

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 May 2013 and had 300 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?

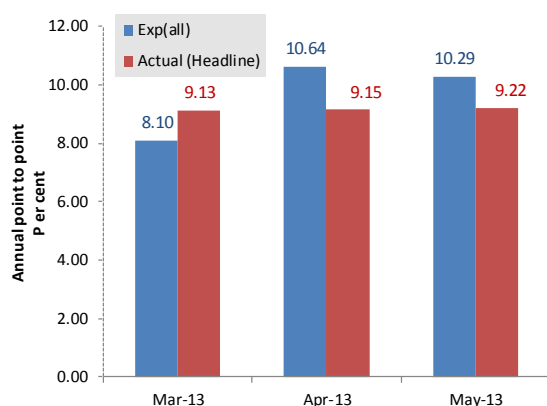
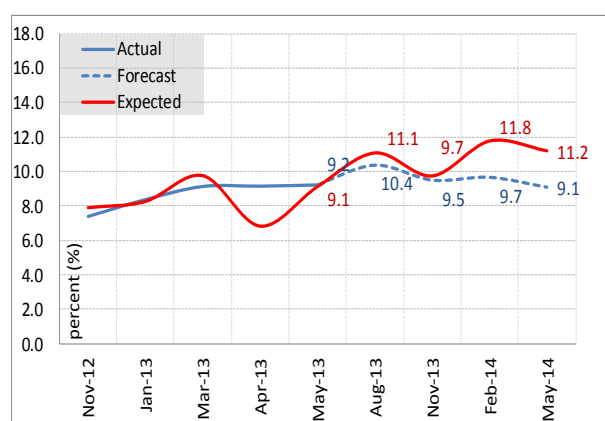


Figure 2: Expected Annual Inflation

Based on the last 12 months (June 2012 to May 2013) 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) Responses as at May 2013 convey the expected inflation for May 2014

Overview

- The results of the May 2013 survey indicated that inflation expectations for calendar year 2013 were slightly below those expressed in the previous survey.
- The perception of inflation control improved in the May 2013 survey, compared to the trend decline observed since the December 2011 survey.
- Relative to the previous survey, there was a moderation in the expected depreciation of the exchange rate over the next 12-months.
- The largest share of respondents believe that in three months' time, the Bank's OMO rate will remain the same.
- The perception of present and future business conditions improved relative to the previous survey. Nonetheless, both present and future conditions continued to reflect a general downward trend.

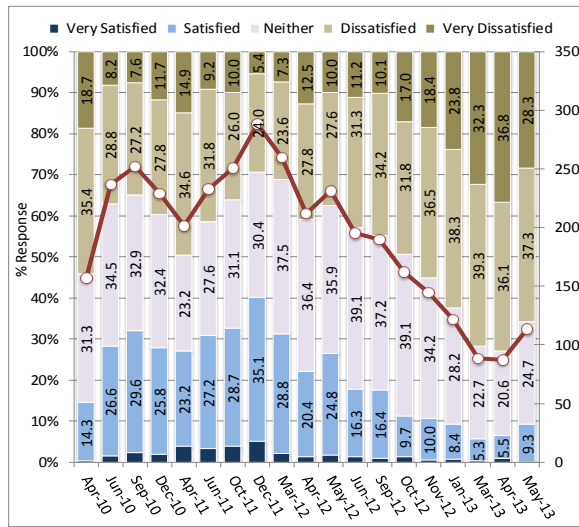
Inflation Expectations

In the May 2013 survey, the expected inflation for CY2013 was **10.3 per cent**, which was lower than the **10.6 per cent** expected in the April 2013 survey. This expected inflation for calendar year 2013 was higher than the outturn of **8.0 per cent** for 2012 and the annual point-to-point inflation of **9.1 per cent** as at May 2013 (see Figure 1).

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Figure 3: Perception of Inflation Control

How satisfied are you with the way inflation is being controlled by the Government?¹



*December 2005 = 100

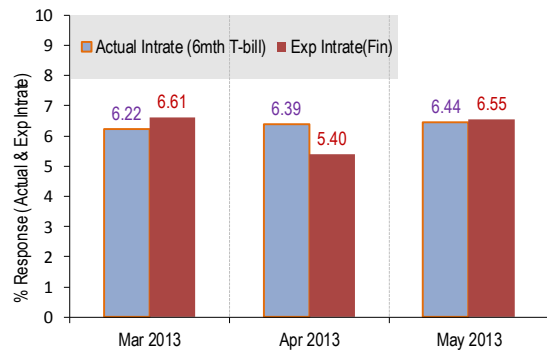
Table 1: Exchange Rate Expectations

In April 2013 the exchange rate was J\$99.50=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			
	Jan-13	Mar-13	Apr-13	May-13
3 Months	0.3	0.1	4.6	1.2
6 Months	1.7	0.7	6.7	2.1
12 Months	3.0	1.0	6.4	3.4

Figure 4: 180-day T-bill

In April 2013 the 180-day T-bill rate was 6.31 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 adjusted downward to **11.2 per cent** in the May 2013 survey from the **11.8 per cent** indicated in the April 2013 survey. The expectation for lower inflation could have been indicative of the abatement in uncertainty surrounding the Government's economic programme.

Perception of Inflation Control

The results of the May 2013 survey reflected a rebound in the perceived control of inflation by the authorities, in contrast to the trend decline observed since the December 2011 survey. Specifically, in May 2013, the index of the perception of inflation control increased to **113.5** from **87.3** in the April 2013 index (see Figure 3). The improvement mainly reflected an increase in respondents who were satisfied as well as indifferent while fewer respondents were very dissatisfied.

Exchange Rate Expectations

Respondents anticipated a moderation in the rate of depreciation for the 3-month, 6-month and 12-month periods beyond the survey date. This compares to the results of the April 2013 survey which showed an uptick in the expected depreciation over all the time horizons. In the May 2013 survey, the exchange rate was expected to depreciate by **1.2 per cent**, **2.1 per cent** and **3.4 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). This was in comparison to the expected depreciation of **4.6 per cent**, **6.7 per cent** and **6.4 per cent** over the respective horizons that were indicated in the previous survey.

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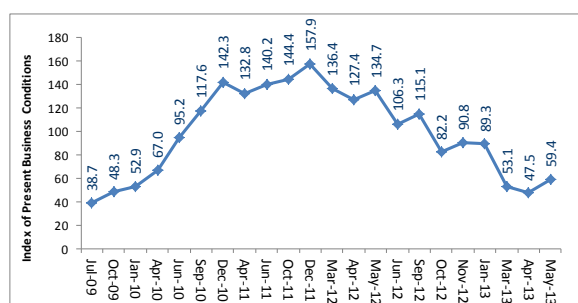
Table 2: Interest rate Expectations: OMO Rate

In April 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?

	OVERALL			FIN SECTOR		
SURVEY DATES	Feb13/ Mar13	Apr-13	May/June-13	Feb13/ Mar13	Apr-13	May/June-13
Survey responses (percentage of total)						
Significantly Lower	1.0	4.5	2.3	0.0	8.9	0.0
Marginally Lower	13.8	24.4	24.0	14.9	26.8	24.5
Remain the Same	49.7	43.0	51.3	46.8	44.6	60.4
Marginally Higher	29.7	22.7	17.0	34.0	17.9	15.1
Significantly Higher	3.4	3.8	2.3	2.1	0.0	0.0
Don't Know	2.1	1.7	3.0	2.1	1.8	0.0

Figure 5: Present Business Conditions

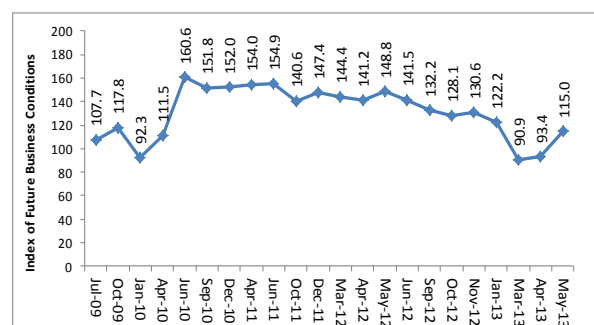
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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

Interest Rate Expectations: 180-day T-bill

The survey results indicated an increase to **6.5 per cent** in the expected 180-day Treasury bill rate, three months hence, from the **5.4 per cent** expressed in the previous survey (see Figure 4). In the May 2013 auction, the actual interest rate for the 180-day Treasury bills increased to **6.44 per cent** from **6.39 per cent** in the April 2013 auction.

Interest Rate Expectations: OMO Rate

In the May 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 April and March 2013 surveys. Moreover, the percentage of respondents that were of the view that the OMO rate would remain the same increased to **51.3 per cent** from **43.0 per cent** in the previous survey. The results from the overall survey about expectations for the OMO rate were largely corroborated by the views of respondents in the financial sector (see Table 2).

Perception of Present and Future Business Conditions

In the most recent survey, the perceptions about present business conditions improved relative to the previous survey. Perceptions about future business conditions also improved for the second consecutive survey. The improvement in these perceptions was in contrast to the trend decline observed in both indicators since the December 2011 survey (see Figure 5). Of note, the improvement may be attributed to continued reduction in uncertainty about the Government's economic programme.

Expected Increase in Operating Expenses

Respondents continued to indicate that they expect the largest increase in production costs in the next 12 months to reflect higher cost for

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Table 3: Operating Expenses

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

	Jan-13	Mar-13	Apr-13	May-13
Utilities	44.6	40.0	47.1	40.3
Wages/Salaries	3.0	3.7	4.5	4.0
Fuel/Transport	20.5	19.7	20.6	13.7
Stock Replacement	20.5	22.3	14.4	26.7
Raw Materials	10.7	11.3	12.4	12.0
Other	0.7	3.0	1.0	3.3
Not Stated	0.0	0.0	0.0	0.0

utilities (see Table 3). Other costs that were expected to contribute significantly to inflation in the next 12 months included stock replacement and fuel & transport costs. The cost of raw materials and wages & salaries were the input costs least expected to increase over the next 12 months.