ECB: A happy family again

The minutes of the December meeting try to paint a picture of an ECB in cosy togetherness, having come to terms with past disagreements. Wait-and-see seems to be the preferred option for 2020

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Remember the open differences of opinion between ECB members in the late summer of 2019? Just a couple of months after the September decision, and with a new president, the ECB seems to have come to terms with the recent past. At least this is what the minutes of the December meeting, the first one with Christine Lagarde as president, suggest. The December meeting was a confirmation of the status quo and did not hint at any upcoming policy changes. The just-released minutes do the same.

Here are the most important takeaways from the minutes:

- At the December press conference, Lagarde had already communicated subtle changes to the ECB's macro-economic assessment. These changes were also reflected in the minutes. The ECB sees tentative signs of stabilisation in the manufacturing sector and very little spillover to the rest of the economy. In general, the ECB is sticking to its view of a moderate recovery "later on", while the growth outlook "remained muted in the near term". Reason enough to label the risks to the economic outlook as still tilted to the downside but "somewhat less pronounced".

- As regards inflation, the ECB acknowledged “some indications of a mild increase” in measures of underlying inflation. Interestingly, the minutes explicitly mention the fact that housing-related costs are not sufficiently incorporated in the current HICP measure, an issue which will definitely be pursued in the strategy review. Here, the minutes state: “Moreover, as HICP inflation only partially reflected changes in housing-related costs, inflation measures would likely be higher currently if the cost of owner-occupied housing was accounted for.”
- Regarding the current monetary policy stance, the minutes show broad agreement to stick to the current position, a reconfirmation of the September decision. This view is nicely formulated in the minutes with:
  - *"The present monetary policy stimulus appeared fully appropriate, lending substantial support to growth and inflation developments. While vigilance on the efficacy of the policy measures and the appropriateness of the monetary policy stance was called for, it was highlighted that the measures should be given time to exert their full impact on the euro area economy."*
- The only caveat to the current stance was made in the reference to possible side effects of the present measures.
- Maybe a bit of a disappointment for market participants, but according to the minutes the ECB did not discuss any details of the upcoming strategy review. So, we will never know whether Christine Lagarde’s comments on the review, leaving no stone unturned, during the press conference was her personal view or that of the ECB’s Governing Council. The minutes only say that “it was also suggested that some broad guidance be communicated about the forthcoming strategy review, including the likely timeline, although it was generally seen as advisable to refrain from public discussions on the strategy prior to the envisaged launch of the review by the Governing Council early in 2020”.

Doing nothing as preferred option

The minutes of the ECB December meeting suggest that the central bank has returned to harmony or, at least, is trying to keep controversies behind closed doors. Looking forward, the strategy review could be the most excitement we will get from the ECB this year. It increasingly looks as if the ECB will stay on hold throughout the entire year. As long as the eurozone economy moves rather horizontally and some governments start to step up fiscal stimulus, there will be no need to alter the monetary policy stance. It would require either a significant growth rebound, with higher wage growth, to consider reducing monetary accommodation, or a worsening of the economy and a further significant drop in inflation expectations to consider yet another round of monetary policy easing. None of these outcomes look like the current preferred scenario for the ECB.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de