



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

APRIL 2016

**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 over the 22 March to 16 April 2016 and had 295 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2015, the inflation rate was 3.7 per cent. What do you think the inflation rate will be for 2016?

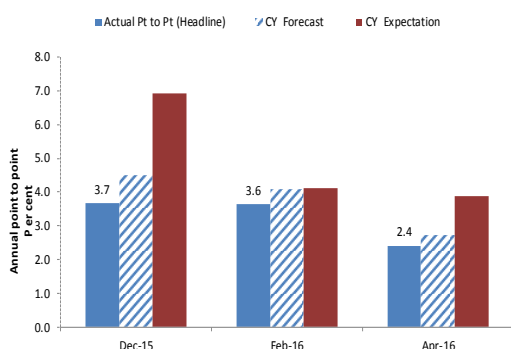
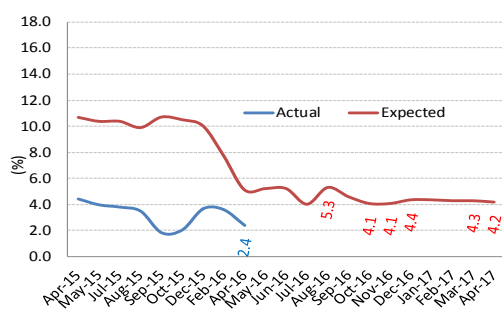


Figure 2: Expected Annual Inflation

Based on the last 12 months (March 2015 to February 2016) the average monthly inflation rate was approximately 0.30 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 April 2017 reflects responses as at April 2016 (ii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The April 2016 survey indicated an expected inflation of 3.9 per cent for calendar year (CY) 2016, lower than the 4.1 per cent recorded in the previous survey. The expected inflation 12 months ahead was marginally lower relative to the previous survey.
- The perception of inflation control improved in the April 2016 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a faster pace of exchange rate depreciation over the next three months but moderated their outlook for the six months and one year horizons.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- Perceptions about current and future business conditions remained virtually flat relative to the previous survey's record levels.

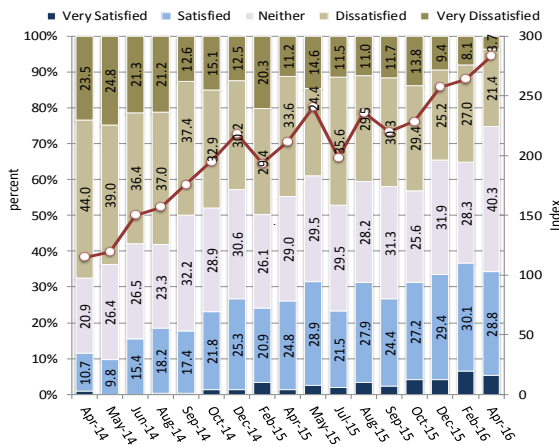
Inflation Expectations

In the April 2016 survey, the expected inflation for CY2016 was **3.9 per cent**, below the **4.1 per cent** expected in the February 2016 survey. The expectation for the calendar year was above the annual inflation of **2.4 per cent** at February 2016 (see Figure 1). Notably, respondents' expectation of inflation 12 months ahead declined marginally to **4.2 per cent** relative to **4.3 per cent** in the February 2016 survey (see Figure 2).

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

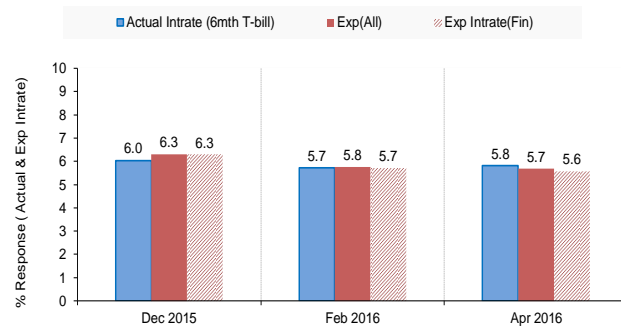
Table 1: Exchange Rate Expectations

In February 2016 the exchange rate was J\$121.85=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			
	Dec-14	Feb-15	Feb-16	Apr-16
3 Months	1.4	1.7	0.7	1.1
6 Months	2.1	3.0	1.7	1.6
12 Months	3.0	3.8	3.2	2.8

Figure 4: 180-day T-bill

In February 2016 the 180-day T-bill rate was 5.7 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of inflation control by the authorities improved for the fourth consecutive time in the April 2016 survey. Specifically, the index of inflation control increased to **283.4** from **263.6** in the April 2016 survey (see Figure 3). This outturn reflected a decline in both the number of respondents who were 'very dissatisfied' and 'dissatisfied' with the authorities' control of inflation, which offset a marginal decline in the number of respondents who were 'very satisfied' and 'satisfied'.

Exchange Rate Expectations

Relative to the previous survey, respondents expected a faster pace of depreciation in the domestic currency for the 3-month horizon but a slowing for the 6-month and 12-month time horizons. Specifically, in the April 2016 survey, the exchange rate was expected to depreciate by **1.1 per cent** for the 3-month horizon compared to a response of 0.8 per cent as at the previous survey. For the 6-month and 12-month horizons there were expectations of depreciation of **1.6 per cent** and **2.8 per cent**, respectively, compared to depreciations of **1.7 per cent** and **3.2 per cent** in the February 2016 survey (see Table 1).

Interest Rate Expectations: 180-day T-bill

The expected 180-day Treasury bill rate, three months hence, was **5.7 per cent**, marginally below the **5.8 per cent** reported in the previous survey. This expected rate was marginally below the actual outturn of **5.8 per cent** for April 2016 (see Figure 4).

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

Inflation Expectations Survey

Table 2: Interest rate Expectations: OMO Rate

In February 2016, the Bank of Jamaica's 30-day rate was 5.25 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	Dec 15	Feb 16	Apr-16	Dec 15	Feb 16	Apr-16
<i>Survey responses (percentage of total)</i>						
Significantly Lower	4.2	1.9	0.7	6.8	1.4	0.0
Marginally Lower	25.2	23.6	18.3	27.4	30.4	25.0
Remain the Same	45.2	51.6	52.2	42.5	44.9	51.6
Marginally Higher	23.9	21.4	27.1	21.9	21.7	23.4
Significantly Higher	0.6	0.6	0.7	1.4	1.4	0.0
Don't Know	1.0	0.0	1.0	0.0	0.0	0.0

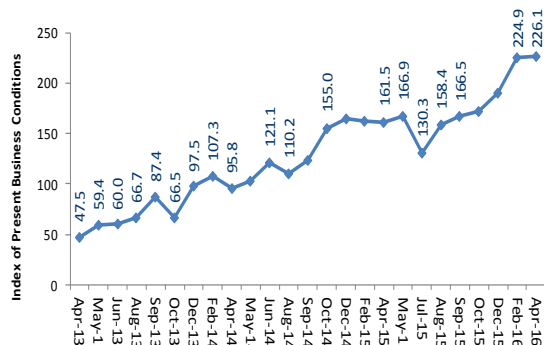
Interest Rate Expectations: OMO Rate

In the February 2016 survey, the majority of respondents expected that the Bank's OMO rate will remain the same over the next three months. The results for the financial sector were consistent with the overall view that the BOJ would maintain the 30-day OMO rate at the current level. However, relative to the previous survey, there was an increase in the proportion of response who expected the Bank's policy rate to be higher and a decline in those expecting it to be lower. This was evident for both the responses from the overall survey and the financial sector.

Perception of Present and Future Business Conditions

Figure 5: Present Business Conditions

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

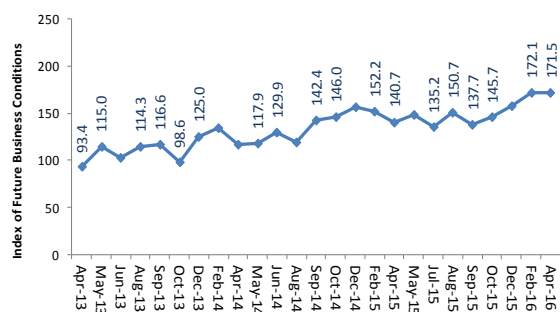


* December 2005 = 100

In the April 2016 survey, the perceptions of both present and future business conditions remained virtually unchanged relative to the record highs of the previous survey (see Figures 5 and 6). Notably, the index of present business conditions was recorded at **226.1** basically in line with the **224.9** attained in the previous survey. The index of future business conditions declined marginally to **171.5** from **172.1** in the previous survey. Both indices reflected declines in the proportion of respondents of the view that conditions were or will be "better" while there were declines in the number of respondents indicating that conditions were or will be "worse". However there was an increase in the proportion of respondents who thought that conditions were 'about the same'.

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

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Sep-15	Oct-15	Dec-15	Feb-16
Utilities	30.3	28.1	29.4	21.7
Wages/Salaries	10.7	8.1	13.6	12.1
Fuel/Transport	11.1	11.6	8.7	10.2
Stock Replacement	30.0	33.4	31.7	37.6
Raw Materials	17.6	18.8	15.9	17.1
Other	0.3	0.0	0.6	1.2
Not Stated	0.0	0.0	0.0	0.0

Expected Increase in Operating Expenses

As was the case in the three previous surveys, respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from the cost of stock replacement (see Table 3). Higher costs for utilities was expected to be the second largest contributor to production costs over the next 12 months. Interestingly, the proportion of respondents of this view revealed a marked decline relative to the previous three surveys. The cost of fuel/transport in the production process was the input cost least expected to increase over the next 12 months.