

Box 4

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FIRST QUARTER OF 2010

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the first quarter of 2010. The survey was conducted between 15 and 20 January 2010. There were 61 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 2010 and 2011

Compared with the previous SPF round, forecasters have not substantially changed their outlook for inflation: inflation is expected to be at 1.3% in 2010 and at 1.5% in 2011, up by 0.1 percentage point and down by 0.1 percentage point respectively compared with the results for the fourth quarter of 2009 (see the table).² Many respondents reported that they expected the high level of economic slack to exert downward pressure on inflation. Inflation is thus expected to remain moderate in the short to medium term.

The SPF inflation expectations for 2010 and 2011 are within the ranges reported in the December 2009 Eurosystem staff macroeconomic projections for the euro area. Compared with the forecasts of the January 2010 issues of Consensus Economics and the Euro Zone Barometer, SPF inflation expectations are slightly higher for 2010 (by 0.1 percentage point) and at the same level for 2011.

The SPF participants were also asked to assess the probability of the future outcome for inflation falling within specific intervals. Compared with the previous round, the aggregate probability distribution for 2010 has remained broadly unchanged, with respondents assigning a probability of around 39% to an inflation outcome of between 1.0% and 1.4%. The probability distribution

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				
	2010	December 2010	2011	December 2011	Longer-term ²⁾
SPF Q1 2010	1.3	1.4	1.5	1.6	1.9
Previous SPF (Q4 2009)	1.2	-	1.6	-	1.9
Eurosystem staff macroeconomic projections	0.9 - 1.7	-	0.8 - 2.0	-	-
Consensus Economics (Jan. 2010)	1.2	-	1.5	-	2.0
Euro Zone Barometer (Jan. 2010)	1.2	-	1.5	-	1.9
Real GDP growth	2010	Q3 2010	2011	Q3 2011	Longer-term ²⁾
SPF Q1 2010	1.2	1.2	1.6	1.6	1.8
Previous SPF (Q4 2009)	1.0	-	1.6	-	1.9
ECB staff macroeconomic projections	0.1 - 1.5	-	0.2 - 2.2	-	-
Consensus Economics (Jan. 2010)	1.3	-	1.6	-	1.9
Euro Zone Barometer (Jan. 2010)	1.3	-	1.6	-	2.0
Unemployment rate ¹⁾	2010	November 2010	2011	November 2011	Longer-term ²⁾
SPF Q1 2010	10.5	10.7	10.5	10.4	8.6
Previous SPF (Q4 2009)	10.6	-	10.4	-	8.5
Consensus Economics (Jan. 2010)	10.4	-	10.4	-	-
Euro Zone Barometer (Jan. 2010)	10.5	-	10.4	-	8.6

1) As a percentage of the labour force.

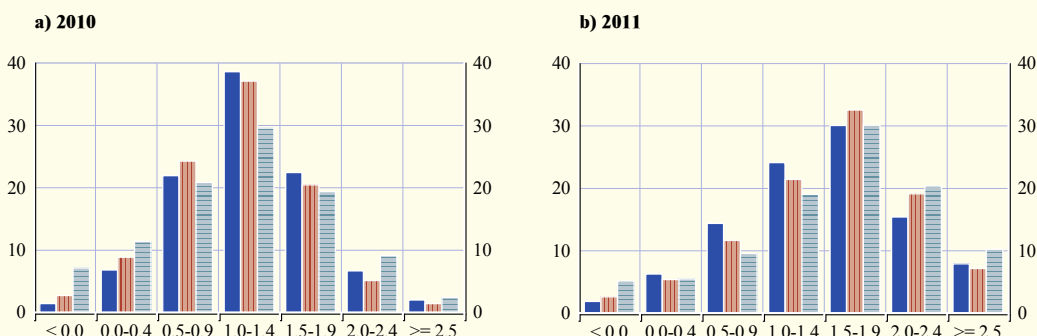
2) Longer-term inflation expectations refer to 2014 in the SPF, Consensus Economics and the Euro Zone Barometer.

for 2011 shifted slightly towards lower inflation outcomes, although remaining concentrated in the range between 1.5% and 1.9%, as in the last SPF round (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. This is reflected by the fact that the majority of respondents provided a point forecast which is above the mean forecast from their probability distribution, implying that they assign a higher probability to outcomes below this point forecast than to those above it. While many respondents cited oil and other commodity price pressures, as well as increases in indirect taxes, as the main upside risks to inflation in 2010 and 2011, they see downside risks relating to the expected increase in the rate of unemployment and a possible further appreciation of the euro exchange rate.

Chart A Probability distribution for average annual inflation in 2010 and 2011 in the latest SPF rounds¹⁾

(probability in percentages)

■ 2010 Q1 SPF
 ■ 2009 Q4 SPF
 ■ 2009 Q3 SPF



Source: ECB.

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

Indicators of longer-term inflation expectations

Longer-term inflation expectations (for 2014) have remained stable at 1.9% (1.91%, as compared with 1.92% in the previous SPF round). The average point forecast is below the long-term inflation projections provided by Consensus Economics in October 2009 (at 2.0%) and in line with those published in the January 2010 issue of the Euro Zone Barometer.

The stability of the average point estimate, at 1.9%, in this SPF round is combined with a broadly stable disagreement in the longer-term inflation expectations, measured by the standard deviation of the point estimates. Aggregate uncertainty surrounding inflation expectations, as measured by the standard deviation of the aggregate probability distribution, increased slightly to 0.8, from 0.7 in the previous SPF round.³ The cross-sectional distribution shifted towards lower outcomes: more respondents reported a point estimate at or below 2.0% than in the fourth quarter of 2009 (see Chart B). Finally, the probability of longer-term inflation standing at 2% or above remained stable at 44%.

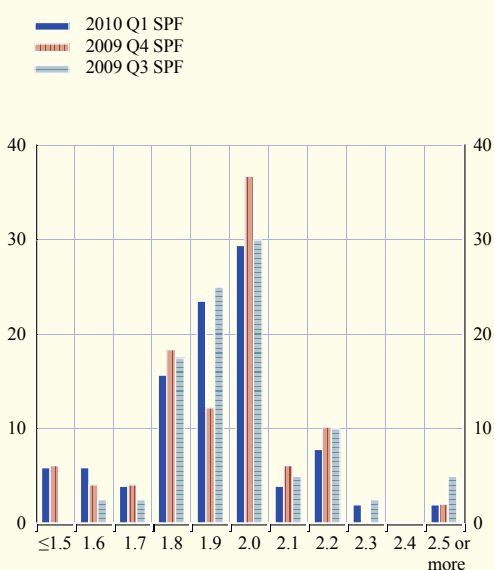
At the same time, measures of inflation expectations derived from financial markets have been higher and more volatile than survey-based measures (see Chart C).⁴ However, it is likely that market-based measures of inflation expectations have been impacted by liquidity

³ See the box entitled “Measuring perceptions of macroeconomic uncertainty” in the January 2010 issue of the Monthly Bulletin.

⁴ See also the article entitled “Measures of inflation expectations in the euro area” in the July 2006 issue of the Monthly Bulletin.

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

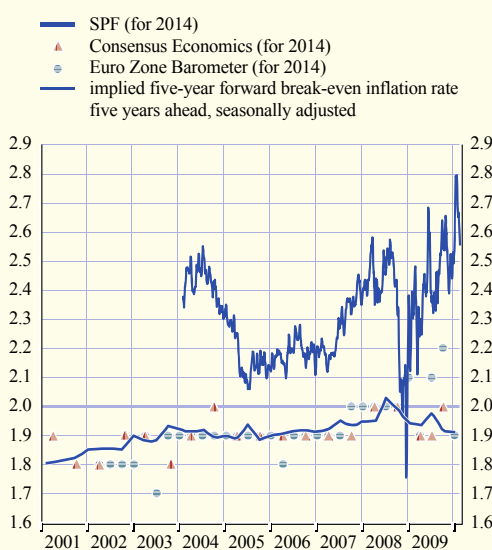
(percentage of respondents)



Source: ECB.

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

(average annual percentage changes; five-day moving averages of daily data)



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

and supply/demand factors over the recent period.⁵ In particular, the declines in long-term forward break-even inflation rates and comparable inflation-linked bond rates in January reflect the unwinding of previous supply/demand imbalances in the inflation-linked bond market following the issuance of inflation-linked bonds in January.⁶ The recent volatility observed in these measures should thus be treated with some caution and should not be mechanically interpreted as reflecting revisions in market participants' long-term inflation expectations.⁷

Real GDP growth expectations

On average, the SPF respondents now expect euro area real GDP to grow by 1.2% in 2010. This represents an upward revision (of 0.2 percentage point) to their growth assessment for 2010 in the previous SPF round. Growth expectations for 2011 are unchanged at 1.6%. In general, respondents believe that a sustained recovery in the euro area is unlikely before 2011, as the labour market recovery will be very gradual, investment is not expected to gain strength before 2011 owing to low capacity utilisation rates, domestic demand is expected to remain relatively subdued this year and exports could be hindered by a strong euro. Most respondents cited the phasing-out of fiscal stimulus measures as one of the main downward effects, while a positive contribution to growth is expected to come from inventories and from an increase in consumer confidence, ultimately lowering the savings rate.

The SPF growth expectations lie in the upper part of the ranges reported in the December 2009 Eurosystem staff macroeconomic projections for the euro area for 2010 and 2011. The SPF growth expectations are 0.1 percentage point lower than the latest Consensus Economics and Euro Zone Barometer forecasts for 2010, while they are in line for 2011.

In line with the upward revision of expected real GDP growth, the aggregate probability distribution for 2010 has shifted towards higher outcomes. Respondents assigned a 32% probability to a real GDP growth outcome in the range from 1.0% to 1.4%. The aggregate probability distribution for 2011 is broadly in line with that of the previous SPF round and is concentrated in the range between 1.5% and 1.9% (see Chart D).

Uncertainty surrounding one-year-ahead and two-year-ahead real GDP forecasts decreased compared with the previous SPF round, but remains relatively high. The balance of risks to the average point forecast for real GDP growth appears to be on the downside. A sluggish global outlook and rising oil prices are the main downside risks to the outlook for euro area activity, while upside risks primarily relate to a recovery in consumer and investor confidence.

Longer-term growth expectations (for 2014) have been revised slightly downwards – by 0.1 percentage point – compared with the previous SPF round and now stand at 1.8%. The SPF assessment is slightly below that of the Euro Zone Barometer (2.0% for 2014, published in January 2010) and that of Consensus Economics (1.9% for 2014, published in October 2009).

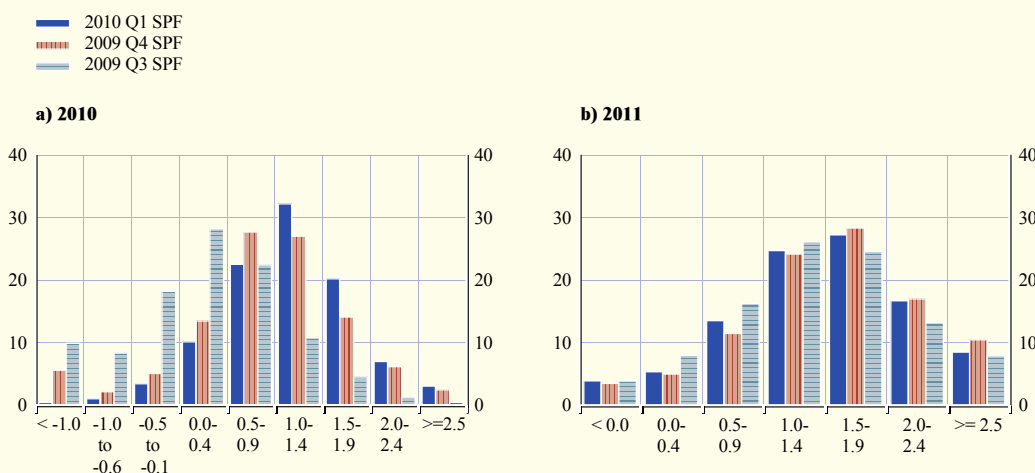
5 For a further discussion of the impact of the financial market crisis on market-based measures of inflation expectations, see the box entitled “Recent increases in real yields and their implications for the analysis of inflation expectations” in the November 2008 issue of the Monthly Bulletin.

6 See Section 2.4 for further details of recent developments in financial market indicators of inflation expectations.

7 For more details, see P. Hördahl and O. Tristani (2007), “Inflation risk premia in the term structure of interest rates”, ECB Working Paper No 734.

Chart D Probability distribution for average annual real GDP growth in 2010 and 2011 in the latest SPF rounds¹⁾

(probability in percentages)



Source: ECB.

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

Looking at the individual probability distributions, respondents also assess the balance of risks for longer-term growth to be on the downside.

Expectations for the euro area unemployment rate

Unemployment rate expectations have been revised slightly, down by 0.1 percentage point for 2010 and up by 0.1 percentage point for 2011, and now stand at 10.5% for both years. The balance of risks to short and medium-term expectations is assessed to be slightly on the upside for 2010 and 2011. Longer-term unemployment rate expectations (for 2014) have been revised slightly upwards, by 0.1 percentage point, to 8.6%, and the balance of risks to the longer-term outlook is assessed to be clearly on the upside.