

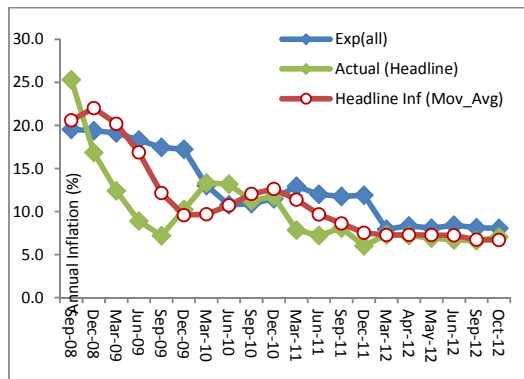
# Inflation Expectations Survey



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 policy. The most recent survey was conducted between September and October 2012 and had 298 respondents. Below are highlights from that survey.

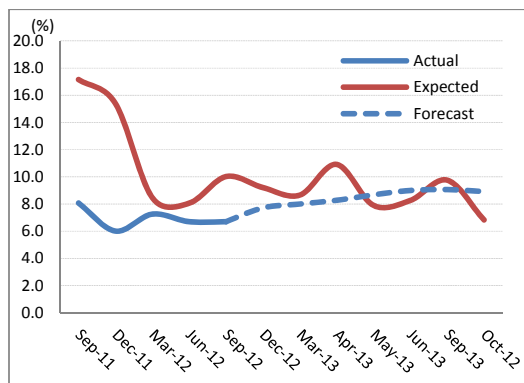
**Figure 1: Inflation Expectations**

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 (September 2011 to August 2012) the average monthly inflation rate was approximately 0.4 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 October 2012 convey the expected inflation for October 2013

## Overview

- The October 2012 survey reflected relatively stable inflation expectations for the calendar year when compared to the previous survey.
- The longer term expectation of depreciation in the exchange rate has moderated.
- Most respondents believe that in three months the Bank's OMO rate will remain the same.
- Both the perception of present and future business conditions declined relative to the previous survey. The results indicate very little change in the overall perception of the economy.

## Inflation Expectations

In the October 2012 survey, inflation expectation for CY2012 was **8.0 per cent**, reflecting a decline relative to the **8.1 per cent** recorded in the September 2012 survey (see Figure 1). This outturn continued to reflect a convergence of the actual, moving average and expected inflation seen since the March 2012 survey.

The **5.0 per cent to 9.9 per cent** class remained the modal range, representing approximately **87.1 per cent** of respondents.

Respondents expected the 12-month ahead inflation to be approximately **6.8 per cent**.

# Inflation Expectations Survey

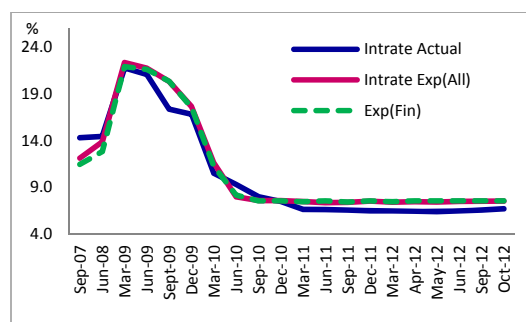
**Table 1: Exchange Rate Expectations**

In August 2012 the exchange rate was J\$89.82=US\$1.00. What do you think the rate will be for the following time periods, 3 months, 6 months, 12 months?

OVERALL SURVEY				
	May-12	Jun-12	Sep-12	Oct-12
Time Period	Expected Depr.	Expected Depr.	Expected Depr.	Expected Depr.
3 Months	-0.1	0.4	0.3	0.4
6 Months	0.7	1.2	1.1	1.1
12 Months	1.5	1.9	1.9	1.6

**Figure 3: 180-day T-bill**

In July 2012 the 180-day T-bill rate was 6.63 per cent. What do you think the rate will be for the next 3 months?



**Table 2: Interest rate Expectations: OMO Rate**

In August 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			
	Apr12/ May12	May12/ Jun12	Aug12/ Sep12	Sep12/ Oct12	Apr12/ May12	May12/ Jun12	Aug12/ Sep12	Sep12/ Oct12
Survey responses (percentage of total)								
Significantly Lower	1.0	1.4	1.0	1.0	0.0	0.0	0.0	3.2
Marginally Lower	13.8	20.1	10.1	13.1	14.9	19.6	11.5	14.5
Remain the Same	49.7	42.2	49.3	48.8	46.8	39.3	59.6	45.2
Marginally Higher	29.7	32.0	33.2	32.2	34.0	39.3	21.2	32.3
Significantly Higher	3.4	1.0	4.4	2.8	2.1	1.8	5.8	3.2
Don't Know	2.1	2.7	2.0	2.1	2.1	0.0	1.9	1.6

This was a noticeable reduction from the **9.8 per cent** in the September 2012 survey.

## Exchange Rate Expectations

Respondents indicated that they expected moderate levels of depreciation in the near-term and reduce their expectation of depreciation for a year ahead (see Table 1). The exchange rate is expected to depreciate by **0.4 per cent** in the next three months which was slightly higher when compared to the previous survey when respondents expected depreciation of **0.3 per cent**. Respondents expect depreciation of **1.6 per cent** in the next 12 months which was lower than the expectation of **1.9 per cent** 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 remained similar to that of the previous survey (see Figure 3). The actual T-bill rate remained below the expected interest rate, though slightly closer when compared to the previous survey.

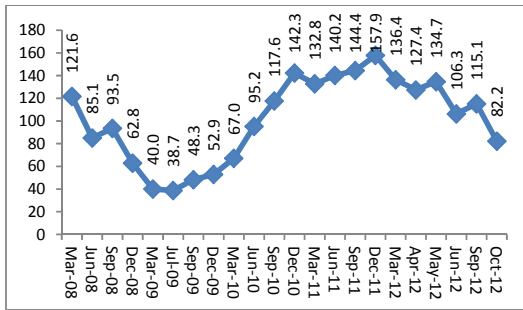
## Interest Rate Expectations: OMO Rate

In the October 2012 survey, the majority of respondents from all sectors continued to expect the OMO rate three months hence to remain the same (see Table 2).

# Inflation Expectations Survey

**Figure 4: Present Business Conditions**

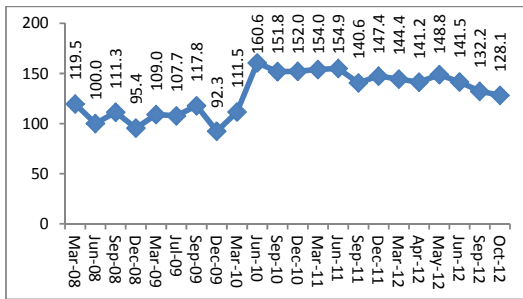
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\*December 2005 = 100

**Figure 5: 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

## Perception of Present and Future Business Conditions

In the October 2012 survey, the perceptions about present business conditions worsened relative to the previous survey. The perception of future business conditions also declined in the October 2012 survey, though less sharply than perceptions about present conditions. The outturn for both present and future business conditions reflected a trend decline which has persisted since December 2010 (see Figure 4).

## 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 Fuel and Transport as well as Stock Replacement costs. Wages & salaries and the cost of raw materials 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?

	May-12	Jun-12	Sep-12	Oct-12
Utilities	48.6	49.3	41.6	55
Wages/Salaries	5.5	5.8	7.7	4.8
Fuel/Transport	19.3	15	16.8	16.3
Stock Replacement	17.9	16.3	23.2	15.6
Raw Materials	7.6	11.6	9.7	8
Other	0.7	0.7	0.7	0.3
Not Stated	0.3	1.4	0.3	0
Other + Not Stated	0	0	0	0