The Planning Institute of Jamaica's Review of Economic Performance, July–September 2020 Media Brief November 18, 2020

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 6 weeks following the end of the quarter being reviewed. This is based on early information available from 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 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, to inform critical 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 (for example the COVID-19 pandemic). 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 outturn.

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 December 2020, at which time all previous estimates for this review period will be updated.

Today, we are reporting an estimated real value added contraction of **11.3 per cent** for the July–September 2020 quarter, relative to the corresponding quarter of 2019. The estimated out-turn for the review quarter largely reflected the negative impact of:

1. A surge in COVID-19 confirmed cases globally and locally, with Jamaica recording an increase of over 800% to 6,555 confirmed cases as at September 30 relative to June 30. This negatively impacted economic activities through reduced demand and a slowing in the pace of re-opening.
2. The implementation of measures to manage the spread of the COVID-19 pandemic which began impacting the island in March 2020. These measures were, however, less restrictive than the measures initially implemented in the previous quarter. As at June 15, 2020, there was a phased re-opening of the island's borders to passenger movement, with requirements for pre-testing and prior approval before travelling. Curfew hours were also amended, to allow for an extension in the opening hours

for businesses; and gatherings were allowed for churches and entertainment venues with limits on crowd size and requirements for sanitization protocols to be observed. Specific measures included:

  - Controlled re-entry, with requirements for pre-testing for visitors to the island.
  - Continued implementation of curfew hours 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 activities.

3. 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.

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. Approximately 135 800 fewer persons were employed in July 2020 relative to July 2019. This represented the largest decline on record.

However, a further decline was tempered by:

- Improved weather conditions, which facilitated growth in the Agriculture, Forestry & Fishing industry **[note that the sustained/heavy rainfall would have started in October]**.
- An uptick in Construction activities, owing to the industry's exemption from some COVID-19 management measures;

2. Real Sector Developments

Developments in the Goods-Producing Industry

The Goods-Producing Industry was projected to have contracted by 3.6%, reflecting a downturn in performance for two of the four industries, namely Mining & Quarrying and Manufacturing.

Agriculture

Real Value Added for the Agriculture, Forestry & Fishing industry, was estimated to have recorded an increase of 2.0%. This improvement reflected the impact of favourable weather conditions. Also contributing to the industry's out-turn were initiatives implemented by the GOJ to improve output in the industry, including the:

- Productivity Incentive Programme which provided fertilizer and seedlings to farmers; and the
- Agriculture Excess Buy-Back Programme which provided an outlet for farmers' produce in light of the oversupply as a result of reduced demand caused by COVID-19.

Performance was driven by higher output in the heaviest weighted Other Agricultural Crops component, as all other components recorded declines. Specifically, *Other Agricultural Crops* was estimated to have grown by 8.4% reflecting higher production in eight of the nine crop groups. The most significant increases were recorded for Fruits, up 28.3%; Condiments, up 22.3%; Other Tubers, up 21.3%; Cereals, up 17.2%; and Vegetables, up 15.3%.

Lower output was recorded for *Traditional Export Crops*, which declined by 0.2%. This largely reflected the absence of sugar cane production, as well as a 41.4% downturn in Cocoa production as Banana production grew by 1.7%.

Animal Farming is estimated to have decreased due to lower broiler meat production. Egg production, however, grew by 24.6% to 53.4 million eggs.

Mining & Quarrying

Real Value Added for the Mining & Quarrying industry decreased by 22.9%, reflecting a decline in both alumina and crude bauxite production. *Alumina production* decreased by 24.3%, largely due to the operational closure of the Alpart refinery. The refinery will be closed for a period of 18 to 24 months, to facilitate the execution of upgrade and expansion works. The capacity utilization rate at alumina refineries decreased to 44.9%, down 14.4 percentage points. *Crude Bauxite* production fell by 8.5%, reflecting the impact of lower demand from overseas purchasers. Average bauxite capacity utilization rate decreased to 51.9%, down 4.8 percentage points.

Manufacturing

Real Value Added for the **Manufacturing** industry decreased by an estimated 8.7%, due to lower output in both the *Food, Beverages & Tobacco* and the *Other Manufacturing* sub-industries.

The contraction in the *Food, Beverages & Tobacco* sub-industry reflected the impact of lower production for Poultry Meat, down 28.6%; Animal Feed, down 13.3%; Dairy Products, down 21.7%; Edible Fats, down 7.5%; Rum & Alcohol, down 1.0% and Carbonated Beverages, down 3.4%.

Within Other Manufacturing, lower production was recorded for Petroleum Products, due to a reduction in the refinery service factor for two of the three months of the quarter. The refinery service factor declined by 50.3 percentage points to 49.7%. All products surveyed recorded lower output, including: Gasoline, down 58.4%; Liquid Petroleum Gasoline (LPG), down 72.6%; Automotive Diesel Oil (ADO), down 51.2%; Fuel Oil, down 68.8%; and Turbo Fuel, down 80.9%.

Construction

Real Value Added for the **Construction** industry increased by 5.0%, mainly spurred by growth in the *Other Construction* component. This performance was reflected in an 18.3% real increase in the sales of construction related inputs. Cement supply to the local market also grew, recording an increase of 148.5%.

Growth in the *Other Construction* component was due to an increase in capital expenditure on civil engineering activities reflecting:

- National Works Agency, which disbursed $5.3 billion relative to $2.7 billion in the corresponding quarter of 2019.
- NROCC, which disbursed $1.4 billion relative to no disbursement in the corresponding quarter of 2019. This expenditure was directed towards the design and mobilization for the South Coast Highway Improvement Project.

In the *Building Construction* component, hotel construction and the build out of commercial offices supported the performance. However, growth was tempered, by declines in Housing Starts by the NHT, down by 475 units to 400 units.

Developments in the Services Industry

The Services Industry was estimated to have contracted by 13.0%, relative to the corresponding quarter of the previous year, reflecting lower Real Value Added for all Industries, with the exception of Producers of Government Services.

Electricity & Water Supply

The Electricity & Water Supply industry is estimated to have recorded a decline in Real Value Added of 6.9%, reflecting declines in both electricity and water consumption.

Electricity consumption fell by 8.4% owing to lower consumption in all categories with the exception of the Residential component. Notably, there were lower sales to:

- General Service (small businesses using less than 25 kVa), down 11.8%
- Power Service (large businesses using more than 25 kVa but less than 500 kVa), down 11.4%
- Large Power (Businesses using more than 500kVa), down 10.9%
- Street Lighting plus Other, down 25.0%
- Largest Power (Rate 70), down 24.7%.

Sales to the Residential category increased by 1.8% and may be attributed to stay-at-home measures implemented by the GOJ to stem the spread of COVID-19. There was a decline in electricity sales for all parishes, except Clarendon, which recorded an increase. Sales in Clarendon increased by 20.1% and reflected higher sales in 4 of the 6 categories, led by the Largest Power category (Rate 70). The parishes that recorded the largest reductions were, Trelawny, down 29.2%; St. James, down 22.5% and Westmoreland, down 21.8%. These declines are consistent with the fallout in the Tourism industry.

Water consumption fell by 0.9%, reflecting the combined effect of a 10.2% decline in the Western division, which outweighed a 3.8% increase in the Eastern division.

Transport, Storage & Communication

Real Value Added for Transport, Storage & Communication declined by 17.4% mainly due to reduced activities in the Transport & Storage component. This was driven by a contraction in air, sea and land transportation activities. The contraction in air transport largely reflected a reduction in total passenger movement, down 82.4%. Total air cargo movement also declined, registering a contraction of 18.6%. Similarly, there was a downturn in maritime transport activities, due to a 20.8% reduction in cargo movement.

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 7.5%, reflecting the adverse impact of measures to contain the spread of COVID-19 on Business and Consumer confidence and employment which led to a downturn in demand.

A further decline in the industry was tempered by a 38.5% real increase in remittance inflows for July 2020, relative to July 2019.

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

- Textiles, Clothing, Shoes & Jewellery, down 32.3%
- Minerals, Fuels, Lubricants & Petroleum Products, down 25.2%
- Other Wholesale and Retail Sale of Goods and Services in Specialized & Non-specialized Stores, down 17.1%; and
- Motor Vehicles, Auto Repairs & Accessories, down 14.8%.

Finance & Insurance Services

Real Value Added for the Finance & Insurance Services industry was estimated to have contracted by 4.5% during the quarter, largely reflecting lower:

- Returns on investment, as well as
- Fees and commission income.

Hotels & Restaurants

Real Value Added for the Hotels & Restaurants industry was estimated to have declined by 63.8%, reflecting a downturn in Total Stopover Arrivals by 81.8%. Lower Arrivals were recorded by the main source markets, reflecting:

- USA, down 78.3% to 97 667 persons
- Europe, down 91.2% to 6 924 persons; and
- Canada, down 88.2% to 7 928 persons.

There were no Cruise passenger arrivals during the period as the cruise industry was impacted by concerns related to the heightened possibility of spread of COVID-19 on cruise vessels.

Visitor Expenditure was estimated to have decreased by 74.7% to **US$215.7 million**.

GDP Performance: January–September 2020

For the first nine months of 2020, real GDP was estimated to have decreased by **10.7%.** This reflected lower Real Value Added for both the Goods Producing Industry, down **6.0%** and the Services Industry, down **11.4%.** All industries recorded a contraction in output, with the exception of Agriculture, Forestry & Fishing, up 0.3% and Producers of Government Services, up 0.2%. The downturn for the nine-month period was led by Hotels & Restaurants, down 53.3%.

3. Employment Update….

Regarding the Employment Update, our sister agency STATIN has already provided an update on the Labour Force Survey. As such, we will not present a detailed report on this area. The highlights, however, are that for the month of July 2020, the unemployment rate was **12.6%,** up 4.8 percentage points. This was the highest rate of unemployment since January 2017. Youth unemployment increased by 10.2 percentage points to 30.4%.

The number of persons employed decreased by **135 800 persons** relative to July 2019. Male employment fell by 73 100 to 620 100 persons, while for females, employment fell by 62 700 to 498 200 persons. The age cohorts ‘20–24’ and ‘25–34’ were disproportionately affected by the downturn in the labour market, accounting for approximately 54.0% of the fall in employment.

4. Vision 2030 – Jamaica

In the face of COVID-19, Jamaica's strategic approach to the implementation of Vision 2030 Jamaica is under review. This includes the 2030 Agenda for Sustainable Development - Sustainable Development Goals (SDGs), which is being implemented through Vision 2030 Jamaica. We anticipate revisions not only in the medium-term strategies and the implementation framework/means of implementation but also the medium term and the long term 2030 targets. The GOJ is treating this as an opportunity for structural changes to support greater levels of social cohesion and accelerated social, economic, environmental and institutional capital building. The process of review and revision has commenced with scans of the global and local development environment; Damage and Loss Assessment; and research and review of strategic priorities which are being undertaken by the PIOJ. Research is also being conducted by the National COVID-19 Research Group on the effects of COVID-19, forecasted outcomes and impact, and public policy responses.

Lessons learned in plan implementation to-date have highlighted areas that we must prioritize as pillars for avoiding development losses and maladaptation. These include those learned from the last global crisis, in particular:

1. The GOJ has recognized the need to ensure that all previously determined long term strategic priorities and development goals under Vision 2030 Jamaica are kept in focus while identifying those policy bundles and entry points for development that will serve as most transformative and catalytic for renewal and growth. This was a key strength in the response to the previous global crises.
2. There is also continued focus on strengthening governance institutions and mechanisms towards improved government effectiveness and the advancement of multi-dimensional justice – areas critical to a post COVID-19 recovery that leaves no Jamaican behind. Jamaica achieved its target for government effectiveness against the last medium-term target set for 2018 and is moving towards the 2021 target. Within a

whole-of-government – whole-of-society approach, effective governance is being driven by initiatives such as the GOJ's programme for strategic public sector transformation and modernization led by the Cabinet Office and the Ministry of Finance and the Public Service as well as efforts to strengthen sectoral governance led by MDAs. These efforts include:

a) inclusive and equitable delivery of public goods and services, including healthcare and education and training that is socio-demographically targeted and relevant; and the design and implementation of high impact strategic interventions within established performance measurement and accountability frameworks.
b) Strengthening the partnership framework; and capitalizing on social responsibility, as a framework for action.

3. Advancing science, innovation and technology enablement, including the development of digital government towards a digital society and economy; as well as strengthening national capacity for risk management and adaptation, and agile responses to shocks and crises – **are elevated priority areas.**

5. Short Term Economic Outlook: October – December 2020, Calendar and Fiscal Year 2020/21

We will now turn to the short-term prospects for the Jamaican economy. Generally, the prospects continue to be negative, given the impact of the spread of COVID-19 and the measures implemented to manage its spread on the domestic economy. Recall, that despite the relaxation of some measures, others remained, including, nightly curfews and physical distancing measures.

Another contributor to this negative outlook is the very active Atlantic Hurricane season that has produced significant rainfall. The resultant flooding will negatively affect agricultural production as well as road and housing infrastructure.

Despite these anticipated negative impacts, most industries are expected to record reduced levels of contraction. Additionally, the drag on growth from the closure of the JISCO Alpart alumina refinery will dissipate as that impact cycles out as at September 2020. For October 2020, total bauxite production increased by **12.6%,** reflecting increased alumina production of 36.0% and crude bauxite production of 3.9%.

Within this context, economic downturn is anticipated for the remainder of this calendar and fiscal year. For **October to December 2020** it is projected that the economy will contract within a range of -**9% to -11%,** resulting in a calendar year contraction in the range of **-10.0% to -12.0%.** For **Fiscal Year 2020/21,** the projection is for a contraction within the range of **-10% to -12%.**

6. Conclusion

In summary, **the Jamaican economy continued to contract during the review quarter.** However, there was a tempering of the rate of contraction consequent on the phased ‘reopening of the economy’. A slowing in the pace of decline is expected to continue throughout the short term.

Agriculture recorded a positive out-turn during the review quarter. However, the impact of the adverse weather conditions during the October–December 2020 quarter, which destroyed crops in the field and delayed the replanting efforts of farmers, is anticipated to result in a contraction in output for this industry in the short-term.

The fall in employment recorded in July 2020 of 135 800 persons, represented the largest year-on-year contraction ever recorded. The gravity of this development is highlighted when compared with the accumulated decline in the labour force from the 2008 Global Economic/Financial crisis which was 90 900 persons over a 3-year period.

Following the crisis of 2008, GDP took 11 years to recover while employment took approximately 8 years. It should be noted however that during the period prior to the COVID-19 pandemic, the Jamaican economy benefited from the implementation of the Economic Reform Programme which resulted in entrenched macro-economic stability evidenced by low unemployment and inflation rates; a declining debt-to-GDP ratio; and seven consecutive years of economic growth.

Given these improvements of economic fundamentals, the Jamaican economy was in a strengthened position at the onset of the pandemic, relative to the state of the economy prior to the 2008 crisis. **In light of this improved position, current projections are for GDP levels to recover within 3 to 4 years and the labour market within 2 to 3 years.**

In closing, the Jamaican economy is faced with significant challenges, as a result of the COVID-19 pandemic. In response, the authorities are ensuring that policy prescriptions employed, reflect a delicate balance between effectively managing the spread of COVID-19, while at the same time facilitating sustainable economic recovery. Strategic priority actions of the government therefore include an increased focus on public investment, with the assistance of our development partners, to spur economic activities as we work together to 'Build Forward Stronger'. Let me take this opportunity to thank all the hardworking and dedicated team here at the PIOJ. I encourage us all, stakeholders in Jamaica, to maintain the dialogue and continue the collaboration, as we sustain our commitment to make Jamaica the place of choice to live, work, raise families and do business.