Wirtschaftliche Untersuchungen,
Berichte und Sachverhalte

IW-Report 4/19

IW Financial Expert Survey: First Quarter 2019

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Cologne, January 17, 2019

INSTITUT DER DEUTSCHEN WIRTSCHAFT

Contents

JEL Classification:
G12 – Asset pricing
G17 – Financial forecasting

Abstract

Pessimism determines the experts' predictions for the first and second quarter of 2019 which can be inferred from the downward revisions of the experts' forecasts.

Although the experts still expect the yield curve to become steeper, they expect long-term interest rates to increase less compared to the last survey. The lower interest rate forecasts are consistent with the experts' lower inflation and growth expectations. The experts expect 1.7 percent inflation in the Eurozone and a growth rate of real gross domestic product of 1.6 percent for 2019, which indicates a slowdown of economic growth and a failure of the European Central Bank (ECB) in meeting its inflation target. Given that, the experts expect the long-term interest rate to be 0.51 percent at the end of the first quarter of 2019, which is 0.24 percentage points lower than their prediction in the last survey. For the short rate the experts expect no change, since they expect the ECB's main refinancing rate to stay at 0.0 percent in the first half of 2019. But the experts expect the yield of US Treasury bonds to increase from 2.86 percent to 3.31 percent by the end of the first half of 2019 and thereby a growing interest rate differential between the US and Europe. Given the less accommodative monetary policy by the ECB in 2019 the experts forecast of a mild appreciation of the Euro from 1.138 US-Dollar to 1.143 US-Dollar in the first quarter and to 1.162 US-Dollar in the second quarter of 2019.

Although the experts revised their stock market forecasts downwards, they expect the DAX and the Stoxx index to recover in the first half of 2019. On average, the experts predict the Stoxx index to increase from 2.807 points at the end of the fourth quarter of 2018 to 2.951 points at the end of the first quarter of 2019 and to 3.072 points at the end of the second quarter of 2019. This would correspond to increases of 5.1 percent and 9.4 percent since December 2018. Moreover, the experts expect the DAX to increase from 10.788 to 11.396 in the first quarter of 2019 and to 11.919 in the second quarter of 2019, which corresponds to increases by 5.6 and 10.5 percent since end of December 2018. Interesting is that the experts expect the Stoxx and the DAX to grow faster than the S&P 500, which we surveyed for the first time. For the S&P 500 the experts only expect increases by 0.7 and 5.3 percent.

In the long-term ranking, which covers the last 16 quarters, National-Bank could defend rank one, while Commerzbank and Nord/LB could defend rank two and rank three.

1 The IW Financial Expert Survey

Since the second quarter of 2017, the IW is conducting the IW Financial Expert Survey. Before that the Center for European Economic Research (ZEW) conducted this survey under the name ZEW Prognosetest.

The participating forecasters in this survey are economists of financial companies who submit their forecast to the IW on a quarterly basis. The IW calculates mean predictions and forecasting intervals and evaluates the participants' performance in making trend forecasts and point forecasts. The indicators used for the IW Financial Expert Survey are the 3-month Euribor (called "short rate"), the yield of German government bonds with 10-year maturity (called "long rate"), the Stoxx 50 Europe Index, the DAX 30 Index, the EUR-USD exchange rate, and the oil price (brent). In the first quarter of 2019 we introduced new variables to the survey. Due to the global nature of financial markets we asked the participants about their expectations on the US Treasury Yield with 10 years maturity ("US long rate") and on the S&P 500 index. Since monetary policy is an important factor, we asked the expects on their view on how the European Central Bank (ECB) and the Federal Reserve Bank will set their policy rates within the forecast horizons 3 months ahead and 6 months ahead. In addition to that we asked the experts about their inflation and growth outlook for Germany and the Eurozone.

2 Financial market forecasts

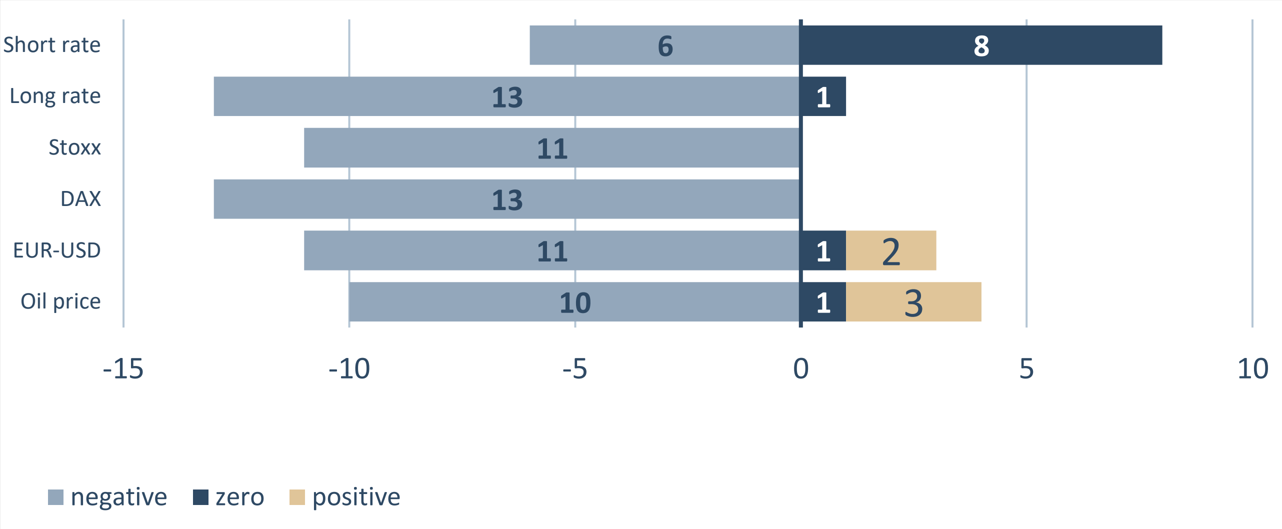
This section contains an analysis of the current financial market forecasts for the end of the first quarter of 2019 and the end of the second quarter of 2019. The individual point forecasts, which the experts submitted, were aggregated to a mean forecast. Moreover, trend forecasts were calculated from the individual point forecast and the most recent data points of the indicators.

2.1 Sentiment among forecasters

Figure 2-1 gives an overview of the changes in market sentiment derived from the submitted forecasts. This indicator measures how the experts revise their forecast when new information arrives. To this end, the differences between the forecasts for the end of March 2019 from September 2018 and the forecasts for the end of March 2019 from December 2018 were calculated. In the case that the forecasters interpret the incoming economic indicators that have arrived between September 2018 and December 2018 as good news, the forecasters would have revised their forecasts for March 2019 upwards, leading to a positive difference between the forecast based on information available on September 2018 and the forecast based on information available in December 2018. If the forecasters would have interpreted the incoming data as negative for the performance of the indicator, the forecaster would have revised their predictions downwards.

Figure 2-1: Sentiment among forecasters

Difference between the forecast for March 2019 from December 2018 and the forecast for March 2019 from September of 2018, number of forecasters with positive or negative difference



Source: Bloomberg, IW Financial Expert Survey

For the short term interest rate, six forecasters predicted higher short-term interest rates for the end of the first quarter of 2019 based on the information available on September 2018 compared to their forecast based on the information available on December 2018, i.e. they revised their forecast for the short term interest rate at the end of March 2019 downwards. The incoming uncertainties about the economic development made them more pessimistic in their December forecasts. However, eight forecasters did not revise their predictions which implies that they interpreted the incoming information as neutral. It could be that they do not expect the ECB to lower its policy interest rate in a possible forthcoming recession. That interest rate forecasters tended to be more pessimistic in December 2018 can be seen from the forecasts of the long-term interest rate. While only one forecaster interpreted the incoming information as neutral, thirteen experts revised their estimates for the long-term interest rate downwards.

The growing pessimism among forecasters can also be seen from the revision of their stock market forecasts for the end of March 2019 based on information available in September 2018 compared to December 2018. All experts revised their prediction for the Stoxx Index and the DAX Index for the end of the first quarter of 2019 downwards meaning that they have interpreted the incoming information between September and December as negative for the performance of the stock markets.

In line with their more pessimistic interest rate forecasts, most of the experts revised their predictions for the EUR-USD exchange rate downwards. However, two experts revised their predictions upwards, while one expert interpreted the incoming information in a neutral way. The downward revision might be due to the growing gap between US interest rates and Eurozone interest rates, which will lead to a capital outflow to the US, which could lead to a deterioration of the Euro’s value.

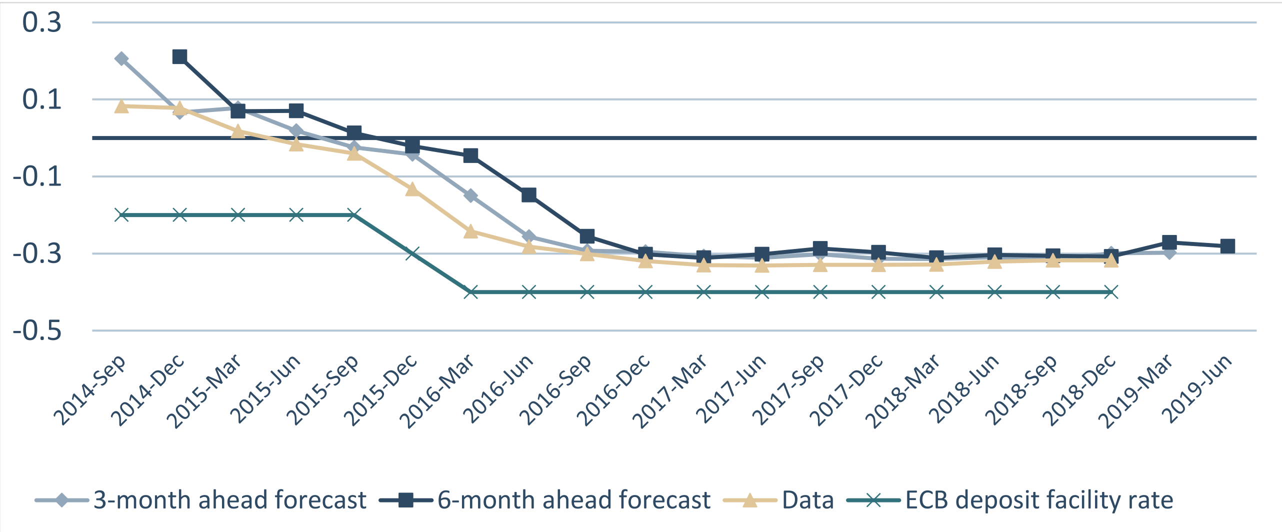
Given the decline in oil prices, most experts revised their predictions for the end of the first quarter of 2019 downwards. However, three experts revised their estimated upwards, while one experts did not revise his or her prediction.

2.2 Interest rates

During the period we have data on the surveyed experts, i.e. from the beginning of the sample period in the third quarter of 2014 to the end of the first quarter of 2019, the short-term interest rate was characterized by a slow downward trend from 0.08 percent to -0.32 percent at the end of the second quarter of 2017. The short rate remained from the end of the first quarter of 2017 to the end of the first quarter of 2018 at that lower floor of -0.33 percent. It only rose marginally to -0.32 percent by the end of the fourth quarter of 2018 (figure 2-1). It can be seen from the data, that the short-term interest rate is highly influenced by the ECB's deposit facility rate, which acts as a lower floor to the short-term interest rate.

Figure 2-2: Point forecasts: short-term interest rate

3-Month Euribor, in percent

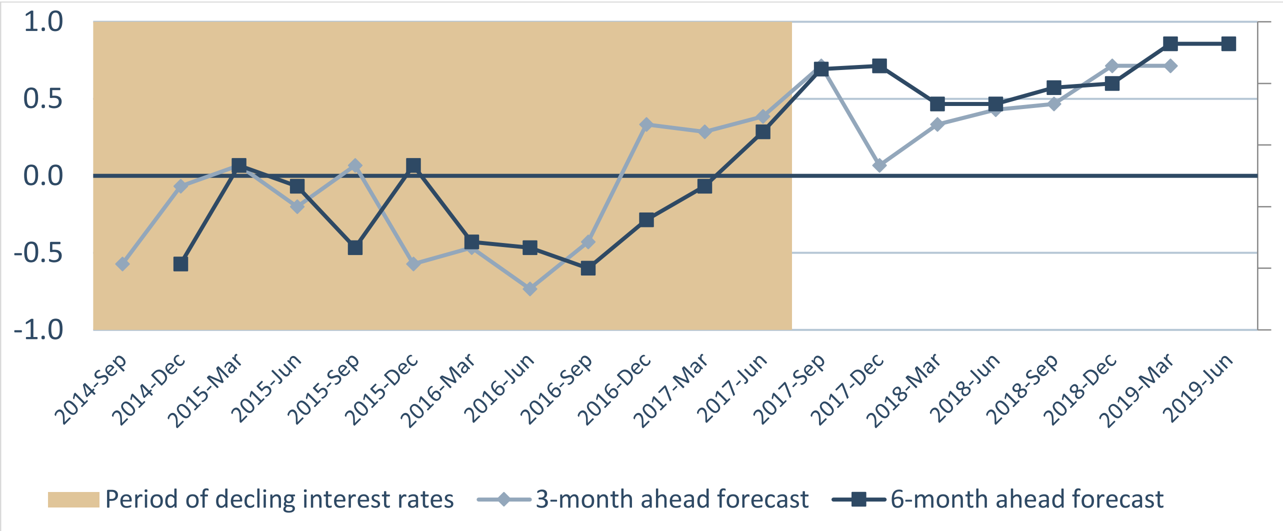


Source: Bloomberg, IW Financial Expert Survey

The figure 2-1 contains the data at the last trading day of each quarter together with the mean prediction of the experts, i.e. the average over all individual point forecasts. While the mean prediction over-predicted the short-rate for most of the time during the early years, the over-prediction became smaller over time, especially during the time, when the short-rate converged to its lower floor of -0.33 percent. One reason for the over-prediction could be that the experts experienced for the first time a low and even negative interest rate environment, which challenged their forecasting. The experts forecasting models might have contained a zero lower bound on interest rates, first, which was then lowered cautiously step-by-step, when interest rates proved to become negative. After the short-rate reached its floor of -0.33 percent, the over-prediction became smaller over time, probably because the experts' lower bound on interest rates did not need additional downward adjustments, since the ECB's deposit facility rate has remained at its floor of -0.4 percent since then. The interest rate forecasts of the short-rate seem to be very precise now. The mean forecasts for the end of the first quarter of 2019 and the end of the second quarter of 2019 are -0.30 percent and -0.28 percent with a standard deviation of 0.03 percentage points for each forecast horizon (table 2-1). From the forecasts can be concluded that the experts expect a very small normalisation of short-term interest rates in line with the ECB's forwards guidance on its monetary policy.

Figure 2-3: Trend forecasts: short-term interest rates

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



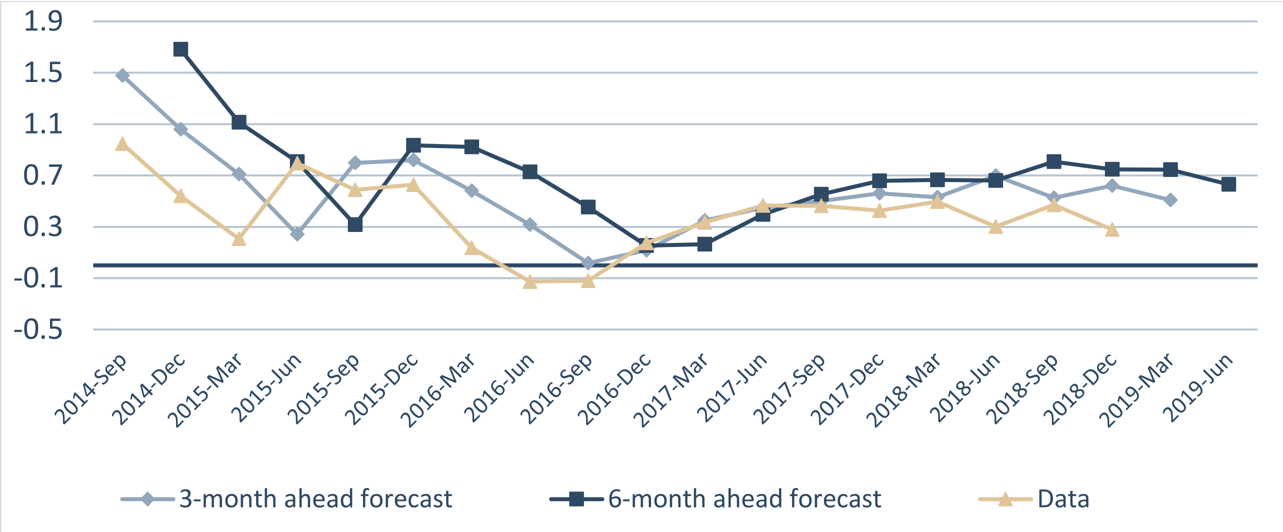
Source: Bloomberg, IW Financial Expert Survey

From the trend forecasts can be seen that trend predictions of the short-rate in an environment of negative interest rates has been more precise compared to point predictions (figure 2-2). The figure contains the trend forecasts for the next 3 and 6 months as so-called diffusion indices. These indices were calculated as the number of experts who predict a positive trend minus the number of experts who predict a negative trend divided by the number of forecasters. The diffusion indices can fluctuate between -1 and 1, with -1 indicating that all experts agree on a negative trend, 1 indicating that all experts agree on a positive trend and 0 indicating that half of the experts expect a positive trend, while the other half expects a negative trend. Predicting no change is not possible here because the data has more digits than the predictions that the experts report.

From the figure can be seen that most experts expected a declining short-rate during the time the short rate actually declined, but also that most experts expected a much earlier trend reversal. The expectation of a trend reversal does not show up in the mean forecasts of figure 2-1, because it averages out due to some experts expecting interest rates to decline further. While the short-rate has stopped declining in the third quarter of 2017, the experts predicted a trend reversal for the end of the last quarter in 2016. Although the mean predictions for the end of the first quarter of 2019 and the end of the second quarter of 2019 indicate that the short rate might stay near its past value, most experts are in favour of increasing interest rates. However, their point forecasts indicate that these expected increases tend to be small.

Figure 2-4: Long-term interest rate

Yield on German government bonds with a maturity of 10 years, in percent



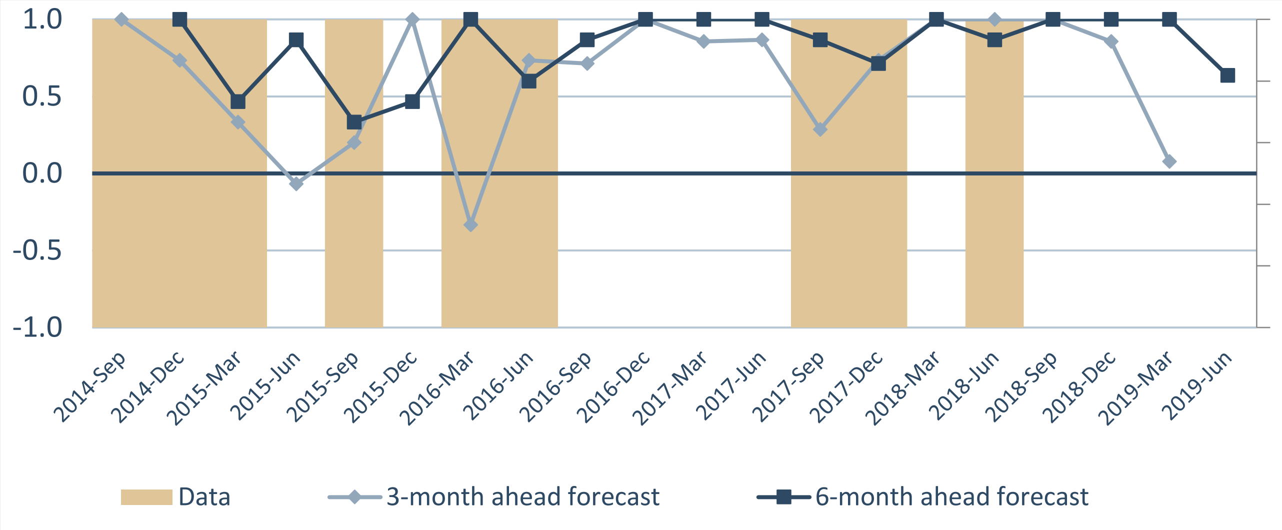
Source: Bloomberg, IW Financial Expert Survey

The long-term interest rate declined from 0.95 percent at the end of the third quarter of 2014 to -0.13 percent at the end of the second quarter in 2016. It then recovered to 0.5 percent at the end of the first quarter of 2018 and then dropped to 0.30 percent by the end of the second quarter of 2018. After an increase by the end of the third quarter of 2018 it fell to 0.28 percent at the end of the fourth quarter of 2018 (figure 2-3).

The figure 2-3 also shows that forecasting the long rate in a low interest rate environment is challenging. The experts over-predicted on average the two declines of the long rate in the period between the third quarter of 2014 and the last quarter of 2016, while forecasts improved with the beginning of the year 2017, i.e. that forecast errors have become smaller and the over-prediction of the data has vanished. While the experts expect lower interest rates compared to the previous forecasts the standard deviations of their forecasts have increased indicating more forecast uncertainty. Although the experts have lowered their forecasts of the long-term interest rate, their three-month ahead forecasts and their six-month ahead forecasts are both higher compared to the data, indicating that the experts expect a higher long rate in 2019. Experts expect on average the long-rate to increase from currently 0.28 percent to 0.51 and 0.63 percent by the end of the first and by the end of the second quarter of 2019 with standard deviations of 0.23 and 0.35 percentage points (table 2-1).

Figure 2-5: Trend forecasts: long-term interest rates

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.

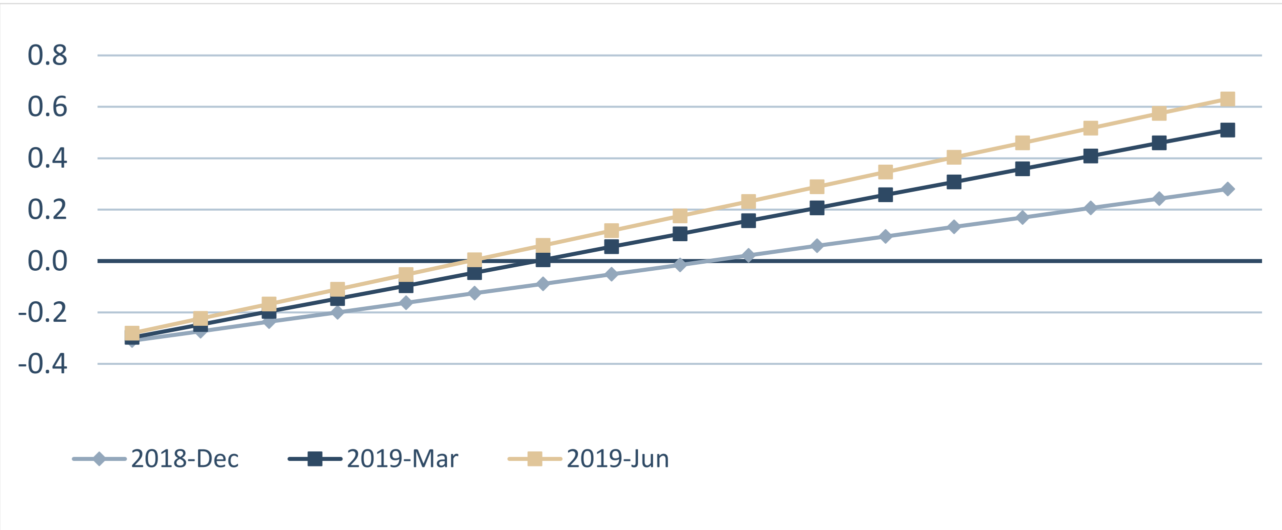


Source: Bloomberg, IW Financial Expert Survey

The majority of experts was optimistic most of the time when it came to predicting the trend in the long-rate, while the pessimists were in the minority (figure 2-4). During the periods of declining yields, most experts expected a positive trend for the next 3 and 6 months. While most experts erred on the direction of the long-rate during the periods of declining yields, they were very accurate during the periods of increasing yields. Currently, forecasters have become pessimistic again. For both forecasting horizons, a significant fraction of the forecasters expect declining long-term interest rates.

Figure 2-6: Estimated yield curve

Interest rates from 3-month maturity to 10-year maturity, linearly interpolated



Source: Bloomberg, IW Financial Expert Survey

Figure 2-5 contains the prediction of the yield curve, for which yields between 3-month maturity and 10-year maturity were interpolated linearly. From the figure can be seen, that the experts predict the yield curve to become steeper. While they predict only the short end of the yield curve to increase by 0.03 percentage points, they predict the long end to increase by 0.35 percentage points to up to 0.63 percent by the end of the second quarter of 2019. The expectation of a steeper yield curve is consistent with the expectation of normalizing interest rates. However, experts expected higher long-term interest rates in the surveys before which is in line with a more pessimistic view on the economy now.

New to the survey is the US long rate, i.e. the yield of US Treasury bonds with 10 year maturity, which was surveyed for the first time. The experts expect the US yields to increase by more than the yields on German government bonds with the same maturity. Thereby, the gap between yields in Germany and the US are expected to increase. By the end of the second quarter of 2019 the experts expect the yield on US treasuries to increase by 0.46 percentage points to 3.31 percent, while they expect the yield on German bunds will to increase only by 0.23 percentage points to 0.63 percent (table 2-1).

Table 2-1: Summary statistics: interest rates

End of survey: December 28 2018, 14 respondents for the short rate and the long rate

	Short rate	Long rate	US Long rate	Short rate	Long rate	US Long rate
December 28 2018 value	-0.31	0.28	2.86	-0.31	0.28	2.86
	3-month-ahead forecast			6-month-ahead forecast		
Mean Forecast	-0.30	0.51	3.19	-0.28	0.63	3.31
Change in perc. points	0.01	0.23	0.33	0.03	0.35	0.46
Standard deviation	0.03	0.15	0.22	0.03	0.16	0.20
Lowest forecast	-0.33	0.30	2.80	-0.33	0.40	2.90
Highest forecast	-0.20	0.78	3.70	-0.20	0.91	3.75

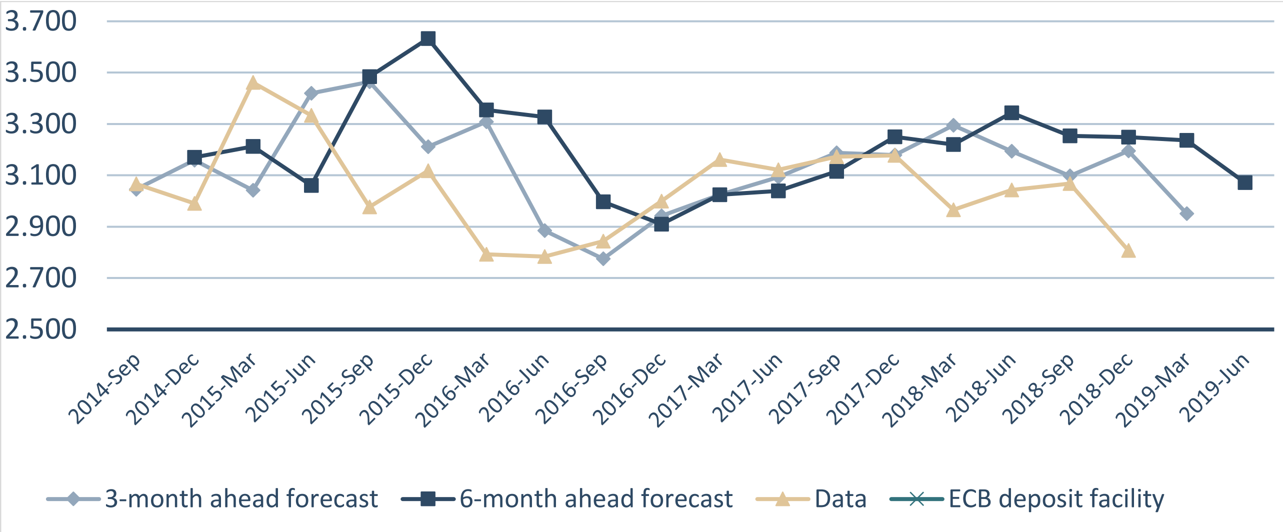
Source: Bloomberg, IW Financial Expert Survey

2.3 Stock Market Performance

The Stoxx index trended upward from the end of the third quarter of 2014 to the first quarter of 2015 from 3,067 to 3,461 points, after which it declined until the end of the first quarter of 2016 to 2,792 points. After that, it increased until the end the first quarter of 2017 to 3,161 points. Since then, the Stoxx index moved sideways with a drop at the end of the first quarter of 2018 to 2,965 points. It recovered by the end of the second quarter 2018, but dropped at the end of the fourth quarter of 2018 to 2,807 points. Forecasts also declined, but on average, the forecasters still expect higher stock prices than today (figure 2-6). On average, the experts predict the Stoxx 50 index to move to 2,951 points at the end of the first quarter of 2019 and to 3,070 points at the end of the first half of 2019.

Figure 2-7: Point forecasts: Stoxx 50 Europe

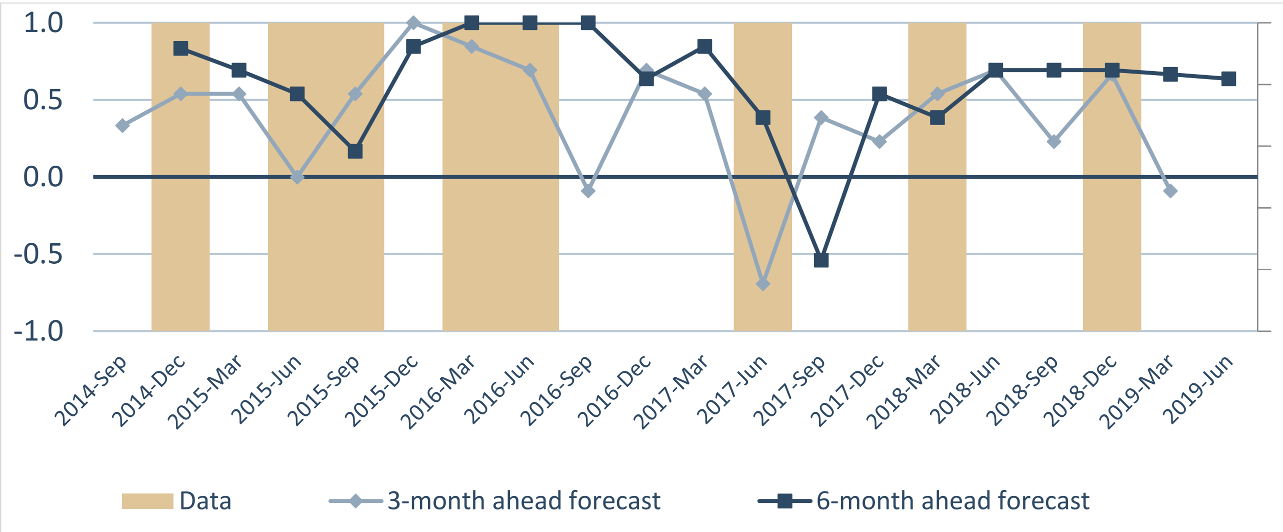
Index



Source: Bloomberg, IW Financial Expert Survey

Figure 2-8: Trend forecasts: Stoxx Europe Index

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.

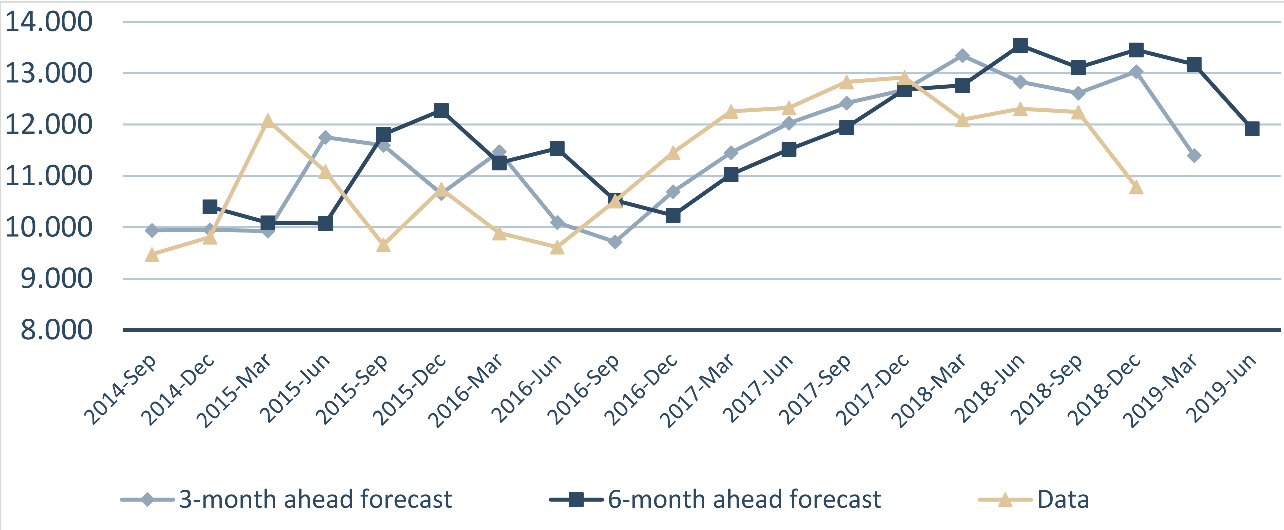


Source: Bloomberg, IW Financial Expert Survey

In contrast to their interest rate forecast, the experts' stock market forecasts tended less towards over-prediction. There is, in fact, only one period between 2015 and 2017, in which the experts over-predicted the Stoxx index in the years 2015 and 2016. However, their forecasts became more precise in the year 2017 with smaller forecasting errors. For the first and the second quarter of 2018, the experts started to over-predict the growth on the Stoxx index. Currently, the forecasters see a bear market only as a short-term phenomenon. While more than half of the forecasters expect declining stock prices in the first quarter of 2019, the majority predicts increasing stock prices by the end of the second quarter of 2019 (figure 2-6). On average, the experts predict the Stoxx index to increase from 2.807 points at the end of the fourth quarter of 2018 to 2.951 points at the end of the first quarter of 2019 and to 3.072 points at the end of the second quarter of 2019 (Table 2-2). This would correspond to increases of 5.1 percent and 9.4 percent since December 2018.

Figure 2-9: DAX 30 Index

Index

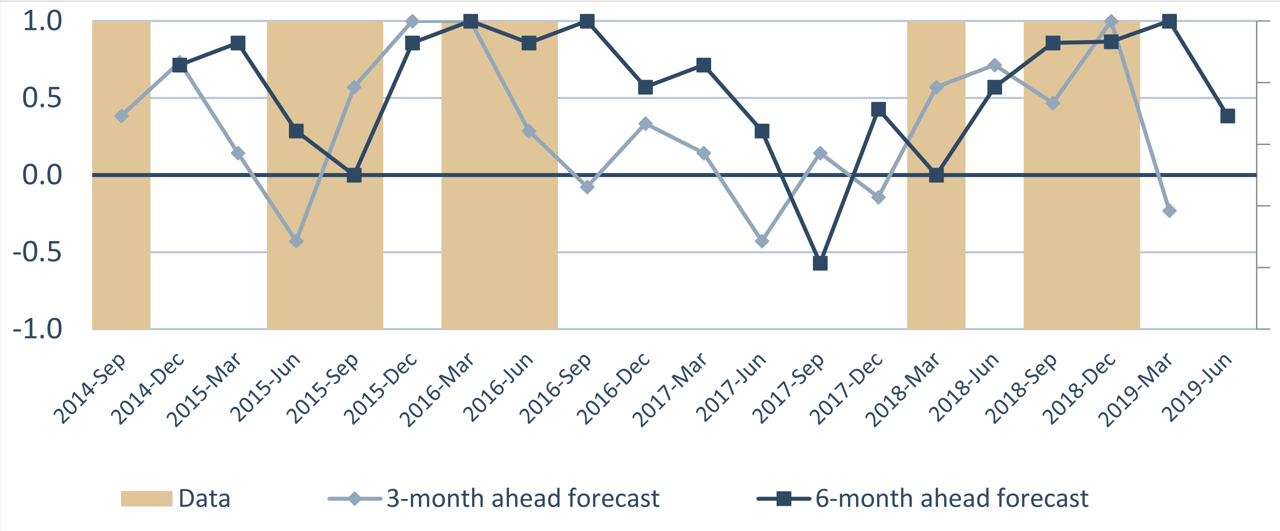


Source: Bloomberg, IW Financial Expert Survey

The DAX index increased from 9,474 points at the end of the third quarter of 2014 to 12,086 points at the first quarter of 2015, after which it dropped until the end of the second quarter of 2016 to 9,612 points. After that, the DAX experienced a long upward trend until the end of the year 2017 at which it quoted 12,917 points. In the first quarter of 2018, the DAX has dropped to 12,096 points, but it recovered by the end of the second quarter of 2018 to 13,306 points. It then dropped in the third and the fourth quarter of 2018 to 10,788 points at the end of the year. Similar to the Stoxx index did the DAX experience a drop in the fourth quarter of 2018. Although the expectations for the first and the second quarter of 2019 dropped, the experts expect the DAX to recover from the slump (figure 2-8). The experts expect the DAX to increase from 10.788 to 11.396 in the first quarter of 2019 and to 11.919 in the second quarter of 2019. This corresponds to increases by 5.6 and 10.5 percent. Interesting is that the experts expect the Stoxx and the DAX to grow faster than the S&P 500, which we surveyed for the first time. For the S&P 500 the experts only expect increases by 0.7 and 5.3 percent.

Figure 2-10: Trend forecasts: DAX 30

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

Table 2-2: Summary statistics: stock market indices

End of survey: Dec 28 2017, 13 respondents for the Stoxx 50 and 14 respondents for the DAX 30

	Stoxx 50	DAX 30	S&P 500	Stoxx 50	DAX 30	S&P 500
December 28 2018 value	2,807	10,788	2,637	2,807	10,788	2,639
	3-month-ahead forecast			6-month-ahead forecast		
Mean Forecast	2,951	11,396	2,655	3,072	11,919	2,778
Change in per-cent	5.1	5.6	0.7	9.4	10.5	5.3
Standard devia-tion	177	721	189	194	813	177
Lowest forecast	2,700	10,200	2400	2,700	10,200	2,500
Highest forecast	3,400	12,500	3050	3,500	13,000	3,100

Source: Bloomberg, IW Financial Expert Survey

In 2015 and in the first half of 2016 experts over-predicted the growth of the DAX on average. However, forecast errors became smaller during the positive trend growth, which the DAX experienced since then. However, the experts under-predicted the positive trend growth (figure 2-8). At the end of the first as well as the second quarter of 2018, the experts over-predicted the trend growth again.

The over-prediction of the DAX also shows up in the trend forecasts. Here, most of the experts expected increasing stock prices in times, in which the DAX declined, e.g. in 2016. After that, more and more experts became pessimistic and under-predicted the growth of the DAX, e.g in the year 2017 (figure 2-9). The larger number of pessimist is one reason, why the mean forecast was below the DAX index during the time of the positive trend growth in 2016 and 2017. From the figure can be inferred that the experts became more pessimistic in that the number of experts who predict declining stock prices have increased. While most experts expect a declining DAX in the first quarter of 2019, most experts expect a growing DAX in the second quarter of 2019.

2.4 Foreign Exchange

The EUR-USD exchange rate decline from 1.26 USD per one Euro at the end of the third quarter of 2014 to 1.08 USD per one Euro at the end of the first quarter of 2015. It then moved more or less sideways until the end of the third quarter of 2016. The EUR-USD exchange rate then dropped at the end of the year 2016 to 1.05 USD per one Euro, while it increase to 1.23 USD per one Euro at the end of the first quarter of 2018.

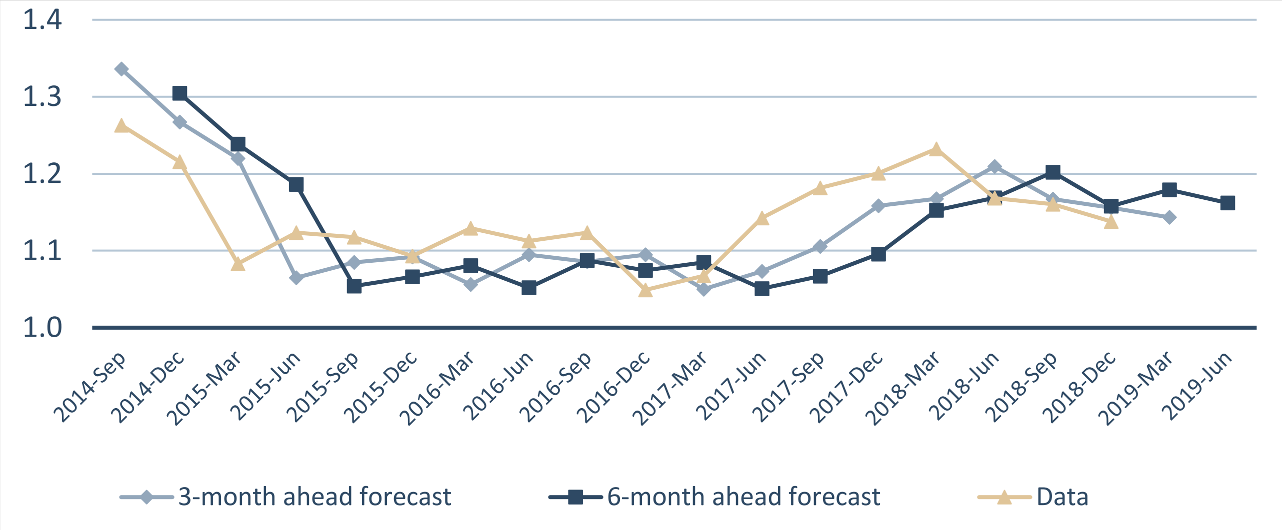
The experts over-predicted the exchange rate between the end of 2014 and the end of the first half of 2015. In fact, the exchange rate declined faster than expected by the experts. In the years 2015 to 2017, when the exchange rate moved more or less sideways, the forecasts converged. However, from the end of the second half of 2017 the exchange rate increased faster than predicted by the experts leading to an under-prediction of the mean forecasts (figure 2-10).

The Euro lost value in the year 2018. By the end of the year is depreciated to 1.14 USD per one Euro (figure 2-10). However, the experts predict the Euro to appreciate in the year 2019. The forecasters expect the exchange rate to increase by 0.5 percent in the first quarter and by 2.1 percent in the first half of 2019 (table 2-11).

From the trend forecasts can be seen that the majority of experts expected a declining exchange rate for most of the time. While most experts predict the Euro to depreciate in the first quarter of 2019, most experts expect an appreciation in the second quarter of 2019 (figure 2-11).

Figure 2-11: Point forecasts: EUR-USD exchange rate

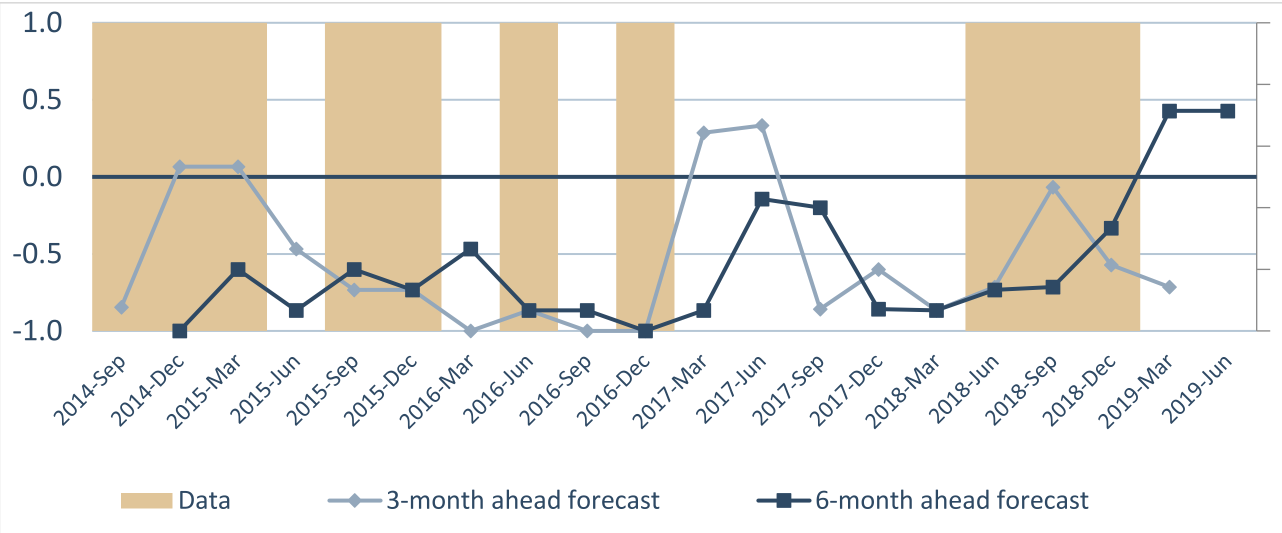
US Dollars per 1 Euro



Source: Bloomberg, IW Financial Expert Survey

Figure 2-12: Trend forecasts: EUR-USD exchange rate

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

Table 2-3: Summary statistics: foreign exchange

End of survey: Dec 28 2018, 15 respondents, in US Dollars per 1 Euro

	EUR-USD	EUR-USD
December 28 2018 value	1.138	1.138
	3-month-ahead forecast	**6-month-ahead forecast**
Mean Forecast	1.143	1.162
Change in percent	0.5	2.1
Standard deviation	0.016	0.028
Lowest forecast	1.100	1.080
Highest forecast	1.160	1.207

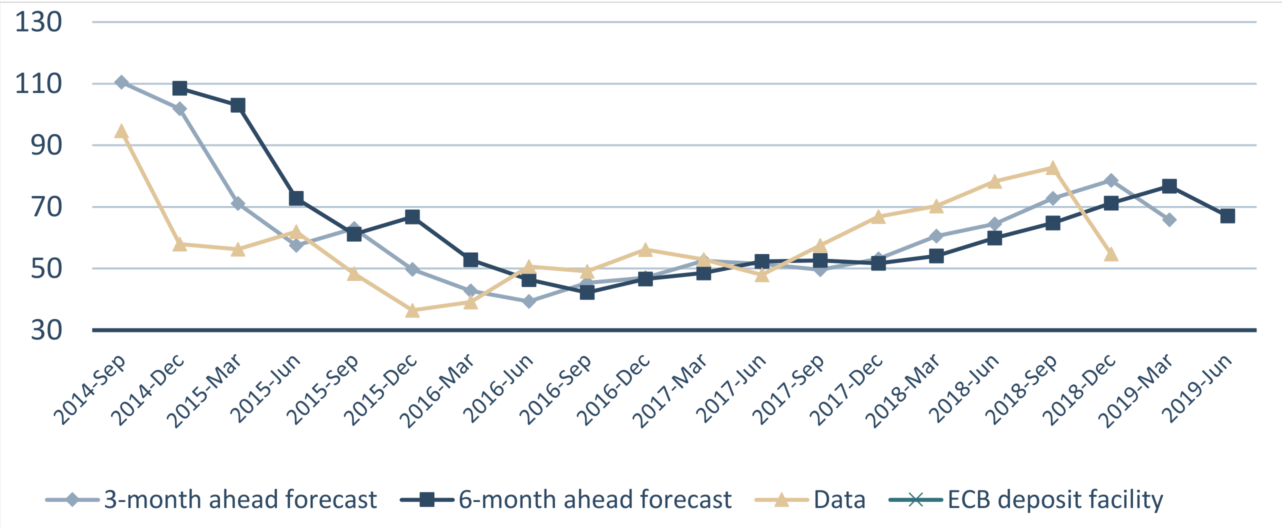
Source: Bloomberg, IW Financial Expert Survey

2.5 Oil Prices

The oil price dropped from 94.7 USD per barrel at the end of the third quarter of 2014 to 36.5 USD per barrel at the end of the year 2015. Since then the oil price experienced a slow, but long upward movement to 82.7 USD per barrel by the end of the third quarter of 2018. Then it suddenly dropped sharply to 54.7 USD in the last quarter of 2018 (figure 2-12).

Figure 2-13: Oil prices

Brent, London, US Dollars per barrel

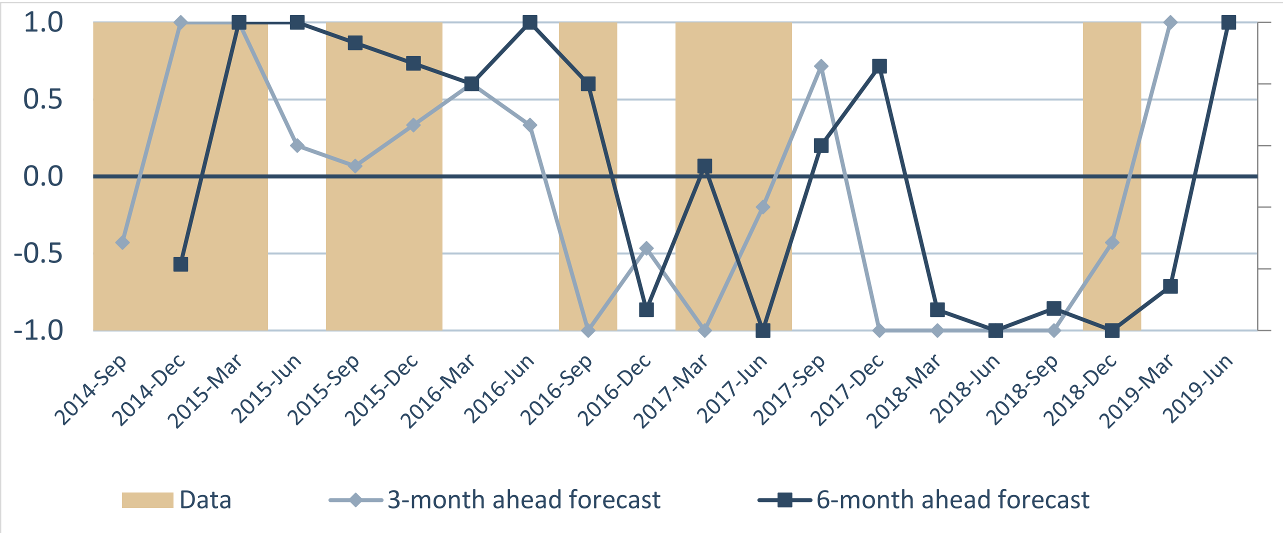


Source: Bloomberg, IW Financial Expert Survey

The forecasters over-predicted oil prices until March 2016, i.e. that oil prices declined faster than predicted by the experts. From the end of the second quarter of 2016 to the end of the third quarter of 2017, expectations converged and tracked the data well since then. However, since the end of the third quarter of 2017 the experts under-predicted oil prices, i.e. oil prices rose faster than predicted by the experts. The current large drop in oil prices was widely unexpected. Although the experts' predictions were revised downward, they still expect higher oil prices in 2019 (figure 2-12).

Figure 2-14: Trend forecasts: oil prices

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

While the majority of experts expected rising oil prices from the end of the first quarter of 2015 to the end of the third quarter of 2016, forecasters got pessimistic then. From the end of the year 2016 to the end of the first half of 2017, the majority of experts expected declining oil prices. After that, the majority of forecasters was optimistic for two quarters. For all quarters of 2018 the majority of experts predicted declining oil prices. However, for the first and the second quarter of 2019 all forecasters expect increasing oil prices (figure 2-13).

Experts expect on average that oil prices rise from currently 54.7 USD per barrel to 65.8 and 67.1 USD per barrel, which corresponds to an increase by 20.3 and 22.6 percent (table 2-4). However, the numbers imply, that the experts expect on average that most of the correction of the oil price decline takes place in the first quarter of 2019.

Table 2-4: Summary statistics: oil prices

End of survey: December 28 2018, 15 respondents

	Oil prices	Oil prices
December 28 2018 value	54.7	54.7
	3-month-ahead forecast	**6-month-ahead forecast**
Mean Forecast	65.8	67.1
Change in percent	20.3	22.6
Standard deviation	8.1	6.7
Lowest forecast	53.0	54.0
Highest forecast	80.0	78.0

Source: Bloomberg, IW Financial Expert Survey

3 Macroeconomic forecasts

We surveyed the experts on their view about the policy interest rates of the ECB and the Federal Reserve. Moreover, we surveyed the experts on their inflation and growth forecasts for Germany and the Eurozone.

The experts uniformly expect no policy change from the ECB in the first half of 2019, i.e. all experts expect the ECB's main financing rate to stay at 0.0 percent consistent with the ECB's forward guidance on its monetary policy. For the Federal Reserve Bank's interest rate decision there is, however, uncertainty among the experts about the interest rate steps by the Federal Reserve. The lowest estimate is an increase by 0.25 percentage points in the first quarter and an increase by 0.25 percentage points in the second quarter of 2019, while the highest estimate is 0.75 percentage points increase in the first quarter and 0.25 percentage points increase in the second quarter of 2018. On average the experts predict the effective Federal Funds Rate to lie in an interval from 2.43 to 2.68 percent at the end of the first quarter of 2019 and for the end of the second quarter of 2019 they predict the Funds Rate to lies in an interval ranging from 2.66 to 2.91 percent.

Table 3-1: Summary statistics: monetary policy interest rates

End of survey: December 28 2018, 15 respondents

	European Central Bank	Federal Reserve	European Central Bank	Federal Reserve
December 28 2018 value	0.00	2.00-2.25	0.00	2.00-2.25
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	0.00	2.43-2,68	0.00	2.66-2.91
Change in percent	0.00	0.43	0.00	0.66
Standard deviation	0.00	0.15	0.00	0.15
Lowest forecast	0.00	2.25-2.50	0.00	2.50-2.75
Highest forecast	0.00	2.75-3.00	0.00	3.00-3.25

Source: European Central Bank, Federal Reserve Bank of St. Louis, IW Financial Expert Survey

We also asked the experts about their projections about inflation and growth for 2019 in the Eurozone. The experts expect the growth rate of real gross domestic product to slow down from 1.7 percent in 2018 to 1.6 percent in 2019. For Germany they expect an even larger decline from 2.2 percent in 2018 to 1.4 percent in 2019.

The experts' inflation expectations are in line with their interest rate expectations. They have expected interest rates to increase only marginally and monetary policy to stay accommodative in the first half of 2019. For the Eurozone inflation rate for 2019 they expect it to be 1.7 percent, which is a value in the vicinity of the ECB's inflation target, but a value which is too low to be consistent with an interest rate hike by the ECB. For Germany the experts expect a slowdown of inflation dynamics from 2.2 percent in 2018 to 1.9 percent in 2019.

Table 3-2: Summary statistics: Inflation and growth

End of survey: December 28 2018, 15 respondents

	Inflation Euro-zone	Inflation Germany	Growth Euro-zone	Growth Ger-many
December 28 2018 value	1.5	2.4	1.7	2.2
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	1.7	1.9	1.6	1.4
Change in per-cent	0.2	0.2	-0.1	-0.8
Standard devia-tion	0.1	0.2	0.1	0.1
Lowest fore-cast	1.4	1.5	1.4	1.2
Highest fore-cast	1.9	2.1	1.7	1.7

Source: Eurostat, IW Financial Expert Survey

4 Ranking of the best performing forecasters

This section contains the results of the ranking of the best forecasters.

4.1 Trend Forecasts

In the short-term ranking, which measures the predictive accuracy of the last two 3-month ahead forecasts and the last 6-month ahead forecast, Helaba reached the first place with 72.2 percent correct trend predictions. The second place was reached by Allianz with 69.2 percent correctly predicted trends. Commerzbank, Hamburger Sparkasse and LBBW share the third rank with all three having a success rate of 66.7 percent.

In the long-term ranking, which covers the last 16 quarters, Commerzbank reached rank one with a success rate of 60.1 percent and Hamburger Sparkasse reached rank two with a success rate of 59.1 percent. DZ Bank reached rank three with a success rate of 57.6 percent (Table 4-1).

Table 4-1: The best performing trend forecasters

Forecast evaluation based on the number of precisely predicted trends, in percent

	Short-term ranking	Long-term ranking
	Evaluation period: June 2018 to September 2018	Evaluation period: September 2014 to September 2018
1	Helaba	Commerzbank
	72.2 percent	60.1 percent
2	Allianz	Hamburger Sparkasse
	69.2 percent	59.1 percent
3	Commerzbank Hamburger Sparkasse LBBW	DZ Bank
	66.7 percent	57.6 percent

Source: Bloomberg, IW Financial Expert Survey

Table 4-2: The best performing trend forecasters: single indicators

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast, evaluation period: September 2015 to September 2018

	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
	Evaluation period: October 2014 to October 2018					
1	Hamburger Sparkasse	Commerzbank	UniCredit	DekaBank	Helaba	DZ Bank National-Bank Postbank UniCedit
	84.8 percent	75.8 percent	67.7 percent	72.7 percent	69.7 percent	51.5 percent
2	Nord/LB	National-Bank	Commerzbank Weberbank	Weberbank	Allianz	Weberbank
	72.7 percent	66.7 percent	60.6 percent	66.7 percent	68.7 percent	48.5 percent
3	Commerzbank DZ Bank	Bayerische Landes-bank	DekaBank	Santander Bank	Bayerische Landes-bank	Deutsche Bank
	69.7 percent	60.6 percent	58.6 percent	60.6 percent	60.6 percent	48.1 percent

Source: Bloomberg, IW Financial Expert Survey

The accuracy rates of the trend forecasts of the long-term ranking for individual indices can be found in Table 4-2. Hamburger Sparkasse again reached the first rank for forecasting the short-term interest rate with a success rate of 84.8 percent followed by Nord/LB with a success rate of 72.7 percent. The best forecaster for the long-term interest rate was again Commerzbank with a success rate of 75.8 percent followed by National-Bank with an accuracy rate of 66.7 percent. UniCredit was the best forecaster for the Stoxx with a success rate of 67.7 percent and DekaBank was the best forecaster for the DAX with an accuracy rate of 72.7 percent. Helaba reached rank one for the best forecasters of the EUR-USD exchange rate with a success rate of 69.7 percent. DZ Bank, National-Bank, Postbank and UniCredit had the most success in forecasting oil prices with an accuracy rate of 51.5 percent each.

4.2 Point Forecasts

In the short-term all indicators ranking of the survey, Commerzbank reached the first rank followed by DekaBank on rank two and DZ Bank on rank three. In the long-term ranking National-Bank could defend rank one, while Commerzbank and Nord/LB could defend rank two and rank three (table 4-3).

Table 4-3: The best performing point forecasters

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast

	Short-term ranking	Long-term ranking
	Evaluation period: June 2018 to September 2018	Evaluation period: September 2014 to September 2018
1	Commerzbank	National-Bank
	0.741	1.047
2	DekaBank	Commerzbank
	0.773	1.072
3	DZ Bank	Nord/LB
	0.762	1.142

Source: Bloomberg, IW Financial Expert Survey

DZ Bank had the lowest forecast error variance in predicting the short-term interest rate followed by Hamburger Sparkasse and Deutsche Bank. Their predictions were better than the random walk forecast. Commerzbank reached rank one in predicting the long-term interest rate with predictions that had a lower variance of the forecast errors compared to the random walk forecast. DekaBank was again best in predicting the Stoxx Index and now also for its predictions for the DAX. National-Bank was currently best at predicting the EUR-USD exchange rate with a prediction that beat the random walk forecast. Best at predicting the oil price was Allianz followed by National-Bank and Weberbank (table 4-4).

Table 4-4: The best performing point forecasters: single indicators

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast

	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
	Evaluation period: September 2014 to September 2018					
1	DZ Bank	Commerzbank	DekaBank	DekaBank	National-Bank	Allianz
	0.771	0.981	1.014	0.943	0.994	0.993
2	Hamburger Sparkasse	National-Bank	Commerzbank	Postbank	Allianz	National-Bank
	0.788	1.008	1.200	0.968	1.004	1.020
3	Deutsche Bank	Nord/LB	Postbank	Commerzbank	Helaba	Weberbank
	0.883	1.146	1.241	1.011	1.065	1.046

Source: Bloomberg, IW Financial Expert Survey

5 Conclusion

Pessimism determines the experts' predictions for the first and second quarter of 2019 which can be inferred from the downward revisions of the experts' forecasts.

Although the experts still expect the yield curve to become steeper, they expect long-term interest rates to increase less compared to the last survey. The lower interest rate forecasts are consistent with the experts' lower inflation and growth expectations. The experts expect 1.7 percent inflation in the Eurozone and a growth rate of real gross domestic product of 1.6 percent for 2019, which indicates a slowdown of economic growth and a failure of the European Central Bank (ECB) in meeting its inflation target. Given that, the experts expect the long-term interest rate to be 0.51 percent at the end of the first quarter of 2019, which is 0.24 percentage points lower than their prediction in the last survey. For the short rate the experts expect no change, since they expect the ECB's main refinancing rate to stay at 0.0 percent in the first half of 2019. But the experts expect the yield of US Treasury bonds to increase from 2.86 percent to 3.31 percent by the end of the first half of 2019 and thereby a growing interest rate differential between the US and Europe. Given the less accommodative monetary policy by the ECB in 2019 the experts forecast of a mild appreciation of the Euro from 1.138 US-Dollar to 1.143 US-Dollar in the first quarter and to 1.162 US-Dollar in the second quarter of 2019.

Although the experts revised their stock market forecasts downwards, they expect the DAX and the Stoxx index to recover in the first half of 2019. On average, the experts predict the Stoxx index to increase from 2.807 points at the end of the fourth quarter of 2018 to 2.951 points at the end of the first quarter of 2019 and to 3.072 points at the end of the second quarter of 2019.

This would correspond to increases of 5.1 percent and 9.4 percent since December 2018. Moreover, the experts expect the DAX to increase from 10.788 to 11.396 in the first quarter of 2019 and to 11.919 in the second quarter of 2019, which corresponds to increases by 5.6 and 10.5 percent since end of December 2018. Interesting is that the experts expect the Stoxx and the DAX to grow faster than the S&P 500, which we surveyed for the first time. For the S&P 500 the experts only expect increases by 0.7 and 5.3 percent.

In the long-term ranking, which covers the last 16 quarters, National-Bank could defend rank one, while Commerzbank and Nord/LB could defend rank two and rank three.

6 Appendix: Individual Forecasts

Table 6-1: Individual forecasts: short-term interest rate

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	-0.33	-0.33
Commerzbank	-0.30	-0.30
DekaBank	-0.30	-0.28
Deutsche Bank	-0.32	-0.29
DZ Bank	-0.30	-0.25
Hamburger Sparkasse	-0.30	-0.30
Helaba	-0.30	-0.25
LBBW	-0.30	-0.30
National-Bank	-0.31	-0.30
Nord/LB	-0.31	-0.28
Postbank	-0.30	-0.30
Santander Bank	-0.30	-0.25
UniCredit	-0.30	-0.30
Weberbank	-0.20	-0.20

Source: IW Financial Expert Survey

Table 6-2: Individual forecasts: long-term interest rate

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	0.60	0.70
Commerzbank	0.30	0.55
DekaBank	0.40	0.50
Deutsche Bank	0.78	0,91
DZ Bank	0.50	0.60
Hamburger Sparkasse	0.40	0.50
Helaba	0.60	0.80
LBBW	0.75	0.90
National-Bank	0.35	0.42
Nord/LB	0.40	0.50
Postbank	0.60	0.70
Santander Bank	0.30	0.40
UniCredit	0.55	0.65
Weberbank	0.60	0.70

Source: IW Financial Expert Survey

Table 6-3: Individual forecasts: US long-term interest rate

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	3.20	3.30
Commerzbank	2.90	3.20
DekaBank	3.20	3.25
Deutsche Bank	3.70	3.75
DZ Bank	3.20	3.40
Hamburger Sparkasse	2.80	2.90
Helaba	3.40	3.50
LBBW	3.30	3.40
National-Bank	3.00	3.15
Nord/LB	3.15	3.25
Postbank	3.35	3.60
Santander Bank	3.00	3.10
UniCredit	3.25	3.30
Weberbank	3.20	3.30

Source: IW Financial Expert Survey

Table 6-4: Individual forecasts: Stoxx Index

In index points

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	2,960	3,150
Commerzbank	2,700	2,700
DekaBank		
Deutsche Bank		
DZ Bank	2,900	3,050
Hamburger Sparkasse	2,860	2,900
Helaba	3,120	3,240
LBBW		
National-Bank	3,400	3,500
Nord/LB	3,025	3,150
Postbank	2,900	3,000
Santander Bank	2,850	2,950
UniCredit	2,950	3,100
Weberbank	2,800	3,050

Source: IW Financial Expert Survey

Table 6-5: Individual forecasts: DAX 30 Index

In index points

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	11,600	12,500
Commerzbank	10,200	10,200
DekaBank	10,500	10,500
Deutsche Bank		
DZ Bank	11,200	11,600
Hamburger Sparkasse	11,000	11,800
Helaba	12,300	12,700
LBBW	12,500	13,000
National-Bank	12,400	12,800
Nord/LB	12,800	12,200
Postbank	11,250	11,750
Santander Bank	11,100	11,500
UniCredit	11,800	12,500
Weberbank	10,500	11,900

Source: IW Financial Expert Survey

Table 6-6: Individual forecasts: S&P 500

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	2,720	2,950
Commerzbank		
DekaBank	2,400	2,500
Deutsche Bank		
DZ Bank	2,700	2,850
Hamburger Sparkasse	2,400	2,500
Helaba	2,800	2,850
LBBW		
National-Bank	3,050	3,100
Nord/LB	2,775	2,825
Postbank	2,600	2,700
Santander Bank	2,600	2,700
UniCredit		
Weberbank	2,500	2,800

Source: IW Financial Expert Survey

Table 6-7: Individual forecasts: EUR-USD exchange rate

In US Dollars per 1 Euro

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	1.15	1.17
Commerzbank	1.14	1.16
DekaBank	1.16	1.19
Deutsche Bank	1,16	1.18
DZ Bank	1.15	1.17
Hamburger Sparkasse	1.14	1.17
Helaba	1.15	1.21
LBBW	1.12	1.16
National-Bank	1.16	1.14
Nord/LB	1.15	1.17
Postbank	1.13	1.15
Santander Bank	1.15	1.15
UniCredit	1.10	1.08
Weberbank	1.15	1.17

Source: IW Financial Expert Survey

Table 6-8: Individual forecasts: oil prices

Brent, in US Dollars per barrel

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	75	70
Commerzbank	60	63
DekaBank	70	69
Deutsche Bank	80	78
DZ Bank	63	65
Hamburger Sparkasse	60	65
Helaba	73	75
LBBW	55	60
National-Bank	53	54
Nord/LB	67	65
Postbank	70	75
Santander Bank	56	60
UniCredit	75	75
Weberbank	65	65

Source: IW Financial Expert Survey

Table 6-9: Individual forecasts: ECB main refinancing rate

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	0.00	0.00
Commerzbank	0.00	0.00
DekaBank	0.00	0.00
Deutsche Bank	0.00	0.00
DZ Bank	0.00	0.00
Hamburger Sparkasse	0.00	0.00
Helaba	0.00	0.00
LBBW	0.00	0.00
National-Bank	0.00	0.00
Nord/LB	0.00	0.00
Postbank	0.00	0.00
Santander Bank	0.00	0.00
UniCredit	0.00	0.00
Weberbank	0.00	0.00

Source: IW Financial Expert Survey

Table 6-10: Individual forecasts: Federal Funds Rate

In percent

Forecaster	End of March 2019	End of June 2019
Bayerische Landesbank	2.25-2.50	2.75-3.00
Commerzbank	2.25-2.50	2.75-3.00
DekaBank	2.75-3.00	3.00-3.25
Deutsche Bank	2.75-3.00	3.00-3.25
DZ Bank	2.75-3.00	3.00-3.25
Hamburger Sparkasse	2.50-2.70	2.75-3.00
Helaba	2.75-3.00	3.00-3.25
LBBW	2.75-3.00	3.00-3.25
National-Bank	2.50-2.75	2.75-3.00
Nord/LB	2.75-3.00	2.75-3.00
Postbank	3.00-3.25	3.25-3.50
Santander Bank	2.50-2.75	2.75-3.00
UniCredit	2.75-3.00	3.00-3.25
Weberbank	2.75-3.00	3.00-3.25

Source: IW Financial Expert Survey

Table 6-11: Individual forecasts: consumer price inflation

Forecasts for 2019, in percent

Forecaster	Germany	Eurozone
Bayerische Landesbank	1.9	1.7
Commerzbank	2.1	1.7
DekaBank	1.7	1.4
Deutsche Bank	1.9	1.6
DZ Bank	1.9	1.7
Hamburger Sparkasse	1.8	1.8
Helaba	2.1	1.9
LBBW	1.8	1.8
National-Bank	1.8	1.7
Nord/LB	1.6	1.5
Postbank	2.0	1.9
Santander Bank	1.8	1.5
UniCredit	2.0	1.8
Weberbank	1.5	1.7

Source: IW Financial Expert Survey

Table 6-12: Individual forecasts: real GDP growth

Forecasts for 2019, in percent

Forecaster	Germany	Eurozone
Bayerische Landesbank	1.3	1.4
Commerzbank	1.2	1.4
DekaBank	1.5	1.6
Deutsche Bank	1.3	1.7
DZ Bank	1.4	1.5
Hamburger Sparkasse	1.2	1.5
Helaba	1.5	1.6
LBBW	1.4	1.5
National-Bank	1.7	1.7
Nord/LB	1.3	1.4
Postbank	1.3	1.6
Santander Bank	1.3	1.5
UniCredit	1.5	1.7
Weberbank	1.6	1.6

Source: IW Financial Expert Survey

Tables

Figures