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Concluding remarks

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Concluding remarks for the 49th OeNB Economics Conference and the 35th SUERF Colloquium

Ladies and Gentlemen!

I have been asked to give the closing remarks to the 49th OeNB Economics Conference and the 35th SUERF Colloquium on "The return of inflation," and I am honored to do so.

Let me start by thanking the speakers and panelists. Thank you all for your insightful presentations, stimulating discussions and great contributions, which gave us a lot to think about and allowed us to reflect on the many facets of the very pressing topic of inflation.

A big 'thank you' also to you, ladies and gentlemen, the participants of this conference, those who came to Vienna and joined us here at the Oesterreichische Nationalbank, and also those who participated online, from as many as different 56 countries. Yesterday I was told that we had over 900 participants, which bears witness not only to the resonance of this successful conference series but also to the relevance of this year's topic.

It is my great pleasure to summarize some of the outcomes of the joint event hosted by the OeNB and SUERF, and to remind you of some of the highlights of this great journey that we have taken together during the last two days, in our 'meeting of minds'.

We started our journey with yesterday's keynote session on inflation expectations and policy panel, where economists and (monetary) policymakers told us about their experiences and shared their views on the challenges they are currently facing on so many fronts.

This (monetary) policy side was complemented by two academic sessions, where distinguished scholars presented their current research, shedding light on recent advances in forecasting and modelling inflation, on what microdata can tell us about inflation dynamics, and on the role and importance of inflation expectations.

Together, we touched upon many important and interesting aspects of inflation. I personally find it reassuring that inflation and price stability have not only been on top of the agenda of central banks and policymakers but have also resurfaced as topics of broad academic interest.

We certainly need to look at these issues from many different angles in order to make informed decisions!

Allow me to highlight – as an example of our many highly specialized talking points – the research network PRISMA, which presents itself as a blueprint for future cross-border multi-country collaboration within the ESCB. This network's final report will soon be published, and I highly recommend reading it. In fact, I myself am looking forward to reading it!

Now, the theme of our conference – "The return of inflation" – certainly couldn't have been more on point. Let me recapitulate what we learned from the lessons of history in the Marjolin lecture and how we analyzed and described our current situation in today's sessions.

Starting in 2021, inflation rates began to soar all over the globe. In many countries – including in Austria – inflation has risen to its highest level in 40 years. Latest projections suggest that inflation is bound to remain high also in the months to come. In its April 2022 World Economic Outlook, the IMF expects average annual inflation to come to 5.7% in 2022 in advanced economies (2.5% in 2023) and to 8.7% in emerging and developing economies (6.5% in 2023). For the euro area, the European Commission's Spring Forecast for 2022 predicts that inflation will reach 6.1% this year (2.7% in 2023), which is more than twice as high as in 2021.

When looking for the root causes of these developments, we found that energy has played a major role in kick-starting the current surge in inflation rates. We have also seen that the underlying causes for the current increase in prices are complex and broad-based. There are indeed many, many factors that squeeze consumers' pockets!

Pent-up demand amid supply bottlenecks is one such factor, as it translates into unusually high inflation rates for consumer durables, like cars or furniture. The Russian invasion of Ukraine has caused major disruptions in the food industry, and especially drove up already above-average price rates for wheat. And, last but not least, we are witnessing some of the fallout from the COVID-19 pandemic. For example, in the services industry, restricted capacities, strict hygiene measures and higher input costs will continue to increase price pressures.

Now, given these basic facts, what are the conundrums of our current situation? What are the major takeaways from our discussions?

Food and energy prices, for example, tend to be highly volatile even in the absence of a global pandemic or war. So, what are the prospects here, given that inflation of food and energy prices have risen to levels not seen in decades? Some of the price pressures are expected to lessen over the coming years as supply bottlenecks ease. Oil and gas price futures also hold promise for some relaxation on energy markets. However, there is no reason to believe that all the current price pressures will disappear in the near future.

We therefore must conclude that we have left the recent period of persistently low inflation rates – which posed major challenges for the euro area's monetary policy before the pandemic, anyway. Instead, we have entered a new phase, in which we are facing a new challenge: Most social, economic and geopolitical trends suggest that inflation is here to stay, at least for the coming months.

Since we are in this 'new period of inflation,' we have also tried to outline what other factors will determine our path forward. First of all, a swift transition toward greener energy and away from (Russian) fossil fuels will keep up the pressure on energy consumer prices for the years to come. Similarly, global warming with its adverse effects on agricultural production will cause food prices to remain highly volatile.

Sadly, an end to the war in Ukraine does not seem imminent, which – apart from the unimaginable suffering and human loss – further increases the threat to world food security and will keep the prices for certain food products high.

Second, in response to disruptions of global value chains caused by the pandemic and to the war in Ukraine, we see a reorientation toward domestic or regional production, which has sparked a trend toward deglobalization (think about e.g. the European Chips Act).

On the one hand, this should foster resilience and secure production in times of crisis, but on the other hand, it hampers specialization and diminishes returns from trade, which again leads to higher production costs. As a result, some companies may have to put up with lower profit margins, whereas other firms will pass their higher production costs on to consumers.

While climate change and deglobalization are key factors, they are not the only challenges that may threaten price stability.

Even though labor markets have largely recovered from the pandemic and unemployment has returned to, or – in some countries – has even fallen below, pre-crisis levels, some lines of business are beginning to see a shortage of skilled labor, with many firms being unable to fill job openings. In the face of ageing populations and ongoing demographic changes, skills mismatches in the labor market are also very likely to become more pressing over the next few years, strengthening the bargaining power of employees. We are therefore likely to see a push for higher wage increases.

What are our next steps going to look like? What is our best advice?

Given the fact that policymakers and forecasters, who saw what was coming and who correctly predicted the current inflation surge, are few and far between, many of us are asking: What can we do to be more prepared in the future?

Our models and analyses will need to be adjusted. In particular, we will need to include non-linearities and give more room to expert judgement, the latter being particularly helpful in the face of large shocks.

Generally, we should be more open-minded when detecting possible threats to the baseline scenario.

During times of high uncertainty, we will also need to pay close attention to tail risks. In view of multiple indeterminate factors, such as the uncertain duration of the war in Ukraine, potential new outbreaks of the pandemic, causing persistent supply bottlenecks, and the transition toward greener energies, tail risks should be thoroughly analyzed and assessed. Because even though they seem highly unlikely to occur, the potential economic costs of mismanaging them would be huge.

The lessons learned from the 1970s clearly tell us that we must not allow inflation expectations to become de-anchored.

At the current juncture, with looming signs of an economic slowdown in the wake of the ongoing war in Ukraine, this certainly poses a tremendous challenge for monetary policymakers. We should therefore seek to counteract any risks of de-anchoring by clearly communicating and swiftly normalizing monetary policy and by taking appropriate measures to curb inflation thereafter.

In order to achieve that, it is vital that central banks act independently, without pressures from the political sphere.

Wage bargaining parties also bear a large responsibility when it comes to inflation expectations being at risk of becoming de-anchored. While in case of a supply shock, policymakers can do little to prevent a rise in inflation, moderate wage settlements are a prerequisite for containing second-round effects and preventing the adverse effects of a price-wage spiral.

We also learned from a presentation today that inflation does not impact everyone the same way. It is in particular vulnerable households that bear the brunt of high inflation.

While central bankers are closely analyzing the distributional effects of their actions, adequate fiscal and social policies will be required to compensate these households for their losses. In our current situation of unprecedented adverse supply and demand shocks, policymakers are especially called upon to ease some of the damaging consequences these shocks might otherwise have for those who are the most affected.

Ladies and gentlemen, I would like to thank all the session chairs, presenters and panelists for their excellent contributions. Let me also close with a big thank you to the organizers of this great conference. First and foremost, I would like to thank Mr. Ernest Gnan and his team from our Monetary Policy Section; Mr. Martin Summer from our Research Section; Ms. Dragana Popovic from SUERF; our Eventmanagement Team here at the OeNB, led by Ms. Susanne Drusany, but also including Teresa Deubl, Nicole Fruhmann, Katharina Eigenthaler and Carina Rotheneder; Special thanks also to Mr. Thomas Gehringer, our in-house technician, and his colleagues, who took excellent care of all the technical details; and, last but not least, all of you, who participated online or who attended the conference in person here at the premises of the Oesterreichische Nationalbank. Your interest in our debates and your wonderful contributions, have made this conference a huge success.

The biggest success – of course – would be if our conference served as yet another small contribution to, and yet another stepping-stone in, our joint efforts to bring inflation back in line with central banks' price stability target. So, let's hope that the next time we meet to discuss inflation, it will be in retrospect.

For all of you who came to Vienna to join us here at the Oesterreichische Nationalbank, have a safe journey home. Thank you and good-bye to all of you!