

The globalisation of inflation

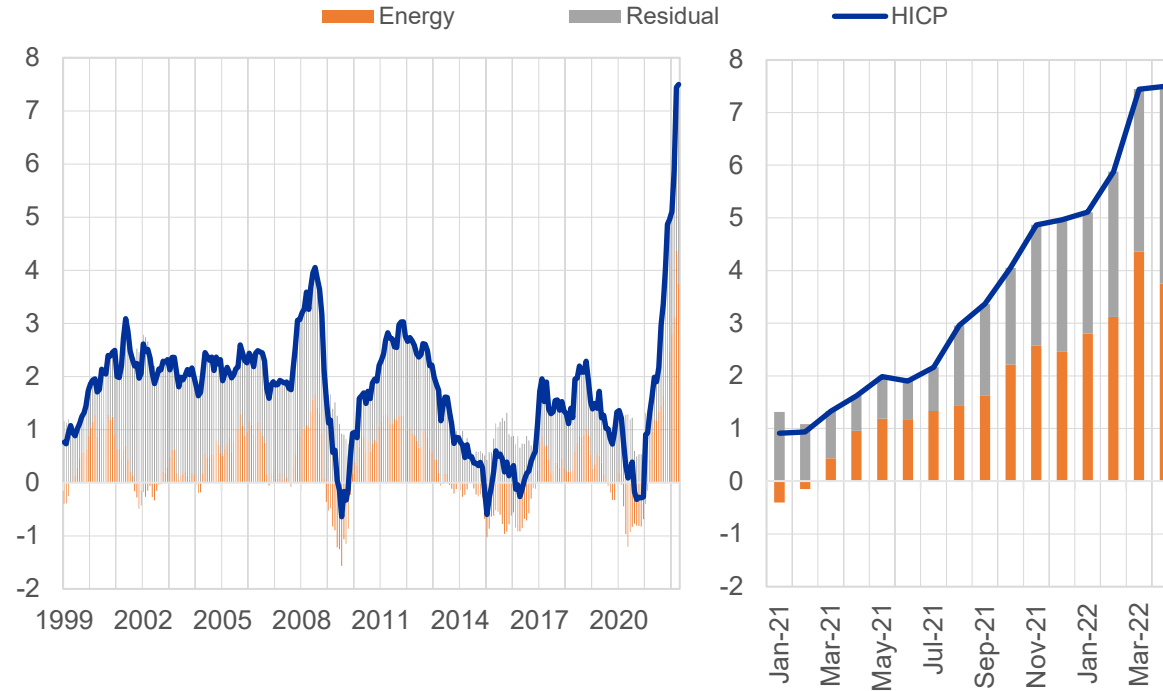
Isabel Schnabel, Member of the ECB's Executive Board

Keynote speech at a conference organised by the Österreichische Vereinigung für Finanzanalyse und Asset Management, 11 May 2022

Energy is the main contributor to headline inflation in the euro area

Energy contribution to HICP

(annual percentage changes; percentage point contributions)

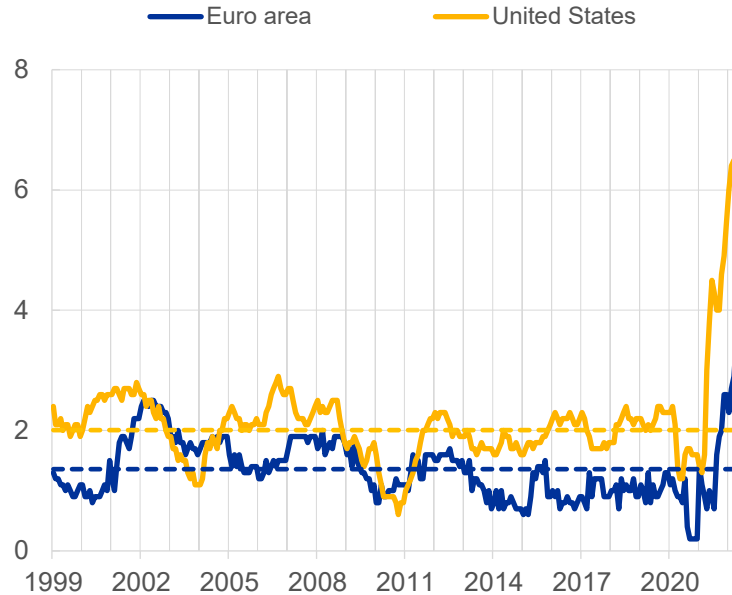


Source: Eurostat and ECB staff calculations.
Last observation: April 2022.

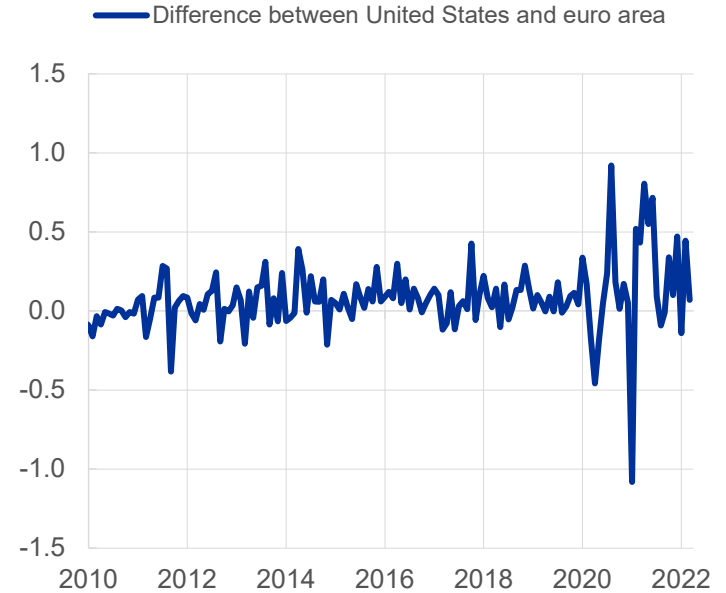
Differences in year-on-year rates conceal similarities in recent month-on-month rates

Inflation excluding energy and food

Annual percentage changes



Month-on-month changes



Sources: ECB, Eurostat, Haver DLX and ECB staff calculations.

Notes: Dashed lines refer to pre-pandemic averages, which range from January 1999 until March 2020.

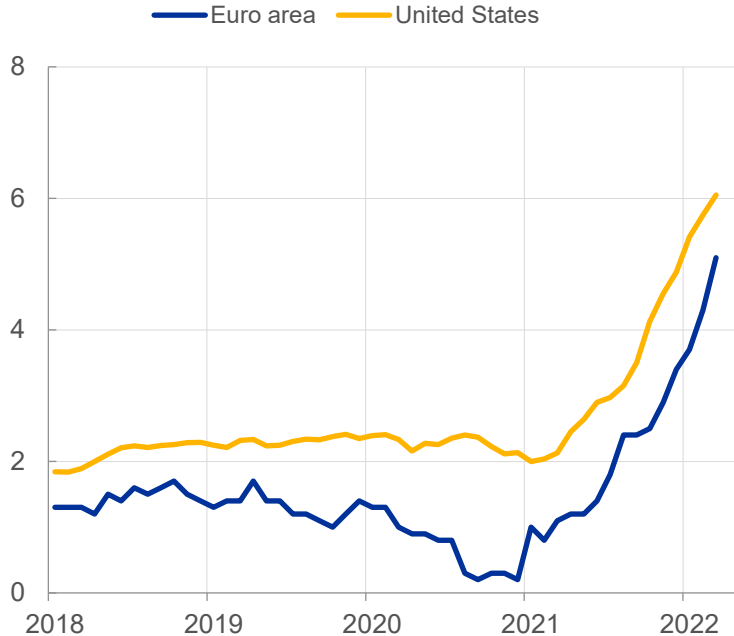
Latest observation: March 2022 for US and April (flash) for the euro area.

Sources: Haver DLX and ECB staff calculations.

Latest observation: March 2022.

Evidence of global price synchronisation in recent bout of inflation

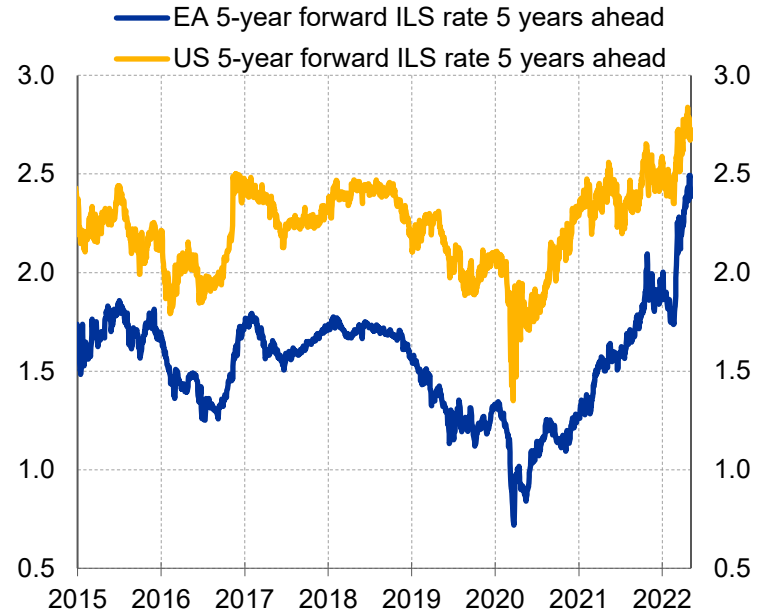
Trimmed-mean inflation (annual percentage changes)



Source: Eurostat, Federal Reserve Bank of Cleveland and ECB.

Notes: The trimmed mean excludes 16% of items for the US CPI (calculation by the Federal Reserve Bank of Cleveland) and 15% of items for the euro area HICP (based on ECB calculations). The trimmed means remove around 8% from each tail of the distribution of price changes in the euro area HICP and the US CPI each month. The annual rates of change are calculated using rescaled weights. The latest observations are March 2022.

Market-based measures of inflation compensation (percentages per annum)



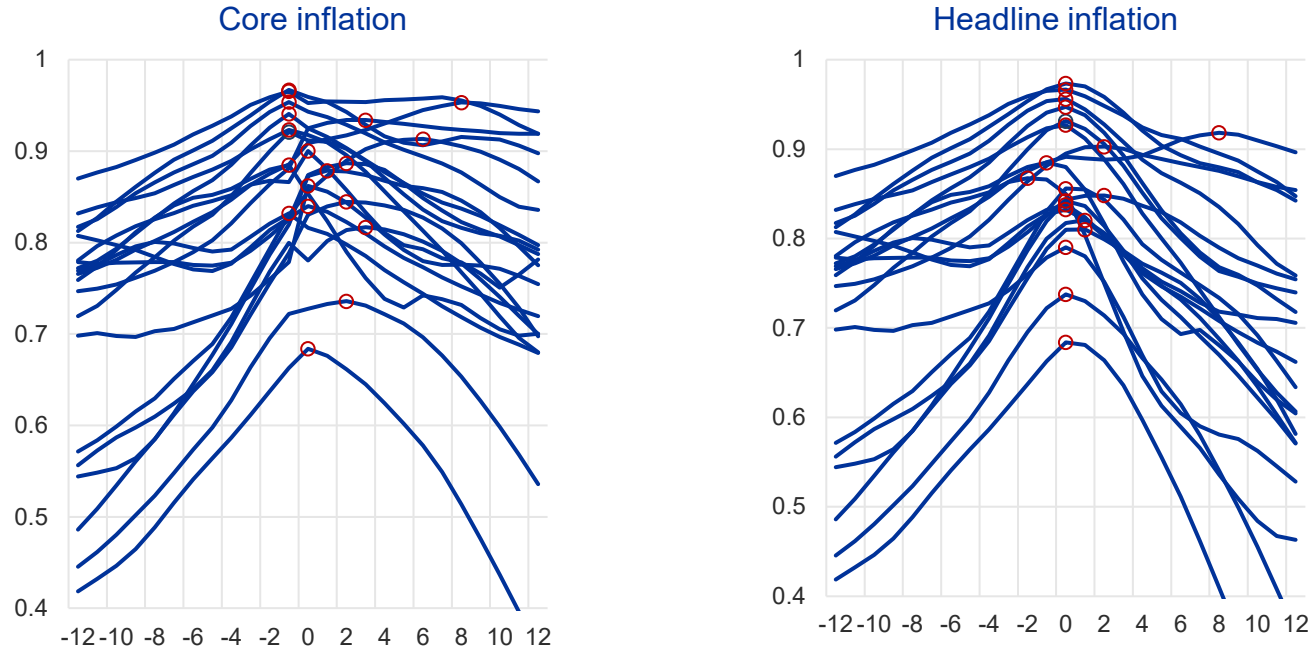
Source: Bloomberg, Refinitiv and ECB calculations.

Last observation: 5 May 2022.

Headline and core inflation were correlated across economies also before the pandemic

Inflation correlations across advanced economies

(correlation coefficient)



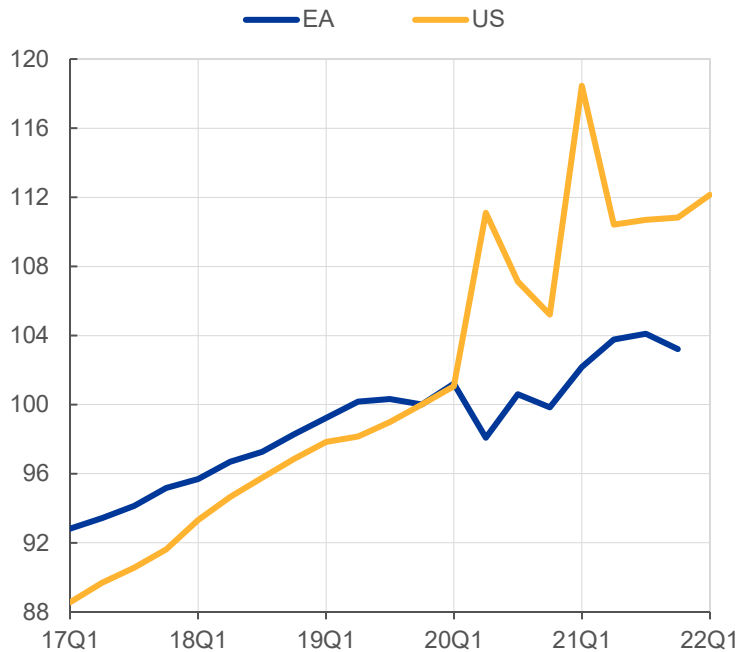
Source: ECB staff calculations.

Notes: Each line shows the correlation of core and headline inflation respectively for a set of advanced economies with the global mean. The red dots indicate the point in time when correlations are the highest, where 0 is contemporaneous correlation and negative values are lags. Negative x-values indicate inflation lags the mean.

Excess savings contribute to pushing up services price inflation

Nominal disposable personal income

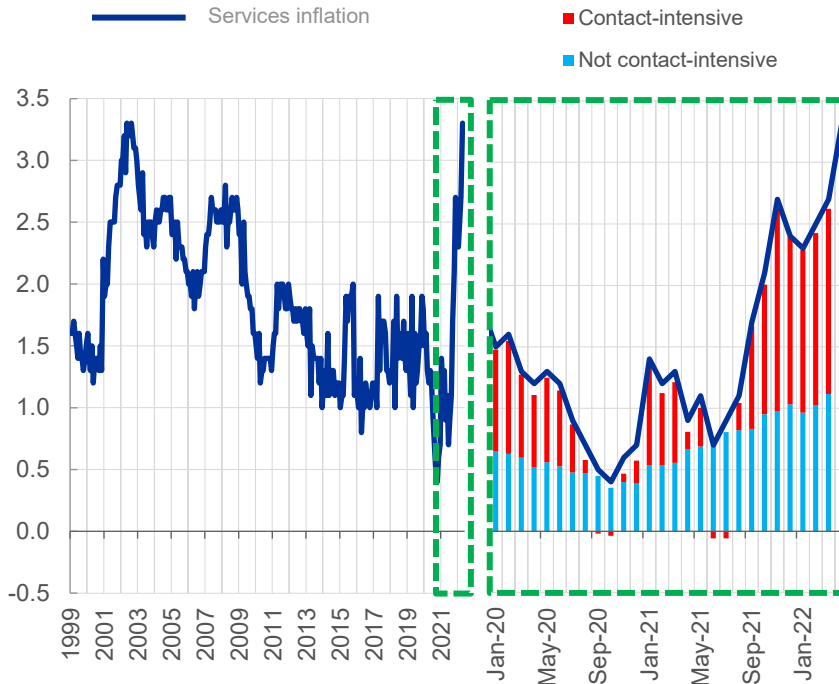
(indices, 2019Q4 = 100)



Sources: Eurostat, Bureau of Economic Analysis via Haver Analytics and ECB Staff Calculations.
Last observation: 2021Q4 (EA) and 2022Q1 (US).

Decomposition of services inflation in the euro area

(annual percentage changes, percentage point contributions)

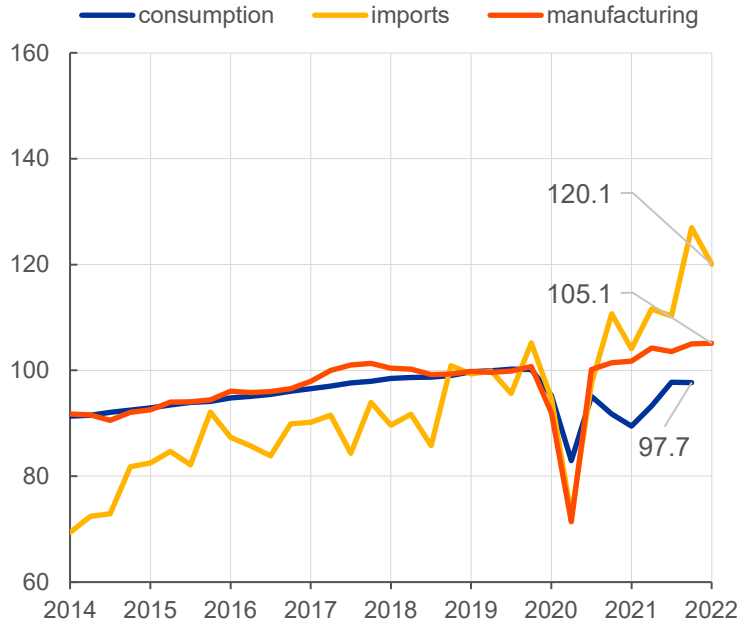


Source: Eurostat and ECB calculations.
Last observation: Decomposed with non-constant weights. Latest observation: April 2022 (flash) for services inflation, March 2022 for the rest.

Import boom in the United States has created excess global demand for durable goods

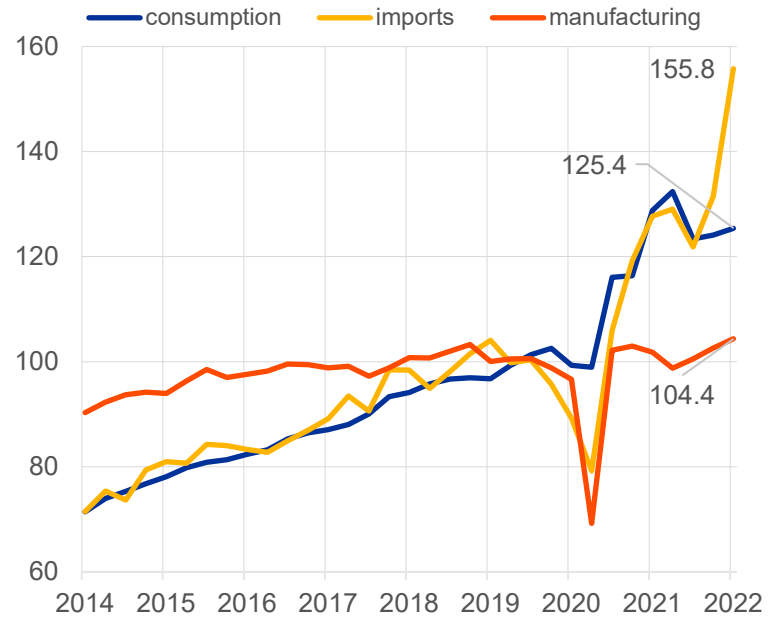
Durable goods (indices, 2019 = 100)

Euro area



Source: Eurostat and ECB staff calculations.
Last observation: 2022Q1 for imports and manufacturing and 2021Q4 for consumption. Notes: The 2022Q1 value for imports is based on January 2022 data and the 2022Q1 value for manufacturing is based on January and February 2022 data.

United States

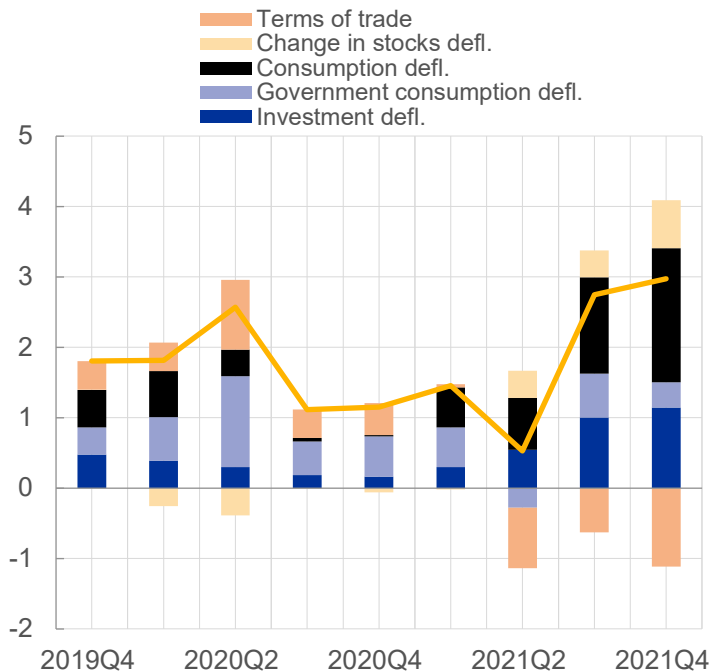


Source: Bureau of Economic Analysis and Federal Reserve Board via Haver Analytics and ECB Staff Calculations.
Last observation: 2022Q1.

Terms-of-trade shock is mitigated by rising export prices, boosting corporate profits

GDP deflator: expenditure side

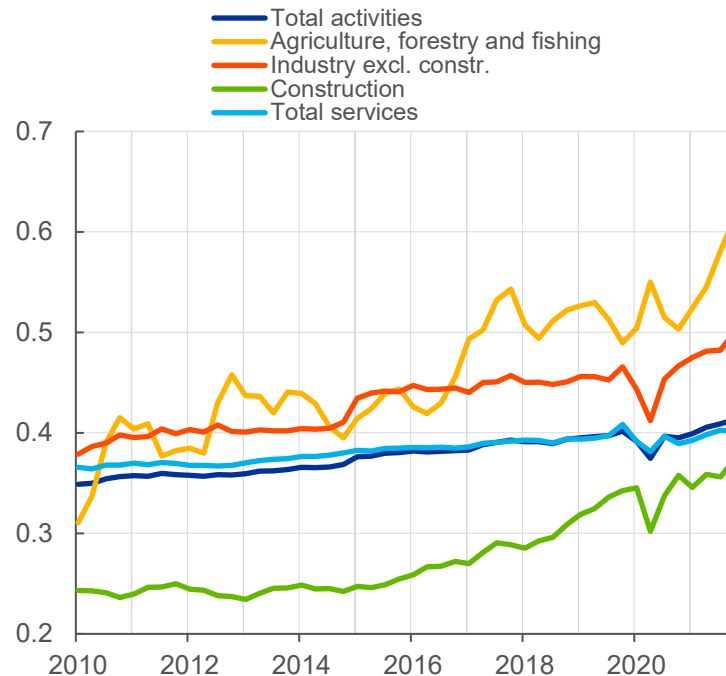
(annual percentage change and percentage point contributions)



Source: Eurostat and ECB staff calculations.
Last observation: 2021Q4.

Unit profits in main economic sectors

(indices)

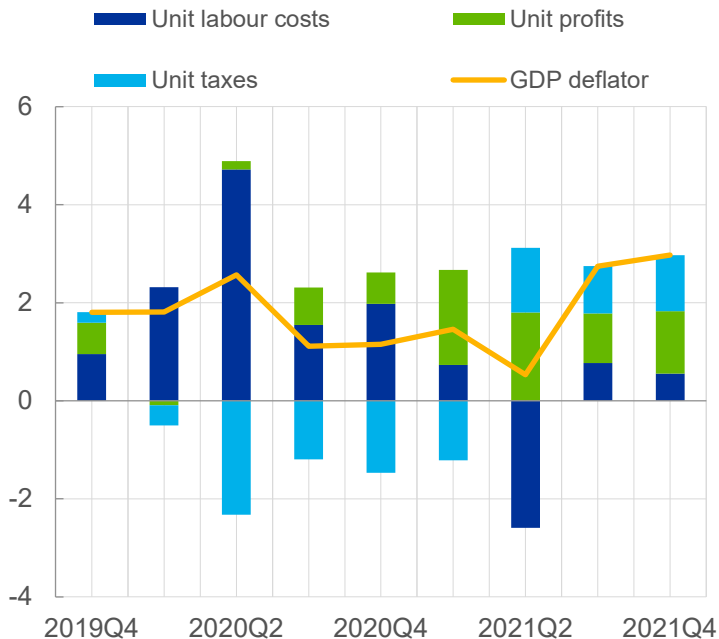


Source: Eurostat and ECB staff calculations.
Last observation: 2021Q4.

Profits, not wages were main contributor to inflation, as firms pass on higher costs

GDP deflator: income side

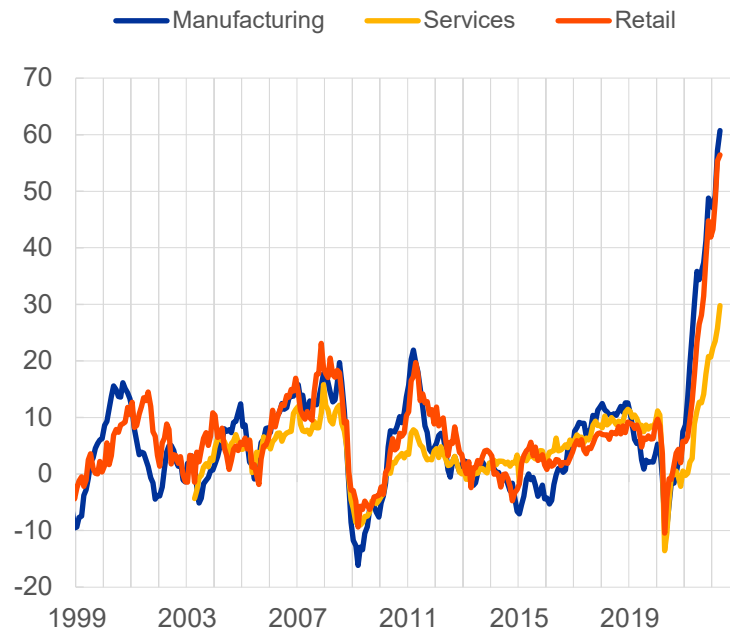
(annual percentage change and percentage point contributions)



Source: Eurostat and ECB staff calculations.
Last observation: 2021Q4.

Selling price expectations three months ahead

(percentage balances)

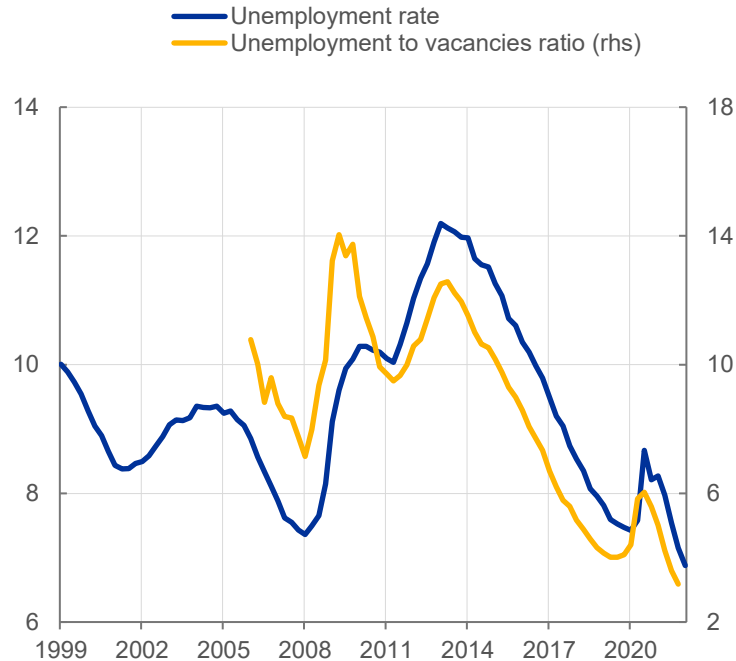


Source: European Commission.
Last observation: April 2022.

Euro area labour market continues to tighten

Unemployment and vacancies

(LHS: percent; RHS: ratio)



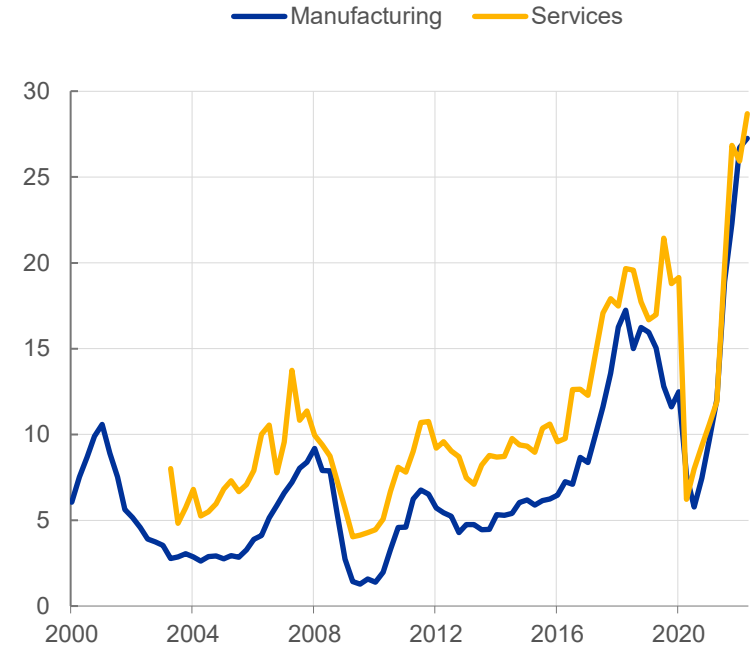
Source: Eurostat and ECB staff calculations.

Last observations: 2022Q1 for unemployment rate and 2021Q4 for unemployment to vacancies ratio.

Notes: IT and EE vacancies data not available. Vacancies data for FR only available for size-class greater than 10 employees.

Limits to production – shortage of labour

(percentage balances)



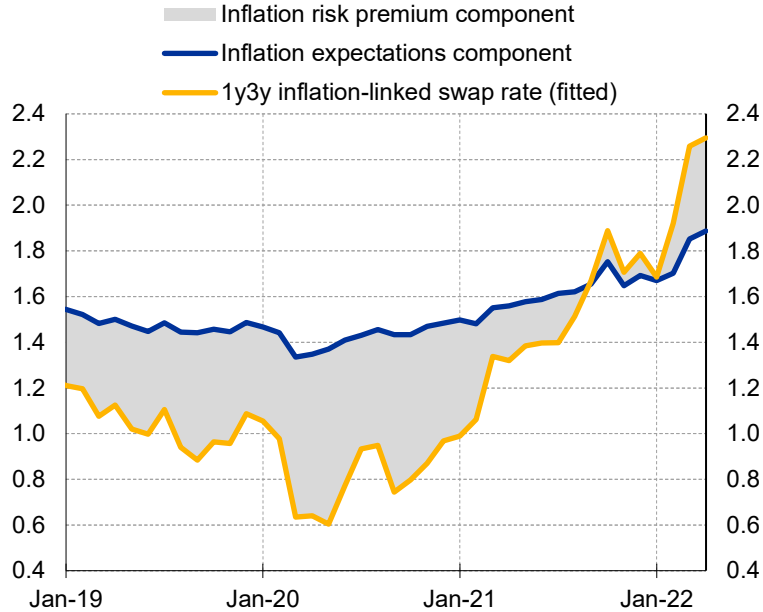
Source: European Commission.

Last observation: 2022Q2.

Medium-term inflation expectations are rising, raising the risks of a de-anchoring

Expectations for inflation three years ahead (annual percentage change)

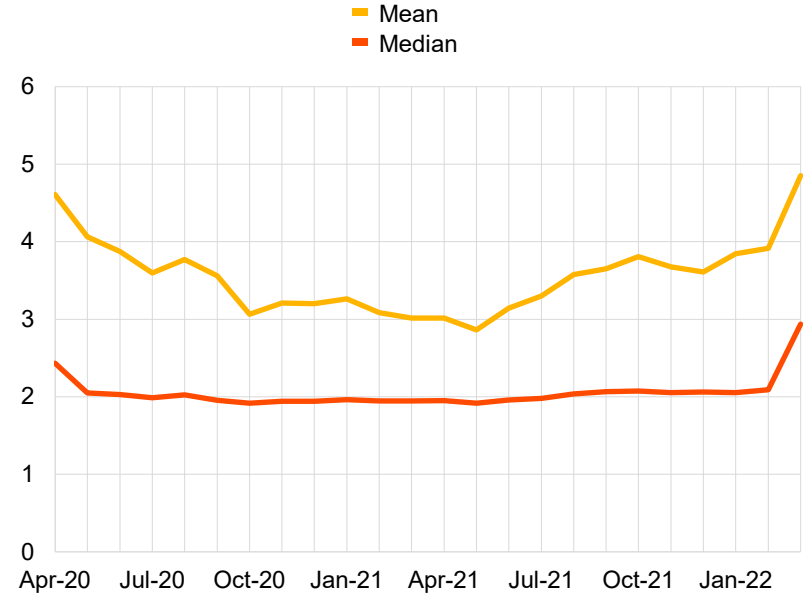
Financial markets



Source: Refinitiv and ECB calculations.

Note: The premia-adjusted 1y3y ILS rate represents average estimates based on two affine term structure models following Joslin, Singleton and Zhu (2011) applied to ILS rates adjusted for the indexing lag; for further details see Burban et al. (2022), ECB Economic Bulletin Issue 8, 2021, Box 4. Last observation: April 2022 (monthly data).

Consumers



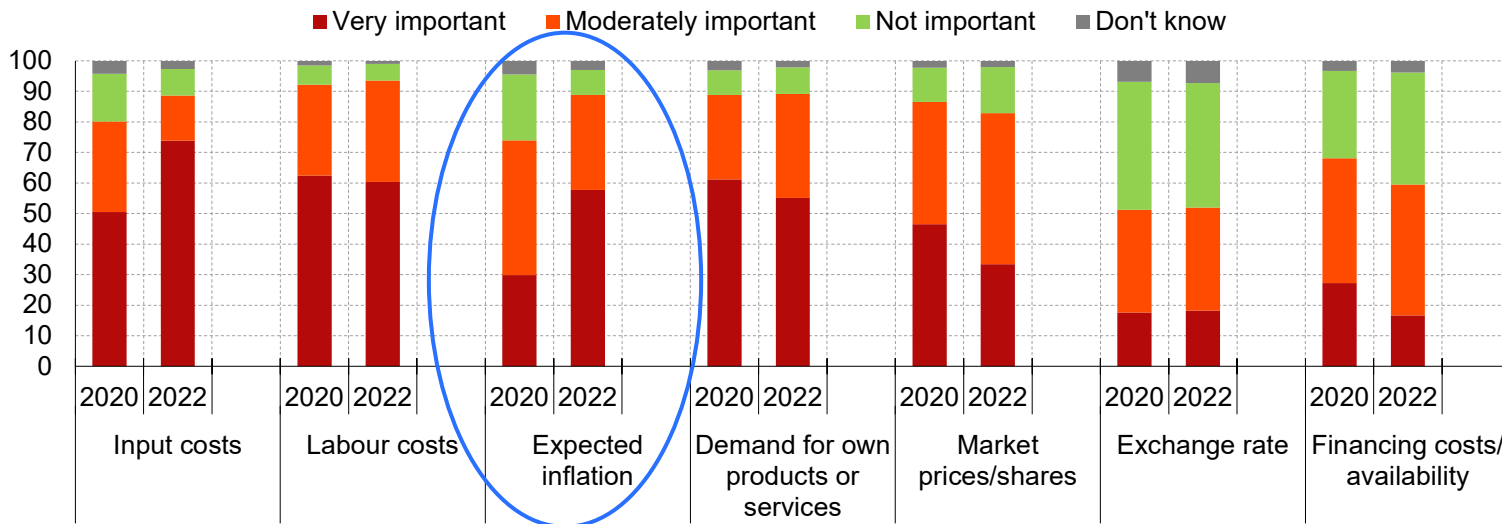
Source: ECB Consumer Expectations Survey (CES).

Last observation: March 2022. Respondents were asked the following question: "By about what percentage do you expect prices in general in the country you currently live in to increase/decrease over the 12-month period between two years from now and three years from now?" Note: Weighted estimates. The median is computed on the basis of a symmetric linear interpolation that accounts for rounding of responses. Mean values are winsorised at the 2nd and 98th percentiles of each survey round and country.

Expected inflation is becoming an important factor in determining future selling prices

Key factors influencing future changes in selling prices

(percentage of responses)



Source: Survey on the access to finance of enterprises (SAFE).

Notes: Base is all firms. The figures refer to survey rounds 22 (October 2019-March 2020) and 26 (October 2021-March 2022). Preliminary results for the latest round.

The chart depicts answers to question QA3: As regards the factors that you will take into account when setting or changing your selling prices over the next twelve months, please tell us whether you expect the following factors to be...?

Thank you for your attention!