

Inflation Expectations Survey



The Statistical Institute of Jamaica (STATIN) undertakes quarterly surveys of businesses on the Bank's behalf 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/salary. These responses assist the Central Bank in charting future policy decisions. The most recent survey was conducted between November and December 2011 and had 296 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2010, the inflation rate was 11.7 per cent. What do you think the inflation rate will be for 2011?

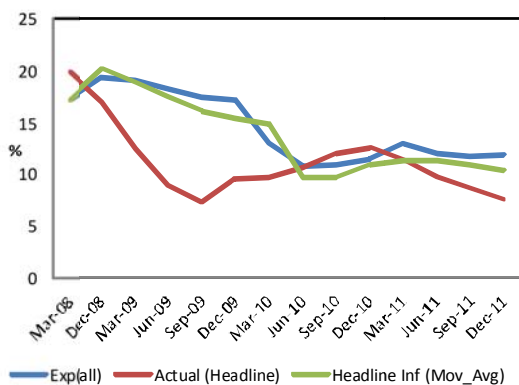
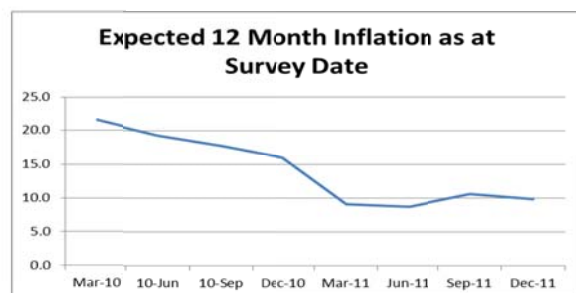


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2010 to September 2011) 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?



Overview

- The December 2011 survey reflected a relatively stable inflation expectation when compared to the previous survey.
- The perception of inflation control improved, consistent with the general trend since March 2009.
- There are expectations for a marginal depreciation in the exchange rate in the near-term.
- Respondents believe that in three months the Bank's OMO rate will remain the same.
- The perception of present and future business conditions indicates that the assessment of the current state of the economy remains favourable and there is optimism about the future.

Inflation Expectations

In the December 2011 survey, inflation expectation for the CY was 11.9 per cent (see Figure 1). This was generally in-line with the 11.8 per cent which was expected in the September 2011 quarter.

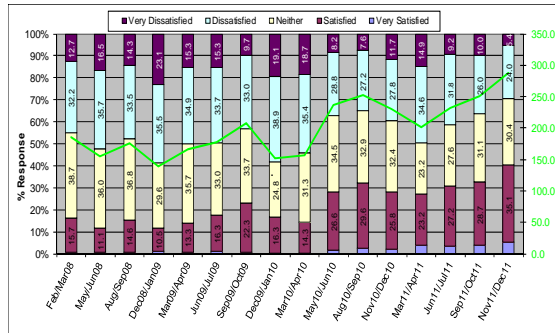
The modal range remained at 10.0 per cent to 14.0 per cent. However, there was a marginal decline in the number of respondents who

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thought that the inflation rate would be between 0 to 9.0 per cent.

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 February 2011 the exchange rate was J\$85.78=US\$1.00. What do you think the rate will be for the following time periods, 3 months, 6 months, 12 months?

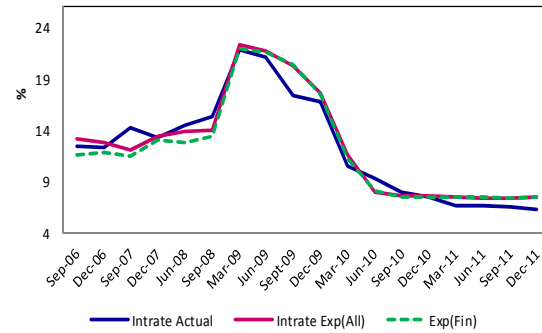
OVERALL SURVEY				
	Dec-10	Jun-11	Sep-11	Dec-11
Time	Expected	Expected	Expected	Expected
Period	Depr.	Depr.	Depr.	Depr.
3 Months	-1.5	-0.1	0.3	0.6
6 Months	-1.2	0.5	0.5	0.5
12 Months	-0.3	0.9	0.8	1.2

Figure 4: 180-day T-bill

In February 2011, the 180-day T-bill rate was 6.62 per cent. What do you think the rate will be for the

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

next 3 months?



Respondents expected the 12-month inflation from December 2011 to be approximately 9.8 per cent.

Perception of Inflation Control

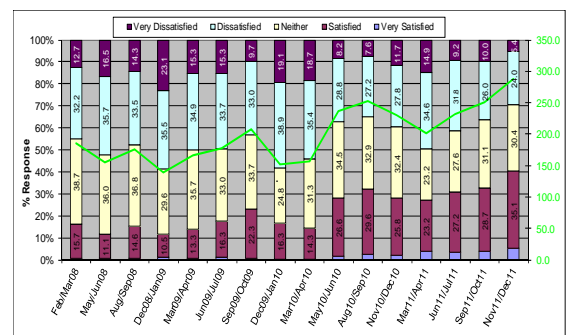
The index of the perception of inflation control increased during December 2011 to 278.8 from 250.6 in September 2011 (see Figure 3). This was the highest level recorded since the start of the survey.

The public's perception of the Government's ability to control the inflation rate has improved steadily since the March 2011 survey. For the first time since the inception of the survey, the proportion of satisfied respondents surpassed those that are dissatisfied.

Exchange Rate Expectations

Respondents indicated that they expected a marginal rate of depreciation in the exchange rate in the near-term as well as in a year (Figure 3: Perception of Inflation Control)

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



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*December 2005 = 100

Table 1). The rate of depreciation is expected to increase by 0.6 per cent in the next three months when compared to the previous survey when respondents expected a 0.3 per cent depreciation. In addition, respondents expect depreciation of 1.2 per cent in the next 12 months.

Interest Rate Expectations: 180-day T-bill

The survey indicated that the expected 180-day T-bill rate three months hence remained similar to that of the previous survey (see Figure 4). Also, the actual interest rate remained below the expected interest rate. There has been a sustained deviation between actual and expected interest rate since the December 2010 survey.

Interest Rate Expectations: OMO Rate

In the December 2011 survey the majority of the respondents indicated that they expected the

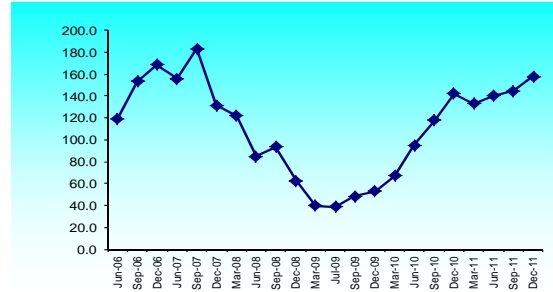
Table 2: Interest rate Expectations: OMO Rate.

In February the Bank of Jamaica 30-day rate was 6.75 per cent. What do you think this rate will be for the next 3 months?

	OVERALL				FIN SECTOR			
	Dec-10	Jun-11	Sep-11	Dec-11	Dec-10	Jun-11	Sep-11	Dec-11
Survey responses (percentage of total)								
Significantly Lower	2.3	2.5	0.7	0.0	0.0	5.5	0.0	0.0
Marginally Lower	44.8	36.4	34.9	18.6	47.3	30.1	25.0	22.8
Remain the Same	37.8	43.1	46.7	56.4	39.2	45.2	51.3	55.7
Marginally Higher	10.0	13.4	15.6	22.6	5.4	15.1	20.0	20.3
Significantly Higher	1.3	0.8	0.3	0.3	4.1	1.4	1.3	0.0
Don't Know	3.7	3.3	1.7	1.7	4.1	2.7	2.5	1.3

Figure 5: Present Business Conditions

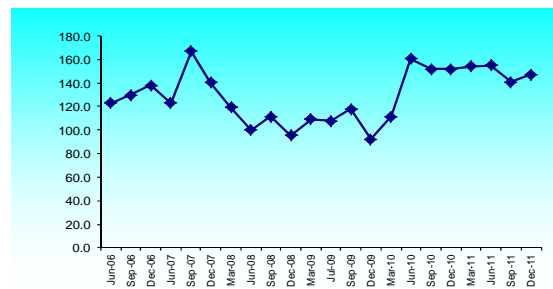
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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

OMO rate three months hence to remain the same (Table 2). There were also declines in the number of respondents who thought that the OMO rate would be marginally higher as well as those who thought it would be marginally lower.

Perception of Present and Future Business Conditions

The assessment of the perception of present business conditions showed an increase when compared to the previous survey (see Figure 5). There was also an increase in the perception of future business conditions in the December 2011 survey (see Figure 6). The up-tick in the perception of future business conditions suggest that perceptions had stabilized since the March 2010 survey. In general, the perceptions of present and future business conditions were favourable.

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Expected Increase in Operating Expenses

Respondents indicated that they expect the largest increase in 12 months to be associated with the cost of utilities (see Table 3). There was also an indication that the costs of fuel and transport are expected to reflect increases in one year.

Table 3: Operating Expenses

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

Operating Expenses	Dec-10	Jun-11	Sep-11	Dec-11
Survey responses (percentage of total)				
Utilities	37.8	46.4	50.9	41.6
Wages/ Salaries	6.7	3.3	4.8	6.8
Fuel/Transport	18.7	21.3	18.7	26.4
Stock Replacement	23.7	14.2	13.1	15.5
Raw Materials	12.7	14.6	12.5	9.8
Other	0.3	0	0	0