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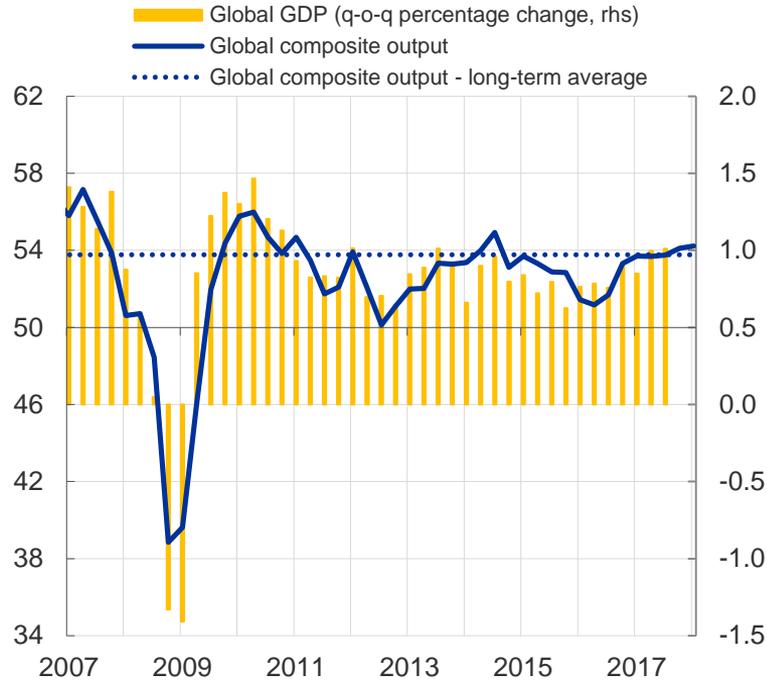
Economic developments in the euro area

European Finance Forum

Frankfurt am Main, 9 April 2018

Global PMI composite output and global output

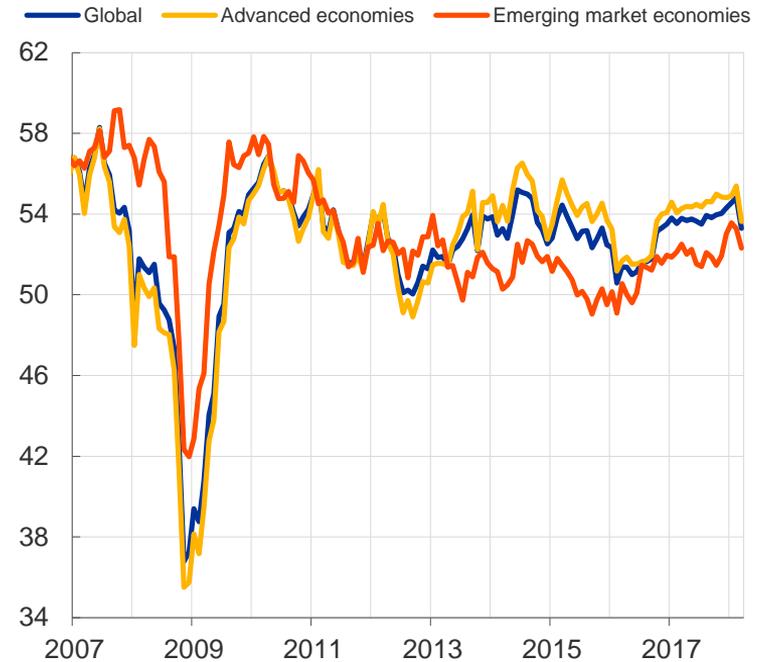
(diffusion index, lhs; q-o-q percentage change, rhs)



Sources: Markit, ECB calculations.
 Note: Long-term average refers to 1999 onwards.
 Latest observation: 2018Q1 (PMI) and 2017Q3 (global GDP).

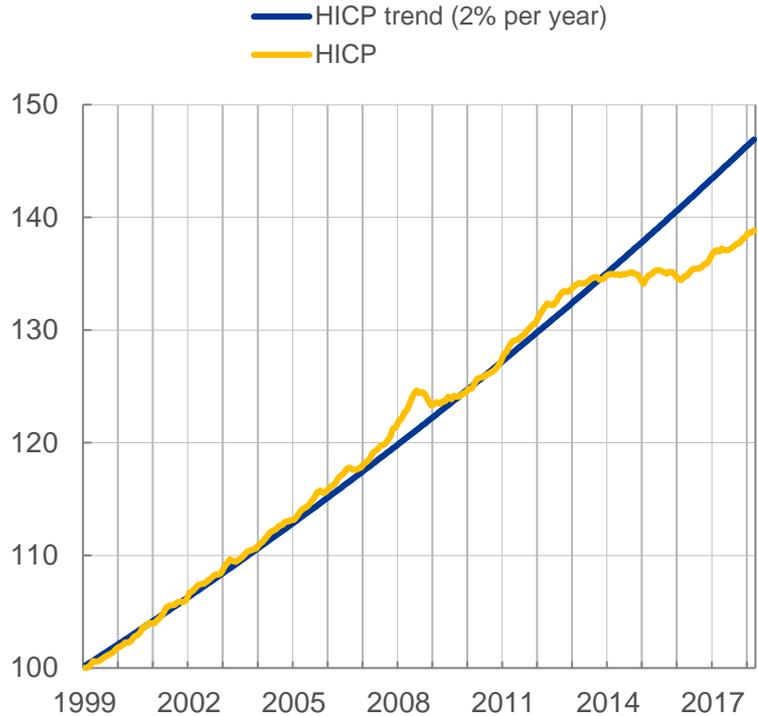
Composite output PMIs

(diffusion index; SA; monthly data)



Sources: Markit, ECB calculations.
 Latest observation: March 2018.

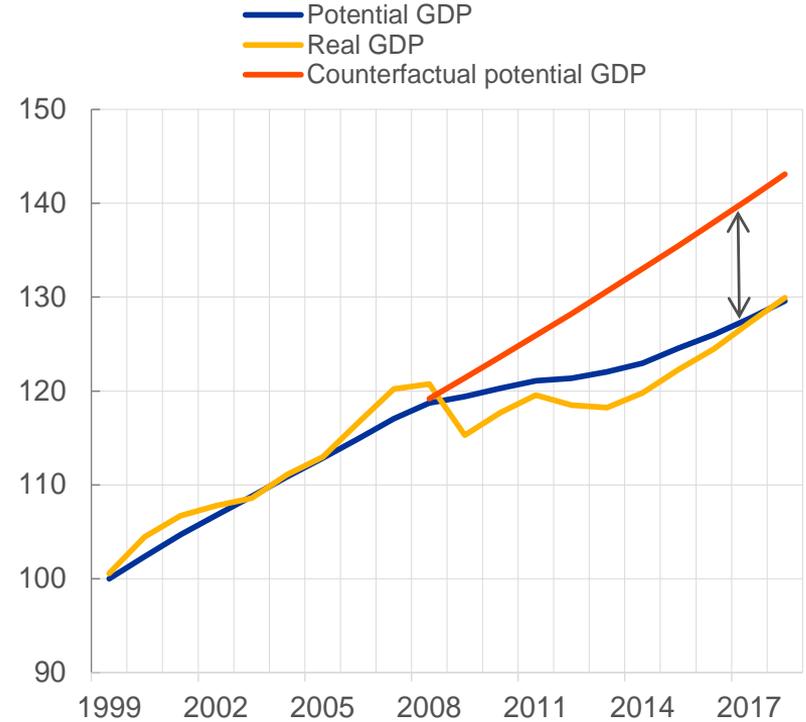
Euro area HICP



Sources: Eurostat, ECB calculations.
Latest observation: March 2018 flash estimate.

Euro area real GDP level

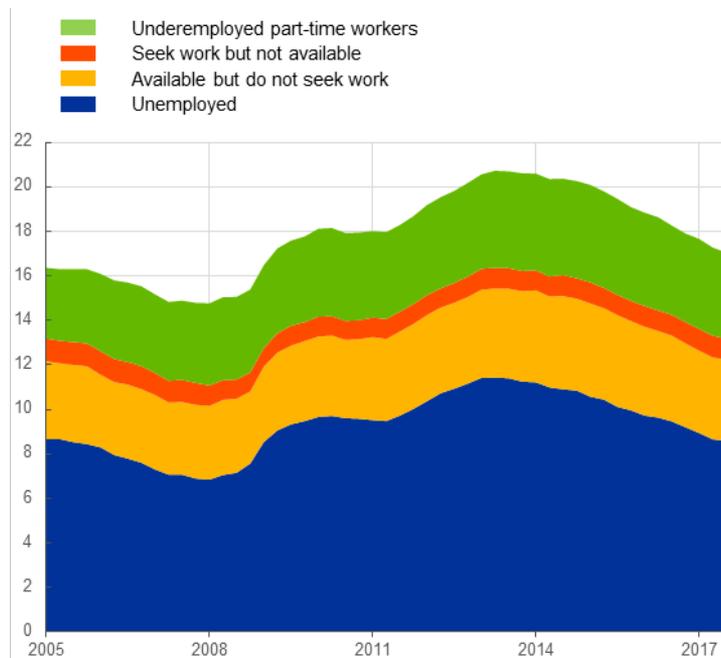
(1999 = 100)



Sources: Commission autumn 2017 forecast, ECB calculations.

The broad unemployment rate and its components

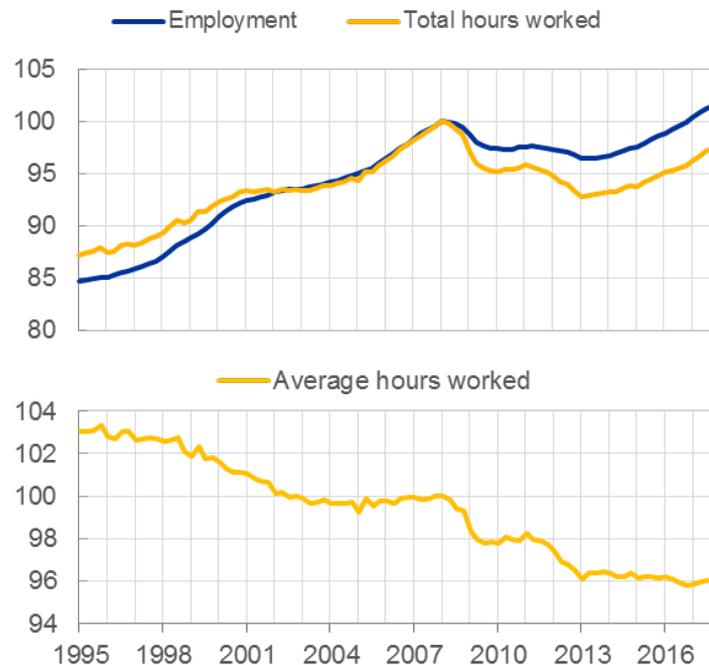
(percentage of the extended labour force)



Sources: Eurostat, ECB calculations.
Notes: Corrected for the impact of methodological changes.
Latest observation: 2017Q3.

Employment, total hours worked and average hours worked

(index, 2008Q1=100)



Source: Eurostat.
Latest observation: 2017Q4.

Sources of household income growth

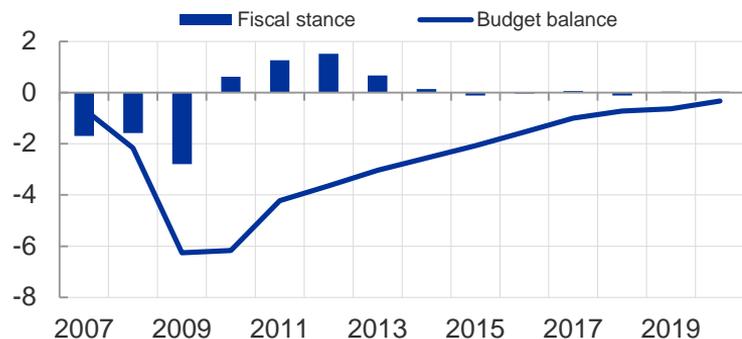
(average annual percentage points, percentages)

	Pre-crisis	2008Q3- 2009Q4	2010-2013	2014-2015	2016-2017
Contributions from:					
Compensation of employees	1.3	-0.1	0.3	1.0	1.6
Other income	0.7	-2.1	-0.2	-0.2	0.4
Direct taxes and transfers	-0.2	1.5	-0.3	-0.3	-0.5
Terms of Trade	-0.1	0.9	-0.7	0.8	0.1
Real disposable income	1.7	0.2	-0.9	1.3	1.6

Sources: Eurostat, ECB calculations.

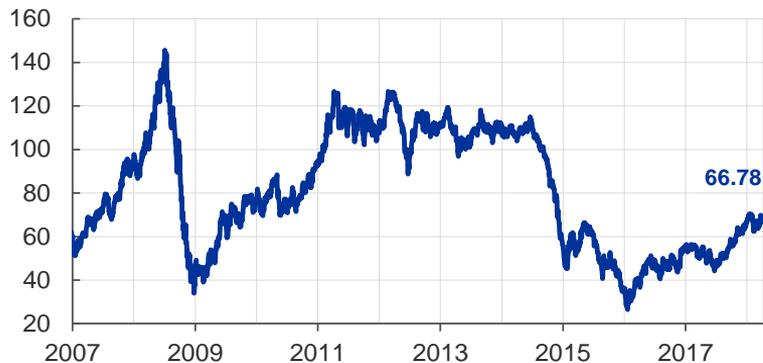
Note: All income components are deflated with the GDP deflator. Other income refers to operating surplus and property income. The contribution from the terms of trade is proxied by the differential between the GDP and the consumption deflator. Gross disposable income is deflated with the consumption deflator. The pre-crisis sample covers 2000Q1-2008Q2. Latest observation: 2017Q3.

Euro area fiscal outlook and stance (percent of GDP)



Source: March 2018 MPE. Notes: The fiscal stance is measured as the change in the cyclically adjusted primary balance net of government assistance to the financial sector.

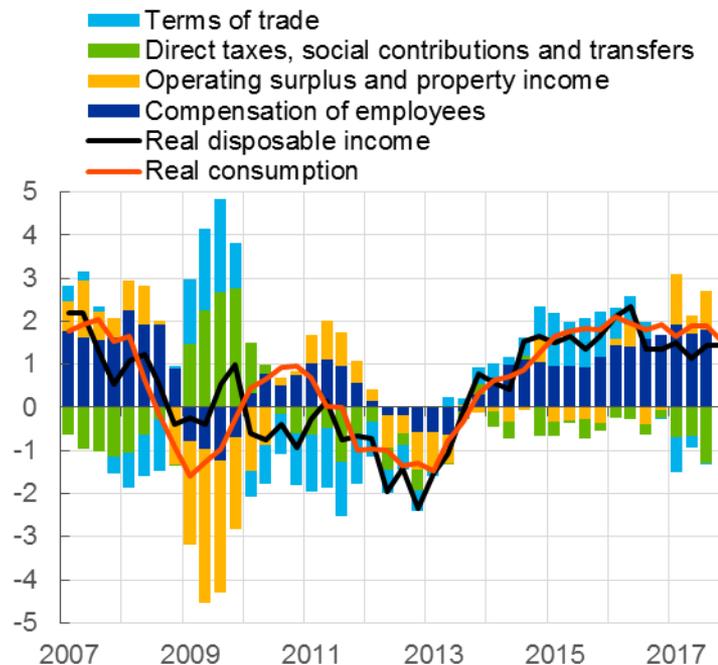
Oil (USD/barrel)



Source: Bloomberg. Latest observation: 6 April 2018.

Real disposable income and consumption

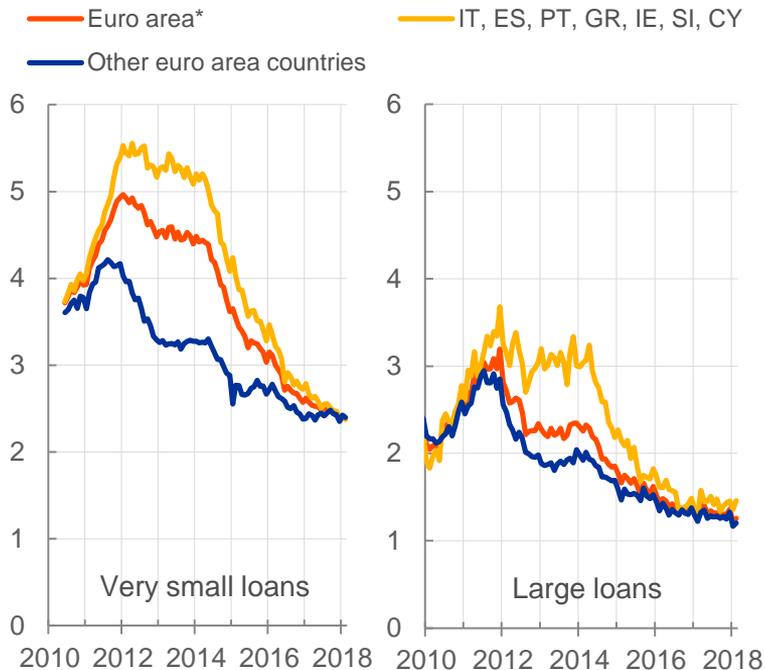
(annual percentage changes, pp)



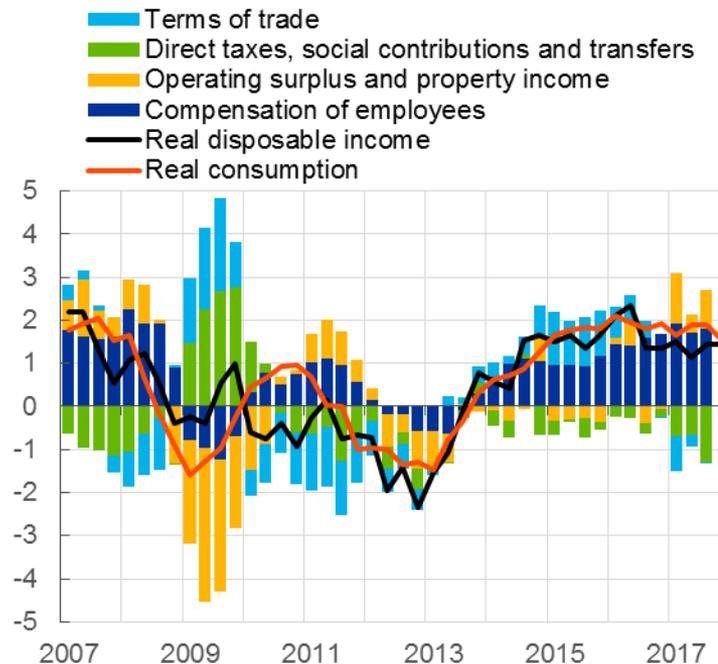
Sources: Eurostat, ECB calculations.

Note: All income components are deflated with the GDP deflator. The contribution from the terms of trade is proxied by the differential between the GDP and the consumption deflator. Consumption and gross disposable income are deflated with the consumption deflator. Latest observations: 2017Q3 for income components, 2017Q4 for consumption and disposable income.

Bank lending rates for very small versus large loans to NFCs (percentages per annum)



Real disposable income and consumption (annual percentage changes, pp)



Source: ECB.

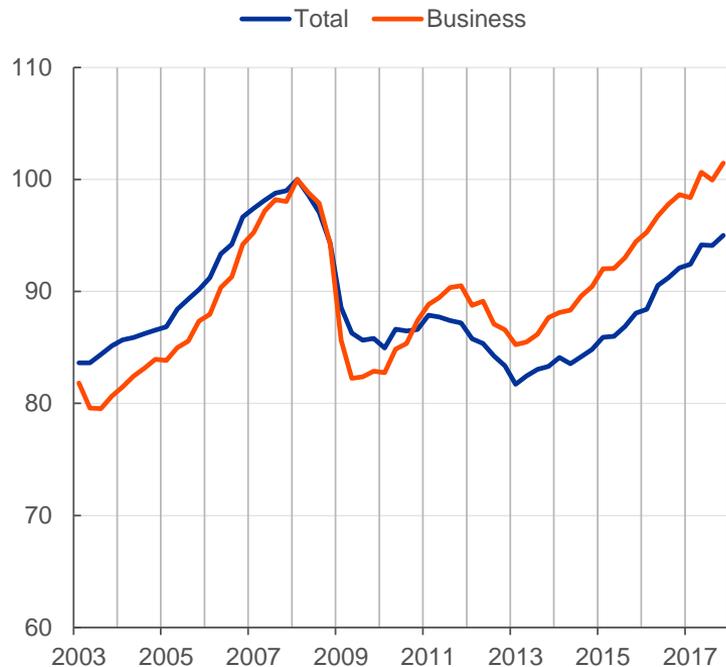
Notes: Very small loans are loans of up to €0.25 million, while large loans are those above €1 million. Aggregation is based on new business volumes. *The euro area series is calculated as weighted average of country spreads. Latest observation: February 2018.

Sources: Eurostat, ECB calculations.

Note: All income components are deflated with the GDP deflator. The contribution from the terms of trade is proxied by the differential between the GDP and the consumption deflator. Consumption and gross disposable income are deflated with the consumption deflator. Latest observations: 2017Q3 for income components, 2017Q4 for consumption and disposable income.

Real investment

(2008Q1 = 100)



Sources: March 2018 MPE, ECB calculations.

Note: Euro area business investment excludes the estimated impact of Ireland in 2016.

Latest observation: 2017Q4.

Capacity utilisation

(capital goods sector, percent)



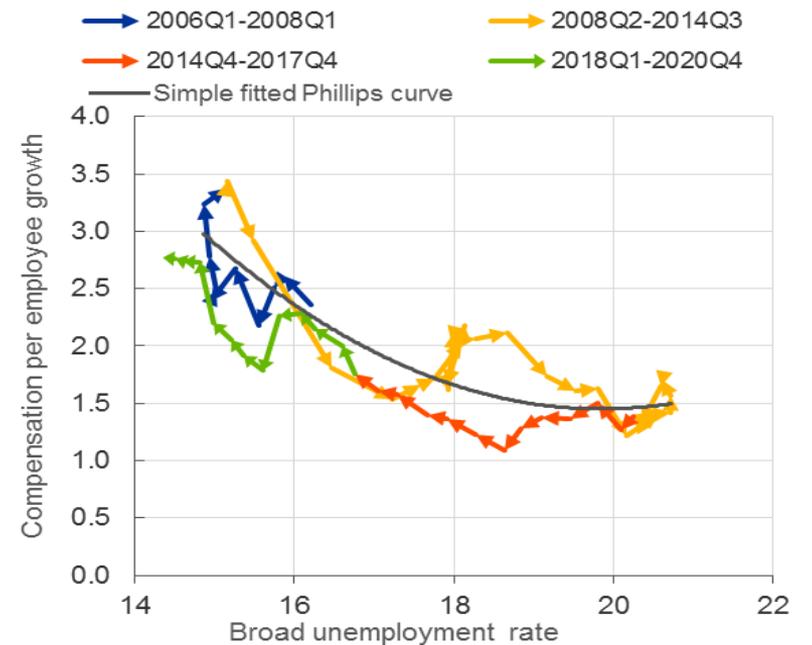
Sources: DG-ECFIN, ECB calculations.

Note: Long-term average refers to the period since 1987.

Latest observation: 2018Q1.

Wage Phillips curve

(x-axis: percentage points; y-axis: annual percentage changes)

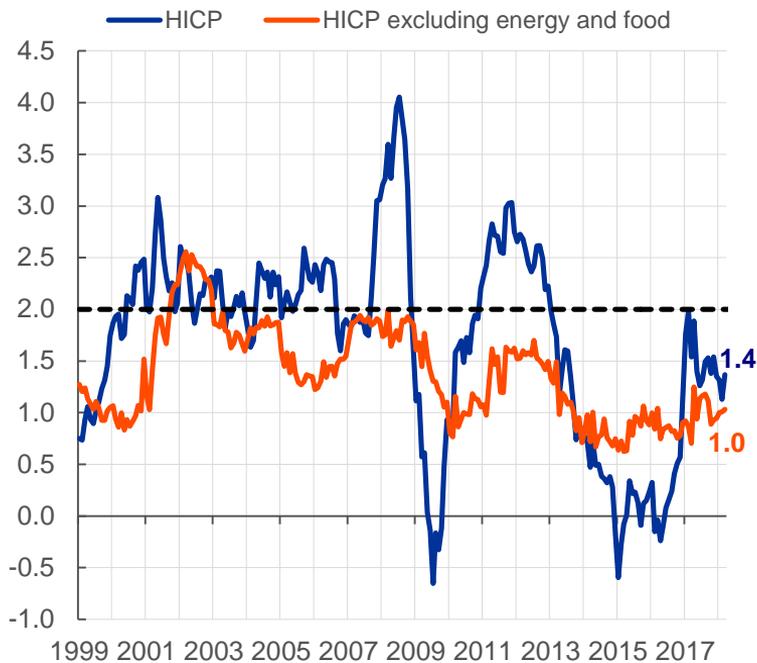


Sources: Eurostat, ECB calculations.

Note: Broad unemployment rate is the ratio of the (i) total unemployed, (ii) underemployed part-time workers who currently have jobs, although not at the optimal weekly hours they would like, and (iii) inactive persons who are marginally attached to the labour market plus all marginally attached workers. From 2018Q1 on: March 2018 MPE. The broad unemployment rate forecast assumes that the difference between the unemployment rate and the broad unemployment rate declines at the same pace as observed in the past 4 quarters. The black line represents a simple fitted Phillips curve. The fitted curve is based on data for 2006Q1 to 2017Q3. Latest observations: 2017Q3 for broad unemployment and 2017Q4 for compensation per employee.

HICP inflation and HICP excluding energy and food

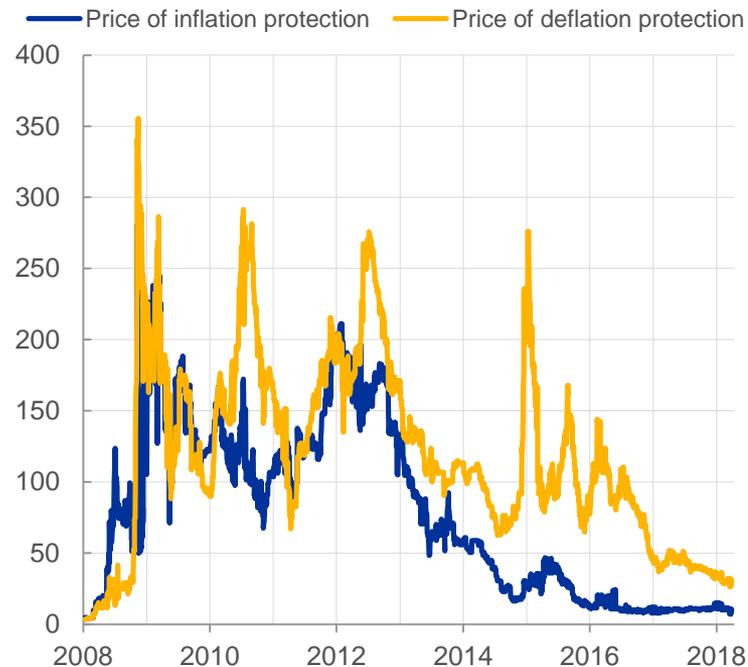
(annual percentage changes)



Sources: Eurostat, ECB calculations.
Latest observation: March 2018 (flash estimates).

Price of inflation and deflation protection

(percentages per annum)



Source: Bloomberg
Note: The price of inflation (deflation) protection refers to the price of a year-on-year inflation option with a 4% cap (0% floor) for a horizon of five years.
Latest observation: 28 March 2018

Background slides

Monetary policy stance determined by combination & interaction of:

- our **policy rates**,
- our **asset purchase programme**,
- and our **forward guidance** on each of these tools

... complemented by:

- the **TLTROs**, which will remain outstanding for the next three years

The ECB's forward guidance

Key ECB interest rates

- expected to remain at present levels for an extended period of time
- and well past horizon of **net asset purchases**

Asset Purchase Programme (APP)

- **net asset purchases** intended to continue at monthly pace of €30 billion, until end-Sep 2018
- or beyond, if necessary & in any case until GovC sees sustained adjustment in path of inflation (SAPI) consistent with inflation aim
- Eurosystem will reinvest principal payments from maturing securities for an extended period of time after end of net purchases, and in any case for as long as necessary

Criteria for sustained adjustment in the path of inflation (SAPI)

Convergence

- Headline inflation on course to reach levels below, but close to 2% in the medium term;

Confidence

- Sufficient confidence in durable stabilisation of inflation around these levels;

Resilience

- Resilience of inflation convergence even after the end of net asset purchases.