

# Executive Summary

This report examines the public understanding of economics and economic statistics. We conducted a series of 12 focus groups across the UK (N=130) and a nationally representative online YouGov survey of GB adults aged 18+ (N=1,665) to explore how British people view different aspects of the economy and economic concepts, and how they evaluate main economic indicators. This report summarises our main findings on the public understanding of economics in the following areas: the economy and economic performance, inflation, unemployment, GDP, interest rates, trade, and deficit and debt. The study was carried out as part of the research programme of the Economic Statistic Centre of Excellence (ESCoE) and funded by the Office for National Statistics (ONS).

## General findings

The research identified some pockets of public economic expertise, in which many people were fairly well-informed, often driven by perceived relevance to their everyday lives and personal finances. Our research shows that the British public has a better understanding of some measures, such as inflation and interest rates that have a greater bearing on people's personal finances, than previous survey research has shown. However, the research also demonstrated that public understanding of economic concepts is often relatively limited. Many focus group participants could give broad definitions and speak in broad terms about economic concepts. However, when they were asked to provide more detailed explanations, they were generally unable to do so, and had typically never considered factors beyond their 'personal economy'. Generally, focus group participants understood economic issues through the lens of their familiar 'personal economy' rather than the abstract 'national economy'. This meant that while focus group participants often demonstrated detailed knowledge about, and interest in, the personal impacts of economic indicators, they often struggled to relate this to the broader economy.

In addition to a relatively limited knowledge of economic concepts, people demonstrated a weak understanding of the size of different economic indicators, and a lack of confidence in assessing and judging economic figures. In many cases, focus group participants had simply never considered these issues, such as what a normal or ideal inflation rate would be, for instance. Perceptions were often based on assumptions and common sense, which sometimes yielded similar views to economists, and at other times not. Some of the most common findings were an aversion to deficits and a preference for lower interest rates and inflation rates. Mostly, however, focus group participants often found it difficult to speak about or evaluate the size of economic indicators when expressed as absolute numbers or as proportions or rates in percentages. People preferred to speak in broad terms about the size of economic indicators, and could typically not make sense of numbers without any prior information. Participants often asked for different shortcuts to gauge whether an indicator was considered normal, low or high, for instance by seeing the historic trajectory, or by seeing comparisons with similar countries. Furthermore, participants sometimes confused the difference between levels, changes, and rates of change, especially in relation to price levels, changes in prices (inflation rate), and changes in the inflation rate.

Similar to existing research, we found consistent and substantial differences in understanding, confidence and interest in economic statistics amongst different subgroups of the UK population. Survey respondents were more knowledgeable, confident, and interested in economic statistics when they were male and older, from higher socioeconomic groups and had higher education levels. Equally, the focus groups showed how age and personal circumstances, as well as previous formative experiences, can impact the understanding of, and attention paid to, economic statistics.

Finally, our focus group research identified distrust in economic statistics among some participants as well as a general disillusionment and apathy about the economy and people's ability to influence economic outcomes. Often, this distrust stemmed from the view that economic issues were communicated in an inaccessible way, using unnecessary economic jargon, which was detrimental to people's engagement. Furthermore, the research shows that large parts of the UK public have misperceptions about how economic figures, such as unemployment and inflation rates, are collected and measured. These misperceptions tended to support the commonly held view that actual unemployment and inflation rates are higher than official figures suggest, and therefore may explain some of people's distrust in unemployment and inflation data.

In addition, focus group participants often had misperceptions about who produced and collected economic statistics. In reality, economic figures such as the unemployment and inflation rate is collected and published by the ONS, the UK's national statistical institute who are independent of government, but participants often associated economic data with politicians who presented and discussed the figures in the news, and they saw the government as the source of the data. This led some focus group participants to express a lack of confidence in the accuracy and reliability of economic statistics. While any issues related to trust were unprompted, the conversations showed that focus group participants were often keenly aware that data and statistics can be used to promote a particular view. Some were therefore sceptical about any data they saw. This research suggests that official economic data are subject to the same public scrutiny as any other data, especially when people have misperceptions about how concepts are measured, and who statistics are produced and published by.

The following sections summarise our specific findings for each economic concept and statistic.

## **The economy and economic performance**

Our survey and focus group research show that most British people are deeply interested in the economy and economic issues, though this interest is mainly focused on their own personal economy and the impacts on their own personal lives, rather than the national economy. Focus group participants reported they paid particular attention to the economy

and certain economic indicators when it had big personal financial implications, such as getting a mortgage, or when downturns in the economy affected their job prospects and finances. However, at the same time, participants admitted and regretted that they lacked a detailed understanding of the economy. They felt economics was difficult to engage with properly for the average person, and felt it was communicated in an inaccessible way, describing the economy as 'confusing', 'complicated' and 'difficult to understand'. Furthermore, focus group participants often expressed disillusionment with the economy, seeing it as an external negative force outside their own control, seen as a threat 'constantly hanging over us', and people said they had been 'hit by the economy', 'suffered because of the economy' and 'got smacked in the face by the economy'. Generally, participants recognised that the economy affected everything around them, and sometimes the economy was seen as a catch-all phrase for all components of our society, or as a way of measuring how well the country is doing. Often, focus group participants associated the economy with money, including the amount of money held by individuals or how much was in the country's 'money pot' as well as the movements of money in the economy, through earnings, taxes, personal spending, government spending, and trade.

Focus group participants found it difficult to judge economic performance. They felt it was complicated to assess for an average individual, especially when they felt they regularly received conflicting information about the country's economic performance.

## **Inflation**

Our survey and focus group research show that the British public generally have a fairly good understanding of what inflation is, especially relating it to price growth and changes in prices over time. Focus group participants stated they paid close attention to price changes in their personal consumption, especially due to its impact on shopping costs including fuel, food, tobacco and alcohol. However, people had rarely considered the reasons why prices rise over time. When asked, a number of different aspects were at the forefront of people's minds, including oil and petrol prices, improvements in technology, interaction between demand and supply with specific focus on hits to supply due to natural disasters, profit maximising by companies, and changing consumer habits such as shopping in discount supermarkets.

Focus group participants generally preferred to speak in broad terms about different levels of inflation, such as 'low inflation', 'steady price growth' and 'prices staying the same', rather than in absolute numbers such as 2%. The survey showed mixed views about the perceived best levels of inflation, and the focus groups showed this was not necessarily something people had thought about before. The general theme was that people thought it was best for businesses and for the economy as a whole when prices stay the same or rise slightly, while they said it was best for individuals and their families when prices fall or stay the same. Our focus group research show that participants tend to acknowledge the risks of

'really high inflation', especially amongst older participants who often remembered very high rates of inflation in the UK during the 1970s and 1980s. When asked about the impact of falling prices (the term 'deflation' was rarely used by participants), the main response was that this never happened.

Generally, some focus group participants spoke about inflation in relation to wage growth, to the extent that some participants defined inflation in terms of wage increases or cost of living. Some focus group participants said the best level of price growth would be determined in relation to salary increases, including to the minimum wage, to ensure that living standards were not eroded. Some participants strongly felt that wage growth had not kept up with price growth in recent years. As such, many participants clearly understood the importance of 'real term' wage growth, though they rarely used this economic term. Indeed, many had never heard about it. However, there were also many participants who had never thought about the relationship between prices and wages, and some had simply dismissed the term as 'wordplay', as they felt it was sometimes used in public debate to promote a certain view.

When provided with official data showing average price growth in the UK during the past year (1.5% at the time), our research shows mixed views about its perceived accuracy. Most survey respondents felt average prices had risen by more than official figures suggested, and in focus groups this perception contributed to cynicism about the figures. Based on their personal experiences, focus group participants often made an implicit argument that there was a difference between 'my inflation' and 'their inflation', and many assumed that official data placed too much emphasis on luxury items, and failed to take into account large expenditure items such as council tax and housing costs that were more relevant to their own consumption. Generally, focus group participants showed limited knowledge about how inflation was calculated. Typically, participants either assumed inflation measurement was based on a very simple basket of everyday goods, such as bread, milk and alcohol, or alternatively a basket with a large range of items that were unweighted and excluded important items. While a few participants seemed to have picked up the terminology commonly used for inflation measurement, such as a 'shopping basket' and 'basket of goods', this did not always improve their understanding; in fact it sometimes seemed to confuse participants who thought inflation was measured by looking at items sold in supermarkets.

## **Unemployment**

When provided with official data on the unemployment rate (3.8% at the time), our survey showed that the UK public are divided about whether current unemployment figures are seen as accurate, and a large part of survey respondents felt that unemployment seems higher than current figures suggest. Our focus group research showed this view to be held strongly by some participants, often based on personal and local experiences, including

those of friends, family and colleagues. This led some focus group participants to express a lack of confidence in the accuracy and reliability of unemployment statistics, sometimes believing these were 'massaged' and 'fudged' by governments to reflect well on their performance. Some older participants backed this up with shared memories of changes to unemployment statistics in the 1980s, which formed the basis of their suspicion that the unemployment rate was still changed through 'creative accounting', 'reategorising people' and by 'moving the goalposts', and through putting benefit recipients on 'government schemes', 'work-related schemes' and 'training schemes'. Our study did not explore in detail people's awareness or perceptions of the sources of economic statistics. Focus group participants, however, rarely mentioned the ONS or the idea that statistics are produced independently of government (even when the ONS were explicitly acknowledged by interviewers as the source of the statistics). Instead, many participants seemed to assume unemployment statistics are based on benefit claimant data, held and collected by the Department for Work and Pensions. As such, they saw the government as the source of the data, which affected their trust in the figures. In practice, unemployment data are collected through a survey of around 35,000 households by the Office for National Statistics (ONS), the UK's independent national statistical institute.

While our research suggests that the British public have a fairly good understanding of unemployment as a concept, considerable nuances exist, especially in relation to public understanding of its measurement. Our survey research suggests that the British public overwhelmingly lack knowledge about how the rate of unemployment is measured. In fact, our findings suggest that most people assume that the unemployment rate is calculated as a proportion of all working-age adults without a job (similar to the employment rate) rather than as a share of those who meet the criteria to be classed as economically active, known as the labour force. At the time of the research, this misperception would imply an actual UK unemployment rate closer to 24% than 3.8%, which may explain some people's cynicism about standard unemployment figures. Focus group participants expressed surprise about the term 'economically inactive', and typically said they had 'never heard of it.' Focus group participants reacted in different ways to this information, with some people acknowledging that the low official unemployment rate now 'made more sense'. The more typical response, however, was more cynical, describing the term 'economically inactive' as a 'smoke screen' and as a 'loophole'.

A major part of the distrust in unemployment statistics was related to how different types of employed workers and unemployed people were categorised in official data, and whether people believed these classifications to be justifiable. Prior to being told about unemployment measurement and about the term 'economically inactive', it was prominent that focus group participants criticised these classifications, highlighting that 'job quality' and 'suitability' mattered to how people perceived labour market performance. As such, it was commonly argued that 'low-quality jobs', often perceived in terms of hours, pay and job conditions, should not be counted fully towards official employment statistics. Our research provides detailed data on how people perceive different categories of people, and

how they think they are categorised in official unemployment data.

## **GDP**

Our survey research found that less than half of the British public are able to correctly identify the definition of GDP from a list of options, and that the vast majority of focus group participants demonstrated little to no understanding of GDP. Typical misunderstandings included confusing GDP with the value of exports, the exchange rate (due to the similarity to GBP) and even general data protection regulation (due to the similarity to GDPR). Focus group participants also demonstrated little knowledge about the size of GDP growth rates and did not typically understand what was meant when economic indicators were reported as a proportion of GDP. In fact, GDP was seen as economic jargon, contributing to the feeling that economics was largely inaccessible to them.

## **Interest rates**

Our research found that the British public are often much more familiar with the concept of interest rates than other economic concepts, driven by its perceived importance and relevance for everyday lives and personal finances. Focus group participants described sometimes monitoring and comparing interest rates, stating that they were an important factor in their financial decisions, especially in relation to mortgages. Focus group participants were usually able to define interest rates fairly accurately, especially by describing what different levels of interest rates meant for savings or borrowings. Similarly, our survey findings show that three quarters of the British public were able to identify whether low or high interest rates were best for borrowers and savers, respectively. Furthermore, both survey respondents and focus group participants showed a high level of awareness that current levels of interest rates are considered low.

While participants demonstrated a fairly detailed level of understanding about how interest rates affect their own personal finances, their understanding of the rationale behind the setting of interest rates was mixed. Some participants identified that low interest rates could be implemented to encourage spending and 'boost the economy', but often struggled to rationale rises in interest rates. During focus group discussions, answers rarely touched on interest rates' impact on inflation or the Bank of England's inflation target. When provided with this information, many said they had not heard about it or understood it. Finally, while focus group participants agreed that interest rates could be controlled, there were initially mixed responses about who were responsible for setting interest rates, including banks, the government, the Chancellor of the Exchequer, and the Bank of England.

## Trade

Focus group participants demonstrated a good intuitive understanding of trade, including concepts such as exports and imports. Our survey found that a majority of the British public knew that the UK is operating a trade deficit, and focus group participants often expressed a high level of certainty, rooted in historical knowledge of the decline of certain industries such as manufacturing, and that the UK had developed into a service economy. Focus group participants viewed a trade deficit as a negative and a trade surplus as a positive. Many simply felt this was logical and natural, especially that a trade surplus would be more profitable for a country. Others focused on the missed employment opportunities for domestic workers caused by a trade deficit; the increased reliance on foreign products which reduced the incentives for domestic entrepreneurs to develop new ideas and technologies, or exposed the UK to other countries charging higher prices. At the same time, participants sometimes recognised why the UK had a trade deficit, especially due to the difficulty in competing against countries with lower production costs. Despite the fairly accurate knowledge of the UK's trading position, and despite the public debate about trade negotiations in recent years, focus group participants demonstrated less knowledge about trade deals, and were most often only able to speak about it in broad terms as a 'contract' or 'agreement' between countries. Participants rarely brought up or accurately explained specific aspects of trade deals such as tariffs and common standards.

## Deficit and debt

Focus group participants had a fairly good basic understanding of the government budget, including that it could be in deficit and surplus (though not everyone knew these exact terms). Participants were broadly aware of the main components of government income and spending. Some participants placed a particular importance on specific, smaller spending items such as EU contributions, MPs' pay and expenses, and foreign aid. Our survey and focus group research suggests that the term 'deficit' is highly salient in people's minds, and that it may sometimes obscure the understanding of the concept itself. In fact, while a majority of survey respondents correctly identified that the UK government runs a budget deficit, respondents were substantially more divided when asked the same question in everyday language, i.e. whether government spending is higher than its income through taxes.

Focus group participants said it was the norm for the UK to run a budget deficit, with most expressing a high level of confidence that the UK currently ran a budget deficit, sometimes emphasising that they simply had never heard the term 'budget surplus.' In fact, some participants reasoned that it would be difficult to govern with a surplus in a democracy, as there would always be pressures to spend any surplus money to improve public services. However, at the same time, it was a strong theme that focus group participants instinctively thought that it was bad to run a budget deficit. Participants often could not

give a detailed rationale for this view, other than it seemed logical. Others focused on the need to borrow money and the subsequent interest payments on those loans which could have been used to improve public services. Some also argued that deficits led to debt, which led government to adopt austerity measures, which again damaged the quality of public services. Sometimes, the perception that a budget deficit was inherently a bad thing changed during the discussions, once participants reflected that it was usual for personal households and businesses to hold debt most of their lifetime. Subsequently, some participants argued that governments should invest more to boost the economy, as the interest payments would currently be low. As other research has shown, throughout the discussions focus group participants frequently confused and conflated debt and deficit, and used the terms interchangeably.

## **Future work**

One of the key aims of this research is to inform future efforts on how to improve the communication of economics to the public. This report will be followed up with an engagement exercise to discuss findings with stakeholders – such as the ONS, the Bank of England, journalists, researchers, public bodies and departments, policymakers, politicians, private and third-sector organisations – in order to draw out recommendations on how to improve the communication of economics. This will be summarised in a follow-up report. You can find more information about this in the conclusion, including how you can contribute to this exercise. The conclusion also points to potential future research studies on public understanding of economics and communication of economics. This includes suggestions for studies that test ways of presenting economics to the public and ways of communicating how economic statistics are collected and calculated, as well as studies that explore public understanding of everyday economics. Furthermore, we recommend that future studies involve economists and other experts themselves as research participants. Generally, we recommend that economics as a profession, as well as intermediaries of economics communication, invest considerable efforts in this area and fully recognise the importance of improving how we communicate economics to the public.