



**SELECTED GLOBAL DEVELOPMENTS,
JANUARY – AUGUST 2011, AND THEIR
IMPLICATIONS FOR THE JAMAICAN
ECONOMY**

IMPACT OF THE DEBT CRISIS IN THE USA AND THE EUROZONE ON THE JAMAICAN ECONOMY

SUMMARY

The Standard & Poors downgrade of the US economy from AAA to AA+ has resulted in increased volatility in some of the major stock markets while others have reported contractions. The loss of wealth along with the slowdown in economic activities in the USA and the Eurozone are expected to have both direct and indirect effects on Jamaica given the high dependence on the affected economies, particularly with respect to trade and remittance flows. The impact is expected to be manifested in balance of payments performance, based on a combination of the following:

- a fall in the value of exports of goods and services, possibly due to both declines in volume and value (since a slowing in industrial production has resulted in reduced prices for primary exports such as alumina);
- A fall in the value of imports, and in particular, a fall in the value of oil imports reflecting lower oil prices;
- a decline in remittances;
- reduced foreign direct investment; and
- reduced access to external borrowing

These external sector developments, in turn, may be reflected in local economic conditions, including:

- slower than expected growth in key tradable sectors such as Agriculture, Mining, Manufacturing and Tourism;
- slower growth in employment or an increase in unemployment; and
- further deterioration in fiscal balances as tax revenue growth is dampened and financing costs are increased.

The impact of slower global economic growth on Jamaica will largely be manifested in the performance of financial and trade flows between Jamaica and the rest of the world. However, the magnitude and extent of these effects on growth are expected to be short-lived.

Hence, notwithstanding the confluence of the above-mentioned factors, the economy is still expected to grow within a range of 1.0 per cent to 2.0 per cent as originally forecasted. However, if the downside risks materialize, then growth is expected to be at the lower end of the range, compared to expectations prior to the downgrade, whereby growth was forecasted closer to the upper end of the range. The downside risks could lower real GDP growth by as much as 0.3 percentage points from the baseline estimate.

BACKGROUND

The intensification and deepening of the debt crisis in the USA and countries of the Euro Zone during mid-2011 has resulted in a downward revision in short-term growth forecasts for several economies. However, expectations are that the adverse implications of the debt crisis will be short lived and that the rate of growth in the global economy will accelerate during the last quarter of the year. The global growth forecast for 2011 has been revised downwards by 0.1 percentage point to 4.3 per cent. This largely reflected the 0.3 percentage point downward revision to the US growth forecasts to 2.5 per cent. Other factors which contributed to the revised expectations include: the impact of the earthquake in Japan, adverse weather conditions which affected food supply, and higher than anticipated energy prices to date. Despite the debt crisis in Greece and Ireland, the growth projections for the Eurozone have been revised upwards to 2.0 per cent from 1.6 per cent previously. This was largely attributed to the upward revision of growth projections for the German economy to 3.2 per cent, from the previous projection of 2.5 per cent.

SECTORAL PERFORMANCE & TRENDS PRIOR TO THE DOWNGRADE

UPDATE ON PERFORMANCE, APRIL - JUNE 2011

The economy was estimated to expand by 1.5 per cent during April- June 2011. Growth emanated mainly from the Goods Producing industry which grew by 5.3 per cent as the Services industry was estimated to be relatively flat, growing by 0.2 per cent.

- The main growth areas were Mining & Quarrying up 30.8 per cent, and Agriculture, Forestry & Fishing up 9.0 per cent, accounting for approximately 1.0 percentage point of the growth recorded for the period.
- Four industries were estimated to have returned to a growth path, following consecutive quarterly declines. The industries are namely: Construction (up 1.5 per cent); Wholesale & Retail Trade (up 0.5 per cent); Manufacture (up 0.7 per cent); and Finance & Insurance Services (up 0.5 per cent).
- The industries which were estimated to have recorded declines during the quarter were Electricity & Water (down 0.9 per cent); and Transport Storage & Communication (down 1.2 per cent).

UPDATE ON PERFORMANCE, JANUARY TO JUNE 2011

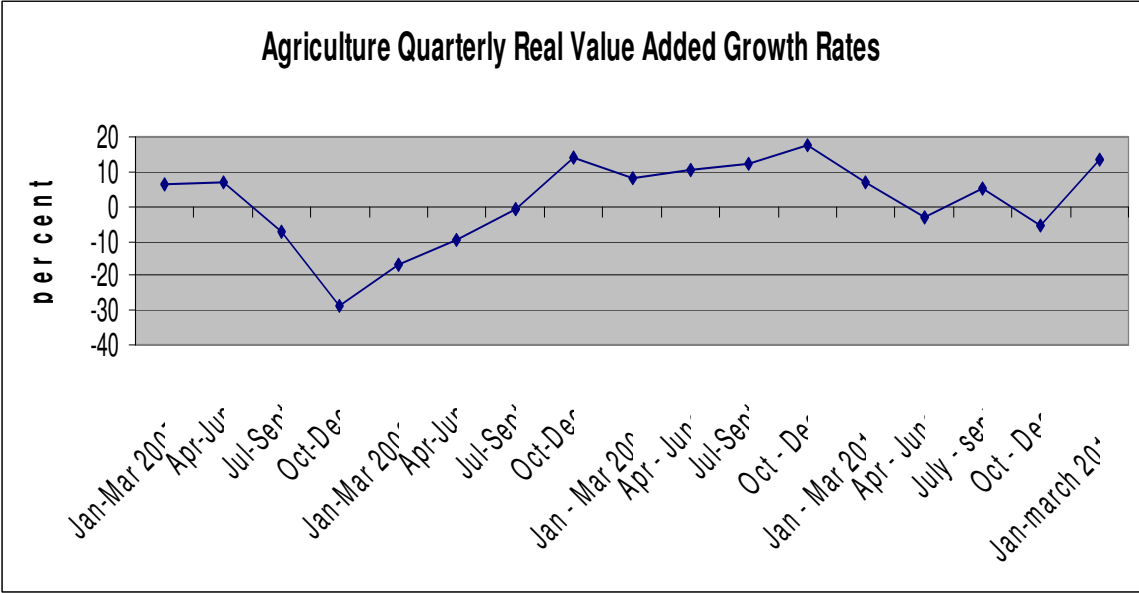
An estimated real GDP growth of 1.5 per cent was recorded for the first half of 2011, largely pushed by the 5.3 per cent growth recorded by the Goods Producing Industry. The Service Industry is estimated to have remained flat. The main areas of growth during this period were Agriculture, Forestry & Fishing; Mining & Quarrying; and the Hotel & Restaurants Industries.

AGRICULTURE

For the period January – June 2011, real value added for the Agriculture, Forestry & Fishing Industry grew by as estimated 12.0 per cent relative to the corresponding period of 2010. The Planning Institute of Jamaica Agricultural Production index showed increases in the value of

gross output for Other Agricultural Crops (up 18.5 per cent); Traditional Export Crops (up 3.4 per cent) and Animal Farming (up 1.0 per cent).

The improvement in the sector was influenced by (a) favourable weather conditions compared with drought in the corresponding period of 2010; and (b) major replanting efforts by farmers following the impact of Tropical Storm Nicole in 2010. In addition, the government continued its programmes which offered farmers increased support in the areas of marketing, irrigation and extension services aimed at improving efficiency in the industry.



MINING & QUARRYING

Global Aluminium Market

Global production of aluminium has shown steady increases over the first six months of 2011. The volume of aluminium for the period totalled 22 127 kilo tonnes an increase of 5.5 per cent compared to the corresponding period of 2010. This resulted from increases in output from Asia (7.6 per cent), Australia (11.6 per cent) Europe (4.7 per cent) and North America (3.6 per cent).

China, the world major producer, led the increase production from Asia with output of 9 084 kilo tonnes an increase of 4.1 per cent.

Global consumption of aluminium increased by 9.6 per cent to 21 988.0 kilo tonnes, during the first half of 2011. This increase reflects higher demand in main end-user markets, primarily China. Demand in China has remained strong with consumption levels amounting to 9 181 kilo tonnes, an increase of 11.5 per cent compared with the similar period of 2010. This increase was attributed to strong performances in the construction, electrical and packaging industries.

Additionally, the demand from North America and Europe were 2 700 kilo tonnes and 4 342 kilo tonnes which represented increases of 7.4 per cent and 10.2 per cent, respectively. This result is attributed to the stable performance of the transport, canned products and aerospace markets.

Global Alumina Market

For the first six months of the year global alumina consumption increased to 43 295 kilo tonnes from 41 063.0 kilo tonnes when compared to the similar period in 2010. The increased alumina consumption was matched by higher production of 10.4 per cent moving to 44 575.0 kilo tonnes compared with the corresponding period of 2010.

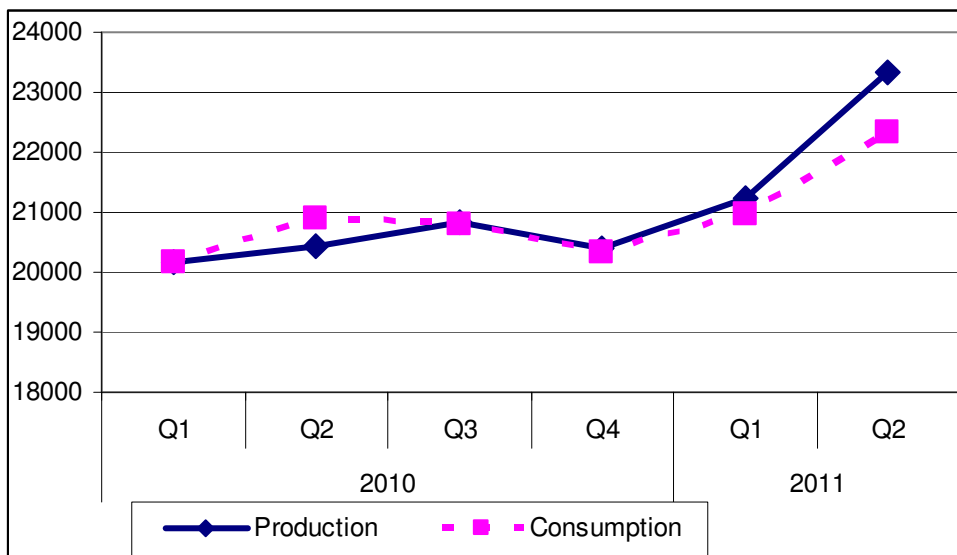


FIGURE 2: GLOBAL ALUMINA PRODUCTION AND CONSUMPTION

DOMESTIC ENVIRONMENT

The production capacity for crude bauxite was enhanced during the first six months of the year, resulting from increased investment by Noranda Bauxite Company. The total bauxite production improved by 27.7 per cent to 5 060.6 kilo tonnes. This increase was due to higher output in both Crude Bauxite (20.1 per cent) and Bauxite Equivalent of Alumina (27.7 per cent). These improvements reflected the growth in demand in the global aluminium market which also resulted in full resumption of activities at WINDALCO Ewarton plant. Alumina production increased during the six month period by 44.5 per cent to 986.7 kilo tonnes compared with the similar period of 2010. Production of alumina was driven by the output from WINDALCO and JAMALCO.

Jamaica's share of total global alumina production improved to 2.1 per cent at the end of the June 2011 compared to 1.6 per cent in the corresponding period of 2010. The percentage increase in local production was greater than the percentage increase in global production. However, the current share of global production remains lower than pre-crisis levels.

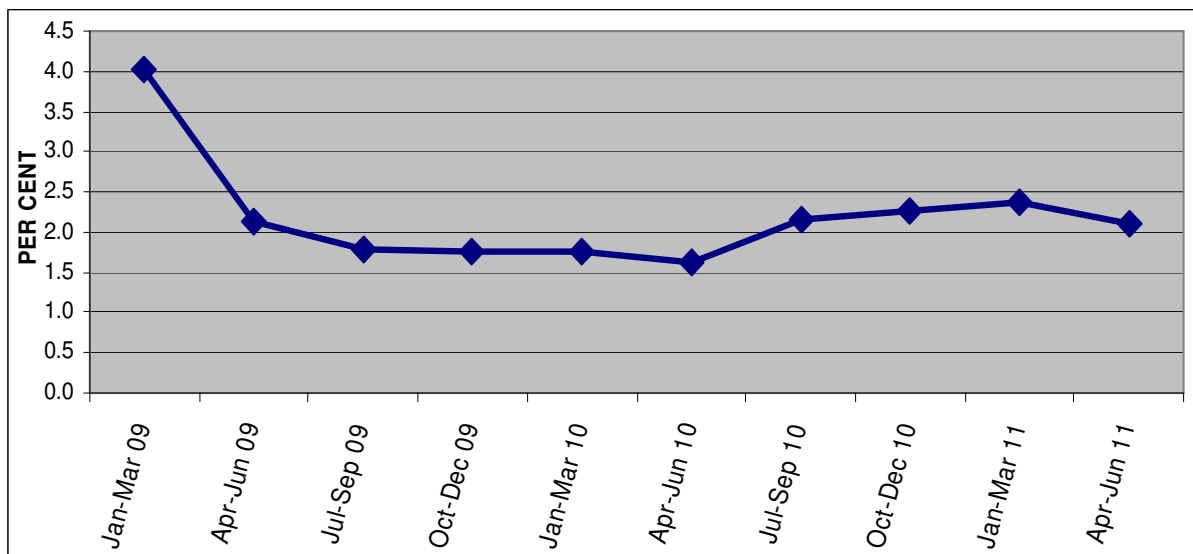


FIGURE 3: JAMAICA'S ALUMINA PRODUCTION MARKET SHARE, JANUARY 2009 – JUNE 2011

EXPORT

Crude Bauxite

The volume of crude bauxite exported increased by 20.5 per cent to 2 503.0 kilo tonnes during the review period. This was due to improvements in the global aluminium and alumina markets, which continued to recover from the global economic crisis.

Alumina

For the six months to June 2011, the volume of alumina exported increased by 43.8 per cent to 994.2 kilo tonnes. North America and Europe, the major source markets, accounted for 52.1 per cent and 47.1 per cent respectively of the alumina exported. Exports to North America, improved by 124.3 kilo tonnes or 31.6 per cent compared with the first six months of 2010. This was driven by increases in exports to USA of 133.0 kilo tonnes.

TABLE 1: MAIN MARKETS FOR ALUMINA SHIPMENT								
	2010					2011		
	Q1	Q2	1st Half	Q3	Q4	Q1	Q2	1st Half
Canada	172,967	148,182	321,149	77,345	130,382	137,123	175,285	312,408
United States	22,597	49,980	72,577	48,774	26,244	99,167	106,447	205,614
N. AMERICA	195,564	198,162	393,726	126,119	156,626	236,290	281,732	518,022
Norway	42,700	64,775	107,475	43,111	128,210	21,127	96,847	117,974
Netherlands	41,071	47,297	88,368	53,776	88,077	153,006	77,196	230,202
Iceland	75,600	0	75,600	0	0	26,244	26,245	52,489
Slovakia	0	0	0	0	0	0	39,408	39,408
Russia (CIS)	0	26,256	26,256	96,530	23,106	0	27,969	27,969
EUROPE	159,371	138,328	297,699	193,417	348,648	200,377	267,665	468,042
TOTAL	354,935	336,490	691,425	348,026	535,652	441,095	553,084	994,179

Source: CRU Monitor

MANUFACTURE

For the period January – June 2011, real value added for the Manufacture industry was estimated to have declined by 1.3 per cent relative to the corresponding period of 2010. The Manufacture industry has recorded quarterly declines since October – December 2007. For April – June 2011, preliminary data suggests that the sector declined by approximately 2.0 per cent, largely driven by declines recorded in the Other Manufacturing category. The industry continued to be affected by demand side challenges attributed to weak consumer demand.

Based on the Planning Institute of Jamaica production survey undertaken for the six month period, January – June 2011, the Food, Beverages & Tobacco category declined by 0.2 per cent while Other Manufacturing declined by 2.9 per cent. The fall in Other manufacturing was driven mainly by declines in Chemicals & Chemical production and Non Metallic Minerals. while Beverage and Tobacco influenced the decline in the Food, Beverage & Tobacco category.

Electricity & Water

During January to June, 2011, real value added for the Electricity & Water sub-industry was estimated to have grown by 0.3 per cent relative to the comparable period of 2010 (TABLE 2). This emanated from increased water production as there was a reduction in the amount of electricity generated during the period.

A total of 2 302.9 million kWh of electricity was generated, 2.0 per cent below that of the corresponding period of 2010. This outturn reflected a contraction in demand, which was influenced by a combination of factors, including increased conservation measures as consumers sought to minimize the impact of rising oil prices on their electricity bills and the cooler weather conditions that dominated the review period (earlier part of January-March, May and June). The total generation reflected a 5.5 per cent decline in output from the Jamaica Public Service Company's (JPSCo) as generation from non-JPSCo sources increased by 5.1 per cent to 720.3 million kWh (See TABLE 2).

TABLE 2: JAMAICA PUBLIC SERVICE COMPANY: ELECTRICITY GENERATION AND DISPOSAL, 2010-2011 (Megawatt/hours)

	Jan-Jun 2010	Jan-Jun 2011	% Change <u>Jan-Jun '11</u> <u>Jan-Jun '10</u>
Net Generation from JPSCo	1 388.4	1 312.7	-5.5
Steam and Slow Speed Diesel	827.8	747.7	-9.7
Renewables	72.9	76.9	5.5
Gas	487.7	488.1	0.1
Non-JPSCo Sources	685.4	720.3	5.1
Total Generation ^a	2 073.8	2 032.9	-2.0
(A) Energy Sales:	1 596.0	1 561.6	-2.2
Residential (Rate 10)	541.2	516.9	-4.5
General Service (Rate 20)	328.6	316.0	-3.8
Power Service (Rate 40)	375.9	383.0	1.9
Large Power (Rate 50)	304.8	300.1	-1.5
Other	52.5	52.2	-0.6
(B) Company Use	6.9	6.6	-4.3
(C) Line Losses & Unaccounted for Net Generation	471.0	464.7	-1.3

Source: Jamaica Public Service Company

Approximately 76.8 per cent of the electricity produced was sold compared with 77.0 per cent in the comparable period of 2010. Electricity sales for January to June 2011 fell by 2.2 per cent to 1 561.6 million kilowatt hours (kWh). This contraction in sales, reflected reduced demand, and

was evidenced by downturn in sales to all consumer categories, with the exception of Power Service, which increased by 1.9 per cent to 383.0 million kWh. Sales to the other Industrial categories - Large Power and General Service fell 1.5 per cent and 3.8 per cent, respectively, to 300.0 million kWh and 316.0 million kWh. The Residential category recorded the highest absolute decline of 24.3 million kWh to 516.9 million kWh, largely reflecting the effect of conservation practices on demand.

WATER

For the first six months of 2011, approximately 152 413 megalitres of water was produced, an increase of 10.7 per cent compared with the corresponding quarter of 2010 (Table 3). The out-turn in the review quarter must be viewed against the background of low production in the corresponding period of 2010 due to the severe drought conditions which started in the second half of 2009 and continued into the January-March quarter of 2010. The higher production in the January-June 2011 period reflected increases of 14.4 per cent in the Eastern region to 92 989.1 megalitres and 5.3 per cent to 59 423.9 per cent in the Western region. The increased output in the Eastern region resulted from growth in all parishes, with Kingston & St. Andrew recording the highest absolute increase to reach 35 194.3 megalitres, up from 28 216.9 megalitres. St. Catherine followed 32 073.1 megalitres, an increase of 9.9 per cent. For the Western region, growth was recorded for all parishes, except Trelawny and Hanover (see Table 3).

Transport, Storage & Communication

Real value added for Transport, Storage & Communication fell by an estimated 1.8 per cent during January-June 2011 compared with January-June 2010 (TABLE 4). Performance in the industry continued to reflect the downturn in the Communication segment due mainly to weak performance in the telecommunication subcategory. This contraction outweighed increase activities in the Transport & Storage segment of the industry.

TABLE 3: DOMESTIC WATER PRODUCTION, 2010-2011**(Megalitres)**

	Jan-Jun 2010	Jan-Jun 2011	% Change
			<u>Jan-Jun 2011</u> Jan-Jun 2010
Eastern Division	81 280.3	92 989.1	14.4
Clarendon	11 587.7	12 056.8	4.0
St. Catherine	29 192.0	32 073.1	9.9
KSA	28 216.9	35 194.3	24.7
St. Thomas	4 798.4	5 667.0	18.7
Portland	2 355.8	2 730.3	15.9
St. Mary	5 129.5	5 267.6	2.7
Western Division	56 432.4	59 423.9	5.3
St. Ann	10 724.4	10 746.3	0.2
Trelawny	9 207.1	9 010.7	-0.2
St. James	13 921.9	14 847.1	6.6
Hanover	4 454.6	4 064.8	-8.8
Westmoreland	5 075.3	6 191.5	22.0
St. Elizabeth	8 637.6	8 898.3	3.0
Manchester	4 591.5	5 665.2	23.4
ALL ISLAND	137 712.7	152 413.0	10.7

Source: National Water Commission

Activities at the island's sea ports, were robust as evidenced by a 17.7 per cent increase in the volume of cargo handled. This increase stemmed from the expansion in both alumina and bauxite exports, which was associated with higher production at the JAMALCO and Noranda

Bauxite Company consequent on improvements in global market conditions and the resumption of activities at the WINDALCo's Ewarton alumina plant. The volume handled at the Port of Kingston rose by 6.7 per cent to 2 983 283 tonnes, due mainly to increased activities at the Kingston Container Terminal. Consistent with the growth in the volume of cargo handled, the number of ship calls increased to 1 840 compared with 1 742 during January-June 2010.

TABLE 4: SHIP TRAFFIC AND CARGO FLOW (Tonnes)

	Jan-Jun 2010	Jan-Jun 2011	% Change Jan-Jun 2011 Jan-Jun 2010
TOTAL VESSEL VISITS	1 742	1 841	5.6
BY PORT			
Port of Kingston	1 297	1 362	5.0
Outports	445	479	7.96
BY TYPE			
Cargo & Other	1 554	1 639	5.5
Cruise Passenger	180	202	12.2
TOTAL CARGO VOLUME (metric tonnes)	7 346 672	8 644 663	17.7
BY PORT			
Port of Kingston	2 797 205	2 983 283	6.7
Outports	4 549 467	5 661 380	24.4
BY TYPE			
Imports	3 399 425	3 612 377	6.3
Exports	3 947 247	5 032 286	27.5

Source: Port Authority of Jamaica

Relative to January-June 2010, total passenger movements at the airports rose by 1.4 per cent to 2 527 662 passengers, reflecting increases in all passenger categories (Table 5). The performance during the period resulted mainly from increased activities in the January-March 2011 quarter as performance in April-June 2011 was relatively flat. The higher number mainly reflected the 20.5 per cent increase in passenger traffic at the SIA. Approximately 1 208 passengers passed through the newly opened Ian Flemming International Airport, while passenger movement at the NMIA fell by 0.4 per cent to 691 538 passengers. The performance January-June 2011 was influenced by the introduction of four new airlines – Jazz Air, Frontier Airlines, Neos Spa and Jamaica Air Shuttle in the January-March 2011 quarter. However, performance in the review period was stymied by the fall-off in flights by Delta and Air Jamaica.

TABLE 5: MOVEMENTS OF AIRCRAFT, PASSENGERS, CARGO AND MAIL

	Jan-Jun 2010	Jan-Jun 2011	% Change Jan-Jun '11 /Jan-Jun '10
Arrivals	1 191 975	1 206 080	1.2
Departures	1 253 914	1 270 121	1.3
Intransits	48 021	51 461	7.2
Total Passenger Movements	2 493 910	2 527 662	1.4
Aircraft Movements	32 914	33 863	2.9
Cargo (Kilogrammes)	7 466 959	7 427 813	-0.5
Mail (Kilogrammes)	1 138 807	1 370 174	20.3

Source: Airport Authority of Jamaica

TOURISM

For January to June 2011, real value added for the Tourism industry grew by an estimated 3.4 per cent. This was due primarily to increased stopover arrivals which at the end of June 2011¹, totalled 1 045 268, an increase of 3.4 per cent compared with the corresponding period of 2010 (Figure 4).

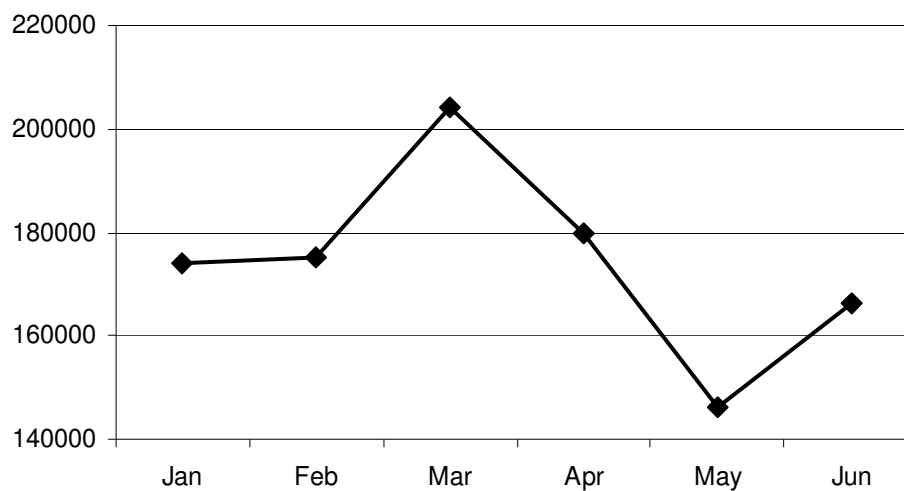


Figure 4: Stopover Arrivals for January – June 2011

USA and Europe continued to be the dominant source markets and accounted for 55.9 per cent and 11.3 per cent, respectively of stopover arrivals to Jamaica (Figure 5 and Figure 6)². For January to March stopover arrivals for the USA totalled 309 120, a decline of 0.9 per cent relative to the corresponding period of 2010. Stopover arrivals from Europe contracted by 8.4 per cent to 62 549.

¹ At the time of writing, data for stopover arrivals were not available for May and June 2011. Preliminary data on airport arrivals for this period was used as a proxy.

² This is based on January- March 2011 data.

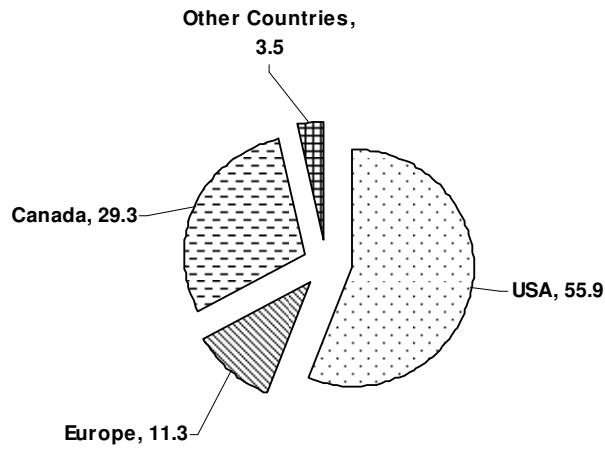


Figure 5: Arrivals from Main Source Markets for January – March 2011

During January – March 2011, stopover arrivals from Canada increased by 23.4 per cent to 162,143. This market continues to be the main driver of growth in stopover arrivals.

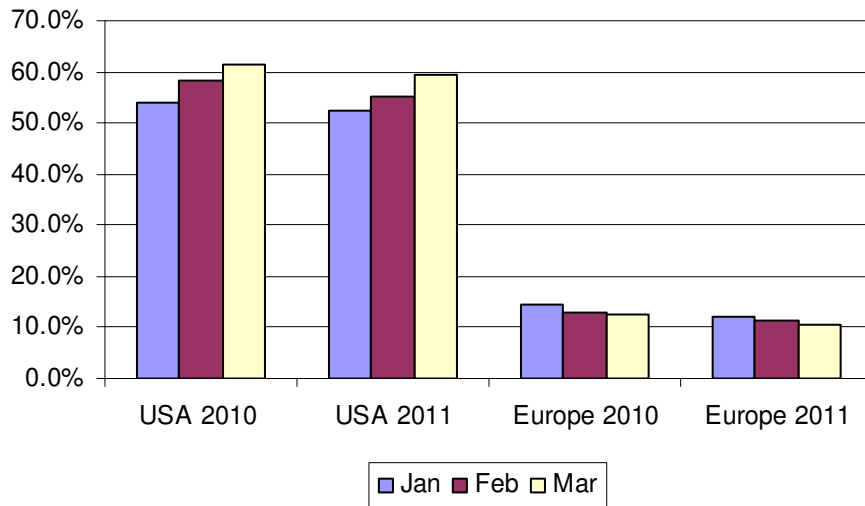


Figure 6: Market Share by USA and Europe, Jan- Mar (2010 and 2011)

COMMODITY MARKETS

Crude oil prices averaged US\$110.05/barrel for April –June 2011, approximately 10.3 per cent higher relative to the previous quarter due mainly to the continuing unrest in the Middle East and Northern Africa compounded by OPEC’s inability to replace the 1.3 mb/d Libyan light-sweet crude. The upward movement in crude oil prices was however restrained by weaker than anticipated economic performance of major oil consuming countries such as the USA along with increased production from Saudi Arabia.

TABLE 6: SELECTED COMMODITY PRICE MOVEMENTS, 2010 - 2011

	Unit	Apr - Jun 2010	Jul - Sep 2010	Oct – Dec 2010	Jan - Mar 2011	Apr - Jun 2011	Apr - Jun '11 /Jan - Mar '11 (%)	Apr - Jun '11 /Apr - Jun '10 (%)
Energy								
Crude Oil	US\$/barrel	78.8	75.2	85.4	99.8	110.1	10.3	39.7
Agriculture								
Coffee, Arabica	US cents/kg	392.0	468.5	513.8	620.0	636.5	2.7	62.4
Cocoa	US cents/kg	321.0	305.9	296.6	334.3	307.5	-8.0	-4.2
Banana (EU)	US\$/mt	1 029.0	933.0	1 033.0	1 251.0	1 250	-0.1	21.5
Sugar (EU)	US cents/kg	42.7	43.3	44.4	44.7	47.0	5.1	10.1
Sugar (US)	US cents/kg	69.6	78.2	84.9	86.6	80.3	-7.3	15.4
Sugar (world)	US cents/kg	34.9	43.0	58.0	62.7	52.6	-16.1	50.7
Rice, Thailand 5%	US\$/mt	452.4	457.0	510.8	511.2	493.1	-3.5	9.0
Wheat US HRW	US\$/mt	177.4	237.9	283.6	330.5	339.3	2.7	91.2
Soybean Meal	US\$/mt	342.0	378.0	424.0	437.0	400.0	-8.5	17.0
Maize	US\$/mt	157.7	181.7	241.5	282.8	312.6	10.5	98.2
Sorghum	US\$/mt	142.6	153.6	208.6	255.2	270.5	6.0	89.7
Fertilizer								
Phosphate Rock	US\$/mt	125.0	125.0	140.0	158.3	182.5	15.3	46.0
Potassium Chloride	US\$/mt	316.1	334.2	343.2	374.2	422.7	13.0	33.7
Urea	US\$/mt	237.2	279.2	357.0	353.4	407.9	15.4	72.0
Metals								
Aluminium	b/US\$/mt	2 096.0	2 090.0	2 343.0	2 501.0	2 611	4.4	24.6

Source: World Bank, Commodity Markets Review

Grain prices rose, largely due to supply-related constraints with production of corn and wheat affected by adverse weather conditions which delayed the planting process in main producing countries.

Aluminium prices rose, by 4.4 per cent higher, due in part to continued industrial expansion in China. The price of this has Aluminium has increased by 24.6 per cent since April – June 2010, this as the global market recovered from the economic and financial crisis.

On the domestic market, the average weekly prices for selected basic food prices were higher for the calendar year-to-date compared with at the end of 2010. All the major products surveyed recorded increased with the highest recorded by yellow yam (up 67.3 per cent); rice (up 16.8 per cent) and Counter flour (up 16.3 per cent).

TABLE 7: AVERAGE WEEKLY PRICES OF SELECTED DOMESTIC ITEMS (\$) AND CALENDAR YEAR TO DATE CHANGE

Selected Items	Units	May	June	June	July	July	CYTD (%) 2011
		19-20	9-10	23 -24	07 -08	21-22	
DARK SUGAR	1 kg	92.46	92.58	91.41	90.79	95.75	10.6
RICE (BULK)	1 kg	89.76	89.1	88.25	87.96	89.19	16.8
CORNMEAL (BULK)	1 kg	105.59	104.15	104.7	104.5	104.8	5.1
COUNTER FLOUR (BULK)	1 kg	78.79	80.19	79.72	79.66	79.9	16.3
CHICKEN	1 kg	336.77	337.71	336.89	332.23	339.15	2.5
HARDOUGH BREAD	2 lb	219.86	219.81	219.5	218.66	219.73	12.5
CONDENSED MILK	397g	144.51	141.98	141.69	142.6	141.52	5.9
YELLOW YAM	1kg	208.93	250.17	267.19	285.4	300.11	67.3

Source: Consumer Affairs Commission – Weekly Surveys

External Trade

Latest available trade date to March 2011 indicated that Jamaica's external trade performance worsened as the country's trade deficit expanded by US\$187.9 million due to increased expenditure on imports, which outweighed an increase in receipts from exports. The main area which pushed the worsening of the deficit was higher expenditure on Mineral Fuel imports due to increases in the price of oil on the world market.

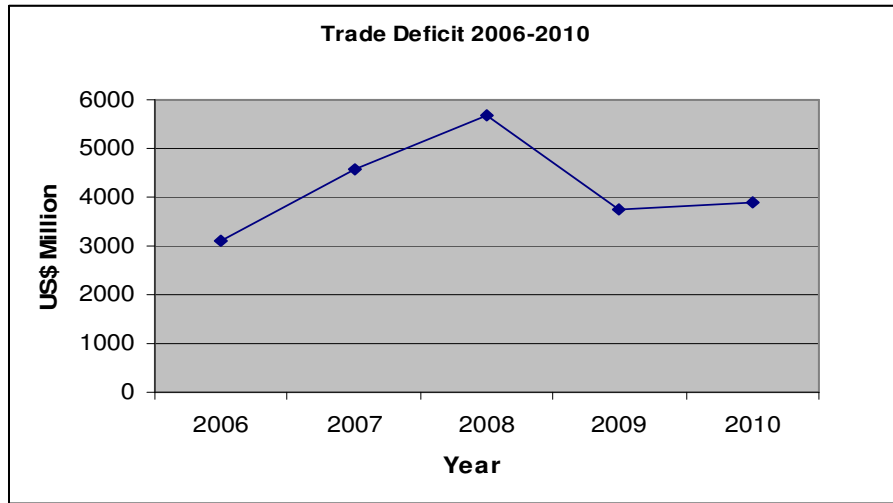


Figure 7: Trade Deficit for 2006- 2010

A positive spin-off for the Caribbean resulting from the events in the United States and Europe has been a drop of more than \$10/barrel in the price of oil during early August 2011, averaging below \$80/barrel. With Mineral Fuels imports accounting for 37.0% of Jamaica's total import bill for the January – March quarter, a continued fall in the price of oil could have a positive effect on Jamaica's oil bill, and the trade balance in the short term.

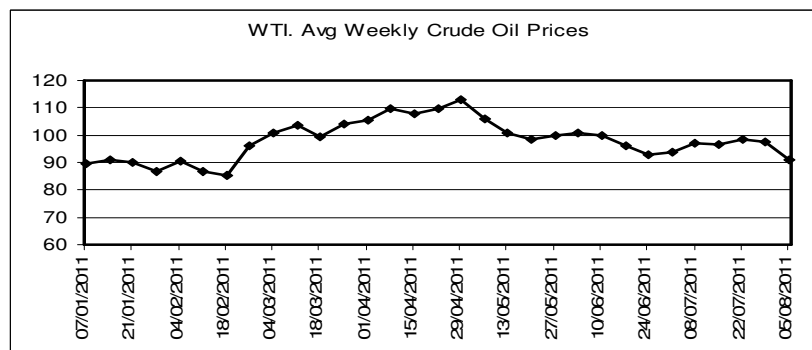


Figure 8: Average Weekly Crude Oil Prices July 1 – August 5, 2011

Balance of Payments

For January–March 2011, the Current Account recorded a deficit of US\$216.9 million, an expansion of US\$172.6 million relative to the corresponding period of 2010. This was primarily attributable to a worsening in the goods sub-account which recorded a deficit of US\$859.3 million. The Capital and Financial Account was US\$216.9 million for January – March 2011, an improvement of US\$172.6 million when compared with the similar period of 2010. At the end of March 2011, the stock of Net International Reserves (NIR) increased by US\$381.8 million to US\$2 533.16 million, relative to the end of December 2010. Gross International Reserves (GIR) were US\$3 434.68 million, the equivalent of 26.33 weeks of goods and services imports. At the end of June 2011, the stock of Net International Reserves (NIR) was US\$2 267.13, a decrease of US\$67.25 million compared with the stock at the end of May 2011. Gross International Reserves (GIR) were US\$3 156.75 million, representing 21.36 weeks of goods and services imports, and an increase of US\$67.43 million relative to the stock at the end of May 2011.

Remittances

For January – June 2011, remittances amounted to US\$987.3 an increase of US\$59.0 million relative to the corresponding period of 2010. However, this outturn is below pre-crisis level of US\$1015.3 million for January – June period of 2008. In 2007, remittances as a share of GDP amounted to 15.6 per cent however in 2010 this share fell to 14.2 per cent. The USA and Europe accounted for approximately 79 per cent of total remittance inflows into the country in 2010. Shocks to these economies are therefore expected to have a negative impact on remittance inflows.

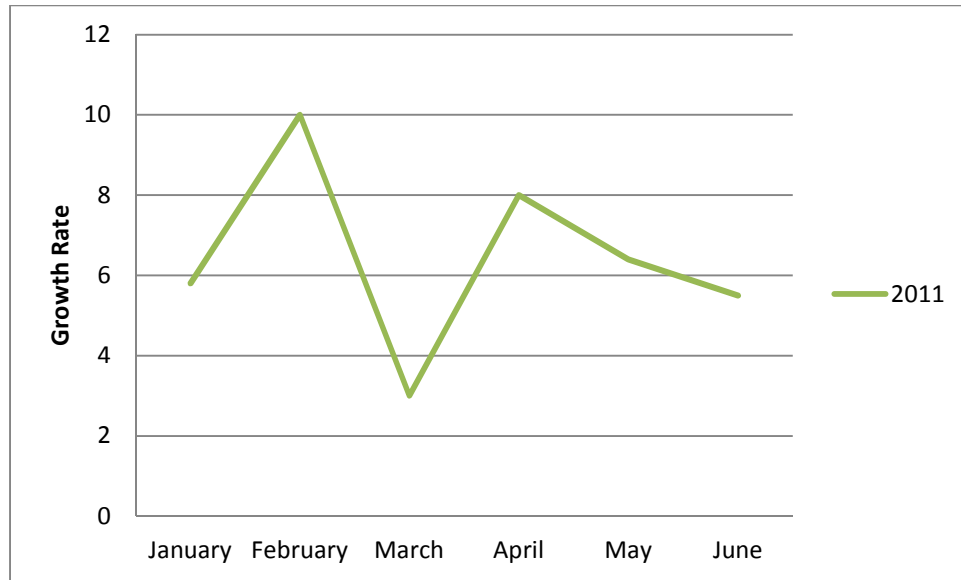


Figure 9: Growth in Remittances for January –May 2011

GDP OUTTURN AND OUTLOOK: IMPACT OF THE USA DOWNGRADE AND EUROZONE DEBT CRISIS ON JAMAICA’S GDP FORECAST FOR 2011

Prior to the announcement of the downgrade the Jamaican economy was projected to between 1.0 per cent and 2.0 per cent during 2011, pushed mainly by growth in the Mining & Quarrying (25.2 per cent); Agriculture Forestry & fishing (7.5 per cent); and the Hotels & Restaurants (3.1 per cent) industries. The Goods producing industry was expected to expand by 3.9 per cent while the Services Industry was projected to grow by 0.4 per cent.

Based on the possible impact of the downgrade the main downside risks to these projections stem from the following:

- **A possible reversal of plans to re-open WINDALCO’s Kirkvine plant in the September 2011.** PIOJ’s projection of Mining & Quarrying being the strongest growth performer during 2011 was based in part on the reopening of the plant. If we were to assume that the plant remains closed for the remainder of the year and incorporate what negative impact this may have on other industries primarily Transport, Storage &

Communication, then the economy would grow slower than previously projected. *PIOJ estimates that this risk alone could detract 0.2 percentage point from the original growth forecast for the economy.*

- **Fewer than previously expected stopover arrivals, primarily from the USA.** This risk would mainly have a negative effect on the performance of the Hotels & Restaurant industry and by extension the Transport & Storage sub-industry. *PIOJ projects that the Hotels & Restaurant industry may expand by 2.1 per cent during 2011, instead of the previously projected 3.1 per cent, if this risk materializes.* The USA is Jamaica’s main source market and as such any weakening in that economy is expected to have a negative impact. However, recent trends in the Canadian market are expected to augur well for the tourism industry and may be able to partially offset some of the adverse impact of fewer than expected visitors from the USA. PIOJ’s projections have therefore incorporated the following:
 - During the recession (2008-2010), growth in stopovers to the island were mainly pushed by Canadian visitors (up 23.9 per cent, 22.9 and 12.0 per cent during the three year period). This compares with a growth of 1.6 per cent, 1.9 per cent and 6.0 per cent respectively from the US market during period 2008-2010.
 - Canada’s share of the market has steadily increased over the period 2007 to 2010

USA & Canada Share of Total Stopover Arrivals					
	2007	2008	2009	2010	2011 Jan-Mar
USA	67%	65%	64%	65%	56%
CANADA	11%	13%	16%	17%	29%

Source: Jamaica Tourist Board

- The Canadian economy continues to be strong and is expected to continue pushing the growth in stopovers. Official January – April 2011 stopover figures revealed that arrivals from USA declined 1.5 per cent while arrivals from Canada grew 25.3 per cent. Stopovers for the January – April 2011 was up 5.1 per cent.

The combined effect of fewer than expected stopovers primarily from the US on the Hotels & Restaurant and Transport sub- industry may result in a detraction of 0.1 percentage points from the original growth forecast for the overall economy.

PIOJ is therefore projecting that risks associated with (i) Kirkvine alumina plant remaining closed for the remainder of 2011; and (ii) fewer stopovers to the island could detract a total of 0.3 percentage points from the original growth forecast for the economy.

There are other factors which may stymie growth within the Jamaican economy in the short term, these include:

- Lower remittance inflows - The loss of personal wealth by individuals overseas will temper the flow of remittances to the country. High levels of unemployment in the US have prevented remittances from returning to pre-crisis levels and are expected to depress the level of growth going forward.
- Reduction in the demand for other exports, in particular,
 - Manufacture exports (food and beverages)- With the decline of the sector due to demand side challenges, any further downturn in consumer wealth and demand will adversely impact this industry. Beverages & Tobacco which are mainly exported are more sensitive to weaker consumer demand in foreign markets. However, sugar which is heavily weighted in the Food Processing category is expected to improve its output due to increased demand on the world market.
 - Agriculture: It is anticipated that export performance will remain subdued for the remainder of 2011, thereby delaying the recovery process. The value of Food Exports has remained relatively stable during the period of recession. However, the challenges at hand could stymie the country's ability in maximizing its export potential, due to a reduction in external demand and a likely reduction in prices. The domestic market for local produce which has been the key driver for agricultural performance is expected to remain buoyant. However, challenges faced by the tourism industry may affect the viability of growth in the sector in the short term.

These factors may lead to a reduction in real income, and a weakening in domestic demand and the various rounds of effects could lead to a further tempering of the GDP growth forecast.

If the above mentioned risks materialize with expected negative impacts on production, real GDP growth during 2011, while remaining within the 1.0 per cent to 2.0 per cent range, would then be at the lower end of the range.