



Survey of Businesses' Inflation Expectations

March 2019

**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 20 February 2019 and 20 March 2019 and had 301 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

If you expect inflation, what do you expect the rate of inflation to be for the current calendar year and over the next 12 months?"

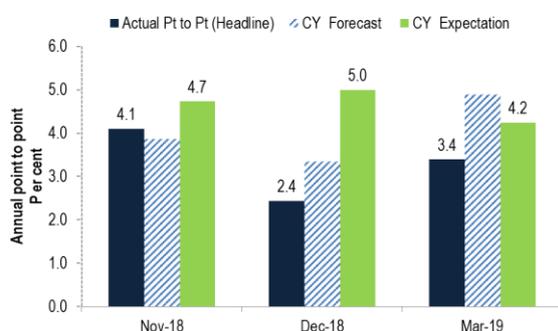
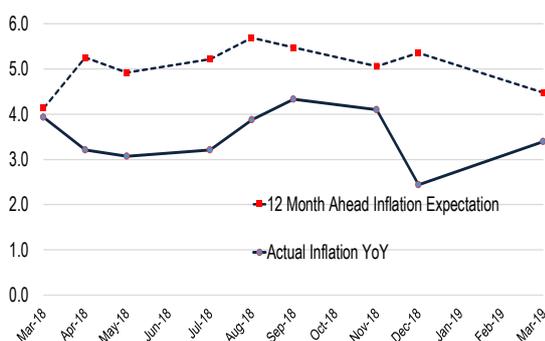


Figure 2: Expected Annual Inflation

What do you expect the rate of inflation to be over the next 12 months?



Overview

- The March 2019 survey indicated an expected inflation of 4.2 per cent for calendar year (CY) 2019. The expected inflation 12 months ahead declined to 4.5 per cent relative to the previous survey outturn of 5.4 per cent.
- The perception of inflation control improved in the March 2019 survey relative to the December 2018 survey.
- Respondents anticipate that the domestic currency will appreciate over all three surveyed time horizons (3-month, 6-month, and 12-month).
- The majority of respondents continued to believe that the Bank’s policy rate will remain the same over the next three months.
- The Present Business Conditions and Future Business Conditions both reflected a higher level of optimism relative to the previous survey.

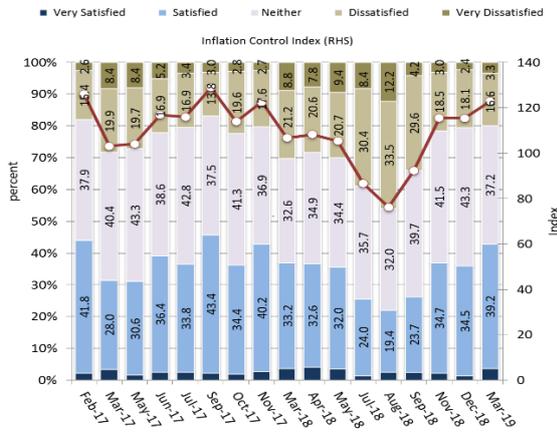
Inflation Expectations

In the March 2019 survey, respondents’ expectation for inflation for (CY) 2019 was **4.2 per cent**. This expectation was above the annual point-to-point inflation of **3.4 per cent** for March 2019 (see **Figure 1**). Respondents’ expectation of inflation 12 months ahead decreased to **4.5 per cent**, from the previous survey’s estimate of **5.4 per cent** (see **Figure 2**).

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 January 2019 the exchange rate was J\$131.62=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			
	Sep-18	Nov-18	Dec-18	Mar-19
3 Months	0.0	-6.1	-2.3	-2.6
6 Months	0.7	-5.6	-1.7	-2.1
12 Months	1.5	-5.2	-0.8	-1.1

Figure 4: 90-day T-bill

In January 2019 the 90-day T-bill rate was 2.3 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

Businesses' perception of the authorities' control of inflation improved in the March 2019 survey (see **Figure 3**). This was largely due to a decline in the proportion of respondents who were "neither satisfied nor dissatisfied," along with an increase in the proportion of respondents who were "satisfied" and "very satisfied" with how inflation was being controlled.

Exchange Rate Expectations

In accordance to the previous survey, respondents anticipate appreciation over all three time horizons. In the March 2019 survey, the exchange rate was anticipated to appreciate by **2.6 per cent**, **2.1 per cent**, and **1.1 per cent** for the 3-month, 6-month and 12-month horizons, respectively. This compares with the respective expected appreciation of **2.3 per cent**, **1.7 per cent**, and **0.8 per cent** that were recorded in the December 2018 survey (see **Table 1**).

Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence, to be **2.6 per cent**. This expected rate is higher than the actual March 2018 outturn of **2.2 per cent** (see **Figure 4**). Financial sector respondents also expected the 90-day Treasury bill rate, three months hence, to be **2.6 per cent**.

Inflation Expectations Survey

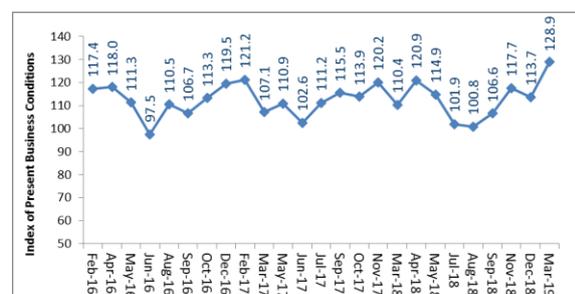
Table 2: Interest Rate Expectations: Policy Rate

In January 2019, the Bank of Jamaica’s overnight rate (policy rate) was 1.75 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Nov-18	Dec-18	Mar-19	Nov-18	Dec-18	Mar-19
Survey responses (percentage of total)						
Significantly Lower	0.0	0.0	0.0	0.0	0.0	0.0
Marginally Lower	10.9	10.2	9.6	20.0	13.0	10.0
Remain the Same	56.2	50.5	58.1	52.0	55.6	56.0
Marginally Higher	26.0	27.6	24.3	18.0	27.8	24.0
Significantly Higher	1.5	4.1	0.3	2.0	1.9	0.0
Don't Know	5.3	7.5	7.6	8.0	1.9	10.0

Figure 4: Present Business Conditions

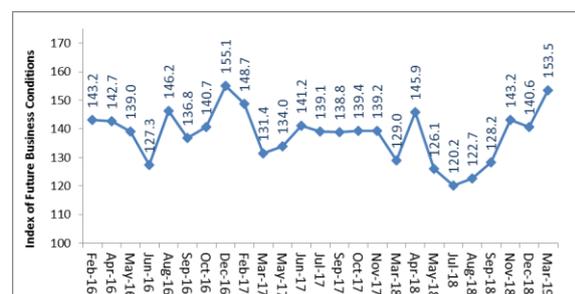
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



* Balanced score method: (better-worse) +100

Figure 5: 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?



* Balanced score method: (better-worse) +100

Interest Rate Expectations: Policy Rate

In the March 2019 survey, the majority of respondents expected that the Bank’s policy rate would remain the same over the next three months. This proportion increased relative to the previous survey.

With regard to the financial sector, the majority of respondents also expected that the Bank’s policy rate would be unchanged. In addition, **24 per cent** of respondents from the financial sector expected the rate to be marginally higher, down from **27.8 per cent** in the December 2018 survey.

Perception of Present and Future Business Conditions

In the March 2019 survey, the Present Business Conditions Index increased to **128.9** relative to **113.7** recorded in the previous survey. The Future Business Conditions Index increased to **153.5** relative to **140.6** in the previous survey (see **Figures 5 and 6**).

The increase in the Present Business Conditions Index reflected an increase in the number of respondents of the view that conditions are “better.” The outturn for the Future Business Conditions Index mainly reflected an increase in the proportion of respondents who believe that conditions will be “better.”

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Sep-18	Nov-18	Dec-18	Mar-19
Utilities	31.7	43.0	30.7	28.9
Wages/Salaries	10.8	7.9	7.2	13.0
Fuel/Transport	22.0	14.7	18.1	21.6
Stock Replacement	22.6	21.1	30.0	24.6
Raw Materials	8.0	9.8	8.9	10.6
Other	4.9	3.4	5.1	1.3
Not Stated	0.0	0.0	0.0	0.0

Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from utilities, stock replacement, and fuel/transport. The cost of raw materials is anticipated to be the least likely to increase (see **Table 3**).