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## SURVEY OF INFLATION EXPECTATIONS

### RESULTS REPORT: 2<sup>ND</sup> QUARTER 2014

#### Executive Summary

- The average inflation expectations of analysts, business people and trade union officials for the current and next year remained unchanged for the sixth consecutive quarter.
- Household inflation expectations decreased from 6.7% to 6.3% in 2014Q2.
- Survey respondents on average lowered their 2014 economic growth forecast again – this time from 2.2% to 1.9%.
- Trade union officials and business people no longer expect any change in the prime interest rate in 2014, while analysts still expect a 50 basis points increase.
- All subgroups lowered their forecast of wage increases this year; business people anticipate the highest rise (7.8%) and analysts the lowest (7.5%).

	Headline CPI inflation		
	2014	2015	2016
Financial Analysts	6.2	5.7	5.4
Business	6.2	6.3	6.4
Trade Union Movement	6.0	6.1	6.1
<b>Average above</b>	<b>6.1</b>	<b>6.1</b>	<b>5.9</b>
Households	6.3		
<b>Grand average</b>	<b>6.2</b>		

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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 two years remained unchanged compared to the previous survey.

Analysts expect inflation to moderate from 6.2% in 2014 to 5.7% in 2015 and further to 5.4% in 2016. Trade union officials expect it to remain unchanged at about 6% over the whole period. In contrast, business people expect inflation to accelerate from 6.2% in 2014 to 6.4% 2016.

Business people were the only group to adjust their forecast upwards – they raised their 2016 forecast from 6.2% to 6.4%. However, this isn't yet a worrying development, as it is only the second time that they had to provide a forecast for 2016. Furthermore, they lowered their 2015 forecast at the same time.

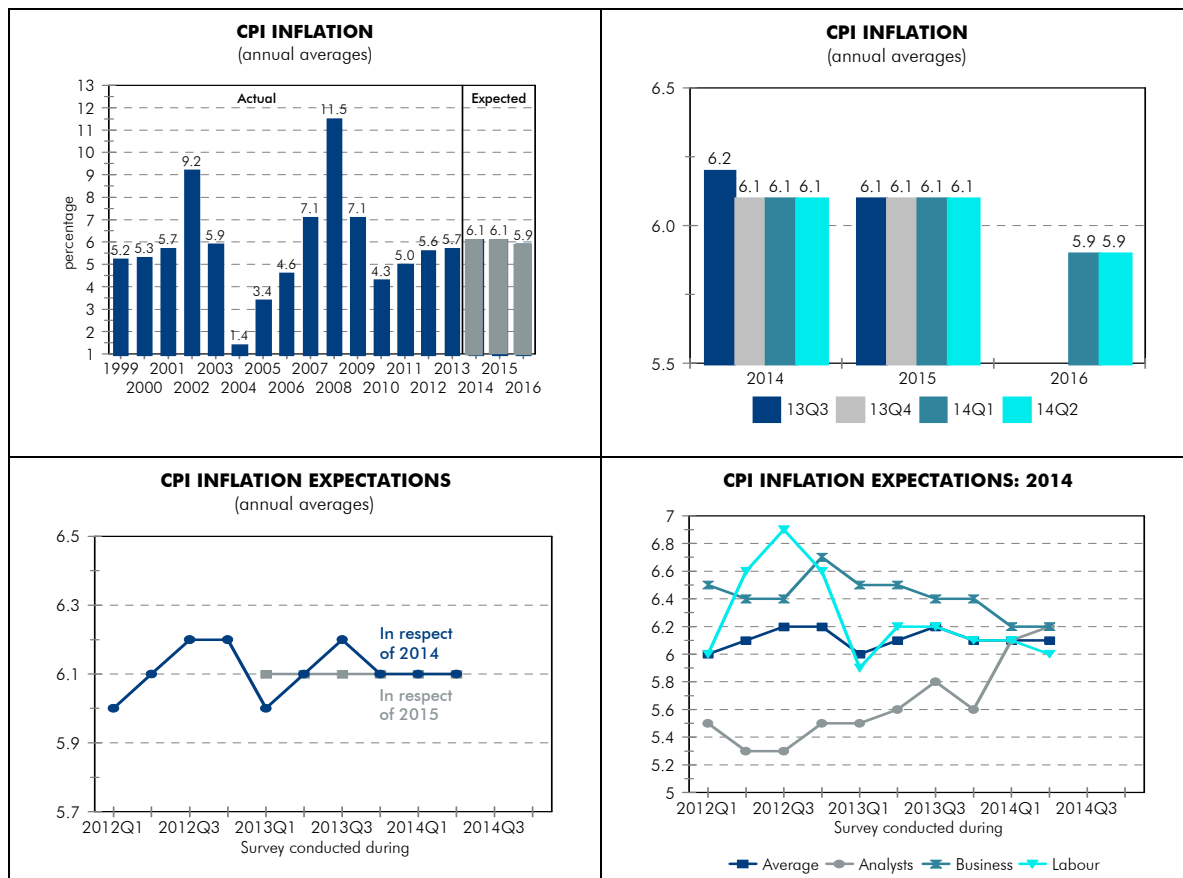
Analysts continued to expect inflation to average about 5½% over the next five years. Business people expect it to average 6.5%, the same rate as previously. In contrast, labour unions reversed their 5-year forecast from 6.1% to 6.5%, which is almost the same as their 2013Q4 forecast.

Expected CPI inflation over the next five years				
Survey conducted during	Financial Analysts	Business People	Trade Union Officials	<b>Total</b>
2013Q2	5.5	6.6	6.2	<b>6.1</b>
2013Q3	5.7	6.7	6.2	<b>6.2</b>
2013Q4	5.5	6.6	6.6	<b>6.2</b>
2014Q1	5.5	6.5	6.1	<b>6.0</b>
2014Q2	5.4	6.5	6.5	<b>6.1</b>

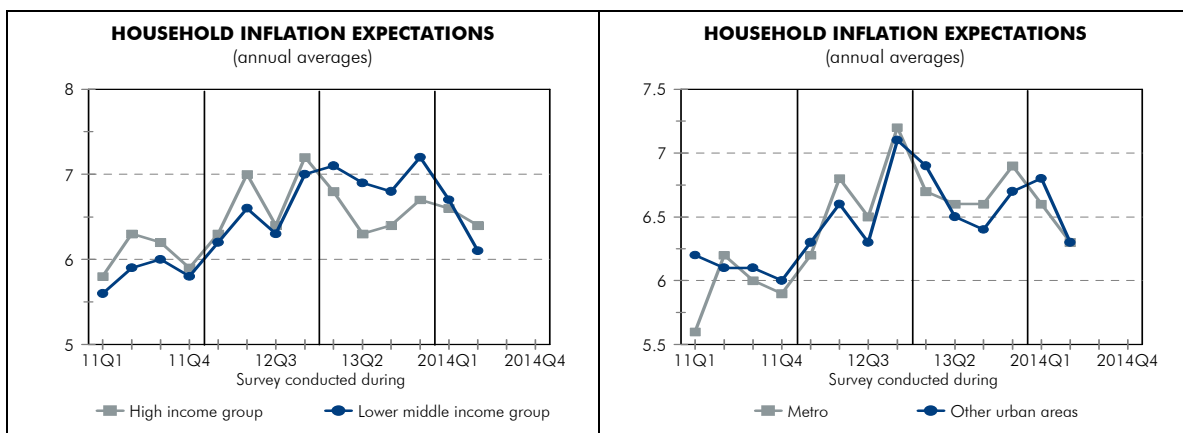
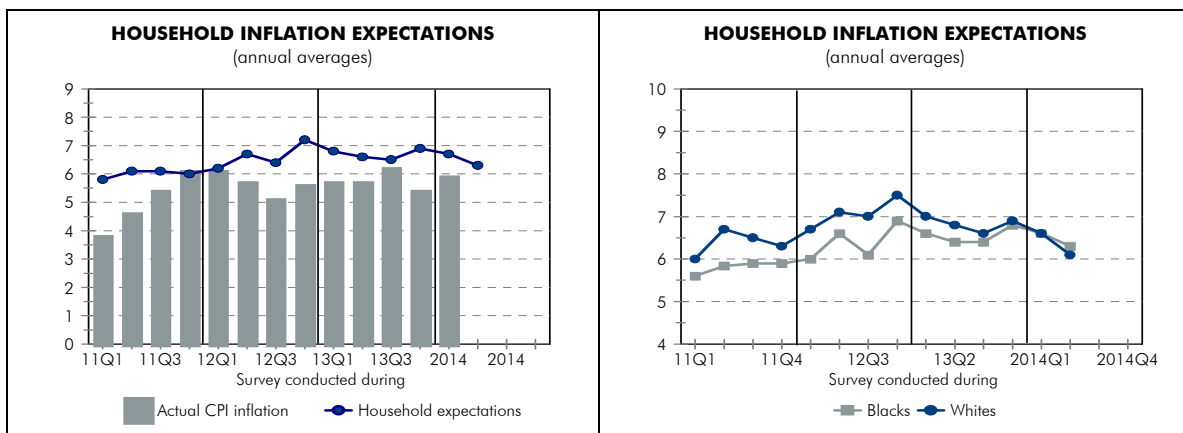
Household inflation expectations declined for the second consecutive quarter, from 6.9% in 2013Q4 to 6.7% in 2014Q1 to 6.3% currently, reaching its lowest level since 12Q1. This decrease was almost universal across race, income and age group.

## Headline CPI inflation expectations

Survey conducted during	2014Q1				2014Q2			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
CPI inflation during the year								
2014	6.1	6.2	6.1	6.1	6.2	6.2	6.0	6.1
2015	5.8	6.4	6.1	6.1	5.7	6.3	6.1	6.1
2016	5.4	6.2	6.1	5.9	5.4	6.4	6.1	5.9

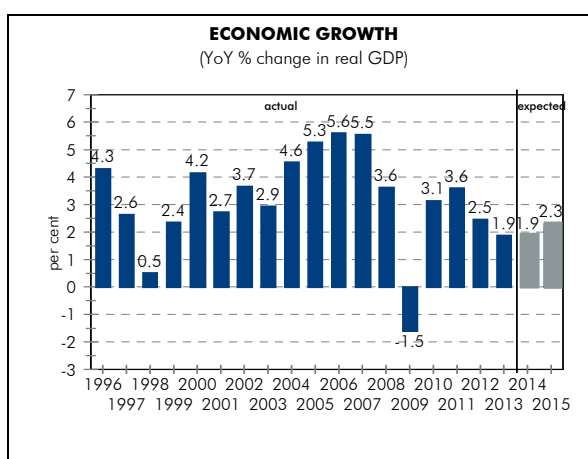


# Household inflation expectations



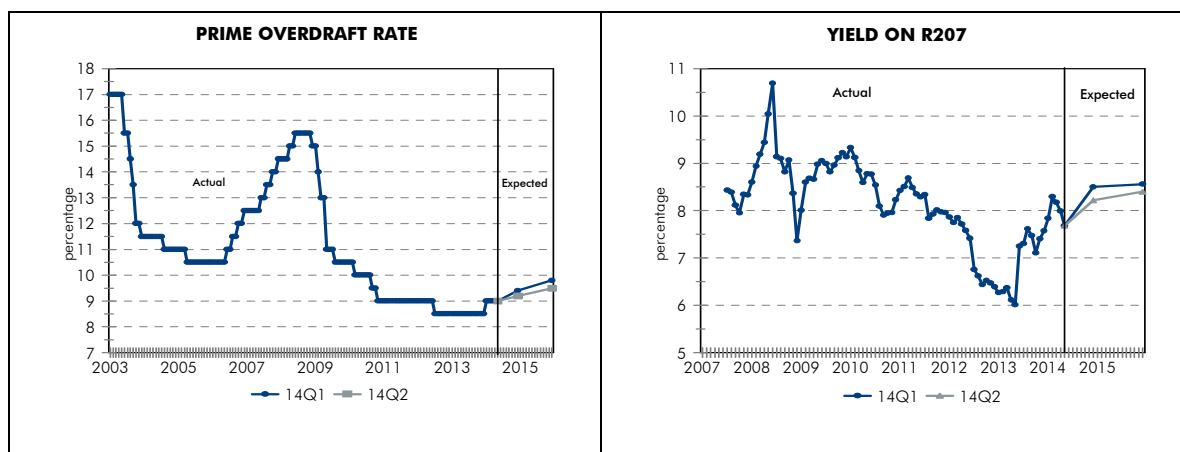
## Forecasts of the other variables

Analysts, business people and trade union officials again lowered their expectation of economic growth during 2014. On average, they now forecast growth to be only 1.9% during the year. This rate is 0.3% points (pts) and 0.6%pts lower than their expectation during 2014Q1 and 2013Q4 respectively. Analysts revised their outlook downwards by 0.6%pts, which is more than



the other two groups. They now foresee economic growth to be 1.9% in 2014. Trade union officials expect the same, but business people are the most pessimistic. They anticipate a growth rate of only 1.7%.

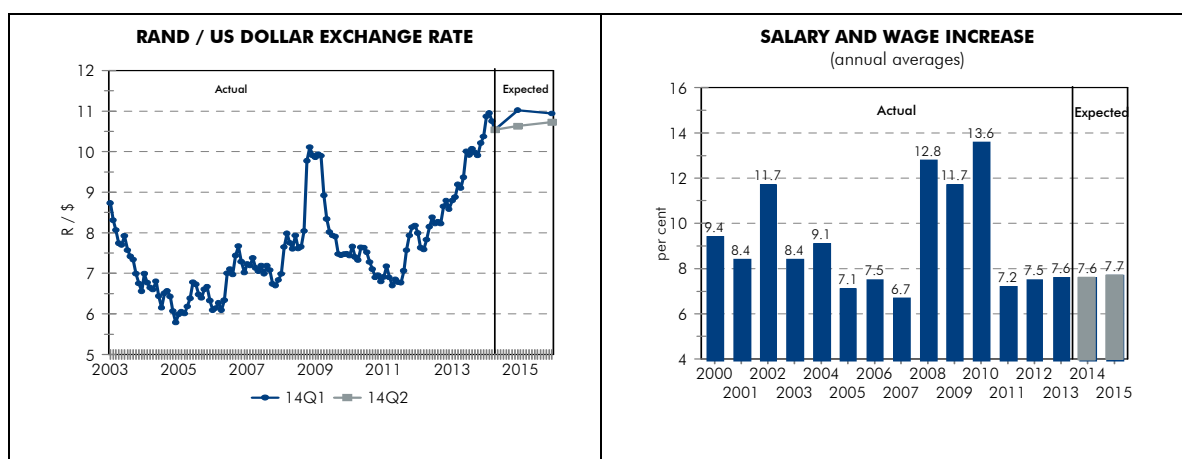
With regard to 2015, the survey respondents also lowered their average view on economic growth from 2.5% to 2.3%. However, they still expect growth to accelerate between this year and the next. Among the sub-groups, analysts are the most optimistic, expecting the economy to grow by 2.7% in 2015.



The average view of the survey respondents is that the prime overdraft rate will be 9.0% at the end of 2014. This rate is 50 basis points (bps) lower compared to their average view during the previous quarter. Analysts are the only group who retained their forecast of the prime overdraft rate at 9.5% from the first quarter to the second. They therefore remain with their view that the bank will raise the interest rate by a further 50 bps (or 0.5%pts) before year-end. The other two groups both expect a rate of 9.0% at the end of 2014, in other words, no further increases. For the end of next year (2015), they all have divergent views. Analysts foresee

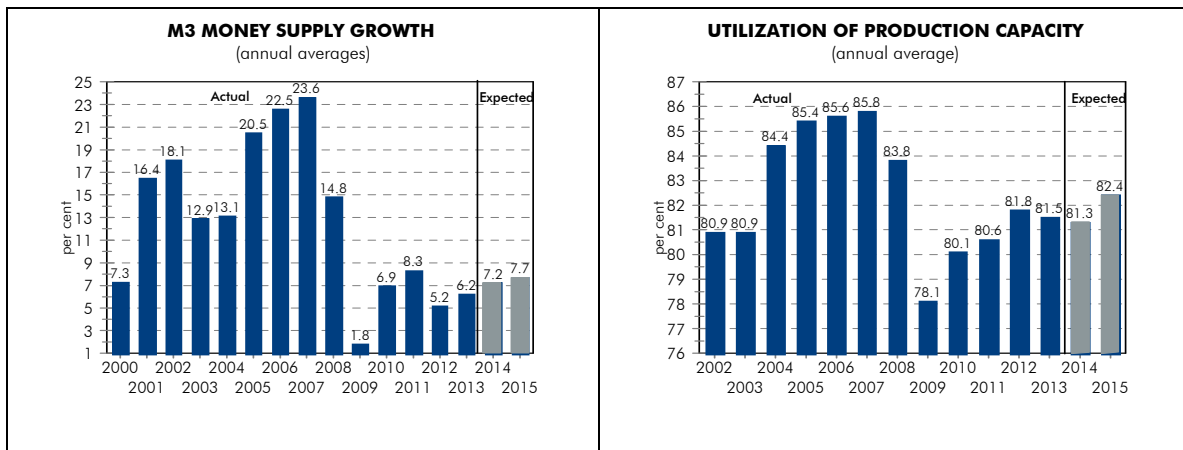
that the prime interest rate will increase to 10%, business people to 9.5% and trade union officials expect it to remain unchanged.

Regarding the yield on the R207, analysts foresee a yield of 8.22% at the end of 2014 and 8.40% at the end of 2015. These yields are lower than their forecast in the first quarter, by 28 and 16 bps respectively.



All the respondents are currently more optimistic about the Rand/US dollar exchange rate. On average they expect the Rand to trade at R10.63/\$ at the end of 2014, and then to depreciate slightly to R10.73/\$ at the end of 2015. In the previous quarter they forecasted the Rand to appreciate from R11.02 to R10.94 per dollar respectively. Among the sub-groups, analysts remain the most optimistic, though trade union officials amended their view more than the other two groups. All three groups now anticipate the rand to trade within the R10-R11 per dollar range at the end of both years.

Trade union officials lowered their view on wage increases more than the other two groups. In the first quarter they anticipated the highest wage increases during 2014 and 2015, now business people do. Analysts still foresee the lowest increase. On average, the survey respondents expect wages to rise by 7.6% during 2014, and then by 7.7% during 2015. These rates are lower compared to the ones forecasted in the first quarter, when wage increases of 7.9% were anticipated for both 2014 and 2015.



From the first quarter to the second, analysts did not change their view on the growth of the M3 money supply. They still expect it to grow by 7.2% in 2014, and then to accelerate to 7.7% in 2015.

Once again analysts lowered their outlook of the utilisation of production capacity in manufacturing during 2014. Currently they expect a rate of 81.3%, which is 0.8%pts lower than their previous forecast. From this level, they expect it to improve slightly to a level of 82.4% next year.

## **Background**

The 2014 second quarter survey of financial analysts, business executives and representatives of the trade union movement was conducted between 14 May and 12 June 2014 and the results were computed on 13 June 2014.

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 16 May and 2 June and the results processed on 18 June 2014.

<b>Respondents to the 2<sup>nd</sup> quarter survey</b>	<b>Number</b>
Financial analysts	15
Business executives	273
Representatives of the trade union movement	10
	<b>298</b>
Households <sup>1</sup>	<b>1979</b>

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

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18 June 2014

## SUMMARY OF SURVEY RESULTS

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

Survey conducted during	2014Q1				2014Q2			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
<b>Headline CPI inflation during the year</b>								
2014	6.1	6.2	6.1	<b>6.1</b>	6.2	6.2	6.0	<b>6.1</b>
2015	5.8	6.4	6.1	<b>6.1</b>	5.7	6.3	6.1	<b>6.1</b>
2016	5.4	6.2	6.1	<b>5.9</b>	5.4	6.4	6.1	<b>5.9</b>
<b>Economic growth (% change in real GDP) during the year</b>								
2014	2.5	2.0	2.1	<b>2.2</b>	1.9	1.7	1.9	<b>1.9</b>
2015	2.8	2.2	2.4	<b>2.5</b>	2.7	2.0	2.3	<b>2.3</b>
<b>Prime overdraft rate at the end of</b>								
2014	9.7	9.3	9.4	<b>9.4</b>	9.4	9.1	9.1	<b>9.2</b>
2015	10.0	9.8	9.7	<b>9.8</b>	9.8	9.5	9.1	<b>9.5</b>
<b>Yield on R207 at the end of</b>								
2014	8.50			<b>8.50</b>	8.22			<b>8.22</b>
2015	8.56			<b>8.56</b>	8.40			<b>8.40</b>
<b>Rand/US dollar at the end of</b>								
2014	10.80	11.02	11.24	<b>11.02</b>	10.47	10.67	10.73	<b>10.63</b>
2015	10.46	11.12	11.22	<b>10.94</b>	10.34	10.91	10.95	<b>10.73</b>
<b>M3 money supply growth during the year</b>								
2014	7.2			<b>7.2</b>	7.2			<b>7.2</b>
2015	7.5			<b>7.5</b>	7.7			<b>7.7</b>
<b>Salary and wage increase during the year</b>								
2014	7.7	7.9	8.0	<b>7.9</b>	7.5	7.8	7.6	<b>7.6</b>
2015	7.7	8.0	8.1	<b>7.9</b>	7.4	8.0	7.6	<b>7.7</b>
<b>Percentage utilisation of production capacity in manufacturing during the year</b>								
2014	82.1			<b>82.1</b>	81.3			<b>81.3</b>
2015	82.4			<b>82.4</b>	82.4			<b>82.4</b>

Households:

Avg price increase over the next 12 months 2014	<b>6.7</b>		<b>6.3</b>
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**A. DETAILS OF SURVEY RESULTS- 2014Q2: Analysts, business executives and trade union officials**

	CPI 2014	CPI 2015	CPI 2016	GDP 2014	GDP 2015	PRIME 2014	PRIME 2015
<b>Financial Analysts</b>							
Count	15	15	15	15	15	15	15
Average	6.2	5.7	5.4	1.9	2.7	9.4	9.8
Standard deviation	0.1	0.2	0.3	0.2	0.3	1.0	1.0
Maximum	6.5	6.0	5.8	2.3	3.0	10.5	11.0
Minimum	6.0	5.2	4.5	1.5	2.2	6.0	7.0
Median	6.2	5.7	5.5	1.9	2.8	9.5	10.0
Mode	6.3	5.5	5.5	1.8	2.5	9.5	10.0
<b>Business People</b>							
Count	273	260	255	269	257	272	260
Average	6.2	6.3	6.4	1.7	2.0	9.1	9.5
Standard deviation	0.7	0.8	1.0	0.6	0.6	0.5	0.8
Maximum	10.0	10.0	12.0	6.0	4.0	10.5	12.0
Minimum	0.7	0.8	0.1	-0.5	-1.0	7.5	7.0
Median	6.0	6.2	6.1	1.9	2.0	9.0	9.5
Mode	6.0	6.0	6.0	2.0	2.0	9.0	9.5
<b>Trade Union Officials</b>							
Count	10	10	10	10	10	10	10
Average	6.0	6.1	6.1	1.9	2.3	9.1	9.1
Standard deviation	0.2	0.4	0.4	0.5	0.5	0.7	0.9
Maximum	6.4	6.9	6.9	2.8	3.0	10.5	10.5
Minimum	5.7	5.7	5.7	0.9	1.6	8.0	7.5
Median	6.0	6.0	6.0	2.0	2.2	9.0	9.1
Mode	6.0	6.0	6.0	2.1	2.0	9.0	10.0

	R207 2014	R207 2015	RAND 2014	RAND 2015	M3 2014	M3 2015	WAGES 2014	WAGES 2015	CAPACITY 2014	CAPACITY 2015
<b>Financial Analysts</b>										
Count	13	12	15	15	12	12	14	14	11	11
Average	8.22	8.40	10.47	10.34	7.2	7.7	7.5	7.4	81.3	82.4
Standard deviation	0.6	0.9	0.5	0.6	0.8	1.4	0.8	0.9	1.6	1.4
Maximum	9.3	10.0	11.3	11.1	8.4	10.1	8.5	8.5	83.0	84.5
Minimum	7.4	7.0	9.8	9.1	6.2	6.0	6.0	5.5	77.0	80.0
Median	8.0	8.5	10.5	10.5	7.1	7.8	7.8	7.7	82.0	82.5
Mode	8.0	8.5	10.5	10.0	7.0	8.5	8.0	7.5	82.0	82.0
<b>Business People</b>										
Count			272	261			271	257		
Average			10.67	10.91			7.8	8.0		
Standard deviation			0.6	0.9			1.3	1.4		
Maximum			15.0	17.0			15.0	15.0		
Minimum			9.5	8.5			0.0	0.0		
Median			10.6	10.9			7.9	8.0		
Mode			10.5	11.0			8.0	8.0		
<b>Trade Union Officials</b>										
Count			9	9			10	10		
Average			10.73	10.95			7.6	7.6		
Standard deviation			0.3	0.7			0.4	0.9		
Maximum			11.2	12.2			8.5	9.0		
Minimum			10.3	10.0			7.0	6.0		
Median			10.7	11.0			7.5	7.5		
Mode			N/A	10.5			7.5	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
<b>Total</b>																
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	6.1
2015											6.1	6.1	6.1	6.1	6.1	6.1
2016															5.9	5.9
<b>Analysts</b>																
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	6.2
2015											5.6	5.4	5.5	5.5	5.8	5.7
2016															5.4	5.4
<b>Business</b>																
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	6.2
2015											6.6	6.5	6.4	6.5	6.4	6.3
2016															6.2	6.4
<b>Trade Unions</b>																
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	6.0
2015											6.2	6.3	6.3	6.4	6.1	6.1
2016															6.1	6.1

### C. DETAILS OF SURVEY RESULTS: Households

Survey quarter Expectations in respect of	2013Q4	2014Q1	2014Q2						
	2013	2014	2014						
	Average	Average	Average <sup>1</sup>	Std Dev <sup>1</sup>	Median <sup>1</sup>	Minimum	Maximum	% >25% <sup>2</sup>	% D/K <sup>2</sup>
<b>Total</b>	6.9	6.7	6.3	2.8	6	1	100	4.0	16.7
<b>Per population group</b>									
Blacks	6.8	6.6	6.3	2.9	6	1	100	4.4	15.4
Coloureds	7.1	6.8	6.1	2.5	6	1	100	4.1	24.5
Indians	7.4	7.2	7.0	2.7	6	2	50	0.9	8.1
Whites	6.9	6.6	6.1	2.5	6	1	100	3.1	18.3
<b>Per monthly household income</b>									
R14 000+	6.7	6.6	6.4	2.9	6	1	100	1.4	14.2
R7 000-R13 999	6.6	6.5	6.2	2.7	6	1	100	3.8	14.7
R3 000-R6 999	7.2	6.7	6.1	2.5	6	1	100	4.1	17.3
R1-R2 999	7.0	7.0	6.6	3.2	6	1	100	6.6	20.5
<b>Per age group</b>									
16-24	6.5	6.2	6.3	3.1	6	1	100	3.7	15.2
25-34	6.7	6.7	6.2	2.7	6	1	100	5.0	14.2
35-49	6.9	6.7	6.3	2.8	6	1	100	4.8	15.6
50+	7.4	7.1	6.4	2.7	6	1	100	2.3	22.0
<b>Per gender</b>									
Male	6.8	6.7	6.3	2.9	6	1	100	4.0	13.8
Female	6.9	6.7	6.3	2.7	6	1	100	4.0	19.5
<b>Per community size</b>									
Metro	6.9	6.6	6.3	2.9	6	1	100	2.8	16.7
Other urban	6.7	6.8	6.3	2.6	6	1	100	6.0	16.5

<sup>1</sup> Excluding don't know and responses exceeding 25%; <sup>2</sup> 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
<b>Total</b>	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	6.3
<b>Per population</b>																
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	6.3
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	6.1
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	7.0
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	6.1
<b>Per income group</b>																
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	6.4
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	6.2
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	6.1
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	6.6
<b>Per age group</b>																
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	6.3
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	6.2
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	6.3
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	6.4
<b>Per gender</b>																
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	6.3
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	6.3
<b>Per community</b>																
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	6.3
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	6.3

## E. DATES WHEN SURVEYS WERE CONDUCTED

Business sector, financial analysts and the trade union movement

Survey quarter	Mail questionnaires	Date of return	Process results
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
14Q2	14/05	12/06	13/06

### 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
14Q2	16 May – 2 Jun	18 Jun

## 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?