

**Box 6**
**RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2008**

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2008. The survey was conducted between 16 and 18 April 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 upwards. The reported point estimates averaged 3.0%, 0.5 percentage point higher than in the previous SPF round (see table).<sup>1</sup> The expected inflation rate for 2009 was revised upwards by 0.2 percentage point to 2.2%. These inflation expectations reflect the strong short-term dynamics of oil and food prices as well as concerns about higher cost pressures and wage demand. The SPF inflation expectations for both 2008 and 2009 are within the ranges reported in the March 2008 ECB staff projections but 0.1 percentage point higher than the projections published in the April 2008 issues of Consensus Economics and the Euro Zone Barometer.

SPF participants were also asked to assess the probability of the future outcome falling within specific intervals. The aggregate probability distribution obtained by averaging the forecasters' responses provides a summary of their assessments. It also enables an assessment of how survey participants gauge, on average, the risk of the actual outcome being above or below the most

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

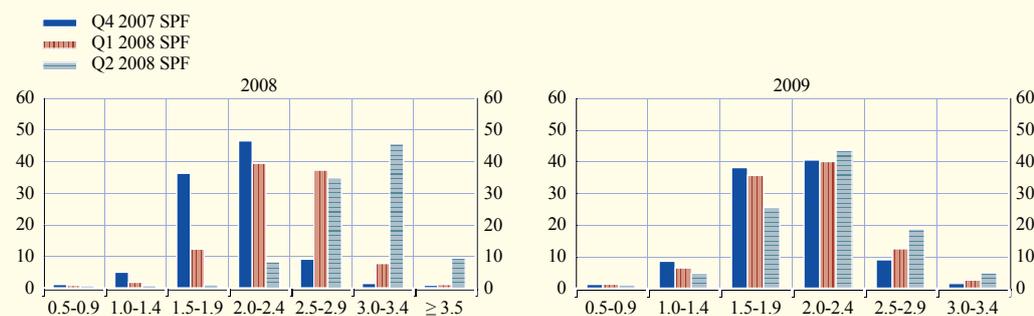
	Survey horizon				
	2008	Mar. 2009	2009	Mar. 2010	Longer term <sup>2)</sup>
<b>HICP inflation</b>					
SPF Q2 2008	3.0	2.1	2.2	2.0	1.9
<i>Previous SPF (Q1 2008)</i>	2.5	-	2.0	-	2.0
ECB staff macroeconomic projections	2.6 - 3.2	-	1.5 - 2.7	-	-
Consensus Economics (April 2008)	2.9	-	2.1	-	2.0
Euro Zone Barometer (April 2008)	2.9	-	2.1	-	2.0
<b>Real GDP growth</b>					
SPF Q2 2008	1.6	1.4	1.6	1.9	2.1
<i>Previous SPF (Q1 2008)</i>	1.8	-	2.0	-	2.1
ECB staff macroeconomic projections	1.3 - 2.1	-	1.3 - 2.3	-	-
Consensus Economics (April 2008)	1.5	-	1.7	-	2.0
Euro Zone Barometer (April 2008)	1.5	-	1.7	-	2.0
<b>Unemployment rate<sup>1)</sup></b>					
SPF Q2 2008	7.1	7.2	7.1	7.1	6.6
<i>Previous SPF (Q1 2008)</i>	7.1	-	7.0	-	6.7
Consensus Economics (April 2008)	7.1	-	7.1	-	-
Euro Zone Barometer (April 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 2014-18 in Consensus Economics. The Consensus Economics forecasts for the period 2014-18 were published in the April 2008 issue of Consensus Economics.

**Chart A Probability distribution for average annual inflation in 2008 and 2009 in the last three rounds of the SPF <sup>1)</sup>**

(probability in percentages)



Source: ECB.

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

likely range. The probability distributions for expected inflation in 2008 and, to a lesser extent, in 2009 have shifted towards higher outcomes compared with the SPF round for the first quarter of 2008 (see Chart A). For 2008 the two most likely outcomes for inflation are within the interval from 3.0% to 3.4%, with a probability of 46%, and within the interval from 2.5% to 2.9%, with a probability of 35%. For 2009 the most likely outcome for inflation is concentrated in the interval from 2.0% to 2.4%, with a probability of 44%. The probability of inflation being in the lower interval, from 1.5% to 1.9%, remains still high, at 26%.

According to the participants, upside risks to the forecasts relate in particular to further increases in oil, food and commodity prices and in nominal wage growth. At the same time, forecasters also quoted factors posing risks on the downside, notably a slowdown in euro area economic activity, less dynamic global developments and further appreciation of the euro.

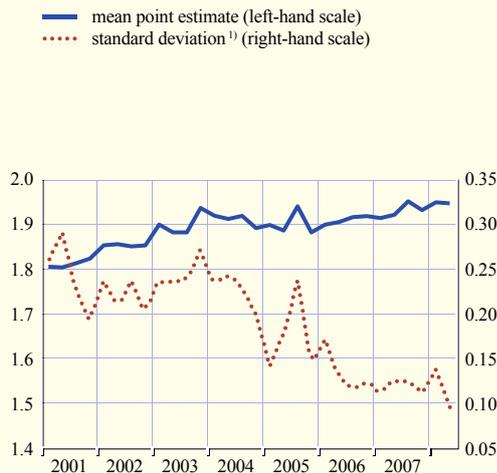
### Indicators of longer-term inflation expectations

Longer-term inflation expectations (for the next five years) have hardly been changed since the last round, falling marginally, from 1.950% to 1.948%. However, to one decimal place, this revision leads to a change from 2.0% to 1.9% because of rounding. These point expectations for 2012 are slightly below the long-term inflation projections for 2011 provided by the Euro Zone Barometer and those for inflation six to ten years' ahead published in the April 2008 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 of longer-term inflation standing at 2% or above increased slightly to 50%, according to survey respondents, compared with 49% 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.<sup>2</sup> Over time, the probability assigned to an outcome that inflation will

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

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

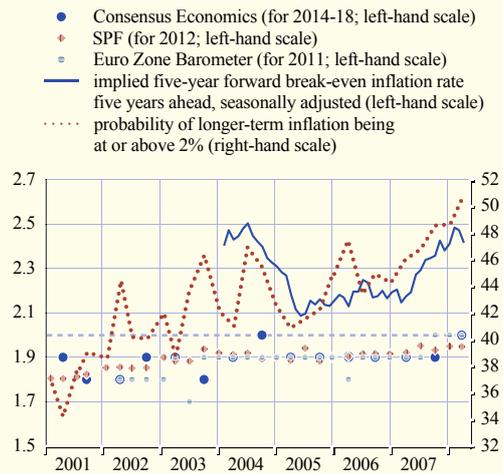


Source: ECB.

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)**

(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.

stand at 2% or above in the next five years is broadly in line with developments in the implied five-year forward five-year break-even inflation rate (see Chart C).<sup>3</sup>

### Real GDP growth expectations

In comparison with the previous SPF round, expectations for real GDP growth have been revised downwards by 0.2 percentage point for 2008 and by 0.4 percentage point for 2009. The averages of the point estimates for real GDP growth now stand at 1.6% for both 2008 and 2009. These downward revisions reflect mainly forecasters' concerns about the economic slowdown in the United States and the United Kingdom, which could have effects worldwide.

The risks to these expectations are mainly on the downside and are 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. SPF growth expectations for 2008 and 2009 are within the ranges of the March 2008 ECB staff macroeconomic projections. Compared with the projections published in the latest issues of the Euro Zone Barometer and Consensus Economics, the SPF growth expectations are 0.1 percentage point higher for 2008 and 0.1 percentage point lower for 2009.

Longer-term growth expectations (i.e. for 2012) have remained 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.

<sup>3</sup> 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).

### Expectations for the euro area unemployment rate

Unemployment rate expectations for both 2008 and 2009 currently stand at 7.1%. These expectations imply no change for 2008 and an upward revision of 0.1 percentage point for 2009 compared to the last SPF report. According to the forecasters, even though employment is moderating in the euro area, its pace would be sufficient to keep the unemployment rate at about current levels in the near term. Among the upside risks to the unemployment rate, forecasters mention a possible unwinding of imbalances in the construction and housing sector. Unemployment rate expectations in the last SPF round are in line with those of Consensus Economics for 2008 and 2009 and the Euro Zone Barometer for 2009.

Longer-term unemployment rate expectations have been revised downwards by 0.1 percentage point and stand at 6.6% for 2012. Respondents continued to indicate that the decline in the unemployment rate over the longer-term horizon is mainly dependent on further, and deeper, labour market reforms.