The future of inflation (forecast) targeting
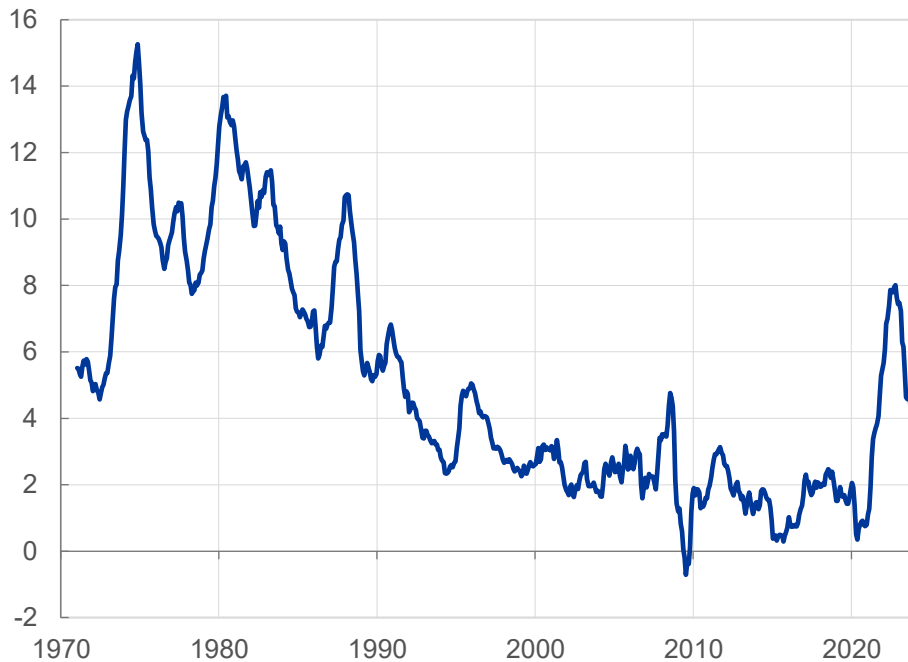
EUROPEAN CENTRAL BANK
EUROSYSTEM

17 April 2024

Isabel Schnabel, Member of the Executive Board of the ECB
13th conference of the International Research Forum on
Monetary Policy, Federal Reserve Board, Washington, D.C.

OECD consumer price inflation
(annual percentage changes, monthly data)

Sources: National sources via Haver Analytics, OECD and ECB staff calculations.
Notes: OECD inflation excludes Türkiye and is computed on the basis of national CPIs and annual private final consumption expenditure weights expressed in purchasing power parity terms.
Latest observation: February 2024.

Inflation forecast errors rose measurably after the start of the pandemic

Error decomposition of the March HICP inflation projections for the next calendar year
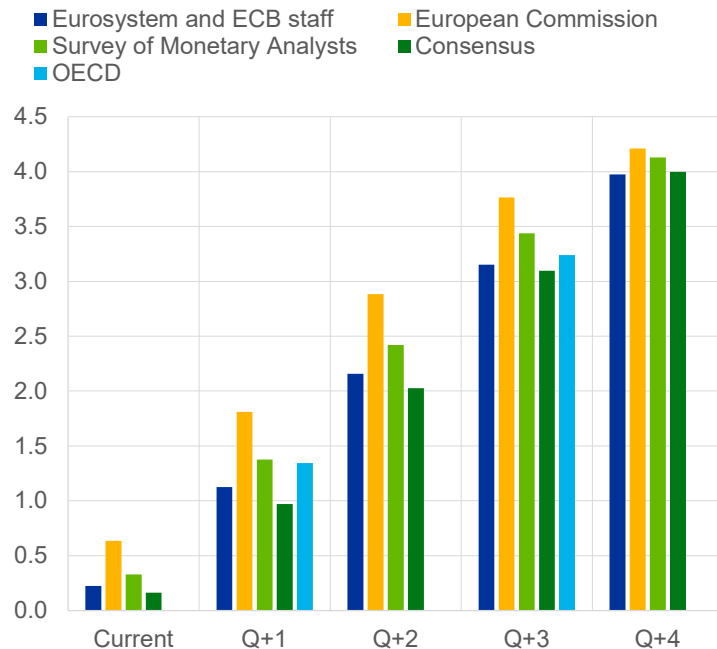(percentage points)

Legend:
- ■ HICP excl. energy and food
- ■ HICP energy
- ■ HICP food
- ● Overall HICP
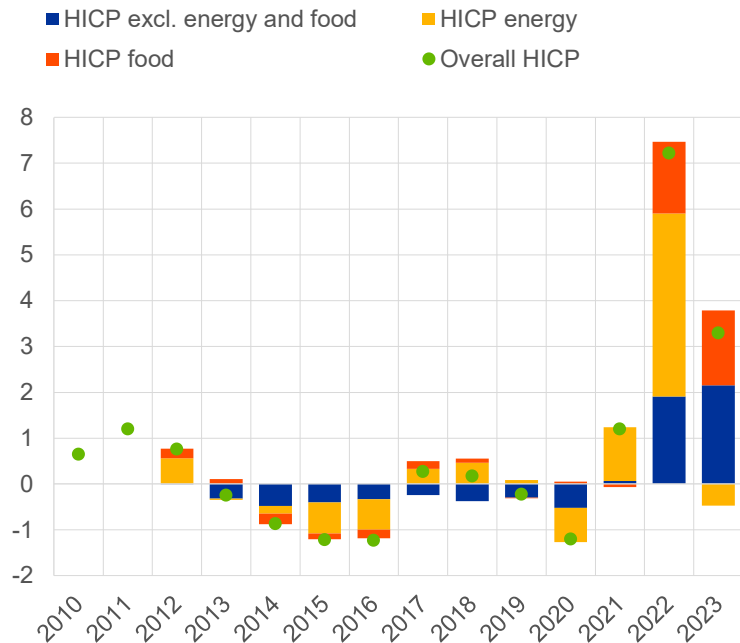
Source: ECB staff macroeconomic projections.
Notes: Errors are defined as the outturn, as available one year after the initial publication, minus the projection. Decomposition by HICP sub-component is only available since 2012.

Inflation forecast errors during the COVID-19 period
(root mean squared forecast error in p.p.)

Legend:
- ■ Eurosystem and ECB staff
- ■ European Commission
- ■ Survey of Monetary Analysts
- ■ Consensus
- ■ OECD

Sources: Eurosystem/ECB staff projections, Consensus Economics, Survey of Monetary Analysts (SMA), European Commission, OECD and Eurostat.
Notes: The COVID-19 period refers to projections for the second quarter of 2020 to the first quarter of 2022. For the OECD, projections at current quarter, Q+2, and Q+4 are not included due to comparability issues.

Market-based 5y5y inflation expectations
(annual percentage changes)

Legend: US — UK — EA
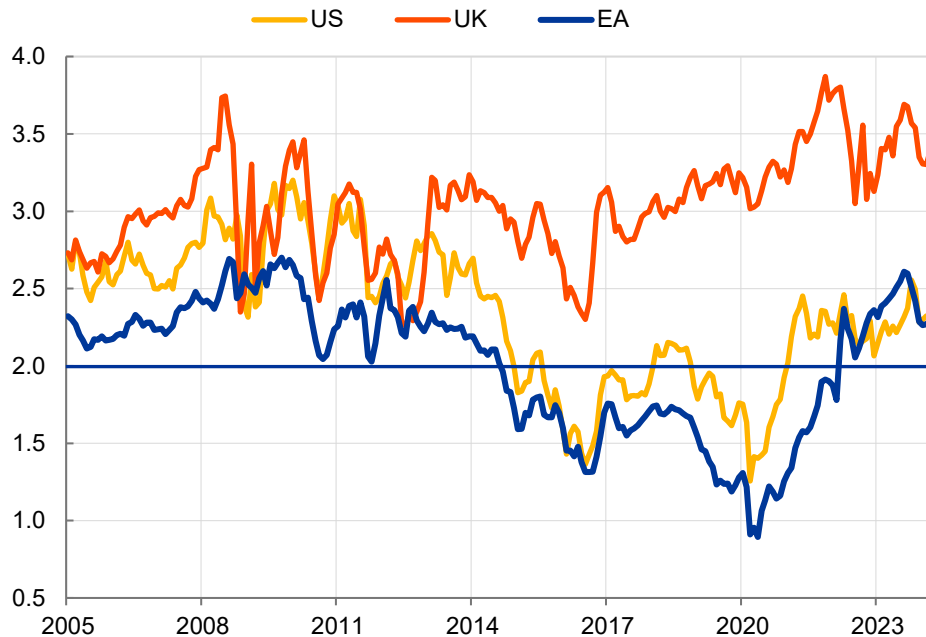
Source: Bloomberg, Federal Reserve Board, Bank of England.
Notes: Euro Area series refers to 5y5y ILS rates, US series refers to five year ahead Treasury Inflation-Protected Securities (TIPS), UK series refers to five year ahead implied inflation rates by government securities.
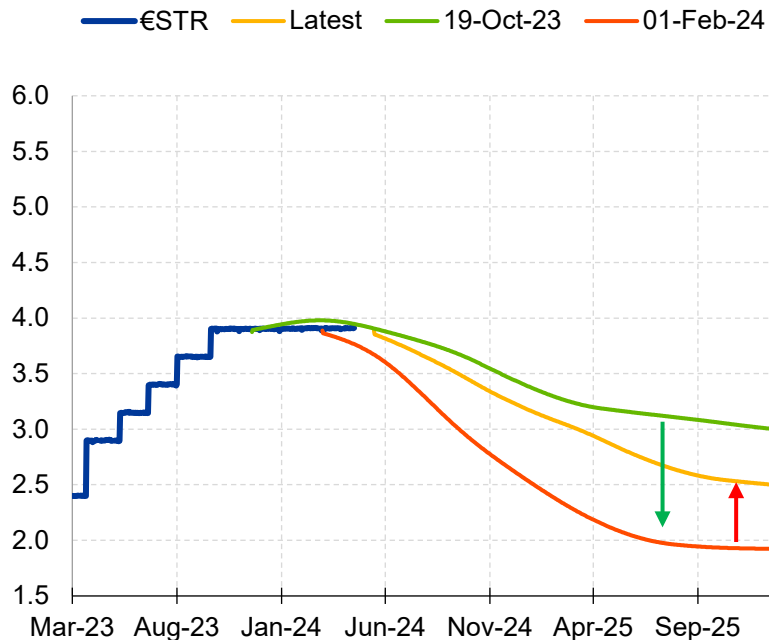Latest observation: March 2024.

Markets sharply repriced the expected future rate paths for ECB and Federal Reserve

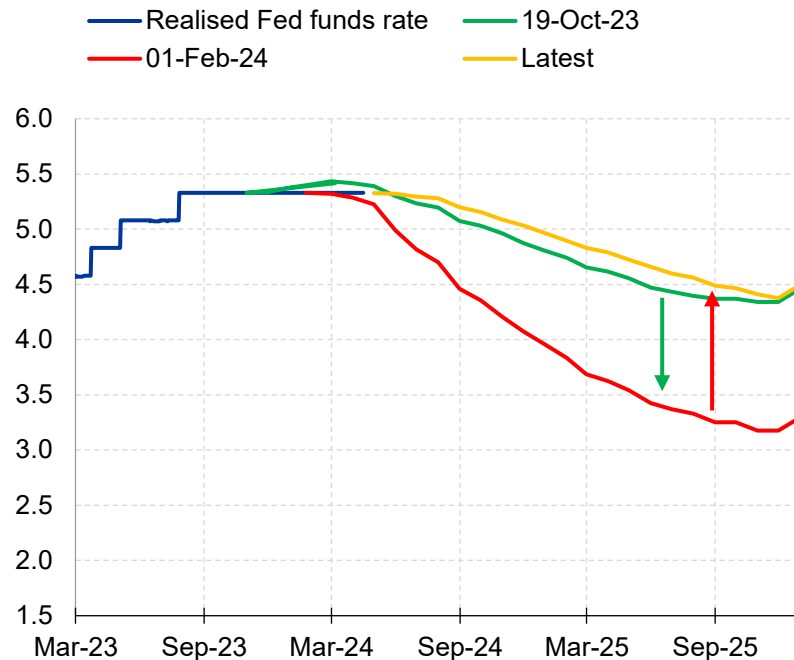## Expected future path of short-term interest rates at selected dates

(% per annum)

Euro area

€STR — Latest — 19-Oct-23 — 01-Feb-24

United States

Realised Fed funds rate — 19-Oct-23 — 01-Feb-24 — Latest

Source: Bloomberg and ECB calculations.
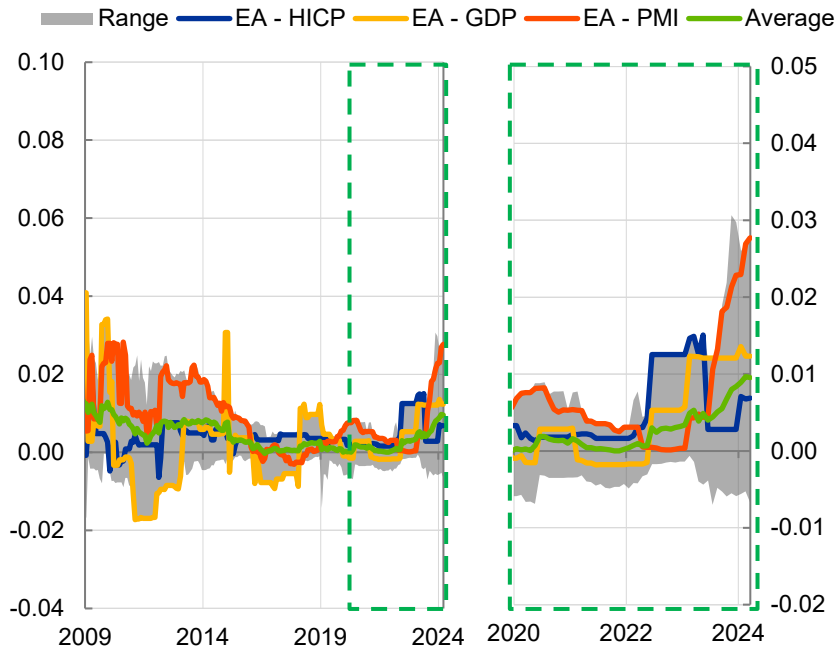Latest observation: 15 April 2024.

Source: Bloomberg and ECB calculations.
Latest observation: 15 April 2024.

Sensitivity of short-term interest rates to data releases increased measurably
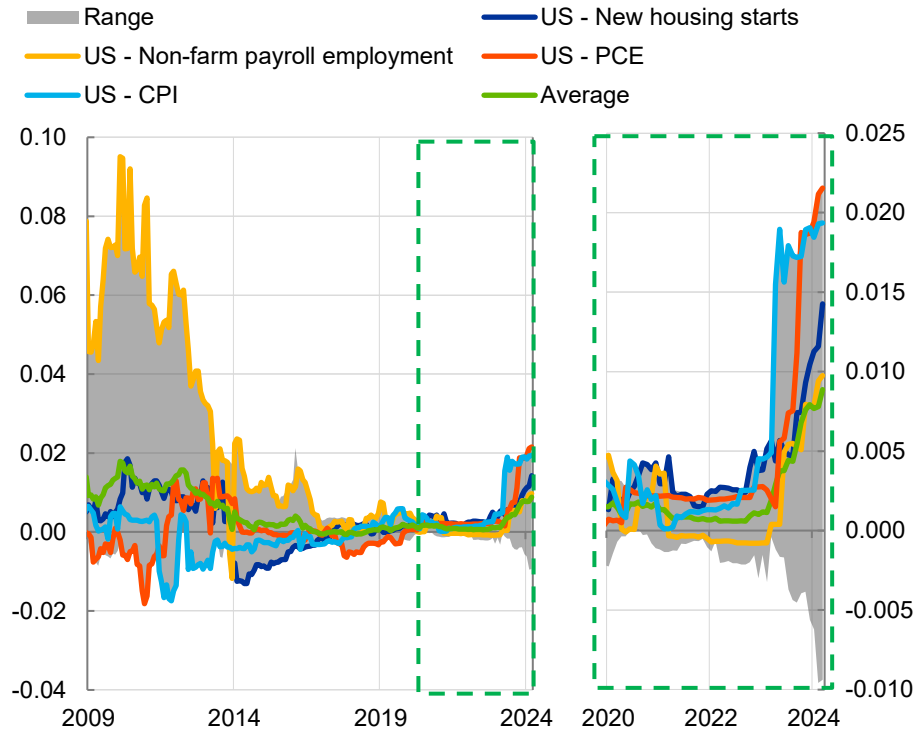
Sensitivity of 2-year €STR OIS rates
(p.p.)

Surprises in euro area macro data

Range — EA - HICP — EA - GDP — EA - PMI — Average

Surprises in US macro data

Range — US - New housing starts — US - Non-farm payroll employment — US - PCE — US - CPI — Average


Source: Bloomberg and ECB calculations. Notes: 3-year window estimates of sensitivities of daily changes in 2-year €STR OIS yields to euro area macroeconomic releases. Coefficients reflect sensitivity to a 1 standard deviation surprise. The grey area shows the range of coefficients across variables selected on full sample statistical significance. Latest observation: March 2024.

Source: Bloomberg and ECB calculations. Notes: 3-year window estimates of sensitivities of daily changes in 2-year €STR OIS yields to US macroeconomic releases. Coefficients reflect sensitivity to a 1 standard deviation surprise. The grey area shows the range of coefficients across variables selected on full sample statistical significance. Latest observation: March 2024.

Decomposition of four-quarter-ahead HICP inflation errors in Eurosystem/ECB staff projections
(p.p.)
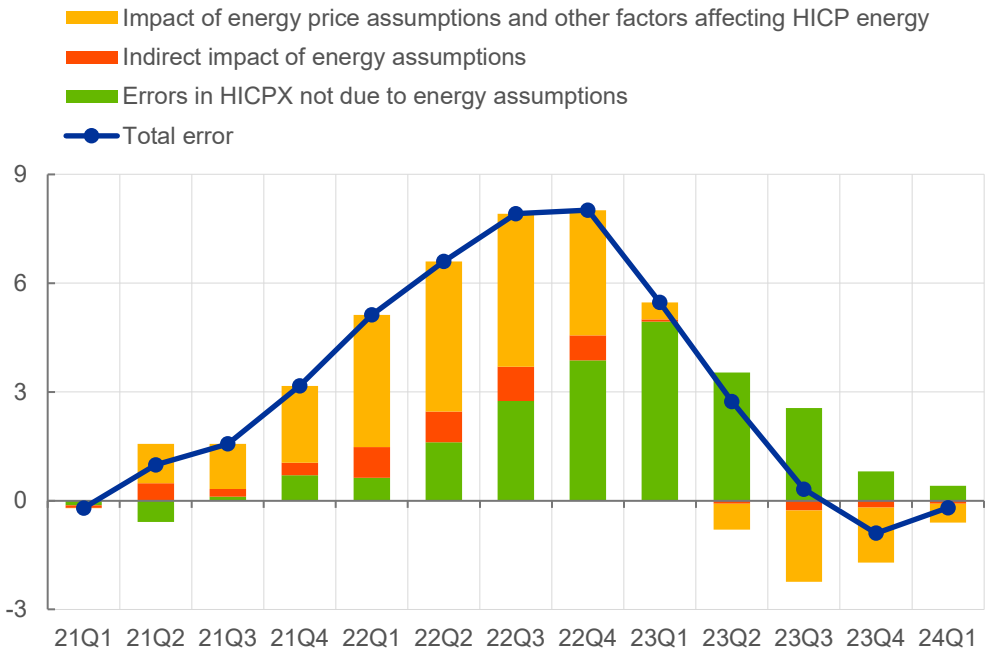
Source: ECB calculations based on the elasticities derived from Eurosystem staff macroeconomic models .
Notes: "Total error" is the outturn minus the projection.

Global car export market shares
(% share of values)

■ Euro area   ■ China

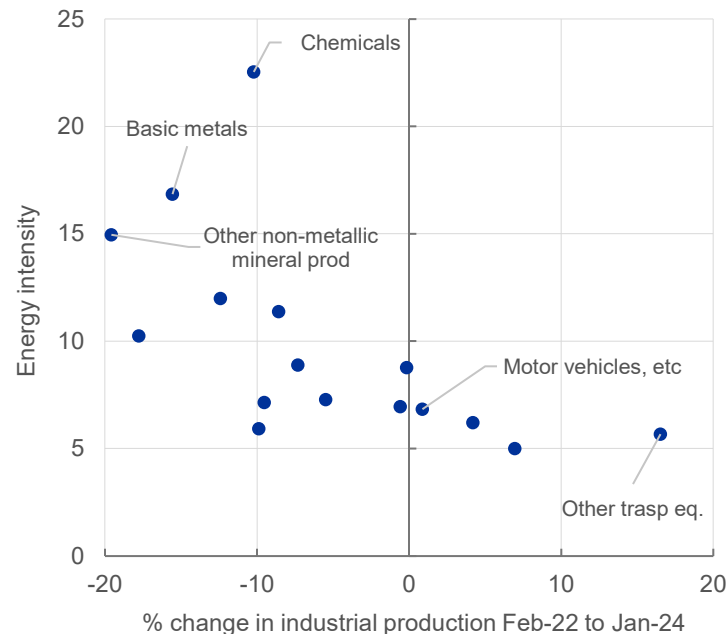all vehicles   electric/ hybrid vehicles   combustion vehicles
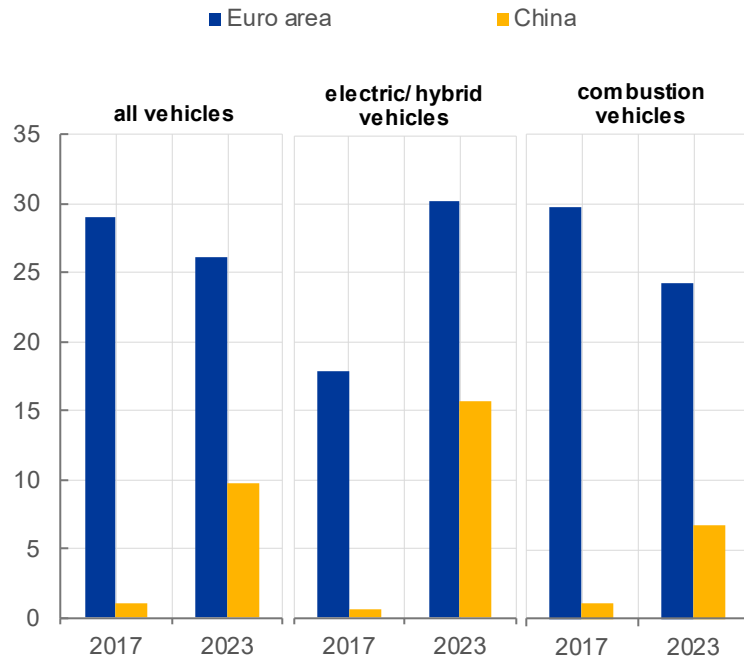
Source: Trade Data Monitor and ECB staff calculations.
Note: The global car export market share of each economy is the ratio between exports of cars of each economy divided by the world total exports of cars in value terms.

Energy intensity and industrial production
(% share of output, % change)

Chemicals
Basic metals
Other non-metallic mineral prod
Energy intensity
Motor vehicles, etc
Other trasp eq.
% change in industrial production Feb-22 to Jan-24

Sources: Eurostat, Trade Data Monitor and ECB staff calculations.
Note: Energy intensity is computed as the ratio between energy inputs and total inputs for each subsector using the 2018 sample.
Latest observation: January 2024.

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The pandemic has led to marked changes in labour market dynamics
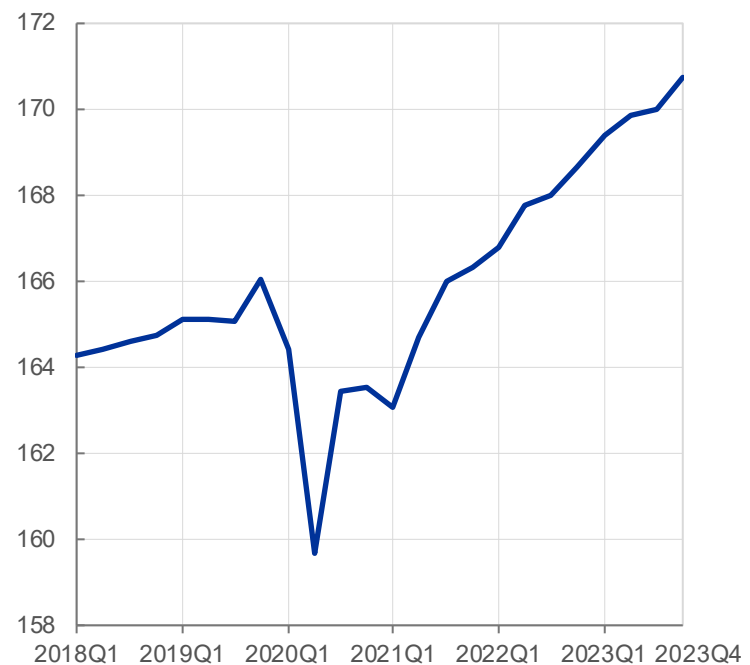
Average hours worked
(2018Q1=100, thousands)
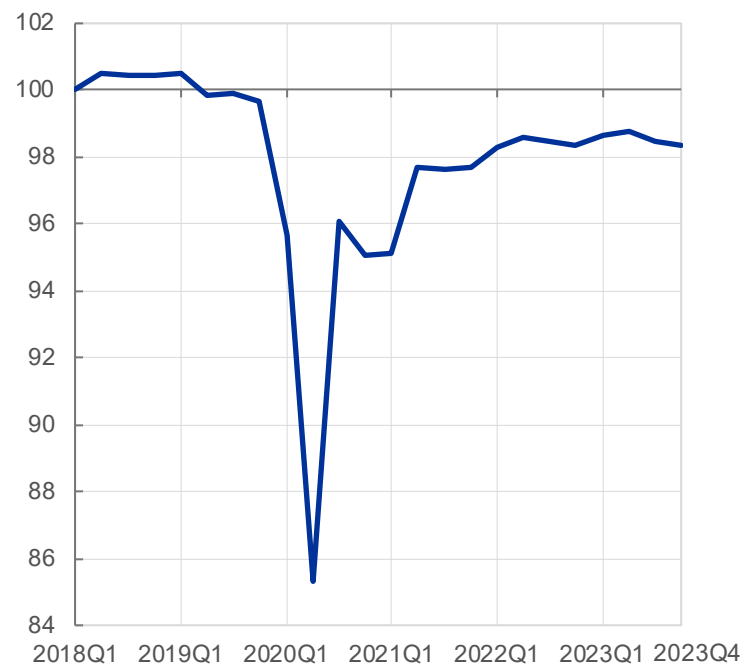
Source: Eurostat.
Last observation: Q4 2023.

Labour force
(millions of people)

Source: LFS survey.
Note: Labour force has been reported for the age range 15-74.
Last observation: Q4 2023.

Thank you very much for your attention!