



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Macroeconomic developments in the euro area

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Civil Society  
Seminar Series

19/03/2021

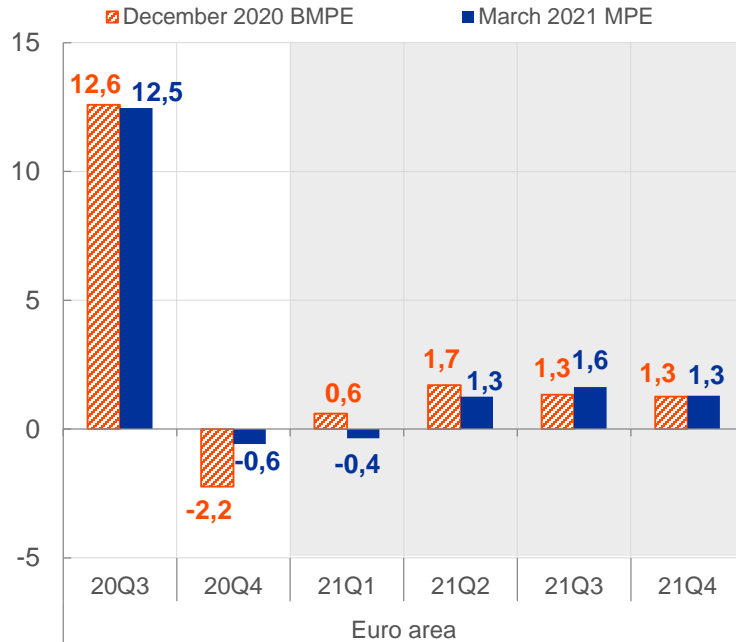


**Frank Smets**  
Director General Economics, ECB

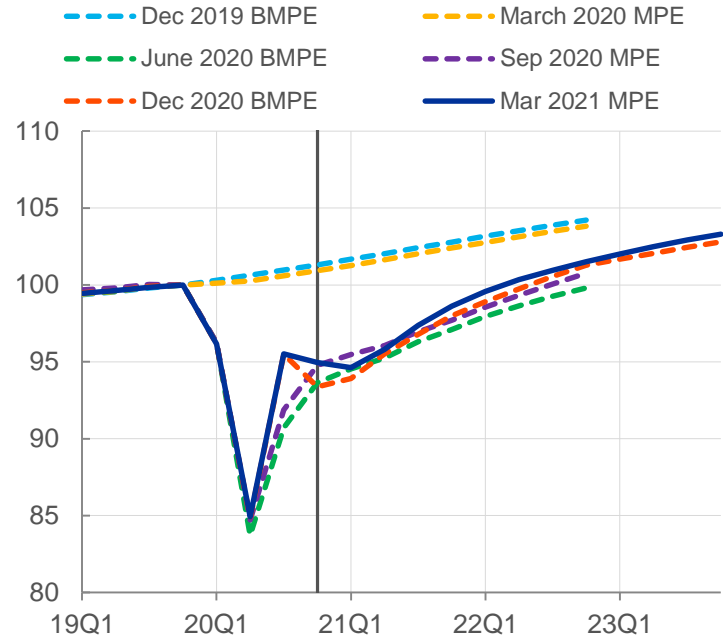
- Global and euro area outturn in 2020 stronger than expected
- March 2021 ECB projections: weaker short-term growth, firm rebound thereafter
- Third wave and tightening of restrictions weigh on the short-term growth outlook
- K-shaped impact: services weakening, manufacturing resilient
- Lockdowns push up savings rate
- Job retention schemes preserve employment and contain unemployment
- Substantial fiscal stimulus
- Inflation projections: short-term inflation outlook revised up
- Sharp increase in HICP - partly due to temporary and technical factors
- Market-based longer-term inflation expectations increased somewhat

# GDP growth: Medium-term outlook broadly unchanged to Dec. 2020 BMPE

**Real GDP**  
(q-o-q % changes)



**Recent (B)MPE projections for the level of real GDP**  
(chain linked volumes, 2019Q4=100)



# March 2021 ECB projections: weaker short-term growth, firm rebound thereafter

## Comparison of forecasts for euro area real GDP growth

(annual percentage changes and percentage points)

	Date	2020		2021		2022		2023		Long-term	
<b>ECB Staff (MPE)</b>	11 Mar 2021	-6.9	(+0.4)	4.0	(+0.1)	4.1	(-0.1)	2.1	(=)	-	-
<b>Consensus Economics</b>	11 Mar 2021	-	-	4.3	(-0.1)	4.2	(+0.1)	2.0	(+0.1)	1.4	(+0.2)
<b>OECD</b>	09 Mar 2021	-6.8	(+0.7)	3.9	(+0.3)	3.8	(+0.5)	-	-	-	-
<b>Euro Zone Barometer</b>	18 Feb 2021	-6.8	(+0.6)	4.4	(-0.1)	4.1	(+0.2)	1.7	(+0.1)	1.3	(-0.1)
<b>European Commission</b>	11 Feb 2021	-6.8	(+1.0)	3.8	(-0.4)	3.8	(+0.8)	-	-	-	-
<b>IMF</b>	26 Jan 2021	-7.2	(+1.1)	4.2	(-1.0)	3.6	(+0.5)	-	-	-	-
<b>ECB Survey of Professional Forecasters</b>	22 Jan 2021	-	-	4.4	(-0.9)	3.7	(+1.1)	1.9	-	1.4	(=)

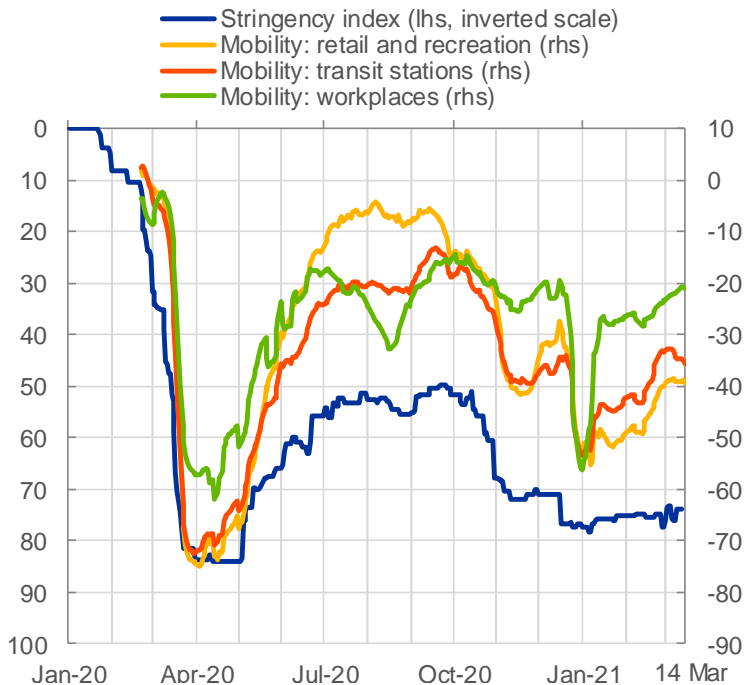
Notes: Figures in brackets show changes from previous forecast. Long-term forecasts refer to 2025 (SPF), 2025 (IMF), 2025 (Euro Zone Barometer) and 2025 (Consensus Economics). Forecast revisions are calculated on rounded data (i.e. only the apparent revisions are shown).

ECB staff macroeconomic projections (MPE): changes relative to Eurosystem staff macroeconomic projections (BMPE) published in December 2020. ECB SPF 2021 Q1 - survey conducted between 7 and 11 January, changes with 2020 Q4 (2 and 9 October). European Commission: Winter 2021 Interim Economic Forecast; changes with Autumn 2020 Economic Forecast. IMF: January 2021, changes with October 2020. Values for 2020, 2021 and 2022 are from January 2021 WEO forecasts. Euro Zone Barometer: 2020, 2021 and 2022 are taken from February 2021 forecast survey, changes with January 2021 forecast survey. 2023 and 2025 (long-term) are taken from January 2021 long term forecast survey, changes with October 2020 survey, where long-term was 2024. OECD: March 2021 Interim Economic Outlook; changes with December 2020 Economic Outlook 108. Consensus Economics: 2021 and 2022 are taken from March 2021 forecast survey, changes with February 2021 forecast survey. 2023 and 2025 (long-term) are taken from January 2021 long term forecast survey, changes with October 2020 survey.

# Third wave and tightening of restrictions weigh on the short-term growth outlook

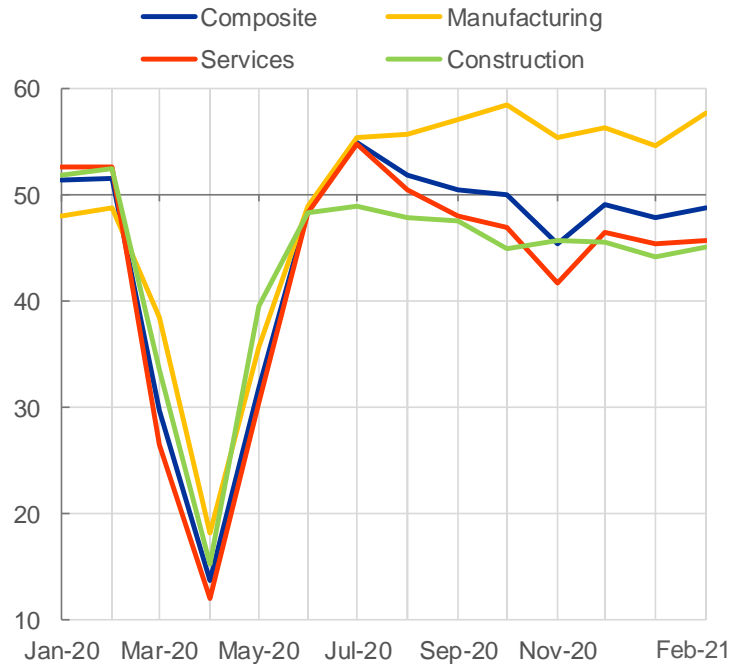
## Stringency and mobility in euro area

(lhs: index, 0 to 100; rhs: pp deviation from baseline, 7-day moving average)



## Euro area output PMI across sectors

(diffusion index, 50 = no change)



Sources: University of Oxford, Government Response Tracker and Google Mobility Report.

Notes: All series refer to the aggregate of DE, FR, IT, ES and NL using GDP weights. The baseline in the mobility series is the median value, for the corresponding day of the week, during the 5-week period 3 January to 6 February 2020.

Latest observation: 12 March 2021 for stringency index and 14 March 2021 for mobility.

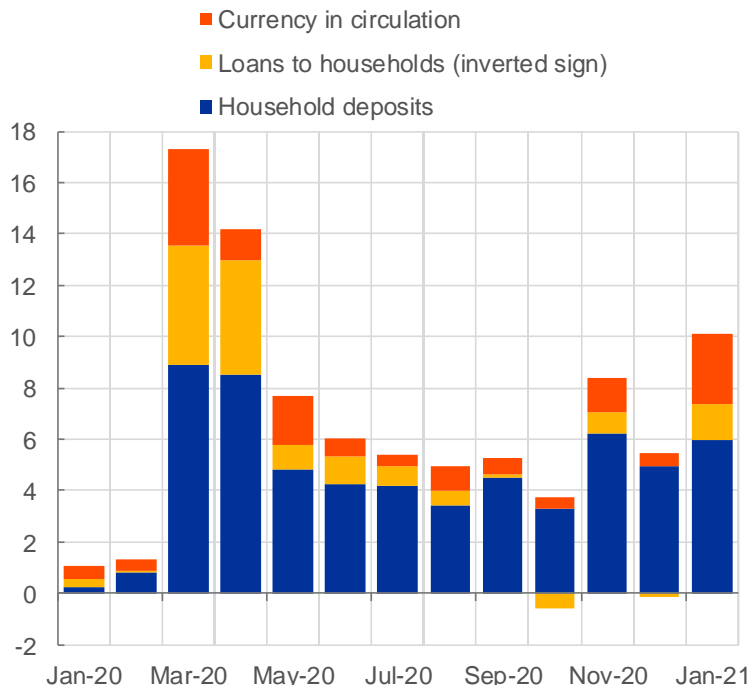
Source: Markit.

Latest observation: February 2021.

# Lockdowns push up savings rate

## Household savings

(change w.r.t. December 2019, pp of disposable income)



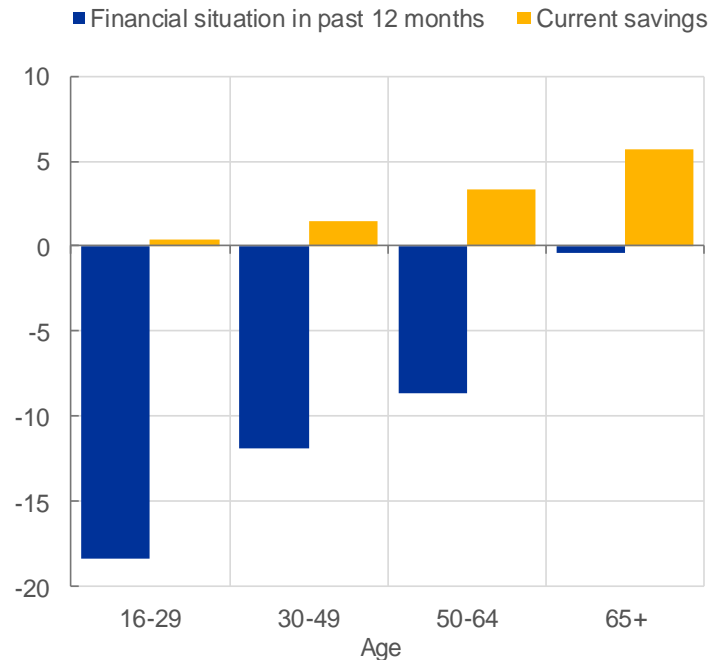
Source: ECB.

Notes: Loans to households are reported with an inverted sign. The contribution of currency flows provides an upper bound, as a breakdown by holding sector is not available

Latest observation: January 2021.

## Household financial situation and savings

(change in percentage balance January 2020 – February 2021)



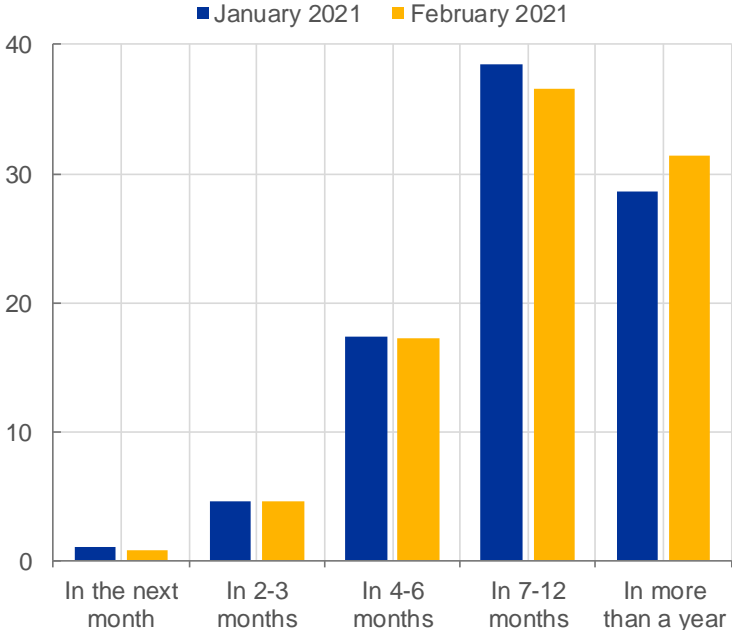
Sources: DG-ECFIN and ECB calculations.

Note: The revision in households' financial situation and their ability to save is proxied by the change in net balances between January 2020 and February 2021.

# Expectations on resumption of normal activities broadly unchanged

## Expectations on return to normal activities

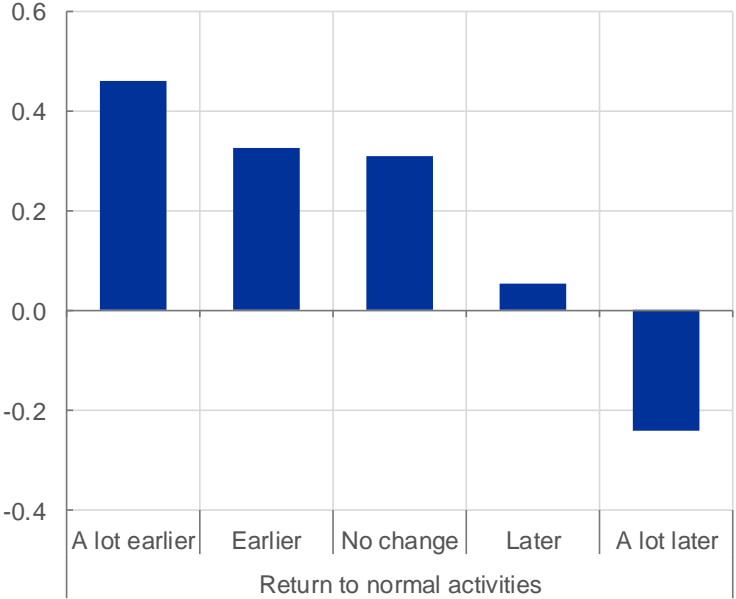
(% of respondents)



Source: ECB Pilot Consumer Expectations Survey (CES).  
 Note: The question reads: "By when do you expect that enough people will have received the vaccine that prevents coronavirus (COVID-19) so that you can return to your normal activities / life?"

## Change in expected consumption growth

(next 12 months, change w.r.t. January 2021, pp)

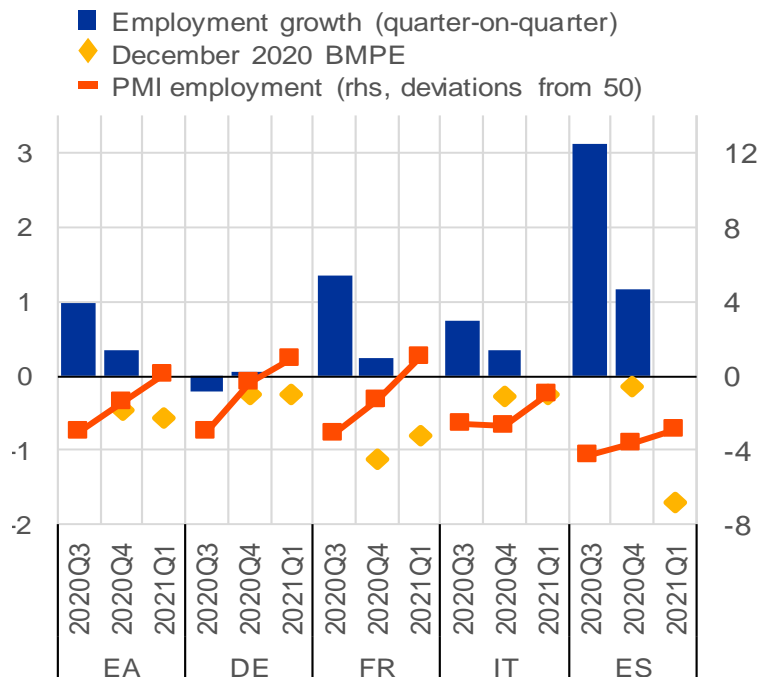


Source: ECB Pilot Consumer Expectations Survey (CES).  
 Notes: The chart shows *changes* in expected consumption growth, depending on the change in households' expected timing about their return to normal activities. See LHS for question-wording.

# Job retention schemes preserve employment

## Employment growth and PMI

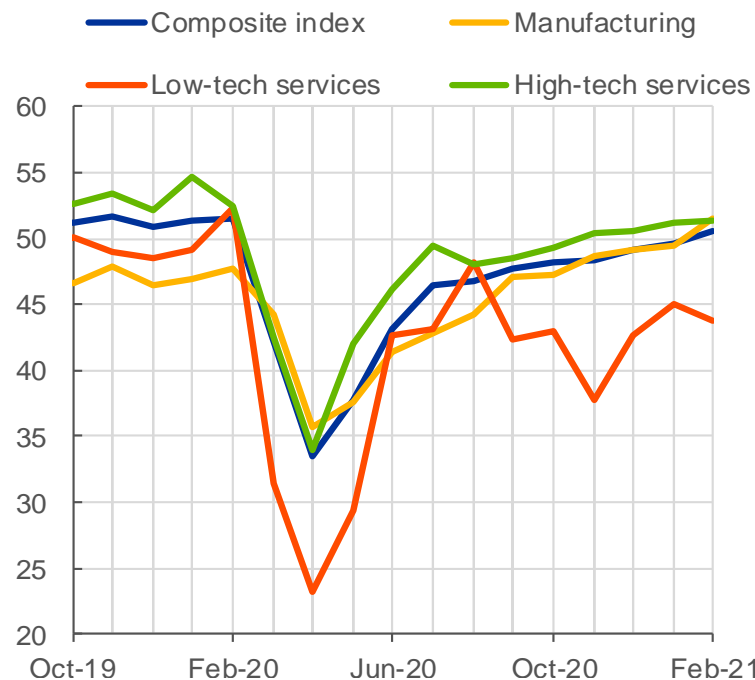
(LHS: %-changes; RHS: diffusion index in deviations from 50)



Sources: Eurostat, Markit and ECB calculations.  
 Latest observations: Employment growth – 2020Q4; PMI employment – February 2021.

## PMI employment across sectors

(diffusion index)



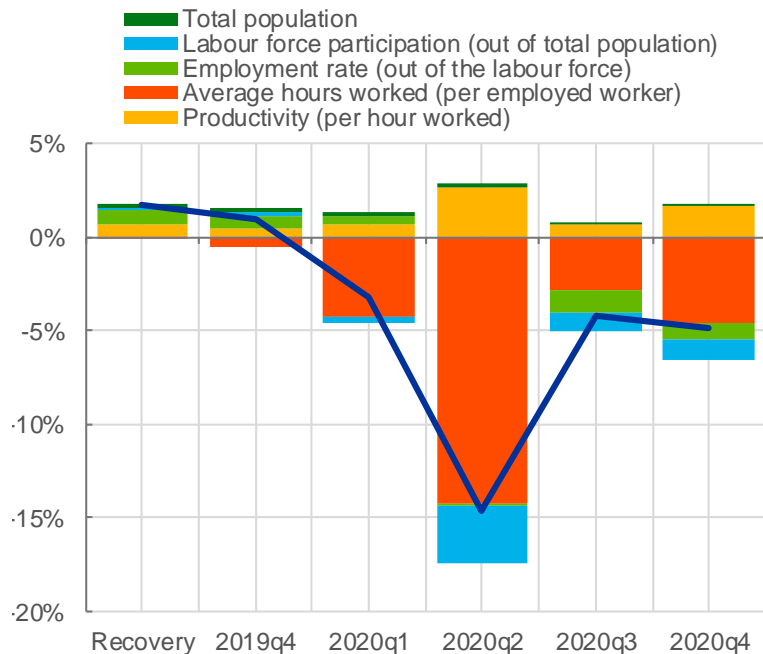
Sources: Eurostat, Markit and ECB calculations.  
 Notes Low-tech services comprise accommodation & food services and warehousing & transportation sectors; high-tech services combine financial services, professional & business services, and the computer programming & consultancy sectors.  
 Latest observation: February 2021.



# Important role for hours worked in labour market adjustment

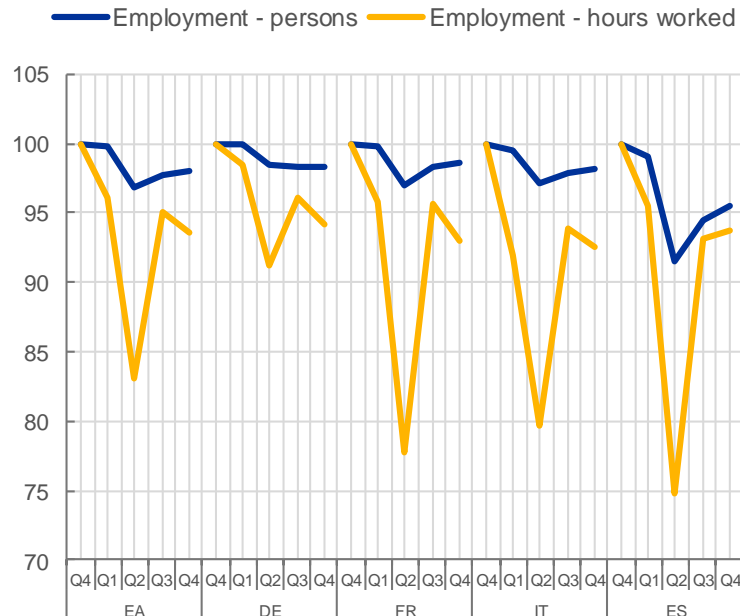
## Labour market impact on GDP growth

(%-changes)



## PMI employment across sectors

(index: 2019Q4 = 100)



Sources: Eurostat and ECB calculations.

Latest observations: 2020Q4. Notes: the employment rate is defined as the ratio between employment and the labour force (one minus the unemployment rate). The chart unveils the contributions of the different labour market channels to the year-on-year growth rate in real GDP - productivity per hour worked, changes in average hours, variations in the unemployment rate, labour force participation decisions, and growth in total population.

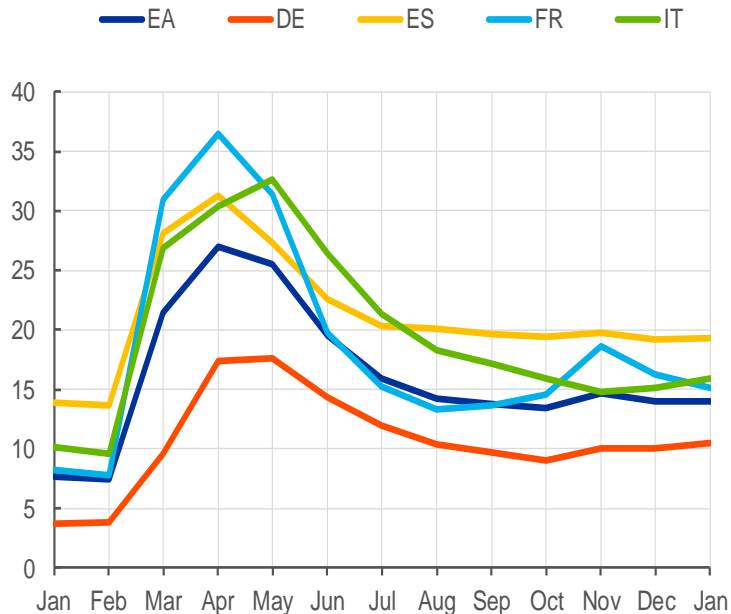
Sources: Eurostat and ECB calculations.

Latest observation: 2020Q4. Notes: the chart shows the cumulative variation in employment and hours worked across the largest four euro area countries and for the euro area as a whole, over the period comprising 2019Q4 up to 2020Q4.

# Unemployment expectations remain elevated

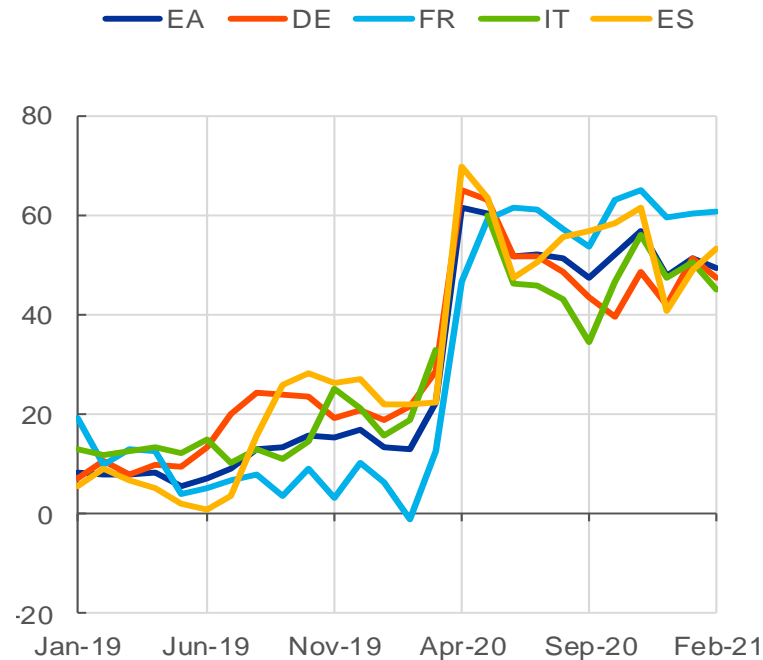
## Unemployment rate augmented to account for the workers in job retention schemes

(% of the labour force)



## Households' unemployment expectations

(percentage balances)



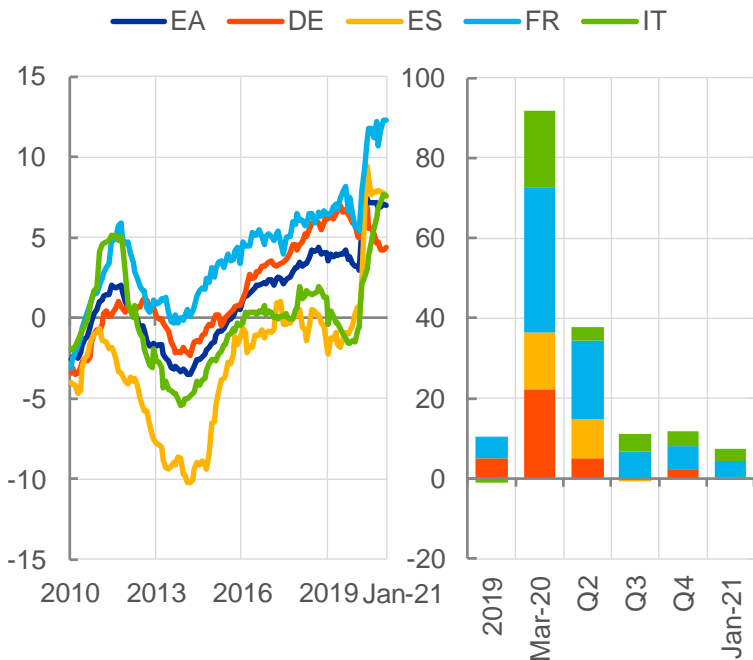
Sources: Eurostat, national sources and ECB calculations.  
Latest observation: January 2021.

Sources: Eurostat and DG-ECFIN.  
Latest observation: February 2021.

# Growth of credit to firms moderating and signs of tighter credit supply conditions

## Bank loans to firms

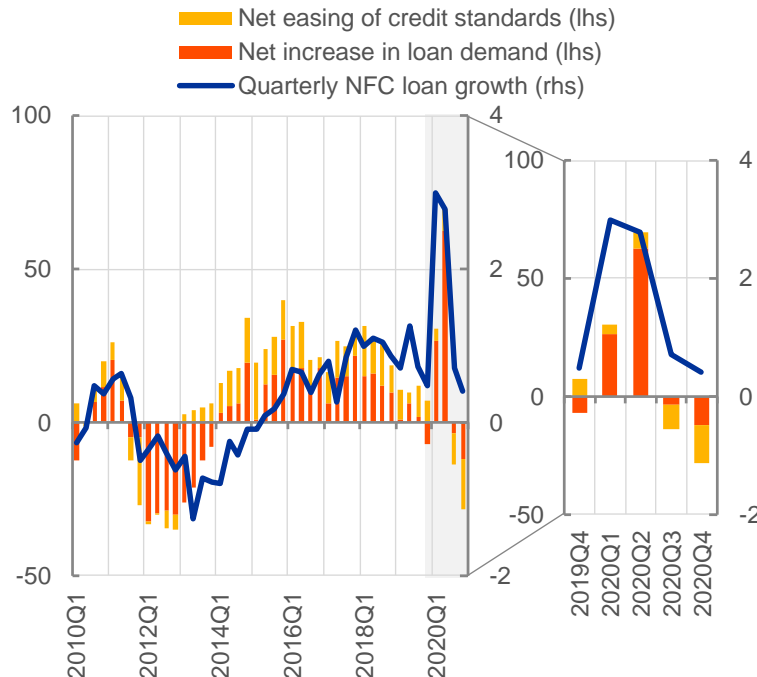
(lhs panel: annual percentage changes; rhs panel: average monthly flows in EUR bn)



Source: ECB.  
Latest observation: January 2021.

## Bank lending conditions according to the BLS and loans to firms

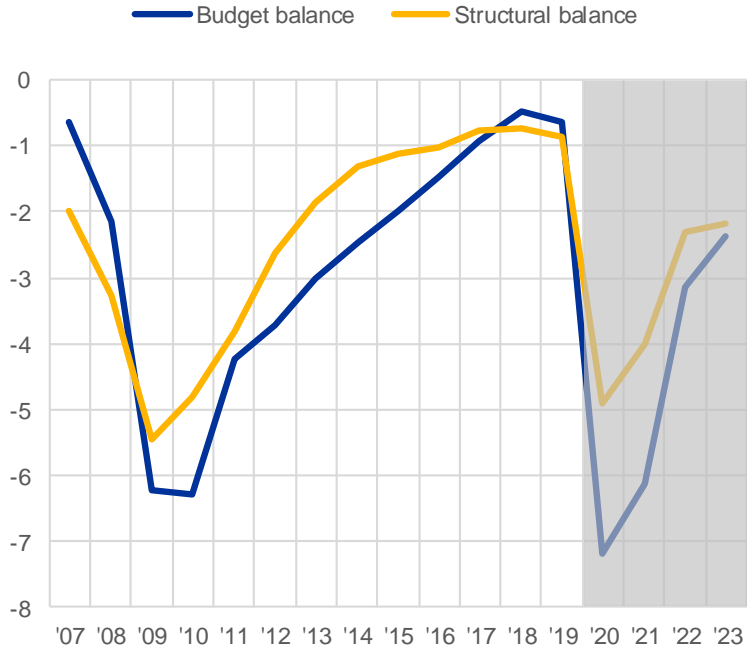
(lhs: net percentages; rhs: percentage changes)



Sources: Bank Lending Survey (BLS), ECB (BSI) and ECB calculations.  
Notes: Net percentages for credit standards have been inverted, i.e. positive values show a net easing of credit standards, while negative net percentages show a net tightening. Net percentages are shown relative to their historical averages.  
Latest observations: 2020Q4.

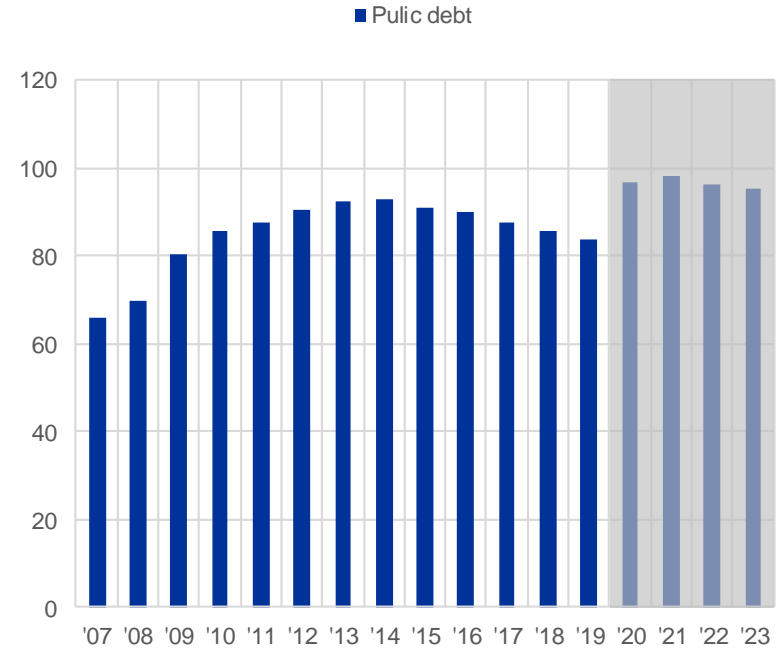
# Substantial fiscal support

## Government balance (percent of GDP)



Sources: Eurostat and March 2021 MPE.  
Notes: Shaded area indicates projection horizon.

## Government gross debt (percent of GDP)

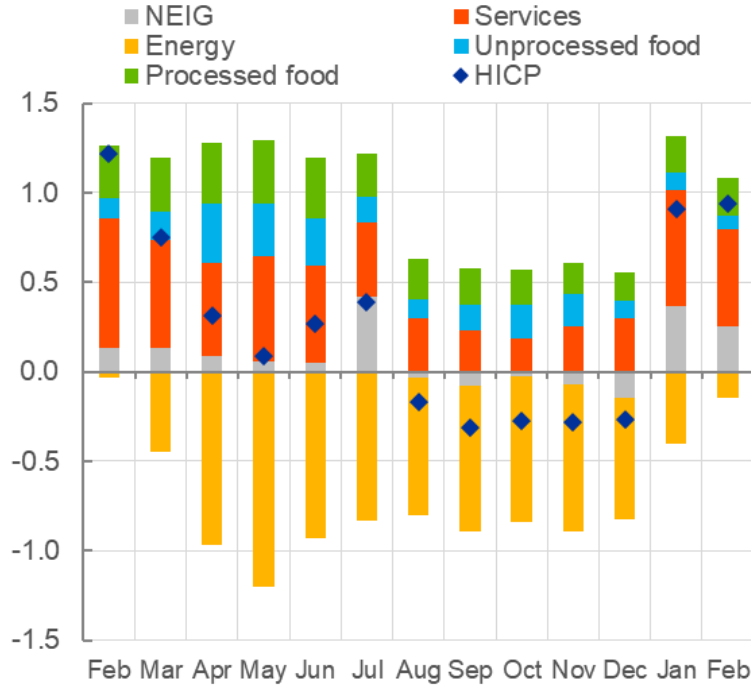


Sources: Eurostat and March 2021 MPE.  
Notes: Shaded area indicates projection horizon.

# Surge in inflation in 2021, expected to unwind in 2022Q1, gradual rise thereafter

## Headline inflation and components

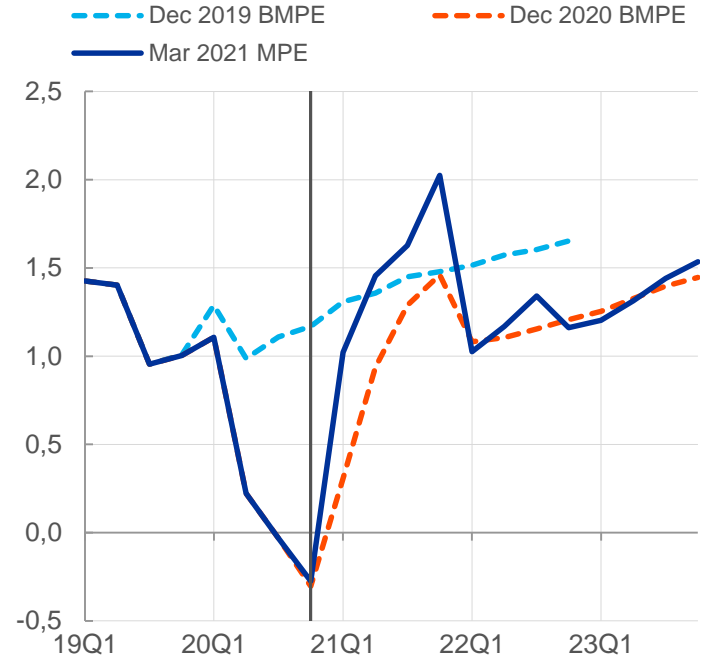
(annual percentage changes, pp contributions)



Sources: Eurostat and ECB staff calculations.  
Latest observation: February 2021.

## HICP inflation projections

(y-o-y % change)



Sources: Eurostat and ECB staff calculations.

# March 2021 projections: short-term inflation outlook revised up ....

## Comparison of forecasts for euro area HICP and HICPX

(annual percentage changes and percentage points)

	Date	2020		2021		2022		2023		Long-term	
<b>ECB Staff (MPE) - HICP</b>	11 Mar 2021	0.3	(+0.1)	1.5	(+0.5)	1.2	(+0.1)	1.4	(=)	-	-
<b>ECB Staff (MPE) - HICPX</b>	11 Mar 2021	0.7	(=)	1.0	(+0.2)	1.1	(+0.1)	1.3	(+0.1)	-	-
<b>Consensus Economics - HICP</b>	11 Mar 2021	-	-	1.5	(+0.3)	1.3	(+0.1)	1.5	(+0.1)	1.7	(+0.1)
<b>Euro Zone Barometer - HICP</b>	18 Feb 2021	0.3	(=)	1.1	(+0.1)	1.2	(-0.1)	1.4	(=)	1.5	(=)
<b>European Commission - HICP</b>	11 Feb 2021	0.3	(=)	1.4	(+0.3)	1.3	(=)	-	-	-	-
<b>IMF - HICP</b>	26 Jan 2021	0.3	(-0.1)	0.9	(=)	1.2	(=)	-	-	-	-
<b>ECB SPF - HICP</b>	22 Jan 2021	-	-	0.9	(=)	1.3	(=)	1.5	-	1.7	(=)
<b>ECB SPF - HICPX</b>	22 Jan 2021	-	-	0.8	(=)	1.1	(=)	1.3	-	1.5	(=)
<b>OECD - HICP</b>	01 Dec 2020	0.3	(-0.1)	0.7	(+0.2)	1.0	-	-	-	-	-

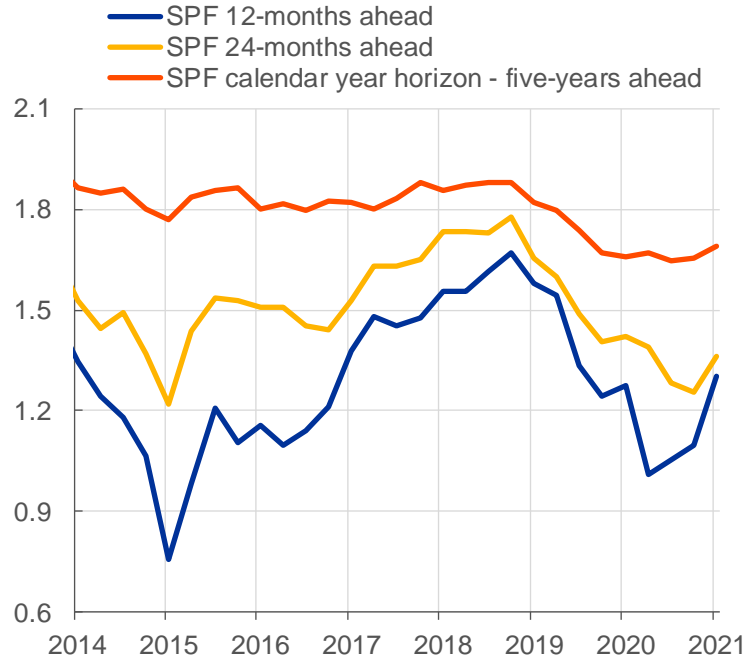
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# Market-based measures of longer-term inflation expectations increased somewhat

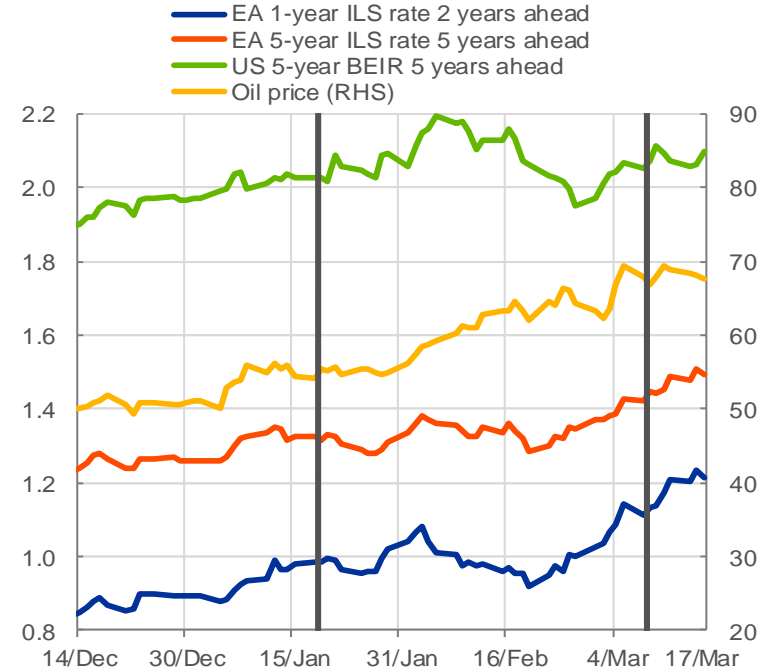
## ECB SPF inflation expectations

(annual percentage change)



## EA and US market-based indicators of inflation expectations and oil price

(percentages per annum, USD)



Source: ECB SPF.  
Latest observation: 2021Q1.

Sources: Refinitiv, Bloomberg and ECB calculations.  
Notes: The break-even inflation rate (BEIR) is the spread between nominal bonds yields and the real yields of inflation-linked bonds. The price of oil refers to spot Brent crude. The vertical lines refer to the day before the January GovC meeting (19 January) and the March GovC meeting (9 March), respectively. Latest observation: 17 March 2021.

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- K-shaped impact: services weakening, manufacturing resilient
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# Thank you

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- Please note this seminar is being recorded and will be published on the ECB website after the event.