



Survey of Businesses' Inflation Expectations

September 2020

**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 21 August 2020 and 18 September 2020 and had 327 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 for the current calendar year and over the next 12 months?"

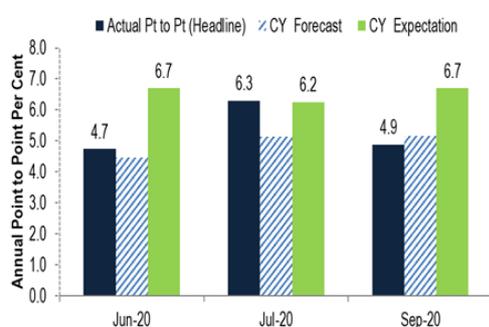
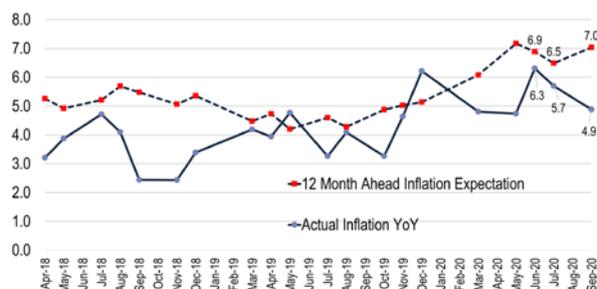


Figure 2: Expected Annual Inflation

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



Overview

- The September 2020 survey indicated an expected inflation of 6.7 per cent for calendar year (CY) 2020, which is marginally higher than the July 2020 survey outcome of 6.2 per cent. The expected inflation 12 months ahead also increased marginally to 7.0 per cent relative to the previous survey outcome of 6.5 per cent.
- The perception of inflation control declined slightly in the September 2020 survey relative to the July 2020 survey.
- Respondents anticipate that the currency will depreciate over the 3-month, 6-month and 12-month time horizons at a faster pace relative to the previous survey.
- The majority of respondents continued to believe that the Bank's policy rate will remain the same over the next three months.
- The Present Business Conditions Index reflected a slightly higher level of optimism while the Future Business Conditions Index illustrated a sharp decline in optimism compared to the previous survey.

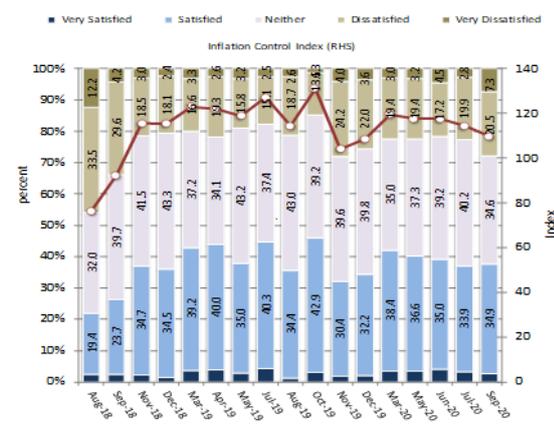
Inflation Expectations

In the September 2020 survey, respondents' expectation for inflation for (CY) 2020 was **6.7 per cent**. This expectation was above the annual point-to-point inflation of **4.9 per cent** for September 2020 (see **Figure 1**). Respondents' expectation of inflation 12 months ahead increased slightly to **7.0 per cent**, from the previous survey's estimate of **6.5 per cent** (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?¹



*December 2005 = 100

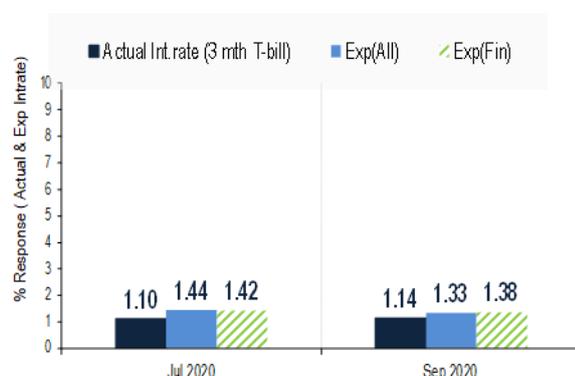
Table 1: Exchange Rate Expectations

In July 2020 the exchange rate was J\$144.96=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/Appreciation			
	May-20	June-20	July-20	Sep-20
3-Months	4.7	-0.5	1.6	3.6
6-Months	5.9	0.1	2.6	4.6
12-Months	5.1	0.4	3.0	4.1

Figure 4: 90-day T-bill

In August 2020 the 90-day T-bill rate was 1.13 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 fell slightly in the September 2020 survey (see **Figure 3**). This was largely due to increases in the proportions of respondents who were "very dissatisfied" and "dissatisfied" with how inflation was being controlled.

Exchange Rate Expectations

Respondents anticipated depreciation over all time horizons. In the September 2020 survey, the exchange rate was anticipated to depreciate by **3.6 per cent**, **4.6 per cent** and **4.1 per cent** for the 3-month, 6-month, and 12-month horizons, respectively. This represents a much faster pace of depreciation for the 3-month, 6-month and 12-month horizons relative to the expected depreciation of **1.6 per cent** and depreciation of **2.6 per cent** and **3.0 per cent**, respectively, in the July 2020 survey (see **Table 1**).

Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence, to be **1.3 per cent**. This expected rate is higher than the actual July 2020 outcome of **1.1 per cent** (see **Figure 4**). Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **1.4 per cent**.

Inflation Expectations Survey

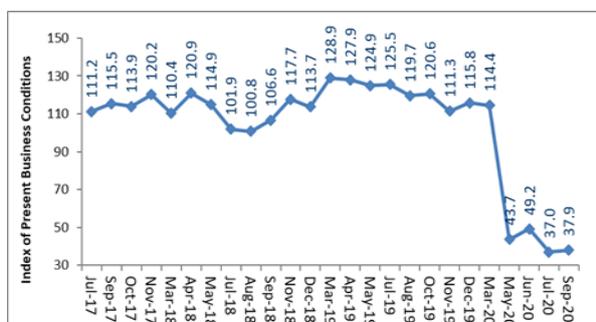
Table 2: Interest Rate Expectations: Policy Rate

In August 2020, the Bank of Jamaica’s overnight rate (policy rate) was 0.50 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Jun -20	Jul -20	Sep -20	Jun -20	Jul -20	Sep -20
Survey responses (percentage of total)						
Significantly Lower	0.3	0.3	0.0	0.0	0.0	0.0
Marginally Lower	12.5	5.1	9.5	8.3	7.7	9.5
Remain the Same	49.3	53.2	56.6	50.0	57.7	47.6
Marginally Higher	27.9	25.3	23.2	37.5	23.1	33.3
Significantly Higher	1.2	2.2	0.0	0.0	3.8	0.0
Dont Know	8.9	13.9	10.7	0.0	0.0	0.0

Figure 5: Present Business Conditions

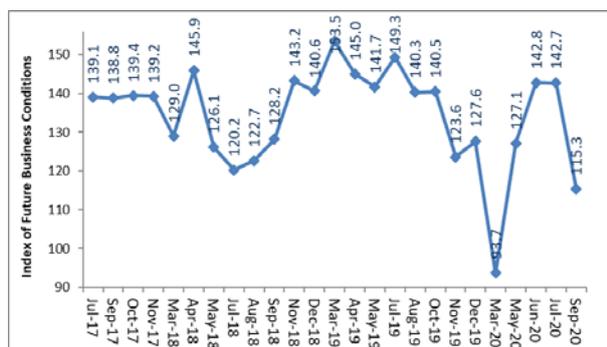
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



*Balanced score method: (better-worse) +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?



* Balanced score method: (better-worse) +100

Interest Rate Expectations: Policy Rate

In the September 2020 survey, the majority of respondents expected that the Bank’s policy rate would remain the same over the next three months. This proportion increased relative to the previous survey.

With regard to the financial sector, the majority of respondents expected that the Bank’s policy rate would remain the same. Furthermore, responses from the financial sector revealed that **33.3 per cent** of respondents expected the rate to be marginally higher. This represented an increase relative to the July 2020 survey.

Perception of Present and Future Business Conditions

In the September 2020 survey, the Present Business Conditions Index increased slightly to **37.9** relative to **37.0** recorded in the previous survey. However, the Future Business Conditions Index decreased drastically to **115.3** relative to **142.8** in the previous survey (see **Figures 5 and 6**).

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

Inflation Expectations Survey

Table 3: Operating Expenses

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

	June-20	July-20	Sep-20
Utilities	10.1	9.2	11.9
Stock replacement	11.9	11.4	7.6
Raw materials	10.4	13.3	14.7
Fuel & Transport	28.8	33.2	24.2
Wages & Salary	37.4	32.0	40.4
Other	0.0	0.0	0.0
Not Stated	1.5	0.9	1.2

Expected Increase in Operating Expenses

Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from wages and salary, fuel and transport, and raw materials. The cost of stock replacement is anticipated to be the least likely to increase (see **Table 3**).