



## MEMORANDUM

### SOUTH AFRICAN INFLATION PERCEPTIONS AND INFLATION EXPECTATIONS

The Professional Provident Society (PPS), the University of the Witwatersrand (Wits) and Jannie Rossouw, the Head of the School of Economic and Business Sciences (SEBS), have recently completed their third comprehensive South African inflation survey.

This survey expands the earlier research of Jannie Rossouw on the public's perceptions of the accuracy of historic inflation figures. "The research data shows that historic inflation figures lack credibility," says Rossouw. "People simply do not trust the historic figures as they perceive prices in general to increase more rapidly than the price increases reported by the official inflation rate."

This survey is unique as it provides the same respondents with an opportunity to record their perceptions of the accuracy of past inflation figures and their expectations of future inflation figures. This approach confirms that perceptions of past inflation anchor expectations of future inflation.

Jannie Rossouw says that the linkage between perceptions of past inflation and expectations of future inflation is important for monetary policy purposes under a system of inflation targeting as is followed in South Africa. Inflation targeting works best when past inflation anchors inflation expectations.

"PPS included the survey questions in its May 2015 quarterly survey among South African professionals and will continue to do so in future," says Gerhard Joubert of PPS. "PPS is excited about this opportunity to continue its collaboration with the School of Economic and Business Sciences at Wits."

The quarterly survey is distributed electronically among PPS members and forms part of a broader survey on perceptions and impressions undertaken by PPS. The survey is completed electronically by PPS members and is therefore free from any enumerator bias of influence.

PPS received 4 682 completed responses from its members. Although this is not a representative sample of the South African population, given the membership profile of PPS members and the gender split of respondents, this is nevertheless one of the largest data samples of a cross-section of the South African population.

#### Gender split of respondents

Male	38%	Female	62%
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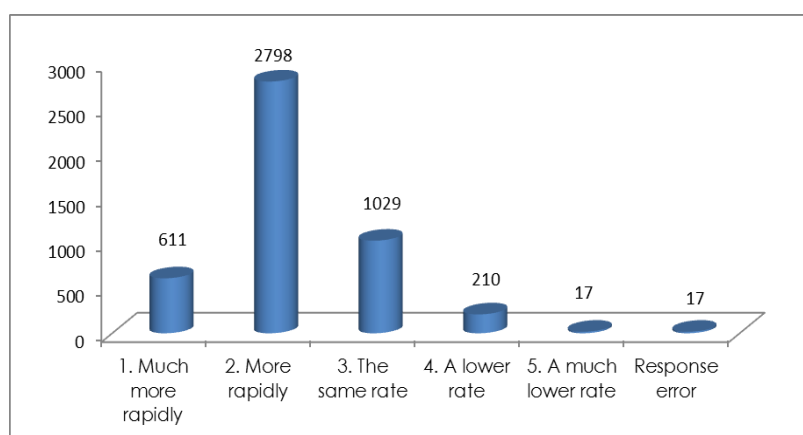
In accordance with international survey practices, respondents were provided with a statement on past inflation. Participants were requested to choose from five possible answers to each question.

In the **first question**, respondents were requested to respond by choosing one of the five responses below to the following question:

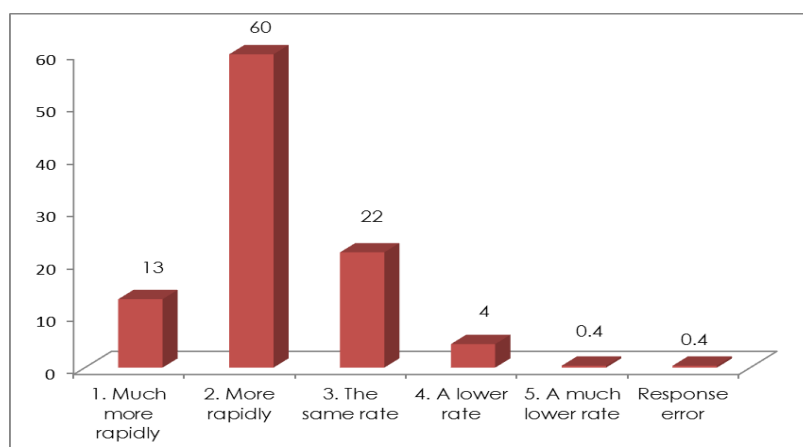
*Over the past five years, prices increased by on average 5.5 per cent per year. During 2013, prices increased by 5.7 per cent. In your view by how much did prices increase during the past 12 months?*

	Responses	%
1. Much more rapidly	611	13
2. More rapidly	2798	60
3. The same rate	1029	22
4. A lower rate	210	4
5. A much lower rate	17	0.4
Response error	17	0.4
<b>Totals</b>	<b>4682</b>	<b>100</b>

## Responses



## Percentage



The results show that 26% of respondents in the May 2015 were of the opinion that prices increased more or less at the rate of inflation over the past 12 months, compared to 24% of respondents with such a perception in the October 2014 survey and 37% of respondents with such a perception at the time of the February 2015 survey. The most interesting finding from this analysis is the inverse relationship between perceptions of past inflation and the historic inflation rate.

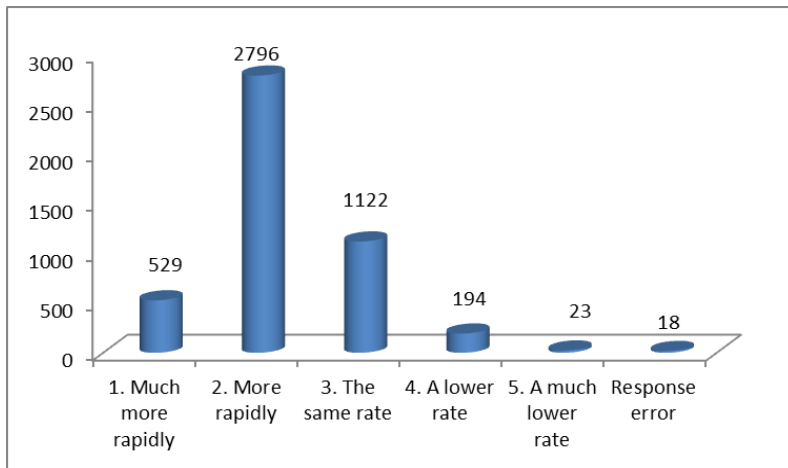
The actual inflation rate declined from 5,9% in October 2014 to 3,9% in February 2015, but subsequently accelerated to 4,5 % in April 2015. Over the period of decline in the inflation rate from October 2014 to February 2015, perceptions of an accurate historic inflation rate improved. However, since February 2015 the percentage of respondents with a perception that the rate of inflation is accurate declined significantly (from 37% to 26%), reflecting the acceleration in the actual inflation rate.

In the **second question**, respondents were requested to respond by choosing from the same five responses to the following question:

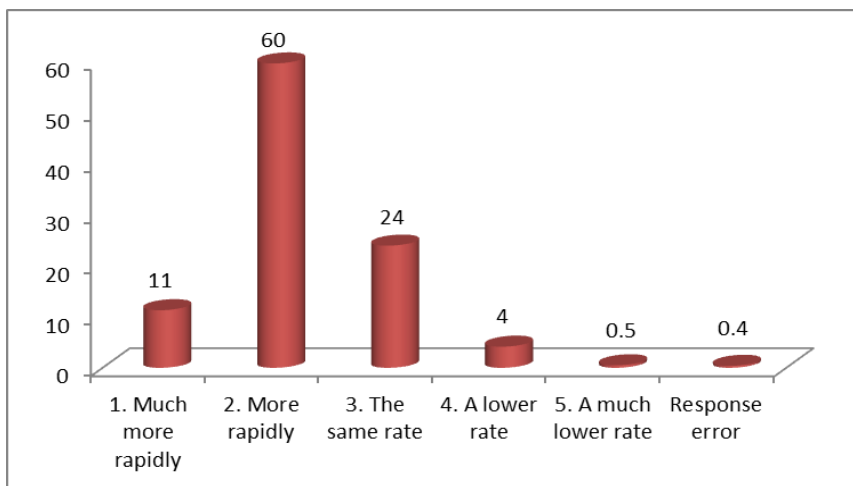
By how much do you expect prices in general to increase during the next 12 months?

	Responses	%
1. Much more rapidly	529	11
2. More rapidly	2796	60
3. The same rate	1122	24
4. A lower rate	194	4
5. A much lower rate	23	0
Response error	18	0.4
<b>Totals</b>	<b>4682</b>	<b>100</b>

**Responses**



**Percentage**



The results show that only 29% of respondents in the May 2015 expected prices to increase lower than or at the rate of inflation. In the February 2015 survey this was 42% and it was 31% in the October 2014 survey. This confirms that accelerating inflation leads to an expectation of higher future inflation.

In future the publication of the quarterly PPS/Jannie Rossouw/WITS School of Economic and Business Sciences Inflation Survey will provide the SA Reserve Bank with an additional tool to assess the public perceptions of inflation in its monetary policy deliberations.