

The Planning Institute of Jamaica's Review of Economic Performance, April–June 2020 Media Brief September 9, 2020

1. Overview – Current Economic Context

As is customary, I would like to begin by reminding you of the purpose of these quarterly economic estimates provided by the PIOJ. The PIOJ presents preliminary estimates on economic performance for each quarter, based on early information available from the major data providers.

This release of the preliminary estimate is consistent with trends in all economies globally where it is the common practice to release a 1st, 2nd and even a 3rd preliminary estimate, before the final official figures are released. In the case of Jamaica, the PIOJ strives to release the preliminary growth estimate approximately six weeks following the end of the quarter being reviewed. Whereas, STATIN releases the official GDP figures 12 weeks following the end of the quarter.

The release of the preliminary out-turn information is used by various stakeholders, including our International Development Partners, the Private Sector, and the Government, to inform critical planning and policy-related decisions.

STATIN's data on GDP represents the official data on economic performance, therefore all preliminary estimates previously provided are updated to reflect the data provided by STATIN. So for example, for the preliminary estimate presented today, the actual data will be released by STATIN at the end of September 2020, at which time the estimates being provided today will be updated.

Note, that today's presentation is occurring at a later time than is the norm and is explained by challenges in obtaining data due to the containment measures associated with managing the spread of the COVID-19 disease, inclusive of physical distancing and Work From Home Orders. Note also, that the gaps between our initial estimates and the subsequent estimates are usually large in extraordinary shocks (for example the COVID-19 pandemic). So for example, the PIOJ estimated that during January–March 2020 the economy contracted by 1.7 per cent, however the subsequent estimate from the Statistical Institute of Jamaica, which benefited from increased data, showed a contraction of 2.3 per cent, a variation of 0.6 percentage point from PIOJ's initial estimate. This variation was outside the usual difference between PIOJ's estimate and STATIN's subsequent estimate.

Today, we are reporting that real Gross Domestic Product (GDP) for the Jamaican economy contracted by an estimated 18.0 per cent in the April to June 2020 quarter compared with the corresponding quarter of 2019.

The out-turn for the April to June 2020 period largely reflected the impact of:

1. The implementation of measures to manage the COVID-19 pandemic commencing in mid-March, which included the:
 - closure of international borders to passenger movements, which curtailed external demand and essentially halted all tourist-related activities

- implementation of curfews which restricted people movement, opening hours of businesses and adversely impacted the demand for goods and services
 - implementation of physical/social distancing, which restricted congregation of persons in one location and thus negatively impacted recreational/entertainment and restaurant activities.
 - closure of all schools and the implementation of general stay at home and work from home orders which further dampened the demand for goods and services.
2. Lower capacity utilization within the Mining & Quarrying industry, following the temporary closure of Jamaica's largest Alumina refinery in September 2019 to upgrade productive capacity.
 3. A continued slow-down in construction related activities consequent on the ending of major road infrastructure projects, the slow start-up of new projects, as well as a downturn in building construction activities.
 4. Weakened Business and Consumer confidence associated with uncertainties regarding the duration and impact of the pandemic; and
 5. Weakened demand associated with lower income due to job losses and reduced work hours.

Globally, similar negative outturns were recorded for many countries as a result of the impact of Covid-19 and the measures implemented to curtail the spread of the virus. An examination of the economic performance in some of Jamaica's trading partners revealed that the economies of the USA, Canada and the United Kingdom recorded contractions of 9.6%, 13.0% and 21.7% respectively, during the review quarter compared with the similar quarter of 2019.

6. Real Sector Developments

Developments in the Goods Producing Industry

The Goods Producing Industry **contracted by an estimated 7.0 per cent** with all industries registering a decline. This performance largely reflected the impact of:

- The temporary closure of the JISCo Alpart Alumina refinery
- Drought conditions which adversely affected agriculture production, and
- Measures implemented to contain the spread of the COVID-19 pandemic.

Agriculture

Output of the Agriculture, Forestry & Fishing industry was estimated to have declined by 8.5%. The out-turn of the industry largely reflected the impact of drought conditions experienced across the island. The group Other Agricultural Crops recorded a 6.8% decline due to lower output in seven of the nine crop groups, including: Legumes, down 18.3%; Yams, down 13.4%; and Vegetables down 13.2%.

A lower level of output was also recorded for Traditional Export crops which declined by 11.9%. This reflected declines in all four export crop groups, namely:

- Sugar Cane, down 20.3%
- Banana, down 6.9%
- Coffee, down 40.9%
- Cocoa, down 43.7%.

Sugar Cane production was impacted by the non-operation of a major sugar factory and the logistical challenges faced by farmers to transport the cane to other factories.

Coffee and Cocoa production was negatively impacted by the closure of the hotel industry as the marketing of these products to hotels, in-bond shops and other tourism outlets was curtailed due to the COVID-19 containment measures.

Mining & Quarrying

Real Value Added for the Mining & Quarrying industry contracted by an estimated **25.2%**. This was due to lower Alumina production, which outweighed an increase in Crude Bauxite production.

Alumina production declined by 29.8%, stemming from a reduction in capacity utilization associated with the closure of the Alpart plant. The Alumina capacity utilization rate declined by 20.1 percentage points to 47.7%.

Crude bauxite production increased by 18.1% due to higher demand from third party customers. The average bauxite capacity utilization rate increased to 68.2% from 57.8%.

Manufacturing

Real Value Added for the Manufacturing industry is estimated to have **contracted by 2.9%**, reflecting a downturn in both the Food, Beverages & Tobacco and Other Manufacturing components.

With respect to Food, Beverages and Tobacco, lower levels of output were recorded for Animal Feed down 17.4%; Poultry meat, down 16.5%; Dairy Products down 12.9%; and Edible Fats, down 11.1%.

In the Other Manufacturing category, lower output stemmed from an estimated decline in both the Chemical & Chemical Products and Petroleum Products categories. Lower petroleum production was recorded for:

- Gasoline, down 17.8%
- LPG, down 10.9%
- Turbo Fuel, down 66.0%
- Fuel Oil, down 70.0%.

Construction

Real Value Added for the Construction industry **declined by an estimated 3.0%**, reflecting lower activity in both the Building Construction and Other Construction components.

The contraction in the Building Construction component was due to lower Residential and Non-Residential Construction activities, reflecting:

- Housing Starts by the NHT down 65.0% to 350 units
- An estimated downturn in non-residential building activities, including hotel and commercial building construction.

The estimated contraction in the Other Construction component was due to reduced capital expenditure on civil engineering activities reflecting:

- National Works Agency, which disbursed \$2.7 billion on the construction and rehabilitation of roads, relative to \$3.6 billion in the corresponding quarter of 2019
- Jamaica Public Service which disbursed \$1.8 billion relative to \$2.5 billion in the corresponding period of 2019.

Developments in the Services Industry

The Services Industry was estimated to have **declined by 20.6%** reflecting a fall in real value added in all industries, with the exception of Producers of Government Services which remained flat.

Electricity & Water Supply

Electricity & Water Supply recorded estimated contraction of **8.8%** in real value added, due to reduced electricity and water consumption.

Electricity consumption decreased by 10.1% reflecting lower levels of consumption in five of the six categories:

- General Service (small businesses using less than 25 kilo volt ampere (kVa), down 15.7%
- Power Service (large businesses using more than 25 kVa but less than 500 kVa), down 12.7%
- Large Power (businesses using more than 500 kVa), down 21.8%;
- Largest Power (single location, with peak demand of 2000 kVa), down 35.2%, and
- Street Lighting & Other, down 39.1%.

These outweighed an estimated 7.9% increase in Residential Consumption.

Water consumption declined by 3.5%, due to a falloff in the Western division of 13.8%, which outweighed an increase in the Eastern division of 2.3%.

Transport, Storage & Communication

Real Value Added for the Transport, Storage & Communication industry contracted by an estimated **29.6%**. This resulted from a decrease in the Transport & Storage component, driven by:

- A contraction in the air transport subcomponent, largely reflecting decreased passenger movements, down 97.7% due to Departures (down 97.3%) and Arrivals (down 98.0%), as well as
- An estimated decline in the Maritime transport subcomponent.

Finance & Insurance Services

Real Value Added for the **Finance & Insurance Services** industry was estimated to have declined by **3.0%** during the review quarter, reflecting the impact of measures implemented to limit the spread of the COVID-19 pandemic on economic activities and return to investment.

WRTRIM

Real Value Added in the **Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM)** industry is estimated to have contracted by **20.0%** reflecting the combined impact of:

- An estimated contraction in associated industries such as, Agriculture, Manufacturing and Construction, and
- Measures associated with the management of the COVID-19 pandemic which reduced operational hours and restricted the movement of people.

Reduced sales were recorded for seven of the eight categories, with the largest declines recorded in:

- Textiles, Clothing, Shoes & Jewellery, down 44.7%
- Minerals, Fuels & Lubricants, down 39.9%
- Motor Vehicles, Auto Repairs & Accessories, down 33.0%.

Hotels & Restaurants

Real Value Added for the **Hotels & Restaurants** industry contracted by an estimated 87.5%, reflecting a sharp decline in visitor arrivals and the number of persons utilizing restaurant services. Among the measures implemented to manage the spread of COVID-19 was the closure of borders to passenger traffic

for two of the three months during the quarter. This led to a significant fall-off in stop-over arrivals by 98.9% to 7 188 visitors.

Total Visitor expenditure at **US\$16.2 million** was 98.1% lower than that recorded in the corresponding period of 2019.

Restaurant services were also negatively impacted by measures implemented to stop the gathering of persons as well as the curfew implemented, which led to a reduction in opening hours

Employment Update....

For the month of April, the Statistical Institute of Jamaica was unable to undertake the Labour Force Survey due to restrictions implemented to manage the spread of COVID-19. To be more specific, physical distancing orders prevented the conduct of face-to-face interviews by STATIN's field officers. Additionally, quarantine orders for St. Catherine hindered the movement of field officers.

GDP Performance: January–June, 2020

For the first six months of 2020, real GDP is estimated to have declined by **10.2%**. The Goods Producing Industry is estimated to have contracted by **4.4%** while the Services Industry contracted by **11.5%**. The industries which were estimated to have recorded the largest decline during the first half of the year were Hotels & Restaurants (down 50.0%), Mining & Quarrying (down 30.5%), and Other Services down (23.1%).

7. Short Term Economic Outlook: July– September 2020 & FY2020/21

For **July–September 2020**, a decline in output within the range of 8.0% to 10.0% is anticipated. This projection is based on expected contraction in all industries, with the exception of the Producers of Government Services. The economy will continue to be impacted by measures implemented to manage the spread of COVID-19, largely reflected in downturns for

1. Hotels & Restaurants – reflecting a sharp downturn in foreign national arrivals. Preliminary data indicate that stopover arrivals decreased by 84.5% for the month of July. There were no cruise passenger arrivals during July.
2. Other Services – reflecting the implementation of the Disaster Risk Management Enforcement Measures which restricts the opening of bars, nightclubs, public beaches and other areas of entertainment and attraction.
3. Mining & Quarrying – reflecting a downturn in alumina production due to lower capacity utilization, particularly as a result of the closure of the Alpart Refinery. For the month of July, alumina production decreased by 27.3% and crude bauxite production fell by 5.9%.
4. Electricity & Water – reflecting a reduction in the consumption of electricity and water. For the month of July electricity consumption fell by 9.4% and water consumption declined by 0.5%.

It is anticipated that all quarters of **FY2020/21** will record a contraction in output. Consequently, the PIOJ's projection for output is for a contraction within the range of **8.0%–10.0%** for the full fiscal year. Growth in output is expected to resume during FY2021/22 given the cycling-out of the impact of the closure of the Alpart refinery, as well as an expected reduction in the impact of the Covid-19 pandemic on economic activities. However, GDP levels are not anticipated to recover until two years after the pandemic.

UPSIDE POTENTIAL AND DOWNSIDE RISKS

There are upside potential and downside risks to these forecasts.

The main **downside risks** to the forecasts presented include:

- Plant downtime in the industrial sectors
- Adverse weather conditions, particularly for Agriculture
- Lower than anticipated global growth, especially in the economies of Jamaica's main trading partners
- A spike in the spread of the Covid-9 pandemic locally, which triggers the implementation of more restrictive measures.

The pace of economic growth could be enhanced if the following **upside potential** are realised:

- Stronger than anticipated recovery in global economic conditions resulting in higher external demand which augurs well for key export industries, and
- Effective management of the spread of the pandemic resulting in faster recovery of economic activities locally.

8. Conclusion

In closing, the preliminary data presented on performance for the April to June 2020 quarter indicate that the economy has continued to be negatively impacted by the effects of the COVID-19 pandemic measures implemented to mitigate its spread. The most significant restrictions occurred within the review quarter, including the closure of Jamaica's borders to incoming passengers for over two of the three months, and the implementation of work-from-home and other physical distancing measures.

For the upcoming quarter, July to September 2020, it is projected that the economy will continue to contract, **within a range of 8.0 to 10.0 per cent**. The lower rate of contraction is due to the lifting or relaxation of some of the restrictions previously implemented. The borders have been re-opened to passenger movements to

facilitate the resumption of activities in the Hotels & Restaurants industry; the entertainment industry was reopened on a limited scale; curfew hours have been reduced to facilitate longer operating hours for businesses; and social distancing measures for public transportation and business places were eased. Additionally, the hosting of a general election and the associated increased expenditure by the main political parties, though relatively subdued, will provide a fillip to the performance of key industries such as the Wholesale and Retail Trading Industry (WR-TRIM). All these developments are expected to temper the rate of contraction in economic activities during the July to September period.

Given current developments with the spike in the rate of infection from COVID-19, the expectation is that measures to limit its spread will be in place during the short term. As a consequence of this assessment, it is unlikely that the economy will record growth for the remainder of this fiscal year. The current projection is that the economy will contract within the range of **8.0% to 10.0%** for Fiscal Year 2020/21. This compares with the previous projection for a contraction within the range of 4.0% to 6.0%. This out-turn, if it materializes, would result in the most significant decline in GDP on record, that is, since FY1996/97 when Jamaica began producing the fiscal year GDP data series.

Although the current growth prospects are daunting, it is imperative that businesses and the country in general, use this downtime effectively to seek out the opportunities which have emerged as a result of the pandemic, as well as implement productivity enhancing measures to place businesses in a position to capitalize on the rebound after the pandemic.

And finally, I want to recognize the very dedicated and hard-working team here at the PIOJ. I encourage you all to maintain the discipline in protecting yourselves and your families by abiding by the protocols implemented to mitigate the spread of the pandemic. I also remind us all to continue our collaboration, as we sustain

our efforts to make ***Jamaica, the place of choice to live, work, raise families and do business.***

God bless you all.

END