



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**MAY 2015**

**RESEARCH SERVICES DEPARTMENT  
RESEARCH AND ECONOMIC PROGRAMMING DIVISION**

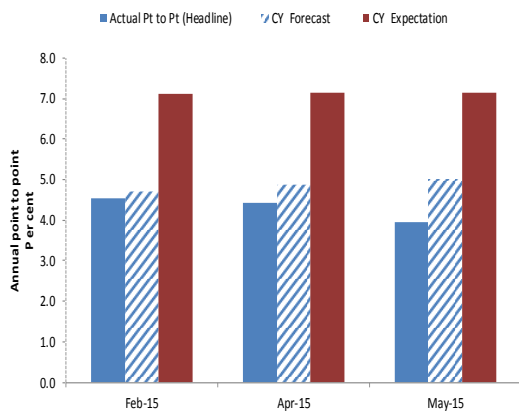
# Inflation Expectations Survey



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 in May 2015 and had 308 respondents. Below are highlights from that survey.

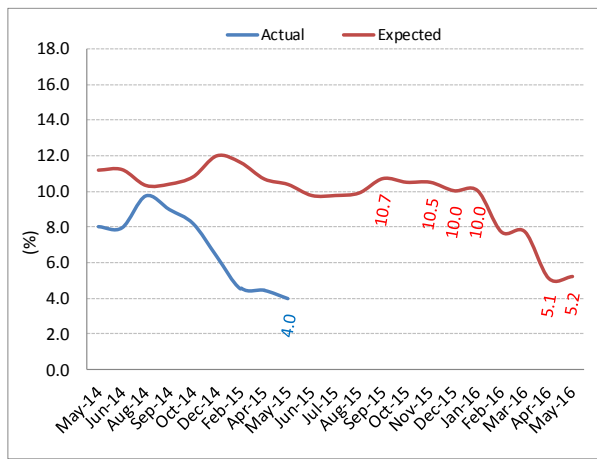
## Figure 1: Inflation Expectations

For the calendar year 2014, the inflation rate was 6.4 per cent. What do you think the inflation rate will be for 2015?



## Figure 2: Expected Annual Inflation

Based on the last 12 months (May 2014 to April 2015) 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 May 2016 reflects responses as at May 2015 (ii) periods where no survey was conducted assume the previous month's expectation.

## Overview

- The May 2015 survey indicated an expected inflation of 7.2 per cent for calendar year (CY) 2015, marginally higher than the previous survey. Similarly, the expected inflation 12 months ahead, increased slightly relative to the previous survey.
- The perception of inflation control improved in the May 2015 survey relative to the previous survey.
- In comparison to the previous survey, respondents expected an acceleration in the pace of currency depreciation over the 3-month, 6-month and 12-month horizons.
- The majority of respondents believe that the Bank's OMO rate will remain the same over the next three months.
- Both the perception of present and future business conditions increased relative to the previous survey. There has been a general upward trend in present and future business conditions since the April 2013 survey.

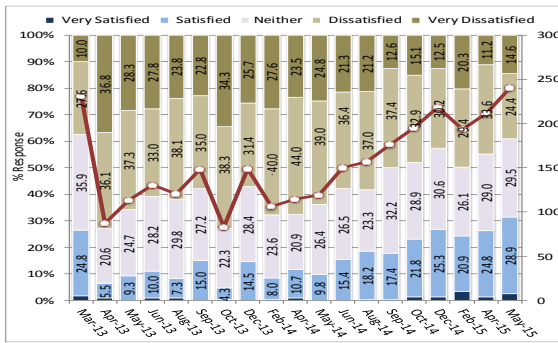
## Inflation Expectations

In the May 2015 survey, the expected inflation for CY2015 was **7.2 per cent**, marginally above the **7.1 per cent** expected in the April 2015 survey. Expectation for the calendar year was also above the annual point-to-point inflation of **4.0 per cent** at April 2015 (see

# 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 April 2015 the exchange rate was J\$115.31=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			
	Sep-14	Oct-14	Apr-15	May-15
3 Months	1.3	1.0	0.7	1.0
6 Months	2.2	1.4	1.2	1.5
12 Months	3.2	2.3	2.2	4.3

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

In April 2015 the 180-day T-bill rate was 6.8 per cent. What do you think the rate will be for the next 3 months?

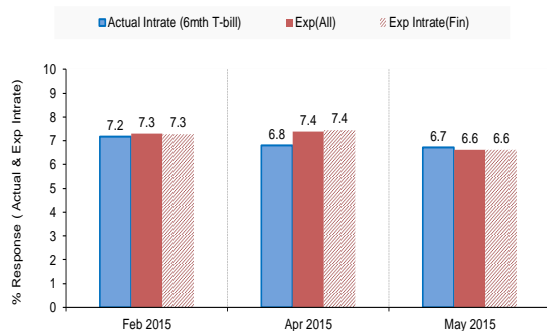


Figure 1). Notably, respondents' expectation of inflation 12 months ahead was **5.2 per cent** in the May 2015 survey relative to **5.1 per cent** in the previous survey. The **5.1 per cent** expectations revealed in the April represented the lowest level since the inception of the survey.

Businesses' perception of inflation control by the authorities increased in the May 2015 survey when compared to the previous survey. Specifically, the index of inflation control rose to **240.3** from **211.4** in the April 2015 survey (see Figure 3). This outturn mainly reflected an increase in the number of respondents who were 'satisfied' with the authorities' control of inflation. Additionally, there was a decline in the number of respondents who were 'dissatisfied'.

## Exchange Rate Expectations

Relative to the previous survey, respondents expected a faster pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month period beyond the survey date. Specifically, in the May 2015 survey, the exchange rate was expected to depreciate by **1.0 per cent, 1.5 per cent and 4.3 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in April 2015 had indicated expected depreciation of **0.7 per cent, 1.2 per cent and 2.2 per cent** over the respective horizons.

## Interest Rate Expectations: 180-day T-bill

The expected 180-day Treasury bill rate, three months hence, declined to **6.6 per cent** from **7.4 per cent** in the previous survey. This expected rate was below the actual outturn of 6.7 per cent for May 2015 (see Figure 4).

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

# Inflation Expectations Survey

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

In April 2015, the Bank of Jamaica's 30-day rate was 5.75 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	Feb 15	Apr 15	May 15	Feb 15	Apr 15	May 15
<i>Survey responses (percentage of total)</i>						
Significantly Lower	1.6	1.4	1.3	0.0	1.4	0.0
Marginally Lower	20.3	18.9	19.8	20.3	23.2	8.1
Remain the Same	48.4	53.5	57.8	51.6	49.3	64.5
Marginally Higher	27.5	24.1	20.5	25.0	24.6	25.8
Significantly Higher	2.0	0.7	1.0	3.1	0.0	1.6
Don't Know	0.3	1.4	0.6	0.0	1.4	0.0

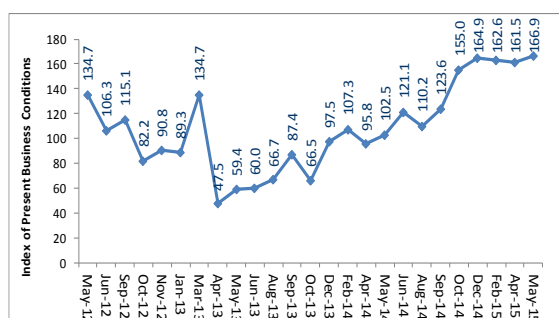
## Interest Rate Expectations: OMO Rate

In the May 2015 survey, the majority of respondents expected that the Bank's OMO rate will remain the same over the next three months. The results for the financial sector were consistent with the overall view that the BOJ would maintain the 30-day OMO rate at the current level. The proportion of respondents who anticipated a marginally higher rate declined to 20.5 per cent from the 24.1 per cent expected in the April 2015 survey.

## 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?

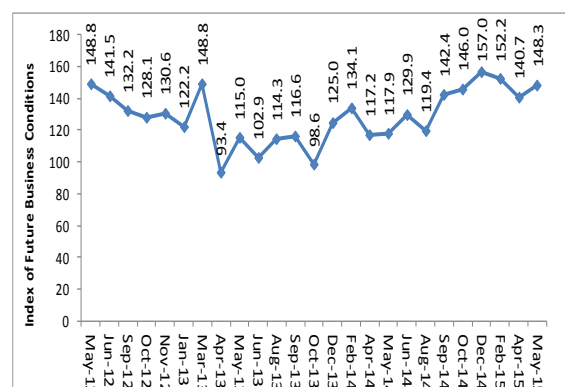


\* December 2005 = 100

In the latest survey, there was an increase in both the perception of present and future business conditions among respondents relative to the previous survey. Notably, the index of present business conditions rose to 166.9 from 161.5 in the previous survey. This result represented the highest level recorded by the index since September 2007. Similarly, the index of future business conditions increased to 148.3 from 140.7 in the previous survey (see Figures 5 and 6). The indices of perceptions of present and future business conditions have displayed a general upward trend since the April 2013 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

# 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?

	Dec-14	Feb-15	Apr-15	May-15
Utilities	34.5	30.4	32.2	33.6
Wages/Salaries	14.2	8.2	9.1	7.8
Fuel/Transport	10.7	12.7	17.5	13.7
Stock Replacement	26.0	31.7	28.0	28.3
Raw Materials	13.2	15.7	12.2	15.3
Other	1.4	1.3	1.0	1.3
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 costs for utilities (see Table 3). The cost of stock replacement was expected to be the second largest contributor to higher production costs over the next 12 months. Also, the cost of raw materials was expected to contribute to higher production costs for the year ahead. Wages & salaries continued to be the input cost least expected to increase over the next 12 months.