SUOMEN PANKKI EUROJÄRJESTELMÄ
FINLANDS BANK EUROSYSTEMET

Inflation rate expected to stabilise at the target – Europe must find ways to increase productivity

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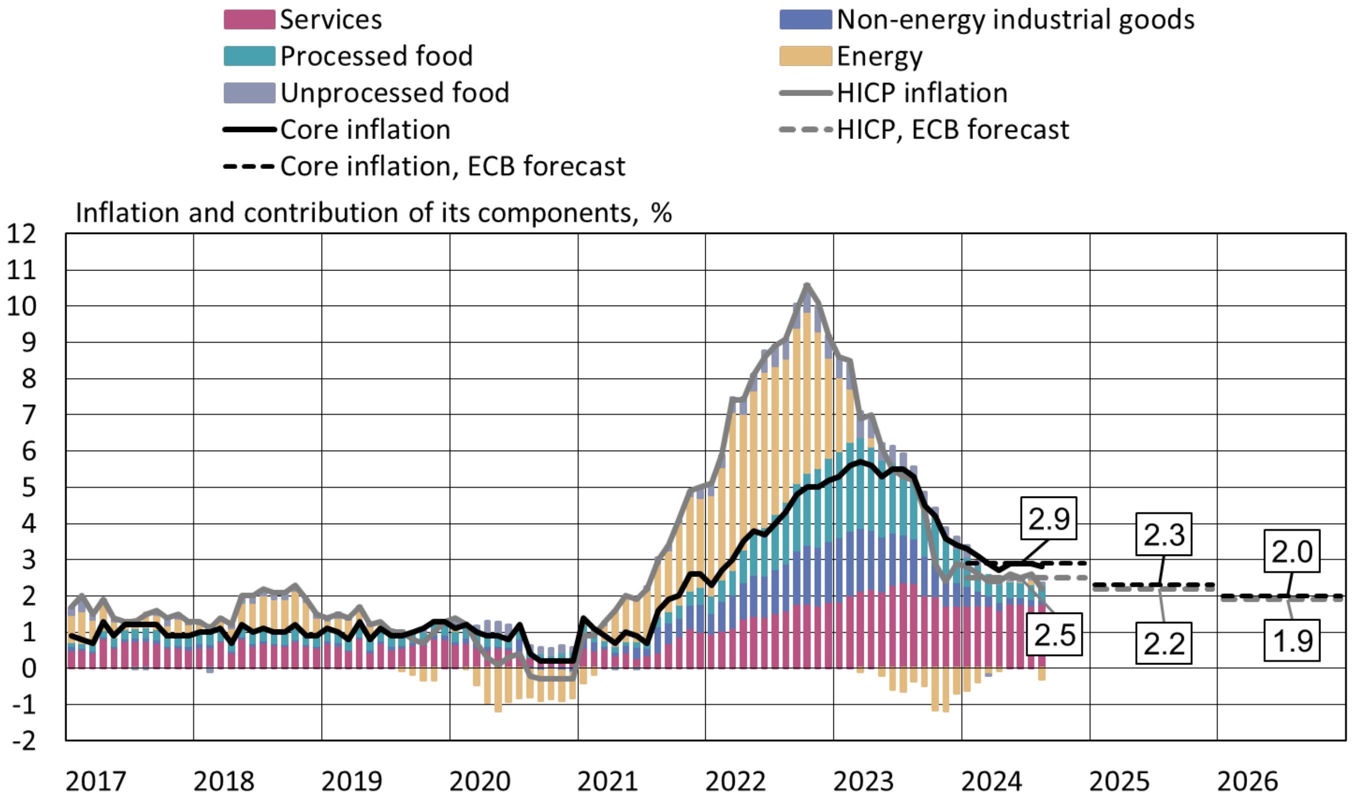
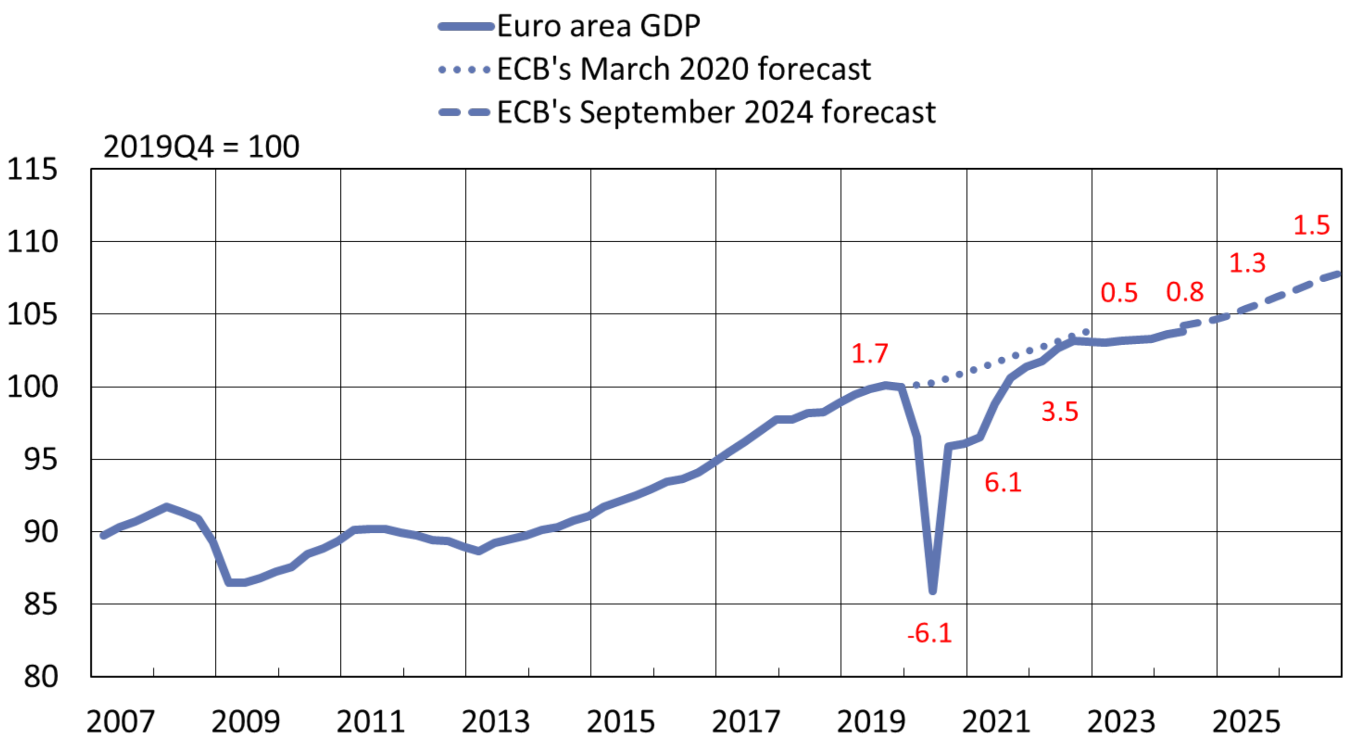
Euro area inflation is slowing towards the 2% target



Sources: Eurostat and ECB. 32426@YKHIkontrib(2)en_varit

- Inflation has continued to slow; the latest figure is 2.2% for August. Average 2.5% in 2024.
- The ECB made no change to its inflation projections for 2024–2026 in September.
- Wage and services inflation are still persistent: they are maintaining the risk that inflation will fall more slowly than expected.
- Inflation is still projected to stabilise at the 2% target during 2025.

GDP growth in the euro area is recovering gradually



Figures next to the curve are annual growth rates, %.
Sources: Eurostat and ECB.
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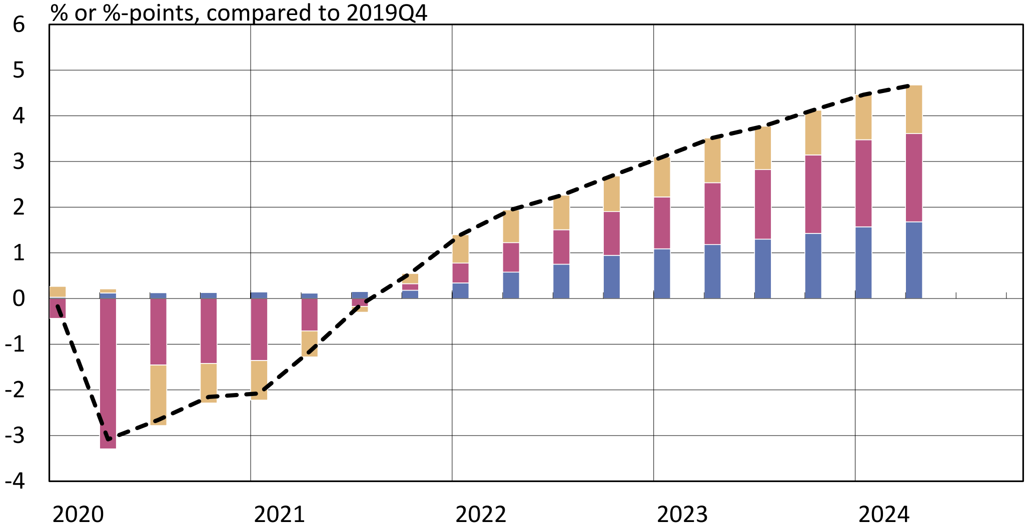
- The ECB revised downwards its projections for GDP growth in 2024–2026 by 0.1 percentage points for each year of the projection horizon, compared with the June projections.
- The risks to GDP growth are nevertheless still on the downside.
- The situation for euro area manufacturing, in particular, remains weak.

Euro area employment rate has risen in recent years



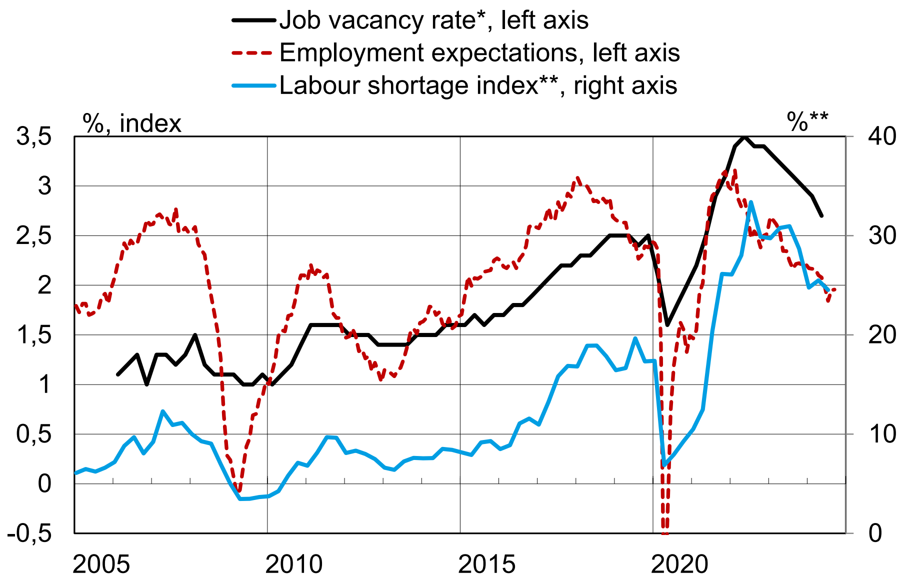
Numbers based on the Labour Force Survey and on population aged 15–74.
Source: Eurostat. 41591@Tyollkasv_tekijat_ETen

- The number of people employed in the euro area is about 7 million more than at the end of 2019
  - Population growth, particularly as a result of immigration
  - Labour market participation has increased
  - Unemployment rate has decreased

On the other hand, the average number of hours worked has decreased

  - Total hours worked have increased significantly less than the employment rate or the number of employed.

Labour market tightness is easing and wage growth is slowing gradually



Sources: Eurostat, European commission and BoF calculations.
*Business sector vacancies per all jobs and vacancies
**Percantage share (sectors GDP-weighted) of firms reporting shortage of labour force as a limiting factor of production.
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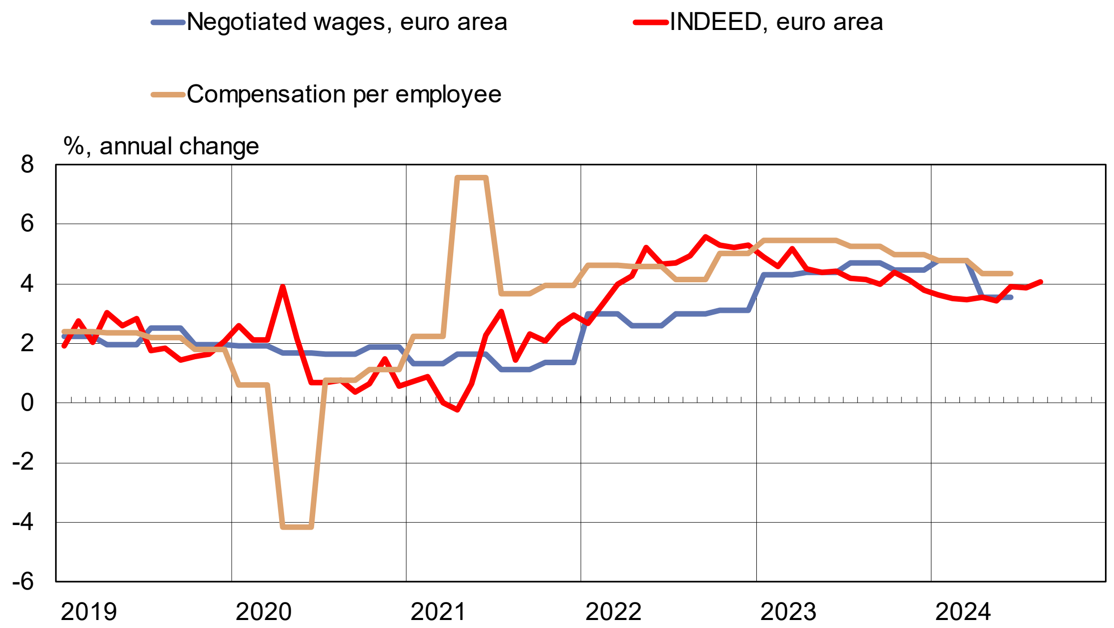

Sources: ECB ja INDEED.
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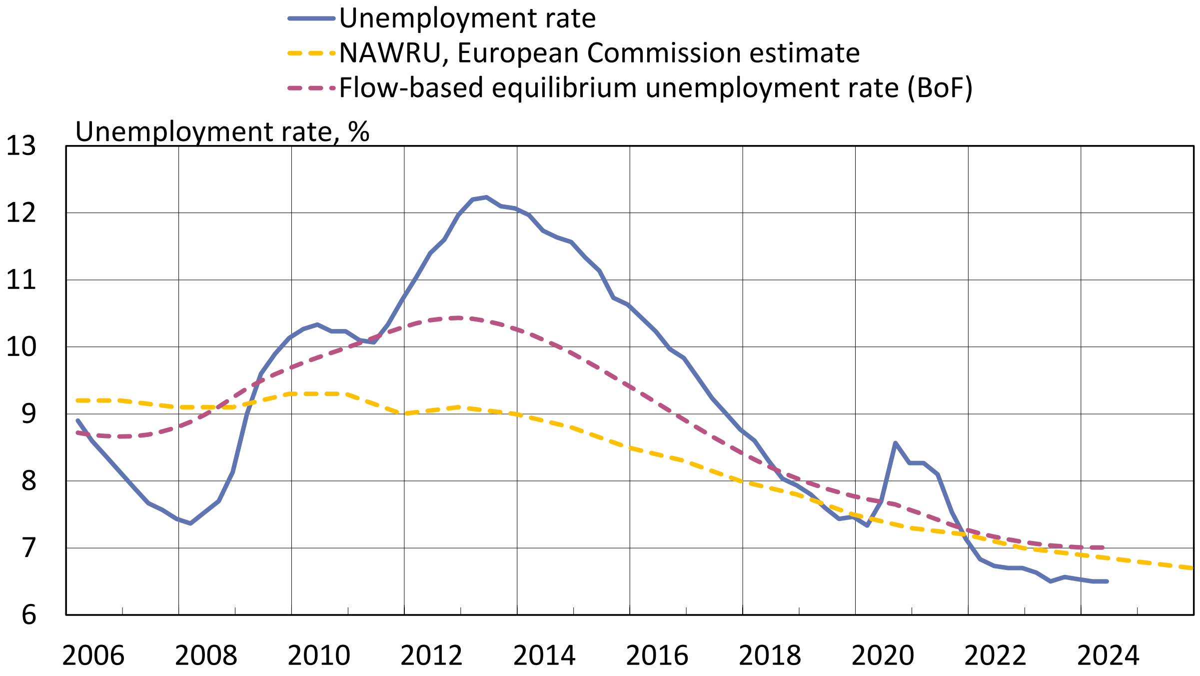
Decrease in euro area unemployment rate largely permanent according to indicators of structural unemployment

Equilibrium unemployment estimated to have decreased in the euro area



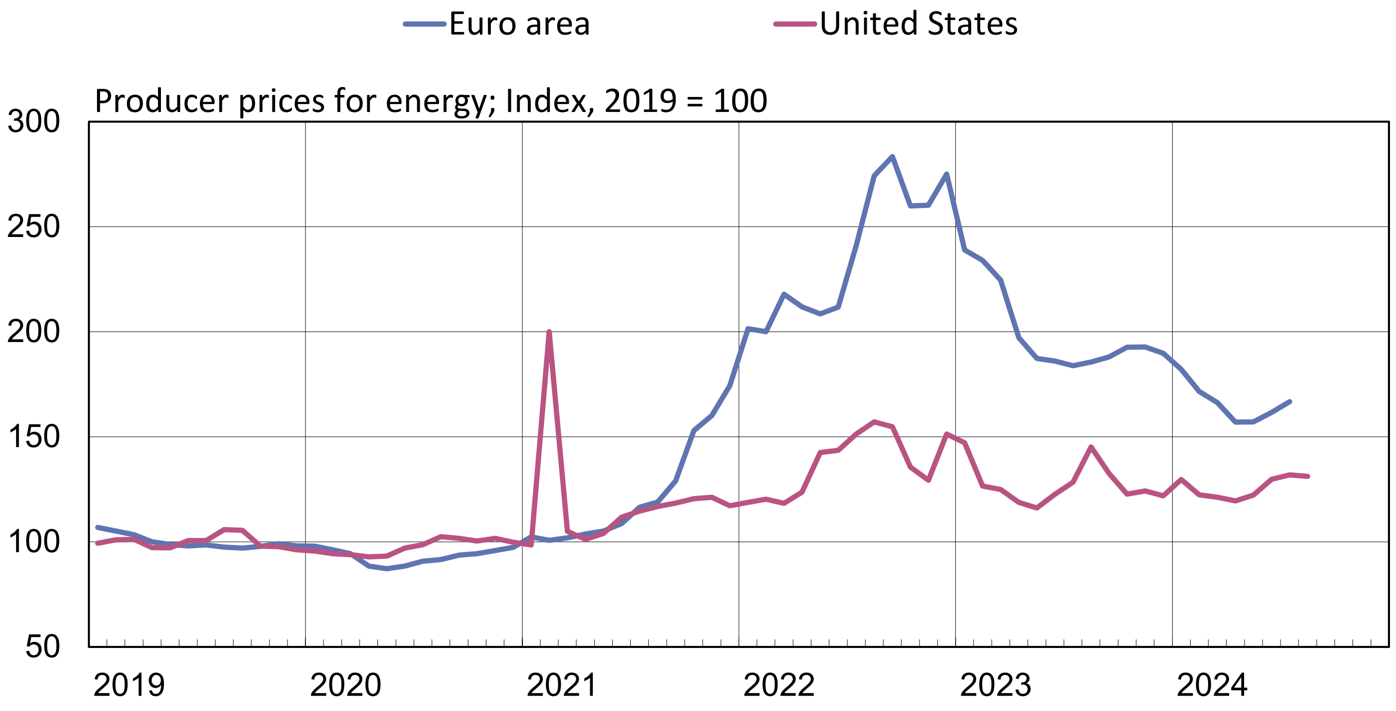
Sources: Eurostat, European Commission and BoF calculations. 32424@U6_ET24

- The unemployment rate has remained low despite the cooling of the labour market.
- This is due to the persistently strong demand for labour.

Monetary policy has been relatively successful in bringing inflation down

- Interest rate increases have kept inflation expectations anchored to the 2% target level.
- The ECB Governing Council has lowered the policy interest rate twice: in June and September 2024. The deposit facility rate now stands at 3.5%.
- The Governing Council’s decisions ensure that inflation will stabilise at the 2% medium-term target in a timely manner.
- At the same time, a recession has been avoided and employment has continued to grow despite interest rate increases.

Energy costs continue to weigh on euro area manufacturing and erode its competitiveness



Sources: Eurostat and BLS.

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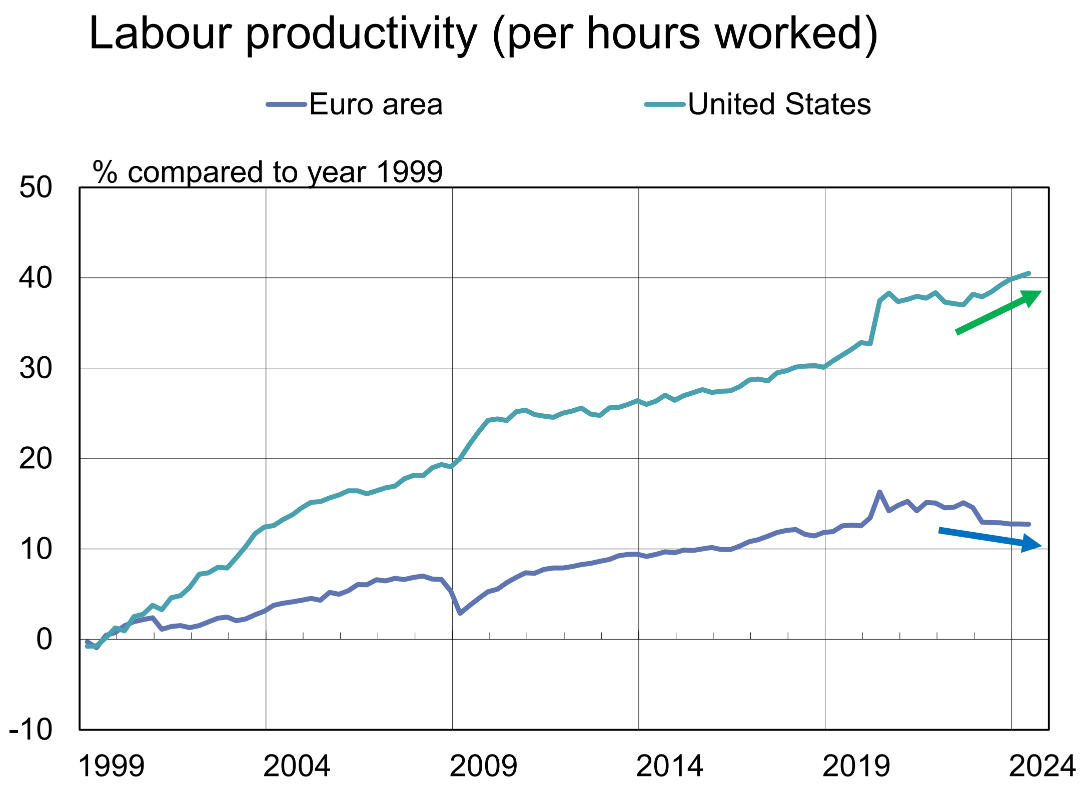
Euro area labour productivity growth has long lagged behind that in the United States – the gap has widened further in recent years



Sources: BLS, BEA, Eurostat and BoF calculations.
*Log-percentage change 32429@TuottQ_EA-USA_log_en

Europe must find ways to increase productivity

- Population is ageing, green investments require funding, public debts and deficits are large, and defence spending needs to be raised
- This calls for a strong, unified response from the EU-> The Draghi report
  - Closing the innovation gap with the United States by reshaping the entire innovation lifecycle and improving educational attainment in Europe
  - Linking Europe's ambitious climate goals with competitiveness of manufacturing
  - Enhancing security and reducing critical dependencies
- The report is a necessary wake-up call to all Europeans and a brutally honest diagnosis of the reasons for low growth and weak competitiveness in Europe.
- By ensuring price stability, monetary policy can best support sustainable growth and the investment needed for increasing productivity.

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Vakauden puolesta,
tutkitun tiedon pohjalta.