

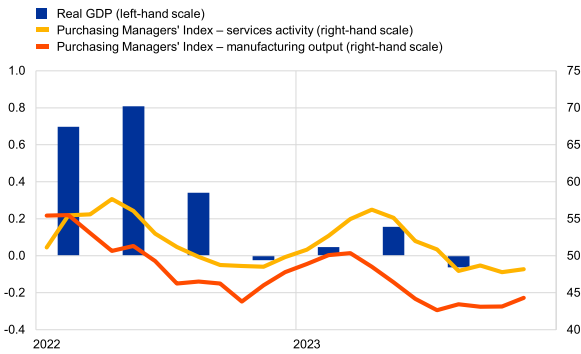


Introductory statement in three charts

ECON hearing with the ECB President on 27 November 2023

Real GDP growth and sectoral PMIs

(left-hand scale: quarter-on-quarter percentage changes; right-hand scale: diffusion index)



Sources: Eurostat and S&P Global. Notes: Purchasing Managers' Indices (PMIs) reflect whether purchasing managers perceive output to be higher (>50), lower (<50) or unchanged (=50) since the previous month. The latest observations are for the third quarter 2023 for GDP and for November 2023 for PMIs.

Economic activity

The euro area economy remains weak. Real GDP contracted by 0.1% in the third quarter of 2023.

- Higher interest rates, weak foreign demand and the fading effects of the post-pandemic reopening are weighing on investment and consumer spending.
- Manufacturing output continues to decline and the services sector is weakening further.

The economy should strengthen over the coming years.

- Household real incomes are foreseen to recover as inflation falls.
- Demand for euro area exports is expected to pick up as the global economy recovers.

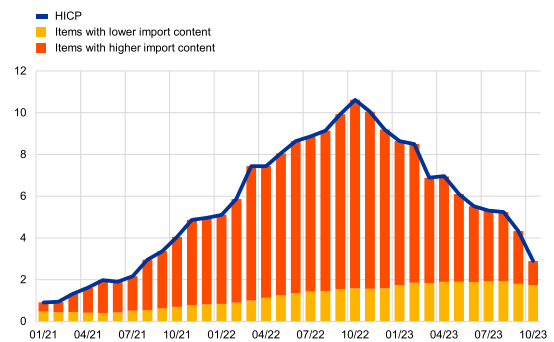
Inflation

The general decline in inflation continued in October, but domestic price pressures remain strong.

- Elevated inflation starting in 2021 mainly reflected global shocks that spilled over to the euro area through import prices.
- With external sources of inflation fading, the contribution to inflation of items with a lower import content has been gradually increasing.
- Wage pressures continue to be a strong source of domestic inflation, with no signs of a turning point yet.

Decomposition of inflation

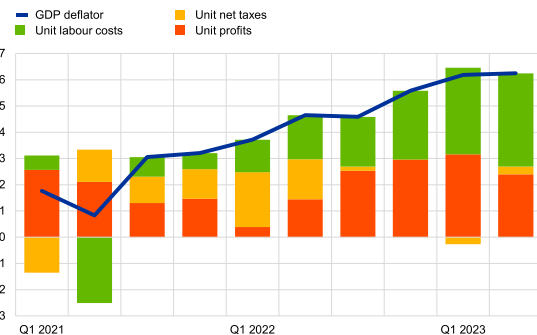
(annual percentage changes, percentage point contributions)



Sources: Eurostat and ECB calculations. Notes: See "A new indicator of domestic inflation for the euro area". Items with a higher import content include energy and food items. The latest observations are for October 2023.

Contributions to GDP deflator

(annual percentage changes, percentage point contributions)



Sources: Eurostat and ECB calculations. Note: The latest observations are for the second quarter of 2023.

Profit developments

Profits had an exceptional role in shaping domestic price pressures in 2022, but their contribution is weakening.

- Unit profits accounted for over half of the growth in the GDP deflator in the last quarter of 2022. This contribution fell to below 40% in the second quarter of 2023.
- The contribution of unit labour costs has been rising, suggesting that profits are starting to buffer the effects of wage increases on inflation pressures.

WANT TO KNOW MORE?

- [Monetary Policy Statement](#), ECB Press Conference, 26 October 2023
- [ECB Economic Bulletin](#), Issue 7, 9 November 2023



Topic 1: Monetary policy and inflation in the euro area and United States

Headline inflation peaked in autumn 2022. It has since fallen significantly in the euro area and the United States.

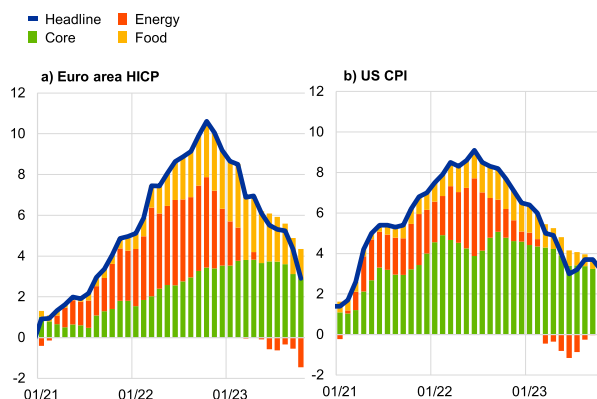
- Headline inflation peaked earlier in the United States (June) than in the euro area (October).
- The fall in energy prices has been the main driver of declining headline inflation in both economies.
- Food remains an important driver of inflation in the euro area, but it has been rather contained in the United States.

Core inflation remains elevated in both economies, mainly owing to persistently high services inflation.

- The robust recovery in consumer spending in the United States caused core inflation to increase more rapidly there than in the euro area.
- US fiscal policy played a key role in driving up core inflation, while the terms-of-trade shock hit the euro area harder.

Inflation developments

(annual percentage changes, percentage point contributions)



Sources: Eurostat, Bureau of Labor Statistics and ECB calculations. Note: HICP stands for Harmonised Index of Consumer Prices; CPI stands for consumer price index. The latest observations are for October 2023.

Topic 2: Climate change considerations in monetary policy

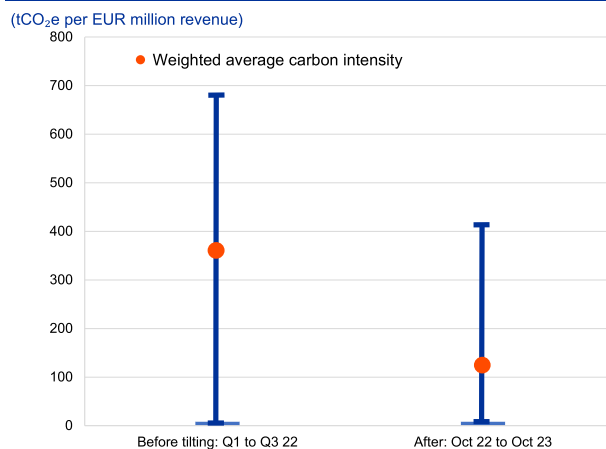
Tilting reinvestments in the corporate sector portfolio is reducing the Eurosystem’s climate-related financial risks and contributing to the EU’s climate objectives.

- Since tilted reinvestments started in October 2022, the weighted average carbon intensity of corporate bond purchases has decreased by more than 65%.

The Governing Council is committed to considering ways to ensure that decarbonisation is on a path that supports the Paris Agreement objectives.

- We expect our corporate portfolios to keep decarbonising on this path throughout 2023 and 2024.
- This will be driven by the effectiveness of our tilting approach, near-term redemptions bonds with a relatively high carbon impact and the efforts that issuers of the bonds have committed to making.
- We will continue to review our actions to ensure they remain fit for purpose.

Carbon intensity of corporate asset purchases before and after incorporation of climate change considerations



Sources: ISS and ECB calculations. Notes: The whiskers represent the 90th and 10th percentiles of the carbon intensity of each corporate sector purchase conducted within the respective period. The orange dot represents the weighted average carbon intensity of trades conducted within the period. Climate data used to calculate these figures are expected to be revised in subsequent years in the light of issuers’ disclosures on emissions for 2022 and 2023.

WANT TO KNOW MORE?

- [FAQ on incorporating climate change considerations into corporate bond purchases](#)
- [Climate-related financial disclosures of the Eurosystem’s corporate sector holdings for monetary policy purposes](#)