

Inflation Expectations Survey



The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf of the Bank of Jamaica to ascertain the expectations of these economic agents about variables which are likely to have an impact on inflation in the near-term. In this regard, the survey captures the perception of Chief Executive Officers, Managing Directors and Financial Controllers about the future movement of prices, current and future business conditions and the expected rate of increase in wages/salaries. These responses assist the Central Bank in charting future policy decisions. The most recent survey was conducted between December 2012 and January 2013 and had 298 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2011, the inflation rate was 6.0 per cent. What do you think the inflation rate will be for calendar year 2012?

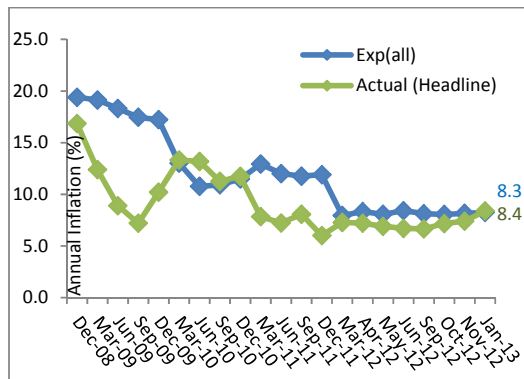
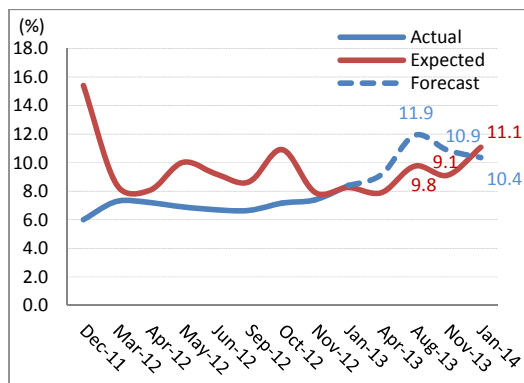


Figure 2: Expected Annual Inflation

Based on the last 12 months (January 2012 to December 2013) the average monthly inflation rate was approximately 0.6 per cent. What do you think the average monthly rate will be for the next 12 months?



*Note: (i) The responses have been annualized (ii) Responses as at January 2013 convey the expected inflation for January 2014

Overview

- The survey captured inflation expectations which were in line with the outturn for calendar year 2012.
- The perception of inflation control deteriorated, continuing the trend decline observed since the December 2011 survey.
- The expected exchange rate reflected an accelerated pace of depreciation over the short-term horizon.
- The larger share of respondents expected that in three months' time, the Bank's OMO rate will be marginally higher.
- Both the perception of present and future business conditions deteriorated relative to the previous survey and continued to reflect a general downward trend.

Inflation Expectations

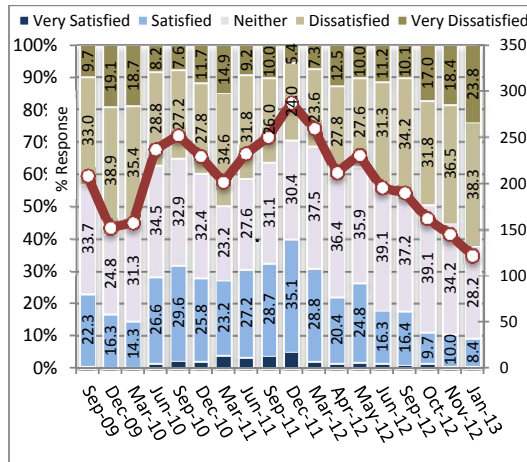
The results of the survey indicated that inflation expectation for CY2013 was **8.3 per cent**, which was marginally higher than the **8.2 per cent** expected in the November 2012 survey (see Figure 1). The actual inflation for CY2012 was **8.0 per cent**.

The 12-month ahead inflation expectation increased to double digit level at **11.1 per cent** from the **9.1 per cent** expected in the November 2012 survey.

Inflation Expectations Survey

Figure 3: Perception of Inflation Control

How satisfied are you with the way inflation is being controlled by the Government?¹



*December 2005 = 100

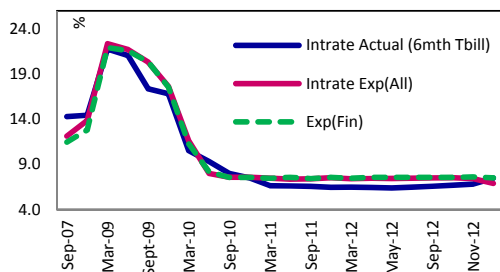
Table 1: Exchange Rate Expectations

In November 2012 the exchange rate was J\$91.89=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months, 12 months?

OVERALL SURVEY				
	Sep-12	Oct-12	Nov-12	Jan-13
Periods Ahead	Expected Depr.	Expected Depr.	Expected Depr.	Expected Depr.
3 Months	0.6	1.1	1.3	2.2
6 Months	1.5	1.9	1.8	3.0
12 Months	2.5	2.8	2.5	3.7

Figure 4: 180-day T-bill

In November 2012 the 180-day T-bill rate was 6.81 per cent. What do you think the rate will be for the next 3 months?



¹ Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

This increase was likely underscored by the faster pace of exchange rate amidst rising uncertainties about the government's economic programme.

Perception of Inflation Control

The index of the perception of inflation control decreased to **122.1** from the November 2012 index of **144.7** (see Figure 3). Since the December 2011 survey of business expectations, there has been a trend decline in the perception of inflation control. The deterioration was mainly reflected in an increase in the number of respondents who were 'dissatisfied' and 'very dissatisfied' while fewer respondents were neither 'satisfied nor dissatisfied'.

Exchange Rate Expectations

Respondents indicated that they expect a greater level of depreciation for the 3-months, 6-months and 12-months periods beyond the survey date. This compares to the November 2012 survey results of a moderation in expected depreciation 6-months and 12-months hence, while the 3-months reflected expectation for increased depreciation (see Table 1). In the January 2013 survey, the exchange rate was expected to depreciate by **2.2 per cent**, **3.0 per cent** and **3.7 per cent** for the 3-month, 6-month and 12-month horizons, respectively. This result was in comparison to expectations for depreciation of **1.3 per cent**, **1.8 per cent** and **2.5 per cent** for the respective periods in the previous survey.

Interest Rate Expectations: 180-day T-bill

The survey indicated that the expected 180-day Treasury-bill rate, three months hence, was marginally higher at **7.5 per cent** relative to the **7.4 per cent** expected in the previous survey (see Figure 4). In January 2013, the actual interest rate for the 180-day T-bills was **7.5 per cent**. This represented the first alignment between actual and expected 180-day T-bill rates since February 2011.

Inflation Expectations Survey

Table 2: Interest rate Expectations: OMO Rate

In November 2012, the Bank of Jamaica's 30-day rate was 6.25 per cent. What do you think this rate will be for the next 3 months?

	OVERALL				FINANCIAL SECTOR			
SURVEY DATES	Aug12/ Sep12	Sep12/ Oct12	Oct12/ Nov12	Dec12/ Jan13	Aug12/ Sep12	Sep12/ Oct12	Oct12/ Nov12	Dec12/ Jan13
<i>Survey responses (percentage of total)</i>								
Significantly Lower	1.0	1.0	1.9	2.0	0.0	3.2	0.0	1.6
Marginally Lower	10.1	13.1	8.4	16.1	11.5	14.5	9.4	8.1
Remain the Same	49.3	48.8	39.7	34.2	59.6	45.2	37.7	32.3
Marginally Higher	33.2	32.2	44.2	39.3	21.2	32.3	49.1	51.6
Significantly Higher	4.4	2.8	3.9	4.4	5.8	3.2	1.9	4.8
Don't Know	2.0	2.1	1.6	4.0	1.9	1.6	1.9	1.6

Interest Rate Expectations: OMO Rate

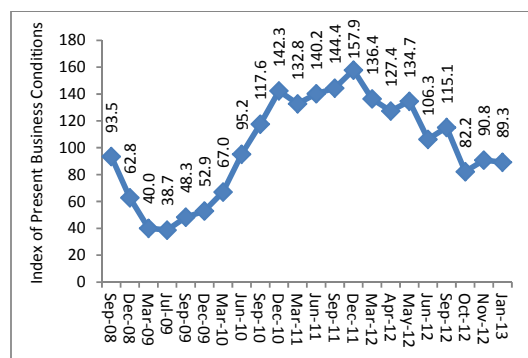
In the January 2013 survey, the majority of respondents expected that the OMO rate would be marginally higher over the next three months. This was the second consecutive survey in which there was expectation for the OMO rate to be higher. This perception was in contrast to the general view which has been expressed since the December 2010 survey that the rate would be unchanged. Sentiments about a rising OMO rate was mainly expressed by the financial sector (see Table 2).

Perception of Present and Future Business Conditions

In the current survey, there were declines in both the perceptions about present and future business conditions relative to the previous survey. These declines were consistent with previous trends since December 2011 for current expectations and September 2010 for future expectations (see Figure 5). Participants continue to moderate their future expectations less aggressively than their perceptions about the present.

Figure 5: Present Business Conditions

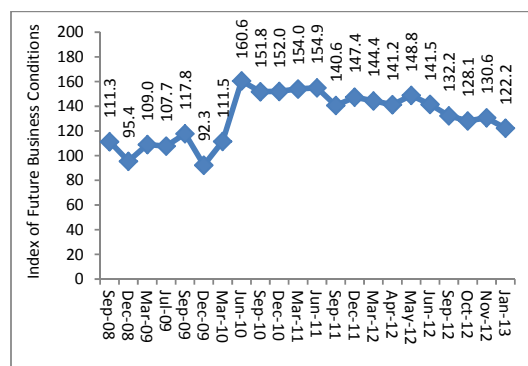
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*December 2005 = 100

Figure 6: Future Business Conditions

Do you think that in a year from now business conditions will get better or get worse than they are at present?



*December 2005 = 100

Expected Increase in Operating Expenses

Respondents continued to indicate that they expect the largest increase in production costs in the next 12 months to reflect higher cost of utilities (see Table 3). Other costs that were expected to contribute significantly to inflation in the next 12 months included fuel and transport costs as well as stock replacement costs. The cost of raw materials and wages & salaries were the input costs least expected to increase in the next 12 months.

Table 3: Operating Expenses

Which input do you think will have the highest price increase in the next 12 months?

	Sep-12	Oct-12	Nov-12	Jan-13
Utilities	41.6	55.0	47.4	44.6
Wages/Salaries	7.7	4.8	3.5	3.0
Fuel/Transport	16.8	16.3	15.5	20.5
Stock Replacement	23.2	15.6	22.9	20.5
Raw Materials	9.7	8.0	9.7	10.7
Other	0.7	0.3	0.6	0.7
Not Stated	0.3	0.0	0.3	0.0