

Inflation Expectations Survey



The Statistical Institute of Jamaica (STATIN) undertakes quarterly 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 February and March 2012 and had 288 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?

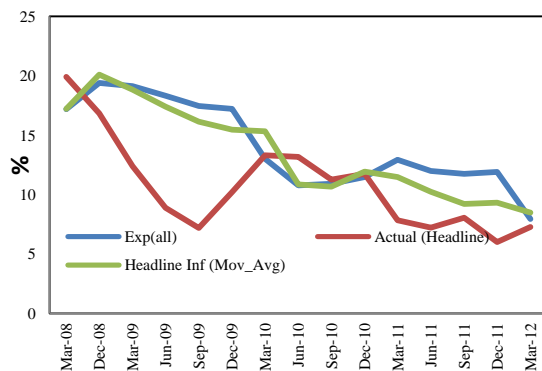
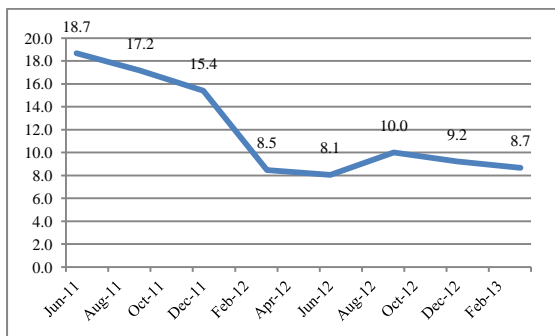


Figure 2: Expected Annual Inflation

Based on the last 12 months (January 2011 to December 2011) the average monthly inflation rate was approximately 0.5 per cent. What do you think the average monthly rate will be for the next 12 months?



*Note: The responses have been annualized

Overview

- The March 2012 survey reflected a sharp decline in inflation expectations when compared to the previous survey.
- The perception of inflation control also declined but remained relatively high.
- 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 March 2012 survey, inflation expectation for the CY2012 was **7.9 per cent** (see Figure 1). This was significantly below the expected inflation for CY2011 in the December 2011 survey, but generally in line with the actual calendar year inflation at end December 2011.

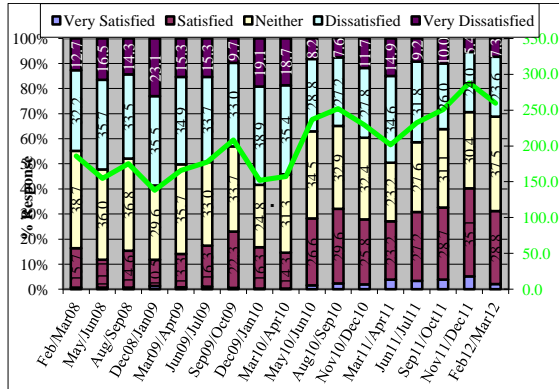
The modal range fell below the **0.0 per cent to 9.9 per cent**, with approximately **84.5 per cent** of respondents expecting inflation in CY2012 to be in the **5.0 per cent to 9.9 per cent** range.

Respondents expected the 12-month inflation from March 2012 to be approximately **8.7 per cent**.

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Figure 3: Perception of Inflation Control

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



*December 2005 = 100

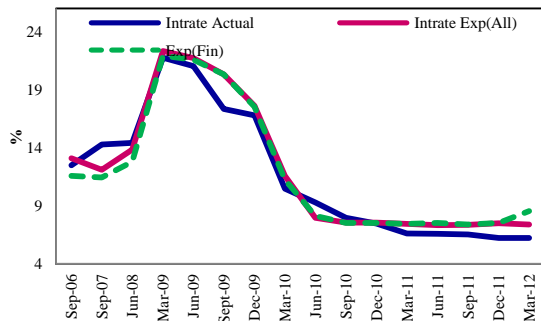
Table 1: Exchange Rate Expectations

In 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				
	Mar-11	Sep-11	Dec-11	Mar-12
Time	Expected	Expected	Expected	Expected
Period	Depr.	Depr.	Depr.	Depr.
3 Months	0.2	0.3	0.6	0.3
6 Months	0.6	0.5	0.5	0.6
12 Months	1.6	0.8	1.2	1.1

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?



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

Perception of Inflation Control

The index of the perception of inflation control fell during March 2012 to **259.7** from **287.8** in December 2011 (see Figure 3). Despite this decline, the perception remained relatively high.

The proportion of satisfied respondents was approximately the same as those that were dissatisfied, mainly reflecting a reduction in the number of satisfied respondents from the previous survey.

Exchange Rate Expectations

Respondents indicated that they expected a marginal rate of depreciation in 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 0.3 per cent in the next three months when compared to the previous survey when respondents expected 0.6 per cent depreciation. In addition, respondents expect depreciation of 1.1 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). However, the financial sector expected a marginal increase in the rate. 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 March 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 lower, while the number expecting it to be higher increased.

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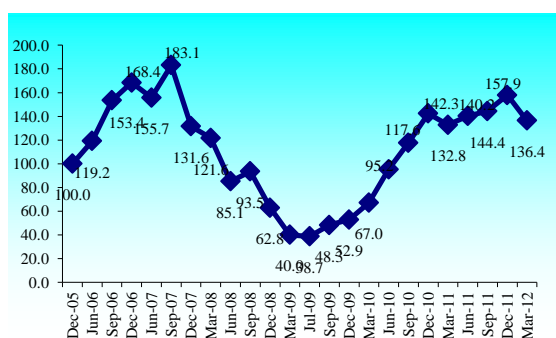
Table 2: Interest rate Expectations: OMO Rate

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			
	Mar -11	Sep-11	Dec-11	Mar -12	Mar -11	Sep-11	Dec-11	Mar -12
Survey responses (percentage of total)								
Significantly Lower	1.8	0.7	0.0	0.3	0.0	0.0	0.0	0.0
Marginally Lower	34.2	34.9	18.6	18.1	30.0	25.0	22.8	20.0
Remain the Same	44.7	46.7	56.4	52.1	50.0	51.3	55.7	43.3
Marginally Higher	14.0	15.6	22.6	23.6	16.7	20.0	20.3	33.3
Significantly Higher	1.8	0.3	0.3	2.8	1.7	1.3	0.0	0.0
Don't Know	3.5	1.7	1.7	3.1	1.7	2.5	1.3	3.3

Figure 5: Present Business Conditions

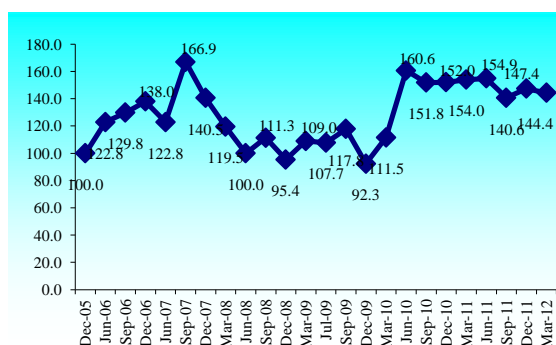
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



*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

The assessments of both the perception of present and future business conditions declined relative to the previous survey (see Figure 5 and Figure 6). The perception of present conditions reflected a sharper decline than the perception of future prospects. This could reflect the expected immediate impact of any fiscal adjustments that would be made by the Government of Jamaica at the beginning of FY2012/13. Despite these declines in the March 2012 survey, the overall perception the current and future state of the domestic economy remained favourable.

Expected Increase in Operating Expenses

Respondents indicated that they expect the largest increase in their production costs in 12 months to be associated with the 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. Although wages remained the input least expected to increase in the next 12 months, its importance has risen steadily since the June 2011 survey.

Table 3: Operating Expenses

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

Operating Expenses	Jun-11	Sep-11	Dec-11	Mar-12
Utilities	46.4	50.9	41.6	40.6
Wages/ Salaries	3.3	4.8	6.8	8.7
Fuel/Transport	21.3	18.7	26.4	20.1
Stock Replacement	14.2	13.1	15.5	20.1
Raw Materials	14.6	12.5	9.8	9.7
Other	0	0	0	0.3