

Inflation Expectations Survey



The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf 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 April and May 2012 and had 290 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2011, the inflation rate was 6.0 per cent. What do you think the inflation rate will be for 2012?

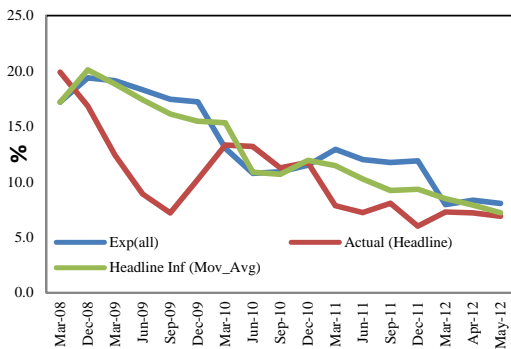
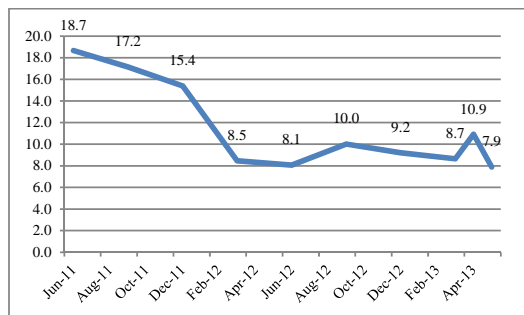


Figure 2: Expected Annual Inflation

Based on the last 12 months (April 2011 to March 2012) the average monthly inflation rate was approximately 0.6 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 April 2012 convey the expected inflation for April 2013

Overview

- The May 2012 survey reflected a decline in inflation expectations when compared to the previous survey.
- The perception of inflation control rebounded in the May 2012 survey following two quarters of decline.
- The exchange rate is expected to continue to depreciate in the near-term.
- Most respondents believe that in three months the Bank's OMO rate will remain the same.
- The perception of both present and future business conditions increased in the current survey. The result indicates a relatively stable assessment of the overall health of the economy.

Inflation Expectations

In the May 2012 survey, inflation expectation for the CY2012 was **8.1 per cent**, reflecting a decline relative to the **8.3 per cent** recorded in the April 2012 survey (see Figure 1). This outturn continues the convergence of the actual, moving average and expected inflation seen since the March 2012 survey.

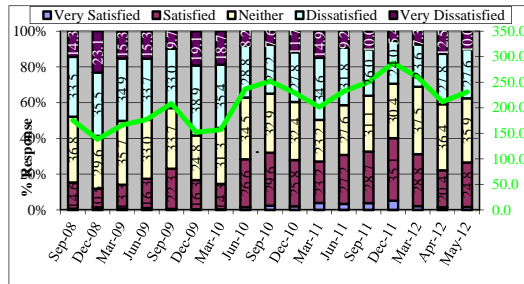
The **5.0 per cent to 9.9 per cent** class remained the modal range, representing approximately **76.3 per cent** of respondents.

Respondents expected the 12-month inflation from May 2012 to be approximately **7.9 per cent**. This decline suggests that respondents believe the recently announced impact of the tax measures will have a temporary impact on prices.

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

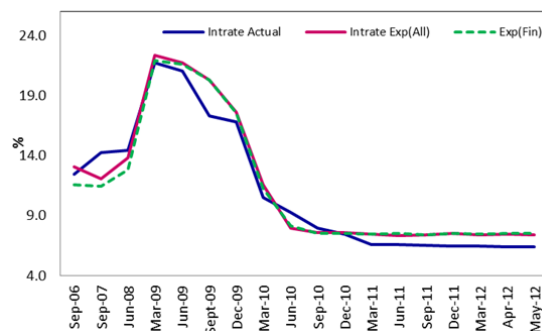
Table 1: Exchange Rate Expectations

In March 2012 the exchange rate was J\$87.30=US\$1.00. What do you think the rate will be for the following time periods, 3 months, 6 months, 12 months?

OVERALL SURVEY				
	Dec-11	Mar-12	Apr-12	May-12
Time Expected	Expected	Expected	Expected	Expected
Period	Depr.	Depr.	Depr.	Depr.
3 Months	0.4	-0.1	0.2	-0.1
6 Months	0.4	0.3	1.1	0.7
12 Months	1.0	0.8	1.9	1.5

Figure 4: 180-day T-bill

In February 2012 the 180-day T-bill rate was 6.62 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

The index of the perception of inflation control increased in May 2012 to **230.9** from **211.7** from April 2012 (see Figure 3). This represents a rebound in confidence following two consecutive declines since the December 2011 survey.

Despite this improvement, the proportion of dissatisfied respondents remained greater than the number of satisfied respondents. The number of indifferent respondents recorded a slight decline.

Exchange Rate Expectations

Respondents indicated that they expect a marginal appreciation of the exchange rate in the near-term while the rate is expected to depreciate over the year (see Table 1). The exchange rate was expected to appreciate by **0.1 per cent** in the next three months when compared to the previous survey when respondents expected **0.2 per cent** depreciation. In addition, respondents expected a depreciation of **1.5 per cent** in the next 12 months.

Interest Rate Expectations: 180-day T-bill

The survey indicated that the expected 180-day T-bill rate three months hence remained similar to that of the previous survey (see Figure 4). The actual interest rate remained below the expected interest rate, a continuation of the sustained deviation between actual and expected interest rate since the December 2010 survey.

Interest Rate Expectations: OMO Rate

In the April 2012 survey the majority of the respondents indicated that they expected the OMO rate three months hence to remain the same (see Table 2). There were increases in the number of respondents who thought that the OMO rate would be marginally higher, while the number expecting it to be lower decreased.

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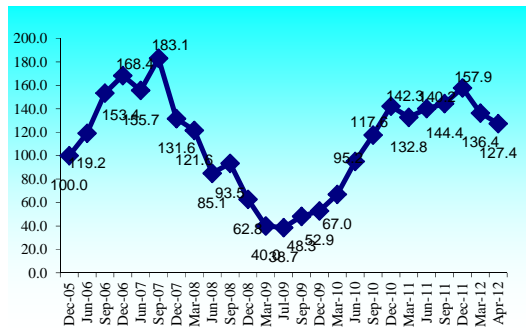
Table 2: Interest rate Expectations: OMO Rate

In February 2012, the Bank of Jamaica's 30-day rate was 6.25 per cent. What do you think this rate will be for the next 3 months?

	OVERALL				FIN SECTOR			
	Nov11/ Dec11	Feb12/ Mar12	Mar12/ Apr12	Apr12/ May12	Nov11/ Dec11	Feb12/ Mar12	Mar12/ Apr12	Apr12/ May12
<i>Survey responses (percentage of total)</i>								
Significantly Lower	0.0	0.3	0.0	1.0	0.0	0.0	0.0	0.0
Marginally Lower	18.6	18.1	15.7	13.8	11.9	16.7	11.3	14.9
Remain the Same	56.4	52.1	49.3	49.7	59.5	55.6	52.8	46.8
Marginally Higher	22.6	23.6	28.6	29.7	26.2	24.1	30.2	34.0
Significantly Higher	0.3	2.8	3.2	3.4	0.0	1.9	0.0	2.1
Don't Know	1.7	3.1	2.5	2.4	2.4	1.9	4.8	2.1

Figure 5: Present Business Conditions

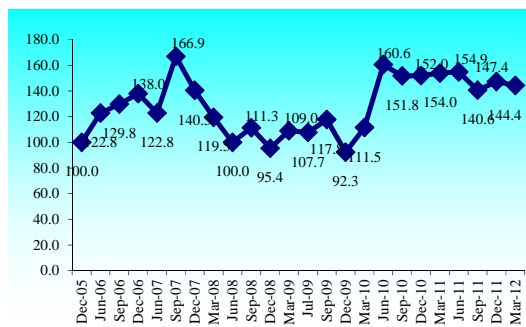
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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

In the May 2012 survey the assessments of both the perception of present and future business conditions increased relative to the previous survey (see Figure 5 and Figure 6). However, these increases were consistent with the both indices being relatively stable at levels seen since December 2010.

Expected Increase in Operating Expenses

Respondents indicated that they expect the largest increase in their production costs in the next 12 months will reflect higher cost of utilities (see Table 3). There was also an indication that the costs of fuel and transport are expected to reflect noticeable increases in one year. Wages remained the input least expected to increase in the next 12 months.

Table 3: Operating Expenses

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

	Dec-11	Mar-12	Apr-12	May-12
Utilities	41.6	40.6	52.1	48.6
Wages/Salaries	6.8	8.7	3.6	5.5
Fuel/Transport	26.4	20.1	23.9	19.3
Stock Replacement	15.5	20.1	12.5	17.9
Raw Materials	9.8	9.7	7.1	7.6
Other	0	0.3	0.4	0.7
Not Stated	0	0.3	0.4	0.3
Other + Not Stated	0	0	0	0