



EUROPEAN CENTRAL BANK

EUROSYSTEM

# The euro area outlook and monetary policy

---

HKIMR-ECB-BOFIT Joint Conference  
“Europe, Asia and the Changing Global  
Economy”

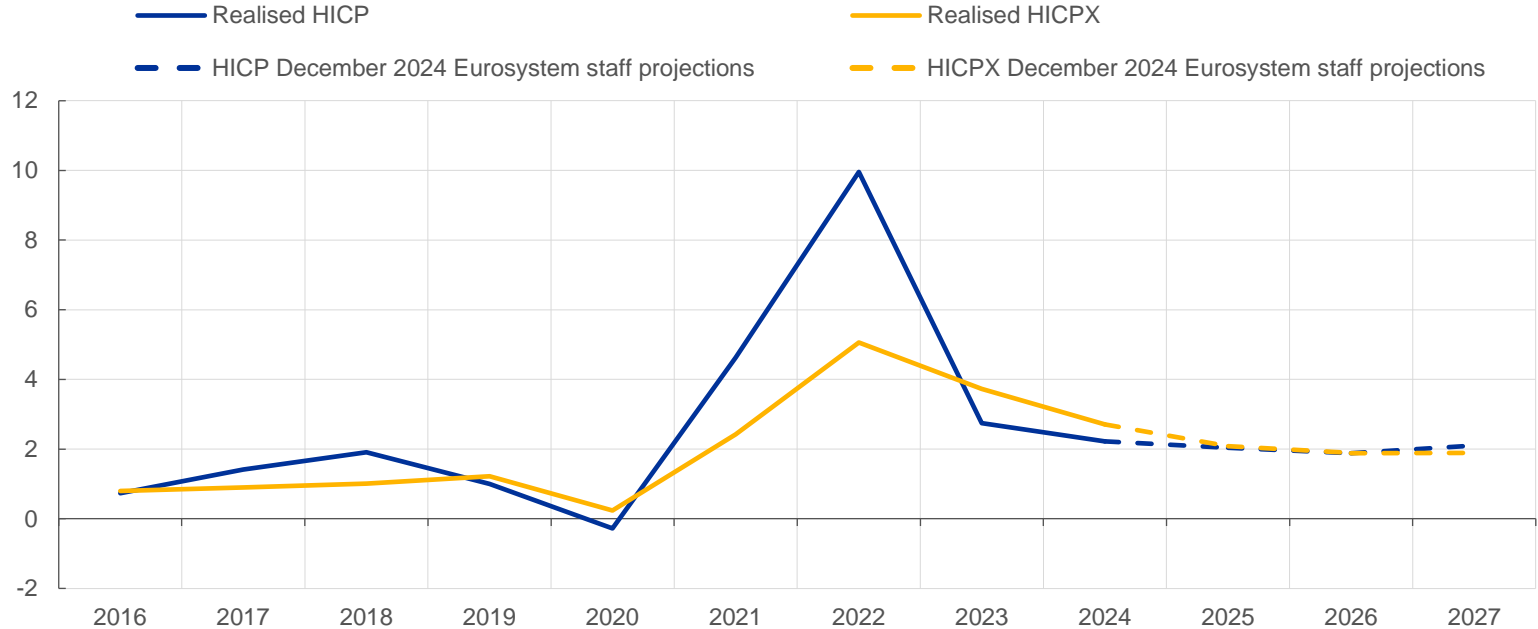
Hong Kong

14 January 2025



**Philip R. Lane**  
Member of the Executive Board

## Headline and core inflation (Q4-on-Q4 percentage changes)



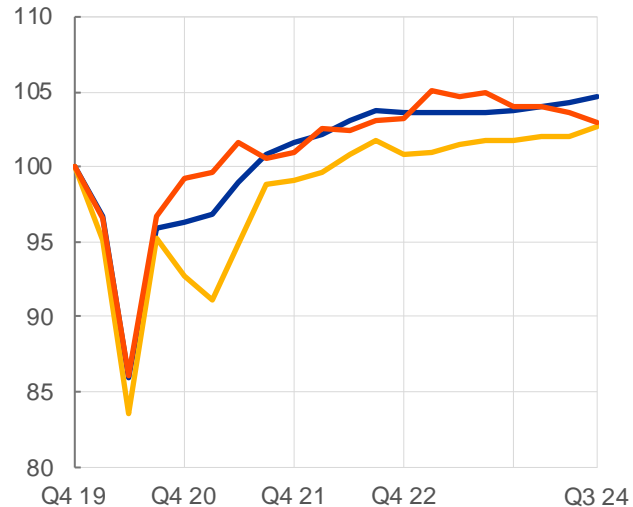
Sources: Eurostat and ECB calculations.

Note: The latest observations for realised HICP and HICPX are for the fourth quarter 2024 (including December flash estimate).

## GDP, consumption and investment

(index: Q4 2019 = 100)

— Real GDP — Private consumption — Investment



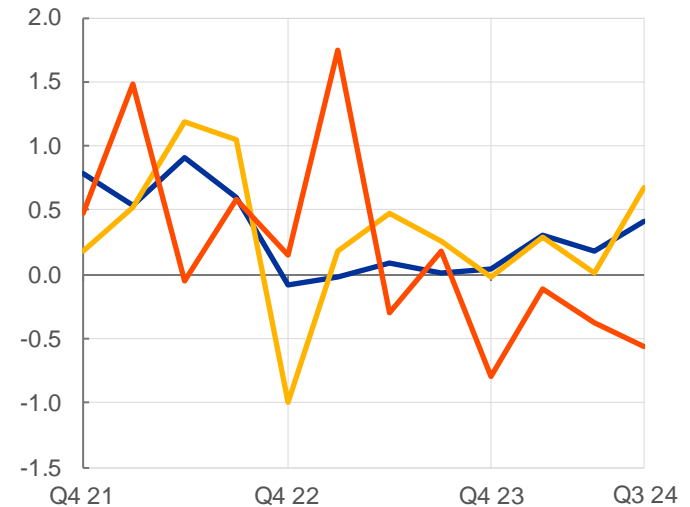
Sources: Eurostat and ECB staff calculations.

Notes: The investment series excludes Ireland. The latest observations are for the third quarter of 2024.

## GDP, consumption and investment

(quarter-on-quarter percentage changes)

— Real GDP — Private consumption — Investment

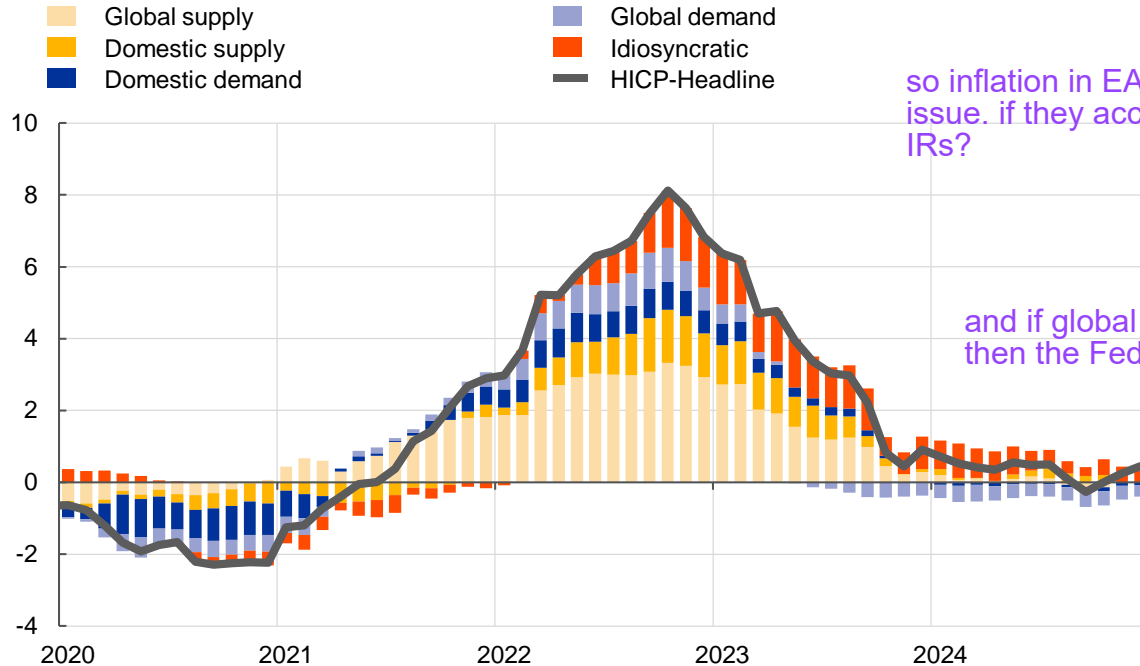


Sources: Eurostat and ECB staff calculations.

Notes: The investment series excludes Ireland. The latest observations are for the third quarter of 2024.

## Supply and demand drivers of headline inflation dynamics

(annual percentage changes and percentage change contributions; deviations from mean)

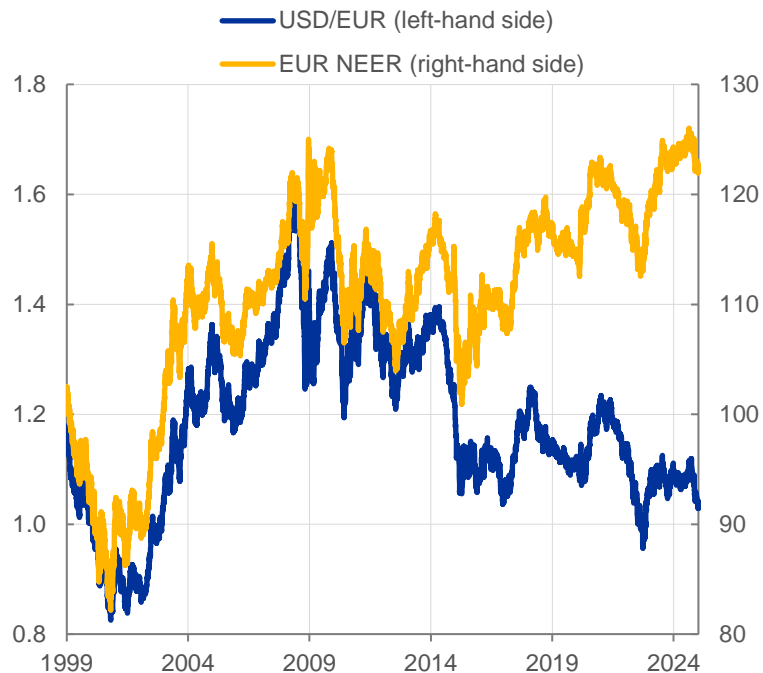


Sources: Eurostat, ECB, Eurosystem, and ECB staff calculations.

Notes: Historical decomposition based on a large BVAR model accounting for a rich set of inflation drivers, identified with zero and sign restrictions; see Bańbura, M., Bobeica, E. and Martínez Hernández, C., (2024), "[What drives core inflation? The role of supply shocks](#)", *Working Paper Series*, No 2875, ECB. The chart shows the deviations of HICP inflation from the mean implied by the model. The latest observations are for December 2024.

## USD/EUR and NEER

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

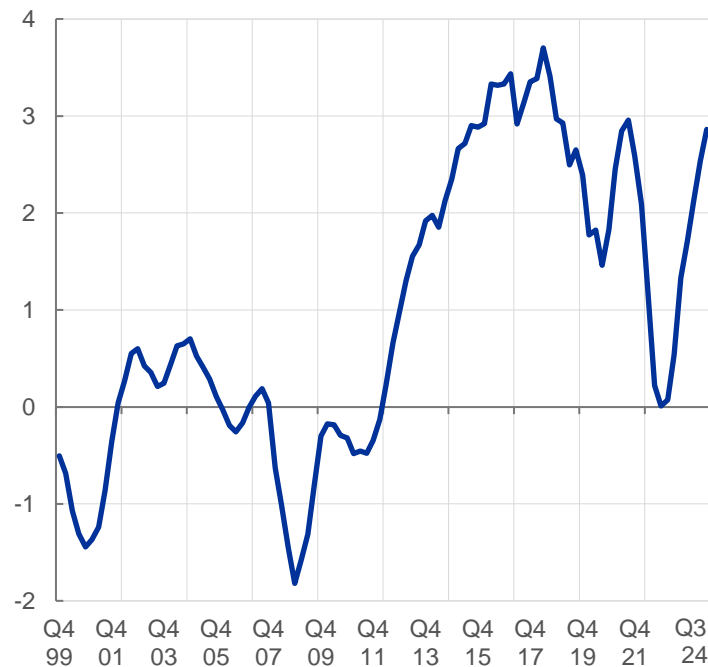


Sources: ECB and ECB staff calculations.

Notes: Nominal effective exchange rate for 41 trading partners (NEER 41). The latest observations are for 10 January 2025.

## Current account

(Percentage of GDP, four-quarter moving sum)



Sources: ECB (BoP) and Eurostat (National accounts).

Note: The latest observation is for the third quarter of 2024.

# December 2024 Eurosystem staff projections: baseline

## December 2024 Eurosystem staff projections: key macroeconomic variables

	December 2024 (annual percentage change)				vs September 2024 (percentage points)		
	2024	2025	2026	2027	2024	2025	2026
HICP	2.4	2.1	1.9	2.1	-0.1	-0.1	0.0
HICP excl. energy and food	2.9	2.3	1.9	1.9	0.0	0.0	-0.1
Compensation per employee	4.6	3.3	2.9	2.8	0.1	-0.3	-0.3
Unit labour costs	4.7	2.6	2.0	2.0	0.2	0.0	-0.1
Real GDP	0.7	1.1	1.4	1.3	-0.1	-0.2	-0.1
Private consumption	0.9	1.3	1.3	1.2	0.1	-0.1	-0.2
Government consumption	2.3	1.2	1.2	1.0	1.1	0.1	0.1
Total investment	-1.7	1.2	2.2	1.6	-1.2	0.0	0.1
Unemployment rate (% of labour force)	6.4	6.5	6.3	6.1	-0.1	0.0	-0.2
	December 2024 (Q4-on-Q4 percentage change)				vs September 2024 (percentage points)		
	Q4 2024	Q4 2025	Q4 2026	Q4 2027	Q4 2024	Q4 2025	Q4 2026
HICP	2.3	2.0	1.9	2.1	-0.3	0.0	0.0
HICP excluding energy and food	2.8	2.1	1.9	1.9	-0.1	0.0	0.0
Compensation per employee	4.2	2.9	2.9	2.7	-0.1	-0.4	-0.1
Unit labour costs	3.7	2.0	1.9	1.9	0.0	-0.2	0.0
Real GDP	1.1	1.2	1.5	1.2	0.0	-0.3	0.1
Private consumption	1.2	1.2	1.3	1.1	0.3	-0.3	-0.1
Government consumption	2.1	0.6	1.6	0.6	1.7	-0.9	0.7
Total investment	-1.5	0.3	2.5	1.2	-0.8	-1.0	0.2
Unemployment rate (% of labour force)	6.4	6.4	6.2	6.0	-0.1	-0.1	-0.2

Note: Revisions calculated based on rounded figures.

## Evolution of GDP growth projections (Q4-on-Q4)

(annual percentage changes)

GDP	12/23	03/24	06/24	09/24	12/24
Q4 2024	1.3	1.1	1.5	1.1	1.1
Q4 2025	1.5	1.7	1.4	1.5	1.2
Q4 2026	1.5	1.5	1.6	1.4	1.5
Q4 2027	-	-	-	-	1.2

Sources: ECB and Eurosystem staff projections.

## Evolution of HICP inflation projections (Q4-on-Q4)

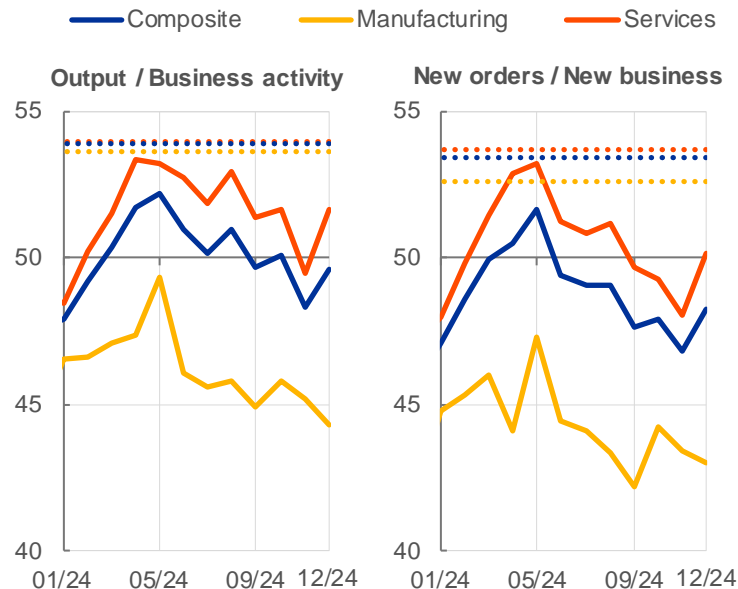
(annual percentage changes)

HICP	12/23	03/24	06/24	09/24	12/24
Q4 2024	2.6	2.2	2.5	2.6	2.3
Q4 2025	2.0	1.9	2.0	2.0	2.0
Q4 2026	1.9	1.9	1.8	1.9	1.9
Q4 2027	-	-	-	-	2.1

Sources: ECB and Eurosystem staff projections.

## Composite, manufacturing and services PMIs

(diffusion indices)

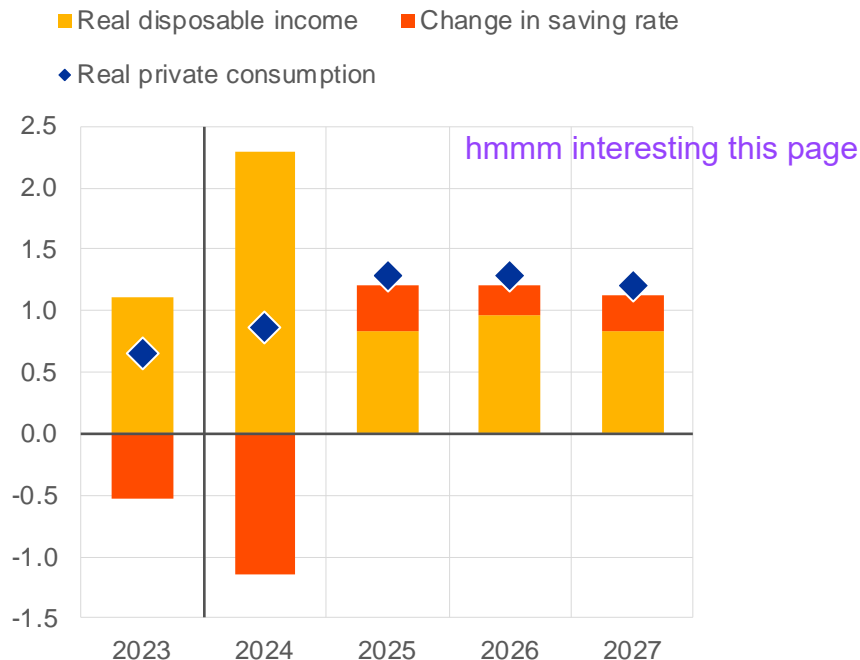


Source: S&P Global.

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 December 2024.

## Real private consumption growth decomposition

(annual percentage changes)

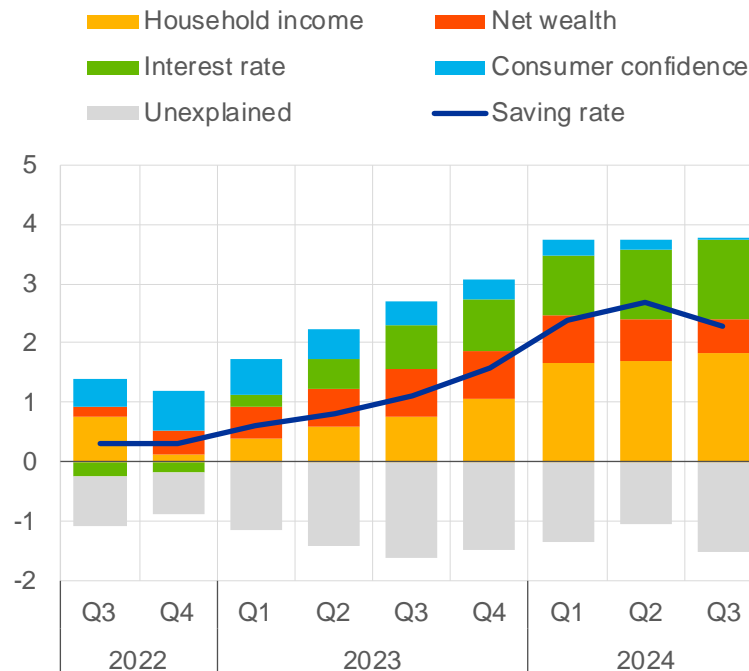


Sources: Eurostat, December 2024 Eurosystem staff projections and ECB calculations.

Note: An increase in the saving rate implies a negative contribution of savings to consumption growth.

## Change in the household saving rate

(percentage point changes since the second quarter of 2022 and percentage point contributions)



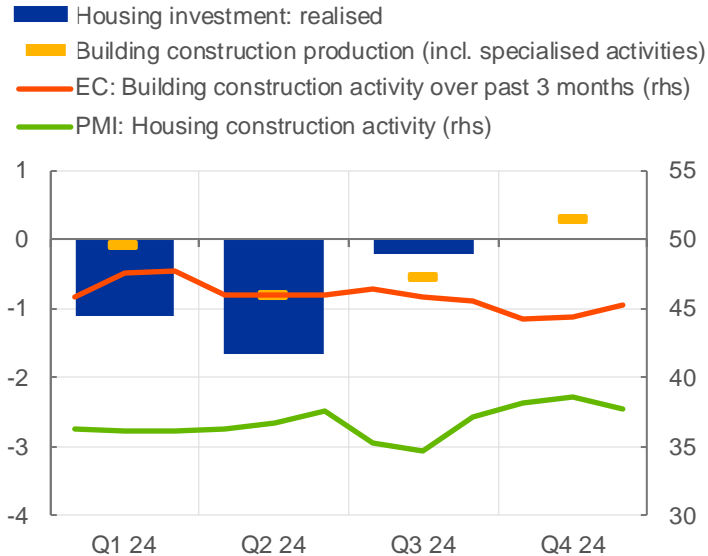
Sources: Eurostat, ECB, Quarterly Sector Accounts (QSA) and ECB calculations.

Notes: The chart shows the contributions of real household income, real net wealth, real interest rates and consumer confidence to the cumulative changes in the household saving rate since the second quarter of 2022, based on an estimated error correction model for private consumption growth and taking the growth in real household income as given.



## Housing investment and short-term indicators

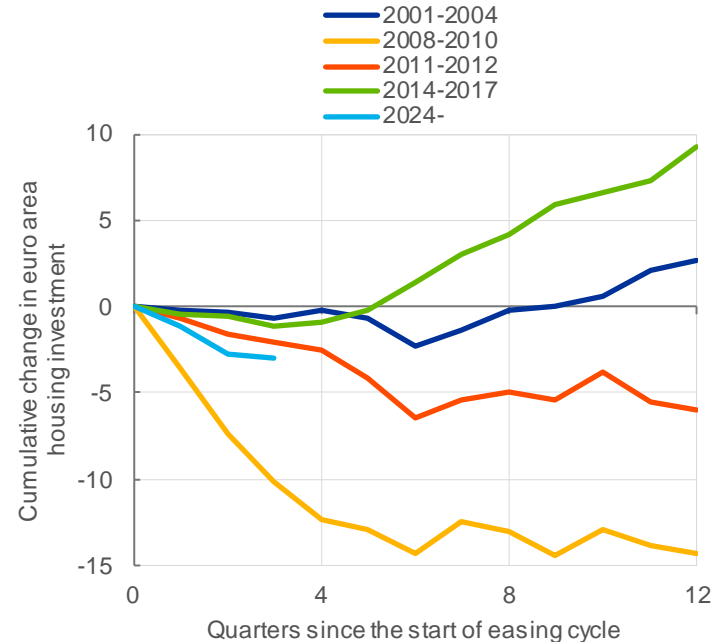
(left-hand side: quarter-on-quarter percentage changes; right-hand side: diffusion indices, monthly)



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

Notes: The European Commission (EC) indicator includes specialised activities (i.e. the construction of parts of buildings or preparation thereof, e.g. concrete work, bricklaying, etc.) and is transformed to have the same mean and standard deviation as the PMI. The latest observations are for the third quarter of 2024 for housing investment and December 2024 for all the other series.

## Housing investment turning points (cumulative changes)

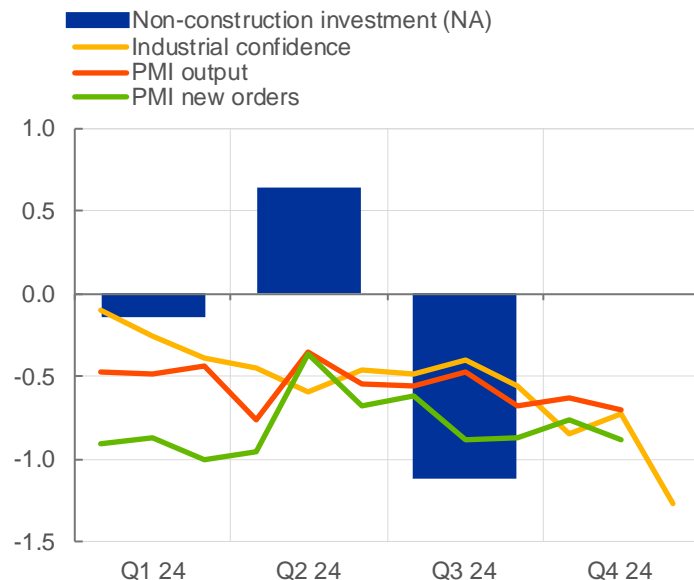


Sources: Eurostat, ECB and ECB calculations.

Note: The modified Bry-Boschan algorithm is used to date the turning points in the monetary policy rate (measured as the three-month EURIBOR)/the start of the easing cycle.

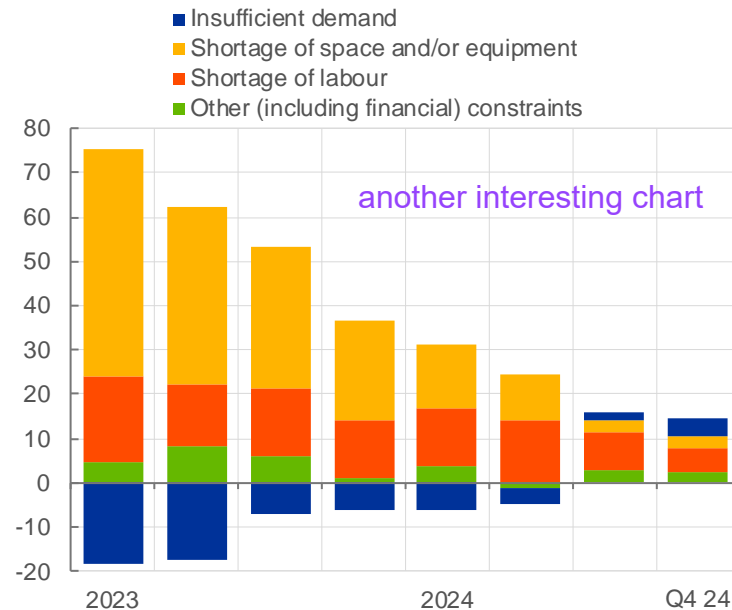
## Business investment and capital goods indicators

(quarter-on-quarter percentage changes, standardised surveys)



## Limits to production in the capital goods sector

(percentage balances)



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

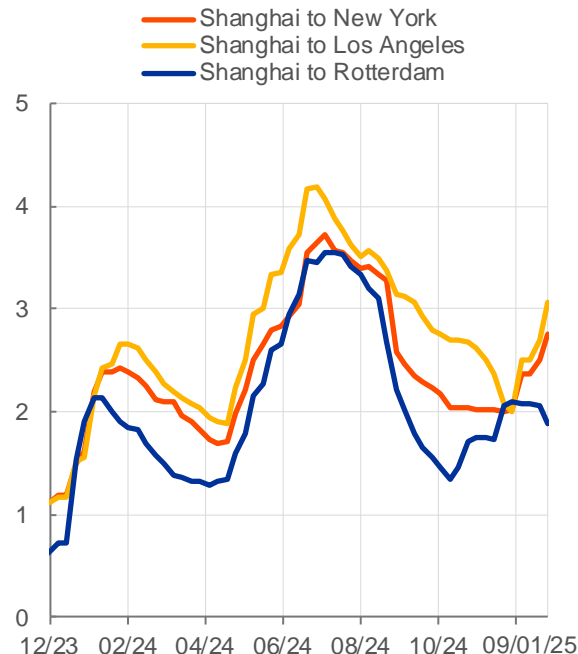
Notes: Non-construction investment excludes Irish Intellectual Property Products (IPP). NA stands for National Accounts. PMIs as a deviation from 50, divided by 10. Confidence is standardised. The latest observations are for the third quarter of 2024 for investment, December 2024 for industrial confidence and November 2024 for the other variables.

Source: DG-ECFIN.

Notes: The series are adjusted to the 2008-19 average. The latest observations are for the fourth quarter of 2024.

## Shipping prices

(indices, 02/01/2020 = 1)

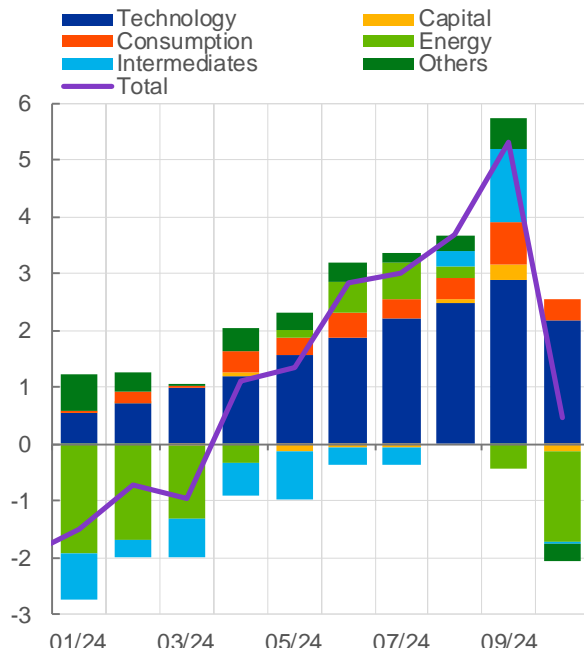


Sources: Drewry shipping consultants via Haver Analytics and ECB staff calculations.

Note: The latest observations are for 9 January 2025.

## World (excluding euro area) imports of goods

(annual percentage changes, percentage point contributions, three-month moving average)

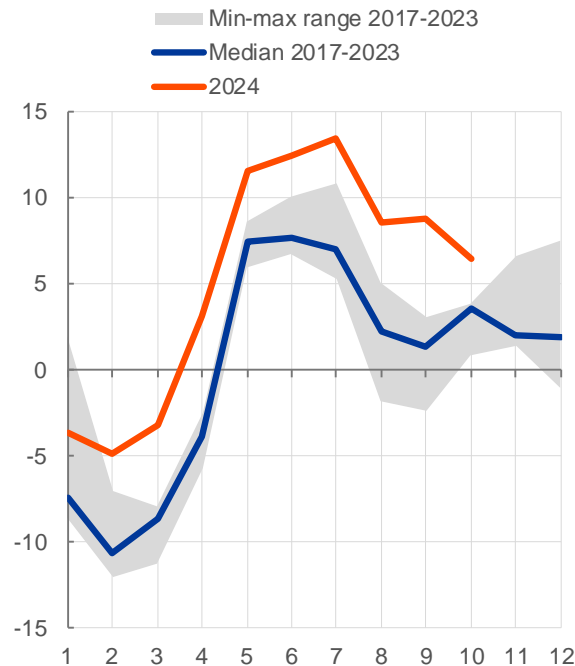


Sources: Trade Data Monitor (TDM) and ECB staff calculations.

Notes: Adjusted Broad Economic Categories (BEC) definitions to account for technological and energy goods. Technological goods include products from two-digit categories such as 84, 85, 87 and 88. In particular, semiconductor product definitions at four digits (8541, 8542, 8486) are also considered. The latest observations are for October 2024.

## US – chips and AI-related imports

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

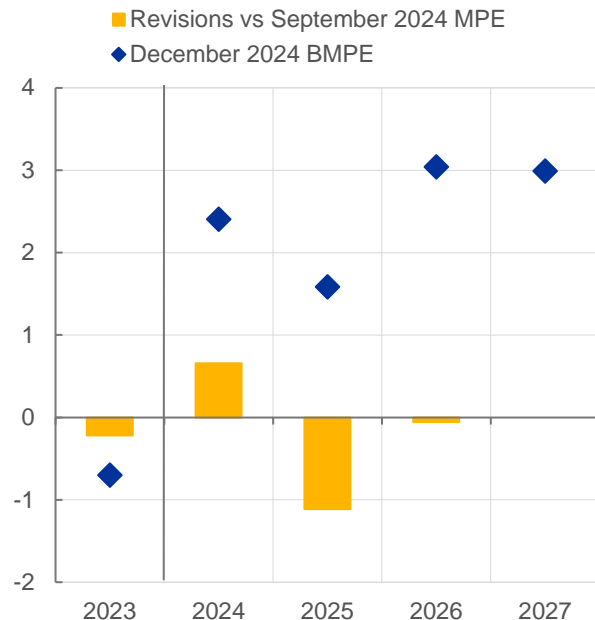


Sources: Trade Data Monitor (TDM), Global Trade Alert (GTA) and ECB staff calculations.

Notes: The list of chips and AI-related products was retrieved from Global Trade Alert announcements of policies targeted at AI, chips and quantum-related technologies. There were 259 such six-digit harmonised commodity system (HS) products identified. The latest observations are for October 2024.

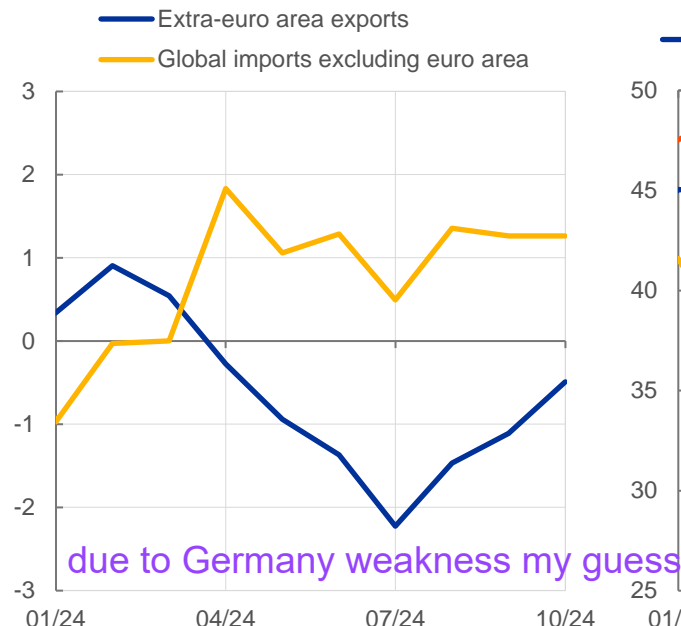
# Exports

## Projected extra-euro area export volumes (annual percentage change)



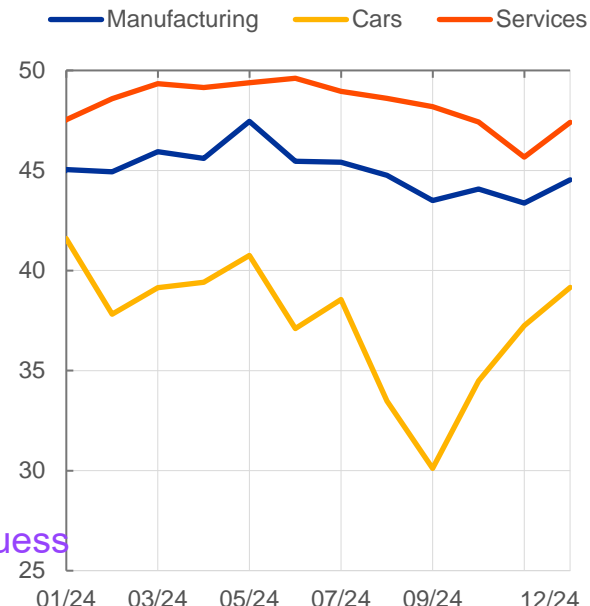
Sources: December 2024 Eurosystem staff projections and September 2024 ECB staff projections.

## Euro area goods export volumes (three-month-on-three-month percentage change)



Sources: Eurostat and Central Planning Bureau.  
Notes: Global imports are in volumes; goods exports are in volume index. The underlying data are seasonally adjusted. As export volume data for October is not available, the latest data point is approximated by deflating October values with industrial export prices. The latest observations are for October 2024.

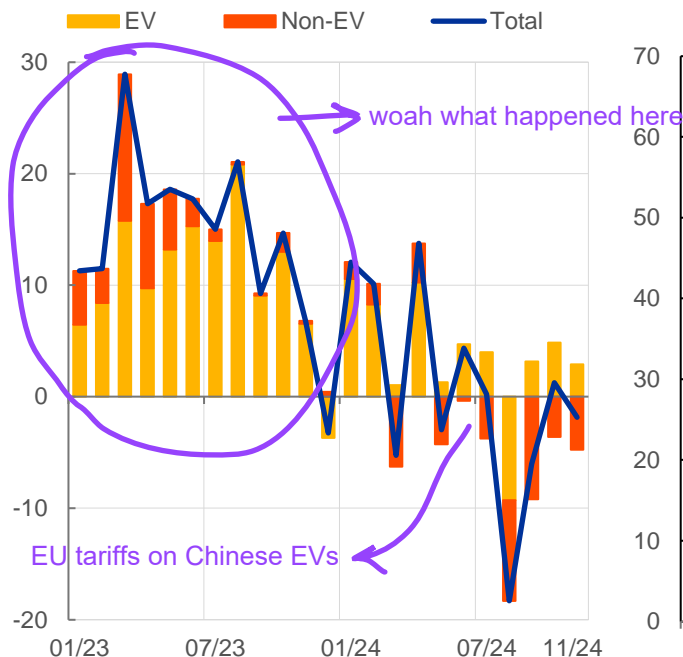
## PMI new export orders (diffusion index)



Sources: S&P Global and ECB staff calculations.  
Notes: The car sector is included in the manufacturing PMI. A diffusion index is obtained by adding together the percentage of respondents reporting "higher" and 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 latest observations are for December 2024.

## New vehicle registrations in the EU

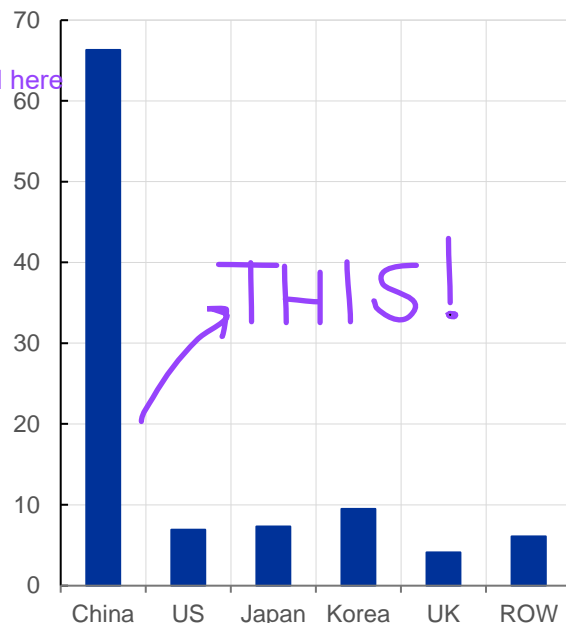
(year-on-year growth)



Sources: Acea (European Automobile Manufacturers Association), Haver Analytics.  
Notes: The category "EV" includes battery electric vehicles (BEV) and "Other EV", as hybrid and plug-in hybrid vehicles. "Non-EV" includes petrol and diesel-powered vehicles. The latest observations are for November 2024.

## Extra-EU BEV imports, by country of origin

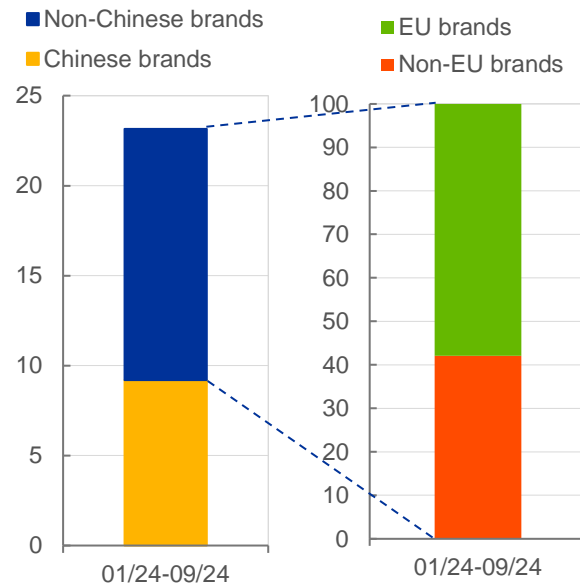
(share of total)



Source: TDM.  
Notes: BEV stands for battery electric vehicles, ROW refers to the rest of the world. Observations are an average from January 2024 to October 2024.

## China-produced battery electric vehicles exported into the EU

(left-hand side: share of total BEV sales in the EU;  
right-hand side: share of total sales by non-Chinese brands only)

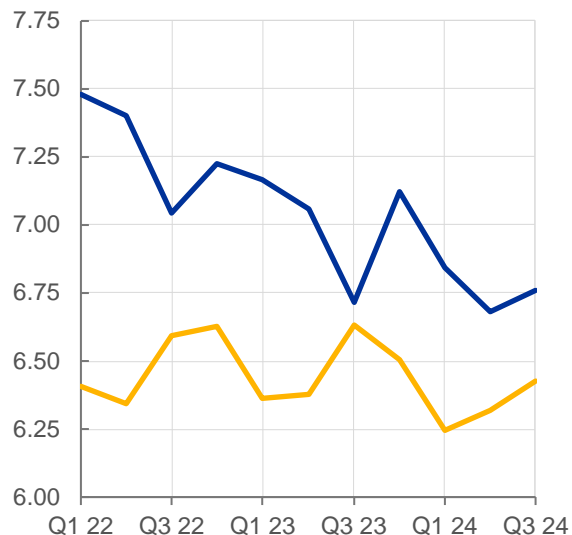


Sources: JATO Dynamics, Bloomberg.  
Notes: BEV stands for battery electric vehicles. The chart shows sales data for battery electric vehicle models sold in a sample of EU countries. The brand data includes only those models which are exclusively produced in China. Information on whether a model is produced in China is based on 2023 annual reports and available plant-level production data from Bloomberg.

## Transitions into and out of employment

(millions)

— Into employment — Out of employment



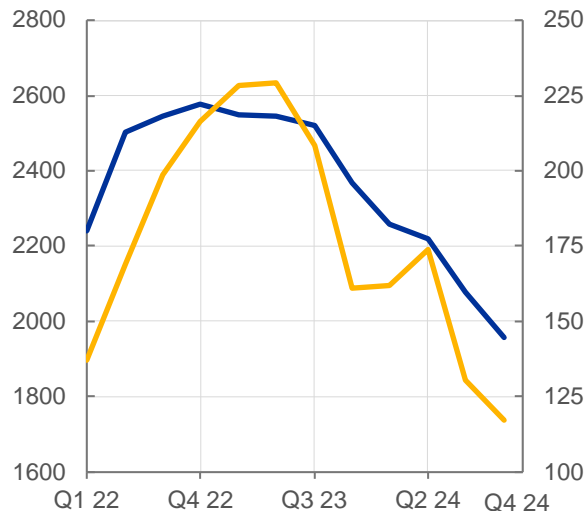
Sources: Eurostat and ECB staff calculations.  
Note: The latest observations are for the third quarter of 2024.

## Indeed job postings

(thousands)

tells a story of falling wage rises

— Indeed job postings (total)  
— New job postings (right-hand side)

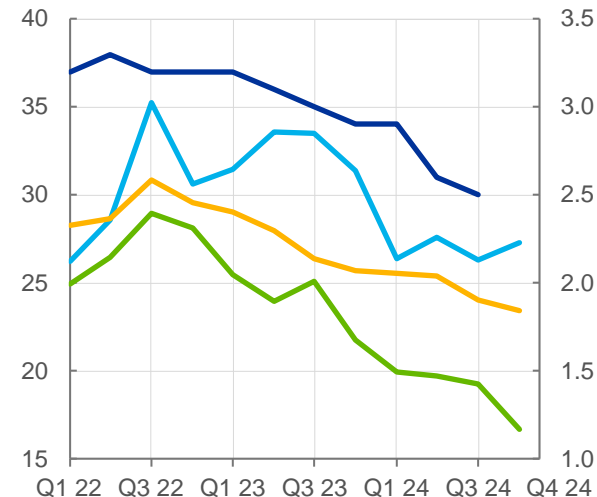


Source: Eurostat.  
Notes: New job postings represent a two-quarter moving average and refer specifically to job postings that include wage information. For reference, see Adrian, P. and Lydon, R. (2023), "[What do wages in online job postings tell us about wage growth?](#)", 20 December. The latest observations are for November 2024.

## Labour shortages

(left-hand side: percentage of firms; right-hand side: percentage of job posts)

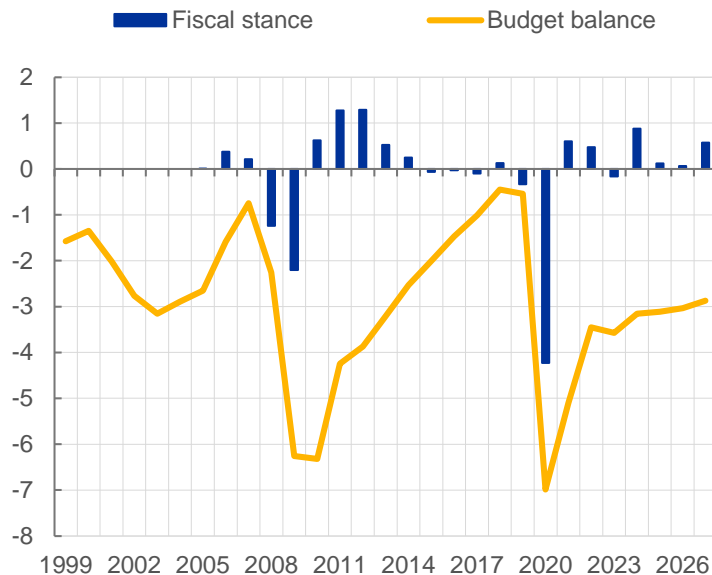
— Labour shortages - Manufacturing  
— Labour shortages - Services  
— Labour shortages - Construction  
— Job vacancy rate (right-hand side)



Sources: Eurostat, DG-ECFIN and ECB calculations.  
Note: The latest observations are for the third quarter of 2024 for the job vacancy rate and the fourth quarter of 2024 for labour shortages.

## Budget balance and fiscal stance

(percentages of GDP, percentage points of potential GDP)



Source: December 2024 Eurosystem staff projections.

Notes: The fiscal stance is calculated as the change in the cyclically adjusted primary balance net of the assistance to the financial sector and the Next Generation EU grants on the revenue side (in percentage points of potential GDP). Calculations for the fiscal stance harmonised in the current definition are only available as of 2004 for the euro area aggregate comprising all 20 current member countries.

## Overview of fiscal projections

(percentages of GDP and percentage points)

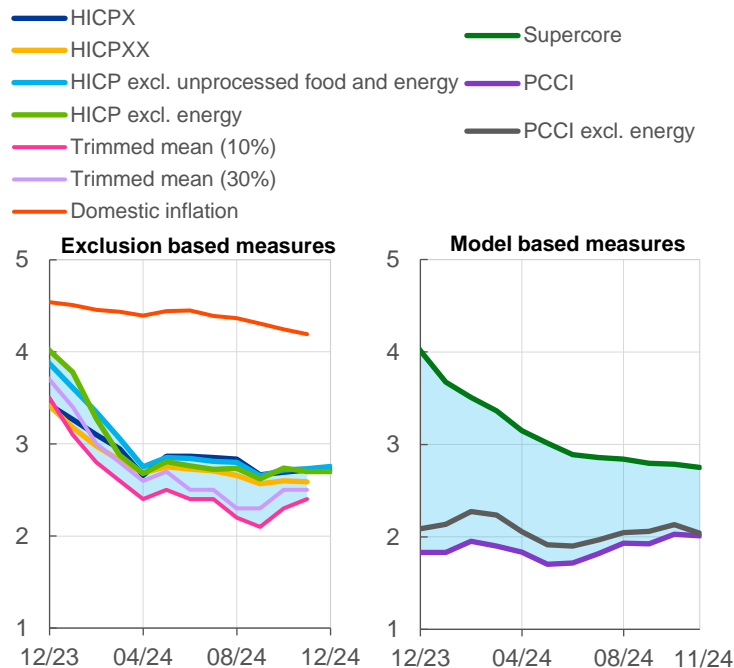
	December 2024 (percentage of GDP)						Revisions since September 2024 (percentage points)			
	2019	2023	2024	2025	2026	2027	2023	2024	2025	2026
<b>Budget balance</b>	<b>-0.5</b>	<b>-3.6</b>	<b>-3.2</b>	<b>-3.1</b>	<b>-3.0</b>	<b>-2.9</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
Total revenues	46.5	45.9	46.5	46.7	46.6	46.3	-0.5	-0.1	0.1	0.0
Total expenditures	47.0	49.5	49.6	49.8	49.7	49.1	-0.4	-0.2	0.0	0.0
Interest expenditure	1.6	1.7	1.9	2.0	2.1	2.2	0.0	0.0	0.1	0.1
Primary balance	1.1	-1.8	-1.3	-1.1	-0.9	-0.7	0.0	0.2	0.2	0.1
<b>Gross debt</b>	<b>83.7</b>	<b>87.4</b>	<b>87.8</b>	<b>88.3</b>	<b>88.7</b>	<b>88.6</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-1.1</b>
Interest rate-growth differential	-1.1	-3.6	-1.2	-1.0	-1.0	-0.8	0.1	0.4	0.2	0.0
Deficit-debt adjustment	0.3	-0.4	0.2	0.4	0.4	0.0	0.0	-0.1	-0.3	-0.1
<b>Fiscal stance (adj. for NGEU)</b>	<b>-0.3</b>	<b>-0.2</b>	<b>0.9</b>	<b>0.1</b>	<b>0.1</b>	<b>0.6</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.2</b>

Source: December 2024 Eurosystem staff projections.

# Underlying inflation and inflation momentum

## Measures of underlying inflation

(annual percentage changes)

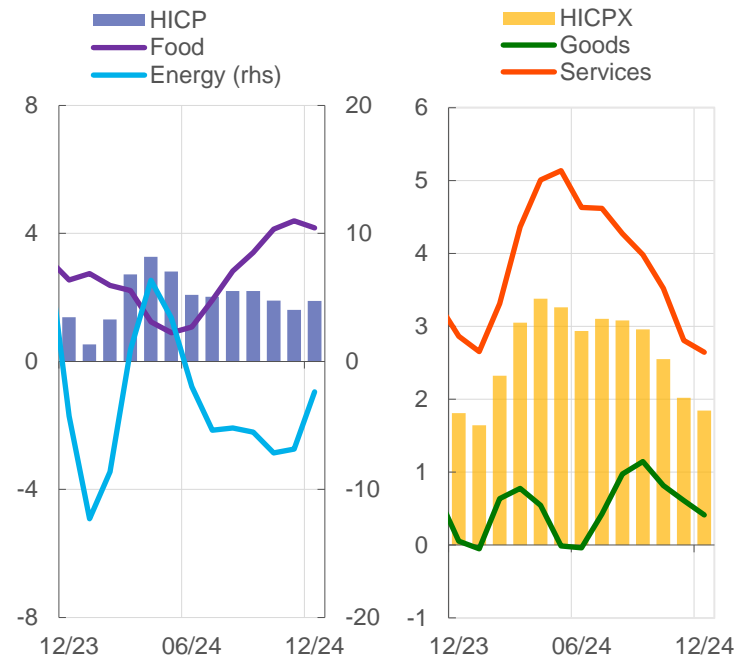


Sources: Eurostat and ECB calculations.

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

## Momentum of inflation and its subcomponents

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



Sources: Eurostat and ECB calculations.

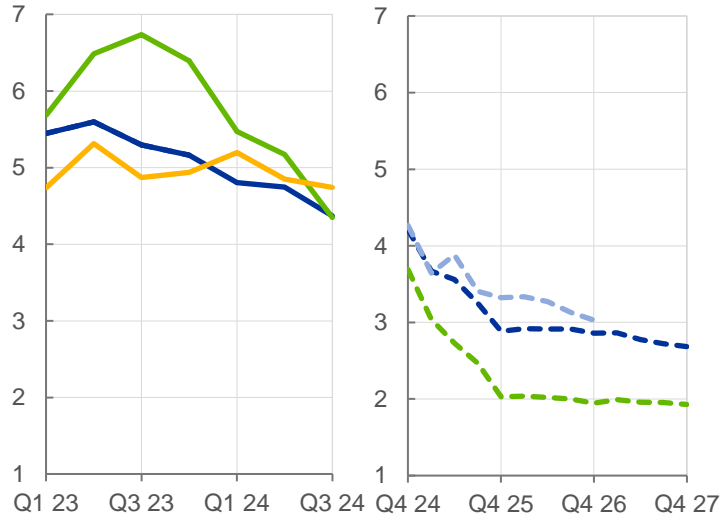
Notes: Calculated using seasonally adjusted data. The latest observations are for December 2024 (flash estimate).



## Labour cost indicators in the euro area and their forecasts

(annual percentage changes)

- Compensation per employee (September 2024 MPE)
- Compensation per employee (and December 2024 BMPE)
- Unit labour costs (and December 2024 BMPE)
- Compensation per hour



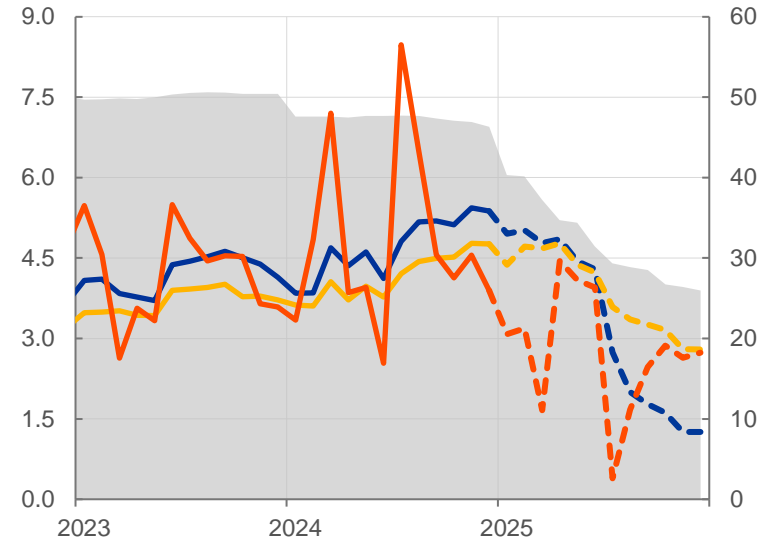
Sources: Eurostat, ECB, September 2024 ECB staff projections, December 2024 Eurosystem staff projections and ECB calculations.

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

## ECB wage tracker

(annual percentage changes)

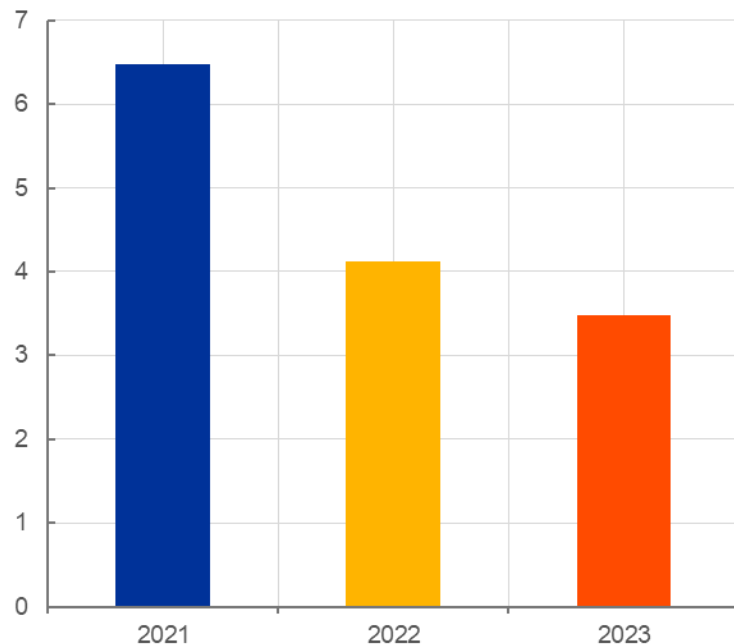
- Share of employees covered (right-hand side)
- ECB wage tracker
- ECB wage tracker excluding one-off payments
- ECB wage tracker including unsmoothed one-off payments



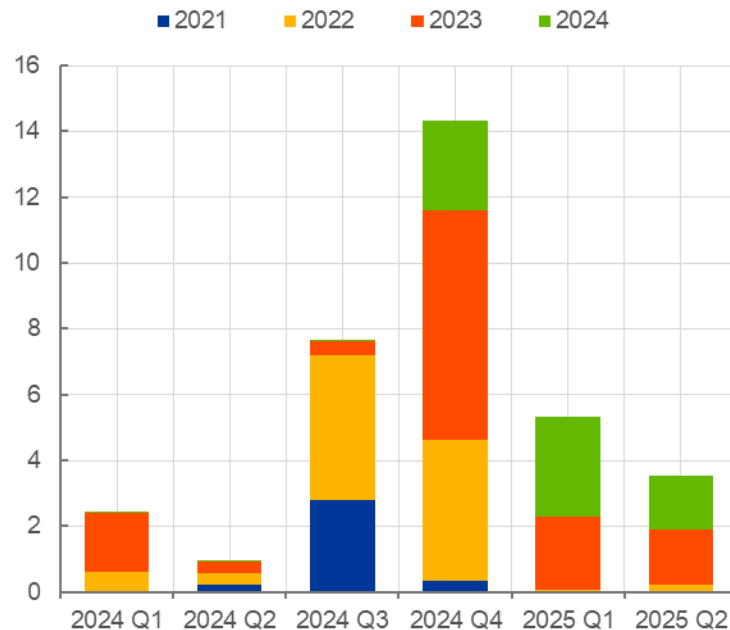
Sources: Wage tracker calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Österreichische Nationalbank, Bank of Greece, Banca d'Italia and Banque de France.

Notes: The euro area aggregate for the wage tracker is based on data for Germany, France, Italy, Spain, the Netherlands, Austria and Greece. The latest observations are for December 2025.

## 12-months-ahead growth for contracts signed in 2024 by preceding signing year (annual percentage changes)



## Workers covered by expiring agreements by signing year (millions of workers)



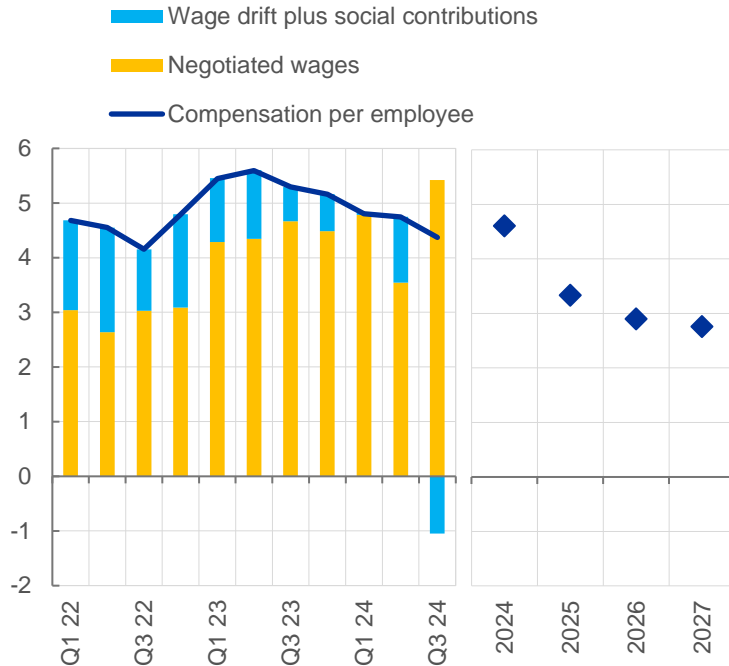
Sources: Wage tracker calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Österreichische Nationalbank, Bank of Greece, Banca d'Italia and Banque de France.  
Note: 12-months-ahead wage growth excluding one-off payments for agreements signed in 2024.

Sources: Wage tracker calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Österreichische Nationalbank, Bank of Greece, Banca d'Italia and Banque de France.  
Notes: The x-axis represents the quarter when contracts are due to expire. Colours refer to when these agreements were signed.

# Wage pressures and domestic price pressures

## Decomposition of compensation per employee growth

(annual percentage changes and percentage point contributions)

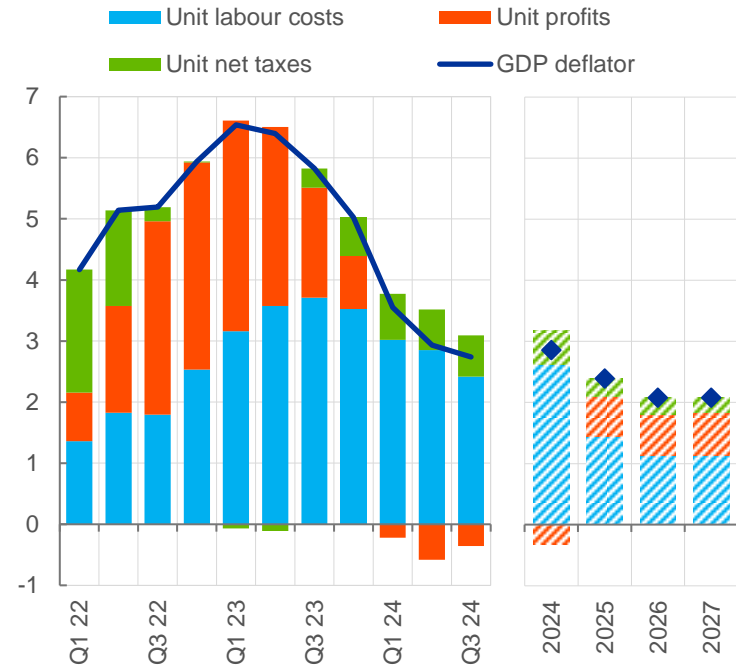


Sources: Eurostat, December 2024 Eurosystem staff projections and ECB calculations.

Notes: The diamonds are projections based on the December 2024 Eurosystem staff projections. The latest observations are for the third quarter of 2024.

## GDP deflator

(annual percentage changes and percentage point contributions)

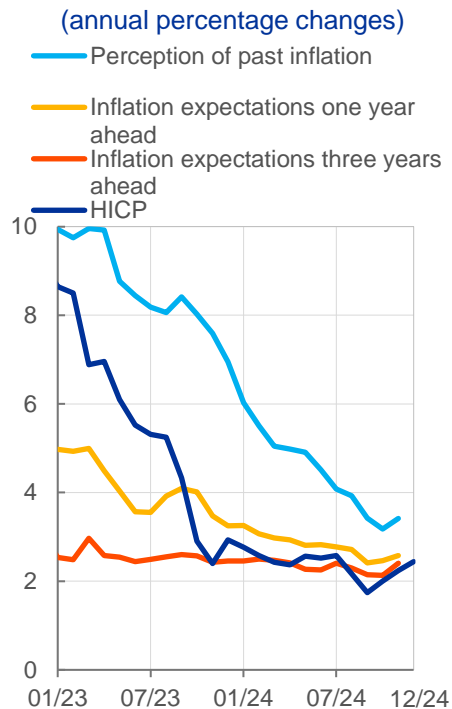


Sources: Eurostat, December 2024 Eurosystem staff projections and ECB calculations.

Notes: Unit net taxes reflect taxes minus subsidies. When the contribution of subsidies on products is larger than the contribution of indirect taxes, the unit net tax contribution turns negative. The latest observations are for the third quarter of 2024.

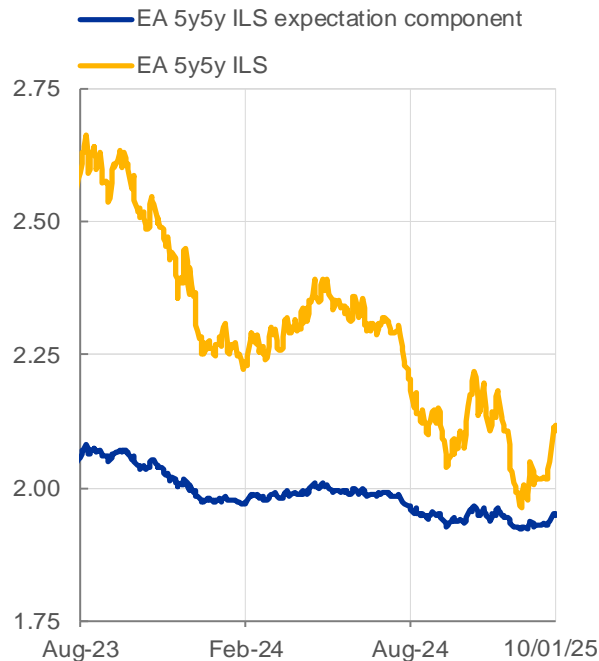
# Inflation expectations

## Consumer Expectations Survey



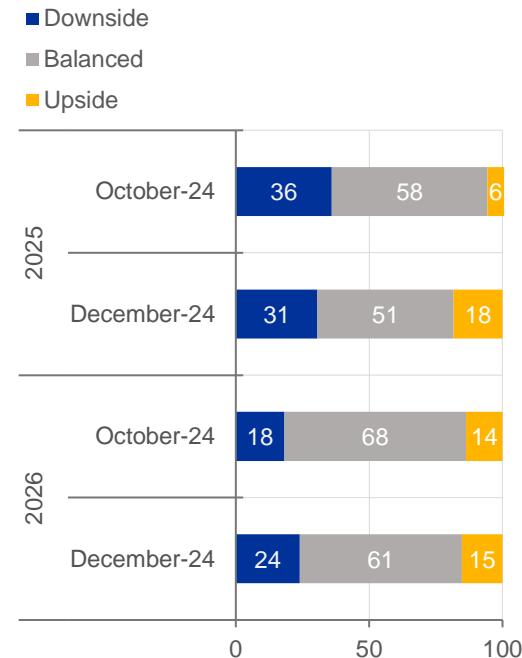
Sources: Eurostat and Consumer Expectations Survey (CES).  
 Notes: The series refer to the median value for the CES. The latest observations are for December 2024 (flash estimate) for HICP and November 2024 for the rest.

## Euro area inflation-linked swap rates (percentages per annum)



Sources: LSEG, Bloomberg and ECB calculations.  
 Notes: Premia-adjusted forward ILS rates are an average of estimates from two affine term structure models (as in [Joslin, S., Singleton, K. and Zhu, H. \(2011\)](#)) applied to ILS rates non-adjusted for the indexation lag (see [Burban, V. et al. \(2021\)](#)). The latest observations are for 10 January 2024.

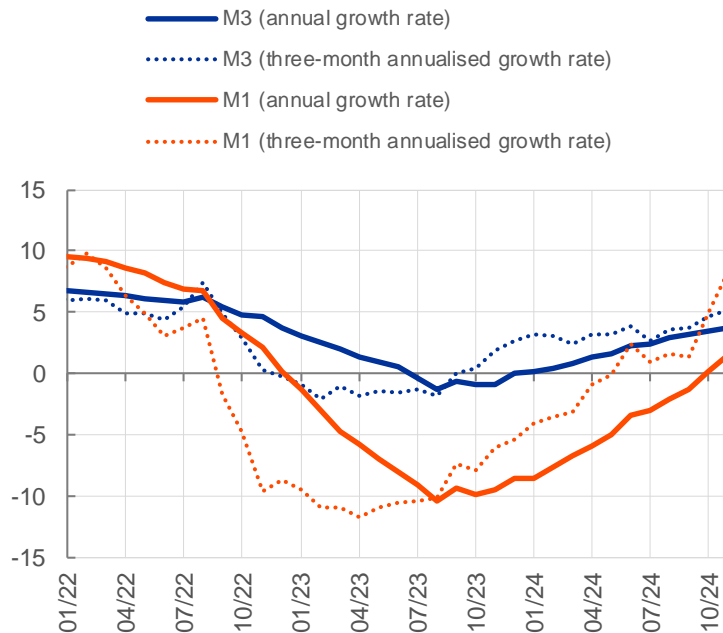
## Balance of risks for inflation from ECB Survey of Monetary Analysts (percentages per annum)



Source: ECB Survey of Monetary Analysts.  
 Notes: Percentages may not add up to 100 due to rounding. The latest observations are for December 2024.

## M3 and M1 dynamics

(annual percentage changes)

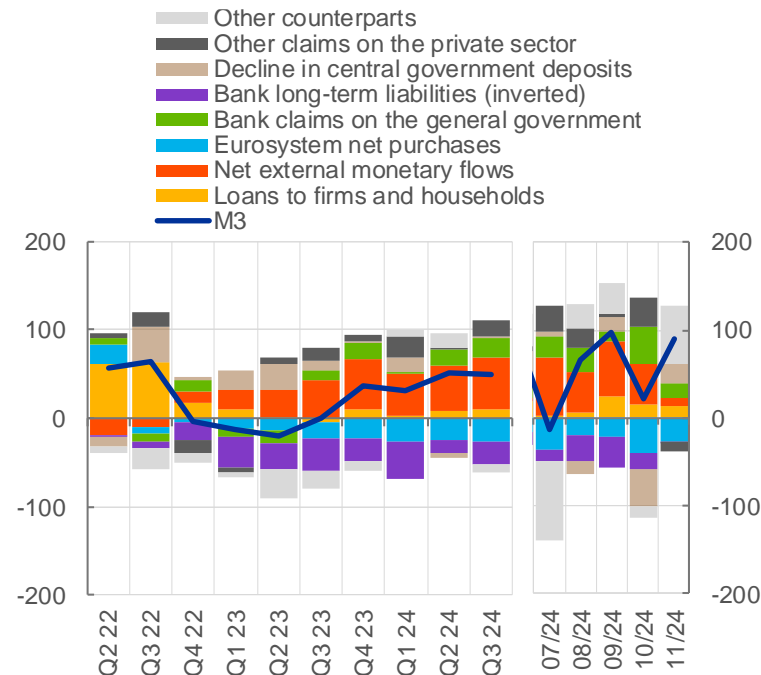


Sources: ECB (BSI) and ECB calculations.

Notes: Figures for M3 and M1 are adjusted for the operational incident in TARGET2 which inflated the September 2022 figures for OFI deposits and loans, reversing them in October and November 2022. The latest observation are for November 2024.

## Sources of money creation

(average monthly flows in EUR billions)



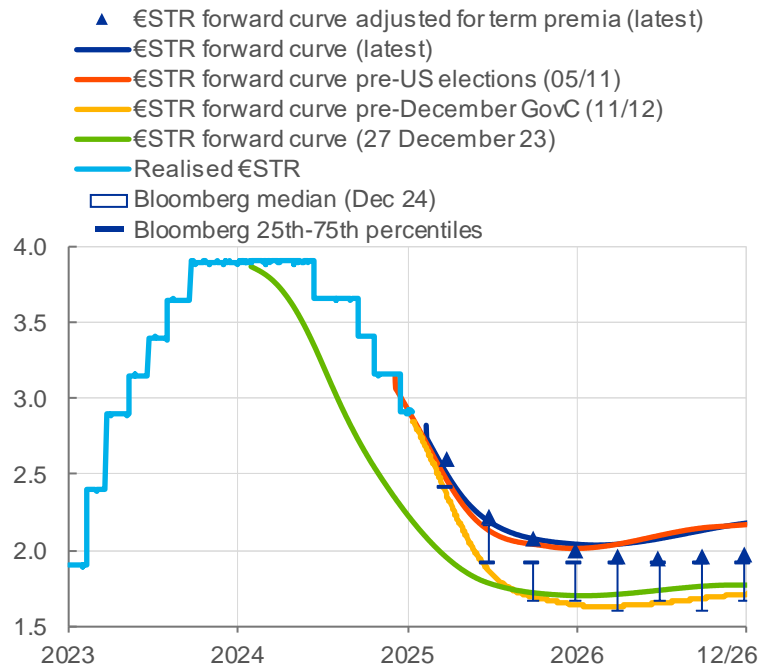
Sources: ECB (BSI) and ECB calculations.

Notes: Figures for M3 are adjusted for the operational incident in TARGET2 which inflated the September 2022 figures for OFI deposits and loans, reversing them in October and November 2022. The latest observation are for November 2024.

# Near-term rate expectations and the real yield curve

## €STR forward curve and survey expectations of the deposit facility rate

(percentages per annum)

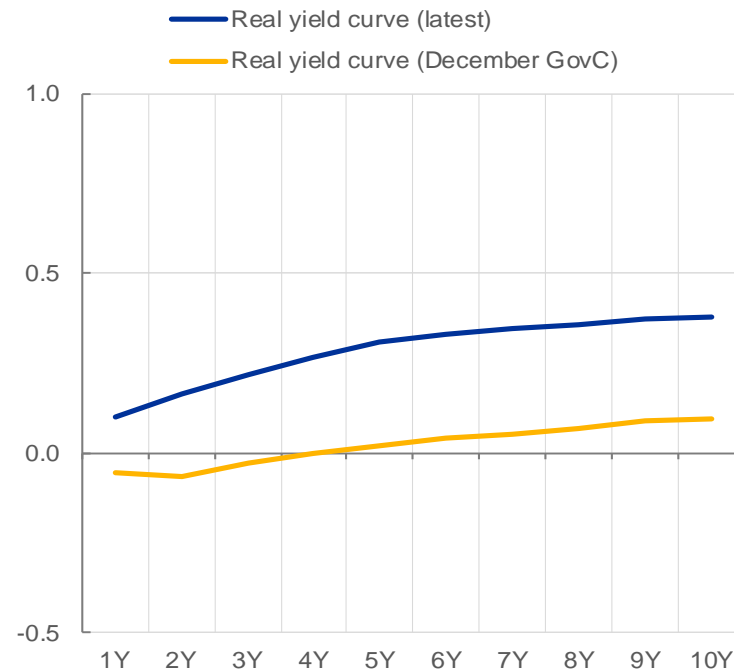


Sources: LSEG, Bloomberg and ECB calculations.

Notes: The DFR expectations from Bloomberg are adjusted for the current €STR versus DFR spread. Estimates are based on two affine term structure models, with and without survey information on rate expectations (both variations of [Joslin, S., Singleton, K. and Zhu, H. \(2011\)](#)), and a lower bound term structure model (following [Geiger, F. and Schupp, F. \(2018\)](#)) incorporating survey information on rate expectations. The latest observations are for 10 January 2025.

## Real yield curves

(percentages per annum)



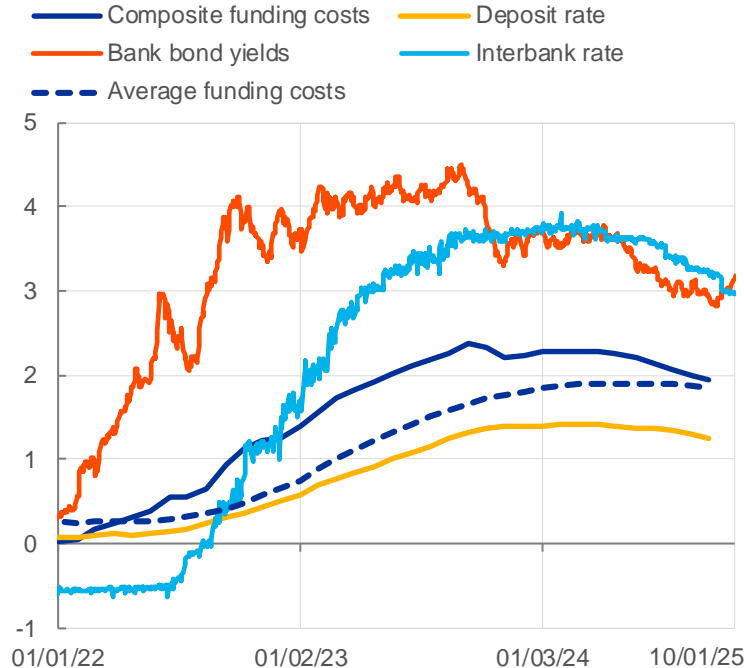
Sources: Bloomberg, LSEG and ECB calculations.

Notes: The real rate is calculated by subtracting the inflation-linked swap rate from the nominal overnight indexed swap rate. The latest observations are for 10 January 2024.

# Bank funding costs and credit standards

## Bank funding costs

(percentages per annum)

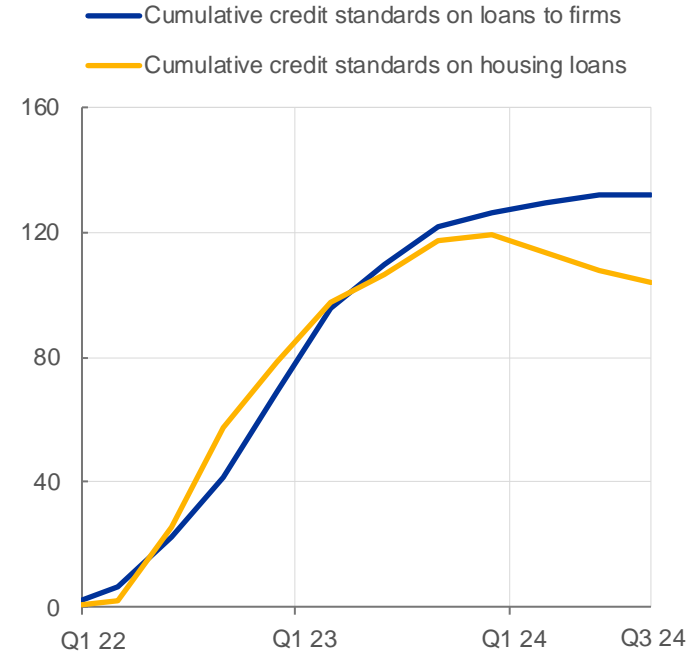


Sources: ECB (BSI, MIR, CSDB, MMSR), IHS Markit iBoxx and ECB calculations.

Notes: Marginal funding costs are the weighted average of new business costs for overnight deposits, deposits redeemable at notice, time deposits, bonds and interbank borrowing, weighted by outstanding amounts. Average funding costs use the same weights but are based on the rate on outstanding deposits and interbank funding and yield to maturity at issuance for bonds. The latest observations are for November 2024 for monthly data and 10 January 2025 for daily data.

## Cumulated change in credit standards for firms and households

(net percentages)



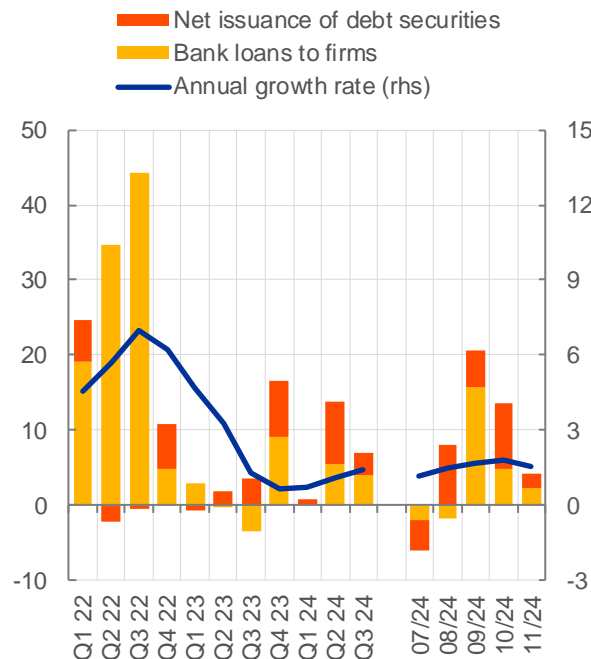
Sources: ECB bank lending survey and ECB calculations.

Notes: Net percentages for credit standards are defined as the difference between the sum of the percentages of banks responding “tightened considerably” and “tightened somewhat” and the sum of the percentages of banks responding “eased somewhat” and “eased considerably”. Cumulation starts in the first quarter of 2022. The latest observations are for the third quarter of 2024.

# Credit to firms, lending rates and use of loans by innovative firms

## Firm debt financing

(left-hand side: average monthly flows in EUR billions; right-hand side: annual percentage changes)

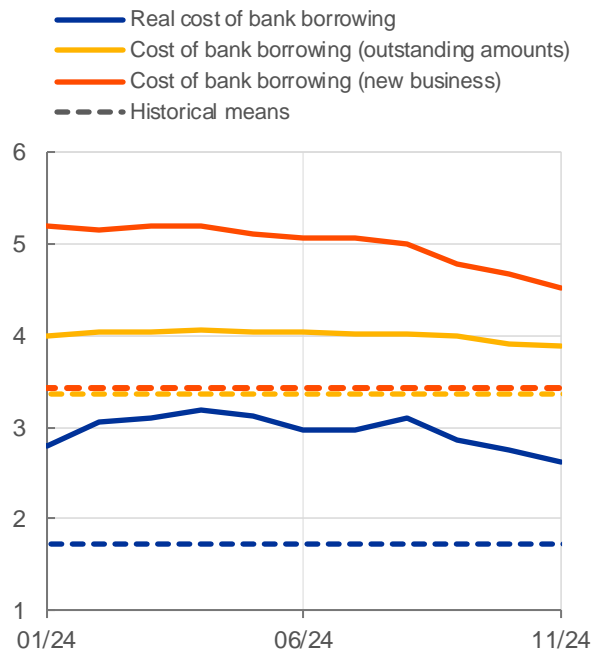


Sources: ECB (BSI, CSEC) and ECB calculations.

Notes: The seasonal adjustment for the net issuance of debt securities is not official. Bank loans are adjusted for sales, securitisation and cash pooling. The latest observations are for November 2024.

## Firm cost of borrowing

(percentages per annum)

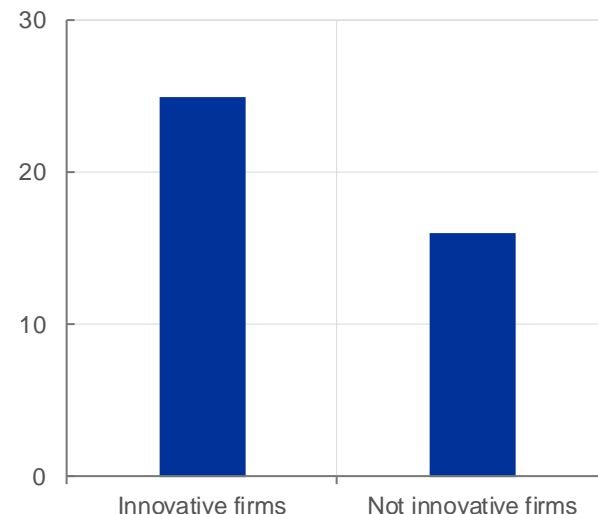


Sources: ECB (MIR), Consensus Economics and ECB calculations.

Notes: Real lending rates are constructed using the Consensus one-year ahead inflation expectations. Dashed lines are historical means calculated from January 1999 for nominal and real cost of borrowing (new business) and from January 2003 for cost of bank borrowing (outstanding amounts). The latest observations are for November 2024.

## Share of firms borrowing from banks

(percentages)



Sources: ECB survey on the access to finance of enterprises (SAFE) and ECB calculations.

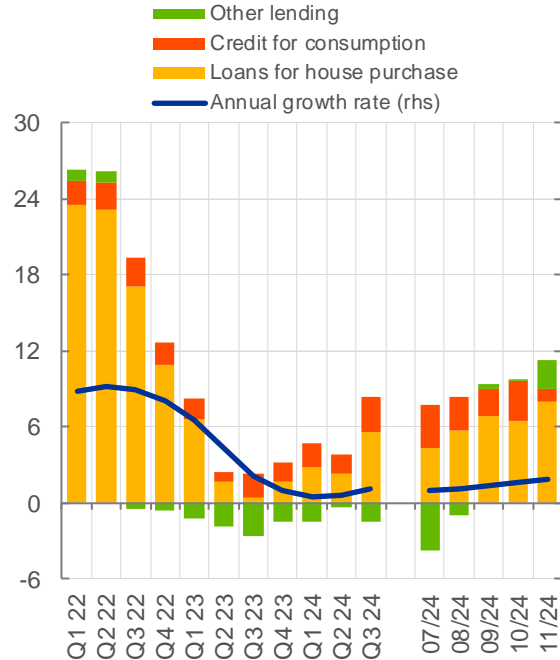
Notes: Innovative firms are firms that, when responding to the SAFE, say that they introduced a new product or service in the market in the last 12 months (annual question). The chart shows the percentage of firms who reported having used bank loans over the last six months. The latest observations are for the third quarter of 2024.



# Credit to households, outlook and mortgage affordability

## Bank loans to households

(left-hand side: average monthly flows in EUR billions; right-hand side: annual percentage changes)

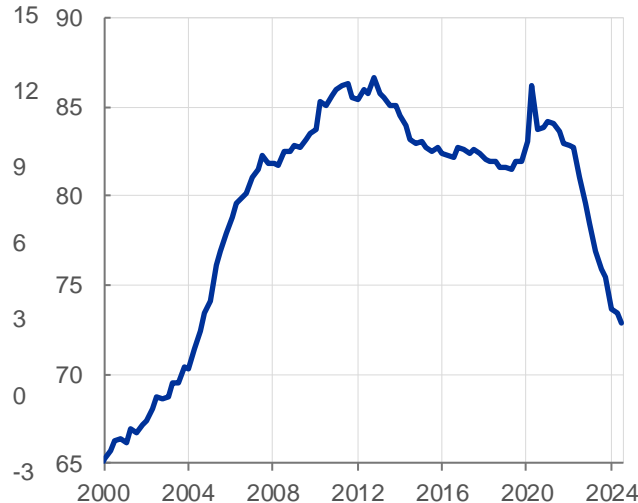


Sources: ECB (BSI) and ECB calculations.

Notes: Bank loans are adjusted for sales, securitisation and cash pooling. The latest observations are for November 2024.

## Bank lending to households over gross disposable income

(percentages of gross personal disposable income)

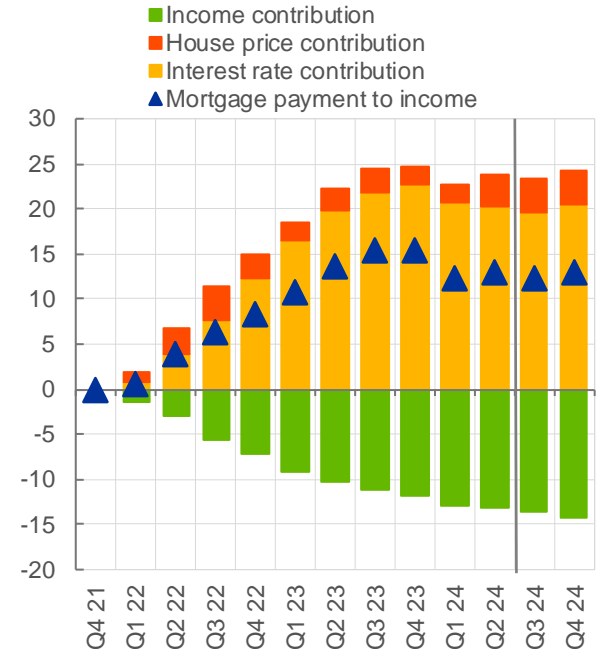


Sources: ECB (BSI, QSA) and ECB and Eurosystem staff projections.

Notes: Loans to households are adjusted for sales and securitisation. The latest observations are for the second quarter of 2024. The third quarter is a nowcast.

## Change in debt service ratio for typical newly granted mortgages

(percentage points)



Sources: ECB (MIR, QSA, RESR), ECB and Eurosystem staff projections and ECB calculations.

Note: The latest observations are for the second quarter of 2024, and the projections go until the fourth quarter of 2024.