



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

AUGUST 2015

**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 in August 2015 and had 319 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2014, the inflation rate was 6.4 per cent. What do you think the inflation rate will be for 2015?

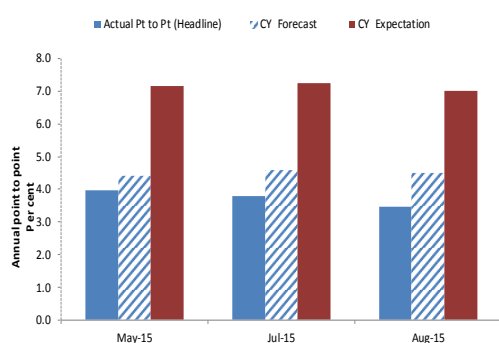
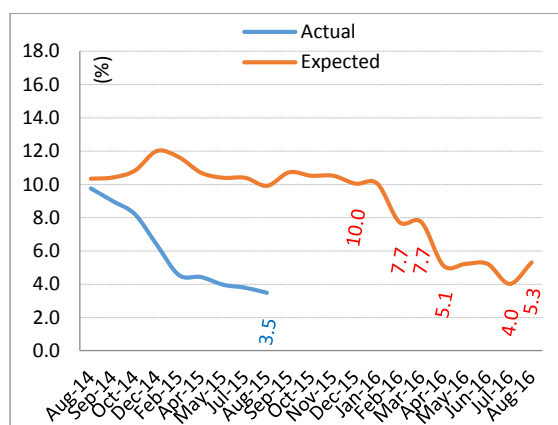


Figure 2: Expected Annual Inflation

Based on the last 12 months (August 2014 to July 2015) the average monthly inflation rate was approximately 0.31 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 August 2016 reflects responses as at August 2015 (ii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The August 2015 survey indicated an expected inflation of 7.0 per cent for calendar year (CY) 2015, lower than the previous survey. In contrast, the expected inflation 12 months ahead increased relative to the previous survey.
- The perception of inflation control improved in the August 2015 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a slower pace of exchange rate depreciation over the 3-month, 6-month and 12-month horizons.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- Both the perception of present and future business conditions improved relative to the previous survey. There has been a general upward trend in present and future business conditions since the April 2013 survey.

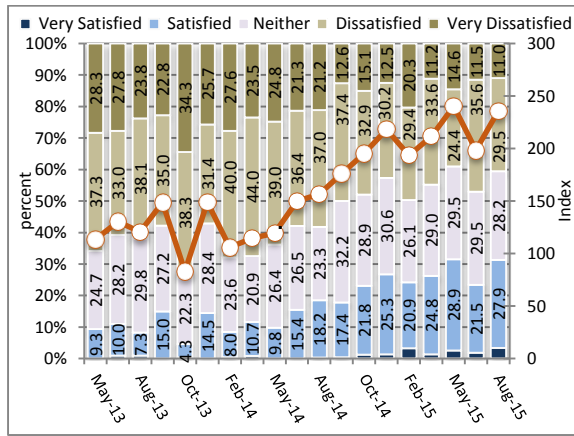
Inflation Expectations

In the August 2015 survey, the expected inflation for CY2015 was **7.0 per cent**, below the **7.3 per cent** expected in the July 2015 survey. The expectation for the calendar year was above the annual point-to-point inflation of **3.5 per cent** at August 2015 (see Figure 1). Notably, respondents' expectation of inflation 12 months ahead increased to **5.3 per cent** relative to **4.0 per cent** in the July 2015 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

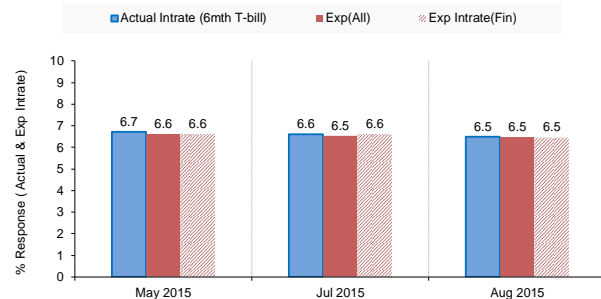
Table 1: Exchange Rate Expectations

In July 2015 the exchange rate was J\$117.42=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			
	Aug-14	May-15	Jul-15	Aug-15
3 Months	0.9	1.0	1.4	1.3
6 Months	2.4	1.5	2.6	2.0
12 Months	3.9	4.3	3.8	3.2

Figure 4: 180-day T-bill

In July 2015 the 180-day T-bill rate was 6.6 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of inflation control by the authorities increased in the August 2015 survey when compared to the previous survey. Specifically, the index of inflation control rose to **235.8** from **198.2** in the July 2015 survey (see Figure 3). This outturn mainly reflected an increase in the number of respondents who were 'satisfied' with the authorities' control of inflation. Additionally, there was a reduction in the number of respondents who were 'dissatisfied'.

Exchange Rate Expectations

Relative to the previous survey, respondents expected a slower pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month time horizons. Specifically, in the August 2015 survey, the exchange rate was expected to depreciate by **1.3 per cent**, **2.0 per cent** and **3.2 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in July 2015 had indicated expected depreciation of **1.4 per cent**, **2.6 per cent** and **3.8 per cent** over the respective horizons.

Interest Rate Expectations: 180-day T-bill

The expected 180-day Treasury bill rate, three months hence, was **6.5 per cent** similar to the previous survey. This expected rate was also in line with the actual outturn for August 2015 (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

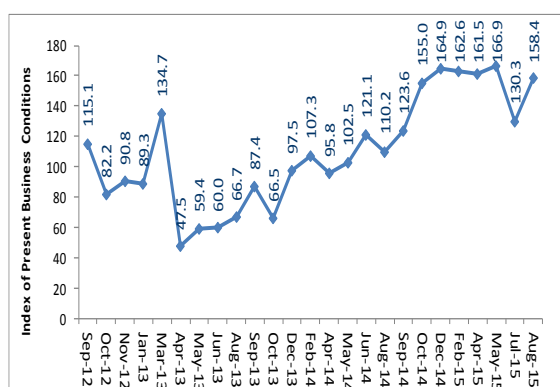
Table 2: Interest rate Expectations: OMO Rate

In July 2015, the Bank of Jamaica's 30-day rate was 5.5 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	May 15	Jul 15	Aug 15	May 15	Jul 15	Aug 15
<i>Survey responses (percentage of total)</i>						
Significantly Lower	1.3	2.9	0.9	0.0	2.9	3.0
Marginally Lower	19.8	18.5	23.2	8.1	20.6	28.4
Remain the Same	57.8	46.6	46.4	64.5	44.1	44.8
Marginally Higher	20.5	28.4	27.9	25.8	29.4	23.9
Significantly Higher	1.0	2.9	1.3	1.6	2.9	0.0
Don't Know	0.6	0.6	0.3	0.0	0.0	0.0

Figure 5: Present Business Conditions

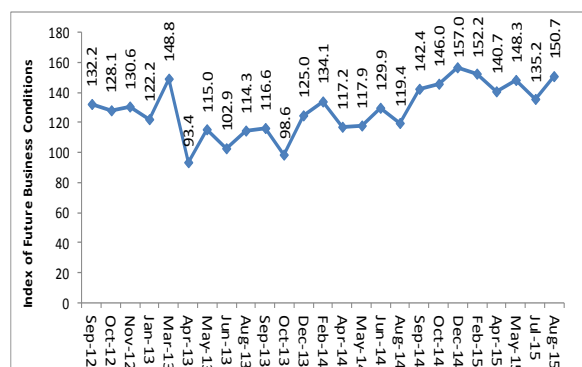
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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

Interest Rate Expectations: OMO Rate

In the August 2015 survey, the majority of respondents expected that the Bank's OMO rate will remain the same over the next three months. The results for the financial sector were consistent with the overall view that the BOJ would maintain the 30-day OMO rate at the current level. There was, however, an increase in the proportion of respondents within the financial sector and overall, who anticipated a marginally lower rate.

Perception of Present and Future Business Conditions

In the latest survey, there was improvement in both the perception of present and future business conditions among respondents relative to the previous survey. Notably, the index of present business conditions increased to 158.4 from 130.3 in the previous survey. Similarly, the index of future business conditions rose to 150.7 from 135.2 in the previous survey (see Figures 5 and 6). The indices of perceptions of present and future business conditions have displayed a general upward trend since the April 2013 survey.

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Apr-15	May-15	Jul-15	Aug-15
Utilities	32.2	33.6	35.5	27.9
Wages/Salaries	9.1	7.8	11.2	9.1
Fuel/Transport	17.5	13.7	12.1	15.4
Stock Replacement	28.0	28.3	27.5	29.8
Raw Materials	12.2	15.3	13.4	16.9
Other	1.0	1.3	0.3	0.9
Not Stated	0.0	0.0	0.0	0.0

Expected Increase in Operating Expenses

In the most recent survey respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from the cost of stock replacement (see Table 3). Higher costs for utilities was expected to be the second largest contributor to higher production costs over the next 12 months. The expected contribution of the cost of fuel/transport in the production process ranked marginally below the cost of raw materials with the number of participants expecting a fuel price increase rising relative to the previous survey. Wages and Salaries continued to be the input cost least expected to increase over the next 12 months.