EUROPEAN CENTRAL BANK
EUROSYSTEM

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Summary of the Non-Financial Business Sector Dialogue on 30 November 2022 in Frankfurt am Main via video conference

Participants

- Members of the Governing Council of the ECB or their alternates
- Representatives of Acerinox S.A., BASF, Benetton Group Srl, Borealis AG, Buzzi Unicem SpA., C&A Mode GmbH & Co. KG, Cellnex Telecom, Doka GmbH, E.ON SE , ebm-papst Mulfingen GmbH & Co. KG, Engel & Völkers GmbH, , Ferrovial S.A., Ford Motor Company, GEA Group AG, Inditex S.A., Logwin AG, Mango, Max Mara S.r.l., Mercedes-Benz Group AG, Nestlé S.A., NXP Semiconductors Netherlands N.V., RIU Hotels & Resorts, Robert Bosch GmbH, Royal FrieslandCampina, Securitas AB, Swarovski Group AG, The Adecco Group, TUI Group, Unilever, UPM-Kymmene Corporation, Vodafone Group plc, Volkswagen AG, Volvo Group, Vonovia SE, Wienerberger AG
- Senior ECB officials from the Directorate General Economics, Directorate General Monetary Policy, Directorate General Communications and Directorate General Secretariat, as well as from the Counsel to the Executive Board, and the ECB's Chief Compliance and Governance Officer

The ECB's President welcomed representatives of the participating companies and recalled the nature of the Non-Financial Business Sector Dialogue, saying it was a forum that enabled the ECB and non-financial companies to interact at the highest level. The forum's objective was to give the ECB an insight into the business sector's views on the economic situation and thereby deepen its understanding of economic developments and issues relevant to policymakers. In line with established practice, the agenda, list of participating companies and summary minutes would be published on the ECB's website.

Outlook for the euro area economy

The discussion focused mainly on the following issues: (i) the outlook for business activity and employment over the next year, (ii) the pass through of recent increases in energy prices and other cost pressures to final producer and consumer prices, (iii) the outlook for wage growth and its implications for future price developments and (iv) the impact of tighter financing conditions on activity and investment.

The participating companies generally saw the outlook for economic activity over the next year to be very challenging albeit with quite some variation across sectors. The effect of the present high inflation on final consumer demand was already evident in the form of reduced demand for many consumer goods. The effect of this on overall industrial activity was, however, so far offset to some extent by the existence of still long order backlogs in the wake of the supply disruption induced by the Covid-19 pandemic. Some companies therefore expected a rather flattish level of activity in 2023, but with constraints on activity shifting from the supply side to the demand side and production smoothed thanks to the long order books. In the automotive sector, contrary to what normally happened during a downturn, demand for passenger vehicles was falling faster than demand for commercial vehicles, which was proving more resilient. For the hospitality sector, recent trends pointed to households prioritising holidays over other spending. It was also evident that both households and businesses were making significant cuts in their energy consumption. This, together with the recent mild weather and increase in gas storage levels, greatly reduced the risk of energy supply disruption during the coming winter, although the outlook for the subsequent winter was more uncertain. Nonetheless, given current very high energy prices, the outlook for energy-intensive industries was very challenging.

The labour market was proving to be more resilient than would typically be the case in a downturn. Firms were cautious about laying-off staff as they still faced talent shortages and labour scarcity in many areas. Absenteeism was also flagged as a problem in some countries. The pandemic seemed to have induced a lingering change in the labour market.

Turning to input costs and their pass through to selling prices, many participants said that their companies had largely or fully passed rising costs on to customers. In most cases, margins had been maintained either in relative or in absolute terms. However, the degree of pass-through tended to be lower in consumer facing sectors (and particularly in the food industry) where margins were squeezed. Some participants still expected strong cost and price increases in 2023, while others saw the pace of increase slowing in the presence of weaker demand. Food inflation was expected to remain close to current highs for several more months due to rising costs coming not only from energy but also packaging and climate-change-related harvest failures. Significant investments related to de-globalisation and de-carbonisation also increased medium-term cost and price pressures. Increasing liquidity constraints could reduce time-lags between cost and price increases. At the same time, it remained important to distinguish between the essentially transitory nature of the energy price increase and the more permanent nature of wage increases.

There was much focus on recent developments in – and the outlook for – wage growth. The need to compensate employees for inflation and talent shortages were the two main factors driving wage inflation. While a year ago, wage inflation had been much stronger outside Europe than inside Europe, this was no longer the case. Many participants now referred to recent increases and/or expectations for wage growth next year being in the mid-to upper single-digit range and in a few cases even in double digits (reflecting, for example, the influence of large minimum wage increase in some countries). A responsible balance had to be achieved that helped employees confront the increased cost of living but without creating a wage-price spiral. Some participants more exposed to the energy shock said that their companies were contemplating layoffs, while some others were looking to technology and digitalisation to constrain labour costs.

Those participants that commented on the impact of tightening financial conditions emphasised the indirect impact in terms of rising financing costs for consumers, the increased cost of financing working capital and the fact that the immediate impact was often limited due to high shares of fixed-rate debt.

Several participants flagged structural and/or regulatory challenges faced by their industries. In this context, the US Inflation Reduction Act was cited as an example of regulation making business easier abroad and this was contrasted with the greater complexity of overlapping national regulation in Europe. The energy and telecommunications sectors were highlighted as examples of sectors where a more pan-European regulatory approach was needed to ensure, respectively, a level-playing field and a sufficiently deep and integrated market. Another concern was the competitive disadvantage of Europe relative not only to Asia but also the US in view of the current energy price differential. The agri-food sector was also cited as needing reform geared towards more sustainable practices.