Question in Project:

German Internet Panel (GIP) – Module "Inflation" November Wave 2014 (English Version)

Question Topic:

Politics/ Inflation

Construct:

Expected changes of costs due to inflation under consideration of the ECB

General Information:

Note: The item was tested in German. This is an English translation of the original German wording.

The participants were split into two groups/conditions. 50% of the respondents received the ECB-statement without numbers and the other 50% received the ECB-Statement with numbers. Both groups were given the same categories of answers.

Introduction:

The European Central Bank (ECB) expects the interest rates to remain on the current level or to be lower than the current level for a longer time. This expectation is based on the generally subdued inflation outlook (*condition 2: of currently 1 percent per year*).

Condition 1: The inflation expectations for the euro zone coincide with the aim of the European Central Bank to keep price increaes at a reasonable level.
Condition 2: The inflation expectations for the euro zone coincide with the aim of the European Central Bank to keep price increaes at approximately 2 percent.
[Die Europäische Zentralbank (EZB) erwartet, dass die wichtigen Zinssätze für eine längere Zeit auf dem gegenwärtigen Level oder darunter liegen werden. Diese Einschätzung beruht auf den insgesamt gedämpften Inflationsaussichten (Bedingung 2: von derzeit 1 Prozent pro Jahr).

*Bedingung 1: Die Inflationserwartung für die Eurozone deckt sich mit dem Ziel der Europäischen Zentralbank, die Preissteigerung auf angemessenem Niveau zu halten.
Bedingung 2: Die Inflationserwartung für die Eurozone deckt sich mit dem Ziel der Europäischen Zentralbank, die Preissteigerung nahe 2 Prozent zu halten.]*

Question Text:

In question 1, you said that a person is going to spend [XXXX] EUR on food and clothing in July 2015. This amount corresponds to an inflation rate of [X] percent.
Now, if you take into account the ECB's expectations, what do you estimate: how much euros will this person pay for the same food and clothing in July 2015?
Please assume that neither the person's living conditions nor his or her consumer behavior is going to change, that is, he or she will purchase similar products and services as today.
[In Frage 1 haben Sie angegeben, dass eine Person im Juli 2015 [XXXX] EUR für Lebensmittel und Kleidung ausgeben wird. Dieser Betrag entspricht einer jährlichen Inflationsrate von [X] Prozent.
Wenn Sie nun die Erwartungen der EZB berücksichtigen, was schätzen Sie: Wie viel Euro wird diese Person für die gleichen Lebensmittel und die gleiche Kleidung im Juli 2015 bezahlen?
Gehen Sie bitte davon aus, dass sich weder die Lebensumstände, noch das Konsumverhalten der Person verändern wird, d.h. sie wird in 12 Monaten ähnliche Produkte und Dienstleistungen im gleichen Umfang wie derzeit nutzen.]

Instruction:

Please choose one answer. [*Bei dieser Frage können Sie nur eine Antwort geben.*]

Answer Categories:

Less than 1500 EUR / -1% (i.e. negative inflation and increasing value of the currency) *[Weniger als 1500 EUR / -1% (d. h. negative Inflation und steigender Wert der Währung)]*
1500 EUR / 0%
1515 EUR / 1%
1530 EUR / 2%
1545 EUR / 3%
1560 EUR / 4%
1575 EUR / 5%
1590 EUR / 6%
1605 EUR / 7%
1620 EUR / 8%
1635 EUR / 9%
1650 EUR or more / 10% or more *[1650 EUR oder mehr / 10% oder mehr]*

Cognitive Techniques:

Category Selection Probing, Specific Probing.

Findings for Question:

Comparing the two experimental conditions we see that the wording of the questions clearly affects the responses. In condition 2 the answers concentrate much more around the 2% mark as desired by the ECB while the answers in the first experimental condition are more widely spread. One possible reason for this might be that the phrasing "at a reasonable level" is interpreted individually different. Another possible explanation is that the expectation of the ECB is not even included in the decision-making process because of its inaccuracy.

In response to the specific probe, 68% of the respondents in condition 2 state that the expectations of the ECB influenced them in their decision. In condition 1 only 55% stated that they were influenced by it. This suggests that the second proposed explanation of respondents not even including the expectations in their decision-making is more likely than an individually differing interpretation of "at a reasonable level/auf angemessenem Niveau".

The answers to the category selection probe (*"Could you please explain your answer in a little more detail? Why did you choose this value?"*) also show that participants in condition 2 include the expectation of the ECB more often and modify their answer more often in accordance with the expectation (42% of participants) than those in condition 1 (33% of participants). Hence, the experimental manipulation seems to be effective.

Moreover, the evaluation of the category selection probe produced the following results:

- 25% of the respondents state that their answer is still the same as in question 1 and did not change because of the ECB's expectations (e.g. *"The inflation is calculated using a basket of goods, therefore the prediction of the ECB can't just be transferred and I stay with my estimate"*, ID 168).
- 10% of the respondents disagree with the prediction of the ECB or do not believe the ECB is really pursuing these aims (e.g. *"Evaluations and predictions of the ECB are nice, but the reality mostly looks different"*, ID 177).
- 2% of the respondents argue that more factors than just inflation influence the changing of prices (e.g. *"The ECB factors in financial transactions etc. but the prices for food are not just rising because of the inflation but because of supply and demand, speculations at the stock market, expiring subsidizations. . . "*, ID 155)
- 14% of the respondents just ignore the expectation of the ECB (e.g. *"Regardless of the inflation everything gets more expensive"*, ID 137).

The final probe for this question asked about the comprehensibility of the expectations of the ECB. About one fifth of the participants answered they were "rather not comprehensible" (17%) or "not comprehensible at all" (2%). Here the two conditions again differ a little bit: Condition 2 was perceived as a little more comprehensible ("rather not" and "not at all" comprehensible in condition 1 = 22.5% vs. in condition 2 = 14.5%).

Recommendations:

The recommendations for question 1 should be adopted for this question as well. In addition, to decrease the percentage of respondents who do not take the expectations of the ECB into account, the expectations could be visually highlighted:
The European Central Bank (ECB) expects key interest rates to remain at current levels or below for an extended period of time. This assessment is based on the overall subdued inflation outlook (condition 2: of currently 1 percent per year).
[Die Europäische Zentralbank (EZB) erwartet, dass die wichtigen Zinssätze für längere Zeit auf gegenwärtigem Level oder darunter liegen werden. Diese Einschätzung beruht auf den insgesamt gedämpften Inflationsaussichten (Bedingung 2: von derzeit 1 Prozent pro Jahr).]
Condition 1: Inflation expectations for the euro area are consistent with the European Central Bank's objective of keeping price inflation at an appropriate level.
[Bedingung 1: Die Inflationserwartung für die Eurozone deckt sich mit dem Ziel der Europäischen Zentralbank, die Preissteigerung auf angemessenem Niveau zu halten.]
Condition 2: Inflation expectations for the euro area are consistent with the European Central Bank's objective of keeping price inflation close to 2 percent. *[Bedingung 2: Die Inflationserwartung für die Eurozone deckt sich mit dem Ziel der Europäischen Zentralbank, die Preissteigerung nahe 2 Prozent zu halten].*
In the previous question, you indicated that a person will spend [XXXX] EUR on food and clothing in July 2015. This amount corresponds to an annual inflation rate of [X] percent.
[Bei der vorherigen Frage haben Sie angegeben, dass eine Person im Juli 2015 [XXXX] EUR für Lebensmittel und Kleidung ausgeben wird. Dieser Betrag entspricht einer jährlichen Inflationsrate von [X] Prozent].
Now, given the ECB's expectations, what do you estimate: how much euros will this person pay for the same food and clothing in July 2015?.
[Wenn Sie nun die Erwartungen der EZB berücksichtigen, was schätzen Sie: Wie viel Euro wird diese Person für die gleichen Lebensmittel und die gleiche Kleidung im Juli 2015 bezahlen?]
Please assume that the person's circumstances and consumption patterns will not change, i.e., he or she will use similar products and services in 12 months to the same extent as at present.
[Gehen Sie bitte davon aus, dass sich die Lebensumstände und das Konsumverhalten der Person nicht< verändern werden, d.h. sie wird in 12 Monaten ähnliche Produkte und Dienstleistungen im gleichen Umfang wie derzeit nutzen.]
For this question, you can only give one answer.
[Bei dieser Frage können Sie nur eine Antwort geben.]

Implementation of Recommendations:

Item revised