

Monetary policy and inequality

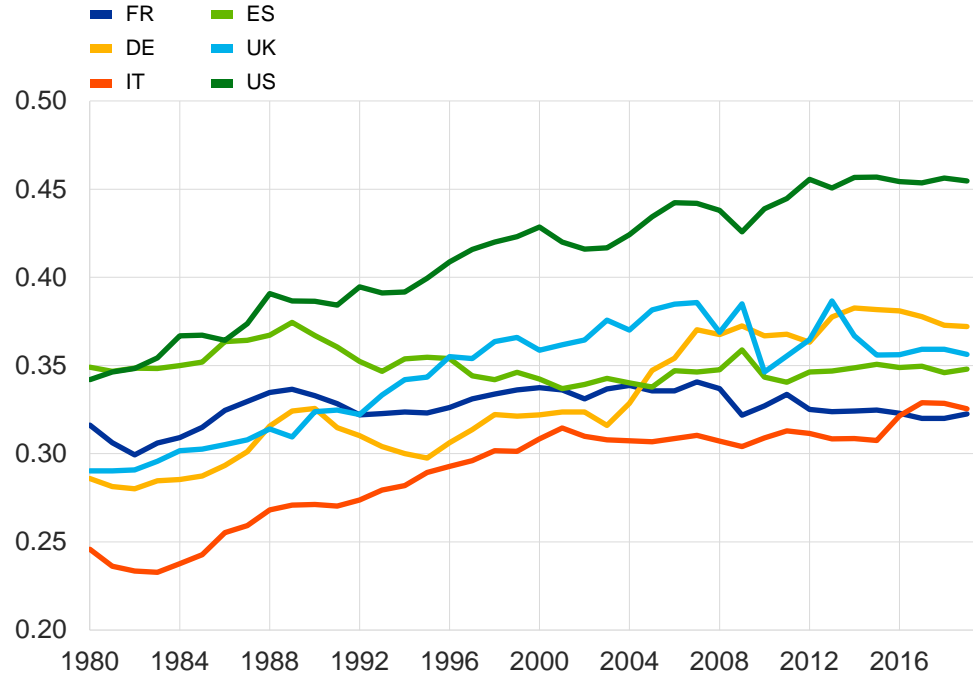
Isabel Schnabel, Member of the ECB's Executive Board

Virtual conference on “Diversity and Inclusion in Economics, Finance, and Central Banking”, Frankfurt am Main, 9 November 2021

Pre-tax income inequality has risen measurably in advanced economies

Pre-tax national income share of richest households

(Top 10% share)

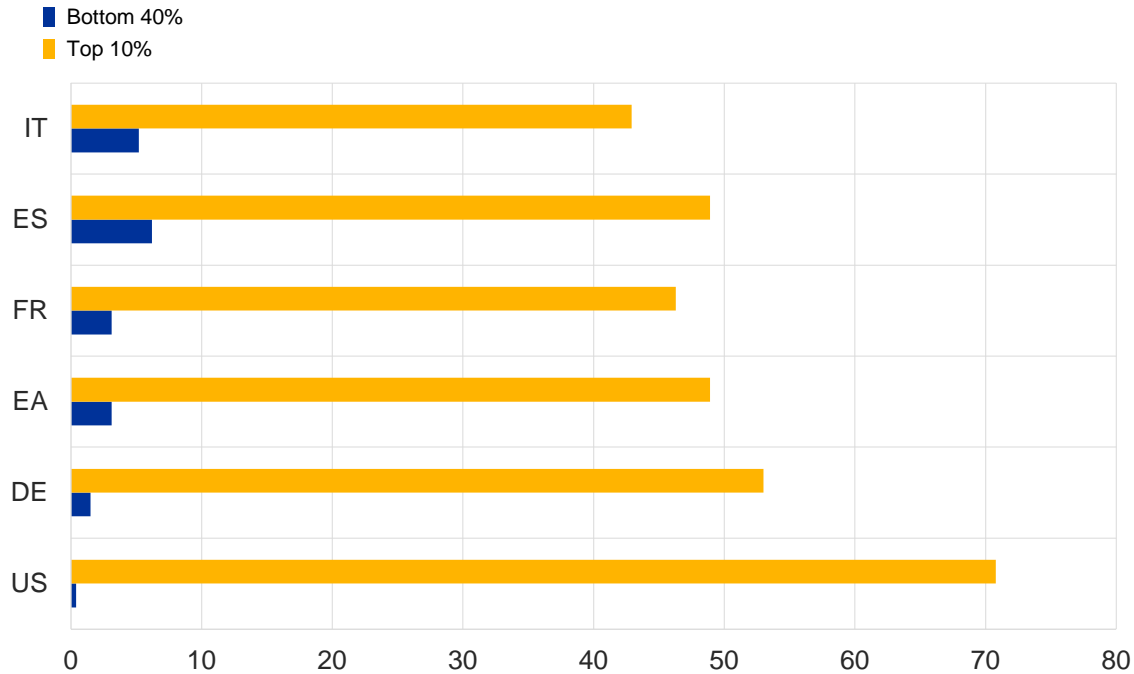


Source: WID.
Latest observation: 2019.

Wealth of households is highly concentrated

Wealth shares of most and least wealthy households

(% share of total assets)



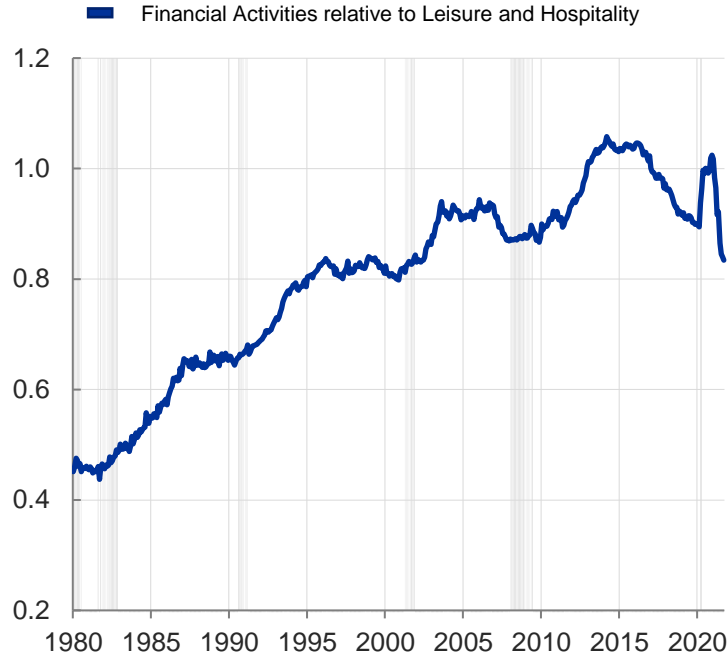
Source: The Household Finance and Consumption Survey (EA), World Inequality Database (US).

Notes: Data for the US refer to net personal wealth.

Latest observation: 2017 (EA), 2019 (US).

Skill premium has increased, while workers' bargaining power has declined

United States: skill premium (ratio)

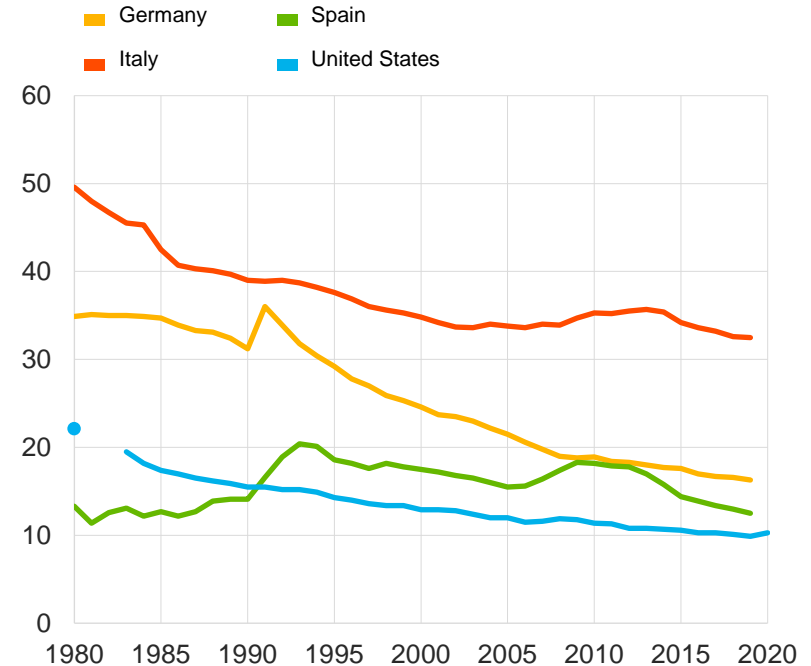


Source: Bureau of Labor Statistics and ECB calculations.

Notes: The skill premium is approximated by the difference between the hourly earnings of a worker in the financial service industry and a worker in the leisure and hospitality sector, divided by the hourly earnings of the latter.

Latest observation: September 2021.

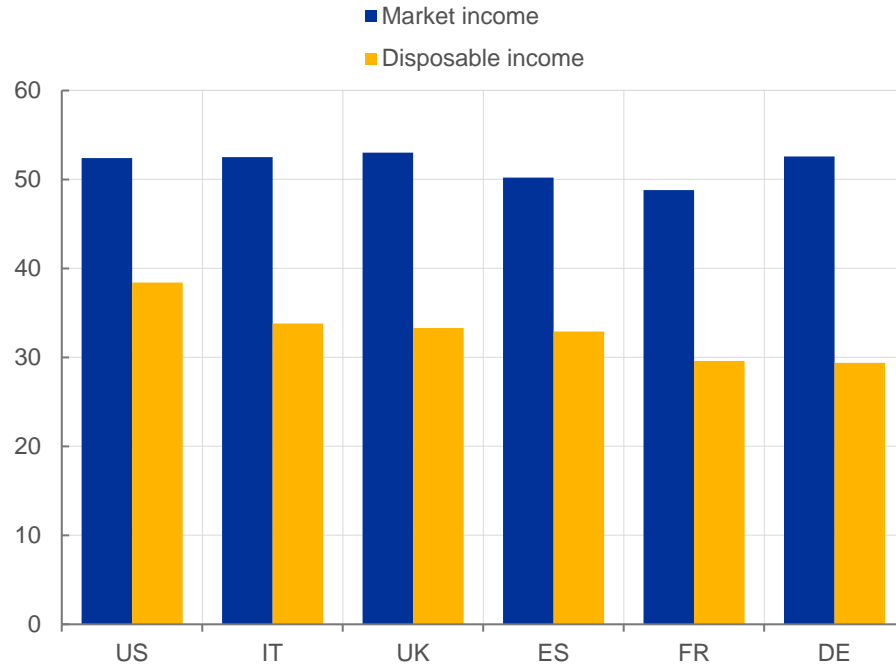
Trade union membership (% of employees)



Source: OECD.

Inequality in disposable and market income

(Gini coefficients)



Sources: Eurostat, Standardized World Income Inequality Database and ECB staff calculations.

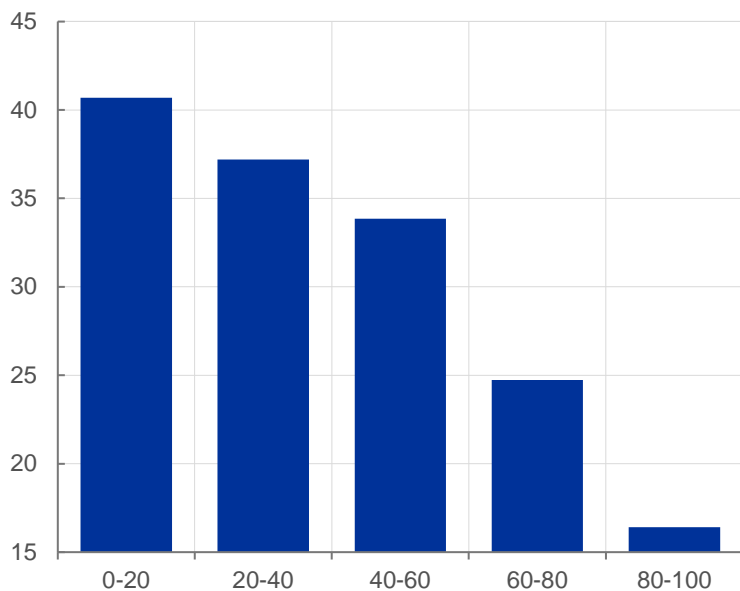
Notes: Based on Dossche, Slacalek and Wolswijk (2021). US: Standardized World Income Inequality Database version 8 and 9; Euro area: latest available EU-SILC reference year, which is between 2013 and 2018.

Fiscal policy protected the most vulnerable parts of society during the pandemic

Exposure to lockdown measures by income quintile

(percentages)

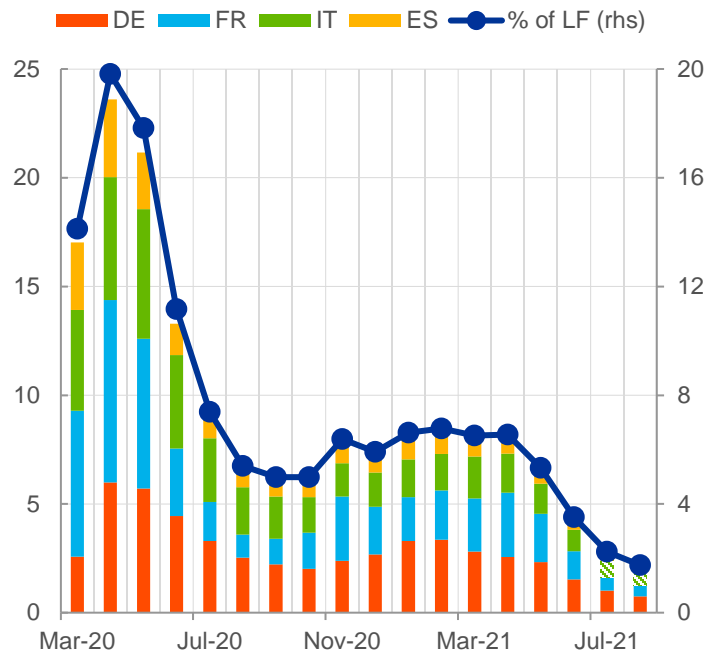
■ Labour income



Sources: EU-SILC, Eurostat Household Budget Survey and ECB staff calculations.
Notes: Based on Dossche, Kolndrekaj and Slacalek (2021). Percentage of total income exposed to lockdown measures by income quintile.

Workers in job retention schemes

(millions; percentage of the labour force)

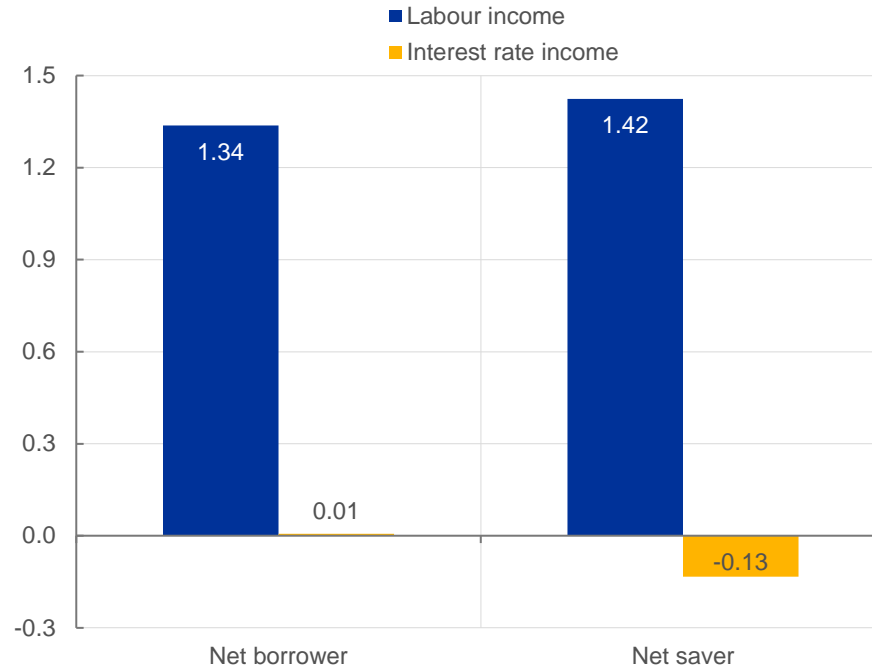


Sources: ECB calculations based on data from Eurostat, Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung – IAB), ifo Institute, Ministère du Travail, de l'Emploi et de l'Insertion, Instituto Nazionale Previdenza Sociale (INPS), and Ministerio de Inclusión, Seguridad Social y Migraciones.
Latest observations: August 2021 for Germany, France and Spain, June 2021 for Italy.

Monetary policy easing predominantly affects labour income, not interest rate income

Effect of a policy rate rate cut on savers and borrowers

(percent of household income)



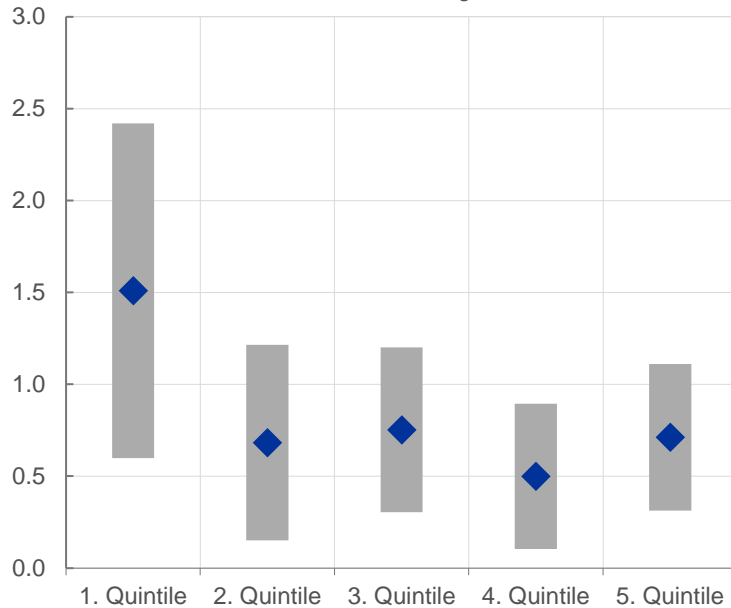
Source: Household Finance and Consumption Survey (wave 2017) and ECB staff calculations.
Notes: Based on Slacalek et al. (2020). Effects of 100 basis point cut in monetary policy rate in Germany, France, Italy and Spain.

Monetary policy reduces income inequality as low-income households benefit most

Change in labour income in response to higher GDP growth

(labour income elasticity)

■ 95% confidence interval
◆ Euro area average

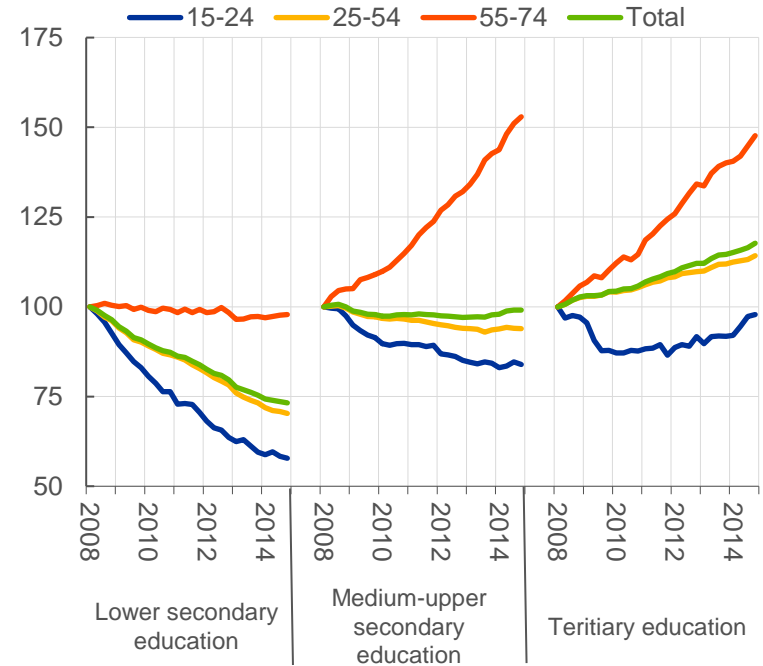


Source: EU-SILC, GSOEP and ECB staff calculations.

Notes: Based on Dossche and Hartwig (2019). Euro area refers to Germany, France, Italy and Spain. Individuals grouped by household income quintiles. The diamond indicates the estimated elasticity of labour income w.r.t. changes in GDP growth.

Employment by education and age during the 2008/09 global financial crisis

(index: 2008Q1=100)

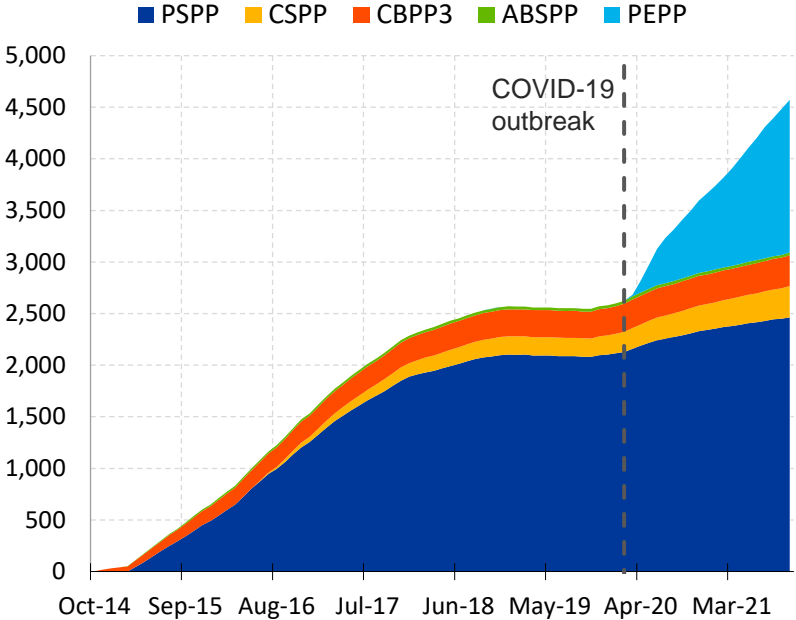


Source: ECB calculations based on Eurostat data.

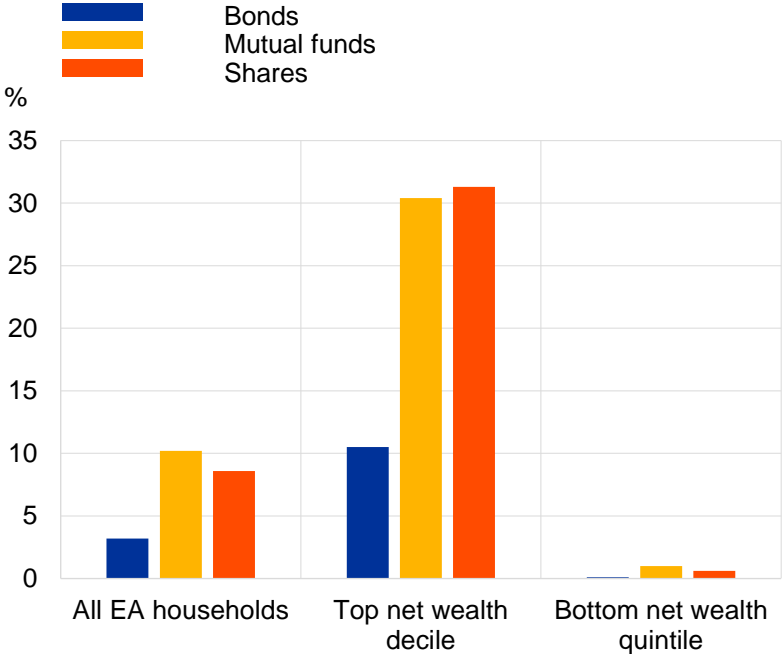
Latest observation: 2014 Q4.

Assets purchased by central banks are typically held by wealthiest households

APP and PEPP holdings of the Eurosystem (EUR bn)



Share of households owning bonds, mutual funds and shares (% of households)

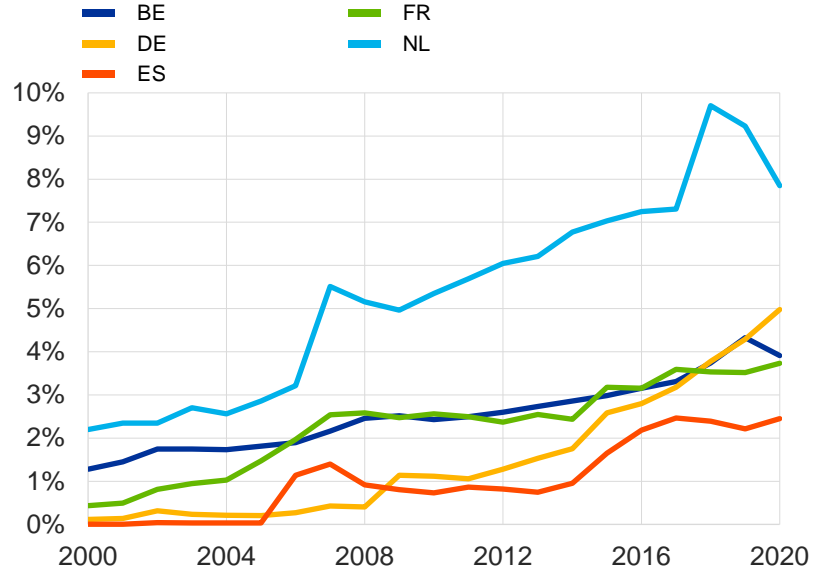


Source: ECB website, ECB calculations.
Latest observation: 31 October 2021.

Source: The Household Finance and Consumption Survey, wave 2017.

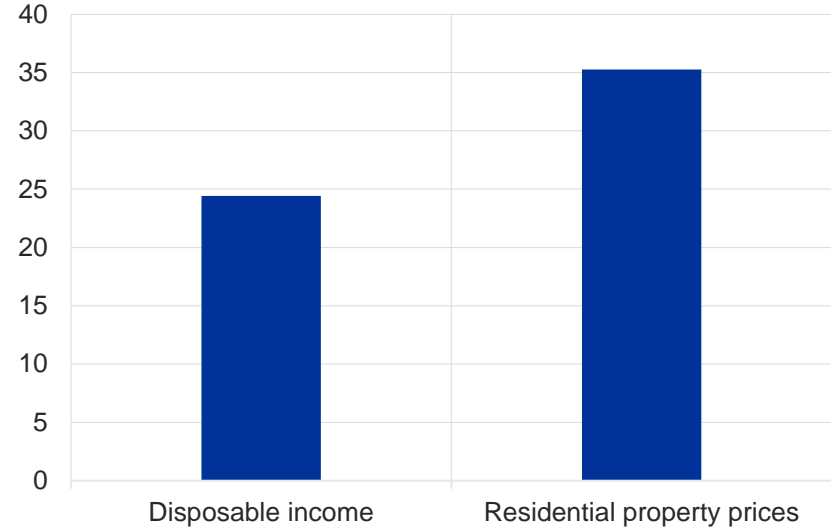
Portfolio rebalancing by institutional investors may have spurred house price increases

Assets of national real estate investment trusts (REIT) as a share of GDP (percentage)



Source: Bloomberg.
Latest observation: 2020.

Changes in euro area disposable income and residential property prices (nominal; cumulative change since 2015 in percent)

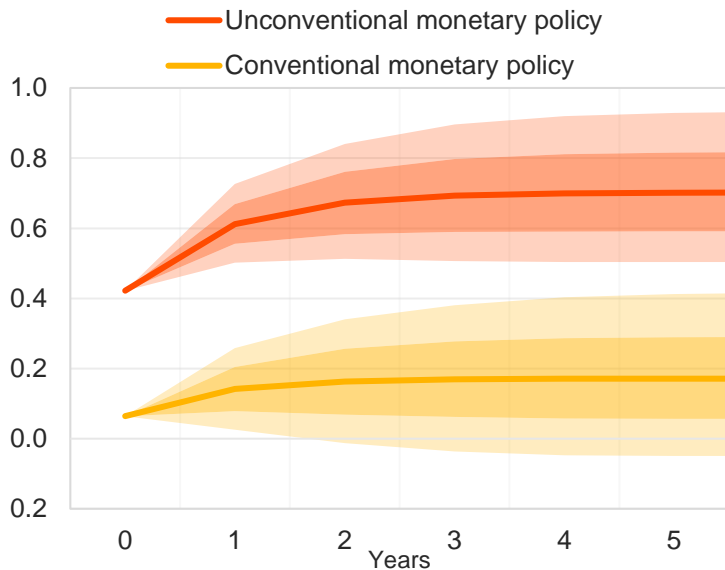


Source: Eurostat and ECB staff calculations
Latest observation: 2021Q2

Asset purchases have a larger impact on house prices than policy rate changes

Effects of unconventional and conventional monetary policy easing on house prices

(impact on annual growth, pp)

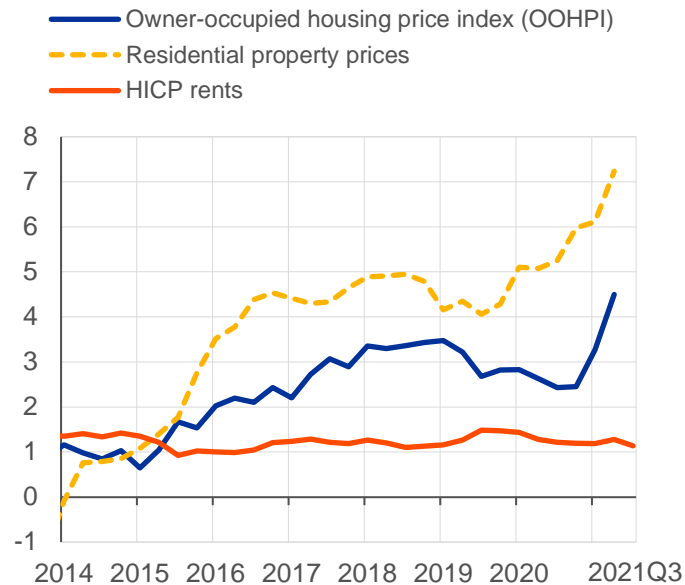


Source: Battistini, Falagiarda, Hackmann and Roma, 2021, "Navigating the housing channel of monetary policy across euro area regions".

Notes: Response to a 10 basis point accommodative monetary policy shock. A *conventional* monetary policy shock is defined as the average of the short-term (1 week to 1 year) OIS rate changes around a monetary policy event. An *unconventional* monetary policy shock is defined as the average of the long-term (4 to 20 years) OIS rate changes around a monetary policy event.

Owner-occupied housing, residential property prices and HICP rents

(annual percentage change)

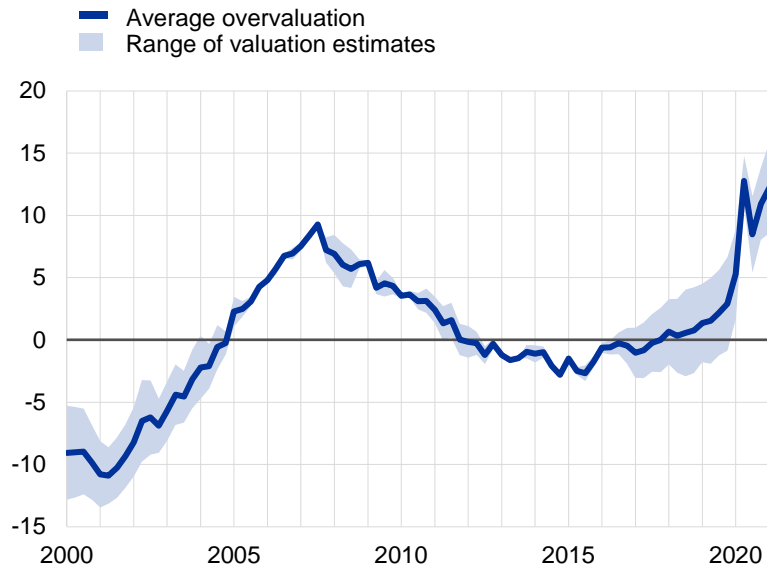


Source: Eurostat and ECB calculations

Latest observation: 2021Q3 for HICP rents, 2021Q2 for the others.

House prices are increasingly overvalued while lending remains buoyant

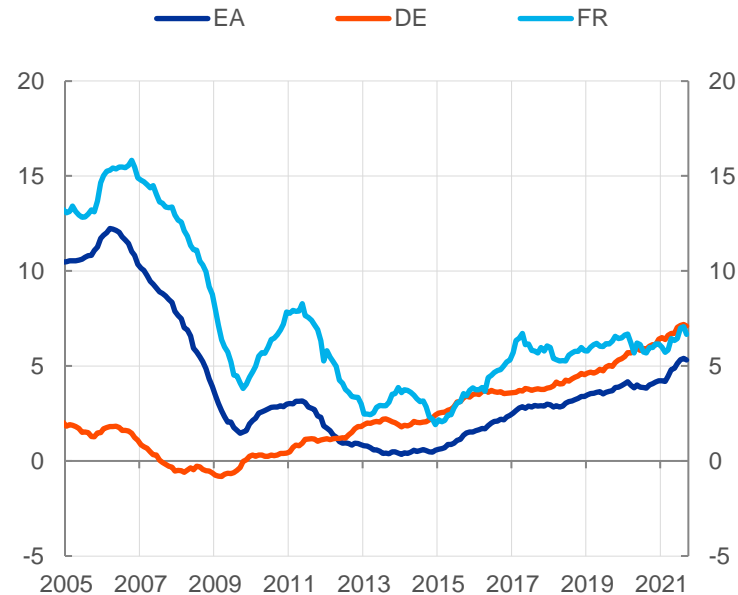
Overvaluation of euro area house prices (percentage)



Source: ECB and ECB calculations.

Notes: The valuation estimate is the simple average of the price-to-income ratio and an estimated Bayesian vector autoregression model. For details of the methodology, see Box 3 in Financial Stability Review, ECB, June 2011, and Box 3 in Financial Stability Review, ECB, November 2015

Loans to households for house purchase (annual percentage changes)



Sources: ECB and ECB calculations.

Notes: Country data includes lending to all euro area households. The adjustment for sales and securitisation for the total loans to households is allocated to loans to households for house purchase according to their weigh on the former type of loans. For France, data for May 2014 is adjusted to reflect a large securitisation operation. The euro area figure for that month has been also adjusted.
Latest observation: September 2021.

Thank you for your attention!