Box 7

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FOURTH QUARTER OF 2012

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the fourth quarter of 2012. The survey was conducted between 16 and 22 October 2012 and received 56 responses.[1] The results imply higher inflation expectations for 2012 and 2013, compared with the previous survey round, while inflation expectations for 2014 remain unchanged. GDP growth

1 The survey collects information on expectations for euro area inflation, real GDP growth and unemployment from experts affiliated with financial or non-financial institutions that are based in the EU. Data are available on the ECB's website at http://www.ecb.europa.eu/stats/prices/indic/forecast/html/index.en.html.

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

(annual percentage changes, unless otherwise indicated)

	Survey horizon			
HICP inflation	**2012**	**2013**	**2014**	**Longer-term** [2)]
SPF Q4 2012	2.5	1.9	1.9	2.0
Previous SPF (Q3 2012)	*2.3*	*1.7*	*1.9*	*2.0*
ECB staff macroeconomic projections (September 2012)	2.4-2.6	1.3-2.5	-	-
Consensus Economics (October 2012)	2.4	1.9	1.7	2.1
Euro Zone Barometer (October 2012)	2.4	1.9	1.9	2.0
Real GDP growth	**2012**	**2013**	**2014**	**Longer-term** [2)]
SPF Q4 2012	-0.5	0.3	1.3	1.8
Previous SPF (Q3 2012)	*-0.3*	*0.6*	*1.4*	*1.8*
ECB staff macroeconomic projections (September 2012)	-0.6 - -0.2	-0.4-1.4	-	-
Consensus Economics (October 2012)	-0.5	0.2	1.2	1.5
Euro Zone Barometer (October 2012)	-0.5	0.2	1.3	1.7
Unemployment rate [1)]	**2012**	**2013**	**2014**	**Longer-term** [2)]
SPF Q4 2012	11.3	11.6	11.2	9.0
Previous SPF (Q3 2012)	*11.2*	*11.4*	*10.8*	*9.2*
Consensus Economics (October 2012)	11.2	11.7	-	-
Euro Zone Barometer (October 2012)	11.2	11.7	11.2	10.4

1) As a percentage of the labour force.
2) Longer-term expectations refer to 2017 in the SPF and Consensus Economics. They refer to 2016 in the Euro Zone Barometer.

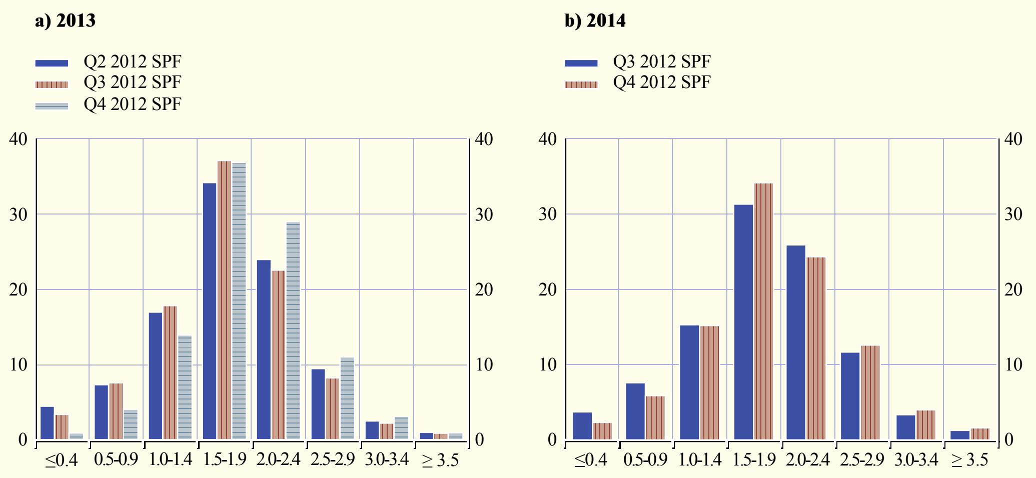
expectations have been revised downwards for 2012, 2013 and 2014, while unemployment expectations have been revised further upwards for these horizons. As regards longer-term inflation expectations, the average point forecast remains unchanged at 2.0%.

Higher inflation expectations for 2012 and 2013

The SPF inflation expectations for 2012 and 2013 stand at 2.5% and 1.9% respectively (see the table). This implies upward revisions of 0.2 percentage point for both years, compared

Chart A Aggregate probability distribution of average annual inflation expectations for 2013 and 2014 in the latest SPF rounds

(probability in percentages)



Source: ECB.
Note: The aggregate probability distribution corresponds to the average of individual probability distributions provided by SPF forecasters.

with the previous survey round. According to participants, these revisions mainly reflect higher than expected increases in commodity prices and indirect taxes. Inflation expectations for 2014 remain unchanged at 1.9%.

The SPF inflation expectations for 2012 and 2013 are within the ranges reported in the September 2012 ECB staff macroeconomic projections and are very similar to those published in the Euro Zone Barometer and Consensus Economics surveys in October. The aggregate probability distribution for inflation in 2012 has become more concentrated in the interval between 2.5% and 2.9%, while the distributions for inflation in 2013 and 2014 have shifted towards higher outcomes, compared with the previous survey round (see Chart A).

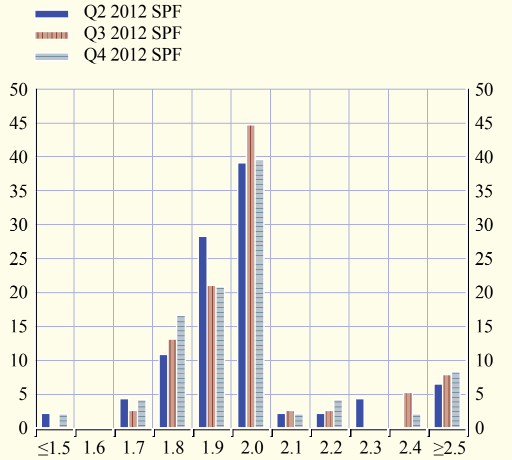
Risks to the baseline inflation outlook are perceived by participants to be broadly balanced. Some respondents mentioned further increases in commodity prices, indirect taxes and administered prices as upward risks. The main downside risk to inflation was related to a further deterioration in economic activity and labour markets in the euro area.

Longer-term inflation expectations unchanged at 2.0%

The average point forecast for longer-term inflation (for 2017) remains at 2.0%. Rounded to two decimal places, expectations stand on average at 1.98%, compared with 2.02% in the previous survey round. The median and the mode of the point forecasts are also stable at 2.0%. The share of respondents providing a point forecast of 2.0% has fallen from 45% to 40% (see Chart B). The SPF longer-term inflation expectations are broadly in line with the latest longer-term forecasts from Consensus Economics and the Euro Zone Barometer. The aggregate probability distribution has become slightly flatter (with some probability moving to the tails of the distribution)

Chart B Cross-sectional distribution of longer-term inflation point forecasts (i.e. five years ahead)

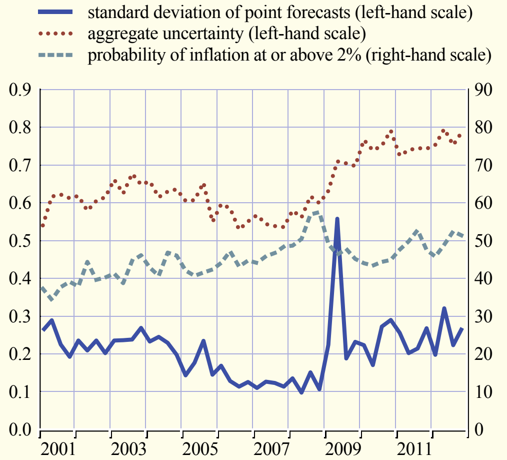
(percentage of respondents)



Source: ECB.

Chart C Disagreement and uncertainty about longer-term inflation expectations

(percentage points; percentages)



Source: ECB.
Note: Aggregate uncertainty is defined as the standard deviation of the aggregate probability distribution (assuming discrete probability density function with probability mass concentrated in the middle of the interval).

compared with the previous SPF round. The probability of inflation being at or above 2.0% inched downwards, falling from 52% in the previous SPF round to 51% in this round.

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, increased to 0.3 percentage point (from 0.2 percentage point). Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, has risen marginally compared with the previous round and remains at historically high levels (see Chart C).[2]

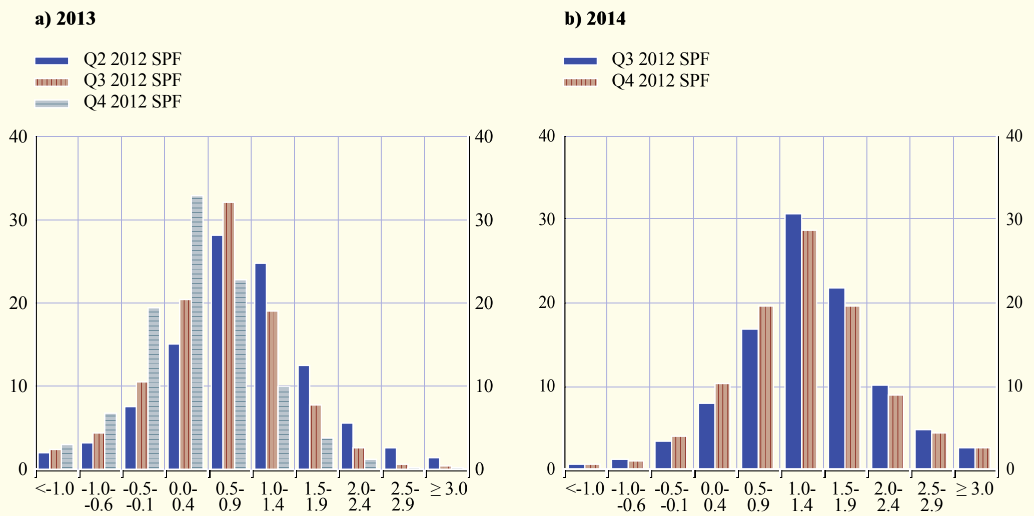
Lower GDP growth expectations for 2012, 2013 and 2014

GDP growth expectations for 2012 and 2013 have been revised downwards by 0.2 and 0.3 percentage points to stand at -0.5% and 0.3% respectively. Expectations for 2014 stand at 1.3%, compared with 1.4% in the previous round (see the table). Expectations for 2012 and 2013 lie within the ranges reported in the September 2012 ECB staff macroeconomic projection exercise, but have come close to the lower end for 2012. Compared with the latest corresponding forecasts of Consensus Economics and the Euro Zone Barometer, SPF expectations are similar for 2012 and 2014, but slightly higher for 2013. According to the respondents, the main factor behind the downward revision for 2012 was the prolonged uncertainty in the euro area, which was also reflected in weak economic indicators in summer and early autumn. Positive contributions to growth continue to come from net exports, but less than previously expected, owing to a slowdown in growth in China and the United States. Downward revisions for 2013 and 2014 reflect the longer than expected persistence of uncertainty, as well as a continuation of fiscal consolidation measures associated with the sovereign debt crisis in some euro area countries and their negative impact on consumption and investment.

2 For a discussion regarding uncertainty measures, see the box entitled “Measuring perceptions of macroeconomic uncertainty”, *Monthly Bulletin*, ECB, January 2010.

Chart D Aggregate probability distribution of average annual real GDP growth expectations for 2013 and 2014 in the latest SPF rounds

(probability in percentages)



Source: ECB.
Note:The aggregate probability distribution corresponds to the average of individual probability distributions provided by SPF forecasters.

The aggregate probability distribution for 2012 is more strongly concentrated around relatively low outcomes than the previous round, while the whole distributions for 2013 and 2014 have shifted towards lower outcomes (see Chart D). For 2012 the respondents now assign the highest probability, 57%, to the interval between -0.5% and -0.1%, compared with 45% in the previous SPF round. For 2013 the highest probability is assigned to the interval between 0.0% and 0.4% (33%, compared with 20% in the previous SPF round). For 2014 the most likely outcome still falls in the interval between 1.0% and 1.4%, although the probability assigned to it has decreased slightly to 29%, from 31% in the previous SPF round. Respondents continue to see the balance of risks to euro area GDP growth as tilted to the downside, mainly on account of fears of a renewed intensification of the sovereign debt crisis. The main upside risk to the baseline outlook is seen to be a faster than expected pick-up in private sector confidence following the ECB's announcement of its Outright Monetary Transactions programme.

Longer-term growth expectations (for 2017) remain stable at 1.8%. The aggregate probability distribution has changed only marginally from the previous SPF round, with a slightly higher concentration on the intervals from 1.0% to 1.9% and a lower concentration on those in the tails.

Higher unemployment rate expectations for 2012, 2013 and 2014

Unemployment rate expectations currently stand at 11.3% for 2012, 11.6% for 2013 and 11.2% for 2014 (see table). This implies upward revisions of 0.1 percentage point for 2012, 0.2 percentage point for 2013 and 0.4 percentage point for 2014, compared with the previous SPF round. According to the forecasters' comments, the upward revisions are mainly a result of weaker than expected economic activity. Forecasters anticipate the unemployment rate to peak in 2013, and the subsequent decrease is seen to be due to the success of structural reforms in the labour market that have already been implemented in certain countries. The forecasts for 2012 are slightly higher than those from Consensus Economics and the Euro Zone Barometer, while those for 2013 are somewhat lower. The SPF expectations for 2014 are in line with the latest Eurozone Barometer forecasts.

Regarding the risk assessment, the main upside risks are considered to be a further weakening of economic activity and a slower than expected implementation of structural reforms in the labour market. At the same time, downside risks are mentioned mainly in the context of the longer-term horizon and are mostly associated with structural reforms having a greater impact in some countries.

Longer-term unemployment rate expectations (for 2017) declined by 0.2 percentage point, compared with the previous round, to 9.0%, with the balance of risks assessed to be on the downside. The aggregate probability distribution has shifted towards lower outcomes.

Other variables and conditioning assumptions

The assumptions for the variables that underlie the respondents' forecasts have been revised in different directions. Oil price expectations have been revised upwards, starting from USD 102 per barrel in the fourth quarter of 2012 in the previous SPF round to around USD 110 per barrel in the current round, mirroring a 7% increase in oil prices since the last survey. For 2014 an oil price of around USD 113 is foreseen. Growth in compensation per employee is expected to stand at 2.0% in 2012, 1.8% in 2013 and 1.9% in 2014, which is somewhat higher for 2012 and somewhat lower for 2014 than assumed in the previous survey round. The long-term expectations for growth in compensation per employee remain unchanged at 2.4% for 2017. The interest rate on the main refinancing operations of the Eurosystem is expected to decrease to 0.6% in 2013 and increase to 0.8% in 2014. The USD/EUR exchange rate is expected to stay stable at around 1.28 up to 2014.