

Box 5

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2011

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2011. The survey was conducted between 15 and 19 April 2011 and received 55 responses. It collects information on expectations for euro area inflation, real GDP growth and unemployment from experts affiliated with financial or non-financial institutions that are based in the EU.¹

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

Inflation expectations for 2011 and 2012

On average, inflation is expected to be at 2.5% in 2011 and 1.9% in 2012. Compared with the previous SPF round, forecasters have revised upwards their inflation expectations by 0.6 percentage point for 2011 and by 0.1 percentage point for 2012 (see the table).² According to respondents' comments, the substantial upward revision for 2011 is almost entirely accounted for by the sharp rise in commodity prices, in particular energy prices. The overall upward pressure on prices is expected to ease in the second half of 2011 and in particular in 2012. Respondents see some upside risks in the short term through the impact of geopolitical tensions in Northern Africa and the Middle East on oil price developments.

These expectations are within the ranges reported in the March 2011 ECB staff macroeconomic projections. They are slightly higher for both years when compared with the corresponding forecasts published in the April 2011 issues of Consensus Economics and the Euro Zone Barometer.

The SPF participants were also asked to assess the probability of inflation falling within specific intervals. Compared with the previous SPF round, the aggregate probability distribution for 2011 shifted considerably towards higher outcomes (see Chart A). The highest probability (41%) is now assigned to the range between 2.5% and 2.9%, while the interval from 2.0% to 2.4% is assigned a 32% probability. The probability distribution for 2012 also shifted to higher outcomes compared with the previous SPF round. Based on the individual probability distributions, the balance of risks to the point forecasts is assessed by respondents as being on the downside for 2011 and broadly balanced for 2012.³

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

3 The balance of risks is defined as being on the upside (downside) when fewer respondents report a point forecast above (below) the mean of their probability distribution than respondents reporting a point forecast below (above) the mean.

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

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon		
	2011	2012	Longer-term ²⁾
SPF Q2 2011	2.5	1.9	2.0
<i>Previous SPF (Q1 2011)</i>	<i>1.9</i>	<i>1.8</i>	<i>2.0</i>
ECB staff macroeconomic projections (March 2011)	2.0-2.6	1.0-2.4	-
Consensus Economics (April 2011)	2.4	1.8	2.1
Euro Zone Barometer (April 2011)	2.4	1.8	2.1
Real GDP growth	2011	2012	Longer-term ²⁾
SPF Q2 2011	1.7	1.7	1.9
<i>Previous SPF (Q1 2011)</i>	<i>1.6</i>	<i>1.7</i>	<i>1.9</i>
ECB staff macroeconomic projections (March 2011)	1.3-2.1	0.8-2.8	-
Consensus Economics (April 2011)	1.7	1.7	1.7
Euro Zone Barometer (April 2011)	1.7	1.7	1.9
Unemployment rate ¹⁾	2011	2012	Longer-term ²⁾
SPF Q2 2011	9.8	9.5	8.2
<i>Previous SPF (Q1 2011)</i>	<i>9.9</i>	<i>9.6</i>	<i>8.3</i>
Consensus Economics (April 2011)	9.8	9.5	-
Euro Zone Barometer (April 2011)	9.8	9.4	8.2

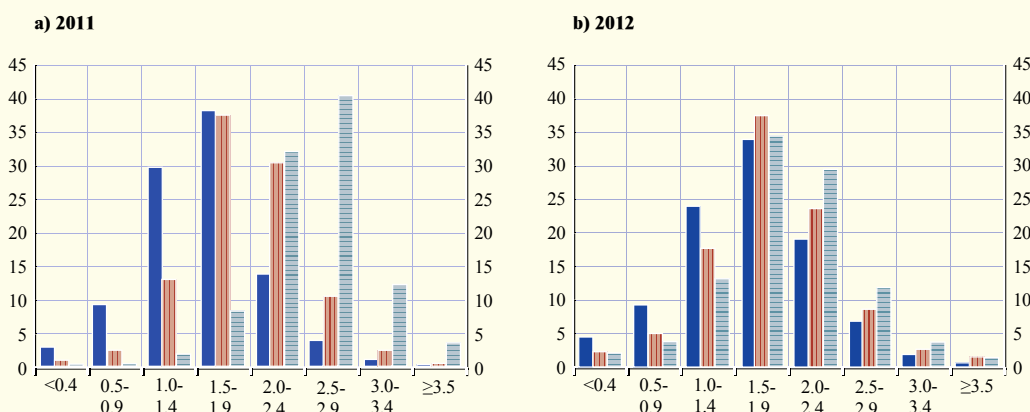
1) As a percentage of the labour force.

2) Longer-term expectations refer to 2015 in the Survey of Professional Forecasters, Consensus Economics and the Euro Zone Barometer.

Chart A Probability distribution for average annual inflation in 2011 and 2012 in the latest SPF rounds ¹⁾

(probability in percentages)

■ Q4 2010 SPF
■ Q1 2011 SPF
■ Q2 2011 SPF



Source: ECB.

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

Longer-term inflation expectations

On average, longer-term inflation expectations (for 2015) are unchanged at 2.0% (1.96% to two decimal places, up from 1.95% in the previous SPF round). The median forecast is also unchanged at 2%, while the disagreement among forecasters in their longer-term inflation expectations, as measured by the standard deviation of their point forecasts, has fallen slightly (see Chart B). Looking at the probability distributions for longer-term inflation outcomes, the probability assigned to 2% or above has on aggregate increased to 50% from 48% in the previous round. At the same time, the standard deviation of the aggregate probability distribution, a measure of aggregate uncertainty, has increased to an all-time high since the beginning of the survey in 1999.⁴

The SPF longer-term inflation expectations are 0.1 percentage point below the longer-term forecasts published in the April 2011 issues of Consensus Economics and the Euro Zone Barometer (both for 2015). Measures of inflation expectations derived from financial markets have remained somewhat higher. However, these measures incorporate not just the level of expected inflation, but also an additional premium to compensate bond investors for inflation risks. In general, they are also more volatile than survey-based measures, owing not only to the volatility of the inflation risk premium, but also to fluctuations in bond market liquidity conditions, particularly since the middle of 2008 (see Chart C).⁵ For these reasons, the volatility observed in these measures should not be interpreted mechanically as reflecting revisions in market participants' long-term inflation expectations.⁶

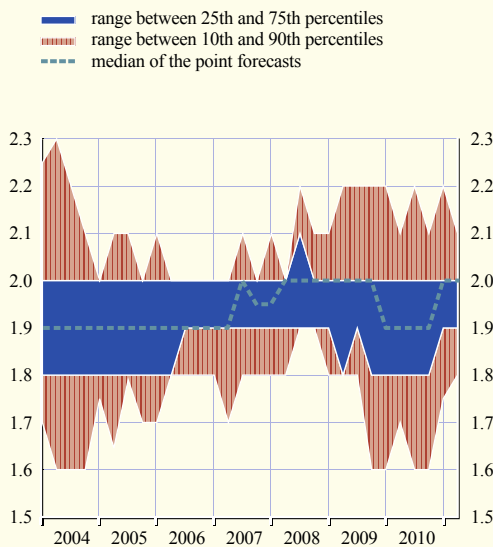
4 For a discussion regarding uncertainty measures, see the box entitled "Measuring perceptions of macroeconomic uncertainty", *Monthly Bulletin*, ECB, January 2010.

5 See also the article entitled "Inflation expectations in the euro area: a review of recent developments", *Monthly Bulletin*, ECB, February 2011.

6 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", *Monthly Bulletin*, ECB, November 2008. Recent developments in financial market indicators of inflation expectations are discussed in Section 2.4 of the *Monthly Bulletin*.

Chart B Longer-term inflation point forecasts of the SPF respondents ¹⁾

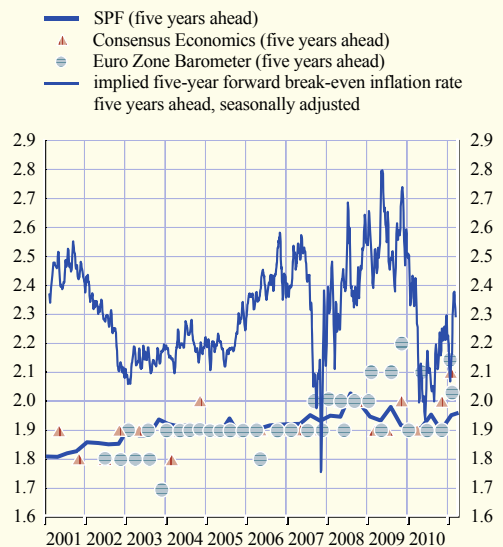
(annual percentage changes)



Source: ECB.
1) "Longer-term" refers to 2015 for the current round of the SPF.

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: Bloomberg, Consensus Economics, EuroMTS, Euro Zone Barometer, Thomson Reuters and ECB calculations.

Real GDP growth expectations

Real GDP growth expectations in the SPF for 2011 have been revised upwards by 0.1 percentage point and stand now at 1.7%. Growth expectations for 2012 remained unchanged at 1.7%. These expectations are within the ranges reported in the March 2011 ECB staff macroeconomic projections and are identical to the latest Consensus Economics and Euro Zone Barometer forecasts for 2011 and 2012 (see the table).

According to forecasters' comments, the upward revision in 2011 was supported mainly by higher domestic activity at the beginning of the year in some larger euro area economies, particularly in Germany.

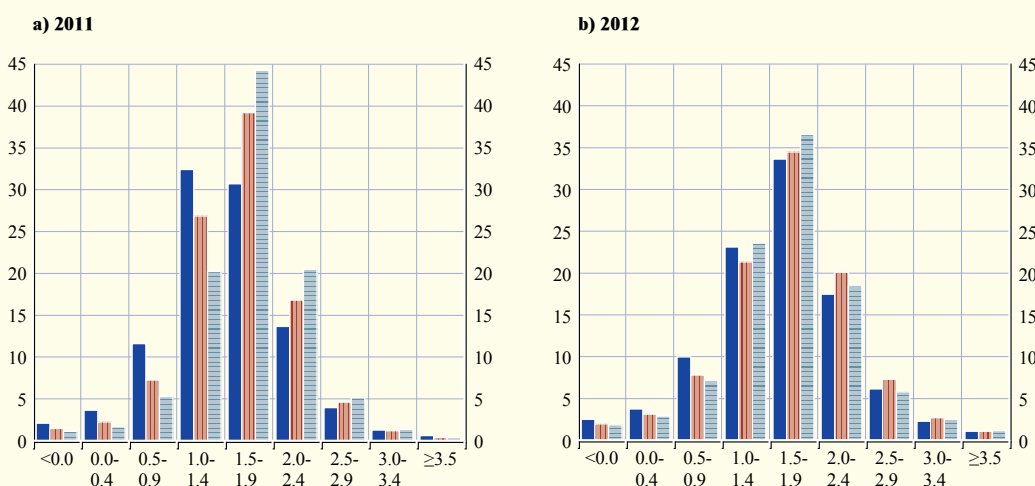
In line with the upward revision of expected real GDP growth in 2011, the aggregate probability distribution for 2011 has shifted noticeably towards higher outcomes. Respondents now assign a 44% probability to the outcomes between 1.5% and 1.9%, while the probability assigned to the interval from 1.0% to 1.4% has decreased to 20%. With respect to 2012, the aggregate probability distribution has marginally shifted downwards, but is still concentrated in the interval between 1.5% and 1.9%, which is assigned a probability of 37% (see Chart D).

Based on the individual probability distributions, the balance of risks to the point forecasts is assessed to be on the downside for both 2011 and 2012. The key downside risks to the GDP growth outlook are reported to be a higher than expected impact of fiscal tightening, mostly in the fiscally distressed euro area countries, a continuing rise in energy prices eroding households' purchasing power, and a possible deceleration in global growth, particularly in the emerging economies.

Chart D Probability distribution for average annual real GDP growth in 2011 and 2012 in the latest SPF rounds¹⁾

(probability in percentages)

■ Q4 2010 SPF
■ Q1 2011 SPF
■ Q2 2011 SPF



Source: ECB.

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

The SPF longer-term growth expectations (for 2015) remain stable at 1.9%. The SPF assessment is in line with that of the latest issue of the Euro Zone Barometer and 0.2 percentage point higher than that of the latest Consensus Economics forecasts. The balance of risks to longer-term growth forecasts obtained by comparing the individual probability distributions and point forecasts is on the downside.

Expectations for the euro area unemployment rate

Unemployment rate expectations have been slightly revised downwards by 0.1 percentage point for both 2011 and 2012, to 9.8% and 9.5% respectively. Based on the individual probability distributions, the balance of risks to these forecasts is assessed to be on the downside for 2011 and on the upside for 2012. Longer-term unemployment rate expectations (for 2015) have been slightly revised downwards by 0.1 percentage point to 8.2% compared with the previous round and the balance of risks to the longer-term outlook is assessed to be on the upside.

Other variables and conditioning assumptions

According to other information provided by the respondents, they generally expect: (i) oil prices to stand at around USD 115 per barrel in the second quarter of 2011 and then slightly decrease to an average of USD 110 per barrel in 2012; (ii) average annual wage growth to be at 1.8% in 2011, rising gradually to 2.4% in 2015; (iii) the euro/dollar exchange rate to reach 1.39 in the second quarter of 2011 and then to slightly depreciate to 1.37 in the first quarter of 2012; and (iv) the ECB main refinancing rate to increase gradually from around 1.3% in the second quarter of 2011 to around 1.9% in the first quarter of 2012, and then to 2.2% on average in 2012.