ECB-PUBLIC

15 December 2017
FINAL

Summary of the Non-Financial Business Sector Dialogue on 22 November 2017 in Frankfurt am Main

Participants

- Members of the Governing Council of the ECB or their alternates.
- Representatives of adidas AG, Andritz AG, La Doria S.p.A., El Corte Inglés S.A., Deloitte Consulting GmbH, EY, Ford Motor Company, Grimaldi Group SpA, Henkel AG & Co. KgaA, IKEA Services B.V., Logwin AG, Miele & Cie. KG, SAP SE, Schwarz Beteiligungs GmbH, STMicroelectronics, The Adecco Group, Thomas Cook Group plc, TITAN Cement Company S.A., WPP Group plc
- Senior ECB officials from the Directorate General Economic Developments, Directorate General Monetary Policy, Directorate General Communications and Directorate General Secretariat, and the ECB's Chief Compliance and Governance Officer.

At the beginning of the meeting, the ECB President reminded participants of the nature of the Non-Financial Business Sector Dialogue as 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 and thereby deepen its understanding of economic developments and issues relevant to policymakers. It complements similar high-level dialogues that the ECB maintains with representatives of financial sector institutions. As with these other dialogues, the same standards of transparency are to be followed, including publication of the agendas, list of participating companies and summary minutes.

Current economic climate and outlook

The discussion focused on (i) the outlook for demand in the euro area across sectors and countries, (ii) global economic conditions and (iii) supply conditions.

There was widespread acknowledgement among participating companies that economic and financial conditions had improved over the past year and that these conditions were the best seen since 2010 or even earlier. Moreover, economic growth was highly synchronised across sectors and across countries worldwide. Within this overall positive picture, certain sectors or geographical areas were highlighted by some participating companies as experiencing noteworthy phenomena. The car industry was undergoing an unprecedented transformation, including a move away from traditional engines into electrification, and new mobility opportunities were emerging. In particular, the Chinese electric car market was growing very rapidly. China more generally was engaged in a rapid transition towards a more environmentally friendly economy, which presented a range of opportunities. Increased urbanisation was another trend noted by some participating companies. This resulted in increasing rents for businesses and consumers in large cities, therefore reducing disposable income for other consumption purposes.

While growth was robust, some participating companies observed that *levels* of economic activity were still not high when compared with pre-crisis levels. There were still important structural barriers to growth that needed to be removed through wide-ranging structural reforms, with an increasing sense of urgency. Some sectors had excess capacity, while in others old equipment had become obsolete. Businesses also faced substantial regulatory and geopolitical uncertainty, notably relating to Brexit and tax reform in the United States.

A pervasive theme that emerged from the contributions of many participating companies was the impact of digitalisation and the considerable – and also faster than expected – disruption caused by the entry of new-technology companies into previously more traditional markets. Almost all sectors were affected, but the retail sector in particular had to re-think its model and engage in a process of restructuring towards a balance of on-line and off-line activities. Furthermore, traditional industries also faced the prospect of moving to new growth models based on artificial intelligence and robotics. This meant that some firms were confronted with the challenge of high capital demands, combined with a return on investment that was below that which would normally be expected in the short- to medium-term. It was also observed that internet-based e-commerce and the emergence of brand new firms with highly-efficient (digitised) business models increased competition and limited firms' pricing power, thereby holding back inflation.

Some participating companies expressed concerns that Europe was lagging behind in embracing digital change, which entailed risks for long-term growth. It was observed that the largest IT/internet-based firms were American, followed by Chinese. Europe had spent much of the last decade looking inward in order to solve internal problems. It needed to spend the next decade looking outward and forward to define its place in the new global economy. To this end, it would be important to get the regulatory balance right and to ensure a level playing field for European companies vis-à-vis their American and Asian competitors.

Labour market conditions

The discussion focused on the outlook for employment and wages.

The discussion took place against the backdrop of an apparent paradox: while macroeconomic indicators (such as the unemployment rate) still pointed to slack in the labour market, more micro-based evidence (such as survey data on limits to production) pointed to increasing labour shortages. In this respect, the prevailing, albeit not unanimous, view of participating companies was that labour shortages were mainly limited to a small percentage of highly-skilled staff. To address this, some stressed the importance of investment in training, in particular training college graduates for the workforce. Presently, this seemed to be more successful in the United States and Japan than in Europe. Some concern was also expressed about the potential impact of technological change on employment in the medium-term and the social and political consequences that this could have.

Regarding the outlook for wages, some participating companies observed that, as long as firms were unable to adjust prices due to competitive pressures, while facing higher input costs for raw materials, it was necessary to cut costs, including by limiting the wage bill. This was facilitated by the fact that a younger generation of employees were less focused on salary increases and more on fringe benefits which gave them an improved work-life balance, whereas older workers were more focused on job security than on pay rises.