Discussion of paper
"Can quantification methods lead to wrong conclusions?"
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The paper:

- **Compares three sets of data on inflation:**
  1. **qualitative ("ordinal") perceptions and expectations**
  2. **quantitative ("true") perceptions and expectations, and**
  3. **HICP (= Harmonised index of consumer prices).**

- **Applies "quantification methods" to the qualitative data: the balance statistics, the regression approach and the probability method.**

- **Compiles correlations**

- **Concludes:**
  - **quantification methods lead to an <u>underestimation</u> of the "true" perceived and expected inflation and should be used with caution, and**
  - **consumer replies in quantitative terms clearly show a persistent <u>overestimation</u> of inflation (in terms of the HICP); the reason being the euro cash changeover in 2002.**

Quantification methods: balance statistics

Perceived inflation	Expected inflation
How do you think that consumer prices have developed over the last 12 months?	By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?
(1) risen a lot; (2) risen moderately; (3) risen slightly; (4) stayed about the same; (5) fallen; (N) don't know	(1) increase more rapidly; (2) increase at the same rate; (3) increase at a slower rate; (4) stay about the same; (5) fall; (N) don't know

Summary of discussion:

- As discussed in the previous agenda item, these quantitative inflation expectations might be biased as well and hence not reflect "true expectations", and therefore the only benchmark we have at the moment is the HICP.

- In addition to <u>correlations</u>, some time series analysis?

- Study further the <u>missing leading properties</u> of inflation expectations, as the paper says that "for the euro area, and for the majority of euro-area countries, we obtain the highest correlation between inflation expectations and actual HICP inflation using contemporaneous data."

- Quantification methods could get more room in the paper: explain more methods and assumptions used

- Balance statistics and the striking impact of the euro cash changeover: What is economically wanted by the ECB? Which terminology applies?