

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 September 2013 and had 302 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2012, the inflation rate was 8.0 per cent. What do you think the inflation rate will be for 2013?

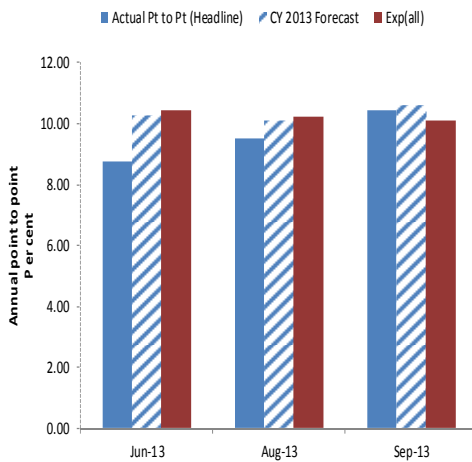
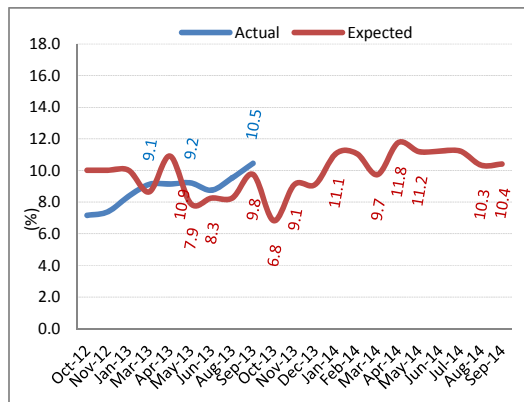


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2012 to September 2013) the average monthly inflation rate was approximately 0.87 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 Sep-2014 reflect responses as at Sep-2013 (ii) Periods where no survey was conducted assumes the previous month expectation.

Overview

- The results of the September 2013 survey indicated that inflation expectations for calendar year 2013 declined marginally relative to the previous survey.

The perception of inflation control improved in the September 2013 survey following a worsening in the August 2013 survey.

- Relative to the previous survey, there was an increase in the expected pace of depreciation of the exchange rate over the next 12 months.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- There was an improvement in perception of present and future conditions relative to the previous survey. Nonetheless, both present and future conditions remained below 2011 and 2012 levels.

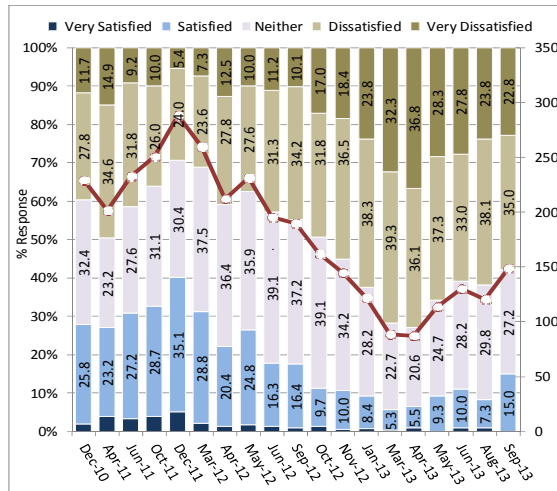
Inflation Expectations

In the September 2013 survey, the expected inflation for calendar year (CY) 2013 was **10.1 per cent**, relative to the **10.2 per cent** expected in the August 2013 survey. The expected inflation for CY 2013 was above the outturn of **8.0 per cent** for 2012 but below the annual point-to-point inflation of **10.4 per cent** as at September 2013 (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

Respondents' expectation of inflation 12-months ahead increased marginally to **10.4 per cent** in the September 2013 survey relative to **10.3 per cent** in the August 2013 survey (see Figure 2).

Perception of Inflation Control

The results of the September 2013 survey reflected an improvement in the perceived control of inflation by the authorities relative to the previous survey. Specifically, the index of inflation control increased to **143.6** from **120.5** in August 2013 (see Figure 3). This uptick mainly reflected an increase in the number of respondents who were 'satisfied' and a decline in the number of those who were 'dissatisfied' and 'very dissatisfied'.

Table 1: Exchange Rate Expectations

In August 2013 the exchange rate was J\$101.94=US\$1.00. What do you think the rate will be for the following time periods ahead, 3 months, 6 months, and 12 months?

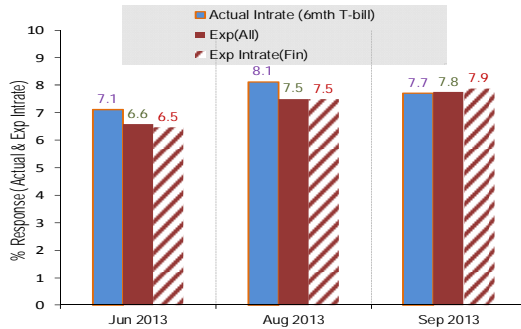
| OVERALL SURVEY | | | | |
|----------------|-----------------------|--------|--------|--------|
| Periods Ahead | Expected Depreciation | | | |
| | May-13 | Jun-13 | Aug-13 | Sep-13 |
| 3 Months | 1.2 | 3.9 | 1.5 | 1.8 |
| 6 Months | 2.1 | 5.9 | 2.6 | 3.0 |
| 12 Months | 3.4 | 6.7 | 4.3 | 4.7 |

Exchange Rate Expectations

Respondents anticipated an upturn in the pace of depreciation for the 3-month, 6-month and 12-month periods beyond the survey date. This was relative to the August 2013 survey which showed a lower expected pace of depreciation over all the time horizons. In the September 2013 survey, the exchange rate was expected to depreciate by **1.8 per cent**, **3.0 per cent** and **4.7 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in August 2013 had indicated expected depreciation of **1.5 per cent**, **2.6 per cent** and **4.3 per cent** over the respective horizons.

Figure 4: 180-day T-bill

In August 2013 the 180-day T-bill rate was 8.13 per cent. What do you think the rate will be for the next 3 months?



Interest Rate Expectations: 180-day T-bill

The survey results indicated that the expected 180-day Treasury bill rate, three months hence would increase to **7.9 per cent** from the **7.5 per cent** expressed in the previous survey (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 August 2013, 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?

| SURVEY DATES | OVERALL | | | FIN SECTOR | | |
|--|-------------|-------------|------------|-------------|-------------|------------|
| | Jun/July-13 | July/Aug-13 | Aug/Sep-13 | Jun/July-13 | July/Aug-13 | Aug/Sep-13 |
| Survey responses (percentage of total) | | | | | | |
| Significantly Lower | 0.7 | 0.3 | 0.7 | 1.8 | 0.0 | 0.0 |
| Marginally Lower | 21.0 | 17.9 | 13.6 | 26.8 | 18.5 | 12.1 |
| Remain the Same | 47.1 | 46.7 | 45.6 | 46.4 | 46.3 | 43.1 |
| Marginally Higher | 27.1 | 31.1 | 36.1 | 19.6 | 33.3 | 41.4 |
| Significantly Higher | 2.4 | 2.3 | 2.0 | 3.6 | 1.9 | 1.7 |
| Don't Know | 1.7 | 1.7 | 2.0 | 1.8 | 0.0 | 1.7 |

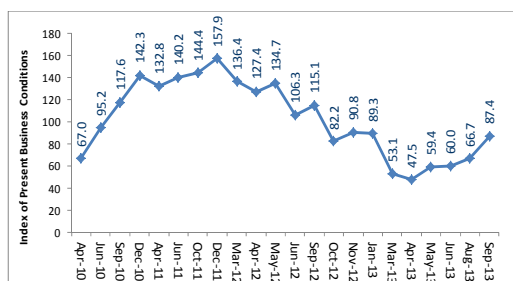
In the September 2013 auction, however, the actual interest rate for the 180-day Treasury bill fell to **7.7 per cent** from **8.1 per cent** in the August 2013 auction.

Interest Rate Expectations: OMO Rate

In the September 2013 survey, the majority of respondents expected that the Bank's OMO rate would remain the same over the next three months. This was similar to the views conveyed in the last three surveys. There was, however, a marginal decline in the percentage of respondents who were of the view that the OMO rate would remain the same (**45.6 per cent** from **46.7 per cent** in the previous survey). The proportion of respondents who believed that the OMO rate would be marginally higher increased. The results from the overall survey were largely in line with the views expressed within the financial sector (see Table 2).

Figure 5: Present Business Conditions

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



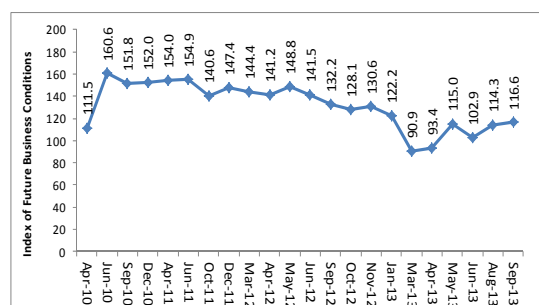
* December 2005 = 100

Perception of Present and Future Business Conditions

Perceptions about present and future business conditions improved in the most recent survey relative to the previous survey. The perceptions of both present and future business conditions, however, remained low relative to the levels in FY2011/12 (see Figure 5).

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

Inflation Expectations Survey

Table 3: Operating Expenses

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

| | May-13 | Jun-13 | Aug-13 | Sep-13 |
|-------------------|--------|--------|--------|--------|
| Utilities | 40.3 | 37.8 | 39.7 | 38.8 |
| Wages/Salaries | 4.0 | 4.1 | 2.3 | 5.1 |
| Fuel/Transport | 13.7 | 21.3 | 14.2 | 16.3 |
| Stock Replacement | 26.7 | 25.8 | 28.1 | 29.3 |
| Raw Materials | 12.0 | 10.3 | 14.6 | 9.9 |
| Other | 3.3 | 0.7 | 1.0 | 0.7 |
| 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 raw materials and fuel & transport cost were also expected to contribute significantly to higher production costs for the year ahead. Of note, there was an increase in the number of respondents who anticipated upward adjustments to wages & salaries. Nonetheless, wages & salaries remained the input costs least expected to increase over the next 12 months.