



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**AUGUST 2016**

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

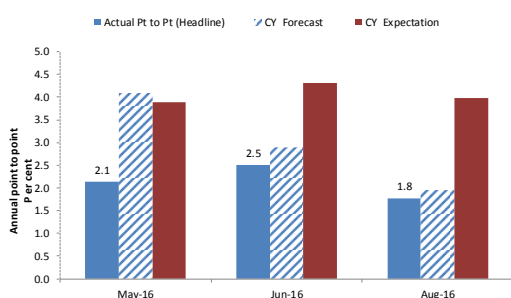
# Inflation Expectations Survey



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 03 August to 28 August 2016 and had 314 respondents. Below are highlights from that survey.

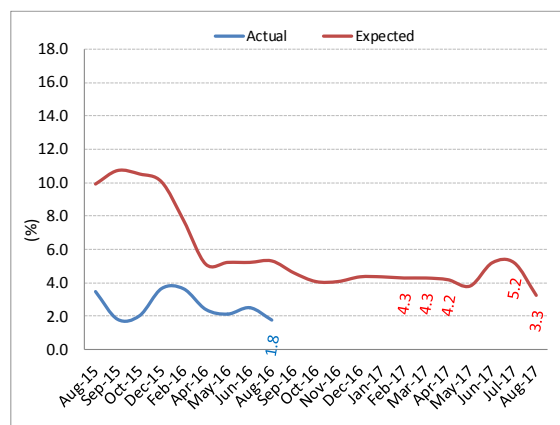
## Figure 1: Inflation Expectations

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 (August 2015 to July 2016) the average monthly inflation rate was approximately 0.2 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 August 2017 reflects responses as at August 2016 (iii) periods where no survey was conducted assume the previous month's expectation.

## Overview

- The August 2016 survey indicated an expected inflation of 4.0 per cent for calendar year (CY) 2016, lower than the 4.3 per cent recorded in the previous survey. The expected inflation 12 months ahead was also lower relative to the previous survey.
- The perception of inflation control increased in the August 2016 survey relative to the previous survey.
- Respondents lowered their view about the pace of depreciation over all three time horizons.
- The majority of respondents believed that the Bank's OMO rate will remain the same over the next three months.
- Perceptions about current and future business conditions improved relative to the previous survey with the latter reaching record levels.

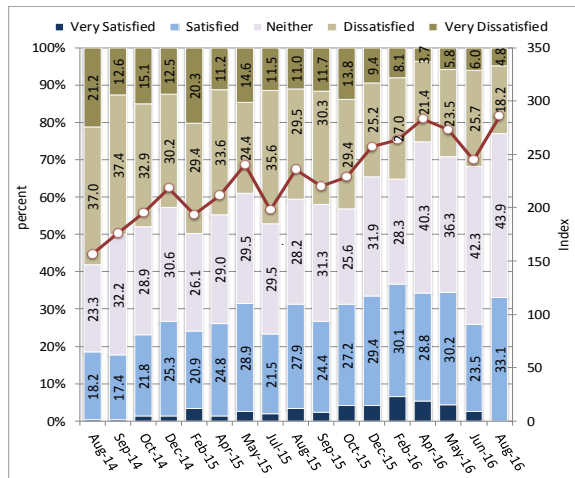
## Inflation Expectations

In the August 2016 survey, the expected inflation for CY2016 was **4.0 per cent**, a decrease relative to the June 2016 survey. The expectation for the calendar year was above the annual inflation of **1.8 per cent** at August 2016 (see Figure 1). Notably, respondents' expectation of inflation 12 months ahead fell to **3.3 per cent** relative to **5.2 per cent** in the July 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?<sup>1</sup>



\*December 2005 = 100

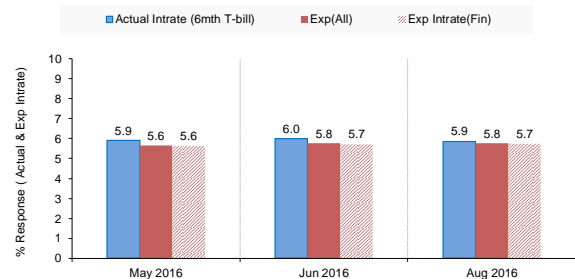
**Table 1: Exchange Rate Expectations**

In July 2016 the exchange rate was J\$126.56=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months and 12 months?

Periods Ahead	Expected Depreciation			
	Feb-16	Apr-16	Jun-16	Aug-16
3 Months	0.7	1.1	1.7	1.3
6 Months	1.7	1.6	2.9	1.8
12 Months	3.2	2.8	4.2	2.8

**Figure 4: 180-day T-bill**

In July 2016 the 180-day T-bill rate was 5.9 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of the Government's control of inflation increased in the August 2016 survey. Specifically, the index of inflation control increased to **286.0** from **273.2** in the previous survey (see Figure 3). This outturn reflected an increase in the number of respondents who were 'satisfied' and a decline in the number who were either 'dissatisfied' or 'very dissatisfied' with the authorities' control of inflation.

## Exchange Rate Expectations

Relative to the previous survey, respondents view was for a reduced pace of currency depreciation over the 3-month, 6-month and 12-month time horizons. Specifically, in the August 2016 survey, the exchange rate was expected to depreciate by **1.3 per cent** for the 3-month horizon which was lower than the **1.7 per cent** expected in the June 2016 survey. For the 6-month and 12-month horizons there were expectations of depreciation of **1.8 per cent** and **2.8 per cent**, respectively, compared to depreciations of **2.9 per cent** and **4.2 per cent** in the June 2016 survey (see Table 1).

## Interest Rate Expectations: 180-day T-bill

For a second consecutive survey respondents reiterated that they expected the 180-day Treasury bill rate, three months hence, to be **5.8 per cent**. This expected rate was below the actual outturn of **5.9 per cent** for August 2016 (see Figure 4).

<sup>1</sup> Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

# Inflation Expectations Survey

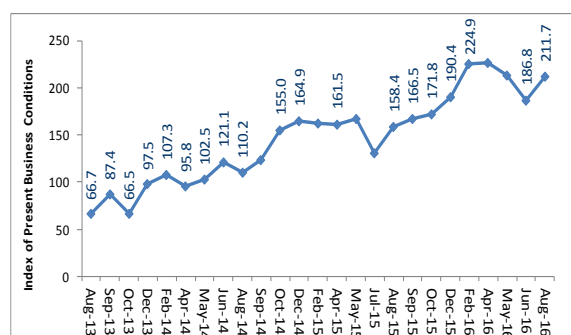
**Table 2: Interest rate Expectations: OMO Rate**

In July 2016, the Bank of Jamaica's 30-day rate was 5.0 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	May-16	Jun-16	Aug-16	May-16	Jun-16	Aug-16
Survey responses (percentage of total)						
Significantly Lower	0.0	0.9	1.3	0.0	1.4	0.0
Marginally Lower	18.3	18.2	20.4	17.1	19.2	19.1
Remain the Same	50.3	46.1	48.4	54.3	46.6	47.1
Marginally Higher	29.3	32.3	26.4	27.1	31.5	29.4
Significantly Higher	1.2	1.3	3.2	0.0	1.4	4.4
Don't Know	0.9	1.3	0.3	1.4	0.0	0.0

**Figure 5: Present Business Conditions**

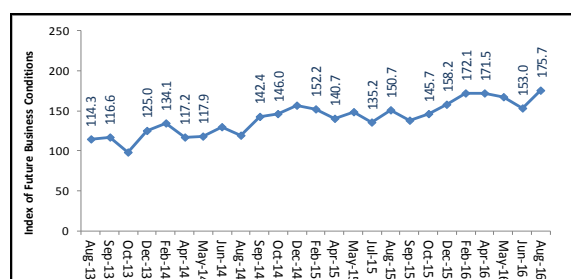
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\*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

## Interest Rate Expectations: OMO Rate

In the August 2016 survey, the majority of respondents expected that the Bank's OMO rate will remain the same over the next three months. The proportion of respondents that expected the OMO rate to be higher declined with the exception of the financial sector which increased marginally.

## Perception of Present and Future Business Conditions

In the August 2016 survey, the perceptions of both present and future business conditions improved (see Figures 5 and 6). Notably, the future conditions index rose to its highest level on record to **175.7** from **153.0** in the previous survey. The index of present business conditions rose to **211.7** from the **186.8** attained in the previous survey.

Both indices reflected increases in the proportion of respondents of the view that conditions are or will be "better." In addition, there were decreases in the proportion of respondents indicating that conditions are or will be "worse." There was also a slight decline in the proportion of respondents that indicated that present conditions are 'about the same' while there was an increase in the number of respondents that indicated that future business conditions would be 'about the same'.

# Inflation Expectations Survey

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**Table 3: Operating Expenses**

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

	<b>Apr-16</b>	<b>May-16</b>	<b>Jun-16</b>	<b>Aug-16</b>
Utilities	23.7	24.4	31.0	29.6
Wages/Salaries	18.0	13.7	9.6	8.9
Fuel/Transport	10.8	11.3	14.1	14.3
Stock Replacement	32.2	33.5	27.2	27.7
Raw Materials	12.9	16.8	17.9	18.5
Other	2.4	0.3	0.3	1.0
Not Stated	0.0	0.0	0.0	0.0

## **Expected Increase in Operating Expenses**

For the second consecutive survey, respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from utilities (see Table 3). Higher costs for stock replacement, which was the dominant factor since the September 2015 survey, emerged as the second largest contributor to production costs over the next 12 months. Wages/salaries was the input cost least expected to increase over the next 12 months.