



EUROPEAN CENTRAL BANK

ECONOMIC OUTLOOK AND POLICY CHALLENGES FOR THE EURO AREA

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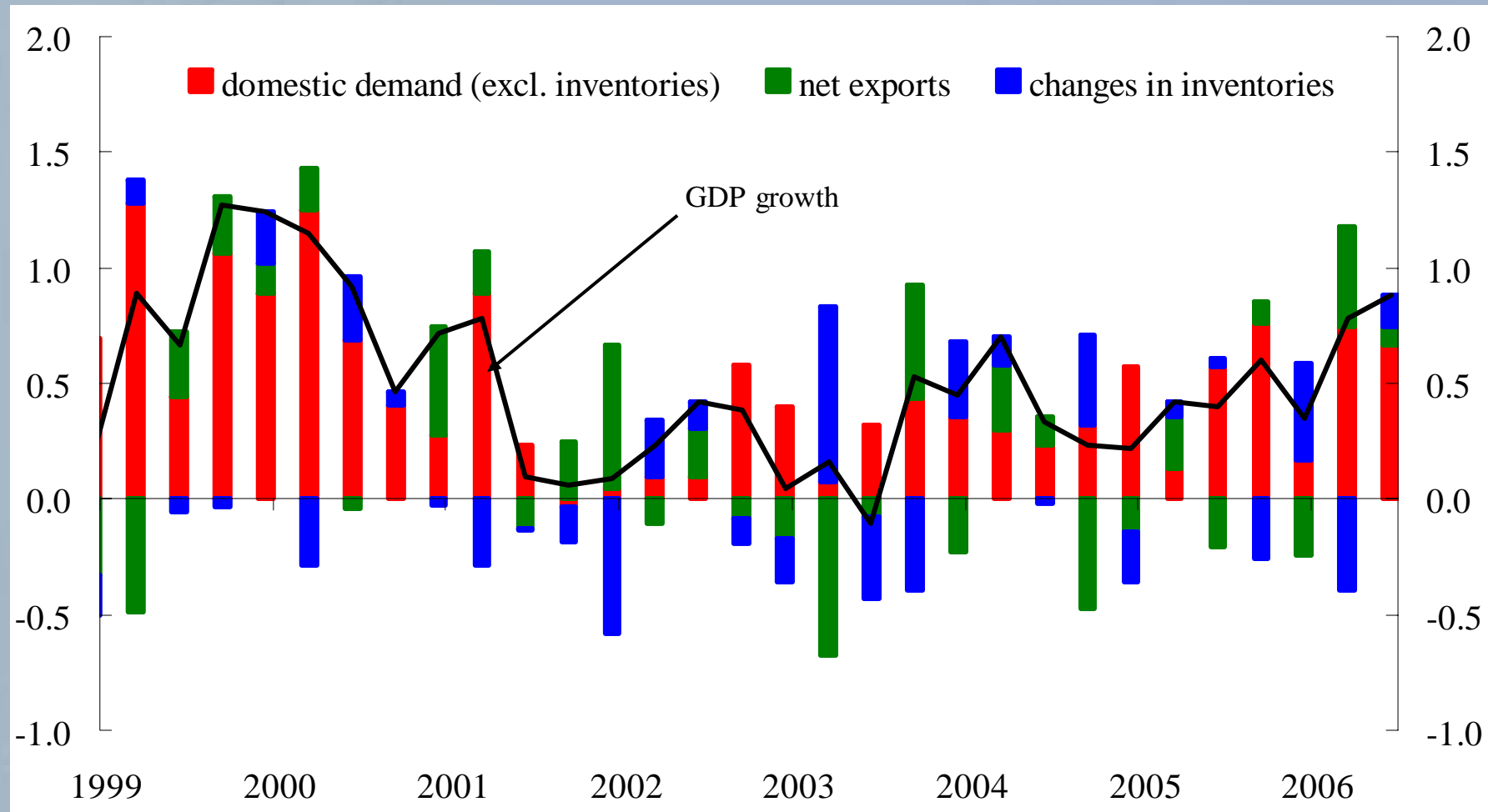
Economic Outlook Seminar

Stockholm, 18 September 2006

EUROPEAN CENTRAL BANK

Slide 1: Significant improvement in economic activity in the first half of 2006

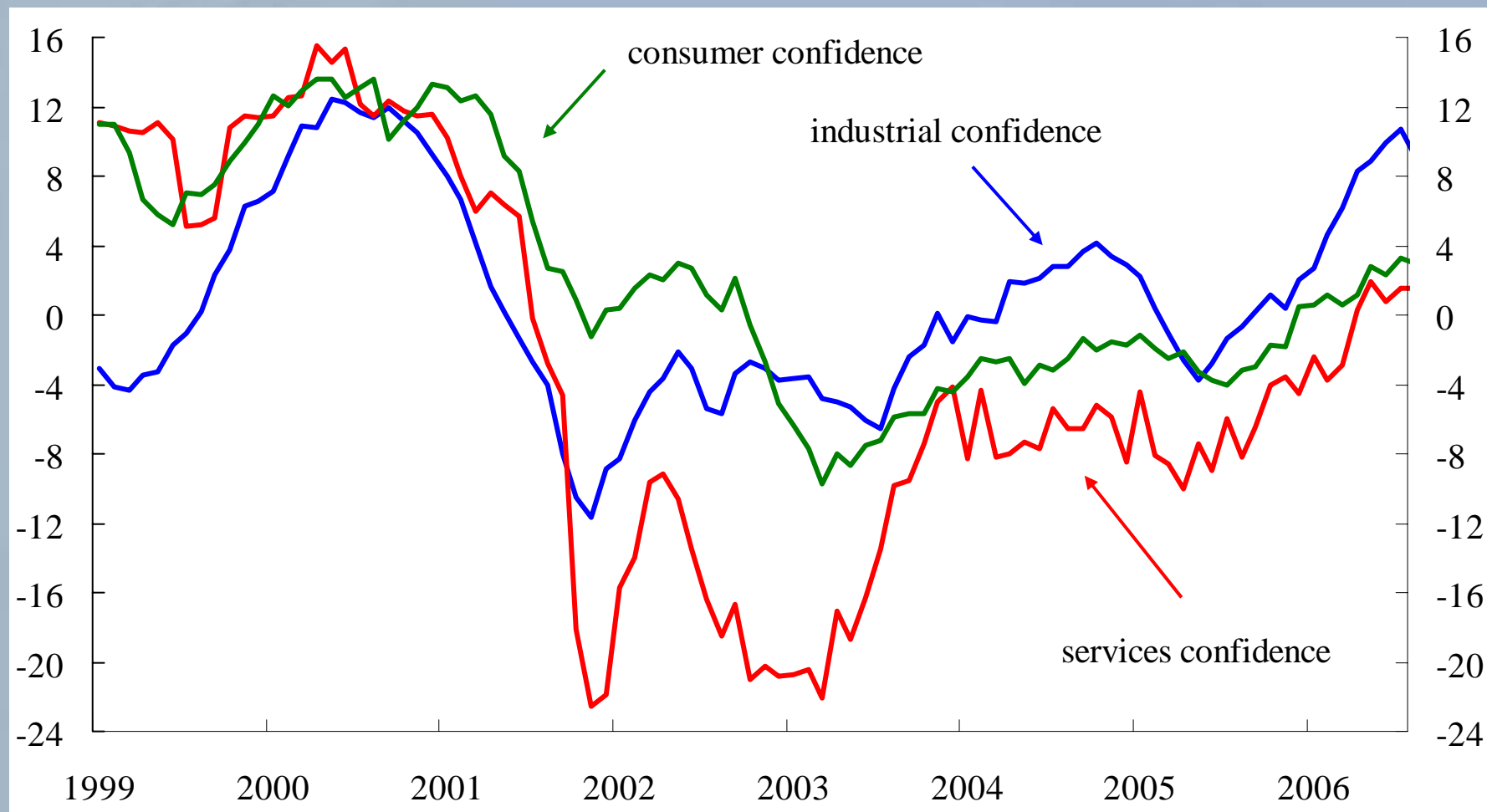
(quarterly percentage change, percentage points)



Source: EUROSTAT; latest observation: 2006Q2.

Slide 2: Survey data point to an on-going expansion in activity

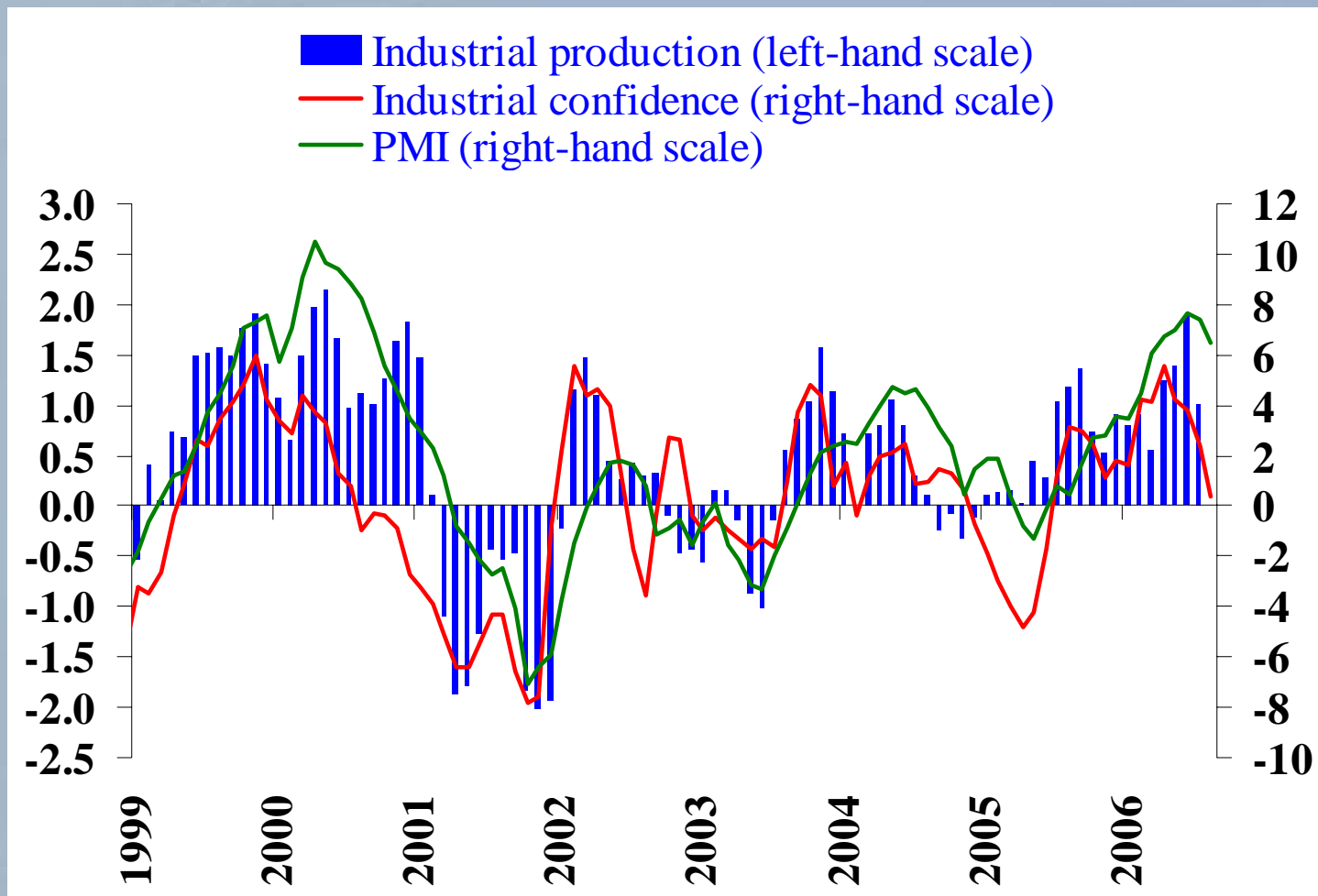
(percentage deviations from long-term average)



Source: European Commission; deviations from average for the period starting in January 1985 for consumer and industrial confidence, and April 1995 for services confidence; Latest observation: August 2006.

Slide 3: Survey data in the industrial sector

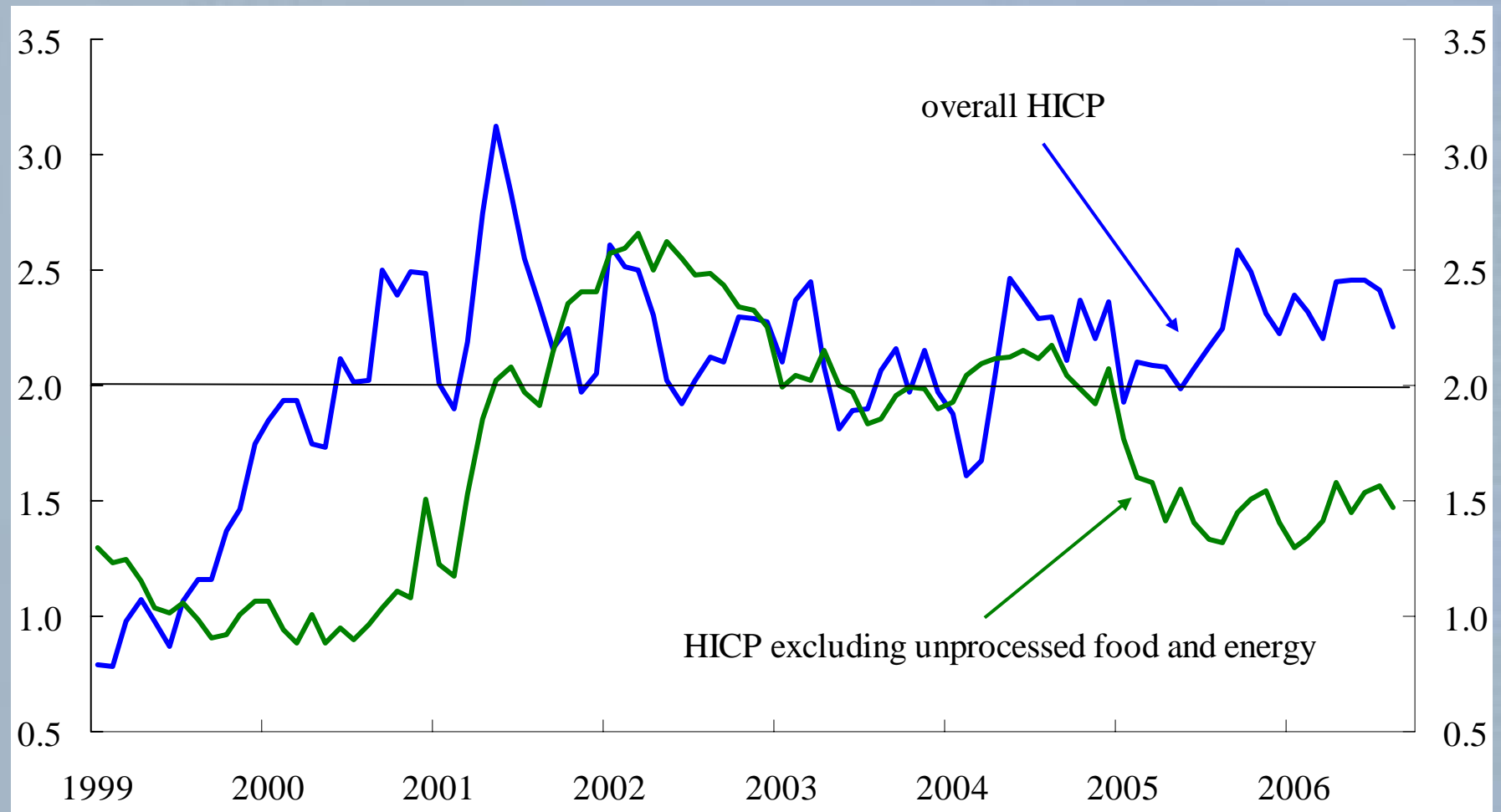
(percentage changes; absolute changes; deviations from index value of 50)



Source: Eurostat, European Commission; NTC Economics. Industrial production: three-month-on-three-month percentage change; Industrial confidence: changes compared with three months earlier; PMI: deviations from an index value of 50. Latest observation: August 2006.

Slide 4: Euro area HICP inflation remains elevated above 2%

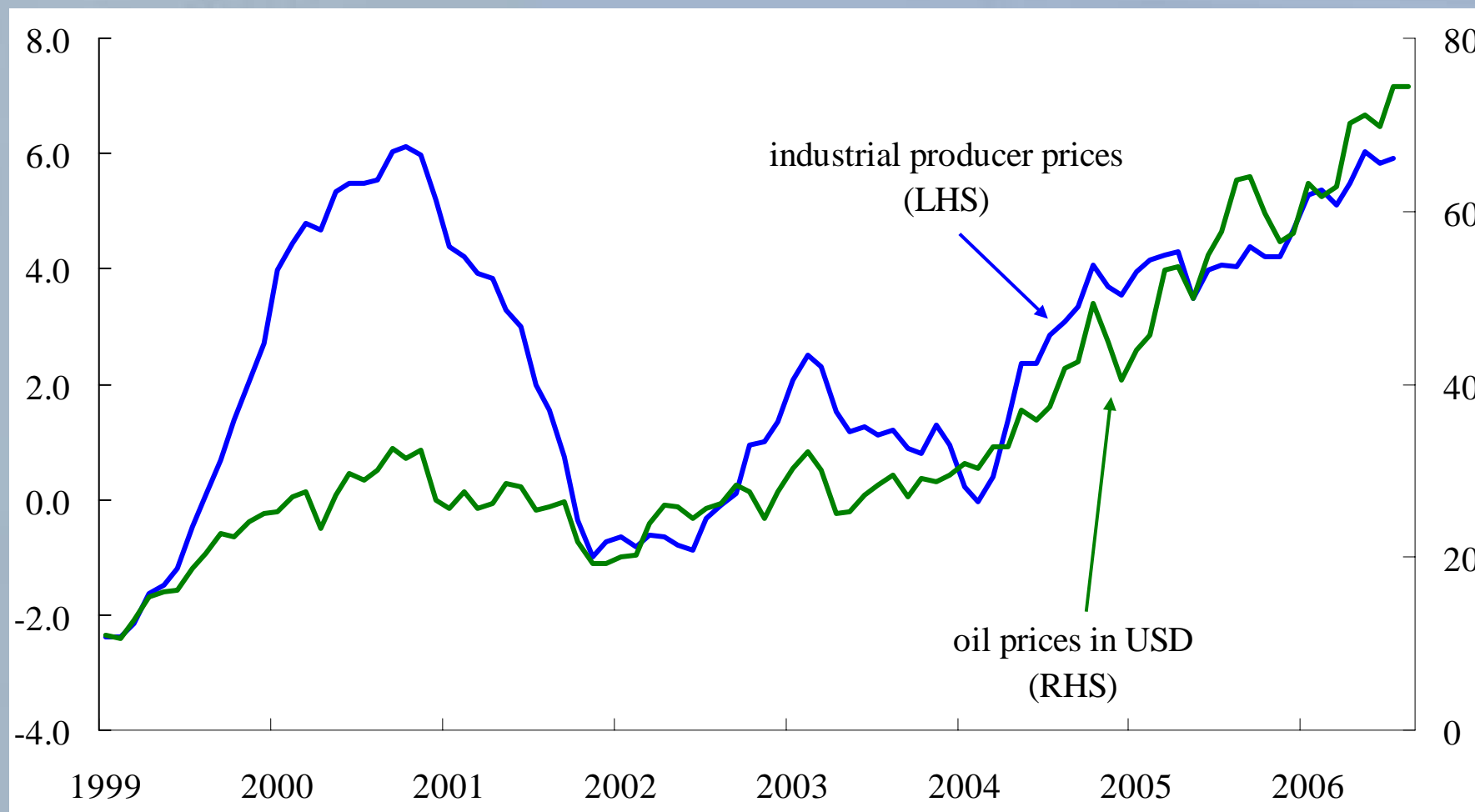
(annual percentage changes)



Source: Eurostat; Latest observation: August 2006.

Slide 5: Upward pressure from effects of past oil price increases

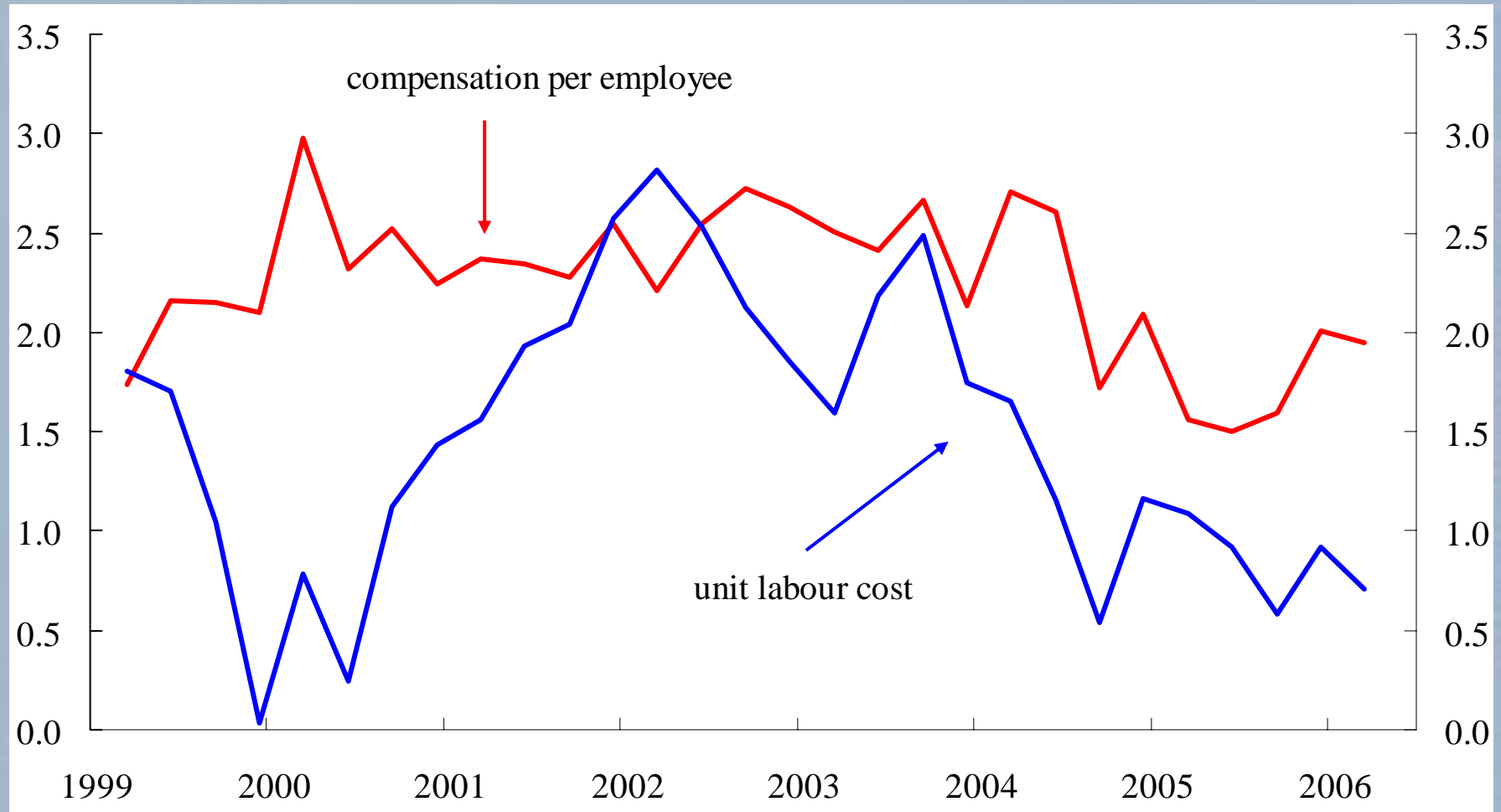
(annual percentage changes)



Source: Eurostat and IMF. Latest observation: July 2006.

Slide 6: Moderate labour cost developments

(annual percentage changes)



Sources: Eurostat. Latest observation: 2006Q1.

Slide 7: September 2006 ECB staff projections point to on-going growth and elevated inflation rates

(average annual percentage changes)

September 2006 ECB staff macroeconomic projections

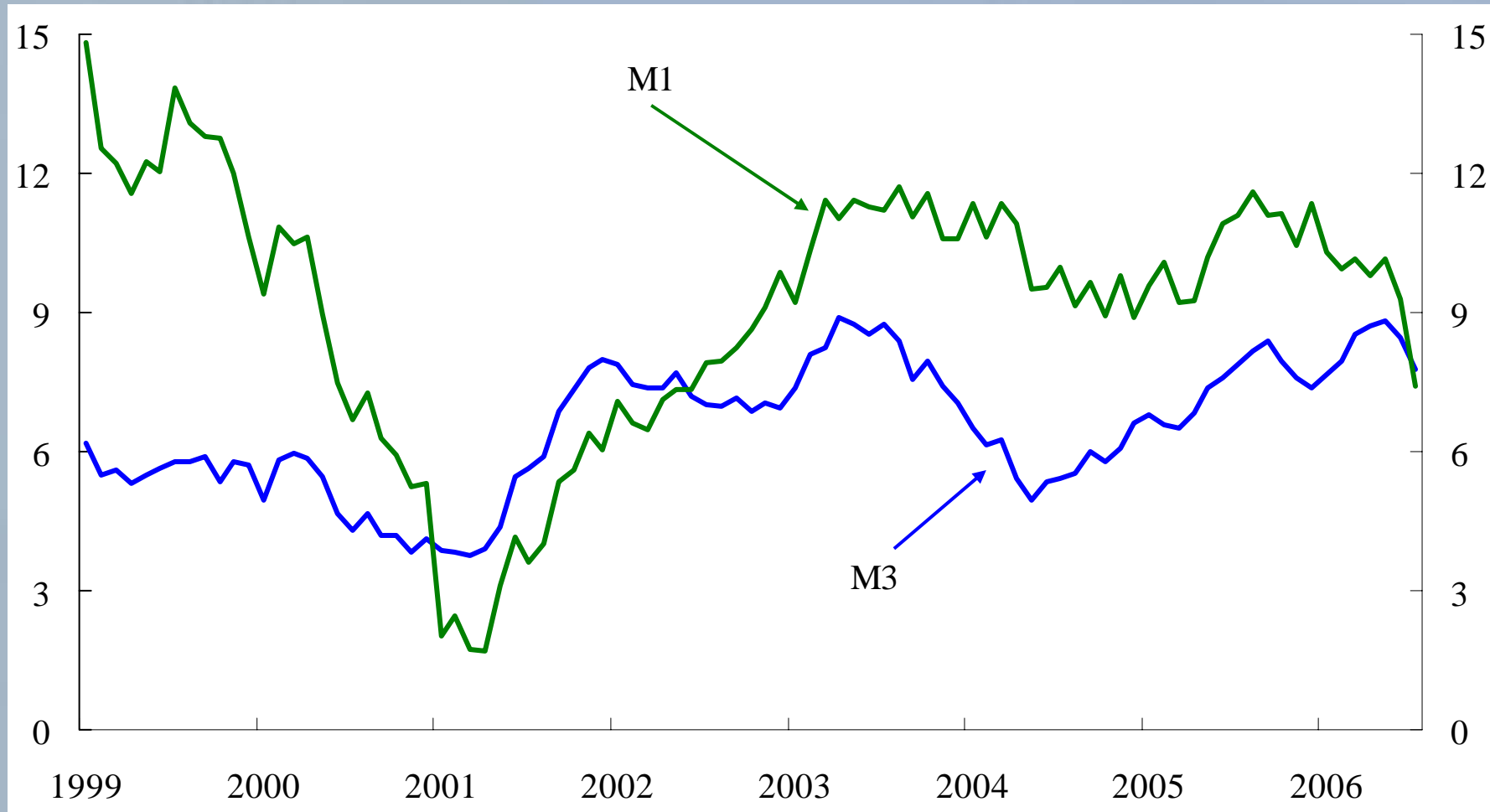
(average annual percentage changes)

	2005	2006	2007
HICP	2.2	2.3-2.5	1.9-2.9
Real GDP	1.5	2.2-2.8	1.6-2.6
Private consumption	1.5	1.8-2.2	0.9-2.1
Government consumption	1.3	1.0-2.0	0.7-1.7
Gross fixed capital formation	2.7	3.0-4.6	2.1-5.3
Exports (goods and services)	4.2	6.0-8.8	3.4-6.6
Imports (goods and services)	5.2	5.7-8.7	3.1-6.5

Note: For each variable and horizon, ranges are based on the average absolute difference between the actual outcomes and past projections by euro area central banks. The projections for real GDP and its components refer to working-day-adjusted data. The projections for exports and imports include intra-euro area trade.

Slide 8: Monetary expansion remains rapid

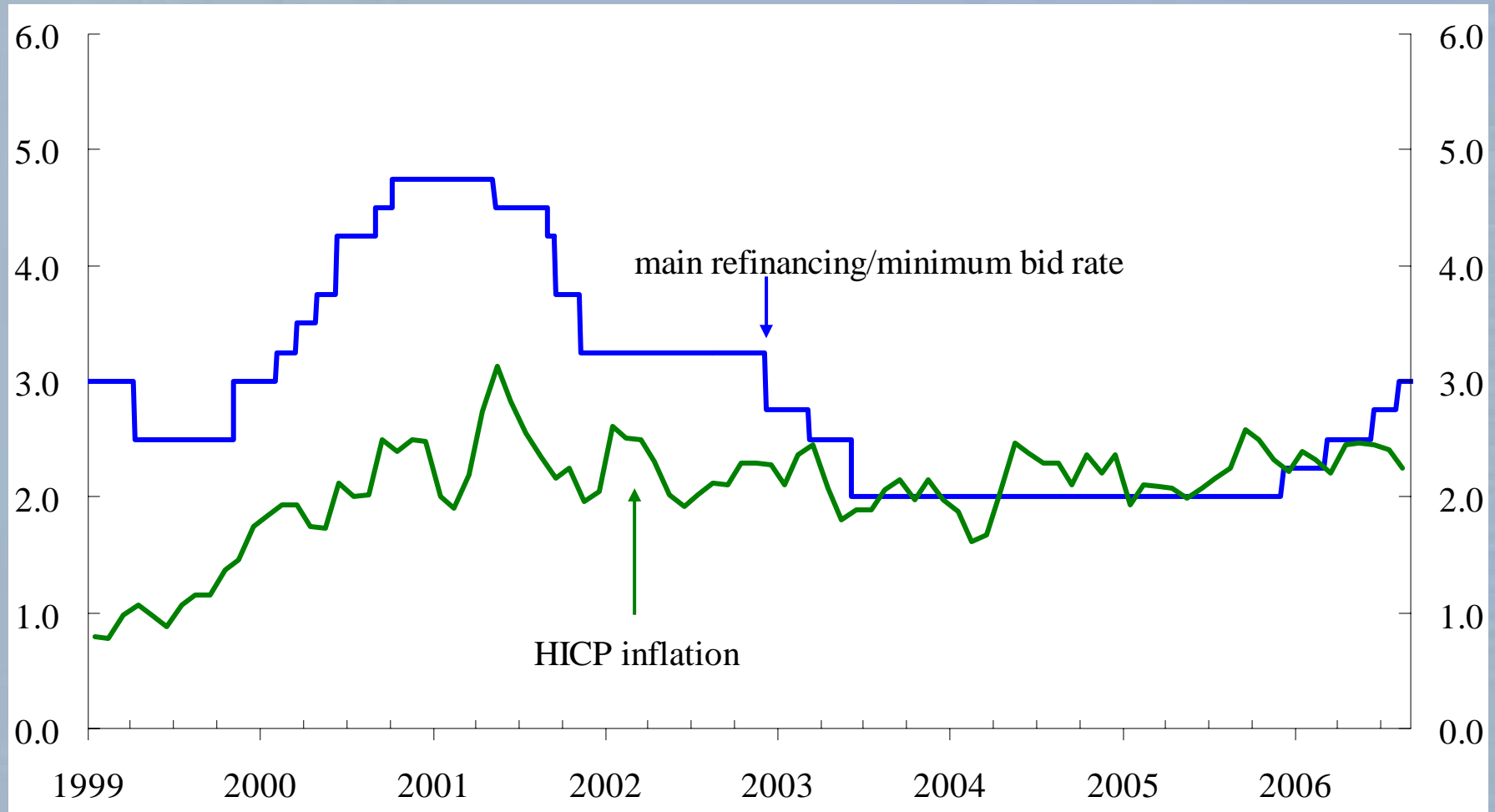
(annual percentage changes)



Source: ECB. Latest observation: July 2006.

Slide 9: ECB interest rates at still low levels in both nominal and real terms

(annual percentage changes)

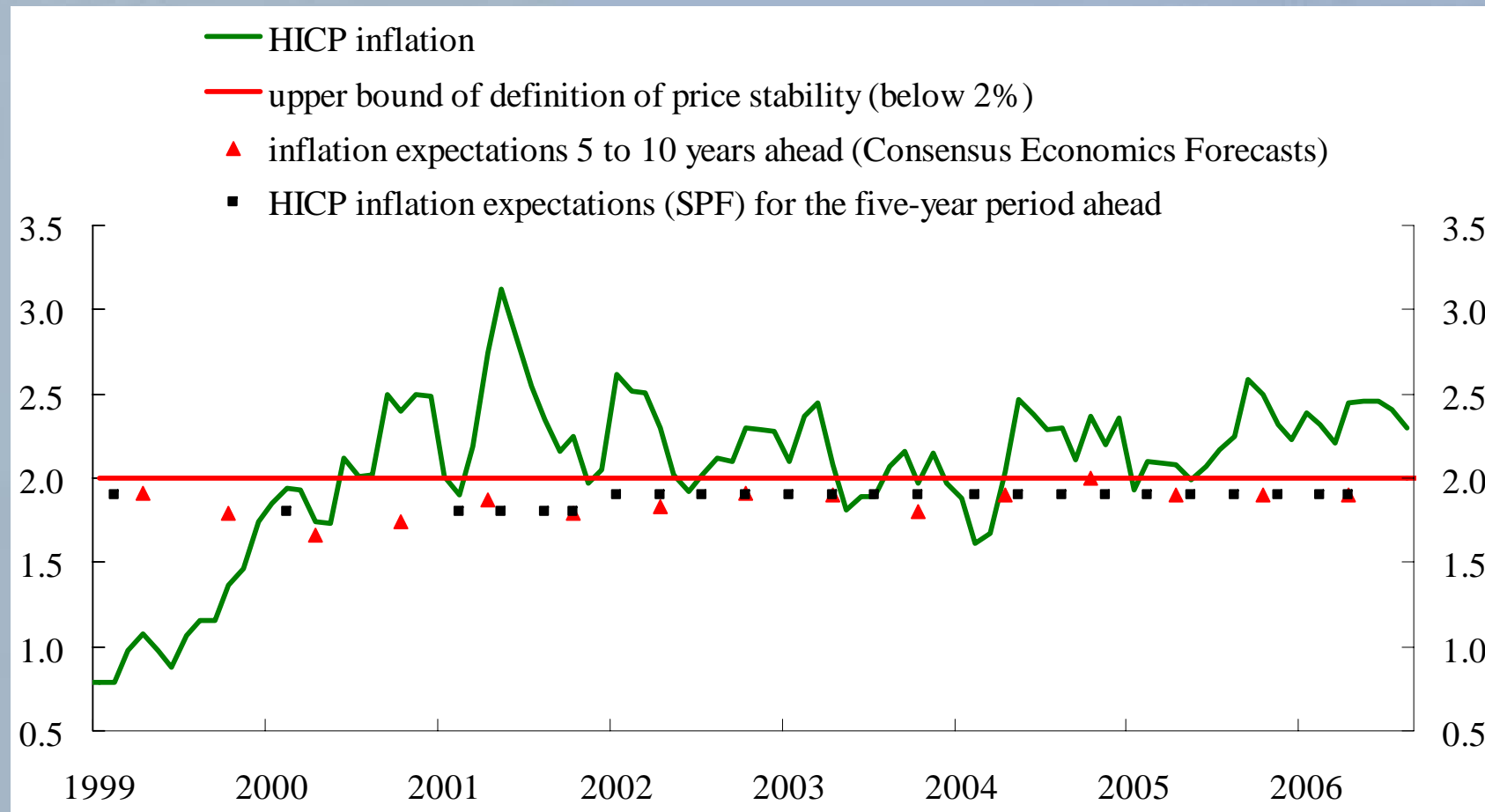


Source: ECB and Eurostat. Latest observation: 31 August 2006 and August 2006.

Slide 10: Long-term inflation expectations are well anchored

(annual percentages)

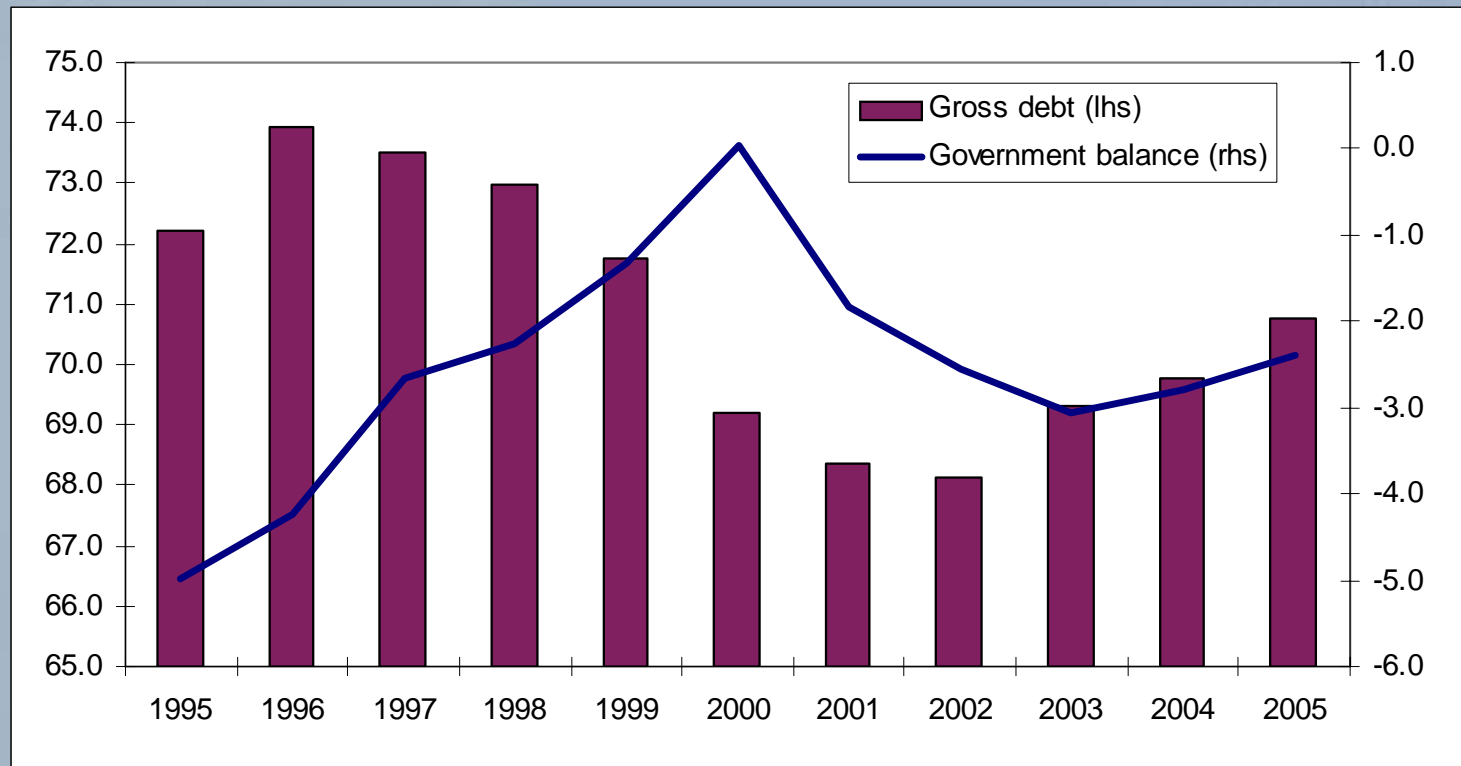
“What do you expect HICP inflation to be 5-10 years from now?”



Sources: Eurostat, Consensus Economics and ECB; Latest observation: August 2006.

Slide 11: Policy challenges for the euro area

Sustainability of public finances not sufficiently guaranteed



Source: European Commission.

Slide 12: Structural reforms

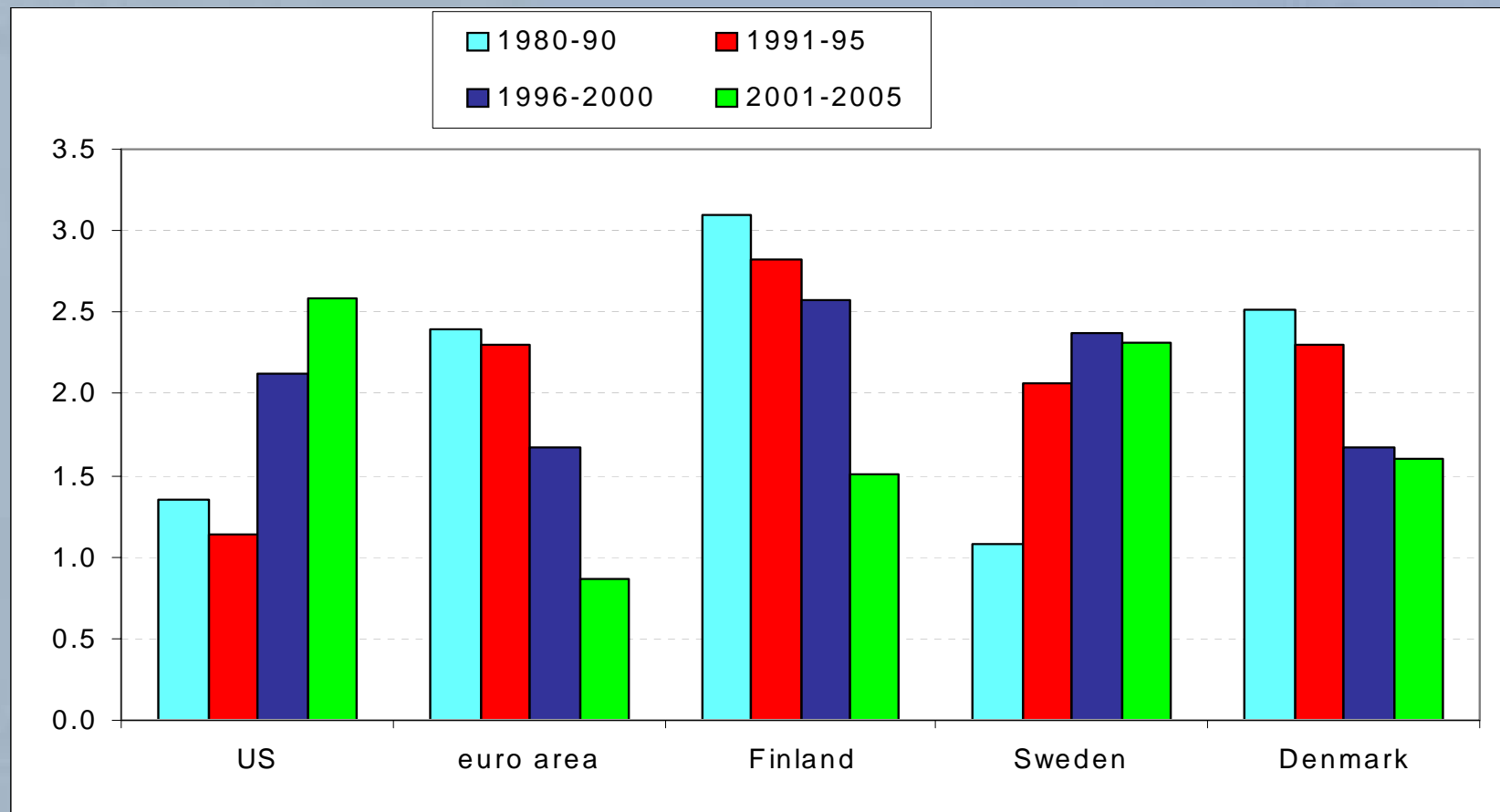
Labour and product market indicators 2005

	euro area	US	UK	SE
Labour Markets				
Total employment rate (%)	64	71	72	73
Older workers employment rate (%)	40	60	57	69
Unemployment rate (%)	8.6	5.1	4.7	7.8
Regulation				
Product Market Regulation (2003) *	1.5	1.0	0.9	1.2
change since 1998	(-0.7)	(-0.3)	(-0.2)	(-0.6)
Overall Employment Protection Legislation (2003) *	2.4	0.2	0.7	2.2
change since 1998	(-0.2)	(0.0)	(0.1)	(0.0)
Business climate				
Number of days needed to set up a business	22	5	18	16
Average cost of starting a business (100=euro area)	100	9	9	9

Sources: Eurostat, OECD and World Bank. * A higher number indicates stricter regulation.

Slide 13: Labour productivity growth in the US, euro area and the Nordic EU countries

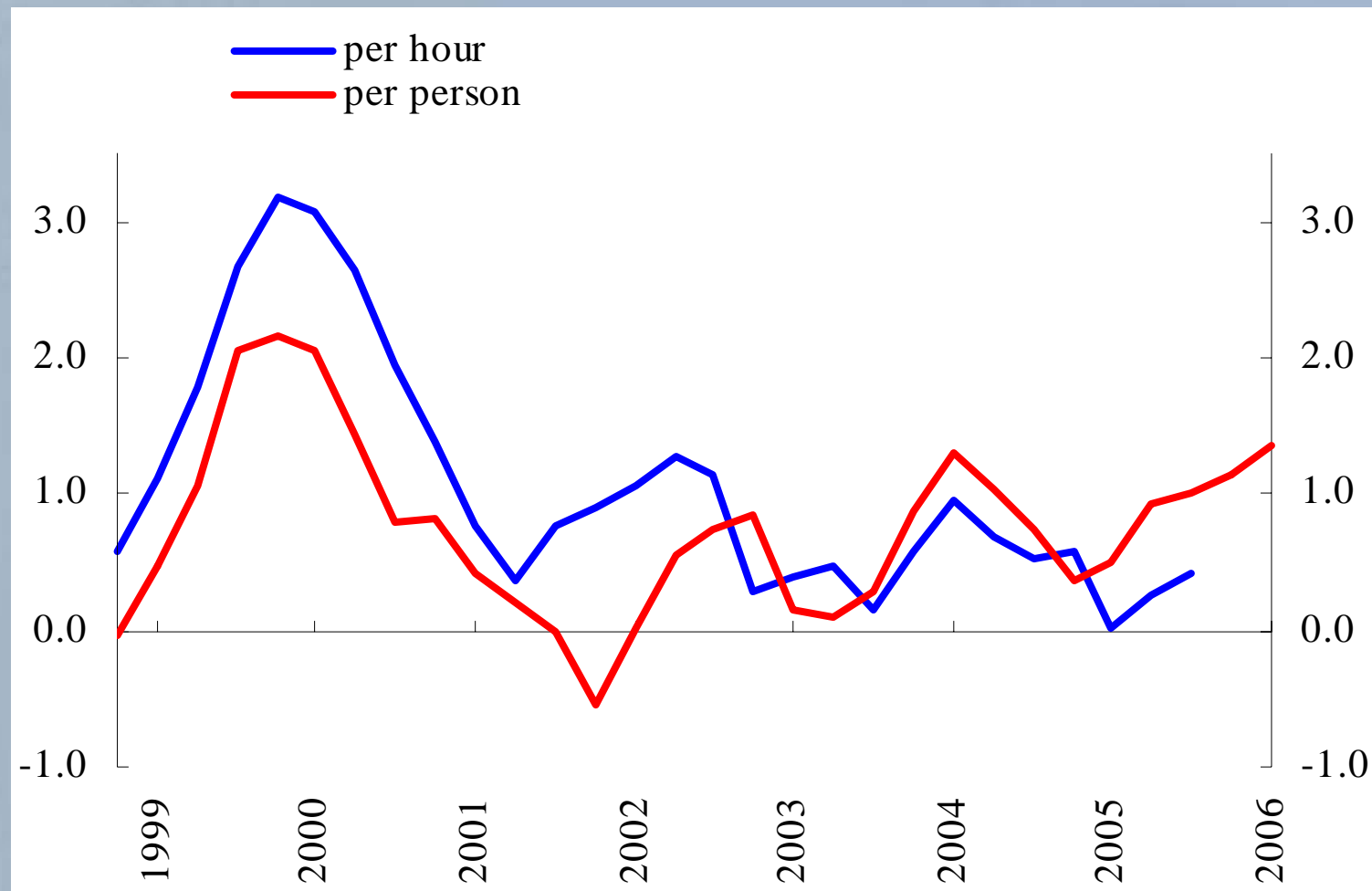
Real GDP per hour worked
(in average annual percentage growth rates)



Sources: Groningen Growth and Development Centre Total Economy Database and ECB calculations.

Slide 14: A cyclical improvement in euro area labour productivity growth

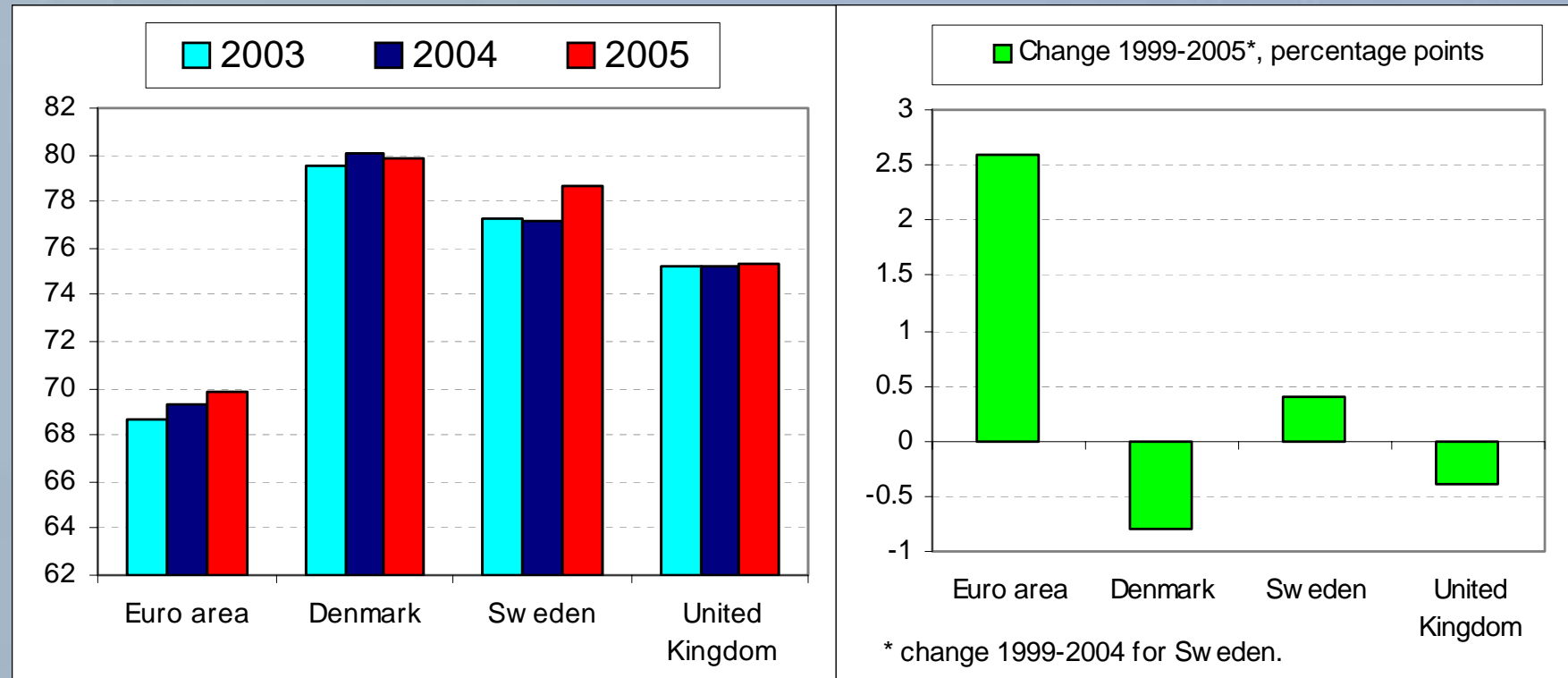
(annual percentages)



Sources: Eurostat and Groningen Growth and Development Centre Total Economy Database

Slide 15: Participation rates improving in the euro area

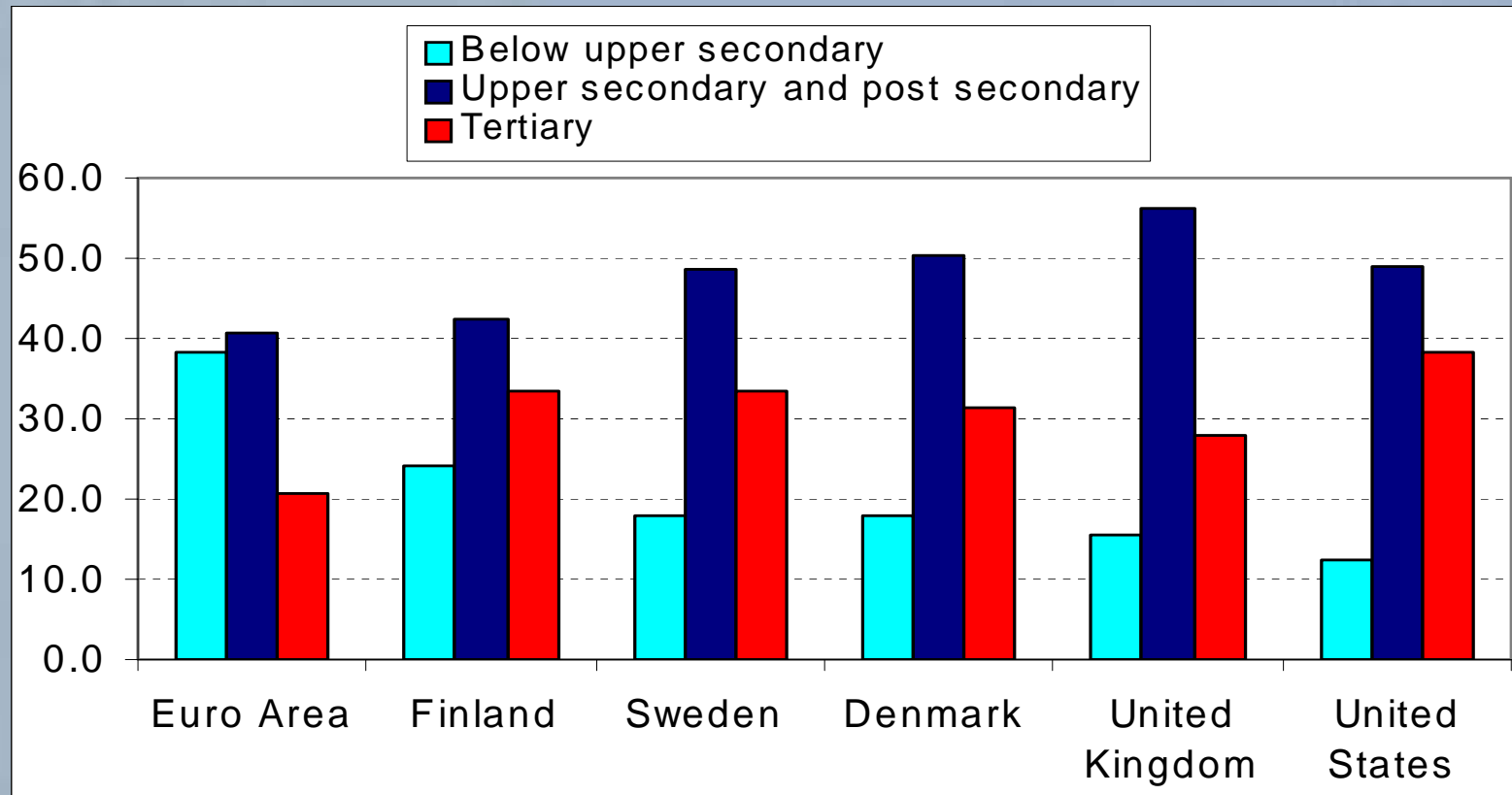
(15 to 64 years, in percent)



Source: Eurostat. Break in series for Sweden in 2005.

Slide 16: Educational attainment of the population aged 25-64

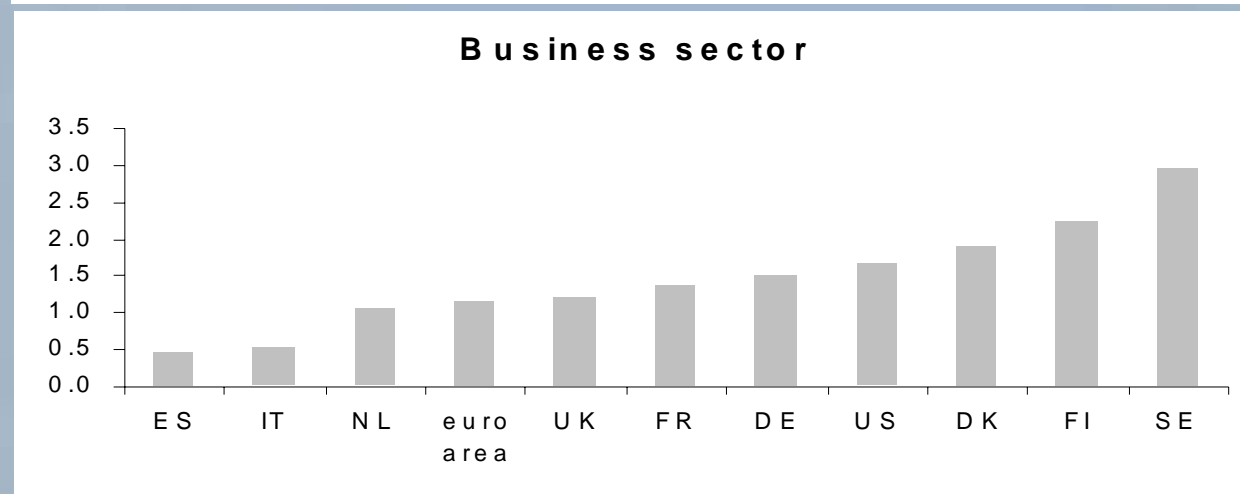
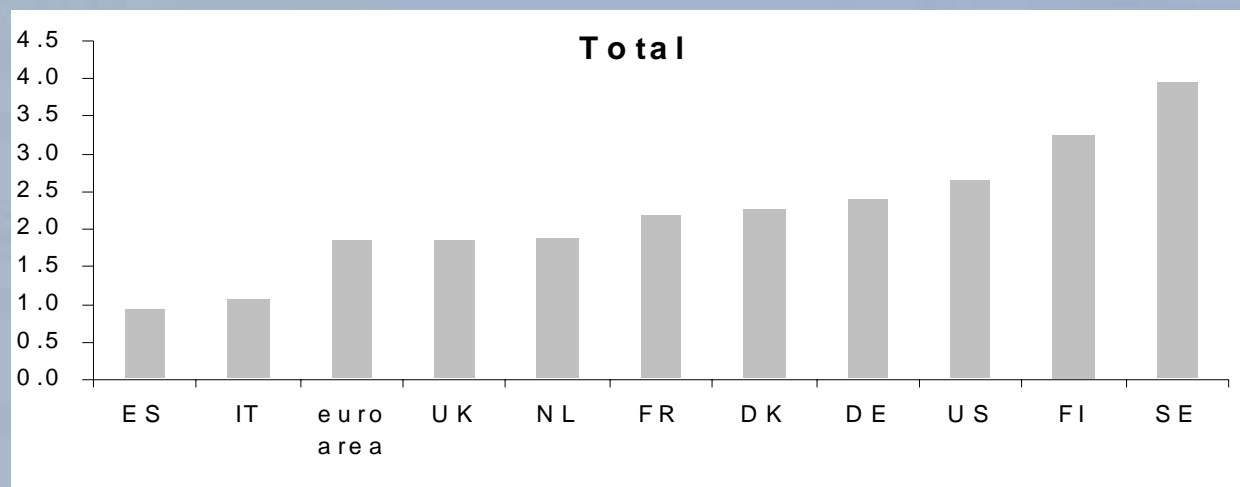
(2003, in percent)



Sources: OECD and ECB calculations for the Euro area.

Slide 17: Research & Development expenditure

(average 1996-2004, as % of GDP)

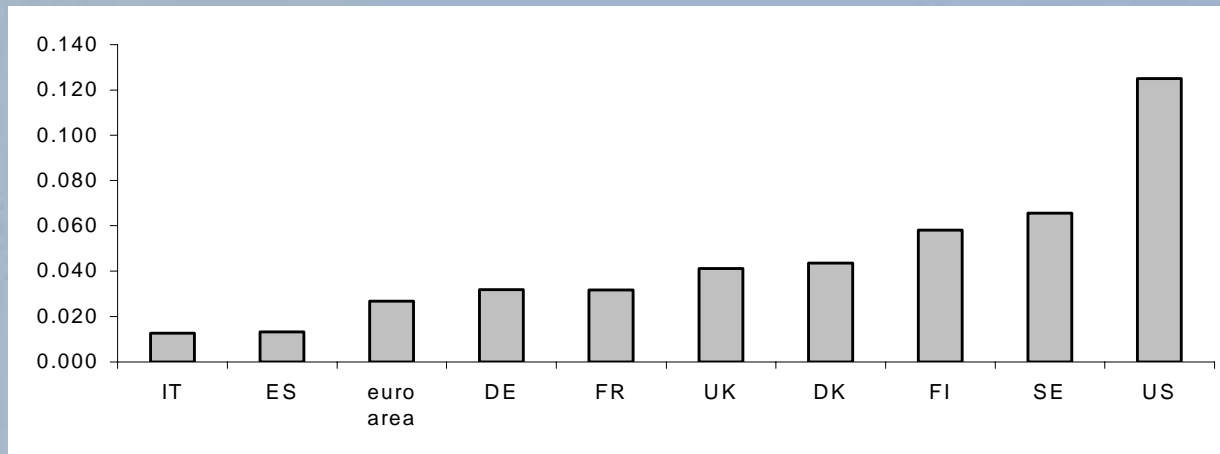


Source: Eurostat.

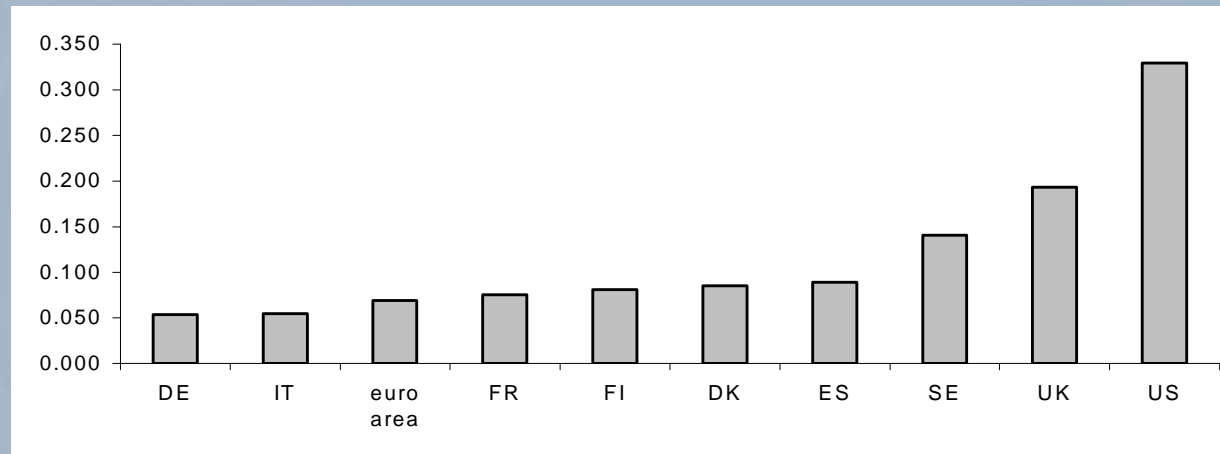
Slide 18: Venture and capital investment

(average 1997-2005, as % of GDP)

Early Stage



Expansion and replacement



Source: Eurostat. Data for the US only available until 2002.