

Box 7

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2012

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2012. The survey was conducted between 17 and 19 April 2012 and received 56 responses.¹ The results imply an upward revision to inflation expectations for 2012 and 2013 compared with the previous survey round, while real GDP growth expectations have been revised down slightly for both years. As regards longer-term inflation expectations (for 2016), the average point forecast remained unchanged at 2.0%.

Shorter-term inflation expectations revised upwards for 2012 and 2013

The SPF inflation expectations for 2012 and 2013 stand at 2.3% and 1.8% respectively (see the table). This implies an upward revision of 0.4 percentage point for 2012 and 0.1 percentage point for 2013. Respondents attributed this revision mainly to upward movements in energy prices since the previous survey round, but also to higher than expected indirect taxes and administered prices in some countries.

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)

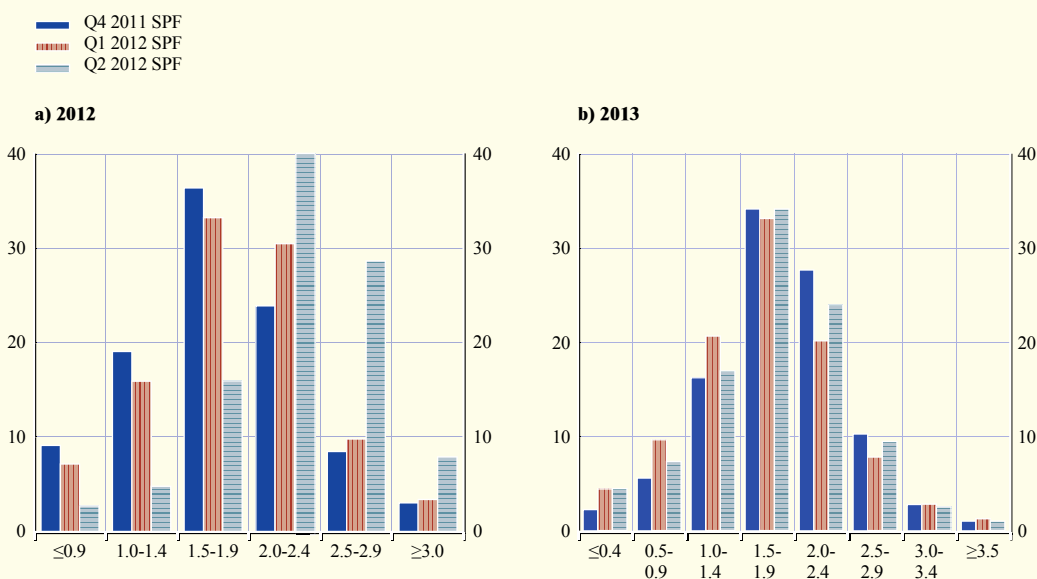
HICP inflation	Survey horizon		
	2012	2013	Longer-term ²⁾
SPF Q2 2012	2.3	1.8	2.0
<i>Previous SPF (Q1 2012)</i>	1.9	1.7	2.0
ECB staff macroeconomic projections (March 2012)	2.1-2.7	0.9-2.3	-
Consensus Economics (April 2012)	2.3	1.7	2.0
Euro Zone Barometer (April 2012)	2.3	1.8	2.1
Real GDP growth	2012	2013	Longer-term ²⁾
SPF Q2 2012	-0.2	1.0	1.8
<i>Previous SPF (Q1 2012)</i>	-0.1	1.1	1.8
ECB staff macroeconomic projections (March 2012)	-0.5-0.3	0.0-2.2	-
Consensus Economics (April 2012)	-0.4	0.9	1.7
Euro Zone Barometer (April 2012)	-0.3	0.9	1.8
Unemployment rate ¹⁾	2012	2013	Longer-term ²⁾
SPF Q2 2012	11.0	10.9	8.9
<i>Previous SPF (Q1 2012)</i>	10.6	10.6	8.8
Consensus Economics (April 2012)	10.9	11.0	-
Euro Zone Barometer (April 2012)	10.9	11.0	9.9

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.

The SPF inflation expectations for 2012 and 2013 are well within the ranges reported in the March 2012 ECB staff macroeconomic projections and mirror those published in the Euro Zone Barometer and Consensus Economics surveys in April. The aggregate probability distribution has shifted towards higher outcomes compared with the previous survey round (see Chart A). At 40%, the highest probability is now attached to an inflation outcome in 2012 of between 2.0% and 2.4%, while the probability assigned to inflation being between 2.5% and 2.9% is 29%. For 2013, the highest probability (34%) is still allocated to the interval between 1.5% and 1.9%, but the second highest probability (24%) is now assigned to the interval between 2.0% and 2.4%. Taken together, the probability assigned to inflation being at 2% or above increased from 44% to 77% for 2012 and from 32% to 37% for 2013.

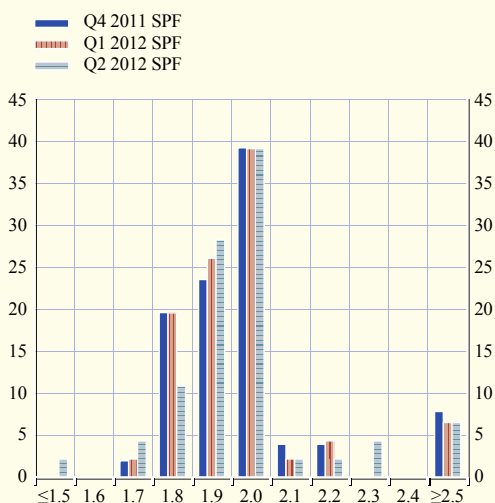
Some respondents mentioned higher energy and commodity prices, as well as further increases in indirect taxes and administered prices, as upward risks to their baseline inflation forecasts. According to the respondents' qualitative comments, the main downside risks to their inflation forecasts derive from a weaker than expected economic outlook.

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 1.99%, up from 1.98% in the previous survey round. The median and the mode of the point forecasts are also unchanged at 2.0%, and the share of respondents providing a point forecast of 2.0% is stable at 39% (see Chart B). The SPF longer-term inflation expectations are broadly in line with the longer-term forecasts published in the April 2012 issues of Consensus Economics and the Euro Zone Barometer (both for 2016).

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

(percentage of respondents)

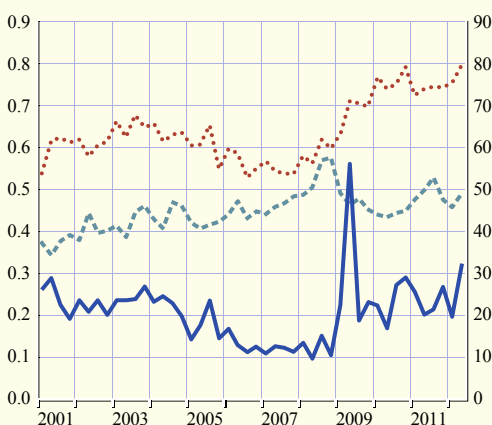


Source: ECB.

Chart C Disagreement and uncertainty about longer-term inflation expectations

(percentage points; percentages)

— standard deviation of point forecasts (left-hand scale)
 aggregate uncertainty (left-hand scale)
 - - - probability of inflation at or above 2% (right-hand scale)



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).

The aggregate probability distribution has shifted somewhat to higher outcomes compared with the previous survey round, with the probability of inflation being at or above 2.0% increasing from 46% to 49%.

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, increased to 0.3 percentage point (from 0.2 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, has risen slightly further, reaching its highest level on record (see Chart C).²

Real GDP growth expectations revised down marginally for 2012 and 2013

Real GDP growth expectations have been revised down marginally (by 0.1 percentage point for both horizons) and now stand at -0.2% for 2012 and 1.0% for 2013. These expectations are within the ranges reported in the March 2012 ECB staff macroeconomic projections and are slightly higher than the forecasts published in the April 2012 issues of Consensus Economics and the Euro Zone Barometer.

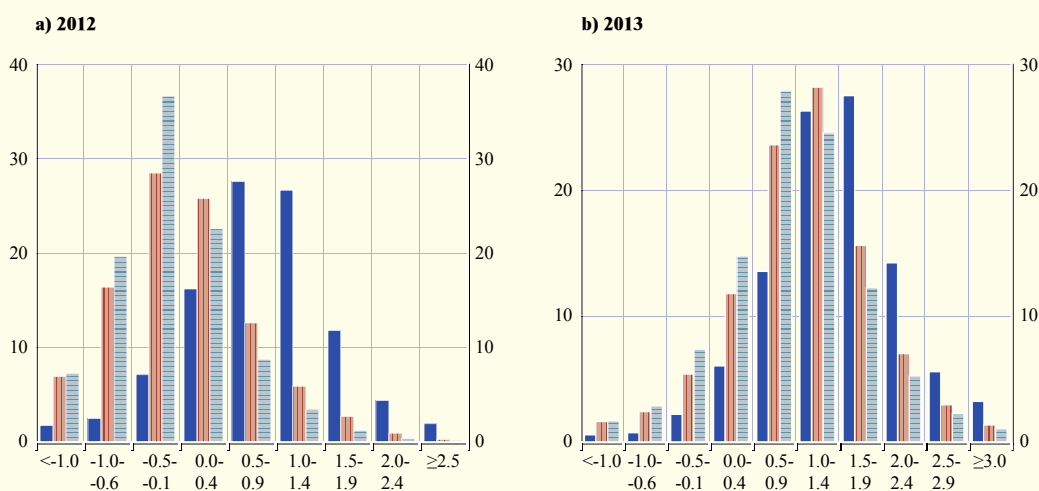
According to the SPF respondents, one of the main reasons for the small further downward revision is the implementation of additional fiscal consolidation measures in some euro area countries. Some respondents also mentioned the deleveraging of the private sector and a higher than expected unemployment rate. However, these factors were partially offset by an improved outlook for the global economy that should have a positive effect on euro area exports.

² For a discussion regarding measures of uncertainty, 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)

■ Q4 2011 SPF
■ Q1 2012 SPF
■ Q2 2012 SPF



Source: ECB.

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

The aggregate probability distributions for 2012 and 2013 have shifted towards lower outcomes, in particular for 2012, with respondents now assigning the highest probability (37%) to the interval between -0.5% and -0.1%, compared with 29% in the previous survey round.

The risks to the growth outlook for 2012 and 2013 are still assessed to be tilted to the downside. An escalation of the sovereign debt crisis and a potential negative feedback loop between fiscal consolidation and growth, together with further oil price increases and weaker growth in emerging market economies, are considered to be the main downside risks.

Longer-term growth expectations (for 2016) stand at 1.8%, unchanged from the previous survey round. The aggregate probability distribution has shifted somewhat to the upside compared with the previous round, with the highest probability (27%) still assigned to outcomes in the interval between 1.5% and 1.9%.

Expectations for the unemployment rate revised upwards for 2012 and 2013

Unemployment rate expectations stand at 11.0% for 2012 and at 10.9% for 2013, revised upwards by 0.4 percentage point for 2012 and by 0.3 percentage point for 2013. Part of this upward revision is likely to reflect the fact that the latest unemployment data available at the time of the previous survey round (November 2011) have meanwhile been revised upwards by 0.2 percentage point. Respondents attributed the upward revision to unemployment rate expectations mostly to the slowdown in economic activity. The expectations for 2012 and 2013 are broadly in line with the latest Consensus Economics and Euro Zone Barometer forecasts.

With regard to the risk assessment surrounding the expectations, the persistence of the crisis, especially in southern Europe, is deemed by respondents to be the main upside risk to this outlook, while the downside risks appear to be mostly associated with the further implementation and success of already implemented structural reforms in a number of countries. Longer-term unemployment rate expectations (for 2016) have increased to 8.9%.

Other variables and conditioning assumptions

According to other information provided by respondents, the assumptions for oil prices, the EUR/USD exchange rate and the ECB's main refinancing rate have been revised upwards. Oil prices are now expected to stand at around USD 119 per barrel during 2012 and to decrease slightly in 2013. The EUR/USD exchange rate is expected to stand at around 1.30 in 2012, appreciating slightly at the end of the year. The ECB's main refinancing rate is expected to average 0.9% in 2012 and stand at 1.0% in 2013. Finally, the assumptions for average annual growth in compensation per employee remained unchanged at around 2.1% for 2012 and 2013.