EUROPEAN CENTRAL BANK

EUROSYSTEM

The ECB Survey of Professional Forecasters

Third quarter of 2017

July 2017

Contents

The results of the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2017 showed average inflation expectations of 1.5%, 1.4% and 1.6% for 2017, 2018 and 2019, respectively.[1] *That represents a downward revision of 0.1 percentage points (p.p.) to expectations for all three years. Average longer-term inflation expectations (which refer to 2022) continued to stand at 1.8%. Expectations for real GDP growth were 1.9%, 1.8%, 1.6% for 2017, 2018 and 2019, respectively, and 1.6% for the longer term (2022). That represents upward revisions of 0.2 p.p. for 2017 and 2018, and 0.1 p.p. for 2019. Unemployment rate expectations continued to show a downward-sloping trajectory and were again revised down.*

Table 1

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 Q3 2017	1.5	1.4	1.6	1.8
Previous SPF (Q2 2017)	1.6	1.5	1.7	1.8
Eurosystem staff macroeconomic projections (June 2017)	1.5	1.3	1.6	-
Consensus Economics (June 2017)	1.6	1.4	1.7	1.9
Euro Zone Barometer (June 2017)	1.6	1.4	1.7	1.8
Real GDP growth				
SPF Q3 2017	1.9	1.8	1.6	1.6
Previous SPF (Q2 2017)	1.7	1.6	1.5	1.6
Eurosystem staff macroeconomic projections (June 2017)	1.9	1.8	1.7	-
Consensus Economics (June 2017)	1.8	1.6	1.4	1.3
Euro Zone Barometer (June 2017)	1.9	1.7	1.5	1.4
Unemployment rate[2)]				
SPF Q3 2017	9.2	8.8	8.4	8.1
Previous SPF (Q2 2017)	9.4	9.1	8.7	8.4
Eurosystem staff macroeconomic projections (June 2017)	9.4	8.8	8.3	-
Consensus Economics (June 2017)	9.3	8.9	-	-
Euro Zone Barometer (June 2017)	9.3	8.8	8.4	7.9

1) Longer-term expectations refer to 2022 for the Q3 2017 SPF and Consensus Economics and to 2021 for the Q2 2017 SPF and the Euro Zone Barometer. 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 July 2017. The total number of responses was 56, which is in line with the average number of responses to surveys in the third quarter of a year (54). The survey requested information on expectations for the euro area HICP inflation rate, the real GDP growth rate and the unemployment rate for 2017, 2018 , 2019 and 2022, 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 (June 2016 flash estimates: overall inflation: 1.3%; inflation excluding food and energy: 1.1%), annual GDP growth (Q1 2017: 1.9%) and unemployment (May 2017: 9.3%).

1 HICP inflation expectations down slightly overall, but expectations for HICP inflation excluding food and energy higher in 2017

The results of the SPF for the third quarter of 2017 show average inflation expectations of 1.5%, 1.4% and 1.6% for 2017, 2018 and 2019, respectively. That represents downward revisions of 0.1 p.p. to all three horizons (see Table 1). To two decimal places, however, these revisions were actually much smaller (typically less than 0.05 p.p.) across rounding thresholds. SPF expectations for HICP inflation are comparable (within 0.1 p.p.) to those reported in other surveys.

Expectations for inflation excluding food and energy were revised up slightly for 2017, but unchanged further out (see Chart 1). Mean expectations were for 1.1%, 1.3% and 1.5% in 2017, 2018 and 2019, respectively, increasing to 1.7% in 2022. Compared with the previous survey, this profile represents a small upward revision for 2017. Respondents who revised up their 2017 expectations tended to cite the improved growth outlook. Expectations for inflation excluding food and energy in 2018 and 2019 remained unchanged relative to the surveys from both the first and second quarters of this year.

Chart 1

Inflation expectations: overall HICP and HICP excluding food and energy

(annual percentage changes)

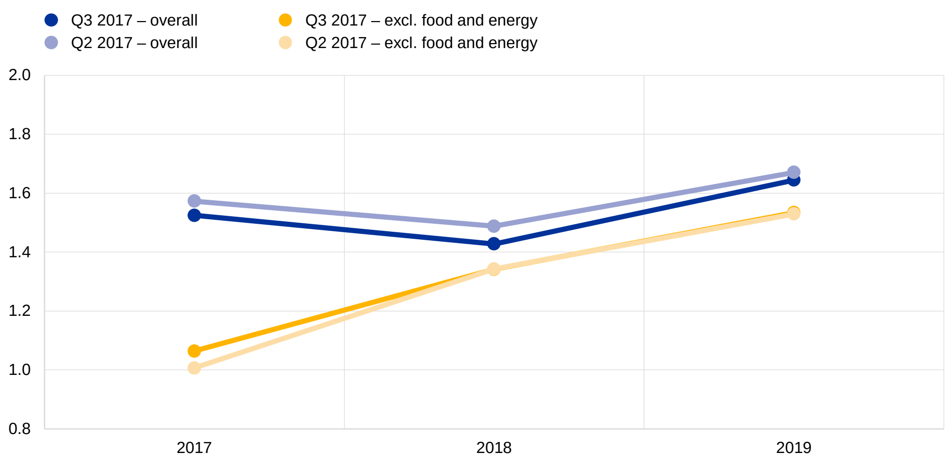


Chart 2

Aggregate probability distribution of inflation expectations for 2017

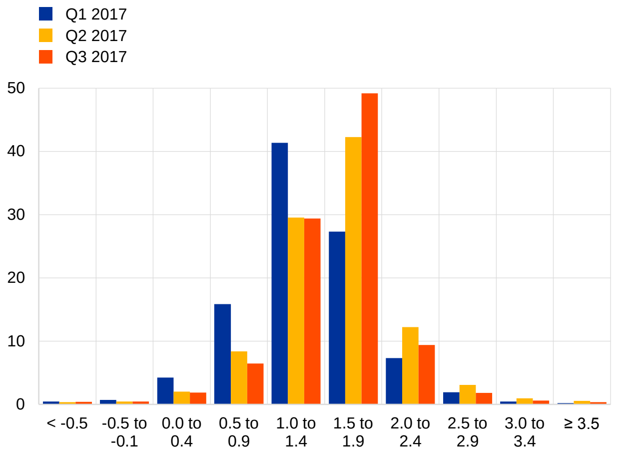


Chart 3

Aggregate probability distribution of inflation expectations for 2018

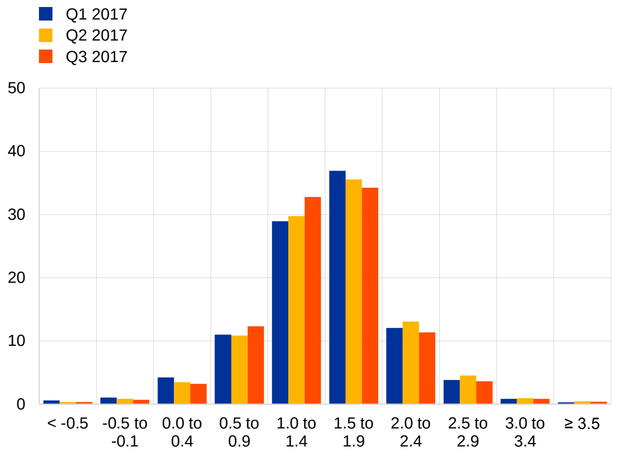
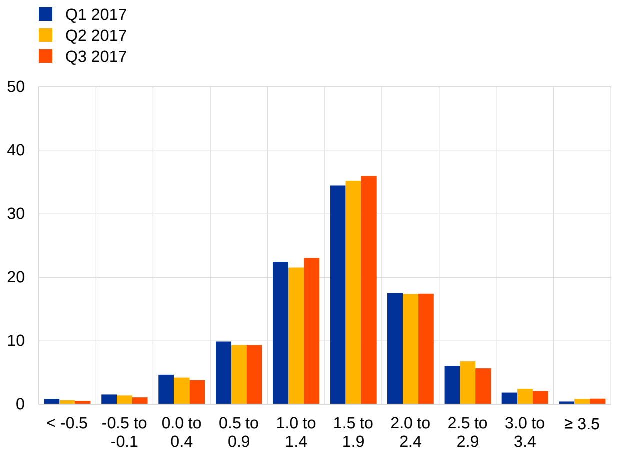


Chart 4

Aggregate probability distribution of inflation expectations for 2019



There has been a variety of different movements in the aggregate probability distributions. The probabilities assigned to inflation in 2017 moved towards the centre of the distribution, as uncertainty for the year as a whole naturally declined as more data for the year had been released (Chart 2). For inflation in 2018, reported probabilities increased in the two bins spanning the range from 0.5% to 1.4%, consistent with the decrease in the point forecast (Chart 3), whereas there was a modest increase in the reported probabilities for inflation in 2019 in the two bins spanning the range from 1.0% to 1.9% (Chart 4).

2 Longer-term inflation expectations unchanged at 1.8%

The mean point forecast for longer-term inflation expectations remained unchanged at 1.8%. To two decimal places, the mean point forecast increased marginally, from 1.80% to 1.83%. The median point forecast increased from 1.80% to 1.85%, while the modal (most frequently reported) point forecast increased from 1.7% to 1.9% (see Chart 5). In the context of the range of all point forecasts, which runs from 1.5% to 2.2%, it is hard to interpret the 0.03 p.p. increase in the mean as being statistically significant (see Chart 6). Sampling variation also plays a role. For instance, the proportion of respondents reporting a longer-term expectation in both the second and third quarter surveys is only about 78% (32 respondents). For this balanced panel, the mean point forecast increased marginally, from 1.83% to 1.84%. This was the seventh consecutive survey for which the mean point forecast (to one decimal place) was 1.8%. For the subsample of the 24 professional forecasters who reported a longer-term expectation in all of the last seven surveys, the mean point forecast ticked up from 1.86% to 1.88%. As is customary in a third quarter survey, the longer-term reference year rolled forward, from 2021 to 2022.

Chart 5

Longer-term inflation expectations

(annual percentage changes)

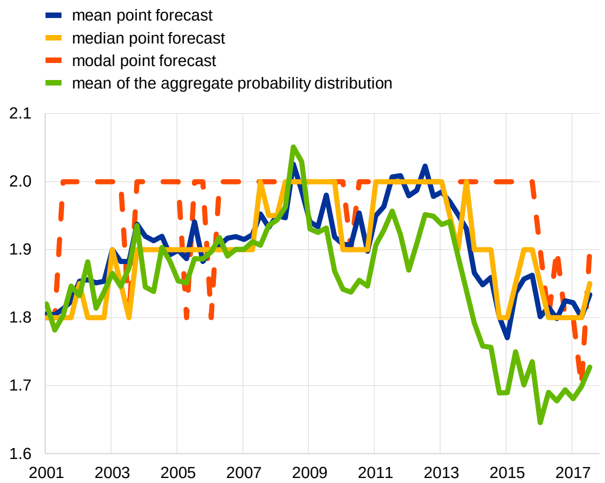


Chart 6

Cross-sectional distribution of longer-term inflation point forecasts

(percentages of respondents)

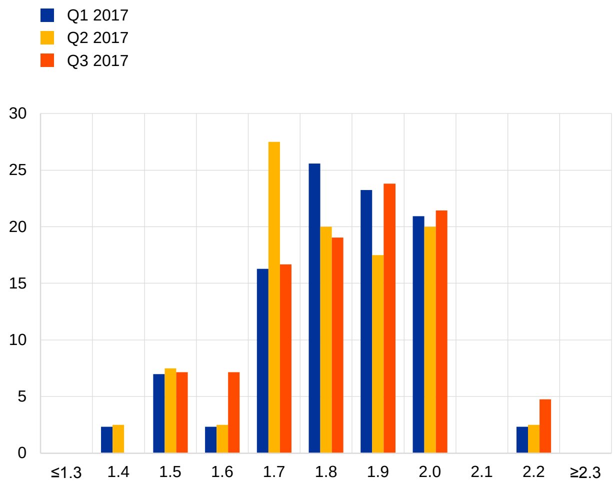
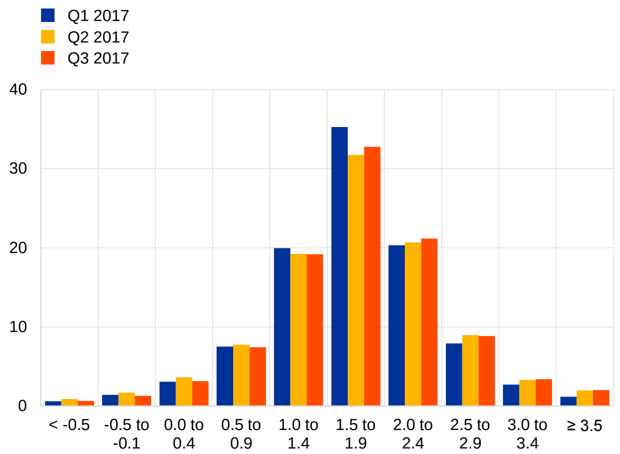


Chart 7

Aggregate probability distribution of longer-term inflation expectations



Aggregate probabilities have increased for outcomes in the range from 1.5% to 2.4% (see Chart 7). At the same time, the probabilities assigned to very low outcomes (less than 1%) fell. As a consequence, the mean of the aggregate probability distribution increased slightly, from 1.70% to 1.72%. As has been the case since 2009, aggregate uncertainty, measured by the width of the aggregate probability distribution, remained elevated relative to the levels observed during great moderation period.

The balance of risks to longer-term expectations remains to the downside. One way of measuring the balance of risks from the data reported in the survey is to compare the mean of the aggregate probability distribution with the mean of the point forecasts. At 1.7%, the probability distribution mean remains below the mean point forecast (1.8%), indicating that the balance of risks remains a little to the downside.

3 Real GDP growth expectations revised up for 2017, 2018 and 2019

Expectations for real GDP growth stood at 1.9% for 2017, 1.8% for 2018 and 1.6% for 2019. The mean point forecasts for 2017 and 2018 were both revised up by 0.2 p.p., while the mean point forecast for 2019 was revised up by 0.1 p.p. In their qualitative comments, respondents attributed their upward revisions to the better-than-expected hard and soft data published recently. These pointed to self-sustaining growth in the euro area, driven by healthy consumer spending, in turn supported by continued employment growth, as well as a recovery in business investment. Additionally, a number of respondents cited a waning of political uncertainty as a reason behind their upward revisions. Some respondents noted that they judged the outlook for foreign demand in the euro area to be stronger than it was at the time of the previous survey. Longer-term growth expectations, which now refer to 2022, continued to stand at 1.6%.

The aggregate probability distributions moved further towards higher outcomes in the nearer term and remained broadly unchanged for the longer term. Consistent with the pattern of revisions seen for the point forecasts, the revisions to probability distributions were greatest in the near term (see Charts 8-11). The probability of GDP growth of over 1.5% in 2017 increased from 66% to 84%, while the probability of such an outcome in 2018 increased from 59% to 71%, and similarly from 52% to 60% in 2019.

Chart 8

Aggregate probability distribution of GDP growth expectations for 2017

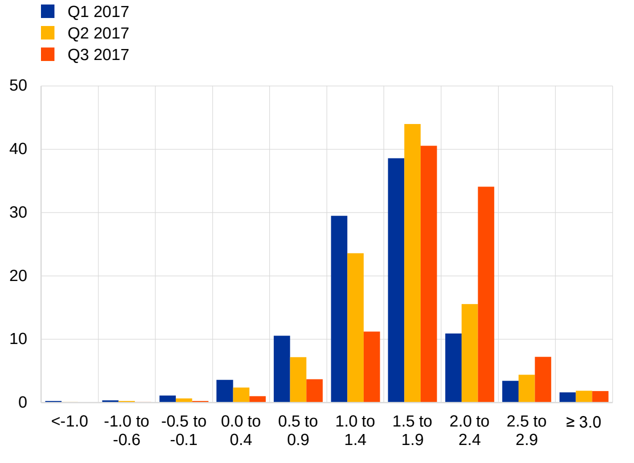


Chart 9

Aggregate probability distribution of GDP growth expectations for 2018

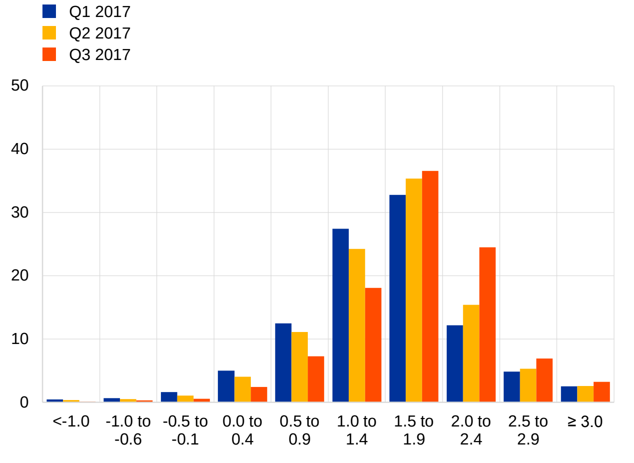


Chart 10

Aggregate probability distribution of GDP growth expectations for 2019

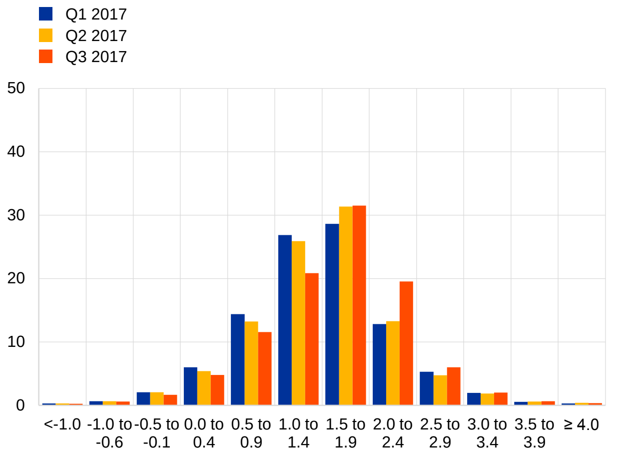
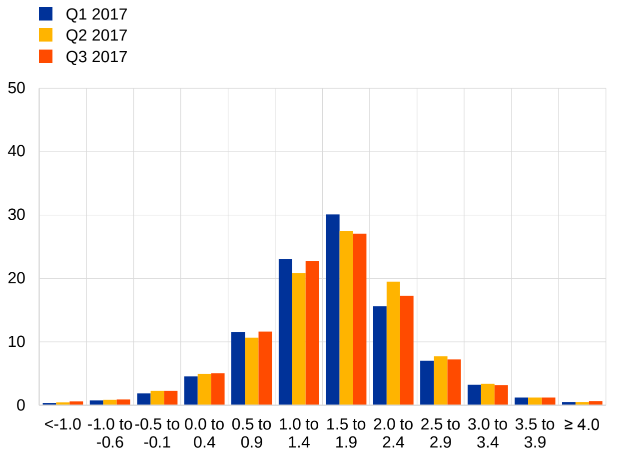


Chart 11

Aggregate probability distribution of longer-term GDP growth expectations



Both quantitative and qualitative survey data pointed to balanced risks to GDP growth expectations. The means of the aggregate probability distributions were close to the mean point forecasts at all horizons. This survey asked specifically how perceptions of the balance of risks had changed since the previous survey. Those respondents who replied directly in terms of the *change* in their balance of risks judged it to have remained stable or improved, as political uncertainty in the euro area had declined. However, more respondents commented on the *level* of their balance of risks. They considered risks to be either balanced or slightly on the upside for the first three calendar year horizons. The most commonly cited upside risk was the possibility that the strong sentiment indicators, which most respondents did not fully incorporate in their baseline, would turn out to be a reliable signal for growth. Downside risks related mostly to external factors such as geopolitical risks, a stronger-than-expected economic slowdown in China, possibly exacerbated by financial stresses due to high private sector debt, and the uncertainty about future US policies. In the longer term, some respondents saw continued low productivity growth as a source of risk, as their baselines assumed that it would recover.

4 Unemployment rate expectations marginally lower at all horizons

The mean point forecasts for the unemployment rate continued to take a downward trajectory: 9.2%, 8.8%, 8.4% and 8.1% for 2017, 2018, 2019 and 2022 respectively. Since the previous survey, expectations had been revised down by 0.2 p.p. for 2017 and by 0.3 p.p. for 2018, 2019 and the longer term (which in this survey now refers to 2022). The slope of this downward trajectory thus became a little steeper. The longer-term unemployment rate expectation was the lowest recorded since 2012, although it was still above average pre-crisis expectations (of around 7%). Unemployment rate expectations in the SPF were comparable (within 0.1 p.p.) to those in other surveys (see Table 1).

The perceived risks to unemployment rate expectations were balanced at shorter horizons but slightly to the upside in the longer term. The aggregate probability distributions shifted towards lower unemployment rate outcomes at all horizons (see Charts 12-15). The means of the probability distributions for 2017, 2018 and 2019 were similar to the means of the point forecasts. For the longer term, however, the distributional mean (8.3%) was higher than the mean point forecast (8.1%) indicating that the balance of risks was to the upside. The upside risks to which forecasters referred in their qualitative comments mirrored the downside risks to real economic growth. Some forecasters also commented that the productivity recovery in their baseline forecasts could pose an upside risk to unemployment, to the extent that this implied a reduction in the aggregate demand for labour.

Chart 12

Aggregate probability distribution of the unemployment rate for 2017

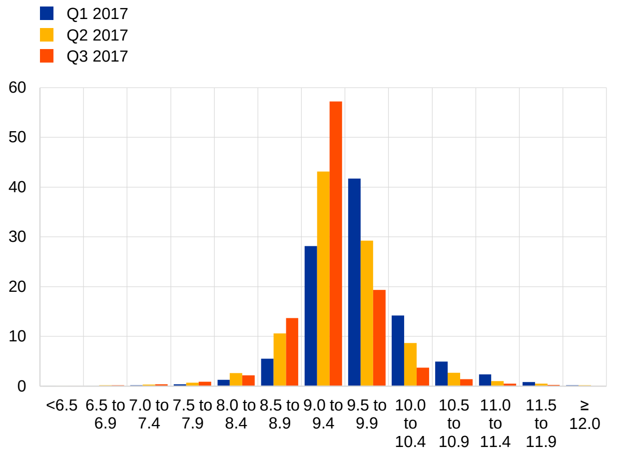


Chart 13

Aggregate probability distribution of the unemployment rate for 2018

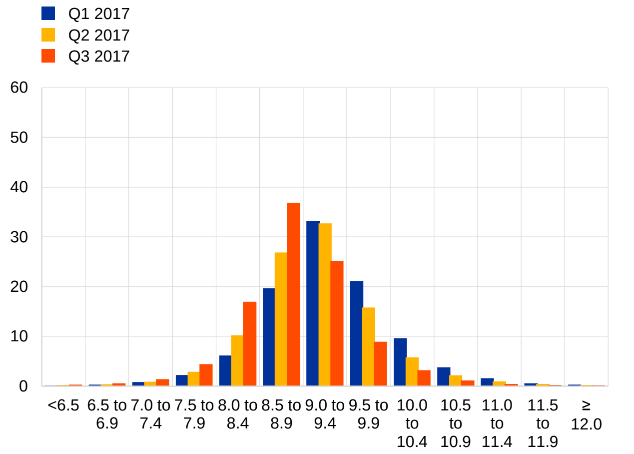


Chart 14

Aggregate probability distribution of the unemployment rate for 2019

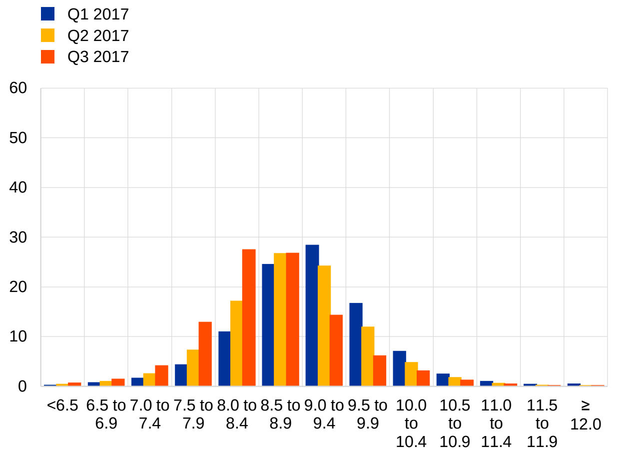
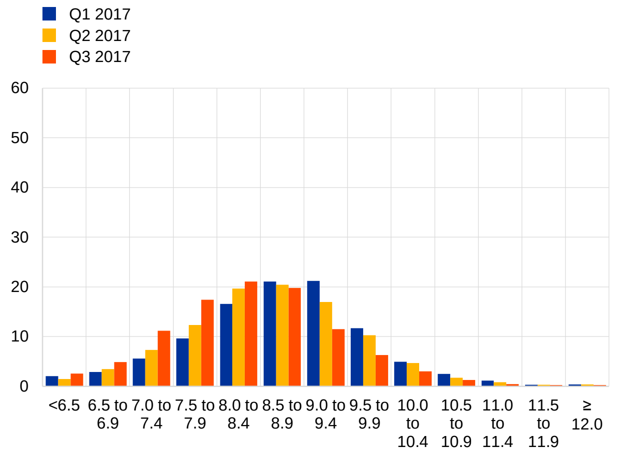


Chart 15

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 about 10% by 2019; the USD/EUR exchange rate to remain unchanged in the near term but then strengthen; the ECB's refinancing rate to stay at zero until 2019; and labour cost growth to increase only slowly.

The mean assumption for the rate on the *Eurosystem's main refinancing operations* was to remain around 0% throughout 2017 and 2018, increasing a little to 0.3% in 2019 (see Chart 16a).

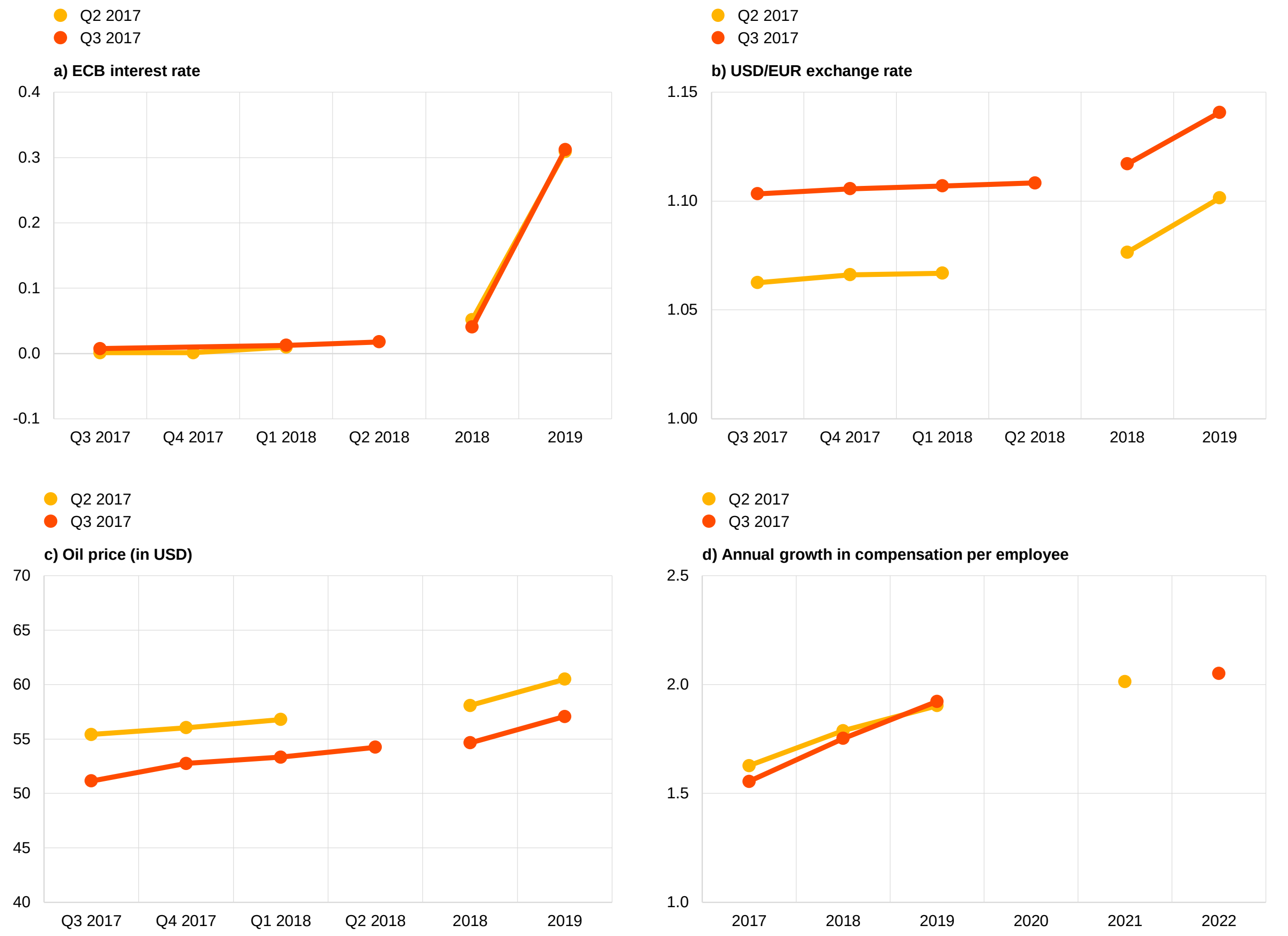
The *USD/EUR exchange rate* was about 5% higher than at the time of the April survey, but in terms of the forward dynamics, the pattern is similar: remaining broadly flat over the next four quarters before strengthening a little further (see Chart 16b).

Oil prices in dollars were expected to average USD 52 for the remainder of 2017, USD 55 for 2018 and USD 57 for 2019, which is USD 3-4 lower than in the previous survey (see Chart 16c). However, if this expectation is combined with that of a slightly stronger EUR/USD exchange rate, the survey results imply a profile *for oil prices in euro terms* that is about 9% lower than in the previous survey. That implied euro price profile increases from EUR 46 per barrel in Q3 2017 to EUR 50 per barrel in 2019.

On average, the profile of the annual growth in *compensation per employee* is 1.6% for 2017, 1.8% for 2018, 1.9% in 2019 and 2.0% for 2022, unchanged at all horizons compared with the previous survey (see Chart 16d).

Chart 16

Underlying assumptions



Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website www.ecb.europa.eu

ISSN 2363-3670 (pdf)
EU catalogue No QB-BR-17-003-EN-N (pdf)