
Public attitudes to inflation

As part of a regular series, the market research agency NOP has been carrying out quarterly and annual surveys of public attitudes to inflation on behalf of the Bank since November 1999. This article describes the results of the full annual survey which took place in February 2002. It shows that public opinion remains fairly stable on most issues, though expectations of future interest rate movements do of course fluctuate. Those who think rates should stay where they are remain the largest group, but among the rest, the public was evenly divided over whether it would be better for Britain's economy for rates to rise or fall over the next few months. The proportion satisfied with the way the Bank is doing its job of setting interest rates is very little changed from November.

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 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.

The Bank decided that one way to quantify the impact of its efforts to build public support for price stability was to carry out quarterly sample surveys of public opinion and awareness. After trials between November 1999 and November 2000, the current version of the survey questions has been in use since February 2001. The results between November 1999 and February 2001 were described in the Summer 2001 edition of the *Quarterly Bulletin*, and this article updates the results to February 2002.

There are 14 questions in all, but the trials showed that the results of five of them varied little over the quarters. So it was decided to ask the other nine questions every

quarter and to do a full survey once a year each February covering all 14 questions. The full survey uses a larger sample, to allow more detailed analysis.

The range of questions, as well as seeking information on public knowledge, understanding and attitudes to the MPC process, also covers expectations of interest rates and inflation. The five annual questions (numbers 9–13) 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 changes on both the economy and the individual, and satisfaction/dissatisfaction with the way the Bank of England is doing its job 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 2002 survey, NOP interviewed a quota sample of 3,981 people aged 15 and over in 350 randomly selected enumeration districts throughout Great Britain between 14 and 26 February 2002. The raw data were weighted to match the demographic profile of Great Britain as a whole.

The sample size for the quarterly surveys (which 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. The May quarterly survey

results are being published as a separate News Release at the same time as this article in the *Bulletin*. The quarterly survey results for February were published in March, while the answers to the five annual questions for February are published here for the first time.

Summary of results to February 2002

On most issues, public opinion remains fairly stable:

- Most people are aware that inflation is low, but only one in three says it is between 1% and 3%—the range covering recent official measures of the rise in retail prices. Few people expect inflation to rise sharply in the year ahead.
- Almost half the public thinks higher inflation would make Britain's economy weaker, while fewer than one in ten believe it would make the economy stronger.
- Six in ten think the Government's 2.5% inflation target is about right. Four in ten agree that a rise in interest rates would make prices in the high street rise more slowly in the medium term. One in six disagree.
- Asked to choose between raising interest rates to keep prices down, or keeping interest rates down and allowing prices to rise faster, almost two in three opt for higher interest rates, while only one in six opts for higher prices.
- Unprompted, around four in ten know that the Bank of England, or its Monetary Policy Committee, set Britain's basic interest rate level; prompted with a show card, the proportion rises to two in three.

In a few areas, views have shifted since this tracking series began in November 1999:

- Perceptions of how interest rates have moved 'over the past 12 months' change in line with the decisions of the MPC. However, in the absence of very recent movements in rates, the proportion that knows that rates have fallen 'over the past 12 months' has declined from 66% in November 2001 to 55% in February 2002.
- Equally, expectations of future interest rates fluctuate. In the latest survey, 49% expect rates to

rise (up 13 percentage points since November 2001), while 8% expect them to fall (down 10 percentage points) over the next 12 months.

- The public is now evenly divided over whether it would be better for Britain's economy for rates to rise or fall 'over the next few months', with 16% holding each view. This is the first time in this series that the two figures have been equal. In all previous surveys more people thought it would be better for rates to fall rather than rise. However, as in nearly all previous surveys, the largest number (40% in February 2002) thinks it would be best for rates to stay where they are.
- The proportion satisfied with the way the Bank is doing its job of setting interest rates (61%) is virtually the same as in November 2001 (62%); both figures are higher than in any previous survey in this series.

Knowledge and predictions

Inflation

(*Question 1*) Respondents were asked to say how much prices had changed in the previous 12 months by selecting from eight banded options on a card. Among the 89% who made a selection, the median figure was 2.0%. (For the purposes of calculating the median, responses are assumed to be evenly distributed within each band.) However, as in previous surveys, this median conceals a wide variation, from 23% who thought prices had fallen or not risen at all, to 26% who thought they had risen by more than 3%. Just 33% of respondents chose either the 1%–2% band (14% of respondents) or the 2%–3% band (19%). Some of the variation in the answers may be because respondents are thinking about inflation as it relates to their own patterns of spending. In no demographic group did the proportion giving an answer in the 1%–3% range rise much above 40%.

Figures for predicted future inflation (*Question 2*) are similar to those for perceived current inflation; the median figure is 2.2%. These figures have fluctuated very little during the past two years; such variations that there have been have fallen well within sampling error. 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 set to increase. By the same token, three quarters of those expecting prices over the coming year to rise by 1% or less thought inflation was this low already. This pattern has been constant through all ten surveys in this series. Few people thought inflation was set either to accelerate or decline sharply.

Interest rates

(*Question 5*) Most people (55%) recognised that interest rates had fallen in the previous 12 months; just 15% thought they had risen. The rest thought either that rates had remained about the same or had no idea. In November the public divided 66%–10% on this question.

On this issue, unlike knowledge of inflation, there are large differences among demographic groups. As many as 72% of AB respondents (professionals, managers and their adult dependants), and 68% of mortgage-payers said rates had fallen; among DE respondents (semi and unskilled workers and those living on state benefits) the figure was just 37%, and among people living in council housing only 28%.

These figures—and the very different pattern of demographic variation in relation to inflation—suggest that responses are driven by personal experience to a greater extent than by media coverage. Price changes affect everyone: interest rate changes have a more immediate and direct effect on some groups than on others.

Interest rates were expected to rise in the coming 12 months by 49% (*Question 6*), while 8% expected them to fall. This compares with a 36%–18% division in November. Expectations of higher rates were greater among AB respondents (57%) and mortgage-payers (54%) than among DE respondents (42%) and people living in council housing (43%). These differences are substantially less than they are for knowledge of past movements in rates.

The Bank of England

Asked unprompted (*Question 11*), who sets Britain's 'basic interest rate level', 39% said either the Bank of England (35%) or the Monetary Policy Committee (4%). Other answers were given by 7%, while 54% said 'don't know'. The figures have fluctuated little during the course of this series. (This question was originally asked each quarter, and is now asked annually.)

Respondents were then given a show card containing five options, and asked again which group sets interest rates (*Question 12*). This time, the proportion saying the Bank of England climbed to 67%, while 13% plumped for 'government ministers', 4% for 'the European Central Bank' and 3% for 'high street banks'. Again, these figures have remained fairly steady throughout the series.

The Monetary Policy Committee was an independent body, partly appointed by the Government, according to 39% (*Question 13*). A further 23% thought it was completely independent. Just 11% regarded the MPC as 'part of the Government'.

Attitudes

Inflation

As in previous surveys, the largest number (48%)—but not a majority—of respondents believed that Britain's economy would end up weaker if prices started to rise faster than they do now (*Question 3*). Just 8% thought it would end up stronger, while 27% thought it would make little difference, and 17% had no idea. Over the ten polls, the proportions have remained steady, with 6%–9% saying stronger, 44%–50% saying weaker, and 22%–28% saying little difference. It seems that fluctuations in interest rates make little or no difference to responses to this question.

Told that the Government has set an inflation target of 2.5% (*Question 4*), 61% thought this was 'about right', while 18% thought it too high and 7% too low; 13% had no idea.

Interest rates

(*Question 7*) On this question the largest number, 40%, thought it would be best for the British economy if interest rates remained where they were. A further 27% said 'it makes no difference' or did not know. For the first time, the minority who took sides divided equally between the 16% who thought rates should rise, and 16% who thought they should fall. In every previous survey, more people thought rates should fall than rise. Before rates started to fall in 2001, the proportion thinking rates should fall was in the range 24%–29%; the February 2002 survey is the first in which the number wanting rates to fall was below 20%.

(*Question 8*) There has, however, been less movement in responses to the question, 'which would be best for you

personally?' As in all previous surveys, more people took sides on this question than when asked what would be best for the British economy. 22% wanted rates to rise, while 30% wanted them to fall further. These figures are not significantly different from those in the previous three surveys, so do not appear to have been affected by the post 11 September interest rate cuts.

Demand for *lower* interest rates was greatest among mortgage payers (45%) and 25–34 year olds (45%). Desire for *higher* rates was strongest among people who own their homes outright (49%) and those aged 65 and over (47%). Among these last two—overlapping—groups, many more people favoured higher rather than lower interest rates for themselves; however, asked about the economy as a whole, the preference for higher over lower rates was very much narrower. As in previous surveys, many people acknowledged a clear difference between what was best for themselves and what would be best for the wider economy.

Inflation versus interest rates

(*Question 9*) Public understanding of the main purpose of interest rate changes—to ensure low and stable inflation over the medium term—continues to be limited. NOP repeated a pair of questions last asked in February 2001, designed to find out what people think 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, 35% agreed that 'a rise in interest rates would make prices in the high street rise more slowly', while 21% disagreed. As many as 45% responded 'neither agree nor disagree' (19%) or 'don't know' (25%). The figures for the medium term are only slightly different: 39% agree, 16% disagree, 18% neither, 26% 'don't know'.

The answers to these two questions were very similar to those found in February 2001. They suggest that almost two in three members of the public do not share the belief that higher interest rates would moderate inflation in the medium term. Nor, in general, do the public draw a distinction between short and medium-term expectations.

However, offered a trade-off (*Question 10*), most people would accept higher interest rates rather than higher inflation. The margin is almost four to one: 63%–16%. Responses are very similar in almost every demographic group. There is one partial exception. Among mortgage-payers, the proportion preferring higher inflation rises to 24% (though 58% would still prefer higher interest rates).

Overall, the conclusion remains the same as last year: most people share the Bank's (and the Government's) priorities, but have limited knowledge of the link between interest rates and prices that underpins its decisions.

The Bank of England

(*Question 14*) Respondents were asked to assess the way the Bank of England was 'doing its job to set interest rates in order to control inflation'. 61% were 'very' (11%) or 'fairly' (50%) satisfied, while just 8% were 'fairly' (6%) or 'very' (2%) dissatisfied. This gives a satisfaction index (satisfied minus dissatisfied) of +53. This is virtually the same as recorded three months earlier (+54), but higher than found in previous surveys.

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 cuts in rates.

The satisfaction index in February 2002 was higher among men (+62) than women (+45) and higher among AB respondents (+69) than DE respondents (+39). As in previous surveys, net satisfaction was lower in Scotland (+39) than any region in England and Wales (between +52 and +58). However, the Bank's net satisfaction rating is positive, and by a large margin, in every part of Britain and among every demographic group. Of course responses to this question are likely to be strongly affected by interest rate decisions, which means they will be most valuable when studied over more than one cycle. Short-term variations in the answers to *Question 14* need to be interpreted with care.

Public attitudes to inflation

Per cent

	1999		2000			2001				2002
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.
Question 1										
Which of these options best describes how prices have changed over the last 12 months?										
Gone down	11	7	5	8	6	7	7	5	8	7
Not changed	18	12	10	12	14	15	15	16	18	16
Up by 1% or less	7	5	4	7	5	6	6	6	7	7
Up by 1% but less than 2%	12	11	12	12	13	12	13	13	14	14
Up by 2% but less than 3%	16	17	18	20	18	20	19	18	17	19
Up by 3% but less than 4%	7	11	13	13	13	11	11	11	9	10
Up by 4% but less than 5%	4	8	7	5	6	6	6	6	5	7
Up by 5% or more	9	12	13	10	11	12	10	9	7	9
No idea	17	17	17	12	13	13	12	15	15	11
Median	1.5	2.4	2.6	2.2	2.3	2.2	2.1	2.1	1.7	2.0

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	5	4	5	3
Not change	14	8	9	9	9	11	11	9	15	9
Up by 1% or less	10	7	7	10	8	9	9	10	10	10
Up by 1% but less than 2%	16	15	14	15	16	16	17	16	18	17
Up by 2% but less than 3%	17	21	21	19	21	20	20	21	20	22
Up by 3% but less than 4%	6	12	10	12	12	11	9	11	9	11
Up by 4% but less than 5%	3	7	7	6	6	5	7	6	5	6
Up by 5% or more	8	10	11	9	11	10	9	9	7	9
No idea	16	15	16	15	12	13	13	13	13	12
Median	1.5	2.2	2.4	2.2	2.3	2.1	2.1	2.2	1.9	2.2

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	8	9	8	8
Or make little difference	28	23	22	23	25	26	27	23	28	27
Or weaker	44	48	47	50	49	47	47	48	48	48
Don't know	20	21	23	21	18	20	18	20	15	17

Question 4

The Government has set an inflation target of 2.5%. Do you think this target...

Is too high	19	27	23	22	23	22	20	21	21	18
Or too low	6	7	7	8	6	6	6	7	7	7
Or about right	51	50	52	54	58	58	61	55	60	61
No idea	24	16	18	16	13	14	13	16	12	13

Question 5

How would you say interest rates on things such as mortgages, bank loans and savings have changed over the last 12 months?

Risen a lot	7	18	19	13	10	6	4	5	2	4
Risen a little	35	37	37	36	29	16	10	10	8	11
Stayed about the same	18	12	13	20	26	20	12	12	7	13
Fallen a little	17	8	7	10	12	33	39	37	29	32
Fallen a lot	4	3	2	2	3	3	16	17	37	23
No idea	19	21	22	19	21	21	19	20	17	16
All saying 'risen'	42	55	56	49	39	22	14	15	10	15
All saying 'fallen'	21	11	9	12	15	36	55	54	66	55
Net risen	21	44	47	37	24	-14	-41	-39	-56	-40

Question 6

How would you expect interest rates to change over the next 12 months?

Rise a lot	7	16	10	8	6	4	4	6	5	6
Rise a little	52	50	46	47	39	24	24	30	31	43
Stay about the same	19	12	19	23	27	26	30	28	30	27
Fall a little	4	4	5	6	10	25	21	16	16	7
Fall a lot	1	1	1	0	0	1	1	1	2	1
No idea	18	17	20	16	17	20	20	19	17	16
All saying 'rise'	59	66	56	55	45	28	28	36	36	49
All saying 'fall'	5	5	6	6	10	26	22	17	18	8
Net rise	54	61	50	49	35	2	6	19	18	41

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	10	13	14	16
Go down	21	27	29	27	24	28	24	24	21	16
Stay where they are	40	33	28	35	42	34	40	37	40	40
Make no difference	7	10	10	9	11	10	10	10	10	10
No idea	20	18	23	17	15	19	16	17	14	17

Question 8

And which would be best for you personally, for interest rates to...

Go up	17	19	16	17	17	18	22	20	24	22
Go down	30	35	33	36	36	33	33	33	32	30
Stay where they are	22	15	16	18	19	17	18	16	18	20
Make no difference	17	22	22	19	20	22	20	22	21	20
No idea	14	10	13	10	8	10	7	8	6	8

Public attitudes to inflation (continued)

Per cent

	1999 Nov.	2000 Feb.	May	Aug.	Nov.	2001 Feb.	May	Aug.	Nov.	2002 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				1
Agree					35	32				34
Neither					16	19				19
Disagree					25	20				20
Disagree strongly					2	2				1
Don't know					21	25				25
All agree					37	34				35
All disagree					27	22				21
Net agree					10	12				14
(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				1
Agree					39	35				38
Neither					16	19				18
Disagree					21	16				15
Disagree strongly					1	1				1
Don't know					22	27				26
All agree					41	37				39
All disagree					22	17				16
Net agree					19	20				23
Question 10										
If a choice had to be made, either to raise interest rates to try to keep inflation down; or 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				63
Prices to rise faster	17	19	16	15	19	16				16
No idea	31	24	31	28	18	22				21
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				4
Bank of England	39	29	33	38	29	32				35
The Government	4	2	3	2	3	3				4
The Treasury	1	1	1	1	1	1				1
Parliament	1	*	*	*	1	*				*
Other	1	2	1	2	1	2				2
Don't know	47	62	57	51	60	57				54
Question 12										
Which of these groups do you think sets the interest rates?										
Government ministers	14	15	12	13	16	15				13
Civil servants	*	*	*	*	*	1				1
Bank of England	67	63	63	69	65	66				67
High street banks	3	4	3	2	4	3				3
European Central Bank	2	3	3	3	3	3				4
No idea	15	14	18	12	12	15				15
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				11
A quango, wholly appointed by the Government	8	8	8	8	9	8				7
An independent body, partly appointed by the Government	38	39	37	42	37	38				39
A completely independent body	23	20	22	20	24	24				23
No idea	20	21	24	20	17	19				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	9	10	11	11
Fairly satisfied	41	37	38	45	48	47	49	45	51	50
Neither satisfied nor dissatisfied	26	28	27	25	26	25	23	23	19	20
Fairly dissatisfied	7	12	9	9	8	7	6	6	6	6
Very dissatisfied	4	5	4	4	3	3	2	2	2	2
No idea	16	14	17	12	9	11	12	14	11	11
Total satisfied	48	41	43	51	55	55	58	55	62	61
Total dissatisfied	11	17	13	13	11	10	8	8	8	8
Net satisfied	37	24	30	38	44	45	50	47	54	53

Note: * indicates less than 0.5%.