



# **Survey of Businesses' Inflation Expectations**

**September 2018**

**RESEARCH SERVICES DEPARTMENT  
RESEARCH AND ECONOMIC PROGRAMMING DIVISION**

# Inflation Expectations Survey

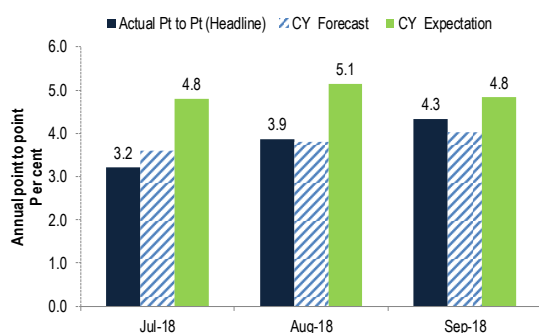


The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf of the Bank of Jamaica to ascertain the expectations of these economic agents about variables which are likely to have an impact on inflation in the near-term. In this regard, the survey captures the perception of 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 17 September and 12 October 2018 and had 287 respondents. Below are highlights from that survey.

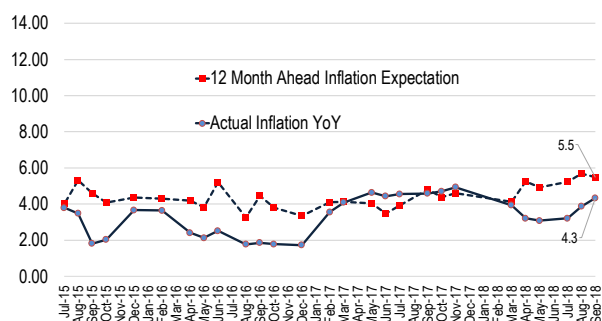
**Figure 1: Inflation Expectations**

If you expect inflation, what do you expect the rate of inflation to be for the current calendar year?



**Figure 2: Expected Annual Inflation**

If you expect inflation, what do you expect the rate of inflation to be over the next 12 months?



## Overview

- The September 2018 survey indicated an expected inflation of 4.8 per cent for calendar year (CY) 2018, which was lower than the August 2018 survey outturn of 5.1 per cent. The expected inflation 12 months ahead declined to 5.5 per cent relative to the previous survey outturn of 5.7 per cent.
- The perception of inflation control improved in the September 2018 survey relative to the August 2018 survey.
- Respondents anticipate that the currency will remain relatively unchanged over the 3-month horizon before depreciating over the 6-month and 12-month horizons.
- The majority of respondents continued to believe that the Bank's OMO rate will remain the same over the next three months.
- The Present Business Conditions Index reflected a higher level of optimism, the Future Business Conditions Index continued to reflect a higher level of optimism relative to the previous survey.

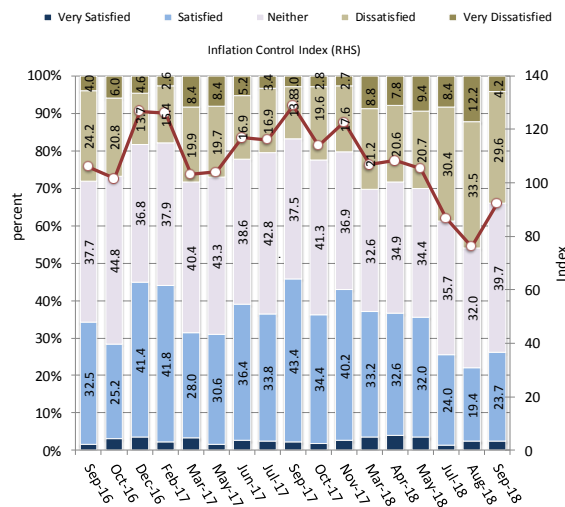
## Inflation Expectations

In the September 2018 survey, respondents moderated their expectation for inflation for (CY) 2018 to **4.8 per cent** from **5.1 per cent** in the August 2018 survey. This expectation was above the annual point-to-point inflation of **4.3 per cent** as at September 2018 (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?<sup>1</sup>



\*December 2005 = 100

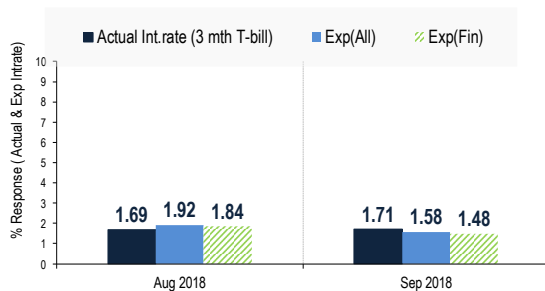
**Table 1: Exchange Rate Expectations**

In August 2018, the exchange rate was J\$136.90=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			
	May-18	Jul-18	Aug-18	Sep-18
3 Months	3.3	3.4	4.1	0.0
6 Months	3.9	4.0	5.2	0.7
12 Months	4.4	5.1	5.8	1.5

**Figure 4: 90-day T-bill**

In September 2018, the 90-day T-bill rate was 1.7 per cent. What do you think the rate will be for the next 3 months?



Respondents' expectation of inflation 12 months ahead also decelerated to **5.5 per cent**, from the previous survey's estimate of **5.7 per cent** (see **Figure 2**).

Businesses' perception of the authorities' control of inflation improved in the September 2018 survey. Specifically, the index of inflation control increased to **92.3** in the current survey, up from **76.2** in the previous survey (see **Figure 3**). This was largely due to a decrease in the proportion of respondents who were "dissatisfied." In addition, there was an increase in those who were "satisfied" with how inflation is being controlled.

## Exchange Rate Expectations

Relative to the previous survey, respondents adjusted downward their outlook for the pace of currency depreciation over all three time horizons. In the September 2018 survey, the exchange rate was anticipated to remain unchanged for the 3-month horizon before depreciating by **0.7 per cent**, and **1.5 per cent** for the 6-month and 12-month horizons, respectively. This compares with the respective expected depreciation of **4.1 per cent**, **5.2 per cent** and **5.8 per cent** that were recorded in the August 2018 survey (see **Table 1**).

## Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence, to be **1.6 per cent**. This expected rate is lower than the actual September 2018 outcome of **1.7 per cent** (see **Figure 4**). Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **1.5 per cent**.

<sup>1</sup> Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

# Inflation Expectations Survey

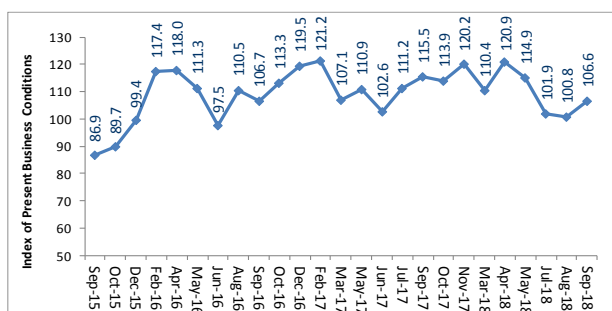
**Table 2: Interest Rate Expectations: OMO Rate**

In August 2018, the Bank of Jamaica’s overnight rate (policy rate) was 2.0 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Jul-18	Aug-18	Sep-18	Jul-18	Aug-18	Sep-18
Survey responses (percentage of total)						
Significantly Lower	0.8	0.0	0.0	2.2	0.0	0.0
Marginally Lower	9.5	11.5	9.4	15.6	15.7	16.4
Remain the Same	50.0	47.1	44.3	51.1	54.9	41.8
Marginally Higher	27.5	32.4	33.8	20.0	17.6	36.4
Significantly Higher	3.1	0.7	1.0	4.4	0.0	1.8
Don't Know	9.2	8.3	11.5	6.7	11.8	3.6

**Figure 5: Present Business Conditions**

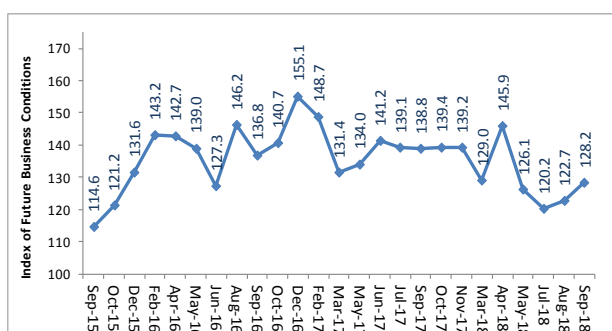
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



\*Balanced score method: (better-worse) +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?



\*Balanced score method: (better-worse) +100

## Interest Rate Expectations: OMO Rate

In the September 2018 survey, the majority of respondents expected that the Bank’s OMO rate would remain the same over the next three months. This proportion decreased relative to the previous survey.

With regard to the financial sector, the majority of respondents expected that the Bank’s policy rate would be unchanged. Furthermore, responses from the financial sector revealed that **36.4 per cent** of respondents expected the rate to be marginally higher, up from **17.6 per cent** of respondents in the August 2018 survey.

## Perception of Present and Future Business Conditions

In the September 2018 survey, the Present Business Conditions Index increased to **106.6** relative to **100.8** recorded in the previous survey. The Future Business Conditions Index increased to **128.2** relative to **122.7** in the previous survey (see **Figures 5 and 6**).

The increase in the Present Business Conditions Index reflected a rise in the number of respondents of the view that conditions are “better”. The outturn for the Future Business Conditions Index mainly reflected a decrease in the proportion of respondents who believe that conditions will be “worse”.

# Inflation Expectations Survey

---

## Table 3: Operating Expenses

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

	May-18	Jul-18	Aug-18	Sep-18
Utilities	29.3	35.5	36.3	31.7
Wages/Salaries	7.4	8.8	9.7	10.8
Fuel/Transport	24.2	21.0	20.5	22.0
Stock Replacement	23.8	17.9	18.7	22.6
Raw Materials	9.0	8.0	8.3	8.0
Other	6.3	8.8	6.5	4.9
Not Stated	0.0	0.0	0.0	0.0

## Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from utilities, fuel/transport and stock replacement. The cost of raw materials remained as the least likely to increase (see **Table 3**).