



Survey of Businesses' Inflation Expectations

September 2023

**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 2023 and 29 September 2023 and had 245 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 2023 and over the next 12 months?"

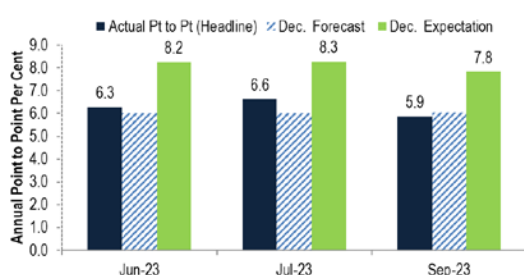
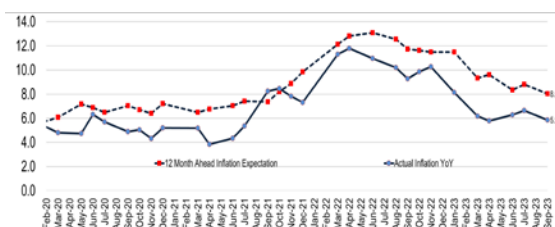


Figure 2: Expected Annual Inflation

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 2023 survey, respondents' expectation for point-to-point inflation as at December 2023 was **7.8 per cent**. This expectation was higher than the annual point-to-point inflation of **5.9 per cent** for September 2023 (see **Figure 1**). Respondents' expectation of inflation 12-months ahead decreased to **8.0 per cent** relative to the previous survey's estimate of **8.8 per cent** (see **Figure 2**).

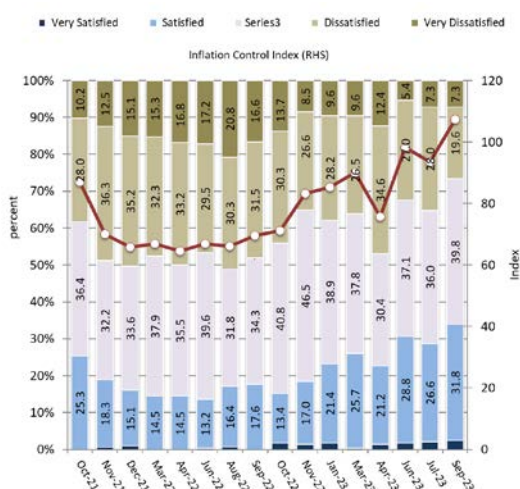
Overview

- The September 2023 survey indicated an expected point-to-point inflation of 7.8 per cent for calendar year 2023 (December 2023), which was higher than the September 2023 outturn of 5.9 per cent. The expected inflation 12 months ahead is 8.0 per cent, which is lower relative to the similar measure in the previous survey of 8.8 per cent.
- The perception of inflation control improved in the September 2023 survey relative to the July 2023 survey.
- Respondents forecasted the exchange rate to depreciate over all three-time horizons but at a generally stable pace compared to the previous survey.
- The majority of respondents believes that the Bank's policy rate will remain the same over the next three months. The proportion of respondents of this view increased relative to the previous survey.
- The Present Business Conditions Index declined (worsened) relative to the previous survey, while the Future Business Conditions Index increased (improved).

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

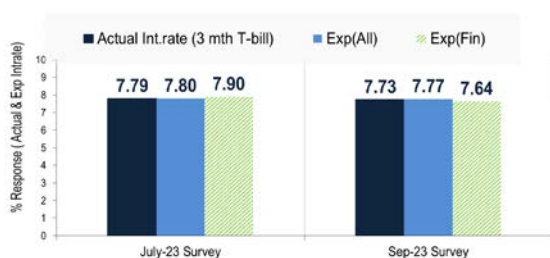
Table 1: Exchange Rate Expectations

In July 2023, the exchange rate was J\$155.41=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-23	Jun-23	Jul-23	Sep-23
3-Months	0.8	0.9	0.4	0.8
6-Months	1.3	1.4	1.2	0.9
12-Months	1.6	1.6	1.4	1.3

Figure 4: 90-day T-bill

In July 2023, the 90-day T-bill rate was 7.86 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 2023 survey (see **Figure 3**) relative to the previous survey. This was largely due to a decrease in the proportion of respondents that were "dissatisfied" with the way inflation is being controlled, coupled with an increase in those being "satisfied".

Exchange Rate Expectations

Respondents anticipated depreciation over all time horizons. In the September 2023 survey, the exchange rate was anticipated to depreciate by **0.8 per cent, 0.9 per cent and 1.3 per cent** for the 3-month, 6-month, and 12-month time horizons, respectively. This represents a more stable pace of depreciation, particularly over the 6- and 12-month horizons, when compared to the previous survey. Respondents in the July 2023 survey had expected the exchange rate to depreciate by **0.4 per cent, 1.2 per cent and 1.4 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 **7.8 per cent**. This expected rate was largely in-line with the September 2023 outturn of **7.7 per cent** (see **Figure 4**). Financial sector respondents expect the 90-day Treasury bill rate, three months hence, to be less at **7.6 per cent**.

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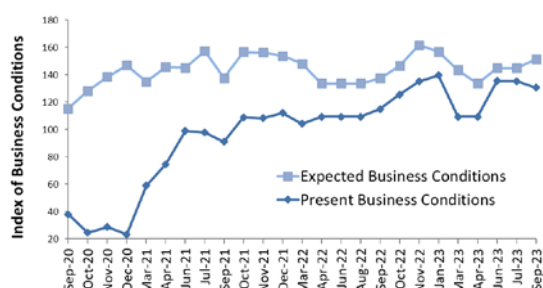
Table 2: Interest Rate Expectations: Policy Rate

In July 2023, the Bank of Jamaica’s overnight rate (policy rate) was 7.0 per cent. What do you think this rate will be for the next 3 months?

SURVEY DATES	OVERALL			FINANCIAL SECTOR		
	Jun-23	Jul-23	Sep-23	Jun-23	Jul-23	Sep-23
Survey responses (percentage of total)						
Significantly Lower	0.4	0.7	0.4	0.0	0.0	0.0
Marginally Lower	12.9	17.6	11.0	17.9	17.4	17.4
Remain the Same	50.7	48.1	56.3	57.1	30.4	60.9
Marginally Higher	24.5	21.5	20.0	17.9	43.5	21.7
Significantly Higher	0.0	1.7	0.4	0.0	0.0	0.0
Don't Know	11.5	10.4	11.8	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 September 2023 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 (**60.9 per cent**) of respondents also expected that the Bank’s policy rate would remain the same (see **Table 2**). Notably, responses from the financial sector revealed that **21.7 per cent** of respondents expected the rate to be marginally lower. This reflected a decrease compared to the previous survey.

Perception of Present and Future Business Conditions

In the September 2023 survey, the Present Business Conditions Index decreased (worsened) to **130.6** relative to **135.3** recorded in the previous survey. However, the Future Business Conditions Index increased (improved) to **151.4** from **145.0** in the previous survey (see **Figure 5**).

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

SURVEY DATES			
	Jun-23	Jul-23	Sep-23
Utilities	36.0	36.0	35.1
Stock Replacement	30.6	29.8	32.7
Raw Materials	15.8	15.6	15.1
Fuel & Transport	10.1	8.3	8.2
Wages & Salary	6.8	8.3	8.2
Not Stated	0.7	2.1	0.8
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 utilities, stock replacement, as well as raw materials in that order. Despite recent public discussions of a tightening labour market, wages & salary expense is still anticipated to be the least likely to increase. (see **Table 3**).