



Survey of Businesses' Inflation Expectations

September 2022

**SECTOR ANALYSIS 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 25 August 2022 and 30 September 2022 and had 289 respondents. Below are highlights from that survey.

Figure 1: Inflation Expectations

If you expect inflation, what do you expect the rate of inflation to be at December 2022 and over the next 12 months?"

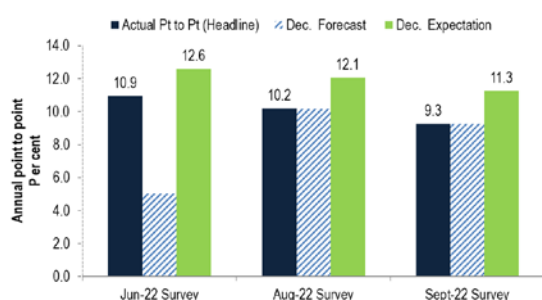
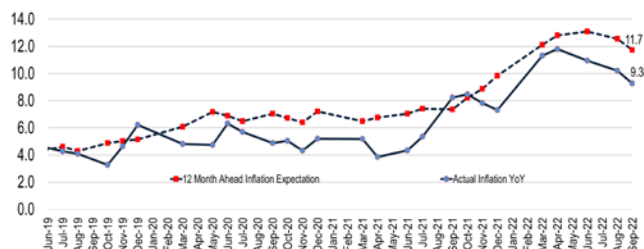


Figure 2: Expected Annual Inflation

What do you expect the rate of inflation to be over the next 12 months?



*Dates refer to survey periods

Inflation Expectations

In the September 2022 survey, respondents' expectation for point-to-point inflation as at December 2022 was **11.3 per cent**. This expectation was higher than the annual point-to-point inflation of **9.3 per cent** for September 2022 (see **Figure 1**). Respondents' expectation of inflation 12-months ahead decreased to **11.7 per cent** relative to the previous survey's estimate of **12.6 per cent** (see **Figure 2**).

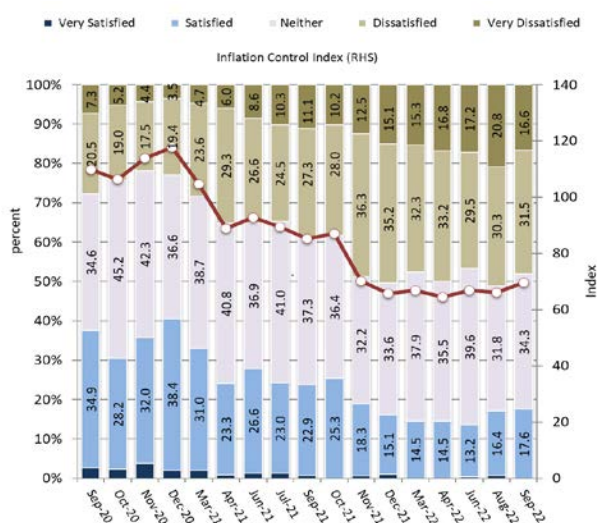
Overview

- The September 2022 survey indicated an expected point-to-point inflation of 11.3 per cent for calendar year 2022 (December 2022), which was higher than the September 2022 outturn of 9.3 per cent. The expected inflation 12 months ahead is expected to be 11.7 per cent, which reflects a decline relative to the previous survey outturn of 12.6 per cent.
- The perception of inflation control improved in the September 2022 survey relative to the August 2022 survey.
- Respondents forecasted the exchange rate to depreciate over all three time horizons. The previous survey reported an appreciation for the 3-month and the 6-month time horizons and a small depreciation for the 12-month time horizon.
- The majority of respondents believe that the Bank's policy rate will be marginally higher over the next three months. However, a noticeable proportion of respondents indicated that they expected the rate to remain the same.
- The Present and Future Business Conditions Indices increased relative to the previous survey.

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
*Dates refer to survey periods

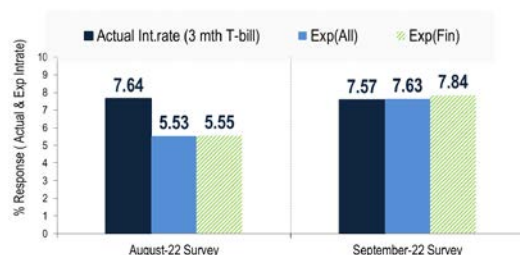
Table 1: Exchange Rate Expectations

In August 2022, the exchange rate was J\$152.53=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 | Expected Depreciation (+)/Appreciation(-) | | | |
| | SURVEY DATES | | | |
| | Apr-22 | Jun-22 | Aug-22 | Sep-22 |
| 3-Months | 1.5 | -0.1 | -1.3 | 0.9 |
| 6-Months | 2.4 | 0.3 | -0.3 | 1.5 |
| 12-Months | 3.4 | 1.5 | 0.4 | 2.1 |

Figure 4: 90-day T-bill

In August 2022, the 90-day T-bill rate was 7.64 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.

Perception of Inflation Control

Businesses' perception of the authorities' control of inflation improved in the September 2022 survey (see **Figure 3**) relative to the previous survey. This was largely due to a decrease in the proportion of respondents that were "very dissatisfied" with how inflation is being controlled.

Exchange Rate Expectations

Respondents anticipated depreciation over the three-, six- and twelve-month time horizons. In the September 2022 survey, the exchange rate was anticipated to depreciate by **0.9 per cent**, **1.5 per cent** and **2.1 per cent** for the 3-month, 6-month, and 12-month time horizons, respectively. Though generally stable, this represents an increased pace of depreciation for all the time horizons relative to the previous survey. Respondents in the August 2022 survey expected the rate to depreciate only for the 12-month time horizon by **0.4 per cent**. (see **Table 1**).

Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence to be **7.6 per cent**. This expected rate is in line with the actual September 2022 outcome of **7.6 per cent** (see **Figure 4**). Financial sector respondents expect the 90-day Treasury bill rate, three months hence, to be **7.8 per cent**.

Inflation Expectations Survey

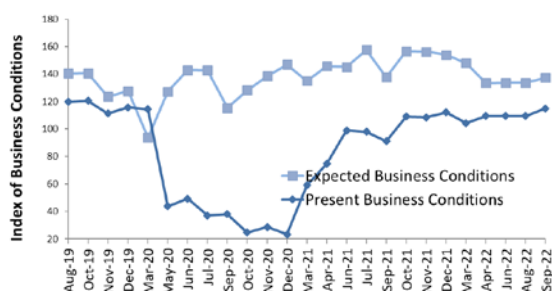
Table 2: Interest Rate Expectations: Policy Rate

In August 2022, the Bank of Jamaica’s overnight rate (policy rate) was 6.00 per cent. What do you think this rate will be for the next 3 months?

| SURVEY DATES | OVERALL | | | FINANCIAL SECTOR | | |
|--|---------|---------|----------|------------------|---------|----------|
| | Jun -22 | Aug -22 | Sept -22 | Jun -22 | Aug -22 | Sept -22 |
| Survey responses (percentage of total) | | | | | | |
| Significantly Lower | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Marginally Lower | 7.5 | 5.1 | 3.8 | 17.4 | 4.3 | 0.0 |
| Remain the Same | 38.3 | 45.6 | 34.6 | 34.8 | 47.8 | 33.3 |
| Marginally Higher | 41.9 | 36.1 | 43.6 | 43.5 | 39.1 | 62.5 |
| Significantly Higher | 1.3 | 1.8 | 2.1 | 0.0 | 0.0 | 0.0 |
| Dont Know | 10.6 | 11.3 | 15.9 | 0.0 | 0.0 | 0.0 |

Figure 5: Present and Future Business Conditions

1. In general, do you think business conditions are better or worse than they were a year ago in Jamaica?
2. Do you think that in a year from now business conditions will get better or get worse than they are at present?



*Balanced score method: (better-worse) +100
 *Dates refer to survey periods

Interest Rate Expectations: Policy Rate

In the August 2022 survey, the majority of respondents expected that the Bank’s policy rate would be marginally higher over the next three months. This proportion increased relative to the previous survey. A noticeable decline was observed in the proportion of respondents expecting the rate to remain the same.

With regard to the financial sector, the majority (**62.5 per cent**) of respondents expected that the Bank’s policy rate would be marginally higher. This represented an increase relative to the August 2022 survey. Notably, responses from the financial sector revealed that **33.3 per cent** of respondents expected the rate to remain the same. This reflected a decline compared to the previous survey.

Perception of Present and Future Business Conditions

In the September 2022 survey, the Present Business Conditions Index increased to **114.9** relative to **109.4** recorded in the previous survey. The Future Business Conditions Index increased to **137.4** relative to **133.6** in the previous survey (see **Figure 5**).

The Present Business Conditions Index mainly reflected an increase in the percentage of respondents who said that conditions are “better”. The outturn for the Future Business Conditions Index mainly reflected a decrease in the number of respondents of the view that conditions will be “worse”.

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Table 3: Operating Expenses

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

| SURVEY DATES | | | |
|-------------------|--------|--------|--------|
| | Mar-22 | Apr-22 | Sep-22 |
| Stock Replacement | 30.6 | 32.4 | 32.4 |
| Utilities | 31.1 | 32.8 | 31.8 |
| Fuel & Transport | 17.0 | 16.8 | 18.7 |
| Raw Materials | 15.7 | 11.3 | 13.5 |
| Wages & Salary | 4.7 | 5.1 | 3.5 |
| Not Stated | 0.9 | 1.6 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 |

Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next twelve months to emanate from stock replacement, utilities, as well as fuel & transport in that order. The wages & salary expense is anticipated to be the least likely to increase. (see **Table 3**).