

## Box 4

**RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE THIRD QUARTER OF 2012**

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2012. The survey was conducted between 16 and 19 July 2012 and received 50 responses.<sup>1</sup> The results imply broadly unchanged inflation expectations for 2012 and 2013 compared with the previous survey round, while GDP growth expectations have been revised downwards for both years. As regards longer-term inflation expectations, the average point forecast remains unchanged at 2.0%.

**Shorter-term inflation expectations broadly unchanged**

The SPF inflation expectations for 2012 and 2013 stand at 2.3% and 1.7% respectively (see table). This implies no revision for 2012 and a downward revision of 0.1 percentage point for 2013. Principally, participants explained this revision as owing to the decline in energy and commodity prices, weaker growth prospects and more limited wage pressures. Inflation expectations for 2014 (the additional year comes in with the third-quarter survey) stand at 1.9%.

The SPF inflation expectations for 2012 and 2013 are within the ranges reported in the June 2012 Eurosystem staff macroeconomic projections and are very similar to those published in the Euro

<sup>1</sup> 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	2014	Longer-term <sup>2)</sup>
<b>HICP inflation</b>				
SPF Q3 2012	2.3	1.7	1.9	2.0
Previous SPF (Q2 2012)	2.3	1.8	-	2.0
Eurosystem staff macroeconomic projections (June 2012)	2.3-2.5	1.0-2.2	-	-
Consensus Economics (July 2012)	2.3	1.7	-	1.9
Euro Zone Barometer (July 2012)	2.3	1.8	2.0	2.2
<b>Real GDP growth</b>				
SPF Q3 2012	-0.3	0.6	1.4	1.8
Previous SPF (Q2 2012)	-0.2	1.0	-	1.8
Eurosystem staff macroeconomic projections (June 2012)	-0.5-0.3	0.0-2.0	-	-
Consensus Economics (July 2012)	-0.5	0.5	-	1.6
Euro Zone Barometer (July 2012)	-0.4	0.5	1.4	1.8
<b>Unemployment rate<sup>1)</sup></b>				
SPF Q3 2012	11.2	11.4	10.8	9.2
Previous SPF (Q2 2012)	11.0	10.9	-	8.9
Consensus Economics (July 2012)	11.1	11.4	-	-
Euro Zone Barometer (July 2012)	11.1	11.3	11.5	10.5

1) As a percentage of the labour force.

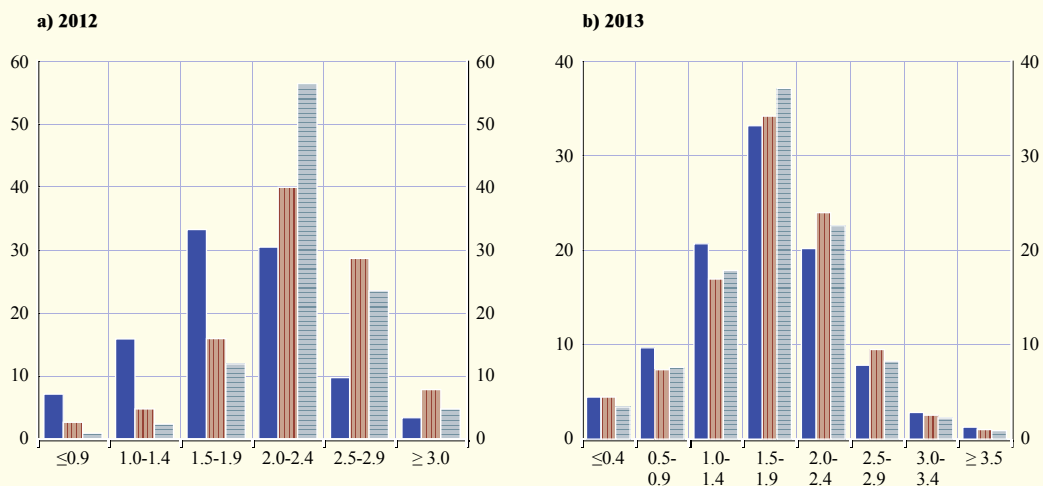
2) Longer-term expectations refer to 2017 in the SPF for the third quarter of 2012 and Consensus Economics. They refer to 2016 in the SPF for the second quarter and the Euro Zone Barometer.

Zone Barometer and Consensus Economics surveys in July. The aggregate probability distributions have become more concentrated: in the interval between 2.0% and 2.4% for 2012, and in the interval between 1.5% and 1.9% for 2013 (see Chart A).

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

(probability in percentages)

■ Q1 2012 SPF  
 ■ Q2 2012 SPF  
 ■ Q3 2012 SPF



Source: ECB.

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

Some respondents mentioned the possibility of increases in energy and commodity prices as upward risks to their baseline inflation forecasts. Further increases in indirect taxes and administered prices were also cited as a potential upside risk. The main downside risks given were weaker economic activity and higher unemployment in the event of a further aggravation of the debt crisis in some euro area countries.

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

The average point forecast for longer-term inflation remains at 2.0%. At two decimal places, expectations stand on average at 2.02%, after 1.99% in the previous survey round. The median and the mode of the point forecasts are also stable at 2.0%. The share of respondents providing a point forecast of 2.0% has risen from 39% to 45% (see Chart B). The SPF longer-term inflation expectations are broadly in line with the latest longer-term forecast from Consensus Economics, but 0.2 percentage point lower than that from the latest Euro Zone Barometer.

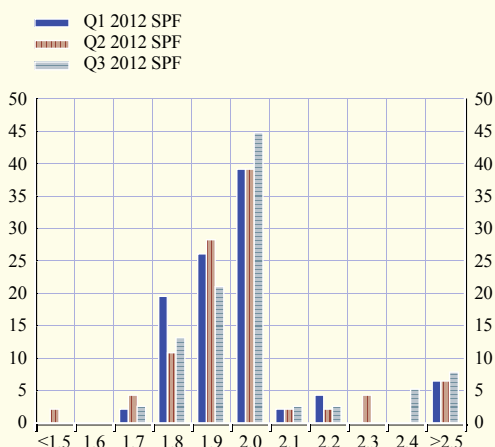
The aggregate probability distribution has shifted slightly towards higher outcomes compared with the previous SPF round. The probability of inflation being at or above 2.0% increased from 49% in the previous SPF round to 52%.

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). Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, has declined somewhat but remains at very high levels (see Chart C).<sup>2</sup>

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

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

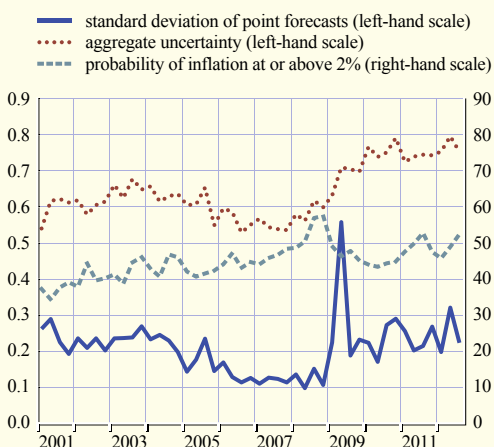
(percentage of respondents)



Source: ECB.

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

(percentage points; percentages)



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).

### GDP growth expectations revised downwards for 2012 and 2013

GDP growth expectations for 2012 have been revised downwards marginally, by 0.1 percentage point, to stand at -0.3%. For 2013 the expectations have decreased significantly, by 0.4 percentage point, to 0.6%. Expectations for 2014 stand at 1.4% (see table).

Compared with the latest Eurosystem staff macroeconomic projections, real GDP growth expectations in the SPF are within the ranges for all years; compared with the latest forecasts from Consensus Economics and the Euro Zone Barometer, they are slightly higher for 2012 and 2013 and the same for 2014.

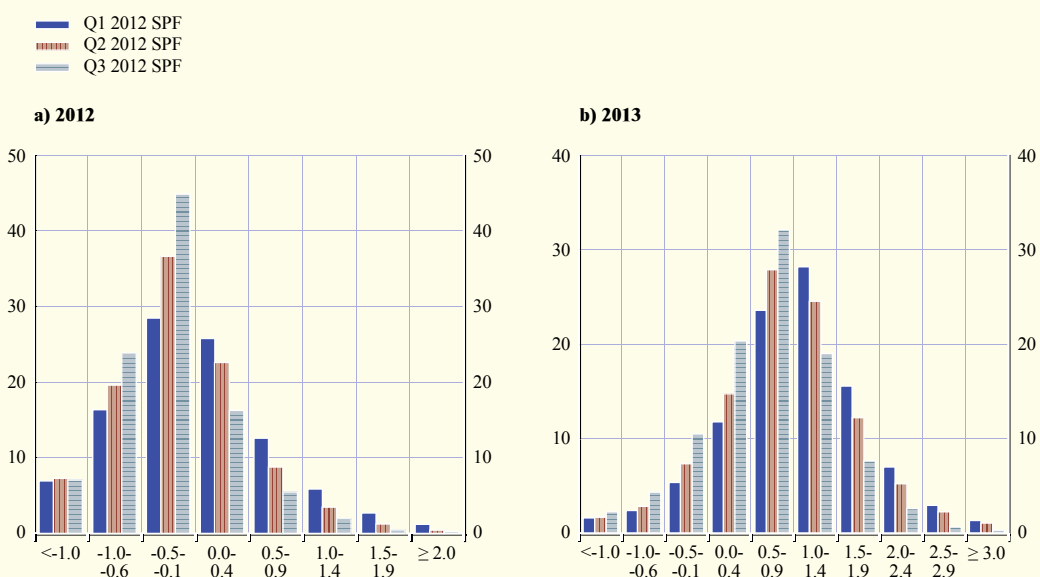
According to the respondents, the main factors behind the downward revisions are the intensification of fiscal consolidation in some euro area countries and higher uncertainty surrounding the resolution of the sovereign debt crisis.

The aggregate probability distributions for 2012 and 2013 have shifted towards lower outcomes. For 2012 the respondents assign the highest probability to the interval between -0.5% and -0.1%: 44.9% compared with 36.6% in the previous SPF round. Downside risks to euro area GDP growth prevail, deriving mainly from an escalation of the sovereign debt crisis. Other downside risks include a further fall in confidence, higher levels of uncertainty and lower external demand owing to a slowdown in the global economy. The main upside risk to the baseline outlook is seen to be the depreciation of the euro potentially supporting exports.

Longer-term growth expectations (for 2017) stand at 1.8%. At the same time, the aggregate probability distribution has shifted to the downside compared with the previous SPF round.

**Chart D Aggregate probability distribution of average annual real GDP growth expectations for 2012 and 2013 in the latest SPF rounds**

(probability in percentages)



Source: ECB.

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

Forecasters now assign around 29% probability to longer-term real GDP growth being within the interval between 1.5% and 1.9% (up from 28%), while the cumulative probability of GDP growth being higher than 1.9% has decreased by 2 percentage points to 38%.

### Further increase in unemployment rate expectations for 2012 and 2013

Unemployment rate expectations stand currently at 11.2% for 2012, 11.4% for 2013 and 10.8% for 2014 (see table). This implies upward revisions of 0.2 percentage point for 2012 and 0.5 percentage point for 2013 compared with the previous SPF round. According to the forecasters' comments, these further revisions were mainly due to the continuing deterioration in the economic outlook and the impact of additional austerity measures in some euro area countries. The forecasters expect the unemployment rate to peak in 2013. The subsequent decrease is seen as likely to be slow, however, as the expected recovery of economic activity is considered to be too weak to have a substantial downward impact on the unemployment rate.

The latest SPF forecasts for 2012 and 2013 are slightly higher than the forecasts given in the latest Consensus Economics and Euro Zone Barometer issues; however, the SPF forecast for 2014 is considerably (0.7 percentage point) lower than that of the latest Euro Zone Barometer, which foresees a further increase in 2014.

Longer-term unemployment rate expectations (for 2017) stand at 9.2%, 0.3 percentage point higher than in the previous round. The entire aggregate probability distribution has also clearly shifted towards higher outcomes.

Risks to the unemployment outlook in the SPF are assessed to be on the upside. A greater than currently foreseen weakening of economic activity and an increase in structural unemployment are considered to be the main risk factors. Downside risks are mentioned mainly in the context of the longer-term horizon and are mostly associated with the further implementation of structural reforms and with the success of reforms already implemented.

### Other variables and conditioning assumptions

According to other information provided by the respondents, all assumptions covered by the survey have been revised downwards. In particular, oil price assumptions for 2012 have been revised downwards from below USD 120 per barrel in the previous SPF round to around USD 102 per barrel in the current round. Oil prices are then assumed to increase gradually to around USD 109 per barrel in 2014. Growth in compensation per employee is assumed to stand at 1.8% in 2012 and (after a small decline in 2013) to increase to 2.4% in the long term (2017). The EUR/USD exchange rate is expected to be stable at around 1.24 up to 2013 and then appreciate marginally in 2014. The interest rate on the main refinancing operations of the Eurosystem is on average expected to be at around 0.7% until 2013 and then increase to 1.0% in 2014.