

## Box 5

**RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2014**

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2014. The survey was conducted between 16 and 28 April 2014, and 55 responses were received.<sup>1</sup> Compared with the previous survey round, inflation expectations for 2014, 2015 and 2016 have been further revised downwards to 0.9%, 1.3% and 1.5% respectively. Longer-term inflation expectations have been further revised slightly downwards by 0.03 percentage point and now stand at 1.84%. Growth expectations have been revised slightly upwards for 2014, but remain broadly unchanged thereafter and still imply a continuous, albeit gradual, strengthening in real GDP growth. Unemployment expectations were revised downwards across all horizons.

<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, ECB 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 <sup>1)</sup>
SPF Q2 2014	0.9	1.3	1.5	1.8
<i>SPF Q1 2014</i>	<i>1.1</i>	<i>1.4</i>	<i>1.7</i>	<i>1.9</i>
ECB staff macroeconomic projections (March 2014)	1.0	1.3	1.5	-
Consensus Economics (April 2014)	0.9	1.3	1.5	1.8
Euro Zone Barometer (April 2014)	0.9	1.3	1.7	1.8
Real GDP growth	2014	2015	2016	Longer-term <sup>1)</sup>
SPF Q2 2014	1.1	1.5	1.7	1.7
<i>SPF Q1 2014</i>	<i>1.0</i>	<i>1.5</i>	<i>1.7</i>	<i>1.8</i>
ECB staff macroeconomic projections (March 2014)	1.2	1.5	1.8	-
Consensus Economics (April 2014)	1.2	1.5	1.6	1.6
Euro Zone Barometer (April 2014)	1.2	1.6	1.6	1.6
Unemployment rate <sup>2)</sup>	2014	2015	2016	Longer-term <sup>1)</sup>
SPF Q2 2014	11.8	11.5	11.0	9.5
<i>SPF Q1 2014</i>	<i>12.1</i>	<i>11.7</i>	<i>11.2</i>	<i>9.6</i>
ECB staff macroeconomic projections (March 2014)	11.9	11.7	11.4	-
Consensus Economics (April 2014)	11.9	11.6	-	-
Euro Zone Barometer (April 2014)	11.9	11.6	11.7	10.9

1) Longer-term expectations refer to 2018.

2) As a percentage of the labour force.

### Inflation expectations for 2014-16 revised further downwards, but expected path of inflation remains upward

The SPF average point forecasts for inflation in 2014, 2015 and 2016 stand at 0.9%, 1.3% and 1.5% respectively (see the table). According to respondents, the upward profile of expected inflation over the period 2014-16 is due primarily to the expectation that growth developments will gradually normalise, but also to the assumption that commodity prices and the exchange rate will have less of a moderating impact.

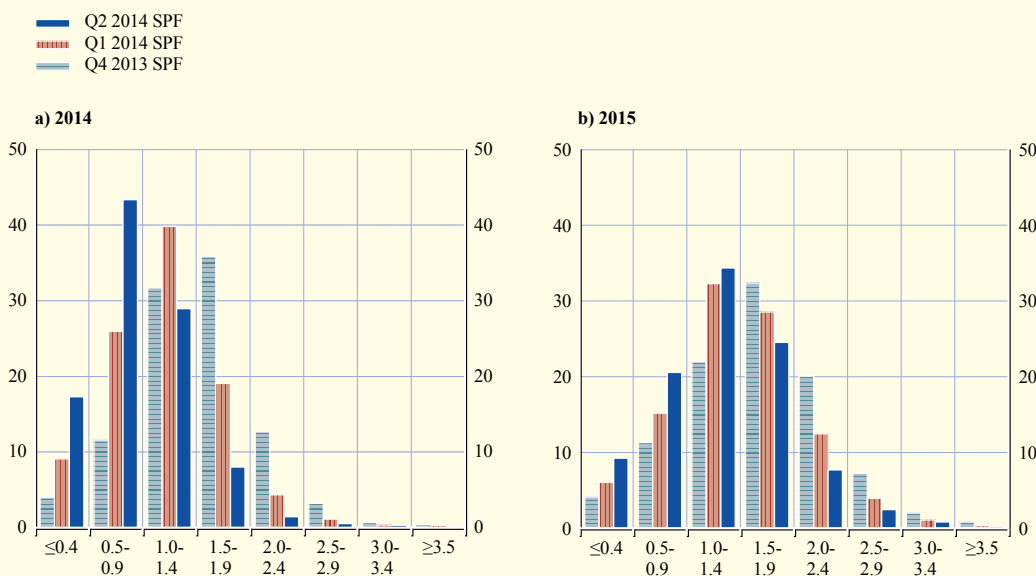
Compared with the previous survey round, the results imply a downward revision of 0.1-0.2 percentage point for each year. Respondents cite favourable commodity price developments, the euro exchange rate, as well as the weak economic situation and labour market conditions as factors behind the expectation of more moderate inflationary pressures. A number of respondents also mentioned the role of structural reforms in attenuating recent outcomes and their forecasts. On the role of economic slack in shaping inflation expectations, some respondents suggested a stronger impact compared with historical norms owing to, inter alia, the depth and length of the slowdown in economic growth. Others did not see any change in responsiveness or could not find statistically significant changes when taking into account the uncertainty surrounding estimates of economic slack.

Overall, inflation expectations for the period 2014-16 are broadly in line with those reported in the March 2014 ECB staff macroeconomic projections for the euro area and the April 2014 Consensus Economics and Euro Zone Barometer surveys.

Turning to the aggregate probability distributions (see Chart A), compared with the previous SPF round, the aggregate probability distributions for expected inflation in 2014-16 have shifted further towards lower outcomes, with the largest shift being for 2014 expectations. However,

**Chart A Aggregate probability distribution of average annual inflation 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.

according to survey participants, the probability of negative inflation remains low: 4.5% in 2014, 2.2% in 2015 and 1.8% in 2016. For 2014, the highest probability (43%) is now assigned to an inflation rate of between 0.5% and 0.9%. For 2015, the highest probability (34%) remains in the interval between 1.0% and 1.4% and, for 2016, the highest probability (34%) lies in the interval between 1.5% to 1.9%.

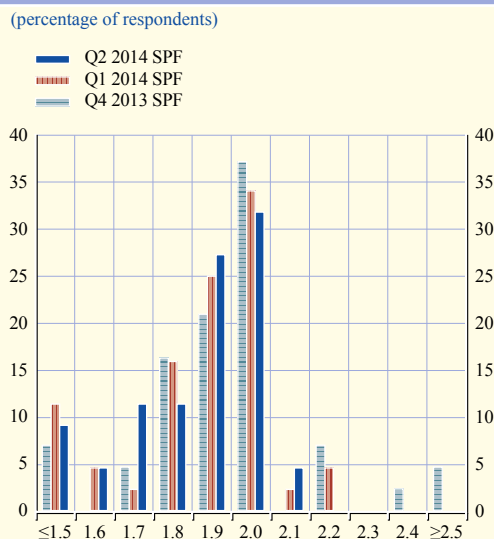
Overall, the risks to the baseline outlook for inflation are perceived by respondents to be slightly to the downside (based on both a qualitative reading of their comments and the quantified analysis of their reported probability distributions).<sup>2</sup> For the horizons 2014-16, the downward risks are relatively small. Downside risks to inflation are perceived to stem from both domestic factors (economic developments and labour market conditions) and external developments (primarily commodity prices and exchange rates). However, a number of these factors – including commodity prices, exchange rates and economic activity – were also mentioned as upside risks by some respondents. Similarly, fiscal policies and government measures (indirect taxes and administered prices) were also mentioned as a risk factor.

### Longer-term inflation expectations edge down slightly

The average point forecast for longer-term inflation expectations (2018) edged down slightly further by 0.03 percentage point to 1.84%. However, the median of the point forecasts remained unchanged at 1.9%, and the largest share (32%) of respondents continued to provide

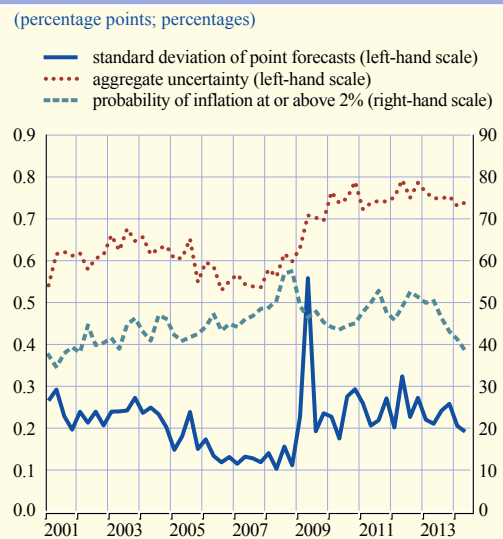
<sup>2</sup> The difference between the mean point estimate and the estimated mean of the aggregate probability distribution can be regarded as an indication of the direction and magnitude of the balance of risks perceived by SPF respondents to their forecasts. For more information on uncertainty measures, 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**



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.

a point forecast of 2.0% (see Chart B). The SPF longer-term inflation expectations are in line with the latest inflation expectations for 2018 published in the April 2014 Consensus Economics and Euro Zone Barometer surveys.

The aggregate probability distribution also tilted slightly towards lower outcomes compared with the previous SPF round. On average, the balance of risks around the point forecast is assessed to be 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 1.78% compared with the mean point estimate of 1.84%. The probability of inflation being at or above 2.0% has declined to 39% from 42% in the first quarter of 2014, while the probability of it being below 1% increased to 12% from 11% in the previous round. The probability of negative inflation rates remained very low at 1.2% (up from 1.1%).

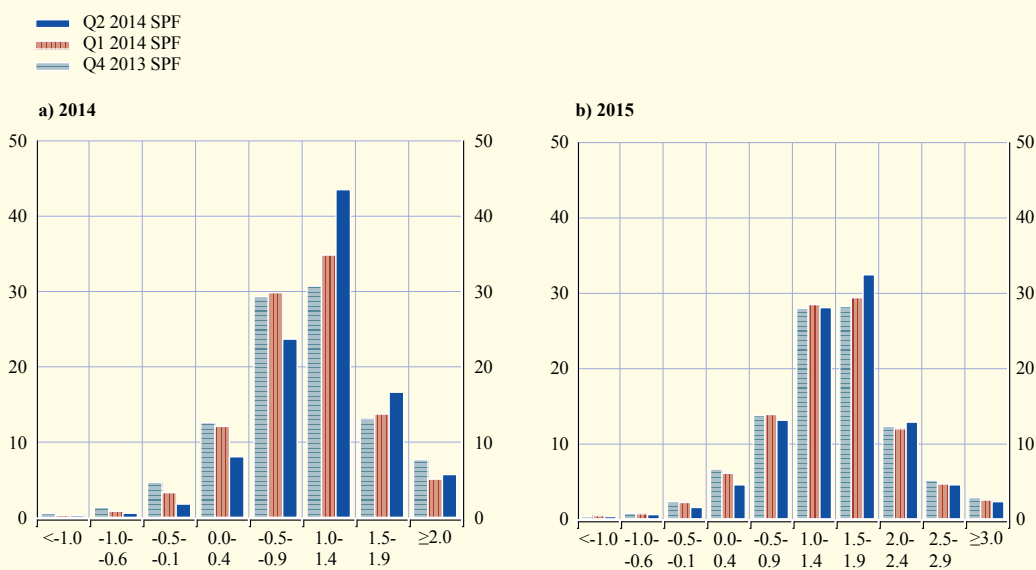
Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, remained broadly unchanged and within the range observed since 2010. The same holds for aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution (see Chart C).

### Real GDP growth expectations increased slightly for 2014 and remained unchanged for 2015 and 2016

The average point forecast for real GDP growth in 2014 increased slightly by 0.1 percentage point to 1.1% and remained unchanged at 1.5% for 2015 and 1.7% in 2016 (see the table). This implies a pattern of a continuous, albeit gradual, strengthening in economic activity over the years ahead. The qualitative comments provided by respondents indicated that the upward

**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.

revisions for 2014 were driven by the positive carry-over effects of better than expected recent data, a continuing accommodative monetary policy and a softened fiscal adjustment.

The average SPF point forecast for 2014 is 0.1 percentage point below the March 2014 ECB staff macroeconomic projections and is the same for 2015 and 2016. Compared with the April 2014 survey results from Consensus Economics and the Euro Zone Barometer, the SPF expectations are slightly lower for 2014 and slightly higher for 2016. For 2015, the SPF result is in line with the survey result from Consensus Economics, but marginally lower than the result from the Euro Zone Barometer.

The aggregate probability distribution for 2014 has shifted towards higher outcomes (see Chart D). Respondents continued to assign the highest probability to the interval between 1.0% and 1.4%, but now with 44% compared with 35% in the previous round. For 2015 and 2016, the probability distributions remained broadly unchanged.

Around the increased baseline outlook, as reflected in the average point forecast, the balance of risks remains tilted to the downside. According to respondents, these risks are mainly related to political developments, such as the unfolding geopolitical tensions in Ukraine and lower than expected external demand. Additionally, several respondents expressed concerns that uncertainty in the financial markets may rise again, which would then have a knock-on effect on the real economy, inter alia, through a tightening of the credit supply. However, respondents also see some upside risks, such as stronger investor and consumer confidence or earlier and stronger positive effects from structural reforms than assumed in the baseline.

Longer-term growth expectations (for 2018) decreased slightly by 0.1 percentage point to 1.7%. As in previous survey rounds, the SPF results for that horizon remain higher than Consensus Economics and Euro Zone Barometer forecasts (which both stand at 1.6%). The aggregate probability distribution shifted only marginally, but remains skewed to the downside.

### **Unemployment rate expectations revised down over the entire forecast horizon**

The average point forecasts for the unemployment rate are 11.8% for 2014, 11.5% for 2015 and 11.0% for 2016, implying a downward revision by 0.3 percentage point for 2014 and by 0.2 percentage point for 2015 and 2016 (see the table). These revisions reflect recent favourable developments in unemployment figures and survey indicators. At the same time, respondents deem that the anticipated recovery is not strong enough to reduce the unemployment rate more significantly over the next few years, as firms will first increase productivity before hiring again, and it will take some time before the impact of structural reforms is felt.

Compared with other forecasts, the latest SPF expectations for unemployment are more optimistic for all periods: for 2014, they are 0.1 percentage point below the March 2014 ECB staff macroeconomic projections and the Consensus Economics and Euro Zone Barometer forecasts, with the difference widening for 2015 and 2016.

Risks to the short and medium-term forecasts around the baseline outlook remain tilted to the upside and are closely related to the economic recovery being more modest than anticipated and a potential lack of structural reforms. Additionally, some respondents see risks related to wage pressures becoming too high owing to better cyclical conditions and to the possibility that recent high cyclical unemployment might become structural, thereby reducing the long-term growth potential. Some downside risks to the unemployment outlook are associated with stronger than envisaged competitiveness as a result of structural reforms in southern Europe.

The average point forecast for longer-term unemployment rate expectations (9.5% in 2018) is 0.1 percentage point lower than in the previous SPF round. The aggregate probability distribution has shifted towards lower outcomes, but the highest probability (51%) remains attached to the intervals between 9.0% and 10.4%.

### **Other variables and conditioning assumptions**

According to other information provided by the respondents, oil prices are expected to remain at around USD 107 per barrel until 2016. The forecast of the exchange rate of the euro versus the dollar has been revised upwards compared with the previous SPF round, but its expected profile is downward, standing at 1.37 in the second quarter of 2014, and decreasing to 1.31 in 2015 and 1.30 in 2016. Expected growth in compensation per employee has been revised downwards by 0.1 percentage point on average in 2014, 2015 and 2016 (to 1.4%, 1.7% and 1.8% respectively). It has also been revised downwards slightly to 2.1% for the five-year ahead horizon. The mean assumption for the ECB main refinancing rate is broadly flat for the next four quarters, implying a marginal downward revision for the short-term, but a more significant revision for the medium-term. It is assumed that it will stand at around 0.25% until the end of 2014, increase to 0.3% in 2015 and stand at 0.7% in 2016.