

Box 8

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FIRST QUARTER OF 2014

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the first quarter of 2014. The survey was conducted between 16 and 24 January 2014, and 53 responses were received.¹ Compared with the previous survey round, the results indicate noticeably lower inflation expectations, at 1.1% for 2014 and 1.4% for 2015 (revised downwards by 0.4 percentage point and 0.2 percentage point respectively). With regard to longer-term inflation expectations, the average point forecast remained at 1.9%, although there was a further slight decline at the second decimal place. Growth expectations were unchanged for 2014 and 2015, implying a continuous, albeit gradual, expected strengthening in real GDP growth. Unemployment expectations were revised upwards for 2015 and the longer-term horizon, but the profile continues to slope downwards.

Inflation expectations for 2014 and 2015 revised downwards

The average point forecasts for inflation in 2014 and 2015 stand at 1.1% and 1.4% respectively (see the table). Inflation forecasts for 2016 in the latest survey round (expectations for two calendar years ahead are first requested in the January surveys) stand at 1.7%, implying an expectation of a gradual rise in inflation over the next three years. Respondents cited a less dampening impact from domestic demand as the main factor behind the expected pick-up in inflation.

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			
	2014	2015	2016	Longer-term ¹⁾
SPF Q1 2014	1.1	1.4	1.7	1.9
<i>Previous SPF (Q4 2013)</i>	<i>1.5</i>	<i>1.6</i>	-	<i>1.9</i>
Eurosystem staff macroeconomic projections (December 2013)	1.1	1.3	-	-
Consensus Economics (January 2014) ²⁾	1.1	1.4	-	1.9
Euro Zone Barometer (January 2014)	1.1	1.4	1.8	1.8
Real GDP growth	2014	2015	2016	Longer-term ¹⁾
	2014	2015	2016	Longer-term ¹⁾
SPF Q1 2014	1.0	1.5	1.7	1.8
<i>Previous SPF (Q4 2013)</i>	<i>1.0</i>	<i>1.5</i>	-	<i>1.7</i>
Eurosystem staff macroeconomic projections (December 2013)	1.1	1.5	-	-
Consensus Economics (January 2014) ²⁾	1.0	1.4	-	1.5
Euro Zone Barometer (January 2014)	1.0	1.4	1.6	1.6
Unemployment rate ³⁾	2014	2015	2016	Longer-term ¹⁾
	2014	2015	2016	Longer-term ¹⁾
SPF Q1 2014	12.1	11.7	11.2	9.6
<i>Previous SPF (Q4 2013)</i>	<i>12.1</i>	<i>11.6</i>	-	<i>9.5</i>
Eurosystem staff macroeconomic projections (December 2013)	12.0	11.8	-	-
Consensus Economics (January 2014)	12.2	11.9	-	-
Euro Zone Barometer (January 2014)	12.1	11.8	11.7	10.9

1) Longer-term expectations refer to 2018.

2) Expectations for the longer-term were last published by Consensus Economics in October 2013.

3) As a percentage of the labour force.

Compared with the previous survey round, this implies a downward revision of 0.4 percentage point for 2014 and 0.2 percentage point for 2015. Respondents indicated that the downward revisions were due, at least in part, to surprises in recent data. More generally, respondents cited lower commodity prices, the appreciation of the euro and weakness in the economic situation and labour markets as factors behind their revisions.

SPF inflation expectations for 2014 are in line with those reported in the December 2013 Eurosystem staff macroeconomic projections and the corresponding forecasts published in the January 2014 issues of Consensus Economics and the Euro Zone Barometer. However, for 2015, they are 0.1 percentage point above those reported in the December 2013 Eurosystem staff macroeconomic projections, and for 2016, they are 0.1 percentage point below those reported in the January 2014 Euro Zone Barometer.

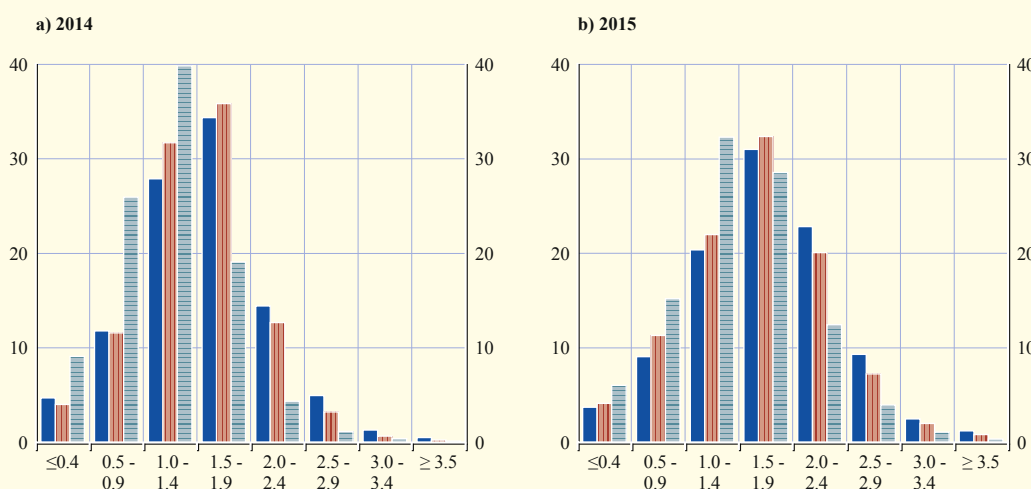
Turning to the aggregate probability distributions, for 2014, the highest probability (40%) is now assigned to an inflation rate of between 1.0% and 1.4%, and there has also been a large increase in the probability assigned to the interval between 0.5% and 0.9%, which now stands at 26% (see Chart A). For 2015, the highest probability (32%) is now allocated to the interval between 1.0% and 1.4%, but the second largest (29%) is assigned to that between 1.5% and 1.9%. For 2016, the highest probability (36%) is associated with an outcome of between 1.5% and 1.9%, but there is more probability associated with outcomes below this range than above it. Compared with the previous survey round, the aggregate probability distributions for expected inflation in 2014 and 2015 have shifted further towards lower outcomes. However, according to respondents, the probability of negative inflation remains very low: 1.3% in 2014, 1.2% in 2015 and 1.0% in 2016.

The difference between the mean point estimate and the estimated mean of the aggregated probability distribution can be regarded as an indication of the direction and magnitude of the

Chart A Aggregate probability distribution of average annual inflation expectations for 2014 and 2015 in the latest SPF rounds

(probability in percentages)

■ Q3 2013 SPF
■ Q4 2013 SPF
■ Q1 2014 SPF



Source: ECB.

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

balance of risks perceived by respondents to their forecasts. Based on this measure, the risks for the shorter-term horizons (2014 and 2015) are broadly balanced, but are somewhat tilted to the downside for the 2016 horizon. The main downside risks to inflation are perceived to stem from weaker than anticipated economic developments and labour markets. Upside risks were mentioned in relation to commodity prices and increases in indirect taxes and administered prices.

Longer-term inflation expectations edge down slightly

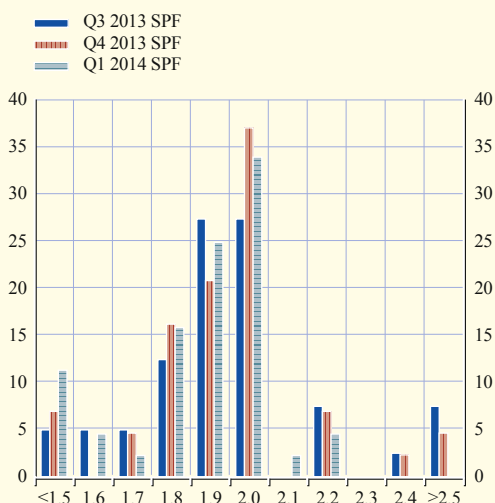
The average point forecast for longer-term inflation expectations (2018) remains at 1.9%. Rounded to two decimal places, it edged down further to 1.87% in the first quarter of 2014, from 1.93% in the fourth quarter of 2013. The median of the point forecasts declined to 1.9%, down from 2.0% in the previous survey round. While the largest percentage share (34%) of respondents continued to provide a point forecast of 2.0%, the percentage share of those reporting 1.6% or below increased (see Chart B). The SPF longer-term inflation expectations are slightly above the inflation expectations for 2018 published in the Euro Zone Barometer.

On average, the balance of risks around the point forecast for longer-term inflation is tilted to the downside (as has been the case for the past four years), with the estimated mean of the aggregate probability distribution standing at around 1.81%, compared with the mean point estimate of 1.87%. The probability of inflation being at 2.0% or above and that of inflation being below 1% have remained broadly unchanged at 42% and 11% respectively. The probability of negative inflation rates also remained very low, at 1.1% (up from 0.9%).

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, decreased from 0.25 percentage point to 0.20 percentage point, but remained

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

(percentage of respondents)



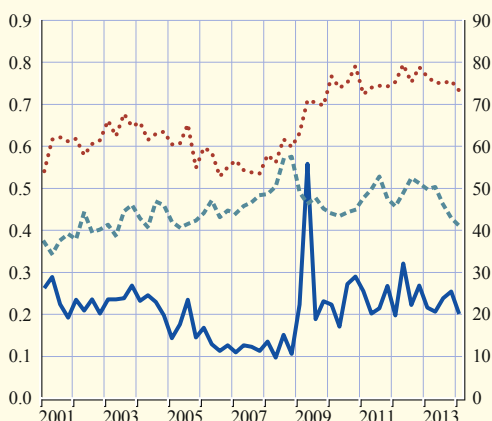
Source: ECB.

Chart C Disagreement and uncertainty about longer-term inflation expectations

(percentage points; percentages)

Legend:

- standard deviation of point forecasts (left-hand scale) (solid blue line)
- aggregate uncertainty (left-hand scale) (dotted red line)
- probability of inflation at or above 2% (right-hand scale) (dashed green line)



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).

in the range observed since 2010 (see Chart C). Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, eased slightly but remains around the relatively high level observed since 2009.²

Real GDP growth expectations remain unchanged for 2014 and 2015

The average point forecasts for real GDP growth in 2014 and 2015 remain unchanged at 1.0% and 1.5% respectively (see the table). Expected growth for 2016 is 1.7%, implying an expectation of a continuous but gradual strengthening in economic activity over the years ahead. The qualitative comments provided by the respondents indicate that an ongoing, but measured, pick-up in domestic demand is expected.

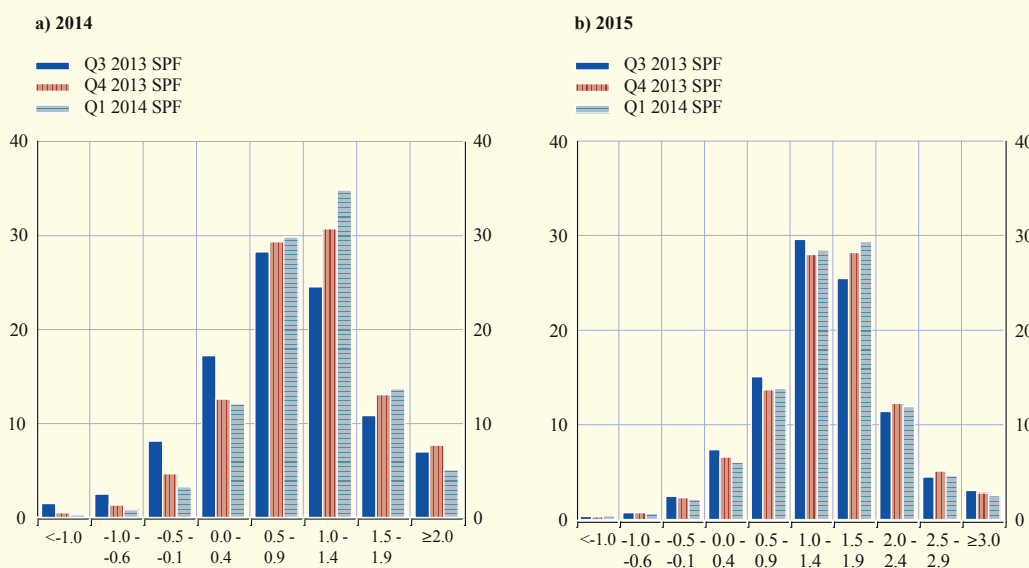
For 2014, the average SPF point forecast is 0.1 percentage point below the December 2013 Eurosystem staff macroeconomic projections and for 2015 it is the same. Compared with the corresponding forecasts published in the January 2014 issues of Consensus Economics and the Euro Zone Barometer, the SPF expectations are the same for 2014, but marginally higher for 2015. For 2016, the SPF point forecast is also slightly higher than that of the Euro Zone Barometer.

The aggregate probability distributions for 2014 and 2015 remain broadly unchanged (see Chart D). For 2014, respondents continue to assign the highest probability (35%) to the interval between 1.0% and 1.4%, compared with 31% in the previous survey round. For 2015, the shifts in the aggregate probability distribution are limited.

² 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 2014 and 2015 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 balance of risks around the unchanged baseline outlook reflected in the average point forecast remains tilted to the downside. In this regard, risks stemming from reform fatigue across countries were mentioned. Additionally, several respondents expressed concern that uncertainty in financial markets may rise again and then trickle into the real economy through, inter alia, a tightening in credit supply. However, respondents also see upside risks, such as a quicker restoration of investor and consumer confidence, and a materialisation of the benefits of structural reforms earlier than assumed in the baseline.

Longer-term growth expectations (for 2018) increased slightly, by 0.1 percentage point, to 1.8%. As in previous survey rounds, the SPF results for that horizon remain higher than the Consensus Economics and Euro Zone Barometer forecasts (which stand at 1.5% and 1.6% respectively). The aggregate probability distribution shifted towards higher outcomes, but remains skewed to the downside.

Unemployment rate expectations remain high, but forecast a gradual downward trend

The average point forecasts for the unemployment rate are 12.1% for 2014, 11.7% for 2015 and 11.2% for 2016. Compared with the previous survey round, they are unchanged for 2014 and have been revised slightly upwards for 2015 (see the table).

The SPF forecast for 2014 is slightly above the December 2013 Eurosystem staff macroeconomic projections, slightly below the latest forecasts from Consensus Economics and in line with those from the Euro Zone Barometer. That for 2015 is 0.1 percentage point below the December 2013 Eurosystem staff macroeconomic projections and the latest Euro Zone Barometer forecast, and 0.2 percentage point below the Consensus Economics forecast.

At 11.2%, the SPF forecast for 2016 is 0.5 percentage point lower than the Euro Zone Barometer forecast.

Risks to the short and medium-term forecasts around the baseline remain tilted to the upside and closely related to a possibly more modest recovery than anticipated and the potential lack of structural reforms. Additionally, some respondents expressed concern that recent high cyclical unemployment might become structural. Downside risks to the unemployment outlook relate primarily to the medium term and are associated mainly with both the possibility of stronger than envisaged competitiveness gains as a result of structural reforms and policy initiatives to support job creation.

The average point forecast for longer-term unemployment rate expectations (2018) stands at 9.6%, i.e. 0.1 percentage point higher than in the previous survey round. The aggregate probability distribution has shifted towards higher outcomes. The highest probability (59%) is still assigned to outcomes between 9.0% and 10.9%.

Other variables and conditioning assumptions

According to other information provided by respondents, the assumptions for the oil price, the ECB's main refinancing rate and the annual growth rate of compensation per employee were revised downwards, while the expectations for the USD/EUR exchange rate were revised upwards somewhat. The oil price is expected to stand at USD 108.1 per barrel in the first quarter of 2014, to decrease to USD 106.7 in the second quarter and from then on to return to an upward path, to stand at USD 107.5 in 2015 and USD 109.3 in 2016. The ECB's main refinancing rate is expected to stand at 0.25% until the end of 2014, and then to increase to 0.4% in 2015 and 0.9% in 2016. The forecast of the USD/EUR exchange rate has been revised upwards compared with the previous survey round, standing at 1.35 in the first quarter of 2014 and decreasing to 1.29 in 2015 and 2016. Growth in compensation per employee has been revised downwards for 2014 and 2015, to 1.5% and 1.7% year on year respectively. For 2016, it is expected to be 1.9%.