



The Planning Institute of Jamaica's Review of Economic Performance, July - September 2011 Media Brief November 23, 2011

Overview

Today, we are reporting that an estimated **growth of 0.5** per cent was recorded in the July-September 2011 quarter. And while this positive growth represents the third consecutive quarter of growth in the economy, following the prolonged recession between 2008 and 2010, it is a noted slowing compared to the 1.6% and 2.1% GDP growth recorded for January–March and April–June 2011 period, respectively. This slowdown was somewhat anticipated, as you will recall that at our last press briefing we had forecasted growth for this quarter to be within the range of 0.5 per cent to 1.5 per cent, with the attainment of the upper bound largely predicated on the reopening of the Kirkvine Alumina Plant. However, developments in the global economy with respect to a projected weakening of aggregate demand and a fall in prices resulted in a postponement of plans for the reopening of the plant in 2011. In addition, the Tourism industry,

another key industry which showed resilience in economic activities during the recession, was adversely impacted by global developments and saw a decline in stopover arrivals and a general slowing in its economic activities.

Therefore, while the performance during the review period reflected a continuation of the growth trajectory, several global and domestic challenges resulted in a slowing of the pace relative to that recorded in the first half of the year.

JAMAICA: Highlights of Sectoral Performance

The growth in the economy was attributed to the continued growth in Mining & Quarrying, Agriculture and Construction, as well as a return to positive out-turn for some other industries. The Jamaica Development Infrastructure Programme (JDIP) positively impacted the performance of the construction industry, particularly through the boost in the civil engineering component.

For July–September 2011, real value-added in the Goods-Producing Industry grew by an estimated 1.8 per cent, while the Services Industry fell by an estimated 0.2 per cent. The decline in Services was largely due to the Transport, Storage

and Communication industry consequent on the sale of Air Jamaica and a decline in air passenger traffic during the quarter. Of note, **with the sale of Air Jamaica, a smaller portion of the economic activity generated from each air passenger mile sold is accruable to Jamaica's GDP.**

Employment Update....

Looking at the latest employment data, the Labour Force Survey undertaken by the Statistical Institute of Jamaica (STATIN), indicated that the unemployment rate as at July 2011 was 12.3 per cent. This was 0.7 percentage point higher than in July 2010. The employed labour force recorded a net decline of 25 000 persons compared with July 2010. This was explained by a net decline in the labour force of 19 000 persons and an increase in unemployment of 6 000 persons. According to STATIN, an analysis of the reasons for persons outside the labour force, indicated that the majority of the increase was attributed to persons who said they 'Did Not Want to Work' (26 900); 'Incapable of Work' (3 000); 'At School Part Time' (1 400) and 'Do Not Need Job' (1 100).

The relatively high number of persons who responded that they 'Did Not Want Work' may somewhat be related to the age profile of the persons 'Outside the Labour Force' which shows increases of:

- 51.2% of persons in the age group '65 and over', and
- 13.2% in the age group '55-64 years'.

That is, approximately 64% of the net increase persons 'Outside the Labour Force' were in retirement or pre-retirement years. PIOJ will work with STATIN to better understand the meaning behind this trend.

Further details on the July 2011 Labour market out-turn can be viewed on the PIOJ's website at www.pioj.gov.jm.

Doing Business & Global Competitiveness Report

During the review period, the latest finding for both the ***Doing Business Report 2012*** and the ***Global Competitiveness Report 2011/12*** were released. Both reports indicated the deterioration in Jamaica's relative competitive position. With respect to the Global Competitiveness Report, Jamaica was ranked 107 out of 142 countries, relative to a ranking of 95 out of 139 countries

in the 2010-2011 report. The report indicated that the major areas of weakness were:

- the Macroeconomic Environment which was ranked last of the 142 countries surveyed compared with a ranking of 136 of the 139 countries surveyed in the previous year
- Health and Primary Education which was ranked at 106.

Within the **Macroeconomic Environment** category five of the six sub-indicators reflected deterioration in their relative ranking. These were:

1. the Gross National Savings as a % of GDP;
2. Inflation (annual % change);
3. Interest Rate Spread;
4. General Government Debt as a % of GDP, and
5. Country Credit Rating.

Cognizant of Jamaica's weak economic performance, the GOJ has embarked on various initiatives to improve Jamaica's level of global competitiveness. These initiatives/reforms include a debt management strategy to systematically reduce debt burden; a fiscal consolidation strategy aimed at improving public debt sustainability and

management; and a comprehensive Tax Reform Programme aimed at improving macroeconomic stability and improving goods market efficiency. The effect of these initiatives will, however, not be taken into account until after their full implementation.

A more detailed PIOJ analysis of both the Doing Business Report 2012 and the Global Competitiveness Report 2011-12 can be viewed on our website at www.pioj.gov.jm

Update on the Growth Inducement Strategy

During the review period, several initiatives aligned to the Growth Inducement Strategy were implemented and was focused on mitigation efforts and strengthening the resilience of the built and natural environment. These included projects under the **Jamaica Development Infrastructural Programme (JDIP)** where a total of \$2.0 billion was disbursed for various construction projects.

Tax Reform Update....

A major initiative aimed at removing supply side constraints to growth is a focus on ongoing tax reform efforts. The PIOJ's contribution to the process of Taxation Reform included the hosting of two town hall meetings in Mandeville

(October 12, 2011) and Montego Bay (October 21, 2011). **The findings of the two meetings were summarized and presented to the Ministry of Finance for consideration in the further development of a White Paper on Tax Reform.** Consultant Mariana Browne, the former Minister of Finance in Trinidad & Tobago has completed his study and it is being incorporated in the PIOJ's assessment of the growth and equity implications of the tax reform proposals of the Green Paper

Let me now turn to a more detailed reporting on Jamaica's economic performance during the July – September 2011 quarter ...

Developments in the Goods-Producing Industry

Within the Goods-Producing Industry, all industries with the exception of Manufacture, registered increased real value added during the review quarter. This improved performance reflects the continued strengthening of the economy, albeit at a slower rate, as most industries recover, following the prolonged period of economic downturn.

Agriculture

The **Agriculture, Forestry & Fishing industry** grew by an estimated 2.5%, **largely** reflecting increased output for the subcategories Traditional Export crops, up 5.2%; Other Agricultural Crops, up by 4.1%; and Post Harvest Activities up 4.7%.

The improved performance in Agriculture was due to:

- More favourable weather conditions which facilitated higher production levels compared with the corresponding quarter of 2010. The total hectares of domestic crops reaped during the review period increased by 6.9 per cent
- Continued benefits from major replanting efforts by farmers with support from the Ministry of Agriculture, following the impact of Tropical Storm Nicole in September 2010
- the Ministry of Agriculture's Production & Productivity Programme which provided support to farmers in areas of marketing, irrigation and extension services aimed at improving productivity.

Mining & Quarrying

Real Value Added for **Mining & Quarrying** grew by 7.5%, largely reflecting the continued impact of the reopening of the Winalco Ewarton Alumina Plant and increased bauxite production by Noranda Bauxite Company in St. Ann.

This was facilitated by increased demand globally due to the rise in industrial production. Total bauxite production increased by 9.0% reflecting:

- Increased alumina production by **8.0%**
- Increased crude bauxite production by **10.4%**

Manufacture

Real Value Added for the **Manufacture industry** declined by an estimated **0.2 per cent**. This out-turn was the net result of a 3.0% decline in Food, Beverages & Tobacco and an increase of **3.2%** in Other Manufacturing.

With respect to **Food, Beverages & Tobacco**, the decline in output was driven mainly by a contraction in Sugar production, down 13.6 per cent; (Poultry down 5.9 per cent); Rum & Alcohol (down 8.2 per cent); and Beer & Stout (down 14.5 per cent).

The increase in **Other Manufacture** was influenced mainly by increased petroleum production. Cement production also increased by 35.7 per cent during the quarter.

Construction

Real Value Added for **Construction** grew by **1.8%**, reflecting increased activities in the category Other Construction, particularly, Civil Engineering which included road works such as the JDIP; Palisadoes Roadway; and Washington Boulevard Road Improvement Project. Increased Capital Expenditure were recorded for the NWA \$2 823.5 million (up from \$226.0 million); NROCC \$766 million (up from \$72.2 million); and the NWC \$993.8 million (up from \$603.4 million).

The Building Construction is estimated to have grown due to increases recorded in the residential construction component as reflected in Housing Starts, which was up 27.1%; and increases in the volume and value of mortgages of 6.7% and 1.1%, respectively. The category Other Building Installation was also estimated to have increased in line with the growth recorded in the Building Construction component.

Developments in the Services Industry

The performance of the Services Industry was largely constrained by the downturn in activities in the Transport, Storage & Communication, and Finance & Insurance industries. All other industries were estimated to have grown.

Electricity & Water

Real value added for the **Electricity & Water** industry grew by **1.5%** due to increased electricity generation and increased water production.

Total electricity generation grew by **0.6%** due to a 9.2 per cent increase in Non JPSCo generation which outweighed a 3.1% decline in JPSCo's gross electricity generation. The increased generation largely reflected a recovery from the low levels of production in the corresponding quarter of 2010 which was impacted by Tropical Storm Nicole.

Water production increased by **2.2%**, due to a **4.5%** increase in production in the Eastern Division, which outweighed a **1.3%** decline in the Western Division. This increase was attributed to more favourable weather conditions which prevailed relative to the corresponding quarter of 2010.

Transport, Storage & Communication

Real value added for **Transport, Storage & Communication** declined by **3.0%**, due largely to the decline in the Transport & Storage component. Activities at airports declined with total air passenger movements down by 3.8% due to:

- A 10.0% decline in passenger movements at Norman Manley International Airport
- A 0.2% decline in passenger movement at Sangster International Airport.

The decline in air transport was enough to outweigh the effects of increased activities at the seaports. Cargo volume handled at the islands seaports increased by 8.9% to 4.3 million tonnes:

- Port of Kingston, up 2.9%
- Outports, up 12.2% - driven largely by increased Bauxite & Alumina exports

The Telecommunications component is estimated to have remained flat.

Finance & Insurance

Real value added in the **Finance & Insurance** industry contracted by 1.0 per cent, due largely to reductions in the

net interest income on loan stock at deposit taking institutions and a decline in Fees and Commission Income. The stock of Loans & Advances Outstanding at Commercial Banks amounted to **\$253.7 billion**, an increase of 0.6% compared with the end of September 2010.

WRTRIM

The **Wholesale & Retail Trade; Repair & Installation of Machinery** industry recorded an increase of 0.3%. The performance of the industry was positively impacted by an estimated increase in five of the nine goods categories which accounted for 78% of gross sales during the quarter.

Increased activities were also likely to have driven by:

- improvements in Construction and Agriculture, which resulted in more goods being available for distribution
- an **18.9%** increase in the value of Automated Banking Machines and Point of Sale transactions
- an **increase of 9.1% in remittance inflows.**

Hotels & Restaurants

Real Value Added of **Hotels & Restaurants** industry remained relatively flat with growth of **0.2%**. Growth in this industry emanated from an estimated increase in the Restaurant component as the Hotel sub-industry declined as

evidenced by a 0.4% decline in Stopover arrivals. Preliminary data indicate that total arrivals grew by 3.9%, due largely to a 14.9% increase in Cruise passenger arrivals. Preliminary data on visitor expenditure indicate a decline of an estimated **0.5% to US\$468.7 million**.

GDP Performance: January – September 2011

For the first nine months of 2011, real GDP is estimated to have increased by **1.4%**. The Goods Producing Industry increased by **4.4%**, while growth in the Services Industry was **0.1%**.

OUTLOOK

The impact of current global economic developments on the Jamaican economy is expected to be negative as the slower than expected growth in the economies of the island's main trading partners will weaken external demand for Jamaican goods and services. However, the expected restraint on commodity prices throughout the remainder of the year will constrain domestic inflation and the import bill.

In the coming months, domestic economic performance could be boosted by a strengthening in demand arising from:

- increased expenditure associated with the intensification of election campaigning. The industries likely to be impacted include:
 - Transport, Storage & Communication
 - Manufacture – Food & Beverage component
 - Wholesale & Retail trade
- The possible impact of the second tranche of retroactive salary payments of \$1.35 billion – \$1.45 billion, to public sector workers on consumption

In light of the above-mentioned factors, **we expect real GDP growth** for the **October – December 2011 quarter** to be **within the range of 1.0% to 2.0%**.

Most industries are expected to record growth. Agriculture Forestry & Fishing; Mining & Quarrying; and the Wholesale & Retail Trade industries are expected to be the main drivers of growth during the forecast period.

Preliminary data for October 2011

We have preliminary data for Inflation, Electricity, Tourism and Mining for October 2011 which can be viewed in the full presentation on our website.

Dashboard of Indicators

We will now turn to an update on the social well-being and progress indicators. The reporting areas covered under the National Dashboard of Indicators for this quarterly briefing show **a balanced picture, with significant improvement in some areas, and slight declines in others.**

I will use this opportunity to address the issue of poverty estimation in Jamaica. This issue has been the subject of public debate in the media and elsewhere during the last couple of weeks. A more detailed analysis the estimation of poverty in Jamaica can be found on our website. Two things are however, worth noting:

1. The IMF report of 43.1% poverty in Jamaica, using their methodology was for the year 2002, while the PIOJ's estimation for the similar year was 19.7%.

2. PIOJ's estimate for poverty in 2010 was presented in our May 2011 Press Briefing, and that number was 17.6%.

A detailed analysis of the comparison between the SEDLAC methodology and the JSLC methodology can be viewed on our website at www.pioj.gov.jm