Survey of Businesses’ Inflation Expectations

March 2022

SECTOR ANALYSIS DEPARTMENT
RESEARCH AND ECONOMIC PROGRAMMING DIVISION
The March 2022 survey indicated an expected point-to-point inflation of 11.5 per cent for calendar year 2022 (December 2022), which was higher than the March 2022 outturn of 11.3 per cent. The expected inflation 12-months ahead is expected to be 12.1 per cent, which increased relative to the previous survey outturn of 9.8 per cent.

The perception of inflation control improved in the March 2022 survey relative to the December 2021 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. However, a noticeable proportion of respondents indicated that they expected a marginally higher rate.

The Present and the Future Business Conditions Indices declined relative to the previous survey.
Perception of Inflation Control

Businesses’ perception of the authorities’ control of inflation increased marginally in the March 2022 survey (see Figure 3). This was largely due to a decline in the proportion of respondents that were “dissatisfied” with how inflation is being controlled.

Exchange Rate Expectations

Respondents anticipated depreciation over the three-, six- and twelve-month time horizons. In the March 2022 survey, the exchange rate was anticipated to depreciate by 1.3 per cent, 2.2 per cent and 3.1 per cent for the 3-month, 6-month, and 12-month time horizons, respectively. This represents a faster pace of depreciation for all the time horizons relative to the previous survey. Respondents in the December 2021 survey expected the rate to depreciate by 0.8 per cent, 1.1 per cent and 1.2 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 3.8 per cent. This expected rate is higher than the actual March 2022 outturn of 6.1 per cent (see Figure 4). Financial sector respondents expect the 90-day Treasury bill rate, three months hence, to be 3.8 per cent.

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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: Policy Rate

In February 2022, the Bank of Jamaica’s overnight rate (policy rate) was 4.00 per cent. What do you think this rate will be for the next 3 months?

<table>
<thead>
<tr>
<th>Survey Dates</th>
<th>General</th>
<th>Financial Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-21</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Dec-21</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Mar-22</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

*Survey response (percentage of total)
- Significantly lower: 5.0
- Marginally lower: 5.1
- Remained the same: 54.7
- Marginally higher: 20.3
- Significantly higher: 3.6
- Don't know: 0.0

Interest Rate Expectations: Policy Rate

In the March 2022 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 36.8 per cent of respondents expected the rate to remain the same. This represented a decline relative to the December 2021 survey.

Perception of Present and Future Business Conditions

In the March 2022 survey, the Present Business Conditions Index decreased to 104.3 relative to 112.2 recorded in the previous survey. The Future Business Conditions Index decreased to 148.1 relative to 153.9 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 “worse”, coupled with a decline 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 “better”.

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

<table>
<thead>
<tr>
<th>SURVEY DATES</th>
<th>Nov-21</th>
<th>Dec-21</th>
<th>Mar-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>24.1</td>
<td>32.5</td>
<td>31.1</td>
</tr>
<tr>
<td>Stock Replacement</td>
<td>42.1</td>
<td>32.9</td>
<td>30.6</td>
</tr>
<tr>
<td>Fuel &amp; Transport</td>
<td>10.3</td>
<td>8.2</td>
<td>17.0</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>10.6</td>
<td>11.5</td>
<td>15.7</td>
</tr>
<tr>
<td>Wages &amp; Salary</td>
<td>11.3</td>
<td>10.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Not Stated</td>
<td>1.6</td>
<td>2.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Expected Increase in Operating Expenses
Respondents indicated that they expected the largest increase in production costs over the next 12 months to emanate from utilities, stock replacement as well as fuel & transport in that order. The wages & salary is anticipated to be the least likely to increase. (see Table 3).