



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

APRIL 2014

**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 March/April 2014 and had 234 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2013, the inflation rate was 9.47 per cent. What do you think the inflation rate will be for 2014?

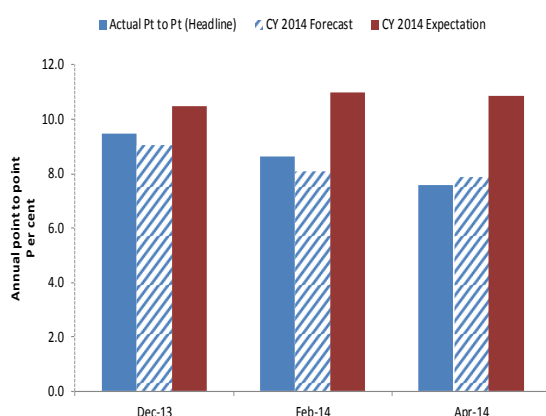
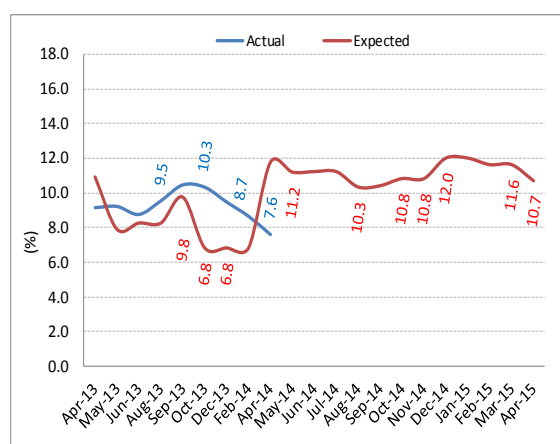


Figure 2: Expected Annual Inflation

Based on the last 12 months (April 2013 to March 2014) the average monthly inflation rate was approximately 0.67 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 April 2015 reflect responses as at April 2014 (ii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The April 2014 survey indicated an expected inflation of 10.9 per cent for calendar year (CY) 2014, a marginal decline relative to the previous survey.
- The perception of inflation control improved in the April 2014 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a decrease in the pace of exchange rate depreciation in the next 3 months, 6 months and 12 months.
- The majority of respondents believe that the Bank's OMO rate will be marginally higher over the next three months.
- The perception of present and future business conditions worsened relative to the previous survey. Nevertheless, there has been a general upward trend in present and future business conditions subsequent to the April 2013 survey.

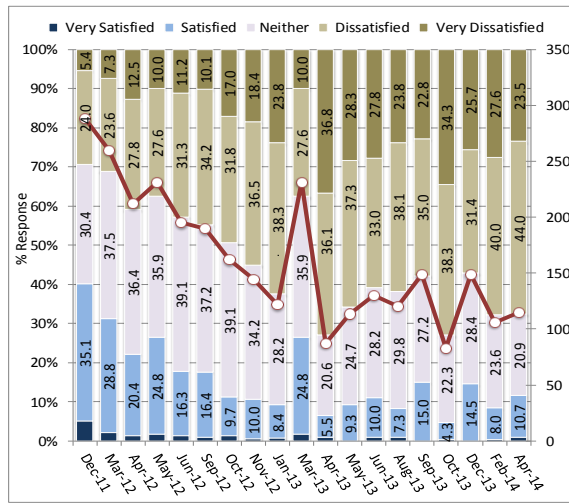
Inflation Expectations

In the April 2014 survey, the expected inflation for CY2014 was **10.9 per cent**, relative to the **11.0 per cent** expected in the February survey. The expected inflation for CY2014 was above the outturn of **9.5 per cent** for CY2013. The actual point-to-point inflation at April 2014 was **7.6 per cent** (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

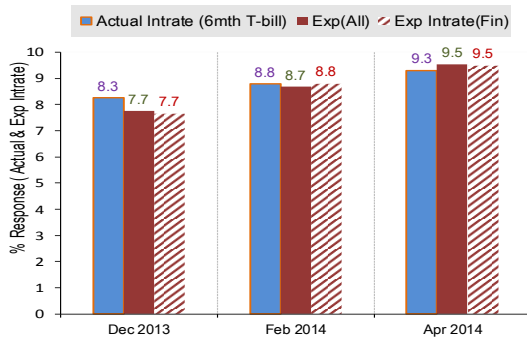
Table 1: Exchange Rate Expectations

In March 2014 the exchange rate was J\$109.57=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			
	Sep-13	Oct-13	Feb-14	Apr-14
3 Months	1.8	2.6	4.3	2.4
6 Months	3.2	4.3	6.1	4.7
12 Months	4.7	5.9	7.6	7.2

Figure 4: 180-day T-bill

In March 2014 the 180-day T-bill rate was 9.11 per cent. What do you think the rate will be for the next 3 months?



Respondents' expectation of inflation 12 months ahead declined to **10.7 per cent** in the April 2014 survey relative to **11.6 per cent** in the February 2013 survey (see Figure 2).

Perception of Inflation Control

The April 2014 survey reflected an improvement in businesses' perception of inflation control by the authorities when compared to the previous survey. Specifically, the index of inflation control increased to **114.5** from **106.0** in the February 2014 survey (see Figure 3). This improvement mainly reflected an increase in the number of respondents who were 'satisfied' with the authority's control of inflation. Additionally, the number of respondents who were 'very dissatisfied' declined relative to the previous survey.

Exchange Rate Expectations

Respondents expected a decline in the pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month period beyond the survey date. In the April 2014 survey, the exchange rate was expected to depreciate by **2.4 per cent**, **4.7 per cent** and **7.2 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in February 2014 had indicated expected depreciation of **4.3 per cent**, **6.1 per cent** and **7.6 per cent** over the respective horizons.

Interest Rate Expectations: 180-day T-bill

The survey indicated an increase to **9.5 per cent** in the expected 180-day Treasury bill rate, three months hence, from the **8.7 per cent** expressed in the previous survey. This was above the actual outcome for April 2014 (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 March 2014, 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?

	OVERALL			FIN SECTOR		
	Nov/Dec 13	Jan/Feb 14	Apr-14	Nov/Dec 13	Jan/Feb 14	Apr-14
Survey responses (percentage of total)						
Significantly Lower	0.7	0.4	1.3	0.0	0.0	0.0
Marginally Lower	10.9	8.8	9.0	15.3	11.1	8.3
Remain the Same	50.2	47.2	39.3	49.2	48.1	43.8
Marginally Higher	34.3	38.8	44.9	28.8	40.7	45.8
Significantly Higher	3.6	2.8	1.3	5.1	0.0	0.0
Don't Know	0.3	2.0	4.3	1.7	0.0	2.1

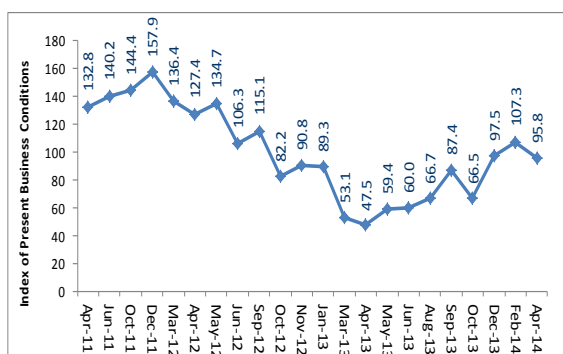
In the April 2014 auction, the actual interest rate on the 180-day Treasury bill was **9.3 per cent**, relative to **9.1 per cent** in the March 2014 auction.

Interest Rate Expectations: OMO Rate

In the April 2014 survey, the majority of respondents expected that the Bank's OMO rate would be marginally higher over the next three months. The percentage of respondents expressing this view increased to **44.9 per cent** from **38.8 per cent** in the previous survey. Correspondingly, the proportion of respondents who believed that the OMO rate would remain the same declined. The results for the financial sector indicated a similar increase in the proportion who believed that the rate will be marginally higher (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?



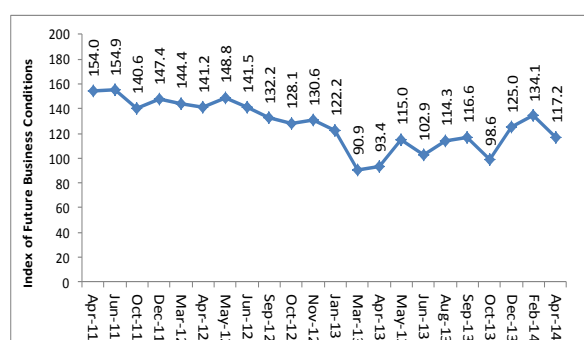
* December 2005 = 100

Perception of Present and Future Business Conditions

The perceptions about present and future business conditions worsened in the most recent survey relative to the previous survey. Both indices remained below the levels recorded in FY2011/12 (see Figure 5 and 6). Notwithstanding, the perception of present and future business conditions has indicated a general upward trend since the April 2013 survey.

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?

	Oct-13	Dec-13	Feb-14	Apr-14
Utilities	41.7	38.3	38.4	38.9
Wages/Salaries	2.0	3.3	5.6	9.0
Fuel/Transport	15.0	19.5	22.8	15.4
Stock Replacement	27.0	27.4	18.8	21.8
Raw Materials	13.7	11.6	14.0	13.7
Other	0.7	0.0	0.4	1.3
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 of 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 fuel/transport and raw materials were also expected to contribute significantly to higher production costs for the year ahead. Wages & Salaries remained the input costs least expected to increase over the next 12 months.