

Box 5

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE THIRD QUARTER OF 2009

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2009. The survey was conducted between 15 and 20 July 2009. There were 54 responses from forecasters. The SPF collects information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated with financial or non-financial institutions that are based in the EU.¹

Inflation expectations for 2009, 2010 and 2011

SPF participants revised their inflation expectations downwards by 0.1 percentage point to 0.4% for 2009 and by 0.2 percentage point to 1.1% for 2010 compared with the previous round conducted in April (see the table below).² Inflation is expected to increase to 1.6% in 2011. Most respondents mentioned strong base effects stemming from low oil and commodity prices characterising their negative inflation profile till the third quarter of 2009. They expect inflation to reach its trough within the time period from July to September 2009 and then to move back into positive territory by the end of the year or the beginning of 2010, albeit remaining at levels below 2.0%. Increasing unemployment is expected to have a negative effect on wages and thereby limit a recovery in consumer spending. In general, weak demand, capacity underutilisation and low pricing power of firms are supposed to more than offset any upward risks deriving from potential increases in oil or other commodity prices.

1 Given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions.

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

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

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon					
	2009	June 2010	2010	June 2011	2011	Longer term ²⁾
SPF Q3 2009	0.4	1.2	1.1	1.6	1.6	2.0
<i>Previous SPF (Q2 2009)</i>	0.5	-	1.3	-	-	1.9
Eurosystem staff macroeconomic projections	0.1 - 0.5	-	0.6 - 1.4	-	-	-
Consensus Economics (July 2009)	0.4	-	1.2	-	1.6	2.0
Euro Zone Barometer (July 2009)	0.4	-	1.2	-	1.7	2.1
Real GDP growth	2009	Q1 2010	2010	Q1 2011	2011	Longer term ²⁾
SPF Q3 2009	-4.5	-0.4	0.3	1.3	1.5	1.9
<i>Previous SPF (Q2 2009)</i>	-3.4	-	0.2	-	-	1.9
Eurosystem staff macroeconomic projections	-5.1 - -4.1	-	-1.0 - 0.4	-	-	-
Consensus Economics (July 2009)	-4.4	-	0.4	-	1.5	2.0
Euro Zone Barometer (July 2009)	-4.5	-	0.4	-	1.6	2.1
Unemployment rate ¹⁾	2009	May 2010	2010	May 2011	2011	Longer term ²⁾
SPF Q3 2009	9.7	10.9	10.9	10.7	10.6	8.5
<i>Previous SPF (Q2 2009)</i>	9.3	-	10.5	-	-	8.4
Consensus Economics (July 2009)	9.7	-	11.1	-	-	-
Euro Zone Barometer (July 2009)	9.7	-	11.0	-	10.6	9.0

1) As a percentage of the labour force.

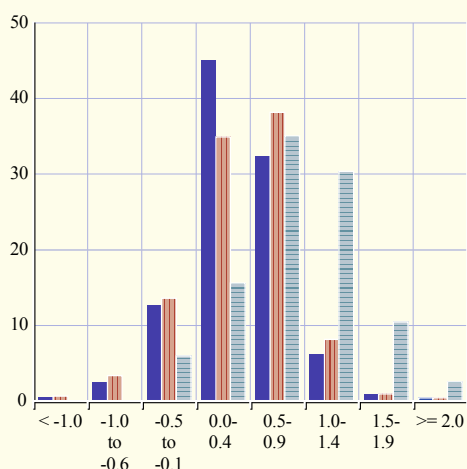
2) Longer-term expectations refer to 2014 in the SPF and Consensus Economics and to 2013 in the Euro Zone Barometer. The Consensus Economics forecasts for the years 2011 and 2014 were published in the April 2009 issue of Consensus Economics.

Chart A Probability distribution for average annual inflation in 2009 and 2010 in the latest SPF rounds ¹⁾

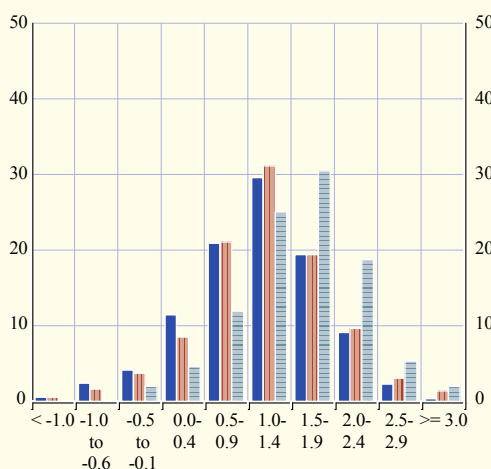
(probability in percentages)

■ 2009 Q3 SPF
■ 2009 Q2 SPF
■ 2009 Q1 SPF

a) 2009



b) 2010



Source: ECB.

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

The SPF inflation expectations for 2009 and 2010 are within the ranges reported in the June 2009 Eurosystem staff macroeconomic projections for the euro area. They are broadly in line with the projections of the issues of Consensus Economics and the Euro Zone Barometer published in July 2009 for the years 2009, 2010 and 2011.

SPF participants were also asked to assess the probability of the future outcome for inflation falling within specific intervals. The aggregate probability distribution for 2009 is concentrated more clearly within the 0.0% to 0.4% interval compared with the previous SPF round, whereas the probability distribution for 2010 remained broadly similar to that seen in the previous SPF round (see Chart A). Forecasters assigned a low probability to inflation being negative in 2009 and 2010 (15% and 7% respectively). Based on the individual probability distributions, the balance of risks across all forecast horizons appears to be on the downside (there are more respondents with a point estimate above the mean of their probability distribution than respondents with the point estimate below the mean).

Indicators of longer-term inflation expectations

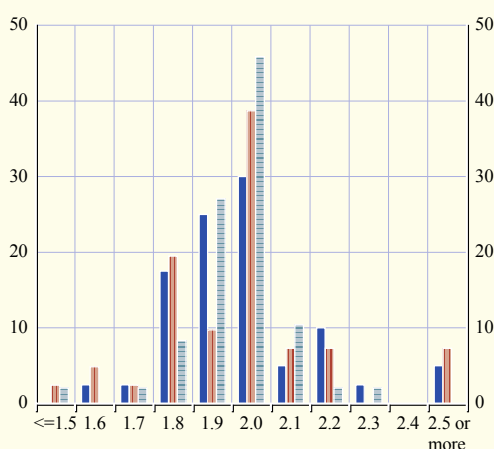
Longer-term inflation expectations (for the year 2014) have been marginally revised upwards to 1.98%, from 1.93% in the previous SPF round. The average point estimate is in line with the long-term inflation projections provided by Consensus Economics (at 2.0%) in April 2009 and it is below those of the Euro Zone Barometer (at 2.1%) published in July 2009.

The upward revision of the average point estimate to 1.98% in this SPF round is combined with a decrease in the disagreement in the longer-term inflation expectations, as measured by

Chart B Cross-sectional distribution of longer-term (2014) inflation expectations among SPF respondents

(percentage of respondents)

■ 2009 Q3 SPF
■ 2009 Q2 SPF
■ 2009 Q1 SPF

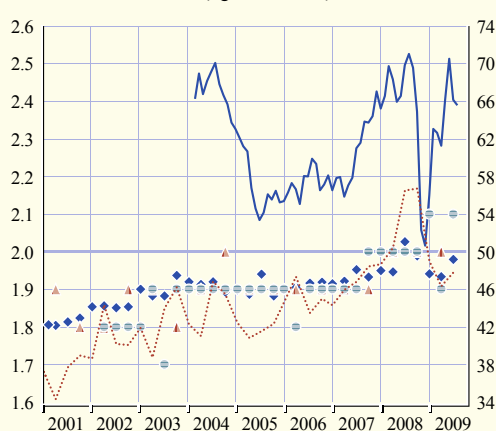


Source: ECB.

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

(average annual percentage changes; percentage probability)

◆ SPF (for 2014; left-hand scale)
▲ Consensus Economics (for 2014; left-hand scale)
■ Euro Zone Barometer (for 2013; left-hand scale)
— implied five-year forward break-even inflation rate five years ahead, seasonally adjusted (left-hand scale)
- - - SPF probability of longer-term inflation being at or above 2% (right-hand scale)



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

the standard deviation of the point estimates. Overall, the disagreement remains at a slightly elevated level compared with the average level over the last five years, as reflected by a flatter cross-sectional distribution of the longer-term inflation expectations (see Chart B). Finally, the probability of longer-term inflation standing at 2% or above increased to 48%, from 46% in the previous SPF round (see Chart C).

These survey results can be compared with the break-even inflation rate, an indicator of longer-term inflation expectations among financial market participants, calculated as the yield spread between nominal and inflation-linked bonds.³ Until September 2008, movements in the probability assigned to an outcome that inflation will stand at 2% or above in the next five years were, on average, broadly in line with developments in financial market-based indicators of inflation expectations (e.g. the seasonally adjusted, implied five-year forward break-even inflation rate five years ahead).⁴ However, since then, and against the background of an intensification of financial market turbulences, financial market-based inflation expectations have been somewhat erratic and may have been distorted by investors' efforts to reduce risk and leverage and their strong preference for more secure and liquid assets.⁵

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

4 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).

5 For a further discussion of the impact of the current financial market turmoil on market-based measures of inflation expectations, see the box entitled "Recent increases in real yields and their implications for the analysis of inflation expectations" in the November 2008 issue of the Monthly Bulletin.

Real GDP growth expectations

SPF respondents have revised their growth expectations for 2009 further downwards since the last survey, by 1.1 percentage points, and now expect euro area real GDP to contract by 4.5% in 2009. Real GDP is then expected to grow by 0.3% in 2010, which is an upward revision by 0.1 percentage point, and by 1.5% in 2011. In their comments, the respondents referred to weakness in domestic and external demand, as well as ongoing tensions in the financial markets and tight financing conditions as the main factors characterising the short to medium-term outlook for real GDP growth.

The SPF growth expectations for 2009 are well within the range reported in the June 2009 Eurosystem staff macroeconomic projections for the euro area, while those for 2010 are close to the upper limit of the range. The SPF growth expectations are broadly in line with the Euro Zone Barometer and Consensus Economics forecasts for 2009 and 2010, but slightly below these forecasts for 2011.

In line with the downward revision of expected real GDP growth, the aggregate probability distribution for 2009 shifted towards lower outcomes. The aggregate probability distribution for 2010 remained quite flat and was concentrated in the range of the outcomes between 0.0% and 0.9%. The SPF respondents assign a 32% probability to annual real GDP growth being negative in 2010 compared with a 37% probability in the previous SPF round (see Chart D).

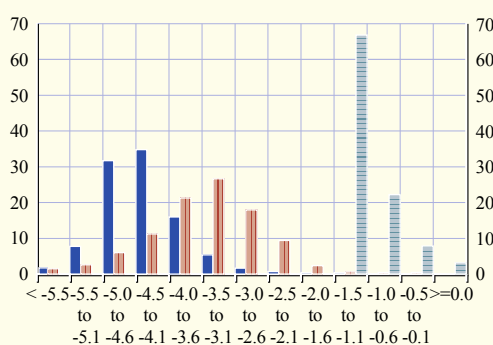
Uncertainty derived from the aggregate probability distribution for one-year-ahead and two-years-ahead real GDP forecasts has declined, but continues to remain at an elevated level (see Box 6 in Section 4). According to the comments provided by several respondents, most of them expect a moderate recovery to take place in 2010, with a few respondents expecting euro area real GDP growth to return to full potential only by 2011 and beyond. As the main factors helping the recovery, respondents mentioned an improvement in the euro area exports markets

Chart D Probability distribution for average annual real GDP growth in 2009 and 2010 in the latest SPF rounds¹⁾

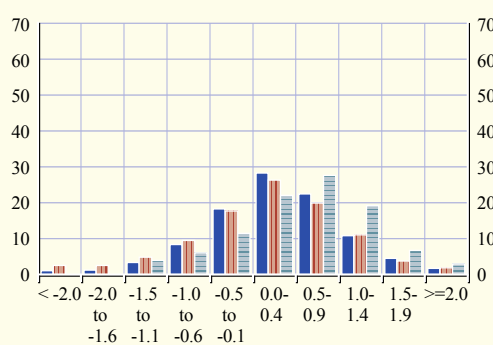
(probability in percentages)

■ 2009 Q3 SPF
■ 2009 Q2 SPF
■ 2009 Q1 SPF

a) 2009



b) 2010



Source: ECB.

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

and world trade, as well as the impact of fiscal and monetary policy measures. However, the respondents also emphasised that the timing and strength of the recovery is highly uncertain. More specifically, the uncertainty is related to the outlook for trade and labour market developments, with the latter posing major downside risks to consumer spending on account of rising unemployment.

Longer-term growth expectations (for 2014) have remained unchanged at 1.9%, as in the previous round, and are slightly below those provided by Consensus Economics in April and the Euro Zone Barometer in July. Overall, respondents assess the balance of risks as being on the downside.

Expectations for the euro area unemployment rate

SPF respondents revised their unemployment rate expectations upwards for both 2009 and 2010 by 0.4 percentage point. On average, the unemployment rate is now expected to reach 9.7% in 2009, to further increase to 10.9% in 2010 and then ease slightly to 10.6% in 2011. Longer-term unemployment rate expectations were also revised upwards, by 0.1 percentage point, and now stand at 8.5%.