

DANMARKS NATIONALBANK

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The Danes have difficulty in assessing inflation

Prices are rising less than many people think

Prices of food, clothing, restaurant meals, laundry, rent and other elements of household consumption are rising much less than many Danes think. If we consider the period 2007-16, Danes on average believed that inflation was 4.3 per cent a year, while actual inflation was 1.6 per cent. In other words, the Danes overestimate the rate of inflation – but not as much as people in EU do on average.

This appears from a Working Paper prepared by Kim Abildgren, Chief Adviser, and Andreas Kuchler, Senior Economist, from Danmarks Nationalbank.

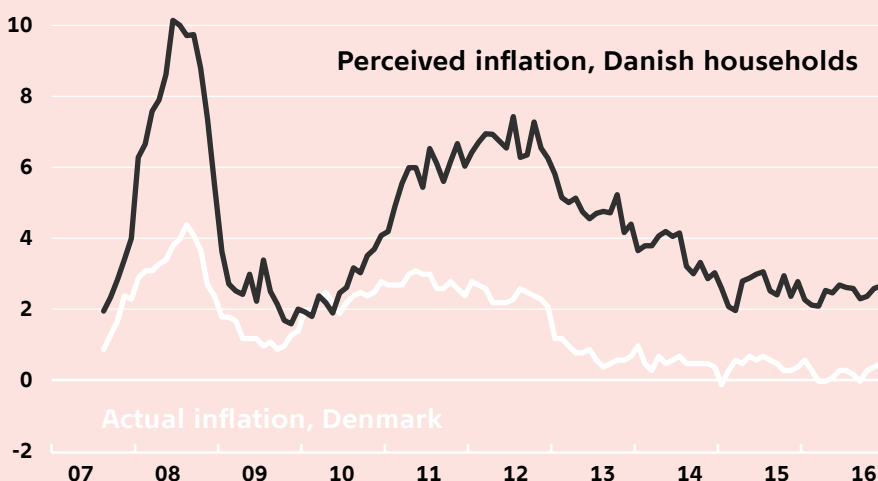
According to the Working Paper, a possible explanation to the considerable gap between perceived and

actual inflation is that some of the respondents have other prices in mind than consumer prices in general. This could be food prices or prices of other goods and services that they often purchase.

The European Commission has recently begun to publish the results of regular interview surveys of perceived inflation among European households. Statistics Denmark conducts the Danish part of the survey by interviewing around 1,000 Danish households every month. The Working Paper by Kim Abildgren and Andreas Kuchler examines potential explanations to the misconception about inflation by merging data from the survey with various data from administrative registers.

Danes over-estimate price increases

Per cent, year-over-year



Source: Abildgren and Kuchler (2019).

There are indications that social factors play a role in the Danes' perception of inflation. People from families with low incomes and short educations tend to see price rises as being higher than people from other families do.

There are also signs of considerable seasonal fluctuations in the overestimation of inflation. On average, people who participate in the July survey assess inflation to be 1 percentage point higher than those participating in the February survey. This could be attributable to sales and holiday periods.

Price rises in focus

Some Danes overestimate inflation more than others do, but in general the misconception about the level of price increase is widespread. It is not possible to point to a single type of household where perceived inflation matches actual inflation.

Previous studies have shown that some people attach more importance to price rises than to price falls when assessing price developments in general.

Furthermore, the respondents may find it difficult to take quality improvements into account when assessing inflation. If the price of an article rises because the quality has improved, this is not a genuine price rise, but presumably only few people take this into account when responding to the survey questions. The considerable gap between perceived and actual inflation could indicate a need for more information about price rises and inflation. In recent years, a number of central banks have increased their communication efforts in this area. Danmarks Nationalbank has developed a set of teaching materials (in Danish only) aimed at upper secondary school students ([link](#), in Danish only).

Find the working paper ([link](#)) at Danmarks Nationalbank's website.

ABOUT NEWS



News are news articles based on analyses, working papers or other longer texts from Danmarks Nationalbank. News primarily

address journalists, politicians, government officials, specialists and others who want to be updated on current topics.

The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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