The Bank of England inflation attitudes survey

As part of a new regular series, the market research agency NOP undertook a survey of public attitudes to inflation for the Bank of England in February. The results show that, given a choice between higher interest rates or higher inflation, four times as many people would prefer interest rates to go up, rather than prices. Other results suggest that most people are aware that the Bank, rather than the Government, now sets interest rates. 55% are satisfied with the way the Bank is doing its job; just 10% are dissatisfied. Most people are aware that inflation is low, but only one in three knows that it is currently between 1% and 3%. However, very few expect inflation to rise sharply in the year ahead.

Introduction

The Bank of England believes that the new monetary policy framework established in 1997 will be most effective if it is accompanied by wide public understanding and support, both for the objective of price stability and for the methods used to achieve it. So one of the key strategic objectives for the Bank set by Court (the Bank's board of directors) is 'to build public support for price stability, and public understanding of the Monetary Policy Committee's approach to its remit'.

MPC members use a variety of methods to explain themselves to the public, including the publication of minutes of their monthly meetings, the quarterly *Inflation Report*, speeches and lectures, research papers, appearances before parliamentary committees, interviews with the media, visits to the regions, and an education programme that includes the 'Target 2.5' schools competition.

One way to quantify the impact of the Bank's efforts to build general public support for price stability is to use sample surveys of public opinion and awareness. Following a recommendation by the Treasury Committee of the House of Commons, the Bank has been trialling a national poll to explore the evolution of public opinion and general understanding of monetary policy matters.

The inflation attitudes survey

The trial questions, devised in collaboration with the market research agency NOP, were tested in four quarterly surveys from November 1999 to August 2000. The testing ensures that the questions are understood and that the answers give meaningful information. The results of the first four polls showed that the trial questions all worked satisfactorily, except for one question that proved to be confusing and so was rewritten and tested again in November 2000.

Using this and other feedback from the first year's trials, the Bank agreed a final version of the poll, which was carried out by NOP in February 2001. The results of the survey are described below. As some of the answers do not vary much from quarter to quarter, it was decided to do a full survey with all 14 questions once a year each February. But 9 of these questions, where the answers are more likely to vary over short periods, will be asked every quarter. The results of the full annual surveys will be reported each summer in the *Quarterly Bulletin*, and the results of the quarterly surveys will be published in a quarterly news release. In both cases, the full data will be available on the Bank's web site.(1) The table on page 168 summarises the results of the five trials up to November 2000.

The range of questions, as well as seeking information on public knowledge, understanding and attitudes towards the MPC process, also covers expectations of interest rates and inflation.

The five annual questions cover perceptions of the relationship between interest rates and inflation, and knowledge of who sets interest rates. The nine quarterly questions, which are also asked in the annual survey, cover expectations of price and interest rate changes, perceptions of the impact of inflation and interest rate

(1) The Bank's web site is at www.bankofengland.co.uk

changes on both the economy and the individual, and satisfaction/dissatisfaction with the way the Bank of England is doing its job of setting interest rates in order to control inflation.

The surveys are carried out by NOP in its regular Omnibus surveys using a random location sample designed to be representative of all adults in Great Britain, and interviewing is carried out in homes, face to face. In the February 2001 survey, NOP interviewed a quota sample of 3,901 people aged 15 and over in 350 randomly selected enumeration districts between 15 and 27 February. The raw data were weighted to match the demographic profile of Great Britain as a whole.

The sample size for the quarterly surveys (which will take place after the May, August and November *Inflation Reports*) is 2,000, about half the number for the annual February survey. The sample sizes chosen allow only a broad regional breakdown. Details of the survey methodology are available on the Bank's web site along with the results.

There are risks in drawing conclusions from polls about public perceptions of monetary policy over short periods. For example, public reaction to interest rate movements is likely to be influenced by other factors in the national mood and by the fact that rises are typically reported as bad news and falls as good news. *Question 14* of the survey finds that the proportion satisfied with the way that the Bank 'is doing its job to set interest rates in order to control inflation' climbed to 55% in February 2001 from 41% in February 2000. But this rising approval rating may be driven by the fact that interest rates remained stable and then fell slightly up to the survey date, and by the fact that the economic environment for most of last year was exceptionally stable. The Bank believes that approval ratings for its actions are likely to be affected quite strongly in the short term by the direction of movements in interest rates and perhaps exchange rates, so this part of the survey will be most valuable when studied over more than one cycle, and short-term results need to be interpreted with care.

Knowledge and expectations questions

Inflation

The February survey indicated that most people are aware that inflation is low, but only one in three responded correctly by saying that it is between 1% and 3%. Some of the variation in the answers may be because respondents are thinking about inflation as it relates to their own patterns of spending. Few people expect inflation to rise sharply in the year ahead.

Respondents were asked (*Question 1*) to say how much prices had changed in the previous 12 months by selecting from eight banded options on a card. Among the 87% who made a selection, the median response was 2.2%.(1) However, this median conceals a wide variation, from 22% who thought prices had fallen or not risen at all, to 29% who thought they had risen by more than 3%. Just 32% of responses chose either the 1%–2% band (12% of respondents) or the 2%–3% band (20%), both of which encompass inflation figures seen in the recent past. Figures for predicted future inflation (*Question 2*) are similar to those for perceived current inflation; the median figure is 2.1%. The questions do not specify particular measures of inflation. These figures have fluctuated very little during the past 12 months; variations have fallen well within sampling error. Only the first survey, conducted in November 1999, produced significantly different figures, when the median levels for current and predicted inflation were both 1.5%.

In answer to *Question 2*, 'how much do you expect prices to change over the next 12 months?', 15% of respondents were notably pessimistic, expecting prices to rise by 4% or more in the next 12 months; but two thirds of this group thought that prices had climbed by 4% or more in the *past* 12 months. In other words, they believed that inflation was already high, not that it was likely to increase.

Equally, two thirds of 'inflation optimists' (those expecting prices over the coming year to rise by 1% or less) thought that inflation was this low already. The pattern has been constant through all six surveys in the series. Very few people thought that inflation was likely either to rise or decline sharply.

Interest rates

(*Questions 5 and 6*) For the first time in the six surveys, more people (36%) thought that interest rates had fallen in the previous 12 months than thought they had risen (22%). The rest thought either that rates had remained about the same or had no idea. The survey took place

(1) For the purposes of calculating the median, responses are assumed to be evenly distributed within each band.

shortly after the MPC decision to reduce interest rates in February.

Of AB respondents (professionals, managers and their adult dependents), 50% said rates had fallen; among DE respondents (semi-skilled and unskilled workers and those living on state benefits) the figure was just 22%. Indeed, slightly more DE respondents thought that interest rates had risen rather than fallen.

Opinion was evenly divided on whether interest rates would rise (28%) or fall (26%) in the coming 12 months; almost half the sample either did not know (20%) or expected no change (26%). These figures for February were very different from those in previous surveys. The 'net rise' figure of +2 compares with +35 in November and an average of +53 between November 1999 and August 2000.

The Bank of England

Asked, unprompted, who sets Britain's 'basic interest rate level' (*Questions 11 and 12*), 37% said either the Bank of England (32%) or the Monetary Policy Committee (5%). 6% gave other answers, while 57% said 'don't know'. These figures have fluctuated little over the six surveys.

Respondents were then prompted with a show card containing four options, and asked again who sets interest rates. With this question, most people were aware that the Bank of England, rather than the Government, now sets interest rates. The proportion saying 'the Bank' climbed to 66%, while 15% plumped for 'government ministers', 3% for 'high street banks' and 3% for 'the European Central Bank'. Again, these figures have remained fairly steady throughout the series.

In response to *Question 13* about the nature of the MPC, 62% believe that the Committee is an independent body. This total is made up of 38% who know that the MPC is an independent body, partly appointed by the Government, and a further 24% who think that it is completely independent, meaning in this context no government role in appointments. 11% regard the MPC as 'part of the Government'.

Attitude questions

Inflation

(*Question 3*) Asked whether Britain's economy would be stronger, weaker or little changed by faster inflation, 47% believed that Britain's economy would end up weaker if prices started to rise faster than they do now. Just 7% thought that it would end up stronger, 26% thought that it would make little difference, and 20% had no idea. Over the six polls, the proportions have remained steady, at 7% ±1% saying stronger, 47% ±3% saying weaker, and 25% ±3% saying little difference. Public attitudes to this issue have been tested only during a period of low inflation, falling unemployment and steady economic growth, so these answers may not be a guide to how the public might react if economic circumstances were different. But the number of those believing that inflation is damaging for economic performance, even in a time of low inflation, suggests considerable support for price stability.

Told that the Government has set an inflation target of $2^1/_2$% (*Question 4*), 58% thought this 'about right', while 22% thought it too high and 6% too low; 14% had no opinion. In no regional or demographic group did the percentage saying 'too low' reach double figures. Among respondents aged under 35, 31% said that the target rate was too high. Among respondents aged over 55 the proportion declines to 15%. This might reflect the fact that older respondents have clear memories of the inflation of the mid-1970s.

Interest rates

Public opinion continues to be divided over what should happen to interest rates over the next few months (*Questions 7 and 8*). 34% thought that it would be best for the British economy for rates 'to stay where they are', 28% thought that rates should go down, and 8% thought that they should go up. The remaining 30% either did not know or did not think it would make any difference. Views varied little from one region to another.

Asked what would be best for them personally (*Question 8*), 33% opted for lower interest rates, 18% for higher interest rates, and 17% for rates to remain where they are. Demand for lower interest rates was greatest among mortgage-payers (53%), 25–44 year-olds (49%) and working people (48%). Desire for higher rates was strongest among people who own their homes outright (42%) and those aged 55 and over (35%). Among the latter two (overlapping) groups, many more people favoured higher rather than lower interest rates for themselves; however, asked about the economy as a whole, the same people were inclined to lower rather than higher rates.

Inflation versus interest rates

Question 9 was designed to test peoples' understanding of how interest rate changes affect inflation, but in its original version it was not well understood by respondents. One possible source of—quite understandable—confusion in this area is that, in the short term, RPI rises when interest rates are increased, because it includes mortgage interest rates, while RPIX, the MPC's target measure, excludes mortgage rates. An alternative linked pair of questions, designed to focus attention separately on the short and medium-term impact of interest rate changes, was trialled last November and the results of this further test have been incorporated as a new *Question 9*.

NOP asked what people thought the impact would be of a rise in interest rates: (a) in the short term (say a month or two), and (b) in the medium term (say a year or two). In the short term, just over one person in three (34%) agreed that 'a rise in interest rates would make prices in the high street rise more slowly', while 22% disagreed. As many as 44% responded 'neither agree nor disagree' (19%), or 'don't know' (25%). The figures for the medium term are only slightly different: 37% agree, 17% disagree, 19% neither agree nor disagree, 27% don't know. However, there is more encouragement from *Question 10*: 'if a choice had to be made, either to raise interest rates to keep inflation down, or to keep interest rates down and allow prices in the shop to rise faster, which would you prefer?' When a trade-off is suggested, most people would accept higher interest rates rather than higher inflation. The margin is almost four to one: ie 62% compared with 16%. Clear majorities in every region and demographic group—including mortgage-payers—would prefer higher rates.

In other words, most people share the Bank's (and the Government's) priorities, but there is much less clarity about the link between rates and prices that underpins its decisions.

The Bank of England

Respondents were asked to assess the way that the Bank of England was 'doing its job to set interest rates to control inflation' (*Question 14*). 55% were 'very' (8%) or 'fairly' (47%) satisfied, while just 10% were 'fairly' (7%) or 'very' (3%) dissatisfied. This gives a satisfaction index (satisfied minus dissatisfied) of +45, virtually the same as that recorded three months earlier (+44), but higher than that found in earlier surveys.

As noted above (see page 165), responses to this question seem to reflect interest rate decisions. The lowest net satisfaction score, +24, was recorded in February 2000 at a time when rates were rising, while the latest survey followed a cut in rates. The satisfaction index is higher among men (+50) than women (+37), and higher among AB respondents (+61) than DE respondents (+31). In all the surveys, net satisfaction is lower in Scotland (+28) than in England and Wales (+46). The Bank's net satisfaction rating is currently positive, by a large margin, in every part of Britain and among every demographic group.

Public attitudes to inflation

Per cent

	1999 Nov.	2000 Feb.	May	Aug.	Nov.	2001 Feb.
Question 1 Which of these options best describes how prices have changed over the past 12 months?						
Gone down	11	7	5	8	6	7
Not changed	18	12	10	12	14	15
Up by 1% or less	7	5	4	7	5	6
Up by 1% but less than 2%	12	11	12	12	13	12
Up by 2% but less than 3%	16	17	18	20	18	20
Up by 3% but less than 4%	7	11	13	13	13	11
Up by 4% but less than 5%	4	8	7	5	6	6
Up by 5% or more	9	12	13	10	11	12
No idea	17	17	17	12	13	13
Median (%)	1.5	2.4	2.6	2.2	2.3	2.2
Question 2 How much would you expect prices in the shops generally to change over the next 12 months?						
Go down	10	7	4	6	4	5
Not change	14	8	9	9	9	11
Up by 1% or less	10	7	7	10	8	9
Up by 1% but less than 2%	16	15	14	15	16	16
Up by 2% but less than 3%	17	21	21	19	21	20
Up by 3% but less than 4%	6	12	10	12	12	11
Up by 4% but less than 5%	3	7	7	6	6	5
Up by 5% or more	8	10	11	9	11	10
No idea	16	13	16	13	12	13
Median (%)	1.5	2.2	2.4	2.2	2.3	2.1
Question 3 If prices started to rise faster than they do now, do you think Britain's economy would...						
End up stronger	8	8	8	6	8	7
Or weaker	44	48	47	50	49	47
Or make little difference	28	23	22	23	25	26
Don't know	20	21	23	21	18	20
Question 4 The Government has set an inflation target of $2^1/_2$%. Do you think this target...						
Is too high	19	27	23	22	23	22
Or too low	6	7	7	8	6	6
Or about right	51	50	52	54	58	58
No idea	24	16	18	16	13	14
Question 5 How would you say interest rates on things such as mortgages, bank loans and savings have changed over the past 12 months?						
Risen a lot	7	18	19	13	10	6
Risen a little	35	37	37	36	29	16
Stayed about the same	18	12	13	20	26	20
Fallen a little	17	8	7	10	12	33
Fallen a lot	4	3	2	2	3	3
No idea	19	21	22	19	21	21
Total saying 'risen'	42	55	56	49	39	22
Total saying 'fallen'	21	11	9	12	15	36
Net risen	21	44	47	37	24	-14
Question 6 How would you expect interest rates to change over the next 12 months?						
Rise a lot	7	16	10	8	6	4
Rise a little	52	50	46	47	39	24
Stay about the same	19	12	19	23	27	26
Fall a little	4	4	5	6	10	25
Fall a lot	1	1	1	0	0	1
No idea	18	17	20	16	17	20
Total saying 'rise'	59	66	56	55	45	28
Total saying 'fall'	5	5	6	6	10	26
Net rise	54	61	50	49	35	2
Question 7 What do you think would be best for the British economy—for interest rates to go up over the next few months, or to go down, or to stay where they are now, or would it make no difference either way?						
Go up	12	12	11	11	9	8
Go down	21	27	29	27	24	28
Stay where they are	40	33	28	35	42	34
Make no difference	7	10	10	9	11	10
No idea	20	18	23	17	15	19
Question 8 And which would be best for you personally, for interest rates to...						
Go up	17	19	16	17	17	18
Go down	30	35	33	36	36	33
Stay where they are	22	15	16	18	19	17
Make no difference	17	22	22	19	20	22
No idea	14	10	13	10	8	10

	1999 Nov.	2000 Feb.	May	Aug.	Nov.	2001 Feb.
Question 9 How strongly do you agree with the following statements?						
(a) A rise in interest rates would make prices in the high street rise more slowly in the short term—say a month or two.						
Agree strongly					2	2
Agree					35	32
Neither					16	19
Disagree					25	20
Disagree strongly					2	2
Don't know					21	25
Total agree					37	34
Total disagree					27	22
Net agree					10	12
(b) A rise in interest rates would make prices in the high street rise more slowly in the medium term—say a year or two.						
Agree strongly					2	2
Agree					39	35
Neither					16	19
Disagree					21	16
Disagree strongly					1	1
Don't know					22	27
Total agree					41	37
Total disagree					22	17
Net agree					19	20
Question 10 If a choice had to be made, either to raise interest rates to try to keep inflation down, or to keep interest rates down and allow prices in the shops to rise faster, which would you prefer:						
Interest rates to rise	51	58	52	57	63	62
Prices to rise faster	17	19	16	15	19	16
No idea	31	24	31	28	18	22
Question 11 Each month, a group of people meets to set Britain's basic interest rate level. Do you know what this group is?						
Monetary Policy Committee	7	4	5	6	5	5
Bank of England	39	29	33	38	29	32
The Government	4	2	3	2	3	3
The Treasury	1	1	1	1	1	1
Parliament	1	*	*	*	1	*
Other	1	2	1	2	1	2
Don't know	47	62	57	51	60	57

Note: * indicates less than 0.5%.

	1999 Nov.	2000 Feb.	May	Aug.	Nov.	2001 Feb.
Question 12 Which of these groups do you think sets the interest rates?						
Bank of England	67	63	63	69	65	66
Government ministers	14	15	12	13	16	15
High street banks	3	4	3	2	4	3
European Central Bank	2	3	3	3	3	3
No idea	13	14	18	12	12	13
Question 13 In fact, the decisions are taken by the Monetary Policy Committee of the Bank of England. Which of these do you think best describes the Monetary Policy Committee?						
Part of the Government	11	11	9	10	12	11
A quango, wholly appointed by the Government	8	8	8	8	9	8
An independent body, partly appointed by the Government	38	39	37	42	37	38
A completely independent body	23	20	22	20	24	24
No idea	20	21	24	20	17	19
Question 14 Overall, how satisfied or dissatisfied are you with the way the Bank of England is doing its job to set interest rates in order to control inflation?						
Very satisfied	7	4	5	6	7	8
Fairly satisfied	41	37	38	45	48	47
Neither satisfied nor dissatisfied	26	28	27	25	26	25
Fairly dissatisfied	7	12	9	9	8	7
Very dissatisfied	4	5	4	4	3	3
No idea	16	14	17	12	9	11
Total satisfied	48	41	43	51	55	55
Total dissatisfied	11	17	13	13	11	10
Net satisfied	37	24	30	38	44	45