



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

MAY 2016

**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 over the 03 May to 28 May 2016 and had 328 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2015, the inflation rate was 3.7 per cent. What do you think the inflation rate will be for 2016?

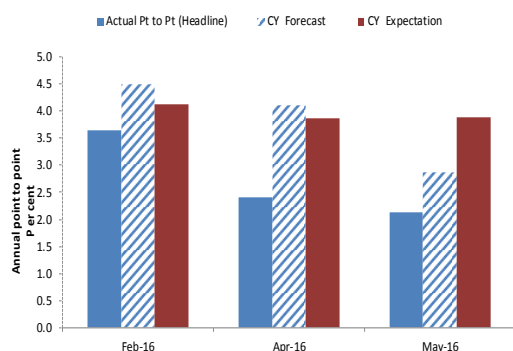
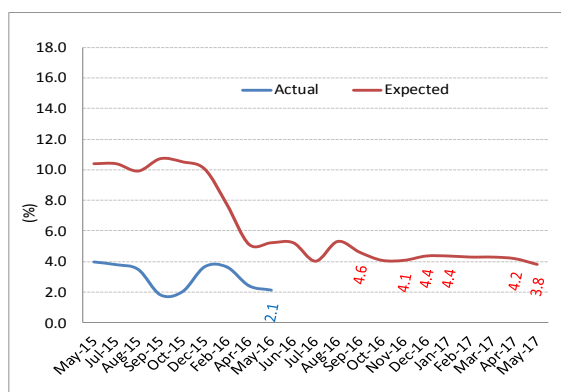


Figure 2: Expected Annual Inflation

Based on the last 12 months (May 2015 to April 2016) the average monthly inflation rate was approximately 0.20 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 2017 reflects responses as at May 2016 (iii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The May 2016 survey indicated an expected inflation of 3.9 per cent for calendar year (CY) 2016, unchanged relative to the previous survey. The expected inflation 12 months ahead was, however, lower relative to the previous survey.
- The perception of inflation control moderated in the May 2016 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a faster pace of exchange rate depreciation over all three time horizons.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- Perceptions about current and future business conditions weakened relative to the previous survey's record levels.

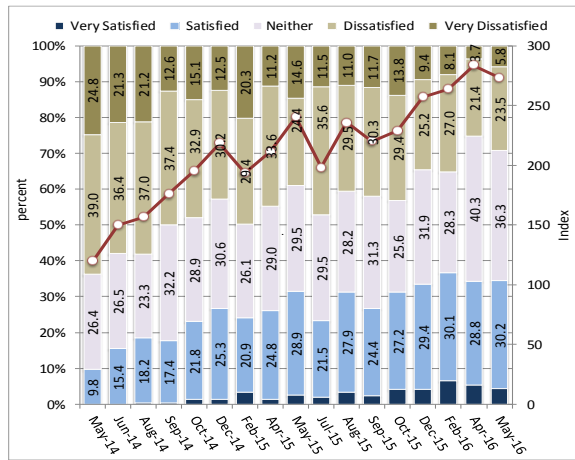
Inflation Expectations

In the May 2016 survey, the expected inflation for CY2016 was **3.9 per cent**, unchanged relative to the May 2016 survey. The expectation for the calendar year was above the annual inflation of **2.1 per cent** at May 2016 (see Figure 1). Notably, respondents' expectation of inflation 12 months ahead declined to **3.8 per cent** relative to **4.2 per cent** in the April 2016 survey (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

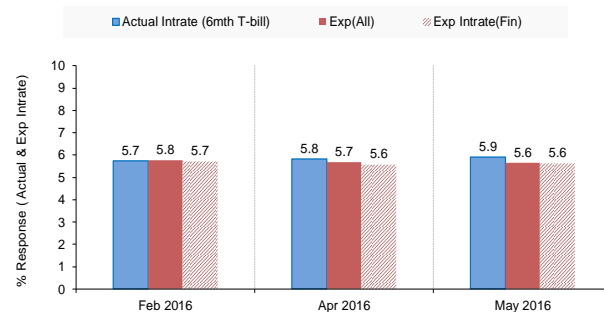
Table 1: Exchange Rate Expectations

In February 2016 the exchange rate was J\$121.85=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			
	Dec-14	Feb-15	Apr-16	May-16
3 Months	1.4	1.7	1.1	1.9
6 Months	2.1	3.0	1.6	3.0
12 Months	3.0	3.8	2.8	4.3

Figure 4: 180-day T-bill

In April 2016 the 180-day T-bill rate was 5.8 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of inflation control by the authorities moderated in the May 2016 survey, following four consecutive episodes of improvement. Specifically, the index of inflation control dipped to **273.2** from **283.4** in the previous survey (see Figure 3). This outturn reflected an increase in both the number of respondents who were 'very dissatisfied' and 'dissatisfied' with the authorities' control of inflation. This was partly offset by a marginal increase in the number of respondents who were 'satisfied.'

Exchange Rate Expectations

Relative to the previous survey, respondents expected a faster pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month time horizons. Specifically, in the May 2016 survey, the exchange rate was expected to depreciate by **1.9 per cent** for the 3-month horizon compared to a response of **1.1 per cent** as at the previous survey. For the 6-month and 12-month horizons there were expectations of depreciation of **3.0 per cent** and **4.3 per cent**, respectively, compared to depreciations of **1.6 per cent** and **2.8 per cent** in the April 2016 survey (see Table 1).

Interest Rate Expectations: 180-day T-bill

The expected 180-day Treasury bill rate, three months hence, was **5.6 per cent**, marginally below the **5.7 per cent** reported in the previous survey. This expected rate was also below the actual outturn of **5.9 per cent** for May 2016 (see Figure 4).

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

Inflation Expectations Survey

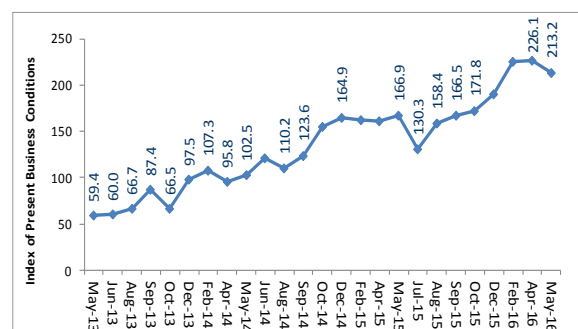
Table 2: Interest rate Expectations: OMO Rate

In April 2016, the Bank of Jamaica’s 30-day rate was 5.25 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	Feb 16	Apr-16	May-16	Feb 16	Apr-16	May-16
<i>Survey responses (percentage of total)</i>						
Significantly Lower	1.9	0.7	0.0	1.4	0.0	0.0
Marginally Lower	23.6	18.3	18.3	30.4	25.0	17.1
Remain the Same	51.6	52.2	50.3	44.9	51.6	54.3
Marginally Higher	21.4	27.1	29.3	21.7	23.4	27.1
Significantly Higher	0.6	0.7	1.2	1.4	0.0	0.0
Don't Know	0.0	1.0	0.9	0.0	0.0	1.4

Figure 5: Present Business Conditions

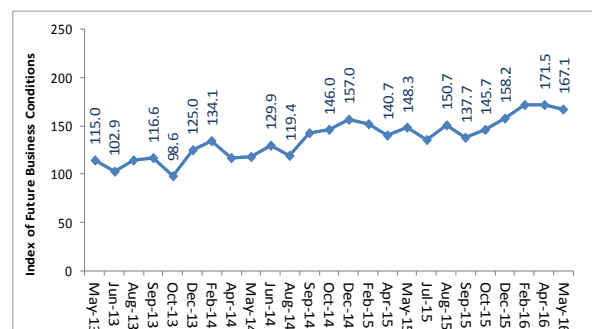
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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 2016 survey, the majority of respondents expected that the Bank’s OMO rate will remain the same over the next three months. The results for the financial sector were consistent with the overall view that the BOJ would maintain the 30-day OMO rate at the current level. Similar to the April 2016 survey, more respondents indicated that they expected the Bank’s policy rate to be higher over the next three months. There was also a decline in the proportion of respondents who expected a fall in the policy rate, particularly in the financial sector.

Perception of Present and Future Business Conditions

In the May 2016 survey, the perceptions of both present and future business conditions moderated relative to the record highs of the previous two surveys (see Figures 5 and 6). Notably, the index of present business conditions fell to **213.1** from the **226.1** attained in the previous survey. The index of future business conditions declined to **167.1** from **171.5** in the previous survey. Both indices reflected declines in the proportion of respondents of the view that conditions were or will be “better.” In addition there were increases in the number of respondents indicating that conditions were or will be “worse.” There was, however, an increase in the proportion of respondents that indicated that conditions were or would be ‘about the same’ for both indices.

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Dec-15	Feb-16	Apr-16	May-16
Utilities	29.4	21.7	23.7	24.4
Wages/Salaries	13.6	12.1	18.0	13.7
Fuel/Transport	8.7	10.2	10.8	11.3
Stock Replacement	31.7	37.6	32.2	33.5
Raw Materials	15.9	17.1	12.9	16.8
Other	0.6	1.2	2.4	0.3
Not Stated	0.0	0.0	0.0	0.0

Expected Increase in Operating Expenses

As was the case in the four previous surveys, respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from the cost of stock replacement (see Table 3). Higher costs for utilities was expected to be the second largest contributor to production costs over the next 12 months. The cost of fuel/transport in the production process was the input cost least expected to increase over the next 12 months.