

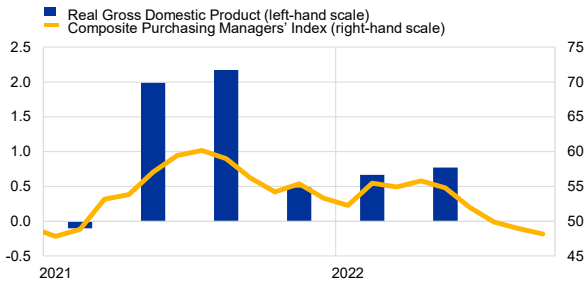


Introductory statement in three charts

ECON hearing with the ECB President on 26 September 2022

Real GDP and perceived output growth

(quarter-on-quarter percentage change, diffusion index)



Sources: Eurostat and S&P Global.
 Note: The Composite Purchasing Managers' Index (PMI) reflects whether purchasing managers perceive output to be higher (>50), lower (<50) or unchanged (=50) since last month. The latest observations are for the second quarter of 2022 for gross domestic product and for September 2022 (flash) for the PMI.

Economic activity

The euro area economy grew by 0.8 per cent in the second quarter of 2022.

- Consumption rose strongly as the contact-intensive services sector reopened and tourism increased.
- At the same time, businesses suffered from high energy costs and remaining supply bottlenecks.

We expect the economy to slow substantially over the coming quarters, largely due to the impact of the war.

- Activity is slowing because of high inflation, weakening demand for services, falling confidence and lower global demand.

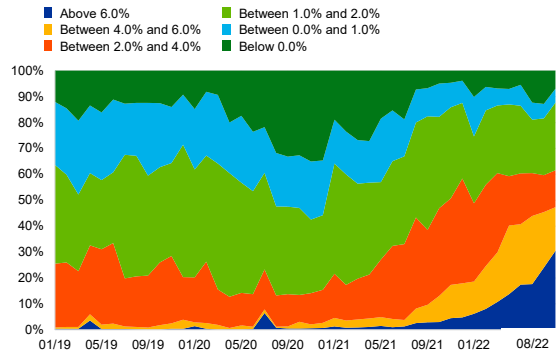
Inflation

Inflation rose further to 9.1 per cent in August. Price pressures are spreading, in part owing to the impact of high energy costs.

- Energy price inflation remained extremely high at 38.3 per cent and was again the dominant component of overall inflation.
- Price pressures in the food sector continued to mount, partly reflecting higher input costs related to energy and adverse weather conditions.
- Recovering demand in the services sector and supply bottlenecks continue to put upward pressure on inflation.

Share of HICP items by inflation bracket

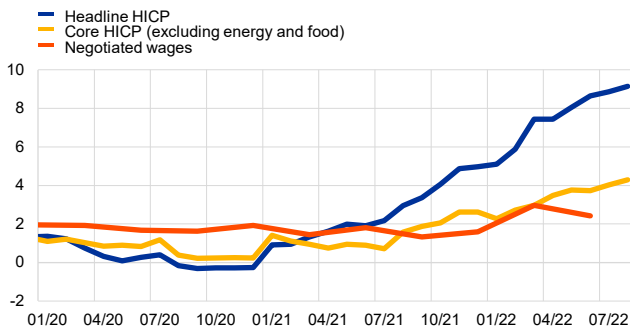
(percentage)



Sources: Eurostat and ECB calculations.
 Note: The latest observation is for August 2022.

HICP inflation and negotiated wages

(annual percentage changes)



Sources: Eurostat and ECB calculations.
 Note: The latest observation is for August 2022 for HICP inflation and for the second quarter of 2022 for negotiated wages.

Wage developments

Resilient labour markets and some catch-up to compensate for higher inflation are likely to push up wage growth.

- Employment increased by more than 600,000 people in the second quarter of 2022 and the unemployment rate stood at a historical low of 6.6 per cent in July.
- Incoming data and recent wage agreements indicate that wage growth dynamics remain contained overall but are set to increase. Negotiated wages (including one-off payments) stood at 2.4 per cent in the second quarter of this year.

WANT TO KNOW MORE?

- [Monetary Policy Statement](#), ECB press conference, 8 September 2022

Macroeconomic projections: baseline scenario

In the baseline scenario, euro area real GDP is expected to grow by 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

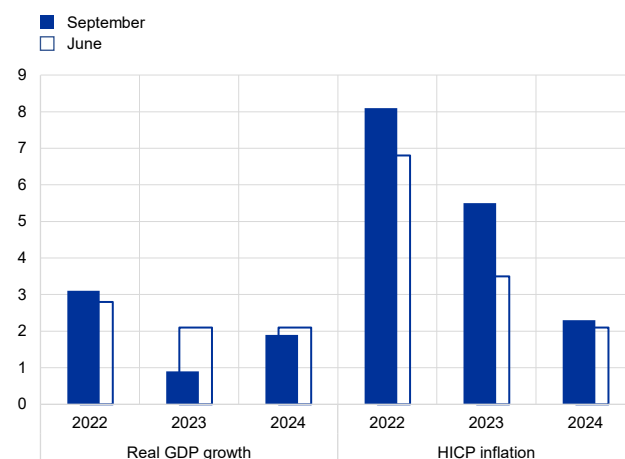
- Growth is expected to slow significantly then stagnate in the second half of 2022 and at the start of 2023 as inflation takes a toll on real incomes, while uncertainty and rising interest rates hold back investment.
- The labour market is expected to weaken following the slowdown in economic activity, though remaining overall rather resilient.

Annual inflation is expected to stand at 8.1% in 2022 then decline to 5.5% in 2023 and 2.3% in 2024.

- Inflation is expected to remain above the ECB's target in 2024 due to lagged effects from high energy prices, the recent depreciation of the euro, robust labour markets and some effects of inflation compensation on wages.

Baseline scenario for growth and inflation

(annual percentage change)



Sources: Eurosystem and ECB staff calculations.

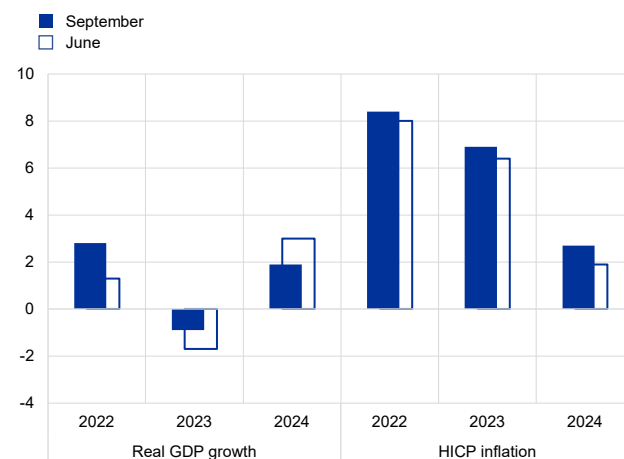
Macroeconomic projections: downside scenario

A downside scenario illustrates the economic impact of adverse assumptions related to the war, most of which are more severe than what has materialised so far.

- The assumptions include a complete gas cut-off, but also a protracted conflict, high commodity prices and uncertainty, worse financing conditions, weaker foreign demand and harsher winter weather with less energy substitutability.
- The euro area economy would be pushed into a recession, with real GDP falling sharply this winter. Upward price pressures would be more long-lasting, though tempered by the dampening impact of the decline in demand later in the horizon.
- Real GDP is expected to grow by 2.8% in 2022, fall by -0.9% in 2023, then grow by 1.9% in 2024. During the same three-year period inflation is expected to stand at 8.4%, 6.9% and 2.7% respectively.

Downside scenario for growth and inflation

(annual percentage change)



Sources: Eurosystem and ECB staff calculations.

WANT TO KNOW MORE?

- [ECB staff macroeconomic projections for the euro area, September 2022](#)