



EUROPEAN CENTRAL BANK

EUROSYSTEM

European Central Bank event on

Twenty-five years of the ECB SPF

Tuesday, 19 March 2024

European Central Bank

Frankfurt am Main



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15:30 Welcome remarks

Christine Lagarde, European Central Bank

15:40 ECB staff presentation

On special survey on forecast processes and methodologies and on 25 years of SPF (30-minute presentation followed by open-floor discussion)

ECB staff (Anastasia Allayioti, Rodolfo Arioli, Colm Bates, Vasco Botelho, Bruno Fagandini, Luís Fonseca, Peter Healy, Aidan Meyler, Ryan Minasian, Octavia Zahrt), European Central Bank

Coffee break

16:40 Panel discussion on current challenges for forecasting

Chair: Oscar Arce, ECB

Panellist: Léa Dauphas, TAC Economics

Panellist: Alexander Glas, Centre for European Economic Research (ZEW)

Panellist: Concepción Sanz Gómez, Banco Santander

Panellist: Marco Valli, UniCredit Bank AG

Coffee break

18:00 Aperitif and seated dinner

Welcome remarks

Philip R. Lane, European Central Bank

Informal dinner talk on micro data and the credibility revolution in expectations data

Ricardo A. M. R. Reis, London School of Economics and Political Science

General information

Venue European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main

Organising committee Aidan Meyler, ECB aidan.meyler@ecb.europa.eu
Linda de Leeuw, ECB
Octavia Zahrt, ECB

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Participants

Representatives from the following ECB SPF panel members: Banco Santander; Banco Santander Totta; Bank Julius Bär; Bank of America; Bloomberg Economics; CaixaBank; Capital Economics; Confindustria; Crédit Agricole CIB; Deutsche Bank AG; Deutscher Sparkassen- und Giroverband e.V.; Deutsches Institut für Wirtschaftsforschung (DIW Berlin); ETLA Economic Research; GlobalData TS Lombard; Goldman Sachs; HSBC; ifo Institute; Institute for Advanced Studies, Vienna (IHS); Intesa Sanpaolo; J.P. Morgan; Landesbank Hessen-Thüringen; Landesbank Hessen-Thüringen; LBBW (Landesbank Baden-Württemberg); Mirabaud AM; Morgan Stanley; Natixis; Natwest; Nomura; Nordea Bank; ODDO-BHF Switzerland; OP Financial Group; Rokos Capital Management; RWI - Leibniz Institute for Economic Research; Santander Portugal; Société Générale; STATEC Luxembourg; Swedbank; TAC Economics; UBS; UniCredit; UniCredit Bank Austria; ZEW - Leibniz Centre for European Economic Research`

Summary

In opening remarks, **President Lagarde** welcomed the representatives of the participating ECB SPF panel members to the ECB. She thanked the panel for their twenty-five years of contributing to the ECB SPF, which has been a valuable quarterly input to the Governing Council for over 100 rounds since the first quarter of 1999. She noted that the euro area, over the history of the survey, has navigated many changes and challenges, and that throughout these times, the ECB SPF has proven to be a timely, detailed and forward-looking source of information on economic perceptions and expectations. She wished the event participants (ECB SPF panel members and ECB staff) a fruitful exchange of experiences and views; and looked forward to continuing to receive results from the SPF in the future.

ECB staff presented (i) results from a special survey of SPF panel members on forecast processes and methodologies conducted in late-2023 to mark the 25th anniversary and (ii) on experiences, and what was learned, from 25 years of the ECB SPF:

- i. The main findings and conclusions from the special survey were presented (and are also available on the ECB SPF webpage – [link](#)). This survey contained questions similar to previous special surveys - relating to the use of economic models, the role of judgement and the relationship between different economic variables like inflation and activity - along with new questions addressing issues that have been particularly important over the past five years, such as the pandemic, geopolitical developments, extreme weather, climate change, and the recent inflation surge. A notable finding is that there is a significantly higher share of respondents reporting that their forecast models allow for non-linearities (from around 30% in previous special surveys to around 60% in this survey). A majority also indicated that the recent inflation surge and the pandemic caused them to change their forecast models or long-term forecasts. In addition almost half of respondents noted that the green transition had caused them to change their models or long-term forecasts, however fewer (less than 30%) reported that climate change, extreme weather and the ECB's monetary policy strategy review had also had an impact on their models or

long-term forecasts. Respondents also indicated that they use a wide range of information when forming their longer-term (five years ahead) inflation expectations. The ECB's inflation target was mentioned most often (by 86%), followed by trends in actual inflation (65%), forecasts reported in other surveys (57%), longer-term inflation expectations from financial markets (46%) and trends in wages (38%). Compared with previous surveys, the use of other survey-based forecasts increased the most, while the importance of actual inflation trends and the ECB's inflation target also increased.

- ii. ECB staff noted that ECB SPF has fulfilled a vital role over its 25-year history and experiences of past five years confirm its importance. The material and analyses presented will be forthcoming in an ECB Occasional Paper. Compared with other surveys of professionals, the ECB SPF is relatively large with an active panel of around 75 members and approximately 60 responses received in each quarterly round. The forecast performance of the ECB SPF was, on average over longer periods of time, broadly comparable to Eurosystem projections and short-term forecast errors were mostly due to respondents' conditional assumptions (for up to 80%). In addition to its direct forecast element, a key feature of the SPF is that it allows for a rich understanding of inflation expectations, including the cross-checking of market-based measures, a better understanding the impact of monetary policy and economic developments, the risks and the degree of anchoring of inflation expectations. Using information in the ECB SPF to quantify perceived macroeconomic uncertainty suggests that uncertainty is currently elevated, albeit with some heterogeneity across variables (inflation, growth and unemployment).

In the ***panel discussion on current challenges for forecasting***, four main topics were addressed: (i) the impact of the inflation surge over the past two years on forecast models or long-run forecasts; (ii) whether climate change or extreme weather events or the 'green transition' caused (or will cause) changes to forecast models or long-run forecasts; (iii) the use of new forecasting techniques such as artificial intelligence, machine learning, big data, web-scraping, etc; and (iv) the observed increase in macroeconomic uncertainty. On the first topic, panellists agreed that inflation forecasting had become more difficult (for example, owing to the difficulty of determining the degree of economic slack) and that alternative information sources (including other survey data) needed to be investigated. Understanding better current profits and productivity developments were also considered to be crucial elements for assessing the inflation outlook. On weather and climate transition, some panellists felt that current forecast horizons are short relative to the timescale over which many measures and their impacts will take place and that, while currently committed measures may have a relatively modest aggregate impact on overall inflation and growth over the coming years, there will possibly be considerable heterogeneity across sectors and countries. On AI and machine learning, there were a number of examples given for how it was being currently used in economic forecasting, though some questioned the extent to which 'off-the-shelf' models could be used or whether 'bespoke' models trained using economic inputs were required. On macroeconomic uncertainty, most agreed that there had been an increase macroeconomic uncertainty and that this could have potential feedback loops for macroeconomic forecasts.

At the *dinner talk*, Philip Lane first thanked the SPF panel for their contribution. He valued their input and insights. He considered that the ECB SPF is a public good informing policymakers, industry practitioners, academics and the public. He then introduced and welcomed **Ricardo Reis (London School of Economics)**, who has extensive work on inflation expectations. In his dinner remarks, Professor Reis discussed how research on inflation expectations has been following the path of using micro data and credible identification strategies. He gave examples where research---using individual heterogeneity, a mix of cross-section and time-series variation, regional variation, randomized control trials, high-frequency studies, and market segmentation---has allowed for a better understanding how people form expectations and why this matters for monetary policy. He illustrated how, in the last few years, this new knowledge helped to interpret the expectations data, to forecast inflation changes, and to guide monetary policy.