

## THE BRITISH PUBLIC ATTITUDE SURVEY REGARDING INFLATION AND INTEREST RATES

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### 1. The GfK NOP Random Location Omnibus Sample Design

The Growth From Knowledge (GfK) NOP Consumer carried out a survey of adults aged 16 years using a random location sample, sample which was designed to be representative of all adults in the United Kingdom (UK). Interviewing was carried out using fully trained and supervised market research interviewers. Interviews were carried out in – home, face – to – face, using Computer Assisted Personal Interviewing (CAPI). Respondents were selected according to a random location method, with sample points selected by probabilistic methods, and individuals in each sampling point selected by quota. Quotas were set in terms of sex within age and working status, completed interviews were subject to a 10% field check. The sample has been weighted to bring it into line with national population profiles and throughout this type of report to be shown both weighted and unweighted bases.

The GfK Random Location Omnibus employs a quota sample of individuals with randomly selected sampling points. The sample design is essentially a 3 - stage design, sampling first parliamentary constituencies, and then output areas within those selected constituencies and finally respondents within the output area, the sample being based on 175 sampling points.

The first stage of the survey are parliamentary constituencies. The 644 parliamentary constituencies of the UK are classified into the Register General's ten Standard Regions. In Scotland, a further classification was by the new Strathclyde Region and the rest of Scotland. In Wales, The South East was classified separately from the rest of Wales. Within each Standard Region, constituencies are classified into four urban / rural types as follows:

- *Metropolitan County* – those constituencies that lie completely within the area of the eight Metropolitan Counties of the UK. It is appreciated that such areas now technically do not exist but they are still convenient building blocks for sample design;

- *Other 100% Urban* – all urban constituencies, other than Metropolitan County constituencies, in which the population density was greater than seven person per hectare;

- *Mixed Urban / Rural* – constituencies, consisting of a mixture of urban and rural local authority areas, in which the population was greater than 1.5 and less than 7 persons per hectare;

- *Rural* – constituencies, consisting of a mixture of urban and rural local authority areas, in which the population density was less than 1.5 persons per hectare.

<b>Box 1 Post Survey Weighting</b>			
<b>Age/Sex</b>	<b>%</b>	<b>Class</b>	<b>%</b>
16-24 Male	7,5	A	2,6
25-34 Male	8,0	B	16,7
34-44 Male	9,4	C1	29,6
45-54 Male	7,9	C2	21,2
55-59 Male	3,9	D	14,3
60-64 Male	3,2	E	15,6
65-70 Male	3,1		
71+ Male	5,4		
		<b>Working Status</b>	<b>%</b>
16-24 Female	7,2	Men working full time	29
25-34 Female	8,1	Men not working full time	20
35-44 Female	9,5	Woman working	28
45-54 Female	8,1	Woman not working	23
55-59 Female	4,0		
60-64 Female	3,4	<b>Number of adults in household</b>	
65-70 Female	3,4	One	23
71+ Female	7,9	Two	51
		Three +	26
<b>Standard Region</b>		<b>TV Region</b>	<b>%</b>
North	5,1	London	19,2
Yorkshire & Humberside	8,4	Midlands	15,2
East Midlands	7,2	North West	11,4
East Anglia	3,8	Yorkshire	9,7
GLC	12,4	Central Scotland	6,0
South East exc. GLC	19,0	Wales & West	8,0
South West	8,6	South and South East	9,3
West Midlands	8,8	Nord East	4,6
Nord West	10,4	East	7,2
Wales	4,9	South West	3,0
Scotland	8,6	Border	1,2
Northern Ireland	2,8	North Scotland	2,1
		Ulster	3,1

Sources: ONS M1d – Year Population Estimates; BARB Population Estimates 2006; Labour Force Survey Autumn 2007.

Within each of the resultant 46 cells, as a final stratification, constituencies are listed in order of the percentage of people resident in households whose head is in social – economic Groups 1,2,3,4 or 13.

Within each selected constituency, an output area is selected for each wave of omnibus. These output areas are selected at random, but with stratification control so that the sample of

areas drawn is representative of the sample of constituencies and therefore of the UK demographic terms. The variables used for stratification are essentially age, sex, social class, and geodemographic profile. Once the areas have been selected, the profile of the aggregated set of areas is checked against the national profile to ensure that it is representative. Each area is a small area, containing in average 150

households. Each output area is therefore homogenous, with the people living within it being fairly similar in social grade terms.

Regarding the selection of respondents, for each selected output areas, a list of all residential addresses is produced. This listing is taken from the Postal Address File, which is a listing of all addresses within the UK, and is updated monthly. The interviewer uses this list to identify the households at which they can interview.

In addition to the address listing for an output area, the interviewer is also given a quota sheet, which determines what sort of people must interview. Each interviewer must interview 12 people within an output area, and the quotas are different for each area in order to reflect the demographic profile of that area. The quotas are set in terms of age and sex within working status. No quota is set for social class, as the selection of output areas ensures that the sample is balanced in this respect. Given that the sample is controlled by quotas, the final demographic profile should be fairly close to that of the target population. However, the sample will be examined at each Omnibus wave to ensure that the profile is as it should be. The sample will, if necessary, be weighted in order to ensure that it is representative in terms of known population data on age, sex, social class, number of adults in household working status and region, as shown in Box 1.

Regarding the confidence limits for observed survey data, we can

observe that for a true sample, the chances are 95 in 100 that the observed percentage, being estimated by the survey, lies within a range equal to this percentage plus or minus the number of percentage points show in the table 1.

For example, if 20% of a total sample of 2000 adults said they do something, you can be 95% certain that the figure for the population is  $20\% \pm 1,8$  i.e. it lies in the range 18,2% and 21,8%.

A true simple random sample of the population would be, however, cripplingly, and has hardly ever been used in decades. The stated confidence limits may need to be increased by a "design factor" to reflect the measurable inefficiency of affordable alternatives. This can vary even within on survey depending on the characteristic measured on the degree of clustering within the sample. A design factor about 1,3 is common within surveys using the method reported here, but for issues related to social class it can be as high as 1,6 or 1,7. To apply the average design factor in the example given above is: multiply 1,8 from previous example by design factor 1,3 =  $\pm 2,34$ . The measured figure of 20% for the population now lies between 17,66% and 22,34%.

## **2. Recent trends in public attitudes to inflation**

Over the year 2008 the British general public's perceptions of current inflation and expectations of inflation over the next year have both increased materially.

Table1-Confidence limits for observed

Sample size	Observed Percentage							
	5 or 95	10 or 90	15 or 85	20 or 80	25 or 75	30 or 70	40 or 60	50
100 ± %	4,4	5,9	7,1	7,8	8,7	9,0	9,6	9,8
150 ± %	3,6	4,9	5,9	6,6	7,1	7,5	8,0	8,2
200 ± %	3,1	4,3	5,1	5,7	6,1	6,5	7,0	7,1
250 ± %	2,7	3,7	4,5	5,0	5,5	5,7	6,1	6,2
300 ± %	2,5	3,5	4,1	4,6	5,0	5,3	5,7	5,8
400 ± %	2,2	3,0	3,6	4,0	4,3	4,6	4,9	5,0
500 ± %	2,0	2,6	3,2	3,5	3,9	4,0	4,2	4,4
750 ± %	1,6	2,2	2,6	2,9	3,1	3,3	3,5	3,6
<b>1,000 ± %</b>	<b>1,4</b>	<b>1,9</b>	<b>2,3</b>	<b>2,5</b>	<b>2,8</b>	<b>2,9</b>	<b>3,0</b>	<b>3,1</b>
1,500 ±	1,1	1,5	1,9	2,0	2,3	2,3	2,5	2,5
<b>2,000 ±</b>	<b>0,96</b>	<b>1,3</b>	<b>1,6</b>	<b>1,8</b>	<b>1,9</b>	<b>2,0</b>	<b>2,1</b>	<b>2,2</b>
3,000 ± %	0,79	1,1	1,3	1,4	1,6	1,7	1,8	1,8
4,000 ±	0,69	0,95	1,1	1,3	1,4	1,4	1,5	1,6
5,000 ±	0,62	0,85	1,0	1,1	1,2	1,3	1,4	1,4
7,500 ±	0,50	0,69	0,82	0,92	1,0	1,1	1,1	1,2
10,000 ±	0,44	0,60	0,71	0,80	0,87	0,92	0,98	1,0

In may 2008, the median individual's perception of the current level of inflation was 4,9 %, the highest rate since the survey began in November 1999 (Chart 1). The median respondent's expectation for annual inflation in a year's time was 4,3 % also a series high.

These increases in the median measures of perceptions and expectations were accompanied by a significant change in the distribution of responses across households. Compared to November 2005, just before Bank/GfK NOP measures of inflation expectation began to rise, the proportion of respondents who expected inflation to be above 5 % in the year ahead rose from 10 % around 35 % (Chart 2).

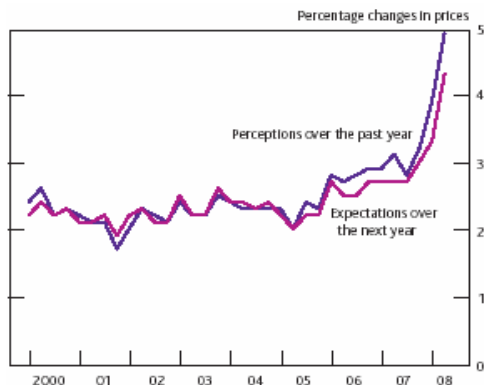
The rise in near – term inflation expectations does not, by itself, provide sufficient evidence to judge whether inflation expectations will remain persistently above target in the medium term.

Assessing that risk requires an understanding of what has driven the rise in near – term inflation expectations.

#### **Additional questions in the February 2008 Bank of England/GfK NOP Survey**

Every quarter, the Bank of England / GfK NOP survey asks respondents how they perceive the prices of goods and services to have changed over the past twelve months, and how they expect prices in the shops generally to change over the next twelve months. But these questions on their own do not indicate how respondents formed these perceptions and expectations.

**Chart 1: Bank of England/GfK NOP-Median perceptions of current inflation and expectations for inflation one year ahead**



Source: Bank of England/GfK NOP survey

To gain insight into these issues, the Bank posed additional questions to some of the respondents in the February 2008 survey. After asking respondents about their perceptions of inflation over the past year, interviewers asked: How important were the following things in getting to that answer:

- Your personal experience of the change in the price of food and drink.
- Your personal experience of the change in the price of clothing and footwear.
- Your personal experience of the in price of transport, including the cost of petrol / diesel.
- Your personal experience of the change in the price of house energy (gas, electricity, coal).
- Your personal experience of the change in the cost of housing (mortgage payments, rents).
- Reports on inflation in the media.
- Other factors.

After asking about the respondents' inflation expectations over the next year, interviewers asked: How important were the following things in getting to that answer:

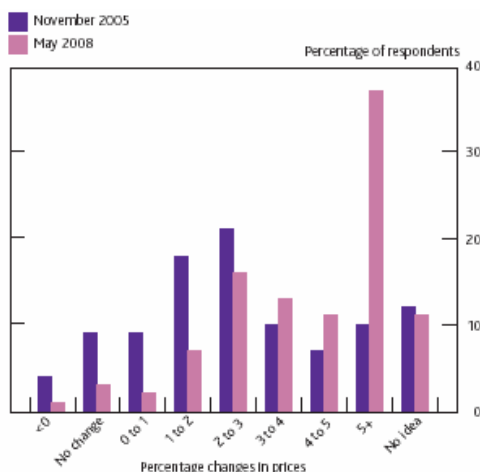
- How prices have changed in the shops in your most recent visits (the past one to six months).

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- How prices have changed in the shops over the longer term (the past twelve months or more).
- The current level of interest rates.
- The current strength of British economy.
- The inflation target set by the Government.
- Reports on the inflation outlook in the media.
- Other factors.

In both questions, respondents were asked whether each factor was very important, fairly important, not very important or not important at all. They could also respond 'don't know'.

**Chart 2: Distribution of household's inflation expectation one year ahead in Bank of England/GfK NOP survey**



Source: Bank of England/GfK NOP survey

**3. Attitudes to interest rates**

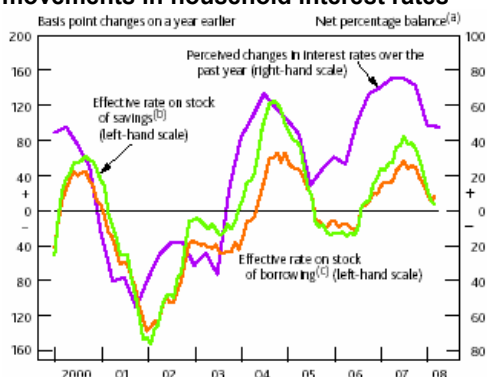
The Bank of England / GfK NOP survey assesses the extent to which household are aware of changes in interest rates, by asking: *How would you say interest rates on things such as mortgages, bank loans and savings have changed over the past twelve months?*

Historically, the net balance of respondents who reported that they had perceived interest rates to have risen over the past year has moved in a similar way to the annual changes in the

effective borrowing and saving rates facing households.

For example, the net balance picked up during 2006 remained little changed in 2007, and subsequently fell back, to lower levels in February and May 2008 (Chart 3). That suggests that households have a reasonably good understanding of how interest rates have changed over the past year.

**Chart 3: Interest rate perception and movements in household interest rates**



Source: Bank of England/ GfK NOP survey

(a) The net balance is constructed by subtracting the percentage who thought rates had gone down from the percentage who thought they had gone up.

(b) Weights together the household time and sight deposit effective stock rates by the outstanding balances.

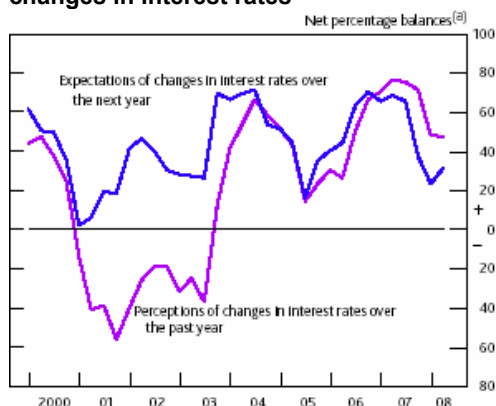
(c) Weights together the household secured and unsecured borrowing effective stock rates by the outstanding balances.

The survey also asks respondents how they expected interest rates on mortgages, bank loans and savings to change over the next year. On balance, households have never predicted a fall in interest rates. But previous Bank analysis (Driver and Windram 2007) has suggested that households are nonetheless reasonable judges of future turning points in interest rates.

Between February 2007 and February 2008 there was a large fall in the net balance of households expecting

interest rate to rise (Chart 4). That is consistent with financial market participant expectations for official interest rates, which were also revised down over that period. However, the net balance expecting exchange rates to increase over the next year picked up again in May 2008. That may reflect the increase in the general public's inflation expectations.

**Chart 4: Perceptions and expectations of changes in interest rates**



Source: Bank of England/ GfK NOP survey

(a) The net percentage balances are constructed by subtracting the percentage who thought rates had gone/would go down from the percentage who thought they had gone/would go up.

The survey also asks respondents what path for interest rates they think would be best for the British economy (Question 7) and for themselves personally (Question 8). Over the past year there has been a marked increase in the proportion of respondents who believe that it would be best for the economy if interest rates were lower. The results to Question 8 also suggest that the majority of respondents who expressed a view though that it would be best for them personally if rates were lower.

Question 10 asks respondents if they would prefer higher interest rates to try to keep inflation down or lower rates

and higher inflation, and is now only posed in the February surveys. In February 2008, the proportion of respondents who preferred higher rates fell to 52%, the lowest rate since May 2000. But there was also a significant rise in the proportion of respondents who replied that they had *no idea*.

That may reflect heightened uncertainty among some households about how the recent developments in financial and energy markets are likely to affect the economic outcomes they care most about – such as prices, employment and output growth.

#### 4. Conclusions

The Bank of England/ GfK NOP survey, which was commissioned by the Bank in 1999, assesses the general public perceptions of inflation over the past year, expectations for inflation over the next year, views on interest rates and knowledge of the monetary policy framework. The survey is conducted every February, May, August and November, and usually samples around 2000 individuals. Every February, however, the survey is more comprehensive, asking a longer list of questions to around 4000 people.

The results of the Bank of England/GfK NOP survey show that households' inflation expectations have risen significantly since February 2007. So long as people still expect the Monetary Policy Committee to meet the 2% inflation target over the medium term then the monetary policy implications of higher short – term inflation expectations are limited. But if any of the recent increase in inflation expectations were built into higher wages and prices,

inflation could persist above the target for longer.

Although the majority of respondents continued to report that they were satisfied with how the Bank of England is setting interest rates to meet the inflation target, the net balance who were satisfied declined further over the past year. Part of the decline may reflect higher households' inflation perceptions over that period, although some part of it may reflect concerns about the near – term economic outlook.

Interpreting the results of the question on inflation perceptions and expectations is not straightforward. First, the Bank of England/GfK NOP survey does not ask about peoples' view on a specific measure of inflation. Rather, it asks about the evolution of prices of goods and services. This is designed to reflect a concept of inflation the general public are likely to be familiar with, rather than any specific measure of inflation (such as CPI inflation rate). As a result, it is not clear which official measure of inflation, if any, should correspond most closely to the survey responses.

Second, the Bank of England/GfK NOP survey asks respondents for their expectations of inflation over the next year. Given the lags inherent in the transmission mechanism of monetary policy, there will be times when CPI inflation moves away from the target in the next year. As a result, an increase in this short – term measure of inflation expectations does not necessarily imply an increase in medium – term inflation expectations. But if higher near – term inflation expectations were to feed through into higher wages and prices, that would pose an upside risk to the inflation outlook in the medium term.

## REFERENCES

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