SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

DECEMBER 2013

RESEARCH SERVICES DEPARTMENT
RESEARCH AND ECONOMIC PROGRAMMING DIVISION

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 November/December 2013 and had 303 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?

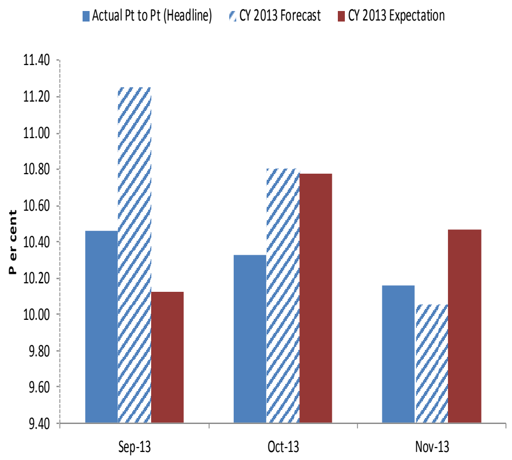
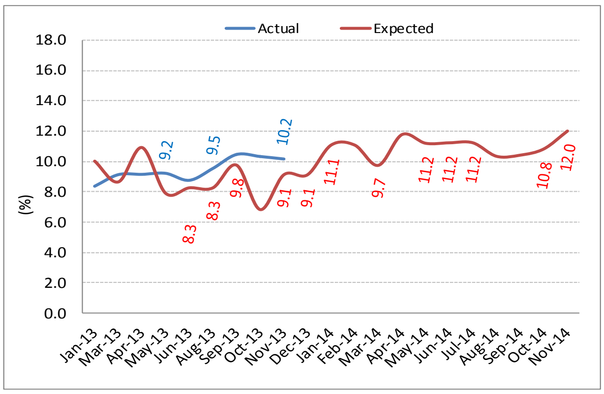


Figure 2: Expected Annual Inflation

Based on the last 12 months (November 2012 to October 2013) the average monthly inflation rate was approximately 0.82 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 November 2014 reflect responses as at November 2013 (ii) Periods where no survey was conducted assumes the previous month's expectation.

Overview

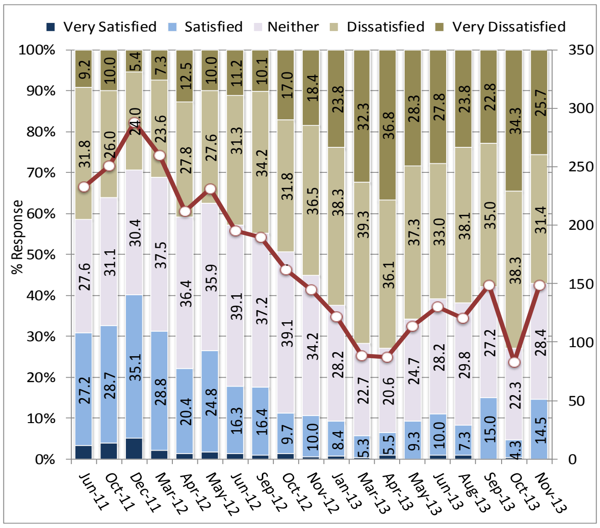
- The December 2013 survey indicated a decline in inflation expectations for calendar year 2013 relative to the previous survey.
- The perception of inflation control improved in the December 2013 survey relative to the previous survey.
- In comparison to the previous survey, respondents expected lower exchange rate depreciation in the next 3 months. However, there was an increase in the expected pace of depreciation 12 months ahead.
- The majority of respondents continue to believe that the Bank's OMO rate will remain the same over the next three months.
- There was an improvement in the perception of present and future business conditions relative to the previous survey.

Inflation Expectations

In the December 2013 survey, the expected inflation for calendar year (CY) 2013 was **10.5 per cent**, relative to the **10.8 per cent** expected in the October 2013 survey. At the time of the survey, the CY-to-November 2013 inflation of **9.1 per cent** was known. In addition, the expected inflation for CY 2013 was above the outturn of **8.0 per cent** for CY 2012. Inflation for CY 2013 was **9.7 per cent** (see Figure 1).

Figure 3: Perception of Inflation Control

How satisfied are you with the way inflation is being controlled by the Government?[1]



*December 2005 = 100

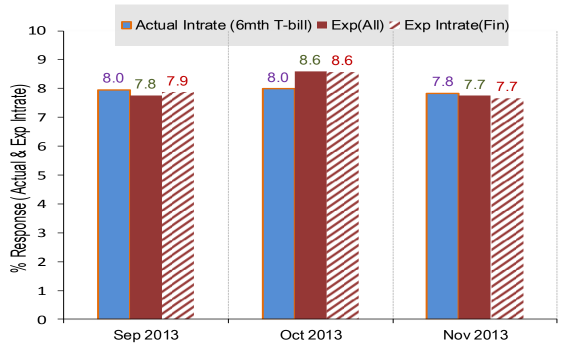
Table 1: Exchange Rate Expectations

In October 2013 the exchange rate was J$104.69=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	Sep-13	Oct-13	Nov-13
3 Months	3.9	1.5	2.6	2.3
6 Months	5.9	2.6	3.9	3.9
12 Months	6.7	4.3	5.9	6.1

Figure 4: 180-day T-bill

In October 2013 the 180-day T-bill rate was 7.99 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 **12.0 per cent** in the December 2013 survey relative to **10.8 per cent** in the October 2013 survey (see Figure 2).

Perception of Inflation Control

The results of the December 2013 survey reflected a significant improvement in businesses' perception of inflation control by the authorities when compared to the previous survey. Specifically, the index of inflation control increased to **149.1** from **83.1** in the October 2013 survey (see Figure 3). This uptick mainly reflected a decline in the number of respondents who were 'very dissatisfied' and 'dissatisfied' with the authority's control of inflation. In addition, the number of respondents who were 'satisfied' increased significantly relative to the previous survey.

Exchange Rate Expectations

Respondents anticipated a marginal decline in the pace of domestic currency depreciation for the 3-month period beyond the survey date. Conversely, an increase in the pace of depreciation was expected 12 months ahead. In the December 2013 survey, the exchange rate was expected to depreciate by **2.3 per cent**, **3.9 per cent** and **6.1 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in October 2013 had indicated expected depreciation of **2.6 per cent**, **3.9 per cent** and **5.9 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 decline to 7.7 per cent from the 8.6 per cent expressed in the previous survey (see Figure 4).

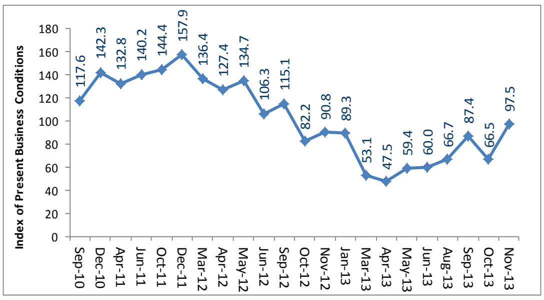
Table 2: Interest rate Expectations: OMO Rate

In October 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?

	OVERALL			FIN SECTOR		
SURVEY DATES	Aug/Sep-13	Oct/Nov-13	Nov/Dec 13	Aug/Sep-13	Oct/Nov-13	Nov/Dec 13
Survey responses (percentage of total)						
Significantly Lower	0.7	0.7	0.7	0.0	1.9	0.0
Marginally Lower	13.6	11.7	10.9	12.1	13.2	15.3
Remain the Same	45.6	48.0	50.2	43.1	50.9	49.2
Marginally Higher	36.1	35.0	34.3	41.4	30.2	28.8
Significantly Higher	2.0	2.3	3.6	1.7	1.9	5.1
Don't Know	2.0	2.3	0.3	1.7	1.9	1.7

Figure 5: Present Business Conditions

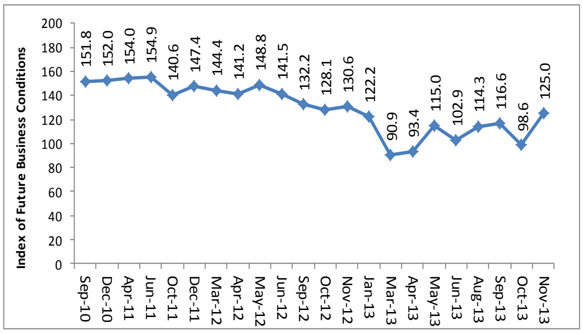
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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 November 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 October 2013 auction.

Interest Rate Expectations: OMO Rate

In the December 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 **50.2 per cent** from **48.0 per cent** in the previous survey. Correspondingly, there was a marginal decline in the proportion of respondents who believe that the OMO rate would be marginally higher. The results for the financial sector, however, indicated a decline in the number of respondents who believe the Bank's OMO rate would remain the same and an increase in those who believe the rate would be marginally lower (see Table 2).

Perception of Present and Future Business Conditions

The perceptions about present and future business conditions improved significantly in the most recent survey relative to the previous survey. Notably, the perception of present business conditions is higher than the level for the corresponding month of the previous year. The perception of future business conditions, however, remained below the levels recorded in FY2011/12 (see Figure 5).

Table 3: Operating Expenses

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

	Aug-13	Sep-13	Oct-13	Nov-13
Utilities	39.7	38.8	41.7	38.3
Wages/Salaries	2.3	5.1	2.0	3.3
Fuel/Transport	14.2	16.3	15.0	19.5
Stock Replacement	28.1	29.3	27.0	27.4
Raw Materials	14.6	9.9	13.7	11.6
Other	1.0	0.7	0.7	0.0
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.