



EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB Survey of Professional Forecasters

Second quarter of 2017

April 2017



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The results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2017 show average inflation expectations of 1.6%, 1.5% and 1.7% for 2017, 2018 and 2019, respectively.¹ That represents upward revisions of 0.2 and 0.1 percentage points (p.p.) to expectations for 2017 and 2019, respectively.

Expectations for 2018 were unchanged. Average longer-term inflation expectations (which refer to 2021) continued to stand at 1.8%. Expectations for real GDP growth were 1.7%, 1.6% and 1.5% for 2017, 2018 and 2019, respectively, and 1.6% for the longer term (2021). That represents upward revisions of 0.2 p.p. and 0.1 p.p. for 2017 and 2018, respectively; growth expectations for 2019 and the longer term were unchanged. Unemployment rate expectations continued to show a downward-sloping trajectory, falling to 8.7% in 2019, and were again revised down.

Table

Results of the SPF in comparison with other forecasts and projections

(annual percentage changes, unless otherwise indicated)

	Survey horizon			
	2017	2018	2019	Longer-term ⁽¹⁾
HICP inflation				
SPF Q2 2017	1.6	1.5	1.7	1.8
Previous SPF (Q1 2017)	1.4	1.5	1.6	1.8
ECB staff macroeconomic projections (Mar. 2017)	1.7	1.6	1.7	-
Consensus Economics (Apr. 2017)	1.6	1.4	1.7	1.9
Euro Zone Barometer (Mar. 2017)	1.6	1.4	1.7	1.8
Real GDP growth				
SPF Q2 2017	1.7	1.6	1.5	1.6
Previous SPF (Q1 2017)	1.5	1.5	1.5	1.6
ECB staff macroeconomic projections (Mar. 2017)	1.8	1.7	1.6	-
Consensus Economics (Apr. 2017)	1.7	1.5	1.4	1.3
Euro Zone Barometer (Mar. 2017)	1.6	1.6	1.4	1.4
Unemployment rate⁽²⁾				
SPF Q2 2017	9.4	9.1	8.7	8.4
Previous SPF (Q1 2017)	9.5	9.2	8.9	8.5
ECB staff macroeconomic projections (Mar. 2017)	9.4	8.9	8.4	-
Consensus Economics (Apr. 2017)	9.4	9.0	-	-
Euro Zone Barometer (Mar. 2017)	9.5	9.1	8.8	8.2

1) Longer-term expectations refer to 2021 for the Q1 2017 and Q2 2017 SPF. For the Euro Zone Barometer, expectations for 2019 and the longer-term horizon are taken from the January 2017 survey.

2) As a percentage of the labour force.

¹ The survey was conducted between 3 and 7 April 2017. The total number of responses was 56, broadly comparable with the average number of responses to surveys in the second quarter of a year (58). The survey requested information on expectations for the euro area HICP inflation rate, the euro area HICP excluding food and energy inflation rate, the real GDP growth rate and the unemployment rate for 2017, 2018, 2019 and 2021, as well as for each of these variables one and two years ahead. Participants were provided with a common set of the latest available data for annual HICP inflation (March 2016 flash estimates: overall inflation: 1.5%; inflation excluding food and energy: 0.7%), annual GDP growth (Q4 2016: 1.7%) and unemployment (February 2017: 9.5%).

Near-term headline inflation expectations revised up, expectations for HICP inflation excluding food and energy broadly unchanged

The results of the SPF for the second quarter of 2017 show average headline inflation expectations of 1.6%, 1.5% and 1.7% for 2017, 2018 and 2019, respectively. That represents upward revisions of 0.2 p.p. and 0.1 p.p. to expectations for 2017 and 2019, respectively (see Table 1). Upward revisions for 2017 likely reflect the inflation data for the first quarter of 2017 turning out to be a little stronger than expected at the time of the previous survey. SPF expectations for headline inflation are comparable (within 0.1 p.p.) to those reported by other surveys.

HICP inflation excluding food and energy is also expected to pick up a little faster than in the previous SPF, albeit from a lower starting point (see Chart 1).

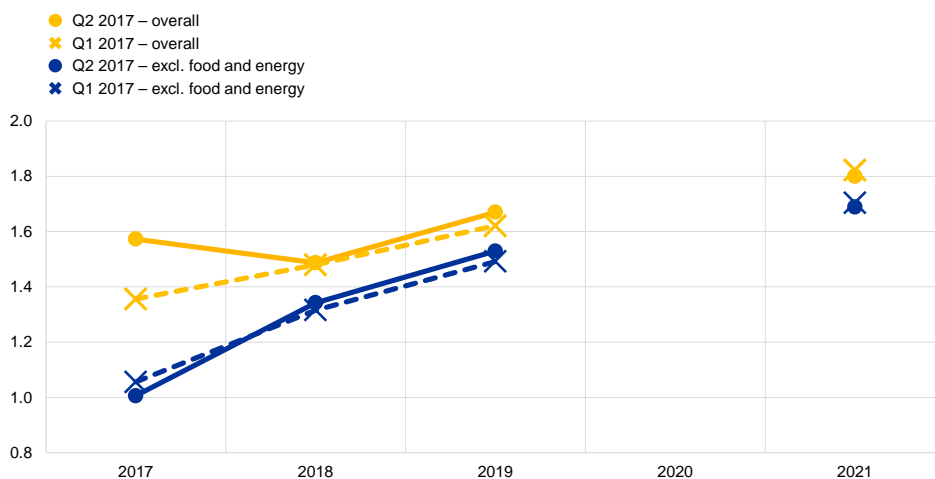
On average, SPF respondents expected HICP inflation excluding food and energy to be 1.1%, 1.3% and 1.5% in 2017, 2018 and 2019, respectively, increasing to 1.7% by 2021. Compared with the previous survey, this profile is broadly unchanged, with a small downward revision for 2017 and a small upward revision for 2019.

Respondents who revised up their 2019 underlying inflation expectation tended to cite the improved growth outlook.

Chart 1

Inflation expectations:
overall HICP and HICP excluding food and energy

(annual percentage changes)



The aggregate probability distributions have moved towards higher inflation outcomes (see Charts 2-4). This movement was particularly marked for 2017, commensurate with the notable increase in the point forecast at that horizon. The reported probability of average inflation in 2017 turning out to be less than 1% fell from 21% in the previous SPF to 11% (following a similar fall from 31% in the survey for the fourth quarter of 2016).

Chart 2

Aggregate probability distribution of inflation expectations for 2017

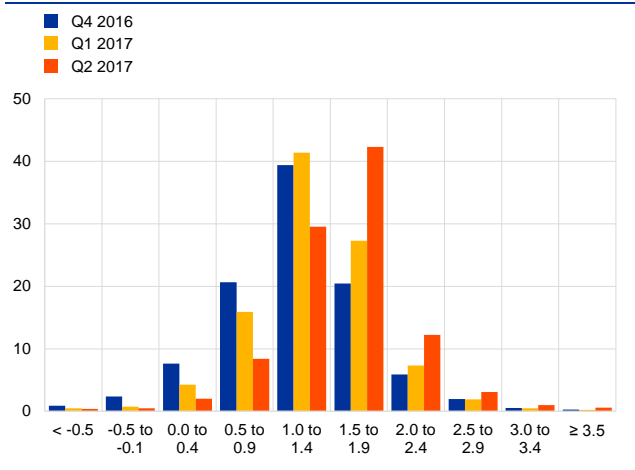


Chart 3

Aggregate probability distribution of inflation expectations for 2018

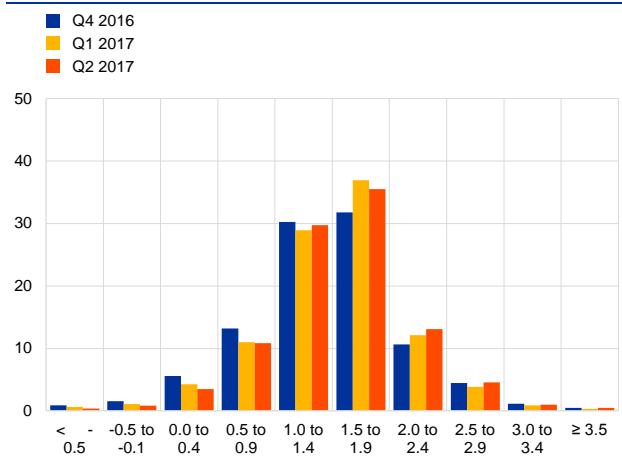
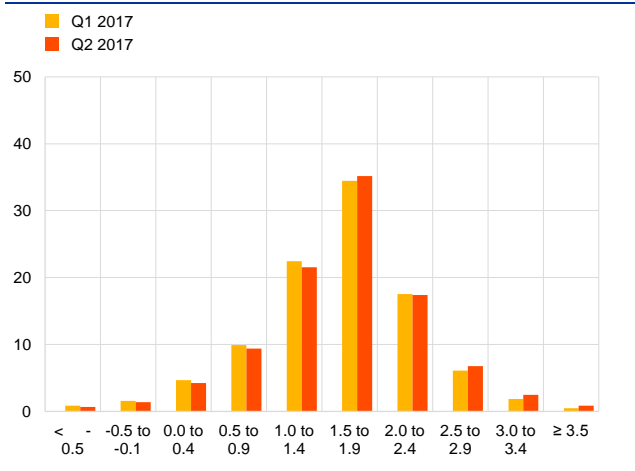


Chart 4

Aggregate probability distribution of inflation expectations for 2019



The survey asked specifically for respondents' views on the risks to wage developments as an important determinant of inflation. Respondents

noted that at the current juncture, the response of wages to labour market slack in general seemed particularly uncertain. Moreover, for the euro area as a whole, considerable heterogeneity in labour market slack across member countries was seen to increase that uncertainty further. One specific downside risk cited was that of marginally attached workers re-entering the labour market as the economic recovery progresses, thereby attenuating the erosion of slack. Generally, however, wage growth was expected to be weak: while compensation per employee growth was expected to increase to 2.0% by 2021, deflated with reported HICP inflation, the implied annual growth in real compensation per employee would on average just be 0.2% until 2021.

2

Longer-term inflation expectations unchanged at 1.8%

The average point forecast for longer-term inflation expectations (for 2021) remained unchanged at 1.8%. The median was also unchanged at 1.8% (see

Chart 5). To two decimal places, the mean expectation fell marginally from 1.82% to 1.80%. This SPF is now the sixth consecutive survey for which the average point forecast (to one decimal place) was 1.8%. For the subset of professional forecasters who responded to all of those previous six surveys, the average point forecast ticked down from 1.88% to 1.87%.

Chart 5

Longer-term inflation expectations

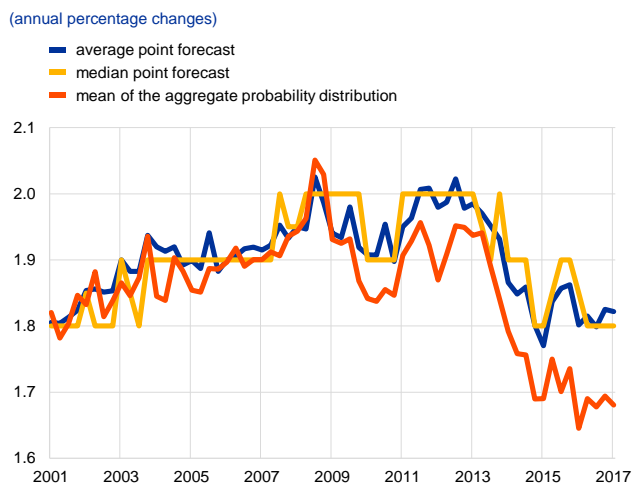
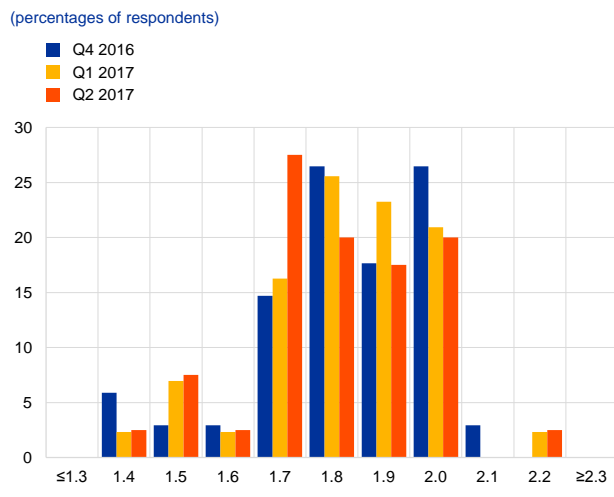


Chart 6

Cross-sectional distribution of longer-term inflation forecasts



The aggregate probability distribution is a little wider relative to the previous SPF round, as the probabilities ascribed to outcomes either side of the central range have increased (see Chart 7). This indicates that aggregate uncertainty has also increased a little. The width of the aggregate probability distribution is determined by two factors: the width of the component probability distributions that each forecaster submits (“individual uncertainty”) and how dispersed they are in terms of location (“disagreement”). In this survey, the increase in aggregate uncertainty was driven by an increase in individual uncertainty; disagreement remained unchanged (see Chart 8).

Chart 7

Aggregate probability distribution of longer-term inflation expectations

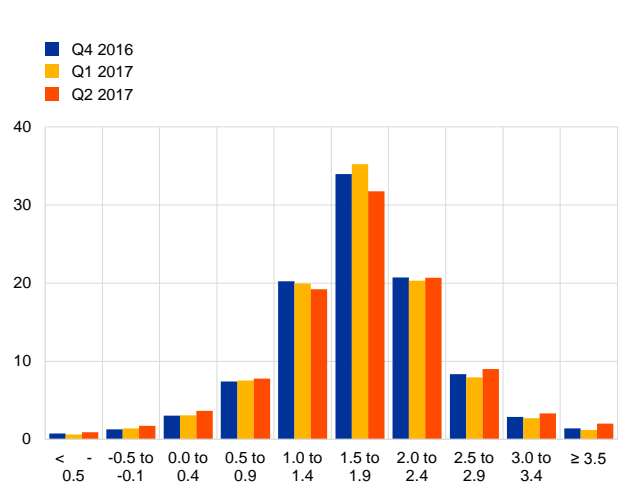
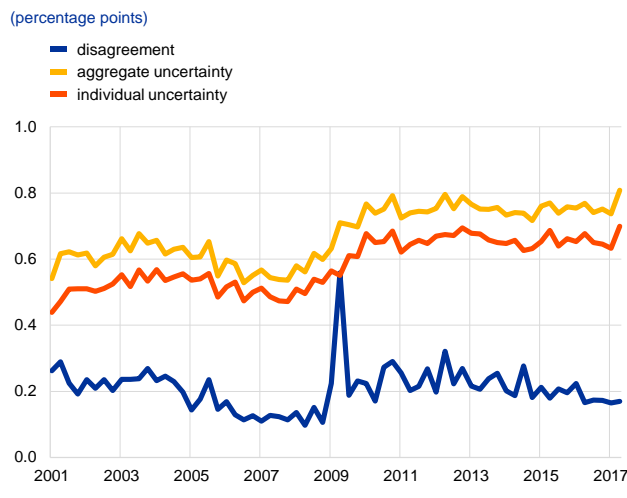


Chart 8

Disagreement and uncertainty regarding longer-term inflation expectations



The survey indicates slightly reduced downside risks to longer-term inflation.

The increase since the previous survey in aggregate probability outside of the central bin was skewed more to outcomes above 1.9%, than to outcomes below 1.5% (see Chart 7). Still, overall downside risks prevail. A quantitative measure of the balance of risks is given by the difference between the average point forecast and the mean of the aggregate probability distribution. As has been the case since 2009, this measure signals downside risks, with the distributional mean standing at 1.7% and the average of point forecasts at 1.8% (see Chart 5).

3 Real GDP growth expectations for 2017 and 2018 revised upwards, but unchanged further out

Expectations for real GDP growth stand at 1.7% for 2017, 1.6% for 2018 and 1.5% for 2019. The average point forecasts for 2017 and 2018 were revised up by 0.2 p.p. and 0.1 p.p., respectively, while the average point forecast for 2019 remained unchanged. In their qualitative comments, respondents typically attributed their near-term upward revisions to the increased momentum suggested by the latest economic sentiment indicators.

The aggregate probability distributions moved further towards higher growth outcomes at all horizons, and for the nearer-term horizon were more concentrated in the modal range. Consistent with the pattern of revisions seen for aggregate point forecasts, the revisions to probability distributions were greatest in the near term (see Charts 11-14). The probability of GDP growth for 2017 of over 1.5% increased from 55% to 66%, while the probability of such an outcome for 2019 increased from 50% to 52%.

Chart 9
Aggregate probability distribution of GDP growth expectations for 2017

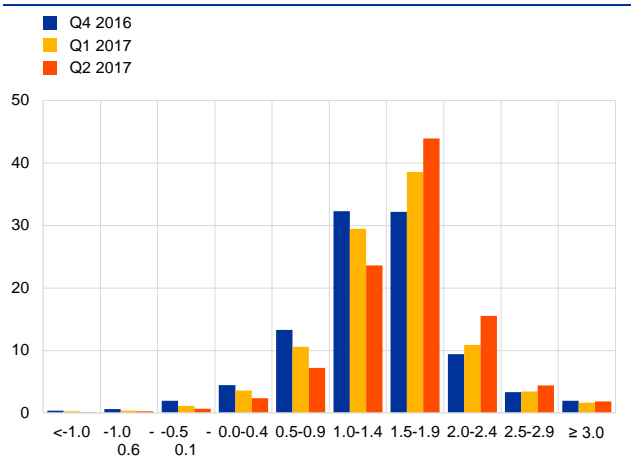


Chart 10
Aggregate probability distribution of GDP growth expectations for 2018

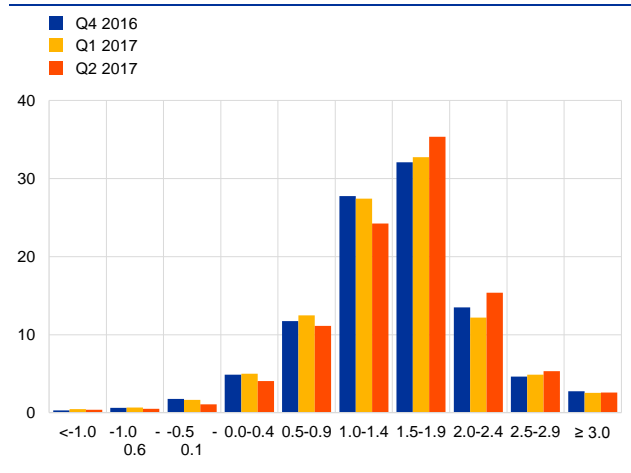


Chart 11

Aggregate probability distribution of GDP growth expectations for 2019

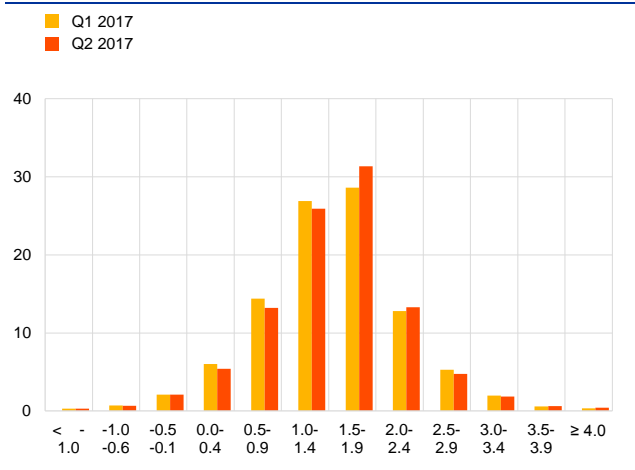
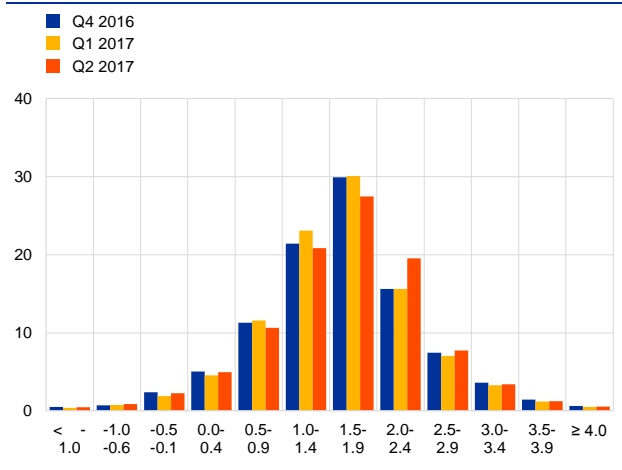


Chart 12

Aggregate probability distribution of longer-term GDP growth expectations



The balance of risks to GDP growth expectations remained tilted to the downside at all horizons.

The means of the aggregate probability distributions were approximately 0.1 p.p. below the average point forecasts at all horizons except the longer-term horizon. For 2017 and 2018, however, this quantitative measure improved marginally (at the second decimal place) compared with the previous survey, as some respondents saw the risks to their baseline outlook as more balanced. The most frequently mentioned domestic risk was the political uncertainty related to upcoming elections in EU Member States. Regarding external risks, professional forecasters mentioned: weakening world trade, stemming from a slowing in emerging markets, in particular China; uncertainty about future US policies and increasingly protective trade policies more generally; and higher commodity prices acting as a drag on world growth.

4 Unemployment rate expectations revised downwards at all horizons

The average point forecasts for the unemployment rate continue to imply a downward path: 9.4%, 9.1% and 8.7% for 2017, 2018 and 2019, respectively.

This represents downward revisions over the whole forecast horizon, compared with the previous SPF. The magnitude of those revisions increased with the forecast horizon (-0.1 p.p. for 2017 and 2018, -0.2 p.p. for 2019), implying that the downward path has become slightly steeper. SPF unemployment expectations were broadly in line with those reported in other surveys (see Table 1).

The average point forecast for the longer-term unemployment rate (in 2021) was revised slightly down to 8.4% from 8.5% in the previous survey.

This is the lowest longer-term unemployment rate expectation recorded since 2012, but it is still above the average of the period before the financial crisis of 2008 of around 7%.

The magnitude of perceived upside risks moderated at shorter horizons. The aggregate probability distributions moved towards lower unemployment rate outcomes at all horizons. This move was sufficient for the distribution modes to shift one bin to the left for three of the four horizons surveyed: 2017, 2019 and the longer term (see Charts 13-16). In the previous SPF, the means of the aggregate probability distributions had been higher than the averages of point forecasts, indicating upside risks to the unemployment rate. In this survey, however, distribution means decreased by more than the average point forecasts, thereby closing that gap, and signalling a moderation in the upside risk. The balance of risks for longer-term unemployment expectations, however, remained to the upside, with the distribution mean standing at 8.6% versus an average point forecast of 8.4%. The upside risk to unemployment is consistent with the perceived downside risks to GDP growth.

Chart 13
Aggregate probability distribution of the unemployment rate for 2017

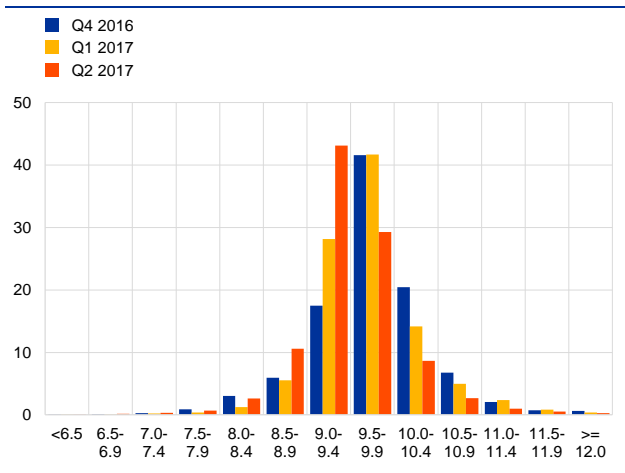


Chart 14
Aggregate probability distribution of the unemployment rate for 2018

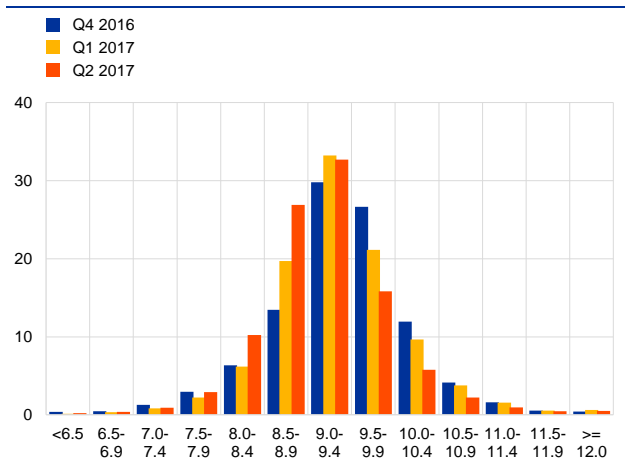


Chart 15
Aggregate probability distribution of the unemployment rate for 2019

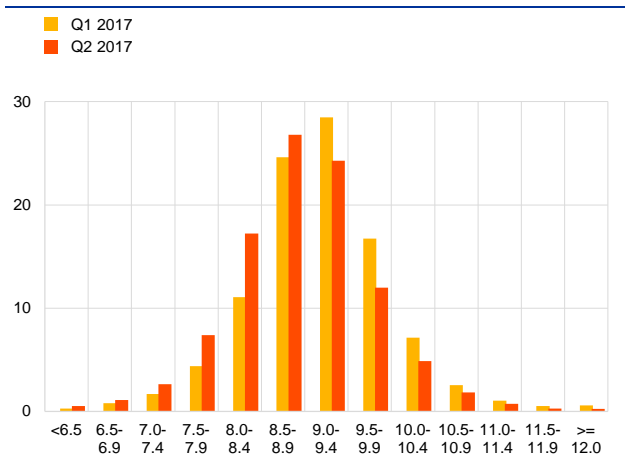
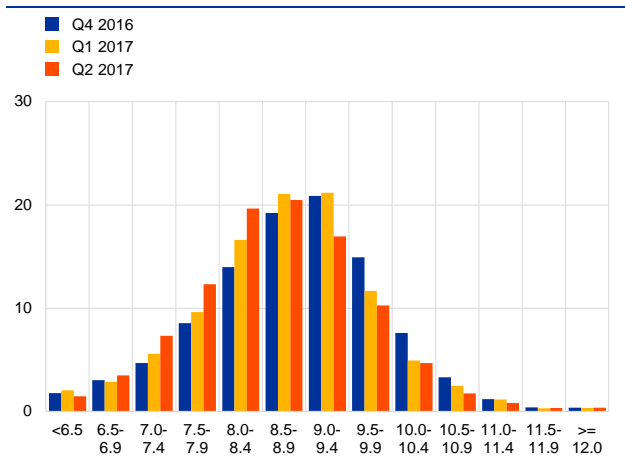


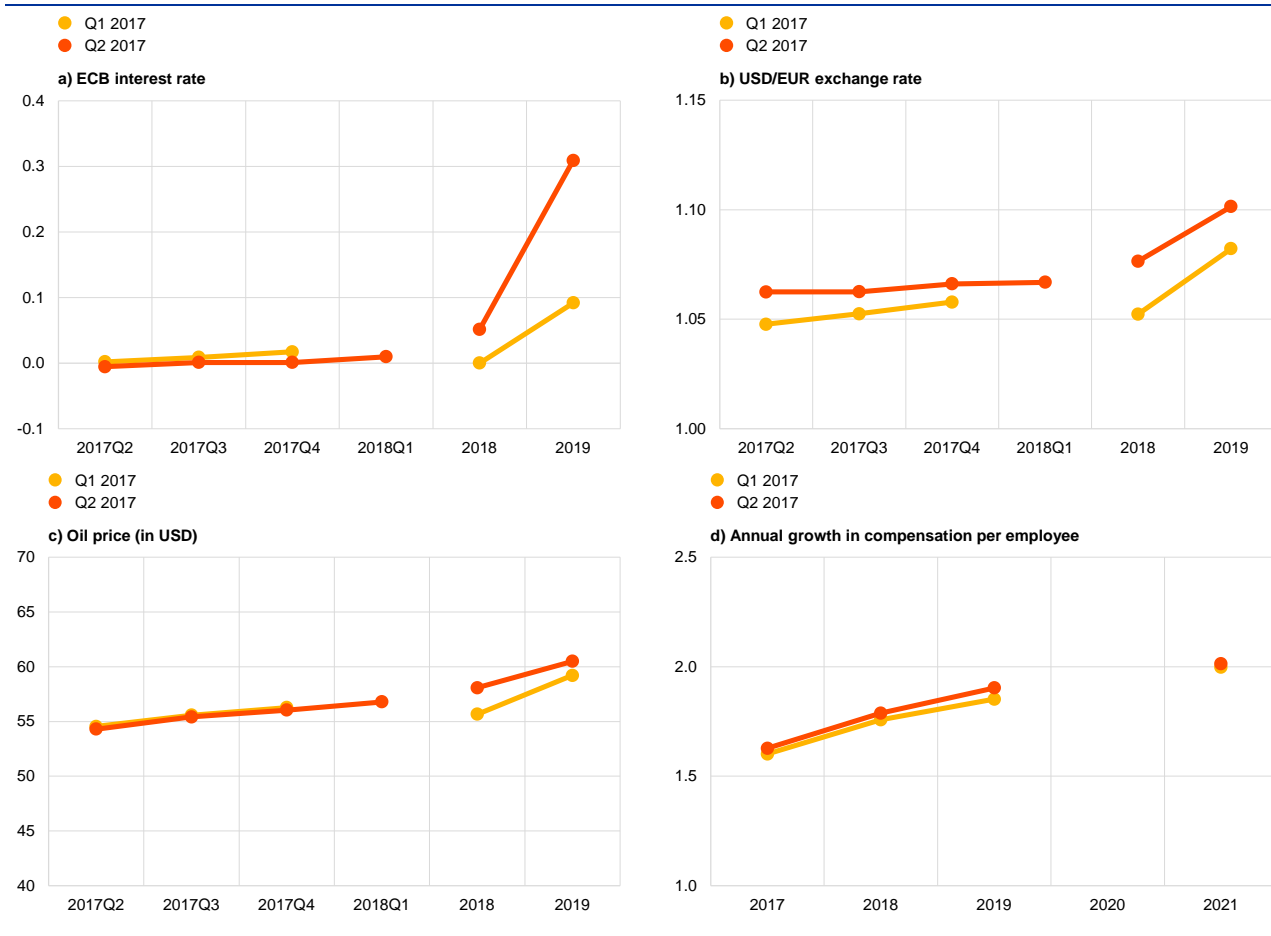
Chart 16
Aggregate probability distribution of the unemployment rate in the longer term



5 Other variables and conditioning assumptions

Other expectations provided by respondents were for USD oil prices to increase by about 10% by 2019; the USD/EUR exchange rate to remain unchanged in the near term but then strengthen; monetary policy to stay accommodative; and labour cost growth to increase only slowly.

Chart 17
Underlying assumptions



The mean assumption for the rate on the *Eurosystem's main refinancing operations* was to remain around 0% until the end of 2018, increasing to 0.3% in 2019 (see Chart 17a).

The mean assumption for the expected path of the *USD/EUR exchange rate* was for it to remain stable at around 1.06 (a little stronger than in the previous survey) until the first quarter of 2018, before strengthening to 1.10 by 2019 (see Chart 17b).

Oil prices in US dollars were expected to average USD 55 for 2017, USD 58 for 2018 and USD 60 for 2019, which is USD 1-2 higher than in the previous survey (see Chart 17c). In dollar terms, this profile represents an increase of about 10% by 2019, but if this expectation is combined with that of a slightly stronger EUR/USD

exchange rate, the survey results would imply little change in the expectations for oil prices in euro terms.

On average, the profile for annual growth in *whole economy compensation per employee* is 1.6% for 2017, 1.8% for 2018, 1.9% for 2019 and 2.0% for 2021, unchanged at all horizons compared with the previous survey (see Chart 17d).

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