



The Planning Institute of Jamaica's Review of Economic Performance, October–December 2018 Media Brief February 20, 2019

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 our estimate for real GDP growth for the October–December 2018 quarter is **1.7%**, relative to the corresponding quarter of 2017. This follows on real GDP growth of 1.8% recorded in the previous quarter.

The key drivers of growth during the quarter were:

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. Increased capacity utilization in the Mining & Quarrying Industry
4. Major infrastructure works, including the construction and renovation of hotels; residential and commercial buildings as well as an intensification of road construction and rehabilitation activities
5. Relatively more favourable weather conditions and increased output per hectare for all domestic crop groups in the Agriculture, Forestry & Fishing Industry.

2. Real Sector Developments

Developments in the Goods Producing Industry

The Goods Producing Industry grew by an estimated **4.2%**, reflecting growth in all industries, particularly the Mining & Quarrying and Construction industries, which continue to record buoyant growth out-turns.

Agriculture

Agriculture, Forestry & Fishing grew by an estimated **2.6%** relative to the corresponding quarter of 2017. This performance largely reflected the positive out-turn in the Other Agricultural Crops component, due to more favourable weather conditions during the review quarter. During the corresponding quarter of 2017, the island experienced above normal rainfall levels, which caused damage to crops and livestock, and resulted in a contraction in output.

During the review quarter, Other Agricultural Crops grew by 7.1%, with higher output recorded for six of the nine crop groups. The most significant increases were recorded for Yams, up 8.4%; Condiments up 14.9%; Fruits up 22.7%; and Vegetables up 6.1%.

This performance was supported by an increase in the area of Domestic Crops reaped by 1.4%. The crop group Vegetables accounted for the largest share of Domestic Crops reaped (32.7%) and recorded a 2.6% increase in the total hectares under production.

Animal Farming increased by 3.9%, due mainly to higher production of broiler meat, up 5.9%, which outweighed a 9.6% contraction in egg production.

Traditional Export crops recorded a 7.0% downturn in production due to declines in all four crops surveyed. Banana production declined by 3.4%, Coffee, by 48.3%, and Cocoa, by 10.4%. There was no production of Sugar cane during the quarter, due to the late start of the crop season. This compared with 33,707 tonnes produced in the corresponding quarter of 2017. Coffee production was negatively impacted by the Coffee Leaf Rust disease, as well as market uncertainties. Cocoa production was stymied due to the outbreak of the Frosty Pod Cocoa Disease, which led to restrictions placed on the movement of the product across parishes.

Mining & Quarrying

Real Value Added for the **Mining & Quarrying** industry grew by an estimated **22.9%**, reflecting an increase in alumina production which outweighed a decline in crude bauxite production. Alumina production grew by 30.8%, driven by increased capacity utilisation at the Alpart and Jamalco Refineries. Further growth in Alumina was stymied by production downtime at the Alpart Refinery, due to technical issues. Crude Bauxite production decreased by 19.4%, largely reflecting a fall in demand by third party customers.

During the quarter, the Alumina Capacity Utilization Rate increased by 16.3 percentage points to 69.2%. The Bauxite Capacity Utilization Rate contracted by 13.9 percentage points to 57.7%, compared with the corresponding quarter of 2017.

Manufacturing

Real Value Added for **Manufacturing** grew by an estimated **1.0%**, reflecting growth in both the Food, Beverages & Tobacco and the Other Manufacturing sub-industries.

The estimated growth in the Food, Beverages & Tobacco sub-industry was due to increased output in food processing and the Beverages & Tobacco component. The improved performance of Food Processing was driven by increased production of Poultry Meat, up 5.9%; Dairy Products, up 5.7%; Edible Fats, up 16.4%; and Bakery Products, up 2.1%.

The Other Manufacturing sub-industry was estimated to have grown, reflecting higher output for Petroleum Products and Chemicals & Chemical Products. Within the Petroleum Products category, increases were recorded for Fuel Oil, up 27.5%; Turbo Fuel, up 25.0%; and Other Petroleum Products, up 45.7%. The positive out-turn for petroleum products can be partly attributed to full production during the review quarter, relative to production downtime experienced in the corresponding quarter of 2017. The Refinery Service Factor (which is the capacity utilization rate) was 100.0% compared with 89.3% in the corresponding quarter of 2017.

For Chemicals & Chemical Products, the increased output was due to, Fertilizer production, up 11.4%; Salt Production, up 15.7%; and Paint production, up 1.9%. However, a contraction was recorded for the Non-metallic minerals

subcategory, as declines were recorded for cement production (down 4.7%) and clinker (down 10.4%).

Construction

Real Value Added for **Construction** grew by an estimated **3.5%**, reflecting growth in both the Building Construction and Other Construction components. Activities in the Other Construction component of the industry was supported by a 61.6% increase in Asphalt production.

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 54.0% increase in total Housing Starts
- a 17.2% increase in the total value of mortgages provided by the NHT; as well as
- work-in-progress on previously started developments.

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

The Other Construction component is estimated to have increased, due to higher expenditure by six of the seven reporting entities, including:

- National Works Agency which disbursed \$7.0 billion, up 112.7%
- Port Authority of Jamaica, which disbursed \$3.7 billion, up 92.0%, and
- Jamaica Public Service Company Ltd, which disbursed \$6.1 billion, up 6.0%

This outweighed the impact of lower disbursement by the National Water Commission which disbursed \$395.5 million, down 63.2% compared with the similar quarter of 2017.

Developments in the Services Industry

The Services Industry grew by **0.8%**, reflecting increased Real Value Added in all industries with the exception of Producers of Government Services which was estimated to have remained flat.

Electricity & Water Supply

The Electricity & Water Supply industry recorded an estimated increase in Real Value Added of **0.1%**, reflecting the impact of increases in both electricity consumption and water production.

Electricity consumption, increased by **0.1%** due to higher sales recorded for four of the six categories:

- *Residential, up 1.2%*
- *General Service, that is small business using less than 25 kiloVolt ampere (kVa), up 1.4%*
- *Power Service, that is businesses using more than 25 but less than 500 kiloVolt ampere (kVa), up 2.3% and*
- *Large Power, that is businesses using more than 500 kiloVolt ampere (kVa), up 7.6%.*

These increases outweighed a 2.2% 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. Also declining was the Street Lighting & Other category, which fell by 37.6%, reflecting the use of the more efficient LED bulbs for street lighting, across the island. This exercise is expected to continue until 2021.

The increase in Total Electricity generation was facilitated by higher generation from JPS, up **12.0%**, which outweighed a **14.7%** decline in generation from non-JPS sources.

Water production increased by **0.8%**, to 82,417.6 megalitres, largely reflecting the impact of more favourable weather conditions. Increased output of 2.0% was recorded for the Western division, which outweighed a 0.1% decline in the Eastern division.

Transport, Storage & Communication

Real Value Added for **Transport, Storage & Communication** grew by an estimated **1.6%**. This performance was due to an expansion in the Transport & Storage components.

The improved performance in the Transport & Storage segment, reflected a 3.5% increase in total air passenger movements, and an expansion of 21.2% in the total volume of maritime cargo handled at the island's seaports. Increased air passenger movements was consistent with the increased stopover arrivals recorded during the quarter.

The improved performance in maritime cargo movement was driven by, a 35.0% increase in cargo handled at *Outports*, as well as a 1.6% increase in cargo handled at the *Port of Kingston*. The increase in the cargo volume at *Outports* was attributed to the increased exports of Alumina.

Finance & Insurance Services

The **Finance & Insurance** Services industry registered estimated growth of **0.9%** 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 commissions income.

WR-TRIM

Real Value Added for the **Wholesale & Retail Trade; Repair & Installation of Machinery (WR-TRIM)** industry is estimated to have grown by **0.6%**, supported by:

- An improvement in the related Goods Producing industries, which drove higher sales.
- An increase in the employed labour force in October 2018 relative to October 2017.

- An increase in the volume, up 44.0% and the real value, up 39.7% of Automated Banking Machines (ABMs) & Point of Sale transactions.
- Higher consumer confidence (up 18.6%), and business confidence (up 3.4%), relative to the corresponding quarter of 2017.

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

- Hardware, Building Supplies, Electrical Goods & Machinery, up 13.7%
- Mineral Fuels, Lubricants & Petroleum Products, up 12.0%
- Agriculture, Food, Beverages & Tobacco, up 6.4%.

Hotels & Restaurants

Real Value Added for **Hotels & Restaurants**, which captures the majority of Tourism activities, is estimated to have grown by **2.5%**. This was influenced by an estimated **3.7%** growth in foreign national arrivals, due to increased visitors from the USA, as arrivals from the Canadian and European markets declined. This increase was facilitated by

increases in hotel room capacity, flight frequency as well as the introduction of new flights.

Stopover arrivals from the USA increased by 8.2% to 399 269 persons; stopover arrivals from Canada declined by 4.5% to 106 521 persons; and, stopover arrivals from Europe fell by 1.1% to 85 608 persons.

Cruise passenger arrivals declined by 12.0%, to 521 810 persons due to contractions in the number of passengers arriving at Falmouth and Montego Bay. These declines outweighed the increase in arrivals recorded at the Ocho Rios Port.

Total visitor expenditure was US\$840.4 million, an increase of 11.6%, relative to the corresponding quarter of 2017.

GDP Performance: January–December 2018

For calendar year 2018, real GDP is estimated to have **grown by 1.8%**. This represents the sixth consecutive year of GDP growth. Growth was facilitated by:

1. Increased external demand, for Jamaica's export industries, especially Mining & Quarrying and 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 record levels of employment and
3. improved macroeconomic stability, as reflected in:
 - a. relatively low inflation
 - b. the lowering of interest rates.

For 2018, the Goods Producing Industry is estimated to have grown by **4.8%**, and the Services Industry was estimated to have grown by **0.8%**. Industries recording the strongest growth during the year were Mining & Quarrying (up 32.5%); Agriculture, Forestry & Fishing (up 4.1%); Construction (up 2.8%); and Hotels & Restaurants (up 1.7%).

Employment Update

The Labour Force Survey undertaken by the Statistical Institute of Jamaica (STATIN), indicated that the unemployment rate as at October 2018 was **8.7%**, compared with 10.5% in October 2017. The male unemployment rate declined by 0.9 percentage points to 6.4% and the female unemployment rate declined by 2.9 percentage points to 11.2%. The youth (14–24 years) unemployment rate was 24.9%, a decline of 0.5 percentage point relative to October 2017.

Jamaica's Labour Force for October 2018 comprised 1 335 300 persons, a decrease of 10 700 persons compared with October 2017, reflecting:

- An increase of 10 600 in the number of persons outside the labour force, which outweighed the
- natural decrease in the working age population by 100 persons, that is, there were 100 less persons within the age group 14 years and older.

The main reasons cited for an increase in the number of persons outside the labour force were:

- 6 900 more persons indicated that they 'Did Not Want to Work'

- 3 700 more persons indicated that they were 'Staying Home with Dependents', and
- 1 400 more persons indicated that they were 'At School Full Time'.

The Unemployed Labour Force amounted to 115 600 persons, which was 25 000 fewer persons compared with October 2017.

The total number of employed persons as at October 2018 stood at 1 219 700, an increase of 14 400 persons relative to October 2017. An examination of the employed labour force by industry group revealed that eight of the sixteen industry groups recorded higher employment levels. Among the industries which recorded higher employment levels were:

- Real Estate, Renting & Business Activities, up 9 700 persons
- Hotels & Restaurants, up 5 400 persons
- Other Community, Social & Personal Services Activities, up 4 700 persons, and
- Mining & Quarrying, up 3 500 persons.

The out-turn for October 2018, brings the annual average unemployment rate to 9.1%, the lowest annual rate on record (since 1968).

Short- Term Economic Outlook: January–March 2019

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

1. The continued strengthening of productive activities in both the Goods Producing and Services Industries, led by continued recovery of the Mining & Quarrying Industry, as the Alpart Alumina refinery continues to gradually increase its capacity utilization. For January 2019, total Bauxite production grew by 29.5% reflecting Alumina production up 40.0% and Crude Bauxite production up 5.9%.
2. The performance of the Construction industry will continue to be positively impacted by increased road rehabilitation and repair works, under the Major Infrastructure Development Programme (MIDP) including the Constant Spring Road Rehabilitation Projects; the Mandela Highway Improvement project; as well as the Three Miles Road Rehabilitation project.

Additionally, higher levels of residential and non-residential building construction activities are anticipated.

3. Growth in the Hotels & Restaurants Industry with preliminary data for January 2019 indicating an increase in Stop-over arrivals by 9.0%.
4. A general increase in industrial activities as reflected in the growth in electricity consumption for January 2019 of 3.2% to 261.0 million kilowatt hours (kWh).

In light of the above-mentioned factors, we expect real GDP for the **January–March 2019 quarter** to grow within the range of **1.5% to 2.5%**.

The growth in **real GDP for Fiscal Year 2018/19** is projected to fall within the range of **1.5% to 2.0%**.

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

On the **Upside**:

1. Stronger than projected domestic demand associated with a projected increase in employment, and an increase in access to loans and advances.
2. Stronger than expected external demand, especially impacting the Mining & Quarrying and Hotels & Restaurants Industries.
3. Higher than expected capacity utilization at production plants, especially within the Manufacturing and Mining & Quarrying industries.

The key **Downside Risks** are:

1. The impact of adverse weather conditions on the economy, particularly, the Agriculture, Forestry & Fishing industry.
2. Plant downtime associated with relatively aged equipment, especially within the Mining & Quarrying and Manufacturing industries.
3. Slower than expected growth in the economies of Jamaica's main trading partners, which may negatively impact external demand for goods and services.

3. Key Initiatives to Drive Economic Growth during the Medium Term

Let us now look at some of the key initiatives which are expected to drive growth during the medium to long-term. It is recognised that the current push towards growth is primarily led by developments in the Mining & Quarrying and Construction industries. The resumption of production activity at the Alpart Alumina Plant and the associated upgrade of equipment have resulted in a significant increase in capacity utilization in that industry. In the Construction industry, financing from the Major Infrastructure Development Project (MIDP) which facilitated several major construction and civil engineering projects, strengthened the industry's performance during 2018. Increasingly, there have been questions as to the initiatives that are expected to drive growth during the medium term, based on projections for a strengthening in the growth out-turn within the range of 2.0–3.0 per cent. This is of particular concern given that several of the current growth projects come to an end within the next two years.

The main drivers of medium to long term economic growth will emanate from:

1. Major investments earmarked to facilitate the implementation of projects associated with the **Logistics Hub Initiative and the Special Economic Zones (SEZs)**.

- a. With respect to the Logistics Hub Initiative, this will involve the development of 3 900 Hectares across the island, with projected total capital expenditure of US\$28.0 billion and the creation of approximately 100 000 jobs. The Government of Jamaica is in the process of finalizing a bilateral agreement with the Government of Singapore and Singapore Cooperation Enterprise to provide the technical assistance during the implementation phase.
- b. A total of eight (8) Special Economic Zones are included among the major pipeline projects proposed for Jamaica with an estimated capital investment of US\$8.9 billion, covering 6 000 hectares (14 846 acres) of land. Currently, the Freezones/SEZs include industries involved in global Business Process Outsourcing (BPO's),

Distribution/Warehousing, Logistics Services and Manufacturing/Assembly. Going forward, activities within the Freezones/SEZ will be augmented by emerging areas that include industries/activities such as, ship repair; Aviation; Automobile; Electronics; Clean Energy; Limestone; Creative Industry, among others. With respect to timelines:

- i. work is currently being undertaken to transition existing Freezones to the Special Economic Zones. By the **end of 2019** it is expected that a total of 106 existing Freezone companies would have transitioned to the SEZ. Under the SEZ, existing companies would no longer be entitled to a zero-tax regime but instead will be required to pay Corporate Income Tax (CIT) of 12.5%. This is expected to generate additional revenue to support growth.
- ii. In 2020, it is anticipated that there will be the start-up of at least 3 of the new SEZ's, namely, 876 Logistics Limited; Phase 1 of the JISCO SEZ & Industrial Park; and the

Caymanas Special Economic zone (CSEZ) North.

- iii. In 2021 – roll out of the Caymanas SEZ South and the Jamaica German Ship Repair is anticipated.
- iv. In 2022 – Phase II of the JISCO SEZ & Industrial Park and the Amaterra SEZ will be undertaken.

2. Port and other major Infrastructure Developments

- i. **Port Royal Cruise Port** – This project is being implemented with the support of key stakeholders to develop a cruise product offering in Kingston, using Sea-Walk technology for a floating cruise pier. This Development is being undertaken over a 3 to 4-year period.
- ii. **Ocho Rios Cruise Port** – Development work will continue at Reynolds Pier for the port to be able to accommodate larger vessels, and improve the aesthetics of the port.
- iii. **Business Process Outsourcing** – Completion of construction of an additional 157,000 sq.ft. of new purpose-built Knowledge Processing Outsourcing

(KPO) facilities in Portmore to create approximately 4,000 new jobs.

3. Blue Economy

The 'Blue economy' which encompasses the sustainable management and use of marine resources whilst simultaneously optimizing its economic and social benefits, has become one of the key economic opportunities to have emerged. Jamaica has an Exclusive Economic Zone (EEZ) more than 20 times greater than its land mass and therefore efforts are being focused on ensuring that the blue economy is fully integrated in the country's long term development.

Policies are being implemented to:

- ensure that marine life is managed and used in a sustainable way; and
- identify, develop and exploit goods and services provided by the marine environment. These include goods such as fish and shellfish; as well as biodiversity and ecosystem services.

Some of the specific initiatives being implemented by Jamaica include:

- i. Development of a transformational National Spatial Plan that will emphasize the importance of the blue economy and exploit the EEZ in a sustainable way.

- ii. Development of a climate smart fisheries management plan, which would focus on increasing awareness of the fisheries community to more enhanced and sustainable fishing practices.
- iii. Implementation of a coral reef restoration programme, recognizing the importance of our reef systems not just to tourism but to shoreline protection, beach stability and also to support the livelihoods of many fishers.
- iv. Exploring species diversification for export purposes, such as sea cucumbers which are in high demand by Asian countries for medicinal purposes and which Jamaica has in abundance.
- v. Development of a Public Financial Management Policy for Natural Disaster Risk as a means of improving our understanding of the fiscal risks of natural disasters, and
- vi. Implementation of sustainable land and marine use management initiatives.

Given the above, the potential for generating more robust rates of growth in the medium to long term exists. Concentrated efforts must therefore be focused on ensuring that implementation is in keeping with targeted timelines.

2. Conclusion

In closing, the Jamaican economy is estimated to have grown by 1.7% for the October to December 2018 quarter. This brings real GDP growth for calendar year 2018 to 1.8%, representing the sixth consecutive year of economic growth. This performance represents the highest annual growth rate recorded in 12 years, and reflects the sustained efforts of the Government of Jamaica 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 FY2018/19 in the range of 1.5% to 2.0%. The performance in the final quarter of the fiscal year will be buoyed by the continued robust performance of the Mining & Quarrying Industry as well as continued strengthening in the Construction industry.

The outlook for FY2019/20 is also positive, with projected growth within the range of 1.0%–2.0%. The main drivers of growth are expected to be the Mining & Quarrying,

Construction, Agriculture and Hotels & Restaurants Industries.

I would like to thank the tremendous team here at the PIOJ for preparing this analysis and report, and for all the high quality work being done at the PIOJ.

I encourage us all to maintain the dialogue, continue the collaboration, and remain focused, as we sustain our commitment to make **Jamaica the place of choice to live, work, raise families and do business.**

God bless you all.