

## Box 5

### The August 2001 Survey of Professional Forecasters (SPF)<sup>1</sup>

At the beginning of August, the ECB completed its eleventh quarterly round of the SPF. The August 2001 questionnaire asked respondents to provide their expectations for average HICP inflation, real GDP growth and unemployment rates in the euro area for the calendar years 2001, 2002 and 2003, as well as over a longer horizon of five years, i.e. 2006. In addition, participants were also asked to provide their expectations over “rolling horizons” set one year and two years after the period for which the latest official data for each particular variable were available when conducting the survey. These rolling horizons help identify expected patterns in HICP inflation, real GDP growth and the unemployment rate that are difficult to deduce from expectations for annual average developments within the calendar years. In the latest survey, the rolling horizons for the HICP inflation rate were set at June 2002 and June 2003; the rolling horizons for the rate of growth in real GDP were set at the first quarter of 2002 and the first quarter of 2003 and the rolling horizons for the rate of euro area unemployment were set at May 2002 and May 2003. The results of the August 2001 SPF, which are based on 50 replies, are reported below.

#### HICP inflation expected to fall below 2% in 2002

According to the August 2001 SPF, annual HICP inflation in the euro area is expected to average 2.7% in 2001 and to decrease to 1.9% in 2002 (see the table below). These results imply an upward revision in inflation expectations of 0.4 percentage point for 2001 and of 0.1 percentage point for 2002 when compared with the expected inflation rates reported in the previous round in May 2001. The results also indicate that forecasters expect a gradual decrease in the annual inflation rate in the second half of 2001 and at the beginning of 2002. By June 2002, annual HICP inflation is expected to have fallen to 1.8%. Forecasters' expectations for euro area inflation further ahead indicate that inflation will remain below 2%. Indeed, the annual rate expected both for June 2003 and for 2003 as a whole is 1.8%. Thus the upward revision in survey participants' expectations applies mainly to 2001, suggesting that the developments in food prices associated with BSE and foot-and-mouth disease are expected to have only a temporary effect on overall inflation. More medium-term inflation expectations remain roughly unchanged. In 2006 HICP inflation is expected to average 1.8%.

<sup>1</sup> The survey is called the Survey of Professional Forecasters (SPF) to reflect the fact that the participants are experts from both financial and non-financial institutions based in the European Union.

## Results from the Survey of Professional Forecasters

(annual percentage changes, unless otherwise indicated)

	Survey horizon					
	2001	June 2002	2002	June 2003	2003	2006
<b>HICP inflation</b>						
Latest survey, August 2001	2.7	1.8	1.9	1.8	1.8	1.8
Previous survey, May 2001	2.3	-	1.8	-	-	-
	2001	2002 Q1	2002	2003 Q1	2003	2006
<b>Real GDP growth</b>						
Latest survey, August 2001	2.0	2.0	2.4	2.6	2.6	2.6
Previous survey, May 2001	2.5	-	2.6	-	-	-
	2001	May 2002	2002	May 2003	2003	2006
<b>Unemployment rate<sup>1)</sup></b>						
Latest survey, August 2001	8.4	8.2	8.2	7.9	7.9	7.1
Previous survey, May 2001	8.5	-	8.2	-	-	-

1) As a percentage of the labour force.

### Downward revisions of expected real GDP growth rates continue

In line with the downward revisions of growth prospects in the forecasts that have become available in recent months, survey participants revised their expectations for the average growth rate in 2001 to 2.0%, down by 0.5 percentage point compared with the May 2001 SPF and by 0.7 percentage point compared with the November 2000 SPF. In the first quarter of 2002 the year-on-year growth rate is also expected to be 2.0%. These downward revisions seem to be related mainly to growing concerns about the size and duration of the slowdown in the United States and in world demand. For 2002 as a whole, real GDP growth in the euro area is expected to rebound somewhat to average 2.4%, but this figure is 0.2 percentage point lower than that given in the May 2001 SPF for the same period. A recovery in the course of 2002 is anticipated, and GDP growth is expected to be 2.6% year-on-year in the first quarter of 2003. Over a longer horizon, real GDP growth in the euro area is expected to average 2.6% in 2006.

The *euro area unemployment rate* is expected to continue to fall gradually over the forecast horizon. The unemployment rate is expected to average 8.4% in 2001, falling to 8.2% by May 2002, and to continue to decrease moderately thereafter. The unemployment rate is expected to average 8.2% in 2002 and 7.9% in 2003. It is expected to decrease further to 7.1% in 2006.