

Box 7

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the fourth quarter of 2009. The survey was conducted between 15 and 19 October 2009. There were 56 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

Compared with the previous round conducted in July, SPF participants revised their inflation expectations downwards by 0.1 percentage point to 0.3% for 2009 and upwards by 0.1 percentage point to 1.2% for 2010 (see the table below).² Inflation expectations for 2011

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, ECB staff macroeconomic projections, Consensus Economics
and Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon					
	2009	September 2010	2010	September 2011	2011	Longer-term ²⁾
SPF Q4 2009	0.3	1.3	1.2	1.7	1.6	1.9
<i>Previous SPF (Q3 2009)</i>	0.4	-	1.1	-	1.6	2.0
ECB staff macroeconomic projections	0.2 - 0.6	-	0.8 - 1.6	-	-	-
Consensus Economics (Oct. 2009)	0.3	-	1.2	-	1.5	2.0
Euro Zone Barometer (Oct. 2009)	0.3	-	1.1	-	1.5	2.2
Real GDP growth	2009	Q2 2010	2010	Q2 2011	2011	Longer-term ²⁾
SPF Q4 2009	-3.9	1.2	1.0	1.6	1.6	1.9
<i>Previous SPF (Q3 2009)</i>	-4.5	-	0.3	-	1.5	1.9
ECB staff macroeconomic projections	-4.4 - -3.8	-	-0.5 - 0.9	-	-	-
Consensus Economics (Oct. 2009)	-3.9	-	1.1	-	1.5	1.9
Euro Zone Barometer (Oct. 2009)	-3.9	-	1.2	-	1.6	2.2
Unemployment rate ¹⁾	2009	August 2010	2010	August 2011	2011	Longer-term ²⁾
SPF Q4 2009	9.5	10.7	10.6	10.4	10.4	8.5
<i>Previous SPF (Q3 2009)</i>	9.7	-	10.9	-	10.6	8.5
Consensus Economics (Oct. 2009)	9.5	-	10.7	-	-	-
Euro Zone Barometer (Oct. 2009)	9.5	-	10.7	-	10.4	9.1

1) As a percentage of the labour force.

2) Longer-term inflation expectations refer to 2014 in the SPF and Consensus Economics and to 2013 in the Euro Zone Barometer.

remained unchanged at 1.6%. In their comments, many respondents reported that the large output gap and capacity underutilisation would exert downward pressures on inflation, which is expected to remain below 2% in the medium term. Most respondents commented that the main upward risks to inflation were increases in oil and commodity prices.

The SPF inflation expectations for 2009 and 2010 are within the ranges reported in the September 2009 ECB staff macroeconomic projections for the euro area. They are also broadly in line with the projections of the October issues of Consensus Economics and the Euro Zone Barometer 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. For 2009 the SPF respondents assigned a 71% probability that inflation might be between 0.0% and 0.4%. The probability distribution for 2010 is concentrated more clearly within the 0.5% and 1.9% interval compared with the previous SPF round and for 2011 it has slightly shifted towards lower outcomes (see Chart A). Based on the individual probability distributions, the balance of risks to these forecasts is assessed by respondents 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

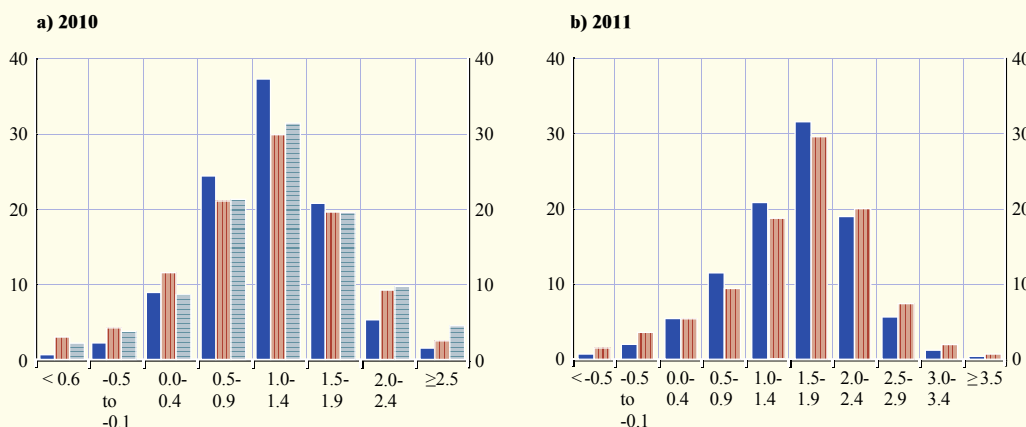
Longer-term inflation expectations (for the year 2014) have been revised downwards to 1.92%, from 1.98% in the previous SPF round. The average point estimate is below the long-term inflation projections provided by Consensus Economics (at 2.0%) and the Euro Zone Barometer (at 2.2%), published in October 2009.

The downward revision of the average point estimate to 1.92% in this SPF round is combined with a broadly stable standard deviation of the point estimates. At the same time, a bi-modality of

Chart A Probability distribution for average annual inflation in 2010 and 2011 in the latest SPF rounds ¹⁾

(probability in percentages)

■ 2009 Q4 SPF
 ■ 2009 Q3 SPF
 ■ 2009 Q2 SPF



Source: ECB.

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

the cross-sectional distribution, which was visible in the early years of the SPF, can be observed once again in the SPF round relating to the fourth quarter of 2009: there are more respondents reporting a point estimate of 1.8% and 2.0% than of 1.9% (see Chart B). Finally, the probability assigned to longer-term inflation standing at 2% or above decreased to 44%, from 48% 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 Overall, expectations derived from financial markets (e.g. the seasonally adjusted, implied five-year forward break-even inflation rate five years ahead) have slightly exceeded measures available from the surveys and have been much more volatile (see Chart C). However, a direct comparison of financial and survey measures of inflation expectations is not straightforward. The break-even inflation rate, for example, encompasses the overall inflation compensation requested by financial market participants, which consists of both the expected level of inflation and a premium to compensate for inflation risks. Although disentangling both these components is not easy, findings suggest that inflation risk premia in the euro area are typically the main driver of fluctuations in the long-term break-even inflation rates.⁴ In addition, against the background of the financial market crisis, 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

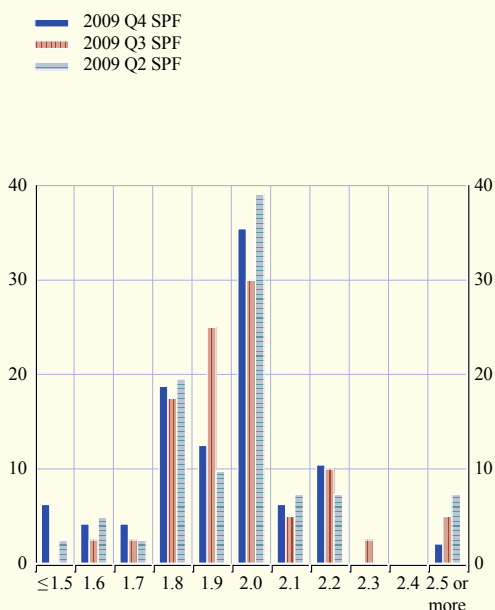
3 See also the article entitled "Measures of inflation expectations in the euro area" in the July 2006 issue of the Monthly Bulletin.

4 Hördahl, P. and O. Tristani (2007), "Inflation risk premia in the term structure of interest rates", ECB Working Paper Series No 734.

5 For a further discussion of the impact of the financial market crisis 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.

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

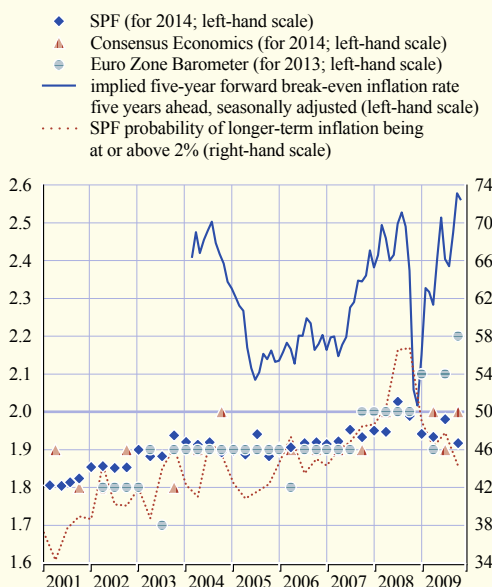
(percentage of respondents)



Source: ECB.

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.

Real GDP growth expectations

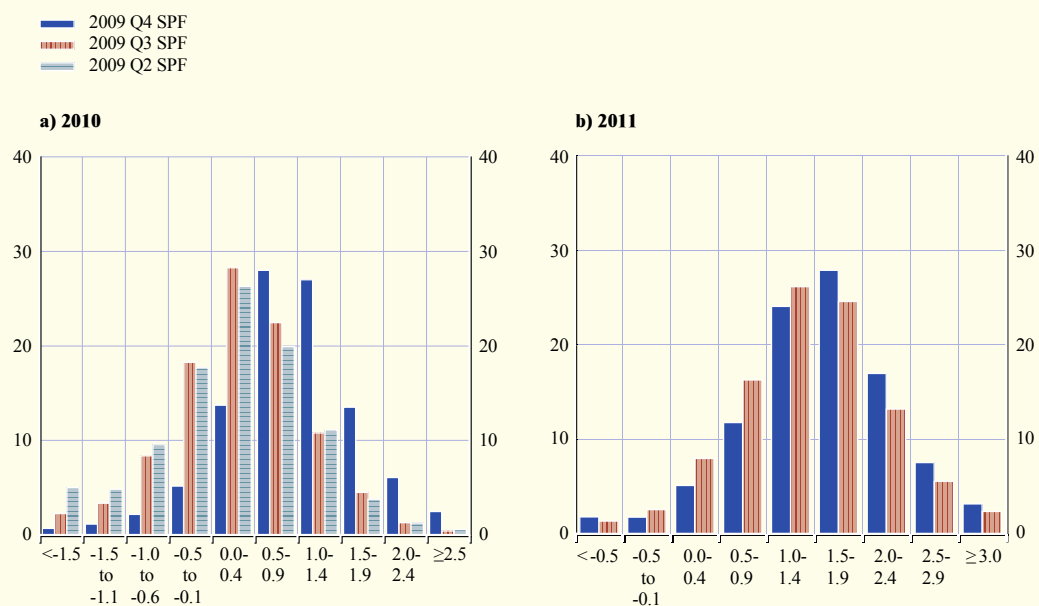
SPF respondents have revised their growth expectations for 2009 significantly upwards since the last survey, by 0.6 percentage points, and now expect euro area real GDP to contract by 3.9% in 2009. Growth expectations for 2010 and 2011 have also been revised upwards (by 0.7 and 0.1 percentage points, respectively) and now stand at 1.0% and 1.6%, respectively. In their comments, the respondents generally referred to the recovery of global trade (led by emerging markets), as well as the positive contribution from inventories and the effects of the policy measures taken by governments and the ECB as the main factors shaping the euro area activity outlook. Several factors were mentioned that might hinder euro area real GDP growth: (i) tight lending standards and low capacity utilisation negatively affecting investment; (ii) an appreciation of the euro hampering exports; and (iii) the deteriorating labour market outlook in terms of high unemployment, and further deceleration of wage growth, lowering real income and consumption. Some respondents noted that growth could lose some momentum in the first half of 2010, as the various economic stimulus packages are phased out.

The SPF growth expectations for 2009 are close to the upper limit of the range reported in the September 2009 ECB staff macroeconomic projections for the euro area, while those for 2010 are above the range. The SPF growth expectations for 2009, 2010 and 2011 are broadly in line with the latest Consensus Economics and the Euro Zone Barometer forecasts.

In line with the significant upward revision of expected real GDP growth, the aggregate probability distribution for 2009 has shifted towards higher outcomes. The respondents have assigned a 51% probability that real GDP growth will be in the range from -4.0% to -3.6%.

Chart D Probability distribution for average annual real GDP growth in 2010 and 2011 in the latest SPF rounds ¹⁾

(probability in percentages)



Source: ECB.

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

The aggregate probability distribution for 2010 has also shifted towards higher outcomes, while that for 2011 has remained broadly unchanged (see Chart D).

Uncertainty, as measured by the standard deviation of the aggregate probability distribution, surrounding the one-year-ahead and two-year-ahead real GDP forecasts has increased since the beginning of 2008, reaching its highest level in the second quarter of 2009, and somewhat declining in the fourth quarter of 2009, but remaining at a high level. According to SPF forecasters, the balance of risks for 2009 appears to be on the upside, while it is assessed to be on the downside for 2010 and 2011.

Longer-term growth expectations (for 2014) have remained unchanged at 1.9%. They are in line with those provided by Consensus Economics and slightly below those of the Euro Zone Barometer, published in October. Based on the individual probability distributions, the respondents assess the balance of risks as being on the downside.

Expectations for the euro area unemployment rate

Unemployment rate expectations were revised downwards by 0.2 and 0.3 percentage points for 2009 and 2010 and now stand at 9.5% and 10.6%, respectively. Respondents, on average, expect the unemployment rate to be at 10.4% in 2011 (a downward revision of 0.2 percentage points). The balance of risks to short and medium-term expectations is assessed to be on the upside for 2009, on the downside for 2010 and slightly on the upside for 2011. Longer-term unemployment rate expectations (for 2014) are unchanged at 8.5% and the balance of risks to the longer-term outlook is assessed to be on the upside.