

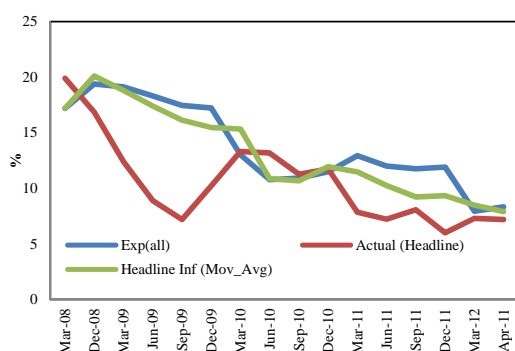
# Inflation Expectations Survey



The Statistical Institute of Jamaica (STATIN) undertakes surveys of businesses on behalf 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 March and April 2012 and had 281 respondents. Below are highlights from that survey.

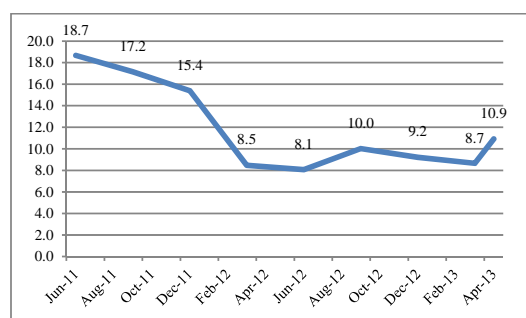
## Figure 1: Inflation Expectations

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 (April 2011 to March 2012) the average monthly inflation rate was approximately 0.6 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 April 2012 convey the expected inflation for April 2013

## Overview

- The April 2012 survey reflected an uptick in inflation expectations when compared to the previous survey.
- The perception of inflation control declined for a second consecutive time in the April 2012 survey.
- The exchange rate is expected to continue to depreciate in the near-term.
- Most respondents believe that in three months the Bank's OMO rate will remain the same.
- The perception of both present and future business conditions declined in the current survey. However, the assessment of the overall health of the economy remained favourable.

## Inflation Expectations

In the April 2012 survey, inflation expectation for the CY2012 was **8.3 per cent**, reflecting an uptick relative to the **7.9 per cent** recorded in the March 2012 survey (see Figure 1). Despite this uptick, the expectations remain generally in line with the actual annual and moving average inflation at end-March 2012.

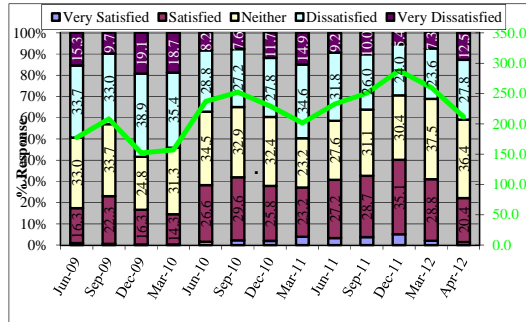
The **5.0 per cent to 9.9 per cent** class remained the modal range, representing approximately **76.3 per cent** of respondents.

Respondents expected the 12-month inflation from April 2012 to be approximately **10.9 per cent**. This uptick could be representing expected inflationary impact from the fiscal measures that

# 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

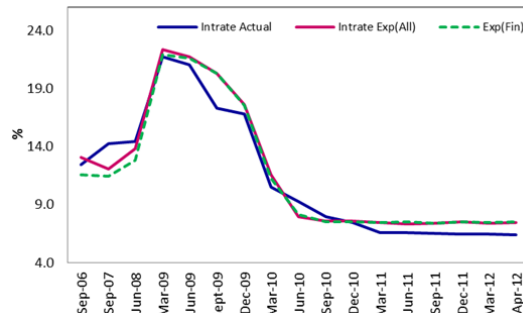
**Table 1: Exchange Rate Expectations**

In December 2011 the exchange rate was J\$85.78=US\$1.00. What do you think the rate will be for the following time periods, 3 months, 6 months, 12 months?

OVERALL SURVEY				
	Sep-11	Dec-11	Mar-12	Apr-12
Time	Expected	Expected	Expected	Expected
Period	Depr.	Depr.	Depr.	Depr.
3 Months	0.1	0.4	-0.1	0.2
6 Months	0.4	0.4	0.3	1.1
12 Months	0.7	1.0	0.8	1.9

**Figure 4: 180-day T-bill**

In February 2012 the 180-day T-bill rate was 6.62 per cent. What do you think the rate will be for the next 3 months?



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

should be announced in the FY2012/13 GOJ budget presentation.

## Perception of Inflation Control

The index of the perception of inflation control fell in April 2012 to **211.7** from **259.7** in March 2012 (see Figure 3). This represents the second consecutive decline since the December 2011 survey.

The proportion of dissatisfied respondents was now greater than the number of satisfied respondents. The number of indifferent respondents recorded a slight decline.

## Exchange Rate Expectations

Respondents indicated that they expect a marginal depreciation of the exchange rate in the near-term as well as for the year (see Table 1). The rate of depreciation is expected to depreciate by **0.2 per cent** in the next three months when compared to the previous survey when respondents expected **0.1 per cent** appreciation. In addition, respondents expected a depreciation of **1.9 per cent** in the next 12 months.

## 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 4). The actual interest rate remained below the expected interest rate, a continuation of the sustained deviation between actual and expected interest rate since the December 2010 survey.

## Interest Rate Expectations: OMO Rate

In the April 2012 survey the majority of the respondents indicated that they expected the OMO rate three months hence to remain the same (see Table 2). There were declines in the number of respondents who thought that the OMO rate would be marginally higher, while the number expecting it to be lower was unchanged.

# Inflation Expectations Survey

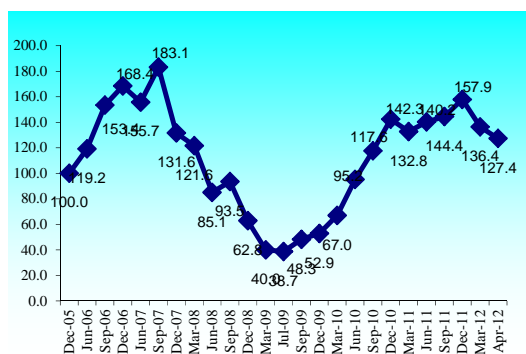
**Table 2: Interest rate Expectations: OMO Rate**

In February 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?

	OVERALL				FIN SECTOR			
	Sep-11	Dec-11	Mar-12	Apr-12	Sep-11/	Dec-11	Mar-12	Apr-12
Survey responses (percentage of total)								
Significantly Lower	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Marginally Lower	34.9	18.6	18.1	15.7	25.0	22.8	20.0	20.0
Remain the Same	46.7	56.4	52.1	49.3	51.3	55.7	43.3	50.9
Marginally Higher	15.6	22.6	23.6	28.6	20.0	20.3	33.3	23.6
Significantly Higher	0.3	0.3	2.8	3.2	1.3	0.0	0.0	3.6
Don't Know	1.7	1.7	3.1	2.5	2.5	1.3	3.3	0.0

**Figure 5: Present Business Conditions**

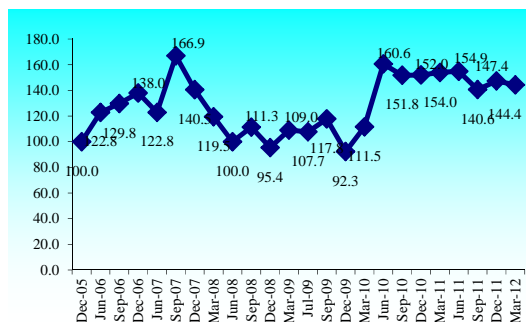
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\*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

## Perception of Present and Future Business Conditions

In the April 2012 survey the assessments of both the perception of present and future business conditions declined relative to the previous survey (see Figure 5 and Figure 6). However, the perception of future prospects recorded a relatively modest decline relative to the perception of current conditions. This could be reflecting expectations of an immediate impact from any fiscal adjustments that would be made by the Government of Jamaica at the beginning of FY2012/13. Despite these declines in the April 2012 survey, the overall perception of the current and future state of the domestic economy remained relatively favourable.

## Expected Increase in Operating Expenses

Respondents indicated that they expect the largest increase in their production costs in the next 12 months will reflect higher cost of utilities (see Table 3). There was also an indication that the costs of fuel and transport are expected to reflect noticeable increases in one year. Wages remained the input 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?

	Sep-11	Dec-11	Mar-12	Apr-12
Utilities	50.9	41.6	40.6	52.1
Wages/Salaries	4.8	6.8	8.7	3.6
Fuel/Transport	18.7	26.4	20.1	23.9
Stock Replacement	13.1	15.5	20.1	12.5
Raw Materials	12.5	9.8	9.7	7.1
Other	0	0	0.3	0.4
Not Stated	0	0	0.3	0.4
Other + Not Stated	0	0	0	0