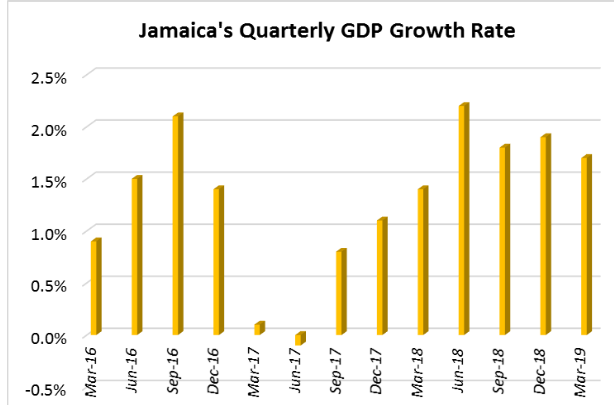
2nd Quarter 2019 Economic Review - Jamaica

Gross Domestic Product (Real GDP)

For the quarter ended March 2019, real GDP grew by an estimated 1.7% relative to the corresponding quarter in 2018. This resulted from increases in the Services and Goods Producing Industries of 1.8% and 1.7%, respectively. All the Services industries showed growth while the Goods Producing Industries recorded growth for all sectors except for the Manufacturing, which declined by 1.4%. Compared to the first quarter of 2018, the economy grew by 0.3%. This led to preliminary estimates for the fiscal year 2018/19 being a growth of 1.9% which is 100 basis points more than the fiscal period ending March 2018. The major contributors to the Goods Producing Industry for the quarter were Mining and Quarrying (+11.1%), Construction (+3.4%) and Agriculture, Forestry & Fishing (+0.3%).



All sub-categories of the Services Industry saw improved quarter over quarter performance. The Electricity & Water Supply Industry (+1.9%), Hotels & Restaurants Industry (+7.3%), the Transport, Storage & Communication Industry (+1.2%), Finance & Insurance Services Industry (2.5%) and Wholesale and Retail Trade; Repairs; Installation of Machinery & Equipment Industry (+1.3%). Producers of Government Services recorded an increase of 0.2%.

The current roadwork improvement and housing developments will continue to add strong numbers to the GDP calculations as Jamaica's real estate industry remains buoyant given the low interest rate environment. The unemployment rate continues its downward motion reaching an all-time low of 7.8% as at April 2019.

Expansion in the BPO sector has helped to lower Jamaica's unemployment rate as well as the contractual jobs created by ongoing civil engineering activities. Jamaica has grown from a menial 12,000 people working in the BPO sector to over 36,000 and the numbers will continue to increase with the construction of more call centre buildings. The downside risks to the current growth projections remain in Jamaica's vulnerability to severe weather conditions. Parts of Jamaica are plagued with periodic droughts during summer months which could have adverse effects on crop yields. The hurricane season could be the country's saving grace and we maintain that GDP is projected grow between 1.5%-2.0% for the FY 19/20.

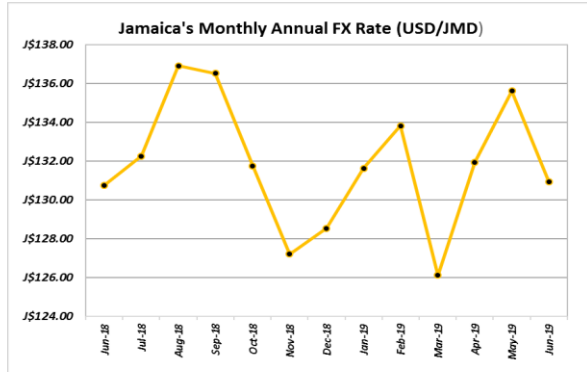
Fiscal Accounts

Revenue & Grants for the fiscal year-to-date (April 2019 to May 2019) stood at J$93.60Bn or 2.6% above budget. Tax Revenue or "PAYE" continues to be the main driver, amounting to J$7.96Bn, approximately 7.8% or J$578.7Mn above budget.

On the expenditure side, the Government exceeded its budget by 1.2% or J$1.19Bn to J$96.64Bn. Recurrent expenditure was 0.5% or J$468Mn more than budgeted at J$89.97Bn. Driven by lower interest rates on debt instruments as well as the GOJ's smaller debt balance, interest on domestic and foreign debt was 3.1% below budget. The forgoing resulted in the government reporting a fiscal deficit of J$3.04Bn compared to a budgeted deficit of J$4.16Bn.

The GOJ continues to run a primary surplus, which is a critical metric measured under the IMF's Precautionary Standby Agreement, which stands at J$15.34Bn, 3.6% or J$536Mn ahead of budget up to May. As a result, Debt/GDP is projected to fall below 100% by the end of the 2019/20FY. Of note, Jamaica is now in the final phase of the Precautionary Standby Agreement, which expires in November 2019.

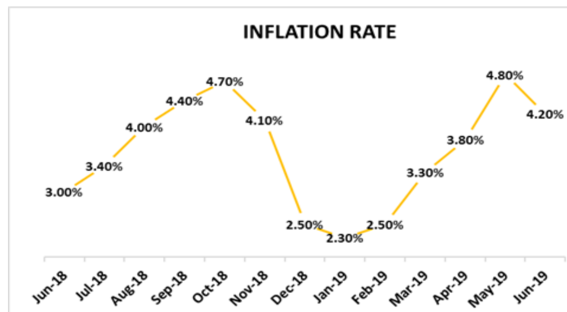
Foreign Exchange



The JMD/USD weighted average selling rate as at the end of June 28, 2019 stood at J$131.07, representing a 2.0% depreciation, YTD (January 2, 2019: J$128.50). The local dollar continued to experience excessive volatility during the first half of the year, closing at high of $137.21 on February 4, 2019. The depreciation in the value of the JMD over the quarter was mainly influenced by strong demand from the energy, manufacturing and telecoms sectors and from capital market funding and USD portfolios. During this period, there was less BOJ intervention despite heightened volatility in the FX market. This as BOJ received recommendation from the IMF to not intervene in the FX market unless necessary.

We maintain our projection of a 3% depreciation in the JMD in the next 12 months driven by our expectations of the inflation differential with the US. This is derived from the midpoint of 5% for local inflation relative to the 2% target inflation in the US. However, we do anticipate that there will continue to be bouts of instability which will lead to wide swings in the exchange rate.

Inflation

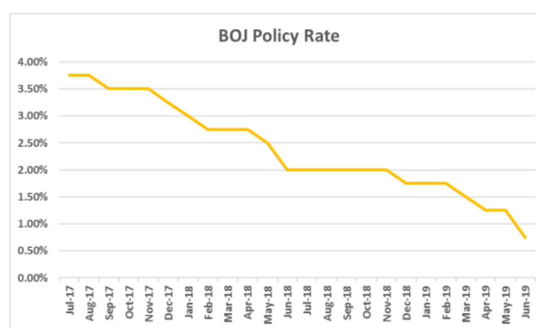


The inflation rate breached the lower bound of BOJ's inflation band of 4%-6% in June 2019. Trailing 12 months inflation at June 2019 was 4.2% relative to 4.8% in May 2019.[1] For the period under review the calendar year-to-date movement was a positive 1.4%, the point-to-point inflation 4.2% and the fiscal year-to-date 0.8%.

The Inflation outturn was mainly driven by a 1.2% fall in the index for the division 'Housing, Water, Electricity, Gas, and Other Fuels' due to lower electricity rates. Additionally, there was a 1.0% decrease in the 'Transport' division which was attributable to lower petrol prices and airfares. Additionally, the heavily weighted 'Food and Non-Alcoholic Beverages' division advanced by 0.2%.

Improvements in economic activity and ongoing loose monetary policy by the BOJ has begun to bear fruit- driving inflation within the target band. Furthermore, favourable weather conditions could result in lower-than-anticipated increases in agricultural prices and subdued oil prices and may keep inflation tempered and within the target band over the next two years. However, upside risks to the inflation outturn include increased domestic demand as well as an uptick in imports which could push the inflation rate above the targeted band over the medium term.

Interest Rates



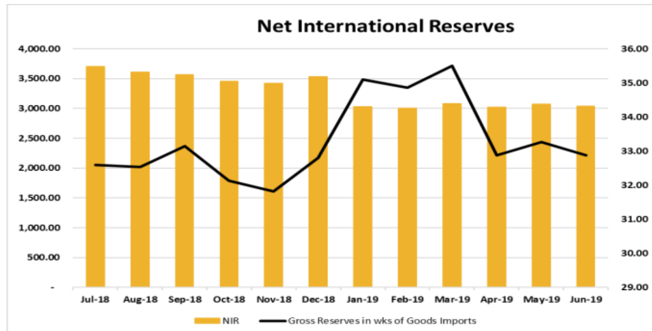
Following two (2) consecutive policy rate cuts since the beginning of 2019, to 0.75%, the BOJ maintained the rate in June. The policy rate being at this historic low is aimed at stimulating a pick-up in the rate of expansion in private sector credit in order to boost economic activity and thereby drive inflation within the 4.0% - 6.0% target range. The maintenance of the policy interest rate was complemented by a reduction in the cash reserve requirement for deposit-taking institutions ("DTIs") by 200 basis points to 7% effective June 2019. This reduction is expected to release J$12Bn to DTIs which will improve their ability to provide more credit to households and businesses at lower rates and at better terms.

[1] Statistical Institute of Jamaica (STATIN)

The authorities' sustained accommodative stance follows the expectation that inflation will end close to the middle of the 4%-6% target by March 2020. The inflation rate is currently tracking at 4.2% and continues to remain elevated, supported by BOJ's the accommodative monetary policy.

Net International Reserve

International reserves are estimated to be comfortable under a more flexible exchange rate. The Net International Reserves (NIR) stood at US$3.04Bn as at June 2019, US$120Mn behind IMF 2019/20 NIR projections. The total amount due to the IMF was US$502.04Mn, US$49.89Mn less than the comparable figure last year (June-18: US$551.91.35Mn). June's reserves in weeks of goods imports stands at 32.88 weeks and remains above the international benchmark of 12 weeks. The NIR remains above US$3Bn which keeps the country in a good position to withstand external shocks.



Stock Market

The stock market picked up steam towards the middle of year with the listing of Wigton Wind Farm. At the end of the trading period in June 2019, the Main Market grew by 23.20% to stand at 467,896.36 while the Junior Market fell by 4.41% to end at 3,103.61. Of note, the YTD growth in the Main Market is four times the growth for the corresponding 2018 period (5.65%) while the Junior Market is lagging far behind as this time last year it had advanced by 11.69%.

YEAR-TO-DATE INDICES MOVEMENTS		
Market Indices	Closing Levels	% Change
JSE Main Market Index	467,896.36	23.20%
Junior Market Index	3,103.61	4.41%

UNITS TRADED		
	Units Traded	%
JSE Main Market Index	3,359,546,676	4.59%
Junior Market Index	1,574,960,444	36.45%

YEAR-TO-DATE WINNERS AND LOSERS		
	Closing Price	% Change
Jamaicai Stock Exchange	J$28.02	173.10%
Caribbean Cement Company	J$79.94	88.54%
CAC 2000 Limited	J$14.00	41.67%
Sagicor Real Estate XFUND Limited	J$1.88	38.16%

The main market performance has been supported by the listing of Wigton in June as well as several Mergers and acquisitions surrounding market heavyweights such as NCBFG, Sagicor and JMMB. As the economy continues to grow and the fundamentals of some listed companies continue to improve the stock market will continue to trend higher and keep pace with the performance last year. We anticipate that the additional liquidity of J$41Bn in the market could also be a catalyst for improved growth in the stock market as investors invest more money into the stock market in search of higher returns due to the overall attractiveness of the market and exceptionally low interest rates. Furthermore, the two-way movements of the exchange rate won't facilitate USD hoarding like in the past.

Annualized performance of the stock market for the half year as well increased market liquidity and market attractiveness has led us to revise our projections. ***With improved macroeconomic variables and increasingly positive prospects for the Jamaican economy, the stock market should continue to benefit through an expansion of listed securities, domestic participation and continued profitability of listed companies. At the beginning of the year, we estimated a 15%-20% growth but due to the current market activities we have revised our projections and anticipate that the market will grow within the 25%-35% range as at the end of the Calendar year.***

Bond Market

Bond Name	Dec-27-18	Jun-28-19	(Yield)	% Change
JAMAN 2019*	J$102.50	J$0.00	0.00%	-
JAMAN 2021	J$109.25	J$109.50	4.24%	0.23%
JAMAN 2022	J$122.28	J$122.75	2.33%	0.38%
JAMAN 2025	J$113.22	J$116.25	4.51%	2.68%
JAMAN 2025	J$122.00	J$126.00	4.46%	3.28%
JAMAN 2028	J$107.70	J$114.50	4.72%	6.31%
JAMAN 2036	J$119.00	J$125.00	6.09%	5.04%
JAMAN 2039	J$115.75	J$124.75	5.86%	7.78%
JAMAN 2045	J$115.15	J$124.75	5.99%	8.34%

The Federal Open Market Committee (FOMC) has resorted to a less restrictive tone, keeping the policy interest rate unchanged at 2.25% to 2.5%. This action further dispels the possibility of further rate hikes for 2019, acknowledging global uncertainty and muted inflation pressures. Some analysts are projecting a rate cut due to the ongoing trade war between the US and China and the concerns of a slowing global economy. While the US economy is performing, the other major economies are fending off an economic downturn which has led the European Central Bank (ECB), Bank of Japan (BOJ), Bank of England (BOE), and Bank of Canada (BOC) remaining dovish. Despite solid jobs markets and low inflation, signs of tapering GDP have forced other central banks to keep interest rates low. This has also been the case locally as the Bank of Jamaica lowered its policy rate while implementing other monetary and fiscal stimuli for the economy.

During the second quarter of the year, GOJ global bonds saw moderate volatility due to the anticipation of unchanged interest rates by the US Fed. Bonds on the lower end of the JAMAN curve witnessed slower price appreciation while all Bonds JAMAN 2025 and beyond had price improvements due to an increase in demand. This increase in demand was driven by IMF's projection that Jamaica's debt to GDP will fall below 100% for the 2019/20 FY. These factors led to credit rating upgrade of Jamaica by in January 2019 to 'B+' from 'B' with a stable outlook. This upgrade was driven by the strong performance of tax revenues, reduction in the government's interest burden, continuous decline in the unemployment rate and reforms to strengthen the macroeconomic institutional framework, including the establishment of a fiscal council.