**Consumer confidence surges while businesses remain cautious**

Despite impending austerity under a new IMF agreement, consumer confidence surged for the first quarter of calendar year 2012, bolstered by the Jamaica Emergency Employment Programme (JEEP) and its job prospects. Recently released data by the Jamaica Conference Board which tracks consumer and business sentiments reflected consumer optimism as the index advanced 51% to reach 160 points relative to the similar period a year ago, the highest level seen since the September 2007 quarter. At first glance this would suggest that consumers are more likely to increase consumption thus bolstering future growth prospects.

However, it is important to note that the current trend is similar to what occurred in the September 2007 quarter, when the index advanced 22% year-over-year to reach 163 points following the JLP’s victory in the elections. This was however short-lived, as the index subsequently fluctuated to as low as 90.8 points in the March 2010 quarter, as the government tried to balance election promises with economic realities. We may likely see a repeat of this scenario as the government may be required to implement harsh fiscal measures.

Contrary to the expectations of consumers, businesses were not as optimistic, as the index which tracks the business community fell slightly by 0.6% when compared to the analogous period of the previous year. With businesses expressing a cautious approach to investing, the anticipated decline in government consumption could negatively affect growth as the private sector may not be able to step in to offset the pull back by government. Notably, according to the survey the main concern expressed by both businesses and consumers is the high level of unemployment which prevails. Although JEEP was organized to provide jobs for some 30,000 of the unemployed with J$6.2 billion in spending over a two year period ending in 2013, these are short-term jobs and therefore these individuals are likely to rejoin the unemployed ranks within a few months.

If Jamaica is to extricate itself from the current fiscal situation, long-term job creation is required to reduce the structurally high unemployment rate which currently lies north of 12%. Notwithstanding this, to maintain the confidence of the consumer class and improve the mood of businesses, the government will therefore have to ensure that the necessary reforms are implemented with urgency and in such a way to create a more business friendly environment. This will serve to encourage private investments, thereby boosting job creation and improving aggregate demand conditions which would fuel more robust sustainable economic growth.
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