EUROPEAN CENTRAL BANK
EUROSYSTEM

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The ECB Survey of Professional Forecasters

Third quarter of 2024

July 2024

Contents

Summary

In the ECB's Survey of Professional Forecasters (SPF) for the third quarter of 2024, expectations for headline HICP inflation were largely unchanged from the previous survey (conducted in the second quarter of 2024).[1] Headline inflation was expected to decline from 2.4% in 2024 to 2.0% in 2025 and further to 1.9% in 2026 (unchanged apart from a 0.1 percentage points downward revision for 2026). Longer-term HICP inflation expectations (for 2029 in this round, 2028 in the previous round) were unchanged at 2.0%. Expected real GDP growth for 2024 remained modest at 0.7%, reflecting mainly a weak carry-over from 2023, but was revised upwards due to a stronger than expected outturn in the first quarter of 2024. Expectations for 2025, 2026 and the longer term were 1.3%, 1.4% and 1.3% respectively (unchanged apart from a 0.1 percentage points downward revision for 2025). Respondents expected the unemployment rate to increase to 6.5% on average in 2024 but to decline gradually thereafter to 6.4% in 2026 and then remain at 6.4% in the longer term. This implies on average some slight downward revision to the profile of unemployment rate expectations.

1 The survey was conducted between 2 and 5 July 2024 and 56 responses were received. This response rate is slightly below the historical average for survey rounds conducted in the third quarter of the year. All participants were provided with the same set of the latest available data for annual HICP inflation (June 2024: overall inflation, 2.5%; underlying inflation, 2.9%), annual GDP growth (first quarter of 2024: 0.4%) and unemployment (May 2024: 6.4%). This report was drafted on the basis of data available on 11 July 2024.

Table 1

Results of the SPF in comparison with other expectations and projections

(annual percentage changes, unless otherwise indicated)

	Survey horizon			
	2024	**2025**	**2026**	**Longer term[1)]**
HICP inflation				
Q3 2024 SPF	2.4	2.0	1.9	2.0
Previous SPF (Q2 2024)	2.4	2.0	2.0	2.0
Eurosystem staff macroeconomic projections (June 2024)	2.5	2.2	1.9	-
Consensus Economics (July 2024)	2.4	2.0	1.9	2.0
Memo: HICP inflation excluding energy, food, alcohol and tobacco				
Q3 2024 SPF	2.7	2.2	2.0	2.0
Previous SPF (Q2 2024)	2.6	2.1	2.0	2.0
Eurosystem staff macroeconomic projections (June 2024)	2.8	2.2	2.0	-
Consensus Economics (July 2024)	2.8	2.2	-	-
Real GDP growth				
Q3 2024 SPF	0.7	1.3	1.4	1.3
Previous SPF (Q2 2024)	0.5	1.4	1.4	1.3
Eurosystem staff macroeconomic projections (June 2024)	0.9	1.4	1.6	-
Consensus Economics (July 2024)	0.7	1.4	1.4	1.2
Unemployment rate[3)]				
Q3 2024 SPF	6.5	6.5	6.4	6.4
Previous SPF (Q2 2024)	6.6	6.6	6.5	6.4
Eurosystem staff macroeconomic projections (June 2024)	6.5	6.5	6.3	-
Consensus Economics (July 2024)	6.5	6.5	-	-

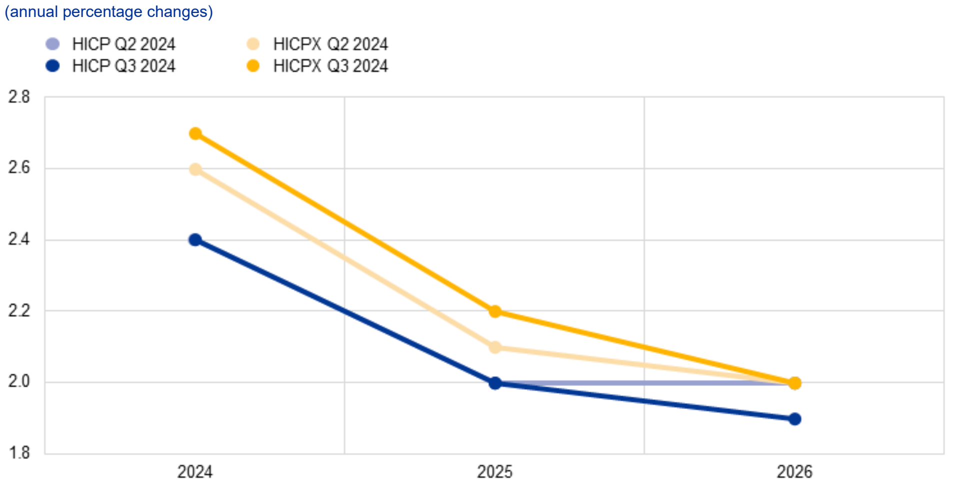
1) Longer-term expectations refer to 2029 except for the Q2 2024 SPF where they refer to 2028.
2) As a percentage of the labour force.

1 HICP inflation expectations broadly unchanged

SPF respondents' headline inflation expectations over the short and medium term were broadly unchanged, albeit slightly lower for 2026. Inflation expectations for 2024 and 2025 remained unchanged at 2.4% and 2.0% respectively, while they edged down (by 0.1 percentage points) to 1.9% for 2026 (see **Chart 1**). The main factors explaining this profile were similar to the previous round. Unit labour cost growth was expected to moderate due to slower wage growth and higher labour productivity growth, given the anticipated upswing in economic activity.[2] Profit margins were expected to be restrained owing to the negative output gap and to absorb some of the labour cost pressures. Compared with the June 2024 Eurosystem staff macroeconomic projections, inflation expectations in this SPF round were 0.1 percentage points lower for 2024, 0.2 percentage points lower for 2025, but unchanged for 2026 (see **Table 1**).

Chart 1

Inflation expectations: overall HICP inflation and HICP inflation excluding energy and food



SPF expectations for inflation excluding energy and food (HICPX) were revised upwards slightly for 2024 and 2025. For 2024 and 2025 HICPX expectations were revised upwards by 0.1 percentage points to 2.7% and 2.2% respectively, while for 2026 they were unchanged at 2.0%. Respondents indicated that the upward revision reflects data outturns and more persistent than previously expected services inflation and labour cost growth. Nonetheless, the downward profile is due primarily to the expectation that wage growth and services inflation will gradually moderate. SPF

[2] For a more detailed discussion, see the box entitled "Understanding labour cost assumptions better" in this report.

forecasts for HICPX are broadly the same as those in the June 2024 Eurosystem staff macroeconomic projections (see **Table 1**).

Uncertainty surrounding the shorter and medium-term inflation outlook stabilised around still elevated levels, while the balance of risks shifted back to broadly balanced.[3,4] Quantitative indicators of uncertainty surrounding the shorter and medium-term inflation outlook were largely unchanged. Levels are lower than those seen around the turn of 2022-2023 but remain considerably above those seen prior to that. The elevated level of "aggregate uncertainty" is due primarily to high "individual uncertainty", as "disagreement" across forecasters has fallen from the peaks observed in 2022 and 2023. Aggregate probability distributions for the calendar years from 2024 to 2026 are presented in **Chart 2**. The balance of risk indicator for the two-year-ahead horizon, which was previously positive, shifted back to being broadly neutral. According to the qualitative remarks, the main uncertainties and risks relate to labour market and wage developments (these were mainly considered to be tilted to the upside) as well as to geopolitical concerns (with both upside risks – commodity prices – and downside risks – economic sentiment). Some respondents saw weak economic growth as a downside risk.

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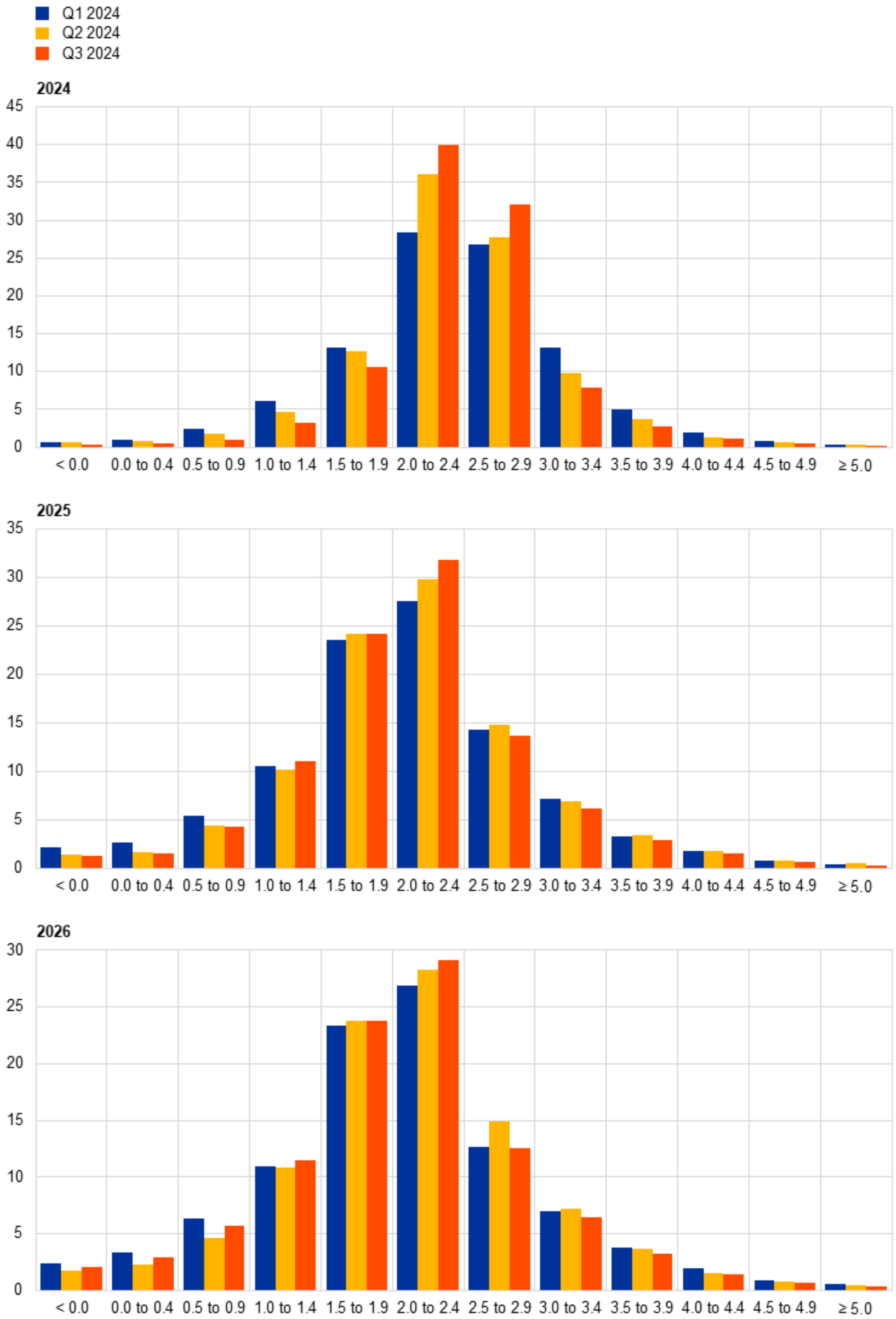
3 The width of the reported probability distributions indicates the perceived degree of overall uncertainty, whereas the asymmetry of the distributions indicates whether that uncertainty is more concentrated on higher or lower outturns – i.e. it measures the perceived balance of risks. As regards uncertainty, it can be shown that the width (or standard deviation) of the aggregate probability distribution (i.e. "aggregate uncertainty") is a function of the average width (or standard deviation) of the individual probability distributions (i.e. "individual uncertainty") and the standard deviation of the individual point forecasts (i.e. "disagreement").

4 The balance of risk indicator is defined as the mean of the aggregate probability distribution minus the mean of the individual point forecasts.

Chart 2

Aggregate probability distributions for expected inflation in 2024, 2025 and 2026

(x-axis: HICP inflation expectations, annual percentage changes; y-axis: probability, percentages)



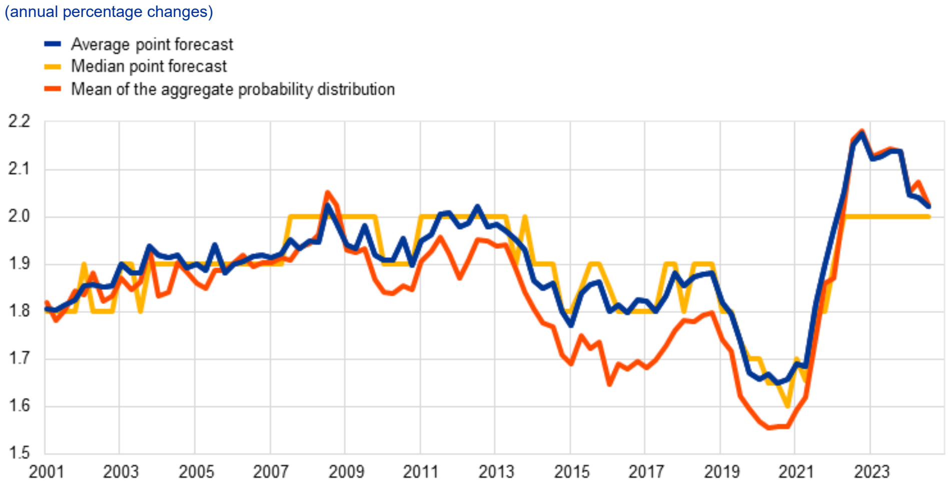
Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of inflation outcomes in 2024, 2025 and 2026.

2 Longer-term inflation expectations unchanged at 2.0%

Longer-term inflation expectations (for 2029 in this round but for 2028 in the previous round) were unchanged at 2.0%. This confirms the recent move back to target after expectations had stood around 2.1% between the second quarter of 2022 (after the Russian invasion of Ukraine) and the fourth quarter of 2023. The unchanged mean expectation of 2.0% also holds when considering a balanced panel of those who also replied in the second quarter of 2024 round.[5] The median and modal point expectations were also unchanged at 2.0% (see **Chart 3**). In this survey round, the shape of the distribution of longer-term point expectations was broadly similar to that in the previous round. In particular, almost 60% of the respondents reported longer-term inflation expectations of 2.0% (see **Chart 4**).

Chart 3

Longer-term inflation expectations

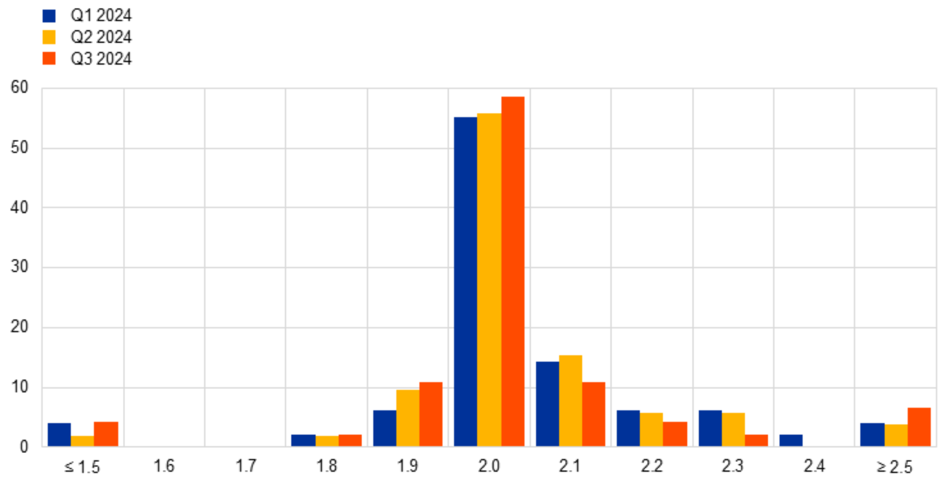


[5] Of the 42 respondents who provided longer-term HICP inflation expectations in both the second and third quarters of 2024, 34 made no changes to their forecasts, five revised them downwards and three revised them upwards.

Chart 4

Distribution of point expectations for HICP inflation in the longer term

(x-axis: longer-term HICP inflation expectations, annual percentage changes; y-axis: percentages of respondents)



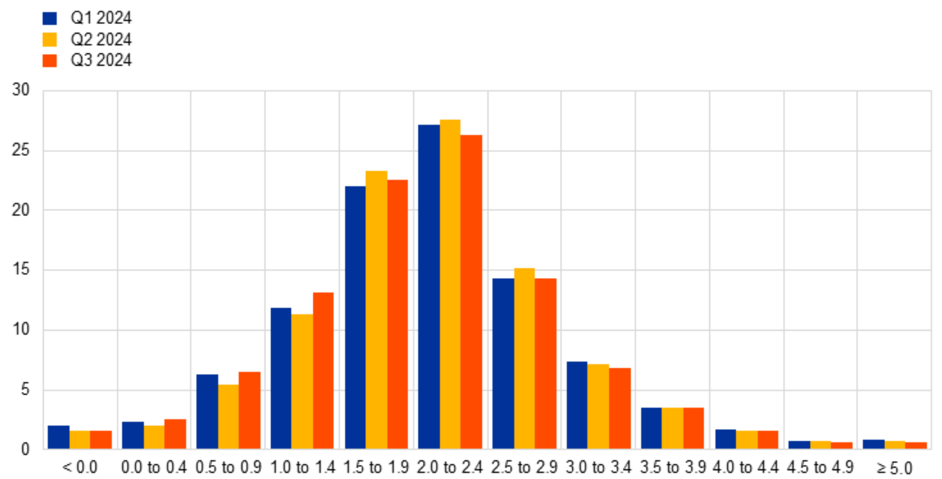
Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the spread of point forecast responses. In the Q3 2024 round, longer-term expectations refer to 2029; in the Q1 and Q2 2024 rounds, they referred to 2028.

Uncertainty surrounding longer-term inflation expectations ticked up slightly, thus remaining at elevated levels, while the balance of risks moved back towards broadly balanced. The elevated level of "aggregate uncertainty" (see **Chart 5**) is mainly attributable to heightened "individual uncertainty" of respondents rather than to their "disagreement" regarding point forecasts. The balance of risk indicator decreased and returned to being broadly balanced. The probability of longer-term inflation being in the 1.5-2.5% range decreased marginally to 49% (down from 51%), while the probabilities associated with outcomes above (i.e. >2.5%) and below (<1.5%) this range were 28% and 24% respectively.

Chart 5

Aggregate probability distribution for longer-term inflation expectations

(x-axis: HICP inflation expectations, annual percentage changes; y-axis: probability, percentages)



Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of inflation outcomes in the longer term. In the Q3 2024 round, longer-term expectations refer to 2029; in the Q1 and Q2 2024 rounds, they referred to 2028.

The mean longer-term expectation for HICPX inflation was unchanged at 2.0%.[6] The median and modal longer-term point expectations for HICPX inflation were also unchanged at 2.0%. Broadly speaking, the evolution of longer-term expectations for HICP inflation and HICPX inflation has been similar since the fourth quarter of 2016 (when respondents were first asked about their expectations for HICPX inflation).

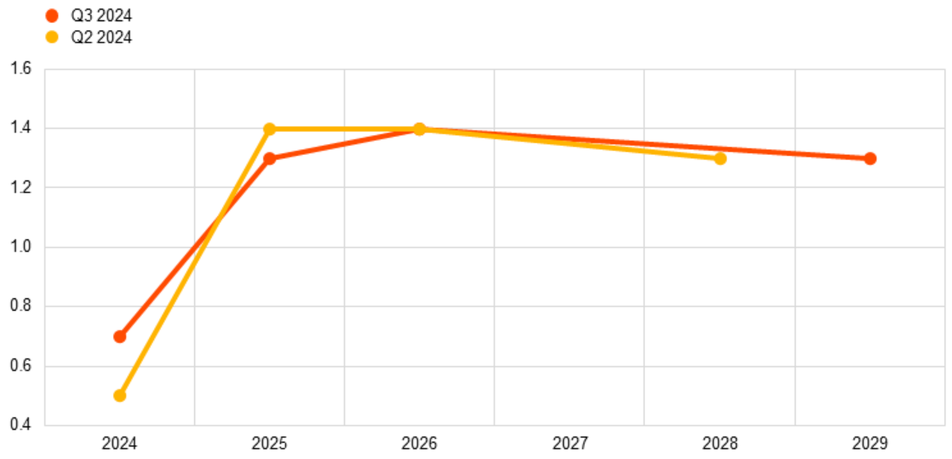
6 Of the 28 respondents who provided longer-term HICPX inflation expectations in both the second and third quarters of 2024, 24 made no changes to their forecasts, one revised them upwards and three revised them downwards.

3 Real GDP growth expectations revised upwards for 2024

GDP growth expectations stood at 0.7% for 2024, 1.3% for 2025 and 1.4% for 2026 (see Chart 6). Compared to the previous round, these figures imply an upward revision (of around 0.2 p.p.) for 2024 but an essentially unchanged profile throughout 2025 and 2026. Respondents mentioned that the growth profile is expected to be driven primarily by strong external demand and supported by stronger private consumption in a context of lower inflation and higher real wages, while tighter fiscal policy and subdued sentiment might offset the effects of these factors. Longer-term growth expectations (which refer to 2029) stood at 1.3%, the same as in the previous survey round.

Chart 6
Expectations for real GDP growth

(annual percentage changes)



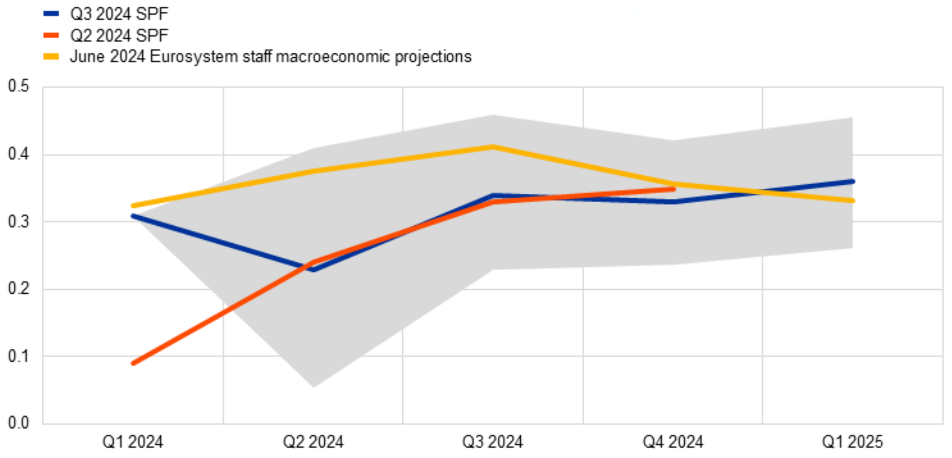
According to respondents' comments, 2024 was generally revised upwards to reflect the positive surprise in the first quarter of 2024. Beyond that, the short-term GDP outlook was broadly unchanged, implying a gradual strengthening of economic activity in the coming quarters and a broad stabilisation thereafter.[7] This suggests that the stronger than previously projected first quarter was not seen as a herald of generally stronger growth dynamics. For the second and third quarters of 2024, expectations for quarter-on-quarter growth stood below those from the June 2024 Eurosystem staff macroeconomic projections. However, the differences narrow towards the end of the year and in the first quarter of 2025 (see **Chart 7**).

[7] Based on data from 42 respondents.

Chart 7

Expected profile of quarter-on-quarter GDP growth

(quarter-on-quarter percentage changes)



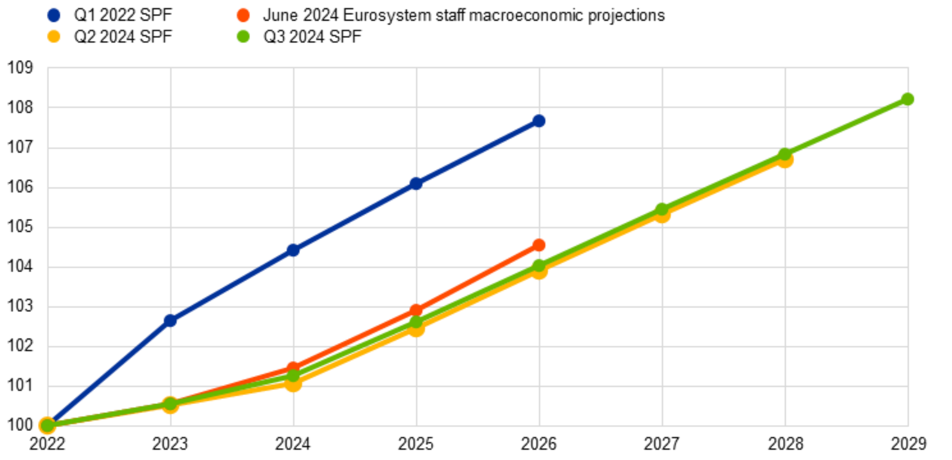
Note: The grey area indicates one standard deviation (of individual expectations) around average SPF expectations.

Expectations for real GDP growth rates imply little change in the level of economic activity from the previous survey round, which is still significantly below the level implied by expectations before Russia's invasion of Ukraine. Compared with the survey round conducted in early January 2022, prior to the Russian invasion of Ukraine, the expected level of real GDP for 2026 is down by around 4% (see **Chart 8**).

Chart 8

Forecast profile of real GDP

(index: 2022 = 100)



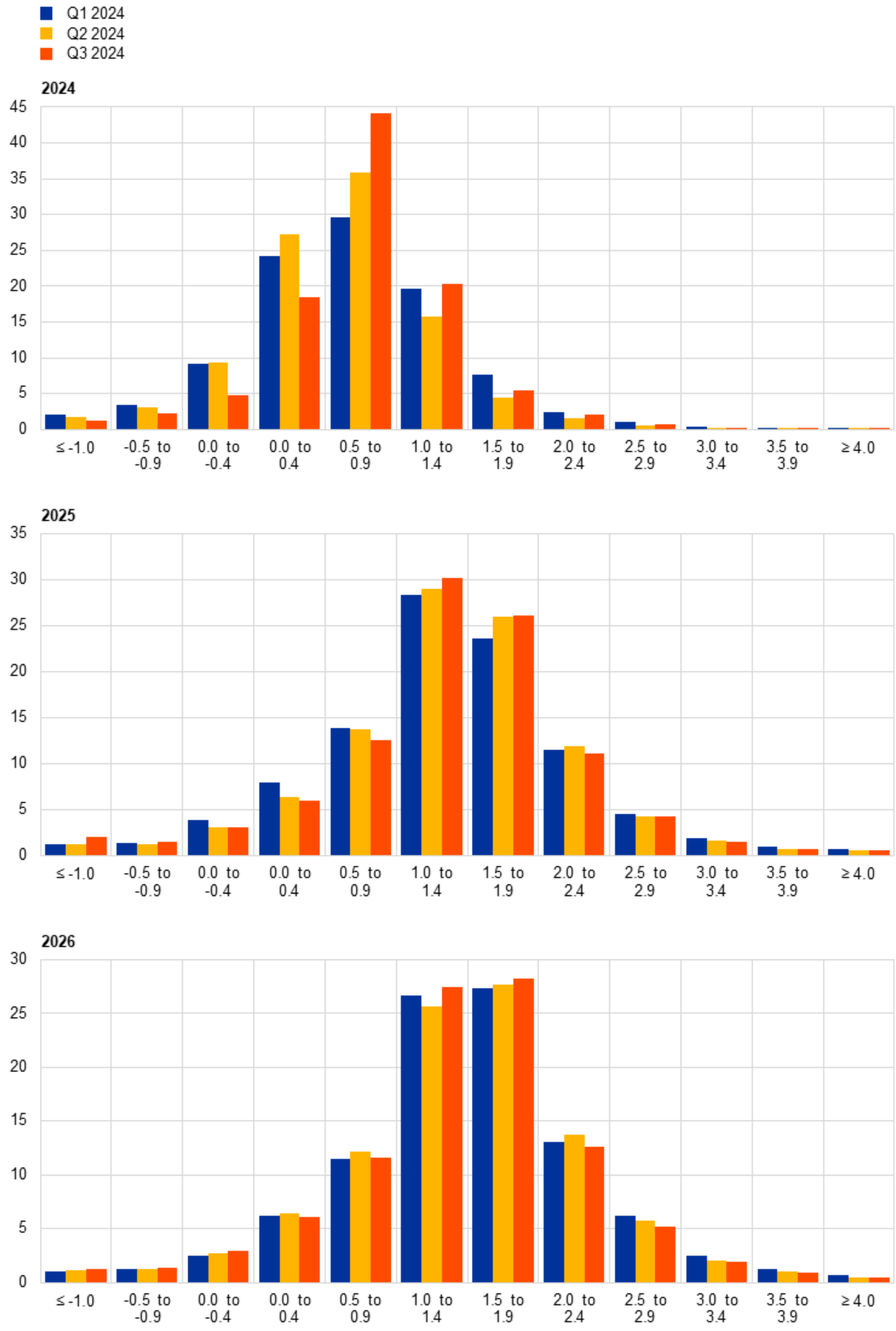
Note: Growth expectations for years not surveyed have been interpolated linearly.

Compared to the previous round, uncertainty about the growth outlook slightly decreased for the two-year-ahead horizon, while it marginally increased for the longer-term outlook. The balance of risks turned to the upside for the two-year-ahead horizon and remained positive for the longer term (see Chart 9 and Chart 10). "Aggregate uncertainty" still remains above pre-pandemic levels for both horizons, while the balance of risks two years ahead turned positive for the first time since the second quarter of 2023 SPF round. By contrast, the balance of risks for the longer term decreased slightly, albeit still remaining in positive territory.

Chart 9

Aggregate probability distributions for GDP growth expectations for 2024, 2025 and 2026

(x-axis: real GDP growth expectations, annual percentage changes; y-axis: probability, percentages)

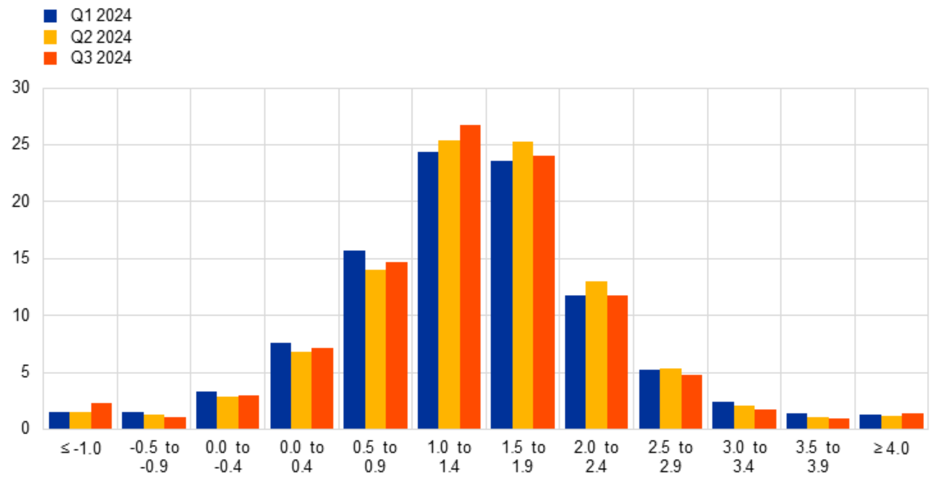


Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of real GDP growth outcomes in 2024, 2025 and 2026.

Chart 10

Aggregate probability distributions for longer-term GDP growth expectations

(x-axis: real GDP growth expectations, annual percentage changes; y-axis: probability, percentages)



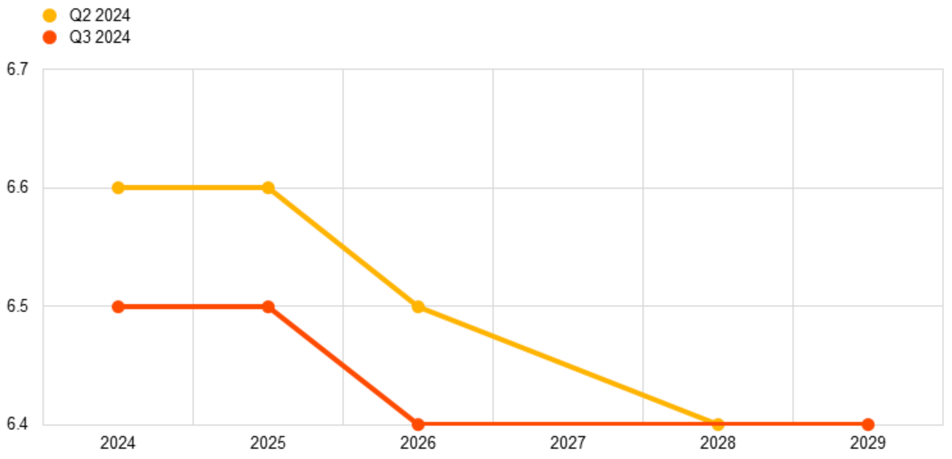
Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of real GDP growth outcomes in the longer term. In the Q3 2024 round, longer-term expectations refer to 2029; in the Q1 and Q2 2024 rounds, they referred to 2028.

4 Unemployment rate expectations revised downwards slightly

In the third quarter of 2024 survey round, respondents expected unemployment rates of 6.5%, 6.5% and 6.4% for 2024, 2025 and 2026 respectively. The expectations profile was revised down by 0.1 percentage points, except for longer-term unemployment, which remained constant at 6.4% (see **Chart 11**). Respondents were favourably surprised by the latest unemployment rate data and maintained their view that the labour market will remain robust. Respondents were optimistic about job creation, particularly in the services sector, and expected immigration to continue to add to the labour force. Respondents referred to potential upward pressures on unemployment coming from low productivity, capital misallocation and low investment.

Chart 11
Expectations for the unemployment rate

(percentages of the labour force)

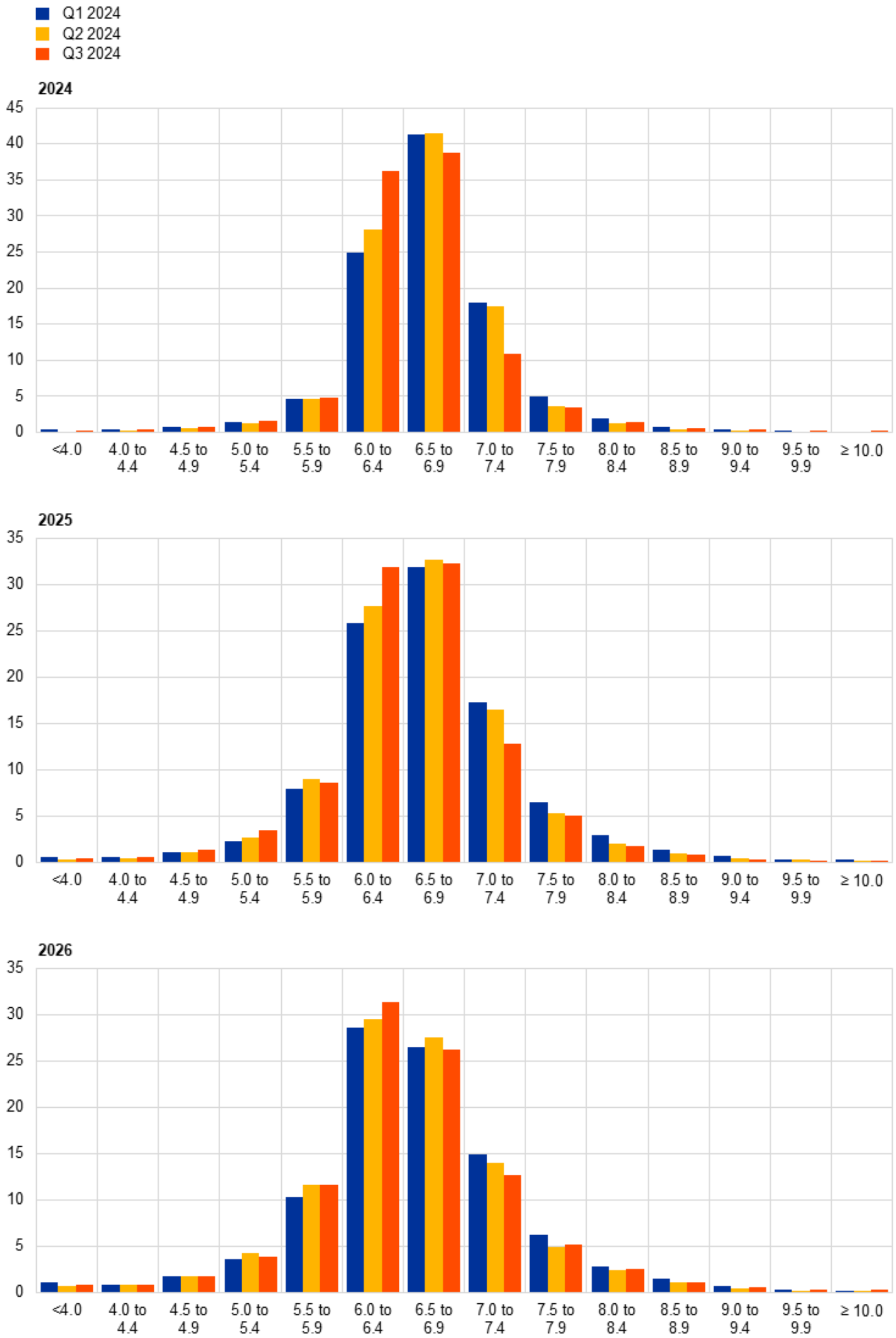


Compared with the previous survey round, the level of uncertainty surrounding unemployment rate expectations increased slightly. Aggregate uncertainty (as measured by the standard deviation of the aggregate distributions – see **Chart 12** and **Chart 13**) increased slightly across all horizons and remained at historically elevated levels. Respondents observed that uncertainty surrounding the unemployment outlook was associated with muted productivity growth, possible external shocks and the impact of migration.

Chart 12

Aggregate probability distributions for the unemployment rate in 2024, 2025 and 2026

(x-axis: unemployment rate expectations, percentages of the labour force; y-axis: probability, percentages)

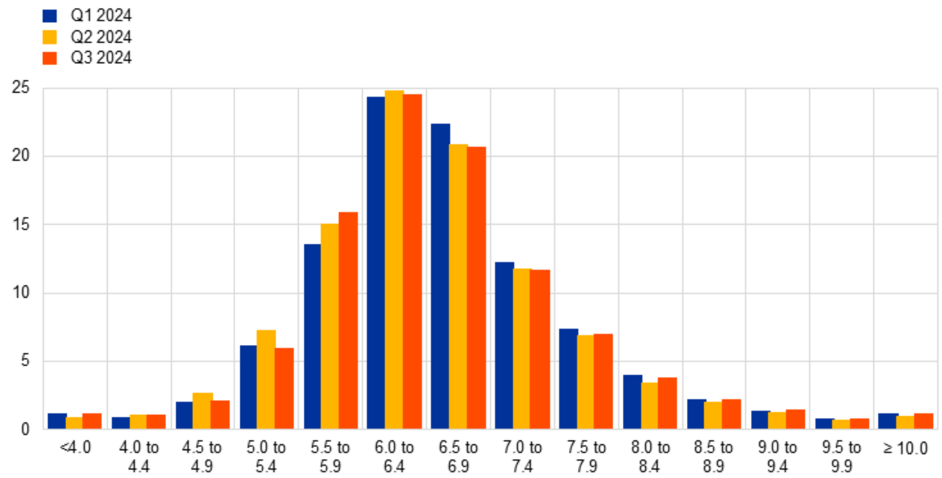


Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of unemployment rate outcomes for 2024, 2025 and 2026.

Chart 13

Aggregate probability distribution for the unemployment rate in the longer term

(x-axis: unemployment rate expectations, percentages of the labour force; y-axis: probability, percentages)



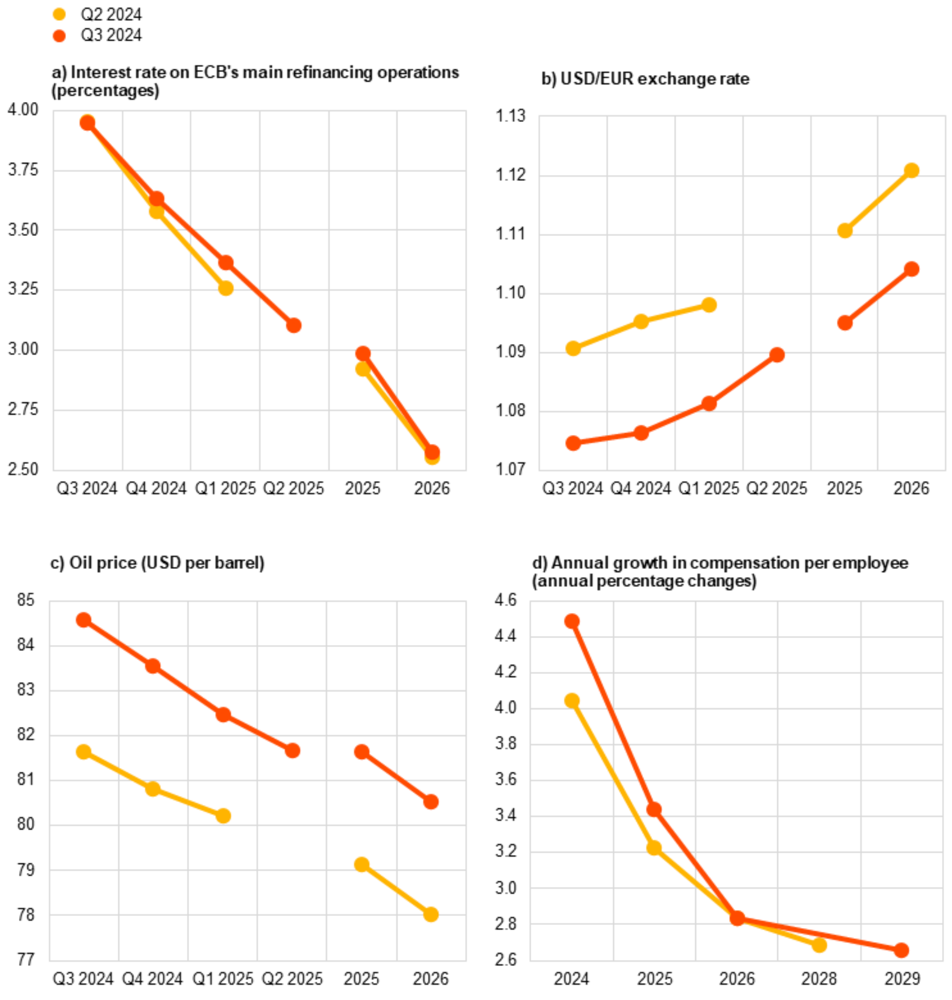
Notes: The SPF asks respondents to report their point forecasts and to separately assign probabilities to different ranges of outcomes. This chart shows the average probabilities assigned to different ranges of unemployment rate outcomes in the longer term. In the Q3 2024 round, longer-term expectations refer to 2029; in the Q1 and Q2 2024 rounds, they referred to 2028.

5 Expectations for other variables

Forecasters expected the interest rate on the ECB's main refinancing operations (MROs) to fall to 4.0% in the third quarter of 2024, 3.5% in the fourth quarter of 2024, 3.0% in 2025 and 2.5% in 2026. They expected the euro to appreciate marginally against the US dollar, from 1.07 in the third quarter of 2024 to 1.10 in 2026, and oil prices to fall from USD 85 per barrel in third quarter of 2024 to USD 81 per barrel by 2026. They also expected nominal wages to increase by 4.5% in 2024, with wage growth subsequently moderating to 3.4% in 2025, 2.9% in 2026 and 2.7% in the longer term.

Chart 14

Expectations for other variables



Respondents expected the ECB's **MRO rate** to fall to 4.0% in the third quarter of 2024 before falling further to 3.5% by the year-end, 3.0% by the second quarter of

2025 and 2.5% in 2026. Compared with the previous survey round, expectations were largely unchanged (see **Chart 14, panel a**).[8]

On average, the **USD/EUR exchange rate** was expected to rise from USD 1.07 in the third quarter of 2024 to USD 1.10 in 2026 (see **Chart 14, panel b**). The expected profile follows a similar trajectory to that in the previous round, albeit at a slightly lower level.

Compared with the previous round, the expected level of **US dollar-denominated oil prices** was revised upwards over the entire horizon by around USD 3 per barrel (see **Chart 14, panel c**).

Expectations for annual growth in **compensation per employee** were revised upwards by 0.5 percentage points for 2024 and 0.2 percentage points for 2025, to 4.5% and 3.4% respectively. The upward revisions were explained by stronger than previously expected outcomes, as well as increases in public sector wages and in minimum wages in some countries, plus more persistence looking ahead than previously expected. There was no change in expectations of wage growth of 2.9% in 2026 and 2.7% in the longer term (see **Chart 14, panel d**).

Understanding labour cost assumptions better

To better understand their labour cost assumptions, respondents were asked in this survey round to provide an approximate quantitative decomposition of their labour cost assumptions. They were asked to decompose these into contributions from (i) inflation, (ii) productivity growth, (iii) labour market slack/tightness and (iv) other factors. For the latter they were asked to clarify the factors in their qualitative comments. Of the 23 respondents providing labour cost assumptions, 13 provided this decomposition. The profile of labour costs assumptions for this sub-sample was broadly similar to that of those not providing a decomposition, suggesting that the sub-sample is broadly representative of the whole.

Chart A shows the decomposition across the different horizons. Clearly, inflation is the main factor driving expected labour cost growth, but its importance is expected to decline, from 3.5 percentage points in 2024 to 2.4 in 2025, 2.1 in 2026 and 1.9 in 2029. The contribution of expected inflation declines from 2.4 percentage points in 2024 to 2.1 in 2025 and around 1.9 thereafter.[9] The additional contribution of past/realised inflation (estimated as a residual) declines from 1.1 percentage points in 2024 to 0.2 in 2025 and 2026 and around 0.0 in 2029. This suggests that, while inflation compensation played a strong role up to 2024, it will not be a prominent factor going forward. The contribution from labour productivity is expected to increase from 0.2 percentage points in 2024 to around 0.6 thereafter. The contribution from labour market tightness is expected to

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8 In the previous survey round (Q2 2024), regarding the changes to the operational framework it was reported that, while some respondents explicitly mentioned that those changes were reflected in their forecasts, this was not clear for all respondents. In fact, examining the individual forecasts, it was estimated that around one-third of respondents had incorporated the narrowed spread between the MRO rate and the deposit facility rate (DFR) into their forecasts and that this largely explained the 15 basis point downward revision of the profile relative to the Q1 2024 round (compared with the 35 basis point narrowing implied by the change in the MRO-DFR differential).

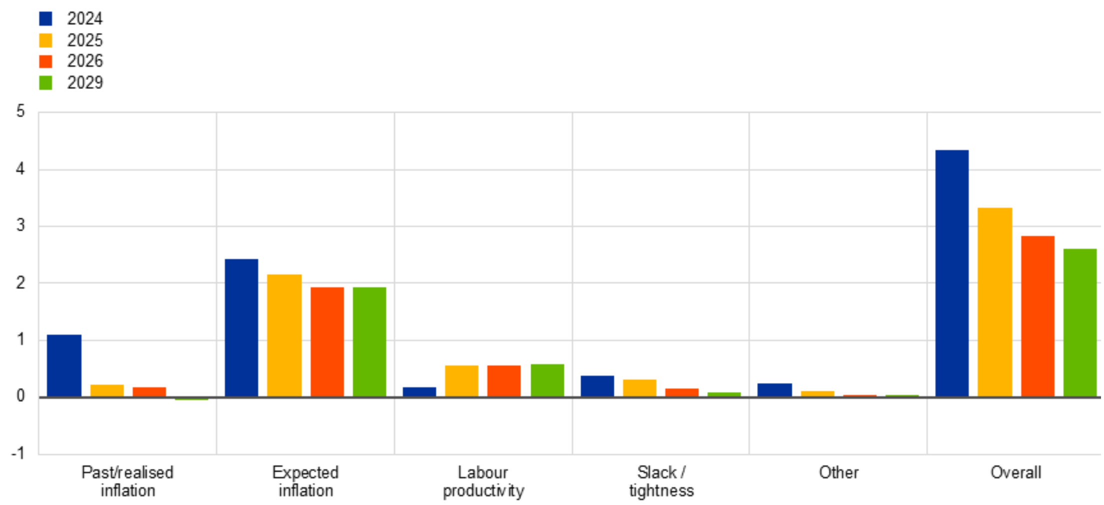
9 The decomposition between past/realised inflation and expected inflation was made using respondents' individual inflation expectations. The expected inflation component was taken as their individual inflation forecast for that period (2029 representing the longer term). The contribution of past/realised inflation was calculated as the residual between the overall inflation component and expected inflation.

decrease from 0.4 percentage points in 2024 to 0.3 in 2025 and around 0.1 in 2026 and 2029. Other factors contribute 0.2 percentage points in 2024, 0.1 in 2025 and around 0.0 in 2026 and 2029. Among factors mentioned were ageing/demographics and de-globalisation. This disappearing impact of labour market tightness and other factors in the longer term is in line with the notion that, in steady state, wage growth primarily reflects the inflation target and productivity growth.

Chart A

Decomposition of expectations for labour costs

(annual percentage changes)



Note: Based on 13 respondents.

Annex (chart data)

Excel data for all charts can be downloaded here.

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

For specific terminology please refer to the glossary (available in English only).

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