PLANNING INSTITUTE OF JAMAICA

The Planning Institute of Jamaica's Review of Economic Performance, October – December 2019
Media Brief
February 19, 2020

1. Overview – Current Economic Context

Before I provide the details on economic performance, let me remind you of the purpose of these quarterly economic estimates provided by the PIOJ. The PIOJ presents preliminary estimates on economic performance for each quarter, approximately 6 weeks following the end of the quarter being reviewed. This is based on preliminary information available from the major data providers.

This release of the preliminary estimate is consistent with developments in all modern economies globally, where it is the common practice to release a 1st, 2nd and even a 3rd preliminary estimate, before the final official figure is released. In the case of Jamaica, the PIOJ releases the preliminary growth estimate within the first six weeks following the quarter, and STATIN releases the official GDP figures at the end of the 3rd month following the end of the quarter being reviewed.

Today, we are reporting that real GDP for the October – December 2019 quarter is estimated to have grown by 0.1%, relative to the corresponding quarter of 2018. This represents 20 consecutive quarters of growth in the economy.

The out-turn during the quarter reflected the combined impact of:

1. Increased external demand from Jamaica's main trading partners, which supported increased exports of some goods and services;
2. Increased hotel room capacity, and air seat capacity, which facilitated growth in stopover visitor arrivals;
3. Relatively more favourable weather conditions which facilitated increased output per hectare for some domestic crop groups in the Agriculture, Forestry & Fishing Industry as well as increased water production;
4. Increased use of financial services, facilitated by lower interest rates and a relatively stable macroeconomic environment.

However, further growth was stymied by:

1. The winding down of major construction projects and the slow roll-out of new strategic investment projects; and
2. Plant downtime due to aged equipment in several industries.

2. Real Sector Developments

Developments in the Goods Producing Industry

The Goods-Producing Industry contracted by an estimated **3.8%,** reflecting declines in two of the four industries, namely Mining & Quarrying and Construction.

Agriculture

Agriculture, Forestry & Fishing grew by an estimated **3.0%** relative to the corresponding quarter of 2018. This performance largely reflected the positive out-turn in the Other Agricultural Crops component, due to more favourable weather conditions, which facilitated greater crop yields.

During the review quarter, *Other Agricultural Crops* grew by 5.2%, with higher output recorded for seven of the nine crop groups. The most significant increases were recorded for Fruits, up 44.1%; Other Tubers, up 21.9%; and Yams, up 7.3%.

This performance was supported by an increase of 4.2% in the area of Domestic Crops reaped. The crop group Vegetables accounted for the largest share of Domestic Crops reaped (36.2%) and recorded a 2.9% increase in output. Total hectares under vegetable production increased by 0.3%.

Growth was also recorded for *Post Harvest Activities up* 30.7%, reflecting an increase in Coffee Pulping & Drying as a result of an increase in coffee production.

Further growth was stymied by *Animal Farming* down 1.5%, due mainly to a contraction in broiler meat production, which outweighed an increase in egg production.

Traditional Export crops also contracted with a downturn of 0.3% in production due to declines in two of the four crops surveyed. Banana production declined by 5.0% and Cocoa production by 31.3%. Cocoa production continued to be stymied by the effects of the Frosty Pod Rot Disease. Increased output was recorded for Coffee, up 41.9%. The increase in coffee production reflected indications of some farmers' gradual acceptance of lower margins, given global market realities. Sugar production increased to 41,885 tonnes relative to no production in the corresponding quarter of 2018.

Mining & Quarrying

Real Value Added for the **Mining & Quarrying** industry fell by an estimated **38.7%,** reflecting a downturn in the production of alumina and crude bauxite. Alumina production fell by 44.9%, driven by a cessation of production at the Alpart Refinery as well as lower production levels at the other two refineries that were operational. Crude Bauxite production remained relatively flat, down 0.1%.

During the quarter, the *Alumina Capacity Utilization Rate* decreased from 69.2% to 38.0%. The *Bauxite Capacity Utilization Rate* remained flat at 57.7%, compared with the corresponding quarter of 2018.

Manufacturing

Real Value Added for the **Manufacturing** industry was estimated to have increased by **0.4%**, reflecting growth in the Other Manufacturing subindustry, as the Food, Beverages & Tobacco subindustry remained relatively flat.

The *Other Manufacturing* sub-industry was estimated to have grown, reflecting higher output for Chemicals & Chemical Products while Petroleum Products remained relatively flat. The increase in the production of Chemicals & Chemical Products was led by higher output of Aluminium Sulphate, up 80.7%, and Salt, up 9.1%. In the Petroleum Products category, increases were recorded for Liquid Petroleum Gas, up 57.3% and Automotive Diesel Oil, up 59.5%. These increases were counter balanced by the declines recorded for Fuel Oil and Turbo Fuel.

The performance in the *Food, Beverages & Tobacco* sub-industry was due to increased output in Dairy Products, up 3.0%; Edible Fats, up 6.3%; and Condensed Milk, up 33.9%. Increased output was also recorded for Sugar and Molasses for which there was no production during the corresponding quarter of 2018. The Beverages & Tobacco component was supported by:

1. the introduction of new alcoholic beverages by a major producer, and
2. higher levels of production of other beverages.

A further increase was stymied by an estimated contraction in Beer & Stout, down 19.5% and Carbonated Beverages, down 2.1%.

Construction

Real Value Added for **Construction** declined by an estimated **2.0%.** This reflected a downturn in the Other Construction component, which outweighed an estimated growth in Building Construction.

The decline in the *Other Construction* component of the industry was due to reduced capital expenditure on civil engineering activities. Among the entities recording lower capital expenditure were:

- The National Works Agency (NWA), which disbursed $3.2 billion, down 54.2%. This fall in disbursement largely reflected the winding-down of several major infrastructure projects, as well as delays in the start-up of new projects scheduled to commence during this fiscal year.
- Jamaica Public Service Company, which disbursed $4.2 billion, 30.7% less than during the similar quarter of 2018, and
- Port Authority of Jamaica (PAJ), which disbursed $2.2 billion, down 41.1%.

The growth in Building Construction was supported by increased activities, in both the residential and non-residential categories. Residential construction activities were driven by:

- a 133.4% increase in total Housing Starts by the NHT
- a 19.4% increase in the value of mortgages by the NHT; as well as
- work-in-progress on previously started developments in the residential and non-residential sub-components.

With respect to the non-residential category, the main drivers of growth included the construction and renovation of commercial buildings.

Developments in the Services Industry

The Services Industry grew by **1.5%,** reflecting increased Real Value Added in all industries.

Electricity & Water Supply

The Electricity & Water Supply industry recorded an estimated increase in Real Value Added of **2.7%,** reflecting the impact of increases in both electricity and water consumption.

Electricity consumption, increased by **3.0%** due to higher sales recorded for five of the six categories:

- *Residential, up 4.4%*
- *General Service, that is small businesses using less than 25 kiloVolt ampere (kVa), up 4.3%*
- *Power Service, that is businesses using more than 25 but less than 500 kiloVolt ampere (kVa), up 1.7%,*
- *Large Power, that is businesses using more than 500 kiloVolt ampere (kVa), up 3.7%, and*
- *Street Lighting and Other, up 6.1%.*

These increases outweighed a 3.8% decline in the Largest Power category that is, large facilities (e.g. hospitals, hotels & universities) using more than 2,000 kiloVolt ampere of power annually.

To facilitate the increase in electricity consumption, total Electricity generation grew, underpinned by higher generation from non-JPS sources, up **33.1%**, which outweighed a **17.3%** decline in generation from JPS.

Water production increased by **1.7%,** to 21,150 megalitres, largely reflecting the impact of more favourable weather conditions. The expansion in water consumption should be viewed against the background of supply issues experienced at the Mona Reservoir and Constant Spring Treatment Plant during October-December 2018. Increased output of 4.2% was recorded for the Western division, and 0.4% for the Eastern division.

Transport, Storage & Communication

Real Value Added for **<u>Transport, Storage & Communication</u>** grew by an estimated **0.9%.** This performance was due to an estimated expansion in the Transport & Storage and Communication components.

The improved performance in the Transport & Storage component reflected a 4.4% increase in total air passenger movements. This offset a contraction of 20.4% in the total volume of maritime cargo handled at the island's seaports.

The downturn in maritime transport resulted from a decline in cargo handled at both *Outports and* the *Port of Kingston.* The decrease in the cargo volume at *Outports* was attributed mainly to the fall-off in Alumina exports.

Finance & Insurance Services

The **<u>Finance & Insurance Services</u>** industry registered estimated growth of **3.4%** in real value added during the quarter, reflecting projected increases in:

- net interest income on the stock of loans at deposit taking institutions; and
- fees and commission income.

This industry continues to benefit from a relatively stable macroeconomic environment and low interest rates, as a result of fiscal discipline, which has led to a crowding in of the private sector.

Wholesale & Retail Trade; Repair & Installation of Machinery (WR-TRIM)

Real Value Added for the **<u>Wholesale & Retail Trade; Repair & Installation of Machinery (WR-TRIM)</u>** industry is estimated to have grown by **0.7%,** supported by:

- An improvement in some of the related Goods Producing industries, which drove higher sales.

- An increase in the employed labour force in October 2019 relative to October 2018.
- An increase in the combined volume, up 2.6% and the real value, up 14.1% of Automated Banking Machines (ABMs) & Point of Sale transactions.
- Higher consumer confidence (up 2.6%), relative to the corresponding quarter of 2018.

Higher sales were recorded for four of the eight goods categories. These included:

- Wholesale & Repair of Household Goods & Office Equipment, up 10.4%;
- Pharmaceuticals, Medical Goods & Cosmetics, up 7.2%;
- Motor Vehicles, Auto Repairs & Accessories, up 7.0%, and
- Other Wholesale and Retail Sale of Goods & Services in Specialized & Non-Specialized Stores, up 5.9%.

Hotels & Restaurants

Real Value Added for the **Hotels & Restaurants** industry, which captures the majority of Tourism activities, is estimated to have grown by **3.5%.** This was influenced by an estimated **5.8%** growth in foreign national arrivals, due mainly to increased visitors from the USA, as arrivals from the Canadian and European markets declined. This growth was facilitated by increases in hotel room capacity, as well as an increase in aircraft movements.

Stopover arrivals from the USA increased by 11.0% to 443,314 persons and by 27.3% to 10,029 persons for Latin America and the Caribbean. In contrast, arrivals from Canada declined by 2.5% to 103,906 persons; and, from Europe arrivals fell by 5.2% to 81,158 persons.

Cruise passenger arrivals declined by 17.3%, to 431,296 persons due to contractions in the number of passengers arriving at all major ports, Ocho Rios, Falmouth and Montego Bay.

Total visitor expenditure was US$932.2 million, an increase of 8.1%, relative to the corresponding quarter of 2018.

GDP Performance: January–December 2019

For calendar year 2019, real GDP is estimated to have **grown by 0.9%.** This represents the seventh consecutive year of GDP growth. Growth was facilitated by:

1. Increased external demand, for Jamaica's export industries, especially Hotels & Restaurants. This was supported by higher levels of output in the economies of Jamaica's main trading partners.
2. increased domestic demand, underpinned by increased levels of employment; and
3. improved macroeconomic stability.

For 2019, the Services Industry was estimated to have grown by **1.6%,** and this outweighed an estimated **0.6%** contraction in the Goods-Producing Industry. The Industries recording the strongest growth during the year were Hotels & Restaurants (up 4.9%) Finance & Insurance Services (up 3.4%); Other Services (up 1.9%); and Manufacturing (up 1.8%).

Employment Update….

Regarding the Employment Update, our sister agency STATIN has already provided an update on the Labour Force Survey. As such, we will not present a detailed report on this area. The highlights, however, are that for the month of October 2019:

- The unemployment rate was **7.2%.** This was 1.5 percentage point lower than the rate recorded in October 2018. This represented the lowest unemployment rate ever recorded in Jamaica.

- The lower unemployment rate reflected a reduction in female unemployment, down 2.6 percentage points to 8.6 per cent and male unemployment, down 0.5 percentage point to 6.0 per cent. This outcome reflects the continued reduction in the gap between the male and female unemployment rates. In October 2015, the Female Unemployment rate was 18.5 per cent, which was 9.1 percentage points higher than the Male Unemployment rate.
- The employed labour force increased by **29 200 persons** to **1,248,400 persons** relative to October 2018.
- The employed labour force by industry group as at October 2019 revealed 11 of the 16 industry groups recorded higher employment levels. Among these were:
    - Public Administration & Defence; Compulsory Social Security, up 10,800 persons;
    - Hotels & Restaurant services, up 5,500 persons; and
    - Wholesale & Retail, Repair of Motor Vehicle & Equipment, up 5,200 persons.

Short-Term Economic Outlook: January–March 2020

The short-term prospects for the Jamaican economy are positive, based on:

1. The continued strengthening of productive activities in some of the Goods Producing and Services Industries, led by the recovery of Agriculture, as the economy recovers from adverse weather conditions.
2. Growth in the Hotels & Restaurants Industry with preliminary data for January 2020 indicating an increase in airport arrivals by 4.0%.
3. A general increase in industrial activities as reflected in the growth in electricity consumption for January 2020 of 3.5% to 270.2 million kilowatt hours (kWh).

Growth, however is expected to be stymied by a continued decline in the Mining & Quarrying industry, reflecting the temporary closure of Alpart for the next 15-21 months.

In light of the above-mentioned factors, we expect real GDP for the **January–March 2020 quarter** to grow within the range of **0.0% to 1.0%.**

The growth in **real GDP for Fiscal Year 2019/20** is also projected to be within the range of **0.0% to 1.0%.**

There are however key upside potential and downside risks to these forecasts, including,

On the **Upside**:

1. Stronger than expected external demand, especially impacting export industries such as Hotels & Restaurants and Manufacturing
2. Stronger than projected domestic demand associated with increased employment levels, and an increase in access to loans and advances.
3. Higher than expected capacity utilization in some industries, particularly within Manufacturing and Agriculture consequent of improved weather conditions.

The key **Downside Risks** are:

1. The impact of adverse weather conditions on the economy, and its constraining effect on the output in the Agriculture, Forestry & Fishing industry.
2. Plant downtime associated with relatively aged equipment and planned closures for maintenance activities, especially within the Mining & Quarrying and Manufacturing industries.
3. Slower than expected growth in the economies of Jamaica's main trading partners, particularly as a result of the Novel Corona Virus, COVID-19, which may negatively impact the movement of people, trade and external demand for goods and services.

3. Vision 2030 Jamaica – National Development Plan

Before I provide the update on the country's development results, let me use this opportunity to remind you how we measure these results under Vision 2030 Jamaica-National Development Plan. Each Medium Term Socio-Economic Policy Framework or MTF, which is the implementation framework of Vision 2030 Jamaica, includes the national outcome indicators as well as relevant targets covering a three-year period. The priority strategies and actions outlined in the MTF are intended to promote the achievement of the targets.

Under the current MTF, which covers the period fiscal year 2018/19 to fiscal year 2020/21, a total of 75 indicators are being used to measure the state of the country's development results along the economic, social, environmental and governance spheres of development, in an integrated way. Measurement of the national development results is against defined targets for 2018 and 2021 and a baseline year of 2007 based on latest available data. Therefore, for data available up to and including 2018, measurement is against the 2018 target and for 2019 data, measurement is against the 2021 target (that is, the next MTF).

The overall progress of implementation of Vision 2030 Jamaica – National Development Plan under successive MTFs (2009-2012, 2012-2015, 2015-2018) has been mixed.

A summary of the progress made under the framework of national outcome indicators and targets for the Vision 2030 Jamaica - National Development Plan, indicates that of a total of 75 national outcome indicators monitored, 66.7 per cent have shown improvement compared with the baseline year 2007, while 29.3 per cent showed no improvement or worsened relative to the baseline, based on data up to December 2019.

This can be further broken down as follows:

- 36.0 per cent of the Vision 2030 Jamaica targets were met or exceeded
- 30.7 per cent of indicators showed some improvement over the baseline year 2007 towards meeting the targets
- 29.3 per cent of indicators showed no improvement or worsened
- 4.0 per cent of the indicators could not be compared in this way due to lack of agreed targets for the relevant period

A summary of performance by National Goals shows that: Development gains were made under all four goals evidenced by the achievement of some 2018 targets. With respect to Goal 3, “Jamaica’s Economy is Prosperous”, much of the development gains were attributed to improvements in the macro-economy. The tourism and agriculture industries also showed progress with the tourism sector meeting the majority of its targets for 2018. Notable progress was also made in the business environment as the 2018 target for the unemployment rate was surpassed. In fact, the 2019 outturn continues this trend with the second consecutive year of record low unemployment rates.

Notwithstanding these successes, the results show lower than targeted levels of economic growth and the need to advance improvements in the ease of doing business and enhancing international competitiveness for our main industry structures.

With respect to Goal 1, “Jamaicans are Empowered to Achieve their Fullest Potential”, gains were made in the areas of social protection, particularly poverty, including child poverty and national food poverty prevalence. There were also improvements in indicators such as the human development index, life expectancy, and educational outcomes related to literacy. There are however, some areas of concern, including chronic non-communicable diseases and attendance rates at all levels of the educational system, which did not meet their respective targets.

Under Goal 2, “The Jamaican Society is Secure, Cohesive and Just”, an unsustainable crime rate remains an area of concern. However, the country saw development gains in the areas of case clearance, and government effectiveness – with the targets set for both being met for the first time since the Plan was promulgated in 2009.

With respect to Goal 4: “Jamaica has a Healthy Natural Environment” the country recorded a fall in the Environmental Performance Index (EPI), a key international index measuring the state of the natural environment in the areas of Ecosystem Vitality and Environmental Health.

In 2018, the index dropped by 20 points relative to the 2016 EPI, pushing the country further away from meeting the 2030 target of an EPI higher than 80. The 2018 EPI shows a decline in all the scores for Biodiversity and Habitat, Health Impacts, Air Quality, and Water and Sanitation.

These results will continue to play a key role in the pursuit of the strategic priorities for MTF 2018 – 2021. The ongoing implementation of this MTF aims to consolidate the developmental gains made in the previous MTFs and strengthen the foundations for achieving the country’s long-term results, taking into account the many opportunities that surround us, the current developmental challenges we are confronted with, and the global context.

The PIOJ will continue to lead the coordination of the implementation of Vision 2030 Jamaica, including monitoring and evaluation (M&E) to identify progress towards planned development outcomes, and to assess the strengths and gaps in the approach and the priorities we are pursuing to advance the achievement of Vision 2030 Jamaica; and report these to the general public.

4. Potential Impact of the Novel Corona Virus (COVID-19) on Jamaica’s Economy

From an economic perspective, the impact of COVID-19 would primarily be transmitted through two main mechanisms, namely Trade, and Financial Flows. This is primarily because of travel restrictions implemented to stem the spread of the virus, as well as the impact of the slowdown in the Chinese economy on global trade and investment flows.

Trade: With respect to trade, Jamaica’s imports from China include intermediate goods, Consumer goods and Capital goods. Intermediate goods are inputs that are critical to the local production process in key industries such as Construction (building supplies) and Manufacture (raw material). Consumer goods imports from China include final produce such as clothing and appliances, which drive activities in wholesale and retail trade. Jamaica also imports capital goods from China that are essential for the industrial sectors such as Manufacturing, Mining & Quarrying and Construction. On the export side, external demand from China is critical to the performance of the Mining & Quarrying industry as a major purchaser of Jamaica’s crude bauxite and alumina. Exporters of Non-traditional goods such as scrap metal also benefit from trade with China. Other areas of export with China include seafood and tourism services.

An extended fallout in trade with China will therefore negatively affect the Jamaican economy, particularly through reduced export earnings and weakened production performance within several industries.

With respect to **Financial Flows**, during the last decade, China has become a major development partner for Jamaica with significant growth in official loans and grants as well as Foreign Direct Investment flows. These include major loan facilities such as:

1. The US$340.0 million Jamaica Development Infrastructure Programme (JDIP), which was undertaken during the period 2009-2015 and involved the rehabilitation of roads and bridges;
2. The US$300.0 million Major Infrastructure Development Programme (MIDP), for which the main objective was to continue the improvement of the island's road network, as well as
3. The US$326.4 million Southern Coastal Highway Improvement Project (SCHIP), which includes the rehabilitation of roadway from Harbour View to Port Antonio.

Additionally, major Foreign Direct investments from China include acquisitions in the Mining & Quarrying and Agriculture industries, as well as in private construction services.

Given the significant economic ties between Jamaica and China, the possible impact of COVID-19 on Jamaica's economic performance could include:

1. **Weakened external demand** due to a slowing in the Chinese economy and the associated downturn in global trade.
2. **Weakened domestic demand** associated with a possible slowing in new investment from China and the expected impact on output and employment levels, as well as the indirect impact on business and consumer confidence locally.

5. Conclusion

In summary, **the Jamaican economy is estimated to have grown by 0.1% for the October to December 2019 quarter** based on early indicators. This brings real GDP growth for calendar year 2019 to 0.9%, representing the seventh consecutive year of economic growth. The out-turn was supported by several positive macroeconomic developments including:

- the attainment of the lowest ever unemployment rate coupled with an uptick in consumer confidence levels, which provided a fillip to domestic demand, and
- Continued stability in the macroeconomic environment.

The out-turn for the calendar year represents the highest annual level of economic activity ever recorded, and reflects the sustained efforts of successive administrations in laying the foundation to achieve more robust and inclusive growth.

In the near-term, the outlook for the economy remains positive; we estimate GDP growth for FY2019/20 to be within the range of 0.0 to 1.0%. The performance in the final quarter of the fiscal year will be buoyed by continued growth in Hotels & Restaurants; and Finance & Insurance Services. However, there are some downside risks to this performance, among which are the possible impact of COVID-19 and drought on the economy.

The outlook for FY2020/21 is also positive, with projected growth within the range of 0.5%–1.5%. The main drivers of growth are expected to be the Hotels & Restaurants, Agriculture and Construction Industries.

In closing, let me take this opportunity to thank all the hardworking and dedicated team here at the PIOJ. I encourage us all, stakeholders in Jamaica, to maintain the dialogue and continue the collaboration, as we sustain our commitment to make Jamaica the place of choice to live, work, raise families and do business. God bless you all.