

Box 6**RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FIRST QUARTER OF 2013**

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the first quarter of 2013. The survey was conducted between 16 and 22 January 2013, and 56 responses were received.¹ The results imply slightly lower inflation expectations for 2013 and 2014 compared with the previous round. Real GDP growth expectations were also revised downwards and unemployment expectations were revised upwards for 2013 and 2014. With regard to longer-term inflation expectations, the average point forecast remained unchanged at 2.0%.²

Slightly lower short-term inflation expectations

The SPF inflation expectations for 2013 and 2014 stand at 1.8% (see the table). This implies slight downward revisions of 0.1 percentage point for both years compared with the previous survey round. According to participants, these revisions mainly reflect weaker economic activity and

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

2 Starting from this round, the forecast horizon of the SPF has been extended to two calendar years ahead, from the January (rather than the July) exercise for each year. This survey round thus includes inflation, real GDP growth and unemployment expectations for 2015.

Results of the SPF, Eurosystem staff macroeconomic projections, Consensus Economics and the Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

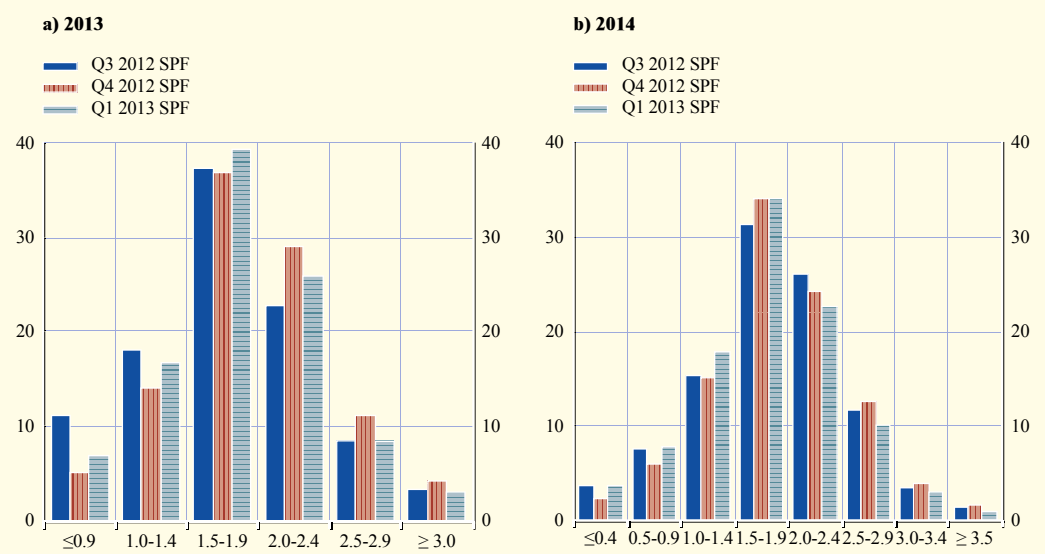
	Survey horizon			
	2013	2014	2015	2017
HICP inflation				
SPF Q1 2013	1.8	1.8	1.9	2.0
<i>Previous SPF (Q4 2012)</i>	1.9	1.9	-	2.0
Eurosystem staff macroeconomic projections (December 2012)	1.1 - 2.1	0.6 - 2.2	-	-
Consensus Economics (January 2013) ¹⁾	1.9	1.7	1.8	2.1
Euro Zone Barometer (January 2013)	1.9	1.8	1.9	2.0
Real GDP growth				
SPF Q1 2013	0.0	1.1	1.6	1.8
<i>Previous SPF (Q4 2012)</i>	0.3	1.3	-	1.8
Eurosystem staff macroeconomic projections (December 2012)	-0.9 - 0.3	0.2 - 2.2	-	-
Consensus Economics (January 2013) ¹⁾	-0.1	0.9	1.6	1.5
Euro Zone Barometer (January 2013)	0.0	1.2	1.6	1.6
Unemployment rate²⁾				
SPF Q1 2013	12.1	11.9	11.2	9.5
<i>Previous SPF (Q4 2012)</i>	11.6	11.2	-	9.0
Consensus Economics (January 2013) ¹⁾	12.0	12.0	-	-
Euro Zone Barometer (January 2013)	12.0	12.0	11.3	10.0

1) Forecasts for 2015 and 2017 by Consensus Economics were last published in the October 2012 issue.

2) As a percentage of the labour force.

Chart A Aggregate probability distribution of average annual inflation expectations for 2013 and 2014 in the latest SPF rounds

(probability in percentages)



Source: ECB.

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

labour markets and more favourable developments in commodity prices. Inflation expectations for 2015 stand at 1.9%.

The SPF inflation expectations for 2013 and 2014 are within the ranges reported in the December 2012 Eurosystem staff macroeconomic projections and are very similar to those published in the Euro Zone Barometer and Consensus Economics surveys in January 2013. The aggregate probability distributions for inflation in 2013 and 2014 have shifted towards slightly lower outcomes compared with the previous survey round (see Chart A).

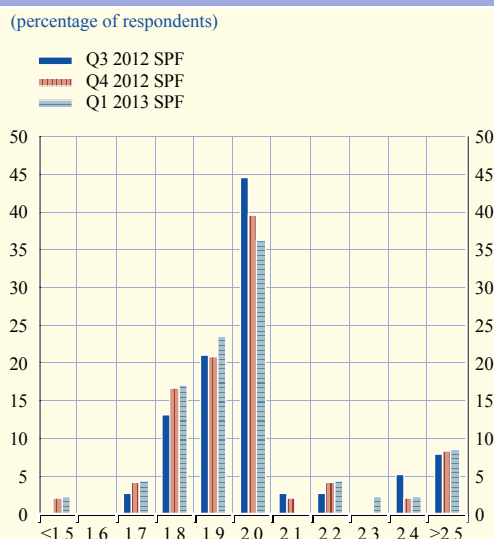
Risks to the baseline inflation outlook are perceived by participants to be broadly balanced. Some respondents mentioned further increases in commodity prices as an upward risk, while the main downside risk related to a further deterioration in economic activity and labour markets in the euro area.

Longer-term inflation expectations unchanged at 2.0%

The average point forecast for longer-term inflation (for 2017) remains at 2.0%. Rounded to two decimal places, expectations stand on average at 1.98%, unchanged from 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 fallen from 40% to 36% (see Chart B). The SPF inflation expectations for 2017 are broadly in line with the latest longer-term forecasts from Consensus Economics and the Euro Zone Barometer.

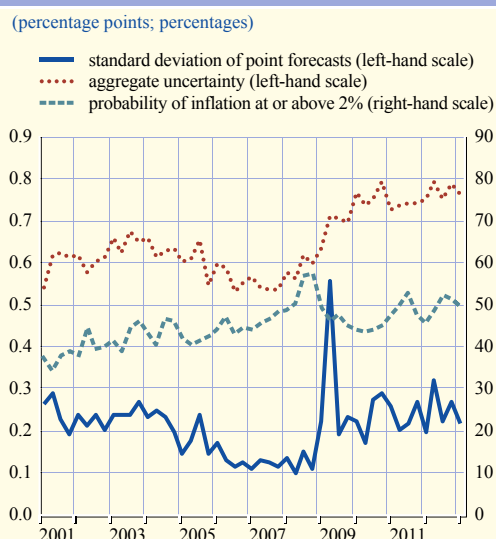
The aggregate probability distribution has become slightly more concentrated around intervals between 1.0% and 2.4% (with somewhat less probability in the tails of the distribution)

Chart B Cross-sectional distribution of longer-term (2017) 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 individual probability density functions with probability mass concentrated in the middle of the interval).

compared with the previous SPF round. The probability of inflation being at or above 2.0% inched downwards, falling from 51% in the previous SPF round to 50% in this round.

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, declined marginally compared with the previous round, but remains at historically high levels (see Chart C).³

Short-term real GDP growth expectations revised further downwards

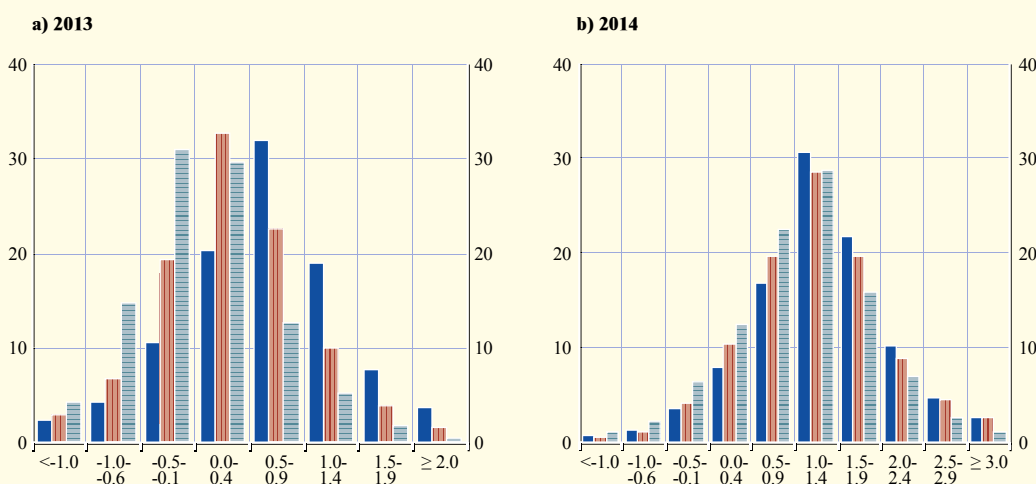
Real GDP growth expectations for 2013 and 2014 have been revised downwards by 0.3 percentage point and 0.2 percentage point respectively compared with the previous survey round, to stand at 0.0% and 1.1% respectively. Expectations for 2015 stand at 1.6% (see the table). Expectations for 2013 and 2014 lie within the ranges reported in the December 2012 Eurosystem staff broad macroeconomic projection exercise and are broadly similar to those in the January 2013 Consensus Economics and Euro Zone Barometer forecasts. According to the respondents, the main factor behind the downward revision for 2013 is the weaker than expected development in economic activity in the fourth quarter of 2012. Lower contributions from private and public consumption to growth for the current year and the next year are forecast, owing to prolonged uncertainty in the euro area, as well as to further fiscal consolidation. Positive contributions to growth continue to come from external demand. On balance, respondents expect a return to a sustained expansion of real GDP in mid-2013.

³ For more information on uncertainty measures, see the box entitled "Measuring perceptions of macroeconomic uncertainty", *Monthly Bulletin*, ECB, January 2010.

Chart D Aggregate probability distribution of GDP growth expectations for 2013 and 2014 in the latest SPF rounds

(probability in percentages)

■ Q3 2012 SPF
■ Q4 2012 SPF
■ Q1 2013 SPF



Source: ECB.

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

The aggregate probability distribution for real GDP growth in 2013 has shifted towards lower outcomes in terms of the mean and skewness. The respondents now assign the highest probability, 31%, to the interval between -0.5% and -0.1%, compared with 19% in the previous SPF round (see Chart D). As in the previous survey round, the highest probability for 2014, 29%, is allocated to the interval between 1.0% to 1.4%. Participants see the balance of risks to GDP growth tilted to the downside, owing mainly to a possible external drag on the gradual recovery envisaged for 2013 and a lower level of market confidence than assumed in the baseline. An upside risk is a potential more positive development in world trade and better than expected economic sentiment, should the benefits of structural reforms materialise earlier than was assumed in the baseline.

Longer-term real GDP growth expectations (for 2017) remain stable at 1.8%. The aggregate probability distribution around this average point forecast has changed only slightly compared with the previous SPF round, with marginally thicker tails.

Increase in euro area unemployment rate expectations

The average point forecasts for the euro area unemployment rate currently stand at 12.1% for 2013, 11.9% for 2014 and 11.2% for 2015, with the pattern following more or less that of the expected moderate recovery. These expectations imply upward revisions of 0.5 percentage point for 2013 and 0.7 percentage point for 2014 compared with the previous SPF round (see the table). According to forecasters' comments, the upward revisions were due mainly to weaker than expected economic activity. The forecasts for 2013 are higher than the latest Consensus Economics and Euro Zone Barometer forecasts, while they are slightly lower for 2014 and 2015.

Risks to shorter-term unemployment expectations are considered to be mainly on the upside and related to a further weakening of economic activity and continued low level of confidence affecting hiring decisions. Some forecasters also see a risk that part of the rise in unemployment may be of a structural nature. Downside risks are mentioned mainly in the context of the longer-term horizon and are mostly associated with greater success with already implemented and still-to-be-implemented structural reforms in some countries.

Longer-term euro area unemployment rate expectations (for 2017) increased by 0.5 percentage point to 9.5%, after a decrease in the previous round. The aggregate probability distribution has shifted back towards higher outcomes, in line with a balance of risks that is assessed to be on the upside, despite the downside risks that were mentioned in relation to longer-term expectations by some of the forecasters.

Other variables and conditioning assumptions

On balance, the assumptions for the variables that underlie the respondents' forecasts remained broadly unchanged for oil prices and growth in compensation per employee, while those for the USD/EUR exchange rate and the interest rate have been revised upwards. It is assumed that oil prices will increase from around USD 110 per barrel in the first quarter of 2013 to USD 113.9 in 2015. The USD/EUR exchange rate for the first quarter of 2013 is assumed to stand at USD 1.30 and to remain broadly stable at USD 1.29 in 2015. Annual growth in compensation per employee is expected to stand at 1.8% in 2013, 2.0% in 2014, 2.1% in 2015 and 2.4% in 2017. The ECB's main refinancing rate is expected to be 0.7% until the end of the first quarter of 2013, but to be somewhat lower for the rest of 2013. It is expected to stand at around 0.8% in 2014 and 1.2% in 2015.