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Research Report

IW Financial Expert Survey: Fourth Quarter 2019

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Wirtschaftliche Untersuchungen,
Berichte und Sachverhalte



IW-Report 37/19

IW Financial Expert Survey: Fourth Quarter 2019

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Cologne, October 21, 2019

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JEL Classification:

G12 – Asset pricing

G17 – Financial forecasting

Abstract

Pessimism determines the experts' predictions for the last quarter of 2019 and first quarter of 2020, which can be inferred from the downward revisions of the experts' forecasts. More downward revisions than upward revisions indicate that the experts have interpreted the incoming information between end of June 2018 and end of September 2019 mostly as bad news. Part of the forecast revisions for the interest rates is due to the experts' subdued inflation and growth outlooks. All experts have revised their growth outlooks for Germany and the Euro Area downwards. So were inflation forecasts for Germany revised downwards by 8 experts, while inflation outlooks for the Euro Area were revised upwards by 7 experts. The other part of the interest rate forecast revisions were due to revisions about the future path of monetary policy interest rates, which also reflect a subdued inflation and growth outlook. While no experts expect the ECB to change its monetary policy, 12 experts have revised their forecasts for the federal funds rate downwards.

The experts still expect the yield curve to become flatter. The lower forecasts for the short-term interest rate are consistent with the experts' lower inflation and growth expectations. For 2020, the experts expect 1.3 percent inflation in the Eurozone and a growth rate of real gross domestic product of 1.0 percent, which indicates a slowdown of economic growth and a failure of the European Central Bank (ECB) to meet its inflation target. Given that, the experts lowered their outlook for the long-term interest rate to -0.49 percent at the end of the first quarter of 2020. For the short rate, the experts predict a downward change to -0.57 percent during the first quarter of 2020. In line with that, the experts expect the yield of US Treasury bonds to increase slightly from 1.66 percent to 1.69 percent by the end of the first quarter of 2020, although they expect the Federal Funds Rate to decline from 1.75 – 2.00 percent to 1.40 to 1.66 percent averaged over their individual forecasts. Despite the accommodative monetary policy stance of the ECB in 2019, the experts predict an appreciation of the Euro from 1.090 US-Dollar to 1.131 US-Dollar during the first quarter of 2020.

Although some of the experts revised their stock market forecasts downwards, they expect the DAX to decrease slightly by -0.1 percent and the Stoxx index and the S&P 500 to increase by 1.3 percent and 2.3 percent by the end of the first quarter of 2020.

In the long-term ranking, which covers the last 18 quarters, National-Bank defended rank one, while Nord/LB moved from rank three to rank two and Commerzbank moved from rank two to 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 Prognosestest.

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 experts 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

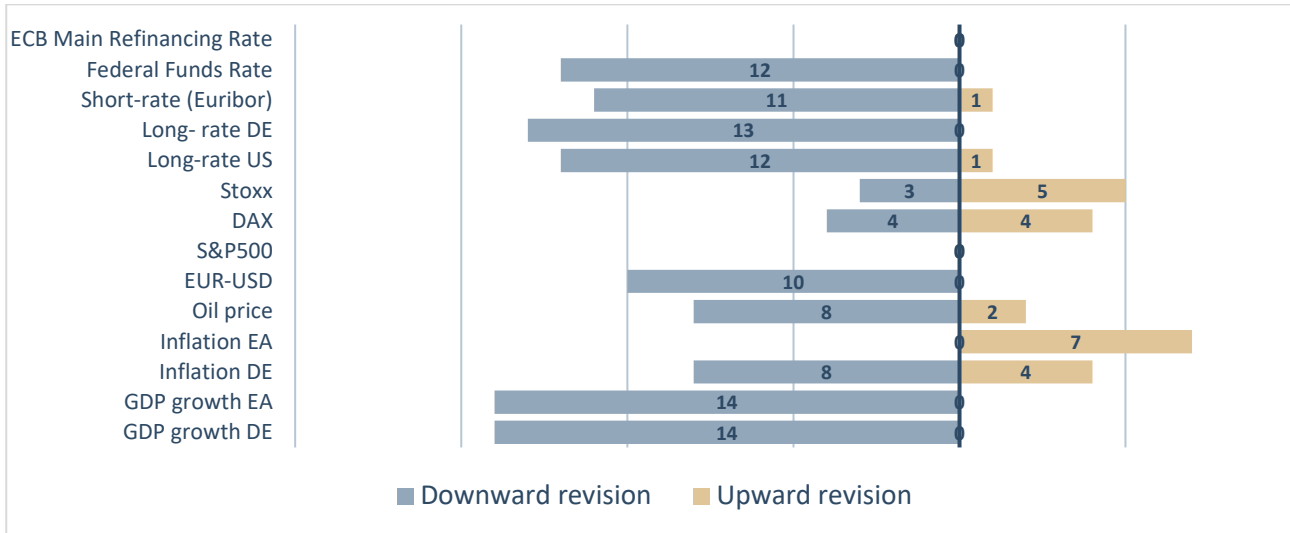
This section contains an analysis of the current financial market forecasts for the end of the fourth quarter of 2019 and the end of the first quarter of 2020. The individual point forecasts, which the experts have submitted, were aggregated to a mean forecast. Moreover, trend forecasts were calculated from the individual point forecasts and the most recent data points of the indicators.

2.1 Upward and downward revisions

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 forecasts when new information arrives. To this end, the differences between the forecasts for the end of December 2019 from October 2019 and the forecasts for the end of December 2019 from June 2019 were compared. In the case that the forecasters interpret the incoming economic indicators that have arrived between June 2019 and October 2019 as good news, the forecasters would have revised their forecasts for December 2019 upwards, leading to a positive difference between the forecast based on information available on June 2019 and the forecast based on information available in October 2019. 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: Upward and downward revisions

Revisions are calculated as the differences between the forecasts for December 2019 from September 2019 and the forecasts for June 2019 from September 2019, number of forecasters with a positive difference (upward revision) or a negative difference (downward revision)



Source: Bloomberg, IW Financial Expert Survey

From figure 2-1 can be inferred that most of the experts revised their interest rate forecasts for the end of the year 2019 downwards based on the incoming information between July, August and September 2019. While all experts expect no change for the ECB' main refinancing rate until the end of the year, 12 experts revised their expectation about the Federal Funds Rate downwards. In line with this, 13 experts expect a lower long-term interest rate in the US compared to their forecast based on the information available in June 2019. For the Euro area the experts share a more pessimistic view now. Compared to their forecasts for the end of the year 2019 based on the information available in June 2019, they expect lower interest rates now. For the short-rate 11 experts revised their forecasts downwards, while 13 experts revised their forecasts for the German sovereign bond with 10 years maturity downwards.

Concerning the growth of the stock markets, the experts have interpreted the incoming information in July, August and September differently. While 3 experts revised their outlook for the Stoxx downwards and 5 experts revised their outlook upwards, most of the experts have interpreted the incoming information in a neutral way. The experts made a similar assessment for the DAX. While 4 experts have revised their outlook downwards and 4 experts have revised their outlooks upwards, most of the experts did not revise their forecasts for the DAX. The experts were a bit more optimistic in their outlook for the S&P 500. While only 3 experts have revised their outlook downwards, 6 experts have revised their outlook upwards.

In line with the more pessimistic interest rate outlook, the experts expect the EUR-USD exchange rate to decline. In line with this, 10 experts revised their outlook for the end of the year downwards based on the incoming information in July, August and September.

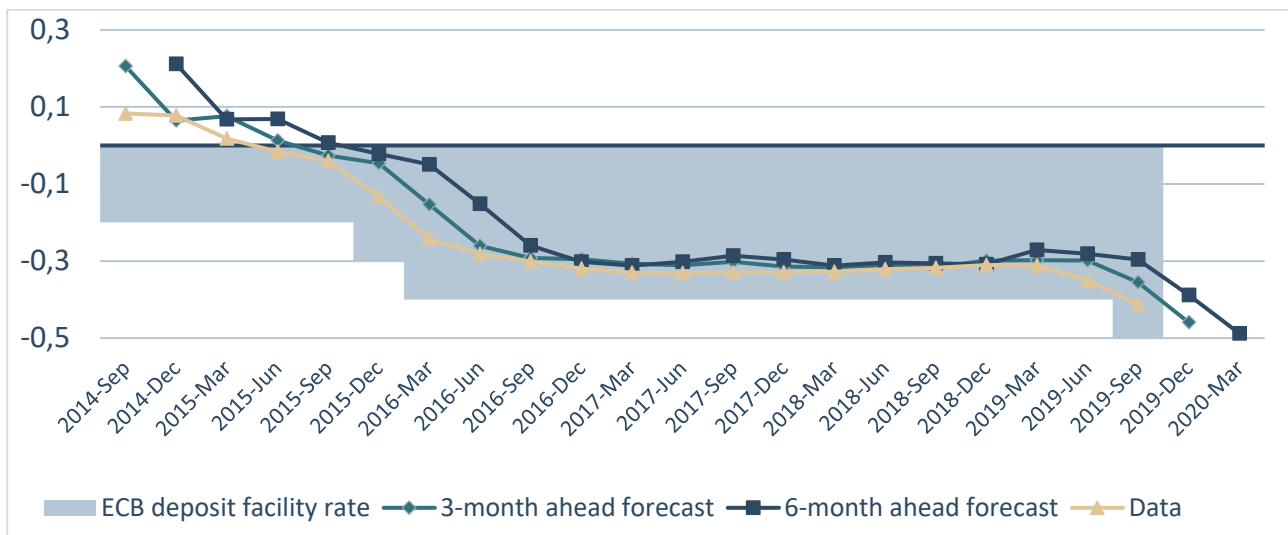
Eight experts have revised their oil price forecasts for the end of the year 2019 downwards. In line with this have eight experts revised their outlook for inflation for 2020 in Germany downwards. For the Euro area, 7 experts have revised their inflation expectations upwards. For the growth outlook the experts are more pessimistic. All experts have revised their forecasts for growth in Germany as well as for the Euro area downwards.

2.2 Interest rates

Most experts have revised their interest rate outlook for the end of the year 2019 downwards. Since we began to survey the experts, the short-term interest rate was characterized by a downward movement 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 -0.31 percent by the end of the fourth quarter of 2018. Since then, the short-rate started to decline again. 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. After the latest cut in the deposit rate by the ECB to -0.4 percent, the 3-month Euribor dropped leading to a decline in the forecasts for December 2019 to -0.46 percent and for March 2020 to -0.49 percent (figure 2-1).

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

3-Month Euribor, in percent



Source: Bloomberg, IW Financial Expert Survey

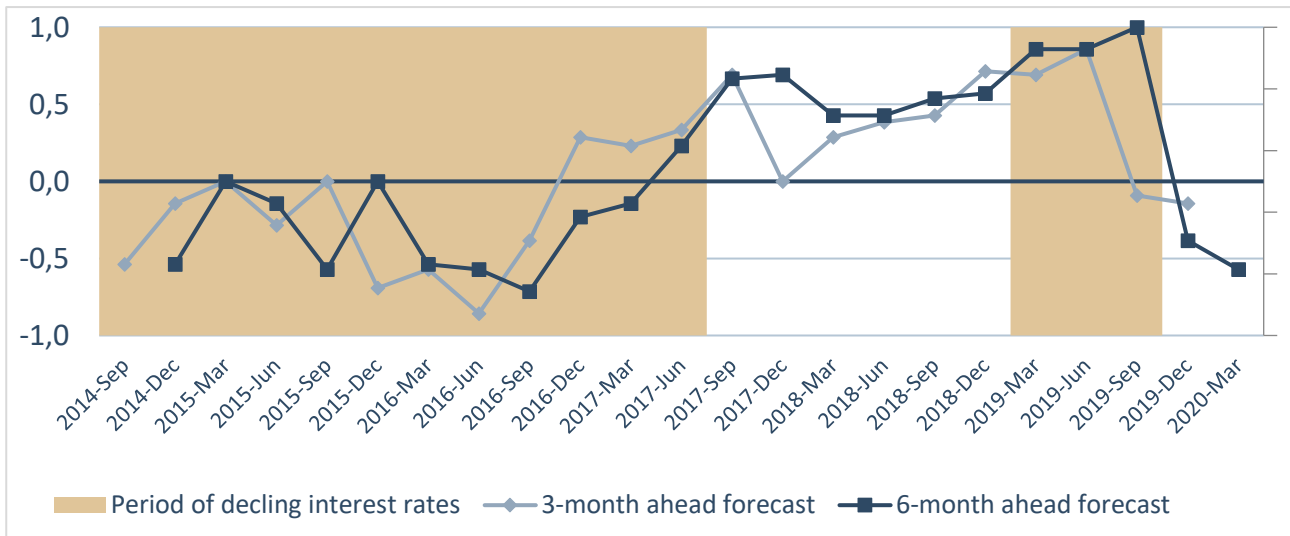
The figure 2-1 contains the data at the last trading day of each quarter together with the mean prediction of the experts, i.e. the average over all individual point forecasts. While the mean prediction over-predicted the short-rate for most of the time during the early years, the over-prediction became 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' assessment of the lower bound on interest rates have settled there, since the ECB's deposit facility rate has remained at its floor of -0.4 percent since then. After the ECB has lowered its deposit facility rate to -0.5 percent, the experts assessed the lower bound on interest rates again.

The interest rate forecasts for the short-rate seem to be very precise now. The mean forecasts for the end of the fourth quarter of 2019 and the end of the first quarter of 2020 are -0.46 percent and -0.49 percent with standard deviations of 0.08 and 0.07 percentage points (table 2-1). From the forecasts can be concluded that the experts expect a lasting negative interest rate period in line with the ECB's forward guidance on its monetary policy. That the experts rely on the ECB's forwards guidance for making predictions can be seen from their expectation of the ECB's main refinancing rate: no expert expects a change in monetary policy by the end of the survey horizon.

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



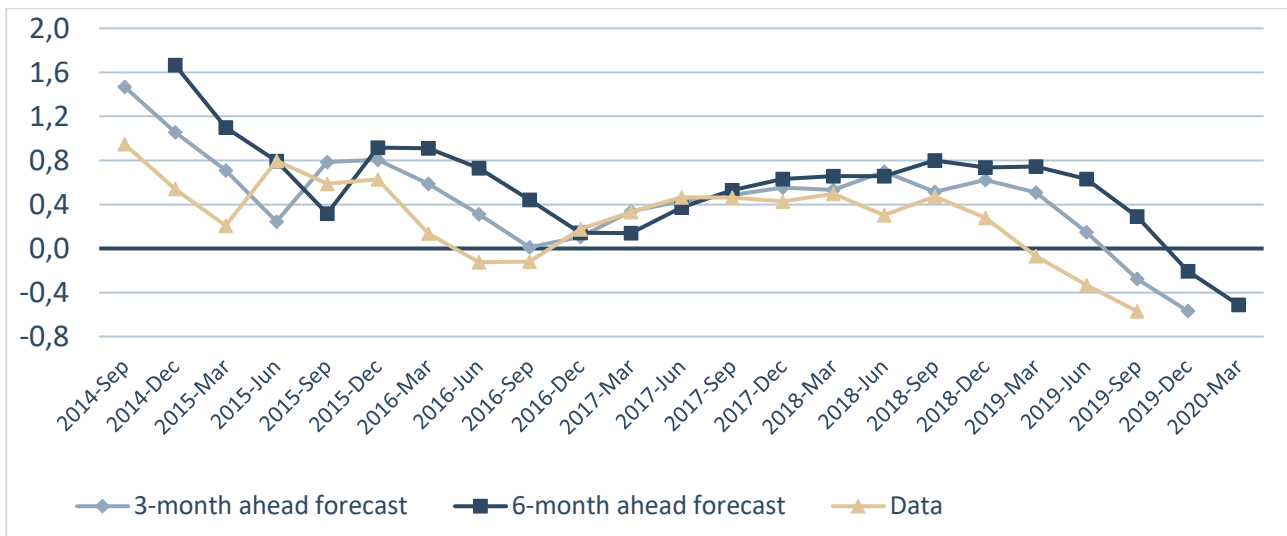
Source: Bloomberg, IW Financial Expert Survey

Figure 2-2 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.

In the period from when we began surveying the experts until June 2017 the short-term interest rate was characterized by a downward trend and the majority of experts predicted declining interest rates. Then the experts started to become more optimistic. While the short-term interest rate stayed more or less constant until December 2018, most experts predicted a rising short-term interest rate. In the year 2019 the short-term interest rate started to decline again and most of the experts predict a downward trend in interest rates (figure 2-2).

Figure 2-4: Long-term interest rate in Germany

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



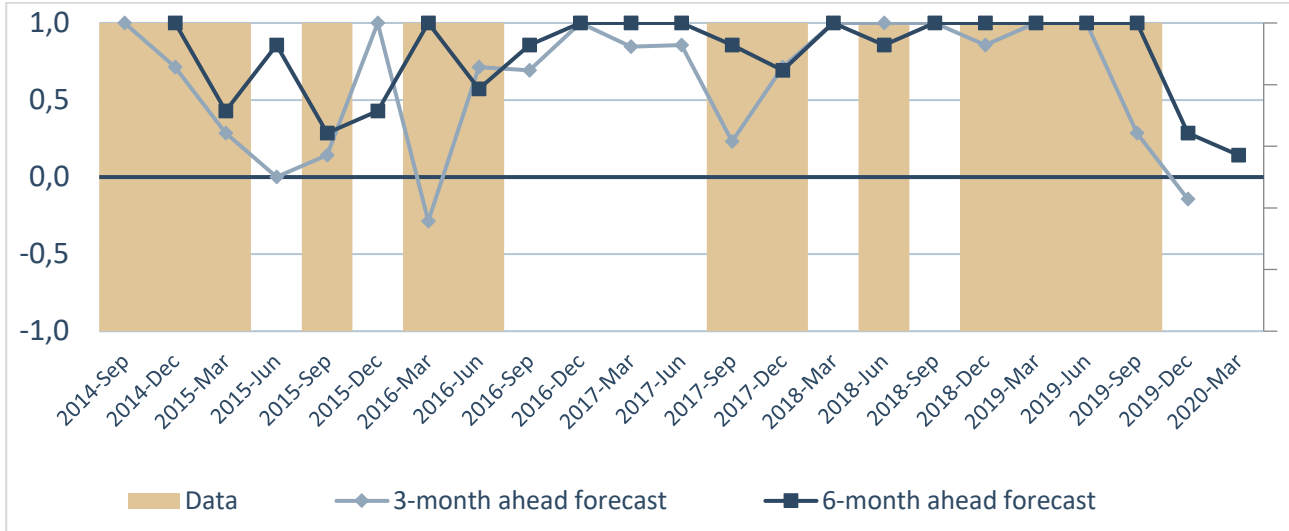
Source: Bloomberg, IW Financial Expert Survey

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 0.50 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. The long-term interest rate for Germany became negative again during the first quarter of 2019, where it stayed up to now. The experts expect the long-rate to stay negative at least until the end of the first quarter of 2020 (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. Experts expect on average the long-rate to stay at the current value of -0.57 percent until the end of the year and to increase to -0.51 percent during the first quarter of 2020 with standard deviations of 0.11 and 0.10 percentage points (table 2-1).

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

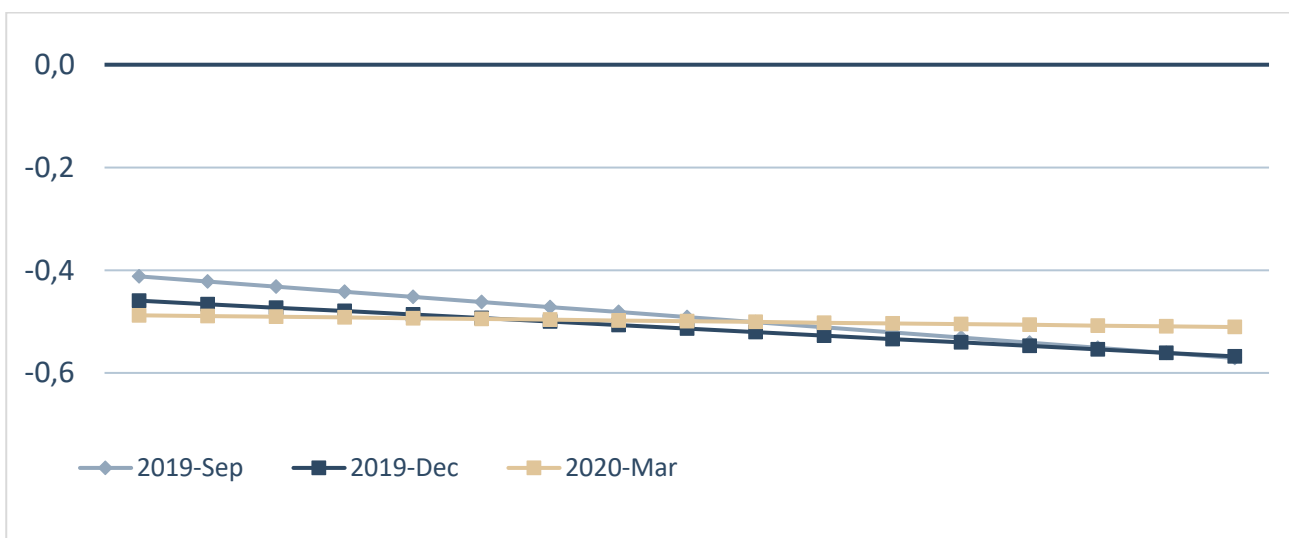


Source: Bloomberg, IW Financial Expert Survey

The majority of experts was optimistic most of the time when it came to predict the trend in the long-rate in Germany, 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, many forecasters have become pessimistic again. For both forecasting horizons, approximately half 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 flatter. While they predict the short end of the yield curve to decline from currently -0.41 percent to -0.49 percent at the end of the first quarter of 2020, they predict the long end to increase from currently -0.57 percent to -0.51 percent. The expectation of a flatter yield curve is consistent with the expectation of slowing economic growth.

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 fourth time. The experts no longer expect the US yields to increase, but to stay constant at the current value of 1.66 percent until the end of the year and to increase slightly to 1.69 percent during the first quarter of 2020 (table 2-1). Thus, the experts expect the interest rate differential between the US and German to decline slightly from currently 2.24 percentage points to 2.20 percentage points by the end of the first quarter of 2020.

Table 2-1: Summary statistics: interest rates

End of survey: 28th September 2019, 14 respondents for the short rate and the long rate

	Short rate	Long rate	US Long rate	Short rate	Long rate	US Long rate
Value from 28 th September 2019	-0.41	-0.57	1.66	-0.41	-0.57	1.66
	3-month-ahead forecast			6-month-ahead forecast		
Mean Forecast	-0.46	-0.57	1.66	-0.49	-0.51	1.69
Change in perc. points	-0.05	0.00	0.00	-0.08	0.06	0.02
Standard deviation	0.08	0.11	0.16	0.07	0.10	0.17
Lowest forecast	-0.66	-0,75	1.25	-0.66	-0.65	1.40
Highest forecast	-0.39	-0,40	1.85	-0.40	-0.35	1.90

Source: Bloomberg, IW Financial Expert Survey

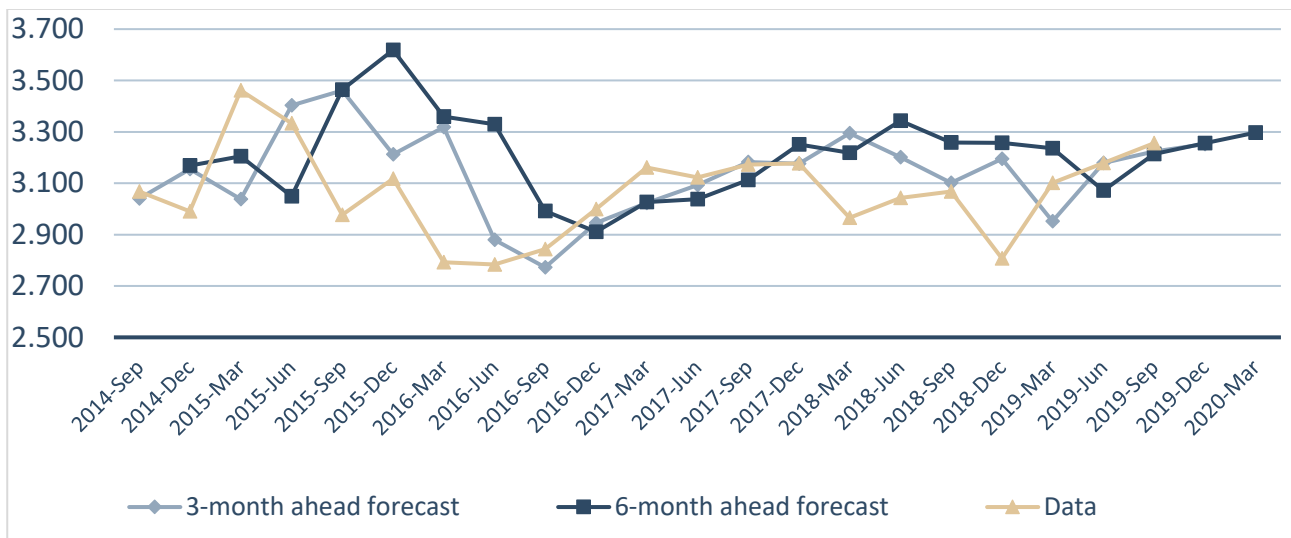
2.3 Stock Market Performance

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 to 3 161 points by the end the first quarter of 2017. 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. Within the first quarter of 2019, the Stoxx index recovered to 3 101 points. Forecasts also recovered. On average, the forecasters expect higher stock prices than today (figure 2-6). They predict the Stoxx index to move from currently 3 256 to 3 252 points by the end of the year 2019 and to 3 297 points by the end of the first quarter of 2020, which would result in an increase by 1.3 percent.

Figure 2-7: Point forecasts: Stoxx 50 Europe

Index

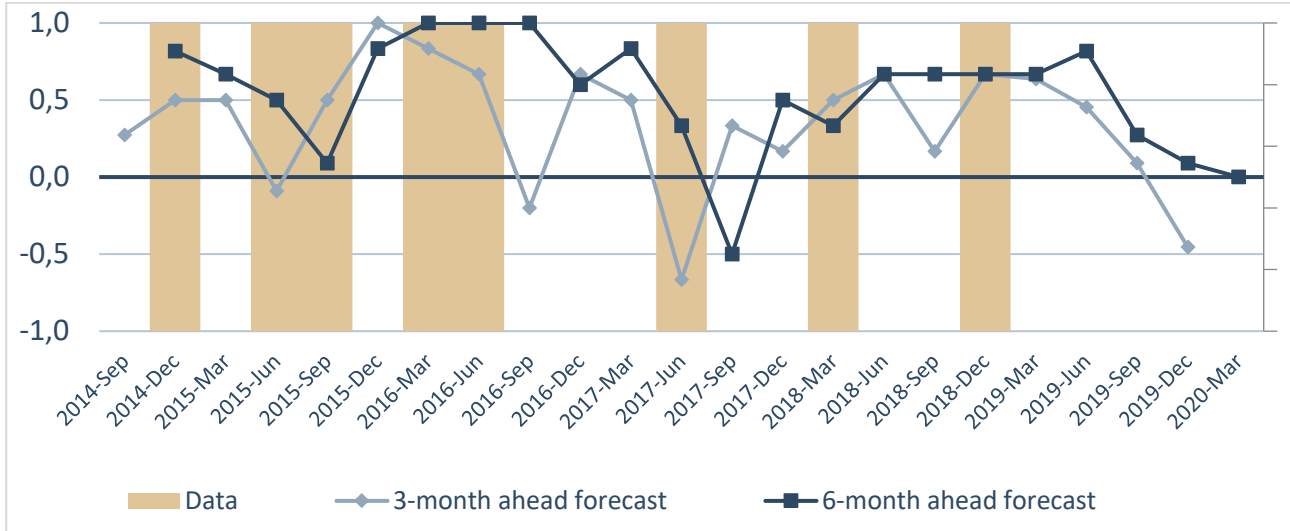


Source: Bloomberg, IW Financial Expert Survey

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. Like the Stoxx index did the DAX experience a drop in the fourth quarter of 2018. Although the expectations for the second and the third quarter of 2019 dropped, the experts expect the DAX to recover from the slump (figure 2-8). The surveyed experts expect the DAX to decline from currently 12 428 to 12 292 by the end of the year 2020 and to 12 421 during the first quarter of 2020. This corresponds to decreases by -1.1 and -0.1 percent. The experts are more optimistic in their outlook for the S&P 500 index. They expect it to increase from currently 2 977 to 3 000 points by the end of the year and to 3 046 during the first quarter of 2020. This would correspond to an increase by 2.3 percent compared to the expected increase of the Stoxx by 1.3 percent.

Figure 2-8: Trend forecasts: Stoxx Europe Index

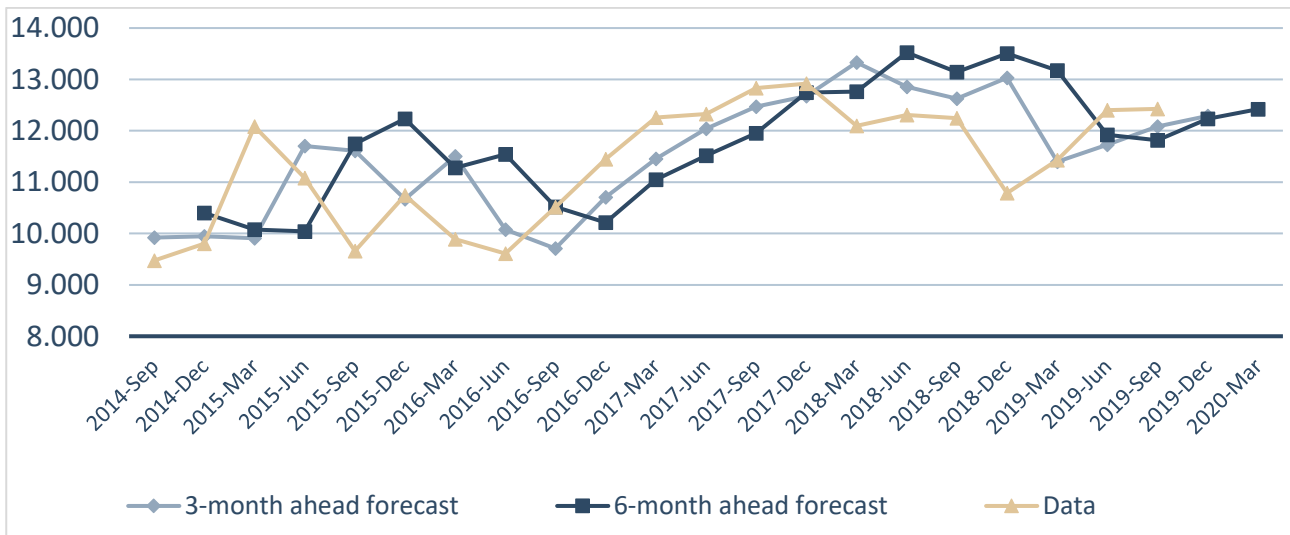
Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

Figure 2-9: DAX 30 Index

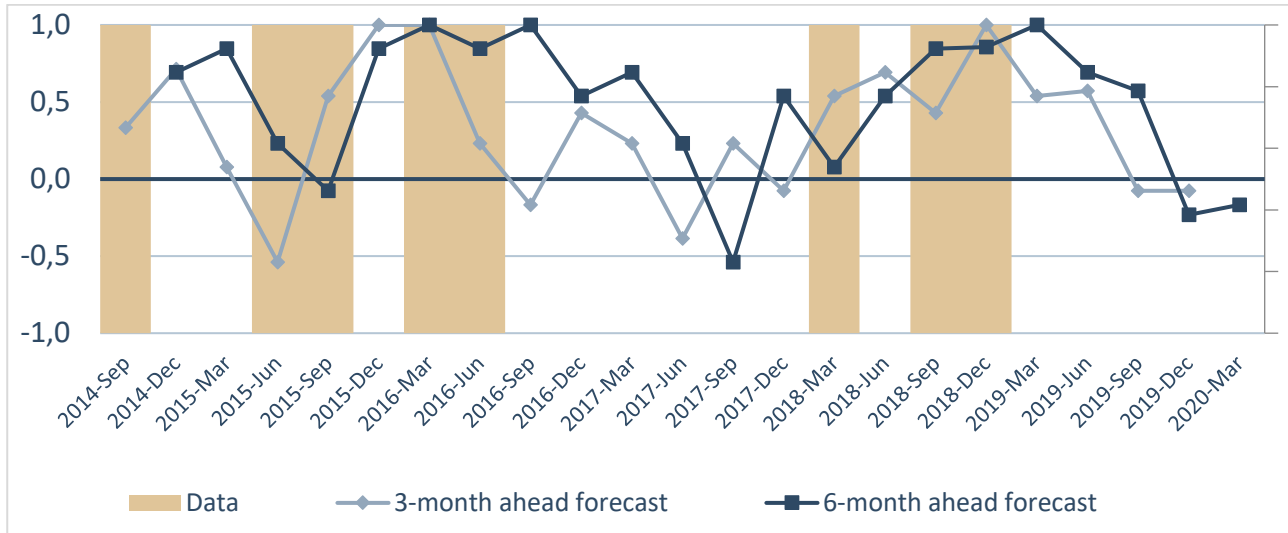
Index



Source: Bloomberg, IW Financial Expert Survey

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: 28th September 2019, 12 respondents for the Stoxx 50, 13 respondents for the DAX 30 and 10 respondents for the S&P 500

	Stoxx 50	DAX 30	S&P 500	Stoxx 50	DAX 30	S&P 500
Value from 28 th September 2019	3 256	12 428	2 977	3 256	12 428	2 977
	3-month-ahead forecast			6-month-ahead forecast		
Mean Forecast	3 252	12 292	3 000	3 297	12 421	3 046
Change in per-cent	-0.1	-1.1	0.8	1.3	-0.1	2.3
Standard deviation	165	365	84	194	434	82
Lowest forecast	3 050	11 700	2 900	3 025	11 600	2 925
Highest forecast	3 665	12 800	3 150	3 756	13 100	3 150

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). 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 pessimists 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. Currently, the experts have mixed views about the development of the DAX and the Stoxx.

2.4 Foreign Exchange

The EUR-USD exchange rate declined 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 increased to 1.23 USD per one Euro at the end of the first quarter of 2018. It then started to decline to currently 1.09 USD.

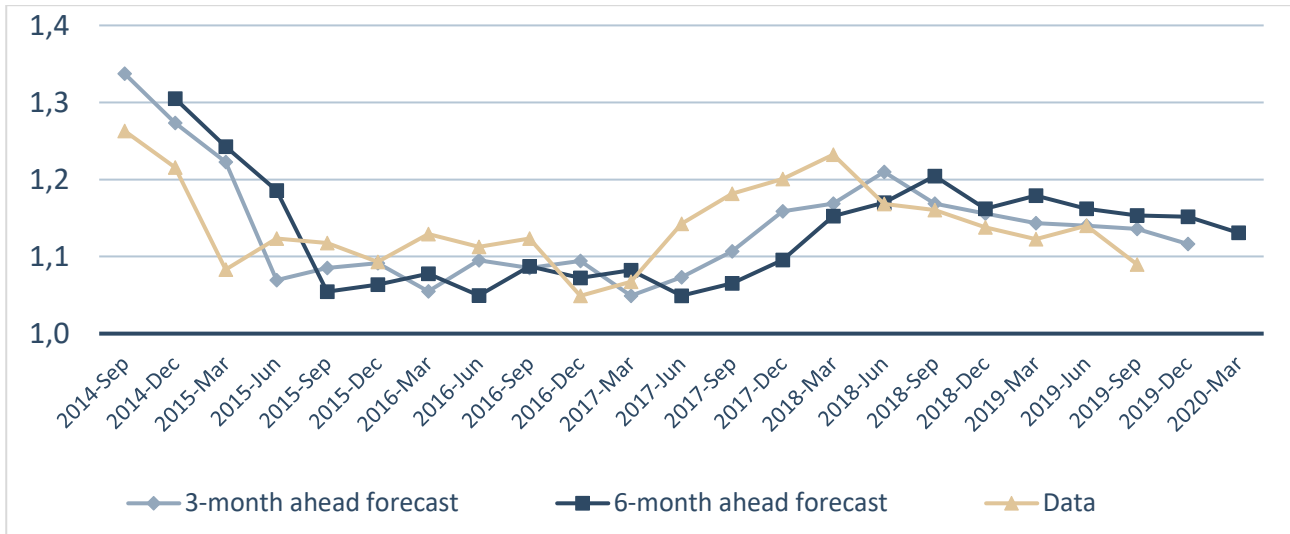
The experts over-predicted the exchange rate between the end of 2014 and the end of the first half of 2015. In fact, the exchange rate declined faster than predicted by the experts. In the years 2015 to 2017, when the exchange rate moved more or less sideways, the forecasts converged. However, from the 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. This depreciation has continued with a decline to 1.12 USD by the end of the first quarter of 2019 (figure 2-10). However, the experts predict the Euro to appreciate to 1.116 USD (+2.4 percent) by the end of the year 2019 and to 1.131 USD (+3.7 percent) by the end of the first quarter of 2020 (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. Since the beginning of the year 2019, most experts expect an appreciation (figure 2-11).

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

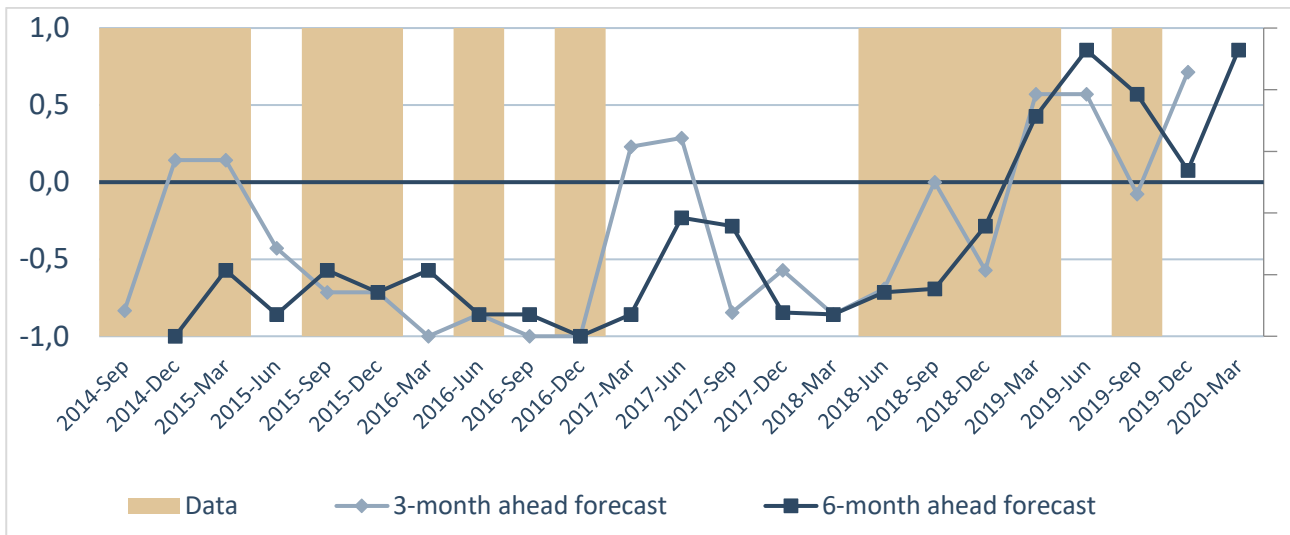
US Dollars per 1 Euro



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: 28th September 2019, 14 respondents, in US Dollars per 1 Euro

	EUR-USD	EUR-USD
Value from 28 th September 2019	1.090	1.090
	3-month-ahead forecast	6-month-ahead forecast
Mean Forecast	1.116	1.131
Change in percent	2.4	3.7
Standard deviation	0.022	0.025
Lowest forecast	1.070	1.070
Highest forecast	1.150	1.160

Source: Bloomberg, IW Financial Expert Survey

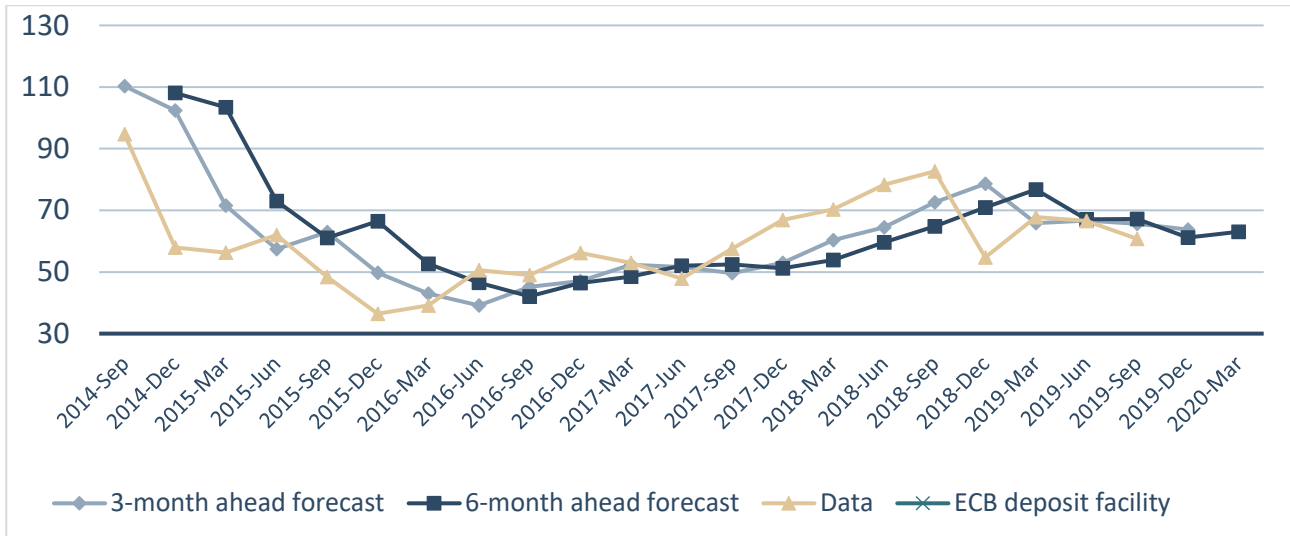
2.5 Oil Prices

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 until the end of the third quarter of 2018. Then it suddenly dropped sharply to 54.7 USD (-33.9 percent) in the last quarter of 2018. During the first quarter of 2019, the oil price recovered to 67.8 USD (24.0 percent). Currently, the oil price declined to 60.8 USD.

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 experts predict a price hike for the next two quarters (figure 2-12). On average, the experts expect the oil price to increase from currently 60.8 USD to 63.8 USD by the end of the year and to decline slightly to 63.1 USD by the end of the first quarter of 2020. From the viewpoint of today, the corresponding increases would be 4.9 percent and 3.8 percent.

Figure 2-13: Oil prices

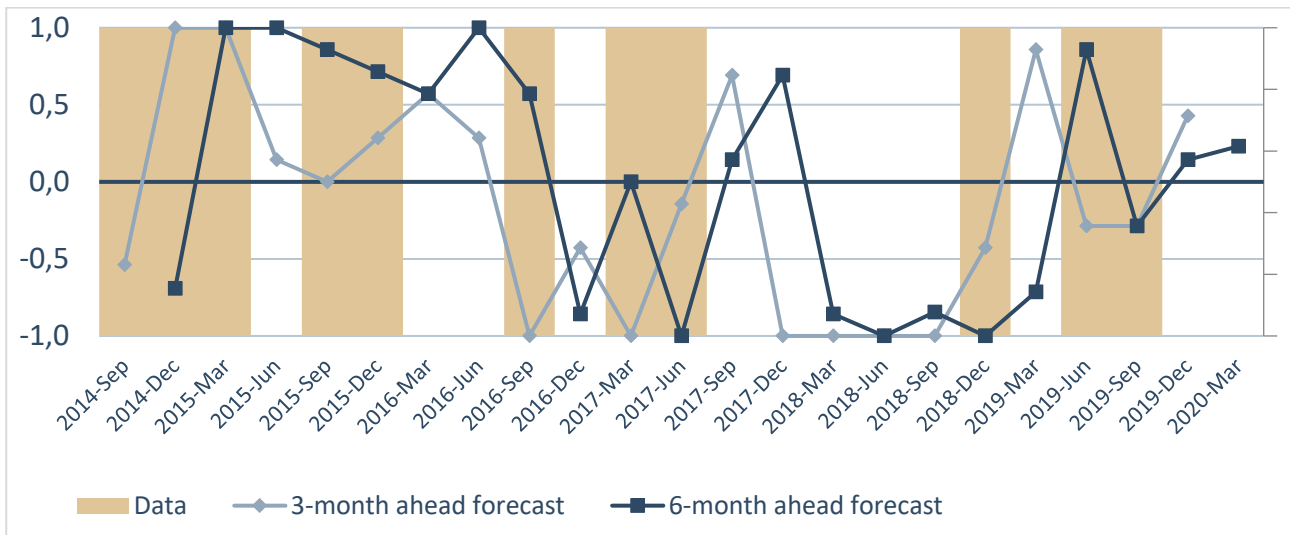
Brent, London, US Dollars per barrel



Source: Bloomberg, IW Financial Expert Survey

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. Now, the majority of forecasters expect oil prices to increase (figure 2-13).

Table 2-4: Summary statistics: oil prices

 End of survey: 28th September 2019, 14 respondents

	Oil prices	Oil prices
Value from 28 th September 2019	60.8	60.8
	3-month-ahead forecast	6-month-ahead forecast
Mean Forecast	63.8	63.1
Change in percent	4.9	3.8
Standard deviation	2.9	2.8
Lowest forecast	60.0	59.0
Highest forecast	70.0	68.0

Source: Bloomberg, IW Financial Expert Survey

3 Macroeconomic forecasts

Since the first quarter of 2019, we also survey the experts on their view about the policy interest rates of the ECB and the Federal Reserve. Moreover, we survey the experts on their inflation and growth forecasts for Germany and the Eurozone.

The experts uniformly expect no change in the ECB's main refinancing rate at least until the end of the first quarter of 2020, 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. The experts expect the Federal Reserve Bank's effective Federal Funds Rate to lie in the interval from 1.56 percent to 1.82 percent by the end of the year and to lie in the interval from 1.40 to 1.66 percent by the end of the first quarter of 2020. The lowest estimate is no changes in the second and third quarter, while the highest estimate is a 0.5 percentage points interest rate cut in the last quarter of 2019 and a 0.75 percentage points interest rate cut in the first quarter of 2020.

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

 End of survey: 28th September 2019, 13 respondents

	European Central Bank	Federal Reserve	European Central Bank	Federal Reserve
Value from 28 th September 2019	0.00	1.75-2.00	0.00	1.75-2.00
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	0.00	1.56-1.82	0.00	1.40-1.66
Change in percentage points	0.00	0.19	0.00	0.35
Standard deviation	0.00	0.17	0.00	0.22
Lowest forecast	0.00	1.25-1.50	0.00	1.25-1.50
Highest forecast	0.00	1.75-2.00	0.00	1.75-2.00

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 2020 in the Eurozone. The experts expect the growth rate of real gross domestic product in the Euro Area to slow down to 1.3 percent. For Germany they expect a small growth of 0.8 percent in 2020.

The experts' inflation expectations are in line with their interest rate expectations. They have expected interest rates decrease and monetary policy to stay accommodative in the last quarter of 2019 and first quarter of 2020. For the Eurozone inflation rate for 2020 they expect it to slow down from currently 1.5 percent to 1.3, which farer away from the ECB's inflation target. For Germany the experts expect a slowdown of inflation dynamics from currently 1.2 percent to 1.4 percent in 2020.

Table 3-2: Summary statistics: Inflation and growth

 End of survey: 28th September 2019, 14 respondents

	Inflation Euro-zone	Inflation Germany	Growth Euro-zone	Growth Germany
Value from 28 th September 2019	1.5	1.2	0.2	0.0
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	1.3	1.4	1.0	0.8
Change in percentage points	0.2	-0.2	-0.8	-0.8
Standard deviation	0.1	0.1	0.2	0.2
Lowest forecast	1.0	1.3	0.7	0.3
Highest forecast	1.5	1.6	1.3	1.2

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, Bayerische Landesbank reached the first rank with 44.4 percent correctly predicted trends. Helaba and Nord/LB predicted 38.9 percent of all trends correctly and reached both the second place. The third place was reached by Postbank, Santander Bank and UniCredit with 33.3 percent correctly predicted trends.

In the long-term ranking, which covers the last 18 quarters, Helaba reached the first rank with 55.3 percent correctly identified trends. Hamburger Sparkasse had a success rate of 54.9 percent and reached rank two. DZ Bank reached rank three with a success rate of 53.9 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: March 2018 and June 2019	Evaluation period: March 2015 to June 2019
1	Bayerische Landesbank	Helaba
	44.4 percent	55.3 percent
2	Helaba Nord/LB	Hamburger Sparkasse
	38.9 percent	54.9 percent
3	Postbank Santander Bank UniCredit	DZ Bank
	33.3 percent	53.9 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	DekaBank	Helaba Weberbank	Helaba Nord/LB	Postbank
	70.6 percent	52.9 percent	65.4 percent	62.9 percent	61.8 percent	62.9 percent
2	Commerzbank National-Bank	National-Bank	Helaba	DekaBank Santander Bank	Bayerische Landesbank DZ Bank	UniCredit
	58.8 percent	50.0 percent	61.8 percent	60.0 percent	58.8 percent	60.0 percent
3	DZ Bank	Helaba	Hamburger Sparkasse National-Bank Weberbank	DZ Bank Hamburger Sparkasse	Commerzbank LBBW	Deutsche Bank
	55.9 percent	47.1 percent	58.8 percent	57.1 percent	55.9 percent	58.6 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 70.6 percent followed by Commerzbank and National-Bank with a success rate of 58.8 percent and DZ Bank on rank three with a success rate of 55.9 percent.

The best forecaster for the long-term interest rate was again Commerzbank with a success rate of 52.9 percent followed by National-Bank with an accuracy rate of 50.0 percent and Helaba with a success rate of 47.1 percent.

DekaBank was the best forecaster for the Stoxx with a success rate of 65.4 percent followed by Hamburger Sparkasse on the second rank. Hamburger Sparkasse, National-Bank and Weberbank reached rank three with a success rate of 58.8 percent. Helaba and Weberbank were best in predicting the DAX with a success rate of 62.9 percent correctly identified trends. DekaBank and Santanderbank reached rank two, while DZ Bank and Hamburger Sparkasse reached rank three.

Helaba and Nord/LB reached rank one for the best forecasters of the EUR-USD exchange rate with a success rate of 61.8 percent. Bayerische Landesbank and DZ Bank reached rank two with a success rate of 58.8 percent each. Commerzbank and LBBW share rank three with a success rate of 55.9 percent each.

Postbank had the most success in forecasting oil prices with an accuracy rate of 62.9 percent each. UniCredit is on rank two with a success rate of 60.0 percent followed by Deutsche Bank on rank three with a success rate of 58.6 percent

4.2 Point Forecasts

In the short-term all indicators ranking of the survey, Santander Bank reached the first rank. National-Bank is now on rank two followed by Nord/LB on rank three. In the long-term ranking National-Bank reached again rank one followed by Nord/LB and Commerzbank on ranks two and 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: March 2019 and June 2019	Evaluation period: March 2015 to June 2019
1	Santander Bank 1.676	National-Bank 1.275
2	National-Bank 1.692	Nord/LB 1.353
3	Nord/LB 1.728	Commerzbank 1.365

Source: Bloomberg, IW Financial Expert Survey

Hamburger Sparkasse performed best at predicting the short-term interest rates followed by DZ Bank and Commerzbank, while National-Bank reached rank one in predicting the long-term interest rate. DekaBank performed best at predicting the Stoxx followed by Helaba and Commerzbank, while Helaba performed best at predicting the DAX. Nord/LB produced the most accurate exchange rate forecasts followed by DZ Bank and National-Bank. DZ Bank performed best in predicting oil prices followed by Weberbank and LBBW.

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: December 2014 to December 2018						
1	Hamburger Sparkasse	National-Bank	DekaBank	Helaba	Nord/LB	DZ Bank
	1.120	1.350	1.172	0.982	1.033	0.987
2	DZ Bank	Commerzbank	Helaba	Postbank	DZ Bank	Weberbank
	1.162	1.458	1.249	1.144	1.106	0.994
3	Commerzbank	Nord/LB	Commerzbank	DekaBank	National-Bank	LBBW
	1.232	1.486	1.482	1.227	1.113	0.998

Source: Bloomberg, IW Financial Expert Survey

5 Conclusion

Pessimism determines the experts' predictions for the last quarter of 2019 and first quarter of 2020, which can be inferred from the downward revisions of the experts' forecasts. All in all, more downward revisions than upward revisions can be found in the forecasts indicating that the experts have interpreted the incoming information between end of June 2018 and end of September 2019 as bad news. Part of the forecast revisions for the interest rates is due to the experts' subdued inflation and growth outlooks. All experts have revised their growth outlooks for Germany and the Euro Area downwards. So were inflation forecasts for Germany revised downwards by 8 experts, while inflation outlooks for the Euro Area were revised upwards by 7 experts. The other part of the interest rate forecast revisions was due to revisions about the future part of monetary policy interest rates, which also reflect a subdued inflation and growth outlook. While no experts expect the ECB to change its monetary policy, 12 experts have revised their forecasts for the federal funds rate downwards.

The experts still expect the yield curve to become. The lower interest rate forecasts are consistent with the experts' lower inflation and growth expectations. For 2020, the experts expect 1.3 percent inflation in the Eurozone and a growth rate of real gross domestic product of 1.0 percent, which indicates a slowdown of economic growth and a failure of the European Central Bank (ECB) to meet its inflation target. Given that, the experts lowered their outlook for the long-term interest rate to -0.49 percent at the end of the first quarter of 2020. For the short rate, the experts predict a downward change to -0.57 percent during the first quarter of 2020. In line with that, the experts expect the yield of US Treasury bonds to increase slightly from 1.66 percent to 1.69 percent by the end of the first quarter of 2020, although they expect the Federal Funds Rate to decline from 1.75 – 2.00 percent to 1.40 to 1.66 percent average over their individual forecasts. Given the accommodative monetary policy stance of the ECB in 2019, the experts forecast an appreciation of the Euro from 1.090 US-Dollar to 1.131 US-Dollar during the first quarter of 2020.

Although some the experts revised their stock market forecasts downwards, they expect the DAX to decrease slightly by -0.1 percent and the Stoxx index and the S&P 500 to increase by 1.3 percent and 2.3 percent by the end of the first quarter of 2020.

In the long-term ranking, which covers the last 18 quarters, National-Bank defended rank one, while Nord/LB moved from rank three to rank two and Commerzbank moved from rank two to rank three.

6 Appendix: Individual Forecasts

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

In percent

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	-0.66	-0.66
Commerzbank	-0.39	-0.49
DekaBank	-0.40	-0.40
Deutsche Bank	-0.41	-0.46
DZ Bank	-0.45	-0.45
Hamburger Sparkasse	-0.45	-0.50
Helaba	-0.55	-0.55
LBBW	-0.50	-0.55
National-Bank	-0.44	-0.46
Nord/LB	-0.55	-0.55
Postbank	-0.43	-0.46
Santander Bank	-0.40	-0.40
UniCredit	-0.40	-0.40
Weberbank	-0.40	-0.50

Source: IW Financial Expert Survey

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

In percent

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	-0.60	-0.60
Commerzbank	-0.60	-0.40
DekaBank	-0.55	-0.50
Deutsche Bank	-0.40	-0.35
DZ Bank	-0.50	-0.50
Hamburger Sparkasse	-0.60	-0.60
Helaba	-0.70	-0.60
LBBW	-0.60	-0.50
National-Bank	-0.65	-0.65
Nord/LB	-0.75	-0.60
Postbank	-0.40	-0.35
Santander Bank	-0.70	-0.60
UniCredit	-0.40	-0.40
Weberbank	-0.50	-0.50

Source: IW Financial Expert Survey

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

In percent

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	1.70	1.90
Commerzbank	1.25	1.40
DekaBank	1.65	1.70
Deutsche Bank	1.85	1.70
DZ Bank	1.50	1.40
Hamburger Sparkasse	1.50	1.40
Helaba	1.50	1.60
LBBW	1.75	1.80
National-Bank	1.75	1.85
Nord/LB	1.80	1.90
Postbank	1.85	1.70
Santander Bank	1.75	1.80
UniCredit	1.75	1.70
Weberbank	1.70	1.75

Source: IW Financial Expert Survey

Table 6-4: Individual forecasts: Stoxx Index

In index points

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	3 230	3 140
Commerzbank	3 050	3 150
DekaBank		
Deutsche Bank		
DZ Bank	3 250	3 300
Hamburger Sparkasse	3 200	3 300
Helaba	3 150	3 250
LBBW		
National-Bank	3 665	3 756
Nord/LB	3 075	3 025
Postbank	3 150	3 200
Santander Bank	3 350	3 400
UniCredit	3 250	
Weberbank	3 400	3 450

Source: IW Financial Expert Survey

Table 6-5: Individual forecasts: DAX 30 Index

In index points

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	12 500	12 100
Commerzbank	11 800	12 200
DekaBank	12 200	12 700
Deutsche Bank		
DZ Bank	12 500	12 850
Hamburger Sparkasse	12 200	12 400
Helaba	12 000	12 300
LBBW	12 250	12 000
National-Bank	12 800	13 100
Nord/LB	11 700	11 600
Postbank	11 850	12 100
Santander Bank	12 800	13 000
UniCredit	12 500	
Weberbank	12 700	12 700

Source: IW Financial Expert Survey

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

In percent

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	3 050	2 960
Commerzbank	2 900	3 000
DekaBank	2 900	3 000
Deutsche Bank		
DZ Bank	3 000	3 050
Hamburger Sparkasse	3 000	3 100
Helaba	2 900	2 975
LBBW		
National-Bank	3 050	3 150
Nord/LB	2 950	2 925
Postbank		
Santander Bank	3 100	3 150
UniCredit		
Weberbank	3 150	3 150

Source: IW Financial Expert Survey

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

In US Dollars per 1 Euro

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	1.12	1.15
Commerzbank	1.12	1.14
DekaBank	1.10	1.11
Deutsche Bank	1.13	1.16
DZ Bank	1.12	1.12
Hamburger Sparkasse	1.11	1.15
Helaba	1.15	1.15
LBBW	1.13	1.13
National-Bank	1.08	1.07
Nord/LB	1.10	1.11
Postbank	1.12	1.14
Santander Bank	1.07	1.10
UniCredit	1.14	1.15
Weberbank	1.14	1.15

Source: IW Financial Expert Survey

Table 6-8: Individual forecasts: oil prices

Brent, in US Dollars per barrel

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	60	60
Commerzbank	65	65
DekaBank	64	65
Deutsche Bank	66	65
DZ Bank	62	60
Hamburger Sparkasse	65	68
Helaba	60	60
LBBW	60	60
National-Bank	61	59
Nord/LB	63	63
Postbank	65	65
Santander Bank	65	65
UniCredit	67	
Weberbank	70	65

Source: IW Financial Expert Survey

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

In percent

Forecaster	End of December 2019	End of March 2020
Bayerische Landesbank	0.00	0.00
Commerzbank		
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 December 2019	End of March 2020
Bayerische Landesbank	1.50 - 1.75	1.25 - 1.50
Commerzbank		
DekaBank	1.50 - 1.75	1.50 - 1.75
Deutsche Bank	1.25 - 1.50	1.00 - 1.25
DZ Bank	1.75 – 2.00	1.50 - 1.75
Hamburger Sparkasse	1.50 - 1.75	1.50 - 1.75
Helaba	1.50 - 1.75	1.50 - 1.75
LBBW	1.50 - 1.75	1.25 - 1.50
National-Bank	1.75 – 2.00	1.50 - 1.75
Nord/LB	1.75 – 2.00	1.75 – 2.00
Postbank	1.25 - 1.50	1.00 - 1.25
Santander Bank	1.50 - 1.75	1.50 - 1.75
UniCredit	1.75 – 2.00	1.50 - 1.75
Weberbank	1.75 – 2.00	1.50 - 1.75

Source: IW Financial Expert Survey

Table 6-11: Individual forecasts: consumer price inflation

Forecasts for 2020, in percent

Forecaster	Germany	Eurozone
Bayerische Landesbank	0.3	0.8
Commerzbank	0.8	0.7
DekaBank	0.7	0.8
Deutsche Bank	0.7	1.0
DZ Bank	1.0	0.9
Hamburger Sparkasse	0.9	1.1
Helaba	1.2	1.3
LBBW	0.6	0.9
National-Bank	0.8	0.9
Nord/LB	0.8	1.1
Postbank	0.7	0.8
Santander Bank	1.0	1.0
UniCredit	0.9	0.9
Weberbank	1.0	1.1

Source: IW Financial Expert Survey

Table 6-12: Individual forecasts: real GDP growth

Forecasts for 2020, in percent

Forecaster	Germany	Eurozone
Bayerische Landesbank	1.5	1.4
Commerzbank	1.4	1.2
DekaBank	1.5	1.3
Deutsche Bank	1.3	1.2
DZ Bank	1.4	1.3
Hamburger Sparkasse	1.6	1.5
Helaba	1.6	1.4
LBBW	1.5	1.5
National-Bank	1.4	1.3
Nord/LB	1.3	1.3
Postbank	1.3	1.2
Santander Bank	1.4	1.3
UniCredit	1.4	1.2
Weberbank	1.4	1.0

Source: IW Financial Expert Survey

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