

# Monetary policy in a cost-of-living crisis

Isabel Schnabel, Member of the ECB's Executive Board

*Remarks at a panel on the “Fight against inflation”  
at the IV Edition Foro La Toja, 30 September 2022*

# Resilient demand has significantly contributed to the recent rise in underlying inflation

## Shock decomposition of euro area inflation

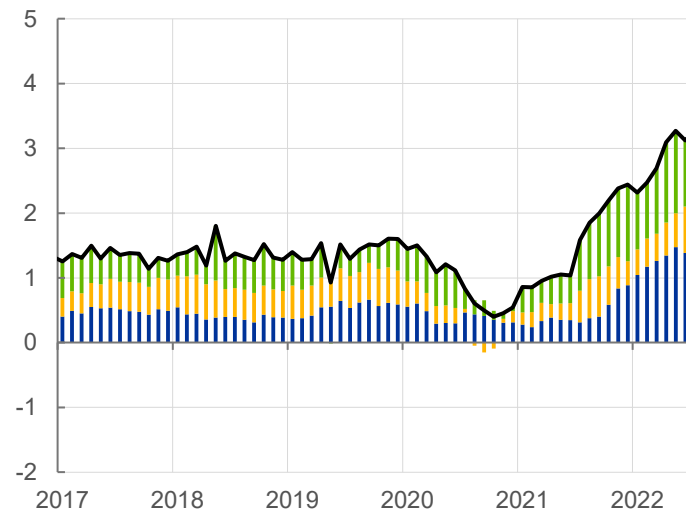
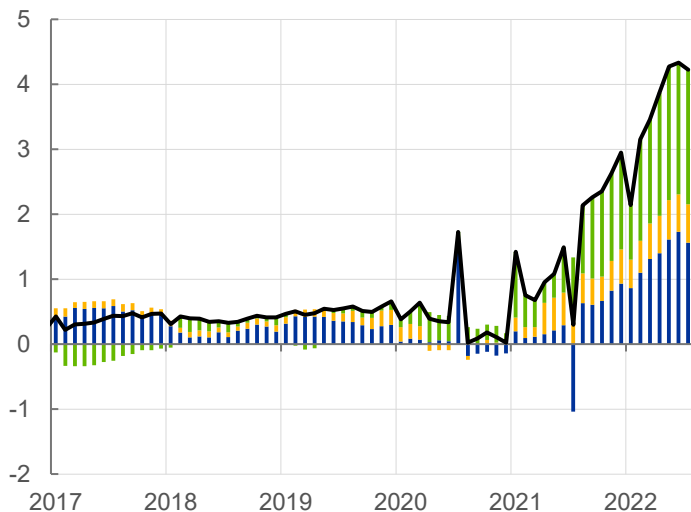
(annual % change, pp contributions)

### Non-energy industrial goods inflation

### Services inflation

■ Demand-driven      ■ Ambiguous  
■ Supply-driven      — NEIG

■ Demand-driven      ■ Ambiguous  
■ Supply-driven      — Services



Sources: Eurostat and ECB staff calculations.

Notes: Gonçalves, E. and Koester, G. (2022): "How much do supply and demand drive inflation – decomposing HICPX inflation item by item"- ECB Economic Bulletin Box issue 7 2022 (forthcoming).

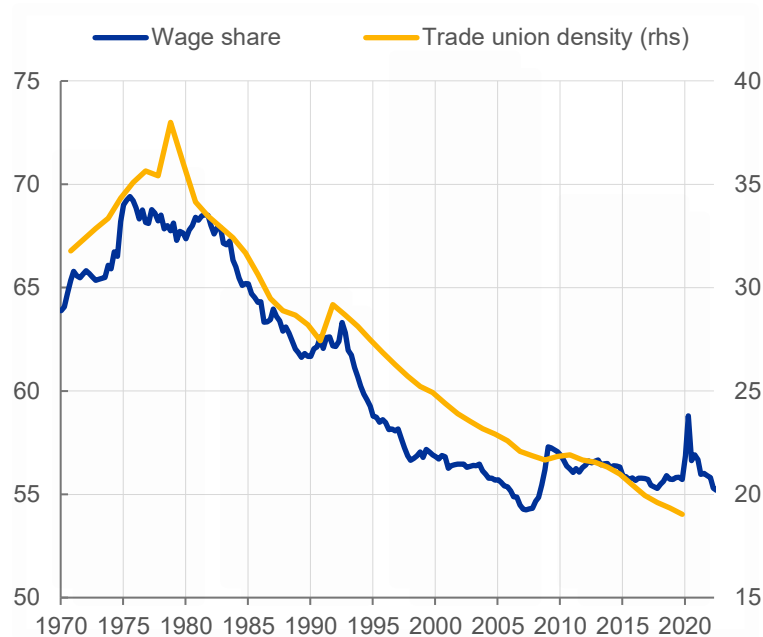
Seasonally adjusted series.

Latest observation: July 2022.

# Secular decline in labour share of income coincided with decline in trade union density

## Wage share and trade union density

(left-hand side: share of GDP, percentage; right-hand side: share of employment, percentage)



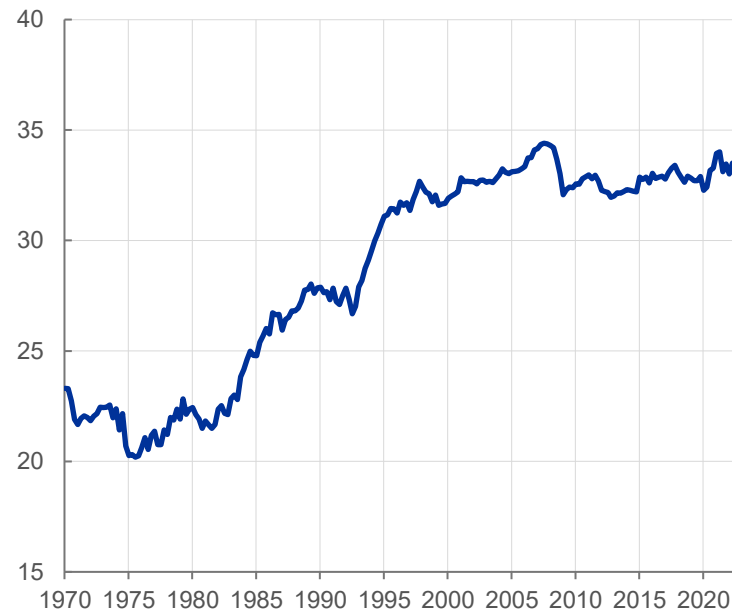
Source: Eurostat, Area-Wide model, OECD, and ECB calculations.

Note: The trade union density for the euro area is a GDP-weighted average of data for Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal and Spain.

Latest observation: 2022Q2 for wage share; 2019 for trade union density.

## Profit share

(share of GDP, percentage)



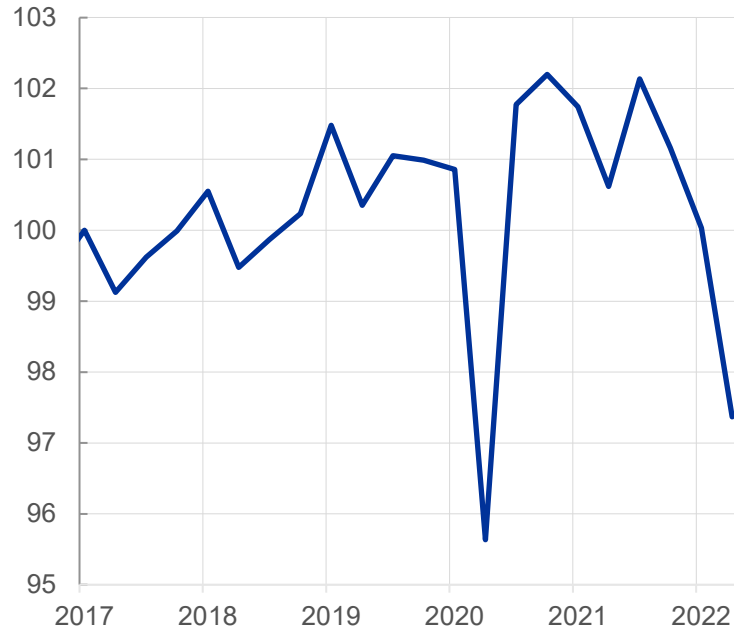
Source: Eurostat, Area-Wide model, and ECB calculations.

Latest observation: 2022Q2.

# Real wages are falling measurably, especially for households with low income

## Real compensation per employee

(index: 2017Q1 = 100)



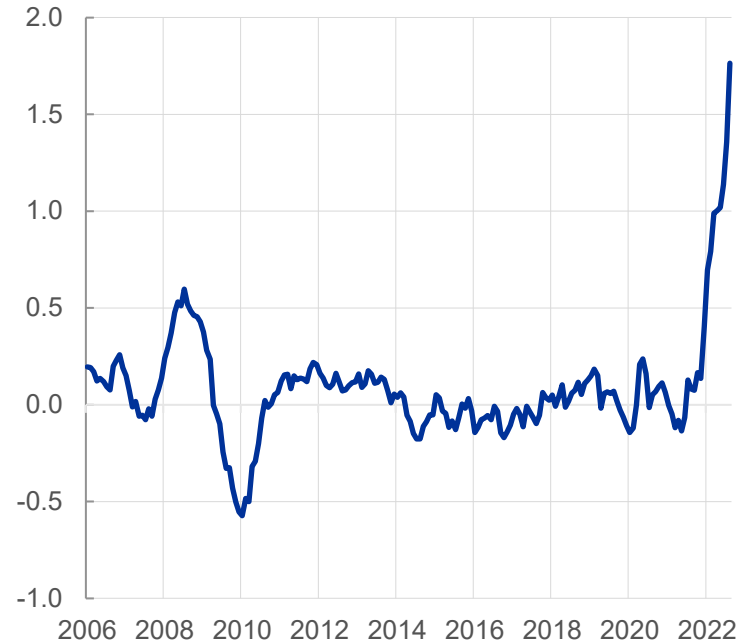
Source: Eurostat and ECB calculations.

Latest observation: 2022Q2.

Notes: Compensation per employee is deflated using the HICP.

## Inflation gap between the lowest and highest income quintiles

(percentage points; excluding housing costs)



Source: Eurostat, Household Budget Survey, Istat and ECB calculations.

Notes: Quintile-specific inflation rates are calculated based on quintile-specific consumption baskets and are calculated excluding spending on "Rents and Owner-occupied housing costs". Weights based on the household budget survey are updated annually in line with updates of official HICP weights. See Charalampakis et al. (2022): "The impact of the recent rise in inflation on low-income households" ECB Economic Bulletin Box issue 7 2022 (forthcoming)  
Latest observation: August 2022

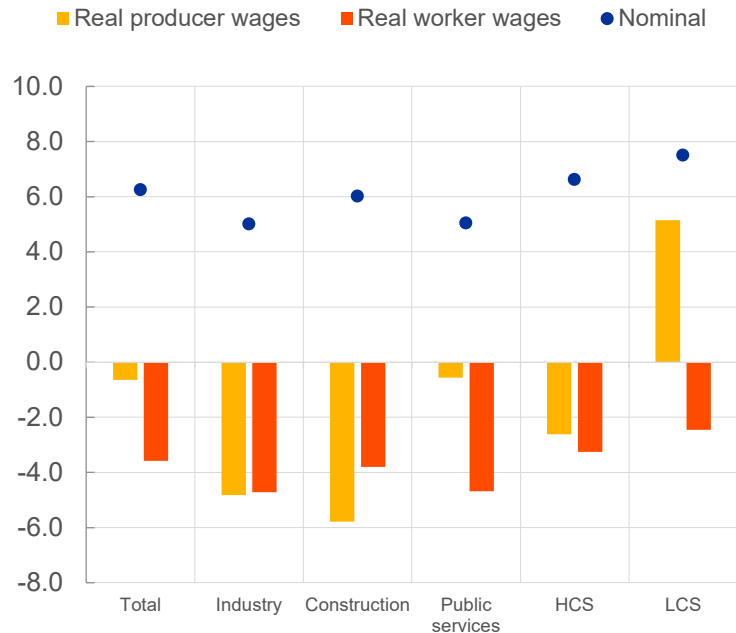
# Decline in real consumption and real labour costs should ease inflationary pressures

## Consumer confidence indicator (percentage balances)



Source: European Commission Consumer Survey.  
Latest observation: September 2022.

## Nominal and real growth of producer and consumer wages (change compared to 2019Q4 in percentage points)



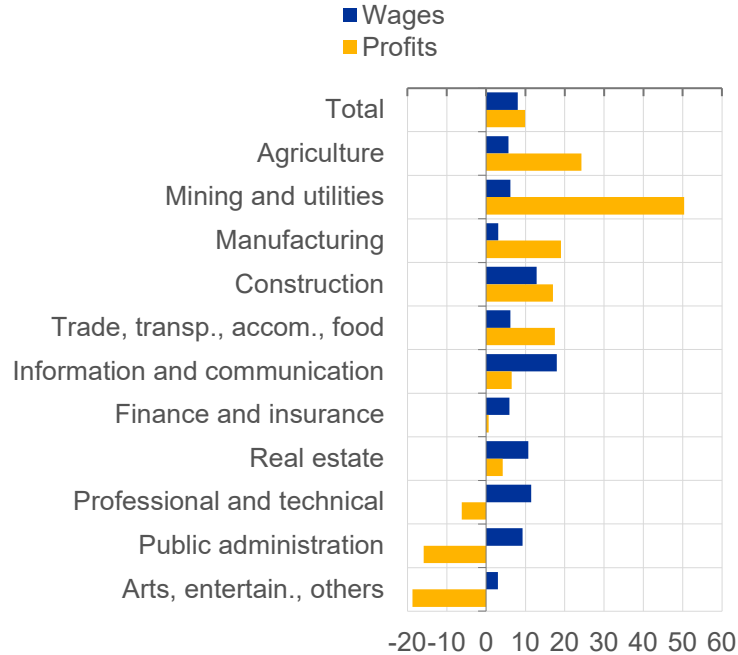
Source: Eurostat and ECB staff calculations.  
Latest observation: 2022Q2.

Notes: Real producer wages are deflated using value added deflators. Real worker wages are deflated using the HICP. HCS and LCS refer to high-contact and low-contact services, respectively.

# Profits increased across many industries despite higher nominal wage growth

## Wages and profits

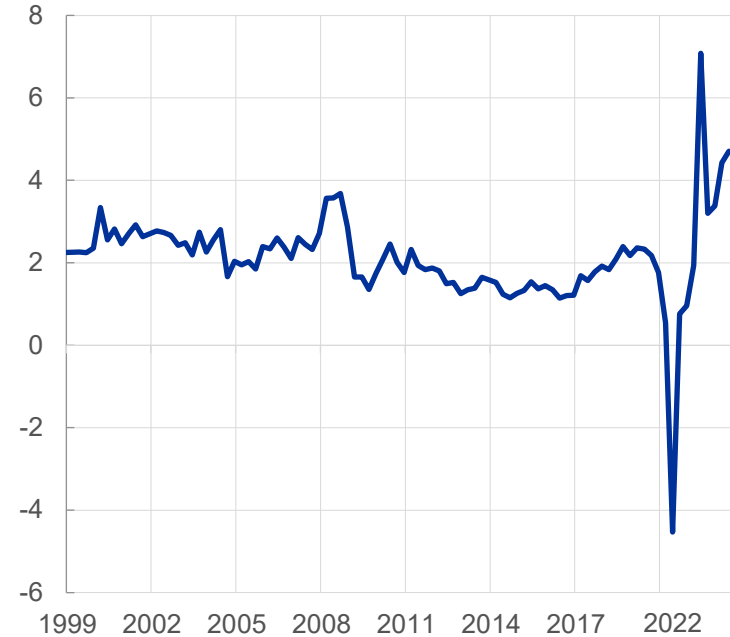
(changes from Q4-2019 to Q2-2022, percentage)



Source: Eurostat and ECB calculations.  
Latest observation: 2022Q2.

## Nominal compensation per employee

(annual % change)

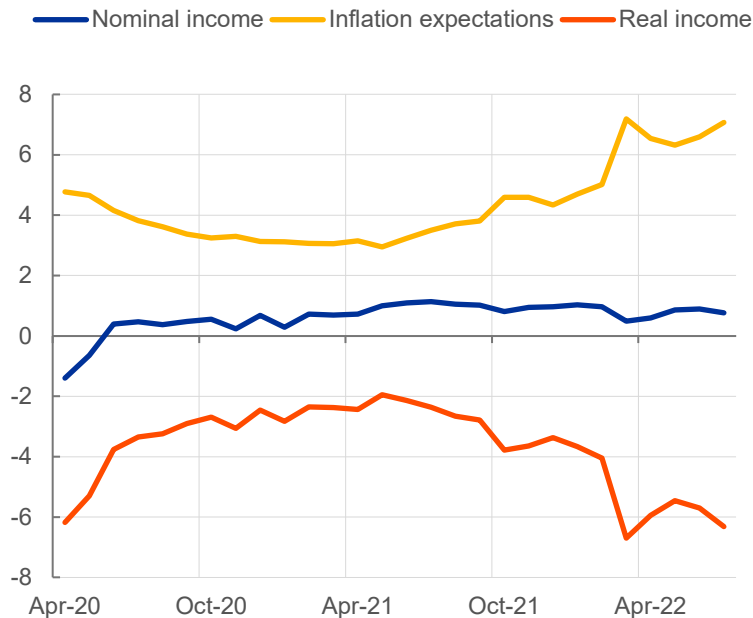


Source: Eurostat and ECB calculations.  
Latest observation: 2022Q2.

# Consumers expect further real income losses, while firms are slow in reducing backlog

## Consumers' income and inflation expectations over next 12 months

(percentage changes)



Source: ECB Consumer Expectations Survey.

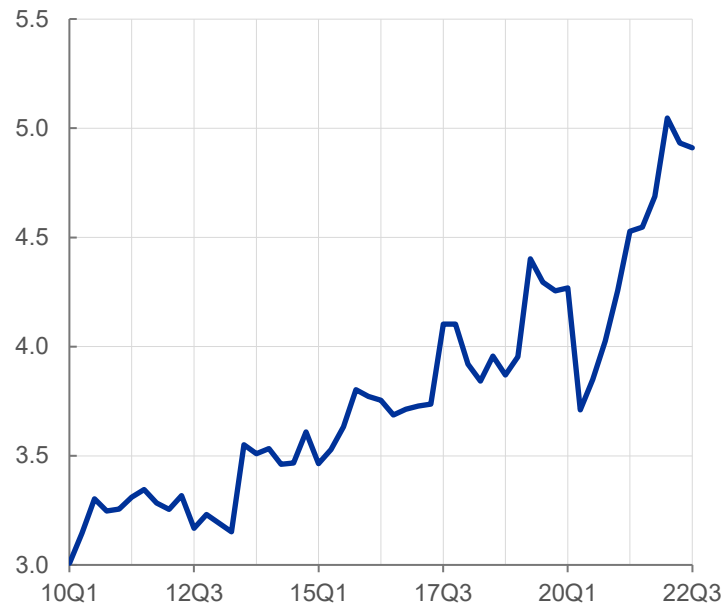
Notes: Weighted estimates. Means are winsorised at 2<sup>nd</sup> and 98<sup>th</sup> percentiles.

Real income is obtained by subtracting consumers' inflation expectations from nominal income expectations over the next 12 months.

Latest observation: July 2022.

## Industry backlog

(number of months)



Source: European Commission Business Survey.

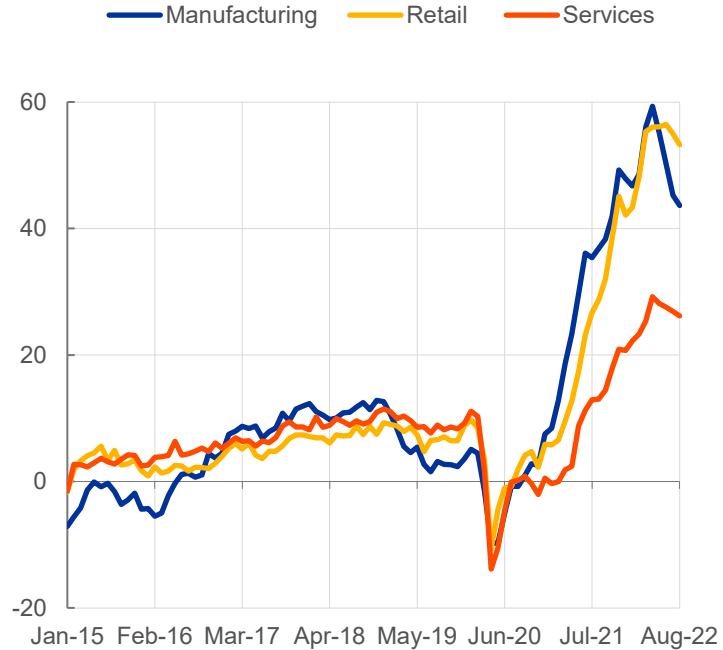
Notes: Industry backlog refers to the number of months of production assured by current order book levels.

Latest observation: 2022Q3.

# Large share of firms intend to raise prices further, adding to underlying inflation

## Selling price expectations over next three months

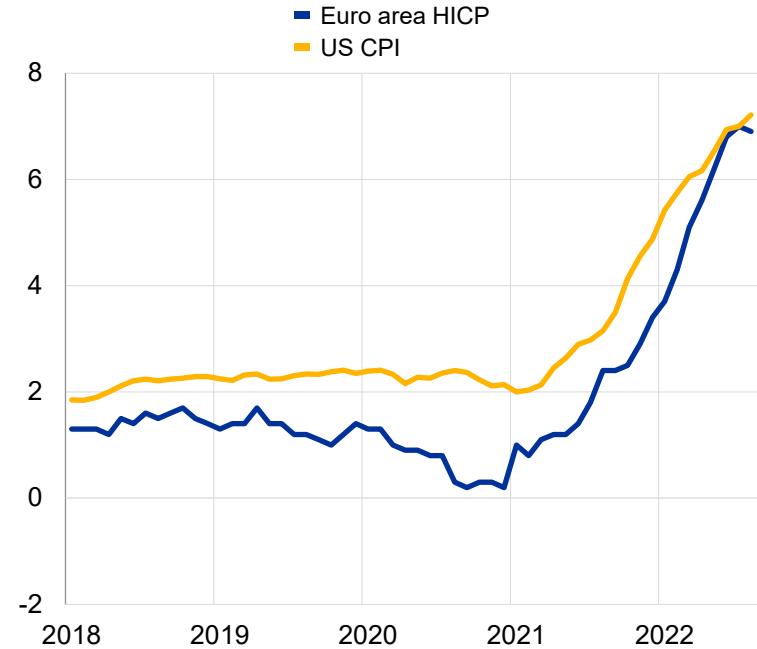
(percentage balances)



Source: European Commission Business Survey.  
Latest observation: August 2022.

## Trimmed mean inflation for the euro area and the United States

(annual % change)



Sources: 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 annual rates of change are calculated using rescaled weights. Latest observation: August 2022.



**Thank you for your attention!**