

Box 4

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2009

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2009. The survey was conducted between 16 and 20 April 2009. There were 52 responses from forecasters. The SPF collects information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated with financial or non-financial institutions that are based in the EU.¹

Inflation expectations for 2009 and 2010

SPF participants' inflation expectations for 2009 and 2010 have been revised downwards since the previous round (conducted in January) and now stand at 0.5% and 1.3% respectively (see the table below).² Most respondents mentioned strong base effects stemming from low commodity prices and declining food prices characterising their short-term inflation profile.

The SPF inflation expectations for 2009 and 2010 are closer to the higher end of the ranges reported in the March 2009 ECB staff macroeconomic projections for the euro area (finalised in

1 Given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions.

2 Additional 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, ECB staff macroeconomic projections, Consensus Economics and Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

HICP inflation	2009	Survey horizon			
		Mar. 2010	2010	Mar. 2011	Longer-term ²⁾
SPF Q2 2009	0.5	1.2	1.3	1.6	1.9
Previous SPF (Q1 2009)	0.9	-	1.6	-	1.9
ECB staff macroeconomic projections	0.1 - 0.7	-	0.6 - 1.4	-	-
Consensus Economics (April 2009)	0.4	-	1.3	-	1.9
Euro Zone Barometer (April 2009)	0.5	-	1.2	-	1.9
Real GDP growth	2009	Q4 2009	2010	Q4 2010	Longer-term ²⁾
SPF Q2 2009	-3.4	-2.0	0.2	0.9	1.9
Previous SPF (Q1 2009)	-1.7	-	0.6	-	2.0
ECB staff macroeconomic projections	-3.2 - -2.2	-	-0.7 - 0.7	-	-
Consensus Economics (April 2009)	-3.4	-	0.3	-	1.9
Euro Zone Barometer (April 2009)	-3.2	-	0.3	-	2.0
Unemployment rate ¹⁾	2009	Feb. 2010	2010	Feb. 2011	Longer-term ²⁾
SPF Q2 2009	9.3	10.3	10.5	10.5	8.4
Previous SPF (Q1 2009)	8.7	-	9.4	-	7.8
Consensus Economics (April 2009)	9.3	-	10.2	-	-
Euro Zone Barometer (April 2009)	9.2	-	10.3	-	9.2

1) As a percentage of the labour force.

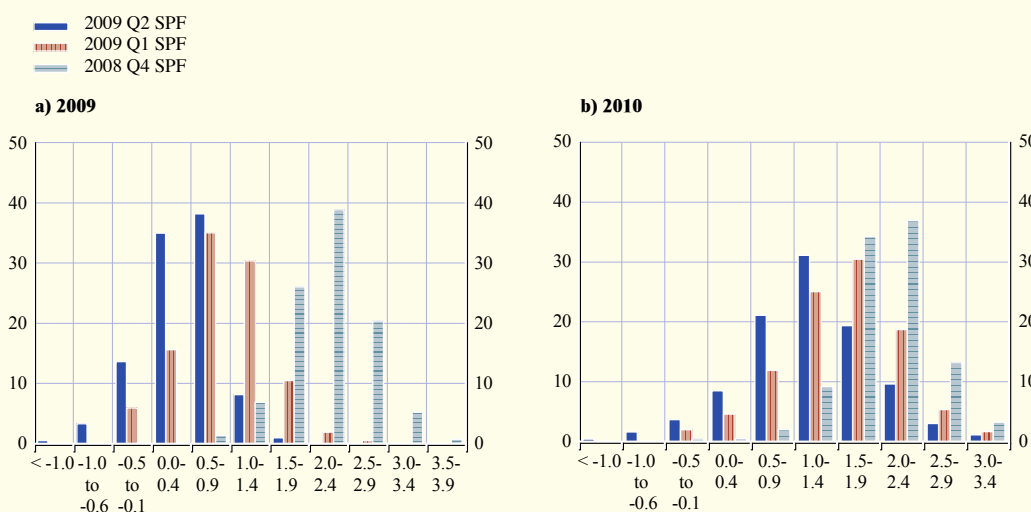
2) Longer-term inflation expectations refer to 2013 in the SPF and the Euro Zone Barometer and to the period 2015-19 in Consensus Economics.

late February 2009). They are broadly in line with those of Consensus Economics and the Euro Zone Barometer published in April 2009 for both years.

SPF participants were also asked to assess the probability of the future outcome for inflation falling within specific intervals. The aggregate probability distribution obtained by averaging the forecasters' responses provides a summary of their assessments. It also provides information

Chart A Probability distribution for average annual inflation in 2009 and 2010 in the latest SPF rounds¹⁾

(probability in percentages)



Source: ECB.

1) Corresponds to the average of individual probability distributions provided by SPF forecasters.

about how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. In line with the average decrease in the point estimates for 2009 and 2010, the aggregate probability distribution moved towards lower outcomes by comparison with the previous SPF (see Chart A). Overall, the balance of risks to the shorter-term forecasts has been assessed by the respondents as being on the downside, since the weak economic activity, low firms' pricing power and the increasing unemployment rate are supposed to more than offset any upward risks deriving from potential increases in commodity prices or exchange rate movements. Nevertheless, some respondents cite higher commodity prices, past wage agreements and large amounts of liquidity in the economy as upward risks towards the end of 2009 and in 2010.

Indicators of longer-term inflation expectations

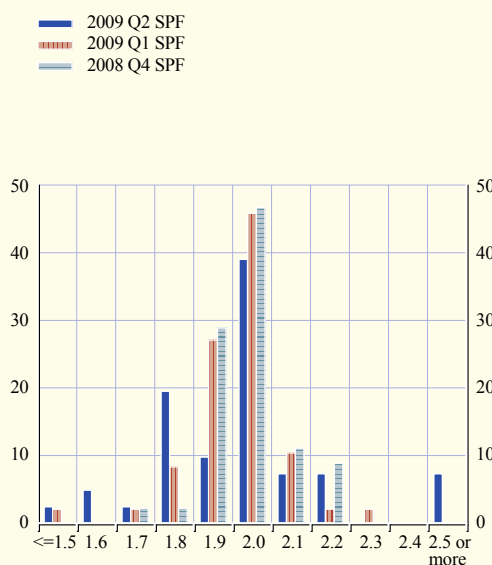
Longer-term inflation expectations (for the year 2013) have remained unchanged, at 1.9%. The average point estimate is in line with the latest long-term inflation projections provided by Consensus Economics and the Euro Zone Barometer in April 2009.

The stability of the average point estimate, at 1.9%, in this SPF round is combined with an increase in the disagreement about the expected longer-term inflation due to several outliers (see Chart B). At the same time, the probability of longer-term inflation standing at 2%, or above, decreased to 46%, from 49% in the previous SPF round (see Chart C). These survey results can be compared with the break-even inflation rate, an indicator of longer-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds.³

³ See also the article entitled "Measures of inflation expectations in the euro area" in the July 2006 issue of the Monthly Bulletin.

Chart B Cross-sectional distribution of longer-term (2013) inflation expectations among SPF respondents

(percentage of respondents)

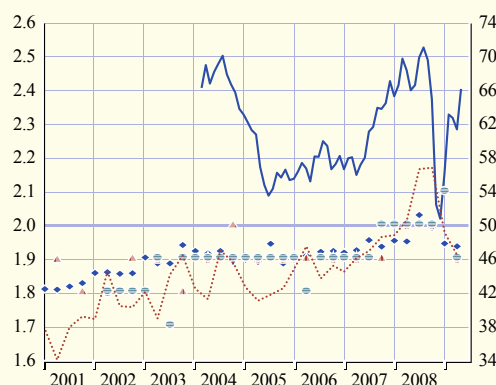


Source: ECB.

Chart C Longer-term inflation expectations from surveys and break-even inflation rates

(average annual percentage changes; percentage probability)

- ◆ SPF (for 2013; left-hand scale)
- ▲ Consensus Economics (for 2015-19; left-hand scale)
- Euro Zone Barometer (for 2013; left-hand scale)
- implied five-year forward break-even inflation rate five years ahead, seasonally adjusted (left-hand scale)
- SPF probability of longer-term inflation being at or above 2% (right-hand scale)



Sources: Consensus Economics, Euro Zone Barometer, Reuters and ECB calculations.

Until September 2008, movements in the probability assigned to an outcome that inflation will stand at 2%, or above, in the next five years, were, on average, broadly in line with developments in financial market-based indicators of inflation expectations (e.g. the seasonally adjusted, implied five-year forward break-even inflation rate five years ahead).⁴ However, since then and against the background of an intensification of financial market turbulences, financial market-based inflation expectations have been somewhat erratic and may have been distorted due to investors' efforts to reduce risk and leverage and their strong preference for more secure and liquid assets.⁵

Real GDP growth expectations

SPF respondents have revised their growth expectations for 2009 further downwards and now expect euro area real GDP to contract by 3.4% in 2009. This represents a further significant downward revision, by 1.7 percentage points, to their growth assessment for 2009 compared with the previous SPF round. Growth expectations for 2010 have been also revised downwards by 0.4 percentage point and now stand at 0.2%.

In their comments, respondents referred to a broad-based economic downturn characterised by weak demand, both external and domestic. More specifically for the domestic economy, weak investment and private consumption, as well as ongoing tensions in financial markets and tight financing conditions were mentioned as factors shaping the short-term economic outlook. On balance, risks to the forecasts are assessed as being on the downside.

The SPF growth expectations for 2009 are slightly below the range reported in the March 2009 ECB staff macroeconomic projections for the euro area, while those for 2010 are close to the mid-point of the range. The SPF growth expectations are broadly in line with the Euro Zone Barometer forecasts for both years, but slightly below those of Consensus Economics for 2009.

In line with the downward revision of expected real GDP growth, the aggregate probability distribution for 2009 and 2010 has shifted towards lower outcomes (see Chart D). In addition to the expected negative real GDP growth in 2009, the SPF respondents now envisage quite a high probability (37%) of annual real GDP growth being negative in 2010 as well. Furthermore, based on the aggregate probability distribution, the balance of risks is estimated as being slightly on the downside for both years.

Uncertainty derived from the aggregate probability distribution for one-year-ahead and two-years-ahead real GDP forecasts continues to remain high. However, most respondents expect some recovery to take place in the course of 2010, although views differ on whether this would be in the first half or second half of the year. An improvement in the euro area exports markets and world trade, as well as fiscal stimulus packages and low policy interest rates, were mentioned as the factors expected to support the economic recovery.

Longer-term growth expectations (for 2013) have been revised downwards to 1.9%, compared with 2.0% in the previous round. Overall, respondents assess the balance of risks as being slightly on the downside.

⁴ Break-even inflation rates should not be interpreted as direct measures of inflation expectations, since they may also incorporate various risk premia (such as inflation uncertainty and liquidity premia).

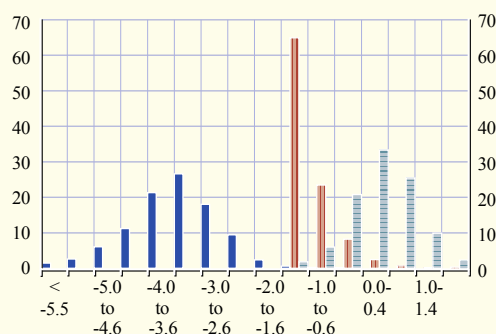
⁵ For a further discussion of the impact of the current financial market turmoil on market-based measures of inflation expectations, see the box entitled "Recent increases in real yields and their implications for the analysis of inflation expectations" in the November 2008 issue of the Monthly Bulletin.

Chart D Probability distribution for average annual real GDP growth in 2009 and 2010 in the latest SPF rounds ¹⁾

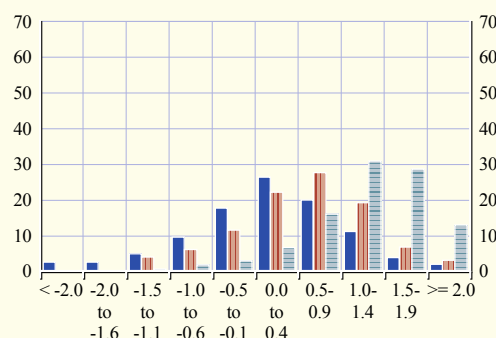
(probability in percentages)

— 2009 Q2 SPF
 ■ 2009 Q1 SPF
 ■ 2008 Q4 SPF

a) 2009



b) 2010



Source: ECB.

1) Corresponds to the average of individual probability distributions provided by SPF forecasters.

Expectations for the euro area unemployment rate

Consistent with the downward revisions to their growth expectations, SPF respondents have revised their unemployment rate expectations upwards across all forecast horizons. On average, the unemployment rate is now expected to reach 9.3% in 2009 (an upward revision by 0.6 percentage point), and then to further increase to 10.5% in 2010 (an upward revision by 1.1 percentage points). Longer-term unemployment rate expectations for the second consecutive SPF round were revised significantly upwards, by 0.6 percentage point, and now stand at 8.4%. Structural labour market policy measures were mentioned as a downside risk to their forecasts.