Q3 real GDP estimated at +0.6% yoy.
The Planning Institute of Jamaica (PIOJ) reported that the local economy advanced by 0.6% for Q3. According to the institute, growth was led chiefly by the Goods Producing industry which is estimated to have grown by 2.2% yoy due to higher output from three of the four sub-sectors. Agriculture (+5.0%), Mining (+5.0%) and Construction (+2.5%) all recorded positive growth rates while the Manufacturing sub-sector contracted by 0.8% yoy. The Services industry also recorded growth of 0.1% yoy. This jump in Q3 real GDP if confirmed by the Statistical Institute of Jamaica, the final arbiter on this measure, would break six consecutive quarterly declines in domestic output.

Notwithstanding, our leading economic index (LEI) for growth in which government expenditure is a key variable, points to an overall decline in economic output for 2013. The index also reflects the possibility of a flat outturn for the first half of 2014, as a lean government remains the principal headwind to growth. Whilst the fiscal drag on output remains substantial, the recently tabled omnibus tax incentive act which becomes effective calendar year 2014 has the potential to lift growth through the granting of trade and/or employment incentives which is anticipated to facilitate production and hiring. Also to impact positively, are the proposed private investment projects valued in excess of US$3.0 billion.

*We are maintaining our forecast for real GDP to decline by 1.0% for 2013 but for 2014, the economy could expand by 0.3%.*

**Annual inflation at 10.3% for October**
October’s CPI rose by 0.8%, 2.0 percentage points below that recorded in September. The Housing, Water, Electricity and Gas (HWEG) division recorded the highest movement of 3.9%, impacted mainly by increased cost for water and electricity. Upward movements were recorded for all other divisions with the exceptions of Transport and Communications which fell by 0.4% and 0.6% respectively. Lower cost for petrol and air fares contributed to the decline in the former division while the Communications division fell due to a reduction in some call rates.

In annual terms, headline inflation amounted to 10.3% for October 2013, little changed from the 10.4% a month ago but substantially higher than the 7.2% for the corresponding period of 2012. Calendar year-to-date inflation reached 8.6% while the fiscal year-to-date inflation print amounted to 5.7%. Core inflation which excludes agriculture and fuel rose to 7.2% (vs 5.4% in October 2012), inferring a possible pick-up in final demand. Going forward, a weakening Jamaican dollar and volatile international commodity prices will continue to bear on the local CPI. Our projections put inflation at 10.1% for December 2013 and 10.4% for March 2014.

**Mixed results for November’s Treasury bill auction**
The average yields on the 180-day and 30-day T-bills for November 2013 declined marginally by 2 basis points and 3 basis points respectively when compared to prior month. In contrast, the rate on the 90-day bill, the benchmark rate for the new GOJ variable rate domestic bonds, increased 20 basis points to 7.57%. The yield is now at its highest point since December 2012 when the rate touched 7.67%. The 180-day and the 30-day instruments were oversubscribed whereas the 90-day was undersubscribed by 15.4%. Upward pressure on rates could persist near term as we expect the Bank of Jamaica to continue mopping up excess Jamaican dollar liquidity causing market to remain tight.
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