



# **SURVEY OF BUSINESSES' INFLATION EXPECTATIONS**

**OCTOBER 2016**

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

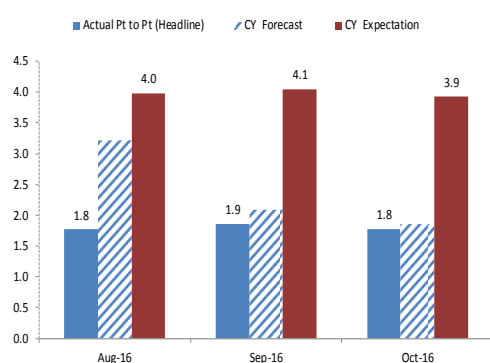
# Inflation Expectations Survey



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 10 October and 07 November 2016 and had 317 respondents. Below are highlights from that survey.

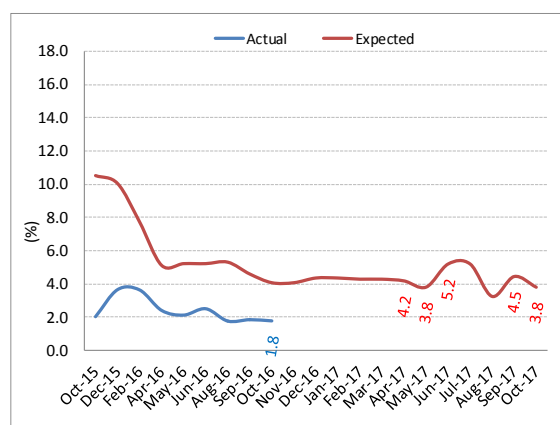
## Figure 1: Inflation Expectations

For the calendar year 2015, the inflation rate was 3.7 per cent. What do you think the inflation rate will be for 2016?



## Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2015 to September 2016) the average monthly inflation rate was approximately 0.15 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 September 2017 reflects responses as at September 2016 (iii) periods where no survey was conducted assume the previous month's expectation.

## Overview

- The October 2016 survey indicated an expected inflation of 3.9 per cent for calendar year (CY) 2016, slightly lower than the 4.1 per cent recorded in the previous survey. The expected inflation 12 months ahead was also lower relative to the previous survey.
- The perception of inflation control worsened in the October 2016 survey relative to the previous survey.
- Respondents reduced their expectations about the pace of depreciation over all three time horizons.
- The majority of respondents believed that the Bank's OMO rate will remain the same over the next three months.
- Perceptions about current and future business conditions improved relative to the previous survey, with both indices remaining on an upward trend when compared to FY2013/14.

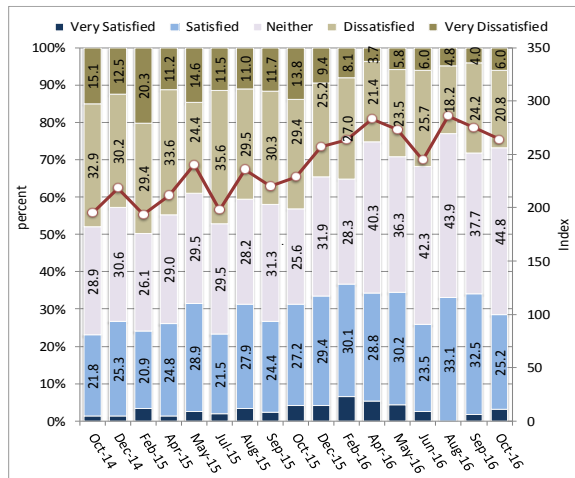
## Inflation Expectations

In the October 2016 survey, the expected inflation for CY2016 was **3.9 per cent**, a marginal decrease relative to the September 2016 survey. This expectation was above the annual point-to-point inflation of **1.8 per cent** for 2016 anticipated at October 2016 (see Figure 1). Respondents' expectation of inflation 12 months ahead fell to **3.8 per cent** relative to **4.5 per cent** in the September 2016 survey (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?<sup>1</sup>



\*December 2005 = 100

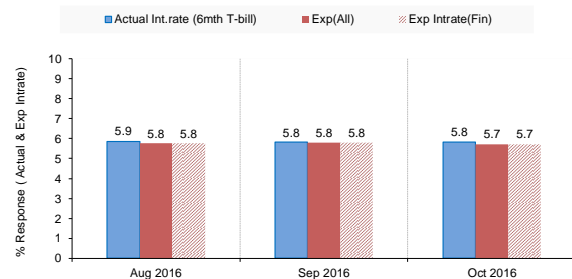
**Table 1: Exchange Rate Expectations**

In September 2016 the exchange rate was J\$128.27=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			
	Feb-16	Apr-16	Sep-16	Oct-16
3 Months	0.7	1.1	1.9	1.4
6 Months	1.7	1.6	3.1	2.6
12 Months	3.2	2.8	4.4	4.2

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

In September 2016 the 180-day T-bill rate was 5.81 per cent. What do you think the rate will be for the next 3 months?



Businesses' perception of the Government's control of inflation worsened in the October 2016 survey. Specifically, the index of inflation control decreased to **263.9** from **275.3** in the previous survey (see Figure 3). This outturn primarily reflected a decrease in the portion of respondents who were 'satisfied' with the authorities' control of inflation.

## Exchange Rate Expectations

Relative to the previous survey, respondents' outlook is for a slower pace of currency depreciation over the 3-month, 6-month and 12-month time horizons. Specifically, in the October 2016 survey, the exchange rate was expected to depreciate by **1.4 per cent** for the 3-month horizon which was lower than the **1.9 per cent** expected in the September 2016 survey. For the 6-month and 12-month horizons there were expectations of depreciation of **2.6 per cent** and **4.2 per cent**, respectively, compared to depreciations of **3.1 per cent** and **4.4 per cent** in the September 2016 survey (see Table 1).

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

Survey respondents expected the 180-day Treasury bill rate, three months hence, to be **5.73 per cent**. This expected rate is below the actual outturn of **5.83 per cent** for October 2016 (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

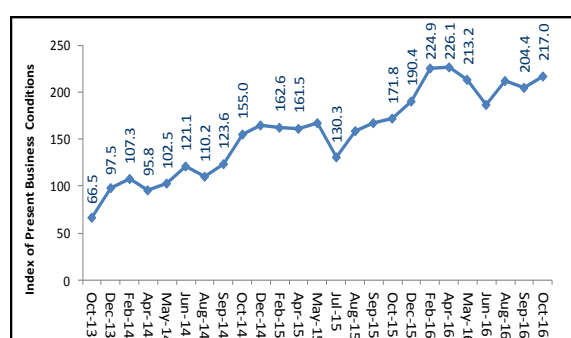
**Table 2: Interest rate Expectations: OMO Rate**

In September 2016, the Bank of Jamaica’s 30-day rate was 5.0 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FIN SECTOR		
	Aug-16	Sept-16	Oct-16	Aug-16	Sept-16	Oct-16
<i>Survey responses (percentage of total)</i>						
Significantly Lower	1.3	1.3	1.6	0.0	2.9	4.2
Marginally Lower	20.4	12.3	17.0	19.1	16.2	19.7
Remain the Same	48.4	58.9	49.5	47.1	57.4	49.4
Marginally Higher	26.4	26.5	30.0	29.4	23.5	25.4
Significantly Higher	3.2	0.7	0.6	4.4	0.0	0.0
Don't Know	0.3	0.3	1.3	0.0	0.0	1.4

**Figure 5: Present Business Conditions**

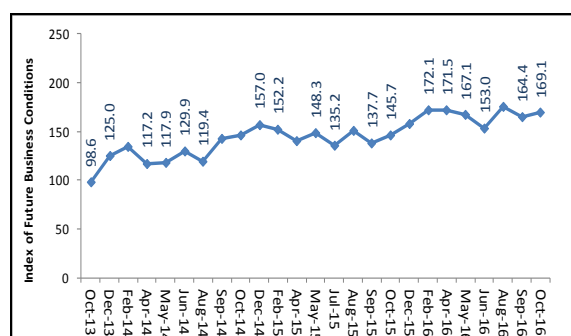
In general do you think business conditions are better or worse than they were a year ago in Jamaica?



\* 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

## Interest Rate Expectations: OMO Rate

In the September 2016 survey, the majority of respondents expected that the Bank’s OMO rate will remain the same over the next three months. This proportion decreased noticeably relative to the previous survey. Concurrently, there were increases in the total proportion of respondents that expected the OMO rate to be “higher” as well as “lower”. The survey reflected similar changes for the financial sector.

## Perception of Present and Future Business Conditions

In the October 2016 survey, the perceptions of both present and future business conditions improved (see Figures 5 and 6). The Present Conditions index rose to **217.0** from **204.4** in the previous survey. The index of the Future Business Conditions rose to **169.1** from the **164.4** attained in the previous survey.

Both indices primarily reflected declines in the proportion of respondents of the view that conditions are or will be worse. As reflected in Figure 5 and 6, both indices remain on an upward trend when compared to FY2013/14.

# Inflation Expectations Survey

---

**Table 3: Operating Expenses**

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

	Jun-16	Sep-16	Oct-16
<b>Utilities</b>	31.0	31.1	25.9
<b>Wages/Salaries</b>	9.6	11.9	10.7
<b>Fuel/Transport</b>	14.1	10.9	13.2
<b>Stock Replacement</b>	27.2	29.5	29.7
<b>Raw Materials</b>	17.9	15.2	18.9
<b>Other</b>	0.3	1.3	1.6
<b>Not Stated</b>	0.0	0.0	0.0

For the last four surveys, 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 was expected to be the second largest contributor to production costs over the next 12 months (see Table 3). Wages/Salaries was the input cost least expected to increase over the next 12 months.

## Expected Increase in Operating Expenses