

Box 4

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2011. The survey was conducted between 14 and 19 July 2011 and received 50 responses.¹

The results imply a slight upward revision of shorter-term inflation expectations for 2011 and 2012, mainly owing to the impact of commodity price developments and indirect tax hikes. GDP growth expectations have been revised upwards for 2011, mainly driven by higher than expected activity in the euro area at the beginning of the year, while they have been revised slightly downwards for 2012. As regards longer-term inflation expectations (for 2016), the average point forecast remained unchanged at 2.0%, and the median of the point forecasts was also stable at 2.0%.

Shorter-term inflation expectations revised slightly upwards for both 2011 and 2012

The SPF inflation expectations for 2011 and 2012 stand at 2.6% and 2.0% respectively, revised upwards compared with the last SPF round by 0.1 percentage point for both horizons. Expectations for 2013 stand at 1.9% (see table). The SPF inflation expectations for 2011 to 2013 are broadly in line with the corresponding forecasts published in the July 2011 issues of Consensus Economics and the Euro Zone Barometer.

¹ The survey 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. 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 the Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon			
	2011	2012	2013	Longer-term ²⁾
SPF Q3 2011	2.6	2.0	1.9	2.0
Previous SPF (Q2 2011)	2.5	1.9	-	2.0
Eurosystem staff macroeconomic projections	2.5-2.7	1.1-2.3	-	-
Consensus Economics (July 2011)	2.6	1.9	1.7	2.3
Euro Zone Barometer (July 2011)	2.6	1.9	1.9	2.1
Real GDP growth	2011	2012	2013	Longer-term²⁾
SPF Q3 2011	1.9	1.6	1.8	1.9
Previous SPF (Q2 2011)	1.7	1.7	-	1.9
Eurosystem staff macroeconomic projections	1.5-2.3	0.6-2.8	-	-
Consensus Economics (July 2011)	2.0	1.6	1.7	1.6
Euro Zone Barometer (July 2011)	2.0	1.7	1.7	1.9
Unemployment rate¹⁾	2011	2012	2013	Longer-term²⁾
SPF Q3 2011	9.8	9.5	9.2	8.2
Previous SPF (Q2 2011)	9.8	9.5	-	8.2
Consensus Economics (July 2011)	9.8	9.5	-	-
Euro Zone Barometer (July 2011)	9.8	9.4	9.1	8.2

1) As a percentage of the labour force.

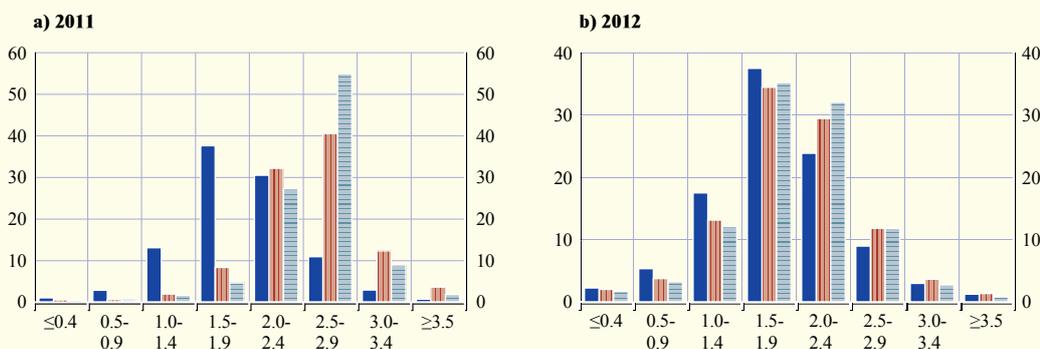
2) Longer-term expectations refer to 2015 in the Euro Zone Barometer and in the previous round of the SPF, and to 2016 in the SPF for the third quarter of 2011 and Consensus Economics. Expectations for 2013 and longer-term expectations for Consensus Economics are from the April 2011 release.

While the average point forecast for 2011 has increased only slightly, the aggregate probability distribution has shifted significantly further towards higher outcomes. The probability attached to the range between 2.5% and 2.9% is now 55%. For 2012 and 2013, the highest probabilities are still attached to the interval between 1.5% and 1.9% and that between 2.0% and 2.4%, with somewhat more than 30% in each case (see Chart A).

Chart A Aggregated probability distribution of average annual inflation expectations for 2011 and 2012 in the latest SPF rounds¹⁾

(probability in percentages)

■ 2011 Q1 SPF
■ 2011 Q2 SPF
■ 2011 Q3 SPF



Source: ECB.

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

The slight upward revision to the point forecasts for 2011 and 2012 is accounted for by developments in commodity prices, in particular oil prices, which some of the respondents see feeding into core inflation. Forecasters' baseline view also incorporates upward pressures from wages, in particular in fast-growing countries, and increases in indirect taxes and administered prices. However, the overall impact of fiscal measures on the outlook for inflation is seen as broadly neutral, since fiscal consolidation is expected to have a dampening effect on aggregate demand. The main upside risks to the baseline inflation outlook are further rises in oil and food prices and the associated second-round effects, as well as a more general risk of more pronounced pressures from unit labour costs and tax increases spilling over into consumer prices. A weaker than expected economic outlook is mentioned as the main downside risk. Based on the individual probability distributions, the balance of risks to the point forecasts is assessed to be slightly on the downside for the whole forecast horizon.²

Longer-term inflation expectations unchanged at 2.0%

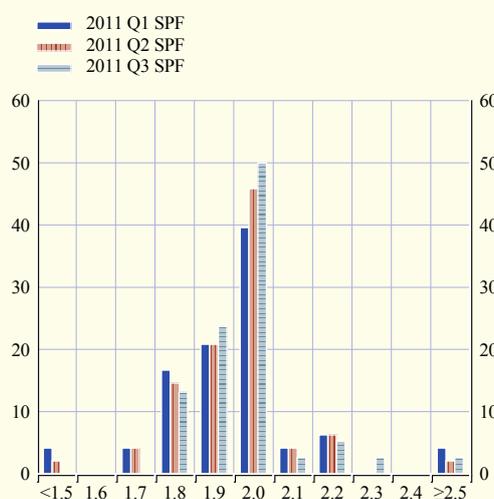
The average point forecast for longer-term inflation remained at 2.0% for 2016. At two decimal places, expectations stand on average at 2.01%, which is the second highest level after the third quarter of 2008 and an increase of 0.05 percentage point compared with the previous round. The median and the mode of the point forecasts are stable at 2.0%. The distribution of the point forecasts is still concentrated in the range between 1.8% and 2.0%; however, the share of respondents providing a point forecast of 2.0% has increased to one-half (the second highest share ever recorded, after 57% in the second quarter of 2008). Compared with the longer-term forecasts published in the April 2011 issue of Consensus Economics (for 2016) and the July 2011 issue of the Euro Zone Barometer (for 2015), the SPF longer-term inflation expectations are 0.3 and 0.1 percentage point lower respectively.

The aggregate probability distribution has marginally shifted to higher outcomes compared with the previous SPF round. Indeed, the probability of inflation being at or above 2.0% increased further, to 52%, from 50% in the previous SPF round. Since the SPF survey was first conducted, the 50% threshold has been breached only in the second half of 2008. As there are more respondents with a point forecast above the mean of their probability distribution, the balance of risks surrounding the average point forecast can be regarded as being on the downside.

Disagreement about longer-term inflation expectations as measured by the standard deviation of the point forecasts is unchanged at 0.2 percentage point. Aggregate uncertainty surrounding longer-term inflation expectations,

Chart B Cross-sectional distribution of longer-term (five years ahead) inflation point forecasts

(percentage of respondents)



Source: ECB.

² 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.

as measured by the standard deviation of the aggregate probability distribution, has declined from the all-time high recorded in the previous SPF round (see Chart C).³

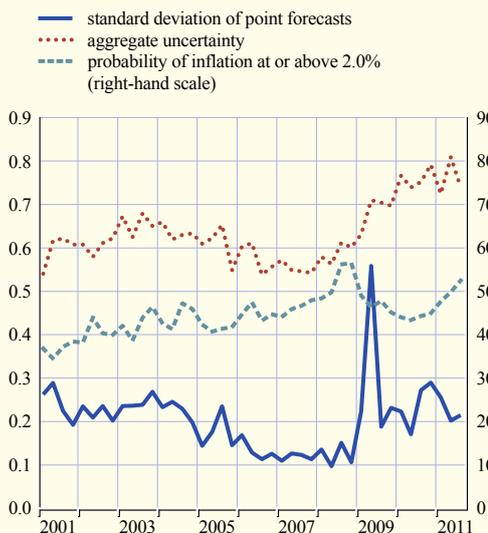
GDP growth expectations revised upwards for 2011 and downwards for 2012

On average, GDP growth expectations for the shorter term have been revised upwards for 2011 and slightly downwards for 2012, now standing at 1.9% (+0.2 percentage point) and 1.6% (-0.1 percentage point) respectively. Expectations for 2013 stand at 1.8%. The aggregate probability distribution for 2011 has shifted notably towards higher outcomes, with respondents now assigning almost 40% probability to both the range between 1.5% and 1.9% and that between 2.0% and 2.4%. With respect to 2012 and 2013, the aggregate probability distributions are much more clearly concentrated in the interval between 1.5% and 1.9% (see Chart D).

³ For a discussion regarding uncertainty measures, see the box entitled "Measuring perceptions of macroeconomic uncertainty", *Monthly Bulletin*, ECB, January 2010.

Chart C Disagreement and uncertainty about longer-term inflation expectations

(percentages)



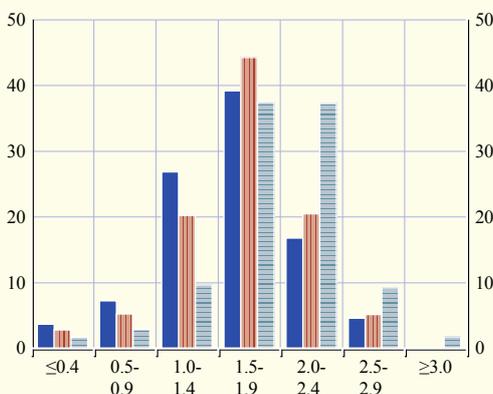
Source: ECB.
Note: Aggregate uncertainty is defined as the standard deviation of the aggregate probability distribution (assuming a discrete probability density function with probability mass concentrated in the middle of the interval).

Chart D Aggregated probability distribution of GDP growth expectations for 2011 and 2012 in the latest SPF rounds¹⁾

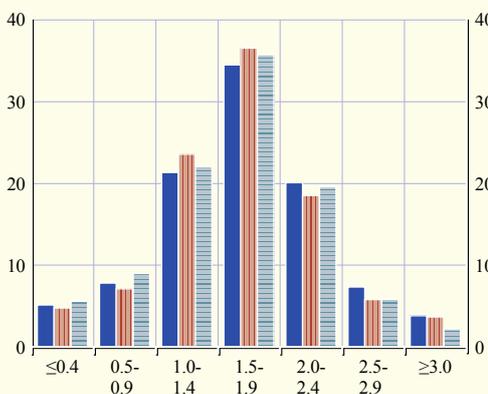
(probability in percentages)

— 2011 Q1 SPF
— 2011 Q2 SPF
— 2011 Q3 SPF

a) 2011



b) 2012



Source: ECB.

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

According to the respondents, the upward revision to the forecast in 2011 reflects mainly the stronger than expected growth at the beginning of the year in the euro area. Growth in the euro area is expected to decelerate in the remaining quarters of 2011 owing to the moderate expansion of global demand, the negative impact of the fiscal tightening and the various impacts of higher commodity prices (e.g. higher production costs and lower real purchasing power of households). Overall, respondents assess the balance of risks to the growth outlook to be on the downside over the whole forecasting horizon. The key downside risks to the growth outlook are considered to be: i) a stronger than expected impact of fiscal tightening and austerity measures, mostly in the fiscally distressed euro area countries; ii) further increases in oil prices; iii) the deceleration of growth in the emerging economies as well as in the United States; and iv) potentially tighter financing conditions.

Longer-term growth expectations (for 2016) stand at 1.9%. The balance of risks to this longer-term growth outlook is assessed to be on the downside. The aggregate probability distribution is broadly unchanged compared with the previous SPF round. The forecasters still assign a probability of around 30% to longer-term real GDP growth being within the interval from 1.5% to 1.9%, while the probability that it will be in the interval from 2.0% to 2.4% has remained close to 25%.

Expectations for the unemployment rate unchanged for 2011 and 2012

Unemployment rate expectations have remained stable at 9.8% for 2011 and 9.5% for 2012, and stand at 9.2% for 2013. Forecasters hence expect only a gradual decline in the unemployment rate over the forecast horizon. The main upside risk to this scenario is a potential slowdown in economic activity. Downside risks are mostly associated with the success of ongoing labour market reforms, which would lead to greater labour market flexibility. Comparing the point forecasts with the means of the probability distributions, the balance of risks is assessed to be on the downside for 2011 and on the upside for both 2012 and 2013.

Longer-term unemployment rate expectations (for 2016) remained stable at 8.2%, with the balance of risks assessed to be on the upside. The aggregate probability distribution has shifted slightly towards higher outcomes, with the highest probability (22%) still assigned to the interval from 8.0% to 8.4%.

Other variables and conditioning assumptions

According to other information provided by the respondents, the following assumptions underlying the forecasts have been used. Oil prices are expected to stand at around USD 113 per barrel during 2011 and 2012 and then to increase slightly. The euro/dollar exchange rate is expected to stand on average at 1.43 in the third quarter of 2011 and then to slightly depreciate. The ECB's main refinancing rate is expected to increase gradually to 2.2% on average in 2012. Finally, average annual wage growth is expected to rise gradually to 2.2% on average in 2013.