Survey of Businesses' Inflation Expectations

April 2022

SECTOR ANALYSIS DEPARTMENT
RESEARCH AND ECONOMIC PROGRAMMING DIVISION

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 11 April 2022 and 09 May 2022 and had 256 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 2022 and over the next 12 months?"

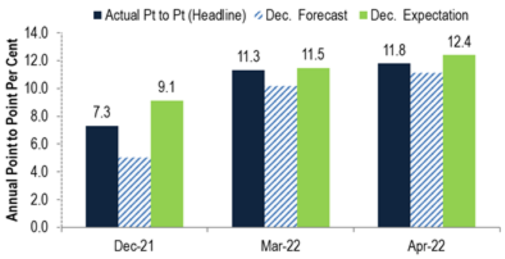
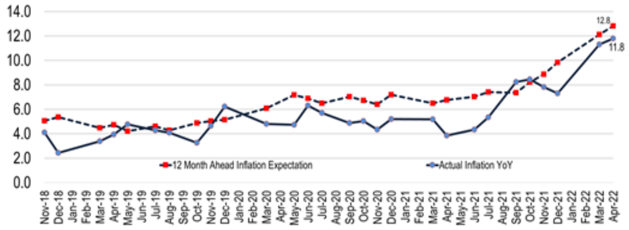


Figure 2: Expected Annual Inflation

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



*Dates refer to survey periods

Inflation Expectations

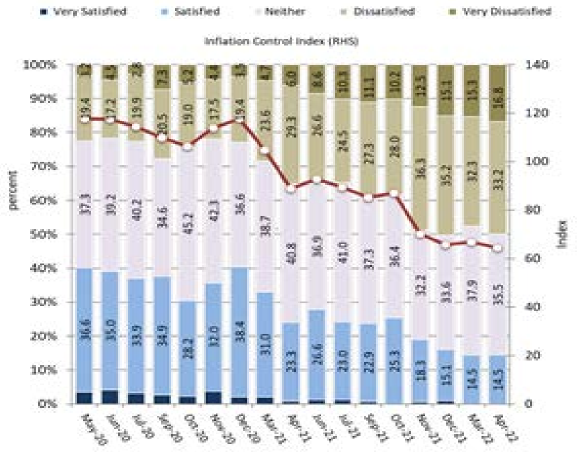
In the April 2022 survey, respondents' expectation for point-to-point inflation as at December 2022 was **12.4 per cent**. This expectation was higher than the annual point-to-point inflation of **11.8 per cent** for April 2022 (see **Figure 1**). Respondents' expectation of inflation 12-months ahead increased to **12.8 per cent** relative to the previous survey's estimate of **12.1 per cent** (see **Figure 2**).

Overview

- The April 2022 survey indicated an expected point-to-point inflation of 12.4 per cent for calendar year 2022 (December 2022), which was higher than the April 2022 outturn of 11.8 per cent. The expected inflation 12-months ahead is expected to be 12.8 per cent, which reflects an increase relative to the previous survey outturn of 12.1 per cent.
- The perception of inflation control deteriorated in the April 2022 survey relative to the March 2022 survey.
- Respondents anticipate that the rate of depreciation in the currency will be fairly stable over the 3-month, 6-month, and 12-month time horizons 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 increased relative to the previous survey and the Future Business Conditions Index declined relative to the previous 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

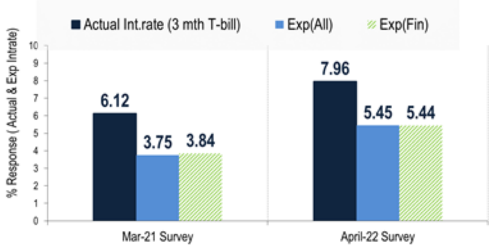
Table 1: Exchange Rate Expectations

In March 2022, the exchange rate was J$154.15=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			
	Nov-21	Dec-21	Mar-21	Apr-22
3-Months	3.0	0.8	1.3	1.5
6-Months	3.6	1.1	2.2	2.4
12-Months	3.9	1.2	3.1	3.4

Figure 4: 90-day T-bill

In March 2022, the 90-day T-bill rate was 6.12 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 marginally in the April 2022 survey (see **Figure 3**). This was largely due to 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 April 2022 survey, the exchange rate was anticipated to depreciate by **1.5 per cent**, **2.4 per cent** and **3.4 per cent** for the 3-month, 6-month, and 12-month time horizons, respectively. This represents a generally stable pace of depreciation for all the time horizons relative to the previous survey. Respondents in the March 2022 survey expected the rate to depreciate by **1.3 per cent**, **2.2 per cent** and **3.1 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 **5.5 per cent**. This expected rate is lower than the actual April 2022 outturn of **8.0 per cent** (see **Figure 4**). Financial sector respondents expect the 90-day Treasury bill rate, three months hence, to be **5.4 per cent**.

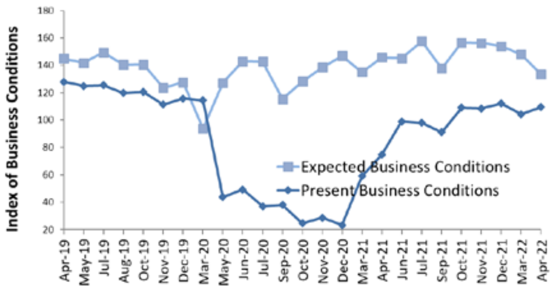
Table 2: Interest Rate Expectations: Policy Rate

In March 2022, the Bank of Jamaica's overnight rate (policy rate) was 4.50 per cent. What do you think this rate will be for the next 3 months?

	OVERALL			FINANCIAL SECTOR		
SURVEY DATES	Dec-21	Mar-22	Apr-22	Dec-21	Mar-22	Apr-22
Survey responses (percentage of total)						
Significantly Lower	0.3	0.4	0.0	0.0	0.0	0.0
Marginally Lower	2.0	6.4	3.5	0.0	0.0	10.5
Remain the Same	45.7	40.9	52.0	45.8	36.8	42.1
Marginally Higher	34.2	34.9	36.3	50.0	57.9	47.4
Significantly Higher	2.6	1.7	2.3	0.0	0.0	0.0
Don't Know	15.1	15.7	5.9	0.0	5.3	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 April 2022 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. A noticeable increase was observed in the proportion of respondents expecting a marginally higher rate.

With regard to the financial sector, the majority (**47.4 per cent**) of respondents expected that the Bank's policy rate would be marginally higher. This represented a decline relative to the March 2022 survey. Notably, responses from the financial sector revealed that **42.1 per cent** of respondents expected the rate to remain the same. This reflected an increase compared to the previous survey.

Perception of Present and Future Business Conditions

In the April 2022 survey, the Present Business Conditions Index increased to **109.4** relative to **104.3** recorded in the previous survey. The Future Business Conditions Index decreased to **133.6** relative to **148.1** 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 "worse". 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".

Table 3: Operating Expenses

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

	SURVEY DATES		
	Dec-21	Mar-22	Apr-22
Utilities	32.9	31.1	32.8
Stock Replacement	34.5	30.6	32.4
Fuel & Transport	8.2	17.0	16.8
Raw Materials	11.5	15.7	11.3
Wages & Salary	10.2	4.7	5.1
Not Stated	2.6	0.9	1.6
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 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**).