



EUROPEAN CENTRAL BANK

EUROSYSTEM

Escaping stagnation: towards a stronger euro area

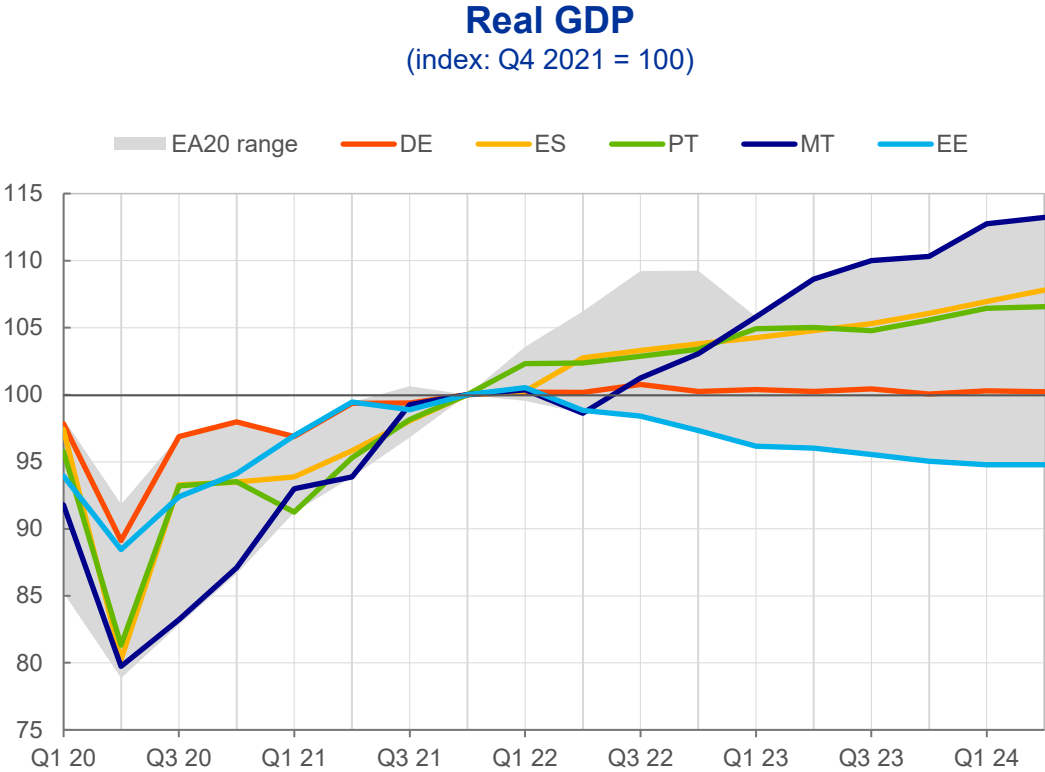
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*Member of the Executive Board
of the ECB*



19th Walter Eucken Lecture
Freiburg, 2 October 2024

Since interest rates started to rise, growth in the euro area has become more uneven

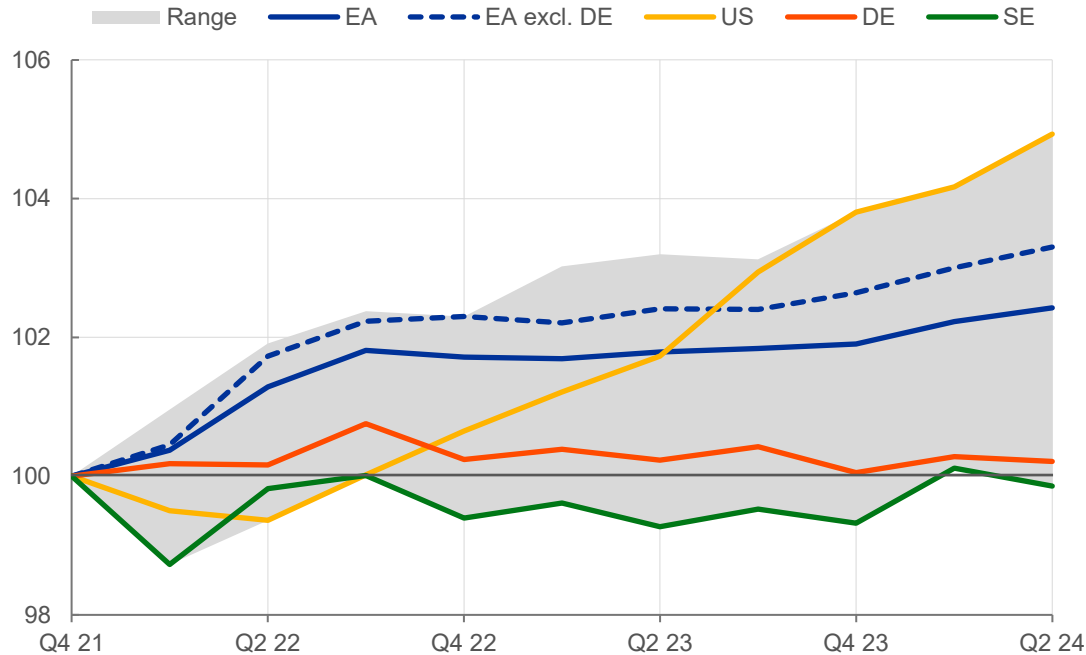


Sources: Eurostat and ECB staff calculations.
Latest observation: Q2 2024.

Weak euro area growth is driven by a small set of countries, including Germany

Real GDP

(index: Q4 2021 = 100)

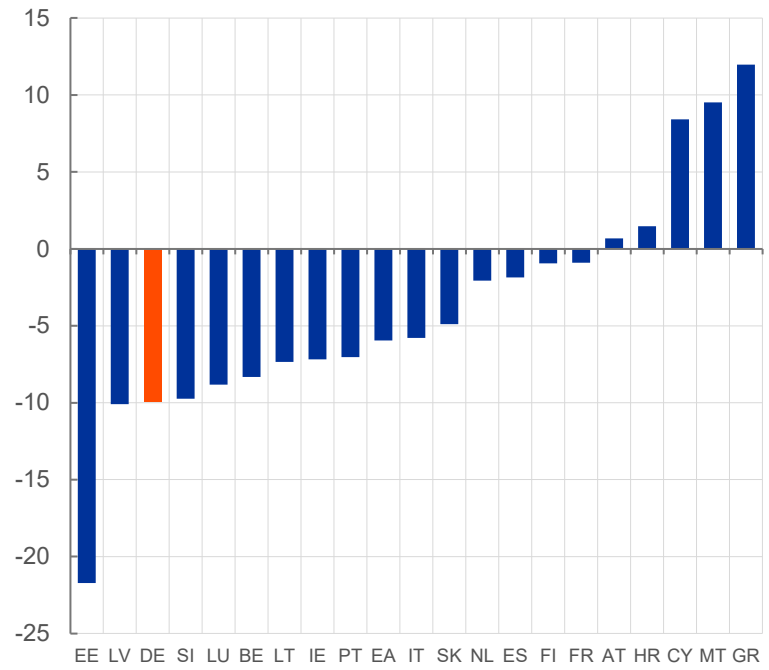


Sources: Eurostat, national sources (Haver Analytics) and ECB staff calculations.
Note: The grey area marks the range between the minimum and maximum values of real GDP for each quarter among US, UK, JP, CA, SE, EA, EA excl. DE and DE.
Latest observation: Q2 2024.

Given heterogeneity in industrial production, monetary policy is unlikely to be main factor

Industrial production excl. construction

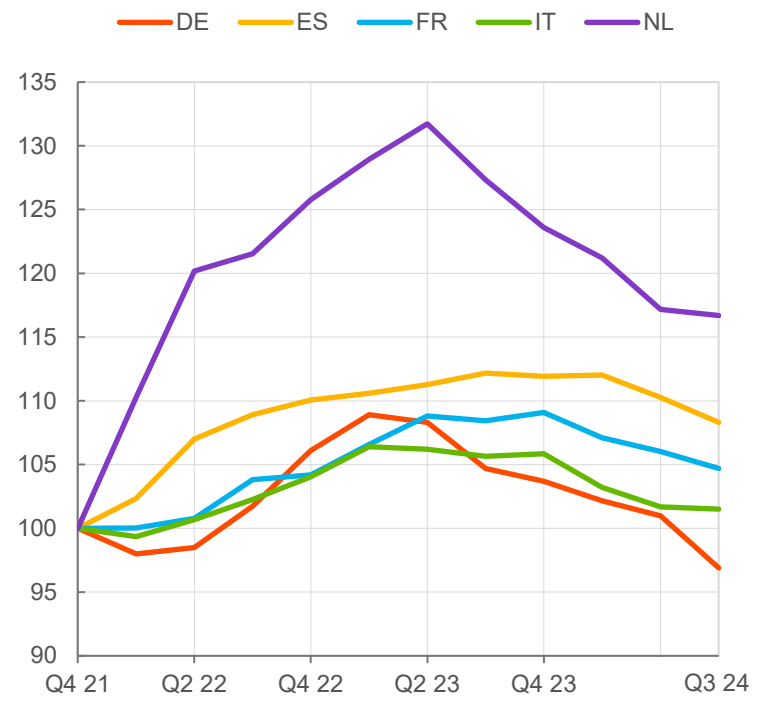
(percentage changes July 24 vs Dec 21)



Sources: Eurostat and ECB staff calculations.

Industrial production: capital goods

(index: Q4 2021 = 100)

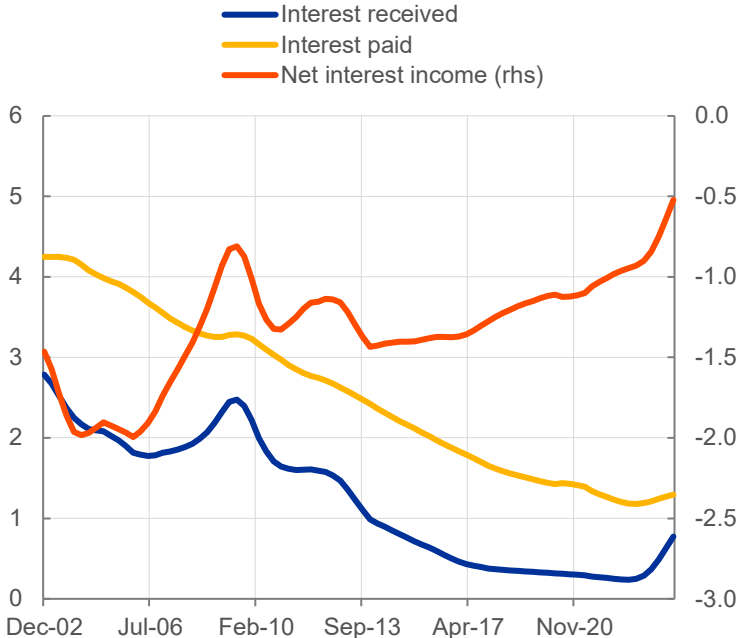


Sources: Eurostat and ECB staff calculations.
Latest observation: Q3 (July) 2024.

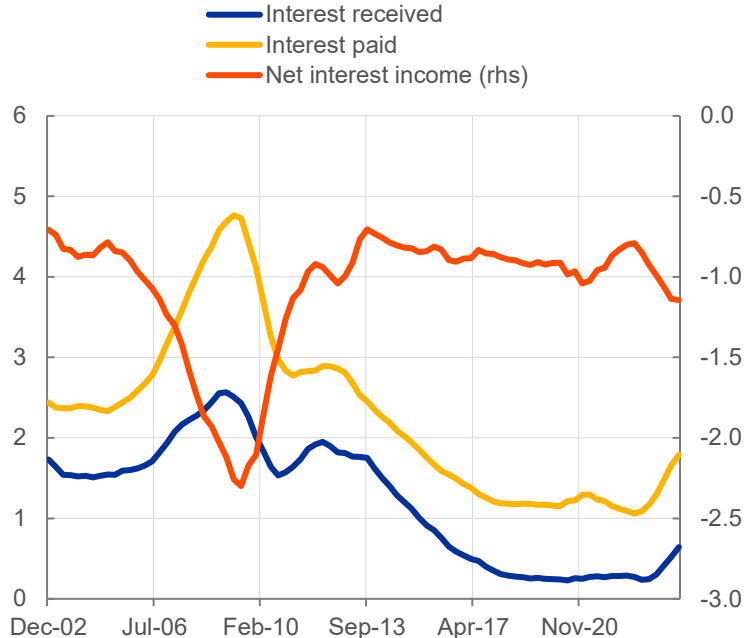
German households benefit from higher interest rates, while Spanish households suffer

Interest revenue and payments by households (percentages of GDP)

Germany



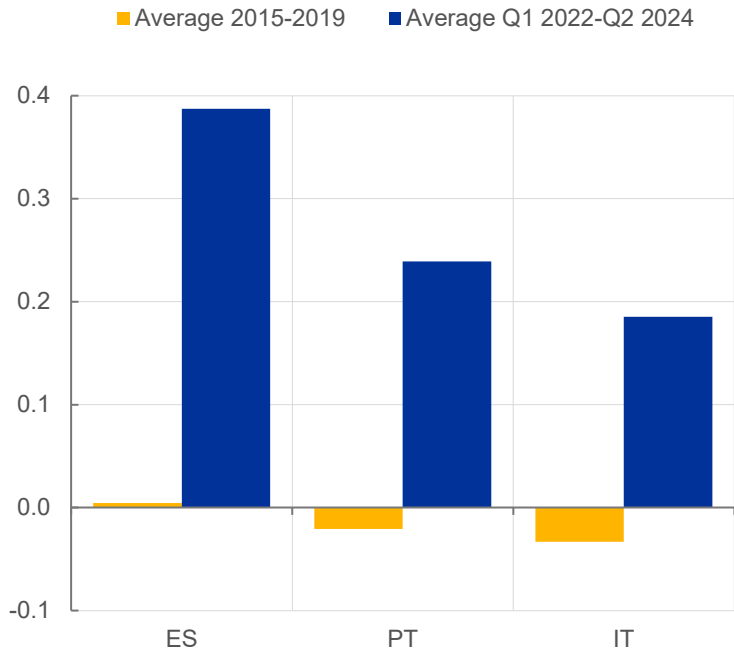
Spain



Sources: Eurostat, ECB (QSA, MNA) and ECB calculations.
Notes: Data are four-quarter-sums of the respective series over the four-quarter-sum of GDP.
Latest observation: 2024 Q1.

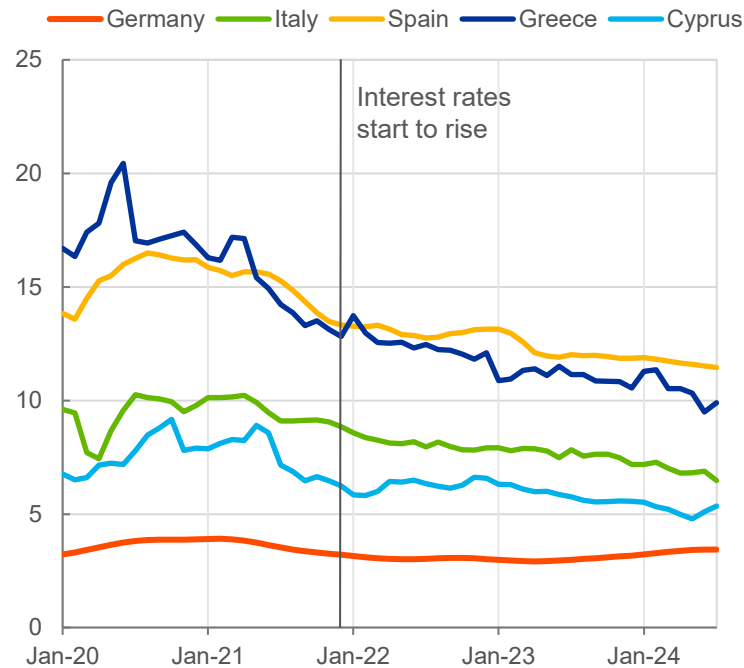
Net exports and improving labour markets have supported growth in the south

Net export contribution to real GDP growth (contribution to q-o-q growth)



Sources: Eurostat and ECB staff calculations.

Unemployment rate (percent)



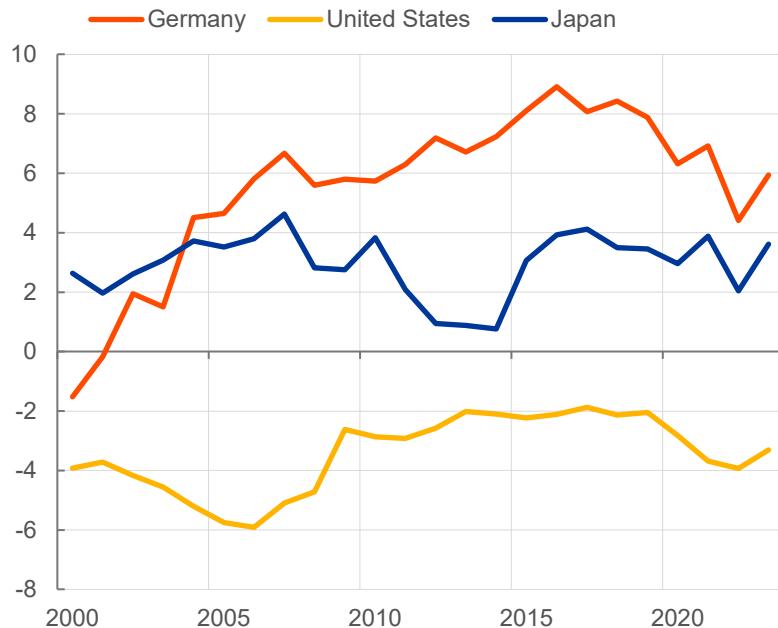
Source: ECB.

Notes: The vertical line indicates the rise in market interest rates starting in December 2021.

Latest observation July 2024.

Germany's export-led growth model is facing structural headwinds

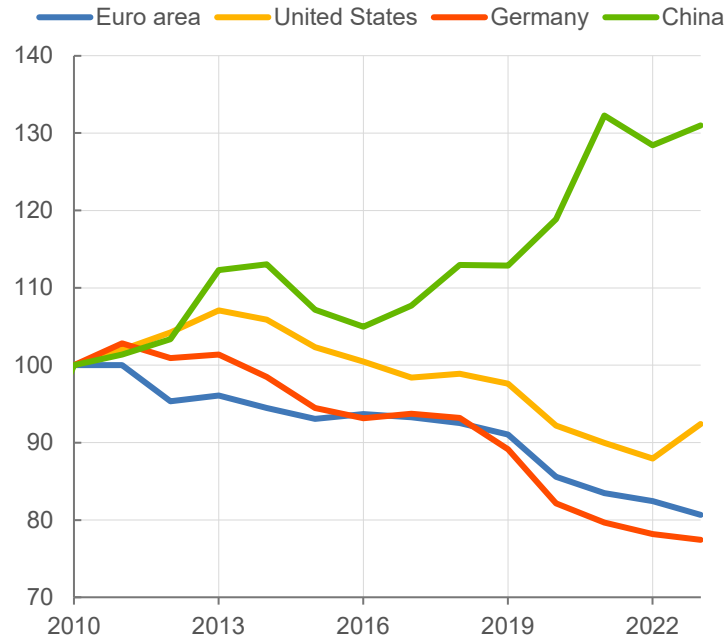
Current account balance (percentage of GDP)



Source: Haver Analytics.
Latest observation: 2023.

Global non-energy goods volumes export market shares

(index: 2010 = 100)



Sources: CPB, TDM and ECB staff calculations.

Notes: Long-run trends in export market shares in volume terms should be interpreted with caution. Euro area export volumes and world import volumes are not fully consistent, as each statistical office employs specific methodologies for deflating and outlier cleaning. These methodologies may differ in terms of outlier detection and replacement and quality adjustment. Based on this, the volumes (excluding energy) series used to compute the export market shares shown in the chart are calculated by taking CPB volumes (in 2005 chain linked billion euros) and subtracting the share of energy exports. This share of energy exports is based on TDM values and includes HS2 sectors 25, 26, 27, 97, 98, 99). Latest observation: 2023. www.ecb.europa.eu

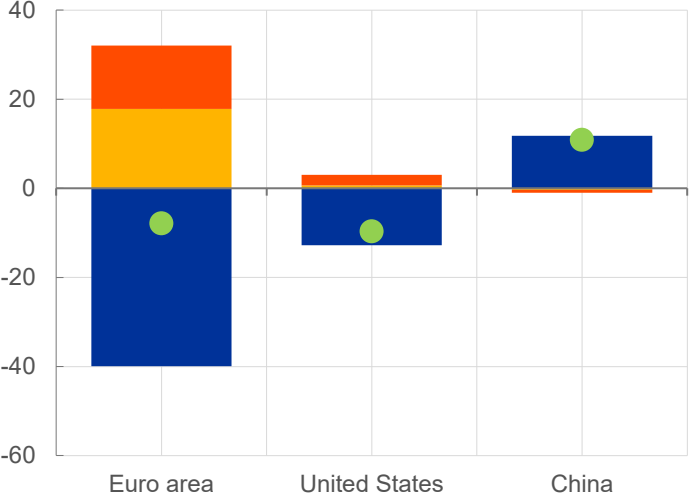
Strong demand from China long cushioned persistent losses in competitiveness

Euro area goods export market shares and contributions

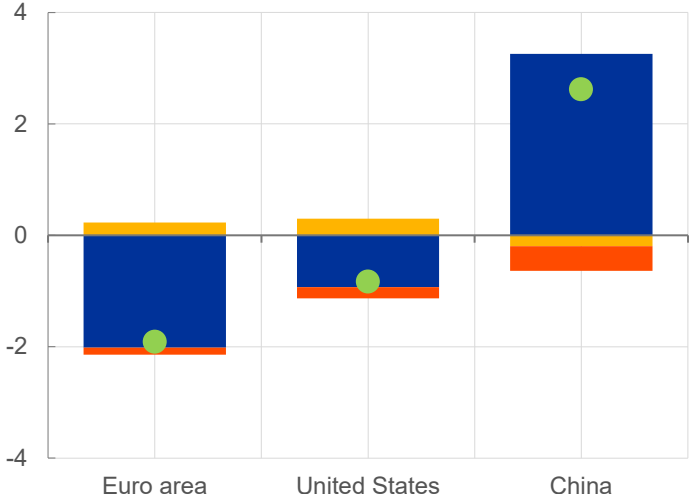
(percentage points)

- Performance effects
- Geographical effects
- Sectoral effects
- Total

a) 2001-19



b) 2019-23



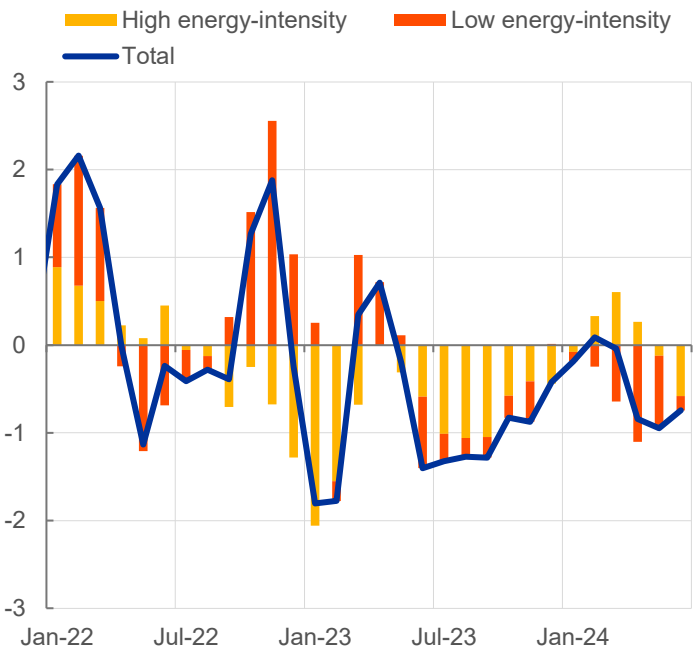
Sources: Trade Data Monitor and ECB staff calculations.

Notes: Figures are expressed in terms of percentage changes in market shares with respect to 2001 in the left-hand panel and with respect to 2019 in the right-hand panel. Market shares consider only the intensive margin and exclude energy and other specific and non-classified products (two-digit Harmonised System codes 25, 26, 27, 97, 98, 99).

Euro area has been losing export market shares as energy prices spiked

Contributions of sectors to euro area export growth by energy intensity

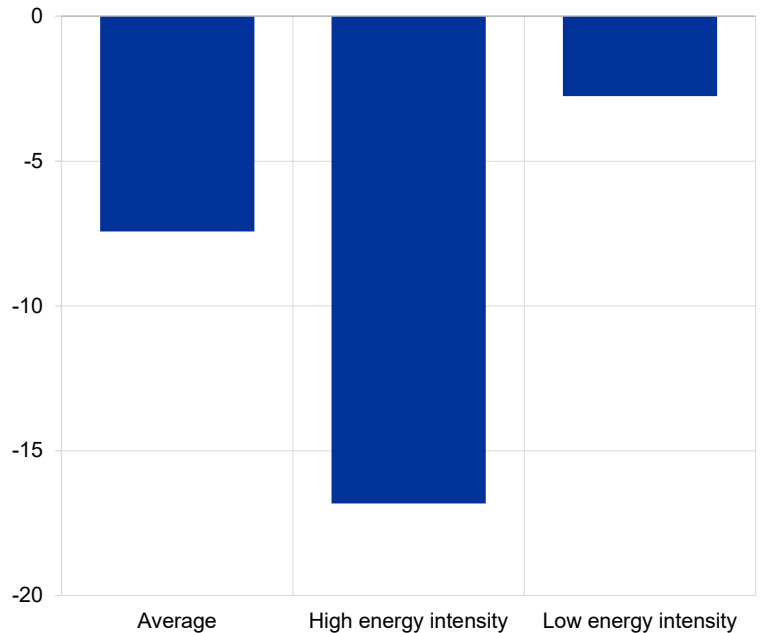
(3-month-on-3-month percent changes, pp contribution)



Sources: Eurostat and ECB staff calculations.
 Notes: Seasonally adjusted volume indices of manufactured goods exports. Low (high) energy-intensity sectors have energy intensity below (above) the median. Energy intensity is the share of energy (direct and indirect use) in total inputs.
 Latest observation: June 2024.

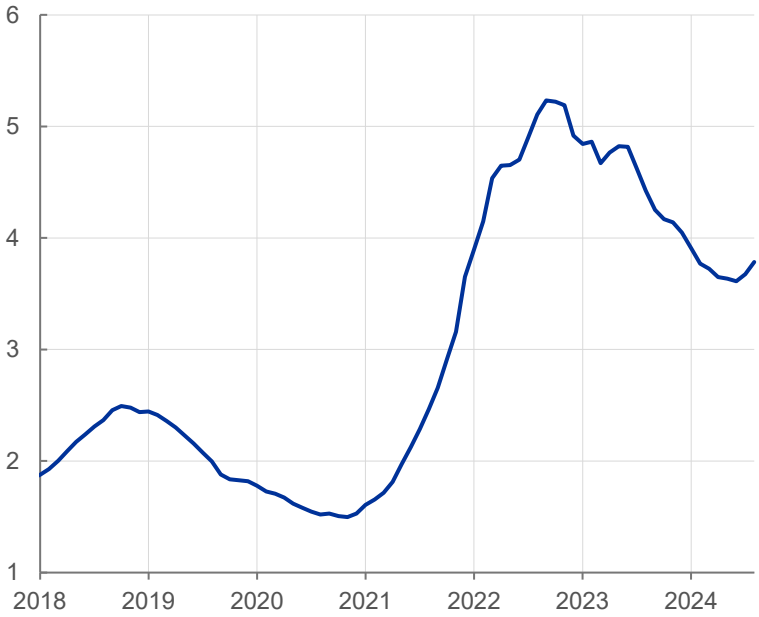
Impact of energy cost differential on export market shares

(percentages; at peak of gas crisis in 2022 Q3)



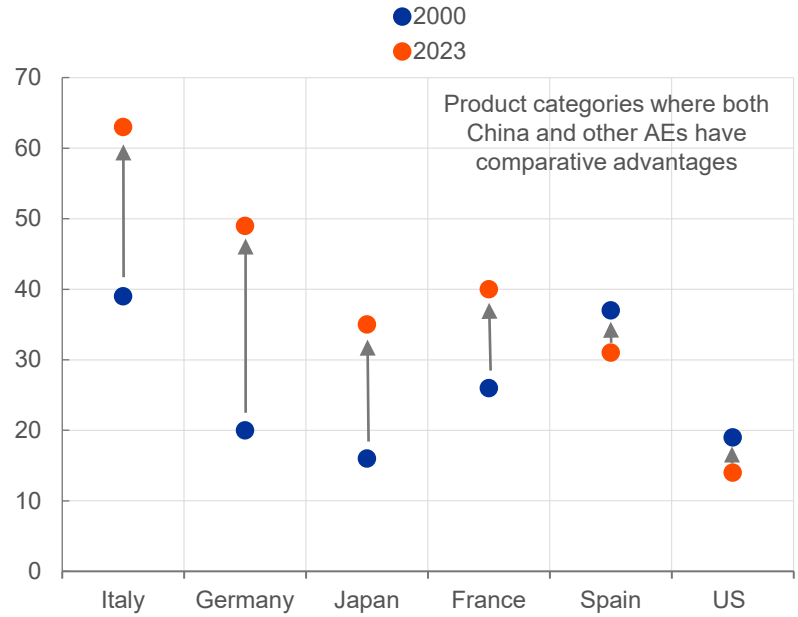
Sources: Trade Data Monitor, IMF, MRIO, TiVA, Mancini, M. et al. (2024) and ECB staff calculations.
 Notes: Changes in export market shares evaluated at the highest/lowest energy intensity.

Energy prices in the euro area relative to the United States (ratio)



Sources: Trade data monitor, IMF, ADB-MRIO and ECB staff calculations.
 Notes: The relative energy price (REP) is the weighted average of the relative natural gas price and relative oil prices in the euro area vs US where each component is respectively weighted by the share of gas and electricity and oil and coal in the energy mix for each industry-country pairs. Aggregation weights are the share of country-sector exports in total euro area exports.
 Latest observation: August 2024.

Number of product categories in which both China and other countries specialise

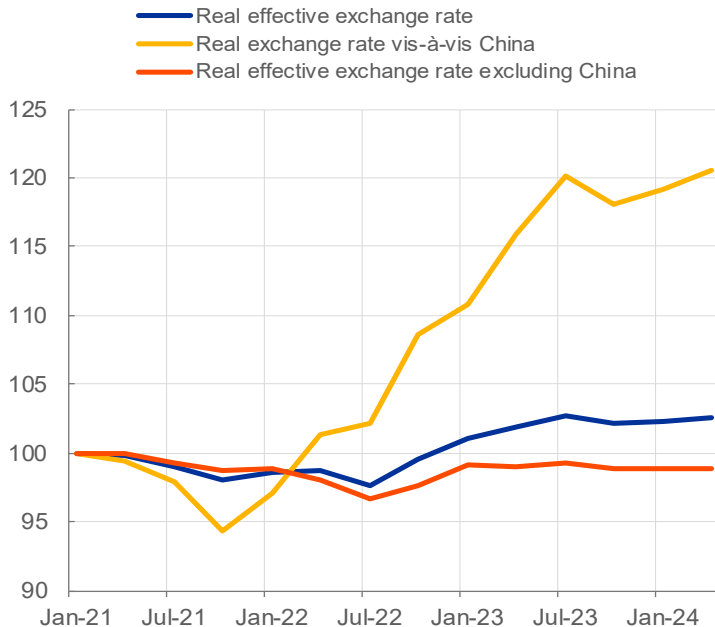


Source: UNCTAD and ECB staff calculations.
 Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as a whole. A country has comparative advantage if the value of this ratio is above 1. For instance, if Italy and China both specialise in the same specific product category, they are likely to directly compete for exports.
 Latest observation: 2023.

Loss of price competitiveness against China due to unfavourable producer prices

Euro real exchange rates

(index, 2021 Q1 = 100, increase = worsening price competitiveness)



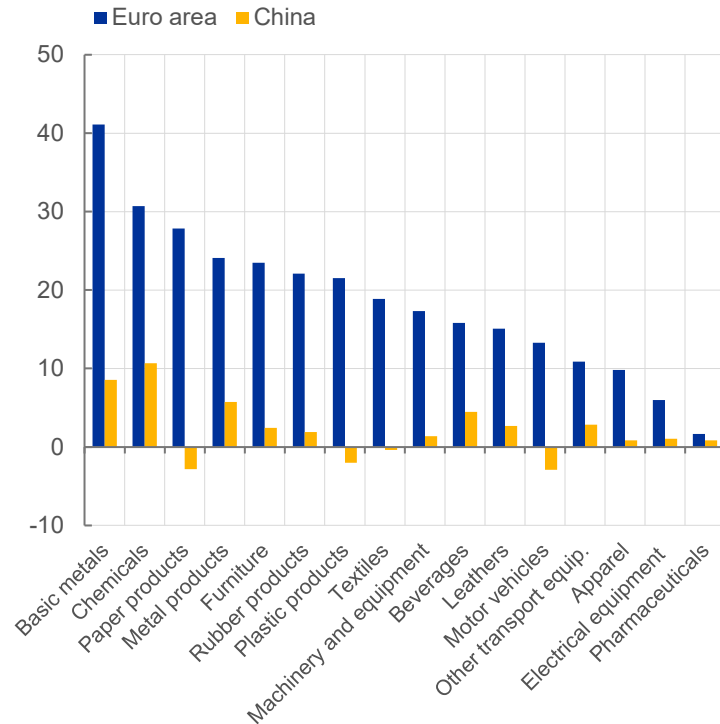
Source: ECB.

Notes: China's share in manufacturing trade is used as weight to exclude China from the real effective exchange rate.

Latest observation: 2024 Q2.

PPI by sector: 2019-2023

(cumulated percentage points)



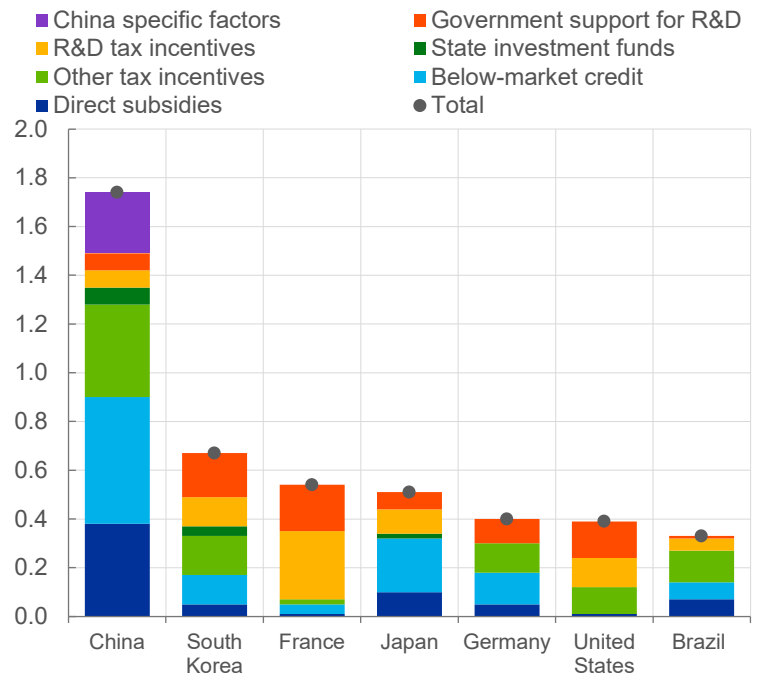
Sources: Eurostat, China National Bureau of Statistics and ECB staff calculations.

Notes: The chart displays the cumulated percentage change in sectoral PPIs over 2019-2023.

State subsidies in China distort competition, while overcapacities weigh on export prices

Industrial policy share in GDP

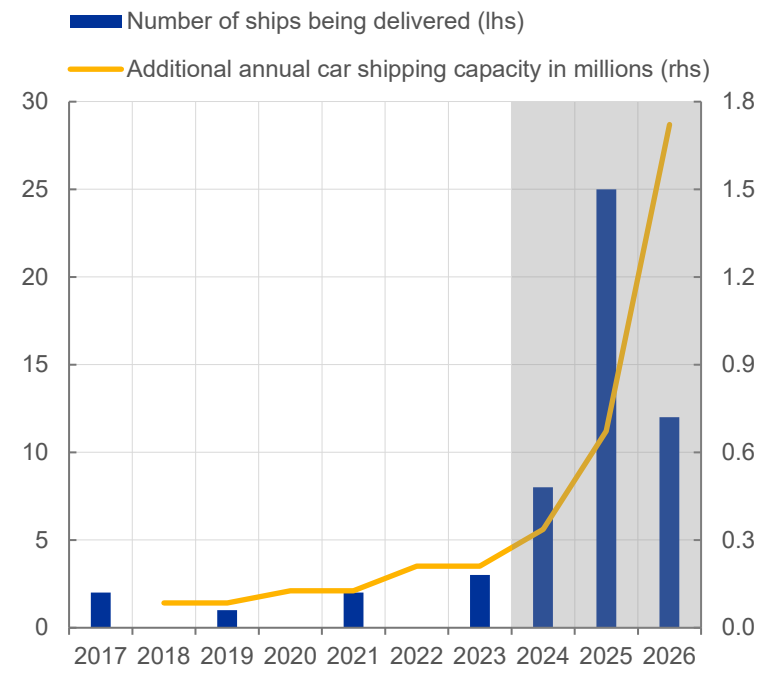
(percentage share and percentage point contributions)



Source: Center for Strategic and International Studies.
Notes: The estimates refer to 2019.

China's car shipping capacity plans

(lhs: number of ships, rhs: millions of cars)



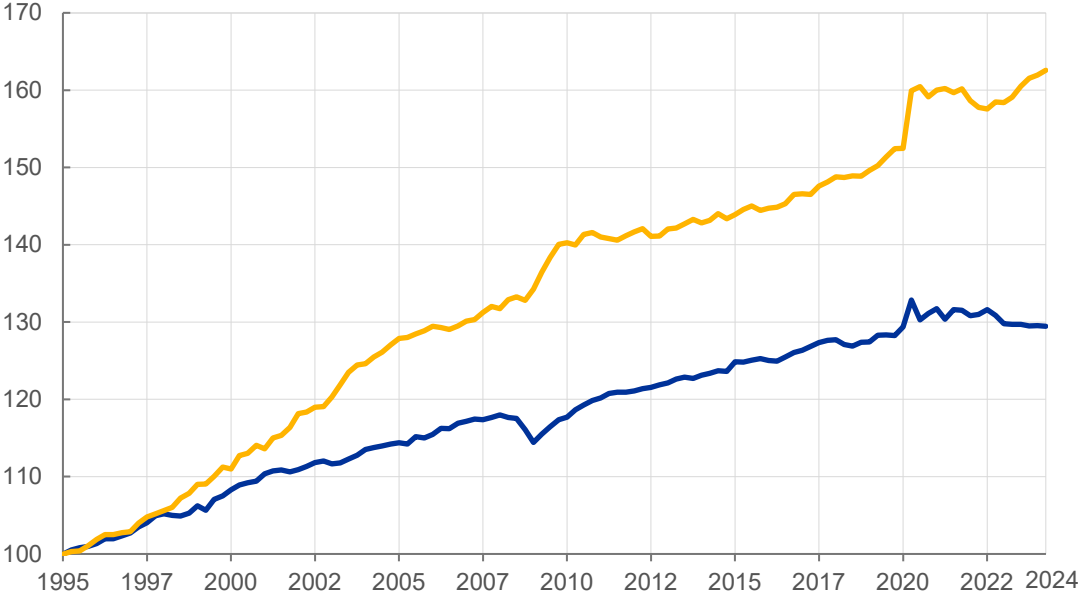
Sources: Rhodium and ECB staff calculations.
Notes: Based on the assumption that each ship can carry 7000 electric vehicles and that it can make 6 trips per year. Shaded area refers to car-carrying ships not yet delivered. It is assumed that ships can be used for shipping of cars a year after being delivered.

Europe has fallen behind as it failed to reap the benefits of the digital revolution

Productivity per hour worked

(index: Q1 1995 = 100)

— EA — US



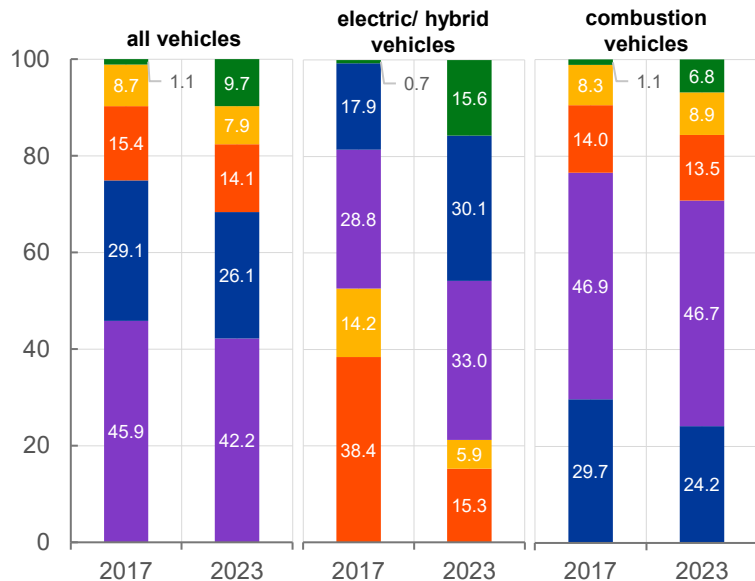
Sources: ECB and Haver Analytics.
Latest observation: Q2 2024.

Green innovation can be an engine of growth, especially for early movers

Global export market shares by motor vehicle segment

(share of values)

Rest of the world Euro area Japan United States China



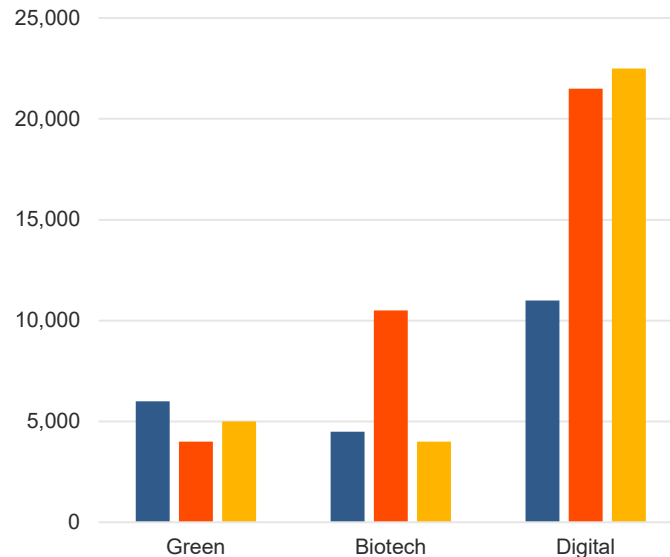
Sources: Trade Data Monitor and ECB staff calculations.

Note: Trade partners are ordered according to the percentage point gains in export market shares between 2017 and 2023. Regions with highest gains are shown on top. Export market share in values as units reporting.

Patents by technology domain

(number of patents issued in 2020)

EU US China

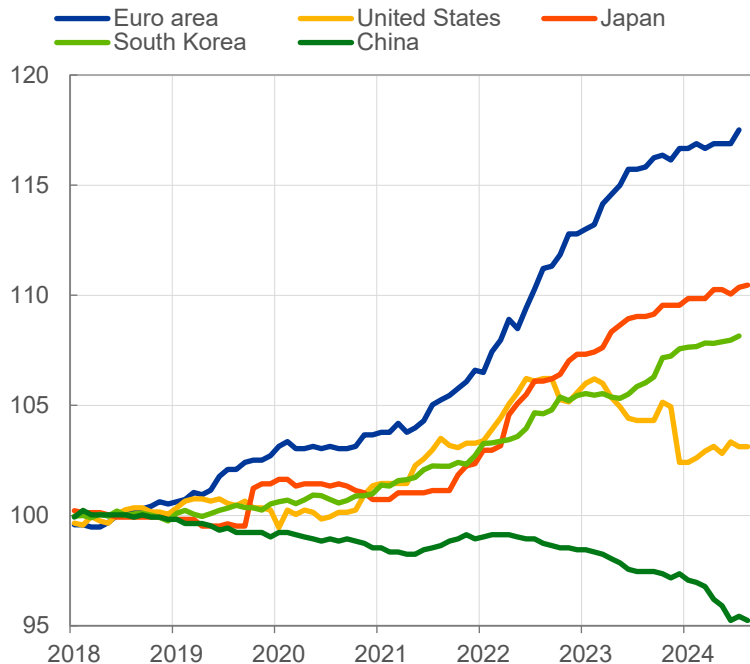


Sources: EU Industrial R&D Investment Scoreboard and Patstat.

Technological leadership allowed euro area firms to raise export prices measurably

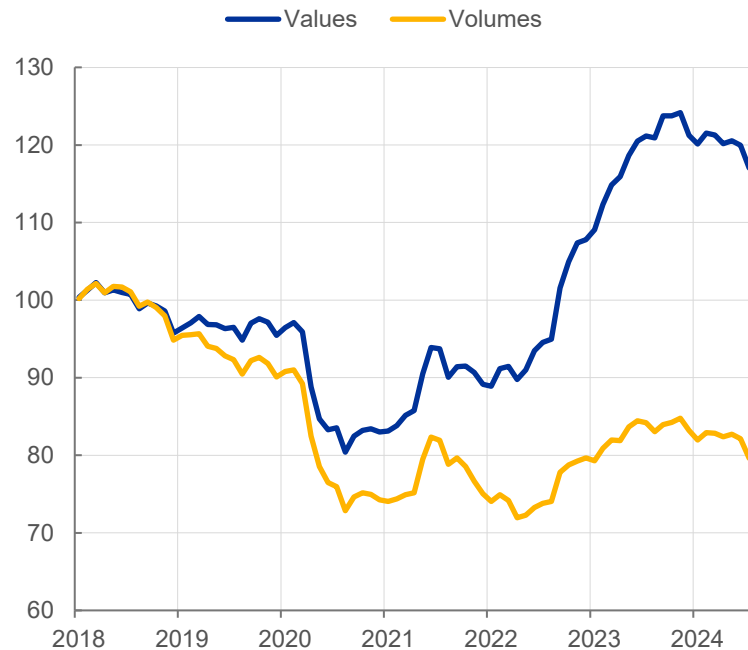
Producer price index: production of motor vehicles

(index: 2018 = 100)



Sources: Eurostat, national sources (Haver Analytics) and ECB staff calculations.
Latest observation: Euro area and South Korea: July 2024, others: August 2024.

Euro area exports of cars (12-month moving average; index: 2018 = 100)

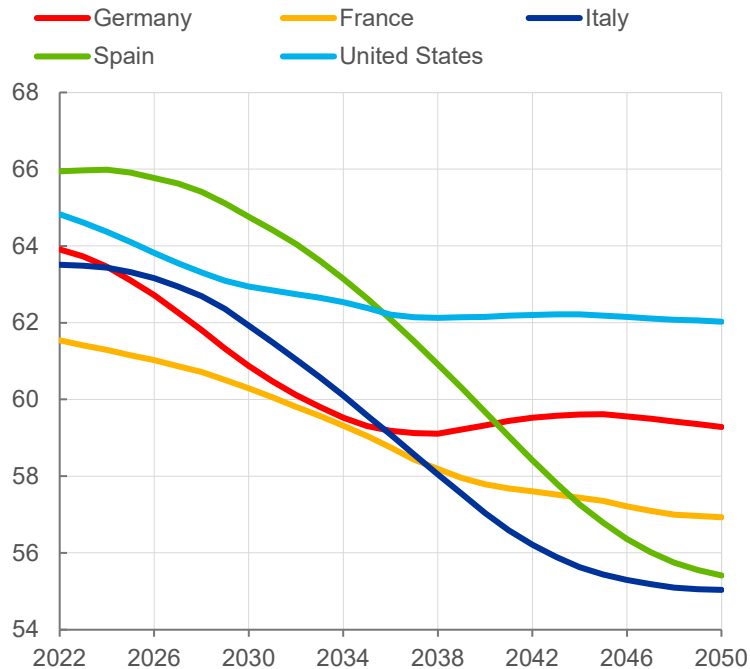


Sources: Trade Data Monitor and ECB staff calculations.
Latest observation: July 2024.

Measures to address labour scarcity are key to safeguard Europe's standard of living

Working-age population projections

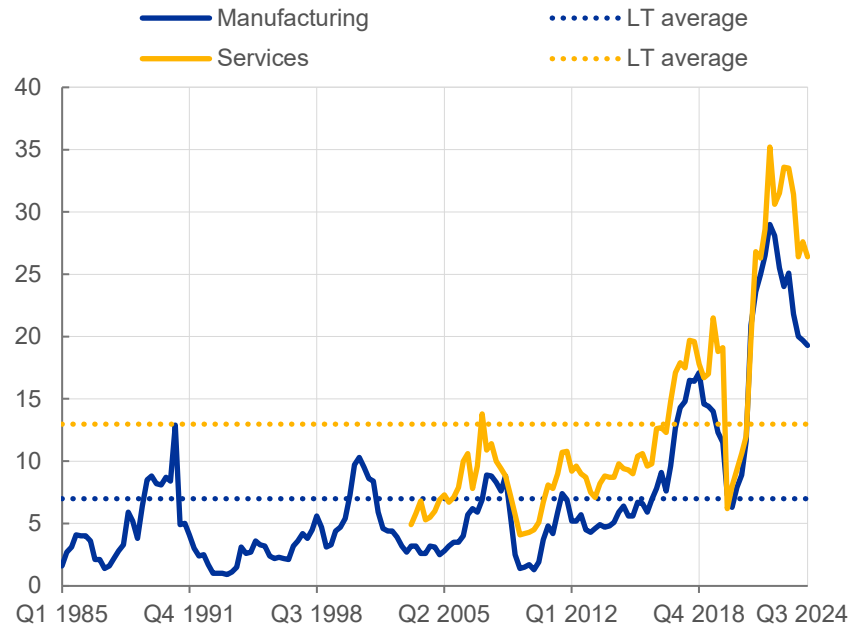
(as % of total population)



Sources: European Commission Europop 2023 and US Census Bureau.
 Notes: Baseline scenario. Projections start in 2022.
 Latest observation: 2050.

Labour as factor limiting business

(survey replies, percentage balances)



Sources: European Commission and ECB staff calculations.
 Latest observation: 2024 Q3.

Thank you very much for your attention!