



FOR PROFESSIONALS
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Distrust in inflation rates have serious implications for South African inflation target

16 September 2015: The public's distrust in historic inflation rates may have serious implications on the challenge of containing future inflation to the inflation targets as they use their perception of past inflation rates as a reference point in setting their expectations for future inflation rates.

This is according to the fourth comprehensive South African inflation survey, recently completed by the Professional Provident Society (PPS), the University of the Witwatersrand (Wits) and Jannie Rossouw, the Head of the Wits School of Economic and Business Sciences (SEBS)

"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."

The research shows that respondents use their perception of past inflation as a reference point for setting their expectations of future inflation. It also shows that many of the professional people who participate in the PPS survey (for instance dentists and medical doctors) have a different inflation experience as they have to purchase expensive equipment, often imported from abroad. The declining exchange rate of the rand exacerbates this problem.

"A lack of credibility of inflation figures can result in trade unions demanding increases well above the official rate of inflation," says Rossouw. "If employers use the official inflation rate for a basis to negotiate salary increases, this might end up with many people (who feel the pinch of accelerating price increases) embarking on strike action. This is something South Africa can ill afford at this time."

As views of past inflation feed expectation of future inflation, the South African authorities do not only face the challenge of containing future inflation to the inflation target, but also face the challenge of convincing the public that historic inflation figures are indeed an accurate indication of historic price increases, says Rossouw.

The South African inflation 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.

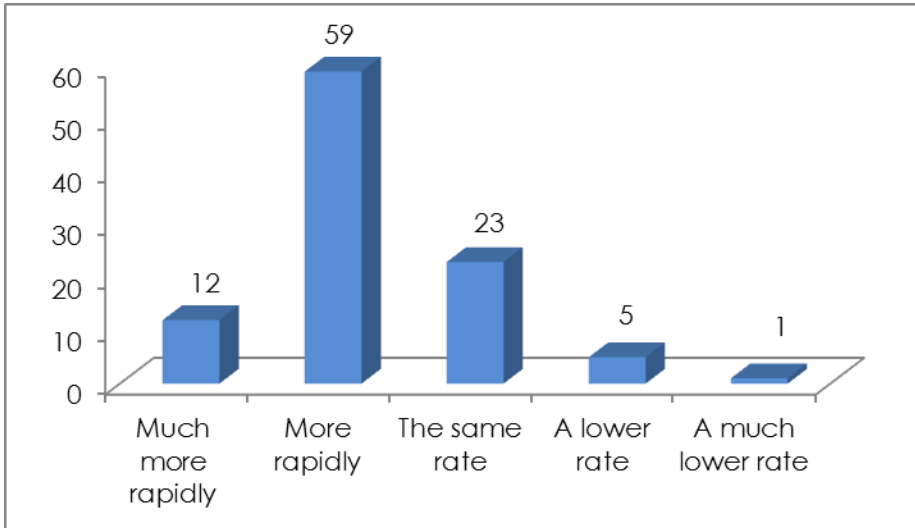
The quarterly survey is distributed electronically among PPS members and forms part of a broader survey on perceptions and impressions undertaken by PPS. The survey is completed electronically by PPS members and is therefore free from any enumerator bias of influence.

"PPS included the survey questions in its September 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."

Results snapshot

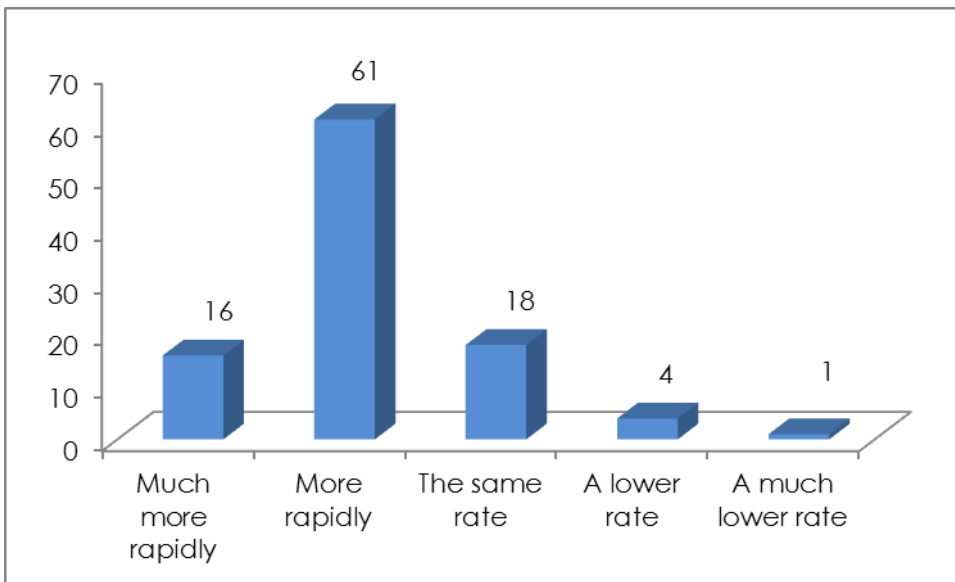
When asked to provide their views on past inflation, respondents indicated as follows, with 71 per cent of respondents reporting their view that actual prices outpaced the official rate of inflation:

Percentage



When asked about future inflation, 77 per cent of respondents indicated that they expect inflation to be higher than the current official rate of inflation:

Percentage



This statement was prepared by Professor Jannie Rossouw.

A copy of the full South African inflation survey can be found [here](#).