Survey of Businesses’ Inflation Expectations

September 2016

Research Services Department
Research and Economic Programming Division
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 12 September and 07 October 2016 and had 302 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 1: Inflation Expectations](image)

**Figure 2: Expected Annual Inflation**

Based on the last 12 months (September 2015 to August 2016) the average monthly inflation rate was approximately 0.1 per cent. What do you think the average monthly rate will be for the next 12 months?

![Figure 2: Expected Annual Inflation](image)

*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 September 2016 survey indicated an expected inflation of 4.1 per cent for calendar year (CY) 2016, slightly higher than the 4.0 per cent recorded in the previous survey. The expected inflation 12 months ahead was also higher relative to the previous survey.
- The perception of inflation control worsened in the September 2016 survey relative to the previous survey.
- Respondents increased 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 worsened relative to the previous survey. Still, both indices remain on an upward trend when compared to FY2013/14.

**Inflation Expectations**

In the September 2016 survey, the expected inflation for CY2016 was **4.1 per cent**, a marginal increase relative to the August 2016 survey. This expectation was above the annual point-to-point inflation of **1.9 per cent** for 2016 anticipated at September 2016 (see Figure 1). Notably, respondents’ expectation of inflation 12 months ahead rose to **4.5 per cent** relative to **3.3 per cent** in the August 2016 survey (see Figure 2).
Businesses’ perception of the Government’s control of inflation worsened in the September 2016 survey. Specifically, the index of inflation control decreased to 275.3 from 286.0 in the previous survey (see Figure 3). This outcome primarily reflected an increase in the number of respondents who were ‘dissatisfied’ with the authorities’ control of inflation.

### Exchange Rate Expectations

Relative to the previous survey, respondents’ outlook is for a higher pace of currency depreciation over the 3-month, 6-month and 12-month time horizons. Specifically, in the September 2016 survey, the exchange rate was expected to depreciate by 1.9 per cent for the 3-month horizon which was higher than the 1.3 per cent expected in the August 2016 survey. For the 6-month and 12-month horizons there were expectations of depreciation of 3.1 per cent and 4.4 per cent, respectively, compared to depreciations of 1.8 per cent and 2.8 per cent in the August 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 5.78 per cent. This expected rate is below the actual outturn of 5.81 per cent for September 2016 (see Figure 4).

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1 Index of inflation control calculated as the number of satisfied respondents minus the number of dissatisfied respondents plus 100
Table 2: Interest rate Expectations: OMO Rate

In August 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?

<table>
<thead>
<tr>
<th>Survey Dates</th>
<th>Overall</th>
<th>Fin Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 16</td>
<td>Aug 16</td>
</tr>
<tr>
<td>Survey responses (percentage of total)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significantly Lower</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Marginally Lower</td>
<td>19.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Remain the Same</td>
<td>46.1</td>
<td>48.4</td>
</tr>
<tr>
<td>Marginally Higher</td>
<td>32.3</td>
<td>26.4</td>
</tr>
<tr>
<td>Significantly Higher</td>
<td>1.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>1.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

*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 increased noticeably relative to the previous survey. This was due to declines in the total proportion of respondents that expected the OMO rate to be “higher” as well as “lower”.

For the financial sector, there was a moderation in the proportion of respondents that expected rates to be higher, while those expecting rates to be lower was relatively unchanged.

Perception of Present and Future Business Conditions

In the September 2016 survey, the perceptions of both present and future business conditions moderated (see Figures 5 and 6). The present conditions index fell to 204.4 from 211.7 in the previous survey. The index of the future business conditions fell to 164.4 from the 175.7 attained in the previous survey.

Both indices reflected increases in the proportion of respondents of the view that conditions are or will be “worse.” In addition, there were decreases in the proportion of respondents indicating that conditions are or will be “better.” There were also slight declines in the proportion of respondents that indicated that present conditions are “about the same”.

Both indices however remain on an upward trend when compared to FY2013/14.

Figure 5: Present Business Conditions

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

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
### Table 3: Operating Expenses
Which input do you think will have the highest price increase in the next 12 months?

<table>
<thead>
<tr>
<th></th>
<th>May-16</th>
<th>Jun-16</th>
<th>Aug-16</th>
<th>Sep-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>24.4</td>
<td>31.0</td>
<td>29.6</td>
<td>31.1</td>
</tr>
<tr>
<td>Wages/Salaries</td>
<td>13.7</td>
<td>9.6</td>
<td>8.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Fuel/Transport</td>
<td>11.3</td>
<td>14.1</td>
<td>14.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Stock Replacement</td>
<td>33.5</td>
<td>27.2</td>
<td>27.7</td>
<td>29.5</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>16.8</td>
<td>17.9</td>
<td>18.5</td>
<td>15.2</td>
</tr>
<tr>
<td>Other</td>
<td>0.3</td>
<td>0.3</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Not Stated</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

### Expected Increase in Operating Expenses
For the third consecutive survey, respondents indicated that they expect the largest increase in production costs over the next 12 months to emanate from utilities (see Table 3). Higher costs for stock replacement was expected to be the second largest contributor to production costs over the next 12 months. Fuel/Transport was the input cost least expected to increase over the next 12 months.