



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

MAY 2017

**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 between 29 April and 19 May 2017 and had 313 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2016, the inflation rate was 1.7 per cent. What do you think the inflation rate will be for 2017?

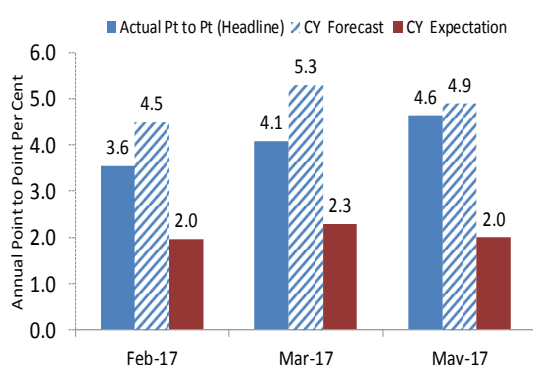
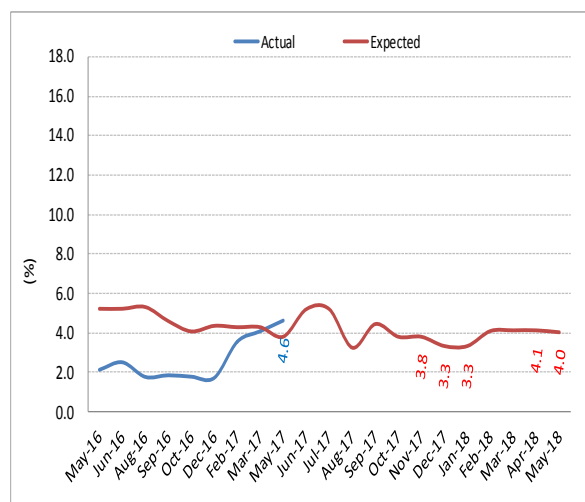


Figure 2: Expected Annual Inflation

Based on the last 12 months (April 2016 to March 2017) the average monthly inflation rate was approximately 0.3 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 2018 reflects responses as at May 2017 (iii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The May 2017 survey indicated an expected inflation of 2.0 per cent for calendar year (CY) 2017, which was just below the 2.3 per cent recorded for the previous survey. The expected inflation 12 months ahead moderated slightly relative to the previous survey.
- The perception of inflation control improved marginally in the May 2017 survey relative to the previous survey.
- Respondents increased their expectations about the pace of depreciation over all three time horizons.
- The majority of respondents believed that the Bank's OMO rate will remain the same over the next three months.
- Both the Index of Present Business Conditions and the Index of Future Business Conditions improved. Both indices remained on an upward trend when compared to CY2014.

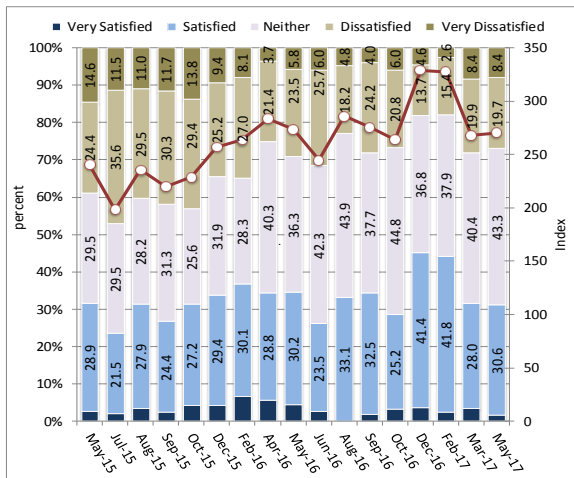
Inflation Expectations

In the May 2017 survey, the expected inflation for CY2017 was **2.0 per cent**, which was just below the **2.3 per cent** recorded for the previous survey. This expectation was also below the actual annual point-to-point inflation of **4.6 per cent** for May 2017 (see Figure 1). Respondents' expectation of inflation 12 months ahead moderated slightly to **4.0 per cent** from the **4.1 per cent** recorded in the previous 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 March 2017 the exchange rate was J\$128.40=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months and 12 months?

OVERALL SURVEY				
Periods Ahead	Expected Depreciation			
	Dec-16	Feb-17	Mar-17	May-17
3 Months	1.0	0.4	1.0	1.1
6 Months	1.8	0.8	1.4	1.6
12 Months	2.7	1.5	2.2	2.6

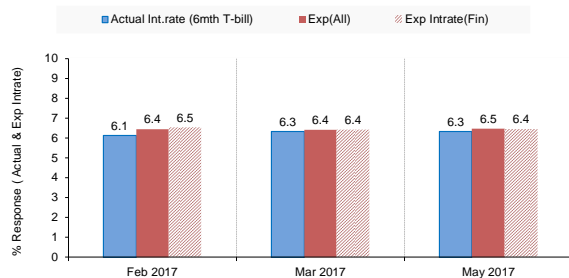
Businesses’ perception of the Bank’s control of inflation improved in the May 2017 survey. Specifically, the index of inflation control grew to **270.4** in the current survey from **267.8** in the previous survey (see Figure 3). This was largely due to an increase in the proportion of respondents who were “satisfied” and a small decrease in the proportion that were “dissatisfied”.

Exchange Rate Expectations

Relative to the previous survey, respondents adjusted upward their outlook for the pace of currency depreciation over all time horizons. Specifically, in the May 2017 survey, the exchange rate was expected to depreciate by **1.1 per cent** for the 3-month horizon which was slightly higher than the **1.0 per cent** expected in the March 2017 survey. For the 6-month and 12-month horizons respondents expected depreciations of **1.6 per cent** and **2.6 per cent**, respectively, compared to depreciations of **1.4 per cent** and **2.2 per cent** in the March 2017 survey (see Table 1).

Figure 4: 180-day T-bill

In March 2017 the 180-day T-bill rate was 6.3 per cent. What do you think the rate will be for the next three months?



Interest Rate Expectations: 180-day T-bill

Survey respondents expected the 180-day Treasury bill rate, three months hence, to be **6.5 per cent** on average, an increase relative to the **6.4 per cent** in the previous survey. This expected rate is above the actual outcome of **6.1 per cent** for May 2017 (see Figure 4). Financial sector respondents expected the 180-day Treasury bill rate, three months hence, to be **6.4 per cent**.

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 March 2017, the Bank of Jamaica’s 30-day rate was 4.75 per cent. What do you think this rate will be for the next three months?

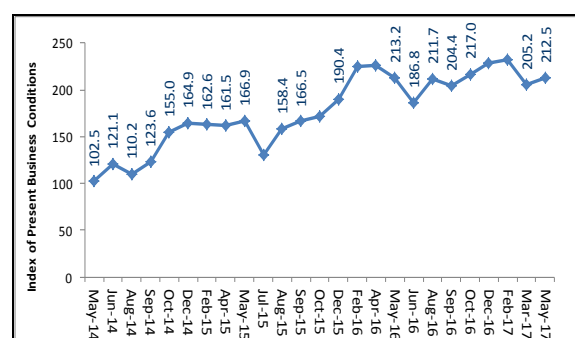
SURVEY DATES	OVERALL			FIN SECTOR		
	Feb-17	Mar-17	May-17	Feb-17	Mar-17	May-17
<i>Survey responses (percentage of total)</i>						
Significantly Lower	0.0	0.6	0.3	0.0	0.0	1.4
Marginally Lower	16.7	15.8	17.5	15.7	14.5	15.5
Remain the Same	61.4	56.8	57.6	57.1	50.7	50.7
Marginally Higher	19.9	26.4	23.2	27.1	34.8	29.6
Significantly Higher	1.0	0.3	0.6	0.0	0.0	2.8
Don't Know	1.0	0.0	0.6	0.0	0.0	0.0

Interest Rate Expectations: OMO Rate

In the May 2017 survey, the majority of respondents expected that the Bank’s OMO rate would remain the same over the next three months. Furthermore, this proportion increased relative to the previous survey. There was a decrease in the proportion of respondents that expected the OMO rate to be “marginally higher” and a corresponding increase in the view that the rate will be “marginally lower”. This was also evident for the responses from the financial sector.

Figure 5: Present Business Conditions

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



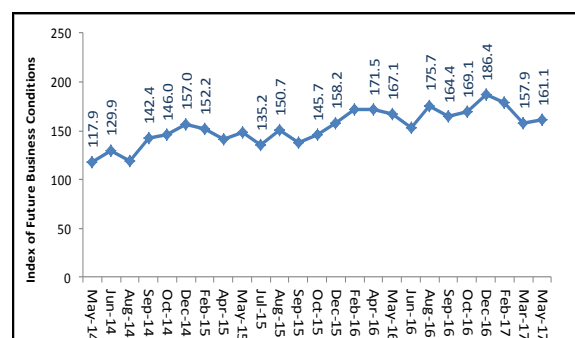
* December 2005 = 100

Perception of Present and Future Business Conditions

In the May 2017 survey, both the Present Business Conditions Index and the Future Business Conditions Index increased relative to the previous survey (see Figures 5 and 6). The Present Business Conditions index rose to **212.5** from **205.2** in the previous survey. The index of the Future Business Conditions increased to **161.1** from **157.9** attained in the previous survey.

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

The increase in both indices reflected a rise in the number of respondents of the view that conditions are or will be “better”. Additionally, there was a marginal decrease in the number of respondents who believed present-day conditions were worse. The increase in the “better” view about the future, however, was partly offset by a marginal increase in the proportion of firms of the view that conditions would be “worse”.

As reflected in Figure 5 and 6, both indices remained on an upward trend when compared to CY2014.

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Feb-17	Mar-17	May-17
Utilities	30.4	29.5	29.0
Wages/Salaries	13.1	8.7	8.3
Fuel/Transport	11.4	20.8	15.3
Stock Replacement	27.1	25.5	28.0
Raw Materials	16.0	13.7	17.2
Other	2.0	1.9	2.2
Not Stated	0.0	0.0	0.0

Expected Increase in Operating Expenses

Similar to the previous survey, respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from Utilities. Higher costs for Stock Replacement were expected to be the second largest contributor to production costs over the next 12 months (see Table 3). Furthermore, there was a noticeable increase in the respondents indicating Raw Materials while there was a reduction in the proportion of respondents specifying Fuel/Transport. Wages/Salaries was the input cost least expected to increase over the next 12 months.