

SURVEY OF INFLATION EXPECTATIONS

RESULTS REPORT: 1ST QUARTER 2014

Executive Summary

- The average inflation expectations of analysts, business people and trade union officials for the current and next year remained unchanged compared to the previous survey.
- Household inflation expectations declined from 6.9% to 6.7% in 14Q1.
- Survey respondents on average lowered their 2014 economic growth forecast from 2.7% to 2.5%.
- Analysts expect no change in the prime interest rate in 2014, while trade union officials and business people expect a 50 basis points increase.
- Among the subgroups, trade union officials anticipate the highest rise in wages next year (8.2%) and analysts the lowest (7.7%).

	Headline CPI inflation		
	2014	2015	2016
Financial Analysts	6.1	5.8	5.4
Business	6.2	6.4	6.2
Trade Union Movement	6.1	6.1	6.1
Average above	6.1	6.1	5.9
Households	6.7		
Grand average	6.3		

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Survey results

Inflation expectations

The average inflation expectations of analysts, business people and trade union officials for the current and next year remained unchanged compared to the previous survey.

It is significant that average inflation expectations remained unchanged in 14Q1. In the past, inflation expectations would have increased after the economy went through such a sharp depreciation of the rand, rise in other input costs (like petrol) and tenacious labour strikes for higher wage increases as it did since the previous survey. However, what differ this time from previous occasions is the weakness of domestic demand and the long period of stable inflation.

Whereas the average inflation expectations of analysts for 2014 increased from 5.6% to 6.1%, those of business people declined from 6.4% to 6.2% and those of labour unions remained unchanged at 6.1%.

Analysts on average expect inflation to moderate from 6.1% in 2014 to 5.8% (up from 5.5% previously) in 2015 and further to 5.4% in 2016.

In contrast, business people expect inflation to accelerate from 6.2% in 2014 to 6.4% (down from 6.5% previously) in 2015 and then moderate to 6.2% in 2016.

Trade unions on average expect inflation to remain 6.1% over the whole forecast period.

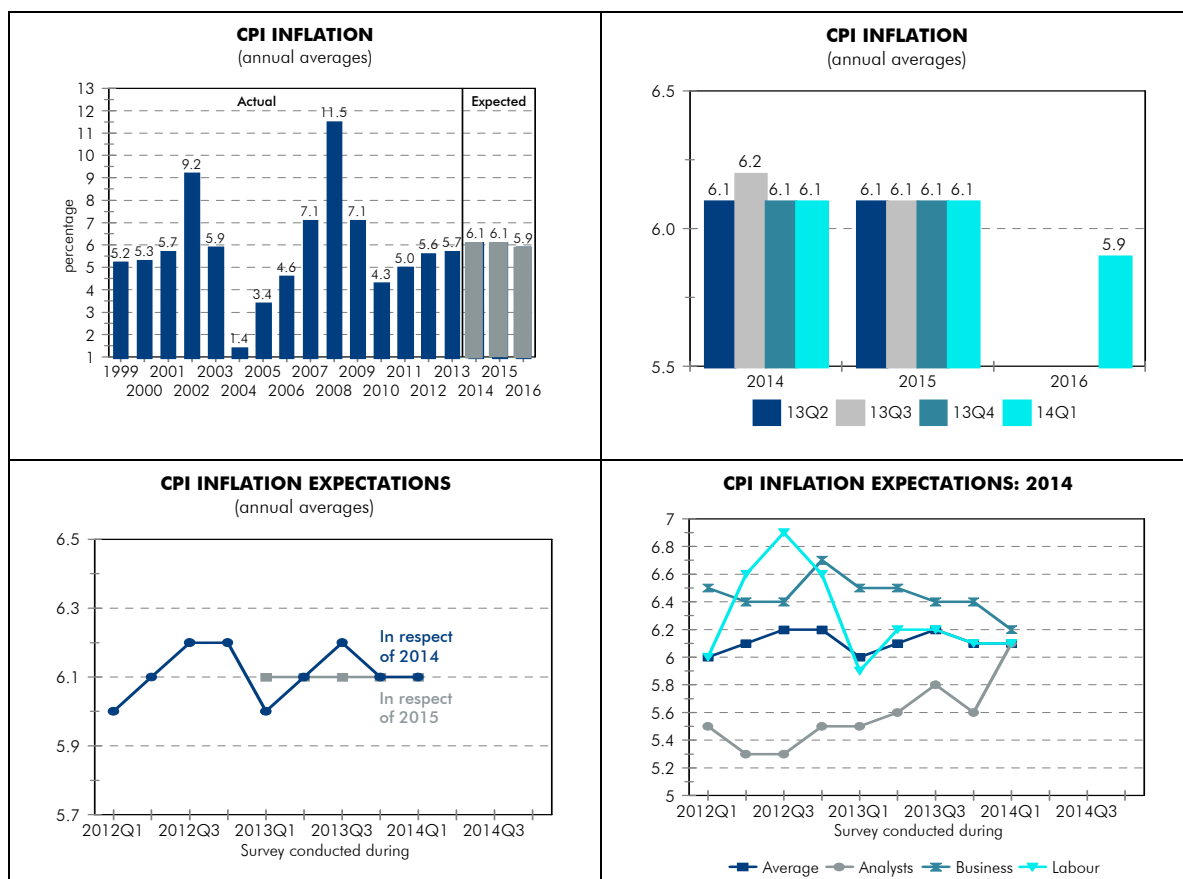
While the 5 year inflation expectations of analysts and business people remained at 5.5% and 6.5% respectively, those of trade unions reversed to 6.1% in the current survey.

Expected CPI inflation over the next five years				
Survey conducted during	Financial Analysts	Business People	Trade Union Officials	Total
2013Q1	5.5	6.6	6.0	6.0
2013Q2	5.5	6.6	6.2	6.1
2013Q3	5.7	6.7	6.2	6.2
2013Q4	5.5	6.6	6.6	6.2
2014Q1	5.5	6.5	6.1	6.0

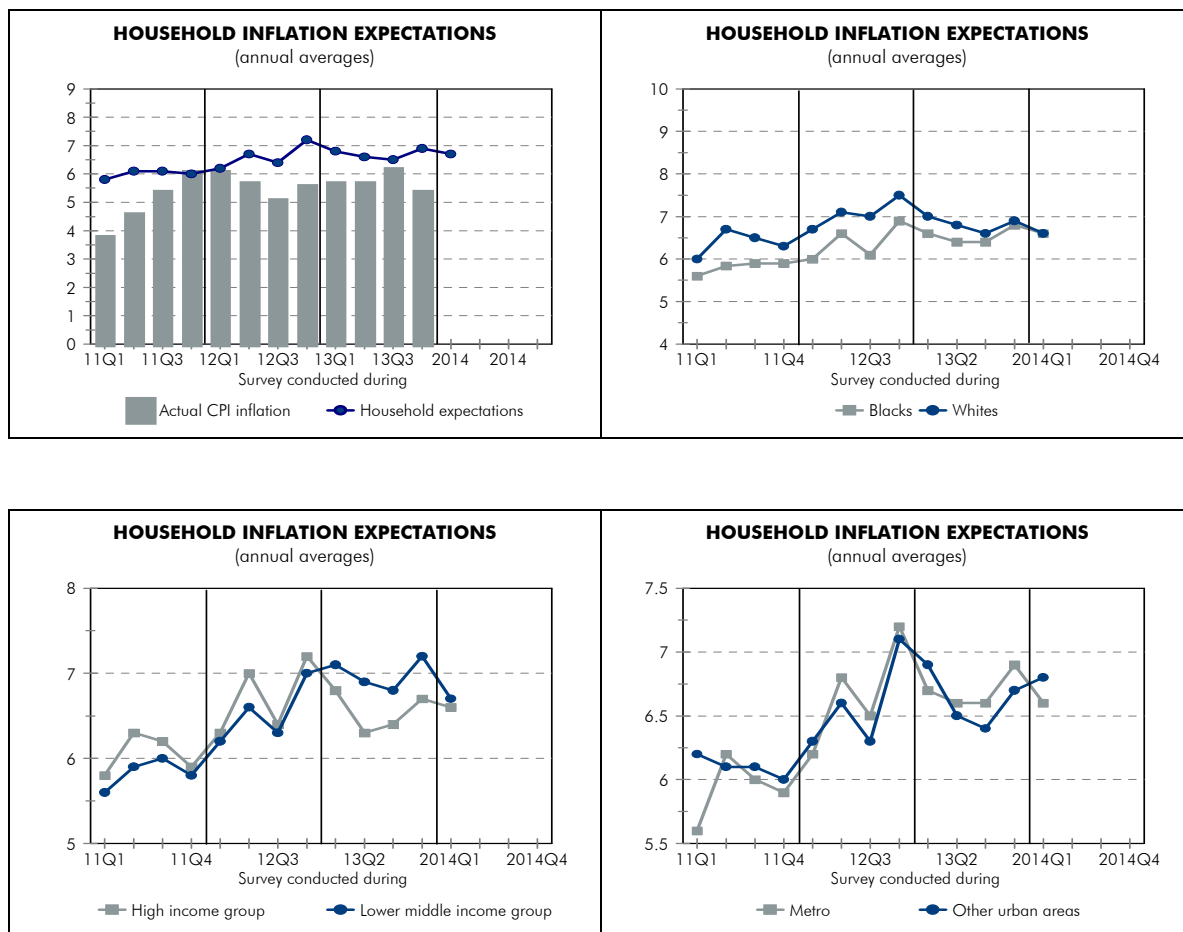
After rising from 6.5% in 13Q3 to 6.9% in 13Q4, household inflation expectations declined to 6.7% in 14Q1. The decline was universal across race and income group.

Headline CPI inflation expectations

Survey conducted during	2013Q4				2014Q1			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
CPI inflation during the year								
2014	5.6	6.4	6.1	6.1	6.1	6.2	6.1	6.1
2015	5.5	6.5	6.4	6.1	5.8	6.4	6.1	6.1
2016					5.4	6.2	6.1	5.9

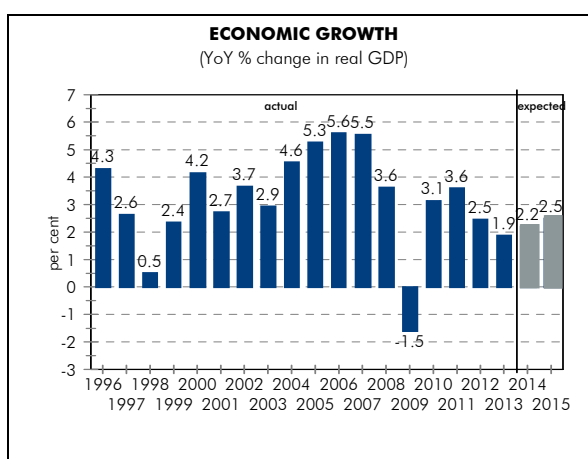


Household inflation expectations

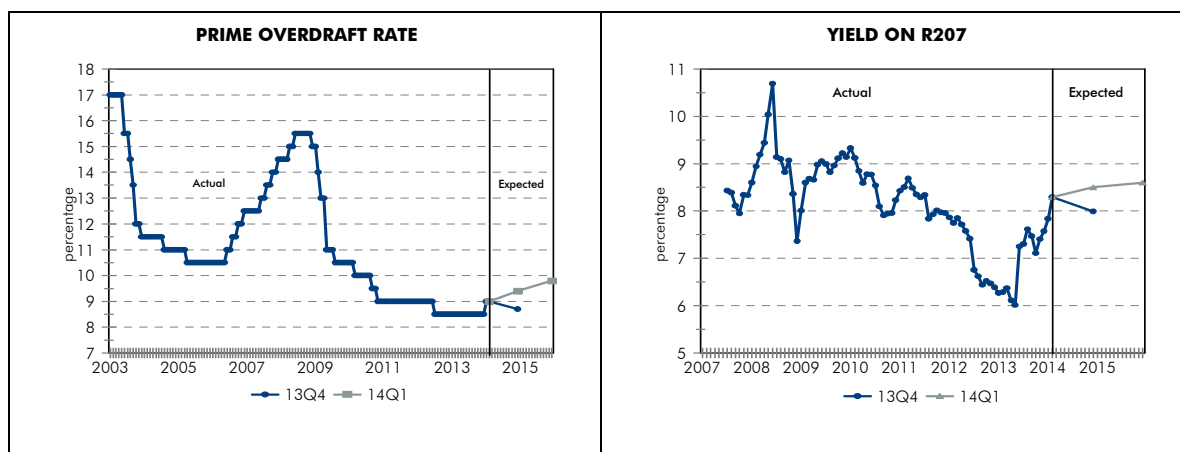


Forecasts of the other variables

Survey respondents on average lowered their forecast for 2013 economic growth from 2.2% in the third quarter to 2.0% in the fourth. They also lowered their 2014 growth forecast by a similar margin from 2.7% to 2.5%. It was the second time this year that the survey respondents lowered their growth outlook for both years.

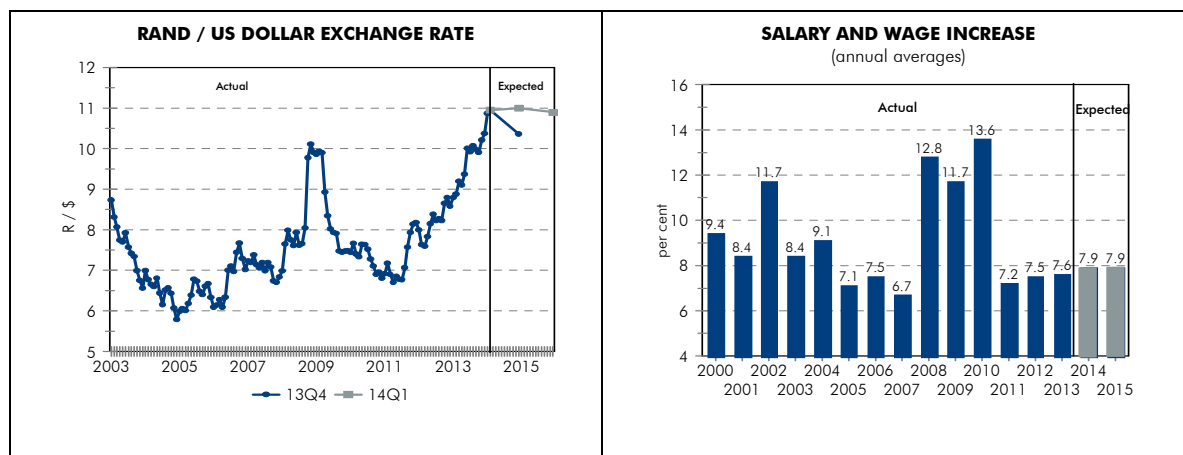


During the fourth quarter Statistics South Africa (Stats SA) reported a significant drop in economic growth, from an annualised 3.2% in the second quarter of 2013 to 0.7% in the third. Trade union officials are mostly responsible for the decline in the forecast. They now have the most pessimistic view on economic growth in 2014, expecting a rate of only 2.3%. In contrast, analysts remain more optimistic than the other two groups, anticipating 2.9% growth in GDP next year.



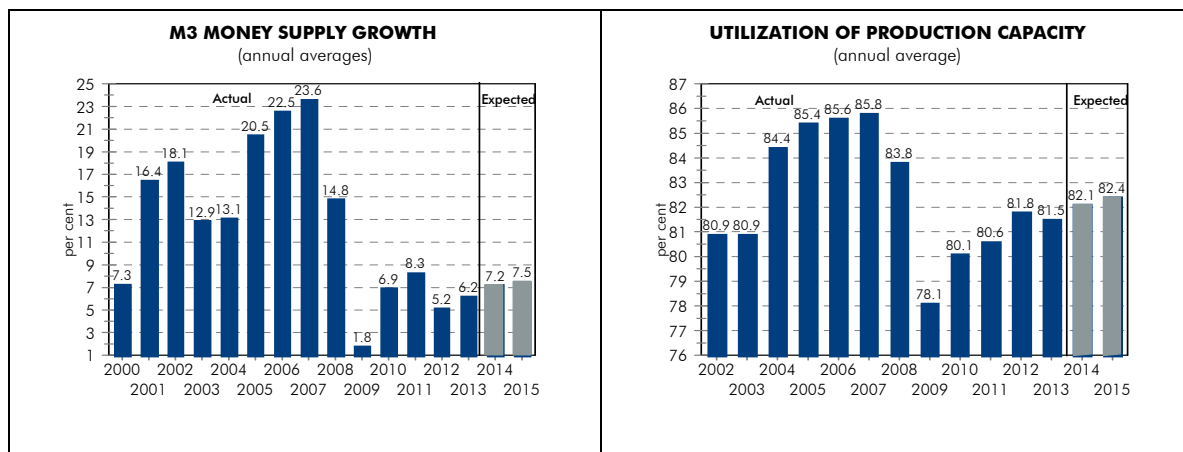
In the third quarter, analysts and business people expected the prime interest rate to increase by 50 basis points (bps) by the end of 2014, while trade union officials expected it to remain at 8.5%. In the fourth quarter analysts and trade union officials changed their views. Analysts now expect no change and trade union officials, similar to business people, expect a 50 bps increase.

In the third quarter, analysts increased their forecast of the R207 bond rate at the end of 2014 by 96 basis points to a level of 8.50%. However, in the fourth quarter they revised it down once more by 51 basis points to a level of 7.99%. This revision was bigger than the movement in the R207 bond rate, which declined from 7.58% in August to 7.40% in November.



Since the previous survey, the rand depreciated by 14c to an average of R10.21/\$ in November. Amid this slight weakening, the survey respondents also lowered their average forecast of the exchange rate at the end of 2014. They now expect a rate of R10.36/\$, compared to their previous expectation of R9.98. Among the subgroups, only analysts expect that the rand will regain some of its lost value during the course of next year, since they foresee a slight appreciation from November's level. Trade union officials lowered their forecast more than the other two groups. They anticipate the weakest exchange rate at the end of 2014.

Analysts were the only subgroup to lower their forecast of wage increases for 2014 (between the third and fourth quarter surveys). Business people and trade union officials made no revisions to their outlook. With a 0.3% pts decline in their forecast, analysts managed to pull the average forecast of all the respondents down by 0.1% pt. Wages are now expected to increase by only 7.9% during 2014. Among the subgroups, trade union officials still anticipate the highest rise in wages next year (8.2%) and analysts the lowest (7.7%).



Analysts lowered their forecast of the growth rate in the M3 money supply during 2013 and 2014. In the third quarter, they expected a growth rate of 8.2% during 2013 and now they expect only 8.0%. Even though they lowered their forecast for 2014, they still see the M3 money supply growing faster next year, accelerating to 8.4%.

Since the previous survey, analysts lowered their outlook of the utilisation of production capacity in manufacturing during 2014 by 0.2% pts to a level of 82.3%. However, this level is still higher than the one they anticipated during the second quarter. They still expect next year to be an improvement on this year.

Background

The 2014 first quarter survey of financial analysts, business executives and representatives of the trade union movement was conducted between 12 February and 12 March 2014 and the results were computed on 13 March 2014.

The survey of household inflation expectations was conducted amongst 2 103 households by way of personal interviews. The fieldwork for the household survey was conducted between 11 and 24 March and the results processed on 27 March 2014.

Respondents to 1st quarter survey	Number
Financial analysts	15
Business executives	246
Representatives of the trade union movement	14
	275
Households ¹	2103

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

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27 March 2014

SUMMARY OF SURVEY RESULTS

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

Survey conducted during	2013Q4				2014Q1			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2014	5.6	6.4	6.1	6.1	6.1	6.2	6.1	6.1
2015	5.5	6.5	6.4	6.1	5.8	6.4	6.1	6.1
2016					5.4	6.2	6.1	5.9
Economic growth (% change in real GDP) during the year								
2014	2.9	2.4	2.3	2.5	2.5	2.0	2.1	2.2
2015					2.8	2.2	2.4	2.5
Prime overdraft rate at the end of								
2014	8.4	8.9	8.9	8.7	9.7	9.3	9.4	9.4
2015					10.0	9.8	9.7	9.8
Yield on R207 at the end of								
2014	7.99			7.99	8.50			8.50
2015					8.56			8.56
Rand/US dollar at the end of								
2014	9.92	10.43	10.74	10.36	10.80	11.02	11.24	11.02
2015					10.46	11.12	11.22	10.94
M3 money supply growth during the year								
2014	8.4			8.4	7.2			7.2
2015					7.5			7.5
Salary and wage increase during the year								
2014	7.7	7.9	8.2	7.9	7.7	7.9	8.0	7.9
2015					7.7	8.0	8.1	7.9
Percentage utilisation of production capacity in manufacturing during the year								
2014	82.3			82.3	82.1			82.1
2015					82.4			82.4

Households:

Avg price increase over the next 12 months	6.9		6.7
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A. DETAILS OF SURVEY RESULTS- 2014Q1: Analysts, business executives and trade union officials

	CPI 2014	CPI 2015	CPI 2016	GDP 2014	GDP 2015	PRIME 2014	PRIME 2015
Financial Analysts							
Count	15	15	15	15	15	15	15
Average	6.1	5.8	5.4	2.5	2.8	9.7	10.0
Standard deviation	0.2	0.2	0.5	0.4	0.3	0.8	1.1
Maximum	6.5	6.2	6.1	3.3	3.3	10.5	11.0
Minimum	5.7	5.3	4.3	1.8	2.1	7.0	7.0
Median	6.2	5.8	5.5	2.5	2.8	10.0	10.0
Mode	6.2	5.8	5.5	2.6	2.9	10.0	10.0
Business People							
Count	246	233	228	245	231	245	229
Average	6.2	6.4	6.2	2.0	2.2	9.3	9.8
Standard deviation	0.8	1.3	1.0	0.7	0.9	0.5	0.7
Maximum	12.0	20.0	10.5	7.9	9.5	12.0	12.0
Minimum	0.1	0.1	0.1	-2.0	-3.0	8.0	8.0
Median	6.0	6.1	6.0	2.0	2.2	9.0	9.5
Mode	6.0	6.0	6.0	2.0	2.0	9.0	9.5
Trade Union Officials							
Count	14	14	14	14	14	14	14
Average	6.1	6.1	6.1	2.1	2.4	9.4	9.7
Standard deviation	0.3	0.3	0.3	0.5	0.6	0.5	0.8
Maximum	6.7	7.0	6.8	3.0	3.5	10.5	10.5
Minimum	5.8	5.6	5.5	1.3	1.5	8.5	8.0
Median	5.9	6.0	6.0	2.1	2.4	9.5	9.5
Mode	5.8	5.9	6.0	2.0	3.0	9.5	10.5

	R207 2014	R207 2015	RAND 2014	RAND 2015	M3 2014	M3 2015	WAGES 2014	WAGES 2015	CAPACITY 2014	CAPACITY 2015
Financial Analysts										
Count	13	13	15	15	13	13	14	14	11	11
Average	8.50	8.56	10.80	10.46	7.2	7.5	7.7	7.7	82.1	82.4
Standard deviation	0.5	0.9	0.5	0.5	1.9	1.5	0.8	0.8	1.4	1.6
Maximum	9.2	10.0	12.0	11.3	11.6	10.1	8.8	8.5	84.0	85.7
Minimum	7.6	7.0	10.2	9.7	5.0	5.0	5.7	6.0	80.0	80.0
Median	8.5	8.5	10.7	10.4	6.6	7.5	7.5	7.8	82.0	82.0
Mode	8.0	8.5	10.5	10.0	6.0	6.5	7.5	8.5	80.0	83.5
Business People										
Count			244	230			242	228		
Average			11.02	11.12			7.9	8.0		
Standard deviation			1.1	1.4			1.3	1.2		
Maximum			19.5	16.0			12.0	12.0		
Minimum			1.1	1.5			0.0	5.0		
Median			11.0	11.1			8.0	8.0		
Mode			11.0	11.0			8.0	8.0		
Trade Union Officials										
Count			14	14			14	14		
Average			11.24	11.22			8.0	8.1		
Standard deviation			1.1	1.4			0.7	1.0		
Maximum			15.0	14.6			9.1	11.0		
Minimum			10.4	9.0			6.7	6.9		
Median			10.9	11.4			7.9	7.6		
Mode			11.0	9.0			8.5	7.5		

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

CPI	Survey quarter															
	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2
Total																
2011	6.1	5.5	5.3	5.3	5.5	5.5										
2012	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	6.0	6.0	6.0	6.0		
2014							6.0	6.1	6.2	6.2	6.0	6.1	6.2	6.1	6.1	
2015											6.1	6.1	6.1	6.1	6.1	
2016															5.9	
Analysts																
2011	5.2	4.5	4.7	5.0	5.1	5.1										
2012	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	5.8	5.9	5.9	5.9		
2014							5.5	5.3	5.3	5.5	5.5	5.6	5.8	5.6	6.1	
2015											5.6	5.4	5.5	5.5	5.8	
2016															5.4	
Business																
2011	6.8	6.0	5.4	5.4	5.6	5.7										
2012	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	6.3	6.2	6.2	6.2		
2014							6.5	6.4	6.4	6.7	6.5	6.5	6.4	6.4	6.2	
2015											6.6	6.5	6.4	6.5	6.4	
2016															6.2	
Trade Unions																
2011	6.4	6.0	5.6	5.5	5.7	5.7										
2012	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	5.9	6.0	6.0	6.0		
2014							6.0	6.6	6.9	6.6	5.9	6.2	6.2	6.1	6.1	
2015											6.2	6.3	6.3	6.4	6.1	
2016															6.1	

C. DETAILS OF SURVEY RESULTS: Households

Survey quarter Expectations in respect of	2013Q3	2013Q4	2014Q1						
	2013	2013	2014						
	Average	Average	Average ¹	Std Dev ¹	Median ¹	Minimum	Maximum	% >25% ²	% D/K ²
Total	6.5	6.9	6.7	3.2	6	1	100	2.5	14.0
Per population group									
Blacks	6.4	6.8	6.6	3.3	6	1	100	3.1	11.7
Coloureds	6.7	7.1	6.8	3.1	6	1	50	0.7	15.9
Indians	8.1	7.4	7.2	2.9	6	1	40	0.5	10.8
Whites	6.6	6.9	6.6	3.2	6	1	100	1.5	14.5
Per monthly household income									
R14 000+	6.4	6.7	6.6	3.1	6	1	100	2.8	11.5
R7 000-R13 999	6.3	6.6	6.5	3.2	6	1	80	1.6	12.7
R3 000-R6 999	6.8	7.2	6.7	3.2	6	1	100	2.7	15.6
R1-R2 999	6.6	7.0	7.0	3.4	6	1	100	2.9	16.4
Per age group									
16-24	6.6	6.5	6.2	3.1	6	1	78	2.0	12.8
25-34	6.4	6.7	6.7	3.4	6	1	100	2.7	10.4
35-49	6.5	6.9	6.7	3.3	6	1	100	2.9	13.0
50+	6.7	7.4	7.1	3.2	6	1	100	2.3	20.0
Per gender									
Male	6.5	6.8	6.7	3.2	6	1	100	2.7	13.3
Female	6.5	6.9	6.7	3.2	6	1	100	2.2	14.6
Per community size									
Metro	6.6	6.9	6.6	3.4	6	1	100	2.5	12.4
Other urban	6.4	6.7	6.8	3.0	6	1	100	2.4	16.6

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

D. HISTORICAL DATA: Households

	Survey quarter															
	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2
Total	7.4	7.4	5.8	6.1	6.1	6.0	6.2	6.7	6.4	7.2	6.8	6.6	6.5	6.9	6.7	
Per population																
Blacks	7.4	7.4	5.6	5.8	5.9	5.9	6.0	6.6	6.1	6.9	6.6	6.4	6.4	6.8	6.6	
Coloureds	8.0	7.2	6.0	6.7	5.9	5.6	6.3	6.3	6.9	7.7	7.3	7.3	6.7	7.1	6.8	
Indians	7.6	7.4	6.6	6.6	6.6	6.1	7.1	7.6	7.3	8.2	7.3	6.8	8.1	7.4	7.2	
Whites	7.3	7.5	6.0	6.7	6.5	6.3	6.7	7.1	7.0	7.5	7.0	6.8	6.6	6.9	6.6	
Per income group																
R14 000+	7.2	7.2	5.8	6.3	6.2	5.9	6.3	7.0	6.4	7.2	6.8	6.3	6.4	6.7	6.6	
R7 000-R13 999	7.4	7.6	5.7	6.3	6.1	6.2	6.1	6.6	6.5	7.2	6.5	6.3	6.3	6.6	6.5	
R3 000-R6 999	7.4	7.4	5.6	5.9	6.0	5.8	6.2	6.6	6.3	7.0	7.1	6.9	6.8	7.2	6.7	
R1-R2 999	7.8	7.4	6.2	6.0	5.9	5.8	6.1	6.5	6.5	7.5	6.9	6.9	6.6	7.0	7.0	
Per age group																
16-24	7.1	7.3	5.5	5.9	6.1	5.7	6.0	6.7	6.1	6.9	6.6	6.3	6.6	6.5	6.2	
25-34	7.4	7.0	5.7	6.0	6.1	6.0	6.0	6.6	6.5	7.0	6.8	6.4	6.4	6.7	6.7	
35-49	7.6	7.5	6.1	6.3	6.0	6.0	6.1	6.9	6.3	7.4	6.8	6.5	6.5	6.9	6.7	
50+	7.5	7.7	5.7	6.5	6.2	6.2	6.7	6.7	6.9	7.4	7.0	7.0	6.7	7.4	7.1	
Per gender																
Male	7.3	7.4	5.8	6.1	6.1	6.0	6.1	6.6	6.4	7.1	6.9	6.6	6.5	6.8	6.7	
Female	7.5	7.4	5.7	6.2	6.1	5.9	6.3	6.8	6.5	7.3	6.7	6.5	6.5	6.9	6.7	
Per community																
Metro	7.2	7.3	5.6	6.2	6.0	5.9	6.2	6.8	6.5	7.2	6.7	6.6	6.6	6.9	6.6	
Other urban	7.8	7.4	6.2	6.1	6.1	6.0	6.3	6.6	6.3	7.1	6.9	6.5	6.4	6.7	6.8	

E. DATES WHEN SURVEYS WERE CONDUCTED

Business sector, financial analysts and the trade union movement

Survey quarter	Mail questionnaires	Date of return	Process results
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
13Q1	04/02	13/03	09/04
13Q2	15/05	18/06	19/06
13Q3	08/08	05/09	09/09
13Q4	01/11	29/11	02/12
14Q1	12/02	12/03	13/03

Households

Survey quarter	Fieldwork (Done by AC Nielsen)	Process results
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
13Q1	13 – 27 Mar	9 Apr
13Q2	7 Jun – 8 Jul	16 Jul
13Q3	26 Aug – 9 Sep	12 Sep
13Q4	9 – 28 Oct	2 Dec
14Q1	11 – 24 Mar	27 Mar

F. HISTORICAL INFORMATION PROVIDED TO RESPONDENTS

1. Business sector, financial analysts and trade union movement

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			

2013

What do you expect the ...	Average 2008-12	2012	2013	2014	2015
average headline inflation rate (as measured by the percentage change in the CPI) to be during the year:	6.4	5.6			

2014

What do you expect the ...	Average 2009-13	2013	2014	2015	2016
average headline inflation rate (as measured by the percentage change in the CPI) to be during the year:	5.5	5.7			

2. Households

2011

Over the past five years prices increased by on average 6.9 per cent 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 per cent 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?

2013

Over the past five years prices increased by on average 6.4 per cent per year. During 2012 prices increased by 5.6%. By about how much do you expect prices in general to increase during the next 12 months?

2014

Over the past five years prices increased by on average 5.6 per cent per year. During 2013 prices increased by 5.9 per cent. By about how much do you expect prices in general to increase during the next 12 months?