



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

OCTOBER 2013

**RESEARCH SERVICES DEPARTMENT
RESEARCH AND ECONOMIC PROGRAMMING DIVISION**

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 in October 2013 and had 300 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2012, the inflation rate was 8.0 per cent. What do you think the inflation rate will be for 2013?

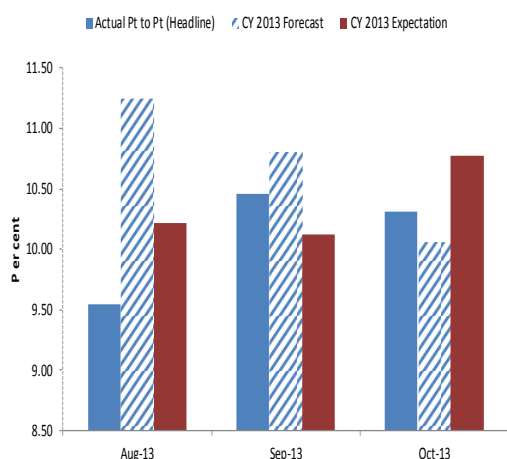
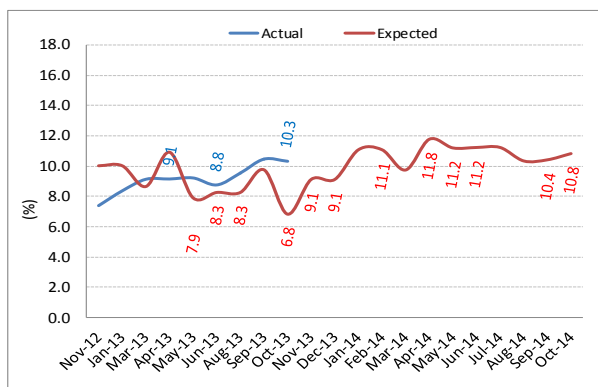


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2012 to September 2013) the average monthly inflation rate was approximately 0.87 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) The expected inflation for October 2014 reflect responses as at October 2013 (ii) Periods where no survey was conducted assumes the previous month expectation.

Overview

- The October 2013 survey indicated an increase in inflation expectations for calendar year 2013 relative to the previous survey.
- The perception of inflation control in the October 2013 survey fell to its lowest level since September 2005.
- Relative to the previous survey, there was an increase in the 12 month ahead expected pace of exchange rate depreciation.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- The perception of present and future business conditions worsened relative to the previous survey.

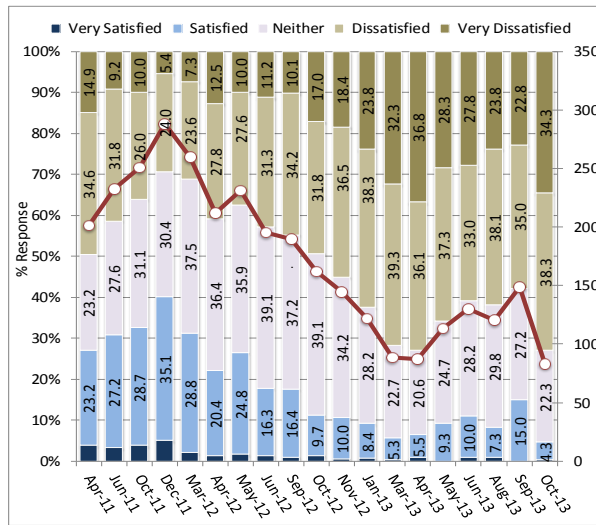
Inflation Expectations

In the October 2013 survey, the expected inflation for calendar year (CY) 2013 was **10.8 per cent**, relative to the **10.1 per cent** expected in the September 2013 survey. The expected inflation for CY 2013 was above the outturn of **8.0 per cent** for 2012 and the annual point-to-point inflation of **10.3 per cent** as at October 2013 (see Figure 1). The calendar year to October 2013 inflation was **8.6 per cent**.

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

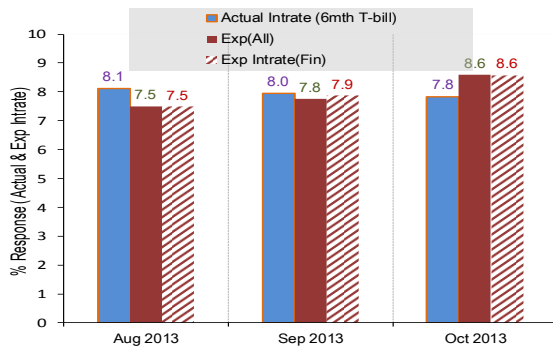
Table 1: Exchange Rate Expectations

In September 2013 the exchange rate was J\$102.64=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months, and 12 months?

OVERALL SURVEY				
Periods Ahead	Expected Depreciation			
	Jun-13	Aug-13	Sep-13	Oct-13
3 Months	3.9	1.5	1.8	2.6
6 Months	5.9	2.6	3.0	3.9
12 Months	6.7	4.3	4.7	5.9

Figure 4: 180-day T-bill

In September 2013 the 180-day T-bill rate was 7.96 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

Respondents' expectation of inflation 12-months ahead also increased to **10.8 per cent** in the October 2013 survey relative to **10.4 per cent** in the September 2013 survey (see Figure 2).

Perception of Inflation Control

The results of the October 2013 survey reflected a significant deterioration in businesses' perception of inflation control by the authorities when compared to the previous survey. Specifically, the index of inflation control declined to **83.1** from **148.6** in September 2013 (see Figure 3). This downturn represents the lowest level since September 2005. The fall in the index mainly reflected a decline in the number of respondents who were 'satisfied' with the authority's control of inflation. In addition, the number of respondents who were 'dissatisfied' and 'very dissatisfied' increased relative to the previous survey.

Exchange Rate Expectations

Respondents anticipated an increase in the pace of domestic currency depreciation for the 3-month, 6-month and 12-month periods beyond the survey date. In the October 2013 survey, the exchange rate was expected to depreciate by **2.6 per cent**, **3.9 per cent** and **5.9 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in September 2013 had indicated expected depreciation of **1.8 per cent**, **3.0 per cent** and **4.7 per cent** over the respective horizons.

Interest Rate Expectations: 180-day T-bill

The survey results indicated that the expected 180-day Treasury bill rate, three months hence would increase to **8.6 per cent** from the **7.9 per cent** expressed in the previous survey (see Figure 4).

Inflation Expectations Survey

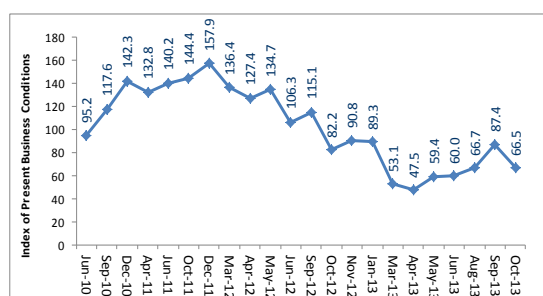
Table 2: Interest rate Expectations: OMO Rate

In September 2013, the Bank of Jamaica's 30-day rate was 5.75 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	July/Aug-13	Aug/Sep-13	Oct/Nov-13	July/Aug-13	Aug/Sep-13	Oct/Nov-13
Survey responses (percentage of total)						
Significantly Lower	0.3	0.7	0.7	0.0	0.0	1.9
Marginally Lower	17.9	13.6	11.7	18.5	12.1	13.2
Remain the Same	46.7	45.6	48.0	46.3	43.1	50.9
Marginally Higher	31.1	36.1	35.0	33.3	41.4	30.2
Significantly Higher	2.3	2.0	2.3	1.9	1.7	1.9
Don't Know	1.7	2.0	2.3	0.0	1.7	1.9

Figure 5: Present Business Conditions

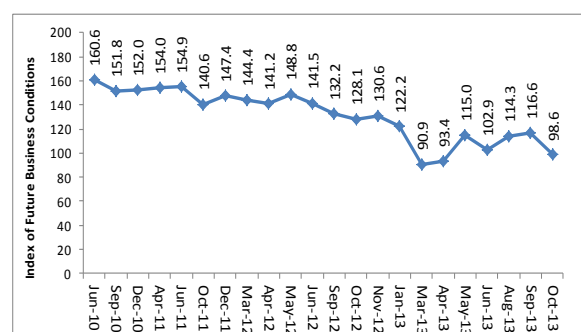
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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

In the October 2013 auction, the actual interest rate on the 180-day Treasury bill fell to **7.8 per cent** from **8.0 per cent** in the September 2013 auction.

Interest Rate Expectations: OMO Rate

In the October 2013 survey, the majority of respondents expected that the Bank's OMO rate would remain the same over the next three months. While, similar to the previous survey, the percentage of respondents expressing this view increased to **48.0 per cent** from **45.6 per cent** in the previous survey. Correspondingly, there was a marginal decline in the proportion of respondents who believed that the OMO rate would be marginally higher. The results from the overall survey were largely in line with the views expressed within the financial sector (see Table 2).

Perception of Present and Future Business Conditions

The perceptions about present and future business conditions deteriorated significantly in the most recent survey relative to the previous survey. Both indices remained below the levels recorded in FY2011/12 (see Figure 5).

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Jun-13	Aug-13	Sep-13	Oct-13
Utilities	37.8	39.7	38.8	41.7
Wages/Salaries	4.1	2.3	5.1	2.0
Fuel/Transport	21.3	14.2	16.3	15.0
Stock Replacement	25.8	28.1	29.3	27.0
Raw Materials	10.3	14.6	9.9	13.7
Other	0.7	1.0	0.7	0.7
Not Stated	0.0	0.0	0.0	0.0

Expected Increase in Operating Expenses

Respondents continued to indicate that they expect the largest increase in production costs over the next 12 months to emanate from higher cost of utilities (see Table 3). Stock replacement was expected to be the second largest contributor to higher production costs over the next 12 months. The cost of raw materials and fuel & transport cost were also expected to contribute significantly to higher production costs for the year ahead. Wages & Salaries remained the input costs least expected to increase over the next 12 months.