



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

OCTOBER 2014

**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 October 2014 and had 298 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2013, the inflation rate was 9.47 per cent. What do you think the inflation rate will be for 2014?

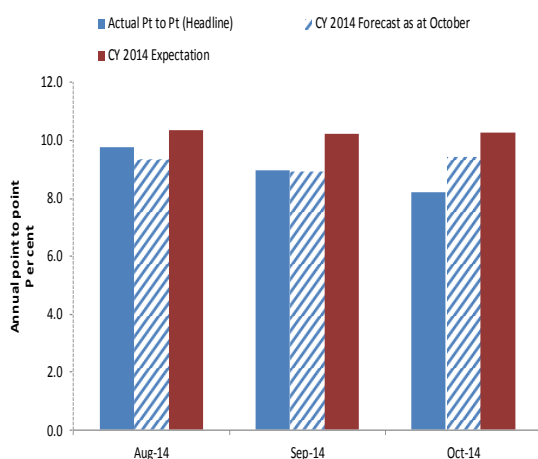
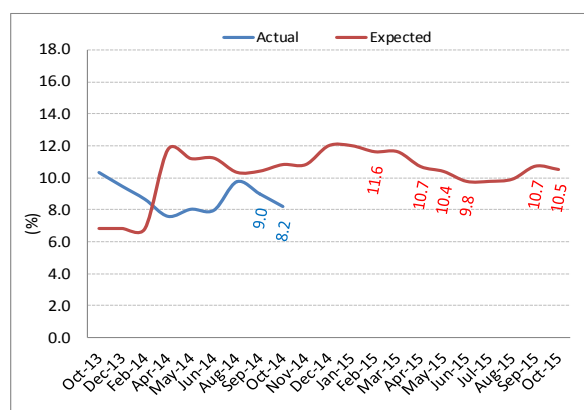


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2013 to September 2014) the average monthly inflation rate was approximately 0.7 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 October 2015 reflects responses as at October 2014 (ii) a period where no survey was conducted assumes the previous month's expectation.

Overview

- The October 2014 survey indicated an expected inflation of 10.3 per cent for calendar year (CY) 2014, a marginal increase relative to the previous survey. The expected inflation 12 months ahead, however, declined.
- The perception of inflation control continued to improve in the October 2014 survey relative to the previous survey.
- In comparison to the previous survey, respondents expect a slower pace of exchange rate 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 improved relative to the previous survey. Since the April 2013 survey, there has been a general upward trend in present and future business conditions.

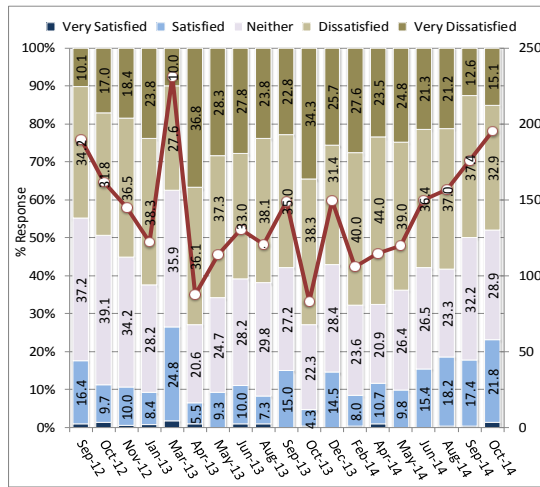
Inflation Expectations

In the October 2014 survey, the expected inflation for CY2014 increased marginally to **10.3 per cent** from the **10.2 per cent** expected in the September survey. The expected inflation for CY2014 exceeded the outcome of **9.5 per cent** for CY2013. Further, the actual point-to-point inflation at October 2014 was **8.2 per cent** (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?¹



*December 2005 = 100

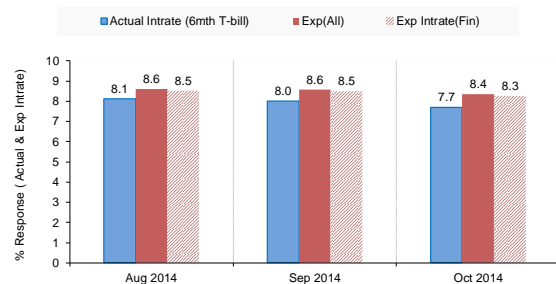
Table 1: Exchange Rate Expectations

In September 2014 the exchange rate was J\$112.67=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-13	Oct-13	Sep-14	Oct-14
3 Months	1.8	2.6	1.3	1.0
6 Months	3.2	4.3	2.2	1.4
12 Months	4.7	5.9	3.2	2.3

Figure 4: 180-day T-bill

In September 2014 the 180-day T-bill rate was 8.0 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

Respondents' expectation of inflation 12 months ahead, however, declined to **10.5 per cent** in the October 2014 survey from **10.7 per cent** in the September 2014 survey (see Figure 2).

Perception of Inflation Control

The results of the October 2014 survey reflected an improvement in businesses' perception of inflation control by the authorities when compared to the previous survey. Specifically, the index of inflation control increased to **195.1** from **176.1** in the September 2014 survey (see Figure 3). This improvement mainly reflected an increase in the number of respondents who were 'satisfied' with the authorities' control of inflation. In addition, there was a decline in the number of respondents who were 'dissatisfied'.

Exchange Rate Expectations

Relative to the survey in September 2014, respondents expected a slower pace of depreciation in the domestic currency for the 3-month, 6-month and 12-month period beyond the survey date. In the October 2014 survey, the exchange rate was expected to depreciate by **1.0 per cent**, **1.4 per cent** and **2.3 per cent** for the 3-month, 6-month and 12-month horizons, respectively (see Table 1). The survey in September 2014 had indicated expected depreciation of **1.3 per cent**, **2.2 per cent** and **3.2 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 **8.4 per cent** from **8.6 per cent** in the previous survey. This expected rate, however, was above the actual outcome for October 2014 of **7.7 per cent**, relative to **8.0 per cent** in the September 2014 auction (see Figure 4).

Inflation Expectations Survey

Table 2: Interest rate Expectations: OMO Rate

In September 2014, 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?

	OVERALL			FIN SECTOR		
SURVEY DATES	Jul/Aug 14	Sept	Oct	Jul/Aug 14	Sept	Oct
<i>Survey responses (percentage of total)</i>						
Significantly Lower	0.7	0.4	1.7	0.0	0.0	3.2
Marginally Lower	11.3	7.8	16.1	15.0	6.3	28.6
Remain the Same	39.7	51.9	40.9	35.0	65.1	42.9
Marginally Higher	40.8	34.1	35.9	45.0	27.0	22.2
Significantly Higher	5.5	4.1	4.0	3.3	1.6	3.2
Don't Know	2.1	1.9	1.3	1.7	0.0	0.0

Interest Rate Expectations: OMO Rate

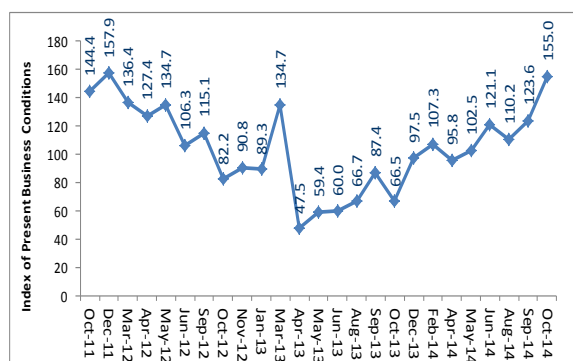
In the October 2014 survey, the majority of respondents expected that the Bank's OMO rate will remain the same over the next three months. The number of respondents who anticipated a marginal decline increased to **16.1 per cent** from the **7.8 per cent** expected in the September 2014 survey. The results for the financial sector were consistent with the overall view that the BOJ would maintain the 30-day OMO rate at the current level.

Perception of Present and Future Business Conditions

In the recent survey, there was an improvement in both the perception of present and future business conditions among respondents relative to the previous survey. The index of present business conditions increased to the highest level since December 2011 while the index of future business conditions was the highest since March 2013 (see Figures 5 and 6). The perceptions of present and future business conditions continue to display general upward trends which have been evident since the April 2013 survey.

Figure 5: Present Business Conditions

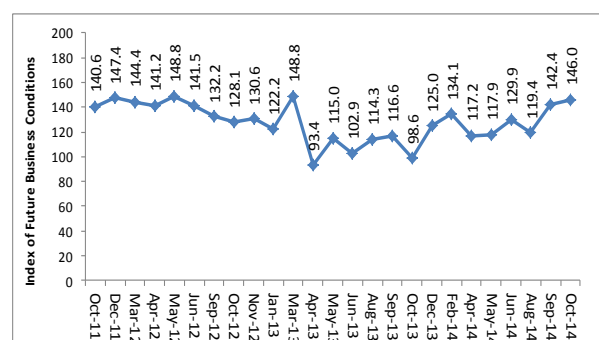
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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

Inflation Expectations Survey

Table 3: Operating Expenses

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

	Jun-14	Aug-14	Sep-14	Oct-14
Utilities	43.8	46.6	42.6	45.3
Wages/Salaries	7.0	4.8	6.7	7.4
Fuel/Transport	12.5	11.6	14.1	12.4
Stock Replacement	23.5	22.3	26.7	19.1
Raw Materials	11.8	14.0	10.0	14.8
Other	1.5	0.7	0.0	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 over the next 12 months. The costs of raw materials and fuel/transport were also expected to contribute to higher production costs for the year ahead. Wages & Salaries remained the input costs least expected to increase over the next 12 months.