The Planning Institute of Jamaica's Review of Economic Performance, October–December 2022
Media Brief
February 21, 2023

1. Overview – Current Economic Context

Before I provide the details on economic performance, let me take this opportunity to 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 six weeks following the end of the quarter being reviewed. This is based on the latest available information from major data providers.

There is an increasing need for modern economies to have more timely data for economic agents to make more informed decisions about macroeconomic developments. The release of the preliminary estimate is consistent with global trends, 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 releases the preliminary growth estimate within the first six weeks following the end of the quarter being reviewed, and STATIN releases the official GDP figures at the end of the 3rd month following the quarter being reviewed.

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

I would also like to re-iterate, that trends have shown that the gap between our initial estimate and the subsequent estimate produced by STATIN is usually larger in times of extraordinary shocks and recovery. That is, the variation between PIOJ's estimate and STATIN's subsequent estimate is likely to be outside the usual band, both at the industry level as well as the overall growth out-turn.

Today, we are reporting an estimated real value-added growth of **3.4%** for the October–December 2022 quarter, relative to the corresponding quarter of 2021. The estimated out-turn for the review quarter largely reflected the positive impact of:

1. A strengthening of economic activity, as some industries showed signs of returning to and surpassing their pre-COVID levels of output;
2. Increased external demand supported by growth in the economies of Jamaica's main trading partners;
3. Increased capacity utilization as a major alumina producer ramped up production following their reopening in the previous quarter, and
4. Increased Business and Consumer confidence, associated with the prospects for strengthened economic out-turn in the short to medium-term.

2. Real Sector Developments

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

The Goods Producing Industry is estimated to have increased by 4.3%, due to an improved performance in three of the four industries, namely Agriculture, Forestry & Fishing, Mining & Quarrying and Manufacturing.

Agriculture

Real Value Added for the **<u>Agriculture, Forestry & Fishing</u>** industry, was estimated to have grown by 5.0%. This improved performance reflected the positive impact of:

1. an increase in domestic hectares reaped (up 5.0%);
2. increased demand, particularly from the Tourism sector associated with its continued recovery; and
3. the continuation of measures implemented by the GOJ to improve output in the industry.

Growth was driven by higher output in all components of the industry, led by Other Agricultural Crops and Traditional Export Crops. *<u>Other Agricultural Crops</u>*, was estimated to have grown by 2.9%, reflecting higher production in six of the nine crop groups. The most significant increases were recorded for: Plantains, up 20.5%; Cereals, up 13.6%; Yams, up 8.8%; and Fruits, up 7.5%.

Output of *<u>Traditional Export Crops</u>*, increased by 19.6%, largely driven by increased production of Sugarcane (up 36.8%), Coffee (up 11.9%), and Banana (up 20.8%). These increases outweighed a 36.1% decline in Cocoa production.

<u>Animal Farming</u> is estimated to have increased by 5.8%, due to a 5.9% growth in broiler meat production and a 7.9% increase in egg production.

Mining & Quarrying

Real Value Added for the **Mining & Quarrying** industry increased by 115.9%. *Alumina* production increased by 191.8% due to the re-opening of the JAMALCO refinery which was not operational during the corresponding quarter of 2021. As a consequence, the alumina capacity utilization rate increased to 29.4%, up 19.3 percentage points.

However, *Crude Bauxite* production fell by 12.8%. Consequently, the bauxite capacity utilization rate decreased to 44.8%, down 6.6 percentage points.

Manufacturing

Real Value Added for the **Manufacturing** industry grew by an estimated 3.7%, due to increased output in both the *Food, Beverages & Tobacco* and the *Other Manufacturing* sub-industries.

The growth in the *Food, Beverages & Tobacco* sub-industry reflected higher production for Poultry Meat, up 5.9%; Edible Fats, up 7.1%; Sugar, up 53.2%; and Dairy Products, up 3.5%. However, the Beverages sub-component was estimated to have declined, reflecting lower production of Rum & Alcohol, down 36.4% and Carbonated Beverages, down 2.3%.

Other Manufacturing was estimated to have grown, largely reflecting an expansion in the production of *Petroleum Products* mainly due to a higher refinery service factor as the petroleum refinery was opened for approximately 86 days relative to 48 days in the corresponding quarter of 2021. Production of all Petroleum Products surveyed increased, led by:

- Liquid Petroleum Gas (LPG), up 1,070.4%
- Gasoline, up 116.9%
- Automotive Diesel Oil (ADO), up 108.2%
- Fuel Oil, up 85.4%.

For Chemicals & Chemical Products, increases were recorded for Aluminium Sulphate, up 80.7% and Salt, up 11.0%. For Non-Metallic Minerals, there was an estimated decline due to Cement, down 16.8% and Clinker, down 6.2%.

Construction

Real Value Added for the **Construction** industry decreased by 4.7%, due to a contraction in the *Building Construction* component, which outweighed an estimated increase in the *Other Construction* component. This performance was reflected in a 12.3% real decline in the sales of construction related inputs.

The estimated contraction in the Building Construction component was mainly influenced by decreases of:

- 8.4% in housing starts
- 5.0% in the value of mortgages by the NHT
- 24.3% in the volume of mortgages disbursed by the NHT.

Growth in the *Other Construction* component was due to an increase in capital expenditure on civil engineering activities by entities, including:

- NROCC, which disbursed $2.2 billion relative to $0.15 billion in the corresponding quarter of 2021. Expenditure facilitated works on Part A of the Southern Coastal Highway Improvement Project (SCHIP), that is, the May Pen in Clarendon to Williamsfield in Manchester component, and
- JPS, which disbursed $4.9 billion, up $1.0 billion, for the expansion of the electricity distribution network.

Developments in the Services Industry

The Services Industry was estimated to have grown by 3.0% relative to the corresponding quarter of the previous year, reflecting higher Real Value Added for all industries, with the exception of the Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM) industry.

Electricity & Water Supply

The **Electricity & Water Supply** industry is estimated to have recorded growth in Real Value Added of **1.7%**, reflecting increases in both electricity and water consumption.

Electricity consumption grew by 1.3% due to higher consumption in three of the six categories. Higher sales were recorded for:

- General Service (small businesses using less than 25 kilovolt ampere - kVa), up 7.1%
- Power Service (large businesses using more than 25 kVa but less than 500 kVa), up 5.4%
- Largest Power (single locations that have a minimum peak demand of 2,000 kVa), up 12.4%

Lower sales were recorded for:

- Residential, down 2.4%
- Large Power (businesses using more than 500kVa), down 11.0%
- Street Lighting + Other, down 3.5%.

The decline in consumption within the Residential category was associated with the removal of COVID-19 containment measures, which facilitated more persons returning to the physical workplace, schools and other activities.

Of the 14 parishes, nine recorded increased electricity sales, led by Clarendon, up 9.2%; Hanover, up 4.5%; and Westmoreland, up 4.1%. The increased electricity consumption in Clarendon may be associated with the resumption of production activities at the JAMALCO refinery.

Water consumption grew by 3.3%, reflecting growth in the Eastern Division (up 2.0%) and the Western Division (up 5.8%). Four of the six service classes recorded higher consumption, led by: Schools, up 54.7%; Commercial, up 12.0%; Government; up 2.8%; and Condominium, up 1.0%. Declines were recorded for the groups Residential and Employee.

Transport, Storage & Communication

Real Value Added for **Transport, Storage & Communication** grew by **3.8%,** mainly due to higher levels of activities in the Transport & Storage sub-industry. The out-turn was driven by:

i. An increase in the air transport component, largely reflecting growth in passenger movements up 46.6%, due to Departures (up 44.9%) and Arrivals (up 43.1%)

ii. An increase in the Maritime transport component, driven by a 15.8% growth in the volume of cargo handled at Outports. This outweighed an estimated 0.3% decline in cargo volumes handled at the Port of Kingston.

Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM)

Real Value Added for the **Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM)** industry was estimated to have declined by **1.3%** due to a normalization of output, following the strong recovery from the negative impact of COVID-19. Performance was also influenced by a decrease of 4.0% to US$535.5 million in net remittance inflows and a decline in the related Construction industry, resulting in less construction-related commodities being traded.

Lower sales were recorded for six of the eight goods categories, including:

- Wholesale & Repair of Household Goods & Office Equipment, down 12.8%
- Hardware, Building Supplies, Electrical Goods & Machinery, down 11.6%
- Motor Vehicles, Auto Repairs and Accessories, down 4.1%
- Agriculture, Food, Beverages & Tobacco, down 2.2%.

Finance & Insurance Services

Real Value Added for the **Finance & Insurance Services** industry was estimated to have grown by **1.0%**. The performance was influenced by higher net interest income and fees and commission income, facilitated by a rise in economic activity and growth in business and consumer confidence.

Hotels & Restaurants

Real Value Added for the **Hotels & Restaurants** industry was estimated to have grown by 24.3%. Total stopover visitor arrivals for October to November 2022 increased by 43.8% relative to October to November 2021. Cruise passenger arrivals for the months of October and November, totalled 195 135 passengers from 68 ship calls, relative to 32 719 from 24 ship calls during the corresponding period of 2021.

Visitor Expenditure was estimated to have increased by 46.3% to **US$543.7 million for the months of October and November 2022**.

GDP Performance: January–December 2022

For the calendar year 2022, real GDP was estimated to have increased by **5.1%.** This reflected higher Real Value Added for both the Goods Producing Industry, up **2.1%** and the Services Industry, up **6.0%.** All industries are estimated to have recorded growth in output, with the exception of the Construction and Mining & Quarrying industries. Growth during 2022 was led by Hotels & Restaurants, up 48.9%; Other Services, up 11.1%; Agriculture, Forestry & Fishing, up 9.0%; and Transport, Storage & Communication, up 6.0%.

3. Employment Update….

Regarding the labour force, it should be noted that full recovery was projected for this Fiscal Year, however, no labour market surveys were conducted for October 2022 and January 2023, given that the resources of STATIN are now focused on conducting the National Census. Full recovery of the employed labour force therefore cannot be officially determined until FY2023/24.

The most recent Labour Market update was conducted in July 2022 at which time the unemployment rate was 6.6% and the Employed Labour Force was 1,272,700 persons. This was 4,700 persons fewer than the pre-COVID-19 high, recorded in January 2020.

4. Short Term Economic Outlook: January–March 2023, Fiscal Year (FY) 2022/23 and FY 2023/24

We will now turn to the short-term prospects for the Jamaican economy. Generally, the prospects remain positive, given the following factors:

1. Relative stability in the macro-economy, evidenced by:
    - A tempering of the inflation out-turn
    - Consecutive quarters of better than programmed fiscal balances, and
    - 7 consecutive quarters of economic growth.
2. Improved optimism about future prospects among firms
3. Strengthened demand, stemming from increased economic activities as most industries are forecast to grow

4. Continued recovery in the economies of Jamaica’s main trading partners, which augurs well for increased external demand, for example, for tourism services.

For the **January–March 2023 quarter**, the economy is expected to grow within the **range of 3.0%–5.0%.** Growth will be led by the strong performances for Hotels & Restaurants and the Mining & Quarrying industries. For January 2023, preliminary airport arrivals grew by 63.8% and Alumina production increased by 125.7%.

For **FY 2022/23** the economy is projected to grow within the **range of 4.0%–6.0%**. It is important to note that should the economy perform as expected for the remainder of FY2022/23, Jamaica’s GDP would have fully recovered to pre-COVID-19 levels in this Fiscal Year, earlier than the initially projected date of FY 2023/24.

For **FY2023/24** the economy is projected to grow within the range of **1.0%–3.0%** largely reflecting faster than expected pace of recovery in the previous fiscal year leading to an earlier than anticipated normalisation of output and a return to the long-term trend of growth.

Additionally, a tempering in the economic outlook for some of Jamaica’s main trading partners will have implications for external demand.

GDP performance in FY 2023/24 is anticipated to be driven by:

1. Continued robust performance in stop-over arrivals, facilitated by increased room capacity and intensified marketing efforts. It should be noted that for the months of August to November 2022, Jamaica recorded its highest level of stopover arrivals. That is, stopover arrivals have already surpassed its pre-COVID-19 high, and this partly reflects the measures implemented during the pandemic to build resilience in the Tourism Sector (for example, the Resilience Corridor).

2. Increased alumina output, driven by the resumption and gradual ramping up of operations at the JAMALCO refinery, relative to the lower output in the previous Fiscal Year.
3. Higher levels of output in the Construction industry, supported by the roll-out of public sector supported and private sector led infrastructure and building projects (for example, road construction projects and new hotel construction).

Upside Potential & Downside Risks to Growth

Upside Potential exists for this outlook arising from:

1. Greater than expected growth in the economies of Jamaica's major trading partners, which could lead to stronger external demand for Jamaica's goods and services.
2. Normalization of supply chains that would facilitate a lowering of input prices and an improvement in the movement of goods.
3. Stronger than expected increase in capacity utilization, especially in the Mining & Quarrying industry that has been operating significantly below capacity.

The main Downside Risks include:

- Extreme weather events
- Production down-time due to:
  - Aged equipment in some industries (e.g. Manufacturing and Mining & Quarrying)
  - Lower demand from Jamaica's main trading partners related to slower than expected economic recovery
- Persistence of supply shocks, and
- Tightened monetary conditions globally.

5. Socioeconomic & Environmental Trends and Opportunities

Ageing Population

The increase in global shocks, have underscored the importance of building resilience to secure the gains won in the last decade, in order to facilitate sustainable and inclusive economic growth and development. To this end, it is important that we identify, anticipate and position the country to benefit from emerging trends. One such development is the projected ageing and decline in Jamaica's population, as reported in the United Nations World Population Prospects, 2022.

Ageing is part of the natural course of demographic changes and occurs as a result of the interplay of longer lives and declines in fertility. The elderly population accumulates expertise, knowledge and experience that contribute significantly to society. It is therefore critical that Jamaica adapts to that change, as it becomes counter- productive when timely action for adaptation is not taken. As time progresses, the structure of the Jamaican population will undergo demographic transition (that is, where a significant proportion of the country's population is in the child age cohort, to periods in which the working age population grows much faster than the population that depends on it, [which we are seeing now]. This creates a window of opportunity to accelerate production and consumption, referred to as the **first demographic dividend.** It also creates an opportunity to invest in physical and human capital (that is, education and health of families). As the population transitions again, becoming top heavy, the elderly population (that is, 65+) will double (by 2050), the working age group (that is 15-64 years) will be declining and the child population (under 15 years) will be stabilizing at much lower levels. This shift is expected to temper the pace of growth and create additional health expenditure.

However, if the country does well in building up physical and human capital during the first demographic dividend, it creates an opportunity for higher productivity and growth, referred to as **the second demographic dividend**. These dividends/gains are not automatic and therefore require actions to be taken to ensure dividends are attained at each stage.

To that end, the PIOJ is highlighting the importance of the following policy initiatives:

- Productivity – the productivity of the labour force is critical to ensure that production outweighs consumption so that persons can invest in their future consumption while strengthening individual and collective ability to earn and consume by:
    1. Strengthening the education and training system to reskill and upskill the labour force to take advantage of existing and emerging industries.
    2. Strengthening the health care system, through advocating preventive health care given Jamaica's relatively high prevalence of Non-Communicable Diseases (NCDs), which restricts the size and productivity of the labour force, especially of older persons.
    3. Improving social security coverage within the working-age population so that no one is left behind. This will avert the future burden of welfare budgets on the State, as older populations increase in numbers and live longer in retirement.
    4. Reducing informality, which is usually associated with lower wages, relatively poor working conditions and no pension. These conditions may reduce persons' ability to save for the future.
    5. Improving financial access and literacy, by creating new instruments that facilitate savings, especially for pension, and the creation of wealth, as well as, educating persons on the

importance of saving for their future. This will also require the continued strengthening and safeguarding of the financial system.

6. Encouraging and supporting healthy lifestyles and strengthening the care economy, for example, by increasing access to child care for parents, especially for women who would like to re-join the labour force, given that most of the work in the unpaid care economy is borne by them.

While policy has a part to play in achieving the demographic dividends, each family also has a role to play to ensure that they take advantage of the opportunities and minimise the risks associated with the ageing of the population, by reprioritizing education and training, as well as preventive health within the family to build human capital. It will also mean taking advantage of programmes to improve financial literacy, to leverage financial products that meet the savings and investment needs of the family.

Population ageing is a feature of development; the demographic transitions present opportunities for the entire country to benefit, and for inter-country advances as well. Real growth will result in more allocable resources for social transformation.

6. Conclusion

In summary, **the Jamaican economy continued to recover during the review quarter,** with some industries already surpassing pre-COVID-19 levels of output. The latest projections indicate that the Jamaican economy is likely to fully recover to pre-COVID-19 output in FY2022/23, earlier than the previously projected FY2023/24. The recovery of the employed labour force is expected to be confirmed in FY2023/24.

As more industries recover, the expectation is that in FY2023/24, the pace of economic growth will slow, similar to that of the global economy. With this in mind, the GOJ's economic team has refocused its efforts on building economic resilience, by removing inhibitors to growth and developing policy initiatives geared at addressing these constraints, to support the continued expansion of economic activity during the medium term. These include:

- Continued mainstreaming of climate resilience in GOJ investment decisions to build environmental resilience.
- Examination of Jamaica's labour market to identify skills gaps in meeting the demand for existing and new industries to build labour mobility and social resilience. This is important to maximise the opportunities and minimise the challenges as the population ages.
- Continued diversification of the Jamaican economy to increase economic resilience to global and economic shocks in any one industry by increasing the complexity and the opportunities to produce new and higher value added products.

It is intended that the PIOJ, working in partnership with the various Ministries, Departments and Agencies, academia, as well as our International Development Partners, will be in a position to share more details on these assessments to inform decision making by key stakeholders, following Cabinet's considerations during the upcoming fiscal year.

Finally, I want to recognize the very dedicated and hard-working team here at the PIOJ. I also remind us all to continue the whole-of-society collaboration, as we sustain our efforts to make ***Jamaica, the place of choice to live, work, raise families and do business.***

Thank you and God bless you all.