



EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area in 2025

Fireside chat at Peterson Institute for
International Economics

5 February 2025

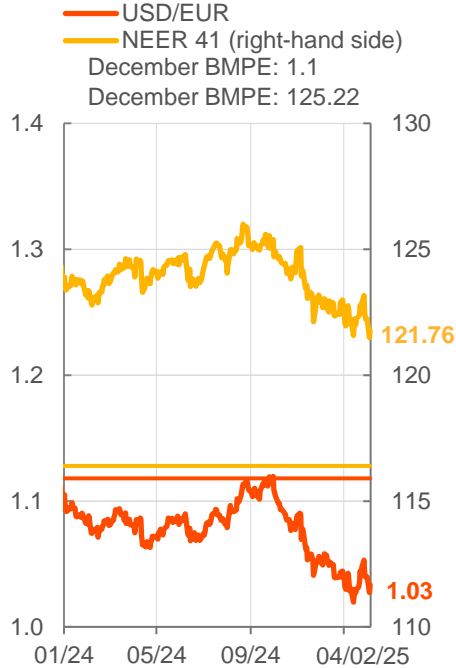


Philip R. Lane
Member of the Executive Board

Exchange rates, oil, gas and commodity prices

USD/EUR and NEER

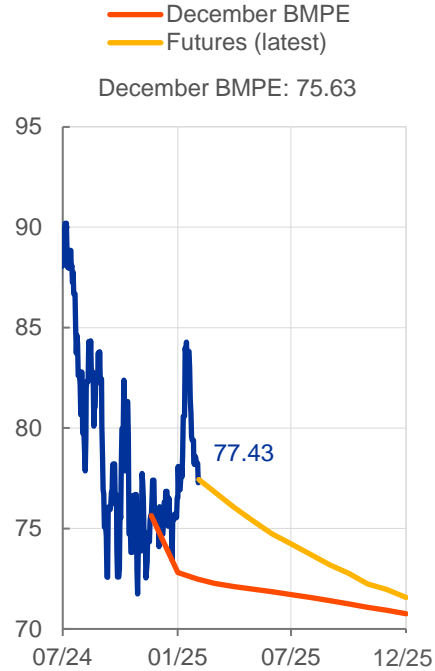
(left-hand side: level; right-hand side: index: 1999 = 100)



Source: ECB calculations.
 Notes: Nominal effective exchange rate for 41 trading partners (NEER 41). The horizontal lines denote the averages since 2015, 1.12 for the USD/EUR (red) and 116.39 for the NEER 41 (yellow). The latest observations are for 4 February 2025.

Brent crude oil

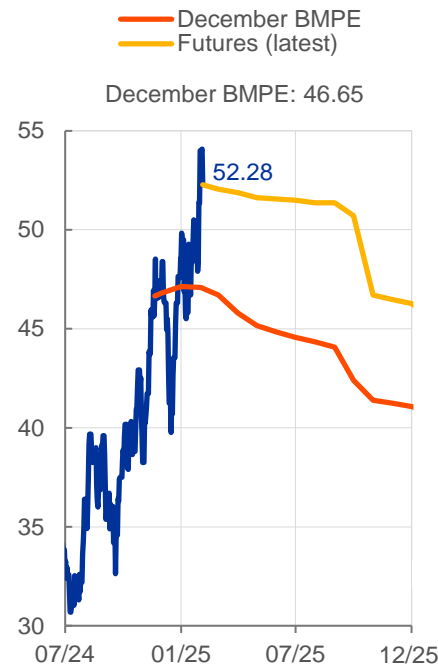
(USD/barrel)



Sources: LSEG and ECB calculations.
 Note: The latest observations are for 4 February 2025.

Gas

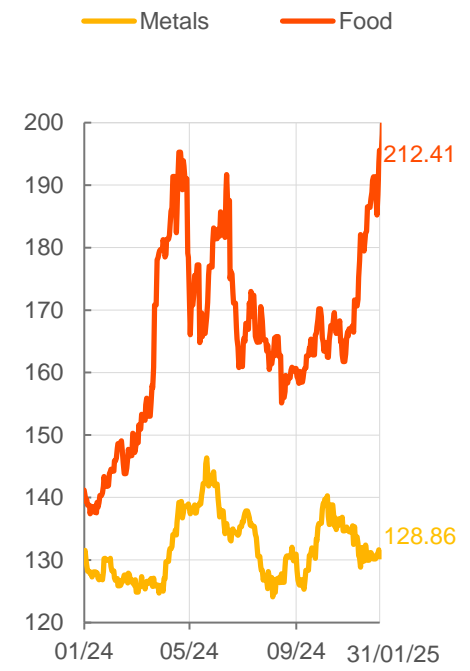
(EUR/MWh)



Sources: LSEG and ECB calculations.
 Note: The latest observations are for 4 February 2025.

Non-energy commodities

(index: 2020 = 100)

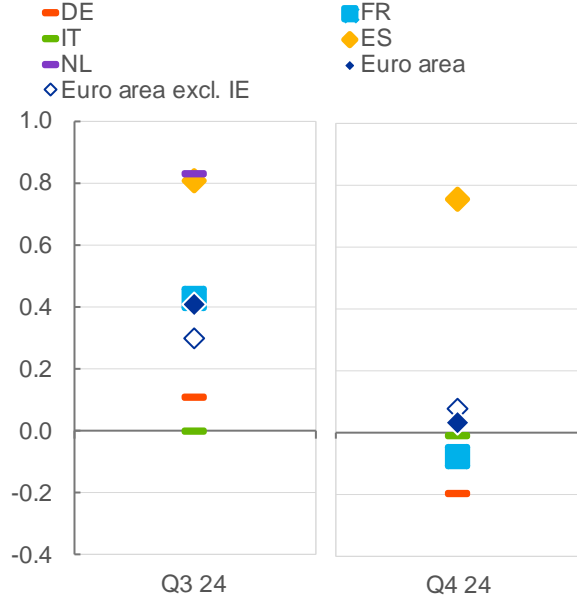


Sources: LSEG, HWWI and ECB calculations.
 Note: The latest observations are for 31 January 2025 (weekly data).

Short-term outlook

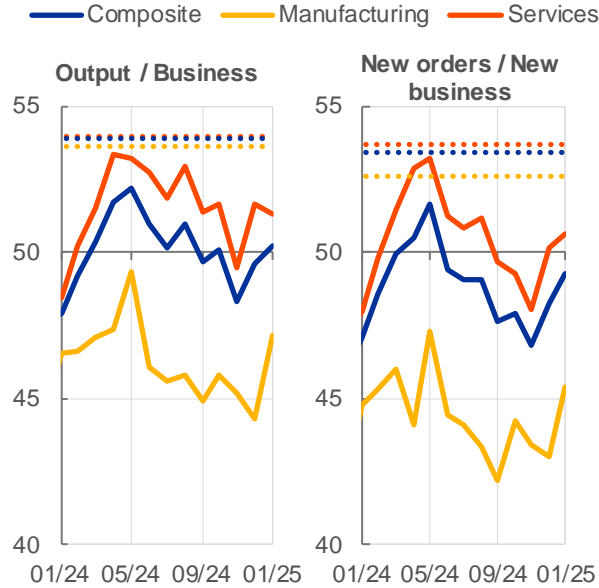
GDP in the euro area in largest countries

(quarter-on-quarter percentage changes)



Composite, manufacturing and services PMIs

(diffusion indices)

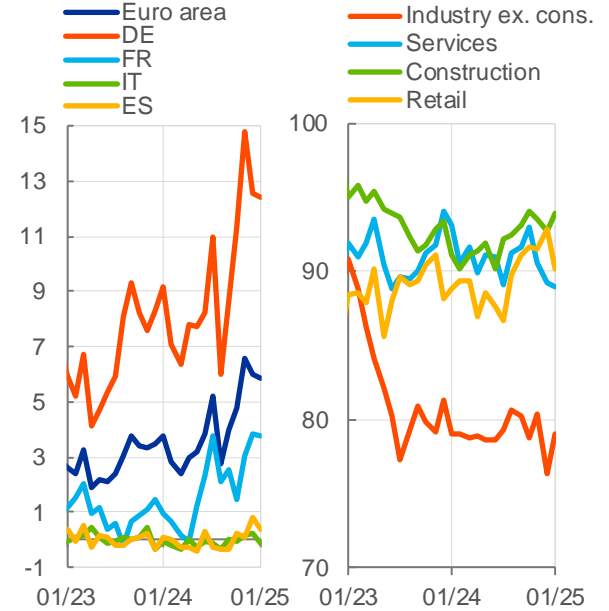


Source: S&P Global.

Notes: Dotted lines refer to 2015-19 means. "Output" and "new orders" correspond to manufacturing and composite and "business activity" and "new business" to services. The latest observations are for January 2025.

Political uncertainty and EC survey activity expectations

(left-hand side: standardised indices, right-hand side: indices February 2022 = 100)



Sources: left-hand side: Bloom et al (2016), ECB calculations, right-hand side: European Commission.

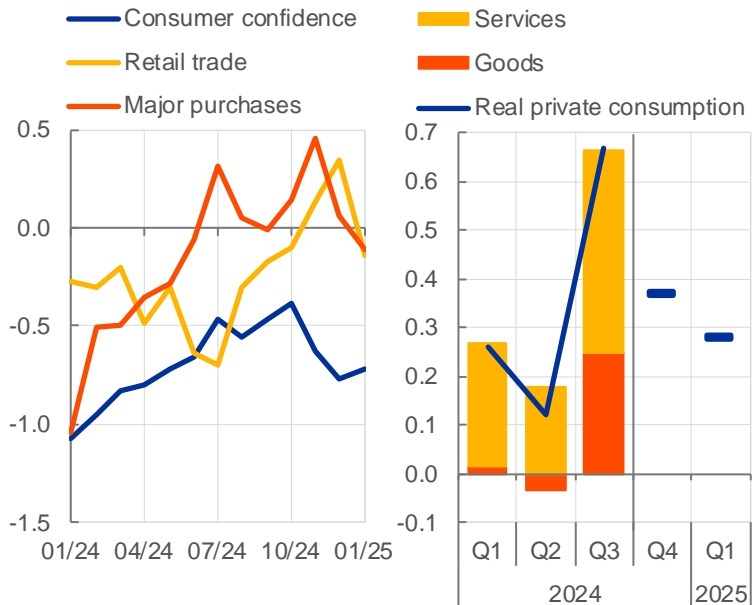
Note: The latest observations are for January 2025.

Sources: Eurostat and ECB calculations.

Notes: GDP breakdown by countries in the euro area. The latest observations are for the third quarter of 2024 for the Netherlands, and for the fourth quarter of 2024 for the rest of the Countries.

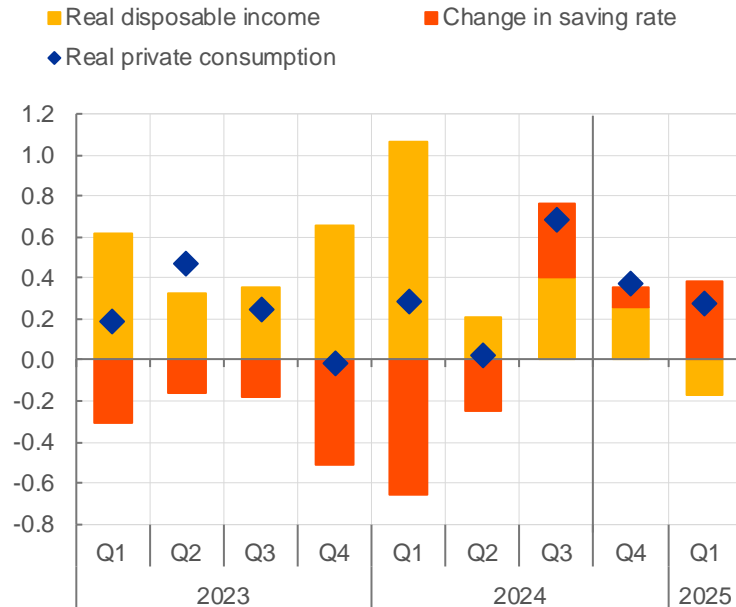
Confidence, expectations and consumption

(standardised; quarter-on-quarter percentage changes and percentage point contributions)



Real private consumption growth

(quarterly percentage changes)



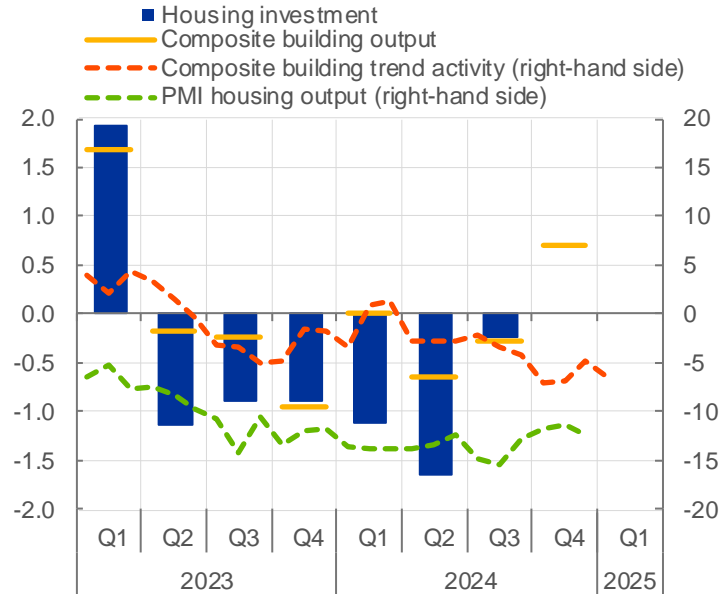
Sources: Eurostat, December 2024 projections, DG-ECFIN, ECB calculations.
 Notes: Business expectations for demand in retail trade refer to the next three months. The survey series are standardised for the period 1999-2019. The latest observations are for January 2025 for consumer confidence and expectations, and the third quarter of 2024 for consumption.

Sources: Eurostat, December 2024 Eurosystem staff projections and ECB calculations.
 Note: The latest observations are for the third quarter of 2024.

Housing investment

Housing investment and short-term indicators

(quarter-on-quarter percentage change; balances, PMI diffusion index-50)

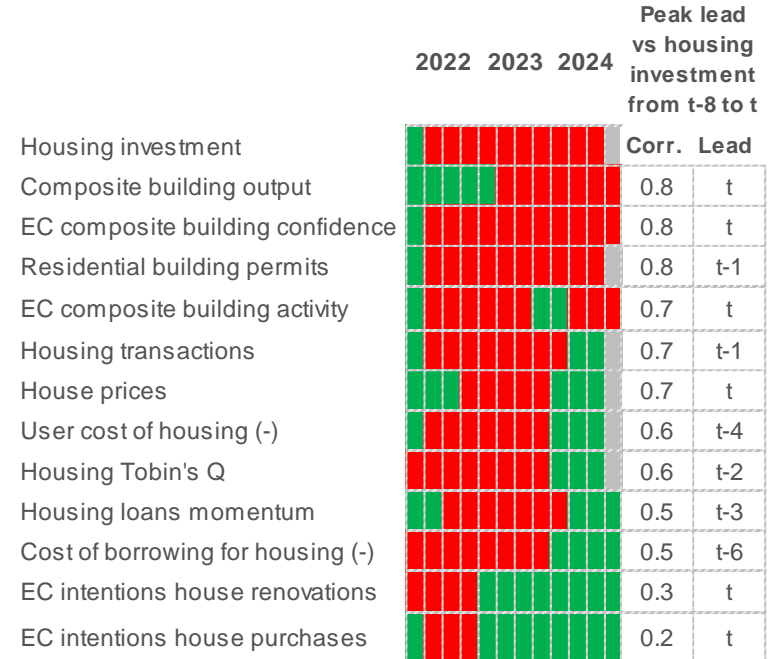


Sources: Eurostat, S&P Global, DG-ECFIN, ECB, ECB calculation.

Notes: Composite indices refer to building output and specialised construction activities. The latest observations are for the third quarter of 2024 for investment, November 2024 for output, December 2024 for PMI and January 2025 for activity.

Expansions (green) and contractions (red) in housing indicators

(turning point analysis)

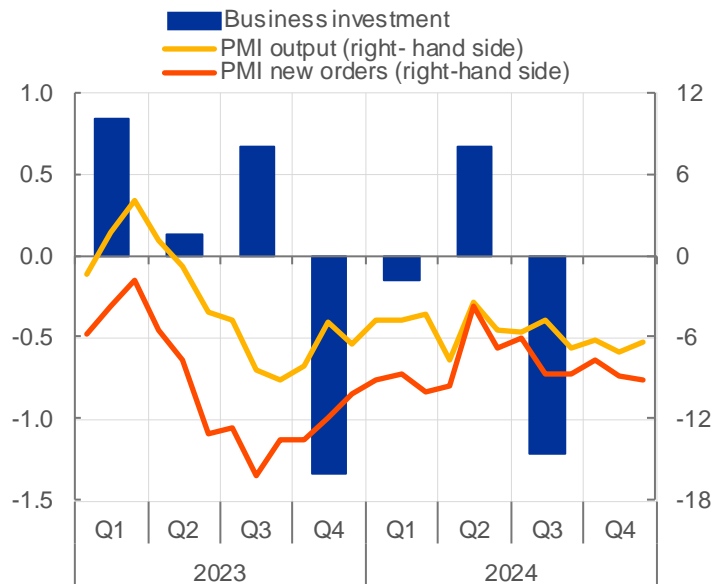


Sources: Eurostat, S&P Global, DG-ECFIN, ECB, ECB calculation.

Notes: The turning point analysis uses the Bry-Boschan algorithm in the modified version of Harding and Pagan (2002). All indicators are seasonally adjusted and in (log, where appropriate) levels, except for housing loans momentum, measured by the s.a. annualised q-o-q growth rates. Correlations are based on y-on-y change of the variables - peak for the respective lead time is reported. The latest observations are for the fourth quarter of 2024.

Business investment and capital goods indicators

(left-hand side: quarter-on-quarter percentage change, standard deviation; right-hand side: deviation from 50)

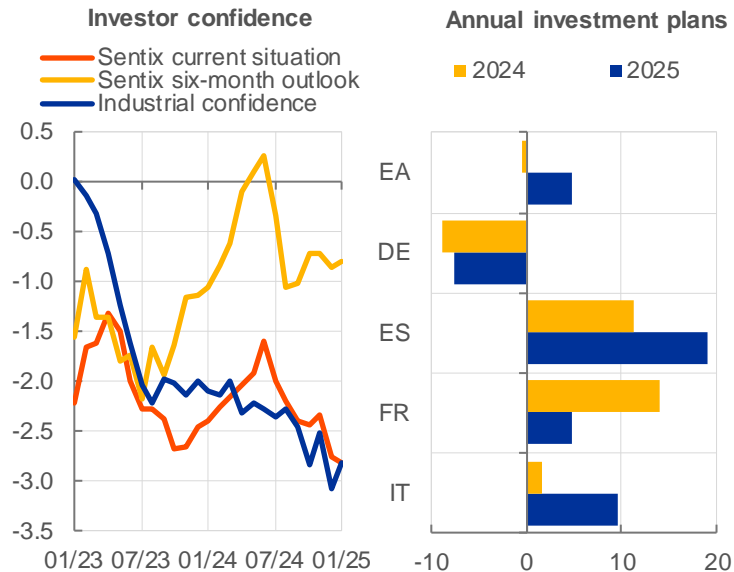


Sources: Eurostat, S&P Global, DG-ECFIN.

Notes: Business investment proxied by non-construction investment excluding Irish IPP. PMIs are for the capital goods sector and in deviation from 50. The latest observations are for the third quarter of 2024 for business investment and December 2024 for PMIs.

Investor confidence and investment intentions 2024 and 2025

(balance indicators)

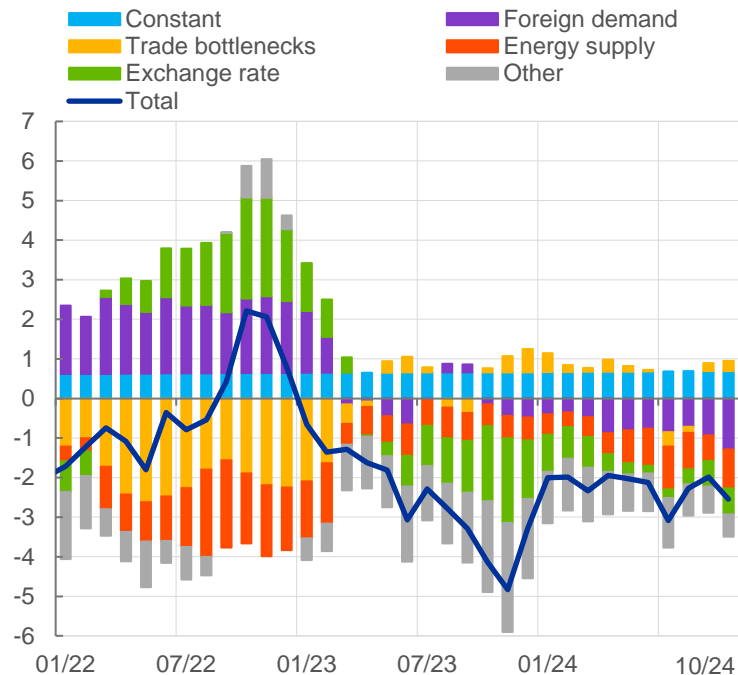


Sources: Sentix, ECFIN Autumn Investment Survey.

Notes: Left-hand side: ECFIN industrial confidence for the manufacturing sector; monthly indicators standardised over 2015-19; right-hand side: manufacturing investment intentions for 2024 and 2025 compared with previous year (correlates well with euro area business investment growth; net balances above 10 typically signalling positive real annual growth). The latest observations are for January 2025 for industrial confidence, 6 January 2025 for Sentix and October/November 2024 for ECFIN Investment Survey.

Model decomposition of extra-euro area goods exports

(year-on-year percentage changes; contributions)



Sources: Eurostat, CPB, NYFED and ECB calculations.

Notes: Historical decomposition based on a monthly SVAR model using data from July 2003. The following variables are included: synthetic energy price index, ratio of energy-intensive to non-energy-intensive industrial production, world imports excluding the euro area, HICP, global supply chain pressure index, exports, NEER. Structural shocks identified by sign restrictions. Deviations from the steady state. The latest observations are for October 2024.

Goods and services PMIs

(diffusion index)

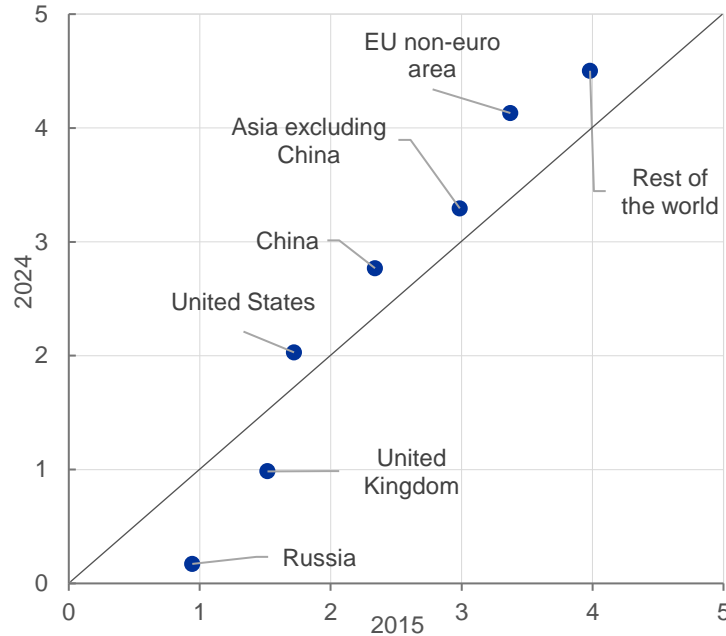


Source: S&P Global.

Notes: A diffusion index is obtained by summing the percentage of respondents reporting "higher" plus half of the percentage of respondents reporting "the same". A number bigger than 50 indicates an expansion, an index smaller than 50 indicates a contraction. The chart shows total (intra+extra) euro area data. The latest observations are for January 2025.

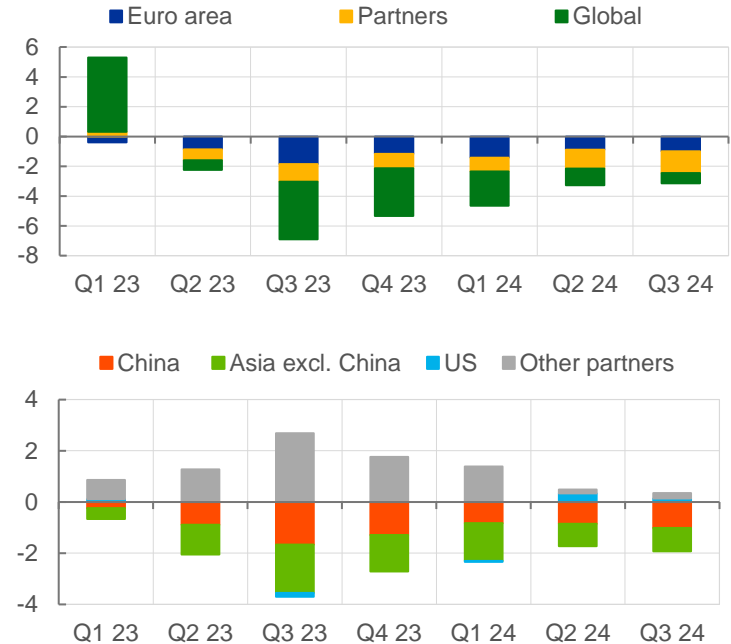
Imports decomposition by origin

(percentage of euro area GDP)



Extra euro area import prices excluding energy

(year-on-year changes, contributions)



Sources: National Accounts, Eurostat and ECB calculations.

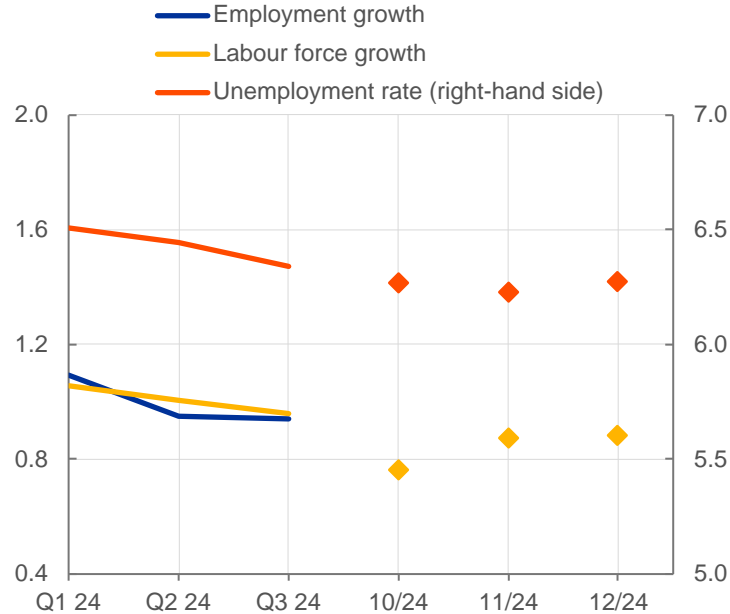
Notes: The chart shows trade values in goods as a percentage of the euro area GDP. The latest observations are September 2024 both for imports and GDP.

Sources: TDM, Amiti et al. (2024) and ECB staff calculations. Notes: The charts show 4-quarter log changes in imports unit values, aggregated from the HS6-digit-euro area partner level using 4-quarter lagged values. A fixed effect regression is run on 4-quarter log changes with importer-product-time and exporter-product-time fixed effects. "Euro area" captures euro area-specific factors. Global drivers are the sum of median importer and exporter fixed effects; importer-(euro area) and partner-specific drivers are deviations from the median of importer and exporter fixed effects, respectively. The partner-specific drivers are split further into elements driven by China and by other exporters to the euro area. The latest observations are for the third quarter of 2024.

Labour market indicators and PMI employment

Labour market indicators

(left-hand side: year-on-year percentage change;
right-hand side: percent)

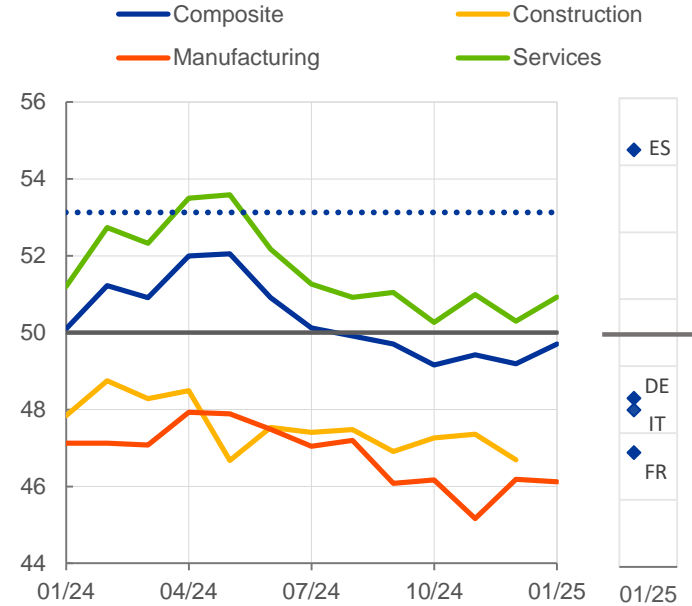


Sources: Eurostat and ECB staff calculations.

Notes: Both employment growth and labour force growth are year-on-year growth rates. The latest observations are for December 2024 for the unemployment rate and labour force growth, and the third quarter of 2024 for employment growth.

PMI employment

(diffusion index)

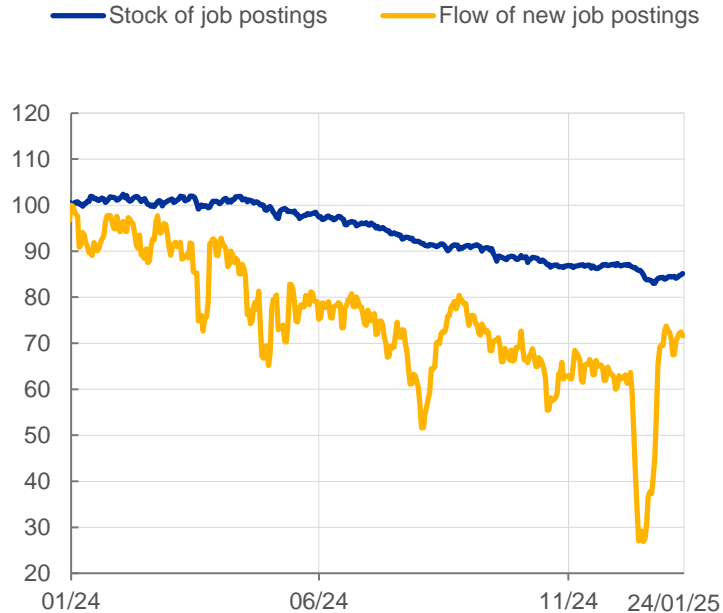


Source: S&P Global.

Notes: The dotted line refers to the 2015-19 mean. A value of 50 indicates the neutral threshold between expansionary territory (>50) and contractionary territory (<50). The latest observations are for December 2024 for "Construction and January 2025 for the "Composite" index, "Manufacturing", "Services", Germany, France, Italy and Spain.

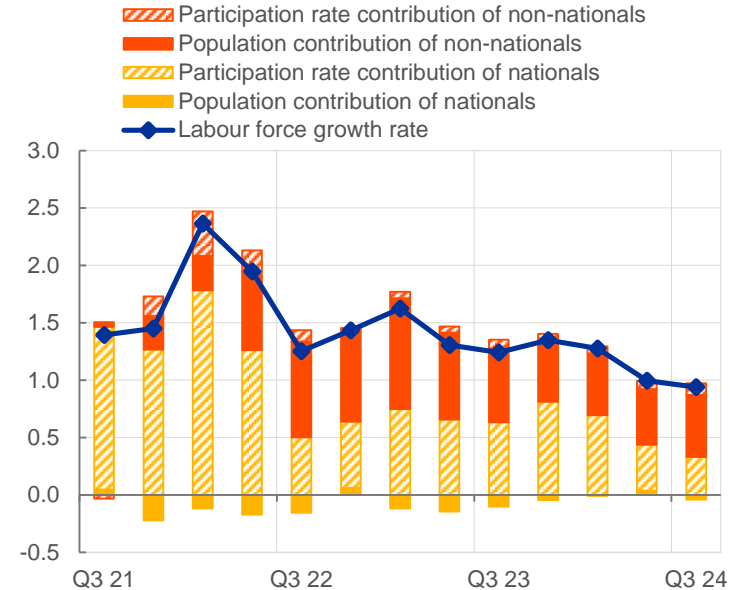
Labour demand and the labour force

Indeed job postings (index: 15 January 2024 = 100)



Sources: Indeed and ECB staff calculations.
Note: The latest observations are for 24 January 2025.

Labour force growth (year-on-year percentage changes and contributions)

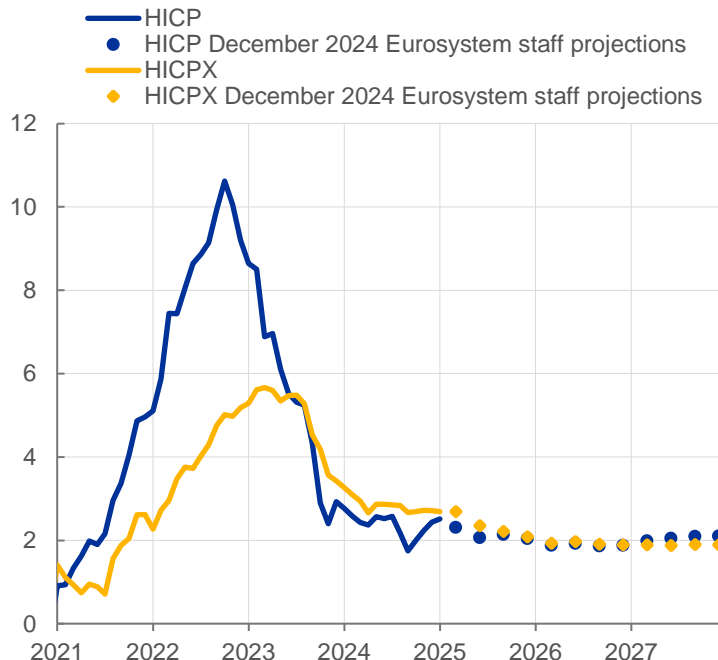


Sources: Eurostat and ECB staff calculations.
Notes: Non-nationals include both non-nationals from other euro area countries and non-euro area nationals. The latest observations are for the third quarter of 2024.

Recent and expected inflation developments

Headline inflation, core inflation and ECB staff projections

(annual percentage changes)



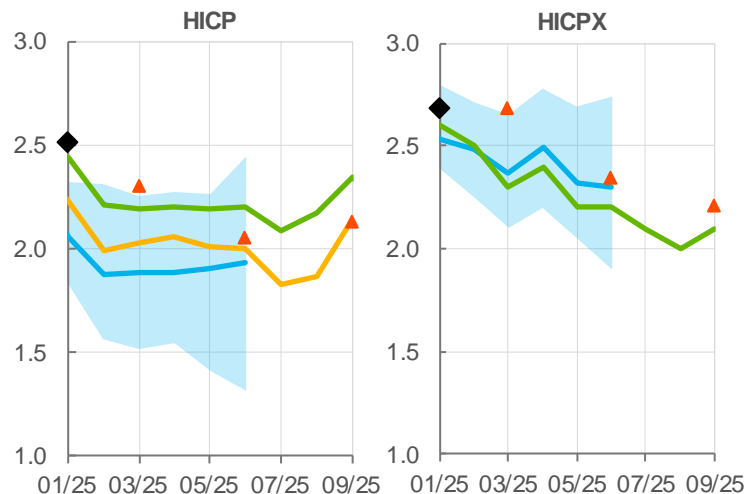
Sources: Eurostat and Eurosystem staff projections.

Notes: Harmonised Index of Consumer Prices (HICP) refers to headline inflation and HICPX to HICP excluding food and energy. Realised HICP and HICPX are at a monthly frequency, and HICP and HICPX projections are at a quarterly frequency. The latest observations are for January 2025 (flash estimate).

Short-term forecasts for HICP and HICPX

(annual percentage changes)

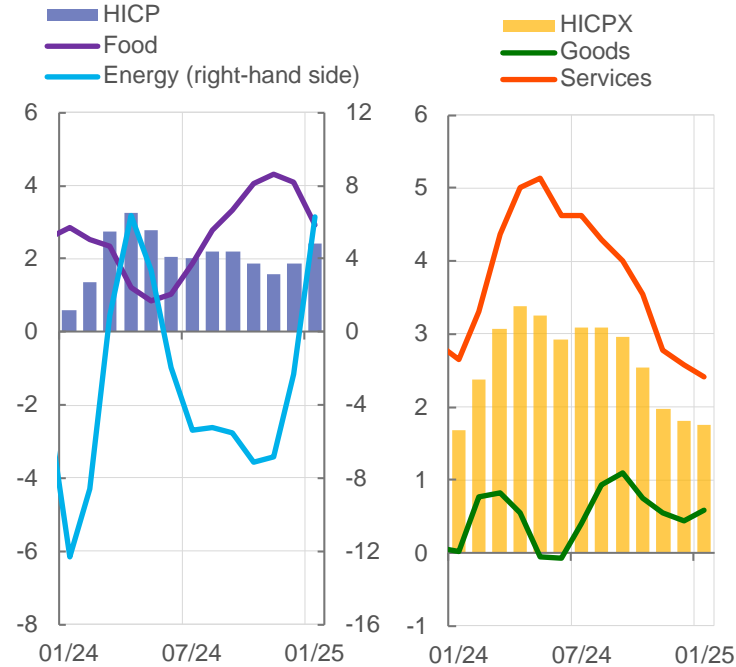
- Consensus (13 January 2025)
- ◆ HICP/HICPX
- Regression forest median (28 January 2025)
- ▲ December 2024 Eurosystem staff projections
- Fixings (HICPxT) / Synthetic fixings (HICPX) (28 January 2025)



Sources: Eurostat, Eurosystem staff projections, Consensus Economics, Bloomberg and ECB calculations. Notes: The quantile regression forest estimates are from Lenza, M., Moutachaker, I. and Paredes, J. (2023), "Density forecasts of inflation: a quantile regression forest approach", Working Paper Series, No 2830, ECB. The light blue area represents the 16th-84th percentile range. The fixings for HICP exclude tobacco (HICPxT). The HICP fixings are observed market prices. Synthetic fixings linked to HICPX are model-based following Grønlund, Jørgensen and Schupp (2024). The latest observations are for January 2025 (flash estimate).

Momentum of inflation and its components

(annualised three-month-on-three-month percentage changes)

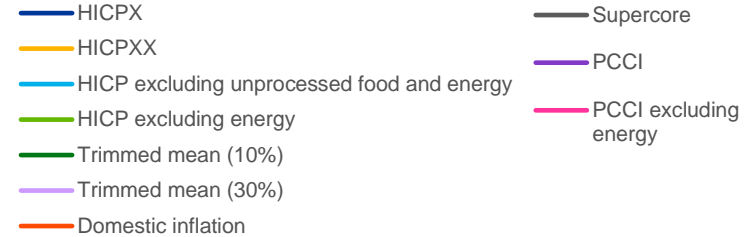


Sources: Eurostat and ECB calculations.

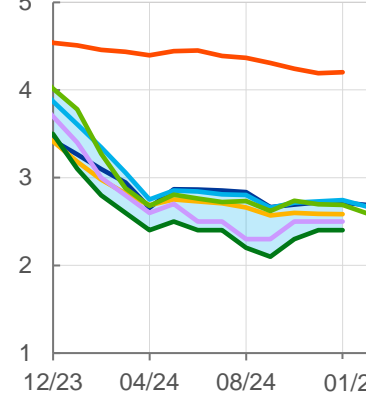
Notes: Calculated using seasonally adjusted data. The latest observations are for January 2025 (flash estimate).

Measures of underlying inflation

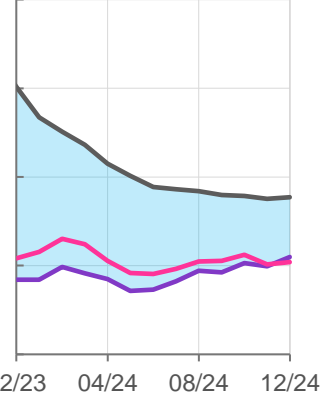
(annual percentage changes)



Exclusion-based measures



Model-based measures

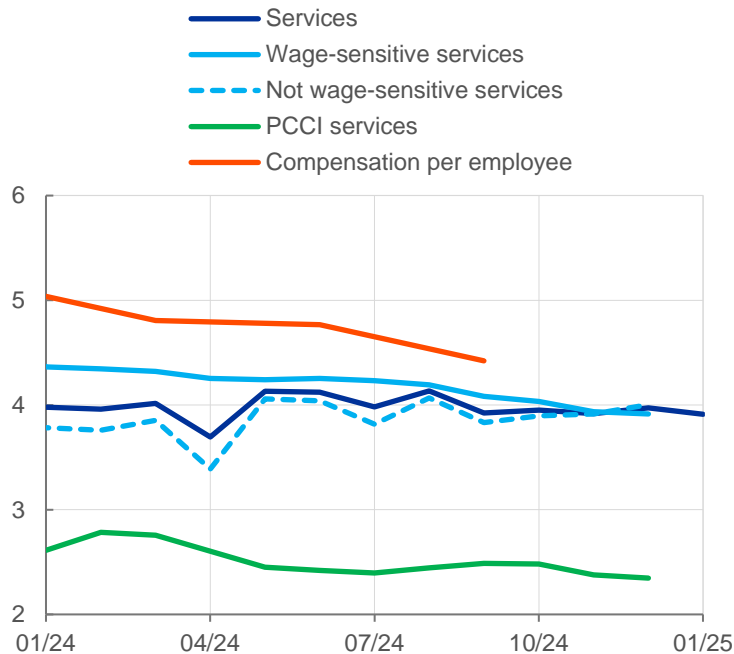


Sources: Eurostat and ECB calculations.

Note: The latest observations are for January 2025 (flash estimate) for HICPX, HICP excluding unprocessed food and energy and HICP excluding energy and December 2024 for the rest.

Services inflation

(annual percentage changes)



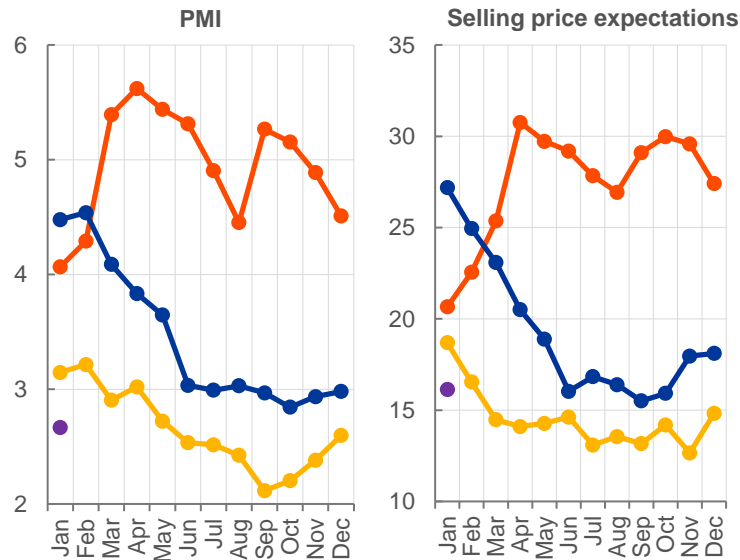
Sources: Eurostat and ECB calculations.

The latest observations are for the third quarter of 2024 for compensation per employee, January 2025 (flash estimate) for services inflation and December 2024 for the rest.

Forward-looking price indicators for services inflation

(left-hand side: annual percentage changes; right-hand side: balance of responses)

● 2022 ● 2023
● 2024 ● 2025

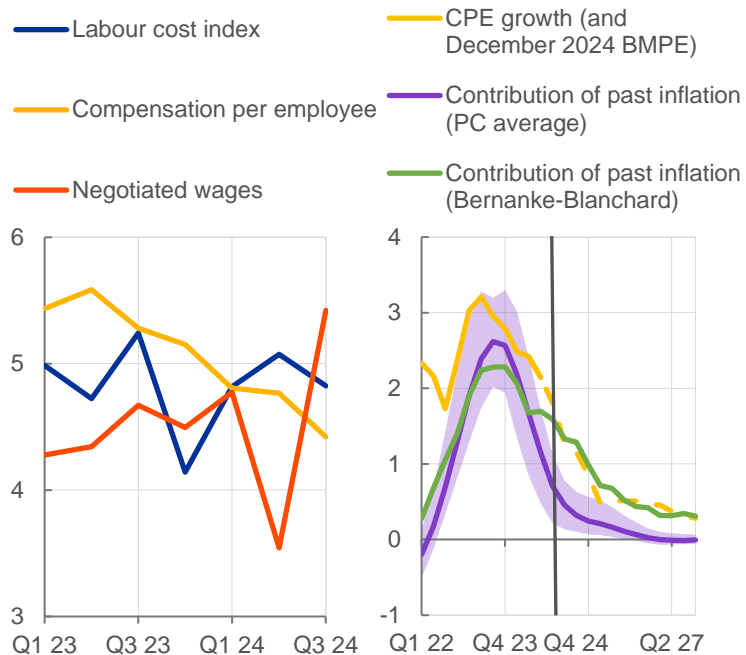


Sources: European Commission, S&P Global and ECB calculations.

Notes: PMIs reflect the average of input and output prices, both rescaled to match mean and standard deviation of services inflation. Selling price expectations are expressed as percentage balance. The latest observations are for January 2025.

Wage indicators and the impact of inflation on wages in different models

(left-hand side: annual percentage changes; right-hand side: annual percentage changes and percentage point contributions)

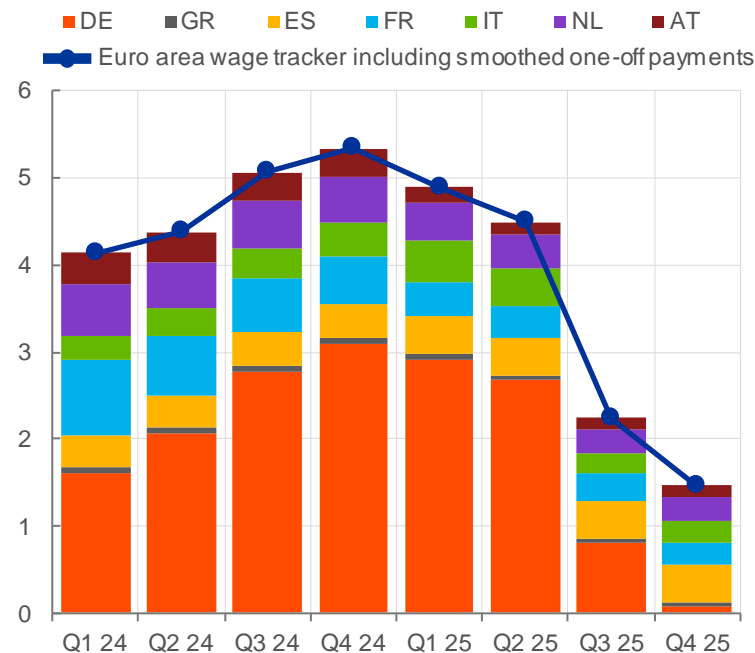


Sources: Eurostat, ECB, December 2024 BMPE and ECB staff calculations.

Notes: The Bernanke-Blanchard model estimations are based on Arce et al. (2023) and refer to negotiated wage growth. The light purple area shows the minimum-maximum range of the wage Phillips curve specifications with past inflation for compensation per employee (CPE) growth. CPE growth is demeaned. The latest observations are for the third quarter of 2024.

Wage tracker including smoothed one-off payments and country contributions

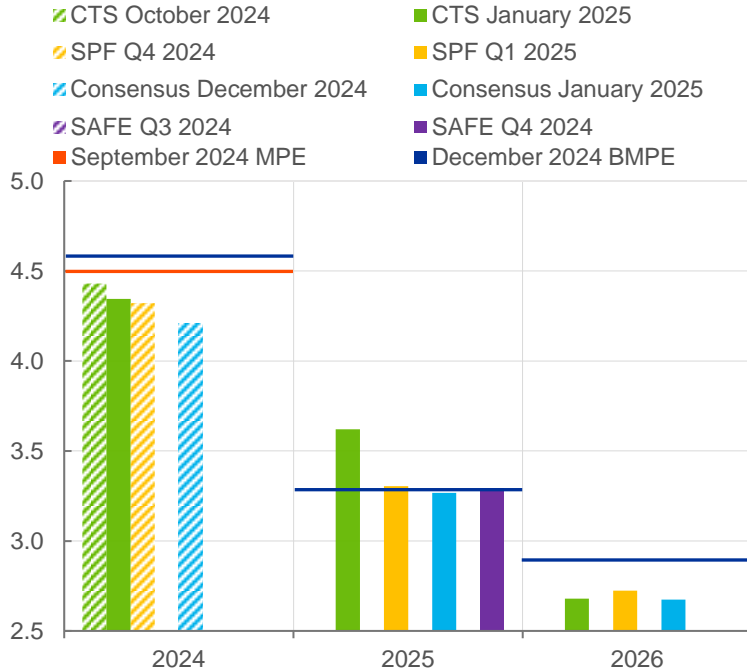
(annual percentage changes and percentage point contributions)



Sources: Wage tracker calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Oesterreichische Nationalbank, Bank of Greece, Banca d'Italia, and Banque de France; projections database. Notes: The country contributions sum up to the euro area wage tracker including smoothed one-off payments. The latest observations are for the last quarter of 2025 for the ECB wage tracker indicators (quarterly averages calculated based on monthly data).

Wage expectations

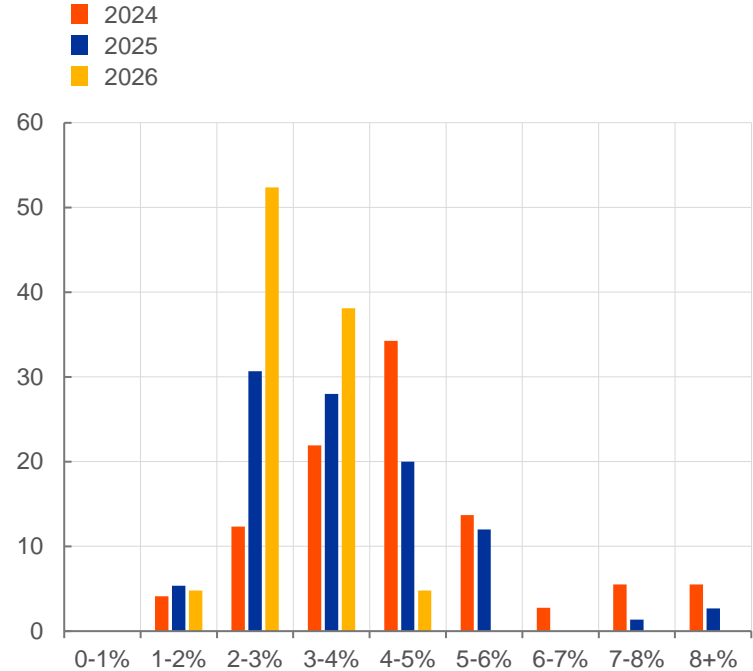
Survey-based wage expectations (annual percentage changes)



Sources: Survey of Professional Forecasters (SPF), September 2024 ECB (MPE) and December 2024 Eurosystem (BMPE) staff projections, Consensus Economics Forecasts, Corporate Telephone Survey (CTS) and the survey on the access to finance of enterprises (SAFE).

Notes: The SAFE survey asks 12-month-ahead wage growth, while all the other surveys are for calendar years.

CTS wage expectations (percentage of respondents)



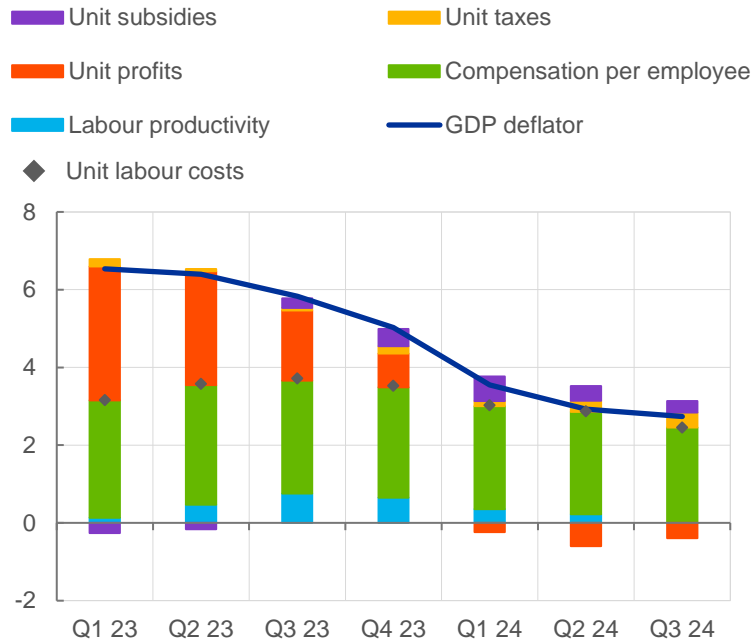
Source: January 2025 Corporate Telephone Survey (CTS).

Note: Quantitative assessments of wage growth were provided by 73 respondents for 2024, 75 respondents for 2025 and 21 respondents for 2026.

Domestic cost pressures and profit margins

GDP deflator

(annual percentage changes and percentage point contributions)

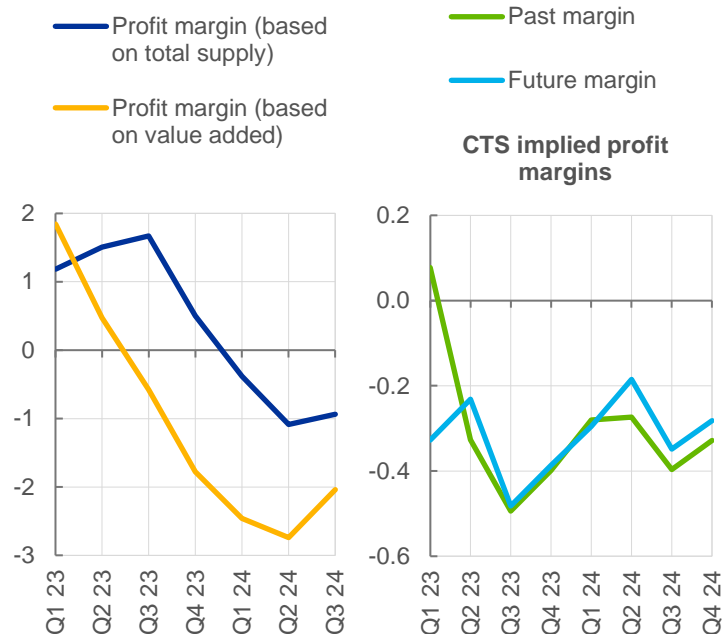


Sources: Eurostat and ECB staff calculations.

Note: The latest observations are for the third quarter of 2024.

Profit margins

(left-hand side: annual percentage changes; right-hand side: average of survey scores)

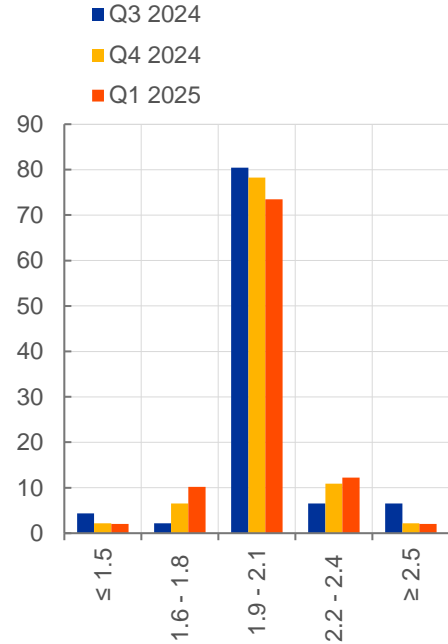


Sources: Eurostat, ECB staff calculations and January 2025 Corporate Telephone Survey (CTS).

Notes: For the right-hand side chart, the score is calculated as "selling price score - 0.5 x input cost score - 0.5 x wage score". Past and future selling and input price scores refer to developments in the previous and next quarters. The latest observations for profit margins based on total supply and on value added are for the third quarter of 2024.

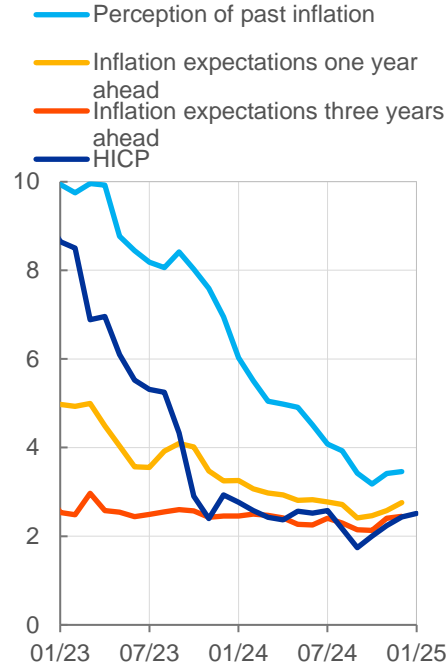
Inflation expectations

SPF: distribution of longer-term inflation expectations (percent of respondents)



Sources: SPF and ECB calculations.
Notes: Vertical axis shows a percentage of respondents; horizontal axis shows the HICP inflation rate. Longer-term expectations refer to 4-5 years ahead. The latest observations are for Q1 2025 SPF.

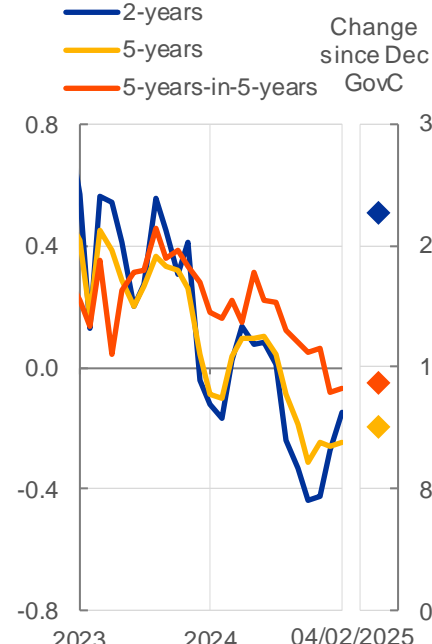
ECB consumer expectations survey (annual percentage changes)



Sources: Eurostat and ECB Consumer Expectations Survey (CES).
Notes: The series refer to the median value for CES. The latest observations are January 2025 (flash estimate) for HICP and December 2024 for the rest.

Balance of risks (BoR) to euro area inflation

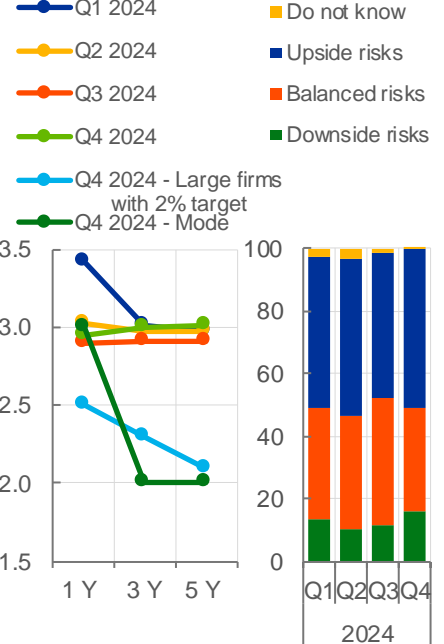
(left-hand side: pp/100; right-hand side: percentage points)



Sources: LSEG, Bloomberg and ECB calculations.
Notes: The balance of risks is defined as the difference between the options-implied risk-neutral probability of average inflation being above vs. below 2% over the lifetime of the option contract (see Garcia et al., 2024). The latest observations are for 4 February 2025.

SAFE inflation outlook and risks

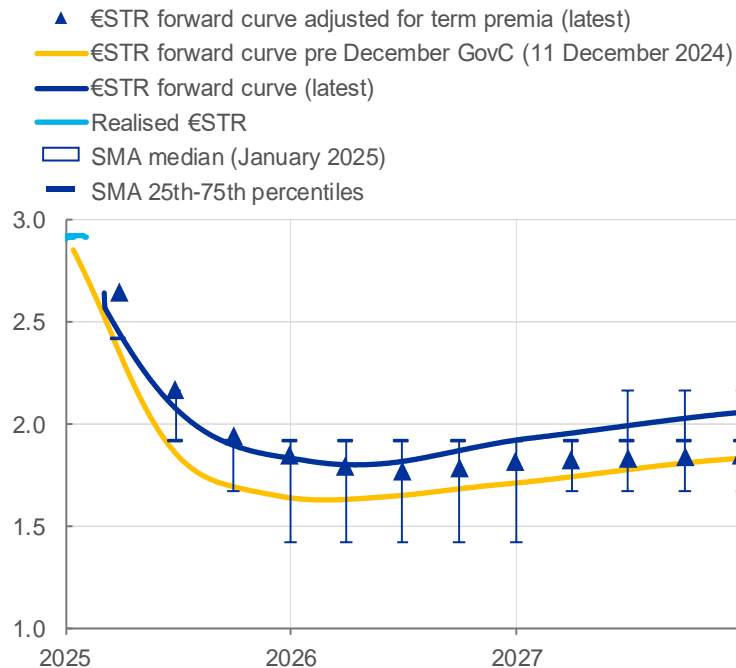
(percentages per annum; percentages)



Sources: SAFE and ECB calculations. Notes: The left-hand side displays median inflation expectations for all firms to the 1-, 3- and 5-year ahead inflation outlook. The right-hand side displays the survey-weighted percentages of firms' subjective inflation outlook over the next five years. The latest observations are for October-December 2024.

Nominal and real risk-free rates in the euro area

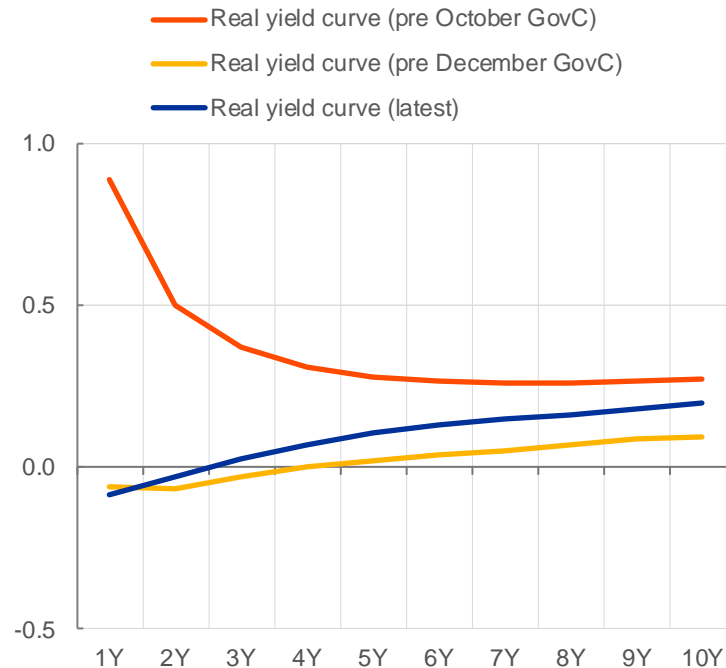
€STR forward curve and survey expectations of the deposit facility rate (percentages per annum)



Sources: SMA, LSEG, Bloomberg and ECB calculations.

Notes: DFR expectations are adjusted for the current €STR vs. DFR spread. Estimates are based on two affine term structure models, with and without survey information on rate expectations (both variations of Joslin, Singleton and Zhu (2011)), and a lower bound term structure model following Geiger and Schupp (2018) incorporating survey information on rate expectations. The latest observations are for 04 February 2025.

Real yield curves (percentages per annum)



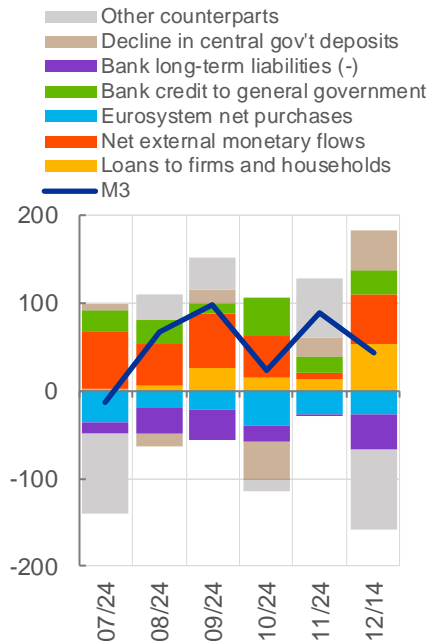
Sources: Bloomberg, LSEG and ECB calculations.

Notes: The euro area real rate is calculated by subtracting the inflation-linked swap rate from the nominal OIS rate. The latest observations are for 4 February 2025.

Money and credit

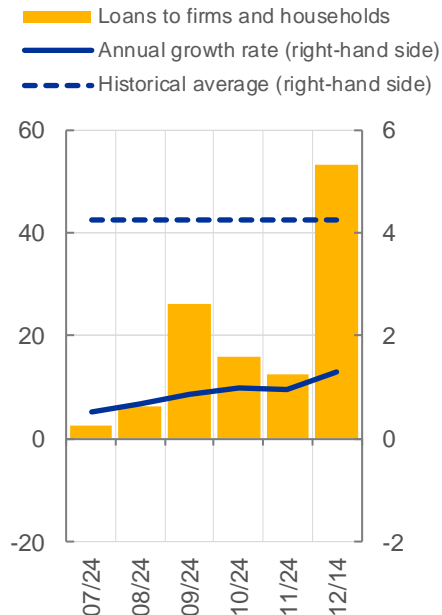
Sources of money creation

(monthly flows in EUR billions)



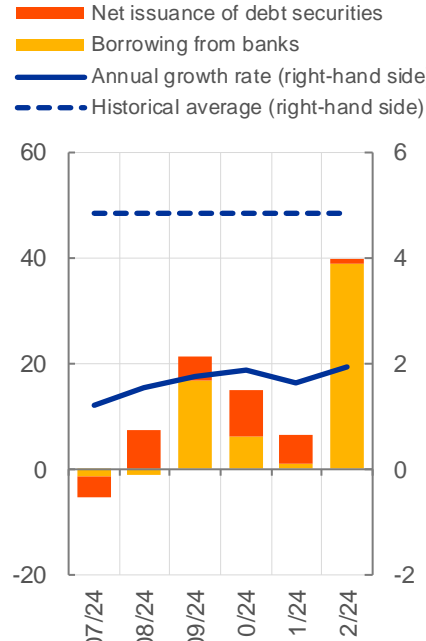
Loans to the non-financial private sector

(monthly flows in EUR billions, annual percentage changes)



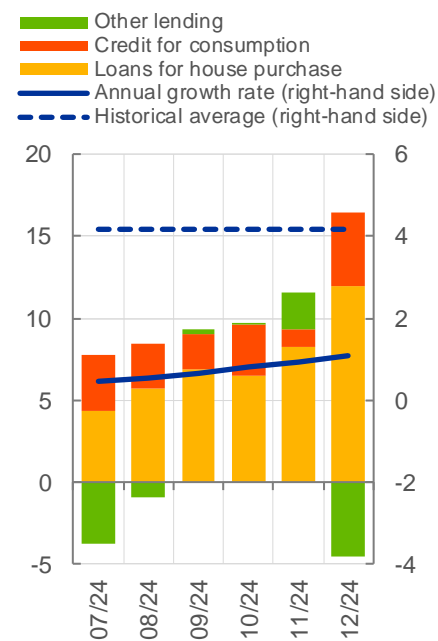
Net debt financing flows of euro area firms

(monthly flows in EUR billions, annual percentage changes)



Bank loans to households by purpose

(monthly flows in EUR billions, annual percentage changes)



Source: ECB (BSI).
The latest observations are for December 2024.

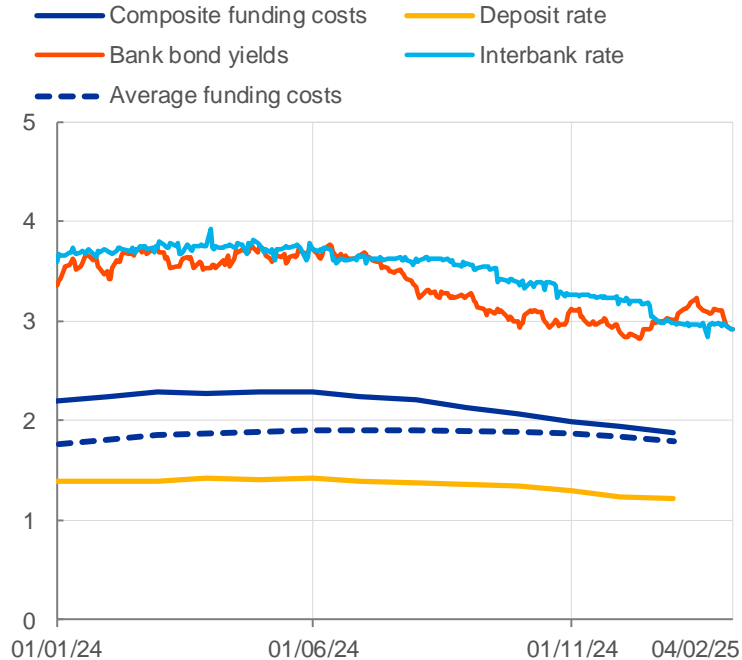
Sources: ECB (BSI) and ECB calculations.
Notes: MFI loans are adjusted for sales, securitisation and cash pooling. The historical average is calculated since January 1999 based on internal estimates. The latest observations are for December 2024.

Sources: ECB (BSI, CSEC) and ECB calculations.
Notes: The seasonal adjustment for the net issuance of debt securities is not official. MFI loans are adjusted for sales, securitisation and cash pooling. The historical average is calculated since January 1999 based on internal estimates. The latest observations are for December 2024.

Sources: ECB (BSI) and ECB calculations.
Notes: MFI loans are adjusted for sales and securitisation. The historical average is calculated since January 1999 based on internal estimates. The latest observations are for December 2024.

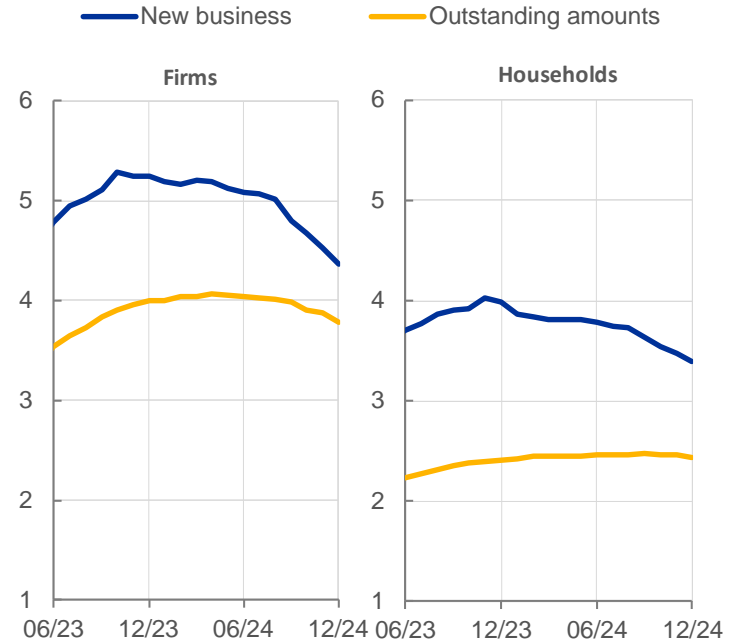
Bank funding costs and lending rates for firms and households

Bank funding costs (percentages per annum)



Sources: ECB (BSI, MIR, CSDB, MMSR), IHS Markit iBoxx and ECB calculations.
 Notes: Composite funding costs are computed as a weighted average of rates on new business costs of deposits, bank bonds, and interbank borrowing.
 The latest observations are for December 2024 for monthly data and 4 February 2025 for daily data.

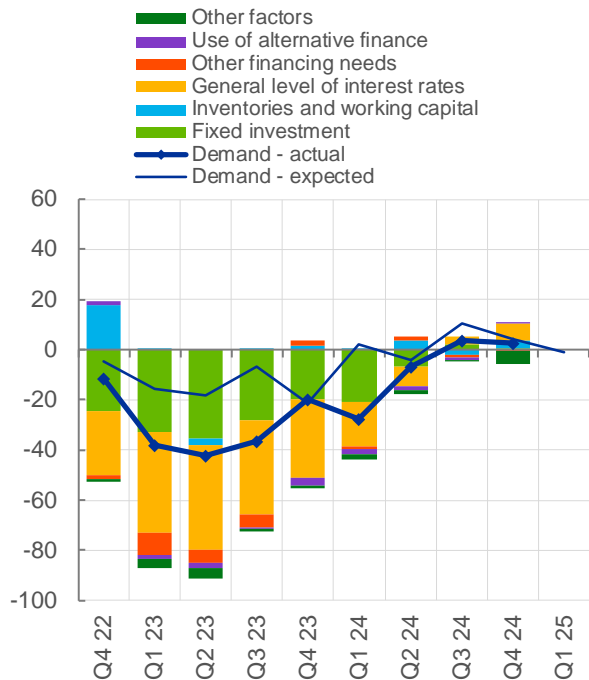
Bank lending rates (percentages per annum)



Source: ECB (MIR).
 Notes: Interest rates on new business are equivalent to the indicator for the total cost of borrowing for firms, which is calculated by aggregating short-term and long-term rates on new business using a 24-month moving average of new business volumes.
 The latest observations are for December 2024.

Firms – loan demand, credit standards and net debt financing

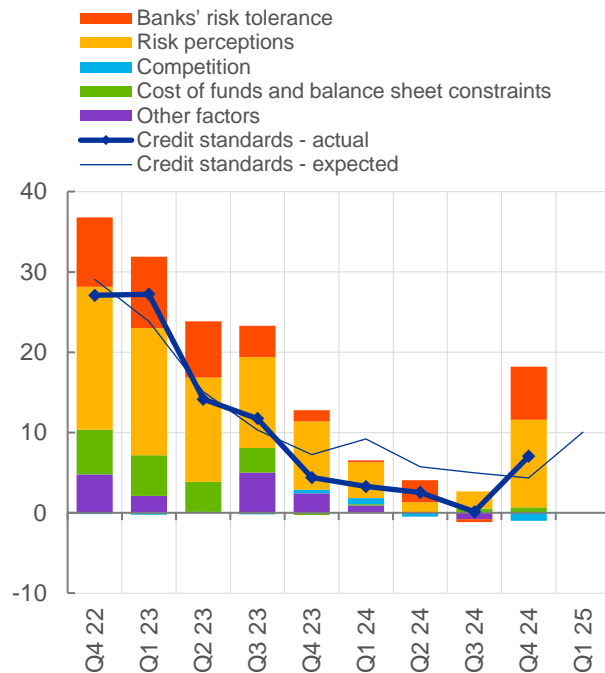
Changes in demand for loans to firms (net percentages)



Source: ECB (BLS).

Notes: The net percentages for the “other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand. The latest observations are for the fourth quarter of 2024 for past and the first quarter of 2025 for expected data.

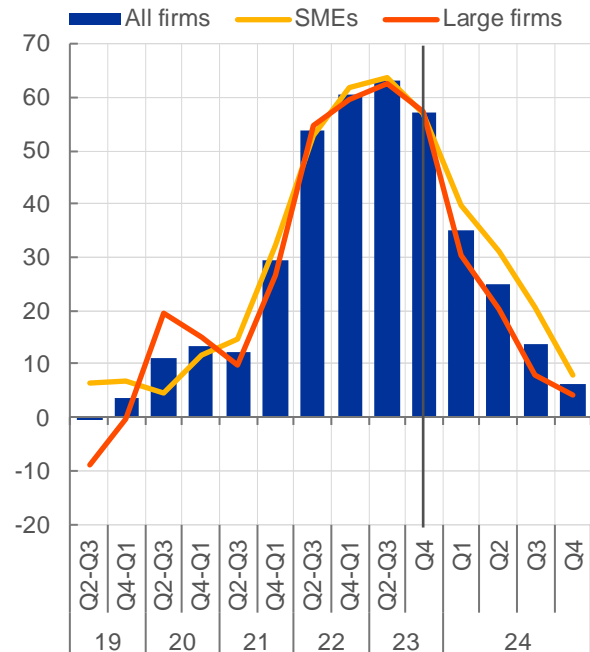
Changes credit standards for loans to firms (net percentages)



Source: ECB (BLS).

Notes: The net percentages for the “other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards. The latest observations are for the fourth quarter of 2024 for past and the first quarter of 2025 for expected data.

Changes in price terms and conditions of bank loans (weighted scores)

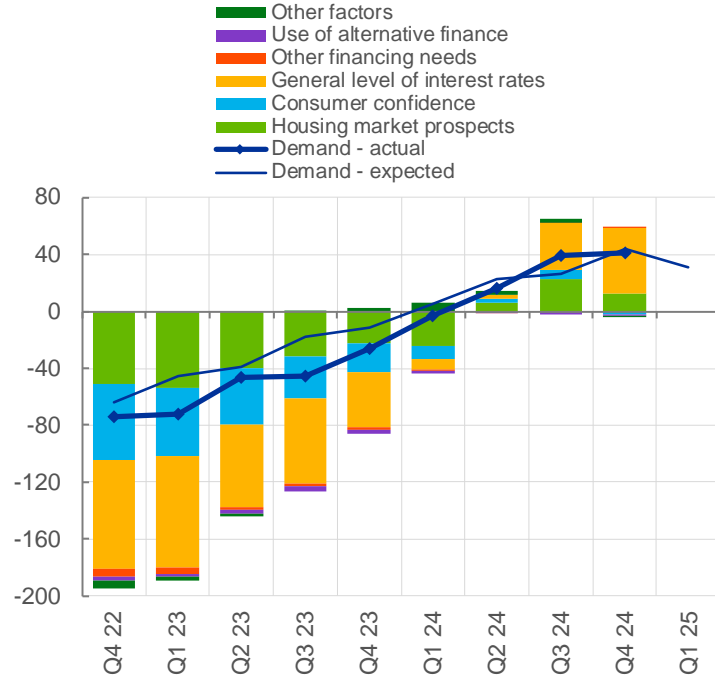


Sources: ECB (SAFE) and ECB calculations.

Notes: Indicator derived from factor analysis based on enterprises that applied for a bank loan. The aggregate indicators are the average of firm-level scores, weighted by size, economic activity and country. Positive values indicate a deterioration in firms' financing conditions. For details of the analysis see footnote 1 of the SAFE report. The latest observations are for December 2024.

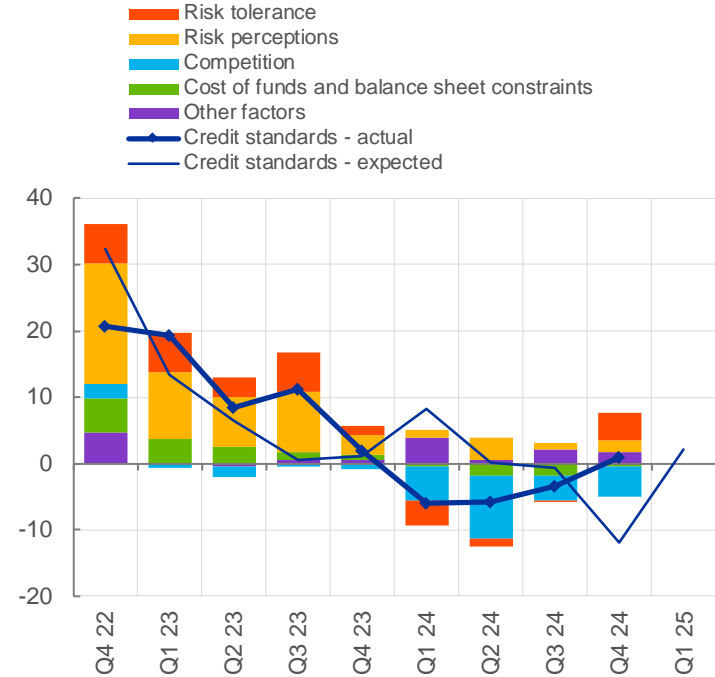
Changes in demand for housing loans

(net percentages)



Changes in credit standards for housing loans

(net percentages)



Source: ECB (BLS).

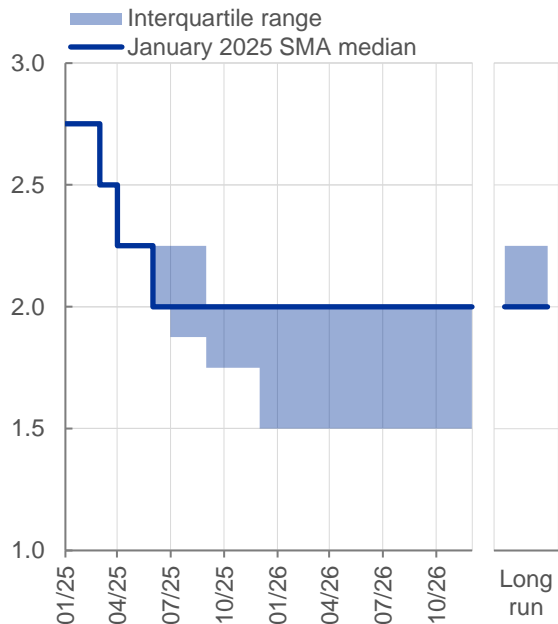
Notes: The net percentages for the “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand. The latest observations are for the fourth quarter of 2024 for past and the first quarter of 2025 for expected data.

Source: ECB (BLS).

Notes: The net percentages for the “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards. The latest observations are for the fourth quarter of 2024 for past and the first quarter of 2025 for expected data.

Expected DFR path

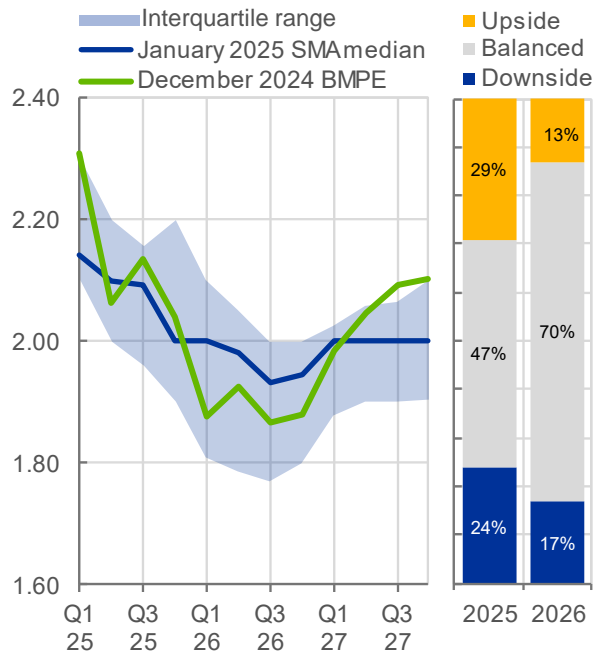
(percentage of respondents)



Sources: SMA January round and ECB.
 Notes: Based on 72 responses received in the January SMA.

Expected HICP inflation and balance of risk

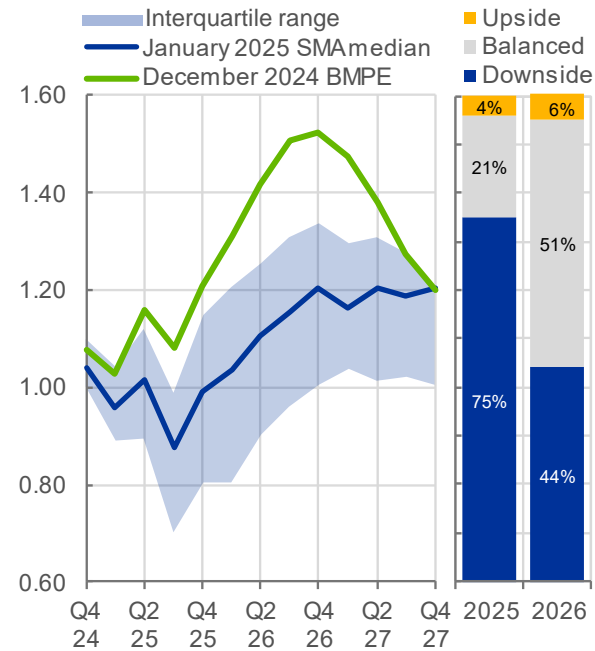
(annual percentage changes, percentages)



Sources: SMA January round and ECB.

Expected real GDP growth and balance of risk

(annual percentage changes, percentages)



Sources: SMA January round and ECB.