

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 October and November 2012 and had 310 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?

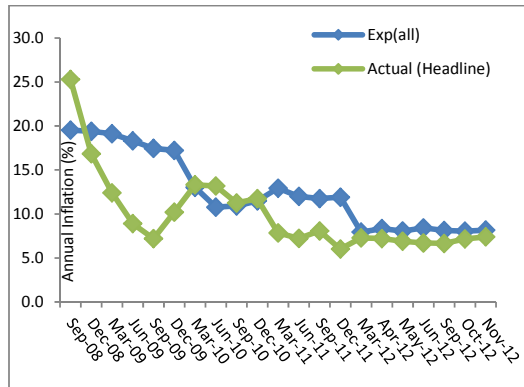
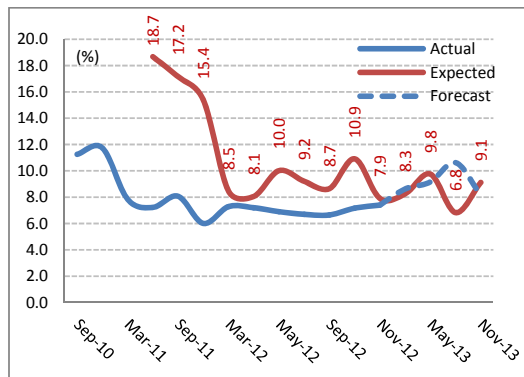


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2011 to September 2012) the average monthly inflation rate was approximately 0.5 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 November 2012 convey the expected inflation for November 2013

Overview

- The November 2012 survey reflected relatively stable inflation expectations for the calendar year when compared to the previous survey.
- The perception of inflation control deteriorated in the November 2012 survey continuing the trend decline observed since the December 2011 survey.
- The longer term expectation of depreciation in the exchange rate has moderated.
- Most respondents now believe that in three months the Bank’s OMO rate will be marginally higher.
- Both the perception of present and future business conditions increased relative to the previous survey, however, each continue to reflect a general downward trend. The results indicate that respondents’ views about the overall economy have not changed much.

Inflation Expectations

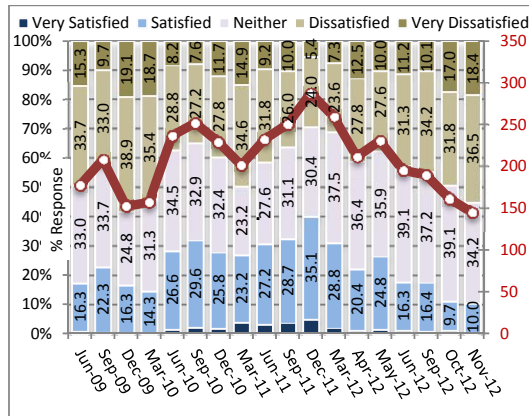
In the November 2012 survey, inflation expectation for CY2012 was **8.2 per cent**, reflecting an increase relative to the **8.0 per cent** recorded in the October 2012 survey (see Figure 1). This outturn continued to reflect a convergence of the actual, moving average and expected inflation which has been observed since the March 2012 survey.

The **5.0 per cent to 9.9 per cent** class remained the modal range, representing approximately **84.6 per cent** of respondents. Respondents expected the 12-month inflation a

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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

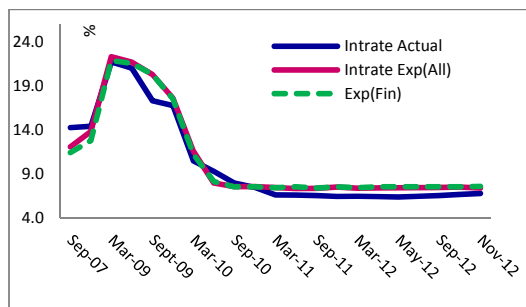
Table 1: Exchange Rate Expectations

In September 2012 the exchange rate was J\$89.93=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	Jun-12 Expected Depr.	Sep-12 Expected Depr.	Oct-12 Expected Depr.	Nov-12 Expected Depr.
3 Months	0.4	0.6	1.1	1.3
6 Months	1.3	1.5	1.9	1.8
12 Months	2.0	2.5	2.8	2.5

Figure 4: 180-day T-bill

In September 2012 the 180-day T-bill rate was 6.57 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

year from November 2012 to be approximately **9.1 per cent**. This was a significant increase over the **6.8 per cent** in the October 2012 survey but in line with average results from surveys since 2011.

Perception of Inflation Control

The index of the perception of inflation control decreased in November 2012 to **144.7** from **161.8** in the October 2012 survey (see Figure 3). This represented a continuation of the downward trend that has been observed since the December 2011 survey. The deterioration was mainly reflected in an increase in respondents who were dissatisfied while those who were neither satisfied nor dissatisfied increased.

Exchange Rate Expectations

Respondents indicated that they expected a greater level of depreciation in the near-term but maintained their expectation of depreciation for the year ahead (see Table 1). The exchange rate was expected to depreciate by **1.3 per cent** in the next three months which was higher when compared to the previous survey when respondents expected depreciation of **1.1 per cent**. Respondents expected a depreciation of **2.3 per cent** in the next 12 months which was in line with their expectations in the previous survey.

Interest Rate Expectations: 180-day T-bill

The survey indicated that the expected 180-day T-bill rate three months hence was marginally lower at **7.4 per cent** relative to the **7.5 per cent** expected in the previous survey (see Figure 4). Though the actual interest rate remained below the expected interest rate, the gap has narrowed as the actual rate has gradually adjusted upward since April 2012.

Interest Rate Expectations: OMO Rate

In the November 2012 survey, the majority of respondents reflected an expectation that the

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Table 2: Interest rate Expectations: OMO Rate

In September 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?

SURVEY DATES	OVERALL				FIN SECTOR			
	May12/ Jun12	Aug12/ Sep12	Sep12/ Oct12	Oct12/ Nov12	May12/ Jun12	Aug12/ Sep12	Sep12/ Oct12	Oct12/ Nov12
Survey responses (percentage of total)								
Significantly Lower	1.4	1.0	1.0	1.9	0.0	0.0	3.2	0.0
Marginally Lower	20.1	10.1	13.1	8.4	19.6	11.5	14.5	9.4
Remain the Same	42.2	49.3	48.8	39.7	39.3	59.6	45.2	37.7
Marginally Higher	32.0	33.2	32.2	44.2	39.3	21.2	32.3	49.1
Significantly Higher	1.0	4.4	2.8	3.9	1.8	5.8	3.2	1.9
Don't Know	2.7	2.0	2.1	1.6	0.0	1.9	1.6	1.9

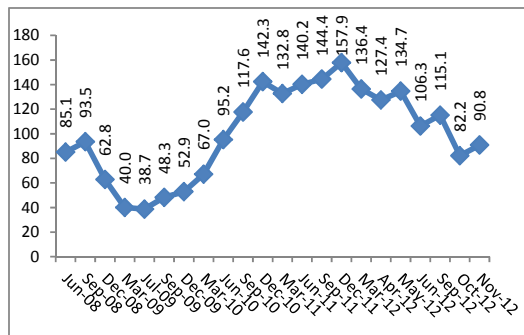
OMO rate would be marginally higher within the next three months. This represented a shift from the previously held view that the rate would not change. This adjustment in perceptions were strongly expressed within the Financial Sector (see Table 2).

Perception of Present and Future Business Conditions

In the November 2012 survey, both the perceptions about present and future business conditions improved relative to the previous survey. Nevertheless, since December 2011, there remains a general downward trend in how participants perceive their present and future business conditions (see Figure 5). Participants continue to moderate their future expectations less aggressively than their perceptions about the present.

Figure 5: Present Business Conditions

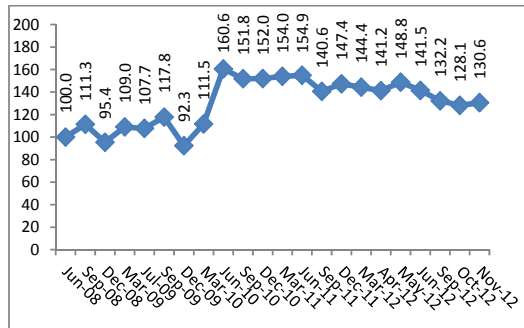
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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

Expected Increase in Operating Expenses

Respondents continued to indicate that they expect the largest increase in their production costs in the next 12 months to reflect higher cost of utilities (see Table 3). Other costs that were expected to contribute significantly to inflation in the next 12 months included stock replacement as well as fuel and transport costs. Cost of raw materials and wages & salaries were the input costs 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?

	Jun-12	Sep-12	Oct-12	Nov-12
Utilities	49.3	41.6	55.0	47.4
Wages/Salaries	5.8	7.7	4.8	3.5
Fuel/Transport	15.0	16.8	16.3	15.5
Stock Replacement	16.3	23.2	15.6	22.9
Raw Materials	11.6	9.7	8.0	9.7
Other	0.7	0.7	0.3	0.6
Not Stated	1.4	0.3	0.0	0.0