

Box 6

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE THIRD QUARTER OF 2013

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2013. The survey was conducted between 16 and 19 July 2013, and 51 responses were received.¹ The results imply lower inflation expectations for 2013 and 2014 compared with the previous survey round, but unchanged expectations for 2015. Real GDP growth expectations were revised downward for all forecast horizons. Unemployment expectations were again revised upward, except those for 2013. With regard to longer-term inflation expectations, the average point forecast remained unchanged at 2.0%.

Lower short-term inflation expectations for 2013 and 2014

The SPF inflation expectations for 2013, 2014 and 2015 stand at 1.5%, 1.5% and 1.8% respectively (see the table). Compared with the previous survey round, this implies a downward revision of 0.2 percentage point for 2013 and 0.1 percentage point for 2014. Respondents attribute these revisions mainly to weaker economic activity and labour markets, lower commodity prices, and smaller contributions to inflation from indirect taxes and administered prices as a result of delayed fiscal consolidation measures.

For 2013 and 2014, the figures are slightly above those reported in the June 2013 Eurosystem staff macroeconomic projections, but for the years 2013 to 2015 are very much in line with

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

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon			
	2013	2014	2015	Long-term ¹⁾
SPF Q3 2013	1.5	1.5	1.8	2.0
Previous SPF (Q2 2013)	1.7	1.6	1.8	2.0
Eurosystem staff macroeconomic projections (June 2013)	1.4	1.3	-	-
Consensus Economics (July 2013) ²⁾	1.5	1.5	1.8	2.0
Euro Zone Barometer (July 2013)	1.5	1.5	1.7	1.8
Real GDP growth	2013	2014	2015	Long-term ¹⁾
SPF Q3 2013	-0.6	0.9	1.5	1.7
Previous SPF (Q2 2013)	-0.4	1.0	1.6	1.8
Eurosystem staff macroeconomic projections (June 2013)	-0.6	1.1	-	-
Consensus Economics (July 2013) ²⁾	-0.6	0.8	1.5	1.5
Euro Zone Barometer (July 2013)	-0.6	0.9	1.3	1.5
Unemployment rate ³⁾	2013	2014	2015	Long-term ¹⁾
SPF Q3 2013	12.3	12.4	11.8	9.7
Previous SPF (Q2 2013)	12.3	12.2	11.6	9.6
Consensus Economics (July 2013) ²⁾	12.3	12.4	-	-
Euro Zone Barometer (July 2013)	12.2	12.3	12.2	11.4

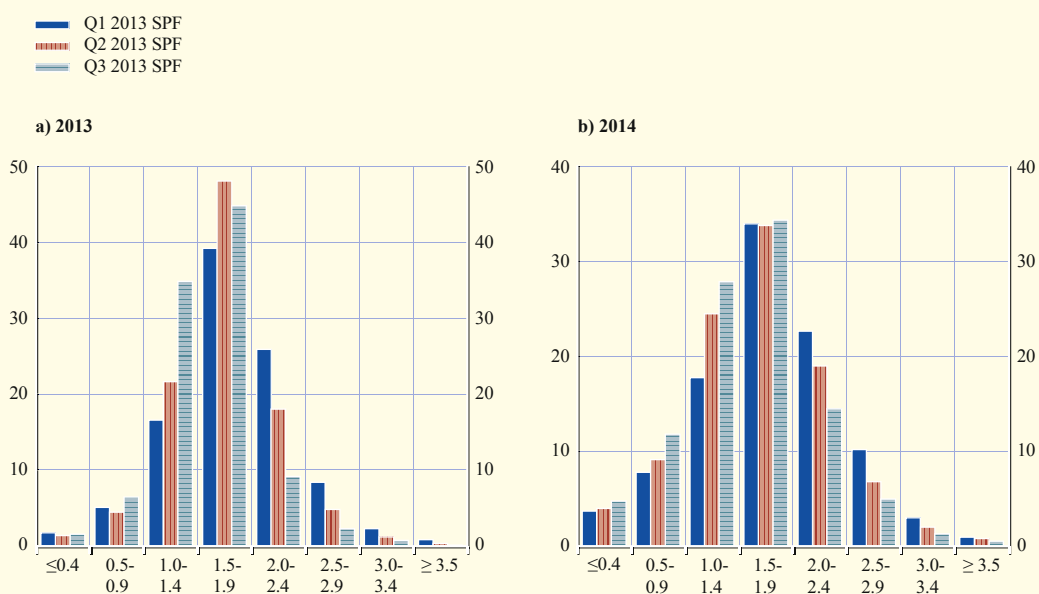
1) In the SPF for Q3 2013 and the Consensus Economics forecast, long-term expectations refer to 2018. In the SPF for Q2 2013 and the Euro Zone Barometer forecast, they refer to 2017.

2) 2015 and long-term expectations by Consensus Economics were last published in April 2013.

3) 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.

the forecasts published in July 2013 by the Euro Zone Barometer and Consensus Economics. The aggregate probability distributions for inflation in 2013 and 2014 have shifted towards even lower outcomes compared with the previous survey rounds (see Chart A).

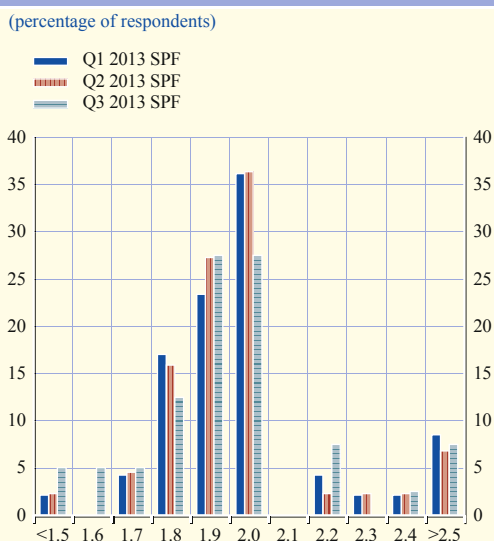
Respondents regard the risks to the baseline outlook for inflation to be broadly balanced or slightly tilted to the downside, with some mentioning increases in commodity prices, indirect taxes and administered prices as upward risks and a further deterioration in euro area economic activity and labour markets as the main downside risk.

Longer-term inflation expectations remain unchanged at 2.0%

The average point forecast for longer-term inflation (for 2018) remains at 2.0%. Rounded to two decimal places, expectations stand on average at 1.95%, two basis points lower than in the previous survey round. The median of the point forecasts has declined to 1.9% from 2.0% in the previous round, reflecting a decline in the percentage share of respondents providing a point forecast of 2.0%, from 36% to 28% (see Chart B). The SPF inflation expectations for 2018 are in line with those published by Consensus Economics but are somewhat higher than the long-term inflation expectations published in the Euro Zone Barometer (1.8% for 2017).

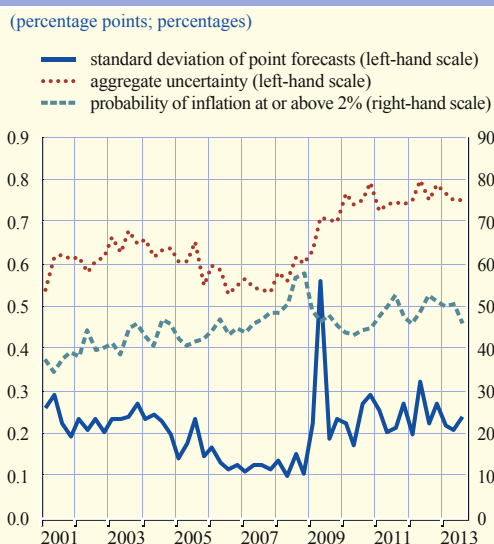
The aggregate probability distribution has shifted slightly towards lower outcomes compared with the previous survey round, and the probability of inflation being at or above 2.0% has declined from 50% to 46%.

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

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, remains unchanged at 0.2 percentage point and within the range observed since 2010. Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, has declined marginally compared with the previous survey round, but remains at a high level (see Chart C).²

GDP growth expectations revised downwards for all horizons

The average point forecast for GDP growth has been revised further downwards, by 0.2 percentage point to -0.6% for 2013, and by 0.1 percentage point for 2014 and 2015 to reach 0.9% and 1.5% respectively (see the table). Compared with the June 2013 Eurosystem staff macroeconomic projections, these expectations are identical for 2013 (both -0.6%) but slightly more pessimistic for 2014 (0.2 percentage point lower). They are also broadly in line with the latest forecasts by Consensus Economics and the Euro Zone Barometer for the years 2013 to 2015. Respondents cite the weaker than expected euro area domestic demand during the first quarter of 2013 as the main factor behind the downward revisions for 2013. Moreover, disappointing data from key emerging economies such as China and Brazil imply a lowering in the expected contribution of net trade to growth in the near term. The slight downward revisions for 2014 and 2015 are also mainly attributed to lower domestic demand.

The aggregate probability distributions for 2013 to 2015 have shifted towards lower outcomes. The largest shift was for 2013, with respondents now assigning the highest probability, 43%, to the interval between -1.0% and -0.6%, compared with only 27% in the previous SPF round,

² For more information on uncertainty measures, see the box entitled "Measuring perceptions of macroeconomic uncertainty", *Monthly Bulletin*, ECB, January 2010.

when respondents assigned the highest probability, 39%, to an expected outcome of between -0.5% and -0.1%. For 2014 and 2015 the downward shifts have been modest. Respondents consider that the balance of risks to GDP growth is tilted to the downside, owing mainly to the risks of lower foreign demand from key emerging economies and a lower level of market confidence than assumed in the baseline. The main upside risks relate to a rise in world trade driven by developed economies, a higher level of economic sentiment than anticipated, and the positive impact of structural reforms unfolding earlier than assumed in the baseline.

Longer-term growth expectations (for 2018) stand at 1.7%. The aggregate probability distribution around this average point forecast has narrowed slightly compared with the previous SPF round.

Unemployment rate expectations unchanged for 2013, but increased for 2014 and 2015

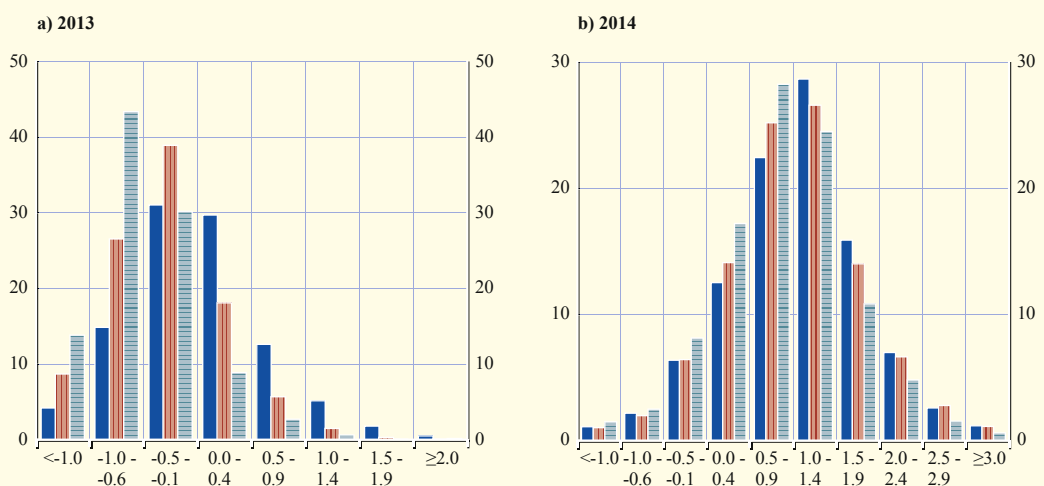
The average point forecasts for the unemployment rate currently stand at 12.3% for 2013, 12.4% for 2014 and 11.8% for 2015, with the pattern following, with some lag, that of the expected moderate recovery in economic activity. Compared with the previous SPF round, these figures imply no change to the point forecast for 2013, but upward revisions by 0.2 percentage point for 2014 and 2015 and by 0.1 percentage point for the longer-term horizon (see the table).

Respondents attribute the upward revisions mainly to the weaker forecast for economic activity in 2014, but also mentioned the general postponement of hiring decisions due to low economic confidence, and the slow pay-off of structural labour market reforms in crisis countries. The SPF forecasts for 2013 and 2014 are in line with those published by the Euro Zone Barometer and Consensus Economics, and for 2015 are below those published by the Euro Zone Barometer.

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

(probability in percentages)

- Q1 2013 SPF
- Q2 2013 SPF
- Q3 2013 SPF



Source: ECB.

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

The risks to the unemployment expectations are considered to be largely on the upside and closely related to the downside risks to economic growth. Downside risks to the unemployment expectations relate primarily to the medium to longer-term horizon and are essentially associated with the potential for greater success of already implemented or intended structural reforms in the crisis countries.

Longer-term unemployment rate expectations (for 2018) rose slightly by 0.1 percentage point, to 9.7%. This was accompanied by a shift in the entire aggregate probability distribution towards higher outcomes.

Other variables and conditioning assumptions

According to other information provided by the respondents, the assumptions for the ECB's main refinancing rate were lowered significantly by around a quarter of a percentage point, standing at 0.4% until the second quarter of 2014, before rising to an average of 0.8% in 2015. The EUR/USD exchange rate has been revised downwards slightly to stand at around 1.29 over the forecast horizon. Oil price assumptions were revised downwards for all horizons by around 1.5%, standing at USD 104.3 per barrel in the third quarter of 2013 and rising to an average of USD 109.1 in 2015. The annual growth in compensation per employee is expected to stand at 1.7% in 2013 and 2014 before rising to 2.0% in 2015, a small downward revision compared with the path envisaged in the previous survey round.