The Planning Institute of Jamaica's Review of Economic Performance, April – June 2011
Media Brief
August 24, 2011

Overview

Today we are reporting that growth of 1.5 per cent was recorded in the April-June 2011 quarter. This represents the second consecutive quarter of growth of greater than 1.0 per cent in the economy following the prolonged recession between 2008 and 2010.

We are anticipating that this growth trajectory will continue throughout the remainder of the year, albeit at a slower rate than previously projected because of the expected adverse implications from the downgrade in the US economy, and the intensification of the debt crisis in some European countries. The fiscal adjustments embodied in the forthcoming supplementary budget are also expected to negatively impact the economy.

I would like to point out that no labour force survey was conducted by STATIN in April 2011. This was due to the fact that the population census was being conducted during this period. As such, there will be no updates on employment figures for this quarter.

JAMAICA: Highlights of Sectoral Performance

The PIOJ estimates that real GDP for the Jamaican economy **grew by 1.5% during April – June 2011 relative to the similar period of 2010.** This performance represents the second consecutive quarter of economic growth. The positive outturn was attributed to the continued strong performances in Mining & Quarrying, Agriculture and Tourism, as well as a return to positive outturn for other industries.

For April–June 2011, real value-added in the Goods-Producing Industry grew by an estimated 5.3 per cent while the Services Industry grew by an estimated 0.2 per cent. This represented the first quarterly growth for the Services Industry since October–December 2007.

The overall improvement recorded in the economy during the quarter reflected the impact of:

- positive performance in all industries except Electricity & Water Supply; and Transport, Storage & Communication industries
- increased production/replanting activities in the Agriculture following the impact of Tropical Storm Nicole as well as more favourable weather conditions relative to the corresponding quarter of 2010
- the implementation of some elements of the Growth Inducement Strategy, particularly through the Jamaica Development Infrastructure Programme (JDIP); the commencement of the Community Renewal Programme; and legislative reforms including the reduction of stamp duties and estate taxes.

The country has begun to realize **benefits from Green-shoots** arising from fundamental reform of systems, procedures and processes aimed at mitigating and building economic and infrastructural resilience against shocks, vulnerabilities and other global developments. Some of the fundamental policy reform measures implemented include:

- the removal of stamp duty and transfer tax on the trading of registered corporate bonds
- reduction of stamp duty on re-financing and transfer of mortgages. During the review period there was a 27% increase in the number of mortgages disbursed by NHT, while the value of these mortgages increased by 83%
- the reduction of stamp duty and transfer tax on letters of probates and letters of administration;

- revision of the import duty structure for motor vehicles, to reflect greater consistency with the Common External Tariff.

In addition, the Jamaica Development Infrastructure Programme (JDIP) recorded total expenditure of $4.2 billion for April–June 2011. This included expenditure on various road rehabilitation projects across the island, including farm roads.

These recent efforts complement previous reform measures implemented during 2009–2010 aimed at fundamentally improving the quality of fiscal governance and solidifying “transparency guarantees” that cements a greater level of certainty and credibility in fiscal management. These include:

(1) the enactment and implementation of the Fiscal Responsibility Framework (FRF)
(2) the phased implementation of a Central Treasury Management System (CTMS)
(3) the strengthening of public financial management with the phased roll-out of a Medium-term Expenditure Framework (MTEF), which is now being implemented in 6 prioritized ministries which account for a significant share of public capital expenditures.

These reform efforts will continue.

In addition, important preparatory work is being done to implement fundamental tax reforms, with the recently tabled Green Paper on Tax Reform expected to be developed further into a White Paper and subsequently implemented into policy over the next few months. Public consultation and technical analysis is absolutely critical to the success of this important effort.

In this regard, the PIOJ is pleased to announce that Mr. Mariano Browne will be joining our team to assist in the review and analysis of the **Green Paper No.1 –**

2011: Tax Reform for Jamaica with respect to its main implications for economic growth and the promotion of entrepreneurship and business development in Jamaica. Mr. Browne will work closely with PIOJ staff and other stakeholders to:

1. identify and analyze the main implications of the general and specific reform proposals for economic growth and the promotion of entrepreneurship in Jamaica in the medium- and long-term

2. prepare recommendations for consideration as part of the review of the Green Paper on Tax Reform, that will speak to the development of complementary measures to enhance the prospects for economic growth and the promotion of entrepreneurship and business development in Jamaica.

Mr. Browne comes to us with impeccable credentials in business management, business development and policy development. Mr. Browne has significant and extensive entrepreneurial experience as the former CEO of Butterfield Bank in Barbados, prior to which he was responsible for turning around the fortunes of Caribbean Commercial Bank in Barbados during a ten-year stint at its helm. After those successes Mr. Brown assumed key roles in the Ministries of Finance and Trade & Industry in Trinidad & Tobago. As a Cabinet Minister for Finance, he was instrumental in the design of successful fiscal reform measures and as Cabinet Minister for Trade & Industry he played a key role in the development and implementation of trade policies to promote economic growth and development in Trinidad and Tobago.

Mr. Browne will work closely with PIOJ staff to continue the on-going work of the Growth Secretariat, which now falls under the portfolio oversight of our newly appointed Deputy Director General, Mr. Everton McFarlane.

We are also in the final stages of contracting additional expertise for a more comprehensive analysis of the social equity implications of the proposed reform measures, and prepare for consideration recommendations to (a) mitigate the distributional effects of the reforms and (b) promote enhanced social protection for identified vulnerable groups.

Tax reform will be complemented by further important reforms to the administrative processes for the administration and settlement of estates, where I expect a programme to be fully in place and operational before the end of this calendar year.

Important preparatory work also continued during the quarter on the implementation of components of the Community Renewal Programme (CRP) – **Among other objectives, the CRP seeks to re-establish the legitimate** role of the state in targeted communities and restore human security and self agency among its citizens. It will help to address the basic rights of citizens to essential services, such as sanitation, education and increased social inclusion. During the quarter, interventions under the CRP included the development of a partnership with the Ministry of National Security regarding Crime Prevention and Community Safety. This partnership resulted in the submission to and approval by Cabinet of a Crime Prevention and Community Safety Strategy (CPCSS) and the establishment of an Inter-Ministerial Committee for the CRP and CPCSS.

Let me now turn to a more detailed reporting on Jamaica's economic performance during the April–June 2011 quarter …

<u>Developments in the Goods-Producing Industry</u>

Within the Goods-Producing Industry, all industries registered increased real value added during the review quarter. The improved performance was supported by the strengthening of aggregate demand following a waning of the adverse impact of the global recession, as well as the implementation of several growth inducing projects.

Agriculture

Specifically, the **Agriculture** industry grew by an estimated 9.0% reflecting Other Agricultural Crops and Traditional Export Crops which increased by 14.8% and 7.5%, respectively. The improved performance was due to:

- more favourable weather conditions which facilitated higher production levels compared with the drought conditions which prevailed during the corresponding quarter of 2010. The total hectares of domestic crops reaped during the review period increased by 17.0 per cent
- 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.

The growth was, however, constrained by the impact of the heavy rains during June 2011, which resulted in damage and losses to the industry, amounting to $135.7 million.

Mining & Quarrying

Real Value Added for **Mining & Quarrying** grew by 30.8%, largely reflecting the continued impact of the reopening of the Windalco Ewarton Alumina Plant and increased bauxite production by Noranda Bauxite Company.

This was facilitated by increased demand globally due to the rise in industrial production. Total bauxite production increased by 19.6% reflecting:

- Increased alumina production by 43.7**%, where**

- Average capacity utilization rate at alumina refineries increased by 13.0 percentage points to 42.9 per cent.

- Increased crude bauxite production by **11.8%** which was facilitated by increased capacity at the Noranda Bauxite Company

Manufacture

Real Value Added for the **Manufacture industry** grew by an estimated **0.7 per cent.** This out-turn was the result of a **3.2%** increase in Food, Beverages & Tobacco and a decline of **3.0%** in Other Manufacturing. The overall positive out-turn represents the first quarterly increase recorded by this industry since October-December 2007.

With respect to **Food, Beverages & Tobacco,** the increased output was driven mainly by increased Sugar production, up 55.3 per cent; Molasses (up 15.9 per cent); (Poultry up 8.0 per cent) and Carbonated Beverages (up 4.9 per cent).

The decline in **Other Manufacture** was influenced mainly by lower production of Petroleum products which reflected the closure of the Petrojam plant for one month to facilitate maintenance work. Cement production also declined by 6.1 per cent during the quarter.

Construction

Real Value Added in **Construction** grew by 1.5%, reflecting increased expenditure primarily in the Civil Engineering component. The industry was positively impacted by expenditure by the National Works Agency amounting to $5.9 billion, an increase of $5.4 billion over the corresponding period of 2010. This expenditure reflected in part work on the palisades shoreline, Washington Boulevard and the JDIP programme.

Developments in the Services Industry

Performance of the Services Industry was driven largely by increased output in the Hotels & Restaurants; and Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM).

Electricity & Water

Real value added for the **Electricity & Water** industry declined by **0.9%** due to a reduction in electricity generation which outweighed increased water production.

Total electricity generation fell by **2.2%** reflecting an 8.4% decline in JPSCo's gross electricity generation which outweighed an 11.1 per cent increase in Non JPSCo generation. The decline in total electricity generation is attributable to reduced demand, partly reflecting increased conservation efforts.

Water production increased by **10.6%,** due to increased production of **13.4%** and **6.5%,** in the Eastern and Western Divisions, respectively. This increase was attributed to more favourable weather conditions which prevailed relative to severe drought conditions in the corresponding quarter of 2010.

Transport, Storage & Communication

Real value added for **Transport, Storage & Communication** declined by **1.2%.** This performance was largely due to a downturn in the <u>Telecommunications</u> component of the industry which outweighed improved performances in the <u>Transport & Storage</u> segment. Maritime Cargo volume at the islands port grew by **19.5%**, while, total air passenger movements was flat, reflecting the net effect of a 0.5% increase in arrivals and a 0.9% decline in departures.

Finance & Insurance

Real value added in the **Finance & Insurance** industry grew by **0.5%** relative to the corresponding quarter of 2010. This was largely due to (a) increased activities by Building Societies, (b) higher non-interest income as well as (C) increases in the stock of Loans & Advances Outstanding at Commercial Banks. The stock of Loans & Advances Outstanding at Commercial Banks amounted to $253.4 billion, an increase of 1.4% compared with the end of June 2010.

WRTRIM

The **Wholesale & Retail Trade; Repair & Installation of Machinery (formerly Distributive Trade)** industry recorded an increase of 0.5%. The performance of the industry was positively impacted by higher consumer demand as reflected in an increase in the Consumer Confidence Index.

Increased activities were also driven by:

- improvements in Construction, Manufacture and Agriculture, which resulted in more goods being available for distribution;
- an estimated increase in four of the nine goods categories which accounted for 68.5% of gross sales
- an 11.3% increase in the value of Automated Banking Machines and Point of Sale transactions; and
- an increase of 6.7% in remittance inflows.

Hotels & Restaurants

Real Value Added of **Hotels & Restaurants** industry grew by **2.5%.** Preliminary data indicate that total arrivals grew by 9.7%, due to a 2.3% increase in Stopover arrivals and a 26.9% increase in Cruise Passenger arrivals. **Visitor expenditure** increased by an estimated **3.4% to US$488.4 million**.

GDP Performance: January – June 2011

For the first six months of 2011, real GDP is estimated to have increased by **1.5 per cent**. The Goods Producing Industry increased by 5.3%, while growth in the Services Industry was flat.

The International Context

The performance of the Jamaican economy occurred against the background of a challenging global environment characterised by heightened concerns regarding:

- debt sustainability in the Eurozone countries
- the implementation of fiscal austerity measures
- inflationary pressures, particularly from higher oil prices fuelled by political instability in the Middle East
- slower than projected GDP out-turns
- lacklustre labour market performances.

However, the global economy is estimated to have grown evidenced by positive GDP performance by Emerging Market Economies as well as some industrialized countries. This was indicative of a continued strengthening of the recovery efforts following the 2009/10 global economic recession. Global growth during the review quarter was led by countries of Asia, North America and Latin America. The rebound in global output was however tempered by several geopolitical developments, particularly in Europe.

Inflation pressures emanated largely from continued increases in grain prices and energy prices which were fuelled by, among other things, political instability in the Middle East. Prices, however, remained below pre-crisis levels.

OUTLOOK

The recent 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. This 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 country's high dependence on the affected economies, particularly with respect to trade and financial flows. The impact is expected to be manifested largely in balance of payments performance, based on a combination of the following factors:

- 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
- reduced access to external borrowing or possible increase in borrowing cost;

These external sector developments, in turn, may be reflected in lower than projected growth out-turn through:

- 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.

A more in depth analysis of the potential impact of the debt crisis on the Jamaican economy will be available on our website at www.pioj.gov.jm by the close of business on Friday, August 26, 2011.

In the coming months, economic performance will also be challenged by the need to manage the demand-side impact of a tightened supplemental budget, which embodies significant expenditure adjustments to the 2011/12 fiscal budget. Additionally, to the extent that deteriorating global economic conditions adversely impact domestic aggregate demand, then there may be a shortfall in tax revenue relative to budgeted that could result in compensating contractions in capital expenditure, which would further stymie domestic demand and economic growth.

However, factors which may mitigate the impact of recent global and domestic economic developments on Jamaica include:

- the 7% wage settlement to public sector workers, which will commence in September 2011. During the latter half of the year, two lump sum payments of $1.5 billion in September and $3.0 billion in December may boost aggregate demand and help to stimulate growth performance.

- the greater prioritization of the allocation of waivers to the productive sectors in keeping with the priorities of the Growth Inducement Strategy. Currently, the PIOJ is undertaking an assessment of both statutory and discretionary waiver allocation in Jamaica with a view to developing an allocation mechanism aimed at ensuring effective prioritization, rationalization and discipline in the use of this tax instrument.

In light of the above-mentioned factors, **we expect real GDP growth** for the **July–September 2011 quarter** to be **within the range of 0.5% – 1.5%.**

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 July 2011

We have preliminary data for Inflation, Electricity, Tourism and Mining for July 2011.

Inflation

The rate of inflation for July 2011 was 0.8%, driven largely by:

- higher prices for Food & Non – Alcoholic Beverages up 1.4%, due to higher prices for Fruits, Vegetables & Starchy Foods
- Housing, Water, Electricity, Gas & Other Fuels up 0.6%, due to a rise in the cost of water and electricity.

Electricity

Total electricity generation declined by 1.1%. Total electricity sales declined by 5.1%.

Tourism

Preliminary data on the Tourism industry indicates that Airport arrivals for July 2011 declined by **1.2**% while Cruise-ship Passenger arrivals increased by **9.7**%.

Mining & Quarrying

Total bauxite production grew by **15.4%** due to a 42.5% increase in alumina production. Crude bauxite production declined by **2.1%.**

Total Bauxite exports increased by **15.6%** due to a 73.8% increase in Alumina exports. Crude Bauxite exports declined by **7.2%.**

Dashboard of Indicators

This quarterly press briefing marks one year since the introduction of the National Dashboard of Indicators that track overall progress toward improving our national and social well-being under ***Vision 2030 Jamaica*** on a quarterly basis. By the end of next month we will be presenting a comprehensive Progress Report on the first two years of implementation of the ***Vision 2030 Jamaica - National Development Plan.*** This Report will review over sixty national indicators that track progress toward the achievement of each of the goals and outcomes of ***Vision 2030 Jamaica.***

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. Mr. Richard Lumsden will provide the details…..

~~Quarterly Press Briefing April to June 2011~~

Vision 2030 Jamaica Report

Under the ***Vision 2030 Jamaica - National Development Plan*** framework, key indicators were examined for this quarterly press briefing under four main reporting areas—Health Status, Education Status, Security Status, and Environmental Stewardship Status. With this report, we also mark one year since the introduction of the National Dashboard of Indicators in August 2010.

Under Health Status, we report on immunization coverage for children. The immunization coverage for children between 0-11 months for BCG, OPV and DPT/DT (covering tuberculosis, polio, diphtheria, pertussis and tetanus respectively) increased to an average of 94.7 per cent in 2010, up 3.8 percentage points from an average of 90.9 per cent in 2009. By contrast, the immunization coverage for children between 12-23 months for MMR (covering measles, mumps and rubella) fell to 87.1 per cent in 2010, down 1.0 percentage point from 88.1 per cent in 2009.

Under Education Status, we look at a key and very current indicator – the results in the CSEC examinations. The number of students from Jamaica passing 5 subjects or more in the CSEC examinations including passes in English Language and/or Mathematics as a percentage of the total number of students taking the exams fell slightly to 36.3 per cent for the 2010/2011 school year, a decline of 0.4 percentage point over the rate of 36.7 per cent for the 2009/2010 school year.

With respect to Major Crimes (murder, shooting, rape, carnal abuse, robbery, break-ins and larceny), 189 major crimes per 100,000 population were committed over the period January–June 2011, a decline of 12.6 per cent from 216.0 per 100 000 population over the similar period in 2010. The murder rate from January–June 2011 was 19 per 100 000 population, down 39.5 per cent from 31 per 100 000 population over the similar period in 2010.

These figures continue the downward trend in crime rates that began in June of last year.

Finally, under Environmental Stewardship Status, we look at the health of our coral reefs, an important natural resource for our nation's biodiversity and resilience to natural hazards. The average percentage of surface area of the seabed covered by live hard corals at 29 coastal marine sites around the island measured in 2010 was 13.3 per cent, a fall of 0.4 percentage point from 2008, when the average percentage of surface area covered by live hard corals measured at 36 sites was 13.7 per cent.

In closing, we would like to note that next month we will be presenting a comprehensive Progress Report on the first two years of implementation of the

Vision 2030 Jamaica - National Development Plan. This Progress Report will include reporting on over 60 national indicators, that track progress toward the achievement of each of the goals and outcomes of ***Vision 2030 Jamaica***. A public forum will be held on September 29, 2011, in collaboration with the Jamaica Library Service at their Main Library on Tom Redcam Drive, to discuss this Progress Report.