

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 June 2013 and had 291 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?

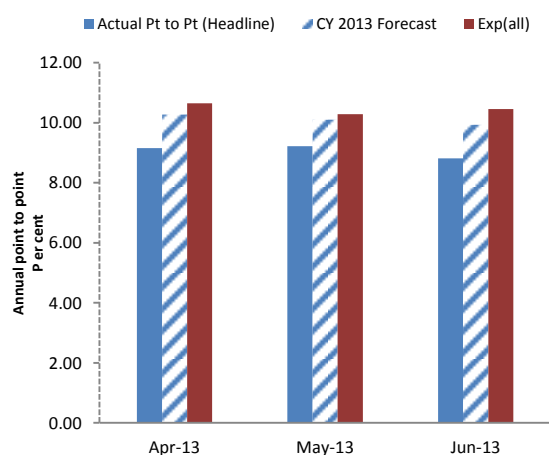
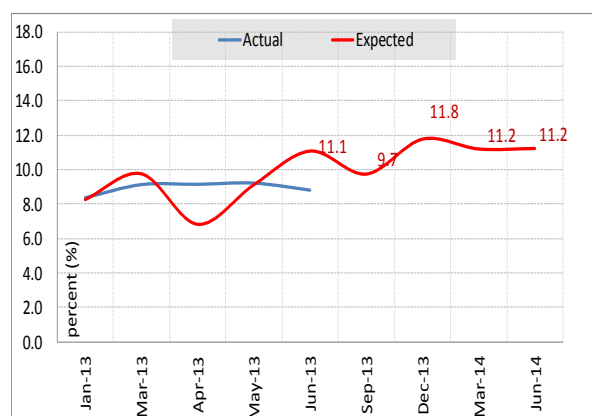


Figure 2: Expected Annual Inflation

Based on the last 12 months (July 2012 to June 2013) the average monthly inflation rate was approximately 0.70 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) Responses as at June 2013 convey the expected inflation for June 2014

Overview

- The results of the June 2013 survey indicated that inflation expectations for calendar year 2013 were slightly above those expressed in the previous survey.
- The perception of inflation control continued to improve in the June 2013 survey. This was the second consecutive increase and followed the trend decline observed since the December 2011 survey.
- Relative to the previous survey, there was an increase in the expected depreciation of the exchange rate over the next 12-months.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- There was a marginal improvement in perception of present conditions while future business conditions worsened relative to the previous survey. Nonetheless, both present and future conditions continued to reflect a general downward trend.

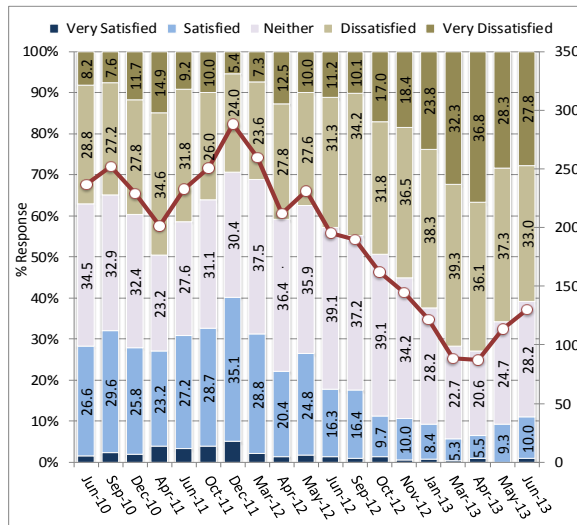
Inflation Expectations

In the June 2013 survey, the expected inflation for CY2013 was **10.5 per cent**, slightly higher than the **10.3 per cent** expected in the May 2013 survey. The expected inflation for calendar year 2013 is also above the outcome of **8.0 per cent** for 2012 and the annual point-to-point inflation of **8.8 per cent** as at April 2013 (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?¹



*December 2005 = 100

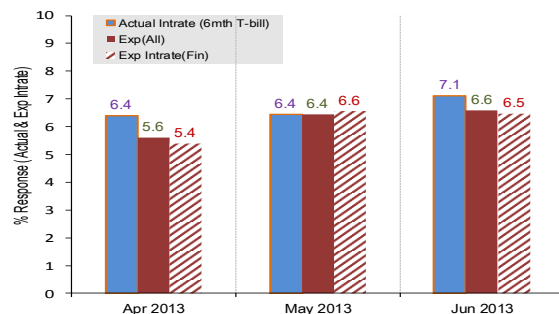
Table 1: Exchange Rate Expectations

In May 2013 the exchange rate was J\$99.12=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months, 12 months?

OVERALL SURVEY				
Periods Ahead	Expected Depreciation			
	Mar-13	Apr-13	May-13	Jun-13
3 Months	0.1	4.6	1.2	3.9
6 Months	0.7	6.7	2.1	5.9
12 Months	1.0	6.4	3.4	6.7

Figure 4: 180-day T-bill

In May 2013 the 180-day T-bill rate was 6.44 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 was unchanged at **11.2 per cent** in the June 2013 survey relative to the May 2013 survey.

Perception of Inflation Control

The results of the June 2013 survey reflected a rebound in the perceived control of inflation by the authorities for the second consecutive survey. This increase was in contrast to the trend decline observed between the December 2011 and April 2013 surveys. Information from the June 2013 survey resulted in an increase in the index of the perception of inflation control to **130.4** from **113.5** in May 2013 (see Figure 3). The improvement mainly reflected an increase in respondents who were satisfied and those who were indifferent as well as fewer respondents who were dissatisfied.

Exchange Rate Expectations

Respondents anticipated an uptick in the rate of depreciation for the 3-month, 6-month and 12-month periods beyond the survey date. This expectation was in contrast to the results of the May 2013 survey which showed a moderation in the expected depreciation over all the time horizons relative to the previous survey. In the June 2013 survey, the exchange rate was expected to depreciate by **3.9 per cent**, **5.9 per cent** and **6.7 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in May 2013 had indicated expected depreciation of **1.2 per cent**, **2.1 per cent** and **3.4 per cent** over the respective horizons.

Interest Rate Expectations: 180-day T-bill

The survey results indicated an increase to 6.6 per cent in the expected 180-day Treasury bill rate, three months hence, from the 6.4 per cent

Inflation Expectations Survey

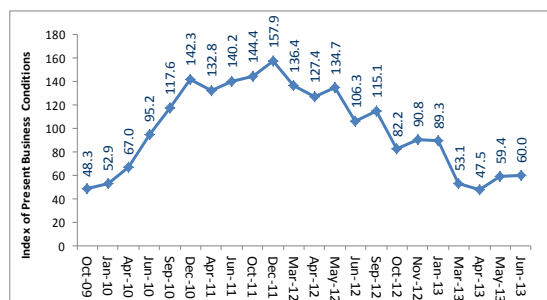
Table 2: Interest rate Expectations: OMO Rate

In May 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?

SURVEY DATES	OVERALL			FIN SECTOR		
	Apr-13	May/June 13	Jun/July-13	Apr-13	May/June 13	Jun/July-13
Survey responses (percentage of total)						
Significantly Lower	4.5	2.3	0.7	8.9	0.0	1.8
Marginally Lower	24.4	24.0	21.0	26.8	24.5	26.8
Remain the Same	43.0	51.3	47.1	44.6	60.4	46.4
Marginally Higher	22.7	17.0	27.1	17.9	15.1	19.6
Significantly Higher	3.8	2.3	2.4	0.0	0.0	3.6
Don't Know	1.7	3.0	1.7	1.8	0.0	1.8

Figure 5: Present Business Conditions

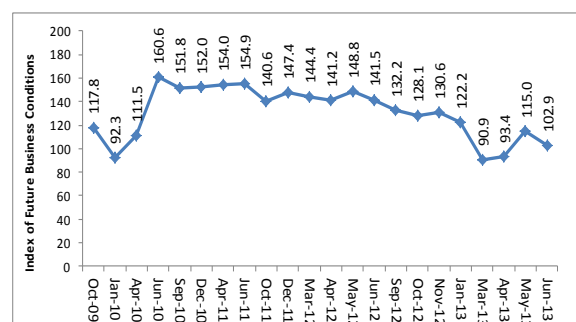
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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

expressed in the previous survey (see Figure 4).

In the June 2013 auction, the actual interest rate for the 180-day Treasury bills increased to **7.1 per cent** from **6.4 per cent** in the May 2013 auction.

Interest Rate Expectations: OMO Rate

In the June 2013 survey, the majority of respondents expected that the Bank's OMO rate would remain the same over the next three months. This was similar to the views conveyed in the May and April 2013 surveys. However, the percentage of respondents that were of the view that the OMO rate would remain the same declined to **47.1 per cent** from **51.3 per cent** in the previous survey. The results from the overall survey were largely the same as the views of respondents in the financial sector (see Table 2).

Perception of Present and Future Business Conditions

Perceptions about present business conditions improved marginally in the most recent survey relative to the previous survey. However, there was deterioration in perceptions about future business conditions. In addition, the perceptions of both present and future business conditions remained low relative to the levels in FY2011/2012 (see Figure 5).

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Mar-13	Apr-13	May-13	Jun-13
Utilities	40.0	47.1	40.3	37.8
Wages/Salaries	3.7	4.5	4.0	4.1
Fuel/Transport	19.7	20.6	13.7	21.3
Stock Replacement	22.3	14.4	26.7	25.8
Raw Materials	11.3	12.4	12.0	10.3
Other	3.0	1.0	3.3	0.7
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 in the next 12 months to emanate from higher cost for utilities (see Table 3). Stock replacement and fuel & transport were also expected to contribute significantly to higher production costs in the next 12 months. The cost of raw materials and wages & salaries were the input costs least expected to increase over the next 12 months.