

Box 5

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FIRST QUARTER OF 2008

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the first quarter of 2008. The survey was conducted between 16 and 18 January 2008. 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 2008 and 2009

SPF participants' inflation expectations for 2008 have shifted towards higher levels. The reported point estimates averaged 2.5%, which is 0.5 percentage point higher than in the previous SPF

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

(annual percentage changes, unless otherwise indicated)

	Survey horizon				
	2008	Dec. 2008	2009	Dec. 2009	Longer term ²⁾
HICP inflation					
SPF Q1 2008	2.5	2.0	2.0	2.0	2.0
Previous SPF (Q4 2007)	2.0	-	2.0	-	1.9
Eurosystem staff macroeconomic projections	2.0 - 3.0	-	1.2 - 2.4	-	-
Consensus Economics (January 2008)	2.4	-	1.9	-	1.9
Euro Zone Barometer (January 2008)	2.4	-	1.9	-	2.0
Real GDP growth					
SPF Q1 2008	1.8	1.7	2.0	2.1	2.1
Previous SPF (Q4 2007)	2.1	-	2.2	-	2.2
Eurosystem staff macroeconomic projections	1.5 - 2.5	-	1.6 - 2.6	-	-
Consensus Economics (January 2008)	1.8	-	2.0	-	2.0
Euro Zone Barometer (January 2008)	1.8	-	2.0	-	2.0
Unemployment rate¹⁾					
SPF Q1 2008	7.1	6.7	7.0	6.6	6.7
Previous SPF (Q4 2007)	6.7	-	6.6	-	6.4
Consensus Economics (January 2008)	7.2	-	7.1	-	-
Euro Zone Barometer (January 2008)	7.1	-	7.1	-	6.8

1) As a percentage of the labour force.

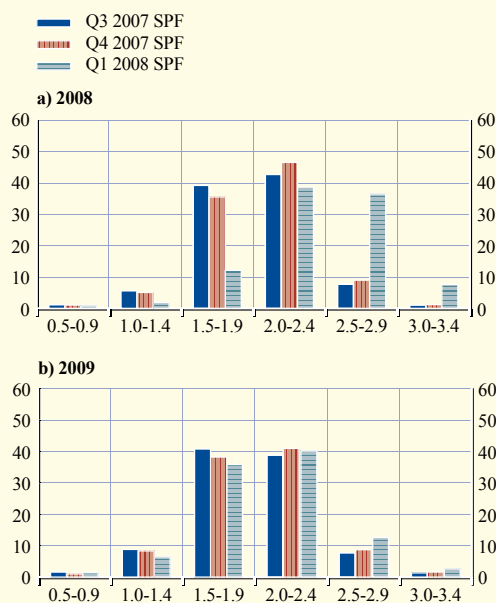
2) Longer-term inflation expectations refer to 2012 in the SPF, 2011 in the Euro Zone Barometer and the period 2013-17 in Consensus Economics. The Consensus Economics forecasts for the period 2013-17 were published in the October 2007 issue of Consensus Economics.

round (see the table).¹ These inflation expectations reflect concerns about higher cost and wage pressures in 2008. On average, the expected inflation rate for 2009 remained unchanged at 2.0%. SPF inflation expectations are within the ranges reported in the December 2007 Eurosystem staff macroeconomic projections, but slightly higher than the forecasts published in the January 2008 issues of Consensus Economics and the Euro Zone Barometer.

SPF participants are also asked to assess the probability of the future outcome being within specific intervals. The aggregate probability distribution obtained by averaging the forecasters' responses provides a summary of these views. It also permits an assessment of how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. The probability distributions for expected rates of inflation in 2008 and, to a lesser extent, in 2009 have shifted towards higher outcomes compared with the SPF round for the fourth quarter of 2007 (see Chart A). For 2008, the two most

Chart A Probability distribution for average annual inflation in 2008 and 2009 in the last three rounds of the SPF¹⁾

(probability in percentages)



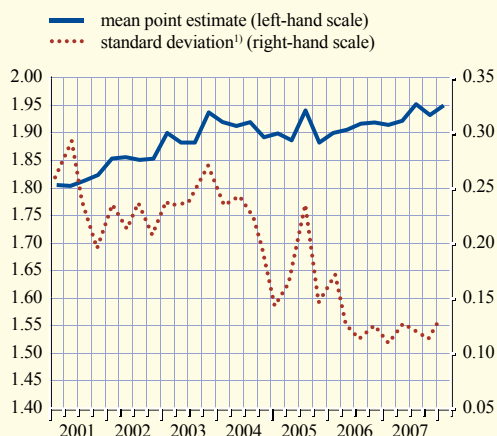
Source: ECB.

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

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

**Chart B Long-term inflation expectations
(point estimate — five years ahead)**

(average annual percentage changes; percentage points)

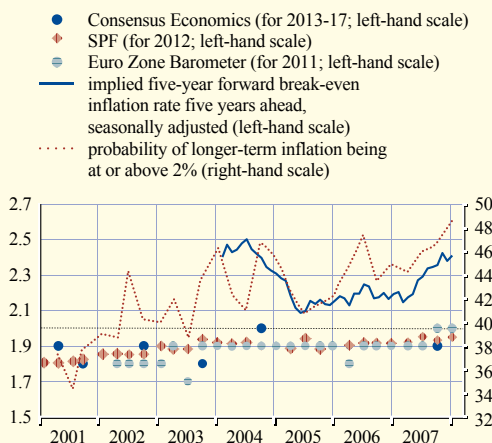


Source: ECB.

1) The standard deviation of point estimates reported by each of the panel members responding to the survey.

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

(average annual percentage changes; percentage probability)



Sources: Consensus Economics, Euro Zone Barometer, ECB, Reuters and ECB calculations.

likely outcomes for inflation are within the interval from 2.0% to 2.4%, with a probability of 40%, and within the interval from 2.5% to 2.9%, with a probability of 37%. For 2009, the most likely outcome for inflation remains in the interval from 2.0% to 2.4%, with a probability of 40%. At the same time, the probability of inflation being in the lower interval, from 1.5% to 1.9%, remains at 36%.

According to the participants, upside risks to the forecasts relate, in particular, to further increases in oil prices and an acceleration in nominal wage growth. At the same time, forecasters quoted factors posing risks on the downside, notably a further strengthening of the exchange rate of the euro and the possibility of a stronger than expected contraction in aggregate demand.

Indicators of longer-term inflation expectations

According to the latest SPF results, longer-term inflation expectations (five years ahead) have been revised marginally upwards, from 1.93% to 1.95%. To one decimal place, this revision leads to a change from 1.9% to 2.0% due to rounding. These point expectations for 2012 are in line with the long-term projections for inflation for 2011 provided by the Euro Zone Barometer in January 2008, and slightly above those for inflation six to ten years ahead published in the October 2007 issue of Consensus Economics. The standard deviation of longer-term inflation expectations in the SPF has fallen over time and remains stable at low levels, indicating a broad consensus among respondents regarding the most likely outcome for the longer-term inflation rate (see Chart B).

The probability attached by survey respondents to longer-term inflation standing at 2% or above increased slightly to 49%, compared with 48% in the previous round (see Chart C). These survey results can 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 rise in the probability that inflation five years ahead will stand at 2% or above is in line with developments in the implied five-year forward break-even inflation rate five years ahead (see Chart C). It should be recalled that 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).

Real GDP growth expectations

In comparison with the previous SPF round, expectations for real GDP growth have been revised downwards by 0.3 percentage point for 2008 and by 0.2 percentage point for 2009. The averages of the point estimates for real GDP growth now stand at 1.8% for 2008 and 2.0% for 2009. These downward revisions mainly reflect forecasters' concerns about the economic slowdown in the United States, which could have worldwide effects.

Similarly, the downside risks to these expectations are mainly associated with higher oil prices, continued uncertainty surrounding the developments in the financial markets and a disorderly unwinding of global imbalances, with possible effects on the exchange rate of the euro. The main upside risks cited by forecasters were an overly aggressive policy easing in the United States and buoyant private consumption and employment in the euro area. SPF growth expectations for 2008 and 2009 are within the ranges of the December 2007 Eurosystem staff macroeconomic projections and in line with the results published in the latest issues of Consensus Economics and the Euro Zone Barometer.

Longer-term growth expectations (i.e. for 2012) have also been subject to a downward revision, of 0.1 percentage point, and now stand at 2.1%. According to SPF participants, longer-term growth prospects depend principally on further structural reforms in the labour market and social security systems, the demographic situation and migration flows.

Expectations for the euro area unemployment rate

Unemployment rate expectations for 2008 and 2009 currently stand at 7.1% and 7.0% respectively. These expectations imply an upward revision of 0.4 percentage point for both 2008 and 2009 and could be attributed mainly to an upward revision of data in the unemployment series that took place after the end of the previous SPF round. According to some forecasters, while the unemployment rate has dropped significantly in the euro area over the past several years owing to labour market reforms, labour mobility and the reduced bargaining power of unions, any further declines are now expected to be modest. They also claim that, given the dynamics and the structural changes in the euro area labour market, it is difficult to distinguish between temporary and permanent changes in the unemployment rate. SPF unemployment rate expectations are slightly lower than those of Consensus Economics for 2008 and 2009 and the Euro Zone Barometer for 2009.

Longer-term unemployment rate expectations have been revised upwards by 0.3 percentage point and stand at 6.7% for 2012. The balance of risks to these expectations is assessed to be on the upside. Respondents continue to indicate that the decline in the unemployment rate over the longer-term horizon is mainly dependent on further, and deeper, labour market reforms.

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