

INFLATION AND MONETARY POLICY:

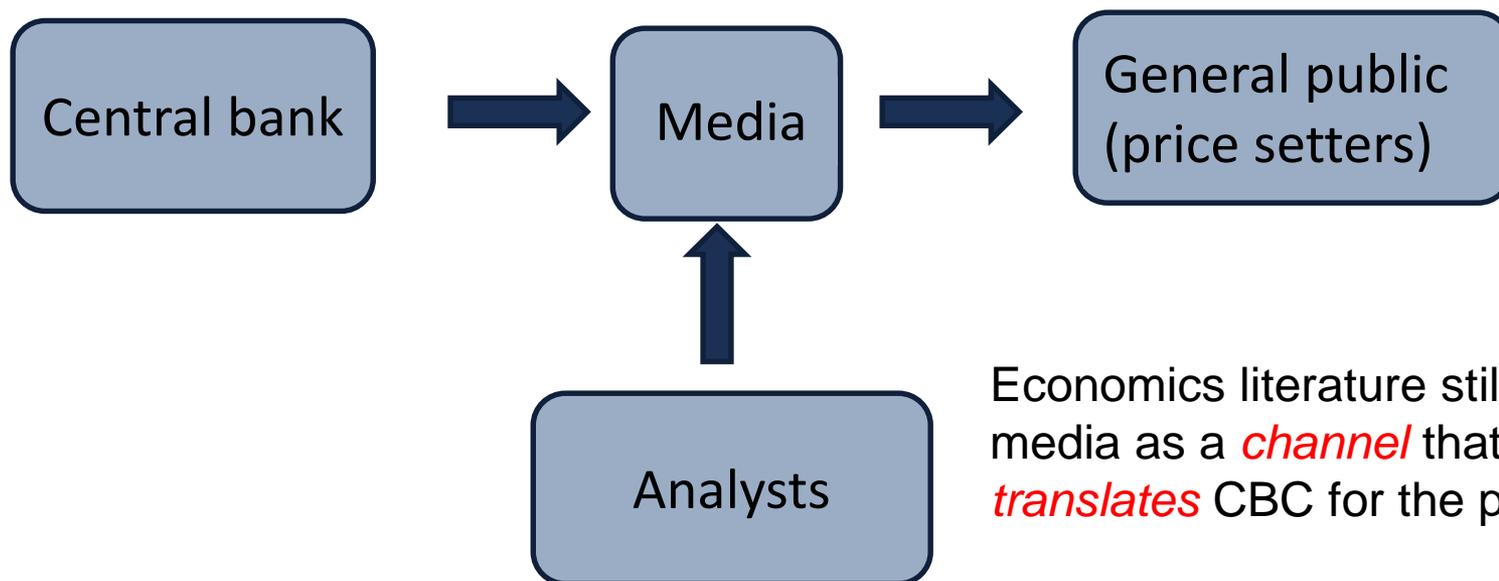
WHAT SOUTH AFRICAN NEWSPAPERS REPORT IN AN
ERA OF POLICY TRANSPARENCY

Monique Reid , Manfred Max Bergman , Stan Du Plessis,
Zinette Bergman and Pierre Siklos

Motivation for this paper

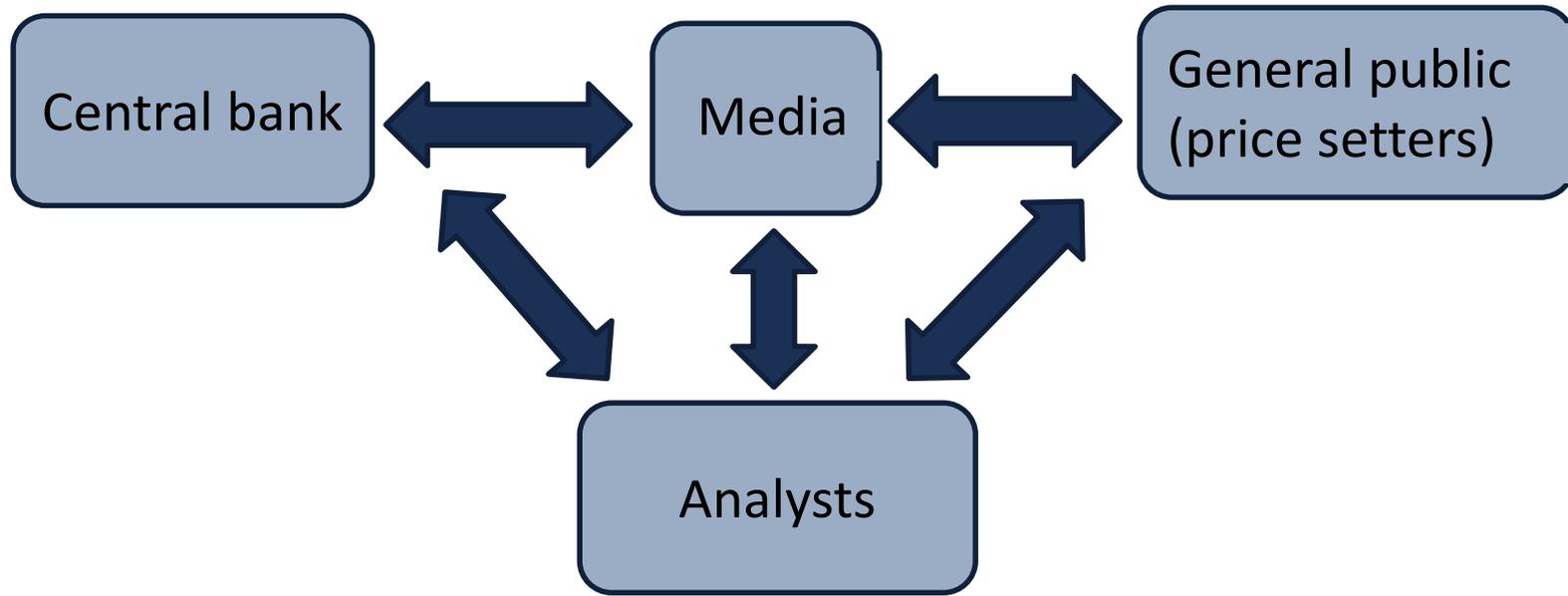
“For successful monetary policy is not so much a matter of effective control of overnight interest rates as it is of shaping market expectations of the way in which interest rates, inflation, and income are likely to evolve over the coming year and later Not only do expectations about policy matter, but, at least under current conditions, very little else matters”

(Woodford, 2003: 15)



Economics literature still refers to the media as a *channel* that *transmits* or *translates* CBC for the public

Motivation for this paper

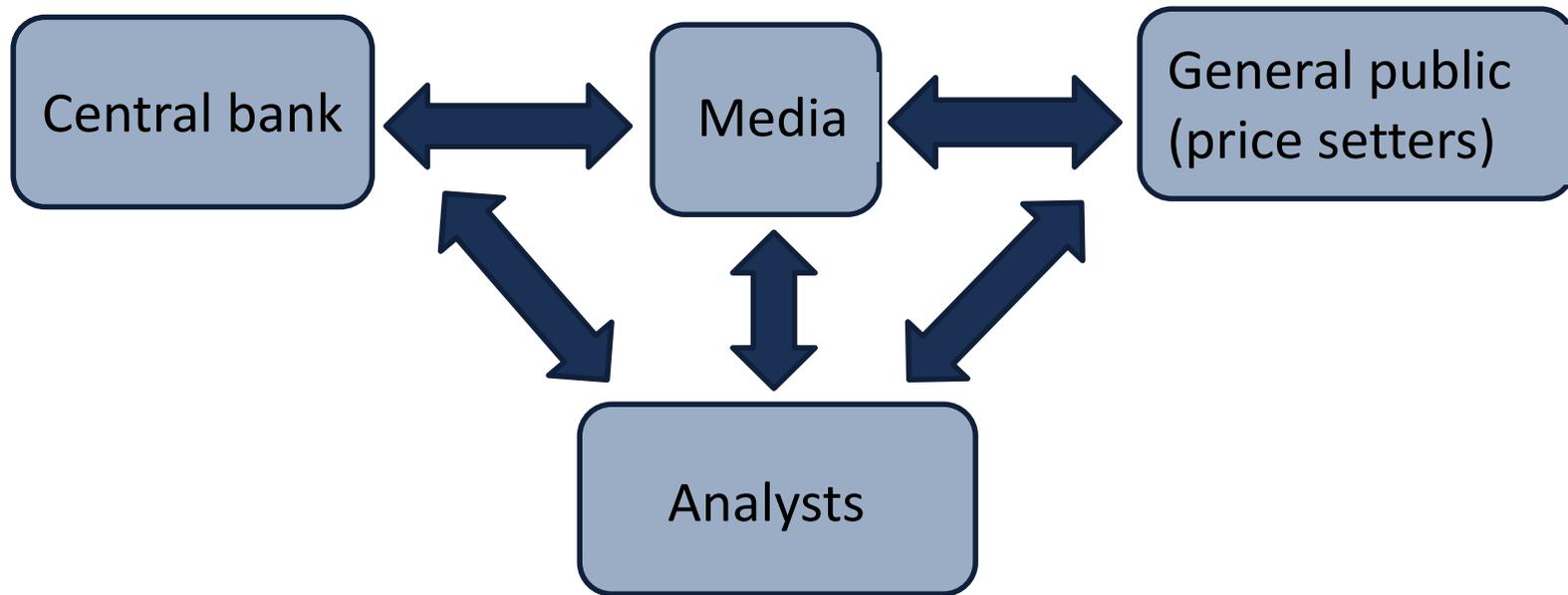


From the communications literature:

- News is a commodity
- The media is a market: where different decision makers face a complex set of incentives
- The media is not a passive conduit of CBC

We begin this research agenda by listening...

Motivation for this paper



Assumptions:

- (1) The general public is treated as a single group
- (2) that receives CBC intermediated by the media (the media matters)

Data and methodology

- Sample:
 - 101 media articles from 14 regional & national English-language newspapers published in SA
 - From two online media platforms, the Mail and Guardian (www.mg.co.za) and the Independent News and Media Database (www.iol.co.za)
- Selection criteria:
 - Publication date 1 Jan 2014 - 31 Dec 2014
 - Main subject matter: inflation or the SARB
- Analysis:
 - Content Configuration Analysis (Bergman, 2010; Bergman & Bergman, 2011).

Outline of Results

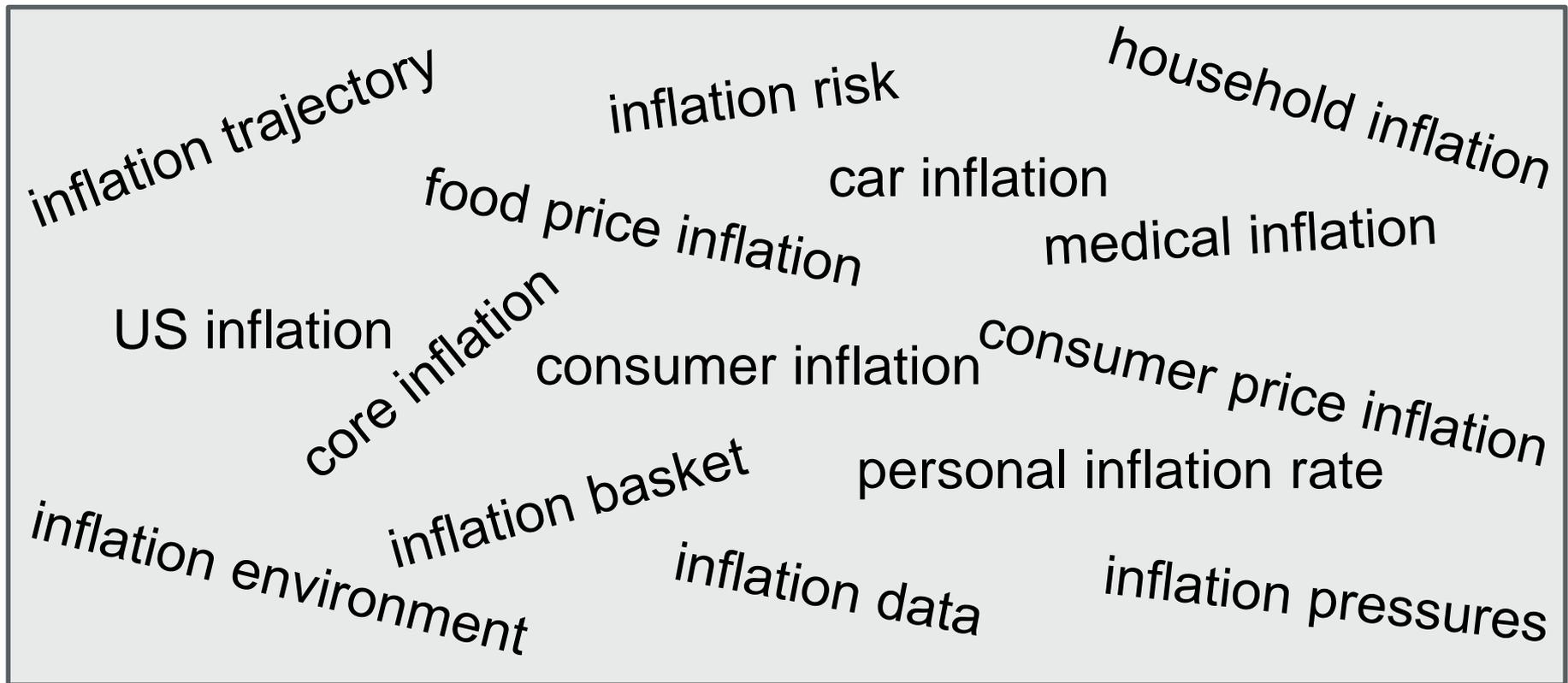
- The process of inflation:
 1. Definition
 2. Causes
 3. Consequences
- The inflation expectations of various stakeholders
- The media's discussion of the role of monetary policy

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1. Definition of inflation

- 3 interesting features:
 1. Wide range of terms are used



1. Explicit definition

2. Only explicit definition of inflation is that of core inflation

Core inflation – which excludes food, non-alcoholic beverages, petrol and electricity – rose to 5.8% in August, its highest level in four years. (10-20-MG-Economic)

3. Inflation is frequently described in the media from the perspective of the consumer

By contrast, the price of clothing and footwear is estimated to have increased by 3.6 percent and 3 percent respectively. The food basket was also up 3 percent. (02-17-IOL-Monetary)

1. Implicit definition

- The most frequently mentioned implicit definition is the increase of prices, which is again reported mainly in terms of particular consumer products

*By contrast, the **price of clothing and footwear** is estimated to have **increased** by 3.6 percent and 3 percent respectively. The food basket was also up 3 percent. (02- 17-IOL-Monetary)*

1. Discussion

- In an inflation targeting system, discussion should be focused on the likely evolution of core inflation (which strips out flexible price movements)
 - There are both theoretical and practical criticisms of the exclusion based version of the core inflation index
 - When inflation is discussed in the media, the focus is often on flexible prices
- In addition, there is evidence that the public does not trust the inflation figures (Rossouw, Padayachee and Bosch, 2011)

Outline of Results

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2. Causes of inflation

- Causes of inflation:
 1. Local (eg economic growth, prices and exchange rate)
 2. Global (eg financial market volatility, slowing demand)
- Local and global causes of inflation are connected by
 1. Exchange rate pass through
 2. The role of prices
- Surprising absence of
 1. Recognition that inflation is a process
 2. Any discussion of inflation expectations

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3. Consequences of inflation

5 types of consequences:

- the effects on prices
- interest rates
- the exchange rate
- economic growth
- the impact on investors and investments



Monetarist and Keynesian models predict that inflation is detrimental to the consumer

Secondary consequences

Eg budget pressures on households, reduced consumption, the effects on imports and exports in relation to SA's global competitiveness

*As is well recognised, households are under increasing **budget pressures from higher prices** and taxes imposed on them. And, most relevant, they are suffering from a lack of pricing power in the most important market for their services, the labour market. (02-17-IOL-Monetary)*

Outline of Results

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 - Causes
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The inflation expectations of various stakeholders

Stakeholders:

1. **The media**
2. South African Reserve Bank
3. Analysts

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2. SARB

- A commentator and forecaster on the South African economy
- The SARBs information set includes: Economic growth (domestically, Europe and China), National features (lowered productivity, rising costs, labour unrest etc), Policy shifts in the US and other emerging economies
- SARB is reported to indicate what **can** and **cannot** be expected in term of its role and responsibilities
 - Primary responsibility: inflation targeting and the anchoring of inflation expectations
 - Limits of its responsibility: Economic growth and currency stabilisation

2. SARB: Inflation forecasts

*As indicated at its last meeting, the committee continues to expect inflation to **breach the upper end of the target range in the second quarter of 2014**, and to **return to within the target range in the second quarter of 2015**, when it is expected to measure 5.9%. (03-27-MG-Gill)*

- Interesting for 3 reasons:
 - Reflect flexibility
 - No justifications are given for why the SARB is not alarmed by the inflation rate remaining outside of a target band
 - The media rarely reinforces the extended forecast horizon provided by the SARB

2. SARB: Policy stance

- The SARB provided insight into its expectations of future monetary policy
 - But the only consistently reported element to explain *when or how* this would occur is that monetary tightening will be data-dependent

Further monetary tightening would be "highly data dependent," Marcus said. (01-30- MG-Rand)

The inflation expectations of various stakeholders

Stakeholders:

1. The media
2. South African Reserve Bank
3. **Analysts**

3. Analysts

- Media consults and quotes a wide range of analysts
 - Forecasts of inflation:
 - Wide range of forecasts
 - The price of oil (a relative P movement) was the most consistently reported factor when forecasting a decrease in inflation
 - Forecasts of future monetary policy
 - Focus primarily on timing
 - Use primarily 3 factors: inflation, economic growth and the exchange rate

3. Analysts

- Views of how the SARB *should* act
 - Economic growth is often the primary justification identified
 - Some argue that policy tightening damages the economy
 - At times some argue that the Rand vulnerability should be a primary concern guiding the SARB's actions

*"Interest rates should stay unchanged for at least the next six to nine months, **unless the rand drastically slides further** ,"
... "Economic growth is still very flat, but the price side is becoming more of a worry." (01-22-MG-Inflation)*

- Although the external stakeholders regularly criticise the SARB's response to inflation, opposition to the SARB is limited to trade unions

Summary of exploratory findings

- The media is not a passive conduit of central bank communication to the general public
 - Instead the media provides a platform on which views about inflation and inflation expectations are debated
- Our content analysis aimed to characterise the way inflation and inflation expectations are portrayed in the media
 - It identified a range of concepts used in media reports that present opportunities for confusion