a description of the different estimates of the real natural rates of interest in the euro area.

# Economic activity decelerating, yet with some signs of recovery

## GDP and expenditure components

(q-o-q percentage changes, pp contributions)

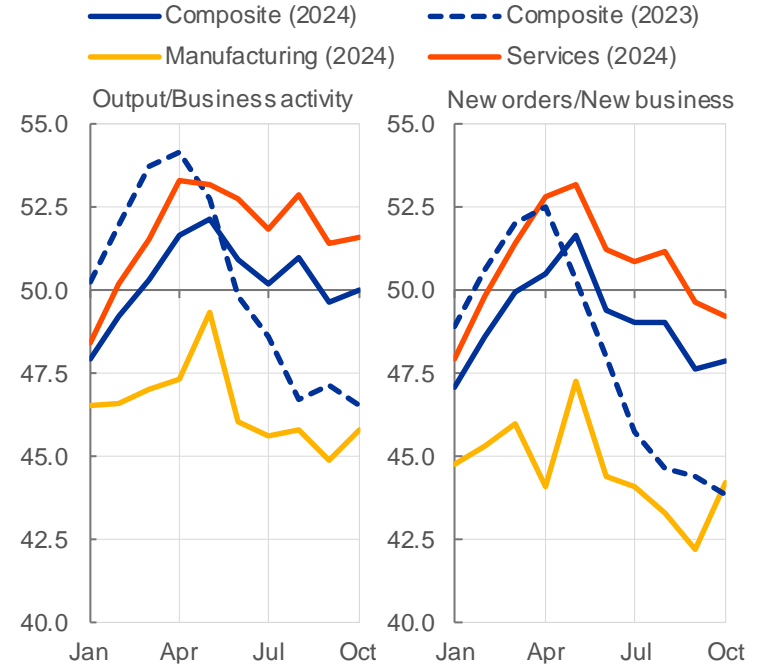


Source: Eurostat.

Latest observation: Q3 2024 for GDP, Q2 2024 for expenditure components.

## Composite, manufacturing and services Purchasing Managers' Indices

(diffusion indices)

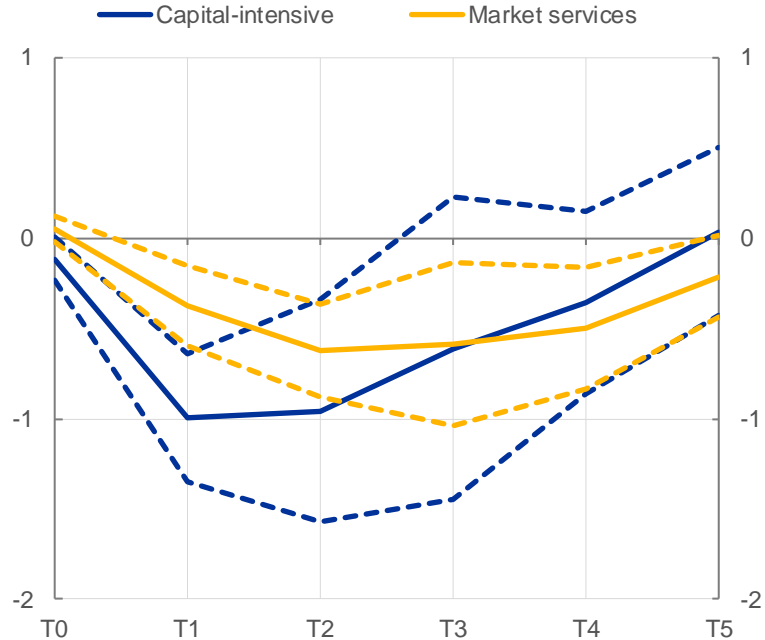


Source: S&P Global.

Notes: Dotted lines refer to 2023 PMI composite. Output and new orders correspond to manufacturing and composite and business activity and new business to services. The latest observations are for October 2024.

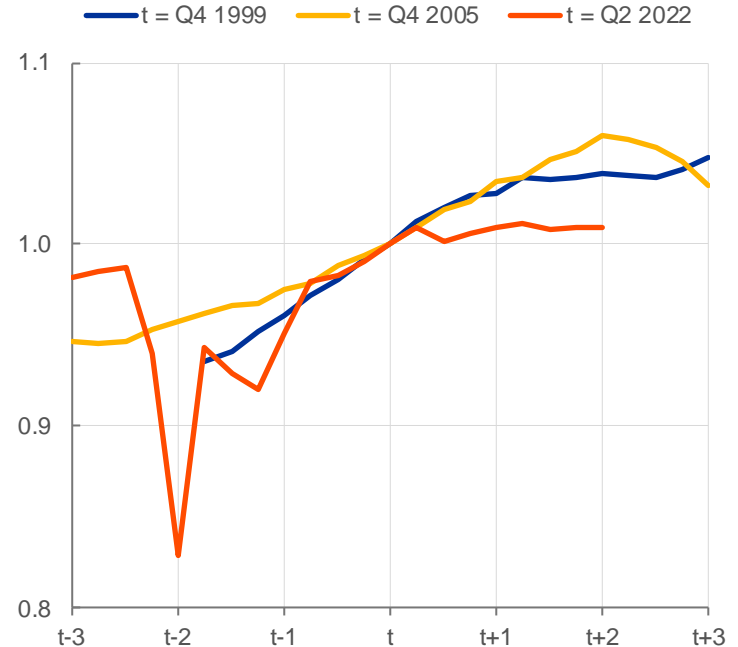
# Recovery still facing headwinds; sluggish domestic demand

## Monetary policy tightening on gross value added (percentages)



Sources: Eurostat and ECB calculations. Notes: The chart shows the impact of a 25bps hike over a five-year horizon. The broken line indicates a 90% confidence interval. The market services sector includes, among others, wholesale and retail trade, transportation, accommodation and food services, information and communication, and financial and real estate services. The capital-intensive sector includes, among others, mining, manufacturing, energy and water supply, and construction. For the specification see Hauptmeier S., Holm-Hadulla F., Saporito E., "Economic structure and the real effects of monetary policy" (forthcoming), and ECB Economic Bulletin, Issue 7/2023.

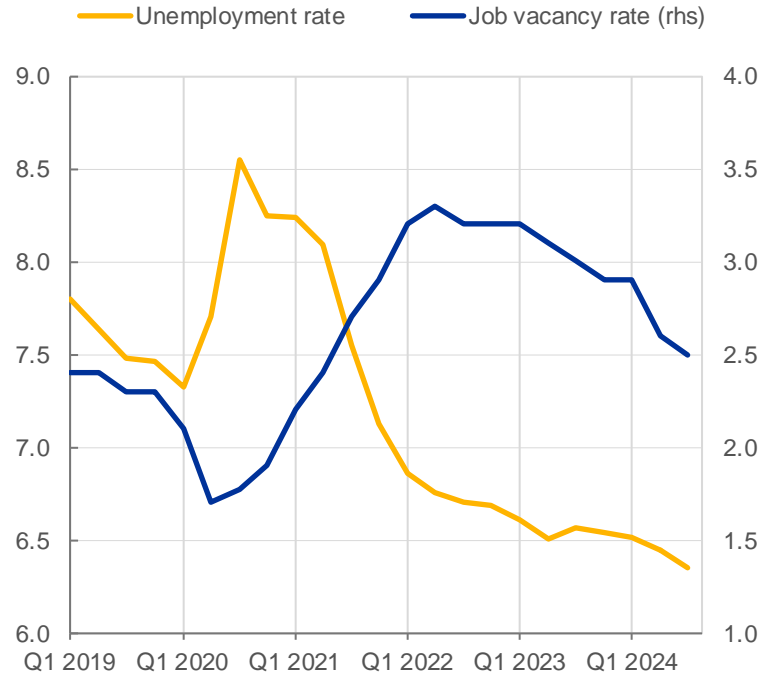
## Euro area final sales to domestic purchasers (indices)



Sources: Eurostat and Bureau of Economic Analysis. Notes: The lines show the ratio of final sales to domestic purchasers compared to the starting point t. The x axis shows years from t. Final sales to domestic purchasers is defined as the sum of personal consumption expenditures and gross private fixed investment excluding non-residential construction. The index is normalised t=1. Latest observations are for Q2 2024.

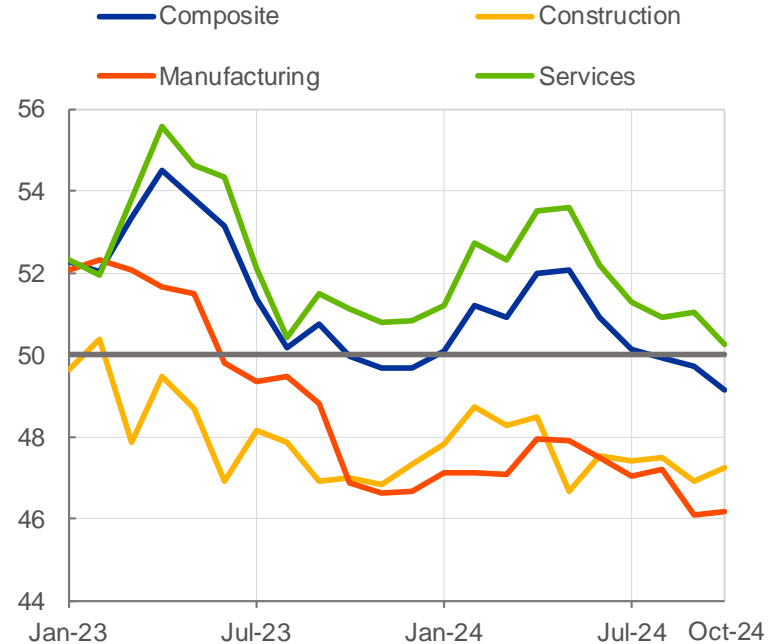
# Recovery still facing headwinds; signs of cooling in labour markets

## Job vacancy rate and unemployment rate (percent)



Sources: Eurostat and ECB staff calculations.  
Note: Job vacancy rate is defined as the percentage of vacant jobs compared to the total number of jobs (the sum of vacant and occupied jobs) in a country.  
Latest observation: Q3 2024.

## PMI employment (diffusion index)

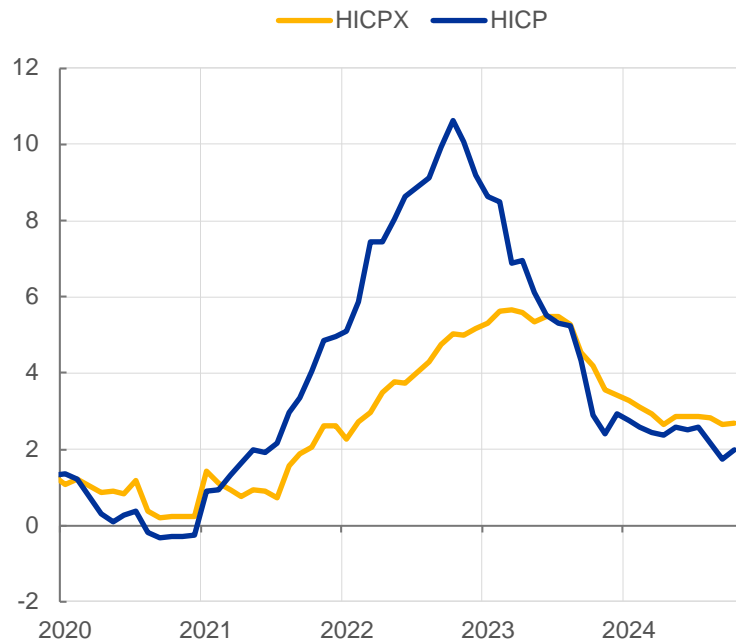


Source: S&P Global.  
Note: A value of 50 indicates the neutral threshold between expansionary territory (>50) and contractionary territory (<50).  
Latest observation: October 2024.

# Disinflation with gradual shift from non-core to core and from goods to services

## Headline and core inflation

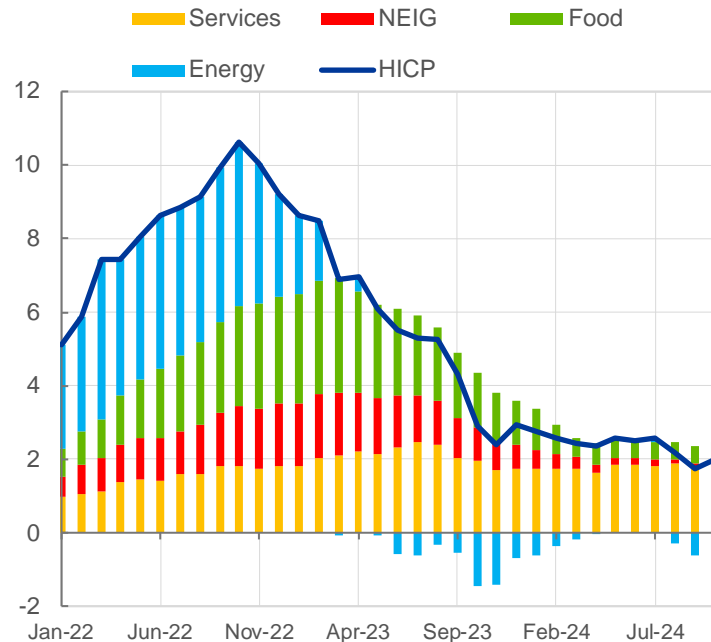
(annual percentage changes)



Source: Eurostat.  
Latest observation: October 2024.

## Components of inflation

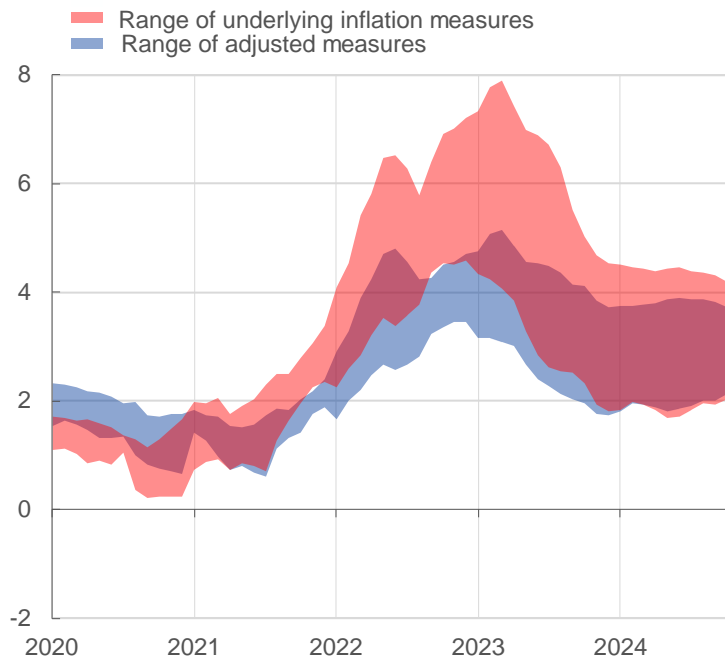
(annual percentage changes; pp contributions)



Sources: Eurostat and ECB calculations.  
Latest observations: October 2024.

## Indicators of underlying inflation

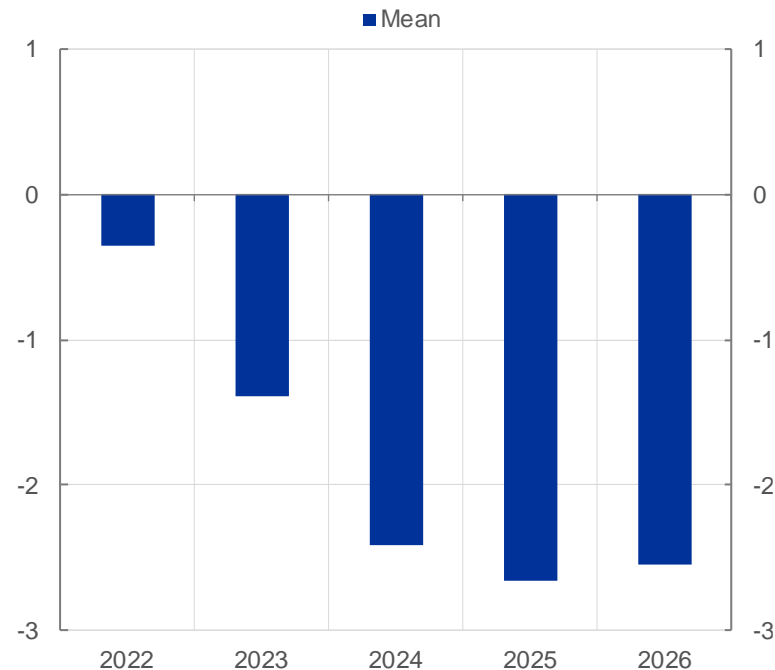
(annual percentage changes)



Notes: Range of underlying inflation measures include: HICP ex. energy, HICP ex. unprocessed food and energy, HICP ex. energy and food (HICPX), HICP ex. energy, food, travel-related items and clothing (HICPXX), PCCI, PCCI ex. energy, Supercore, and Domestic Inflation. The 'adjusted' measures abstract from energy and supply-bottleneck shocks using a large SVAR (see Bařbura, Bobeica and Martınez Hernandez, (2023), "What drives core inflation? The role of supply shocks", ECB Working Paper, 2875), subtracted mechanically from each measure. Latest observation: October 2024.

## Impact of monetary policy tightening on HICP inflation

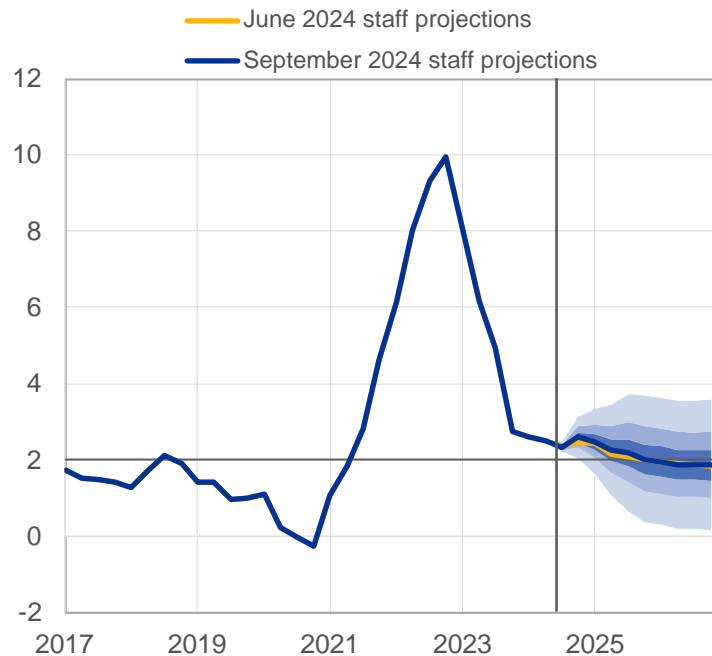
(year-on-year percentage points)



Source: ECB calculations based on the New Area-Wide Model (Coenen, Karadi, Schmidt, Warne, 2019), the MMR model (Mazelis, Motto, Ristinieni, 2023), and the BASE model (Angelini, Bokan, Christoffel, Ciccarelli, Zimic, 2019). Notes: This chart reports the results of a simulation involving changes to short-term rate expectations between December 2021 and April 2024, and changes to expectations regarding the ECB's balance sheet between October 2021 and April 2024. "Mean" denotes the average across six model variants. Latest observation: 23 April 2024 for the underlying short-rate expectations from MP-dated ESTR forward contracts. April 2024 SMA expectations for the balance sheet. [www.ecb.europa.eu](http://www.ecb.europa.eu)

## ECB staff macroeconomic projection: euro area HICP inflation

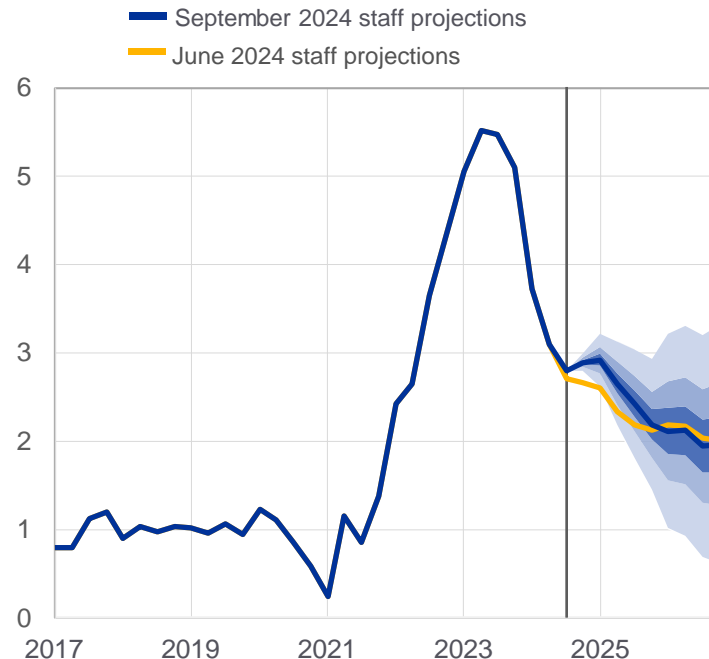
(annual percentage changes)



Notes: The ranges shown around the central projections for HICP inflation are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICP inflation will fall within the respective intervals. The vertical line marks the start of the projection horizon for the September staff projections.

## ECB staff macroeconomic projection: euro area HICP inflation excl. energy and food

(annual percentage changes)



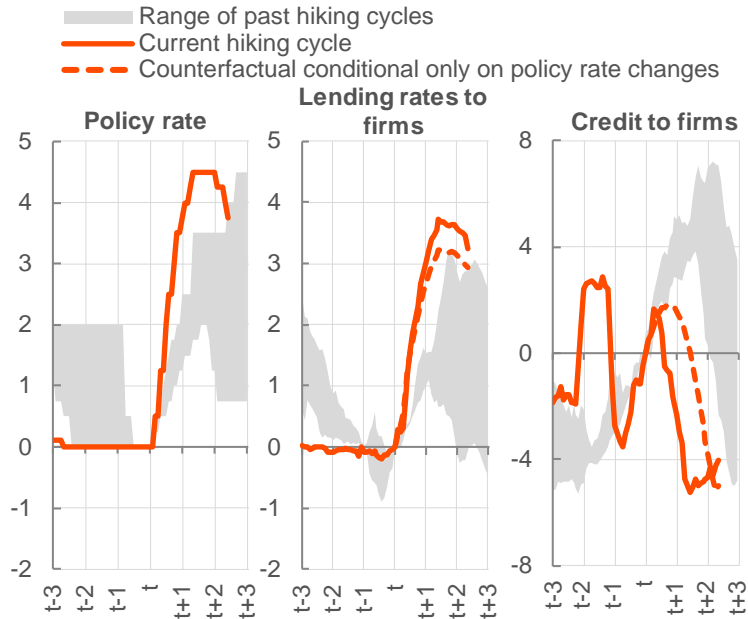
Notes: The ranges shown around the central projections for HICP excl. energy and food inflation are based on past projection errors, after adjustment for outliers. The bands, from darkest to lightest, depict the 30%, 60% and 90% probabilities that the outcome of HICP excl. energy and food inflation will fall within the respective intervals. The vertical line marks the start of the projection horizon for the September staff projections.



# Strong monetary policy transmission to border financing conditions...

## Monetary policy transmission across hiking cycles

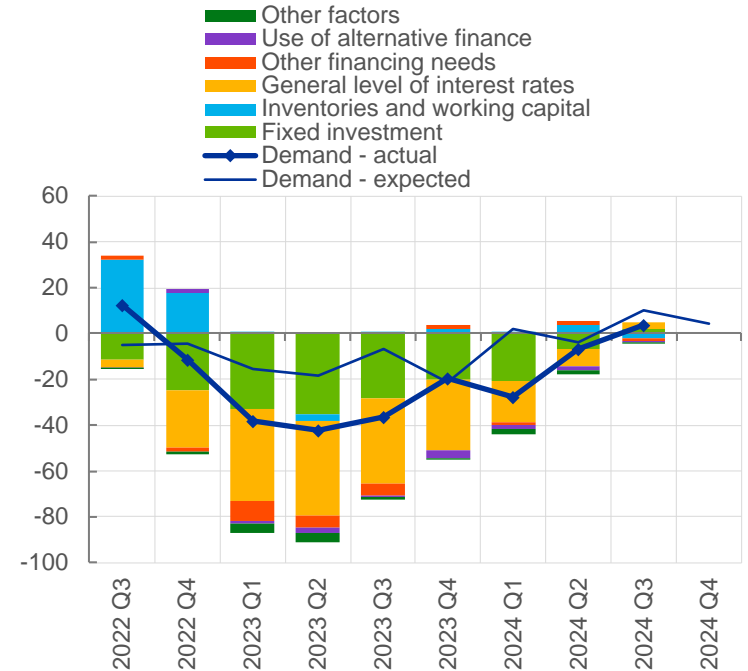
(x-axis: years; y-axis: cumulative changes in p.p. for rates, firm's credit growth in deviation from cycle start (t) in p.p.)



Sources: ECB (BSI, CSEC, MIR) and ECB calculations. Notes: The ECB relevant policy rate is the Lombard rate up to December 1998, the MRO up to May 2014 and the DFR thereafter. Credit to firms is the sum of bank loans and debt securities. Lending rates refer only to bank loans. Hiking cycles are those starting in: June 1988, October 1999, November 2005 and May 2022. The dotted lines show counterfactuals for lending rates and lending volumes, taking December 2021 as the last observation. Latest observations: Policy rate October 2024, lending rates and loans to firms September 2024.

## Changes in demand for loans to firms

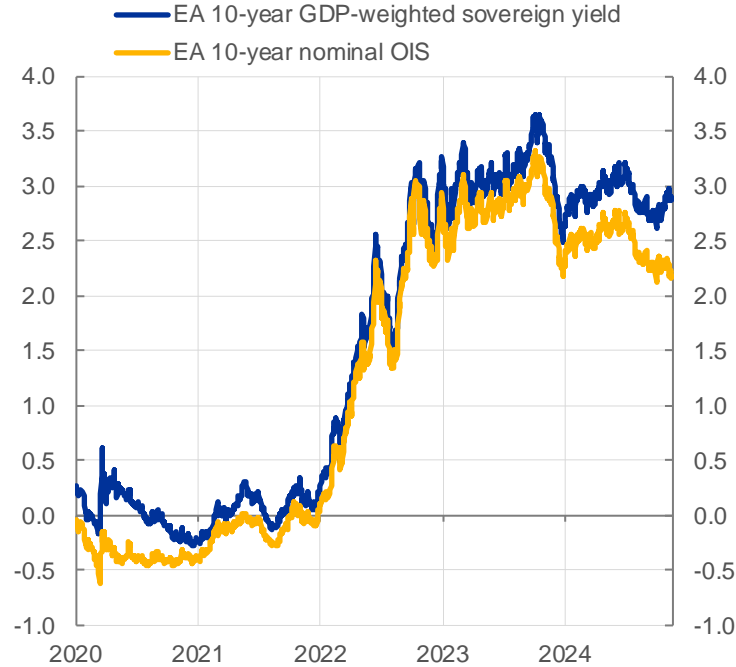
(net percentages)



Source: ECB (BLS). Notes: "Other financing needs" is the average of "M&A and corporate restructuring" and "debt refinancing/restructuring and renegotiation". "Use of alternative finance" is the average of "internal financing", "loans from other banks", "loans from non-banks", "issuance/redemption of debt securities" and "issuance/redemption of equity". The latest observations are for Q3 2024 for backward-looking series and Q4 2024 for forward-looking series.

## 10-year GDP-weighted sovereign yield and 10-year nominal OIS in the euro area

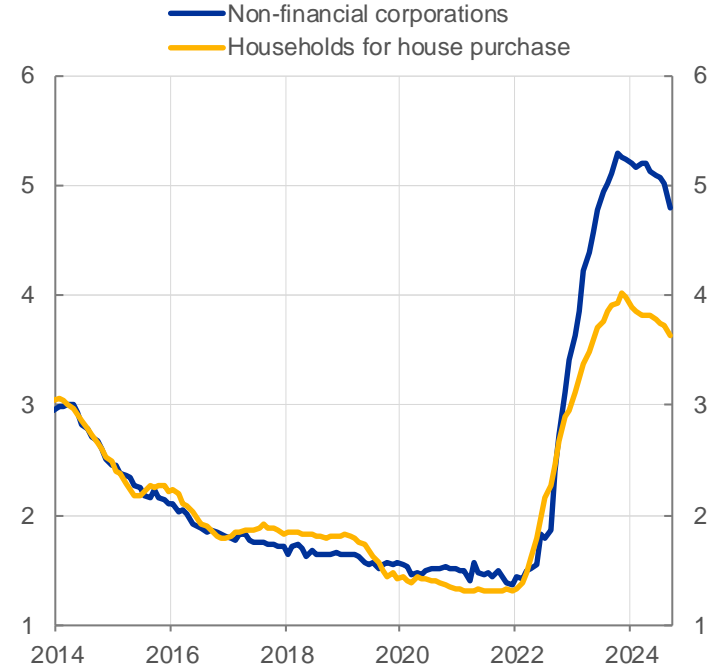
(percentages per annum)



Sources: LSEG and ECB calculations.  
Latest observation: 18 November 2024.

## Lending rates to firms and households in the euro area

(percentages per annum)



Source: ECB (MIR).

Notes: The indicator for the total cost of borrowing is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes.  
Latest observation: September 2024.

**Thank you**