

Inflation Attitudes Survey Report

A Quarterly Publication

Second Quarter, 2016



**Statistics Department
Central Bank of Nigeria**

EXECUTIVE SUMMARY

The Q2, 2016 survey of households' attitudes to inflation and interest rates was conducted by the Statistics Department of the Central Bank of Nigeria during the period May 1st to 13th, 2016. This is in a bid to assess the general public perceptions of inflation and interest rates, which would help the Bank fine-tune its monetary policy formulation and management.

The highlights of the Inflation Attitude Survey report are as follows:

- Respondent households believe that the economy would end up weaker if prices start to rise faster than they do now.
- Given a trade-off between inflation and interest rates, more respondents would prefer higher interest rates to higher inflation.
- Majority of the respondents are of the view that it would be best for the Nigerian economy if interest rates went down.
- Majority of the respondents are aware that the CBN influences the direction of interest rates to control inflation.

Inflation Attitudes Survey Report Q2, 2016

1. Introduction

The Central Bank of Nigeria (CBN), aside from its price and monetary stability mandate, is also tasked with supporting the Government's policies on economic growth and unemployment reduction. One of the objectives of the Bank is to build public confidence and support for sustainable economic development, price stability, and public understanding of the Monetary Policy Committee's roles. If the general public understand and support the objective of price stability as well as understand how interest rates are used to achieve it, macroeconomic stability which is an essential prerequisite for economic growth and development would be attained. The level of interest rates deemed appropriate to achieve this, is decided by the Monetary Policy Committee (MPC) periodically. The Committee equally articulates other policy frameworks, which are considered effective in moderating price changes and economic stability.

Inflation expectations do vary amongst households due to the differences in the choice of goods and services, which often lead to differences in the prices consumers are willing to pay for goods and services. Respondents' opinions were used to progressively explore the general public's understanding of monetary policy matters. This is because inflation expectations and public understanding of what influences them are important parameters for successful monetary policy. Good estimates of inflation expectations and the level of public understanding of the underlying factors would assist the Bank to assess the impact of its efforts in maintaining price stability in the Nigerian economy.

The Statistics Department, on a quarterly basis since June 2009, conducts the inflation attitudes survey to sample the views of households on how they view the price changes of goods and services in the last twelve months, and their expectations of price changes over the next twelve months. The Department also samples respondents' views on interest rates and knowledge of the monetary policy framework.

2.0 About the Survey

The Q2, 2016 Inflation Attitudes Survey was conducted from May 1st to 13th, 2016 with a sample size of 1950 households in 350 randomly selected Enumeration Areas (EAs) across the country. The raw data were then weighted to match the demographic profile of Nigeria as a whole.

Monetary policy will be most effective, if the objectives are understood and supported by the public

The survey involves in-house face-to-face interviews of randomly selected households in some replicates of the National Integrated Survey of Households (NISH) master sample of the National Bureau of Statistics (NBS). The survey asked questions about the evolution of prices of goods and services, and the questions were designed to reflect the concept of inflation the general public are most likely to be familiar with, instead of any specific measures of inflation.

The questionnaire was therefore couched in a manner that would capture the expectations of respondents, along with information on age, sex, income, employment status of the head of the household, among others. The options for questions asked were in ranges of price change, of which respondent households are expected to select one that best suites their expectations. The options were in the form of “Gone Down”, “Not Changed”, “Up by 1% but less than 3%”, “Up by 3% or Above” and “No Idea”. Respondents were made to answer a total of 14 questions, which include: their thought on how prices had changed in the previous twelve months, how they expect prices to change over the next twelve months, and the body that sets the interest rates. Questions seeking information on public knowledge, understanding and attitudes towards MPC processes and expectations of interest rates were also asked.

*Survey involves
face-to-face
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respondents*

The respondents were also requested to state whether or not they were satisfied with the way the Central Bank of Nigeria is doing its job of setting interest rates in order to control inflation. Furthermore, because households focus on particular types of goods and services when thinking about inflation, variation in the answers may therefore be because respondents are thinking about inflation as it relates to their own patterns of spending in addition to media reports about price trends. Respondents understanding of the transmission mechanism of monetary policy may also be another factor to be considered in their opinion about inflation.

3.0 Inflation

When respondents were asked “If prices started to rise faster than they do now, do you think Nigeria's economy would...?”, the survey result showed that 46.4 per cent of the respondents believed that the economy would end up weaker while 11.8 per cent opined that it would be stronger. Also, 23.9 per cent of the respondents believed it would make a little difference. The responses suggest considerable support for price stability, as more respondents were of the view that inflation is inimical to economic growth (Table 1, Question 3).

When asked to say how prices have changed over the past 12 months, respondents gave a median answer of 3.9 per cent, which is higher than the previous trend (Table 1, Question 1). Of the total respondents, 22.3 per cent thought prices had gone down or not changed, while 50.1 per cent felt that prices had risen by at least 3.0 per cent and 14.7 per cent felt that prices inched up by 1.0 per cent but less than 3.0 per cent.

Majority of respondents believed that the economy would end up weaker if prices start to rise faster than they do now

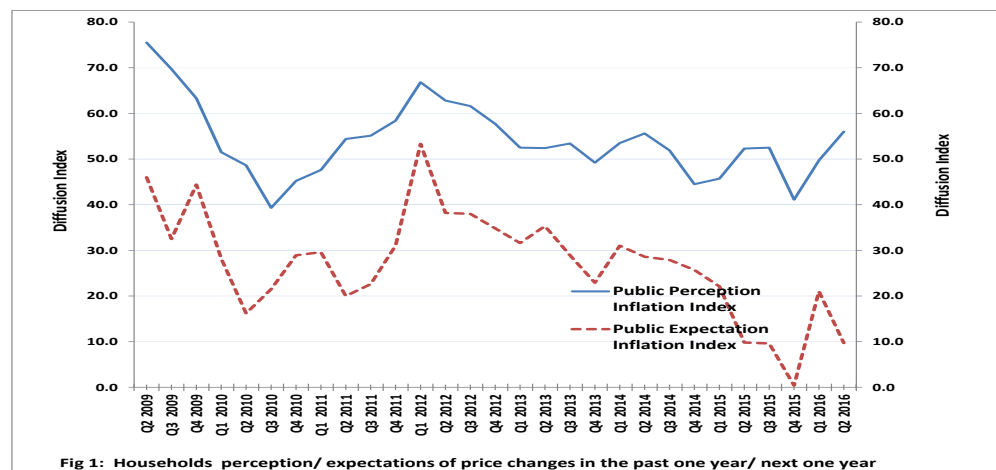


Fig 1: Households' perception/expectations of price changes in the past one year/next one year

Respondents' median expectations of the price changes over the next 12 months (Table 1, Question 2) was that prices would inch up by 0.7 per cent. The views of the respondents on Question 2, on how much they 'expect prices in the shops generally to change over the next 12 months', showed that 21.9 per cent expect prices to rise by at least 3 per cent in the next 12 months; compared with the 17.9 per cent of respondents that expect prices to rise by 1 per cent but less than 3 per cent in the next 12 months. Similarly, 45.5 per cent of the respondents were optimistic that prices over the next 12 months would either go down or remain the same. This shows that less than half of the respondents thought that prices were not likely to rise.

Informed in Question 4 that the Government had anticipated an inflation rate of 6 - 9 per cent in the 2016 budget, 24.0 per cent of the respondents thought that the target was about right, 35.8 per cent believed it was too high, 16.6 per cent said it was too low while the rest 23.6 per cent had no idea. This pattern has been relatively steady in the series so far, and equally maintained in all locations and demographic groups, suggestive of uniform support for low inflation.

Majority of respondents were of the view that the government anticipated inflation rate of 6-9 per cent in 2016 is too high

4.0 Interest Rates

The percentage of respondent households (Table1, Question 5) who felt that interest rates have risen in the last 12 months fell by 3.1 percentage points to 50.5 in the current quarter, compared to 53.4 attained in Q2, 2015. On the other hand, 12.7 per cent of respondents believed that interest rates will fall, while 16.3 per cent of the respondents were of the opinion that the rates stayed about the same in the last 12 months. Also 20.5 per cent of the households had no idea. The result revealed that majority of households perceived that interest on bank loans and savings rose over the past 12 months.

50.5 per cent of households perceived that interest on bank loans and savings rose over the past 12 months

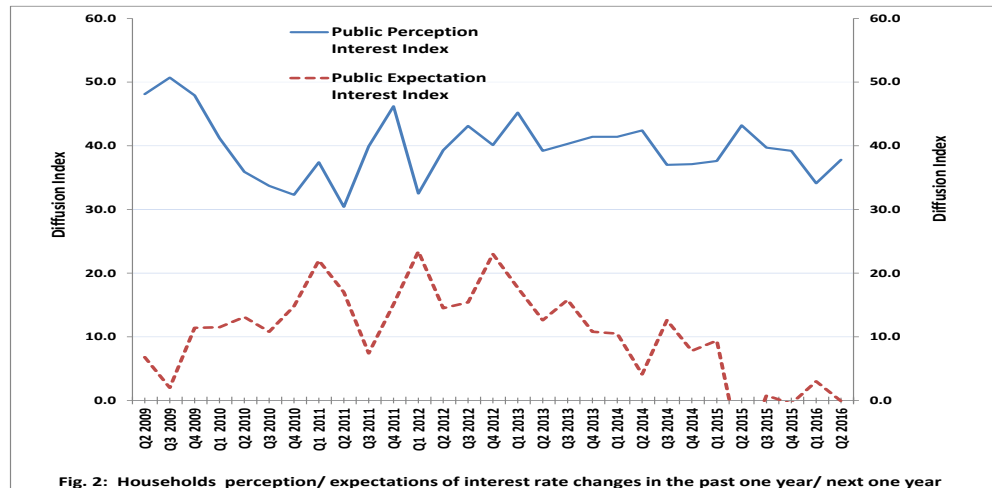


Fig. 2: Households perception/ expectations of interest rate changes in the past one year/ next one year

On whether interest rates on bank loans and savings would rise or fall over the next 12 months (Table 1, Question 6), 32.2 per cent of the respondents were of the view that the rates will rise, while 32.3 per cent believed that the rates will fall. The net rise value of -0.1 per cent was achieved compared to -9.1 per cent attained in the corresponding quarter of 2015. More than one-third of the respondents either expected no change or had no idea. As illustrated in Fig. 2, the public expectation on interest rate index was consistently lower than their perception, indicating that the public has greater confidence in the ability of the monetary authority to control inflation.

Less than one-third of the respondents expect interest rates to rise over the next 12 months

Respondents were asked whether it would be best for them personally for interest rates to rise or fall (Table 1, Question 8). Their answers showed that 55.9 per cent indicated that it would be best for them personally if interest rates went down, 19.2 per cent indicated it would make no difference, while 15.0 per cent of the respondents opted for higher interest rates. The results further revealed that 9.9 per cent had no idea.

Similarly, the respondents were also asked whether it would be best for the Nigerian economy for interest rates to rise or fall (Table 1, Question 7). Their answers showed that 39.4 per cent indicated that it would be best for the Nigerian economy if interest rates fell, while 18.7 per cent of the respondents opted for higher interest rates. The results further revealed that 22.7 per cent thought that it would make no difference.

39.4 per cent of respondents reported that it would be best for the Nigerian economy if interest rates fell

The responses to questions 7 and 8 revealed that many people favored lower interest rates for the Nigerian economy. The high lending rates by commercial banks, which discourage borrowing that serves as a catalyst for industrial and economic development, could be responsible for the respondents holding such views.

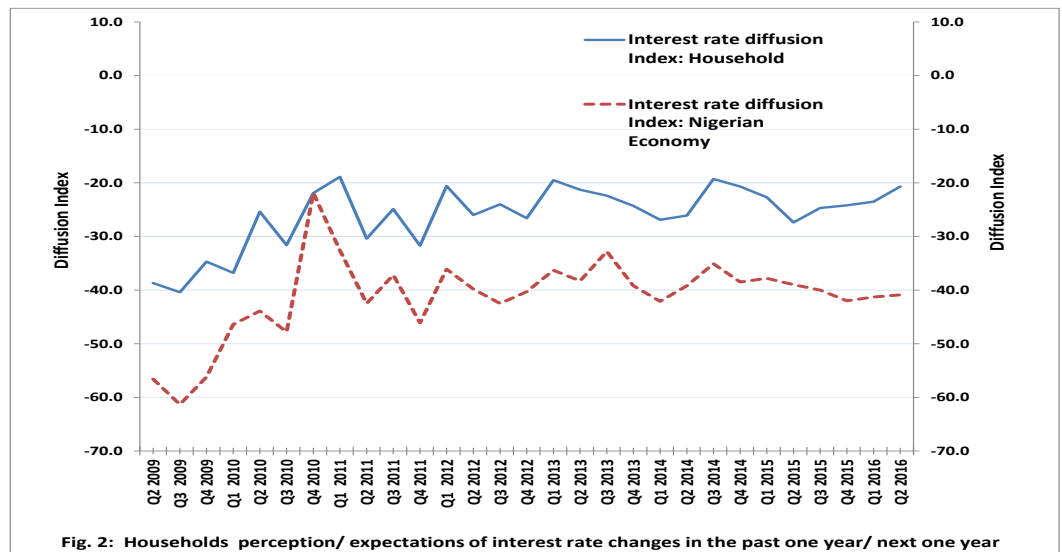


Fig. 2: Households perception/ expectations of interest rate changes in the past one year/ next one year

5.0 Interest Rate—Inflation Nexus

Question 9 (Table 1) was designed to measure peoples’ understanding of how interest rates would affect changes in prices. On what impact a rise in interest rates in the short and medium terms would have on prices, over half of the respondents (57.3 per cent) agreed that a rise in interest rates would make prices in the street rise more slowly in the short term, as against 14.8 per cent that disagreed. While in the medium term, 47.3 per cent agreed that a rise in interest rates would make prices in the street rise more slowly,

Given a trade-off between inflation and interest rate, majority of respondents would prefer higher interest rates to higher inflation



Fig. 4: Households perception of the impact of interest rate rise on prices in short and medium term

Most respondents are aware that the Monetary Policy Committee is responsible for setting interest rate levels

These responses suggest that given a trade-off, majority of the people would accept higher interest rates rather than higher inflation with a ratio of more than two to one; which is suggestive of the respondent households' support for the Bank's price stability objective (see Fig. 5).

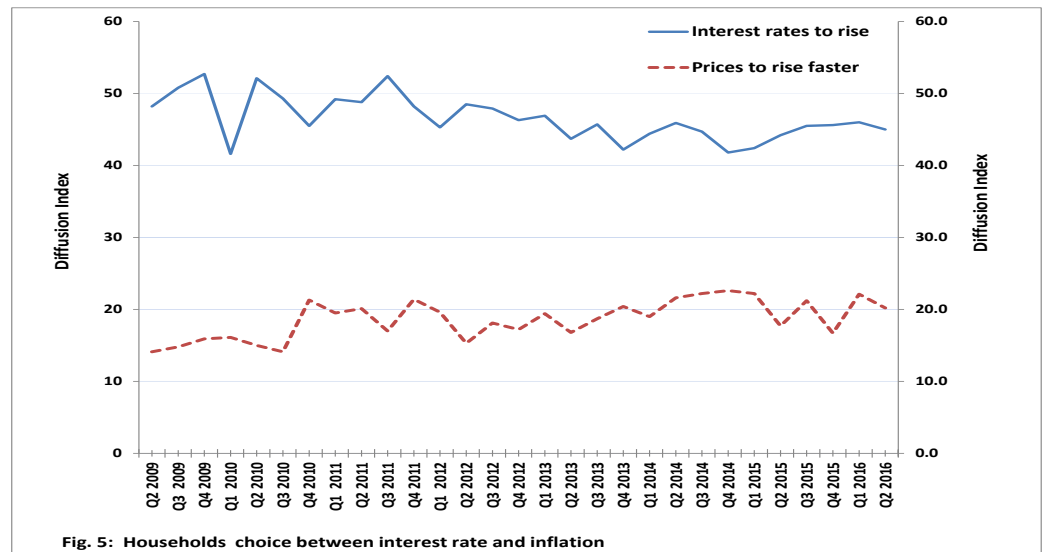


Fig. 5: Households choice between interest rate and inflation

6.0 Opinions on the Central Bank of Nigeria

Questions 11 and 12 (Table 1) assess whether people are aware of the way monetary policy works in Nigeria. Question 11 asked respondents if they knew which group of people meet to set Nigeria's monetary policy rate. Responding, 52.0 per cent felt it was the Monetary Policy Committee, as against 13.6 per cent for Federal Ministry of Finance and 11.8 per cent who believed it was the Government, about 6.0 per cent felt it was the National Assembly, 1.9 and 14.7 per cent answered 'others' and "do not know", respectively.

Question 12 then prompted respondents to identify which group mostly influences the direction of interest rates. The result indicated that majority of the respondents (72.3 per cent) were aware that the Central Bank of Nigeria influences the direction of interest rates. Other respondents opined that the Government (7.1 per cent) influences interest rates. About 7.0 and 3.0 per cent of the respondents were of the opinion that civil servants and other banks influence the rates, respectively, while 10.5 per cent had no idea. These proportions have not significantly changed in the series since the commencement of the survey in 2009.

Responding to Question 13 (Table 1) about the nature of the Monetary Policy Committee, 27.7 per cent felt that the Committee was a body wholly owned and appointed by the Government, 24.4 per cent believed that it was an independent body partly appointed by the Government, while 10.8 per cent thought that it was completely independent.

However, 25.1 per cent regard the MPC as a part of the Government. This shows that 74.9 per cent of the respondents are not aware of the ownership/control of the MPC.

Majority of the respondents (72.3 per cent) were aware that CBN influences the direction of interest rate

Question 14 (Table 1) asks whether respondents were satisfied with the CBN’s approach in setting interest rates in order to control inflation. The net satisfaction index, which is the proportion satisfied minus the proportion dissatisfied, was 51.0 per cent compared with 41.6 per cent recorded in Q2, 2015. Among the satisfied group, 23.8 per cent were ‘very satisfied’ while 38.7 were ‘fairly satisfied’. However, 17.5 per cent were ‘neither satisfied nor dissatisfied’, whereas 11.5 per cent were ‘very dissatisfied’. Those who had ‘no idea’ accounted for 8.5 per cent of the respondents (see Fig. 6).

Most of the respondents were satisfied with the way CBN is influencing the direction of interest rates to control inflation

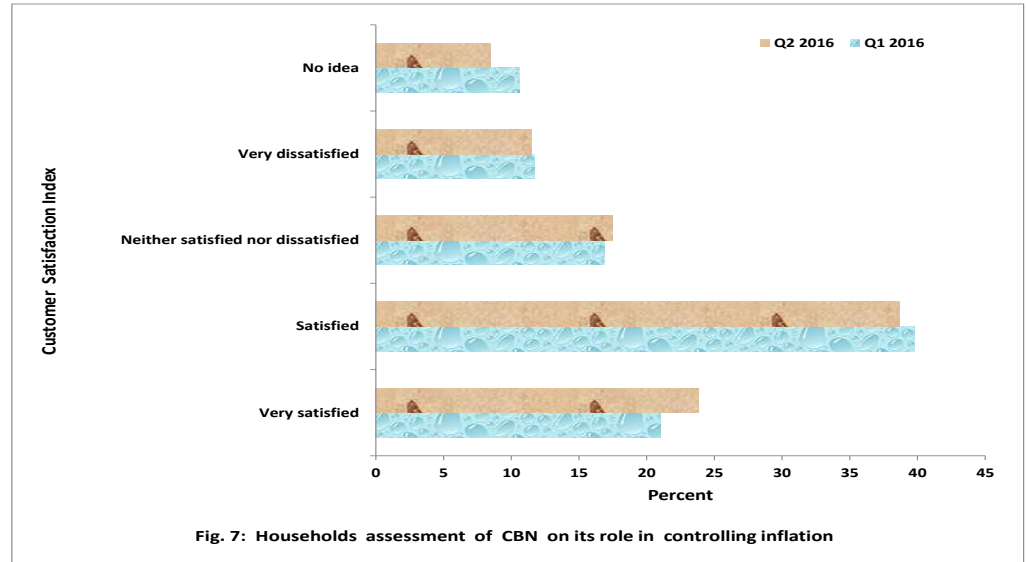


TABLE 1

SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Q.1 Which of these options best describes how prices have changed over the last 12 months?										
Gone down	7.4	7.6	7.6	10.4	9.5	7.0	6.9	10.4	9.6	8.8
Not changed	19.7	17.8	22.2	21.6	22.7	19.8	21.8	23.0	17.9	13.5
Up by 1% but less than 3%	24.7	31.3	29.1	27.8	24.7	24.6	24.0	21.5	23.4	14.7
Up by 3% or above	36.2	31.9	30.4	27.1	30.5	34.7	35.4	30.0	35.9	50.1
No idea	11.9	11.2	10.8	13.0	12.6	13.8	11.8	15.0	13.2	12.9
Median (%)	2.4	2.2	2.0	1.8	1.9	2.3	2.3	1.8	2.4	3.9
Q. 2 How much would you expect prices in the shops generally to change over the next 12 months										
Would Go down	18.4	20.2	19.6	20.6	21.4	29.3	29.3	33.7	24.2	30.1
Not changed	17.0	18.4	20.8	18.1	20.8	17.4	16.8	16.2	15.8	15.4
Up by 1% but less than 3%	26.5	28.7	28.0	28.3	23.5	21.9	21.9	19.1	22.9	17.9
Up by 3% or above	22.9	20.1	19.5	18	20	17.2	17	15	22.3	21.9
No idea	15.2	12.6	12.1	14.9	14.3	14.1	14.9	16.1	14.8	14.8
Median (%)	1.5	1.4	1.3	1.3	1.1	0.7	0.7	0.2	1.2	0.7
Q. 3 If prices started to rise faster than they do now, do you think Nigeria's economy would...?										
End up stronger	11.2	12.7	11.6	14.0	12.8	10.5	12.9	12.7	13.2	11.8
Or make little difference	24.8	23.4	31.1	27.9	24.2	25.1	25.7	23.8	25.5	23.9
Or weak	42.7	44.0	39.7	38.8	44.2	46.1	42.8	42.1	45.1	46.4
Don't know	21.3	19.7	17.6	19.1	18.8	18.2	18.7	21.5	16.2	18.0
Q. 4 The Government in this years budget anticipated an inflation rate of 6-9%. What do you think of this rate ?										
Too high	40.7	40.2	39.2	39.2	36.1	40.2	35.3	32.3	37.9	35.8
Or too low	16.6	15.4	18.5	16.9	19.0	15.3	17.3	17.4	15.5	16.6
Or about right	21.8	20.9	22.9	19.2	19.4	19.1	23.4	20.9	23.8	24.0
No idea	20.9	23.4	19.5	24.7	25.5	25.2	24.0	29.4	22.6	23.6
Q. 5 How would you say interest on bank loans and savings have changed over the last 12 months?										
Risen a lot	29.1	27.5	23.3	25.1	26	27.2	25.1	24.7	23.9	28.8
Risen a little	23.1	25.8	26.5	24.3	24.3	26.2	24.5	24.3	23.5	21.7
Stayed about the same	20.2	20.1	22.7	20.1	17.7	16.2	21.7	19.6	19.8	16.3
Fallen a little	7.9	7.6	8.7	9.2	8.4	6.4	6.4	7.3	9.0	8.9
Fallen a lot	2.9	3.3	4.1	3.1	4.3	3.8	3.5	2.5	4.3	3.8
No idea	16.7	15.7	14.7	18.2	19.2	20.1	18.8	21.6	19.4	20.5
Total saying 'rise'	52.2	53.3	49.8	49.4	50.3	53.4	49.6	49.0	47.4	50.5
Total saying 'fall'	10.8	10.9	12.8	12.3	12.7	10.2	9.9	9.8	13.3	12.7
Net rise	41.4	42.4	37.0	37.1	37.6	43.2	39.7	39.2	34.1	37.8
Q. 6 How would you expect interest rates to change over the next 12 months?										
Rise a lot	14.1	14.4	17.4	16.1	15.8	10.9	12.6	11.7	13.3	13.2
Rise a little	24.8	20.3	21.7	21	21.4	18.2	20.7	20.7	22.2	19
Stay about the same	17.9	20.4	21.5	18.3	16.9	16.6	18.6	17.9	17.6	18.4
Fall a little	18.9	21.8	16.1	19.4	18.3	23.8	22.2	22.7	21.5	21.2
Fall a lot	9.5	8.8	10.4	9.9	9.5	14.4	10.3	10.2	11.0	11.1
No idea	14.8	14.3	12.9	15.4	18.2	16.1	15.6	16.8	14.3	17.1
Total saying 'rise'	38.9	34.7	39.1	37.1	37.2	29.1	33.3	32.4	35.5	32.2
Total saying 'fall'	28.4	30.6	26.5	29.3	27.8	38.2	32.5	32.9	32.5	32.3
Net rise	10.5	4.1	12.6	7.8	9.4	-9.1	0.8	-0.5	3.0	-0.1
Q. 7 What do you think would be best for the Nigerian 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	17.2	18.8	20.8	20.1	16.2	16.2	18.4	18.0	17.4	18.7
Go down	44.1	44.9	40.1	40.8	38.9	43.6	43.1	42.2	40.9	39.4
Make no difference	21.2	22.6	24.0	21.9	26.6	23.4	21.6	20.9	26.1	22.7
No idea	17.6	13.6	15.2	17.1	18.4	16.7	16.7	18.9	15.5	19.1
Q. 8 And which would be best for you personally, for interest rates to...										
Go up	16.4	18.2	18.0	17.4	16.8	16.5	16.3	14.8	16.5	15.0
Go down	58.5	57.4	53.1	55.9	54.6	55.5	56.3	56.8	57.8	55.9
Make no difference	17.1	16.9	20.6	17.6	20.3	17.6	16.9	17.6	17.0	19.2
No idea	8.0	7.4	8.2	9.1	8.3	10.4	10.4	10.7	8.8	9.9

TABLE 1 (Continued)

SUMMARY OF RESULTS INFLATION ATTITUDES SURVEY										
	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Q. 9 How strongly do you agree with the following statements? A rise in interest rates would make prices in the street rise more slowly in the										
(a) short term - say a month or two,										
Agree strongly	23.3	24.0	21.3	21.7	21.3	18.5	19.1	19.9	20.1	22.9
Agree	33.5	33.9	33.5	31.8	31.8	32.4	37.7	37.3	35.1	34.4
Neither agree nor disagree	15.3	16.1	19.7	19.2	16.8	16.5	18.1	16.4	19.7	17.4
Disagree	12.9	12.3	12.1	11.8	12.6	12.3	10.7	10.5	12.0	10.6
Disagree strongly	3.7	4.5	4.1	4.1	6.6	7.0	3.6	4.3	2.5	4.2
Don't know	11.2	9.1	9.3	11.4	11.0	13.1	10.7	11.6	10.5	10.5
Total agree	56.8	57.9	54.8	53.5	53.1	50.9	56.8	57.2	55.2	57.3
Total disagree	16.6	16.8	16.2	15.9	19.2	19.3	14.3	14.8	14.5	14.8
Net agree	40.2	41.1	38.6	37.6	33.9	31.6	42.5	42.4	40.7	42.5
b) A rise in interest rates would make prices in the street rise more slowly in the medium term - say a year or two										
Agree strongly	17.7	18.1	15.7	15.8	15.2	13.7	15.5	15.7	17.3	15.6
Agree	32.0	31.1	31.2	28.8	30.7	29.7	35.5	32.6	33.4	31.7
Neither agree nor disagree	17.2	17.0	18.8	18.4	16.7	16.5	17.1	16.6	19.4	16.7
Disagree	13.7	15.2	15.6	15.7	16.0	17.4	13.2	15.3	14.0	16.0
Disagree strongly	6.4	7.3	5.7	6.1	8.9	7.0	5.2	5.9	4.6	5.8
Don't know	13.2	11.3	12.9	15.3	12.5	15.8	13.5	13.8	11.3	14.2
Total agree	49.7	49.2	46.9	44.6	45.9	43.4	51.0	48.3	50.7	47.3
Total disagree	20.1	22.5	21.3	21.8	24.9	24.4	18.4	21.2	18.6	21.8
Net agree	29.6	26.7	25.6	22.8	21.0	19.0	32.6	27.1	32.1	25.5
Q. 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	44.4	45.9	44.7	41.8	42.4	44.2	45.5	45.6	46.0	45.0
Prices to rise faster	19.0	21.6	22.2	22.6	22.2	17.7	21.2	16.7	22.1	20.2
No idea	36.5	32.3	32.9	35.5	35.4	38.1	33.0	37.5	31.7	34.8
Q. 11 Every other month, a group of people meet to set Nigeria's basic interest rate level. Do you know what this group is?										
Monetary Policy Committee	52.6	54.4	50.2	48.4	53.3	51.7	48.4	52.0	53.0	52.0
The Government	9.6	8.4	13.6	11.6	12.8	13.7	14.8	11.7	10.0	11.8
Federal Ministry of Finance	15.0	15.2	15.7	15.7	14.9	12.8	15.1	15.1	16.2	13.6
National Assembly	6.3	6.0	6.4	7.5	4.7	5.6	5.9	4.9	5.7	6.0
Others	2.0	2.1	2.0	2.9	2.0	2.1	2.2	2.0	1.9	1.9
Don't know	14.6	13.9	12.1	13.8	12.2	14.1	13.6	14.4	13.2	14.7
Q. 12 Which of these groups do you think sets the interest rates?										
Government ministers	4.8	5.0	7.0	4.8	4.1	5.3	5.4	4.9	5.2	7.1
Civil servants	6.2	6.2	7.6	8.0	7.7	5.5	7.2	5.9	5.3	7.0
CBN	74.1	75.8	71.8	72.7	75.2	76.0	73.7	75.0	78.6	72.3
Other banks	5.3	3.5	4.6	4.6	4.4	2.9	4.8	4.5	2.8	3.0
No idea	9.6	9.3	9.0	10.0	8.6	10.2	8.8	9.6	8.1	10.5
Q. 13 In fact, the decisions are taken by the Monetary Policy Committee of the Central Bank of Nigeria. Which of these do you think best describes the Monetary Policy Committee?										
Part of the Government	20.4	19.3	21.9	19.2	19.3	18.0	23.4	23.0	20.5	25.1
A Body wholly owned appointed by the Govern	27.7	29.2	31.9	29.7	30.2	32.1	29.6	28.9	29.3	27.7
An independent body, partly appointed by the	28.9	27.5	25.2	26.0	26.9	24.2	25.3	24.7	28.6	24.4
A completely independent body partly appointe	10.1	10.7	10.5	10.2	10.5	10.5	10.7	10.5	9.7	10.8
No idea	12.9	13.2	10.5	14.9	13.1	15.3	10.9	13.0	11.9	12.0
Q. 14 Overall, how satisfied or dissatisfied are you with the way the Central Bank of Nigeria is doing its job to set interest rates in order to control inflation?										
Very satisfied	23.7	24.3	25.5	21.2	20.3	19.3	22.9	25.6	21.0	23.8
Fairly satisfied	39.9	39.3	38.3	38.0	37.8	36.1	41.0	39.5	39.8	38.7
Neither satisfied nor dissatisfied	14.8	16.3	16.7	16.4	18.2	18.6	15.3	15.2	16.9	17.5
Very dissatisfied	12.4	10.7	11.4	12.6	14.7	13.8	12.1	9.3	11.7	11.5
No idea	9.2	9.3	8.1	11.9	9.1	12.2	8.7	10.3	10.6	8.5
Total satisfied	63.6	63.6	63.8	59.2	58.1	55.4	63.9	65.1	60.8	62.5
Total dissatisfied	12.4	10.7	11.4	12.6	14.7	13.8	12.1	9.3	11.7	11.5
Net satisfied	51.2	52.9	52.4	46.6	43.4	41.6	51.8	55.8	49.1	51.0