

SURVEY OF INFLATION EXPECTATIONS

RESULTS REPORT: 4TH QUARTER 2014

Executive Summary

- Average CPI inflation expectations for 2015 declined from 6.1% to 5.8% in the fourth quarter.
- Household inflation expectations remained stable at 6.3%.
- Survey respondents lowered their forecast of economic growth again, by 0.2% points for both 2014 and 2015, to 1.6% and 2.1% respectively.
- Their views on the prime overdraft rate converged slightly; they expect prime to rise by 25 basis points to 9.50% at the end of next year.
- Their views also converged in the case of wage increases; all groups now expect salaries to rise by 7.8% during 2015.

	Headline CPI inflation		
	2014	2015	2016
Financial Analysts	6.1	5.4	5.5
Business	6.1	6.2	6.2
Trade Union Movement	6.0	5.9	6.0
Average above	6.1	5.8	5.9
Households	6.3		
Grand average	6.1		

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Survey results

Inflation expectations

After remaining unchanged at 6.1% for almost two years, average CPI inflation for 2015 declined to 5.8% in the fourth quarter of 2014.

All social groups lowered their forecast for 2015. Analysts and trade unions revised their forecasts downwards by 0.3% points to 5.4% and 5.9% respectively, while business people reduced their forecast by 0.2% points to 6.2%.

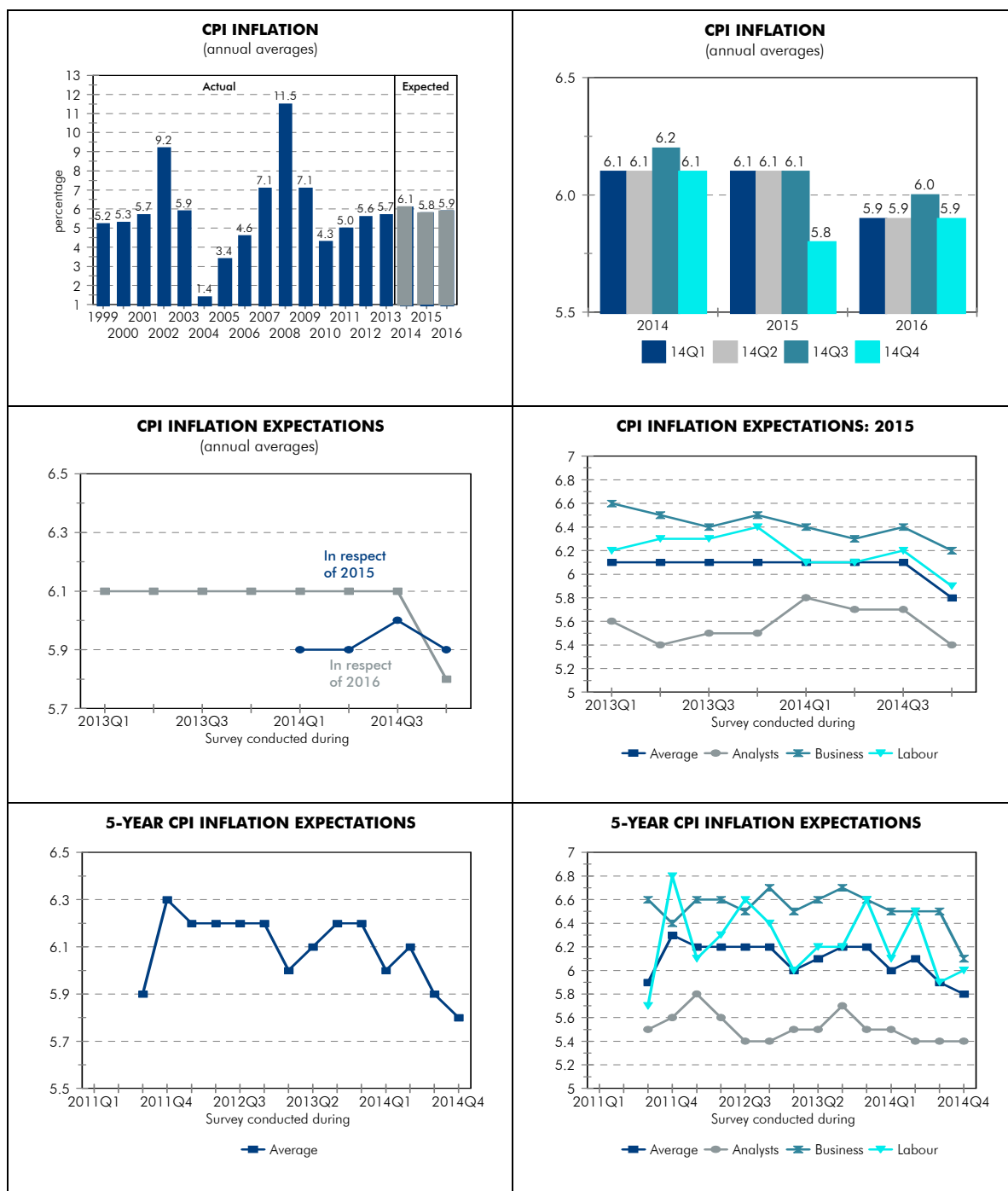
Whereas business people see inflation remaining stable at 6.2% in 2016, analysts and trade unions expect it to edge up by 0.1% point to 5.5% and 6.0% respectively.

Average 5-year inflation expectations declined from 6.1% in the second quarter to 5.8% in the fourth quarter. This was thanks to the fall in business expectations from 6.5% to 6.1%.

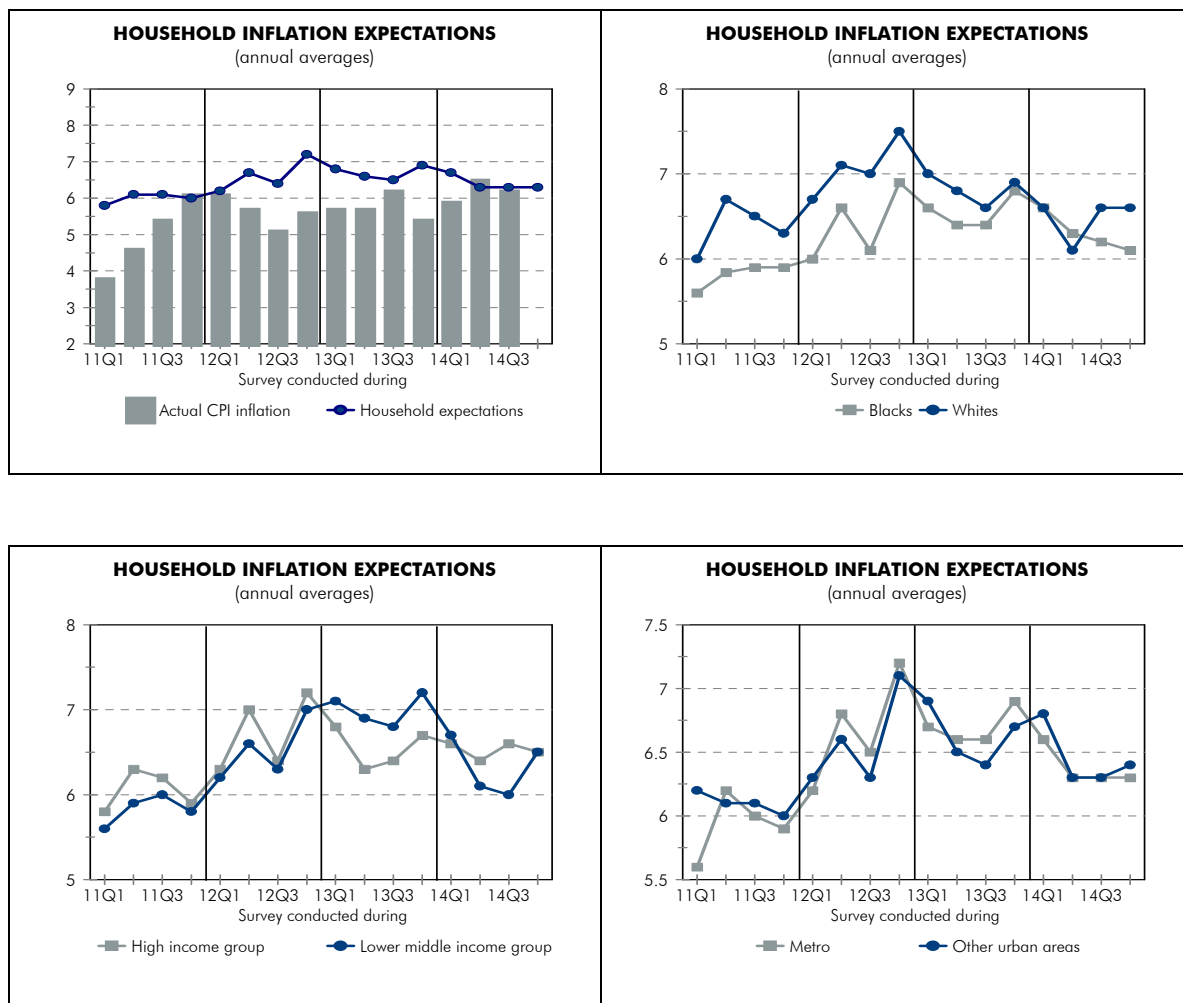
Household inflation expectations remained stable at 6.3%. Whereas black households foresee inflation to average 6.1% in the next 12 months, white households expect 6.6%. Furthermore, the expectations of younger people (16 to 24 years) are somewhat lower (6.3%) than those of older people (above 50) (6.6%).

Headline CPI inflation expectations

Survey conducted during	2014Q3				2014Q4			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
CPI inflation during the year								
2014	6.2	6.2	6.2	6.2	6.1	6.1	6.0	6.1
2015	5.7	6.4	6.2	6.1	5.4	6.2	5.9	5.8
2016	5.4	6.4	6.2	6.0	5.5	6.2	6.0	5.9

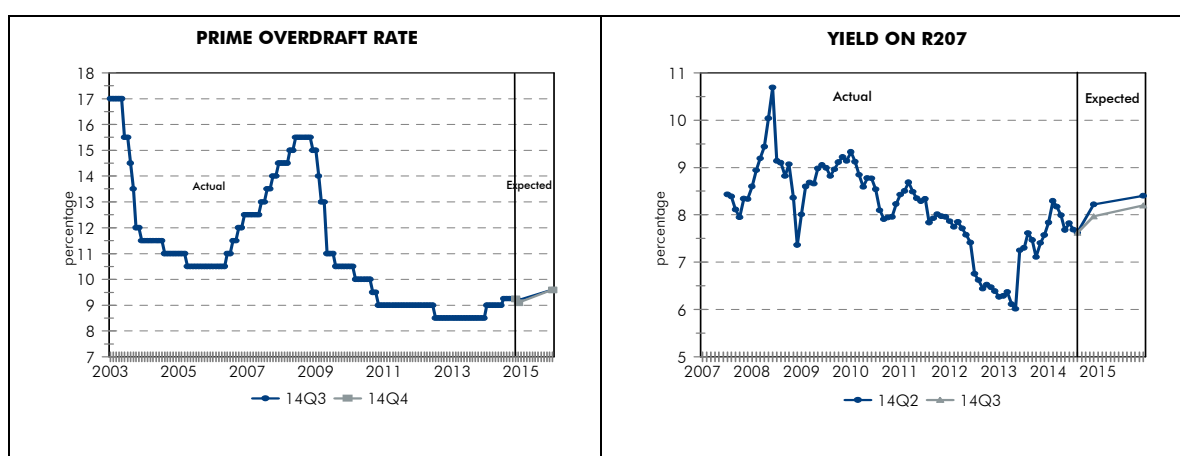
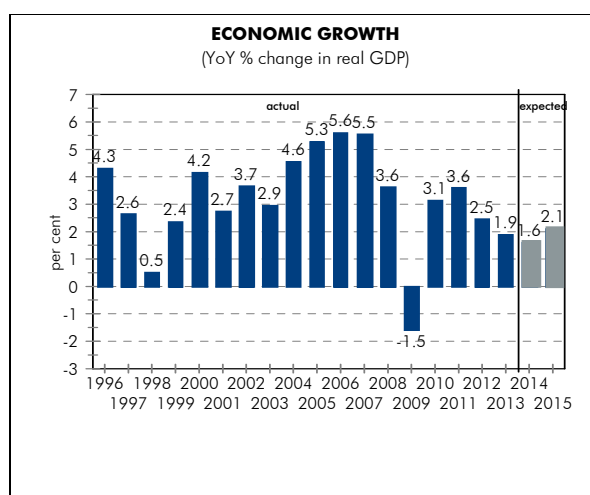


Household inflation expectations



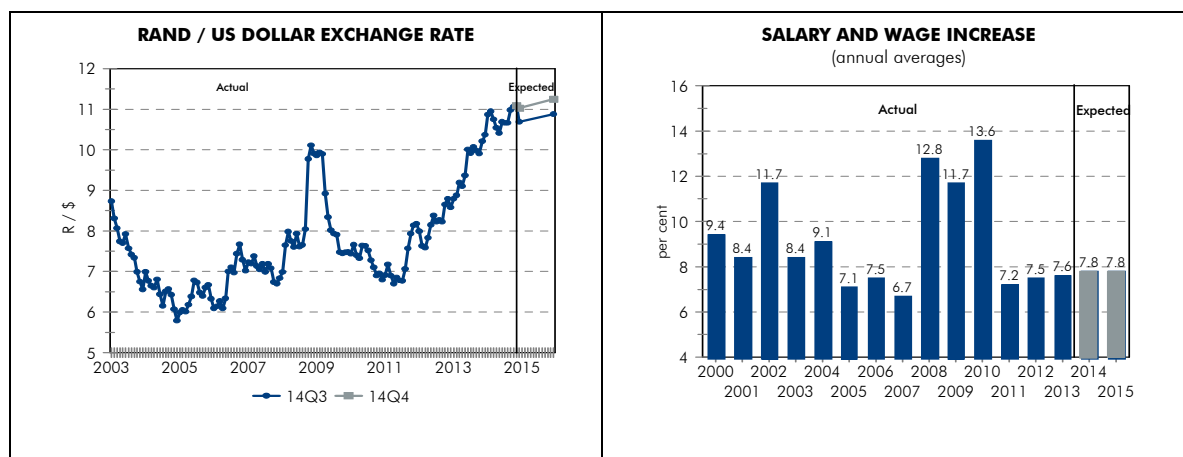
Forecasts of the other variables

Since the previous survey all respondents lowered their outlook of economic growth during 2014 and 2015. They now expect growth of 1.6% and 2.1% respectively, which is 0.2% points lower for both years compared to their view during the previous survey. However, the expected acceleration in growth between the two years remained unchanged at 0.5% points. Trade union officials made the biggest downward revision to their outlook; for 2014 they are now in line with the other two sub-groups. For 2015, trade union officials and business people share the same view, expecting economic growth to accelerate to 1.9%. Analysts remained the most optimistic among the groups; they expect growth to be 2.4% next year.



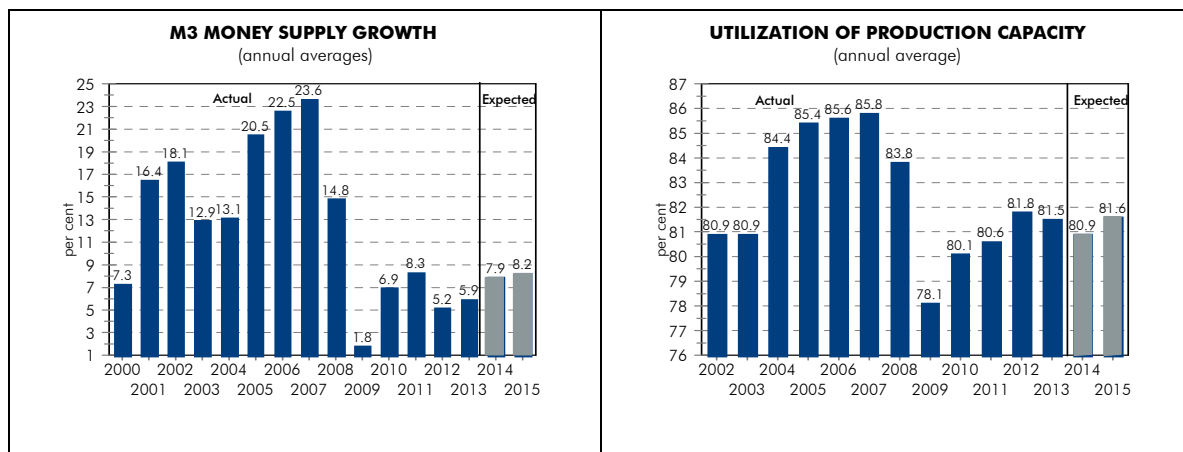
Regarding the prime overdraft rate, respondents expect on average that it will increase by 25 basis points (bps) during 2015, from the current 9.25%. Among them, analysts still foresee the highest rate, retaining their 25 bps lead relative to the other two groups. They see the prime rate rising by 50 bps to 9.75% at the end of 2015. Trade union officials and business people expect an increase of only 25 bps to 9.50%.

Analyst lowered their forecast of the yield on the R207 at the end of this year and next year by 45 and 42 bps respectively. They currently expect a yield of 7.52% at the end of this year, with a rise of 26 bps, reaching 7.78% at the end of 2015.



On average, the survey respondents are more pessimistic regarding the Rand/US dollar exchange rate at the end of 2014 and 2015. They expect the Rand to be 34c weaker by the end of this year than they did previously. Also, they expect the Rand to depreciate by 22c during next year, compared to 19c at the time of the third quarter survey. The sub-groups have very similar views on the exchange rate at the end of this year, and they retain this similarity in their views on the Rand for next year. They see the Rand trading between R11.12 and R11.34 at the end of 2015.

In the case of salary and wage increases, analysts were the only sub-group who adjusted their forecast upwards for 2014 and 2015. Trade union officials and business people lowered their respective forecasts for both years. As a result, the forecasts of all three sub-groups converged to 7.8% this year and next year. Previously, analysts were the most pessimistic regarding wage increases and trade union officials the most optimistic. The latter expected even higher increases in 2015. Now, all groups have virtually the same forecast with no acceleration expected next year.



Analysts forecast that the growth in the M3 money supply will be 7.9% during 2014, accelerating to 8.2% in 2015. This forecast is slightly higher compared to the one they held during the third quarter survey.

Analysts lowered their view on the utilisation of production capacity in manufacturing during 2014 and 2015. They now expect utilisation to be 80.9% and 81.6% respectively. This implies an improvement of 0.7% points between the two years, which is lower than the 1% point improvement they expected previously.

Background

The 2014 fourth quarter survey of financial analysts, business executives and representatives of the trade union movement was conducted between 29 October and 28 November 2014 and the results were computed on 1 December 2014. The number of responses was lower than usual due to the postal worker strike.

The survey of household inflation expectations was conducted amongst 1 979 households by way of personal interviews. The fieldwork for the household survey was conducted between 10 and 25 October and the results processed on 1 December 2014.

Respondents to the 4th quarter survey	Number
Financial analysts	12
Business executives	176
Representatives of the trade union movement	8
	196
Households ¹	2294

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

Authors: George Kershoff and Nicolaas van der Wath

Technical assistance: Ester Manefeldt

4 December 2014

SUMMARY OF SURVEY RESULTS

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

Survey conducted during	2014Q3				2014Q4			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2014	6.2	6.2	6.2	6.2	6.1	6.1	6.0	6.1
2015	5.7	6.4	6.2	6.1	5.4	6.2	5.9	5.8
2016	5.4	6.4	6.2	6.0	5.5	6.2	6.0	5.9
Economic growth (% change in real GDP) during the year								
2014	1.6	1.7	2.0	1.8	1.5	1.6	1.6	1.6
2015	2.6	2.0	2.4	2.3	2.4	1.9	1.9	2.1
Prime overdraft rate at the end of								
2014	9.3	9.3	8.9	9.2	9.3	9.1	9.0	9.1
2015	10.0	9.7	9.2	9.6	9.8	9.4	9.6	9.6
Yield on R207 at the end of								
2014	7.97			7.97	7.52			7.52
2015	8.20			8.20	7.78			7.78
Rand/US dollar at the end of								
2014	10.70	10.73	10.66	10.69	11.07	11.06	10.96	11.03
2015	10.90	10.98	10.76	10.88	11.12	11.34	11.28	11.25
M3 money supply growth during the year								
2014	7.6			7.6	7.9			7.9
2015	8.1			8.1	8.2			8.2
Salary and wage increase during the year								
2014	7.6	8.0	8.1	7.9	7.7	7.7	7.8	7.8
2015	7.6	8.1	8.2	8.0	7.8	7.8	7.8	7.8
Percentage utilisation of production capacity in manufacturing during the year								
2014	81.3			81.3	80.9			80.9
2015	82.3			82.3	81.6			81.6

Households:

Average price increase over the next 12 months	6.3		6.3
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A. DETAILS OF SURVEY RESULTS- 2014Q4: Analysts, business executives and trade union officials

	CPI 2014	CPI 2015	CPI 2016	GDP 2014	GDP 2015	PRIME 2014	PRIME 2015
Financial Analysts							
Count	12	12	12	12	12	11	11
Average	6.1	5.4	5.5	1.5	2.4	9.3	9.8
Standard deviation	0.1	0.3	0.4	0.3	0.3	0.2	0.5
Maximum	6.3	5.7	6.2	2.5	3.0	9.5	10.3
Minimum	6.0	4.8	5.0	1.3	1.8	9.0	8.5
Median	6.1	5.5	5.6	1.4	2.5	9.3	10.0
Mode	6.1	5.5	5.8	1.4	2.5	9.3	10.0
Business People							
Count	174	173	169	176	175	176	173
Average	6.1	6.2	6.2	1.6	1.9	9.1	9.4
Standard deviation	0.4	0.6	0.8	0.5	0.7	0.4	0.7
Maximum	8.4	10.0	10.0	3.2	7.0	10.5	11.0
Minimum	5.0	5.0	4.8	-2.0	-1.0	7.0	7.5
Median	6.0	6.1	6.0	1.6	2.0	9.0	9.5
Mode	6.0	6.0	6.0	1.5	2.0	9.5	9.5
Trade Union Officials							
Count	8	8	7	8	7	8	6
Average	6.0	5.9	6.0	1.6	1.9	9.0	9.6
Standard deviation	0.3	0.2	0.3	0.4	0.3	0.5	0.6
Maximum	6.5	6.3	6.5	2.0	2.5	9.8	10.5
Minimum	5.7	5.8	5.7	0.8	1.5	8.5	9.0
Median	5.8	6.0	6.0	1.6	2.0	8.9	9.6
Mode	5.8	6.0	6.0	1.5	2.0	8.5	9.0

	R207 2014	R207 2015	RAND 2014	RAND 2015	M3 2014	M3 2015	WAGES 2014	WAGES 2015	CAPACITY 2014	CAPACITY 2015
Financial Analysts										
Count	10	9	11	11	8	8	11	11	8	8
Average	7.52	7.78	11.07	11.12	7.9	8.2	7.7	7.8	80.9	81.6
Standard deviation	0.5	0.5	0.2	0.6	1.1	1.2	0.8	0.5	1.3	1.7
Maximum	8.3	8.5	11.5	12.0	10.3	10.7	8.5	8.7	82.0	84.0
Minimum	6.9	7.0	10.8	10.3	6.9	7.0	5.5	7.0	78.0	78.0
Median	7.4	7.7	11.0	11.0	7.7	8.0	8.0	8.0	81.0	82.0
Mode	7.5	7.5	11.0	11.0	7.8	7.0	8.0	8.0	81.0	82.0
Business People										
Count			172	172			174	172		
Average			11.06	11.34			7.7	7.8		
Standard deviation			0.4	0.7			1.0	1.0		
Maximum			13.8	15.0			10.0	10.0		
Minimum			10.0	9.8			5.0	5.0		
Median			11.0	11.4			8.0	8.0		
Mode			11.0	11.5			8.0	8.0		
Trade Union Officials										
Count			7	6			7	6		
Average			10.96	11.28			7.8	7.8		
Standard deviation			0.4	0.4			1.0	1.1		
Maximum			11.5	12.0			10.0	10.0		
Minimum			10.5	10.8			7.0	7.0		
Median			11.0	11.2			7.6	7.5		
Mode			11.0	11.0			7.8	7.5		

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

Current and next two years

CPI	Survey quarter															
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4
Total																
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	6.1	6.2	6.1
2015									6.1	6.1	6.1	6.1	6.1	6.1	6.1	5.8
2016													5.9	5.9	6.0	5.9
Analysts																
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	6.2	6.2	6.1
2015									5.6	5.4	5.5	5.5	5.8	5.7	5.7	5.4
2016													5.4	5.4	5.4	5.5
Business																
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	6.2	6.2	6.1
2015									6.6	6.5	6.4	6.5	6.4	6.3	6.4	6.2
2016													6.2	6.4	6.4	6.2
Trade Unions																
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	6.0	6.2	6.0
2015									6.2	6.3	6.3	6.4	6.1	6.1	6.2	5.9
2016													6.1	6.1	6.2	6.0

Next five years

Total		5.9	6.3	6.2	6.2	6.2	6.2	6.0	6.1	6.2	6.2	6.0	6.1	5.9	5.8
Analysts		5.5	5.6	5.8	5.6	5.4	5.4	5.5	5.5	5.7	5.5	5.5	5.4	5.4	5.4
Business		6.6	6.4	6.6	6.6	6.5	6.7	6.6	6.6	6.7	6.6	6.5	6.5	6.5	6.1
Labour		5.7	6.8	6.1	6.3	6.6	6.4	6.0	6.2	6.2	6.6	6.1	6.5	5.9	6.0

The historical survey data could be downloaded in MS Excel format on www.ber.ac.za. Click the button named "Surveys" on the top banner and then select "Inflation Expectations"

C. DETAILS OF SURVEY RESULTS: Households

Survey quarter Expectations in respect of	2014Q2	2014Q3	2014Q4						
	2014	2014	2014						
	Average	Average	Average ¹	Std Dev ¹	Median ¹	Minimum	Maximum	% >25% ²	% D/K ²
Total	6.3	6.3	6.3	3.0	6	1	100	4.0	12.5
Per population group									
Blacks	6.3	6.2	6.1	2.8	6	1	100	3.4	11.9
Coloureds	6.1	6.3	6.8	3.3	6	1	70	8.3	14.1
Indians	7.0	6.9	7.8	3.9	6	2	60	6.0	6.9
Whites	6.1	6.6	6.6	2.9	6	1	100	2.6	15.4
Per monthly household income									
R14 000+	6.4	6.6	6.5	3.2	6	1	100	2.8	9.1
R7 000-R13 999	6.2	6.1	6.2	2.5	6	1	70	2.2	12.3
R3 000-R6 999	6.1	6.0	6.5	3.1	6	1	100	3.9	13.7
R1-R2 999	6.6	6.6	6.0	2.8	6	1	95	7.4	14.5
Per age group									
16-24	6.3	6.2	6.3	3.1	6	1	60	4.8	13.1
25-34	6.2	6.2	6.2	2.9	6	1	100	5.9	9.7
35-49	6.3	6.2	6.3	2.8	6	1	99	2.6	11.1
50+	6.4	6.7	6.6	3.0	6	1	100	2.6	16.4
Per gender									
Male	6.3	6.3	6.3	2.8	6	1	100	3.6	12.0
Female	6.3	6.4	6.4	3.1	6	1	100	4.3	12.9
Per community size									
Metro	6.3	6.3	6.3	2.9	6	1	100	4.7	11.0
Other urban	6.3	6.3	6.4	3.0	6	1	100	2.8	15.0

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															
	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4
Total	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	6.3	6.3	6.3
Per population																
Blacks	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	6.3	6.2	6.1
Coloureds	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	6.1	6.3	6.8
Indians	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	7.0	6.9	7.8
Whites	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	6.1	6.6	6.6
Per income group																
R14 000+	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	6.4	6.6	6.5
R7 000-R13 999	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	6.2	6.1	6.2
R3 000-R6 999	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	6.1	6.0	6.5
R1-R2 999	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	6.6	6.6	6.0
Per age group																
16-24	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	6.3	6.2	6.3
25-34	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	6.2	6.2	6.2
35-49	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	6.3	6.2	6.3
50+	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	6.4	6.7	6.6
Per gender																
Male	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	6.3	6.3	6.3
Female	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	6.3	6.4	6.4
Per community																
Metro	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	6.3	6.3	6.3
Other urban	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	6.3	6.3	6.4

E. DATES WHEN SURVEYS WERE CONDUCTED

Business sector, financial analysts and the trade union movement

Survey quarter	Mail questionnaires	Date of return	Process results
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
14Q2	14/05	12/06	13/06
14Q3	06/08	05/09	08/09
14Q4	29/10	28/11	01/12

Households

Survey quarter	Fieldwork (Done by AC Nielsen)	Process results
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
14Q2	16 May – 2 Jun	18 Jun
14Q3	6 – 25 Aug	8 Sep
14Q4	10 – 25 Oct	1 Dec

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 5.5 per cent per year. During 2013 prices increased by 5.7 per cent. By about how much do you expect prices in general to increase during the next 12 months?