

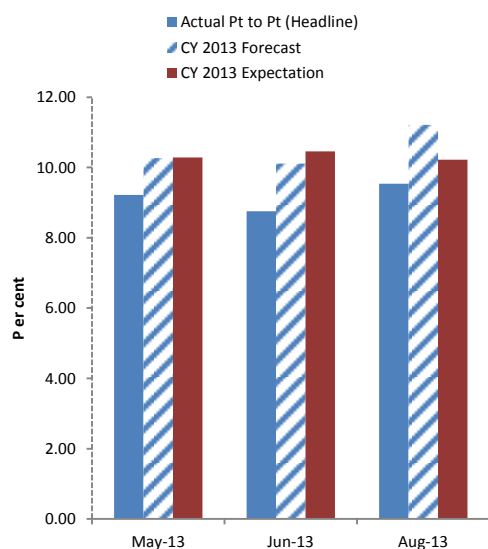
# Inflation Expectations Survey



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

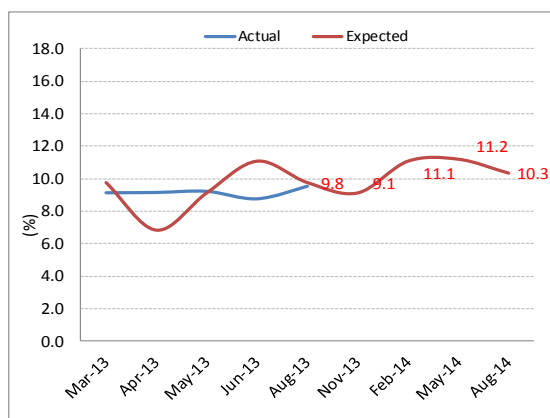
**Figure 1: Inflation Expectations**

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 (September 2012 to August 2013) the average monthly inflation rate was approximately 0.80 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 August 2013 convey the expected inflation for August 2014

## Overview

- The results of the August 2013 survey indicated that inflation expectations for calendar year 2013 were slightly below those expressed in the previous survey.
- The perception of inflation control declined in the August 2013 survey after increasing in the May and June 2013 surveys.
- Relative to the previous survey, there was a decrease in the expected 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 continued to reflect a general downward trend.

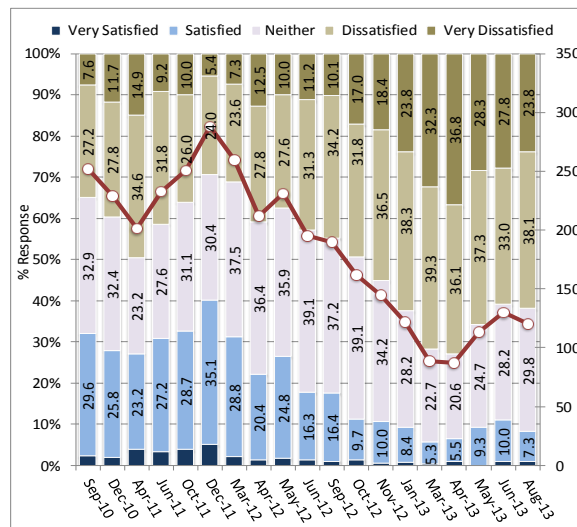
## Inflation Expectations

In the August 2013 survey, the expected inflation for CY2013 was **10.2 per cent**, slightly lower than the **10.5 per cent** expected in the June 2013 survey. The expected inflation for calendar year 2013 was also above the outturn of **8.0 per cent** for 2012 and the annual point-to-point inflation of **9.5 per cent** as at August 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?<sup>1</sup>



\*December 2005 = 100

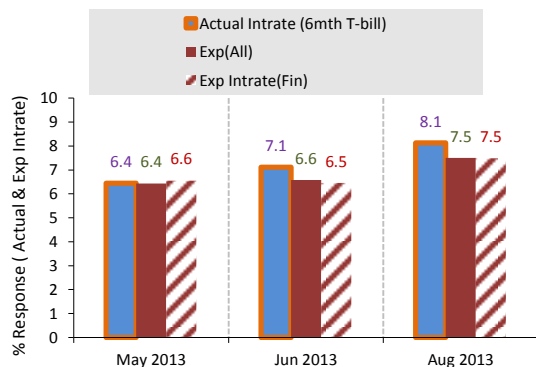
**Table 1: Exchange Rate Expectations**

In June 2013 the exchange rate was J\$100.82=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			
	Apr-13	May-13	Jun-13	Aug-13
3 Months	4.6	1.2	3.9	1.5
6 Months	6.7	2.1	5.9	2.6
12 Months	6.4	3.4	6.7	4.3

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

In June 2013 the 180-day T-bill rate was 6.58 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

Respondents' expectation of inflation 12-months ahead declined to **10.3 per cent** in the August 2013 survey relative to **11.2 per cent** in the June 2013 survey (see Figure 2).

## Perception of Inflation Control

The results of the August 2013 survey reflected deterioration in the perceived control of inflation by the authorities relative to the previous survey. This decrease was in contrast to the increase observed in the two previous surveys. The index of the inflation control declined to **120.5** from **130.4** in June 2013 (see Figure 3). The reduction mainly reflected an increase in respondents who were 'dissatisfied' and a fall in the number of those who were 'satisfied'.

## Exchange Rate Expectations

Respondents anticipated a downtick in the rate of depreciation for the 3-month, 6-month and 12-month periods beyond the survey date. This expectation was in contrast to the results of the June 2013 survey which showed a higher expected depreciation over all the time horizons. In the August 2013 survey, the exchange rate was expected to depreciate by **1.5 per cent**, **2.6 per cent** and **4.3 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in June 2013 had indicated expected depreciation of **3.9 per cent**, **5.9 per cent** and **6.7 per cent** over the respective horizons.

## 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 **7.5 per cent** from the **6.6 per cent** expressed in the previous survey (see Figure 4).

# Inflation Expectations Survey

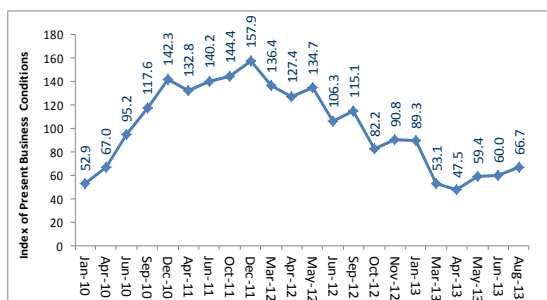
**Table 2: Interest rate Expectations: OMO Rate**

In June 2013, the Bank of Jamaica's 30-day rate was 6.02 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	May/June-13	Jun/July-13	July/Aug-13	May/June-13	Jun/July-13	July/Aug-13
Survey responses (percentage of total)						
Significantly Lower	2.3	0.7	0.3	0.0	1.8	0.0
Marginally Lower	24.0	21.0	17.9	24.5	26.8	18.5
Remain the Same	51.3	47.1	46.7	60.4	46.4	46.3
Marginally Higher	17.0	27.1	31.1	15.1	19.6	33.3
Significantly Higher	2.3	2.4	2.3	0.0	3.6	1.9
Don't Know	3.0	1.7	1.7	0.0	1.8	0.0

**Figure 5: Present Business Conditions**

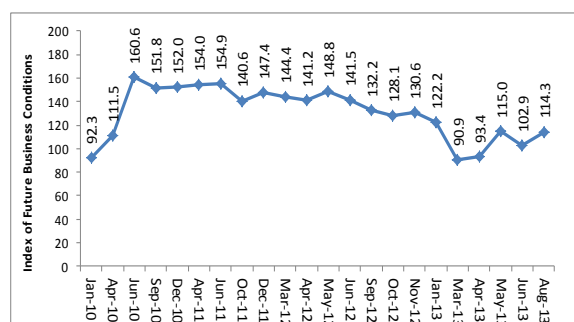
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\*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

In the August 2013 auction, the actual interest rate for the 180-day Treasury bill increased to **8.1 per cent** from **7.1 per cent** in the June 2013 auction.

## Interest Rate Expectations: OMO Rate

In the August 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 June and May 2013 surveys. However, the percentage of respondents that were of the view that the OMO rate would remain the same declined to **46.7 per cent** from **47.1 per cent** in the previous survey. The results from the overall survey were largely in line with views expressed within the financial sector (see Table 2).

## 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).

# Inflation Expectations Survey

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**Table 3: Operating Expenses**

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

	<b>Apr-13</b>	<b>May-13</b>	<b>Jun-13</b>	<b>Aug-13</b>
Utilities	47.1	40.3	37.8	39.7
Wages/Salaries	4.5	4.0	4.1	2.3
Fuel/Transport	20.6	13.7	21.3	14.2
Stock Replacement	14.4	26.7	25.8	28.1
Raw Materials	12.4	12.0	10.3	14.6
Other	1.0	3.3	0.7	1.0
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 in 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. Wages & salaries on the other hand were the input costs least expected to increase over the corresponding period.