

Box 5

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2008. The survey was conducted between 16 and 18 July 2008. The SPF gathers information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated with 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.

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

(annual percentage changes, unless otherwise indicated)

HICP inflation	2008	Survey horizon				
		June 2009	2009	June 2010	2010	Longer term ²⁾
SPF Q3 2008	3.6	2.4	2.6	2.0	2.1	2.0
<i>Previous SPF (Q2 2008)</i>	<i>3.0</i>	-	<i>2.2</i>	-	-	<i>1.9</i>
Eurosystem staff macroeconomic projections	3.2 - 3.6	-	1.8 - 3.0	-	-	-
Consensus Economics (July 2008)	3.6	-	2.4	-	2.0	2.0
Euro Zone Barometer (July 2008)	3.6	-	2.4	-	2.1	2.0
Real GDP growth	2008	Q1 2009	2009	Q1 2010	2010	Longer term ²⁾
SPF Q3 2008	1.6	0.9	1.3	1.7	1.8	2.1
<i>Previous SPF (Q2 2008)</i>	<i>1.6</i>	-	<i>1.6</i>	-	-	<i>2.1</i>
Eurosystem staff macroeconomic projections	1.5 - 2.1	-	1.0 - 2.0	-	-	-
Consensus Economics (July 2008)	1.6	-	1.2	-	1.9	2.0
Euro Zone Barometer (July 2008)	1.6	-	1.2	-	1.8	2.0
Unemployment rate ¹⁾	2008	May 2009	2009	May 2010	2010	Longer term ²⁾
SPF Q3 2008	7.2	7.4	7.4	7.3	7.4	6.9
<i>Previous SPF (Q2 2008)</i>	<i>7.1</i>	-	<i>7.1</i>	-	-	<i>6.6</i>
Consensus Economics (July 2008)	7.2	-	7.4	-	-	-
Euro Zone Barometer (July 2008)	7.2	-	7.4	-	7.2	7.0

1) As a percentage of the labour force.

2) Longer-term inflation expectations refer to 2013 in the SPF, 2012 in the Euro Zone Barometer and the period 2014-18 in Consensus Economics. The Consensus Economics forecasts for the period 2014-18 and the year 2010 were published in the April 2008 issue of Consensus Economics.

Inflation expectations for 2008, 2009 and 2010

SPF participants' inflation expectations for 2008 and 2009 have shifted upwards. The reported point estimates averaged 3.6% for 2008, 0.6 percentage point higher than in the previous SPF round (see the table).¹ The expected inflation rate for 2009 was revised upwards by 0.4 percentage point, to 2.6%. These inflation expectations reflect the elevated level of oil, commodity and food prices, as well as, to a lesser extent, concerns about higher wages. The SPF inflation expectations for 2008 and 2009 are within the ranges reported in the June 2008 Eurosystem staff macroeconomic projections. They are also in line with the projections published in the July 2008 issue of Consensus Economics and Euro Zone Barometer for 2008, but are 0.2 percentage point higher for 2009.

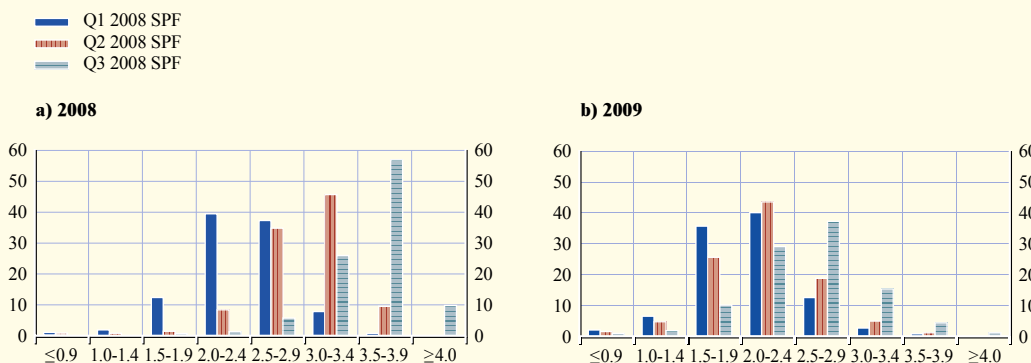
SPF participants were also asked to assess the probability of the future outcome falling within specific intervals. The aggregate probability distribution obtained by averaging the forecasters' responses provides a summary of their assessments. It also provides information about how survey participants gauge, on average, the risk of the actual outcome being above or below the most likely range. The probability distributions for expected inflation in 2008 and 2009 have shifted towards higher outcomes compared with the SPF round for the second quarter of 2008 (see Chart A). Moreover, for 2008 the interval "4.0% or above" (introduced in this survey round) has received 10% probability. For 2008 the most likely outcome for inflation is within the interval from 3.5% to 3.9%, with a probability of 57%. For 2009 the most likely outcome for inflation is concentrated in the interval from 2.5% to 2.9%, with a probability of 37%. The probability of inflation being in the lower interval, from 2.0% to 2.4%, has declined to 29%, compared with 44% in the previous SPF round.

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,

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

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 average of individual probability distributions provided by SPF forecasters.

some forecasters also cited factors posing risks on the downside, notably a slowdown in euro area economic activity, and more specifically, weak consumption growth.

Inflation expectations for 2010, provided for the first time, stand at 2.1%, equal to the figure reported in the Euro Zone Barometer and slightly above that of Consensus Economics.

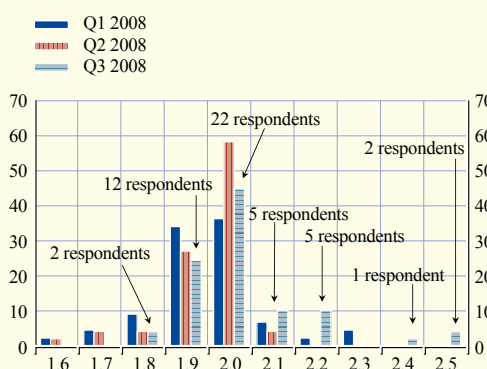
Indicators of longer-term inflation expectations

Longer-term inflation expectations (for the year 2013) have been revised upward by 0.08 percentage point from 1.95% to 2.03%. This is the highest rate since the start of the survey in 1999. These point expectations are in line with the long-term inflation projections for 2012 provided by the Euro Zone Barometer and those for inflation six to ten years ahead published in the April 2008 issue of Consensus Economics. Having remained very low in several consecutive SPF rounds, the standard deviation of longer-term inflation expectations in the latest SPF has for the first time also increased, from 0.1 to 0.2. This indicates a rising divergence among respondents regarding the most likely outcome for the longer-term inflation rate.

The upward revision of longer-term inflation expectations reflects the increased number of respondents reporting point estimates of 2.1% or above. The number of respondents expecting a point estimate of 2.0% has declined to 22, from 28 in the previous SPF round (see Chart B). In the latest SPF round 13 respondents out of 49 have provided a point estimate of 2.1% or above, compared with only two respondents in the SPF round for the second quarter of 2008.

Chart B Cross-sectional distribution of longer-term (five years ahead) inflation expectations among SPF respondents

(percentage of respondents)



Source: ECB.

The probability of longer-term inflation standing at 2% or above increased to 57%, according to survey respondents, compared with 50% 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 Over time, the probability assigned to an outcome that inflation will stand at 2% or above in the next five years is broadly in line with developments in the implied five-year forward break-even inflation rate five years ahead (see Chart C).³

Real GDP growth expectations

Compared with the previous SPF round, expectations for real GDP growth for 2008 have remained unchanged at 1.6%. The average of the point estimates for real GDP growth in 2009 has been revised down by 0.3 percentage point and now stands at 1.3%. This downward revision reflects mainly forecasters' expectations for lower euro area investment growth as a result of tighter financing conditions, a housing market slowdown and ongoing financial turbulence; lower export growth due to the world economic slowdown and strong euro exchange rate; and concerns about consumption growth in the light of high energy and oil prices.

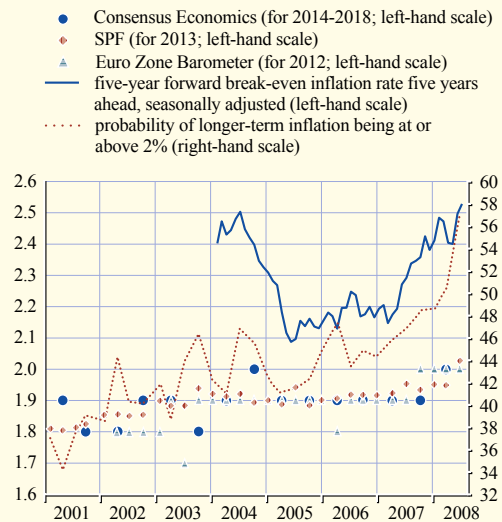
The probability distributions for expected real GDP growth in 2008 and 2009 have shifted towards lower outcomes compared with the previous SPF round (see Chart D). Greater uncertainty surrounds SPF expectations for real GDP growth in 2009 than for 2008, as reflected by a wider and flatter probability distribution for 2009 compared with 2008.

Growth expectations for 2008 and 2009 in the SPF are within the ranges of the June 2008 Eurosystem staff macroeconomic projections. SPF expectations for real GDP growth in 2008 are similar to the projections published in the latest issues of the Euro Zone Barometer and Consensus Economics; for 2009 they are 0.1 percentage point higher.

SPF expectations for real GDP growth in 2010 are at 2.1%. They are 0.1 percentage point higher than the expectations provided in the July issue of the Euro Zone Barometer, but in line with those contained in the April issue of Consensus Economics. Longer-term growth expectations (i.e. for 2013) have remained at 2.1%.

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

(average annual percentage changes; percentage probability)



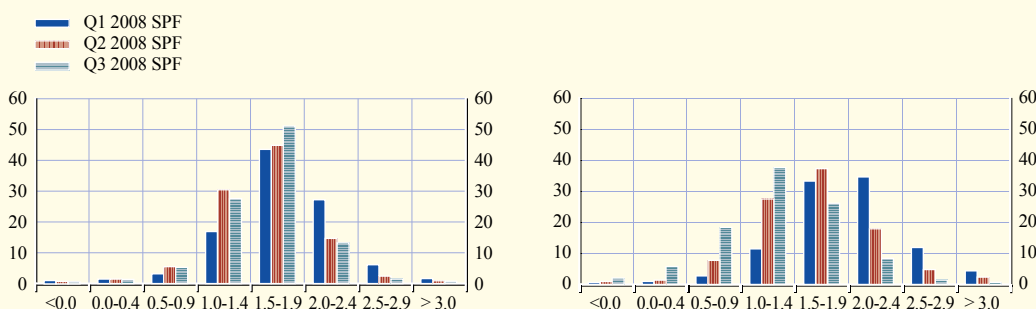
Sources: Consensus Economics, Euro Zone Barometer, Reuters and ECB calculations.

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

³ 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).

Chart D Probability distribution for average annual real GDP growth in 2008 and 2009 in the last three rounds of the SPF¹⁾

(probability in percentages)



Source: ECB.

1) Corresponds to the average of individual probability distributions provided by SPF forecasters.

Expectations for the euro area unemployment rate

Unemployment rate expectations in the SPF currently stand at 7.2% for 2008 and at 7.4% for 2009. These expectations imply upward revisions of 0.1 percentage point for 2008 and of 0.3 percentage point for 2009 compared with the previous SPF round. According to the forecasters, these revisions are mainly due to lower euro area economic growth prospects, particularly in the construction sector. Unemployment rate expectations in the latest SPF round are in line with those of Consensus Economics and the Euro Zone Barometer for 2008 and 2009.

The SPF respondents expect the unemployment rate to be 7.4% in 2010, which is 0.2 percentage point higher than the expectations in the July issue of the Euro Zone Barometer.

Longer-term unemployment rate expectations have been revised upward by 0.3 percentage point and now stand at 6.9% for 2013. Respondents continued to indicate that the decline in the unemployment rate over the longer-term horizon is mainly dependent on continued labour market reforms.