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## PRESS RELEASE

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### **Pricing behaviour in the euro area: results of a Eurosysteem survey**

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[www.nbb.be](http://www.nbb.be)

This article presents the results of the ad hoc surveys conducted during 2003 and 2004 in nine euro area countries, examining the pricing behaviour of a total of more than 11,000 firms. The surveys formed part of the activities of the "Eurosysteem Inflation Persistence Network" (IPN), a research network set up by the twelve national central banks of the euro area, the ECB and the academic world. This research network examines both pricing behaviour and the scale and causes of inflation persistence in the euro area.

In order to gain an accurate insight into pricing behaviour, the IPN considered it useful to conduct an ad hoc survey in the various euro area countries. The comparative advantage of such surveys lies in the possibility of investigating the underlying motives for the pricing behaviour observed, while that is more difficult to ascertain on the basis of quantitative databases of consumer and producer prices. Nine countries – Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Portugal and Spain – responded to this request. The results of the Belgian survey have already been analysed in the article "Price-setting behaviour in Belgium: what can be learned from an ad hoc survey?" (Economic Review, 4<sup>th</sup> quarter 2004), and a more technical analysis was published in NBB Working Paper No. 65 and ECB Working Paper No. 448, both entitled "Price-setting behaviour in Belgium: what can be learned from an ad hoc survey?".

Despite methodological differences between the surveys, the results are similar in many respects. That also applies to the results for Belgium, which deviate slightly from the average for the euro area only for a small number of aspects. This suggests that the national survey results are decidedly robust and therefore provide a valuable insight into the reasons behind the pricing behaviour observed.

The results point to a relatively high degree of price rigidity: the median European firm only changes its prices once a year. Pricing behaviour exhibits both time-dependent and state-dependent characteristics. A minority of firms review their prices at regular intervals, regardless of the economic context in which they operate. However, the majority of firms adopt a more flexible approach. Either they always respond immediately to (sufficiently) significant economic shocks, which means that they always review their prices according to the situation, or they switch from time-dependent to state-dependent behaviour when prompted by the economic context. Both results are in line with the IPN findings concerning the quantitative analysis of pricing.

The survey also reveals that the environment in which European firms are active is very different from a perfect competition situation, and that, in line with the premises of the new-Keynesian literature, firms do have a degree of market power and apply various forms of price discrimination. Moreover, it emerged that cost variations are more important for price increases than for price cuts, while changes in market conditions play a greater role in price reductions. The factors explaining price rigidity mainly concern the existence of implicit and explicit contracts with customers, whereas the existence of menu costs and the costs of collecting the information relevant to pricing are not regarded as significant obstacles to price adjustments. The flatness of the marginal costs curve and the fact that firms are reluctant to be the first to adjust their prices are also major impediments to price adjustment.