

SURVEY OF INFLATION EXPECTATIONS

RESULTS REPORT: 3RD QUARTER 2012

Executive Summary

- The average inflation expectation for 2013-14 is virtually unchanged from the previous quarter, with the forecast for 2013 still at 6.0%, then rising to 6.2% in 2014.
- For 2012, respondents now expect inflation to fall below the upper end of the 3-6% target limit.
- Analysts revised their forecast for the next two years down by a small margin, not anticipating any breach of the upper limit of the inflation target.
- The 2013 and 2014 forecast of business executives remained unchanged from the previous quarter. They continued to anticipate a rate above 6%.
- Trade unions remained the most pessimistic. They lifted their 2014 forecast by 0.3 percentage points (%pts) to 6.9%.
- Households lowered their inflation forecast for the next 12 months by 0.3 %pts to a level of 6.4%

	Headline CPI inflation		
	2012	2013	2014
Financial Analysts	5.5	5.2	5.3
Business	5.9	6.3	6.4
Trade Union Movement	5.8	6.4	6.9
Average above	5.8	6.0	6.2
Households	6.4		
Grand average	5.9		

Copyright, South African Reserve Bank

Copyright for this publication is held by the South African Reserve Bank. The Bureau for Economic Research (BER), a division of Stellenbosch University, conducts the survey and publishes this report on behalf of the Reserve Bank. Although great care is exercised to record and interpret all information correctly, Stellenbosch University, the BER, the author and the Reserve Bank do not accept any responsibility for any direct or indirect loss that might result from accidentally inaccurate data and interpretations by third parties. Stellenbosch University, the BER, the author and the Reserve Bank further accepts no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The view, conclusions or opinions contained in this publication are those of the author and do not necessarily reflect those of Stellenbosch University, the BER or the Reserve Bank.

Survey results

Inflation expectations

Third quarter 2012 inflation expectations changed by an insignificant amount compared to the previous quarter. The combined average headline inflation for 2013 of all three sub groups was 6.0%, exactly the same as the second quarter forecast. At the moment they also foresee a rate of 6.2% for 2014. With more than half the inflation figures for 2012 now known, respondents lowered their forecast for this year to 5.8%, a level below the 6.0% target ceiling. These forecasts were done against the backdrop of a 1.2 percentage points (%pts) decline in the headline inflation, from 6.1% in April to 4.9% three months later (July). However, given their forecasts for 2013 and 2014, the respondents seem to be of the opinion that this decline will be temporary.

Focusing on the three sub groups, analysts were the most optimistic regarding lower inflation. They expect it to be below the target ceiling for the entire forecast horizon. For 2013 they lowered their forecast marginally from 5.3% to 5.2%, but for 2014 they kept it unchanged at 5.3%. In contrast, trade union officials have the most pessimistic view. They still expect inflation to breach the 6% ceiling in 2013, even though they also lowered this forecast by 0.1 %pts. Contrary to the others, this group raised their 2014 expectation from 6.6% to 6.9% (this 12Q3 result is slightly skewed by one respondent who forecasted 8%). Business people kept their expectations for 2013 and 2014 unchanged, they still anticipate a breach of the 6% ceiling. However, they did incorporate the current decline in reported inflation into their lower 2012 forecast.

Over the next five years all the respondents still expect inflation to average 6.2%, unchanged from their viewpoint during the second and first quarters. Mirroring their three year forecasts,

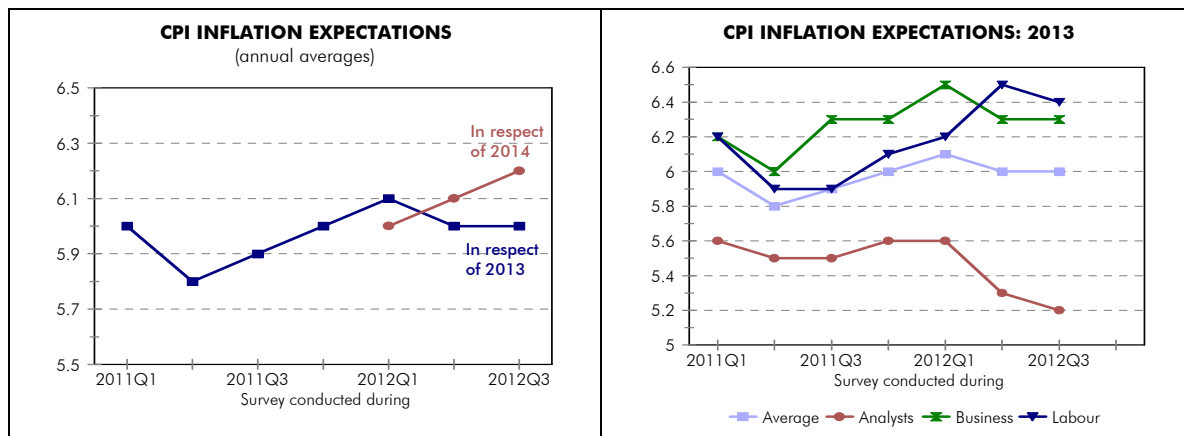
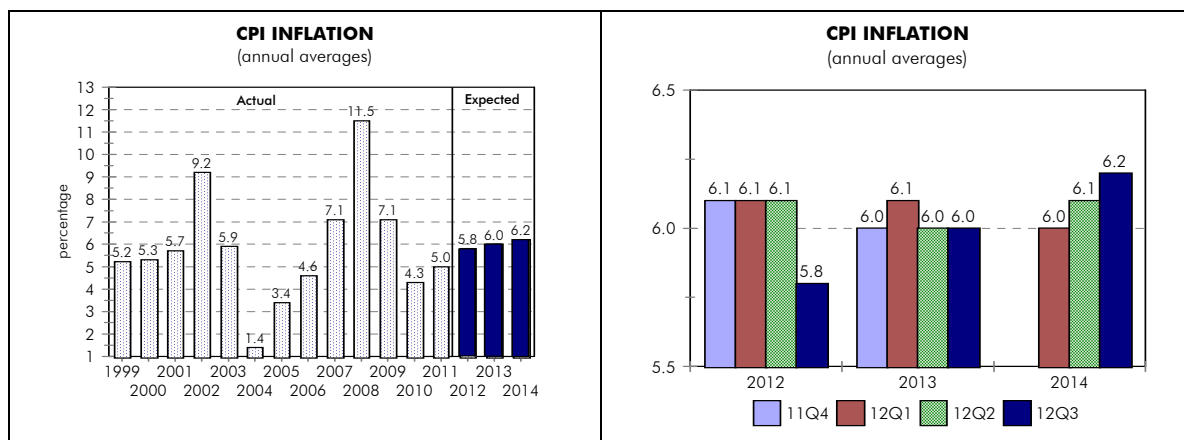
Expected CPI inflation over the next five years				
Survey conducted during	Financial Analysts	Business People	Trade Union Officials	Total
2011Q3	5.5	6.6	5.7	5.9
2011Q4	5.6	6.4	6.8	6.3
2012Q1	5.8	6.6	6.1	6.2
2012Q2	5.6	6.6	6.3	6.2
2012Q3	5.4	6.5	6.6	6.2

analysts are the most optimistic at 5.4%, followed by business people at 6.5% and 6.6% for the trade unions. Interestingly, the third quarter average remained unchanged from the previous as the higher expectations of analysts and business people cancelled the lower expectations of trade unions.

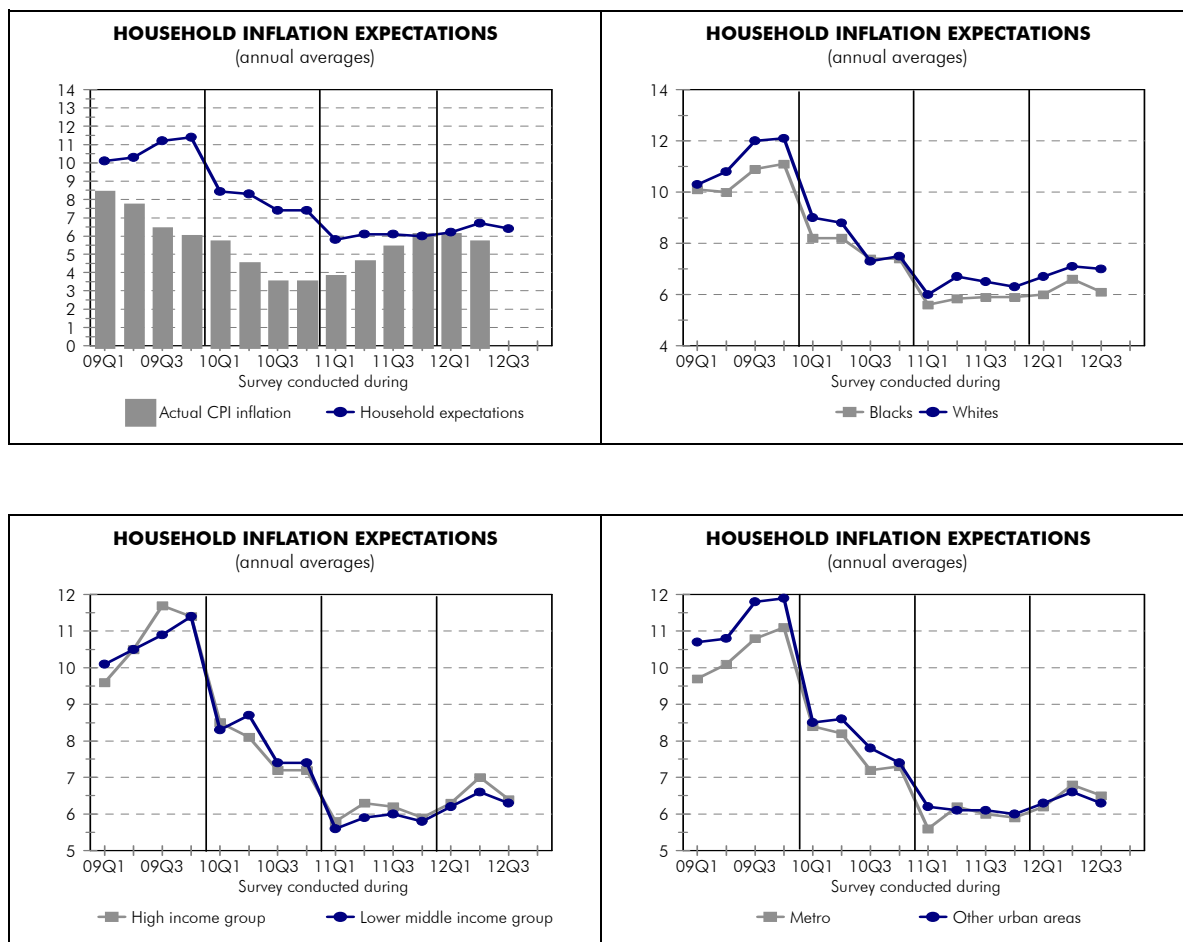
Households seem to have a different view on the development of general price levels. In the second quarter they expected price increases to be 6.7% over the next 12 months, but now (third quarter) they only expect 6.4%. This level is still higher than the 6.2% which they forecasted during the first quarter, a time when inflation reached a two year peak. Among the income groups, there was very little difference in their respective forecasts for inflation over the next 12 months, with the highest and lowest groups anticipating 6.4% and 6.5% each.

Headline CPI inflation expectations

Survey conducted during	2012Q2				2012Q3			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
CPI inflation during the year								
2012	5.9	6.2	6.2	6.1	5.5	5.9	5.8	5.8
2013	5.3	6.3	6.5	6.0	5.2	6.3	6.4	6.0
2014	5.3	6.4	6.6	6.1	5.3	6.4	6.9	6.2

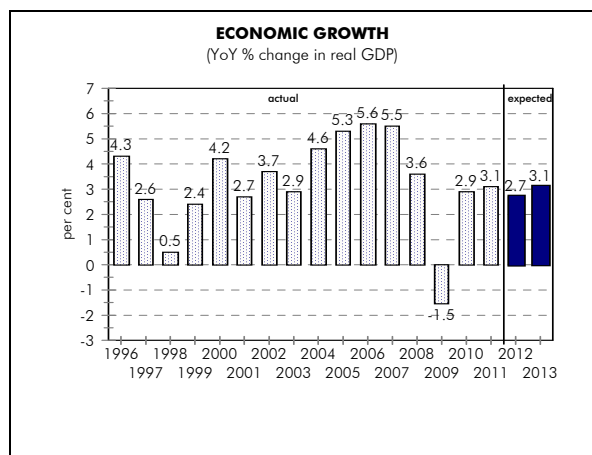


Household inflation expectations

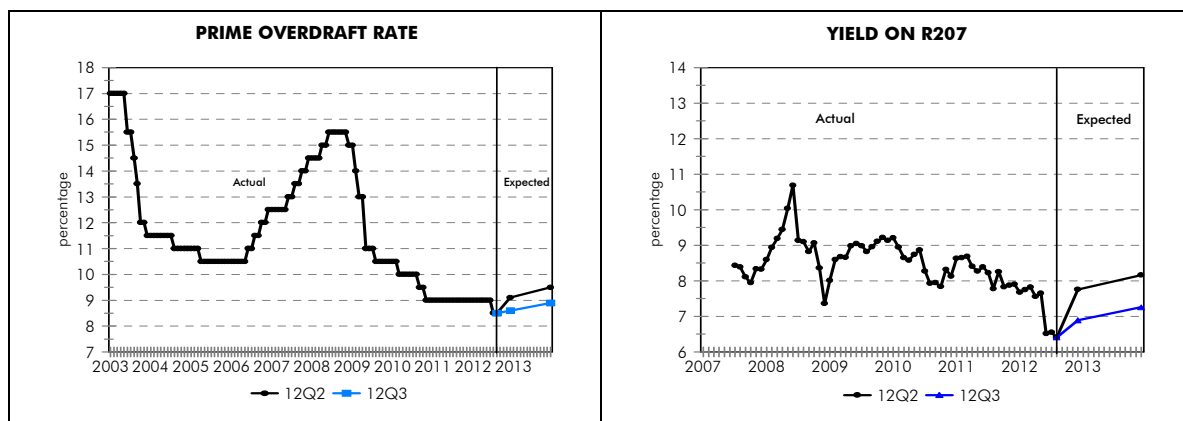


Forecasts of the other variables

Economic activity accelerated during the second quarter of 2012, registering a GDP growth rate (seasonally adjusted and annualised) of 3.2% compared to 2.7% in the first quarter. In this environment it is interesting that respondents lowered their growth expectations from the second to the third quarter (albeit by only 0.1 %pt). For 2012 and 2013 they expect a rate of 2.7%

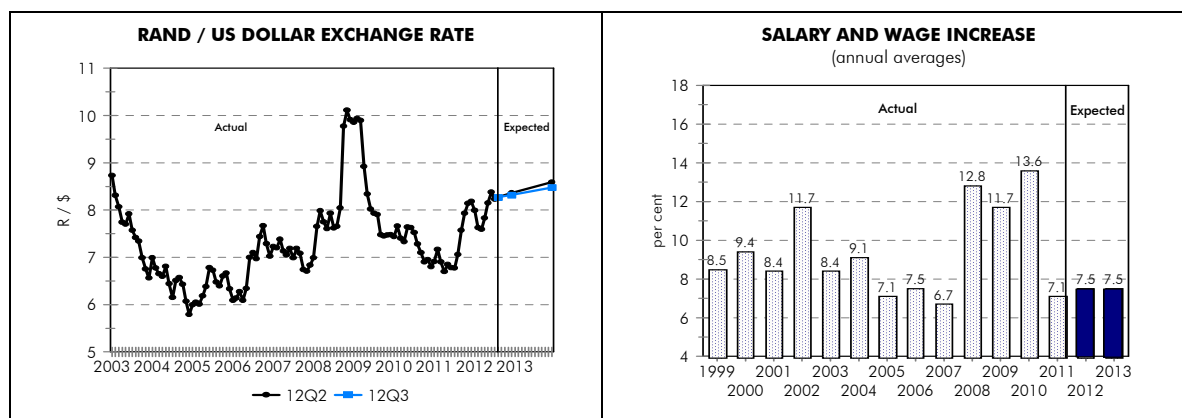


and 3.1% respectively. Given the growth rate anticipated for 2012, they by implication forecast a noticeable slowdown in the second half of the year. This cooling might partially explain the drop in their inflation expectations for the same period. Across the three sub groups, trade union officials are the most optimistic on economic growth.



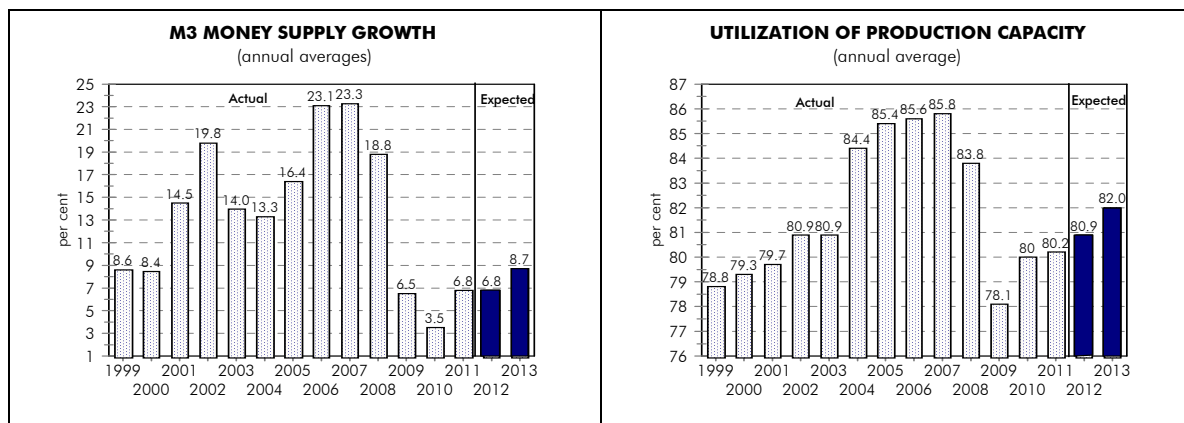
Between the second and third quarter surveys the prime interest rate was lowered by 50 basis points (bps). The impact of this is clearly visible on the average forecast of all the respondents over the entire forecast horizon. For 2012 they lowered their expectation by 50bps to 8.5%, and for 2013 to 9.0%. On average, respondents therefore still expect a hike of 50bps during 2013, which is consistent with the higher inflation they expect. However, analysts now forecast no increase in the prime rate. In fact, they lowered their forecast by 100bps from the previous quarter. For the yield on the R207 bond, analysts forecast a similar decline during 2013: 90bps to 7.26%. Once again this is a close reflection of the actual decline between the

second and third quarter surveys of this year: in June the R207 traded at 7.39% and dropped by 78 bps to 6.61% in August.



The R/\$ exchange rate was relatively stable between the second and third quarter surveys of 2012 - it strengthened by only 13c between June and August to a level of R8.27. This stability is reflected in the insignificant change of the average forecasts for the exchange rate. The forecasts of the respective years are even stable, ending 2012 at R8.32 and 2013 at R8.48. The only noticeable change can be found in the expectations of trade unions for 2013, where they foresee the Rand to be 37c stronger than before. With such a stable view on the currency, respondents most likely do not consider this any risk for higher inflation.

In the case of salary increases, trade union officials revised their 2013 forecast down by a considerable 0.9 %pts. They are now more in line with the forecasts of the other sub groups, though still remain the highest at 7.7% (the current average is 7.5% and 7.9% previously). Analysts and business people have both made minor adjustments, all downwards. The gap between salary increases and inflation for 2013 is now smaller than before. The latest wage data published by StatsSA is for the first quarter of 2012, showing an average yearly salary increase of 6.7%, a noticeable decline from the 7.7% registered the quarter before.



At this stage analysts expect that the growth in the M3 money supply will be 6.8% for this year and then increase to 8.7% next year.

Lastly, analysts raised their forecast for the utilisation of production capacity. For 2012 they increased it by 1.1 %pts to a level of 80.9%, with a rise to 82% in 2013.

Background

The 2012 third quarter survey of financial analysts, business executives and representatives of the trade union movement was conducted between 8 August and 5 September 2012 and the results computed on 6 September 2012.

The survey of household inflation expectations was conducted amongst 2 354 households by way of personal interviews. The fieldwork for the household survey was conducted between 8 and 21 August and the results processed on 10 September 2012.

Respondents to 3rd quarter survey	Number
Financial analysts	17
Business executives	370
Representatives of the trade union movement	14
	401
Households ¹	2001

¹ Survey amongst households conducted by AC Nielsen, responses above 25% as well as "don't knows" were discarded.

Author: Nicolaas van der Wath

Technical assistance: Ester Manefeldt

12 September 2012

A. SUMMARY OF SURVEY RESULTS

Financial analysts, business people and representatives of the trade union movement:

Survey conducted during	2012Q2				2012Q3			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2012	5.9	6.2	6.2	6.1	5.5	5.9	5.8	5.8
2013	5.3	6.3	6.5	6.0	5.2	6.3	6.4	6.0
2014	5.3	6.4	6.6	6.1	5.3	6.4	6.9	6.2
Economic growth (% change in real GDP) during the year								
2012	2.8	2.8	3.0	2.8	2.6	2.7	2.8	2.7
2013	3.3	3.0	3.2	3.2	3.1	2.9	3.3	3.1
Prime overdraft rate at the end of								
2012	9.0	9.2	9.1	9.1	8.3	8.6	8.7	8.6
2013	9.5	9.6	9.2	9.5	8.6	8.9	9.2	8.9
Yield on R207 at the end of								
2012	7.76			7.76	6.89			6.89
2013	8.16			8.16	7.26			7.26
Rand/US dollar at the end of								
2012	8.09	8.40	8.60	8.36	8.15	8.39	8.42	8.32
2013	8.25	8.59	8.92	8.59	8.26	8.61	8.55	8.48
M3 money supply growth during the year								
2012	7.1			7.1	6.8			6.8
2013	8.5			8.5	8.7			8.7
Salary and wage increase during the year								
2012	7.5	7.5	7.8	7.6	7.5	7.2	7.7	7.5
2013	7.5	7.6	8.6	7.9	7.4	7.4	7.7	7.5
Percentage utilisation of production capacity in manufacturing during the year								
2012	79.8			79.8	80.9			80.9
2013	81.2			81.2	82.0			82.0

Households:

Avg price increase during the year 2012	6.7		6.4
---	------------	--	------------

B. DETAILS OF SURVEY RESULTS- 2012Q3: Analysts, business executives and trade union officials

	CPI 2012	CPI 2013	CPI 2014	GDP 2012	GDP 2013	PRIME 2012	PRIME 2013
Financial Analysts							
Count	17	17	16	16	16	16	16
Average	5.5	5.2	5.3	2.6	3.1	8.3	8.6
Standard deviation	0.2	0.4	0.6	0.2	0.3	0.2	0.4
Maximum	5.9	6.0	6.0	3.0	3.5	8.5	9.5
Minimum	5.0	4.5	4.0	2.2	2.5	8.0	8.0
Median	5.5	5.3	5.5	2.6	3.2	8.5	8.5
Mode	5.6	5.4	5.5	2.5	3.4	8.5	8.5
Business People							
Count	367	347	340	366	349	369	349
Average	5.9	6.3	6.4	2.7	2.9	8.6	8.9
Standard deviation	0.8	1.0	1.3	0.7	0.8	0.6	0.8
Maximum	12.5	12.0	13.0	8.4	8.5	10.5	12.0
Minimum	3.8	4.0	2.9	-3.0	-3.0	5.1	5.1
Median	6.0	6.0	6.0	2.7	3.0	8.5	9.0
Mode	6.0	6.0	6.0	2.5	3.0	8.5	9.0
Trade Union Officials							
Count	14	14	12	14	14	13	12
Average	5.8	6.4	6.9	2.8	3.3	8.7	9.2
Standard deviation	0.6	0.6	0.8	0.7	1.0	0.7	1.3
Maximum	6.8	7.1	8.0	4.5	5.8	11.0	12.0
Minimum	4.8	5.3	5.8	2.0	2.0	8.3	7.0
Median	5.9	6.5	7.0	2.7	3.1	8.5	9.0
Mode	6.0	6.5	7.0	3.0	2.5	8.5	9.5

	R207 2012	R207 2013	RAND 2012	RAND 2013	M3 2012	M3 2013	WAGES 2012	WAGES 2013	CAPACITY 2012	CAPACITY 2013
Financial Analysts										
Count	16	16	15	15	14	14	15	15	10	10
Average	6.89	7.26	8.15	8.26	6.8	8.7	7.5	7.4	80.9	82.0
Standard deviation	0.5	0.6	0.4	0.5	0.8	1.9	0.8	0.8	1.0	1.7
Maximum	7.8	8.5	8.7	9.2	8.3	12.0	9.0	9.0	83.0	85.0
Minimum	6.1	6.3	7.3	7.3	5.0	5.0	6.0	6.0	80.0	80.0
Median	6.9	7.3	8.3	8.3	7.0	8.3	7.7	7.5	80.6	81.8
Mode	6.4	7.0	8.0	8.5	7.0	8.0	7.5	7.5	80.0	82.0
Business People										
Count			370	349			368	348		
Average			8.39	8.61			7.2	7.4		
Standard deviation			0.4	0.5			1.2	1.3		
Maximum			12.0	12.0			14.0	15.0		
Minimum			7.5	7.0			0.0	3.0		
Median			8.3	8.5			7.0	7.5		
Mode			8.5	8.5			7.0	8.0		
Trade Union Officials										
Count			14	13			14	14		
Average			8.42	8.55			7.7	7.7		
Standard deviation			0.3	0.7			1.3	1.5		
Maximum			9.0	10.3			10.5	11.0		
Minimum			8.1	7.5			5.5	5.0		
Median			8.4	8.5			7.5	8.0		
Mode			8.5	9.0			7.5	8.0		

C. HISTORICAL DATA: Analysts, business executives and trade union officials

CPI	Survey quarter															
	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4
Total																
2009	8.3	8.7	8.2	8.1												
2010	8.0	8.1	7.5	7.5	6.5	6.3	5.7	5.4								
2011	7.8	7.9	7.5	7.7	6.7	6.5	6.1	5.5	5.3	5.3	5.5	5.5				
2012					6.8	6.8	6.4	6.2	5.7	5.8	5.9	6.1	6.1	6.1	5.8	
2013									6.0	5.8	5.9	6.0	6.1	6.0	6.0	
2014													6.0	6.1	6.2	
Analysts																
2009	6.1	6.9	7.2	7.2												
2010	5.4	5.7	5.6	5.7	5.5	5.0	4.5	4.3								
2011	5.5	5.6	5.5	5.9	5.9	5.7	5.2	4.5	4.7	5.0	5.1	5.1				
2012					6.0	6.0	5.6	5.4	5.5	5.7	5.7	5.9	6.2	5.9	5.5	
2013									5.6	5.5	5.5	5.6	5.6	5.3	5.2	
2014													5.5	5.3	5.3	
Business																
2009	9.2	9.4	9.1	8.9												
2010	8.6	8.6	8.7	8.6	7.1	6.9	6.5	5.7								
2011	8.3	8.3	8.5	8.7	7.2	7.2	6.8	6.0	5.4	5.4	5.6	5.7				
2012					7.3	7.4	7.1	6.4	6.0	5.8	6.1	6.2	6.2	6.2	5.9	
2013									6.2	6.0	6.3	6.3	6.5	6.3	6.3	
2014													6.5	6.4	6.4	
Trade Unions																
2009	9.7	9.7	8.3	8.3												
2010	10.1	10.1	8.2	8.2	7.0	7.0	6.2	6.1								
2011	9.6	9.9	8.3	8.5	6.9	6.7	6.4	6.0	5.6	5.5	5.7	5.7				
2012					6.9	6.9	6.5	6.6	5.8	6.1	6.0	6.3	6.0	6.2	5.8	
2013									6.2	5.9	5.9	6.1	6.2	6.5	6.4	
2014													6.0	6.6	6.9	

D. DETAILS OF SURVEY RESULTS: Households

Survey quarter Expectations in respect of	2012Q1	2012Q2	2012Q3						
	2012	2012	2012						
	Average	Average	Average ¹	Std Dev ¹	Median ¹	Minimum	Maximum	% >25% ²	% D/K ²
Total	6.2	6.7	6.4	3.2	6	1	100	2.5	12.5
Per population group									
Blacks	6.0	6.6	6.1	3.0	5	1	100	2.7	14.1
Coloureds	6.3	6.3	6.9	3.3	6	1	50	1.5	3.3
Indians	7.1	7.6	7.3	3.2	6	1	100	0.4	6.9
Whites	6.7	7.1	7.0	3.5	6	1	100	2.5	11.9
Per monthly household income									
R8000+	6.3	7.0	6.4	3.4	6	1	100	2.6	9.6
R4000-R7999	6.1	6.6	6.5	3.2	6	1	100	1.5	12.8
R800-R3999	6.2	6.6	6.3	3.0	6	1	100	3.0	11.5
R1-R799	6.1	6.5	6.5	3.2	6	1	100	3.0	19.0
Per age group									
16-24	6.0	6.7	6.1	3.0	5	1	99	1.8	10.3
25-34	6.0	6.6	6.5	3.4	6	1	100	1.9	10.5
35-49	6.1	6.9	6.3	3.1	6	1	100	3.9	11.5
50+	6.7	6.7	6.9	3.2	6	1	100	2.0	18.0
Per gender									
Male	6.1	6.6	6.4	3.2	6	1	100	2.7	12.1
Female	6.3	6.8	6.5	3.2	6	1	100	2.2	12.9
Per community size									
Metro	6.2	6.8	6.5	3.3	6	1	100	2.1	10.8
Other urban	6.3	6.6	6.3	3.1	6	1	100	3.1	15.1

¹ Excluding don't know and responses exceeding 25%; ² Percentage of responses exceeding 25% and don't know (D/K) respectively.

E. HISTORICAL DATA: Households

	Survey quarter															
	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4
Total	10.1	10.3	11.2	11.4	8.4	8.3	7.4	7.4	5.8	6.1	6.1	6.0	6.2	6.7	6.4	
Per population																
Blacks	10.1	10.0	10.9	11.1	8.2	8.2	7.4	7.4	5.6	5.8	5.9	5.9	6.0	6.6	6.1	
Coloureds	10.4	11.6	11.4	11.9	8.2	7.8	8.0	7.2	6.0	6.7	5.9	5.6	6.3	6.3	6.9	
Indians	9.3	10.5	10.2	11.1	8.5	9.3	7.6	7.4	6.6	6.6	6.6	6.1	7.1	7.6	7.3	
Whites	10.3	10.8	12.0	12.1	9.0	8.8	7.3	7.5	6.0	6.7	6.5	6.3	6.7	7.1	7.0	
Per income group																
R8000+	9.6	10.5	11.7	11.4	8.5	8.1	7.2	7.2	5.8	6.3	6.2	5.9	6.3	7.0	6.4	
R4000-R7999	10.3	10.1	11.0	11.3	8.3	8.1	7.4	7.6	5.7	6.3	6.1	6.2	6.1	6.6	6.5	
R800-R3999	10.1	10.5	10.9	11.4	8.3	8.7	7.4	7.4	5.6	5.9	6.0	5.8	6.2	6.6	6.3	
R1-R799	10.5	10.3	11.0	11.5	8.7	8.4	7.8	7.4	6.2	6.0	5.9	5.8	6.1	6.5	6.5	
Per age group																
16-24	9.9	10.7	11.4	11.8	8.6	8.1	7.1	7.3	5.5	5.9	6.1	5.7	6.0	6.7	6.1	
25-34	10.2	10.3	10.8	11.1	8.3	8.0	7.4	7.0	5.7	6.0	6.1	6.0	6.0	6.6	6.5	
35-49	9.8	10.5	10.9	11.3	8.1	8.3	7.6	7.5	6.1	6.3	6.0	6.0	6.1	6.9	6.3	
50+	10.7	9.9	11.8	11.6	8.9	9.0	7.5	7.7	5.7	6.5	6.2	6.2	6.7	6.7	6.9	
Per gender																
Male	9.9	10.1	11.0	11.2	8.4	8.2	7.3	7.4	5.8	6.1	6.1	6.0	6.1	6.6	6.4	
Female	10.3	10.6	11.4	11.6	8.4	8.4	7.5	7.4	5.7	6.2	6.1	5.9	6.3	6.8	6.5	
Per community																
Metro	9.7	10.1	10.8	11.1	8.4	8.2	7.2	7.3	5.6	6.2	6.0	5.9	6.2	6.8	6.5	
Other urban	10.7	10.8	11.8	11.9	8.5	8.6	7.8	7.4	6.2	6.1	6.1	6.0	6.3	6.6	6.3	

F. DATES WHEN SURVEYS WERE CONDUCTED

Business sector, financial analysts and the trade union movement

Survey quarter	Mail questionnaires	Date of return	Process results
07Q4	15/10	13/11	14/11
08Q1	21/02	25/03	25/03
08Q2	25/04	26/05	27/05
08Q3	22/08	19/09	22/09
08Q4	24/10	24/11	25/11
09Q1	23/02	25/03	26/03
09Q2	08/05	04/06	05/06
09Q3	30/07	27/08	28/08
09Q4	29/10	27/11	30/11
10Q1	09/02	09/03	10/03
10Q2	11/05	08/06	09/06
10Q3	10/08	07/09	08/09
10Q4	27/10	29/11	29/11
11Q1	08/02	08/03	09/03
11Q2	10/05	08/06	09/06
11Q3	09/08	06/09	07/09
11Q4	28/10	25/11	29/11
12Q1	14/02	13/03	14/03
12Q2	17/05	15/06	18/06
12Q3	08/08	05/09	06/09

Households

Survey quarter	Fieldwork (Done by AC Nielsen)	Process results
07Q4	8 – 22 Oct	14 Nov
08Q1	13 – 29 Feb	25 Mar
08Q2	5 – 18 Apr	27 May
08Q3	20 Aug – 4 Sep	23 Sep
08Q4	13 – 30 Oct	24 Nov
09Q1	11 – 25 Feb	24 Mar
09Q2	4 – 20 Apr	6 Jun
09Q3	13 – 27 Jul	28 Aug
09Q4	12 – 22 Oct	30 Nov
10Q1	5 – 19 Feb	10 Mar
10Q2	7 – 26 May	9 Jun
10Q3	6 – 18 Aug	9 Sep
10Q4	7 – 25 Oct	23 Nov
11Q1	11-23 Feb	9 Mar
11Q2	18 May – 6 Jun	13 Jun
11Q3	15 - 23 Aug	7 Sep
11Q4	6 – 24 Oct	28 Nov
12Q1	8 – 21 Feb	16 Mar
12Q2	15 – 28 May	15 Jun
12Q3	8 – 21 Aug	10 Sep

G. HISTORICAL INFORMATION PROVIDED TO RESPONDENTS

1. Business sector, financial analysts and trade union movement

2009

What do you expect the ...	Average				
	2004-08	2008	2009	2010	2011
average overall inflation rate (as measured by the percentage change in the CPI) to be during the year:	5.6	11.5			

2010

What do you expect the ...	Average				
	2005-09	2009	2010	2011	2012
average overall inflation rate (as measured by the percentage change in the CPI) to be during the year:	5.7	7.1			

2011

What do you expect the ...	Average				
	2006-10	2010	2011	2012	2013
average overall inflation rate (as measured by the percentage change in the CPI) to be during the year:	6.9	4.3			

2012

What do you expect the ...	Average				
	2007-11	2011	2012	2013	2014
average overall inflation rate (as measured by the percentage change in the CPI) to be during the year:	7.0	5.0			

2. Households

2008

Over the past five years prices increased by on average 4.5 percent per year. During 2007 prices increased by 7.1%. By about how much do you expect prices in general to increase in 2008?

2009

Over the past five years prices increased by on average 5.6 percent per year. During 2008 prices increased by 11.5%. By about how much do you expect prices in general to increase in 2009?

2010

Over the past five years prices increased by on average 5.7 percent per year. During 2009 prices increased by 7.1%. By about how much do you expect prices in general to increase during 2010?

2011

Over the past five years prices increased by on average 6.9 percent per year. During 2010 prices increased by 4.3%. By about how much do you expect prices in general to increase over the next 12 months?

2012

Over the past five years prices increased by on average 7.0 percent per year. During 2011 prices increased by 5.0%. By about how much do you expect prices in general to increase over the next 12 months?