

## Box 10

## RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2010

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2010. The survey was conducted between 16 and 20 April 2010. There were 54 responses from forecasters. The SPF collects information on expectations for euro area inflation, real GDP growth and the unemployment rate from experts affiliated with financial or non-financial institutions that are based in the EU.<sup>1</sup>

## Inflation expectations for 2010, 2011 and 2012

For the second consecutive SPF round, forecasters have not substantially changed their outlook for inflation, which is expected to be at 1.4% in 2010 (up by 0.1 percentage point compared with the results for the first quarter of 2010) and to be at 1.5% in 2011 unchanged (see table below).<sup>2</sup> In their comments, several respondents reported that an upward revision in their inflation forecasts for 2010 was due to the higher than expected headline inflation data for the first quarter of 2010 as a result of a rebound in commodity prices (in particular energy and food prices) and a weakening in the exchange rate. Forecasters commented that the effects of this increase should be temporary and are expected to be balanced in the medium term by an easing of underlying inflation. For the first time, respondents were also asked to provide an inflation forecast for 2012. According to the responses, inflation expectations for 2012 stand, on average, at 1.7%.

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](http://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					
	2010	March 2011	2011	March 2012	2012	Longer-term <sup>2)</sup>
SPF Q2 2010	1.4	1.4	1.5	1.7	1.7	1.9
Previous SPF (Q1 2010)	1.3	-	1.5	-	-	1.9
ECB staff macroeconomic projections	0.8-1.6	-	0.9-2.1	-	-	-
Consensus Economics (Apr. 2010)	1.2	-	1.4	-	1.5	1.9
Euro Zone Barometer (Apr. 2010)	1.2	-	1.5	-	1.7	2.1
Real GDP growth	2010	Q4 2010	2011	Q4 2011	2012	Longer-term <sup>2)</sup>
SPF Q2 2010	1.1	1.4	1.5	1.6	-	1.8
Previous SPF (Q1 2010)	1.2	-	1.6	-	-	1.8
ECB staff macroeconomic projections	0.4-1.2	-	0.5-2.5	-	-	-
Consensus Economics (Apr. 2010)	1.2	-	1.5	-	-	1.8
Euro Zone Barometer (Apr. 2010)	1.1	-	1.6	-	-	2.0
Unemployment rate <sup>1)</sup>	2010	February 2011	2011	February 2012	2012	Longer-term <sup>2)</sup>
SPF Q2 2010	10.3	10.4	10.3	10.0	-	8.5
Previous SPF (Q1 2010)	10.5	-	10.5	-	-	8.6
Consensus Economics (Apr. 2010)	10.4	-	10.4	-	-	-
Euro Zone Barometer (Apr. 2010)	10.4	-	10.3	-	-	8.9

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.

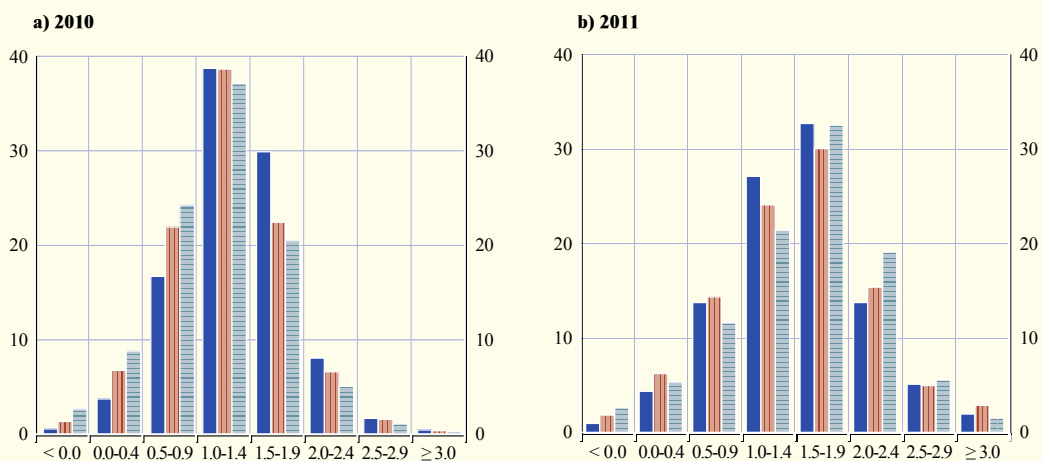
The SPF inflation expectations for 2010 and 2011 are within the ranges reported in the March 2010 ECB staff macroeconomic projections for the euro area. Compared with the forecasts in the April 2010 releases by Consensus Economics and the Euro Zone Barometer, SPF inflation expectations are higher for 2010 (by 0.2 percentage point) and broadly similar for 2011. The SPF inflation expectations for 2012 are in line with those of the Euro Zone Barometer and are 0.2 percentage point higher than those of Consensus Economics.

The SPF participants were also asked to assess the probability of inflation falling within specific intervals. Compared with the previous round, the aggregate probability distribution for 2010 has shifted towards higher inflation outcomes. The probability of inflation being below 1% has declined (to 21% from 30%), while a higher probability has been assigned to an inflation outcome in the range between 1.5% and 1.9% (30% compared with 22% previously). The highest probability (39%) remains for inflation being in the range between 1.0% and 1.4% in 2010. The probability distribution for 2011 has remained broadly stable compared with the previous SPF, with a slight increase in the probability of inflation outcomes being in the range from 1.0% to 1.9% (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 in 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. Low capacity utilisation and subdued wage growth owing to high unemployment were mentioned as factors posing downside risks to the inflation outlook. Many respondents commented that the main upward risks for inflation are further increases in commodity prices, mainly in oil and food prices, as well as increases in indirect taxes and administered prices.

**Chart A Probability distribution for average annual inflation in 2010 and 2011 in the latest SPF rounds<sup>1)</sup>**

(probability in percentages)

■ Q2 2010 SPF  
■ Q1 2010 SPF  
■ Q4 2009 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%. The average point forecast is in line with the long-term inflation forecast provided by Consensus Economics (at 1.9%) and below that of the Euro Zone Barometer (at 2.1%), both published in April 2010.

The stability of longer-term inflation expectations is combined with a broadly stable disagreement among forecasters in their longer-term inflation expectations, as measured by the standard deviation of their point forecasts. Aggregate uncertainty surrounding these inflation expectations, as measured by the standard deviation of the aggregate probability distribution, also remained at a similar level compared with the previous SPF round.<sup>3</sup> The majority of respondents provided a point forecast for longer-term inflation expectations in the range from 1.8% to 2.0%, with the highest forecast at 2.5% and the lowest at 1.5% (see Chart B). Finally, the probability of longer-term inflation standing at 2% or above remained broadly stable at 43% after 44% in the previous SPF round.

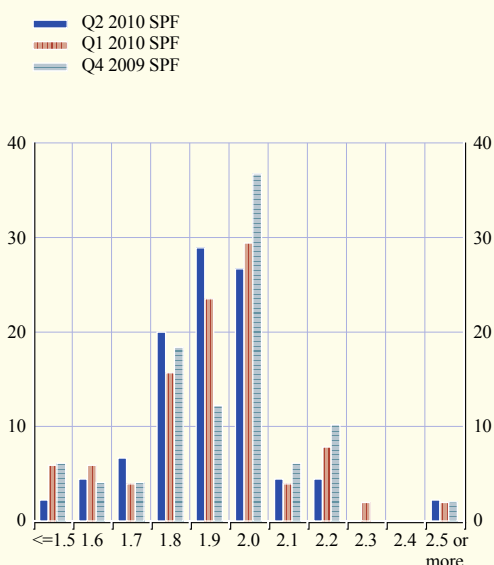
Measures of inflation expectations derived from financial markets have generally been higher and more volatile than survey-based measures (see Chart C).<sup>4</sup> Particularly in the recent period, this has been primarily a reflection of the sharp deterioration in liquidity conditions in 2008 and the first half of 2009. Since then, liquidity conditions have improved and are expected to normalise further during the course of 2010. The volatility observed in these measures should

3 For a discussion regarding uncertainty measures, 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**

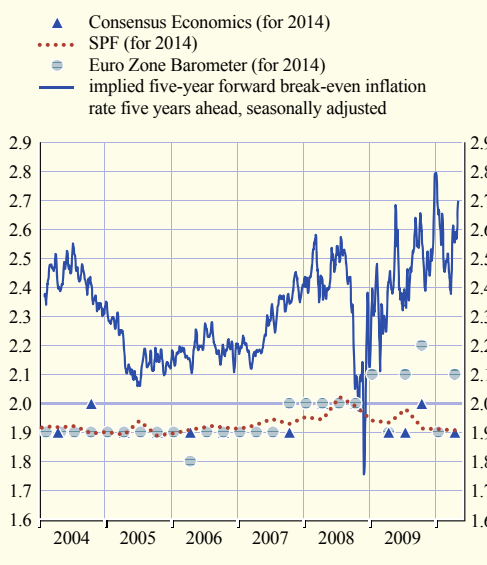
(percentage of respondents)



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.

thus be treated with some caution and should not be mechanically interpreted as reflecting revisions in market participants' long-term inflation expectations.<sup>5</sup>

### Real GDP growth expectations

On average, the SPF respondents now expect euro area real GDP to grow by 1.1% in 2010 and 1.5% in 2011. This represents a downward revision (by 0.1 percentage point for each year) to their assessment in the previous SPF round. Several respondents commented that the economic recovery will continue, albeit at a moderate pace. Growth is expected to be mostly driven by a quite robust recovery in world trade, together with positive effects from the reversal of the euro appreciation of late 2009.

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

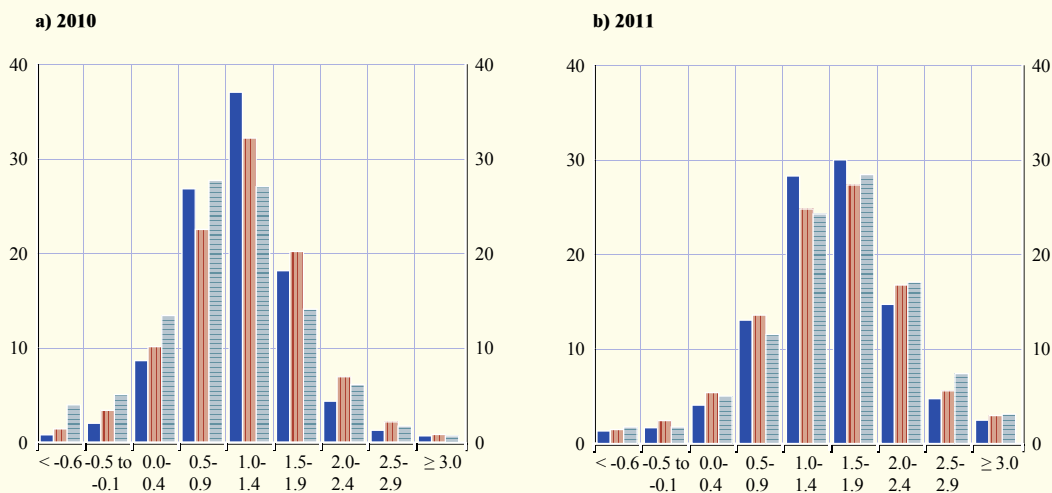
The aggregate probability distribution for 2010 is concentrated in the range between 0.5% and 1.4%. In particular, the respondents have assigned a 37% probability that real GDP growth will be between 1.0% and 1.4%. The aggregate probability distribution for 2011 is concentrated in

5 For further discussion on 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. Recent developments in financial market indicators of inflation expectations are discussed in Section 2.4 of the Monthly Bulletin.

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

(probability in percentages)

■ Q2 2010 SPF  
 ■ Q1 2010 SPF  
 ■ Q4 2009 SPF



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

the interval between 1.0% and 1.9%, with 58% of the probability assigned to outcomes in this range (see Chart D).

The balance of risks to the average point forecast of real GDP growth appears to be on the upside for 2010 and slightly on the downside for 2011. According to forecasters' comments, the main upside risk to the baseline scenario is related to a better than expected external environment and, in particular, to positive spillovers from emerging economies. The main downside risk for the growth outlook is a perceived negative short-term impact of tighter fiscal policies on consumption and investment.

Longer-term growth expectations (for 2014) stand at 1.8%, unchanged compared with the previous SPF round. The SPF assessment is in line with that of Consensus Economics (1.8%) and below that of the Euro Zone Barometer (2.0%) for 2014. Looking at the individual probability distributions, respondents assess the balance of risks for longer-term growth to be slightly on the downside.

#### **Expectations for the euro area unemployment rate**

Unemployment rate expectations have been revised down by 0.2 percentage point for both 2010 and 2011 and now stand at 10.3% for both years. The balance of risks to short and medium-term expectations is assessed to be on the upside for 2010 and also, but to a lesser extent, for 2011. Longer-term unemployment rate expectations (for 2014) have been revised slightly downwards, by 0.1 percentage point, to 8.5%, but the balance of risks to the longer-term outlook is assessed to be clearly on the upside.