

## Box 7

### RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FIRST QUARTER OF 2012

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the first quarter of 2012. The survey was conducted between 17 and 20 January 2012 and received 58 responses.<sup>1</sup>

Compared with the previous survey round, the latest results show that respondents' outlook for inflation in 2012 and 2013 has remained broadly unchanged. As regards longer-term inflation expectations (for 2016), the average point forecast and the median of the point forecasts remained unchanged at 2.0%. GDP growth expectations have been revised down significantly for 2012 and 2013.

#### Shorter-term inflation expectations revised up slightly for 2012 and down slightly for 2013

The SPF inflation expectations for 2012 and 2013 stand at 1.9% and 1.7% respectively (see the table). These figures are broadly in line with the corresponding forecasts published in the January 2012 issues of Consensus Economics and the Euro Zone Barometer, and are within the ranges reported in the December 2011 Eurosystem staff macroeconomic projections.

Compared with the previous survey round, inflation expectations have ticked up by 0.1 percentage point for 2012 and decreased marginally by 0.1 percentage point for 2013. In their qualitative comments, respondents attributed the upward revision to the inflation forecast for 2012 to a combination of upward revisions to expected indirect taxes and administered prices

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](http://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)

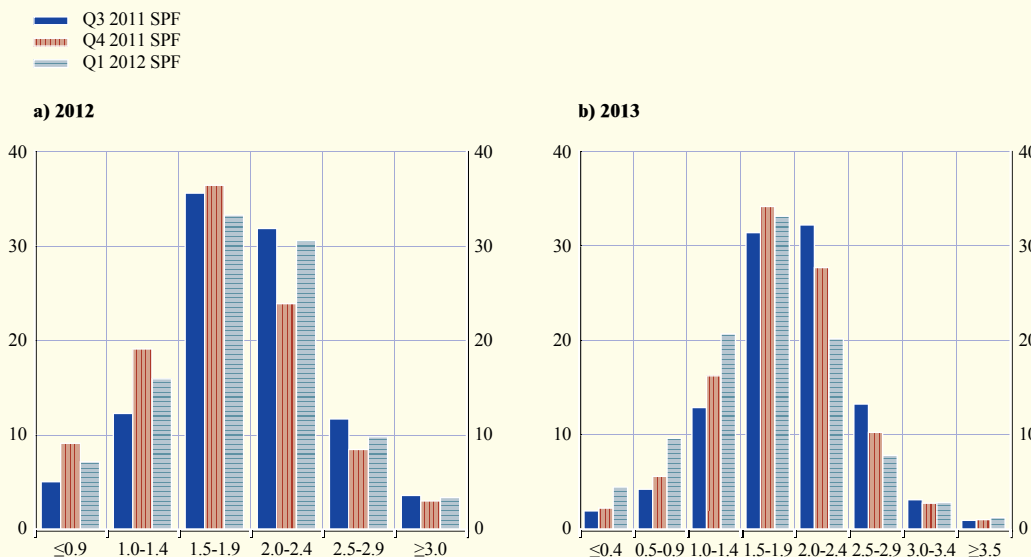
	Survey horizon		
	2012	2013	Longer-term <sup>2)</sup>
<b>HICP inflation</b>			
SPF Q1 2012	1.9	1.7	2.0
<i>Previous SPF (Q4 2011)</i>	1.8	1.8	2.0
Eurosystem staff macroeconomic projections (December 2011)	1.5-2.5	0.8-2.2	-
Consensus Economics (January 2012)	1.9	1.7	2.0
Euro Zone Barometer (January 2012)	1.8	1.7	2.1
<b>Real GDP growth</b>			
SPF Q1 2012	-0.1	1.1	1.8
<i>Previous SPF (Q4 2011)</i>	0.8	1.6	1.8
Eurosystem staff macroeconomic projections (December 2011)	-0.4-1.0	0.3-2.3	-
Consensus Economics (January 2012)	-0.3	1.0	1.7
Euro Zone Barometer (January 2012)	-0.3	1.0	1.9
<b>Unemployment rate<sup>1)</sup></b>			
SPF Q1 2012	10.6	10.6	8.8
<i>Previous SPF (Q4 2011)</i>	10.0	9.7	8.5
Consensus Economics (January 2012)	10.6	10.6	-
Euro Zone Barometer (January 2012)	10.6	10.5	9.2

1) As a percentage of the labour force.

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

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.

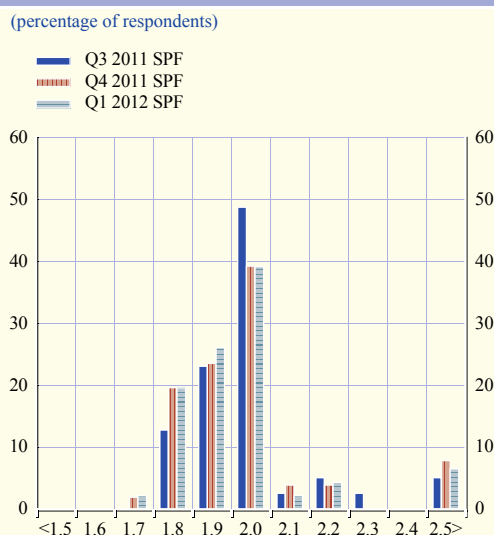
in some countries, an upward revision to expected oil prices and a downward revision to the expected EUR/USD exchange rate. Furthermore, they put the downward revision to the inflation forecast for 2013 down to expectations of lower economic activity (partially on the back of stronger fiscal consolidation measures) and profit margins, as well as of higher unemployment.

With regard to the risks to the inflation outlook, the aggregate probability distribution for 2012 has shifted towards somewhat higher outcomes compared with the previous survey round (see Chart A). The probabilities attached to the interval between 1.5% and 1.9% and between 2.0% and 2.4% are now more or less equal at slightly more than 30%, and the probability assigned to inflation being at 2% or above has increased from 35% to 44%. By contrast with 2012, the aggregate probability distribution for 2013 has shifted towards somewhat lower outcomes compared with the previous survey round, and the highest probability is now assigned more clearly to the interval between 1.5% and 1.9%.

Some respondents mentioned higher energy and commodity prices, as well as further increases in indirect taxes and administered prices, as upward risks to their baseline inflation forecasts, and a weaker than expected economic outlook as the main downside risk. Based on the individual probability distributions, the balance of risks to the shorter-term point forecasts is assessed to be on the downside for 2012 and broadly balanced for 2013.<sup>2</sup>

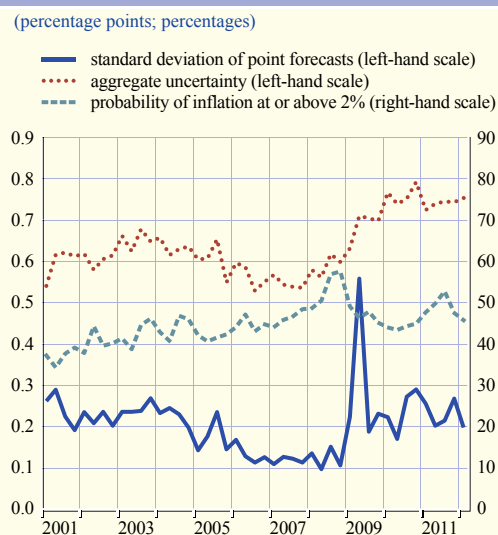
2 The balance of risks can be defined as being on the upside (downside) when fewer respondents report a point forecast above (below) the mean of their probability distribution than respondents reporting a point forecast below (above) the mean. The mean of the probability distribution is computed by assuming that the probability mass is concentrated in the interval mid-point.

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



Source: ECB.

**Chart C Disagreement and uncertainty about longer-term inflation expectations**



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).

### Longer-term inflation expectations unchanged at 2.0%

The average point forecast for longer-term inflation remains at 2.0% for 2016. At two decimal places, expectations stand on average at 1.98%, down from 2.01% in the previous survey round. The median and the mode of the point forecasts are unchanged at 2.0%, and the share of respondents providing a point forecast of 2.0% is stable at around 40% (see Chart B). The longer-term inflation expectations are also broadly in line with the longer-term forecasts published in the October 2011 issue of *Consensus Economics* and the January 2012 issue of the *Euro Zone Barometer* (both for 2016).

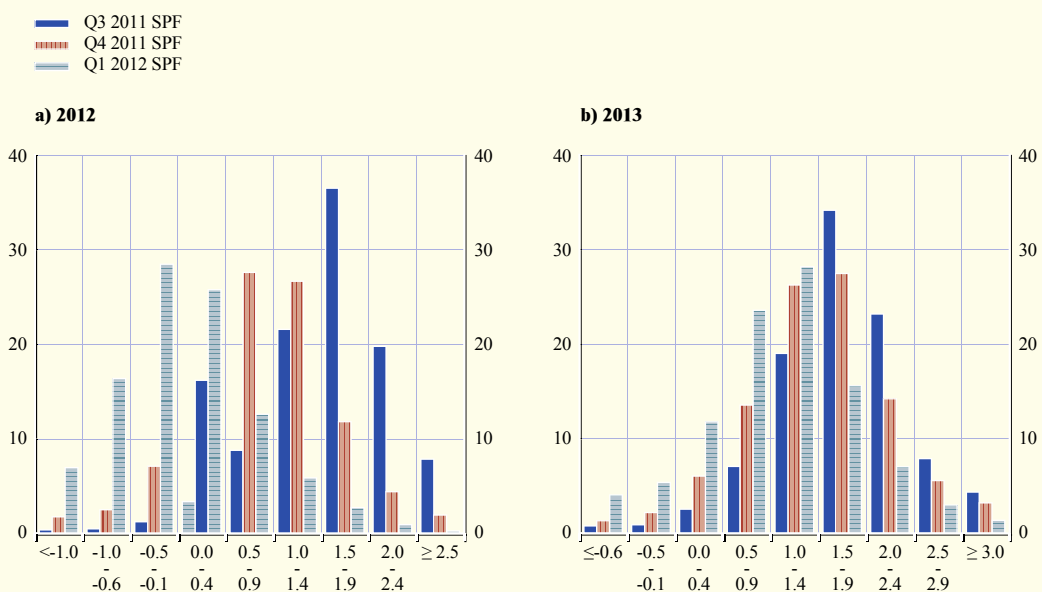
The aggregate probability distribution has shifted marginally towards lower outcomes compared with the previous survey round, with the probability of inflation being at or above 2.0% decreasing from 48% to 46%. As there is still a large number of respondents with a point forecast above the mean of their probability distribution, the balance of risks surrounding the average point forecast is assessed to be largely on the downside.

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, decreased to 0.2 percentage point (from 0.3 percentage point in the previous survey round). 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).<sup>3</sup>

<sup>3</sup> 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 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.

### Real GDP growth expectations revised down significantly for both 2012 and 2013

According to the latest survey results, real GDP growth expectations stand at -0.1% for 2012 and at 1.1% for 2013. Compared with the latest corresponding forecasts of Consensus Economics and the Euro Zone Barometer, they are slightly higher for 2012, but broadly similar for 2013. They are also within the ranges reported in the December 2011 Eurosystem staff macroeconomic projections.

By comparison with the previous round of the SPF, GDP growth expectations have been revised down significantly, by 0.9 percentage point for 2012 and by 0.5 percentage point for 2013. Respondents attributed this more negative baseline outlook to additional fiscal consolidation measures in many euro area countries, a further tightening of credit conditions, lower confidence and a generally higher level of uncertainty.

The aggregate probability distributions for 2012 and 2013 have shifted noticeably towards lower outcomes. For 2012, in particular, respondents now assign a probability of 54% to the intervals between -0.5% and 0.4% (see Chart D). The main upside risk to the baseline outlook was quoted as being a credible solution to the sovereign debt crisis, while the main downside risk was a further worsening of the crisis. Other downside risks included further falls in confidence, higher levels of uncertainty and the possibility of more significant credit constraints. The balance of risks to the growth outlook is assessed to be on the upside for 2012 and on the downside for 2013.

Longer-term growth expectations (for 2016) stand at 1.8%, unchanged from the previous survey round. The balance of risks to this longer-term growth outlook is assessed to be largely on the downside. However, the aggregate probability distribution has not changed significantly from the previous round, with respondents still assigning a probability of around 30% to longer-term real GDP growth being within the interval between 1.5% and 1.9%.

### **Expectations for the unemployment rate revised up significantly for both 2012 and 2013**

Unemployment rate expectations stand at 10.6% for both 2012 and 2013. These forecasts are broadly in line with the latest Consensus Economics and Euro Zone Barometer forecasts. Compared with the previous round of the SPF, unemployment rate expectations have been revised up significantly, by 0.6 percentage point for 2012 and by 0.9 percentage point for 2013. According to respondents, these upward revisions were due mainly to downward revisions to expected economic activity.

With regard to the risks to this outlook, an escalation of the ongoing crisis, increased uncertainty and a worsening of financing were mentioned by respondents as the main upside risks, while the further implementation of, and the lagged effects of already implemented, structural reforms are quoted as downside risks. Comparing the point forecasts with the means of the probability distributions, the balance of risks is assessed to be slightly on the downside for 2012 and on the upside for 2013.

Longer-term unemployment rate expectations (for 2016) have increased to 8.8%, with the balance of risks assessed to be clearly on the upside. The aggregate probability distribution has shifted significantly towards higher outcomes.

### **Other variables and conditioning assumptions**

According to other information provided by respondents, both the assumptions for the EUR/USD exchange rate and the ECB's main refinancing rate have been revised down significantly. Oil price assumptions have moved upwards, while assumptions for growth in compensation per employee have remained unchanged. In particular, oil prices are now expected to stand at around USD 110 per barrel during 2012 and then to increase marginally in 2013. The EUR/USD exchange rate is expected to stand at around 1.28 in 2012, with the euro appreciating slightly at the end of the year. The ECB's main refinancing rate is expected to be 0.9% on average in 2012 and 1.0% on average in 2013. Finally, average annual growth in compensation per employee is expected to stabilise around 2.1% in 2012 and 2013, and to increase to 2.4% in the long term.