Box 6

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2007

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2007. The survey was conducted between 16 and 23 April 2007. The SPF gathers information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated to financial or non-financial institutions based in the EU. Given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions.

Inflation expectations for 2007 and 2008

SPF participants revised down, on average, their inflation expectations for 2007 to 1.9%, from 2.0% in the previous SPF round (see table).[1] This downward revision largely reflects the perception of a smaller-than-expected impact of the VAT increase in Germany, a stronger pass-through from lower energy prices and more favourable food price developments, due to the exceptionally mild weather conditions. SPF inflation expectations for 2007 are 0.1 percentage point higher than expectations expressed in the April 2007 issues of Consensus Economics and the Euro Zone Barometer, but in the range of the March 2007 ECB staff macroeconomic

1 Additional data are available on the ECB's website at www.ecb.int/stats/prices/indic/forecast/html/index.en.html

Results from the SPF, ECB staff macroeconomic projections, Consensus Economics and Euro Zone Barometer

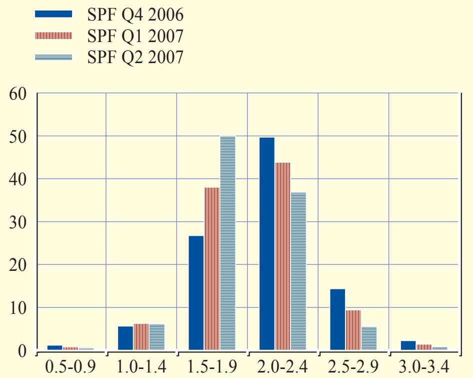
(annual percentage changes, unless otherwise indicated)

	Survey horizon				
HICP inflation	**2007**	**Mar. 2008**	**2008**	**Mar. 2009**	**Longer-term 2)**
SPF Q2 2007	1.9	2.0	1.9	1.9	1.9
Previous SPF (Q1 2007)	*2.0*	-	*1.9*	-	*1.9*
ECB staff macroeconomic projections	1.5-2.1	-	1.4-2.6	-	-
Consensus Economics (April 2007)	1.8	-	1.9	-	1.9
Euro Zone Barometer (April 2007)	1.8	-	1.9	-	1.9
Real GDP growth	**2007**	**Q4 2007**	**2008**	**Q4 2008**	**Longer-term 2)**
SPF Q2 2007	2.5	2.2	2.3	2.3	2.1
Previous SPF (Q1 2007)	*2.1*	-	*2.1*	-	*2.1*
ECB staff macroeconomic projections	2.1-2.9	-	1.9-2.9	-	-
Consensus Economics (April 2007)	2.4	-	2.2	-	1.9
Euro Zone Barometer (April 2007)	2.4	-	2.2	-	2.0
Unemployment rate 1)	**2007**	**Feb. 2008**	**2008**	**Feb. 2009**	**Longer-term 2)**
SPF Q2 2007	7.2	7.0	6.9	6.9	6.7
Previous SPF (Q1 2007)	*7.5*	-	*7.3*	-	*6.9*
Consensus Economics (April 2007)	7.3	-	7.1	-	-
Euro Zone Barometer (April 2007)	7.3	-	7.0	-	6.9

1) As a percentage of the labour force.
2) Longer-term expectations refer to 2011 in the SPF and Euro Zone Barometer (data published in the January 2007 Euro Zone Barometer) and to the period 2013-17 in Consensus Economics.

Chart A Probability distribution for average inflation in 2007 in the last three rounds of the SPF 1)

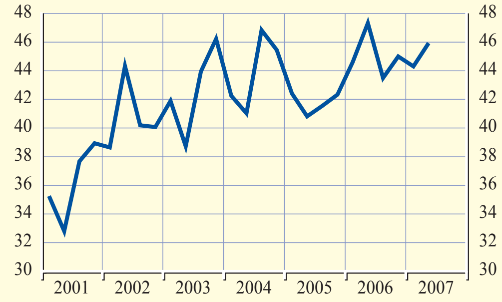
(percentages)



Source: ECB.
1) Corresponds to the aggregation of each individual probability distribution provided by SPF forecasters.

Chart B Probability of inflation being at or above 2% five years ahead

(percentages)



Source: ECB.

projections. For 2008 SPF forecasters provided on average an unchanged picture of inflation expectations at 1.9%. This is basically in line with Consensus Economics and Euro Zone Barometer and in the range of the ECB staff projections.

SPF participants were also asked to assign a probability distribution to their forecasts. This distribution provides information on the probability of the future outcome being within a specific interval. The probability distribution resulting from the aggregation of responses makes it easier to assess how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. In line with the downward revision of the point estimate in 2007, the probability distribution for expected inflation this year has shifted towards lower outcomes compared with the SPF round for the first quarter of 2007 (see Chart A). There was also some change in the associated probability distribution for 2008, where the bulk of responses have remained in the central interval of 1.5%-1.9%, but with a marked increase in the interval 2.0%-2.4%.

The risks surrounding the SPF forecasts are assessed by the experts to be mainly on the upside, related in particular to a rebound in oil prices and an acceleration of wages in the context of a sustained growth momentum. A few respondents referred to the impact of government measures on prices as also posing upside risks to inflation. However, some panel members also mentioned a downside risk due to a stronger exchange rate.

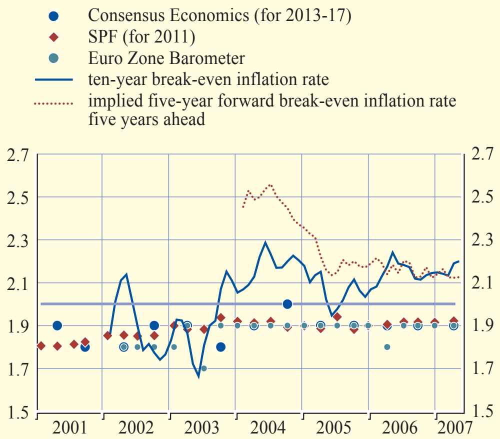
Indicators of longer-term inflation expectations

Longer-term inflation expectations (five years ahead) remained firmly anchored at 1.9% for the 22nd consecutive survey. This is fully in line with the newly released expectations from the Euro Zone Barometer for 2011 and the April 2007 results from Consensus Economics for inflation expectations six to ten years ahead. The average probability distribution of longer-term inflation expectations remained broadly unchanged compared with the previous round, with the bulk of the aggregate probability distribution falling in the 1.5%-1.9% interval. The probability that inflation may stand at 2% or above increased slightly to 46% (see Chart B).

SPF survey results can also be compared with the break-even inflation rate, an indicator of longer-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds.[2] The ten-year break-even inflation rate derived from the French government inflation-linked bonds (linked to the euro area HICP excluding tobacco) maturing in 2015 has recently edged up slightly (see Chart C), while the implied five-year forward break-even inflation rate five years ahead has remained relatively stable. However, break-even inflation rates should not be interpreted as direct measures of inflation expectations, since they may also incorporate various risk premia (such as inflation uncertainty and liquidity premia).

Chart C Longer-term inflation expectations from surveys and break-even inflation rates

(average annual percentage changes)



Sources: Consensus Economics, ECB, Reuters and ECB calculations.
Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter.

Real GDP growth expectations

Expectations for real GDP growth have been revised markedly upwards by 0.4 percentage point for 2007 in comparison with the previous SPF round, and now point to real GDP growth at 2.5%. This upward revision mainly reflects improved expectations for domestic demand (in particular private consumption and investment) and external demand. Expected GDP growth for 2008 has also been revised up by 0.2 percentage point, to 2.3%. In both calendar years, the risks surrounding the forecasts are assessed by the respondents to be more on the downside, mostly related to the evolution of oil prices, the strength of the euro and global imbalances. Overall, SPF growth expectations for 2007 and 2008 are slightly higher than those reported in the April 2007 Euro Zone Barometer and Consensus Economics, but within the ranges of the ECB staff macroeconomic projections. Longer-term growth expectations (i.e. for 2011) remain unchanged at 2.1%. According to forecasters, longer-term growth prospects depend principally on further structural reforms in the labour market and the social security systems, migration flows and improved productivity.

Expectations for the euro area unemployment rate

Unemployment rate expectations for 2007 and 2008 have been revised downwards by 0.3 percentage point and now stand at 7.2% and 6.9% respectively. As in the previous SPF round, forecasters referred to the ongoing economic growth and the induced improvement of the labour market situation as being the main factors behind the further decline of the unemployment rate. SPF unemployment rate expectations for 2007 and 2008 are below those

2 See also the article entitled “Measures of inflation expectations in the euro area” in the July 2006 issue of the Monthly Bulletin.

of the latest editions of Consensus Economics and the Euro Zone Barometer. Longer-term unemployment rate expectations have also been revised down by 0.2 percentage point, to 6.7% in 2011. The balance of risks to these forecasts is assessed to be on the upside. Respondents continue to mention that the decline in the unemployment rate over the longer-term horizon is mainly dependent on further labour market reforms.