

### Box 3

#### The February 2001 Survey of Professional Forecasters

Since February 1999 the ECB has conducted a quarterly survey of inflation expectations. The survey is known as the Survey of Professional Forecasters (SPF), reflecting the fact that participants are experts from financial and non-financial institutions based in the European Union. The ninth round of the survey was conducted in early February 2001. Hence the latest SPF incorporates recent economic developments, in particular in the external environment, which were not reflected in the forecasts of the main international institutions as published last autumn or in the Eurosystem staff economic projections as published in December 2000.

Survey participants were asked to submit expectations for the average rate of inflation, real GDP growth and the unemployment rate in the euro area for the calendar years 2001 and 2002, as well as for a longer horizon of five years ahead, i.e. for the year 2005. In addition, participants are also asked to provide their outlook over a "rolling horizon" set one and two years ahead of the period for which the latest official data for each particular variable are available. The rolling horizons help to identify expected patterns in inflation, GDP growth and the unemployment rate which are difficult to detect from expectations for annual average developments in the calendar years. In the February 2001 survey, the rolling horizon extended to December 2001 and December 2002 for the HICP inflation rate, to the third quarter of both 2001 and 2002 for the rate of real GDP growth and to November 2001 and November 2002 for the level of the euro area unemployment rate. The results of the survey are reported below. They are based on 60 replies from 84 forecasters, i.e. a response rate of 71%.

#### Lower HICP inflation is expected for 2001 and 2002

After a realised average rate of 2.4% in 2000, lower HICP inflation is expected for 2001 and 2002. According to the February 2001 SPF, the professional forecasters expect *HICP inflation in the euro area* to average 2.0% in 2001 and to decrease to 1.7% in 2002 (see the table below). These results imply no change in expectations for 2001 and a slight revision of 0.1 percentage point downwards for 2002 when compared with the expected inflation rates reported in the November 2000 SPF. The results indicate that the forecasters expect inflation to gradually decline over the course of 2001 and to stand at 1.7% in December 2001. The annual rate of inflation expected in December 2002 is also 1.7%. According to the results of previous surveys, as reported in Box 3 in the January 2001 issue of the Monthly Bulletin, there was evidence that the forecasters had revised upwards their inflation expectations above the 2% level for 2000, in line with developments in actual inflation. By contrast, the latest results in the February 2001 SPF confirm that more medium-term inflation expectations have remained unchanged. In fact, in 2005 inflation is also expected to remain below the 2% level, at 1.8% on average. The expected rates of average HICP inflation for 2001 and 2002 in the current SPF are also identical to the figures reported in the February 2001 forecast from Consensus Economics. It should be noted, however, that the Consensus Economics figures refer to an aggregate of country forecasts based on national consumer price indices, and not to the HICP as the SPF does.

As an explanation for the gradual decrease in inflation expectations throughout 2001, the forecasters cite lower oil prices, the appreciation of the euro exchange rate and lower, but still robust, economic growth in the euro area in 2001. Regarding the main scenario for their forecasts, weaker world demand is foreseen, but it is expected to have only a limited effect on economic growth in the euro area. In particular, strong domestic demand is expected in the euro area, reflecting high consumer confidence and direct tax cuts expected in a number of countries. In addition, the forecasters generally expect a gradual decrease in oil prices and a depreciation of the US dollar as a consequence of the slowdown in the US economy in 2001. Both factors are expected to exert a direct downward effect on HICP inflation through the energy component. With regard to expected developments in non-energy inflation, the presence of indirect effects on consumer prices arising from the high oil prices and the depreciation of the euro for most of 2000 is mentioned as a factor that will add to consumer price increases over the course of 2001. Moreover, according to respondents, the expectation of fairly robust domestic demand growth may limit the pass-through of the anticipated decrease in oil prices to

## Results from the Survey of Professional Forecasters

(annual percentage changes, unless otherwise indicated)

|  | Survey horizon |           |      |           |      |
|--|----------------|-----------|------|-----------|------|
|  | 2001           | Dec. 2001 | 2002 | Dec. 2002 | 2005 |
| <b>Overall HICP</b>                    |                |           |      |           |      |
| Latest survey, February 2001           | 2.0            | 1.7       | 1.7  | 1.7       | 1.8  |
| Previous survey, November 2000         | 2.0            | -         | 1.8  | -         | -    |
|  | 2001           | 2001 Q3   | 2002 | 2002 Q3   | 2005 |
| <b>Real GDP growth</b>                 |                |           |      |           |      |
| Latest survey, February 2001           | 2.7            | 2.7       | 2.8  | 2.7       | 2.7  |
| Previous survey, November 2000         | 3.1            | -         | 2.8  | -         | -    |
|  | 2001           | Nov. 2001 | 2002 | Nov. 2002 | 2005 |
| <b>Unemployment rate <sup>1)</sup></b> |                |           |      |           |      |
| Latest survey, February 2001           | 8.5            | 8.4       | 8.2  | 8.0       | 7.3  |
| Previous survey, November 2000         | 8.5            | -         | 8.1  | -         | -    |

1) As a percentage of the labour force.

consumer prices. Over the course of 2001 a moderate rate of growth in unit labour costs is expected, while for 2002 the risks for the inflation outlook from wages are generally deemed to be somewhat on the upside. In addition, a few forecasters also mention upward pressures on prices arising from the changeover to the euro banknotes and coins (i.e. through a rounding-up of prices) in the first half of 2002.

The outlook for inflation contained in the February 2001 SPF should be considered in the context of participants' expectations for both euro area GDP growth and the unemployment rate. The February 2001 SPF shows lower expected rates of GDP growth for 2001. Survey participants have revised their expectations for average *real GDP growth* in 2001 to 2.7%, 0.4 percentage point downwards compared with the November 2000 SPF. This downward revision seems to be mostly related to the recent slowdown in the United States and in world growth. In 2002 real GDP growth in the euro area is expected to be slightly higher, at 2.8% on average, which is unchanged from the November 2000 SPF. These expectations for GDP growth in 2001 and 2002 are 0.1 percentage point lower than those reported in the February 2001 forecast from Consensus Economics for the same period. Regarding the assumptions underlying the expectations, several SPF participants mention that a relaxation of fiscal policy in 2001 and 2002 in many countries will have an upward impact on growth by increasing disposable income and thereby private consumption. Further increases in employment are also expected to support private consumption (via consumer confidence and disposable income), thereby underpinning growth in 2001 and 2002. In addition, owing to the decrease in oil prices foreseen over the surveyed horizon, the terms of trade will improve somewhat and thus help to support a rise in real income. Over a longer horizon, GDP growth in the euro area is expected to remain strong and to average 2.7% in 2005.

The *euro area unemployment rate* is expected to continue to fall gradually over the forecast horizon. It is expected to average 8.5% in 2001, reaching 8.4% by November, and to continue to decrease moderately thereafter. In 2002 the unemployment rate is expected to average 8.2%, and to reach 8.0% by November. Moreover, it is expected to average 7.3% in 2005, implying a further decline over the medium term.