



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

JULY 2017

**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 July and 04 August 2017 and had 320 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2016, the inflation rate was 1.7 per cent. What do you think the inflation rate will be for 2017?

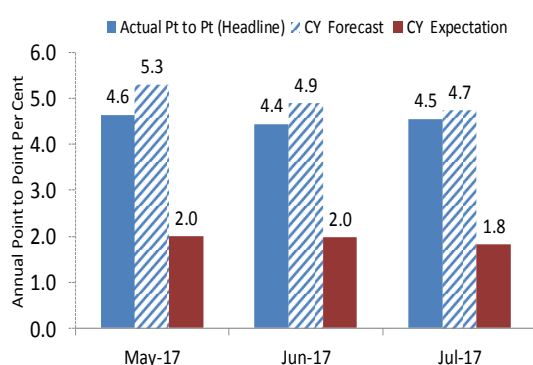
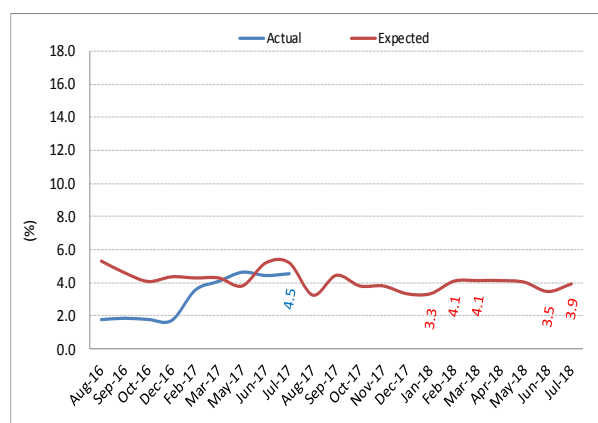


Figure 2: Expected Annual Inflation

Based on the last 12 months (June 2016 to May 2017) the average monthly inflation rate was approximately 0.4 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 July 2018 reflects responses as at July 2017 (iii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The July 2017 survey indicated an expected inflation of 1.8 per cent for calendar year (CY) 2017, which was lower than the previous survey outcome. However, the expected inflation 12 months ahead increased relative to the previous survey.
- The perception of inflation control worsened slightly in the July 2017 survey relative to the previous survey.
- Respondents lowered their expectations about the pace of depreciation in all of the three surveyed time horizons.
- The majority of respondents believed that the Bank's OMO rate will remain the same over the next three months.
- The Index of Present Business Conditions improved whereas the Index of Future Business Conditions slightly worsened. Both indices remained on an upward trend when compared to CY2014.

Inflation Expectations

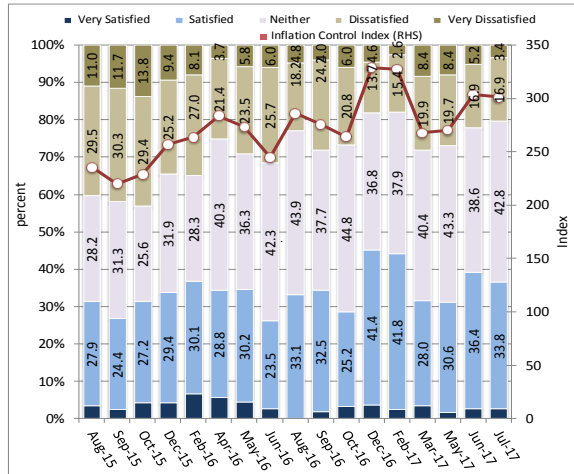
In the July 2017 survey, the expected inflation for CY2017 was **1.8 per cent**, which was marginally lower than the **2.0 per cent** recorded in the previous survey. This expectation was below the annual point-to-point inflation of **4.5 per cent** for July 2017 (see Figure 1). Respondents' expectation of inflation 12 months ahead increased to **3.9 per cent**, up from the previous survey's estimate of **3.5 per**

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cent (see Figure 2), but generally in line with the average outturn since the start of 2017.

Figure 3: Perception of Inflation Control

How satisfied are you with the way inflation is being controlled by the Government?¹



*December 2005 = 100

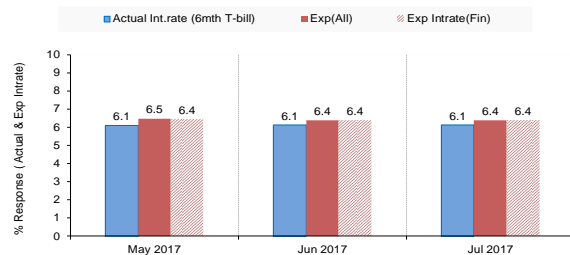
Table 1: Exchange Rate Expectations

In June 2017 the exchange rate was J\$129.38=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			
	Mar-17	May-17	Jun-17	Jul-17
3 Months	1.0	1.1	1.1	0.1
6 Months	1.4	1.6	1.5	0.5
12 Months	2.2	2.6	2.3	1.3

Figure 4: 180-day T-bill

In June 2017 the 180-day T-bill rate was 6.1 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of the authorities' control of inflation declined slightly in the July 2017 survey. Specifically, the index of inflation control fell to **301.3** in the current survey, down from **303.6** in the previous survey (see Figure 3). This was largely due to a decrease in the proportion of respondents 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 surveyed time horizons. Specifically, in the July 2017 survey, the exchange rate was expected to depreciate by **0.1 per cent**, **0.5 per cent**, and **1.3 per cent** for the 3-month, 6-month, and 12-month horizons, respectively. This compares with the expected depreciations of **1.1 per cent**, **1.5 per cent**, and **2.3 per cent** that were recorded in the June 2017 survey (see Table 1).

Interest Rate Expectations: 180-day T-bill

Survey respondents expected the 180-day Treasury bill rate, three months hence, to remain constant at **6.4 per cent**. This expected rate is above the actual outturn of **6.1 per cent** for July 2017 (see Figure 4). Similarly, Financial sector respondents expected the 180-day Treasury bill rate, three months hence, to be **6.4 per cent**.

¹ Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100

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Table 2: Interest Rate Expectations: OMO Rate

In June 2017, the Bank of Jamaica’s 30-day rate was 4.75 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	May-17	Jun-17	Jul-17	May-17	Jun-17	Jul-17
<i>Survey responses (percentage of total)</i>						
Significantly Lower	0.3	0.3	0.3	1.4	0.0	1.4
Marginally Lower	17.5	21.1	15.0	15.5	32.3	13.9
Remain the Same	57.6	51.9	58.1	50.7	49.2	56.9
Marginally Higher	23.2	25.3	25.3	29.6	16.9	26.4
Significantly Higher	0.6	0.3	1.3	2.8	0.0	1.4
Don't Know	0.6	1.0	0.0	0.0	1.5	0.0

Interest Rate Expectations: OMO Rate

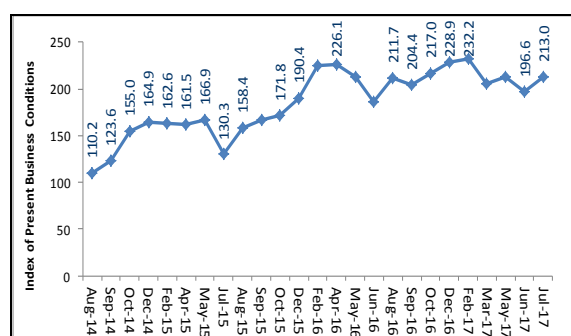
In the July 2017 survey, the majority of respondents expected that the Bank’s OMO rate would remain the same over the next three months. This proportion also increased relative to the previous survey.

Similar to the outturn for the overall survey, the responses from the financial sector revealed that more than **50 per cent** of respondents expected the rate to remain the same. Furthermore, there was a significant decrease in the proportion of respondents who expected the OMO rate to be “marginally lower”.

Perception of Present and Future Business Conditions

Figure 5: Present Business Conditions

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

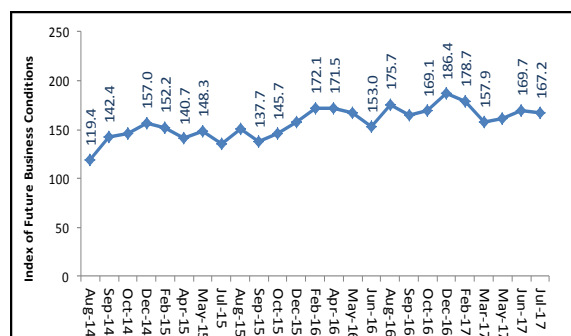


* December 2005 = 100

In the July 2017 survey, the Present Business Conditions Index improved relative to the previous survey whereas the Future Business Conditions Index worsened slightly (see Figures 5 and 6). The Present Business Conditions Index advanced to **213.0** from **196.6** in the previous survey. The index of the Future Business Conditions declined to **167.2** from **169.7** attained in the previous 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

The increase in the Present Business Conditions Index reflected a rise in the number of respondents of the view that conditions are “better.” Additionally, there was a decline in the proportion with the view that conditions are “worse”. The deterioration in the Future Business Conditions Index mainly reflected a decline in the number of respondents of the view that conditions will be “better”. In addition, there was an increase in the proportion of respondents of the view that conditions will be “worse”.

As reflected in Figure 5 and 6, both indices remained on an upward trend when compared to CY2014.

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Table 3: Operating Expenses

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

	May-17	Jun-17	Jul-17
Utilities	29.0	26.3	26.9
Wages/Salaries	8.3	12.7	10.3
Fuel/Transport	15.3	13.0	13.1
Stock Replacement	28.0	31.8	31.9
Raw Materials	17.2	13.6	16.9
Other	2.2	2.6	0.9
Not Stated	0.0	0.0	0.0

Expected Increase in Operating Expenses

Respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from stock replacement. Higher costs for utilities were expected to be the second largest contributor to production costs over the next 12 months (see Table 3).