



SURVEY OF BUSINESSES' INFLATION EXPECTATIONS

OCTOBER 2017

**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 09 October and 30 October 2017 and had 317 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

For the calendar year 2016, the inflation rate was 1.7 per cent. What do you think the inflation rate will be for 2017?

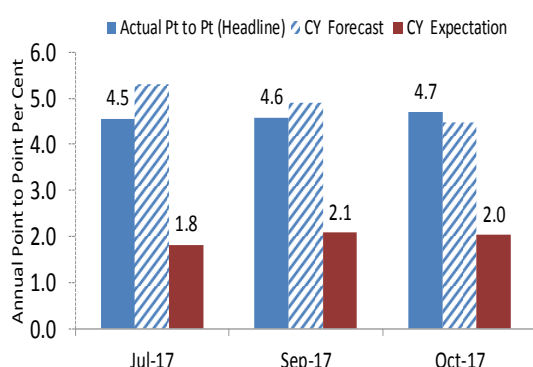
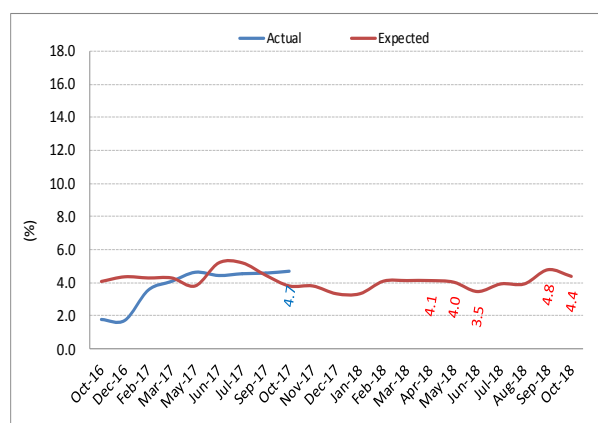


Figure 2: Expected Annual Inflation

Based on the last 12 months (October 2016 to September 2017) 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 October 2018 reflects responses as at October 2017 (iii) periods where no survey was conducted assume the previous month's expectation.

Overview

- The October 2017 survey indicated an expected inflation of 2.0 per cent for calendar year (CY) 2017, which was marginally lower than the previous survey outcome. The expected inflation 12 months ahead also decreased to 4.4 per cent relative to the previous survey outcome of 4.8 per cent.
- The perception of inflation control worsened slightly in the October 2017 survey relative to the September 2017 survey.
- Respondents lowered their expectations about the pace of depreciation in all of the three surveyed time horizons. Furthermore, they anticipate that the currency will appreciate over the next three months.
- The majority of respondents continued to believe that the Bank's OMO rate will remain the same over the next three months.
- Both indices for the Present and Future Business Conditions were largely unchanged from the previous survey, and they remain on an upward trend since CY2014.

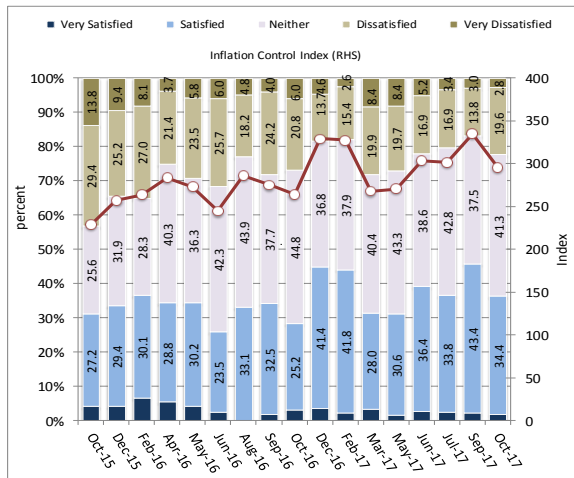
Inflation Expectations

In the October 2017 survey, the expected inflation for (CY) 2017 was **2.0 per cent**, which was marginally lower than the **2.1 per cent** recorded in the previous survey. This expectation was below the annual point-to-point inflation of **4.7 per cent** for October 2017 (see Figure 1). Respondents' expectation

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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

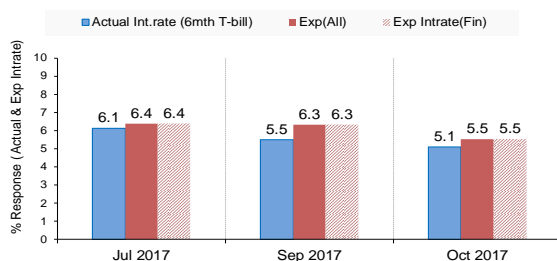
Table 1: Exchange Rate Expectations

In September 2017 the exchange rate was J\$130.49=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			
	Jun-17	Jul-17	Sep-17	Oct-17
3 Months	1.1	0.1	1.3	-0.2
6 Months	1.5	0.5	1.9	0.1
12 Months	2.3	1.3	2.4	1.1

Figure 4: 180-day T-bill

In September 2017 the 180-day T-bill rate was 6.3 per cent. What do you think the rate will be for the next 3 months?



of inflation 12 months ahead also declined to **4.4 per cent**, down from the previous survey’s estimate of **4.8 per cent** (see Figure 2).

Businesses’ perception of the authorities’ control of inflation deteriorated in the October 2017 survey. Specifically, the index of inflation control fell to **295.8** in the current survey, down from **334.8** in the previous survey (see Figure 3). This was largely due to a decrease in the proportion of respondents who were “satisfied”, in addition to an increase in those who were “dissatisfied” with how inflation is being controlled.

Exchange Rate Expectations

Relative to the previous survey, respondents adjusted downward their outlook for the pace of currency depreciation over all three surveyed time horizons. Respondents expect that the currency will appreciate over the next three months. In the October 2017 survey, the exchange rate was expected to appreciate by **0.2 per cent** for the 3-month horizon and depreciate by **0.1 per cent** and **1.1 per cent** for the 6-month and 12-month horizons, respectively. This compares with the respective expected depreciations of **1.3 per cent**, **1.9 per cent**, and **2.4 per cent** that were recorded in the September 2017 survey (see Table 1).

Interest Rate Expectations: 180-day T-bill

Survey respondents expected the 180-day Treasury bill rate, three months hence, to decrease to **5.5 per cent** from **6.3 per cent** that was previously recorded. This expected rate is slightly above the actual outcome of **5.1 per cent** for October 2017 (see Figure 4). Similarly, Financial sector respondents expected the 180-day Treasury bill rate, three months hence, to be **5.5 per cent**.

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

Inflation Expectations Survey

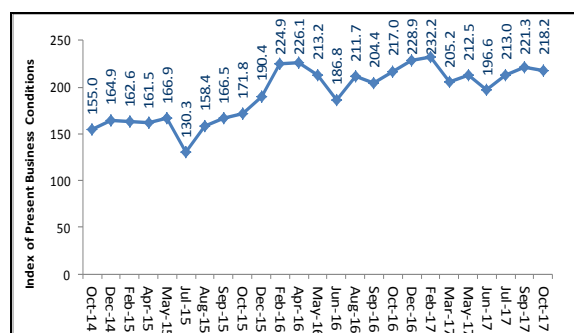
Table 2: Interest Rate Expectations: OMO Rate

In September 2017, the Bank of Jamaica’s 30-day rate was 4.50 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Jul-17	Sep-17	Oct-17	Jul-17	Sep-17	Oct-17
<i>Survey responses (percentage of total)</i>						
Significantly Lower	0.3	1.0	0.6	1.4	0.0	0.0
Marginally Lower	15.0	16.4	15.1	13.9	19.0	26.0
Remain the Same	58.1	57.9	56.8	56.9	57.1	45.2
Marginally Higher	25.3	24.7	25.9	26.4	23.8	28.8
Significantly Higher	1.3	0.0	0.6	1.4	0.0	0.0
Don't Know	0.0	0.0	0.9	0.0	0.0	0.0

Figure 5: Present Business Conditions

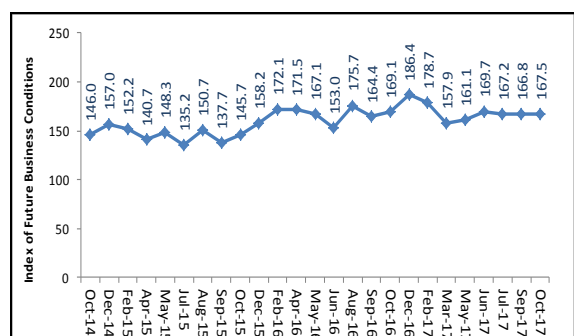
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



* 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 October 2017 survey, the majority of respondents expected that the Bank’s OMO rate would remain the same over the next three months. This proportion decreased relative to the previous survey.

The responses from the financial sector revealed that more than **25.0 per cent** of respondents expected the rate to be marginally lower, up from a proportion of **19.0 per cent** that was reported in the September 2017 survey.

Perception of Present and Future Business Conditions

In the October 2017 survey, the Present Business Conditions Index marginally declined to **218.2** relative to **221.3** recorded in the previous survey. The Future Business Conditions Index remained virtually flat (see Figures 5 and 6). The index of the Future Business Conditions was largely unchanged at **167.5** relative to the **166.8** in the previous survey.

The decrease in the Present Business Conditions Index reflected a fall in the number of respondents of the view that conditions are “better” and this was partially offset by a decline in the proportion with the view that conditions are “worse”. The outturn for the Future Business Conditions Index mainly reflected a marginal increase in the number of respondents who believed that conditions will be “better”

As reflected in Figure 5 and 6, both indices remained on an upward trend when compared to CY2014.

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Table 3: Operating Expenses

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

	Jul-17	Sep-17	Oct-17
Utilities	26.9	28.3	26.2
Wages/Salaries	10.3	8.9	12.3
Fuel/Transport	13.1	13.2	11.7
Stock Replacement	31.9	31.3	30.6
Raw Materials	16.9	16.8	16.4
Other	0.9	1.6	2.8
Not Stated	0.0	0.0	0.0

Expected Increase in Operating Expenses

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 were expected to be the second largest contributor to production costs over the next 12 months (see Table 3).