PIOJ PLANNING INSTITUTE OF JAMAICA

The Planning Institute of Jamaica's Review of Economic Performance, October–December 2020
Media Brief
February 23, 2021

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 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 more likely to be 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 out-turn.

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 March 2021, at which time all previous estimates for this review period will be updated.

Today, we are reporting an estimated **real value added contraction of 9.4%** for the October–December 2020 quarter, relative to the corresponding quarter of 2019. The estimated out-turn for the review quarter continued to reflect the negative impact of:

- The prevalence of COVID-19 cases globally and locally which has negatively impacted economic activities through reduced demand and a slowing in the pace of re-opening. There were renewed restrictions and logistical challenges of COVID-19 vaccination programmes in some economies.
- The implementation of measures to manage the spread of the COVID-19 pandemic which began impacting the island in March 2020.
- Weakened Business and Consumer confidence associated with uncertainties regarding the duration and impact of the pandemic; and

- Weakened demand associated with lower disposable income due to job losses and reduced work hours. Approximately 92 600 fewer persons were employed in October 2020 relative to October 2019.

However, a further decline was tempered by an uptick in Construction activities, as well as increased output from the Bauxite and Alumina industry against the background of production challenges and the cessation of the impact of JISCO Alpart Refinery's closure as there was no production by that refinery in the corresponding quarter of 2019.

2. Real Sector Developments

Developments in the Goods-Producing Industry

The Goods-Producing Industry contracted by an estimated 0.6**%,** reflecting declines in two of the four industries, namely Agriculture and Manufacturing.

Agriculture

The **Agriculture, Forestry & Fishing** industry contracted by an estimated **6.1%** relative to the corresponding quarter of 2019. This performance largely reflected the impact of:

1. heavy rainfall at the start of the quarter which led to the damage of crops as a result of flooding, as well as
2. reduced demand associated with the fallout in visitor arrivals due to COVID-19 and associated restrictions.

During the review quarter, *Other Agricultural Crops* fell by 8.5%, reflecting lower production in six of the nine crop groups. The most significant contractions were recorded for: Condiments, down 37.0%; Legumes, down 27.2%: Fruits, down 19.2%; and Vegetables, down 14.4%.

A lower level of output was recorded for the *Traditional Export Crop* sub-industry which declined by 5.6%, largely due to reduced production of Banana, Coffee and Cocoa, which outweighed a 24.1% increase in sugar cane production. *Animal Farming* was estimated to have recorded growth due to a 6.7% increase in broiler meat production and a 21.4% increase in egg production.

Associated with the decline in output was a 5.0% contraction in hectares reaped, with declines recorded in nine parishes. St. Elizabeth continued to account for the largest share of land under cultivation, accounting for 24.3% of total hectares.

There were reduced output of Domestic Crops from all parishes except Trelawny and St. Ann. Reduced output was recorded in major agricultural producing parishes such as St. Elizabeth, down 21.4%; Manchester, down 9.9%; and Clarendon, down 4.9%.

Mining & Quarrying

Real Value Added for **Mining & Quarrying** is estimated to have grown by **6.0%**, largely reflecting increased alumina and crude bauxite production. This was the first increase following five consecutive quarters of contraction which were impacted by the closure of the JISCo Alpart Alumina plant.

Alumina production, increased by 6.9**%** due to higher production at the two operating alumina refineries which were both impacted by technical issues in the corresponding quarter of 2019, which curtailed output. Consequently, the alumina capacity utilization rate increased to 40.7%, from 38.0% in the corresponding quarter of 2019.

Crude Bauxite production, grew by 4.2% due to increased demand. Consequently, the average bauxite capacity utilization rate increased by 2.4 percentage points to 60.1%.

Manufacturing

Real Value Added for the **Manufacturing** industry was stimated to have decreased by **3.4%**, reflecting a decline in the Other Manufacturing sub-industry, as the Food, Beverages & Tobacco sub-industry was estimated to have grown.

The *Other Manufacturing* sub-industry was estimated to have contracted, reflecting lower output for Petroleum Products. The reduction in the Petroleum Products category reflected downturns in the output of Liquid Petroleum Gas, down 50.3%; Fuel Oil, down 29.3% and Turbo Fuel, down 52.4%.

The performance in the *Food, Beverages & Tobacco* sub-industry was due to estimated increases in output of Poultry Meat, up 6.1%; Animal Feeds, up 4.8%; Cornmeal, up 46.5%; Sugar, up 37.8%; and Bakery Products, up 9.0%. The Beverages & Tobacco component was supported by an increase in the production of Rum & Alcohol, up 13.5% and Carbonated Beverages, up 10.8%.

Construction

Real Value Added for **Construction** grew by **6.2%,** reflecting an estimated increase in the Other Construction component. The growth in the Other Construction component was due to increased capital expenditure on civil engineering activities by :

- the National Works Agency, up 19.1% to $3.8 billion, due to expenditure on the South Coast Highway Improvement Project; and
- the Urban Development Corporation, up 51.1% to $405.2 million.

The performance of the Building Construction component was influenced by a downturn in Housing Starts and the value of Mortgages disbursed by the NHT, down 80.6% and 12.3%, respectively. Activities during the quarter were supported by work-in-progress on previously started developments. With respect to the non-residential category, the main drivers included the construction and renovation of commercial buildings.

<u>Developments in the Services Industry</u>

The Services Industry contracted by **11.5%,** reflecting lower Real Value Added in all industries, except for Producers of Government Services which grew by 0.1 per cent.

Electricity & Water Supply

The **<u>Electricity & Water Supply</u>** industry recorded a contraction of **9.2%** in Real Value Added, reflecting decreases in both electricity and water consumption.

Electricity consumption fell by 10.7% reflecting reduced consumption in all categories:

- Residential, down 0.1%
- General Service (small businesses using less than 25 kiloVolt ampere), down 15.4%
- Power Service (large businesses using more than 25 kiloVolt ampere but less than 500 *kiloVolt ampere*), down 12.8%
- Large Power (Businesses using more than 500 kiloVolt ampere), down 12.2%
- Street Lighting and Other, down 37.0%
- Largest Power (single locations that have minimum peak demand of 2000 *kiloVolt ampere*), down 25.1%.

Lower sales were recorded in all parishes except St. Elizabeth which increased by 1.1%. The parishes with the largest declines were Trelawny, down 22.1% and St. James, down 19.4%. The declines in these parishes were partly attributed to the fall-out in the tourism industry.

Water consumption declined by 3.2% to 20,467 megalitres. Decreased consumption was recorded for the Western division (down 12.4%), which outweighed a 1.8% increase in the Eastern division. Lower consumption in the Western division was led by the parishes of Hanover (down 27.5%); Trelawny (down 16.8%); St. James (down 14.3%); and St. Ann (down 11.0%), reflecting reduced demand from tourism.

Transport, Storage & Communication

Real Value Added for **Transport, Storage & Communication** fell by 15.2% due to an estimated contraction in the Transport & Storage sub-industry which outweighed an estimated increase in the Communication sub-industry. The overall downturn in the industry was due to:

- A decline in the air transport component, largely reflecting decreased passenger movement down 73.0%, due to Departures (down 74.4%) and Arrivals (down 71.2%); and
- A downturn in the Maritime transport component, as a result of a 12.3% decline in the total cargo volume handled at the island's seaports. Cargo volume handled at the heavier weighted Port of Kingston fell by 17.6 %.

Finance & Insurance Services

The **Finance & Insurance Services** industry registered a decline of **5.0%** during the quarter, reflecting the impact of:

1. reduced profitability of deposit taking institutions reflecting a fall in economic activities, employment and lower levels of business and consumer confidence
2. reduced profitability at investment management firms and
3. a decline in the Life insurance and General insurance sectors.

Wholesale & Retail Trade; Repair & Installation of Machinery (WR-TRIM)

Real Value Added for the **Wholesale & Retail Trade; Repair & Installation of Machinery (WR-TRIM)** industry declined by 10.4% due to:

- An estimated contraction in related Goods-Producing industries
- Worsened Consumer and Business Confidence, and
- Lower levels of employment.

The lower value added was tempered by real increases of 27.6% in remittance inflows for October-November, 2020; and a 0.4% increase in the value of Automated Banking Machines (ABM) and Point of Sales transactions.

Lower sales were recorded for seven of the eight goods categories, led by:

- Minerals, Fuels, Lubricants & Petroleum Products, down 28.6%
- Motor Vehicles, Auto Repairs & Accessories, down 24.4%, and
- Textiles, Clothing, Shoes & Jewellery, down 23.6%.

Hotels & Restaurants

Real Value Added for the **Hotels & Restaurants** industry, which captures the majority of Tourism-related activities, is estimated to have contracted by **52.8%.** This was influenced by an estimated decrease in Foreign National Arrivals, down by 74.0% to 156, 419 persons. Total Stopover Arrivals decreased by 72.0% to 184 683 persons. There were no Cruise passenger arrivals. Total Visitor Expenditure fell by 61.9% to US$355.4 million.

GDP Performance: January–December 2020

For calendar year 2020, real GDP is estimated to have **fallen by 10.2%.** This was the first year of contraction following seven consecutive years of GDP growth. The downturn in economic activity was attributed to the global spread of COVID-19 and the associated measures implemented to mitigate its transmission.

Specifically, in Jamaica's case, the shock brought on by the pandemic resulted in lower output and employment levels, as well as reductions in household consumption, business investment, exports and government revenues.

For 2020, the Goods Producing Industry was estimated to have contracted by **4.7%,** while the Services Industry contracted by **11.3%.** All industries with the exception of Producers of Government Services, declined. The sharpest contractions were recorded in industries associated with travel and tourism as well as the Mining & Quarrying industry, namely:

- Hotels & Restaurants, down 53.5%
- Other Services, down 23.4%
- Transport Storage & Communication, down13.5%; and
- Mining & Quarrying, down 21.7%.

The decline recorded by the Mining & Quarrying industry reflected the continued closure of the JISCo Alumina Refinery for the entire year compared with 2019 when the refinery was open for three quarters. Additionally, the implementation of COVID-19 restrictions which included the closure of borders to air travel globally, resulted in the relatively significant fall in tourism related industries.

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 October 2020:

- The unemployment rate was **10.7%.** This was 3.5 percentage points higher than the rate recorded in October 2019.
- The higher unemployment rate reflected increased rates for both females (up 4.4 percentage points to 13.0%) and males (up 2.7 percentage points to 8.6%).
- The employed labour force contracted by **92 600 persons** to **1,155,800 persons** relative to October 2019.
- The employed labour force by industry group as at October 2020 revealed that 11 of the 15 industry groups recorded lower employment levels. Among these were:
    - Arts, Entertainment, Recreation and Other Services, down 36,900 persons;
    - Accommodation & Food Service Activities, down 23,400 persons;

- Wholesale & Retail Trade: Repair of Motor Vehicles and Motorcycles, down 15,800 persons, and
- Education, Human health and Social Work Activities, down 10,000 persons.

3. Short-Term Economic Outlook: January–March 2021

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

1. An uptick in the COVID-19 positivity rate in the local economy and the increased possibility for the extension of current restrictions and the implementation of additional restrictions during the quarter.
2. The implementation of new COVID-19 restrictions in the economies of Jamaica's main trading partners in Europe and North America which will dampen external demand for key goods and services, for example tourism services. The Hotels & Restaurants, Other Services and Transport, Storage & Communication industries are expected to contract during the January to March 2021 quarter. Preliminary data indicate that there was an 82.4% contraction in airport arrivals in January 2021.
3. Slower than expected pick up in the global economy, especially in the travel industry, which will also have implications for the demand of Jamaican goods and services.
4. Lower output in Agriculture due to the fall-out in demand associated with the downturn in the Hotels & Restaurants industry. Additionally, the industry may be impacted by the delayed planting of crops, stemming from heavy rainfall and flooding during late 2020.
5. A general downturn in demand and output in the short term reflecting the impact of:
    a. increased unemployment levels;
    b. reduced business and consumer confidence levels; and
    c. reduced operating hours for some businesses due to curfew restrictions.

In light of the above-mentioned factors, we expect real GDP for the **January–March 2021 quarter** to contract within the range of **7.0% to 9.0%.** If this forecast is realized, it would represent the smallest rate of quarterly contraction for fiscal year 2020/21 and may be indicative of a gradual return to normalcy in economic activities relative to the preceding quarters.

Real GDP for **Fiscal Year 2020/21** is projected to contract within the range of **10.5% to 12.5%.**

4. Vision 2030 Jamaica – National Development Plan

Before I provide the update on the country's development results, let me use this opportunity to remind you how these are measured under Vision 2030 Jamaica – National Development Plan (NDP). Each Medium Term Socio-Economic Policy Framework or MTF, the central tenet of the implementation framework of Vision 2030 Jamaica, includes the national outcome indicators as well as relevant targets covering a three-year period. The priority strategies and actions implemented under the MTF are intended to promote the achievement of the targets.

Under the current MTF, which covers the period spanning fiscal year 2018/19 to fiscal year 2020/21, 75 indicators are being used to measure the state of the country's development progress along the economic, social, environmental and governance spheres of development. Measurement of the national development results is against defined targets for 2018 and 2021 and a baseline year of 2007 based on latest available data. Therefore, for data available up to and including 2018, measurement is against the 2018 target and for 2019 data, measurement is against the 2021 target.

Fiscal year (FY) 2019/20 marked eleven (11) years of implementation of Vision 2030 Jamaica – National Development Plan, through successive MTFs. This assessment of the national development results takes place at the midpoint of the implementation period of MTF 2018-2021, that is, FY 2019/20.

Based on the national outcome indicator and target framework, the country's development progress under successive MTFs (2009-2012, 2012-2015, 2015-2018 and 2018-2021) has been mixed. Jamaica has experienced notable developments gains across all four (4) goals. Some of the advances made over the period include:

- Human capital development
- Macroeconomic stability
- Reduction in unemployment
- Increases in the use of non-fossil fuel-based energy such as alternatives and renewables
- Governance, particularly in government effectiveness
- Economic growth in some industry structures particularly tourism, manufacturing and finance and insurance services
- Infrastructural development and housing quality

Over the 11-year period, there have been areas of challenge owing to insufficient progress and/or development losses. These include: low levels of economic growth; increase in the rate of chronic non-communicable diseases (NCDs); a fall in environmental sustainability, and inadequate levels of competitiveness and earnings in key economic sectors. While Jamaica's score on the Ease of Doing Business Index has improved, the country's rank has not equally improved; and whilst Jamaica maintained its position in the second tier High Human Development category of the Human Development Index (HDI), recorded gradual increases over the period of Plan implementation and maintained a score 0.734 for 2017-2019, the country lost an average of two points in its ranking for the period 2014-2019.

A summary of the progress across the 75 indicators, shows that approximately 62.7 per cent have shown improvement over the baseline year 2007 based on data up to December 2019 while approximately 33.3 per cent showed no improvement or worsened relative to the baseline year of 2007.

This can be further broken down as follows:

- 36.0 per cent of the Vision 2030 Jamaica targets were met or exceeded
- 26.7 per cent of indicators showed some improvement over the baseline year 2007 towards meeting the targets
- 33.3 per cent of indicators showed no improvement or worsened
- 4 per cent of the indicators could not be compared in this way due to lack of agreed targets for the relevant period.

These results will continue to play a key role in the pursuit of the strategic priorities under Vision 2030 Jamaica and inform the development of MTF 2021-2024. The ongoing implementation of successive 3-year MTFs aims to consolidate the developmental gains made in the previous MTFs and strengthen the foundations for achieving the country's long-term developments results, taking into account the many opportunities that surround us; the current developmental challenges we are confronted with; and the global context.

The PIOJ will continue to lead the coordination of the implementation of Vision 2030 Jamaica, including monitoring and evaluation (M&E) to identify progress towards planned development outcomes and to assess the strengths and gaps in the approach and the priorities we are pursuing to advance the achievement of Vision 2030 Jamaica; and report these to the general public.

5. Conclusion

In summary, **the Jamaican economy is estimated to have contracted by 9.4% for the October to December 2020 quarter** based on early indicators. This brings the real GDP outturn for the calendar year 2020 to **-10.2%**, representing the first annual contraction since 2012. This out-turn is mainly due to the negative effects associated with the COVID-19 pandemic and measures implemented to contain its spread. For FY2020/21, the economy is projected to contract within a range of 10.5% to 12.5% reflecting expected declines in all quarters.

The economy is expected to grow during fiscal year 2021/22, as the demand and output for goods and services increases over their FY2020/21 levels. An increase in the number of tourist arrivals, as well as a gradual return to normalcy given the sharp decline in economic activity in FY2020/21, will be the main drivers of the expansion. The current projection is that the economy will grow within the range of 4.0% to 8.0%, with all industries forecasted to record growth. It should be noted that these projections are fluid given the uncertainties which currently prevail regarding the pandemic, but there are some positive signs which provide optimism. These include:

1. Measures implemented locally to manage the spread of the virus which has allowed for the gradual resumption of economic activities. Indications are that economic activities have gradually strengthened in each successive quarter since June 2020.
2. The aggressive vaccination programme currently underway globally and which is to commence locally by the last quarter of FY2020/2021. The expectation is that with increasing numbers being vaccinated globally, there will be a reduction in global positivity rates, which will provide greater confidence for economies to allow for the gradual removal of restrictions currently in place.
3. The cycling-out of the impact of the closure of the JISCo Alpart Alumina refinery, which was closed in September 2019. Since the October-December 2019 quarter, this industry placed a drag on overall growth

performance, however, the growth out-turn recorded for October to December 2020 is expected to continue throughout the upcoming fiscal year given that prevailing demand conditions remain or improve.

Anticipated strong growth in industries associated with travel and tourism, as the roll-out of vaccination programmes globally and locally is expected to facilitate growth in the Hotels & Restaurants; Other Services (particularly in the areas of entertainment and attractions); and the Transport, Storage & Communication industries.

It should be noted however, that while the overall output level for FY2021/22 is projected to be higher than in FY2020/21, it will still be lower than the pre-COVID-19 output level (FY2018/19). The current projection is that Jamaica will return to its pre-COVID-19 level of output in three years, that is, by FY2023/24.

Finally, Jamaica is facing unprecedented and very challenging times in all spheres of life, brought about by the global pandemic currently impacting us. Overcoming these challenges, particularly as a small island developing state, will demand the efforts of all of us. Let me therefore take this opportunity to 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. God bless you all.