**The Planning Institute of Jamaica’s Review of Economic Performance,**

**April - June 2015**

##### **Media Brief**

##### **August 26, 2015**

1. **Overview – Current Economic Context**

Today we are reporting that real Gross Domestic Product (GDP) in the Jamaican economy grew by an estimated **0.8 per cent** in the April to June 2015 quarter compared with the corresponding quarter of 2014.

The out-turn for the April to June 2015 period largely reflected:

* the positive impact of continued strengthening of the global economy on some of the major industries, (Hotels & Restaurants; Transport, Storage & Communication; and Mining & Quarrying);
* An improvement in domestic demand resulting from the strengthening of both Business and Consumer confidence levels; and
* The intensification of road rehabilitation and repair works and highway construction (Phase 1 and Phase 3 of the North-South link of Highway 2000); hotel construction and expansion works; and the construction of new office space to facilitate the expansion of Business Process Outsourcing (BPO) activities.

1. **Real Sector Developments**

**Developments in the Goods-Producing Industry**

The Goods-Producing Industry **grew by 0.7** per cent relative to the corresponding quarter of the previous year with the Agriculture, Forestry & Fishing, Mining & Quarrying and the Construction industries registering growth in real value added during the review quarter. The Manufacture industry is estimated to have **contracted** largely due to the fall-off in petroleum production.

**Agriculture**

The Agriculture, Forestry & Fishing industry grew by an estimated **0.5%.** This was due to growth recorded for the *Traditional Export Crops* (up 12.1%); *Post Harvest* *Activities* (up 90.2%) and Animal Farming (up 5.8%). However, *Other Agricultural Crops* declined by 4.5%.

The increase in output for Traditional Export Crops reflected mainly higher production of sugarcane (up 20.7 %), banana (up 11.5%) and coffee (192.6%). The improved sugarcane production during the review quarter was attributed to increased reaping to compensate for the late re-opening of the factories due to upgrading undertaken in the previous quarters. The increased output in coffee production was driven by higher prices obtained on the export market as well as the reduced incidence of the coffee leaf rust disease, which does not thrive in dry seasons.

The decline in Other Agricultural Crops largely reflected the impact of drought conditions which prevailed during the quarter. Seven of the nine crop groups recorded lower production, led by Legumes, down 21.4%, Fruits, down 14.8%, and Potatoes, down 11.6%.

**Mining & Quarrying**

Real Value Added for **Mining & Quarrying** grew by 3.6%, reflecting increased production in the heavier weighted alumina component, as crude bauxite production contracted.

The growth in Alumina production (up 7.1%) was due to higher global demand and reflected increased average capacity utilization rate at alumina plants, up 2.9 percentage points to 43.0%. Higher output levels were recorded at both operating plants: Windalco’s Ewarton plant (up 16.7%) and Jamalco (up 3.6%).

Crude bauxite production (down 10.3%) was constrained by reduced demand resulting from industrial action at one of the two refineries in the USA which purchases Jamaica’s bauxite. The average bauxite Capacity Utilization Rate declined by 13.5 percentage points to 86.5%.

**Manufacture**

Real Value Added for Manufacture is estimated to have declined by **0.5%,** due largely to a contraction in the Other Manufacture category, which reflected lower output levels for all products within the Petroleum Products sub-category, led by Automotive Diesel Oil, down 33.6%, Gasoline, down 14.9%, and Fuel Oil, down 22.8%. This decline was largely attributed to an unscheduled one month closure of the Petroleum Refinery for maintenance resulting in a 23 percentage points decline in its average capacity utilization rate to 71 per cent. The decline in Petroleum products outweighed an estimated increase in other components, such as in the Chemicals and Chemical products sub-category.

The decline in the Other Manufacture component was only partially offset by the improved performance recorded for the Food, Beverages & Tobacco category which reported increased output for:

* Poultry Meat (up 7.1%); Sugar, (up 28.4%); Molasses, (up 30.1%); Rum & Alcohol (up 11.0%); and Condensed Milk (up 78.4%).

**Construction**

Real Value Added for the Construction industry grew by an estimated **1.4%** due togrowth in the Other Construction component, as Building Construction is estimated to have declined.

Growth in the Other Construction component was supported by higher expenditure in:

* Telecommunications, up $1.2 billion to $3.3 billion
* Road construction by National Works Agency, up $330.6 million to $382.7 million
* Civil engineering activities by JPS, up $361.9 million to $1.6 billion.

Building Construction is estimated to have declined due to lower levels of Residential Construction reflecting declines in the number of housing starts (down 56.1%). The volume of mortgages fell by 3.1%, while the value increased by 10.8%. The downturn in residential construction was partially mitigated by increased hotel expansion (Bahia Principe, Royalton, Karisma, Riu Palace, Braco).

Cement supply, which is an indicator of construction activities, increased by 22.5% relative to the corresponding quarter of 2014.

**Developments in the Services Industry**

The Services Industry was estimated to have grown by 0.7 per cent relative to the corresponding quarter of the previous year, reflecting higher real value added in all Industries except Producers of Government Services.

**Electricity & Water**

Electricity & Water recorded **growth** in real value added of 0.9%, the first quarterly year on year real GDP expansion since January to March 2014. The growth during the review period reflected increased electricity consumption which outweighed a decline in water production.

Electricity Consumption increased by 1.0% reflecting higher sales to: Residential customers, up 4.2% to 251.7 million kWh; and Large Power (Businesses using more than 500kVa), up 0.3% to 149.7 million kWh. All other consumer groups recorded reduced consumption: General Service (small businesses), down 0.5%; and Power Service (larger businesses) down 0.3%.

Water production fell by **0.2%** due to adecline of 0.7% in the Eastern division, as the Western division increased by 0.4%. The lower production level was attributed to drought conditions which prevailed during April to June 2015.

**Transport, Storage & Communication**

Real value added for **Transport, Storage & Communication** grew by **1.3%** due to an estimated growth in both the ***Transport & Storage*** and ***Communication*** segments of the industry. The performance in the Transport & Storage segment reflected a 1.9% increase in Maritime Cargo handled, due to an expansion of 10.7% in cargo handled at the *Port of Kingston*, as cargo handled at *Outports* declined by 1.8%.

The improvement in the Communication component mainly reflected increased telecommunications activities associated with intensified competition among the players.

**WRTRIM**

Real Value Added in the **Wholesale & Retail Trade; Repair & Installation of Machinery (WRTRIM)** industry grew by **0.4%** due tohigher gross sales levels. Increased output in the industry was supported by:

* Growth in volume (by 5.3%) and real value (by 11.2%) of ABM & Point of Sale Transactions, respectively
* Growth in the Construction industry
* Improved business confidence, up 13.7% and higher consumer confidence, up 13.1%.

Increased gross sales were recorded for four of the eight categories, which combined accounted for 53.6% of total sales. These included:

* Wholesale & Repair of Household Goods, up 14.4%
* Hardware, Building Supplies, Electrical Goods & Machinery, up 5.5%
* Motor Vehicles, Auto Repairs & Accessories, up 9.9%
* Other Wholesale & Retail Sale of Goods & Services in Specialized & Non-Specialized Stores, up 2.1%

**Finance & Insurance Services**

Real value added for the **Finance & Insurance Services** industry was estimated to have grown by **0.6%** during the quarter, largely reflecting increases in:

* net-interest income;
* fees and commission income; and
* total assets at commercial banks and FIA institutions.

**Hotels & Restaurants**

Real value added for **Hotels & Restaurants** grew by **2.0%** influenced by growth of **1.1%** in stopover arrivals, owing mainly to an increase in visitors from the USA (up 2.3%) and Europe (up 5.1%). Total visitor arrivals increased by 2.6% and cruise passenger arrivals, grew by 5.3**%.**

Total visitor expenditure was estimated to have increased by 3.0% to US$560.7 million.

**Employment Update….**

Based on the Labour Force Survey undertaken by the Statistical Institute of Jamaica (STATIN) during the month of April 2015, the unemployment rate as at April 2015 was 13.2 per cent, which was 0.4 percentage point lower than the rate recorded in April 2014. This was in a context of the decline in the labour force being greater than the decline in the number of persons employed.

The total Labour Force contracted by 10 000 persons to 1 301 100 persons relative to April 2014. The decline in Jamaica’s Labour Force, reflected an increase of 15 000 in the number of persons outside the labour force which outweighed the effect of an increase of 5 000 in the number of persons of working age[[1]](#footnote-1).

However, the number of persons employed decreased by 3 900 to 1 129 100 persons relative to April 2014. An examination of the employed labour force by industry group as at April 2015 revealed ten of the sixteen industry groups recorded lower employment levels. The largest declines in employment levels were recorded for:

* Agriculture (down 7 100 persons)
* Wholesale & Retail, Repair of Motor Vehicle & Equipment (down 6 700 persons)
* Private Households with employed persons (down 5 500 persons)
* Public Administration & Defence (down 5 000 persons)
* Manufacturing (down 4 700 persons).

These decreases were partially moderated by higher employment levels in Hotels & Restaurants, up 9 300 persons, Real Estate, Renting and Business services; up 9 000 persons; and Construction, up 6 300 persons. The increased employment in the Real Estate, Renting and Business services industry can be partially attributed to the expansion taking place within the Business Processing Outsourcing sub-sector.

**GDP Performance: January – June 2015**

For January – June 2015, real GDP is estimated to have increased by **0.6% relative to the corresponding period of the previous year** due to growth of **0.1%** in the Goods Producing Industry and **0.7%** in the Services Industry. Higher output was estimated for all Industries with the exception of Agriculture Forestry & Fishing (down 0.1%); Manufacture (down 1.3%); Electricity & Water (down 0.9%); and Producers of Government Services (down 0.1%). The Industries with the largest increases during the period were: Mining & Quarrying (up 2.1%); Hotels & Restaurants (up 3.0%); Construction (up 1.3%) and Transport, Storage & Communication (up 1.1%).

1. **Vision 2030 Jamaica: Dashboard of Indicators**

We will now turn to an update on the social well-being and progress indicators. Mr. Richard Lumsden will provide the details…..

***Vision 2030 Jamaica Report***

Under the Vision 2030 Jamaica - National Development Plan framework, we are reporting on key indicators of national well-being for this quarterly press briefing under two main reporting areas—Labour Force Quality and Security Status. An overview of performance shows progress in one of the two areas, and mixed results in the other indicator.

Labour Force Quality improved slightly, with an average of 24.8 per cent of the total labour force having vocational or professional certification based on the quarterly labour force survey for April 2015, an increase of 0.5 percentage point from 24.3 per cent in the April 2014 survey.

In reporting on Security Status, we report on the indicator Category 1 Crimes which are sub-divided into two groups – Serious and Violent Crimes and Acquisitory Crimes – in keeping with the classifications of the Jamaica Constabulary Force. Category 1 Crimes include murder, shooting, rape, aggravated assault, robbery, break-ins and larceny. A total of 148 Category 1 Crimes per 100,000 population were reported over the period January to June 2015, a decline of 10.0 per cent from 165 per 100,000 population over the similar period in 2014. However, the murder rate for January to June 2015 was 21.5 per 100,000 population, up 18.4 per cent from 18.2 per 100,000 population over the similar period in 2014.

These figures continue the downward trend in overall crime rates that began in June of 2010 into a fifth consecutive year, despite the upward movement in the murder rate in the first half of 2015.

This concludes the reporting on key indicators of national well-being for this quarterly press briefing.

1. **Short Term Economic Outlook: July – September 2015**

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

* the continued strengthening of productive activities in most industries as indicated by data for July 2015:
  + Preliminary data for Tourism indicates that Airport arrivals for July 2015 grew by 0.9% to 203 735 passengers; and
  + Total electricity consumption increased by 3.3% to 273.5 million kWh.
* The continued implementation of major Growth Inducing Projects and Initiatives, for example:
  + Major Infrastructure Development Programme (MIDP) - road construction;
  + CHEC – Highway construction (Phase 1 and Phase 3 of the North-South leg of Highway 2000 which are expected to be completed during the January-March quarter of 2016);
  + New Hotel expansion/construction activities with at least two additional hotels (Secrets and Grand Lido) expected to commence works during the July – September 2015 quarter;
  + continued construction and retrofitting of building space to facilitate the expansion of the BPO sub-sector; and,
  + the impact of reform initiatives to improve the business environment and spur small business expansion and development.
* Anticipated continued strengthening of confidence levels consequent on the anticipated successful completion of the ninth IMF quarterly review and increased stability in the macroeconomic environment.
* Continued macroeconomic stability reflected in:
  + a slowing in the rate of price increases as a result of lower energy related prices (inflation for the month of July is 0.9%);
  + continued relative stability in the exchange rate due to growth in visitor arrivals and a fall in import prices, particularly for crude oil.
  + lower interest rates with a 0.25 percentage point reduction in the BOJ’s policy interest rate to 5.50 per cent, during the review quarter.
  + improved industrial relations climate with the new wage agreement signed by most of the unions representing public sector workers.
  + improved ability to manage the fiscal accounts for the remainder of FY2015/16 consequent on the buy-back of the PetroCaribe debt. The debt buy-back will result in savings in debt servicing costs of an estimated US$250 million and will reduce Jamaica’s debt to GDP ratio by approximately 10.0 percentage points.

The primary risks identified are the impact of adverse weather conditions on domestic production (drought and hurricane conditions) as well as the continued tight fiscal stance as the country continues to implement reforms to reduce the relatively large debt and stabilize the macro-environment.

In light of the above-mentioned factors, **we expect real GDP** for the **July–September 2015 quarter** to grow **within the range of 1.0% to 2.0%** with the point estimate closer to the middle of the range.

Growth is expected in most industries for July to September 2015 with only Producers of Government Services expected to record a contraction in output.

1. **Update on the Growth Agenda**

Jamaica has already successfully completed eight quarterly reviews under the 48-month Extended Fund Facility (EFF) arrangement with the IMF, and preliminary indications are that the recently completed ninth review was successful, with the country satisfying all the quantitative and benchmark targets established for the end-June 2015 quarter.

The implementation of the Growth Agenda continues to be a priority area of focus of the Memorandum of Economic & Financial Policies which underpins the IMF agreement. The main areas of achievement/advancement of the reforms/ initiatives and growth projects incorporated during the quarter included:

* Continued efforts at reforming the **Development Applications Process (DAP)** which is expected to be fully implemented over a two-year period. Following the approval of the reforms to the process by Cabinet in December 2014, the first quarterly report has been prepared and this is aimed at tracking the progress in reducing the time for approvals for development projects. The expectation is that this reform will result in a faster and more streamlined approvals process.
* The Electricity Sector Enterprise Team (ESET) foresees replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants, to achieve significant cost savings. Progress has been made in enhancing fuel source diversification in electricity generation. The projects and initiatives being undertaken include:
  + replacement/conversion of JPSCo capacity generation;
  + cogeneration projects; and
  + renewable energy projects.

The JPSCo has announced plans to convert the Bogue power station to gas from oil by end-2015. JPS announced on August 7, 2015 that it had signed an agreement with a United States based company New Fortress Energy for the supply of gas to Jamaica. Under the agreement, the company will provide LNG to the 120 megawatt power plant in Bogue, Montego Bay.

The Government has also approved JPSCo’s construction of Jamaica’s first natural gas-fired power plant, a 190 MW facility.

* Actions to reduce the time needed for businesses to receive electricity connections are progressing. This is to be facilitated by the development of an action plan for the implementation of the reforms which is expected to be completed by September 2015. These reforms will be complemented by the adoption of the Application Management and Data Automation (AMANDA) system to streamline procedures to schedule, inspect, approve and certify electrical installations by the end of FY2015/16.
* The implementation of the national strategic plan for the development of the Business Process Outsourcing (BPO) industry in April 2015. The plan, which was approved by Cabinet in March 2015, includes the establishment of a policy and legislative framework; labour market initiatives, infrastructure development, and actions to support market penetration. A BPO Business Finance Forum is being planned for September 2015 with a view to have financiers present their options for working capital for BPO firms.
* Continued work in the area of Labour Market Reform with the establishment of the Labour Market Reform Commission in April 2015. The Commission is currently reviewing policies and practices in the five thematic areas: Education & Training; Productivity, Technology & Innovation; Labour Policies & Legislation; Social Protection; and Industrial Relations. The recommendations by the Commission for reforming these five thematic areas are expected by April 2016.
* Expansion of financing for the development of Micro, Small, & Medium Sized Enterprises (MSMEs). For FY2015/16, the DBJ has targeted the disbursement of $4.1 billion to MSMEs. As at June 2015, DBJ provided 3,180 loans valued at $287.8 million to microenterprises and 18 loans valued at $781.5 million to SMEs. This represented a disbursement of 26.1 per cent or $1.07 billion, of the total targeted for FY2015/16.

1. **Conclusion**

Following a relatively difficult second half of the last fiscal year the current economic outlook is now decidedly more positive. Drought conditions in the quarter under review held production of other agricultural crops below potential but this was mitigated by the strong performance of traditional export agriculture. For the next quarter, the measured impact of drought will be mitigated by the reality that production in the corresponding quarter of the previous year was itself severely affected by drought. Most industries in both Goods and Services are expected to expand.

The recurrence of drought within the reality of climate change underlines the imperative for enhancements to water supply and distribution and in particular the enhancement of irrigation and the scaling up of promising projects in climate smart agriculture. Other systemic risks to be mitigated include the spike in the murder rate observed in 2015.

The Growth Agenda is being pursued and there are clear signs of progress in both major infrastructure projects and in doing business reforms. We are particularly heartened by the growth in and demonstrated potential in Business Process Outsourcing which is particularly promising in seeking to resolve the problem of youth unemployment.

Progress is being reflected in increased confidence in Jamaica’s policy direction and implementation, as demonstrated by Jamaica’s recent successful and unprecedented bond issues. There is also increasing interest from both domestic and foreign investors.

Public policy will redouble its efforts to unlock demonstrated potentials while mitigating the risks to sustained and strengthened economic growth.

1. People of working age refers to persons 14 years and over [↑](#footnote-ref-1)