



Survey of Businesses' Inflation Expectations

March 2021

**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 22 February 2021 and 26 March 2021 and had 297 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 2021 and over the next 12 months?”

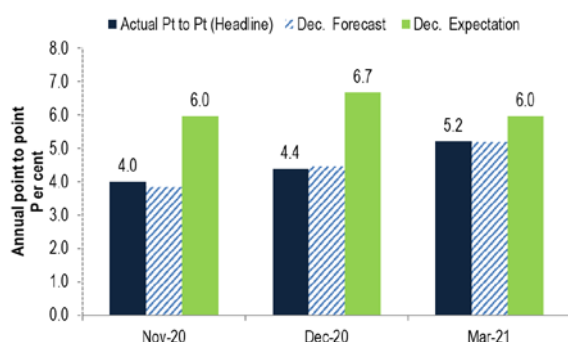
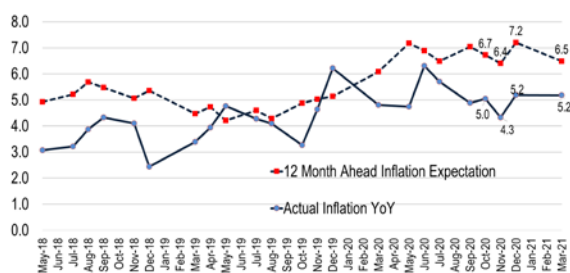


Figure 2: Expected Annual Inflation

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



Overview

- The March 2021 survey indicated an expected point-to-point inflation of 6.0 per cent as at December 2021, which is higher than the March 2021 outturn of 5.2 per cent. The expected inflation 12 months ahead decreased to 6.5 per cent relative to the previous survey outturn of 7.2 per cent.
- The perception of inflation control worsened in the March 2021 survey relative to the December 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 improved while the Future Business Conditions Index worsened reflecting a lower level of optimism compared to the previous survey.

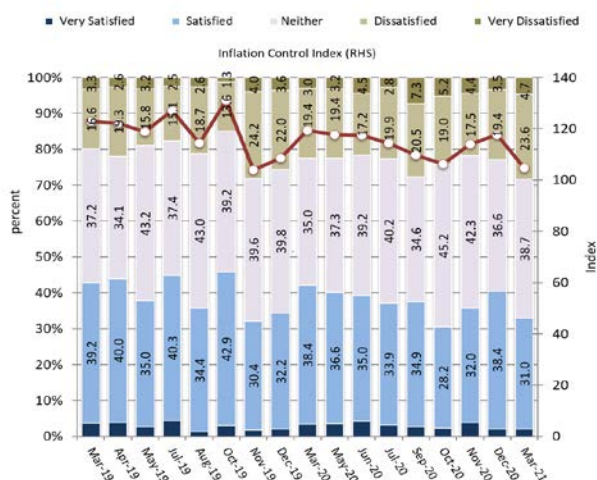
Inflation Expectations

In the March 2021 survey, respondents’ expectation for point-to-point inflation as at December 2021 was **6.0 per cent**. This expectation was above the annual point-to-point inflation of **5.2 per cent** for March 2021 (see **Figure 1**). Respondents’ expectation of inflation 12 months ahead decreased to **6.5 per cent**, from the previous survey’s estimate of **7.2 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

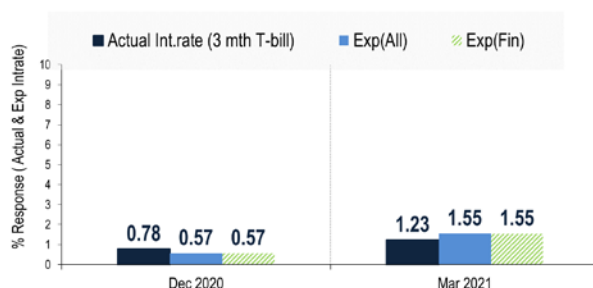
Table 1: Exchange Rate Expectations

In January 2021 the exchange rate was J\$145.39=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(-)			
	Oct-20	Nov-20	Dec-20	Mar-21
3-Months	-0.9	1.7	0.1	3.4
6-Months	0.2	2.5	0.7	4.0
12-Months	0.3	3.0	0.8	4.5

Figure 4: 90-day T-bill

In February 2021, the 90-day T-bill rate was 1.53 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 deteriorated in the March 2021 survey (see **Figure 3**). This was largely due to a decline in the proportion of respondents who were "satisfied" with how inflation is being controlled. This view was supported by an increase in the proportion of respondents who were "dissatisfied" with how inflation is being controlled.

Exchange Rate Expectations

Respondents anticipated depreciation over all three time horizons. In the March 2021 survey, the exchange rate was anticipated to depreciate by **3.4 per cent**, **4.0 per cent** and **4.5 per cent** for the 3-month, 6-month, and 12-month time horizons, respectively. This represents a faster pace of depreciation for the 3-month, 6-month and 12-month time horizons relative to the previous survey. Respondents in the December 2020 survey expected the rate to depreciate by **0.1 per cent**, **0.7 per cent** and **0.8 per cent** over the 3-month, 6-month and 12-month time horizons, respectively, (see **Table 1**).

Interest Rate Expectations: 90-day T-bill

Survey respondents expected the 90-day Treasury bill rate, three months hence to be **1.6 per cent**. This expected rate is higher than the actual March 2021 outturn of **1.2 per cent** (see **Figure 4**). Financial sector respondents expected the 90-day Treasury bill rate, three months hence, to be **1.6 per cent**.

Inflation Expectations Survey

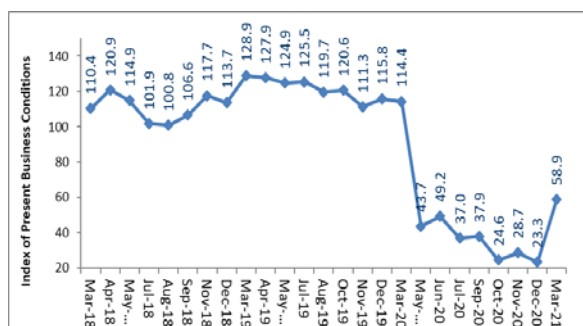
Table 2: Interest Rate Expectations: Policy Rate

In November 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		
	Nov -20	Dec -20	Mar-21	Nov -20	Dec -20	Mar-21
Survey responses (percentage of total)						
Significantly Lower	0.0	0.0	0.0	0.0	0.0	0.0
Marginally Lower	17.5	9.5	5.4	18.5	0.0	4.3
Remain the Same	59.5	68.7	65.0	51.9	68.4	73.9
Marginally Higher	14.5	12.7	23.6	14.8	26.3	17.4
Significantly Higher	1.8	0.0	1.3	11.1	0.0	0.0
Don't Know	6.8	9.2	4.7	0.0	0.0	0.0

Figure 5: Present Business Conditions

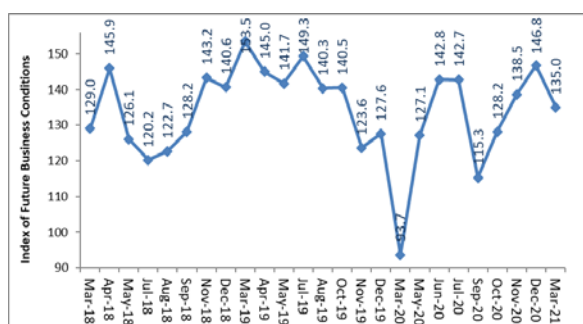
In general, do you think business conditions are better or worse than they were a year ago in Jamaica?



*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 March 2021 survey, the majority of respondents expected that the Bank’s policy rate would remain the same over the next three months. This proportion decreased marginally relative to the previous survey.

With regard to the financial sector, the majority of respondents expected that the Bank’s policy rate would also remain the same. Furthermore, responses from the financial sector revealed that **17.4 per cent** of respondents expected the rate to be marginally higher. This represented a decline relative to the December 2020 survey.

Perception of Present and Future Business Conditions

In the March 2021 survey, the Present Business Conditions Index rose to **58.9** relative to **23.3 recorded** in the previous survey. In contrast, the Future Business Conditions Index moderated to **135.0** relative to **146.8** in the previous survey (see **Figures 5 and 6**).

The increase in the Present Business Conditions Index reflected a reduction in the number of respondents of the view that conditions are “worse”. The outturn for the Future Business Conditions Index mainly reflected an increase in the proportion of respondents who believe that conditions will be “worse”. This outlook for Future Business Conditions was underpinned by a reduction in the number of respondents of the view that things are “better”.

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Table 3: Operating Expenses

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

	Nov-20	Dec-20	Mar-21
Raw materials	9.5	8.8	12.5
Stock replacement	42.6	42.3	39.7
Utilities	28.4	26.8	20.2
Fuel & Transport	5.9	12.3	11.1
Wages & Salary	12.4	7.4	14.8
Other	0.0	0.0	0.0
Not Stated	1.2	2.5	1.7

Expected Increase in Operating Expenses

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