



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**FEBRUARY 2014**

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

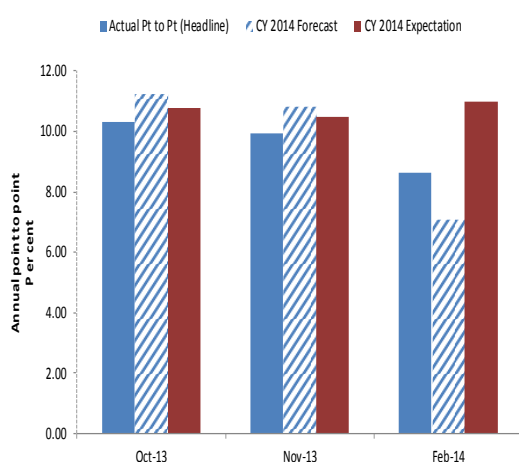
# Inflation Expectations Survey



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 February 2014 and had 250 respondents. Below are highlights from that survey.

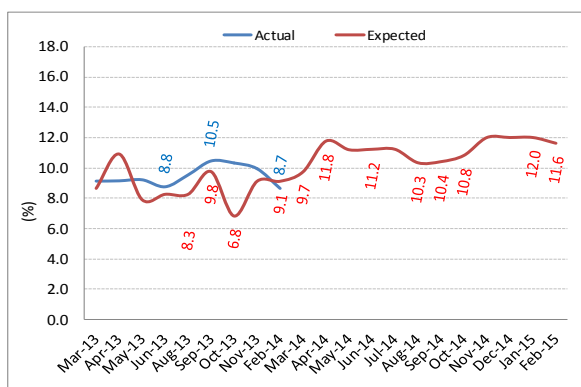
## Figure 1: Inflation Expectations

For the calendar year 2013, the inflation rate was 9.47 per cent. What do you think the inflation rate will be for 2014?



## Figure 2: Expected Annual Inflation

Based on the last 12 months (February 2013 to January 2014) the average monthly inflation rate was approximately 0.74 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 February 2015 reflect responses as at February 2014 (ii) Periods where no survey was conducted assumes the previous month's expectation.

## Overview

- The survey for February 2014 indicated an expected inflation of 11.0 per cent for calendar year (CY) 2014, higher than the outturn of 9.5 per cent for CY2013.
- The perception of inflation control worsened in the February 2014 survey relative to the previous survey.
- The February 2014 survey indicated that respondents expect an increase in the pace of exchange rate depreciation in the next 3 months, 6 months and 12 months.
- The majority of respondents continue to believe that the Bank's OMO rate will remain the same over the next three months.
- The perception of present and future business conditions improved relative to the previous survey. The indicators point to a general upward trend subsequent to the April 2013 survey.

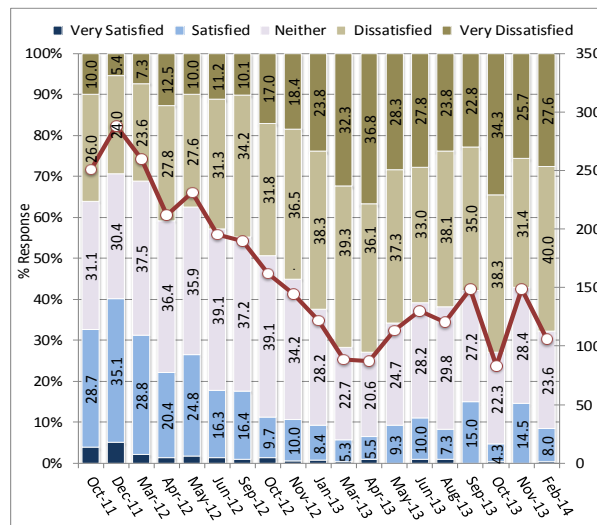
## Inflation Expectations

In the February 2014 survey, the expected inflation for CY2014 was **11.0 per cent**, above the outturn of **9.5 per cent** for CY2013. The actual point-to-point inflation at January 2014 was **9.3 per cent** (see Figure 1).

# 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

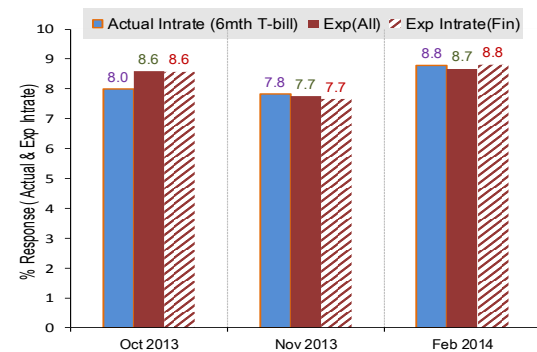
**Table 1: Exchange Rate Expectations**

In January 2014 the exchange rate was J\$106.88=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			
	Sep-13	Oct-13	Dec-13	Feb-14
3 Months	1.8	2.6	2.3	4.3
6 Months	3.0	3.9	3.9	6.1
12 Months	4.7	5.9	6.1	7.6

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

In January 2014 the 180-day T-bill rate was 8.72 per cent. What do you think the rate will be for the next 3 months?



<sup>1</sup> 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 declined to **11.6 per cent** in the February 2014 survey relative to **12.0 per cent** in the November\December 2013 survey (see Figure 2).

## Perception of Inflation Control

The February 2014 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 **106.0** from **149.1** in the December 2013 survey (see Figure 3). This downturn mainly reflected a decline in the number of respondents who were 'satisfied' with the authority's control of inflation. Additionally, the number of respondents who were 'dissatisfied' and 'very dissatisfied' increased relative to the previous survey.

## Exchange Rate Expectations

Respondents expected an increased pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month period beyond the survey date. In the February 2014 survey, the exchange rate was expected to depreciate by **4.3 per cent**, **6.1 per cent** and **7.6 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in November\December 2013 had indicated expected depreciation of **2.3 per cent**, **3.9 per cent** and **6.1 per cent** over the respective horizons.

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

The survey indicated that the expected 180-day Treasury bill rate, three months hence, increased to **8.7 per cent** from the **7.7 per cent** expressed in the previous survey. This was marginally below the actual outcome for February 2014 (see Figure 4).

# Inflation Expectations Survey

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

In January 2014, 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		
	Nov/Dec			Nov/Dec		
	Oct/Nov-13	13	Jan/Feb 14	Oct/Nov-13	13	Jan/Feb 14
Survey responses (percentage of total)						
Significantly Lower	0.7	0.7	0.4	1.9	0.0	0.0
Marginally Lower	11.7	10.9	8.8	13.2	15.3	11.1
Remain the Same	48.0	50.2	47.2	50.9	49.2	48.1
Marginally Higher	35.0	34.3	38.8	30.2	28.8	40.7
Significantly Higher	2.3	3.6	2.8	1.9	5.1	0.0
Don't Know	2.3	0.3	2.0	1.9	1.7	0.0

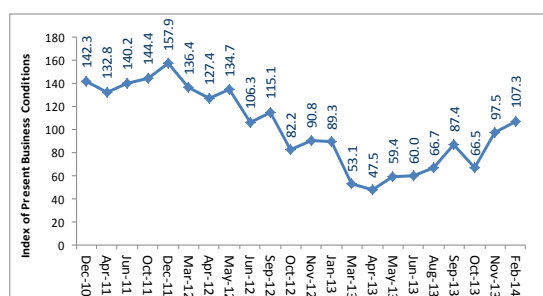
In the February 2014 auction, the actual interest rate on the 180-day Treasury bill was **8.8 per cent**, an increase relative to the **7.8 per cent** in the November 2013 auction.

**Interest Rate Expectations: OMO Rate**

In the February 2014 survey, the majority of respondents expected that the Bank's OMO rate would remain the same over the next three months. However, the percentage of respondents expressing this view decreased to **47.2 per cent** from **50.2 per cent** in the previous survey. Correspondingly, the proportion of respondents who believed that the OMO rate would be marginally higher increased. This increase was particularly evident for the financial sector where the proportion who believed that the rate will be marginally higher was **40.7 per cent**, up from the **28.8 per cent** in the previous survey (see Table 2).

**Figure 5: Present Business Conditions**

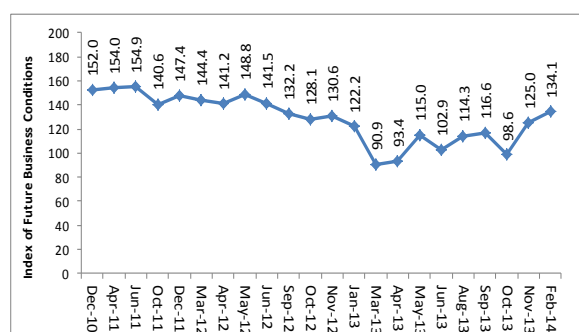
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\* 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

**Perception of Present and Future Business Conditions**

The perceptions about present and future business conditions improved in the most recent survey relative to the previous survey. Notably, the perception of present and future business conditions has indicated a general upward trend since the April 2013 survey. The perception of present and future business conditions, however, remained below the levels recorded in FY2011/12 (see Figure 5 and 6).

# Inflation Expectations Survey

---

**Table 3: Operating Expenses**

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

	Sep-13	Oct-13	Nov-13	Feb-14
Utilities	38.8	41.7	38.3	38.4
Wages/Salaries	5.1	2.0	3.3	5.6
Fuel/Transport	16.3	15.0	19.5	22.8
Stock Replacement	29.3	27.0	27.4	18.8
Raw Materials	9.9	13.7	11.6	14.0
Other	0.7	0.7	0.0	0.4
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). Fuel & Transport was expected to be the second largest contributor to higher production costs over the next 12 months. The cost of raw materials and stock replacement 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.