

Box 6

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

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2013. The survey was conducted between 16 and 19 April 2013, and 53 responses were received.¹ The results imply slightly lower inflation expectations for 2013, 2014 and

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

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon			
	2013	2014	2015	2017
SPF Q2 2013	1.7	1.6	1.8	2.0
<i>Previous SPF (Q1 2013)</i>	1.8	1.8	1.9	2.0
ECB staff macroeconomic projections (March 2013)	1.2 - 2.0	0.6 - 2.0	-	-
Consensus Economics (April 2013)	1.7	1.6	1.8	1.9
Euro Zone Barometer (April 2013)	1.7	1.7	1.8	1.9
Real GDP growth	2013	2014	2015	2017
SPF Q2 2013	-0.4	1.0	1.6	1.8
<i>Previous SPF (Q1 2013)</i>	0.0	1.1	1.6	1.8
ECB staff macroeconomic projections (March 2013)	-0.9 - -0.1	0.2 - 2.0	-	-
Consensus Economics (April 2013)	-0.4	0.9	1.5	1.5
Euro Zone Barometer (April 2013)	-0.3	1.1	1.5	1.6
Unemployment rate ¹⁾	2013	2014	2015	2017
SPF Q2 2013	12.3	12.2	11.6	9.6
<i>Previous SPF (Q1 2013)</i>	12.1	11.9	11.2	9.5
Consensus Economics (April 2013)	12.2	12.2	-	-
Euro Zone Barometer (April 2013)	12.1	12.0	11.5	10.5

1) As a percentage of the labour force.

2015 compared with the previous survey round. Real GDP growth expectations were revised significantly downward for 2013, slightly downward for 2014 and remained unchanged for 2015. Unemployment expectations were again revised upward. With regard to longer-term inflation expectations, the average point forecast remained unchanged at 2.0%.

Slightly lower short-term inflation expectations

The SPF inflation expectations for 2013, 2014 and 2015 stand at 1.7%, 1.6% and 1.8% respectively (see the table). Compared with the previous survey round, this implies a downward revision of 0.1 percentage point for 2013 and 2015, and 0.2 percentage point for 2014. Respondents attribute these revisions mainly to weaker economic activity and labour markets, as well as lower commodity prices.

For 2013 and 2014, the figures are within the ranges reported in the March 2013 ECB staff macroeconomic projections, and for 2013, 2014 and 2015, they are very much in line with the corresponding forecasts published in the April 2013 issues of the Euro Zone Barometer and Consensus Economics. The aggregate probability distributions for inflation in 2013 and 2014 have shifted towards slightly lower outcomes compared with the previous survey round (see Chart A).

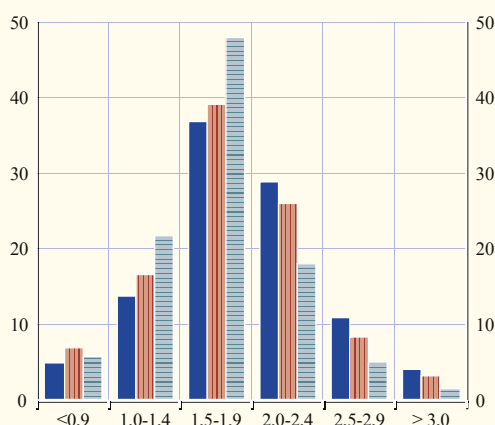
Respondents regard the risks to the outlook for baseline inflation to be broadly balanced, with some mentioning commodity price hikes as an upward risk and a further deterioration in euro area economic activity and labour markets as the main downside risks.

Chart A Aggregate probability distribution of average annual inflation expectations for 2013 and 2014 in the latest SPF rounds

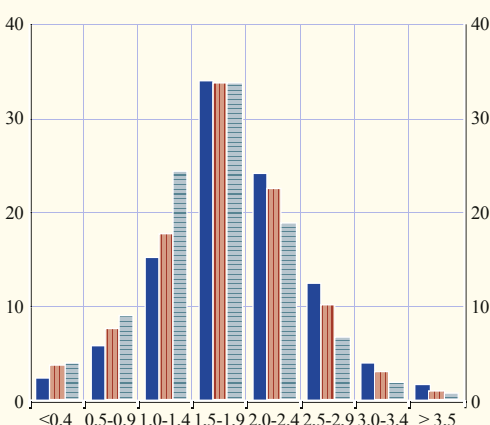
(probability in percentages)

■ Q4 2012 SPF
 ■ Q1 2013 SPF
 ■ Q2 2013 SPF

a) 2013



b) 2014



Source: ECB.

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

Longer-term inflation expectations remain unchanged at 2.0%

The average point forecast for longer-term inflation (for 2017) remains at 2.0%. Rounded to two decimal places, expectations stand on average at 1.97%, which is one basis point lower than in the previous survey round. The median and the mode of the point forecasts are also stable at 2.0%. The percentage share of respondents providing a point forecast of 2.0% remains unchanged at 36%, but has risen from 23% to 27% for a point forecast of 1.9% (see Chart B). The SPF inflation expectations for 2017 are slightly higher than the longer-term forecasts (of 1.9%) published in the latest issues of Consensus Economics and the Euro Zone Barometer.

The aggregate probability distribution is broadly unchanged compared with the previous survey round, and the probability of inflation being at or above 2.0% remains at 50%.

Disagreement about longer-term inflation expectations, as measured by the standard deviation of the point forecasts, remains unchanged at 0.2 percentage point and is thus 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, has declined marginally compared with the previous survey round, but remains at a high level (see Chart C).²

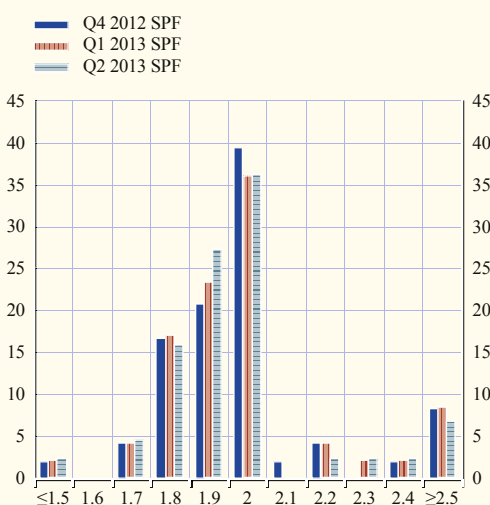
Strong downward revision of real GDP growth expectations for 2013

Compared with the previous survey round, average real GDP growth expectations for 2013 and 2014 have been revised downward by 0.4 percentage point and 0.1 percentage point, to

² 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 (2017) inflation point forecasts

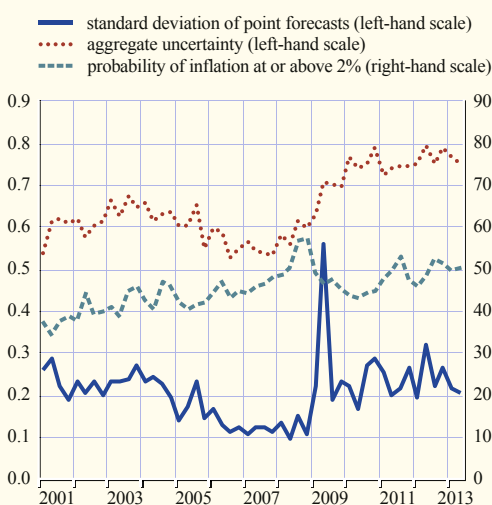
(percentage of respondents)



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).

stand at -0.4% and 1.0% respectively. Expectations for 2015 remain unchanged at 1.6% (see the table). Expectations for 2013 and 2014 lie within the ranges reported in the March 2013 ECB staff macroeconomic projections and are broadly in line with the latest corresponding forecasts of Consensus Economics and the Euro Zone Barometer. Respondents state the weaker than expected economic activity during the last quarter of 2012 and the first quarter of 2013 as the main factor behind the downward revisions for 2013. As a result of low economic sentiment and recent data on external demand, the reacceleration in world trade is expected to gain momentum later than assumed in the previous baseline. The downward revisions for 2014 are, on average, small and attributed mainly to carry-over effects from the lower forecast for 2013.

The aggregate probability distribution for real GDP growth in 2013 has shifted towards lower outcomes, with respondents now assigning the highest probability, 39%, to the interval between -0.5% and -0.1%, compared with 31% in the previous survey round (see Chart D). For 2014, the highest probability, 27%, is allocated to the interval between 1.0% and 1.4%, as in the previous survey round. Respondents consider the balance of risks to GDP growth to be tilted to the downside, owing mainly to lower foreign demand and a lower level of market confidence than assumed in the baseline. The main upside risks relate to a rise in world trade, a higher level of economic sentiment than anticipated, and the positive effects of structural reforms unfolding earlier than assumed in the baseline.

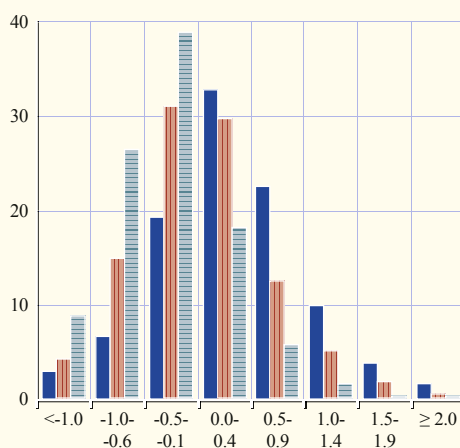
Longer-term real GDP growth expectations (for 2017) remain stable at 1.8%. The aggregate probability distribution around this average point forecast has slightly thinner tails than in the previous survey round.

Chart D Aggregate probability distribution of GDP growth expectations for 2013 and 2014 in the latest SPF rounds

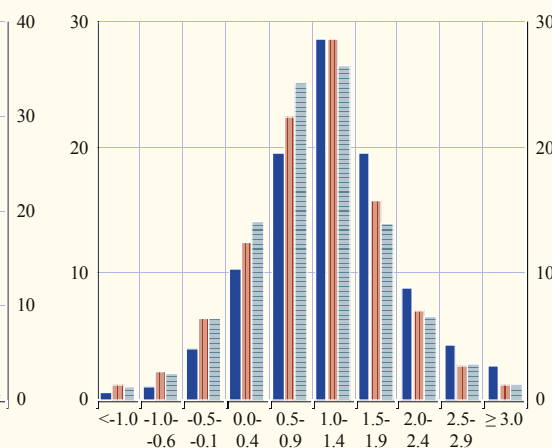
(probability in percentages)

■ Q4 2012 SPF
 ■ Q1 2013 SPF
 ■ Q2 2013 SPF

a) 2013



b) 2014



Source: ECB.

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

Rise in euro area unemployment rate expectations

The average point forecasts for the unemployment rate currently stand at 12.3% for 2013, 12.2% for 2014 and 11.6% for 2015. These figures more or less reflect the pattern of the expected moderate recovery in economic activity and imply upward revisions compared with the previous survey round, which increase with the forecast horizon (see the table). In their qualitative comments, respondents attributed the upward revisions mainly to weaker economic activity than previously expected, the slow implementation of structural labour market reforms in the crisis countries and bigger flows from inactivity into the workforce, reflecting unfavourable developments in household disposable income. On balance, the SPF forecasts for the period 2013-15 are slightly higher than the latest corresponding forecasts of Consensus Economics and the Euro Zone Barometer.

The main upside risks to unemployment expectations are considered to be a further weakening of economic activity and a continued low level of confidence affecting hiring decisions. Some respondents also suggest that part of the rise in unemployment may be of a structural nature. The downside risks relate primarily to the medium-term and longer-term horizons and are associated mainly with the increasing positive impact of structural reforms in the crisis countries that have already been or have yet to be implemented.

Longer-term unemployment rate expectations (for 2017) rose slightly by 0.1 percentage point, to 9.6%, after a larger increase of 0.5 percentage point in the previous survey round. The relative aggregate probability distribution has shifted further towards higher outcomes.

Other variables and conditioning assumptions

According to other information provided by respondents, the assumptions for the ECB's main refinancing rate and the USD/EUR exchange rate remain broadly unchanged, while those for oil prices and growth in compensation per employee have been revised downward. It is assumed that oil prices will increase from around USD 105 per barrel in the second quarter of 2013 to USD 110.7 per barrel in 2015. The USD/EUR exchange rate for the second quarter of 2013 is assumed to stand at 1.30 and to remain broadly stable up to 2015. Annual growth in compensation per employee is expected to stand at 1.7% in 2013, 1.8% in 2014, 2.1% in 2015 and 2.4% in 2017, with the figures for 2013 and 2014 being slightly lower than in the previous survey round. The ECB's main refinancing rate is expected to stay at around 0.7% until the first quarter of 2014, before rising again to 1.1% in 2015.