

**The Planning Institute of Jamaica's
Review of Economic Performance,
April–June 2019
Media Brief
August 26, 2019**

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 6 weeks following the end of the quarter being reviewed. This is based on early 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 figures are 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 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, to inform critical planning and policy-related decisions.

STATIN's data on GDP, represents the official data on economic performance, and all preliminary estimates 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 2019, at which time all previous estimates for this review period will be updated.

• **Overview – Current Economic Context**

Turning now to economic performance, today we are reporting that real Gross Domestic Product (GDP) for the Jamaican economy grew by an estimated **1.0 per cent** in the April to June 2019 quarter compared with the corresponding quarter of 2018. This out-turn extends the positive growth trend to eighteen consecutive quarters, that is, four and a half years.

The out-turn for the quarter largely reflected:

1. Increased capacity utilization at some industrial plants such as the Petrojam refinery.
2. Increased external demand which drove output in some export industries, for example Hotels & Restaurants
3. Increased domestic demand, facilitated by higher levels of employment which facilitated growth in industries such as WRTRIM, Finance & Insurance services, Manufacturing, etc.

4. The continued positive impact of the resumption of operations at Alpart, Jamaica's largest Alumina refinery, albeit at a slower rate of growth.

However, further growth in the economy was stymied by:

1. Drought conditions which negatively impacted output in the Agriculture industry and constrained the growth in the food processing component of the Manufacturing industry; and
2. The winding-down of several major infrastructure projects during the review quarter, such as the Hagley Park and Constant Spring Road Improvement Projects, which had contributed significantly to growth in Construction during the corresponding quarter of 2018.

Let us now turn to Real Sector

Developments

Developments in the Goods Producing Industry

The Goods Producing Industry is estimated to have **remained flat** relative to the corresponding quarter of the previous year. This out-turn was largely attributed to the impact of improved performances by the Mining & Quarrying; and Manufacturing industries, which were counter-balanced by an estimated contraction in the Agriculture, Forestry & Fishing and Construction industries.

Agriculture

The Agriculture, Forestry & Fishing industry contracted by an estimated **2.5%**. The performance largely reflected the impact of drought conditions which stemmed from below normal rainfall levels in all three months of the review quarter. This resulted in lower production of Other Agricultural Crops (down 1.3%); and Traditional Export Crops (down 12.5%). These

contractions outweighed an estimated growth in Animal Farming (up 1.9%).

The lower output for Other Agricultural Crops reflected reduced production in six of the nine crop groups, led by, Potatoes, down 15.0%; Legumes, down 10.1%; Cereals, down 4.8% and Vegetables, down 4.2%.

The contraction in Traditional Export Crops mainly reflected a 36.6% decline in the production of Sugar Cane, and a 0.9% decline in Banana production. These declines outweighed an estimated increase in Cocoa production.

The expansion in Animal Farming was driven by Broiler Meat production, which increased by 4.8%.

Mining & Quarrying

Real Value Added for the Mining & Quarrying industry grew by an estimated **4.5%**, due to increased output in alumina production, as crude bauxite production was

estimated to have declined. Alumina production grew by 7.5% to 624.7 kilo tonnes, resulting in an increase in the capacity utilization rate at alumina refineries, by 5.3 percentage points to 67.8%.

There was a contraction in Crude bauxite production by 18.5%, reflecting lower demand from third party customers. The lower levels of bauxite production resulted in a decline of 13.1 percentage points to 57.8%, in the bauxite capacity utilization rate.

Manufacturing

Real Value Added for Manufacturing is estimated to have grown by **1.7%**, due to increased output in both the Food, Beverages & Tobacco and Other Manufacturing components.

The growth in Food, Beverages & Tobacco reflected higher output for:

- Dairy Products, up 48.0%
- Bakery Products, up 5.5%

- Poultry Meat, up 4.2%,
- Condensed Milk, up 8.8% and
- Animal Feeds, up 0.6%.

The estimated increase in the Other Manufacturing component was due mainly to the expansion in the production of petroleum products, including:

- Gasoline, up 135.2%
- Fuel Oil, up 119.0%
- Turbo Fuel, up 57.6%.

An expansion in output was also recorded for items in the Non-Metallic Minerals category, specifically, cement up 11.9%, and clinker, up 17.4%.

Construction

Real Value Added for the Construction industry is estimated to have contracted by **1.0%** largely due to the performance of the Other Construction component as the Building Construction component is estimated to have grown.

The contraction in the Other Construction component was attributed to the winding-down of several major infrastructural projects and delays in the start-up of new projects scheduled to commence during this year. Expenditure on civil engineering activities were estimated to have declined due to the following:

- Expenditure by the National Works Agency (NWA), down 28.2% to \$3.6 billion, largely reflecting reduced expenditure for road expansion and rehabilitation works.
- Jamaica Public Service (JPS), down 11.0% to \$2.5 billion, due to reduced expenditure on the power transmission and distribution, with the completion of the JPS 190 megawatt Old Harbour Plant in 2018.

The downturn in expenditure was partially tempered by increased expenditure by the National Water Commission (NWC), up 4.5% to \$921.7 million.

The sale of construction-related goods, a key indicator of performance of the industry, declined in real terms, by 3.1%, based on an analysis of preliminary General Consumption Tax data. All three categories that capture the sale of construction materials recorded declines, namely, Wholesale of Construction Material, Hardware, Plumbing and Heating Equipment and Supplies, down 27.1 %; Retail Sale of Hardware, Paint and Glass, down 6.3%; and Retail Sale of Hardware & Construction Materials, down 1.6%.

There was an estimated growth in Building Construction, reflective of the continuation of work started in previous quarters, as well as new building activities, which commenced during the quarter.

With respect to Residential Construction, Housing Starts by the National Housing Trust (NHT) increased by 38.0% to 999 units, relative to the corresponding quarter of 2018. The stock of Commercial Bank Loans & Advances to the industry increased by 26.7% to

\$39.7 billion. However, the total value of mortgages by the NHT, declined by 39.6% to \$6.6 billion. Residential Construction continued to be boosted by the relatively high levels of work-in-progress by the NHT, associated with the strong increase in housing starts in previous quarters, particularly the 4 337 new units recorded during January–March 2019. The Non-residential component benefitted from new and ongoing construction, expansion and renovation works at several resort properties. These include the Hardrock Resort, in St. James with 1,610 new rooms; the Amaterra Resorts Phase 1 in Trelawny with 800 new rooms; and the Wyndham Kingston renovation and expansion project, which will push the total room stock to 454 rooms. Additionally, the construction of several commercial properties is ongoing.

Developments in the Services Industry

The Services Industry was estimated to have grown by **1.4 per cent**, relative to the corresponding quarter of the previous year, reflecting higher Real Value Added in all Industries.

Electricity & Water Supply

The Electricity & Water Supply industry is estimated to have recorded **growth** in real value added of **0.2%**. The growth during the review quarter reflected an increase in electricity consumption which outweighed an estimated contraction in water consumption.

Electricity Consumption increased by 0.6% reflecting higher sales to:

- Residential (Rate 10), up 1.1%
- General Service (Small businesses using less than 25 kilovolt ampere (kVa), up 2.1%
- Power Service {Businesses using 25 kVa but less than 500 kVa}, up 0.7%

- Large Power (Businesses using more than 500 kVa), up 4.1% to 91.3 million kilo watt hours (kWh)
- Largest Power {Locations with a minimum peak demand of 2,000 kVa}, up 5.3% to 77.8 million kilo watt hours.

Water Consumption for the review quarter fell by 2.8%, due largely to drought conditions which impacted the island during the quarter. This condition resulted in a downturn in consumption in the Eastern Division by 5.5% which outweighed a 2.4% increase in consumption in the Western Division.

Transport, Storage & Communication

Real value added for **Transport, Storage & Communication** grew by an estimated 1.4% due to estimated growth in the **Transport & Storage** segment of the industry. The improved performance in the Transport & Storage segment, reflected a 6.1% increase in total air passenger movement. Increased air passenger movement was consistent with the

higher levels of stopover arrivals recorded during the quarter. Additionally, maritime cargo handled at the island's seaports was estimated to have increased by 0.4%.

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

Real Value Added in the (WRTRIM) industry grew by an estimated **1.0%**. Increased output in the industry was supported by:

1. Growth in real value by 12.2% of ABM & Point of Sale Transactions
2. Increased levels of employment by 29 900 persons.

Increased gross sales were recorded for four of the eight categories, which combined, accounted for 58.8% of total sales. These were:

- Agriculture, Food, Beverages & Tobacco, up 28.7%

- Motor Vehicles, Auto Repairs & Accessories, up 3.6%
- Minerals, Fuels, Lubricants and Petroleum Products, up 3.1%
- Pharmaceuticals, Medical Goods & Cosmetics, up 1.4%.

Finance & Insurance Services

Real value added for the **Finance & Insurance Services** industry was estimated to have grown by **1.8%** during the quarter, largely reflecting increases in:

- Net interest income on loan stock at deposit-taking institutions
- Fees and commission income, as well as
- The estimated profitability of insurance companies.

Hotels & Restaurants

Real Value Added for the **Hotels & Restaurants** industry grew by an estimated **5.6%**, reflecting an

increase in Foreign National arrivals which increased by 7.8%.

Total Stopover Arrivals grew by 8.4% and reflected stronger performance from Jamaica's main source markets:

- USA, up 11.8% to 489 016 persons
- Europe, up 2.4% to 75 261 persons
- Latin America, up 22.0% to 10 285 persons.

Stopover Arrivals from Canada were estimated to have contracted by 4.8% to 85 712 persons.

Cruise Passenger Arrivals, contracted by 23.2% to 273 823 persons, resulting in a 3.0% reduction in Total Visitor Arrivals to 956 209 persons.

Visitor Expenditure increased by 10.2% to **US\$852.7 million.**

Employment Update....

Regarding the Employment Update, our sister agency STATIN has commenced briefings 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 April 2019:

- The unemployment rate was **7.8%**. This was 1.9 percentage points lower than the rate recorded in April 2018.
- The employed labour force increased by **29 900 persons** to **1 244 500 persons** relative to April 2018. This represents the highest level of employment ever recorded during a single month.
- The employed labour force by industry group as at April 2019 revealed 10 of the 16 industry groups recorded higher employment levels.

GDP Performance: January–June 2019

For January–June 2019, real GDP is estimated to have increased by **1.4% relative to the corresponding period of the previous year** due to estimated growth

of **1.6%** in the Services Industry and **0.8%** in the Goods Producing Industry. Higher output was estimated for all industries with the exception of Agriculture, Forestry & Fishing. The Industries with the largest increases during the period were: Mining & Quarrying (up 7.7%); and Hotels & Restaurants (up 6.5%).

I will now turn to an update on the Poverty out-turn for 2017.

Poverty 2017

Setting the Context

To set the context, in Jamaica, a consumption rather than income methodology is used to measure poverty due to the availability and relative accuracy of the data. The rates are first calculated at the household level regionally, then aggregated nationally, from household data. Generally, poor households do not have much material wealth, or access to credit. They depend mostly on labour and transferred income (for example remittances) in order to consume. Therefore, in

analysing the poverty rates, while they are important, GDP growth and employment are only some of the factors to be considered.

Jamaica started to measure poverty in 1990. Since then we have seen a general downturn in the trend. The increase in the poverty rate in 2008 to 12.3 per cent after a low of 9.9 per cent in 2007 signalled the beginning of the effects of the global financial crisis on Jamaica. Exacerbated by structural weaknesses within the Jamaican economy, for example, the relatively high debt to GDP ratio, the impact of the recession on poverty reached a high of 24.6 per cent in 2013. This was the highest poverty rate since 1996 (26.1 per cent). Thereafter, albeit on a downward trend as the economy recovers, the poverty rate has fluctuated as shocks to the economy, both positive and negative, have influenced the movement in consumption.

Analysis of the 2017 Poverty Rate

The data to inform the 2017 poverty rate were collected during the period July to October 2017. At that time the economy was still on the path to recovery. Strengthened performance in the latter half of 2017 led to an annual growth out-turn of 1.0 per cent, as the economy grew by 0.2 per cent during the January–June 2017 period.

Note also that the number of people employed increased by 26 200 in July 2017 compared with July 2016. Despite these positive out-turns, the overall poverty rate increased by 2.2 percentage points relative to 2016, to 19.3 per cent, due to increases in the Kingston Metropolitan Area (KMA) and Other Towns.

The increase in poverty was driven mainly by lower consumption levels in real terms, especially for individuals in Quintiles 1 and 2 which consists of the two poorest households, compared with 2016. As

households in the wealthiest quintile increased their consumption over the same period, this contributed to an increase in consumption inequality. The decline in consumption in real terms may be attributed in part to a decline in the proportion of households in the KMA and Other Towns receiving remittances from abroad. In addition, during the period March to June 2017, the island experienced adverse weather conditions, which affected the outputs of several industries.

With respect to regional distribution, there were increases in:

- **the Kingston Metropolitan Area (KMA)** — an increase of 5.2 percentage points to 17.1 per cent, reflecting a decline in mean per capita consumption in real terms by 3.0 per cent, and
- **Other Towns** — which recorded a 4.1 percentage point increase to 20.1 per cent. The increased prevalence of poverty recorded for Other Towns is the second consecutive year of increase and highlights a worsened standard of living in the

region. In terms of consumption, the region recorded a 4.2 per cent decline in real mean per capita consumption expenditure.

The poverty rates in Rural Areas, on the other hand, remained relatively unchanged to register 20.1 per cent when compared with the 20.5 per cent in 2016.

The main economic factors to be considered when analysing the poverty out-turn for 2017 are as follows:

1. Note that election activities in 2016 may have played a role in stimulating consumption, thereby influencing the reduction in poverty for 2016. It is an observed trend that poverty rates in Jamaica generally decline during an election year reflecting the impact of the additional expenditure by campaigning political parties. (Refer to chart) For example, 1993 was an election year and this was accompanied by a 9.5 percentage point decrease in the poverty rate relative to the previous year. Similarly, for

election years 1997 and 2007 the poverty rates dipped by 6.2 percentage points and 4.4 percentage points, respectively. The anomaly shown in 2002, where the poverty rate increased in that election year, reflected the impact of severe shocks to the Agriculture industry which negatively impacted rural poverty rates.

2. The country's GDP grew by 1.0 per cent in 2017. This was the fifth consecutive year of growth. However, the Gini coefficient, which measures inequality, moved to 0.3748 from 0.3518 in 2016. This indicates an increase in inequality.
3. Agriculture, which accounted for 7.0 per cent of GDP in 2017, contracted by 3.5 per cent in real terms, being heavily impacted by above average rainfall across the island. Due to the country's high dependence on output from the agricultural sector, the poverty rates are normally influenced by the performance of this sector. This influence was seen in the increase

in the prevalence of poverty in the KMA and Other Towns. However, due in part to the impact of the Flood Recovery Programme in Rural Areas, the rates in the region remained relatively unchanged.

4. There was an increase of 26 200 persons in the employed labour force in July 2017 relative to July 2016. Total employment increased to 1 212 300 persons, reflecting higher employment in 11 of the 16 industry groups.
5. Remittance inflows increased by US\$13.7 million compared with 2016. However, note that between 2016 and 2017, the Jamaican dollar depreciated by 2.6 per cent relative to the US dollar. Therefore, in Jamaican dollars, the increase in remittance inflows was 3.2 per cent. With an inflation rate of 5.2 per cent, this translated to a real decline in remittance inflows. In addition, the Jamaica Survey of Living Conditions (JSLC) data showed that there was a decline in the proportion of households

receiving remittances from abroad. The data also revealed that transfers, as measured by remittances, declined significantly for poorer households in quintiles 1 and 2 in both the KMA and Other Towns.

6. The inflation rate was 5.2 per cent in 2017 compared with 1.7 per cent in 2016. This indicates that households faced higher prices to maintain the same standard of living. The increase in prices faced by consumers stemmed primarily from an increase in energy prices and a shortage of domestically produced food, due to extensive damage from flood rains.

Short Term Economic Outlook for July–September 2019

For July to September 2019, growth prospects for the economy are generally positive, based on the anticipated strengthening of the performance of most

industries relative to the similar quarter of 2018. Growth is expected to be in the range of **0.5% to 1.5%**. Specifically, growth in the short-term is expected to be driven by:

1. Partial recovery from the drought conditions which have negatively impacted performance during April to June 2019.
2. Continued growth in the Hotels & Restaurants industry facilitated by continued marketing efforts, new flights and increased flight frequency as well as the expanded hotel room stock. Preliminary data indicate that stopover arrivals for the month of July increased by 4.8%.
3. Higher levels of industrial activity, particularly in the Manufacturing industry, and higher electricity usage during the hot summer months are expected to drive growth in the Electricity & Water Supply industry. Electricity sales for the month of July increased by 3.2 per cent to 298.6 million kilo watt hours. Within the Mining & Quarrying industry, increases were recorded for both

Alumina and Crude Bauxite production of 5.6% and 8.7%, respectively, during the month of July.

The primary risks to growth are:

1. the potential impact of adverse weather conditions on domestic production (e.g. drought and hurricane conditions)
2. plant downtime due to relatively aged equipment
3. slower than anticipated growth in the global economy, particularly in light of escalating trade tensions.

Concerns Regarding Possibility of Global Recession

Concerns have been expressed regarding the possibility of the emergence of a global recession in the short to medium term and its likely impact on the Jamaican economy. Following the improved performance of some global economic indicators at the beginning of the year, the global economic

environment has again softened in response to uncertainties surrounding geopolitical tensions and continued trade disputes. Concerns have risen as business investments and trade have slowed in the face of tariff threats, between the United States of America and China. These concerns have been heightened by the recent occurrence of inverted yield curveⁱ on the US stock market, which have traditionally been a sign of recessions in the past. However, labour market conditions, the other supplementary indicator that is used to predict a recession, do not suggest that a recession is likely to materialize before 2021. Economic prospects for the current financial year remain positive as global authorities have applied aggressive monetary policies and strategies, where necessary. Further, recessions are marked by periods of negative growth and all projections still indicate that whereas growth has slowed, it remains positive. The IMF, in its most recent World Economic Outlook for July 2019, indicate that global growth has been revised downwards by 0.1 percentage point to 3.2 per cent and

is expected to rise to 3.5 per cent in 2020. However, some analysts are predicting that by the end of 2021 we may begin to see signs of a global recession.

If a recession materializes, it is important to note that the main transmission mechanisms for the global economic crisis on the local economy are through trade impacts and the impact of reduced financial flows, which include loans, investments and remittances.

a. The trade impact would manifest in the form of weakened external demand and depressed commodity prices. As such, all export industries would therefore be at risk, particularly Mining & Quarrying and Hotels & Restaurants.

b. Financial impacts are usually manifested through developments such as the 'Flight-to-quality syndrome' where investors shift their financial resources from Emerging Markets & Developing Economies to markets perceived to be more 'secure'. This is likely to result in

lower than anticipated growth. Additionally, given that the US, Canada and the UK are Jamaica's main sources for remittance inflows, any economic fallout in these economies would negatively impact its performance.

How do we as a country put measures in place to mitigate the impact of such a possible global recession?

1. At the industry level retooling and training to improve productivity and competitiveness. It has been demonstrated that the most competitive companies are usually better equipped to withstand the challenges arising from a recession. During the 2007/08 global economic crisis the Jamaican Hotels & Restaurants industry was viewed as an anomaly compared with other regional destinations. The tourism sector was able to record consistent growth throughout the crisis period, albeit with some level of price discounting. This underscores how important

competitiveness is to mitigating the impact of a recession.

2. Strengthen domestic linkages to minimise the adverse impact of weakened external demand. Efforts are already ongoing in the Agriculture, Manufacturing and the Hotels & Restaurants industries, to strengthen inter-sectoral linkages and reduce the dependence on imports.

3. The intensity of any global recession is usually exacerbated by policy uncertainty. As such policymakers have a critical responsibility to ensure that there is certainty surrounding policies related to external trade and other macroeconomic fundamentals. Key areas of focus include:

a) continued strengthening of the macroeconomic environment. Efforts should continue to focus on ensuring that fiscal and monetary policies continue to foster an environment conducive to growth and investments. Additionally, sustaining the pace of debt reduction and ensuring

adequate levels of non-borrowed reserves are critical to providing the necessary buffers required to withstand economic shocks.

- b) Appropriate social safety nets must be created for the vulnerable segments of the population. Specifically, those that are below or close to the poverty line. This involves enhancing the efficiency in spending, the rationalisation of resource allocation, and improving the targeting mechanism; and
- c) Facilitating investments and Trade policies which seek to encourage the diversification of products and markets.

• **Conclusion**

In conclusion, the Jamaican economy is estimated to have grown by 1.0% during the April to June 2019

quarter, marking 18 consecutive quarters of positive growth. The growth trend is expected to continue during the remainder of the year, albeit within the range of 0.5% to 1.5%. For fiscal year 2019/20, growth within the range of 1.0% to 2.0% is projected. This forecast is predicated on:

1. Continued stability in the macroeconomic environment
2. Increased domestic demand predicated on continued strengthening of employed labour force and confidence indices
3. Continued growth in the performance of the Hotels & Restaurants industry consequent on stronger than anticipated growth in visitor arrivals from main source markets.

Domestic factors which may have a mitigating impact on growth performance going forward, include:

- Adverse weather conditions: drought conditions continue to impact Agricultural output and Water production. The Met office forecast that for July–

September 2019, Jamaica will receive below normal to near-normal rainfall.

- Developments surrounding the short-term future of the JISCo Alpart Refinery, given challenges surrounding the age and reliability of the Plant, as well as declining global prices for aluminium. Currently, discussions are underway between the GOJ and JISCo with a view to agree on the best way forward.
- The pending decision regarding the future of the Petrojam Oil Refinery may have implications for the production of refined products during the year.

If they materialize, these developments could constrain Jamaica's growth performance to the lower end of the forecast range. We continue to monitor these and other developments closely with respect to their potential impact on economic activities.

Finally, I want to recognize the very dedicated and hard-working team here at the PIOJ. I encourage us all to remain focused, 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.

ⁱ In a healthy economy, bondholders typically demand to be paid more or receive a higher “yield” on longer-term bonds than they do for short-term bonds. That’s because longer term bonds require people to lock their money up for a greater period of time — and investors want to be compensated for that risk. However, an “inverted yield curve,” occurs when the interest rates on short-term bonds are higher than the interest rates paid by long-term bonds. Indicating that people are so worried about the near-term future that they are switching towards safer long-term investments.