



Survey of Businesses' Inflation Expectations

July 2019

**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 the 24th of June 2019 and the 19th of July 2019 and had 318 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

If you expect inflation, what do you expect the rate of inflation to be for the current calendar year and over the next 12 months?"

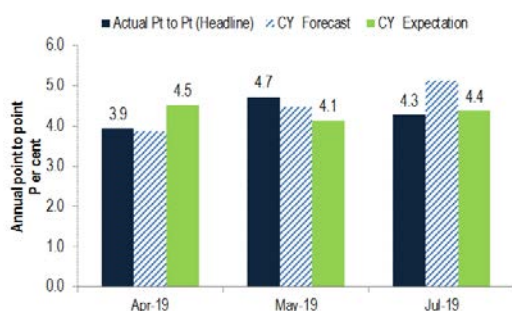
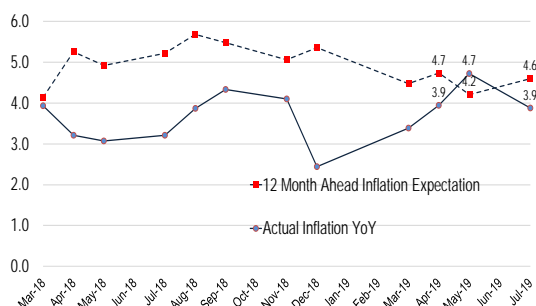


Figure 2: Expected Annual Inflation

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



Overview

- The July 2019 survey indicated an expected inflation of 4.4 per cent for calendar year (CY) 2019, which is higher than the May 2019 survey outcome of 4.1 per cent. The expected inflation 12 months ahead increased to 4.6 per cent relative to the previous survey outcome of 4.2 per cent.
- The perception of inflation control increased marginally in the July 2019 survey relative to the May 2019 survey.
- Respondents anticipate that the currency will appreciate 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 Policy rate will remain the same over the next three months.
- The Present Business Conditions and Future Business Conditions both reflected a higher level of optimism relative to the previous survey.

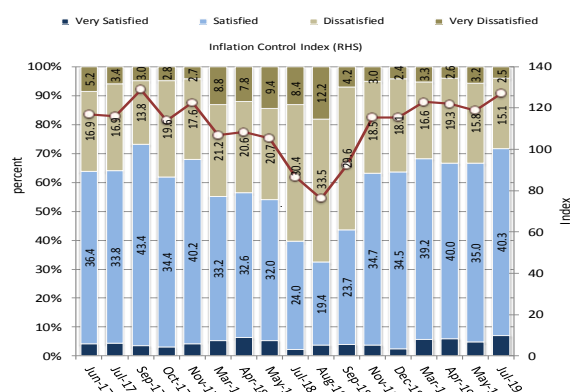
Inflation Expectations

In the July 2019 survey, respondents' expectation for inflation for (CY) 2019 was **4.4 per cent**. This expectation was above the annual point-to-point inflation of **4.3 per cent** for July 2019 (see **Figure 1**). Respondents' expectation of inflation 12 months ahead also increased to **4.6 per cent**, from the previous survey's estimate of **4.2 per cent** (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?¹



*December 2005 = 100

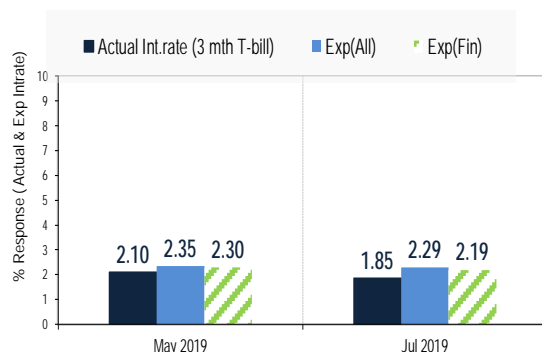
Table 1: Exchange Rate Expectations

In May 2019 the exchange rate was J\$135.61=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			
	Mar-19	Apr-19	May-19	July-19
3Months	-2.6	-1.2	3.4	-0.8
6Months	-2.1	-0.7	4.3	-0.3
12Months	-1.1	-0.7	4.1	-0.7

Figure 4: 90-day T-bill

In May 2019 the 90-day T-bill rate was 0.75 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

Perception of Inflation Control

Businesses' perception of the authorities' control of inflation increased in the July 2019 survey (see **Figure 3**). This was largely due to an increase in the proportion of respondents who were "satisfied" along with a decline in the proportion of respondents who were "neither satisfied or dissatisfied" with how inflation was being controlled.

Exchange Rate Expectations

In contrast to the previous survey, respondents anticipate appreciation over all three time horizons. In the July 2019 survey, the exchange rate was anticipated to appreciate by **0.8 per cent**, **0.3 per cent**, and **0.7 per cent** for the 3-month, 6-month, and 12-month horizons, respectively. This is in contrast to the expected depreciations of **3.4 per cent**, **4.3 per cent**, and **4.1 per cent** that were recorded in the May 2019 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 **2.3 per cent**. This expected rate is higher than the actual July 2019 outcome of **1.9 per cent** (see **Figure 4**). Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **2.2 per cent**.

Inflation Expectations Survey

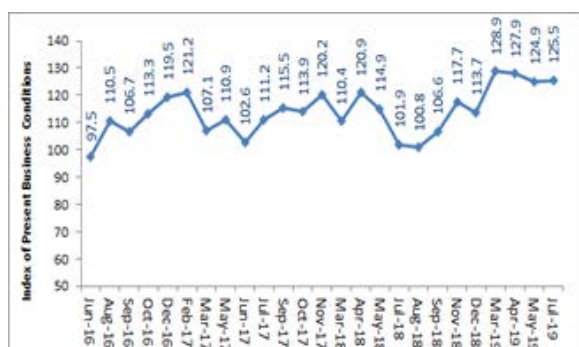
Table 2: Interest Rate Expectations: Policy Rate

In May 2019, the Bank of Jamaica’s overnight rate (policy rate) was 0.75 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Apr-19	May-19	Jul-19	Apr-19	May-19	Jul-19
Survey responses (percentage of total)						
Significantly Lower	0.0	0.3	0.0	0.0	1.7	0.0
Marginally Lower	15.4	13.6	14.8	7.5	20.3	12.8
Remain the Same	60.0	55.2	53.5	67.9	59.3	46.8
Marginally Higher	20.0	25.6	24.5	20.8	11.9	31.9
Significantly Higher	0.3	0.0	1.6	0.0	0.0	2.1
Don't Know	4.3	5.4	5.3	3.8	6.8	0.0

Figure 5: Present Business Conditions

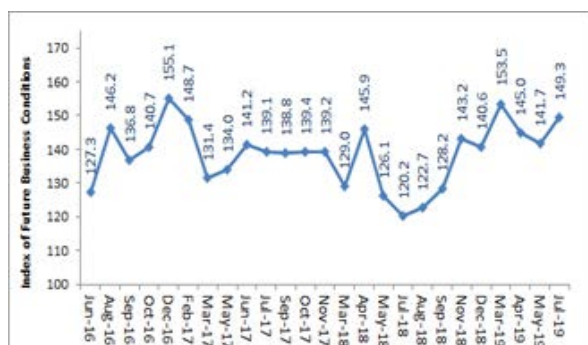
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



*Balanced score method: (better-worse) +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?



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

Interest Rate Expectations: Policy Rate

In the July 2019 survey, the majority of respondents expected that the Bank’s policy rate would remain the same over the next three months. This proportion decreased relative to the previous survey.

With regard to the financial sector, the majority of respondents expected that the Bank’s policy rate would be unchanged. Furthermore, responses from the financial sector revealed that **31.9 per cent** of respondents expected the rate to be marginally higher. This represented an increase relative to the May 2019 survey.

Perception of Present and Future Business Conditions

In the July 2019 survey, the Present Business Conditions Index increased slightly to **125.5** relative to **124.9** recorded in the previous survey. The Future Business Conditions Index also increased to **149.3** relative to **141.7** in the previous survey (see **Figures 5 and 6**).

The advance in the Present Business Conditions Index reflected an increase in the number of respondents of the view that conditions are “about the same”. The outturn for the Future Business Conditions Index mainly reflected an increase in the proportion of respondents who believe that conditions will be “better.”

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Apr-19	May-19	July-19
Utilities	24.3	30.6	28.0
Stock replacement	37.7	25.9	35.8
Raw materials	7.9	9.1	11.0
Fuel & Transport	19.3	21.1	15.1
Wages & Salary	8.5	12.6	8.8
Other	2.3	0.6	0.0
Not Stated	0.0	0.0	1.3

Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from stock replacement, utilities and fuel/transport. The cost of wages and salary is anticipated to be the least likely to increase (see **Table 3**).