



Survey of Businesses' Inflation Expectations

December 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 December 13, 2021 and January 10, 2022 and had 304 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?”

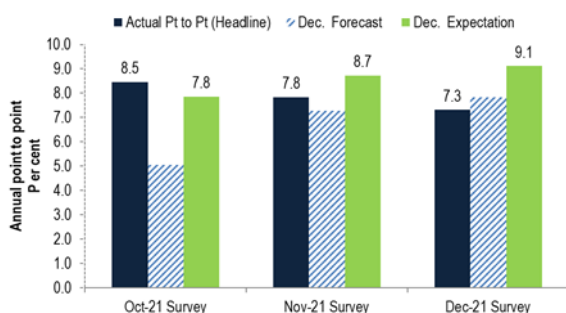
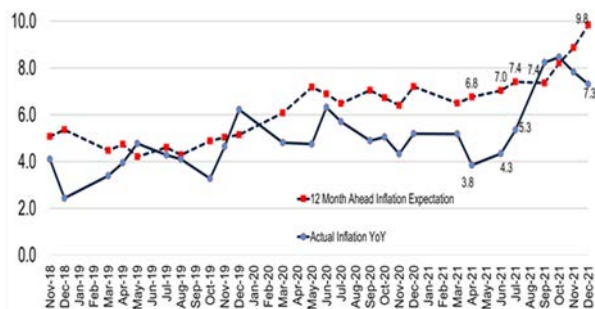


Figure 2: Expected Annual Inflation

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



*Dates refer to survey periods

Inflation Expectations

In the December 2021 survey, respondents’ expectation for point-to-point inflation as at December 2021 was **9.1 per cent**. This expectation was above the annual point-to-point inflation of **7.3 per cent** for December 2021 (see **Figure 1**). Respondents’ expectation of inflation 12 months ahead increased to **9.8 per cent** relative to the previous survey’s estimate of **8.9 per cent** (see **Figure 2**).

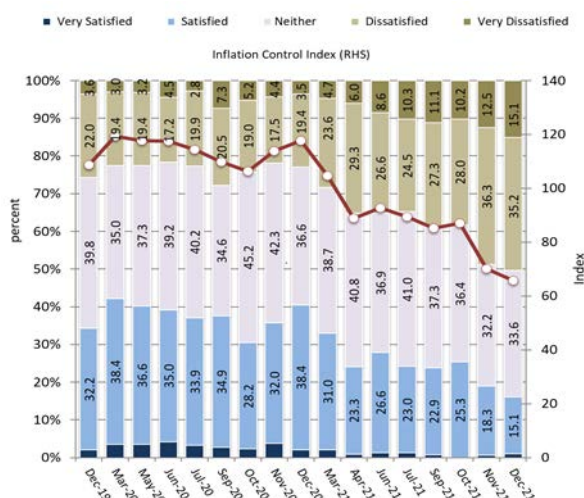
Overview

- The December 2021 survey indicated an expected point-to-point inflation of 9.1 per cent as at December 2021, which was higher than the December 2021 outturn of 7.3 per cent. The expected inflation 12 months ahead is expected to be 9.8 per cent, which increased relative to the previous survey outturn of 8.9 per cent.
- The perception of inflation control deteriorated in the December 2021 survey relative to the November 2021 survey.
- Respondents anticipate that the currency will depreciate over the 3-month, 6-month, and 12-month time horizons at a slower 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. However, a noticeable proportion of respondents indicated that they expected a marginally higher rate.
- The Present Business Conditions Index improved marginally reflecting an improved level of optimism compared to the previous survey. The Future Business Conditions Index deteriorated marginally 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

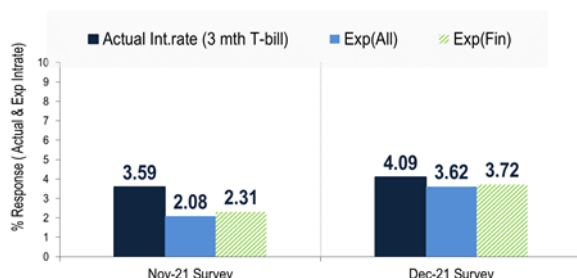
Table 1: Exchange Rate Expectations

In November 2021, the exchange rate was J\$156.31=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 | | | |
| | Sep-21 | Oct-21 | Nov-21 | Dec-21 |
| 3-Months | 2.0 | 0.4 | 3.0 | 0.8 |
| 6-Months | 2.6 | 1.0 | 3.6 | 1.1 |
| 12-Months | 3.0 | 1.5 | 3.9 | 1.2 |

Figure 4: 90-day T-bill

In November 2021, the 90-day T-bill rate was 3.59 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 decreased in the December 2021 survey (see **Figure 3**). This was largely due to a decline in the proportion of respondents that were "satisfied" with how inflation is being controlled. This view was supported by an increase 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 December 2021 survey, the exchange rate was anticipated to depreciate by **0.8 per cent**, **1.1 per cent** and **1.2 per cent** for the 3-month, 6-month, and 12-month time horizons, respectively. This represents a slower pace of depreciation for all time horizons relative to the previous survey. Respondents in the November 2021 survey expected the rate to depreciate by **3.0 per cent**, **3.6 per cent** and **3.9 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 **3.6 per cent**. This expected rate is lower than the actual December 2021 outcome of **4.1 per cent** (see **Figure 4**). Financial sector respondents expect the 90-day Treasury bill rate, three months hence, to be **3.7 per cent**.

Inflation Expectations Survey

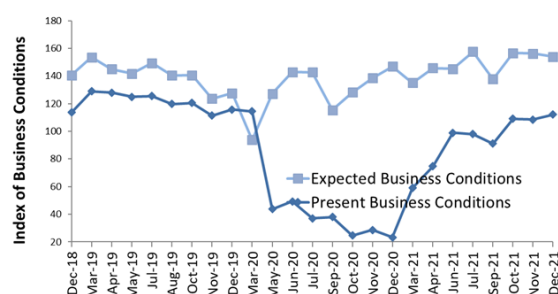
Table 2: Interest Rate Expectations: Policy Rate

In November 2021, the Bank of Jamaica’s overnight rate (policy rate) was 2.00 per cent. What do you think this rate will be for the next 3 months?

| SURVEY DATES | OVERALL | | | FINANCIAL SECTOR | | |
|--|---------|--------|--------|------------------|--------|--------|
| | Oct-21 | Nov-21 | Dec-21 | Oct-21 | Nov-21 | Dec-21 |
| Survey responses (percentage of total) | | | | | | |
| Significantly Lower | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Marginally Lower | 6.3 | 5.8 | 2.0 | 3.8 | 4.0 | 0.0 |
| Remain the Same | 54.5 | 54.7 | 45.7 | 50.0 | 56.0 | 45.8 |
| Marginally Higher | 25.9 | 29.3 | 34.2 | 38.5 | 28.0 | 50.0 |
| Significantly Higher | 3.3 | 2.3 | 2.6 | 3.8 | 4.0 | 0.0 |
| Don't Know | 9.9 | 8.0 | 15.1 | 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 December 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. A noticeable increase was observed in the proportion of respondents expecting a marginally higher rate.

With regard to the financial sector, the majority of respondents expected that the Bank’s policy rate would be marginally higher. Furthermore, responses from the financial sector revealed that **45.8 per cent** of respondents expected the rate to remain the same. This represented a decrease relative to the November 2021 survey.

Perception of Present and Future Business Conditions

In the December 2021 survey, the Present Business Conditions Index increased to **112.2** relative to **108.4** recorded in the previous survey. The Future Business Conditions Index decreased to **153.9** relative to **156.3** 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 an increase in the number of respondents of the view 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?

| SURVEY DATES | | | |
|-------------------|--------|--------|--------|
| | Oct-21 | Nov-21 | Dec-21 |
| Stock Replacement | 45.5 | 42.1 | 34.5 |
| Utilities | 26.2 | 24.1 | 32.9 |
| Raw Materials | 9.9 | 10.6 | 11.5 |
| Wages & Salary | 6.3 | 11.3 | 10.2 |
| Fuel & Transport | 6.3 | 10.3 | 8.2 |
| Not Stated | 0.9 | 1.6 | 2.6 |
| 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 12 months to emanate from stock replacement, utilities, raw materials as well as wages & salary, in that order . The cost of fuel & transport is anticipated to be the least likely to increase. (see **Table 3**).