ECB-PUBLIC

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Summary of the Non-Financial Business Sector Dialogue on 17 March 2021 in Frankfurt am Main via Videoconferencing

Participants

- Members of the Governing Council of the ECB or their alternates.
- Representatives of A.S. Watson (Europe) Group AG, AB Volvo, Airbus SE, Andritz AG, ArcelorMittal Ltd, Benetton Group SpA, Borealis AG, BP plc, Buzzi Unicem SpA, Catella Property Valuation GmbH, CMA CGM, Daimler AG, Dassault Systèmes SE, Doka GmbH, E.ON SE, ebm-papst Mulfingen GmbH & Co. KG, ENEL SpA, Esselunga SpA, Fielmann AG, Grimaldi Group, Groupe Galeries Lafayette, Gruppe TIM, Haier Europe, Inditex SA, Lanxess AG, Logwin AG, MediaMarktSaturn Retail Group, Miele & Cie. KG, Nestlé SA, NXP Semiconductors Netherlands NV, PageGroup, PwC, Securitas AB, SES SA, STMicroelectronics International, Stora Enso Oyj, The Adecco Group, Unilever, Vonovia SE
- Senior ECB officials from the Directorate General Economics, Directorate General Monetary Policy, Directorate General Communications and Directorate General Secretariat, the Counsel to the Executive Board and the ECB's Chief Compliance and Governance Officer.

The ECB President welcomed representatives of the participating companies and reminded participants of the nature of the Non-Financial Business Sector Dialogue, which is a forum for interaction at the highest level between the ECB and non-financial companies. The dialogue helps to inform the ECB about the business sector's views on the economic situation, thereby deepening its understanding of economic developments and issues relevant to policymakers. The importance of the ECB's contacts with non-financial companies, particularly during the coronavirus pandemic (COVID-19), was highlighted. It was recalled that 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 ongoing impact of the pandemic on activity, employment and investment across sectors of the economy; (ii) price and cost developments; (iii) financing conditions and related policy support; and (iv) the opportunities and challenges for businesses going forward, including the increased use of digital technology and the need to mitigate climate change.

With regard to economic activity, comments alluded to the heterogeneous effects of the pandemic across different sectors of the economy. Broadly speaking, sectors tended to fall into one of three categories: those that had tended to benefit (technology, logistics, e-commerce), those that had faced tremendous disruption (travel industry, hospitality industry and those dependent on these industries) and those that had faced a strong initial contraction but had subsequently recovered and were now quite resilient, which included most of the manufacturing industry.

Within the retail sector, clear lines were drawn between the demand for food and non-food goods and within the latter category between the demand for "household" goods (notably household appliances) and "personal" goods (notably clothes). A high number of physical shopping days were still being lost due to lockdowns and there were concerns that regulations had forced shops to close even when retailers had deemed safety measures sufficient to keep customers safe. High-street retailers who had invested heavily in developing efficient online sales platforms were in the best position to be able to offset their losses with strong increases in online sales. Delivering goods from physical stores was a business model that had helped protect employment to some degree. Nonetheless, seasonal employment could not take place as normal, meaning that an important point of entry into the labour market was disrupted. Compared to their online-only competitors, traditional retailers faced the further disadvantage of having to invest both in developing their online sales platforms and in maintaining the physical infrastructure. The pandemic was seen to have accelerated a trend in consumer spending habits that was very profound, as an increasing share of consumers became ever more comfortable with online shopping. At the same time, it was also noted that in those places and windows of time when physical outlets were open, spending levels and spending patterns remained relatively normal.

There remained considerable uncertainty as to how quickly travel and tourism would recover, with many in the industry only expecting a full return to normal as late as 2024 or even 2025. However, a willingness and a desire to travel was demonstrated by surges in bookings at times when travel restrictions were lifted. After all, there was no "virtual" alternative to leisure travel.

Participating companies from most of the manufacturing and industrial sector described a recovery in demand that had been much better than anticipated. Many now saw demand and/or production at, or at least quite close to, pre-pandemic levels, albeit there had been little further recovery in recent months. Some had also confirmed that the level of inventories was low. The strength in the recovery of demand for goods was now putting upward pressure on costs, particularly in the form of higher commodity prices and transport costs. A tendency was observed whereby suppliers who had not increased prices last year did so by more than usual this year. With regard to transport costs, the recent surge in sea-freight rates, linked to container shortages, was attributed to congestion at ports caused in part by labour shortages, which were most acute on the west coast of the United States. Another factor was that while consumer demand for goods in Europe had recovered to pre-pandemic levels, this was not quite yet the case for European production. This gap had been filled by higher imports, particularly from Asia (where production had recovered much earlier), resulting in higher shipping demand. This was further exacerbated by the continued disruption to air cargo, much of which was usually carried on passenger flights.

Some of the participating companies stressed the importance of – and success so far – in maintaining the integrity of supply chains, which often involved a large number of components. Favourable financing conditions and government support in schemes and subsidies were crucial in this respect and ensured that supply could bounce back quickly once demand returned. Some of the larger companies had also worked together with suppliers and financial institutions to maintain the integrity of their supply chains.

More generally, the situation caused by the pandemic was described as a health crisis that had induced a demand shock that could have turned into a financial crisis but had not, thanks to the effective response of monetary and fiscal policy. That said, it was noted that as time went on, it could become more difficult to distinguish between weaknesses that were “COVID-19-related” and those that were “structural”. Some concerns were also raised about government subsidies distorting competition (particularly among or vis-à-vis SMEs) and/or driving up equity risk premia. Other concerns about the immediate policy environment included the continued uncertainty surrounding the timing of the roll-out of vaccines, insufficient access to credit insurance and exchange-rate related developments, which had led to investments being made outside rather than inside the euro area.

In terms of the challenges and opportunities that lay ahead, emphasis was placed on the opportunity to “build back better” and create a low carbon industry. In this regard, the direction of travel was seen to be clear, but less so the speed. Since the bulk of global emissions were generated by the transport, energy and industrial sectors, it was essential that large companies in these sectors transitioned successfully. This required an environment that encouraged these sectors to scale up their investments. In this respect, it was important for the EU to focus not only on regulation but also on promoting innovation. Moreover, the design of the financial system had to be part of this. Therefore, the role of digitalisation in providing companies with the information they needed to make this energy transition was also mentioned. Other comments included the lessons learned during the pandemic that could raise long-term productivity, ranging from the general public’s increased awareness of the opportunities provided by the internet to the reduced frequency of sick leave stemming from the better-than-anticipated effectiveness of COVID-19-related safety measures.