

Box 7

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the fourth quarter of 2013. The survey was conducted between 16 and 22 October 2013, and 54 responses were received.¹ Compared with the previous survey round, the results imply somewhat lower inflation expectations for 2013 and 2015, and no change in inflation expectations for 2014. Real GDP growth expectations were revised upwards for 2013 and 2014 and remained unchanged for 2015. Unemployment expectations were revised downwards for all forecast horizons. With regard to longer-term inflation expectations, the average point forecast decreased slightly to 1.9%.

Somewhat lower inflation expectations for 2013 and 2015 but no change for 2014

The SPF inflation expectations for 2013, 2014 and 2015 stand at 1.4%, 1.5% and 1.6% respectively (see the table). Compared with the previous survey round, this implies a downward revision of 0.1 percentage point for 2013 and 0.2 percentage point for 2015, and no change

Results of the SPF, ECB staff macroeconomic projections, Consensus Economics and the Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

	Survey horizon			
	2013	2014	2015	Longer-term ¹⁾
HICP inflation				
SPF Q4 2013	1.4	1.5	1.6	1.9
<i>Previous SPF Q3 2013</i>	<i>1.5</i>	<i>1.5</i>	<i>1.8</i>	<i>2.0</i>
ECB staff macroeconomic projections (September 2013)	1.5	1.3	-	-
Consensus Economics (October 2013) ²⁾	1.5	1.4	1.6	1.9
Euro Zone Barometer (October 2013)	1.5	1.5	1.6	2.0
Real GDP growth				
SPF Q4 2013	-0.4	1.0	1.5	1.7
<i>Previous SPF Q3 2013</i>	<i>-0.6</i>	<i>0.9</i>	<i>1.5</i>	<i>1.7</i>
ECB staff macroeconomic projections (September 2013)	-0.4	1.0	-	-
Consensus Economics (October 2013) ²⁾	-0.3	0.9	1.3	1.5
Euro Zone Barometer (October 2013)	-0.4	1.0	1.5	1.6
Unemployment rate³⁾				
SPF Q4 2013	12.1	12.1	11.6	9.5
<i>Previous SPF Q3 2013</i>	<i>12.3</i>	<i>12.4</i>	<i>11.8</i>	<i>9.7</i>
Consensus Economics (October 2013) ²⁾	12.1	12.2	-	-
Euro Zone Barometer (October 2013)	12.1	12.1	11.9	11.1

1) Longer-term expectations refer to 2018 in the SPF Q4 2013 and Consensus Economics forecasts, but to 2017 in the Euro Zone Barometer forecasts.

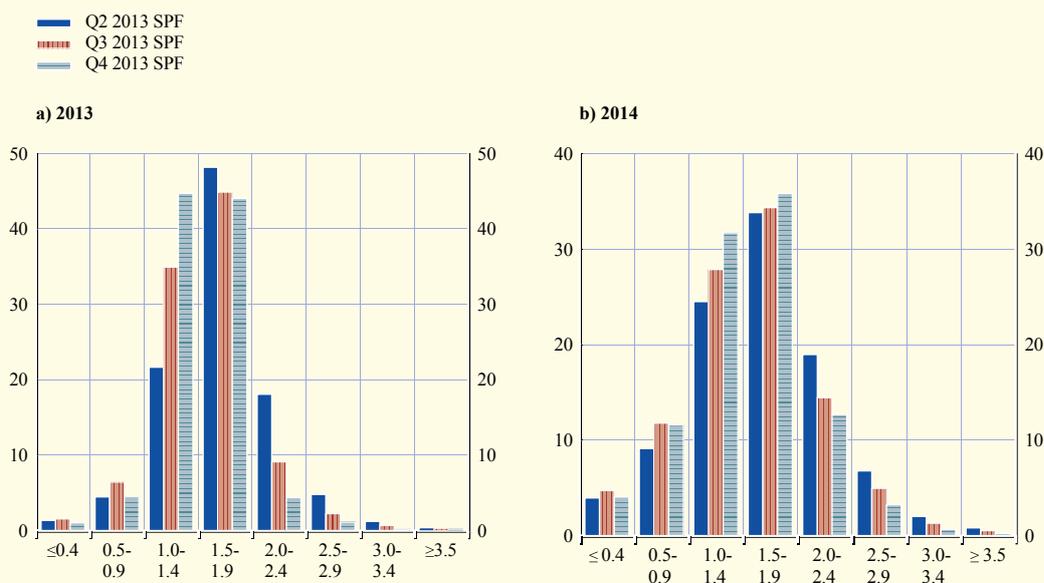
2) Expectations for 2015 and the longer term were last published by Consensus Economics in October 2013.

3) As a percentage of the labour force.

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

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.

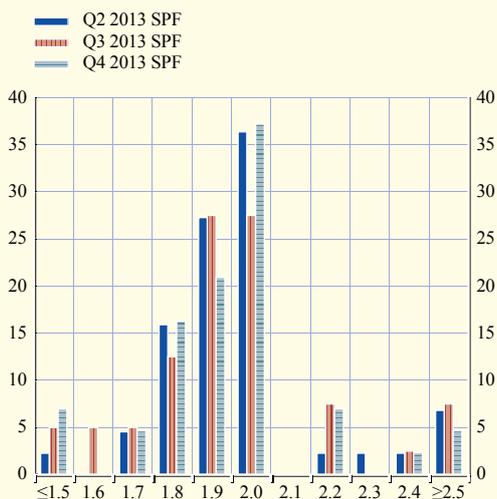
for 2014. Respondents attribute the downward revisions mainly to the modest economic recovery that is under way and ample excess capacity, low wage increases owing to high unemployment levels, more favourable trends in commodity prices, the appreciation of the euro and the dilution of effects resulting from higher administrative prices and high indirect taxes in some countries.

Compared with the September 2013 ECB staff macroeconomic projections, SPF inflation expectations are below for 2013 and slightly above for 2014. For 2013, they are also below the corresponding forecasts published in the October 2013 issues of Consensus Economics and the Euro Zone Barometer, but for 2014 and 2015 they are broadly in line therewith. Turning to the aggregate probability distributions, for 2013, a probability of 44% is assigned to an inflation rate of between 1.5% and 1.9%, and of 45% to the interval between 1.0% and 1.4%. For 2014, the two highest probabilities are 36%, which is allocated to the interval between 1.5% and 1.9%, and 32%, which is assigned to the interval between 1.0% and 1.4% (see Chart A).

Respondents are equally split between those who regard risks to the baseline outlook for inflation to be broadly balanced and those who consider it to be tilted to the downside. The main downside risks mentioned were the deterioration in euro area economic activity and labour markets, further declines in commodity prices and renewed financial tensions. Some respondents, however, also mentioned unexpected increases in commodity prices, as well as in indirect taxes and administered prices, as upside risks. Furthermore, a couple of respondents mentioned a stronger than expected rebound in the economy as another potential upward risk.

Chart B Cross-sectional distribution of longer-term inflation point forecasts

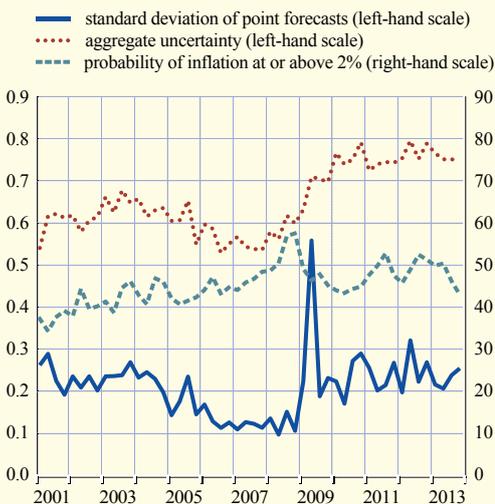
(percentage of respondents)



Source: ECB.

Chart C Disagreement and uncertainty about longer-term inflation expectations

(percentage points; percentages)



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).

Longer-term inflation expectations revised downwards to 1.9%

The average point forecast for longer-term inflation expectations (for 2018) stands at 1.9%, after 2.0% in previous survey rounds. Rounded to two decimal places, expectations stand on average at 1.93%, two basis points lower than in the previous survey round. The median of the point forecasts has returned to 2.0%, having stood at a one-off 1.9% in the previous survey round. This reflects an increase in the percentage share of respondents providing a point forecast of 2.0%, from 28% to 37% (see Chart B). The SPF longer-term inflation expectations are in line with the inflation expectations for 2018 published in the latest issue of Consensus Economics, but are somewhat lower than those for 2017 (2.0%) published in the Euro Zone Barometer.

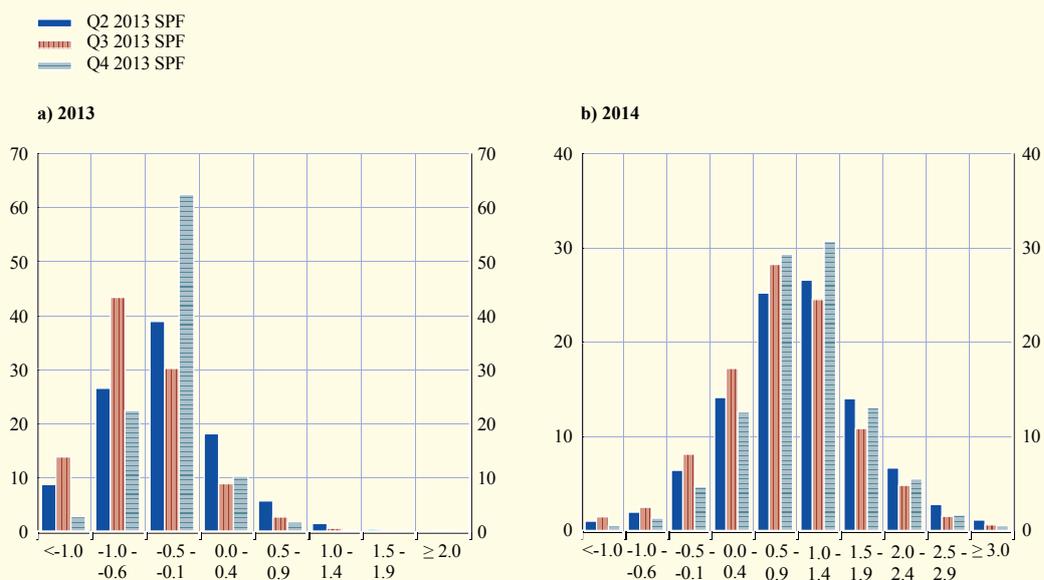
Compared with the previous survey round, the aggregate probability distribution has shifted slightly towards lower outcomes, with the probability of longer-term inflation being at or above 2.0% declining from 46% to 43%. By contrast, the probability of inflation being between 1% and 1.9% increased to 47%, up from 44% in the previous survey round. The probability of negative inflation rates remained unchanged at 0.9%.

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, increased slightly to 0.3 percentage point, up from 0.2 percentage point in the previous survey round. However, it is still within the range observed since 2010. Aggregate uncertainty surrounding longer-term inflation expectations, as measured by the standard deviation of the aggregate probability distribution, remains at the elevated level observed in previous survey rounds (see Chart C).²

² For more information on uncertainty measures, see the box entitled “Measuring perceptions of macroeconomic uncertainty”, *Monthly Bulletin*, ECB, Frankfurt am Main, January 2010.

Chart D Aggregate probability distribution of GDP growth 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.

GDP growth expectations revised upwards for 2013 and 2014

The average point forecast for GDP growth has been revised upwards by 0.2 percentage point, to -0.4%, for 2013 and by 0.1 percentage point, to 1.0%, for 2014, while for 2015 it has remained unchanged at 1.5% (see the table). Expectations for 2013 and 2014 are identical to the September 2013 ECB staff macroeconomic projections, as well as the latest forecasts of the Euro Zone Barometer. Compared with those of Consensus Economics, they are lower for 2013, but slightly higher for 2014 and 2015. Respondents cite the carry-over effects from the surprise pick-up in GDP growth in the second quarter of 2013 as the main factor behind the upward revisions for 2013. The levels of economic sentiment indicators in the third quarter suggest that euro area GDP growth will remain moderate. Most respondents indicate that fragmentation in business financing conditions is still a major factor preventing growth from picking up at a stronger pace.

The aggregate probability distributions for real GDP growth in 2013, 2014 and 2015 have shifted towards higher outcomes. The largest shift was for 2013, with respondents now assigning the highest probability, 62%, to the interval between -0.5% and -0.1%, compared with only 30% in the previous survey round, when respondents assigned the highest probability, 43%, to a growth rate of between -1.0% and -0.6%. For 2014 and 2015, the upward shifts are moderate. Overall, respondents consider the balance of risks to GDP growth to still be tilted to the downside, owing mainly to the risks of a possible intensification of the sovereign debt crisis in stressed countries, less demand from major emerging economies and persistently tight credit conditions. The main upside risks relate to a stronger than expected improvement in confidence and a materialisation of the benefits of structural reforms earlier than assumed in the baseline.

Longer-term growth expectations (for 2018) remained stable at 1.7%. The aggregate probability distribution around this average point forecast has marginally shifted towards lower outcomes compared with the previous survey round.

Unemployment rate expectations revised downwards for 2013, 2014 and 2015

The average point forecasts for the unemployment rate currently stand at 12.1% for 2013 and 2014, and 11.6% for 2015, with the pattern following, with some lag, that of the expected moderate recovery in economic activity. Compared with the previous survey round, these figures imply downward revisions of 0.2 percentage point and 0.3 percentage point respectively (see the table).

Respondents attribute the downward revisions mainly to recent positive unemployment data, but also mention that the economic recovery is not strong enough to reduce unemployment substantially over the next one to two years. The SPF forecasts for 2013 and 2014 are in line with the latest corresponding forecasts of the Euro Zone Barometer and Consensus Economics, and for 2015 are 0.3 percentage point below those published by the Euro Zone Barometer.

The balance of risks to the short and medium-term unemployment expectations remain tilted to the upside and closely related to the downside risks to economic growth and the potential lack of progress being made on structural reforms. Several respondents also mentioned the risk that the recent high cyclical unemployment may turn into structural unemployment. Downside risks to the unemployment expectations relate primarily to the medium term and are associated mainly with stronger than envisaged competitiveness in the stressed countries. Longer-term unemployment rate expectations (for 2018) decreased slightly by 0.2 percentage point to 9.5%.

Other variables and conditioning assumptions

According to other information provided by respondents, the assumptions for the ECB's main refinancing rate remained broadly unchanged for all forecast horizons (0.5% for the fourth quarter of 2013 and 2014, and 0.7% for 2015). Expectations for the USD/EUR exchange rate have been revised slightly upwards. It is expected to stand at 1.33 in the fourth quarter of 2013, but then to return to the path of the previous survey round, to stand at 1.30 in 2014 and at an unchanged rate of 1.29 in 2015. Oil price assumptions were revised upwards by around 2% over the entire forecast horizon, with oil prices now expected to stand at USD 109.4 per barrel in the fourth quarter of 2013, USD 110.0 per barrel in 2014 and USD 111.5 per barrel in 2015. Compared with the previous survey round, annual growth in compensation per employee remains at 1.7% for 2013, but has been revised slightly upwards by 0.1 percentage point for 2014, to 1.7%. It remains unchanged at 2.0% for 2015 and 2.3% for the five-year ahead horizon.