

Revised pricing methodology for gambling in the Consumer price index

14 December 2017

Introduction

Games of chance are considered recreational consumption expenditure in the South African Consumer price index and the National accounts. This is in line with the international product classification system for the CPI (COICOP). Internationally, many countries include games of chance in their CPI, and those that exclude it usually do so on the basis of the difficulty in tracking comparable prices. Expenditure on gambling in South Africa amounts to more than one per cent of the current (2012) CPI weights. The expenditure value in the CPI weights and the National accounts is calculated on a net basis (total gambling revenue minus winnings).

Current pricing methodology

The current pricing method for games of chance uses the ticket price of games run by the national lottery. Internationally, the prices of lottery tickets are commonly used as a proxy where gambling is state regulated - as it is in South Africa. Lottery ticket prices are surveyed annually by Stats SA. Since their inclusion in the CPI in 2008, there have only been two price increases in lottery tickets (2009 and 2015). Further price increases were implemented by the lottery operator in 2016 and are due for inclusion in the CPI in January 2017.

Revised pricing methodology from 2017

An increase in the price of a lottery ticket should be seen in the context of any change in the possible winnings that players may receive. The change in the ticket price to be included in the CPI should be adjusted to account for any change in the winnings. For example, if the ticket price increased by 20%, and the potential winnings by 10%, then the effective price increase (in the CPI) would be calculated as $1,2 \div 1,1 = 1,09^i$. This method is similar to that used for CPI calculation purposes when the quantity of a product changes and an adjustment to the price change is effected. The proportion of ticket revenues due to the winners is determined by the payout ratio attached to each game. This ratio is agreed between the lottery operator and the National Lotteries Commission. Any change in

price will therefore be quality adjusted by the payout ratio. Any change in the payout ratio without a change in the ticket price will also be considered a price change.

During 2017 Stats SA will investigate other forms of gambling products for possible inclusion in the CPI sample from 2018. Users will be advised on any changes beforehand.

Conclusion

Stats SA will continue to survey the price of lottery tickets in January of each year. Price changes which took place during 2016 will be included in the January 2017 CPI release using the revised methodology. In each case the payout ratio remained constant, meaning that winnings increased in the same proportion as the price, resulting in an effective zero price change.

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ⁱ A 20% increase is translated into a price change of 1,2 for calculation purposes.