

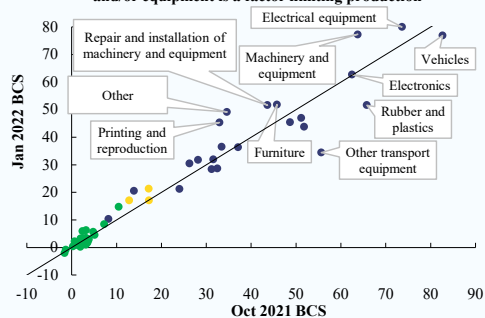
**Box 1.1: Production bottlenecks through the lens of the Commission's business surveys**

According to the Commission's business surveys, supply-side bottlenecks in the European economy aggravated further in January. Shortages of material and equipment were particularly severe in manufacturing while services were mainly affected by shortage of labour. The construction sector appears to suffer from shortages in both labour and supply and equipment.

The share of managers reporting material and/or equipment shortages rose to 51% in January 2022 (from 49.5% in October) in manufacturing and to 28.6% (from 20.8%) in construction. In services, where the question concerns space and/or equipment, constraints remained a marginal issue in managers' view (3.5% vs. 3.2%).

In manufacturing, the increase was driven by the aggravation among producers of machinery and equipment and electrical equipment, which were already severely affected in the autumn by e.g. the shortage of microchips and some metals. The automotive sector, which has been grappling with the shortage of microprocessors for several months, saw a slight easing of the problem in January but remained the most severely affected manufacturing sector in the EU. Likewise, rubber and plastics, and other transport equipment, reported some improvements, but continue to rank high among the most affected sectors (see Graph 1). Other sectors reporting increased shortages of material and equipment include repair and installation of machinery and equipment, and printing.

**Graph 1: Percent of EU managers indicating that shortage of material and/or equipment is a factor limiting production**

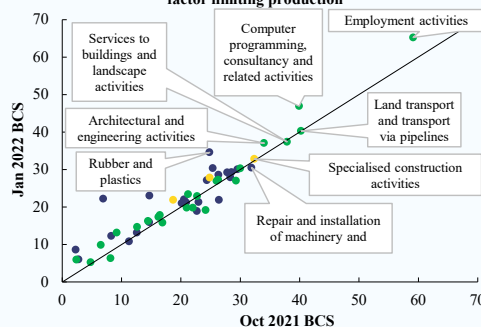


Note: blue dots - 24 manufacturing sectors, green dots- 37 services sectors, yellow dots - 3 construction sectors

Labour was reported to be the most pressing production bottleneck in the construction sector, where 31.4% of managers identify labour shortages as a factor limiting production, followed by services, at 26.3%, and manufacturing, at 25.9%.

The sector most hit by the imbalance between labour demand and supply was the employment activities, which include employment placement agencies. In this case, labour shortages likely also reflect difficulties to satisfy the labour demand of their clients. Surveys suggest that labour shortages risk impeding further progress in the digital transformation and aggravating supply chain bottlenecks. With a 7 pps. increase from October to 47% in January, computer programming, consultancy and related activities was another subsector facing insufficient labour supply. The land transport and transport via pipelines sector, a critical link in supply chains, also continued to be among the most affected. Finally, architectural and engineering activities and services to buildings and landscape activities also remained among the most affected (see Graph 2).

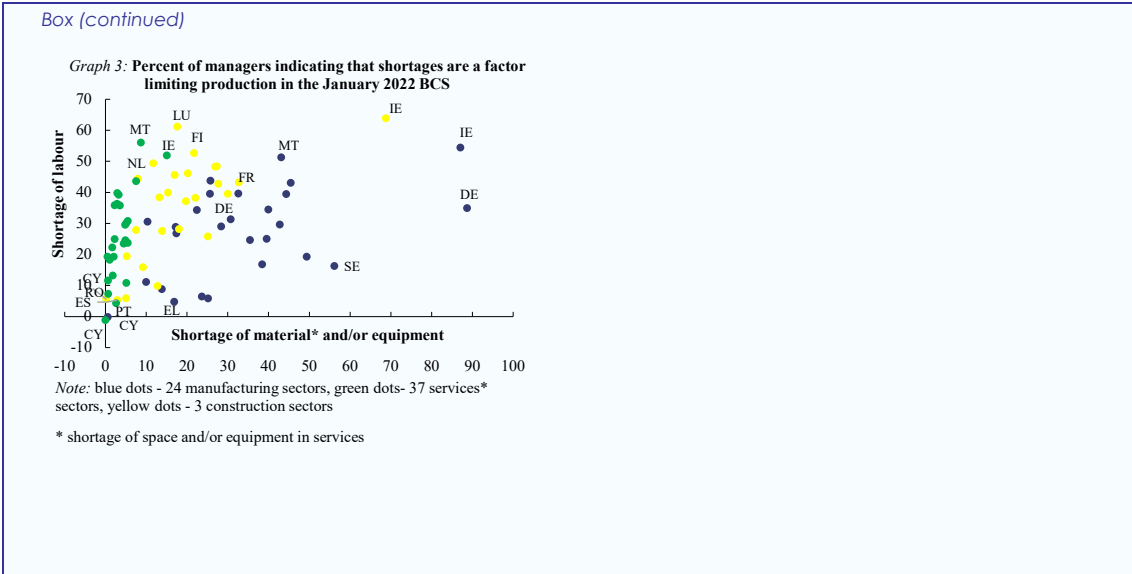
**Graph 2: Percent of EU managers indicating that labour shortage is a factor limiting production**



Note: blue dots - 24 manufacturing sectors, green dots- 37 services sectors, yellow dots - 3 construction sectors

According to the January survey, shortages in manufacturing were particularly widespread in Germany (material), Ireland (both material and labour) and Malta (labour). The services' sector was affected by big labour shortages in Malta, Ireland and the Netherlands, with no countries so far reporting significant space and equipment shortages, on average. Finally, construction emerges as particularly affected in Ireland (both material and labour), Luxembourg and Finland (labour), and, to a lesser extent, France and Germany (both material and labour) (see Graph 3).

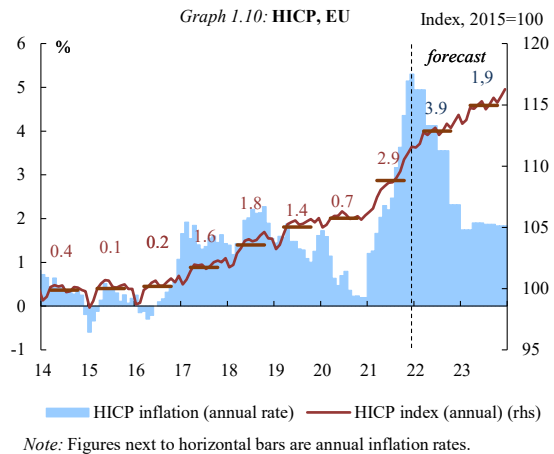
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The tightening labour market has not put noticeable pressure on wages so far. The indicator of negotiated wages <sup>(8)</sup> in the euro area increased by 1.3% in the third quarter of 2021, compared to the same quarter of 2020, the slowest growth rate since the pandemic broke out. At 2.7% year-on-year in the EU, compensation per hour worked - a measure of labour cost that is usually less distorted by job retention schemes than compensation per employee- increased at a pace somewhat above the post-2009 average of 2.4%. Taking into account steeply rising consumer prices, compensation per hour worked decreased somewhat in real terms in the third quarter.

1.5.3. Inflation developments

After decreasing on average by 0.3% in the last quarter of 2020, euro area prices started increasing again last year, gathering strong momentum in the last quarter of 2021. In December, HICP inflation in the euro area reached 5%, the highest reading on record. It averaged 4.6% in the fourth quarter, almost one percentage point higher than expected in autumn, and 2.6% in 2021 as a whole. In the EU, the inflation rate was 4.9% in the final quarter of 2021 and 2.9% for the year. Dispersion among the non-euro area Member States widened in the fourth quarter, with inflation ranging from 3.5% in Denmark to 7.3% in Poland. Dispersion was however exceptionally wide also in the euro area, mainly on account of the differential impact of energy inflation across EU countries.



Energy inflation was indeed the main driver of headline inflation in the euro area and beyond, though the December reading (25.9% in the euro area) came in a notch lower than in November, amidst fading base effects (see Box 1.2). Food inflation is also driving headline inflation up, with December registering a major increase in unprocessed food inflation (4.7%), on account of both a strong base effect from last year and solid month-on-month growth (1.5%). Averaged over the fourth quarter, unprocessed food inflation rose to 2.6% in the euro area. Higher input costs, in particular for fertilisers, are fuelling pressures on food prices.

<sup>(8)</sup> European Central Bank, Statistical Data Warehouse