# Consumers, users, partners…and other interested parties

Managing relations with external stakeholders of the South African Consumer Price Index (CPI)

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## Abstract

CPI managers have a range of stakeholders with whom they must interact. As a result of its high profile the CPI is often a target of criticism. The task facing CPI compilers is to discern when criticism should or should not be taken seriously. Several different layers of stakeholder engagement were established in the run up to the overhaul and reweighting of South Africa's CPI in 2009. While the statutory Statistics Council proved a useful vehicle for the ratification of decisions, most useful was an informal User Advisory Committee. This committee comprised representatives of various user segments who could express their expert opinion and develop a deeper understanding of new CPI methods. Members of this committee proved very supportive when public criticisms of the CPI were raised. The paper concludes with a set of lessons for CPI managers to assist in managing stakeholder relations.

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## A. Introduction

Many statistics offices have from time to time faced criticism of their inflation numbers. This is because the Consumer Price Index is typically the most high profile statistic data published in a country. This is all the more so in countries with inflation targeting regimes and where the inflation rate is the key determinant of changes in monetary policy.

Furthermore, because many bonds and other financial instruments are linked either directly to the CPI or at least to the benchmark interest rate set by the central bank, the forecasting of inflation rates is a big business in many countries. Not only is the CPI high profile, but it is also a complex index covering (usually) multiple geographic areas with hundreds of products, each with a particular weight. This often results in it not being well understood, even by professional economists.

Often the criticisms of the index are uninformed and populist in nature, whereas at other times there may be a real issue which may result in changes to the way in which price data are collected or compiled. Often the challenge for the statistical office is to know the difference between real problems discovered and posturing, and to tailor its communication so as to strike a balance between thoughtful education of users and fire-fighting. Interaction with users of CPI data can make a big difference in having to spend much time and effort in batting off frivolous criticisms and engaging in fruitful dialogue.

The CPI manager does not, however, operate in isolation. Almost always the CPI is part of a national statistics office that produces a range of economic (and social) data. The public perception of the agency and its population of outputs will colour the perception of the CPI itself. So if the agency is seen in a negative light, it will create adverse conditions in which the CPI manager must operate.

The aim of this paper is to reflect on the experiences that Statistics South Africa has had with the users of its CPI. More than being a history lesson, it aims to identify practices that can assist national statistics agencies in dealing with its user community.

**B. A bit of history**

Statistics South Africa has an established prices programme comprising a Consumer Price Index (CPI) and Producer Price Index (PPI). The CPI has been published since 1910, changing in its composition according to economic and methodological developments over the years. This paper is concerned with the most recent history only, spanning the past seven years, but concentrating on the last three.

Back in 2003 a pair of economists at locally-based (but with offices in several countries) investment bank, noticed that the inflation rate of the housing rental component of the South African CPI had not changed for several quarters. (The South African CPI is published monthly, but rental data are incorporated quarterly.) The problem was a real one in that the source of rental data had ceased to be available due to the dropping of the question from a household survey and no alternative had been identified. The rate of inflation from the last time the data had been available was used for each successive quarter. Staff running the CPI at the time did not provide a timely response to the matter (the issues was not dealt with for several months) and the economists then publicised their findings in the national media. The release of the information to the media by the investment bank prompted both immediate remedy by Stats SA as well as a process of fundamental review and overhaul of the index.

In the short term, Stats SA sourced rental data from a firm of property economists and commissioned them to provide this information on a quarterly basis. The new data showed that accommodation rentals had increased more

slowly than the repeat rate included in the CPI. Statistics SA was forced to revise the inflation figures for 15 months culminating in a 2,3 percentage point difference in annual inflation in the last month revised. This was obviously a matter of deep embarrassment for the statistics office as revising the inflation rate is not something any country should do because of its use in legal agreements, bonds and monetary policy formulation.

The revision to the CPI did not only harm the credibility of the official inflation gauge. It seriously dented the credibility of Statistics South Africa as a whole. The agency's reputation was further damaged a few months later when an error was discovered in manufacturing statistics, and an alarmingly high undercount was recorded in the population census. However, had the CPI team been willing to respond more quickly to the initial enquiries from the economists, it may well have been in a position to be more proactive about how the problem was communicated and limit the reputational damage.

Over the long term the incident led to a fundamental review of the methods and operations of the South African CPI. Following the independent review, the management team of the CPI was changed and a project team established to implement key changes. An overview of the changes can be found in Kelly, 2007[2]. The modernisation of the South African CPI saw its climax in the reweighting and rebasing process which was implemented in January 2009. It was in the run up to this reweighting that Stats SA faced its second challenge from the duo of economists.

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[2] Kelly, P, 2007: Overhauling the South African CPI, a peaceful transition of a different type, Ottawa Expert Group on Price Statistics, www.ottawagroup.org

## C. Understanding the user profile

It is possible to place users of the CPI on a continuum defining their intensity of usage of the index.

Professional → Informed → Occasional

Professional users are typically economists in financial institutions. They have an in-depth knowledge of the CPI and are recognised as experts. They compile inflation projections based on complex models. They are often sources of expert comment for the media.

Informed users include stock and bond traders, businesses and trade unions. They need to know what the CPI is, and what the key drivers of inflation are now and expected to be in the future. Their source of information would frequently be the 'professional' users.

Occasional users are people or institutions who only need to know the CPI results. They use the inflation rate to adjust prices, pensions, or other contractual arrangements. They typically source the information directly from the statistics office.

## D. User engagement 2006 -2009

Detailed planning for the reweighting of the CPI began during 2006. It was identified at that time that interaction with the user community would be essential. There were three main reasons for this.

1. To restore the credibility of the CPI in the eyes of key users, and through them, in the mind of the general public;
2. To ensure that the wide ranging changes being planned for the CPI were properly understood; and

3. To educate users on the reweighting and rebasing process given that the previous exercise had taken place over five years earlier.

The ILO manual (2004) and the new Practical Handbook for producing Consumer Price Indices (2009) emphasise the importance of effective user consultation. The Practical handbook dedicates a chapter to this issue outlining the way to set up a user committee and what its role should be.

In planning, several distinct groups of stakeholders were identified with whom engagement would be necessary.

*1. Statistics Council*

The South African Statistics Act (1999) establishes a Statistics Council appointed by the Minister responsible for Statistics South Africa. The Council has wide representation including academia, government, the central bank, business, organised labour, and provinces. Its role is an advisory one, being tasked to advise the Minister, Statistician-General or any other organ of state producing statistics on any matter brought before it.

The Council organises itself through subject-based committees. The relevant committee for CPI work is the Economic Statistics Committee. While members are well qualified in the area of both economics and statistics, their purview is a broad one and the members are not CPI specialists. Generally they would fall into the category of ‘professional’ or ‘informed’ users. Consequently, the Statistics Council would be a last stop for endorsement of proposals, rather than an opportunity to receive expert inputs.

*2. User Advisory Committee*

In order to solicit input from professional users of the index, a User Advisory Committee was established. The members of the committee were drawn from academia, financial institutions, labour unions, National Treasury and the central

bank and comprised a critical mass of experts dealing with prices. The user committee first met in 2006, two and a half years before the reweighted CPI was due to be published. The committee proved useful in two respects. Firstly, the expertise of the participants ensured that inputs and comments were substantive and were able to guide our methodological development work. Secondly, it provided the basis for the formation of informal relationships between Stats SA and economists in key organisations. These relations were to prove fundamental in the public debate that later emerged.

*3. National Treasury and the Central bank*

Bilateral relationships between Stats SA and the two institutions responsible for the macro management of the economy were strengthened. The South African Reserve Bank (SARB) has responsibility, among other things, for the compilation of the Expenditure side of the national accounts. From this angle, the organisation provided information which contributed to the calculation of the new CPI weights. The SARB was also regularly briefed on methodological changes which were factored into inflation projections used for monetary policy.

The National Treasury also received updates on changes to methods which might affect macro-economic indicators. In addition, as the issuer of government bonds, any changes to the calculation of the inflation rate could have an impact on the fiscal position of the country. Representatives of the SARB and National Treasury sat on the user Advisory Committee.

*4. News media*

Because of the technical nature of most of the changes to the index, Stats SA identified the business press as a key channel through which the public would be informed about these changes. An editor of the largest business daily was invited to join the user committee and through background briefings several insightful articles appeared which positively portrayed the changes being made to the CPI.

## E. Timeline of public announcements

The first public engagement with the reweighting process came in May 2007 when the results of research into changes in the geography of the CPI were made. This meant that the areas in which prices were collected for the CPI were changed. This announcement elicited small reaction, none of it negative.

In September 2007, Stats SA announced the proposed new CPI basket. In a departure from past practice, the public was invited to make comments. Media coverage was good and a number of inputs from different industry associations and other stakeholders were received.

On 1 July 2008, Stats SA announced the new weights as well as a range of methodological changes to be made to the CPI. The announcements were made at a briefing session for economists and journalists although members of the user committee were aware of some of the important methodological issues. Key changes announced at the briefing were:

1. The final new basket and weights;
2. Methodological changes, especially regarding the introduction of COICOP classification and changes to the treatment of owner-occupied housing;
3. Changes to the main measure of consumer inflation;
4. The method and timing of introducing the 'new' CPI. Because of changes to the Household Expenditure Survey, the CPI's need for a full 12 month parallel price collection survey on the new basket, the new weights would take effect approximately two years later than would normally have been the case.

**F. The public reaction**

Due to the work with the stakeholder groups mentioned above, initial media coverage was extensive and positive. Economists are typically the source of insights for journalists on such stories and on the whole comments were factual and positive. Many economists attempted to forecast the impact that the changed weightings would have on the inflation figures. This turned out to be the calm before the storm.

On 15 July, the same pair of economists from the investment bank who had pointed out the problem of the rental survey released a report criticising the timing of the release of the 'new' CPI. They suggested that the most recent consumer price inflation rate was overstated and that the release of the 'new' CPI should somehow be brought forward. The report received wide coverage in the print and electronic media the next day. Stats SA embarked on a swift reaction led by the management of the Prices section. A formal response to the investment bank's report was drafted. This was published on 17 July, the day following the news reports of the initial argument. In its argument Stats SA distinguished between a mistake (which the 2003 rental problem had been) and the scale of the present overhaul of the CPI, resulting in a longer interval between reweightings. A key point was Stats SA's new compliance with international practices in compiling CPIs.

The speed of getting out a response, and the good coverage of the response in the major newspapers, went far in upholding the credibility of the statistics office. Many of the articles contained quotes from well known economists who generally supported the Stats SA position. A quote from one economist[3] is typical of the general view of this community in which he stated that he was

[3] Collen Garrow in Citizen Business, 17 July 2008

> ”unsure what the furore was about as Stats SA had more than adequately telegraphed the changes…..Clearly they have learnt a few lessons from the last time something like this happened.”

Given the strong technical dimension of the debate, it was mainly covered in the financial/business press. The bank economists responded to Stats SA’s comments and the story developed some momentum. The story took an interesting turn when a Trade union accused the investment bank of attempting to ‘manipulate the market’ and influence the central bank to reduce interest rates through its report. Further reporting on the issue contained estimates from various analysts on the possible impact of the new index on the rate of inflation. By the end of July, the issue no longer received any media coverage.

The only comment at this stage from any organ of state came from a self-initiated phone call by the Governor of the SARB to a Johannesburg radio station in which he lambasted the investment bank and affirmed confidence in the statistics agency. The call was widely reported on in the print media the following day.

During this period, there was much going on behind the scenes. Senior Stats SA officials were called to discuss the matter with the Minister of Finance (to whom both Stats SA and National Treasury reported at the time). Stats SA was supported in this meeting by officials with whom it had been interacting for the previous two years. Informal discussions (including email correspondence) took place between Stats SA representatives and various economists, the vast majority of whom expressed their support for Stats SA. A briefing was also made to the Cabinet, which expressed its support for the Stats SA position.

During October 2008, Stats SA released a ‘popular’ booklet explaining the changes to the CPI planned for introduction at the beginning of 2009. In the same month National Treasury formally announced that the new Headline

measure would be used as the inflation target measure due to changes in the housing component of the CPI.

In the run up to the release of the 'new' CPI figures at the end of February 2009 (the January 2009 CPI release), Stats SA published an extensive set of documents including its first methods and sources document and price data on some of the products that were forming part of the index for the first time. These documents were all made available on the Stats SA website for easy accessibility.

Following the ruckus that had ensued from the release of the weights, Stats SA was keen to avoid similar exposure when the first results of the new CPI were released. A media analyst was commissioned to analyse the dynamics of the public debate experienced in July and make recommendations on how to avoid them.

Fortuitously, the December numbers for the old and new series showed only a 0,2 percentage point difference in their index levels. This small difference swept away much of the potential debate about the impact of the new CPI measure. Press coverage of the new figure was positive, focussing mainly on the drivers of inflation rather than methodological or timing issues.

**G. Lessons learnt from this process**

The experience of Statistics SA in turning around adverse public perception through rigorous stakeholder engagement provides lessons which may be of use in other national contexts.

1. It is important to identify the key role players who can influence a public debate. It is through these small number of 'influencers' that media perception, and thereby public perception, can change.

2. A hand-picked user committee can provide useful advice on methodological questions and prove invaluable allies when a crisis hits. Even if a politically appointed committee oversees the work of the CPI other surveys, an informal expert group is still very useful.
3. Transparent and regular communication to users lays the basis for credibility. Experts and the media do not only want to hear from CPI managers in bad times. Regular sharing of information builds up a relationship.
4. In the case described in this paper, CPI staff were free to communicate directly with experts and the news media. Not having to rely on office communications staff meant that the message was conveyed very clearly.
5. Close cooperation with colleagues at the central bank and National Treasury proved invaluable for behind the scenes support.

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