



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**JULY 2018**

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

# Inflation Expectations Survey

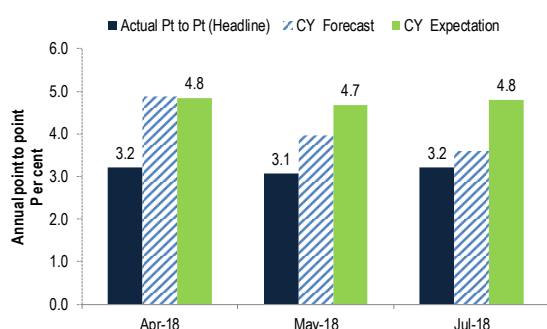


The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf of the Bank of Jamaica to ascertain the expectations of these economic agents about variables which are likely to have an impact on inflation in the near-term. In this regard, the survey captures the perception of 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 25 June and 27 July 2018 and had 263 respondents. Below are highlights from that survey.

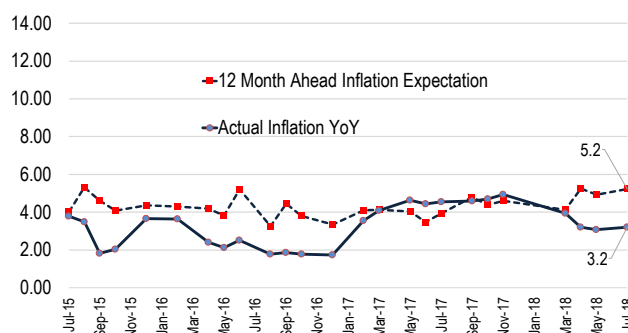
**Figure 1: Inflation Expectations**

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 July 2018 survey indicated an expected inflation of 4.8 per cent for calendar year (CY) 2018, which was marginally higher than the May 2018 survey outturn of 4.7 per cent. The expected inflation 12 months ahead increased to 5.2 per cent relative to the previous survey outturn of 4.9 per cent.
- The perception of inflation control worsened in the July 2018 survey relative to the May 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.
- Both indices for the Present and Future Business Conditions reflected a lower level of optimism relative to the previous survey.

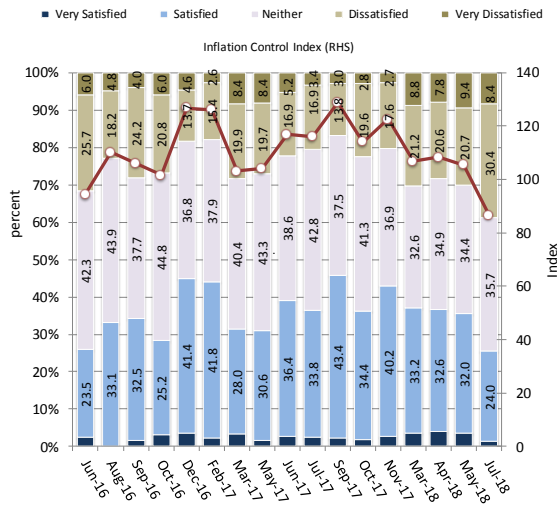
## Inflation Expectations

In the July 2018 survey, the expected inflation for (CY) 2018 was **4.8 per cent**, which is slightly lower than the CY2017 actual outturn of **5.2 per cent**. This expectation was above the annual point-to-point inflation of **3.2 per cent** for July 2018 (see Figure 1). Respondents' expectation

# 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

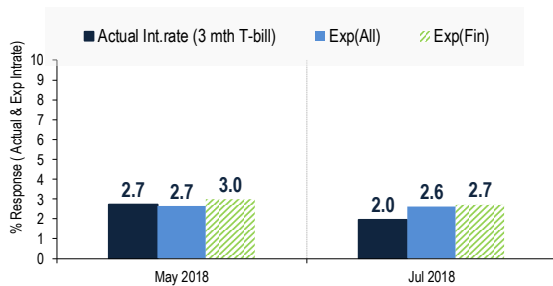
**Table 1: Exchange Rate Expectations**

In June 2018 the exchange rate was J\$130.76=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			
	Mar-18	Apr-18	May-18	Jul-18
3 Months	1.5	-0.6	3.3	3.4
6 Months	2.0	-0.1	3.9	4.0
12 Months	2.7	0.8	4.4	5.1

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

In June 2018 the 90-day T-bill rate was 2.5 per cent. What do you think the rate will be for the next 3 months?



of inflation 12 months ahead also increased to **5.2 per cent**, up from the previous survey’s estimate of **4.9 per cent** (see Figure 2).

Businesses’ perception of the authorities’ control of inflation worsened in the July 2018 survey. Specifically, the index of inflation control decreased to **86.7** in the current survey, down from **105.4** 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 surveyed time horizons. In the July 2018 survey, the exchange rate was expected to depreciate by **3.4 per cent, 4.0 per cent, and 5.1 per cent** for the 3-month, 6-month horizons, and 12-month horizons, respectively. This compares with the respective expected depreciation of **3.3 per cent, 3.9 per cent, and 4.4 per cent** that were recorded in the May 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 **2.6 per cent**. This expected rate is higher than the actual July 2018 outturn of **2.0 per cent** (see Figure 4). Similarly, Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **2.7 per cent**.

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

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

In June 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		
	Apr-18	May-18	Jul-18	Apr-18	May-18	Jul-18
Survey responses (percentage of total)						
Significantly Lower	0.5	0.8	0.8	0.0	0.0	2.2
Marginally Lower	12.3	11.3	9.5	14.3	19.0	15.6
Remain the Same	51.6	43.4	50.0	57.1	42.9	51.1
Marginally Higher	22.8	32.0	27.5	22.4	28.6	20.0
Significantly Higher	1.4	0.8	3.1	2.0	2.4	4.4
Don't Know	11.4	11.7	9.2	4.1	7.1	6.7

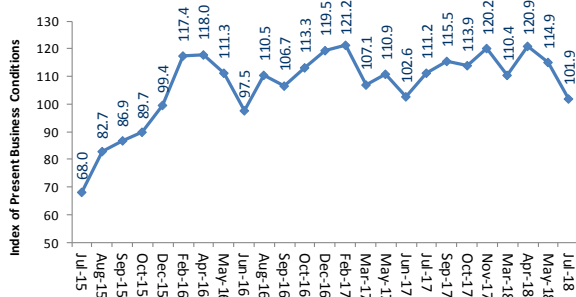
## Interest Rate Expectations: OMO Rate

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

The majority of respondents in the financial sector expects the Bank to hold its policy rate. Furthermore, responses from the financial sector revealed that **20.0 per cent** of respondents expected the rate to be marginally higher, down from a proportion of **28.6 per cent** that was reported in the May 2018 survey.

**Figure 4: Present Business Conditions**

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



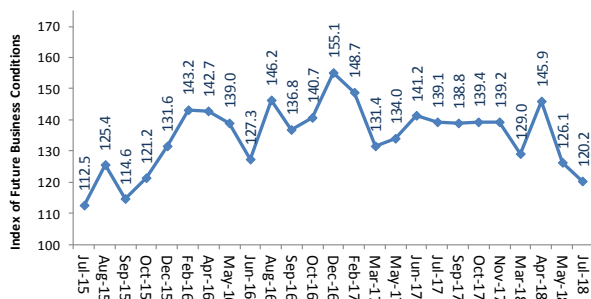
\* Balanced score method: (better-worse) +100

## Perception of Present and Future Business Conditions

In the July 2018 survey, the Present Business Conditions Index decreased to **101.9** relative to **114.9** recorded in the previous survey. The Future Business Conditions Index decreased to **120.2** relative to **126.1** 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

The decrease in the Present Business Conditions Index reflected a fall in the number of respondents of the view that conditions are “better”, in addition to an increase in the proportion of those who believed that conditions are “worse”. The outturn for the Future Business Conditions Index mainly reflected a fall in the proportion of respondents who believe that conditions will be “better”.

# 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?

	Mar-18	Apr-18	May-18	Jul-18
Utilities	34.7	30.0	29.3	35.5
Wages/Salaries	9.3	8.3	7.4	8.8
Fuel/Transport	21.2	20.7	24.2	21.0
Stock Replacement	25.4	24.4	23.8	17.9
Raw Materials	4.7	11.5	9.0	8.0
Other	3.6	4.6	6.3	8.8
Not Stated	1.0	0.5	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 they expect the lowest increase was raw materials (see Table 3).