

SURVEY OF INFLATION EXPECTATIONS

RESULTS REPORT: 4TH QUARTER 2012

Executive Summary

- The average inflation expectation for 2013-14 is virtually unchanged from the previous quarter, with the forecast for 2013 now at 6.1%, then rising to 6.2% in 2014.
- The average forecast remained stable, as the lower forecast of trade unions neutralised the higher forecasts of analysts and business people.
- Analysts revised their forecast for the next two years up by a small margin. However, they do not anticipate that the upper limit of the inflation target will be breached.
- The 2013 and 2014 forecast of business executives has risen since the previous quarter. Of all the groups, they now have the highest expectations.
- Trade unions were the only group to adjust their forecast downward. They lowered their 2013 and 2014 forecast by 0.3 percentage points (%pts) to 6.1% and 6.6% respectively.
- Households raised their inflation forecast for the next 12 months by a significant 0.8%pts to a level of 7.2%.

	Headline CPI inflation		
	2012	2013	2014
Financial Analysts	5.6	5.6	5.5
Business	6.1	6.6	6.7
Trade Union Movement	6.0	6.1	6.6
Average above	5.9	6.1	6.2
Households	7.2		
Grand average	6.2		

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Survey results

Inflation expectations

The average (i.e. analysts, business people and trade union officials combined) expectation for headline inflation remained virtually unchanged from the third to the fourth quarter. For 2013 it increased by a marginal 0.1 percentage point (%pt) from 6.0% in the third quarter to 6.1% in the fourth, while for 2014 the average inflation expectation remains unchanged at 6.2%. This outcome is somewhat surprising. Inflation expectations could easily have increased given the rise in actual headline CPI inflation from 4.9% in July to 5.6% in October (i.e. in the months preceding the survey). Even though the combined total did not increase between the quarters, inflation is still forecast to increase over the forecast horizon by 0.3%pts – from 5.9% in 2012 to 6.2% in 2014.

Of the three social groups surveyed, analysts remain the most positive regarding lower inflation, even though they increased their expectations for 2013 by 0.4%pts and for 2014 by 0.2%pts. With a forecast of 5.6% for 2013, they are still 0.5%pts lower compared to the average of all three groups. Contrary to the other two groups, analysts anticipate inflation to decline in 2014. Business people are now the most pessimistic, with their expectations for both 2012 and 2014 higher than those of trade unions. They increased their forecast by a similar magnitude as the analysts, but from a higher level in the third quarter. At 6.6% for 2013, business people forecast an inflation rate well above the 6.0% target ceiling. Unlike the two other groups, trade union officials lowered their forecasts. As a consequence, the overall average remained virtually unchanged.

Once more, the three groups on average anticipate inflation to average 6.2% over the next five years. This is the fourth consecutive quarter that it remained at this particular level. Analysts remain the most

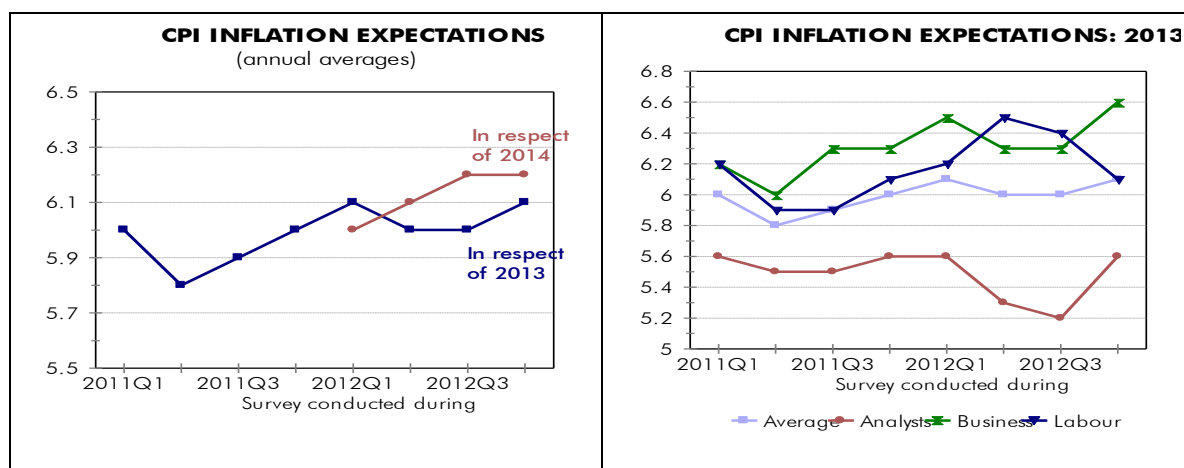
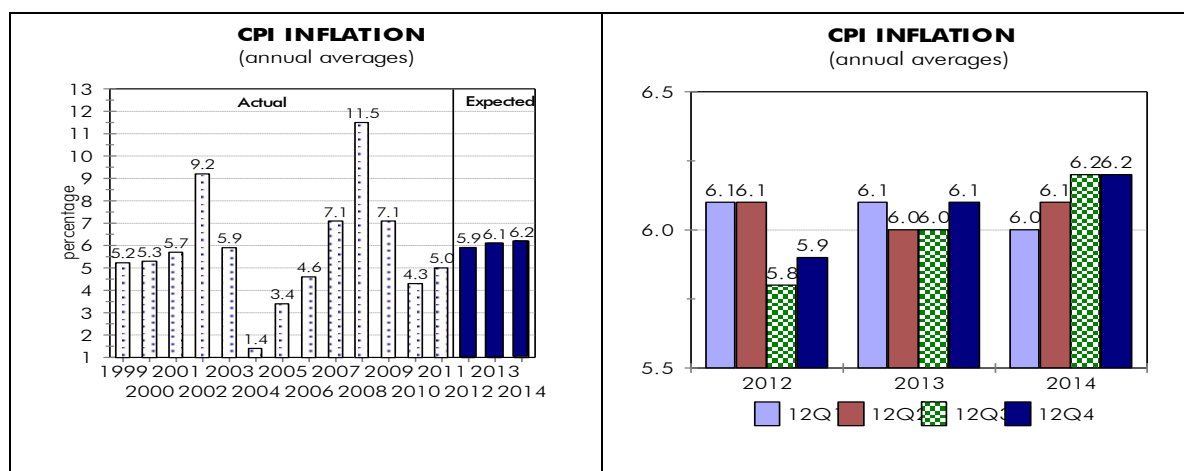
Expected CPI inflation over the next five years				
Survey conducted during	Financial Analysts	Business People	Trade Union Officials	Total
2011Q3	5.5	6.6	5.7	5.9
2011Q4	5.6	6.4	6.8	6.3
2012Q1	5.8	6.6	6.1	6.2
2012Q2	5.6	6.6	6.3	6.2
2012Q3	5.4	6.5	6.6	6.2
2012Q4	5.4	6.7	6.4	6.2

optimistic at 5.4%, while business people and trade union officials anticipate levels above 6.0%. Business people increased their forecast by 0.2%pts to 6.7%, their highest forecast in six quarters. The forecast of trade unions declined by a similar magnitude.

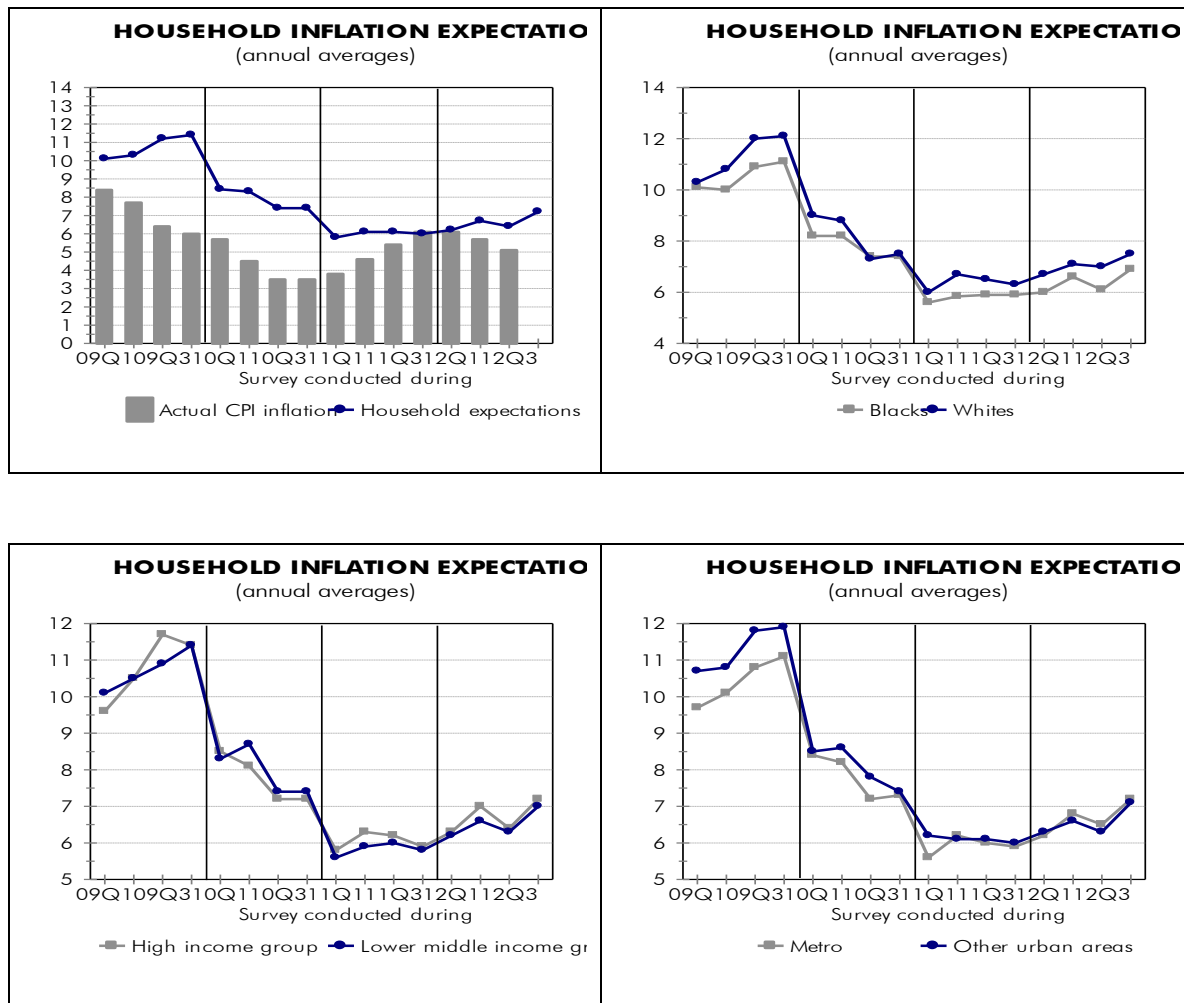
Household inflation expectations for the next 12 months increased noticeably during the fourth quarter. The increase was double the size (0.8%pts) by which analysts and business people lifted their 2013 forecast. Households now expect inflation to be 7.2% over the next 12 months, their highest rate in two years. Interestingly, the lowest household income group increased their inflation forecast by 1.0%pts, the most compared to the other income groups. Food constitutes a relatively larger share of the budget of the low income group. Given that food prices was one of the inflation basket items that increased the most recently, the low income group experienced higher inflation compared to the other groups, therefore their high inflation expectation. They also form the majority of the South African population, implying an erosion of real purchasing power, leading to demands for higher nominal income increases.

Headline CPI inflation expectations

Survey conducted during	2012Q3				2012Q4			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
CPI inflation during the year								
2012	5.5	5.9	5.8	5.8	5.6	6.1	6.0	5.9
2013	5.2	6.3	6.4	6.0	5.6	6.6	6.1	6.1
2014	5.3	6.4	6.9	6.2	5.5	6.7	6.6	6.2

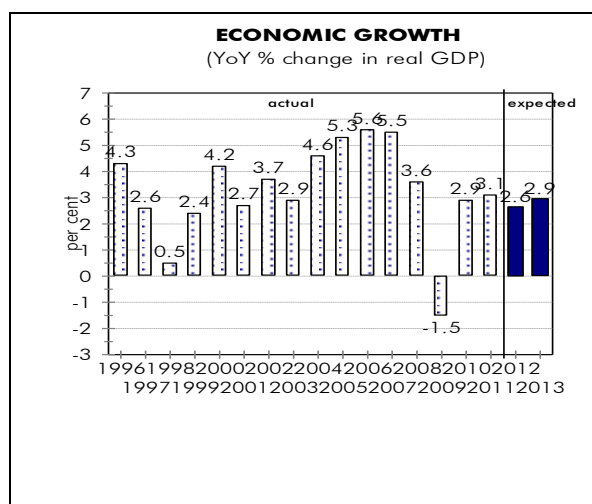


Household inflation expectations

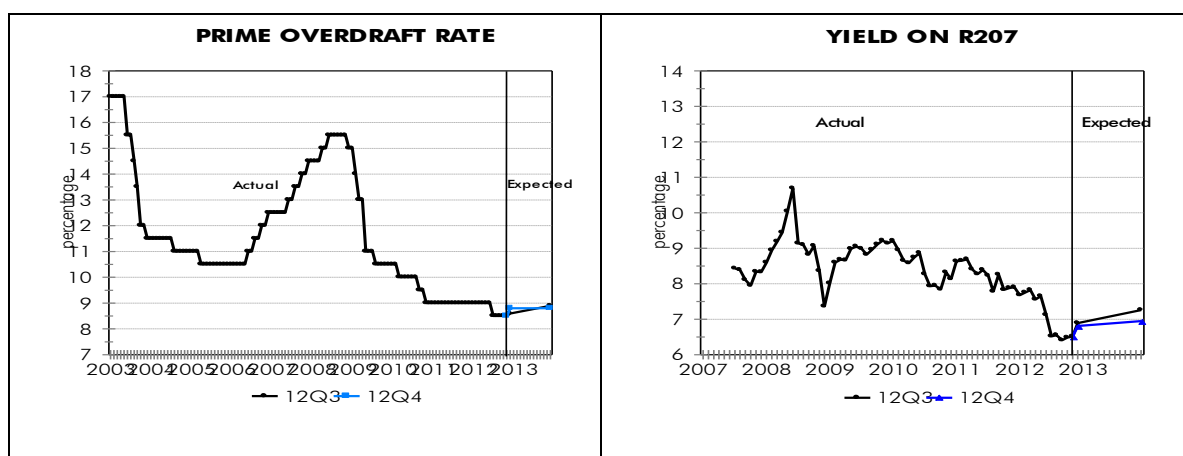


Forecasts of the other variables

Economic growth decelerated from 3.4%¹ in the second quarter to 1.2% in the third quarter. It is therefore not surprising that the three social groups lowered their average growth forecasts for 2012 and 2013. During the third quarter they expected a growth rate of 3.1%, which has now been lowered by 0.2%pts. On the positive side, they still expect growth to accelerate from this year to the next (from 2.6% to 2.9% respectively). Of



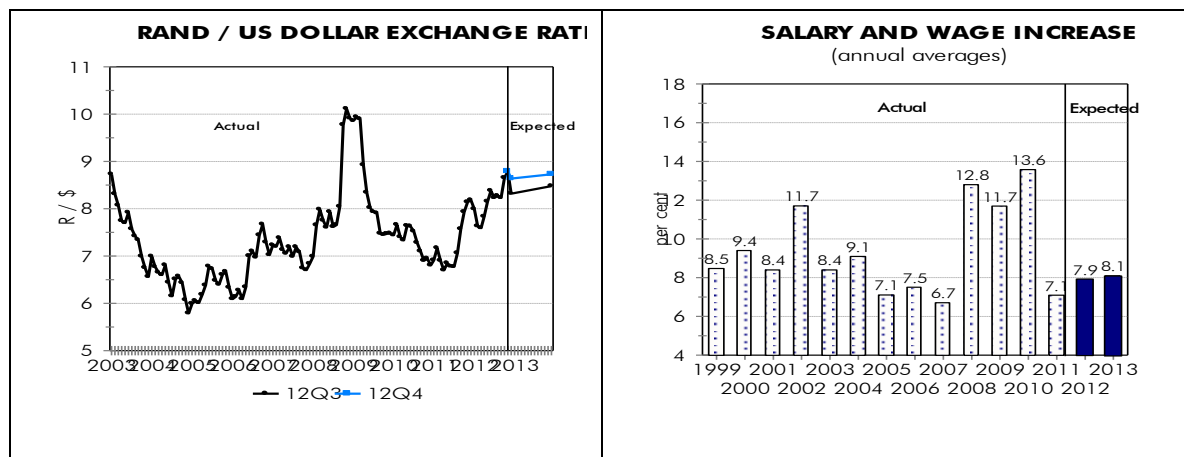
the three social groups, analysts made the biggest downward revision to their forecast. Trade union officials made the smallest adjustment. They revised their 2012 forecast upwards. They still expect a growth rate above 3% for 2013. The views of trade unions on both inflation and growth therefore deviate from those of the other two groups.



Analysts differ from the other two groups when it comes to the prime interest rate. Analysts remained with their third quarter opinion that the prime interest rate would be 8.5% by the end of 2012 and 2013. In contrast, business people and trade union officials expect the prime interest rate to increase by 50 basis points (bps) to 9.0% by the end of 2012 and for it to remain at that level in 2013. (It is unlikely that the increase will occur before the end of 2012, given that rates were kept unchanged at the final MPC meeting for 2012.)

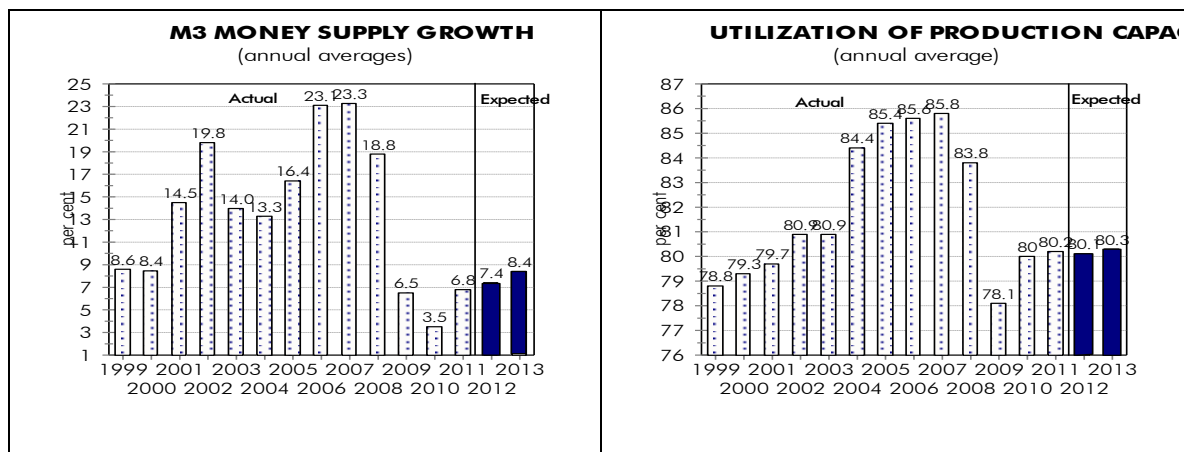
¹ Quarter on quarter, seasonally adjusted and annualised

Regarding the R207 government bond rate, analysts left their forecast for the end of 2012 virtually unchanged at 6.81%, but lowered their forecast for the end of 2013 to 6.95% from 7.26% previously. This happened against the background where the R207 bond rate decreased from 6.61% in August to 6.47% in November.



Between August and November the R/\$ exchange rate weakened by 51c to R8.79. This is reflected in a similar adjustment in the forecasts of all three sub groups. Interestingly, analysts now expect the Rand to appreciate once more towards the end of 2013, but the other two groups continue to anticipate a depreciation. Analysts also foresee a slightly stronger currency than the others, ending 2013 at R8.45 per dollar as opposed to the R8.91 foreseen by business people.

The labour strikes since August appear to have affected the salary and wage expectations of all three sub groups. They increased their average forecasts for 2013 from 7.5% to 8.1%. Trade union officials made the biggest upward revision (0.8%pts) and they continue to forecast the highest wage inflation for 2013 (8.5%). Analysts made the smallest adjustment and expect the lowest wage inflation for 2013 (7.8%).



Analysts lowered their forecast for growth in the M3 money supply in 2013, from 8.7% in the third quarter to 8.4% currently. They expect this growth to be higher in 2013 compared to 2012.

Lastly, analysts lowered their forecast for the utilisation of production capacity. For 2013 they lowered it by 0.7%pts to a level of 80.3% (a slight improvement on their forecast of 80.1% for 2012).

Background

The 2012 fourth quarter survey of financial analysts, business executives and representatives of the trade union movement was conducted between 31 October and 30 November 2012 and the results computed on 3 December 2012.

The survey of household inflation expectations was conducted amongst 2 353 households by way of personal interviews. The fieldwork for the household survey was conducted between 24 October and 9 November and the results processed on 3 December 2012.

Respondents to 3rd quarter survey	Number
Financial analysts	16
Business executives	303
Representatives of the trade union movement	17
	336
Households ¹	1904

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

6 December 2012

A. SUMMARY OF SURVEY RESULTS

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

Survey conducted during	2012Q3				2012Q4			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2012	5.5	5.9	5.8	5.8	5.6	6.1	6.0	5.9
2013	5.2	6.3	6.4	6.0	5.6	6.6	6.1	6.1
2014	5.3	6.4	6.9	6.2	5.5	6.7	6.6	6.2
Economic growth (% change in real GDP) during the year								
2012	2.6	2.7	2.8	2.7	2.4	2.5	2.9	2.6
2013	3.1	2.9	3.3	3.1	2.8	2.7	3.2	2.9
Prime overdraft rate at the end of								
2012	8.3	8.6	8.7	8.6	8.6	8.8	8.9	8.8
2013	8.6	8.9	9.2	8.9	8.5	9.0	9.0	8.8
Yield on R207 at the end of								
2012	6.89			6.89	6.81			6.81
2013	7.26			7.26	6.95			6.95
Rand/US dollar at the end of								
2012	8.15	8.39	8.42	8.32	8.51	8.71	8.70	8.64
2013	8.26	8.61	8.55	8.48	8.45	8.91	8.81	8.73
M3 money supply growth during the year								
2012	6.8			6.8	7.4			7.4
2013	8.7			8.7	8.4			8.4
Salary and wage increase during the year								
2012	7.5	7.2	7.7	7.5	7.8	7.9	8.0	7.9
2013	7.4	7.4	7.7	7.5	7.8	8.0	8.5	8.1
Percentage utilisation of production capacity in manufacturing during the year								
2012	80.9			80.9	80.1			80.1
2013	82.0			82.0	80.3			80.3

Households:

Avg price increase over the next 12 months	6.4		7.2
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B. DETAILS OF SURVEY RESULTS- 2012Q4: Analysts, business executives and trade union officials

	CPI 2012	CPI 2013	CPI 2014	GDP 2012	GDP 2013	PRIME 2012	PRIME 2013
Financial Analysts							
Count	16	16	15	16	16	16	16
Average	5.6	5.6	5.5	2.4	2.8	8.6	8.5
Standard deviation	0.1	0.4	0.5	0.1	0.2	0.2	0.3
Maximum	5.8	6.3	6.0	2.5	3.2	9.0	9.0
Minimum	5.5	5.0	4.0	2.2	2.5	8.5	8.0
Median	5.6	5.6	5.5	2.3	2.8	8.5	8.5
Mode	5.6	5.5	6.0	2.3	2.7	8.5	8.5
Business People							
Count	303	290	283	301	289	303	290
Average	6.1	6.6	6.7	2.5	2.7	8.8	9.0
Standard deviation	0.9	1.1	1.5	0.5	0.6	0.5	0.8
Maximum	12.5	15.0	20.0	3.7	5.0	12.0	12.0
Minimum	3.8	4.0	1.5	-1.0	0.0	7.0	6.0
Median	6.0	6.5	6.5	2.5	2.9	8.5	9.0
Mode	6.0	6.0	6.0	2.5	3.0	8.5	9.0
Trade Union Officials							
Count	17	16	16	17	16	17	16
Average	6.0	6.1	6.6	2.9	3.2	8.9	9.0
Standard deviation	0.6	0.6	0.9	0.4	0.5	0.6	1.1
Maximum	7.0	7.0	8.0	4.2	5.0	10.0	11.0
Minimum	5.0	5.0	5.0	2.2	2.8	8.0	7.0
Median	5.8	6.0	6.6	2.8	3.0	9.0	9.0
Mode	5.7	6.0	6.5	3.0	3.0	8.5	9.0

	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	15	15	15	15	10	10
Average	6.81	6.95	8.51	8.45	7.4	8.4	7.8	7.8	80.1	80.3
Standard deviation	0.6	0.8	0.4	0.5	0.8	1.6	0.6	0.9	1.3	1.6
Maximum	8.8	9.0	9.1	9.5	9.0	11.7	9.0	9.0	81.5	82.0
Minimum	6.3	6.0	7.8	7.8	6.5	6.4	7.0	6.5	78.0	78.0
Median	6.6	7.0	8.6	8.5	7.0	8.5	7.8	8.0	80.7	80.8
Mode	6.5	6.0	8.5	8.0	6.8	8.5	8.0	8.0	81.0	82.0
Business People										
Count			303	289			300	288		
Average			8.71	8.91			7.9	8.0		
Standard deviation			0.3	0.6			1.6	1.5		
Maximum			10.5	11.0			22.0	15.0		
Minimum			6.7	7.5			3.0	4.0		
Median			8.7	9.0			8.0	8.0		
Mode			8.5	9.0			8.0	8.0		
Trade Union Officials										
Count			17	16			17	16		
Average			8.70	8.81			8.0	8.5		
Standard deviation			0.4	0.5			1.5	1.8		
Maximum			9.5	9.5			11.0	12.0		
Minimum			8.0	8.0			5.3	6.5		
Median			8.7	9.0			8.0	8.0		
Mode			8.9	9.0			8.0	12.0		

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	5.9
2013									6.0	5.8	5.9	6.0	6.1	6.0	6.0	6.1
2014													6.0	6.1	6.2	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	5.6
2013									5.6	5.5	5.5	5.6	5.6	5.3	5.2	5.6
2014													5.5	5.3	5.3	5.5
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	6.1
2013									6.2	6.0	6.3	6.3	6.5	6.3	6.3	6.6
2014													6.5	6.4	6.4	6.7
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	6.0
2013									6.2	5.9	5.9	6.1	6.2	6.5	6.4	6.1
2014													6.0	6.6	6.9	6.6

D. DETAILS OF SURVEY RESULTS: Households

Survey quarter Expectations in respect of	2012Q2	2012Q3	2012Q4						
	2012	2012	2012						
	Average	Average	Average ¹	Std Dev ¹	Median ¹	Minimum	Maximum	% >25% ²	% D/K ²
Total	6.7	6.4	7.2	3.5	6	1	100	6.6	12.5
Per population group									
Blacks	6.6	6.1	6.9	3.5	6	1	100	7.9	13.4
Coloureds	6.3	6.9	7.7	4.1	7	2	90	3.1	9.6
Indians	7.6	7.3	8.2	4.1	7	2	60	1.9	10.4
Whites	7.1	7.0	7.5	3.4	7	1	99	4.6	11.2
Per monthly household income									
R8000+	7.0	6.4	7.2	3.4	6	1	100	5.8	10.7
R4000-R7999	6.6	6.5	7.2	3.5	6	1	99	4.8	11.1
R800-R3999	6.6	6.3	7.0	3.5	6	1	100	9.5	12.2
R1-R799	6.5	6.5	7.5	3.9	7	1	80	7.2	21.1
Per age group									
16-24	6.7	6.1	6.9	3.7	6	1	100	5.6	12.0
25-34	6.6	6.5	7.0	3.6	6	1	90	6.8	12.6
35-49	6.9	6.3	7.4	3.2	7	1	100	7.5	10.5
50+	6.7	6.9	7.4	3.6	6	1	100	6.1	15.6
Per gender									
Male	6.6	6.4	7.1	3.6	6	1	100	6.8	12.0
Female	6.8	6.5	7.3	3.5	6	1	100	6.4	13.1
Per community size									
Metro	6.8	6.5	7.2	3.6	6	1	100	6.8	11.0
Other urban	6.6	6.3	7.1	3.4	6	1	100	6.3	14.9

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	7.2
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	6.9
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	7.7
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	8.2
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	7.5
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	7.2
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	7.2
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	7.0
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	7.5
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	6.9
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	7.0
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	7.4
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	7.4
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	7.1
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	7.3
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	7.2
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	7.1

F. DATES WHEN SURVEYS WERE CONDUCTED

Business sector, financial analysts and the trade union movement

Survey quarter	Mail questionnaires	Date of return	Process results
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
12Q4	31/10	30/11	03/12

Households

Survey quarter	Fieldwork (Done by AC Nielsen)	Process results
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
12Q4	24 Oct – 9 Nov	3 Dec

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?