

Box 4

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the fourth quarter of 2011. The survey was conducted between 14 and 18 October 2011 and received 64 responses.¹

The results imply a stable outlook for inflation in 2011 and a downward revision of inflation expectations for 2012 and 2013, mainly due to the easing of commodity price pressures and the

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, ECB 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 Q4 2011	2.6	1.8	1.8	2.0
<i>Previous SPF (Q3 2011)</i>	2.6	2.0	1.9	2.0
ECB staff macroeconomic projections (September 2011)	2.5-2.7	1.2-2.2	-	-
Consensus Economics (October 2011)	2.6	1.8	1.8	2.0
Euro Zone Barometer (October 2011)	2.6	1.7	1.7	1.9
Real GDP growth	2011	2012	2013	Longer-term ²⁾
SPF Q4 2011	1.6	0.8	1.6	1.8
<i>Previous SPF (Q3 2011)</i>	1.9	1.6	1.8	1.9
ECB staff macroeconomic projections (September 2011)	1.4-1.8	0.4-2.2	-	-
Consensus Economics (October 2011)	1.6	0.6	1.5	1.7
Euro Zone Barometer (October 2011)	1.6	0.6	1.6	1.9
Unemployment rate ¹⁾	2011	2012	2013	Longer-term ²⁾
SPF Q4 2011	10.0	10.0	9.7	8.5
<i>Previous SPF (Q3 2011)</i>	9.8	9.5	9.2	8.2
Consensus Economics (October 2011)	10.0	10.1	-	-
Euro Zone Barometer (October 2011)	10.0	10.0	9.3	8.2

1) As a percentage of the labour force.

2) Longer-term expectations refer to 2015 in the Euro Zone Barometer and to 2016 in the SPF and Consensus Economics.

weakening of the outlook for economic growth. GDP growth expectations have been revised downwards for all horizons, mainly owing to the evolution of the sovereign debt crisis and the worse than expected external environment. 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 unchanged for 2011 and revised downwards for 2012 and 2013

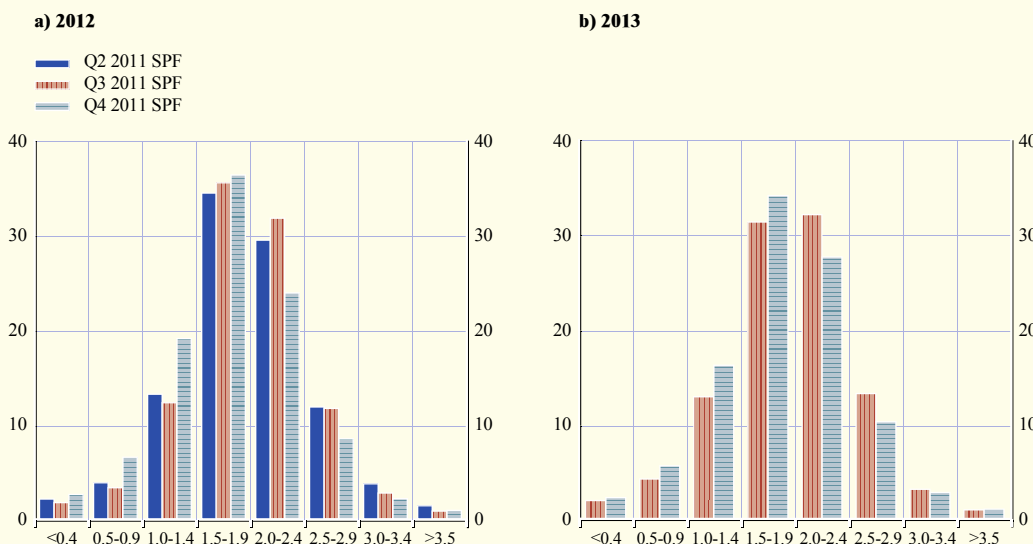
The SPF inflation expectations stand at 2.6% for 2011 and at 1.8% for both 2012 and 2013. Compared with the last SPF round, expectations for 2011 are unchanged, whereas expectations for 2012 and 2013 have been revised downwards by 0.2 percentage point and 0.1 percentage point respectively (see the table). The SPF inflation expectations for 2011 to 2013 are broadly in line with the corresponding forecasts published in the October 2011 issues of Consensus Economics and the Euro Zone Barometer, and are within the ranges reported in the September 2011 ECB staff macroeconomic projections.

With respect to aggregate probability distributions, compared with the previous SPF round the distributions for inflation outcomes in 2012 and 2013 have both shifted towards lower outcomes, with the highest probability now being more clearly attached to the interval between 1.5% and 1.9% for both years (see Chart A).

The downward revision to the forecasts for 2012 and 2013 is accounted for by the easing of commodity price pressures as well as the weakening of the outlook for economic growth, which is closely intertwined with the sovereign debt crisis in the euro area. Increases in oil and raw material prices are mentioned as upside risks, whereas the main downside risks to the baseline inflation outlook derive from weaker than expected growth. Based on the individual probability

Chart A Aggregated probability distribution of average annual inflation expectations for 2012 and 2013 in the latest SPF rounds

(probability in percentages)



Source: ECB.

Note: The aggregated probability distribution corresponds to the average of individual probability distributions provided by SPF forecasters.

distributions, the balance of risks to the shorter-term point forecasts is assessed to be on the upside for 2011 and on the downside for 2012 and 2013.²

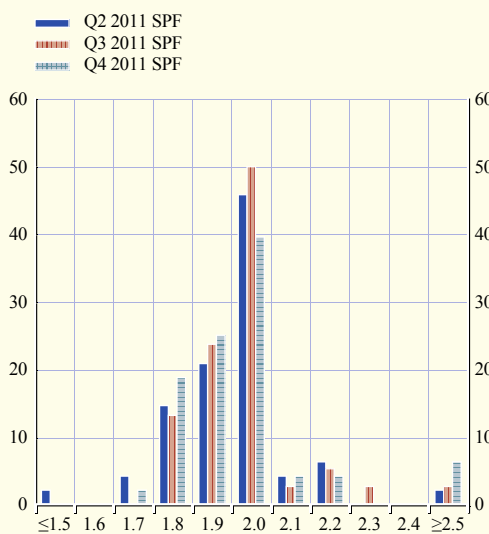
Longer-term inflation expectations unchanged at 2.0%

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, but unchanged from the previous round. The median and the mode of the point forecasts are stable at 2.0% (see Chart B). The longer-term inflation expectations of the SPF are broadly in line with the longer-term forecasts published in the October 2011 issues of Consensus Economics (for 2016) and the Euro Zone Barometer (for 2015).

The aggregate probability distribution has shifted to lower outcomes, compared with the previous SPF round. Indeed, the probability of inflation being at or above 2.0% decreased

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.

to 48%. At the same time, the probability attached to tail outcomes has remained stable at a relative low level. As there are many more respondents with a point forecast above the mean of their probability distribution, the balance of risks surrounding the average point forecast is assessed to be largely on the downside.

Disagreement on longer-term inflation expectations as measured by the standard deviation of the point forecasts increased to 0.3 percentage point (+0.1 percentage point). Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, is stable at a relatively high level (see Chart C).³

Real GDP growth expectations revised downwards, with a particularly large revision for 2012

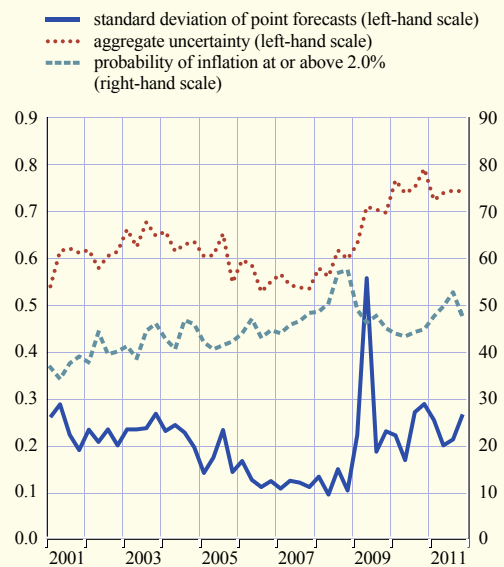
On average, real GDP growth expectations for the shorter term have been revised downwards for all the horizons, with the most significant revision for 2012. They currently stand at 1.6% for 2011, 0.8% for 2012 and 1.6% for 2013. Compared with the latest corresponding forecasts of Consensus Economics and the Euro Zone Barometer, the SPF real GDP growth expectations are broadly in line for 2011 and 2013 and on the upper side for 2012. They are within the ranges reported in the September 2011 ECB staff macroeconomic projections. The aggregate probability distributions for 2011, 2012 and 2013 have shifted noticeably towards lower outcomes. For 2012, in particular, the respondents now assign the highest probability (28%) to the range between 0.5% and 0.9%, whereas in the previous round the highest probability was assigned to the range between 1.5% and 1.9% (see Chart D).

According to the respondents, the more negative baseline outlook is the result of additional fiscal consolidation measures, tightening of financial conditions, higher uncertainty and lower foreign demand. The balance of risks to the growth outlook is assessed to be on the downside. A swift solution to the sovereign debt crisis or a failure to reach such a solution are the most quoted upside and downside risks to this outlook. Apart from that, the key downside risks to the growth outlook mentioned by the forecasters are further decreases in consumer and business confidence and increased uncertainty.

Longer-term growth expectations (for 2016) stand at 1.8%, which is 0.1 percentage point lower than in the previous SPF round. The balance of risks to this longer-term growth outlook

Chart C Disagreement and uncertainty surrounding longer-term inflation expectations

(percentages)



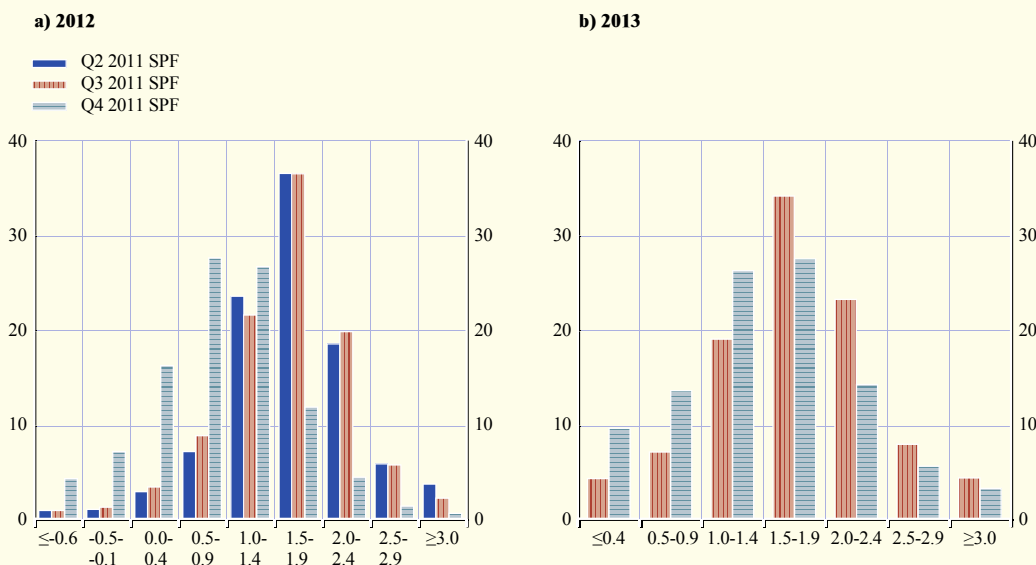
Source: ECB.

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

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

Chart D Aggregated probability distribution of real GDP growth expectations for 2012 and 2013 in the latest SPF rounds

(probability in percentages)



Source: ECB.

Note: The aggregated probability distribution corresponds to the average of individual probability distributions provided by SPF forecasters.

is assessed to be on the downside. The aggregate probability distribution has shifted only marginally towards lower outcomes compared with the previous SPF round, and the forecasters still consider the probability of longer-term real GDP growth being within the interval from 1.5% to 1.9% to be around 30%.

Expectations for the euro area unemployment rate increased for both 2011 and 2012

Unemployment rate expectations increased to 10.0% for both 2011 and 2012, and to 9.7% for 2013. Forecasters still expect, therefore, a decline in the unemployment rate over the forecast horizon, but now expect it to start later. The upward revision in unemployment expectations is mainly due to the current slowdown in economic activity and the cost-cutting that is currently taking place. The main upside risk to this outlook is a sudden worsening of the ongoing crisis that would lead to a further deterioration of economic activity. Downside risks are mostly associated with the success of ongoing labour market reforms, which would lead to higher labour market flexibility. Comparing the point forecasts with the means of the probability distributions, the balance of risks is assessed to be on the upside.

Longer-term unemployment rate expectations (for 2016) have increased to 8.5%, with the balance of risks assessed to be on the upside. The aggregate probability distribution has slightly shifted towards higher outcomes, but the highest probability (20%) is still assigned to the interval from 8.5% to 8.9%.

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 now expected to stand at around USD 107 per barrel during 2011 and 2012 and then to slightly increase. The EUR/USD exchange rate is expected to stand on average at 1.36 throughout 2011 and 2012, and then to appreciate slightly. The ECB's main refinancing rate is expected to average at 1.3% in 2012 and increase to 1.6% on average in 2013. Finally, average annual growth in compensation per employee is expected to stabilise at around 2.1% on average in 2012 and 2013.