

Central Bank of Nigeria



Inflation Attitudes Survey Report

Q₃ 2017

Statistics Department

September 2017

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1.0 Highlights

The highlights of the Q₃ 2017 IAS 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.

2.0 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 and public understanding of the Monetary Policy Committee's roles. This is because the understanding and support by the public towards attaining the objectives of price stability would provide an environment conducive for achieving macro-economic stability.

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. Respondents' opinions were used to explore the general public's understanding of monetary policy framework. This is because inflation expectations and public understanding of what influences them are important parameters for successful monetary policy formulation. 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.

3.0 About the Survey

The Q₃ 2017 Inflation Attitudes Survey was conducted from August 21 to September 2, 2017 with a sample size of 1950 households in 350 randomly selected Enumeration Areas (EAs) across the country.

4.0 Inflation

The respondents were asked what would become of the Nigerian economy if prices started to rise faster than they do now. The survey result showed that 47.0 per cent of the respondents believed that the economy would end up weaker, 12.1 per cent stated that it would be stronger, 23.7 per cent of the respondents believed it would make a little difference, while

17.1 per cent did not know. The responses suggest considerable support for price stability, as more respondents were of the view that inflation is inimical to economic growth.

When asked to say how prices have changed over the past 12 months, respondents gave a median answer of 3.1 per cent, which is less than the **five** preceding quarters. Of the total respondents, 26.1 per cent thought prices had gone down or not changed, while 45.2 per cent felt that prices had risen by at least 3.0 per cent and 17.9 per cent felt that prices inched up by more than 1.0 per cent but less than 3.0 per cent. Those that had no idea were 10.8 per cent.

Respondents' median expectations of the price changes over the next 12 months was that prices would inch up by 0.6 per cent. The views of the respondents on how much they expect prices in the shops generally to change over the next 12 months, showed that 20.0 per cent expected prices to rise by at least 3 per cent; compared with the 19.1 per cent of respondents that expected prices to rise by more than 1 per cent but less than 3 per cent. Similarly, 46.6 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 about half of the respondents thought that prices were not likely to rise (Fig. 1, Table 1).

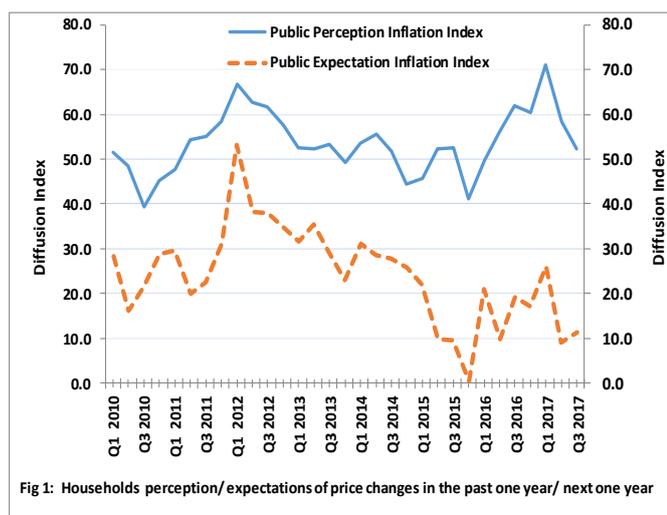


Fig. 1: Households perception/expectations of price changes in the past one year/ next one year

5.0 Interest Rates

The percentage of respondent households who felt that interest rates had risen in the last 12 months rose by 0.2 percentage points to 50.4 in the current quarter, compared to 50.2 attained in Q3, 2016. On the other hand, 12.8 per cent of respondents believed that interest rates had fallen, 19.2 per cent of the respondents were of the opinion that the rates stayed about the same in the last 12 months, while 17.5 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.

On whether interest rates on bank loans and savings would rise or fall over the next 12 months, 34.6 per cent of the respondents were of the view that the rates will rise, while 33.2 per cent believed that the rates will fall. The net rise value of 1.4 per cent was recorded compared to 9.2 per cent attained in the corresponding quarter of 2016. A little less than one-third of the respondents either expected no change or had no idea. As illustrated in Fig. 2, the public expectation on

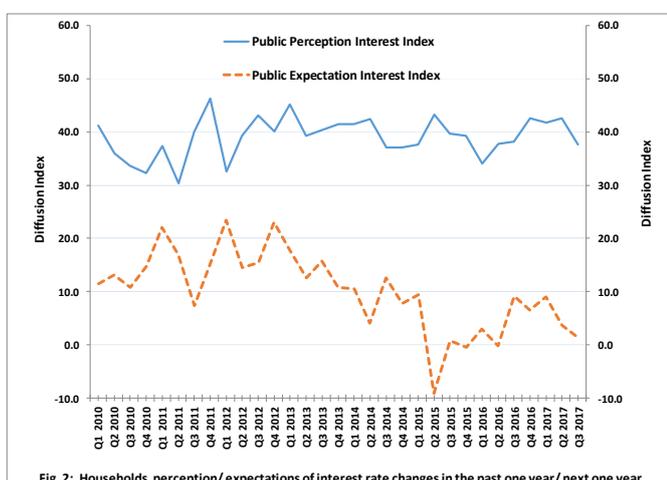


Fig. 2: Households perception/expectations of interest rate changes in the past one year/ next one year

interest rate index has been consistently lower than their perception, indicating that the public has greater confidence in the ability of the monetary authority to control inflation.

Respondents were asked whether it would be best for them personally for interest rates to rise or fall. Their responses showed that 58.7 per cent indicated that it would be best for them personally if interest rates went down, 17.5 per cent indicated it would make no difference, while 14.5 per cent of the respondents opted for higher interest rates. The results further revealed that 9.2 per cent had no idea.

Similarly, the respondents were asked whether it would be best for the Nigerian economy for interest rates to rise or fall. Their answers showed that 45.1 per cent indicated that it would be best for the Nigerian economy if interest rates fell, while 16.4 per cent of the respondents opted for higher interest rates. The results further revealed that 23.3 per cent thought that it would make no difference, while 15.1 had no idea (Table1).

These responses revealed that most of the respondents favored lower interest rates for the Nigerian economy. The high lending rates by commercial banks, which discourage borrowing that serves as a catalyst for economic growth, could be responsible for the respondents holding such views (Fig 3).

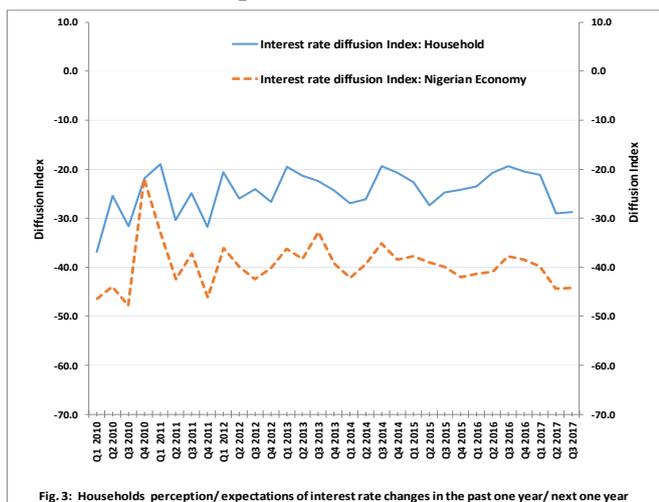


Fig. 3: Households perception/expectations of interest rate changes in the past one year/next one year

6.0 Interest Rate-Inflation Nexus

On what impact a rise in interest rates in the short and medium terms would have on prices, over half of the respondents (53.0 per cent) agreed that a rise in interest rates would make prices in the street rise more slowly in the short term, as against 16.6 per cent that disagreed. While in the medium term, 47.9 per cent agreed that a rise in interest rates would make prices in the street rise more slowly, and 18.6 per cent disagreed (Fig. 4).

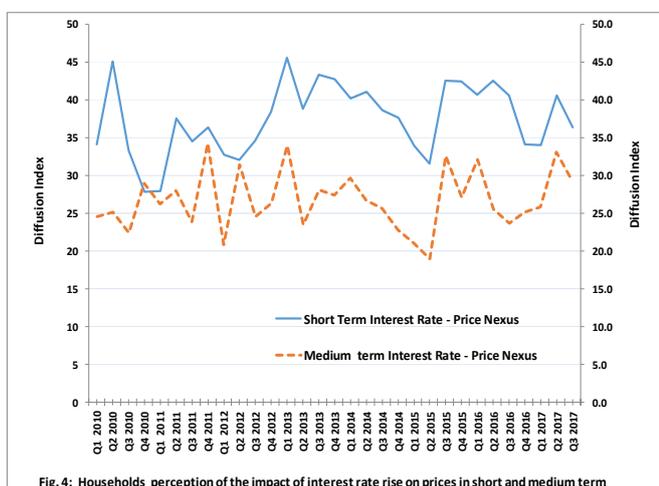


Fig. 4: Households perception of the impact of interest rate rise on prices in short and medium term

Respondents were asked to choose between raising interest rates in order to keep inflation down, and keeping interest rates down to allow prices to rise faster. Responding, 44.2 per cent of the people preferred interest rates to be higher in order to keep inflation down, compared with 21.7 per cent who said they would prefer prices to rise faster, while 33.9 per cent had no idea.

These responses suggest that given a trade-off, majority of the people would prefer higher

interest rates to higher inflation, with a ratio of more than 2:1; which is suggestive of the respondent households' support for the Bank's price stability objective (Fig. 5).

7.0 Opinions on the Central Bank of Nigeria

To assess whether people are aware of the way monetary policy works in Nigeria, respondents were asked if they knew which group of people meet to set Nigeria's monetary policy rate. Responding, 55.4 per cent felt it was the Monetary Policy Committee, 15.3 per cent felt it was the Federal Ministry of Finance, 10.3 per cent believed it was the Government, 4.6 per cent felt it was the National Assembly, while 1.8 and 12.6 per cent answered 'others' and 'do not know', respectively.

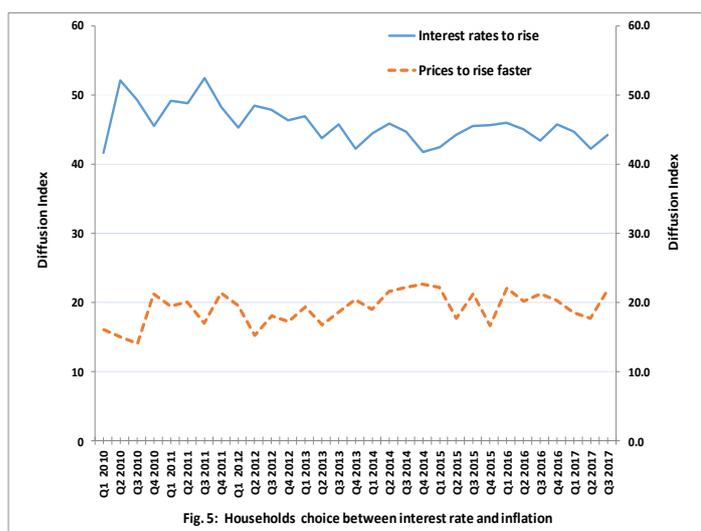


Fig. 5: Households choice between interest rate and inflation

When asked to identify which group mostly influences the direction of interest rates, the result indicated that majority of the respondents (73.2 per cent) were aware that the Central Bank of Nigeria influences the direction of interest rates. About 7.8 per cent stated that it was the Government, 6.6 and 4.0 per cent were of the opinion that civil servants and other banks influence the rates, respectively, while 8.3 per cent had no idea. These proportions have not significantly changed in the series since the commencement of the survey in 2009.

On what best describes the Monetary Policy Committee, 29.6 per cent felt that the Committee was a body wholly owned and appointed by the Government, 26.3 per cent believed that it was an independent body partly appointed by the Government, while 8.6 per cent thought that it was completely independent. However, 23.6 per cent regard the MPC as a part of the Government. This shows that 73.7 per cent of the respondents are not aware of the composition of the MPC.

Respondents were asked if they 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 less the proportion dissatisfied, was 50.9 per cent compared with 40.6 per cent recorded in Q3 2016. Among the satisfied group, 25.6 per cent were 'very satisfied' while 35.7 were 'fairly satisfied'. However, 19.6 per cent were 'neither satisfied nor dissatisfied', whereas 10.4 per cent were 'very dissatisfied'. Those who had no idea accounted for 8.6 per cent of the respondents (Fig. 6).

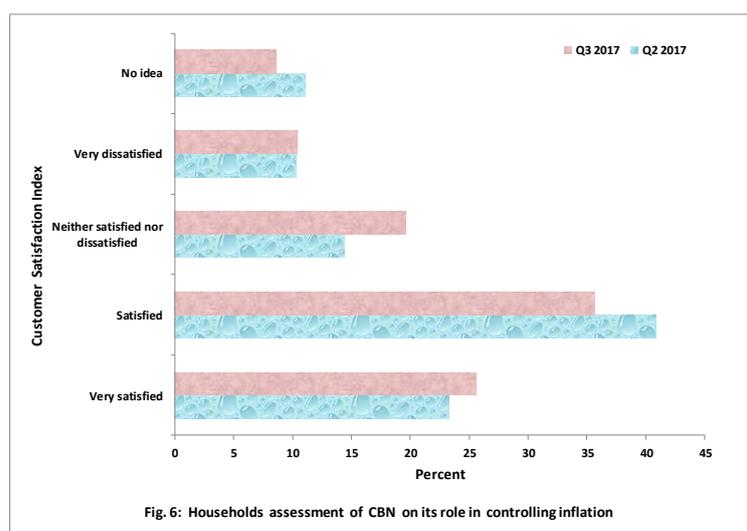


Fig. 6: Households assessment of CBN on its role in controlling inflation

ANNEX: TABLES

TABLE 1

INFLATION ATTITUDES SURVEY DATA								
	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Q.1 Which of these options best describes how prices have changed over the last 12 months?								
Gone down	10.4	9.6	8.8	7.4	6.9	2.3	7.6	10.8
Not changed	23.0	17.9	13.5	13.7	13.7	6.9	14.4	15.3
Up by 1% but less than 3%	21.5	23.4	14.7	16.0	12.6	11.1	13.9	17.9
Up by 3% or above	30.0	35.9	50.1	53.3	54.8	62.1	52.1	45.2
No idea	15.0	13.2	12.9	9.6	12.0	17.6	11.8	10.8
Median (%)	1.8	2.4	3.9	4.0	4.7	6.8	4.2	3.1
Q. 2 How much would you expect prices in the shops generally to change over the next 12 months								
Would Go down	33.7	24.2	30.1	26.4	26.9	21.23	30.2	27.8
Not changed	16.2	15.8	15.4	12.9	13.1	12.1	15.9	18.8
Up by 1% but less than 3%	19.1	22.9	17.9	18.9	19.4	16.6	17.7	19.1
Up by 3% or above	15	22.3	21.9	26.6	24.7	30.6	21.6	20
No idea	16.1	14.8	14.8	15.2	15.9	19.5	14.7	14.3
Median (%)	0.2	1.2	0.7	1.3	1.2	1.8	0.6	0.6
Q. 3 If prices started to rise faster than they do now, do you think Nigeria's economy would...?								
End up stronger	12.7	13.2	11.8	10.9	10.4	13.5	13.4	12.1
Or make little difference	23.8	25.5	23.9	22	20.4	18.61	20.3	23.7
Or weak	42.1	45.1	46.4	50.4	48.4	50.4	50.0	47.0
Don't know	21.5	16.2	18.0	16.7	20.9	17.4	16.3	17.1
Q. 4 The Government in this years budget anticipated an inflation rate of single digit. What do you think of this rate ?								
Too high	32.3	37.9	35.8	40.8	40.8	39.9	38.9	35.9
Or too low	17.4	15.5	16.6	15.7	17.3	17.2	18.3	18.3
Or about right	20.9	23.8	24.0	21.8	18.9	20.9	19.4	20.0
No idea	29.4	22.6	23.6	21.7	22.9	22.0	23.3	25.6
Q. 5 How would you say interest on bank loans and savings have changed over the last 12 months?								
Risen a lot	24.7	23.9	28.8	26.6	31.5	30.03	30.9	28.4
Risen a little	24.3	23.5	21.7	23.6	23.3	24.58	22.8	22
Stayed about the same	19.6	19.8	16.3	18.1	15.4	16.04	16.6	19.2
Fallen a little	7.3	9.0	8.9	7.7	7.3	8.2	7.1	8.5
Fallen a lot	2.5	4.3	3.8	4.4	4.9	4.78	4.1	4.3
No idea	21.6	19.4	20.5	19.6	17.6	16.4	18.6	17.5
Total saying 'rise'	49.0	47.4	50.5	50.2	54.8	54.6	53.7	50.4
Total saying 'fall'	9.8	13.3	12.7	12.1	12.2	13.0	11.2	12.8
Net rise	39.2	34.1	37.8	38.1	42.6	41.7	42.5	37.6
Q. 6 How would you expect interest rates to change over the next 12 months?								
Rise a lot	11.7	13.3	13.2	17.5	17.9	16.4	14.0	14.4
Rise a little	20.7	22.2	19	19.3	19.5	21.85	21.9	20.2
Stay about the same	17.9	17.6	18.4	18.7	16.9	17.38	17	17.7
Fall a little	22.7	21.5	21.2	18.4	19.2	18.71	20.5	20.4
Fall a lot	10.2	11.0	11.1	9.2	11.6	10.5	11.7	12.8
No idea	16.8	14.3	17.1	16.9	14.9	15.06	15	14.4
Total saying 'rise'	32.4	35.5	32.2	36.8	37.4	38.3	35.9	34.6
Total saying 'fall'	32.9	32.5	32.3	27.6	30.8	29.3	32.2	33.2
Net rise	-0.5	3.0	-0.1	9.2	6.6	9.0	3.7	1.4
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	18.0	17.4	18.7	21.7	20.4	19.1	16.2	16.4
Go down	42.2	40.9	39.4	41.1	40.9	40.3	45.2	45.1
Make no difference	20.9	26.1	22.7	19.5	20.6	23.2	21.4	23.3
No idea	18.9	15.5	19.1	17.7	18.1	17.3	17.1	15.1
Q. 8 And which would be best for you personally, for interest rates to...								
Go up	14.8	16.5	15.0	18.0	18.6	15.8	14.7	14.5
Go down	56.8	57.8	55.9	55.7	57	55.68	59	58.7
Make no difference	17.6	17.0	19.2	16.3	14.8	17.4	16.3	17.5
No idea	10.7	8.8	9.9	10.0	9.6	11.1	9.8	9.2

TABLE 1 (CONT'D)

INFLATION ATTITUDES SURVEY DATA								
	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
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	19.9	20.1	22.9	22.4	24.0	22.1	23.0	22.1
Agree	37.3	35.1	34.4	33.8	28.4	29.8	32.5	30.9
Neither agree nor disagree	16.4	19.7	17.4	17.4	18.6	18.6	18.4	20
Disagree	10.5	12.0	10.6	11.7	13.2	13.8	10.7	12.8
Disagree strongly	4.3	2.5	4.2	3.9	5.1	4.0	4.2	3.8
Don't know	11.6	10.5	10.5	10.7	10.7	11.7	11.3	10.4
Total agree	57.2	55.2	57.3	56.2	52.4	51.9	55.5	53.0
Total disagree	14.8	14.5	14.8	15.6	18.3	17.8	14.9	16.6
Net agree	42.4	40.7	42.5	40.6	34.1	34.0	40.6	36.4
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	15.7	17.3	15.6	15.9	17.2	17.7	18.4	17.3
Agree	32.6	33.4	31.7	30.4	28.9	29.0	32.9	30.6
Neither agree nor disagree	16.6	19.4	16.7	18.6	19.5	18.4	16.5	20.9
Disagree	15.3	14.0	16.0	16.0	16.3	14.8	13.0	12.5
Disagree strongly	5.9	4.6	5.8	6.6	4.7	6.07	5.2	6.1
Don't know	13.8	11.3	14.2	12.6	13.3	14.0	13.9	12.5
Total agree	48.3	50.7	47.3	46.3	46.1	46.7	51.3	47.9
Total disagree	21.2	18.6	21.8	22.6	21.0	20.9	18.2	18.6
Net agree	27.1	32.1	25.5	23.7	25.1	25.9	33.1	29.3
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	45.6	46.0	45.0	43.4	45.7	44.7	42.2	44.2
Prices to rise faster	16.7	22.1	20.2	21.3	20.3	18.6	17.7	21.7
No idea	37.5	31.7	34.8	35.2	33.9	36.5	39.8	33.9
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	52.0	53.0	52.0	50.4	53.0	52.7	54.5	55.4
The Government	11.7	10.0	11.8	12.0	9.6	10.1	11.2	10.3
Federal Ministry of Finance	15.1	16.2	13.6	15.4	16.2	15.6	13.1	15.3
National Assembly	4.9	5.7	6.0	6.6	5.7	5.9	5.0	4.6
Others	2.0	1.9	1.9	2.1	1.9	2.8	1.8	1.8
Don't know	14.4	13.2	14.7	13.5	13.6	13.0	14.4	12.6
Q. 12 Which of these groups do you think sets the interest rates?								
Government ministers	4.9	5.2	7.1	7.6	8.1	6.4	8.7	7.8
Civil servants	5.9	5.3	7.0	7.3	5.4	7.2	5.6	6.6
CBN	75.0	78.6	72.3	71.8	73.4	73.8	72.1	73.2
Other banks	4.5	2.8	3.0	3.6	3.8	3.2	3.7	4.0
No idea	9.6	8.1	10.5	9.7	9.4	9.4	9.9	8.3
Q. 13 In fact, the decisions are taken by the Monetary Policy Committee of the Central Bank of Nigeria.								
Part of the Government	23.0	20.5	25.1	24.9	22.1	20.6	22.1	23.6
A Body wholly owned appointed by the Government	28.9	29.3	27.7	25.8	30.4	29.5	30.7	29.6
An independent body, partly appointed by the Government	24.7	28.6	24.4	24.7	25.0	26.2	26.4	26.3
A completely independent body	10.5	9.7	10.8	10.1	10.0	8.7	7.0	8.6
No idea	13.0	11.9	12.0	14.4	12.5	15.0	13.7	11.7
Q. 14 Overall, how satisfied or dissatisfied are you with the way the Central Bank of Nigeria is doing?								
Very satisfied	25.6	21.0	23.8	24.9	20.3	18.6	23.3	25.6
Fairly satisfied	39.5	39.8	38.7	25.8	37.8	30.1	40.9	35.7
Neither satisfied nor dissatisfied	15.2	16.9	17.5	24.7	19.1	17.9	14.4	19.6
Very dissatisfied	9.3	11.7	11.5	10.1	11.9	15.9	10.3	10.4
No idea	10.3	10.6	8.5	14.4	11	11.4	11.1	8.6
Total satisfied	65.1	60.8	62.5	50.7	58.1	48.7	64.2	61.3
Total dissatisfied	9.3	11.7	11.5	10.1	11.9	15.9	10.3	10.4
Net satisfied	55.8	49.1	51.0	40.6	46.2	32.7	53.9	50.9