



The Planning Institute of Jamaica's (PIOJ)

Review of Economic Performance, January – March 2011

Media Brief May 20, 2011

Overview

Today we are reporting that preliminary data on the performance of the economy for the January–March 2011 period shows real GDP growth, year-on-year, of positive 1.5 per cent. This positive GDP out-turn is a notable break from the 13 quarters, or three plus years, of negative GDP growth, which resulted largely from the impact of the deep global recession, but also from structural weaknesses and areas of un-competiveness in our own economy, which the Growth Inducement Strategy is aimed at addressing. The positive growth performance confirms the thrust of our projections

from the previous quarter. We are anticipating that this growth trajectory will continue throughout the remainder of the year barring any unforeseen circumstances.

Of note, the Honourable Prime Minister, in his contribution to the Budget discussion on May 10th stated that the PIOJ would be reporting a GDP growth rate of one percent. Our reported rate this morning represents a noted improvement on the preliminary rate given to the Honourable Prime Minister two weeks ago, and reflects our incorporation of updated information on the performance of the real sector.

Overall the positive GDP performance for the review quarter is underpinned by the following:

- the gradual recovery recorded for most industries following the adverse impact of the global recession on these industries in the corresponding quarter of 2010

- increased production and replanting activities in Agriculture following the impact of Tropical Storm Nicole during the previous quarter
- the positive impact of higher employment levels on domestic aggregate demand.

The labour market survey shows the **unemployment rate** for the quarter ending January 2011 at **12.9 per cent**, compared with **13.5 per cent** in January 2010. This resulted from an expansion in the employed labour force by 14,900 persons relative to January 2010, with ten of the sixteen industries surveyed reporting increased employment levels.

Compared with the last quarterly survey reported on, which was the October 2010 survey, total employment levels have increased by 15,500 persons.

We would also like to indicate that we have published the STATIN's time series data on the quarterly and average annual labour market data on our website for your perusal.

Poverty Levels in 2010

The official poverty estimate computed by PIOJ and STATIN for 2010 is **17.6%**. This official out-turn is better than the projected 18.6 – 20.3% for the period, and reflects:

- a smaller than projected decline in employment levels
- a greater than projected increase in the number of persons which benefited from and the amount of assistance provided under the PATH programme
- an increase in Home Production (backyard cultivation etc) which supplemented consumption.

Based on the actual poverty estimate of 17.6 per cent for 2010, and a population size of Jamaica of 2,705,800

persons, the number of persons below the poverty line in 2010 is calculated at 476,221.

A comprehensive analysis of the poverty out-turn will be presented later this year in the 2010 edition of the *Jamaica Survey of Living Conditions*, which we are proud to report is increasingly being recognized globally as a best practice in assessment methodology.

The **National Dashboard of Indicators** that measures our social well-being under the Vision 2030 Jamaica; National Development Plan framework, showed improvements in all five key indicators examined. The indicators fall under five main reporting areas—Education Status, Labour Force Quality, Security Status, Justice Status and Economic Growth. A detailed presentation will be provided by my colleague Mr. Richard Lumsden.

The performance of the Jamaican economy occurred against the background of an expansion in the global economy. Most industrialized and emerging market countries recorded positive GDP performance, indicating a strengthening of the recovery efforts following the 2009/10 global economic recession. Leading the recovery process were countries of Asia, North America and Latin America. Global output was however tempered by several geopolitical developments and natural disasters.

Growth Inducement Strategy

Overall, we are optimistic that the growth momentum in the domestic economy will solidify, and barring any major shocks, the economy will experience increasing dynamism and growth for the remainder of 2011.

Our optimism is hinged on the planned implementation public expenditures prioritization and supply-side initiatives spelt out in the ***Growth-Inducement Strategy***, which was presented at the National Symposium on March 15, 2011.

The Growth-Inducement Strategy, and the incorporation of its key recommendations in the 2011/12 national budget, represents a structured approach to re-align the Government's social and economic priorities focus on:

- (i) the removal of key structural constraints to business activities, thus creating a more facilitatory environment for business and entrepreneurship development and economic competitiveness
- (ii) facilitating greater social inclusiveness, economic empowerment and self-agency in accordance with the national goals spelled out in Vision 2030,

through broad-based interventions at the community level islandwide.

Among the key reform steps announced in the recent budget exercise are:

- the adoption of, and an announced timetable for public sector reform
- An announced timetable for broad-based Tax reform
- A timetable to reform the probate and estate administration, which will enhance asset mobilization and business collateralization and capitalization
- Projects addressing the resilience of the built and natural environment (e.g. roads and bridges) which will give the country increased protection against natural disasters
- The Community Renewal Programme (CRP)

- Other measures such as greater financing of small business that is aimed at engendering broad-based and inclusive growth across the country.

With regards to the Community Renewal Programme (CRP) which was a centrepiece of the holistic growth strategy, we can report that there has been substantial progress in the preparatory work for its implementation. This includes:

- the establishment and full operation of a CRP Secretariat
- the selection of the 100 most volatile and vulnerable communities targeted for intervention over the ten year life of the project
- the identification of a funding envelope for the life of the project
- the allocation of approximately \$3.9 billion in this year's budget for the execution of CRP projects.

These initiatives are far-reaching and fundamental and have widespread agreement across stakeholders in the public and private sectors. We believe that the successful implementation of these and other Growth Inducement Strategies is critical to ensure that the economic recovery is consolidated and ultimately leads to Jamaica achieving its **Vision 2030 goals**. To this end, we recognize the importance of continued coordination with our colleagues at the Ministry of Finance, the Bank of Jamaica, the Development Bank of Jamaica and sector MDAs in order to ensure the successful implementation of these strategies.

We have also reassigned staff at the PIOJ to create a Policy Logistics Unit that will monitor, problem solve and harmonize the GOJ's efforts to implement the adopted elements of the Growth Inducement Strategy. This unit will be headed by Mr. Everton McFarlane and will report directly to me. Mr. McFarlane served as Professor Donald Harris's understudy

throughout the development of the Growth Inducement Study.

Jamaica: Real Sector Developments (Jan – Mar 2011)

We now turn to economic developments at home.

The PIOJ estimates that real GDP for the Jamaican economy **grew by 1.5% relative to the similar period of 2010**. This performance represented the first quarterly economic growth recorded since the July–September 2007 quarter; that is, following thirteen consecutive quarters of contraction which cumulatively amounted to a 5.1 per cent decline in GDP. The positive out-turn was attributed to the continued strong performances in Mining & Quarrying, Agriculture and Tourism and the return to positive out-turn for other industries.

For January–March 2011, Value added in the Goods Producing industry grew by an estimated 5.9 per cent while the Services Industry was flat.

Developments in the Goods Producing Industry

Within the Goods Producing Industry, all industries with the exception of Construction registered increased 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.

Specifically, the **Agriculture** industry grew by an estimated 13.5% reflecting Other Agricultural Crops up by 11.8% and Post Harvest Activities up 59.2%. The improved performance was due to:

- Major replanting efforts by farmers following Tropical Storm Nicole, which was facilitated by the more

favourable weather conditions, 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 5.4 per cent

- 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 an estimated 0.2% contraction in Traditional Export Crop production largely reflecting the impact of rains associated with Tropical Storm Nicole on Banana production (down 14.9%). All other major traditional export crop recorded increased output.

Value Added for **Mining & Quarrying** grew by 38.8%, largely reflecting the impact of the reopening of the Winalco

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 36.3% reflecting:

- Increased alumina production by 44.3%
 - Average capacity utilization rate at alumina refineries increased by 14.1 percentage points to 46.1 per cent.
- Increased crude bauxite production by **29.2%**
 - the bauxite capacity utilization rate increasing by 12.7 percentage points to 103.1 per cent compared with the corresponding quarter of 2010.

Real Value Added for the **Manufacture industry** grew by an estimated **0.4%**. This out-turn was the result of a **0.5%** increase in Food, Beverages & Tobacco and a **0.2%**

increase in Other Manufacturing. **The overall positive out-turn represented the first quarterly increase recorded by this industry since October–December 2007.**

The Food, Beverages & Tobacco increased output was driven by increased Sugar production, up 2.2 per cent; Molasses up 5.8 per cent; and Rum & Alcohol production, up 38.9%.

The increase in Other Manufacture was influenced by increased production in Chemical & Chemical Products; Non-metallic minerals; and Petroleum products. Production in the Chemical & Chemical Products category was however tempered by an estimated decline in ethanol production.

Real Value Added in Construction is estimated to have decreased by 0.5%, reflecting reduced level of activities in the Building Construction component. However, the industry

was positively impacted by increased expenditure for civil engineering activities for example road works.

Developments in the Services Industry

Performance of the Services Industry was driven largely by increased output in the Hotels & Restaurants and Electricity & Water Supply and a tempering of the rate of decline in the other subcategories.

Real value added for the **Electricity & Water** industry increased by **0.5%** **largely** due to increased water production.

Water production increased by **10.7%** due to increases of **15.4%** and **4.2%** 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.

Total electricity generation fell by **0.6%**. JPSCo gross generation declined by 0.6% while Non JPSCo generation declined by 0.8%. The decline in electricity generation was attributed to reduced demand, partly reflecting increased conservation efforts as consumers sought to minimize the impact of rising oil prices.

Real value added for Transport, Storage & Communication declined by **0.8%**. This performance was due to a downturn in activities at Air Jamaica as well as in the telecommunications component of the industry which outweighed improved performances in the other airport operations as well as the sea and land transport segments. Total air passenger movements increased by 2.6%, due to increased activities at the Sangster International Airport, up

4.3%. Maritime Cargo volume at the islands port grew by **15.9%** relative to January–March 2010.

Real value added in the **Finance & Insurance** industry is estimated to be **flat** relative to the corresponding quarter of 2010. The industry was constrained by the decline in net interest income of Commercial Banks associated with the residual effects of the JDX. However, the industry benefited from an estimated increase in fees and commission income of financial institutions.

The **Wholesale & Retail Trade; Repair & Installation of Machinery (formerly Distributive Trade)** industry recorded a decline of 0.5%. The performance of the industry was affected by a decline in consumer confidence which impacted the level of household spending.

Declines were recorded in five of the nine goods categories surveyed. The decline in the industry was however mitigated by:

- an 8.0% increase in remittances
- a 9.8% increase in the stock of loans to Distributors
- a 4.9% increase in the stock of loans for personal consumption.

Real Value Added of **Hotels & Restaurants** grew by **3.7%**.

Preliminary data indicate that total arrivals up 5.3%, due to a 5.3% increase in Stopover arrivals and a 5.1% increase in Cruise passenger arrivals. **Visitor expenditure** increased by an estimated **5.2% to US\$617.9 million**.

GDP Performance: Fiscal Year 2010/11

For fiscal year 2010/11, GDP is estimated to have declined by **0.6 per cent**. The Goods Producing Industry increased by 0.9% while the Services Industry contracted by 1.4%.

OUTLOOK

During the **April–June 2011 quarter, we expect real GDP growth within the range of 1.0% to 2.0%**. Most industries are expected to record growth or a moderation in the rate of decline. Agriculture Forestry & Fishing; Mining & Quarrying; Tourism and the Wholesale & Retail Trade industries are expected to be the main drivers of growth during the period.

Preliminary data for April 2011

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

Electricity

Total electricity generation declined by 2.0%. Total electricity sales declined by 3.4%.

Tourism

Preliminary data on the Tourism industry indicates that Airport arrivals for April 2011 increased by **7.6%** and Cruise-ship Passenger arrivals increased by **26.5%**.

Mining & Quarrying

Total bauxite production grew by **24.4%** due to a 41.9% increase in alumina production and a 21.2% increase in crude bauxite production. Increased alumina production was influenced by the reopening of WINDALCO's Ewarton plant which was closed in the corresponding quarter of 2010.

Total Bauxite exports increased by **46.2%** due to increases of 99.0% in Alumina exports, and 22.5% in Crude Bauxite exports.

This concludes my formal statement on the economy. I will now ask my colleague Mr. Richard Lumsden Programme Manager for Vision 2030 Plan Secretariat to present an update on our well-being progress.