



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**AUGUST 2018**

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

# Inflation Expectations Survey

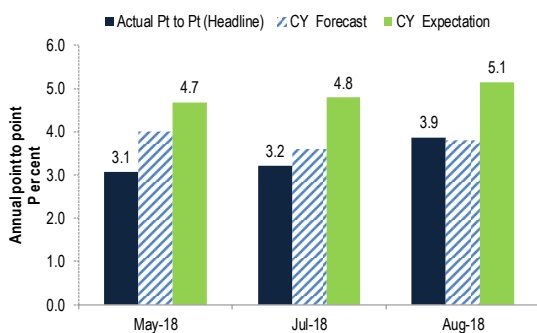


The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf of the Bank of Jamaica to ascertain the expectations of these economic agents about variables which are likely to have an impact on inflation in the near-term. In this regard, the survey captures the perception of 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 between 13 August and 07 September 2018 and had 278 respondents. Below are highlights from that survey.

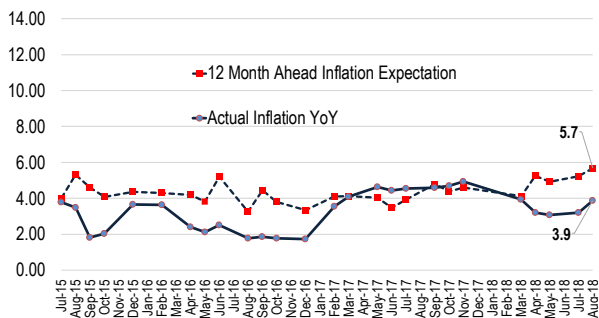
**Figure 1: Inflation Expectations**

For the calendar year 2017, the inflation rate was 5.2 per cent. What do you think the inflation rate will be for 2018?



**Figure 2: Expected Annual Inflation**

What do you expect the rate of inflation to be over the next 12 months?



## Overview

- The August 2018 survey indicated an expected inflation of 5.1 per cent for calendar year (CY) 2018, which was higher than the July 2018 survey outcome of 4.8 per cent. The expected inflation 12 months ahead increased to 5.7 per cent relative to the previous survey outcome of 5.2 per cent.
- The perception of inflation control worsened in the August 2018 survey relative to the July 2018 survey.
- Respondents anticipate that the currency will depreciate over all three surveyed time horizons (3-month, 6-month, and 12-month horizons).
- The majority of respondents continued to believe that the Bank's OMO rate will remain the same over the next three months.
- The Present Business Conditions Index reflected a lower level of optimism, while the Future Business Conditions Index reflected a higher level of optimism relative to the previous survey.

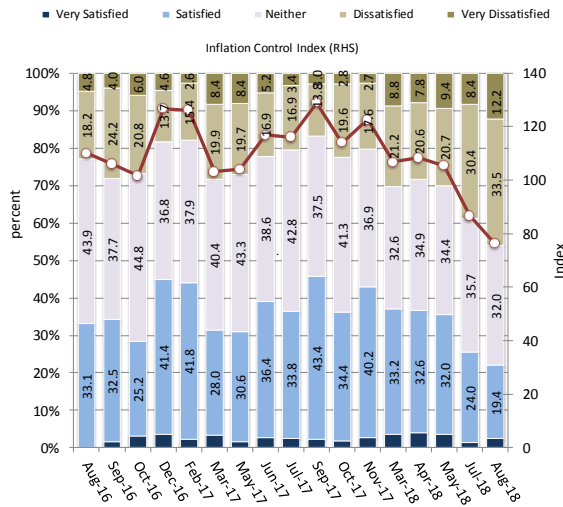
## Inflation Expectations

In the August 2018 survey, the expected inflation for CY 2018 was **5.1 per cent**, which is slightly lower than the CY 2017 actual outcome of **5.2 per cent**. This expectation was above the annual point-to-point inflation of **3.9 per cent** for August 2018 (see Figure 1). Respondents' expectation of inflation 12-

# 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

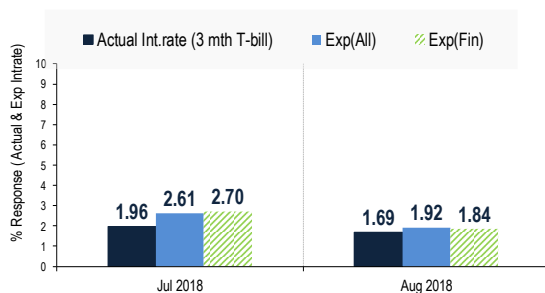
**Table 1: Exchange Rate Expectations**

In July 2018, the exchange rate was J\$132.25=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			
	Apr-18	May-18	Jul-18	Aug-18
3 Months	-0.6	3.3	3.4	4.1
6 Months	-0.1	3.9	4.0	5.2
12 Months	0.8	4.4	5.1	5.8

**Figure 4: 90-day T-bill**

In July 2018, the 90-day T-bill rate was 2.0 per cent. What do you think the rate will be for the next 3 months?



months ahead also increased to **5.7 per cent**, up from the previous survey’s estimate of **5.2 per cent** (see Figure 2).

Businesses’ perception of the authorities’ control of inflation worsened in the August 2018 survey. Specifically, the index of inflation control decreased to **76.2** in the current survey, down from **86.7** in the previous survey (see Figure 3). This was largely due to a decrease in the proportion of respondents who were “satisfied”, in addition to an increase in those who were “dissatisfied” with how inflation is being controlled.

## Exchange Rate Expectations

Relative to the previous survey, respondents adjusted upward their outlook for the pace of currency depreciation over all three time horizons surveyed. In the August 2018 survey, the exchange rate was anticipated to depreciate by **4.1 per cent**, **5.2 per cent** and **5.8 per cent** for the 3-month, 6-month horizons and 12-month horizons, respectively. This compares with the respective expected depreciation of **3.4 percent**, **4.0 percent**, and **5.1 per cent** that were recorded in the July 2018 survey (see Table 1).

## Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence, to be **2.0 per cent**. This expected rate is higher than the actual August 2018 outturn of **1.7 per cent** (see Figure 4). Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **1.8 per cent**.

<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 2018, the Bank of Jamaica’s overnight rate (policy rate) was 2.0 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	May-18	Jul-18	Aug-18	May-18	Jul-18	Aug-18
Survey responses (percentage of total)						
Significantly Lower	0.8	0.8	0.0	0.0	2.2	0.0
Marginally Lower	11.3	9.5	11.5	19.0	15.6	15.7
Remain the Same	43.4	50.0	47.1	42.9	51.1	54.9
Marginally Higher	32.0	27.5	32.4	28.6	20.0	17.6
Significantly Higher	0.8	3.1	0.7	2.4	4.4	0.0
Don't Know	11.7	9.2	8.3	7.1	6.7	11.8

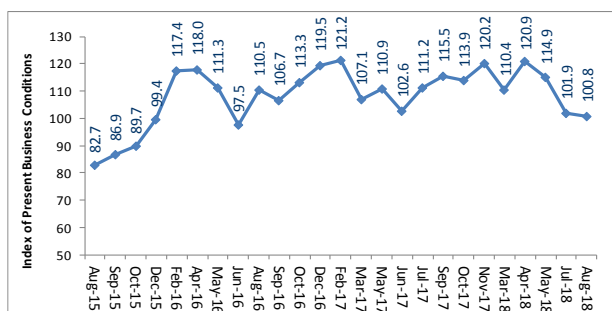
## Interest Rate Expectations: OMO Rate

In the August 2018 survey, the majority of respondents expected that the Bank’s OMO rate would remain the same over the next three months. This proportion decreased relative to the previous survey.

The majority of respondents in the financial sector expected the Bank to hold its policy rate. Furthermore, responses from the financial sector revealed that **17.6 per cent** of respondents expected the rate to be marginally higher, down from a proportion of **20.0 per cent** that was reported in the July 2018 survey (see Table 2).

**Figure 4: Present Business Conditions**

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



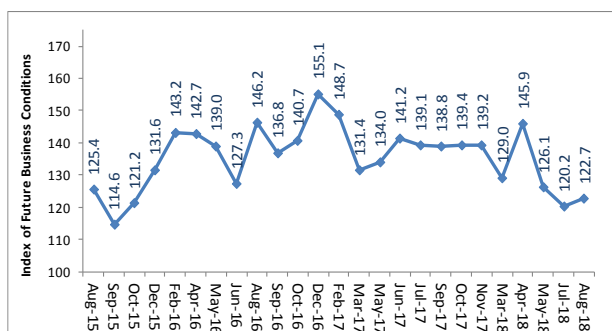
\* Balanced score method: (better-worse) +100

## Perception of Present and Future Business Conditions

In the August 2018 survey, the Present Business Conditions Index decreased to **100.8** relative to **101.9** recorded in the previous survey (see Figure 4). The Future Business Conditions Index increased to **122.7** relative to **120.2** in the previous survey (see Figures 5 and 6).

**Figure 5: 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?



\* Balanced score method: (better-worse) +100

# 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?

	Apr-18	May-18	Jul-18	Aug-18
Utilities	30.0	29.3	35.5	36.3
Wages/Salaries	8.3	7.4	8.8	9.7
Fuel/Transport	20.7	24.2	21.0	20.5
Stock Replacement	24.4	23.8	17.9	18.7
Raw Materials	11.5	9.0	8.0	8.3
Other	4.6	6.3	8.8	6.5
Not Stated	0.5	0.0	0.0	0.0

## Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from utilities, fuel/transport and stock replacement. While the cost of raw materials was the lowest increase expected (see Table 3).