Narratives of Inflation: Evidence from the US and South Africa

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Motivation

Consumers in the US tend to associate high inflation with supply side shocks (Andre et al., 2022). This can have implications for the effectiveness of Central Bank Communication (Candia et at., 2020) or Wage-Inflation-Spirals (Hajdini et al. 2024, Reiche, 2024).

Experimental Design

South Africa:
MarkData Syndicate survey, face-to-face
January-February 2024
1026 participants, representative of working age pop. with high school degree

United States:
Online, recruited via Prolific
March and May 2024
928 participants, representative sample

1. Narratives of Inflation

What do you think could cause that inflation in the next 12 months to be higher/lower than you previously predicted?

2. Perceived Effect on Unemployment, GDP and Behaviors

$$\%\Delta \boldsymbol{k_i} = \alpha_0 + \alpha_1 \boldsymbol{up_i} + \beta_0(\boldsymbol{m}-1)_i + \beta_1(\boldsymbol{m}-1)_i \times \boldsymbol{up_i} + \epsilon_i,$$

β_0 and $\beta_0 + \beta_1$ measure the elasticity of a belief about variable/predicted behavior k in response to a 1% decrease or increase in inflation.

Implications

Central Bank Communication:
Asymmetric understanding requires more contextualization

Wage-Inflation Spirals:
Consumers are willing to accept lower wages when inflation reduces but bargaining up wages when inflation increases
Precautionary savings are likely instead

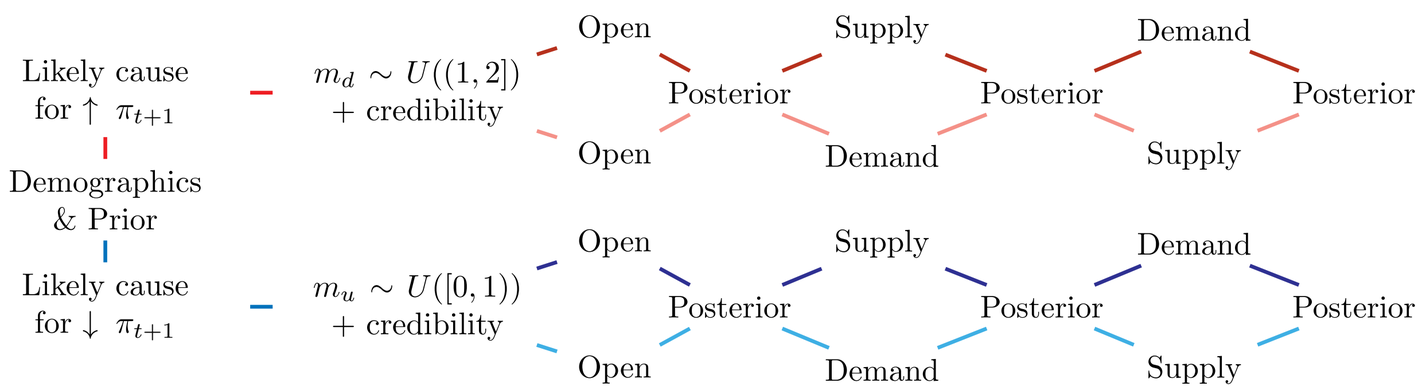
External Validity of US:
Narratives differ substantially across countries increasing the need for surveys beyond the US

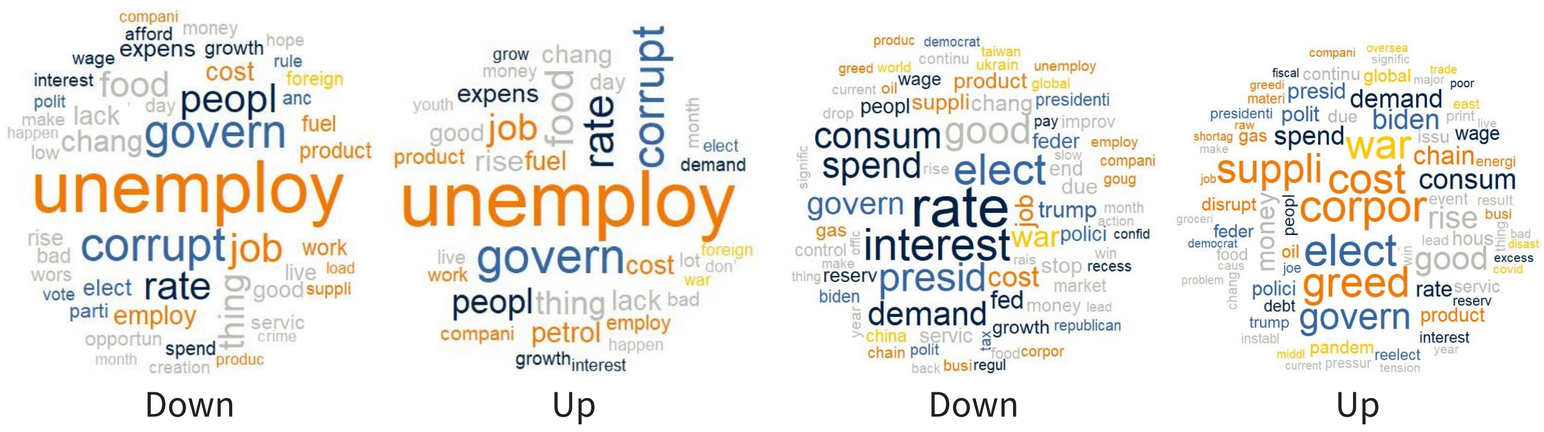
Research Questions and Answers

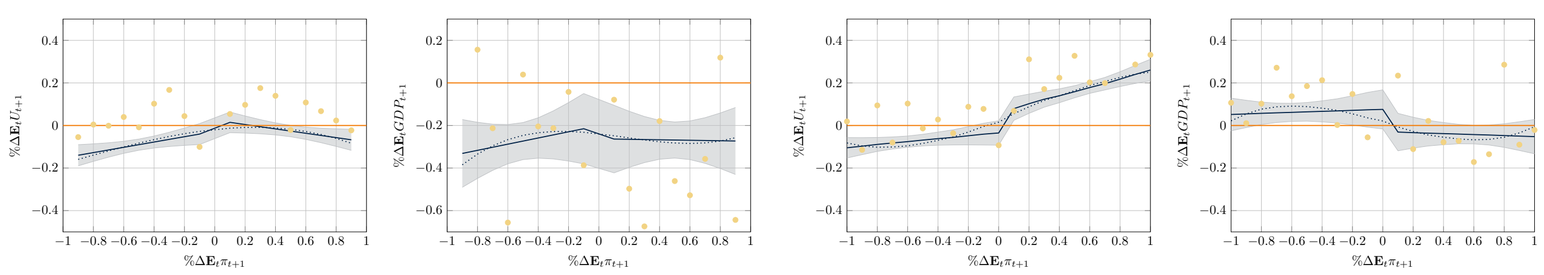
(a) How do consumers explain disinflationary shocks instead?
Consumers in the US perceive inflation increases as being caused by supply-side events but have demand-driven narratives for disinflationary shocks

(b) Does this finding extend beyond the US to a developing country, South Africa?
Narratives are more vague in South Africa, where government policies are seen as responsible for inflationary and deflationary events

(c) Do narratives impact consumer behavior?
Consumers in neither country are expecting wages to compensate for inflation and instead expect to increase borrowing to cover expenses







		Wage Bargaining		Hours Worked		Consumption				Take Loan			
		Higher	Lower	Increase		Increase		Decrease		Official		Informal	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Panel A: US															
$\%\Delta \mathbf{E}_t\pi_{t+1}$	β_0	0.02	-0.11**	0.06**	0.16**	0.07***	0.04	-0.3***	-0.17*	0.2***	0.13**	0.04**	0	0.08***	0.09**
		(0.02)	(0.05)	(0.02)	(0.07)	(0.01)	(0.04)	(0.03)	(0.09)	(0.02)	(0.06)	(0.02)	(0.06)	(0.01)	(0.04)
$\%\Delta \mathbf{E}_t\pi_{t+1} \times \boldsymbol{up}$	β_1		0.19***		-0.1		0.03		-0.01		-0.08		-0.06		-0.06
			(0.07)		(0.1)		(0.05)		(0.13)		(0.09)		(0.08)		(0.06)
	$\beta_0 + \beta_1$		0.09		0.06		0.07*		-0.18*		0.05		-0.05		0.02
			(0.05)		(0.07)		(0.04)		(0.09)		(0.06)		(0.06)		(0.05)
Observations			805		782		821		810		828		812		802
Residual SE			0.2		0.28		0.16		0.42		0.27		0.2		0.16
Panel B: South Africa															
$\%\Delta \mathbf{E}_t\pi_{t+1}$	β_0	-0.04	-0.07	-0.02	-0.09	0.01	-0.01	-0.07**	-0.22**	0.01	-0.06	0.03	-0.05	0.02	-0.05
		(0.03)	(0.09)	(0.03)	(0.1)	(0.03)	(0.09)	(0.03)	(0.09)	(0.03)	(0.09)	(0.03)	(0.09)	(0.03)	(0.09)
$\%\Delta \mathbf{E}_t\pi_{t+1} \times \boldsymbol{up}$	β_1		0.05		0.07		-0.13		0.28**		0.22*		0.05		0.14
			(0.12)		(0.14)		(0.12)		(0.12)		(0.12)		(0.12)		(0.12)
	$\beta_0 + \beta_1$		-0.02		-0.02		-0.14*		0.06		0.17**		-0.01		0.09
			(0.09)		(0.1)		(0.08)		(0.09)		(0.08)		(0.08)		(0.09)
Observations			904		829		888		859		877		837		819
Residual SE			0.4		0.44		0.4		0.4		0.38		0.36		0.4

Huber robust regressions. Standard errors in parentheses below.
*p<0.1; **p<0.05; ***p<0.01