Why Household Surveys are Not: Assessing Surveys in Inflation-Targeting Countries

Jannie Rossouw

Available literature shows that little has been published on the inflation perceptions of households (i.e., the general public) in inflation-targeting countries. On the contrary, substantial literature exists on inflation forecasts, particularly forecasts by businesses and financial institutions. This note addresses the void with respect to inflation perceptions of households. Inflation perceptions of households comprise (forward-looking) inflation expectations and (backward-looking) inflation credibility, with the latter feeding into decisions that will influence future inflation.

The distinction between inflation forecasts and inflation expectations are somewhat blurred, other than in the minds of economists. Inflation forecasts are regarded as (somewhat more) scientific calculations of future inflation, based on economic or econometric modeling. Inflation expectations are regarded as subjective (somewhat non-scientific) views, opinions or *feelings* of future inflation, often obtained by means of sampled surveys among randomly-selected respondents.

No single universally-accepted cluster of countries is identified as inflation targeters. This note identifies the following 24 countries targeting inflation by 2009 in terms of a definition of the International Monetary Fund: Australia, Brazil, Canada, Chile, Colombia, Czech Republic, Ghana, Hungary, Iceland, Indonesia, Israel, Mexico, New Zealand, Norway, Peru, Philippines, Poland, Romania, Slovakia, South Africa, South Korea, Sweden, Thailand, and the United Kingdom. However, this cluster can be the subject of debate, as the literature differs on the inclusion or exclusion of certain countries, e. g., Albania, Costa Rica, Ecuador, Guatemala, Kyrgyz Republic, Switzerland, and Turkey.

In assessing inflation perceptions, central banks in this cluster of 24 countries consider surveys of expected inflation; the prices of and returns on different classes of traded financial assets; expectations calculated as variables in economic or econometric models; or combinations of these alternatives. In addition, a limited

number of these central banks survey perceptions of the credibility of historic inflation data as a true and accurate reflection of previous price increases in their economies.

The main finding with respect to surveys among the general public is that *household surveys are not*, as such survey results represent the views of individuals and cannot be presented as the collective views or opinions of households. This also has implications for the reporting of other collective surveys results, e.g., samples of businesses and trade unions. It is necessary to reconsider whether these surveys reflect collective or merely individual views.