



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

MAY 2014

**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 in May 2014 and had 254 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2013, the inflation rate was 9.47 per cent. What do you think the inflation rate will be for 2014?

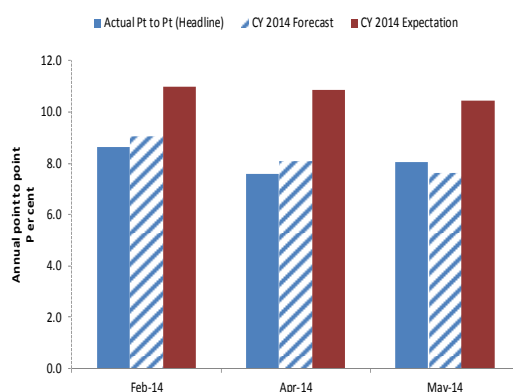
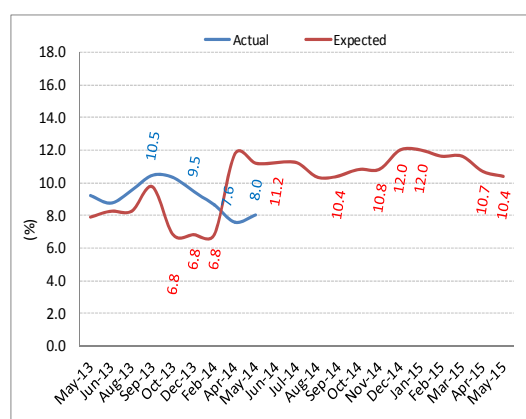


Figure 2: Expected Annual Inflation

Based on the last 12 months (May 2013 to April 2014) the average monthly inflation rate was approximately 0.61 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) the expected inflation for May 2015 reflects responses as at May 2014 (ii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The May 2014 survey indicated an expected inflation of 10.4 per cent for calendar year (CY) 2014, a decline relative to the previous survey.
- The perception of inflation control improved in the May 2014 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a slower pace of exchange rate depreciation in the 6 months and 12 months horizons. Over the next 3 months, however, respondents expected a marginal increase in the pace of depreciation.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- The perception of present business conditions improved relative to the previous survey. However, the index of future business conditions was largely unchanged. Subsequent to the April 2013 survey, there has been a general upward trend in present and future business conditions.

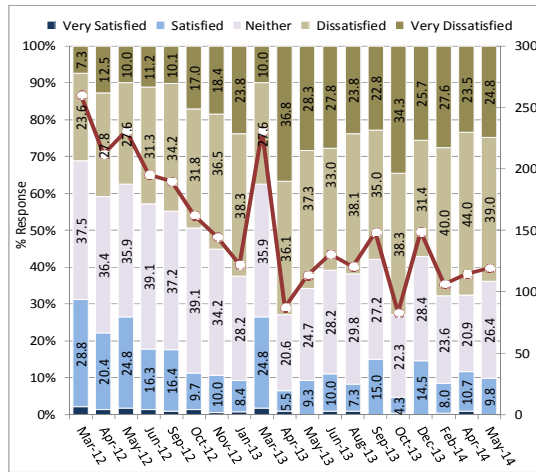
Inflation Expectations

In the May 2014 survey, the expected inflation for CY2014 was **10.4 per cent**, relative to the **10.9 per cent** expected in the April survey. The expected inflation for CY2014 was above the outturn of **9.5 per cent** for CY2013. Further, the actual point-to-point inflation at May 2014 was **8.0 per cent** (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

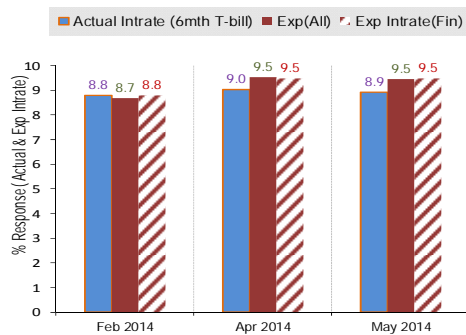
Table 1: Exchange Rate Expectations

In March 2014 the exchange rate was J\$109.57=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 | | | |
|---------------|-----------------------|--------|--------|--------|
| | Sep-13 | Oct-13 | Apr-14 | May-14 |
| 3 Months | 1.8 | 2.6 | 2.4 | 2.5 |
| 6 Months | 3.2 | 4.3 | 4.7 | 4.5 |
| 12 Months | 4.7 | 5.9 | 7.2 | 5.9 |

Figure 4: 180-day T-bill

In April 2014 the 180-day T-bill rate was 9.0 per cent. What do you think the rate will be for the next 3 months?



Respondents' expectation of inflation 12 months ahead declined to **10.4 per cent** in the May 2014 survey relative to **10.7 per cent** in the April 2014 survey (see Figure 2).

Perception of Inflation Control

The results of the May 2014 survey reflected an improvement in businesses' perception of inflation control by the authorities when compared to the previous survey. Specifically, the index of inflation control increased to **119.5** from **114.5** in the April 2014 survey (see Figure 3). This improvement mainly reflected a decline in the number of respondents who were 'dissatisfied' with the authorities' control of inflation.

Exchange Rate Expectations

Relative to the survey in April 2014, respondents expected a slower pace of depreciation in the domestic currency for the 6-month and 12-month period beyond the survey date. Over the next three months, however, respondents expected a marginally faster pace of depreciation relative to the previous survey. In the May 2014 survey, the exchange rate was expected to depreciate by **2.5 per cent**, **4.5 per cent** and **5.9 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in April 2014 had indicated expected depreciation of **2.4 per cent**, **4.7 per cent** and **7.2 per cent** over the respective horizons.

Interest Rate Expectations: 180-day T-bill

The expected 180-day Treasury bill rate, three months hence, was unchanged at **9.5 per cent** relative to the previous survey. This expected rate was above the actual outcome for May 2014 (see Figure 4). In the May 2014 auction, the actual interest rate on the 180-day Treasury bill was **8.9 per cent**, relative to **9.0 per cent** in the April 2014 auction.

¹ Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

Inflation Expectations Survey

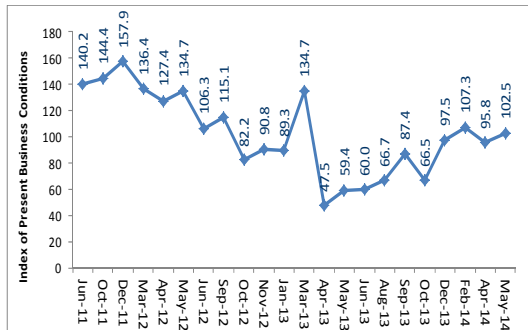
Table 2: Interest rate Expectations: OMO Rate

In April 2014, 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 | | |
|--|---------|--------|--------|------------|--------|--------|
| | Jan/Feb | Apr-14 | May-14 | Jan/Feb | Apr-14 | May-14 |
| SURVEY DATES | 14 | | | 14 | | |
| Survey responses (percentage of total) | | | | | | |
| Significantly Lower | 0.4 | 1.3 | 11.4 | 0.0 | 0.0 | 0.0 |
| Marginally Lower | 8.8 | 9.0 | 38.6 | 11.1 | 8.3 | 13.7 |
| Remain the Same | 47.2 | 39.3 | 44.1 | 48.1 | 43.8 | 43.1 |
| Marginally Higher | 38.8 | 44.9 | 2.0 | 40.7 | 45.8 | 39.2 |
| Significantly Higher | 2.8 | 1.3 | 3.9 | 0.0 | 0.0 | 2.0 |
| Don't Know | 2.0 | 4.3 | 0.0 | 0.0 | 2.1 | 2.0 |

Figure 5: Present Business Conditions

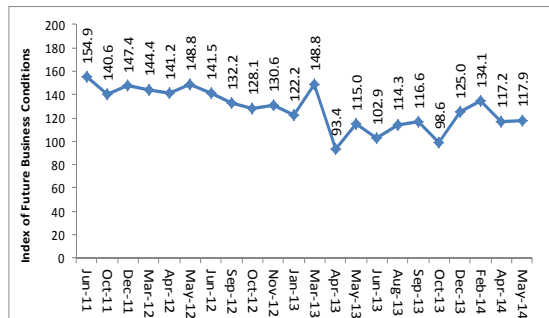
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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: OMO Rate

In the May 2014 survey, the majority of respondents expected that the Bank's OMO rate would remain the same over the next three months. The percentage of respondents expressing this view increased to **44.1 per cent** from **39.3 per cent** in the previous survey. Correspondingly, there was a decline in the proportion of respondents who believed that the OMO rate would be marginally higher. The results for the financial sector indicated a moderate decline in the proportion of respondents who believed that the rate will be marginally higher (see Table 2).

Perception of Present and Future Business Conditions

There was an improvement in respondents' perception about present business conditions in the most recent survey relative to the previous survey. Expectations about future business conditions, however, were largely unchanged. Of note, both indices remained below the levels recorded in FY2011/12 (see Figures 5 and 6). Nonetheless, the perceptions of present and future business conditions have displayed a general upward trend since the April 2013 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?

| | Dec-13 | Feb-14 | Apr-14 | May-14 |
|-------------------|--------|--------|--------|--------|
| Utilities | 38.3 | 38.4 | 38.9 | 43.3 |
| Wages/Salaries | 3.3 | 5.6 | 9.0 | 4.3 |
| Fuel/Transport | 19.5 | 22.8 | 15.4 | 16.9 |
| Stock Replacement | 27.4 | 18.8 | 21.8 | 20.1 |
| Raw Materials | 11.6 | 14.0 | 13.7 | 13.8 |
| Other | 0.0 | 0.4 | 1.3 | 1.6 |
| 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 over the next 12 months to emanate from higher cost for utilities (see Table 3). Stock replacement was expected to be the second largest contributor to higher production costs over the next 12 months. The cost of fuel/transport and raw materials were also expected to contribute significantly to higher production costs for the year ahead. Wages & Salaries remained the input costs least expected to increase over the next 12 months.