Economic Update: Jamaica

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- **Real GDP – first full year of positive growth but downside risks ahead**
  Estimates from the planning institute of Jamaica (PIOJ) have shown that economic recovery continued throughout 2011, with fourth quarter growth amounting to 1.7%. This brings annual growth to 1.5%, the first full year of growth realized since calendar year 2007. The goods producing sector was the primary driver behind the increase with estimated full year growth of 4.9%. However, the service sector could only manage a meager 0.2% advance relative to 2010.

Nonetheless, with total public debt at J$1.63 trillion or 131% of GDP, Jamaica is one of the most indebted countries in the world. This situation is further exacerbated with tax revenue growth for fiscal year 2011/12 expected to be 3.9%, the lowest level in over 20 years. Such low tax revenue growth adds pressure to central government to stimulate the economy through spending. In light of this, sustained robust economic growth is what the country requires to improve the fiscal health and reduce the debt burden. The question that arises is whether Jamaica can substantially outperform its growth performance of 2011. To shed some light on what the growth prospects look like for 2012, we turn to our leading economic index (LEI).

- **Leading Economic Index – growth to be slow and choppy for 2012**
  In the absence of a major shock to the economy, our LEI shows that growth will continue for the first nine months of 2012 but at a slower pace than the previous year. This slower pace is anticipated given the evolution of the four variables of the LEI. These are: government spending (GOVEXP), commercial bank loans and advances to the private sector (CPS), money supply (M1) and the spread between the 2017 GOJ US$ Global bond instrument to the US 7-yr Treasury note (GBS). However, with GOVEXP and CPS being the largest contributors to movements in the LEI, we therefore narrow the focus to these two.

  For fiscal year 2011/12, the fiscal deficit and primary fiscal (revenue after non-interest expenditure) balances are expected to come out at 5.7% of GDP and 3.8% of GDP respectively, missing the targets set under the medium term economic programme. Interesting to note though, is that the primary fiscal balance will be lower than the 4.4% realised for the previous fiscal year and the lowest outturn in over a decade. With such a worse outturn, the central government will come under some pressure for improvements on the fiscal front. The government has pointed to major spending cuts to come as it crafts a new budget for 2012/13. We expect this to weigh on economic growth.

  Given that the government is the biggest spender in the economy, as it pulls back through spending cuts the private sector will have to fill the breach if growth is to continue. However, given the weak local and external demand conditions, this situation may be farfetched. There are little incentives for the private sector to expand at this time, as there seems to be a fair chance of demand conditions weakening further. One such sign of weak demand conditions is the growth in loans and advances to the private sector (CPS). Though improving, CPS has grown 9.9% for 2011, still way below levels of over 30% prior to 2009. Given the global headwinds and anaemic local demand conditions emanating from high levels of unemployment, we may not see a significant rise in CPS growth for 2012.

Looking external, the global economy, and the US in particular, could slow relative to the previous year, which may translate into reduce external demand for the country's goods and services. Tourism is already showing signs of weakness with landed visitors on the decline, which account for the greater portion of average daily expenditure. To exacerbate matters, crude oil prices above US$100 per barrel pose renewed threats to the productive sector.

*Having said all of that, we maintain our forecast for overall growth for calendar year 2012 to fall within the range 0.5% to 1%.*
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