Republic Economic NEWSLETTER

December 2008 Vol.17 No. 1 ISSN 1027-5215

Government Cutbacks amidst Global Crisis

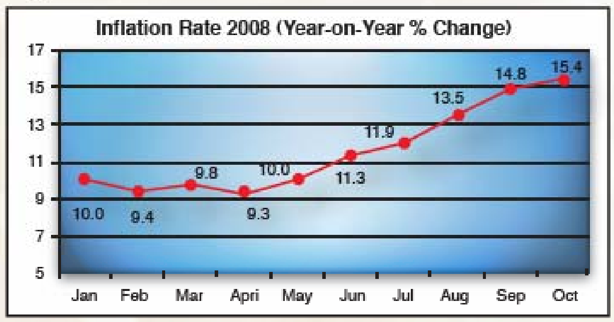
Notwithstanding high fiscal expenditures and buoyant construction activity, the domestic economy slowed towards the second half of 2008 as the underlying strength of the energy sector waned due to reduced production and falling prices. In 2008, real GDP is estimated to have grown by 3.5 percent, when compared to 5.5 percent in 2007. Despite the slowdown, the unemployment rate fell to a record 4.6 percent in the second quarter of 2008 and is projected to reach 4.4 percent in the third quarter. Inflation continues to climb, peaking at 15.4 percent in October, up from 14.8 percent recorded in September (Figure 1). Taking his cue from a deteriorating global economy accompanied by a rapid decline in energy prices, the Prime Minister on November 30 announced a $5.3 billion cut in planned Budget expenditures for fiscal 2008/9, from $49 billion to $43.7 billion.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2007	2007.3	2008.3 p/e
Real GDP (%)	5.5	1.5	3.1
Retail Prices (% Change)	7.9	2.8	2.8
Unemployment Rate (%)	5.6	5.2	4.4
Fiscal Surplus/ Deficit ($M)	5,100.0	2,694.8	Surplus
Bank Deposits (% Change)	13 .0	3.7	-1.6
Private Sector Bank Credit (% Change)	20.3	2.6	3.5
Net Foreign Reserves (US$M)	8,143.0	6,406.2	8,688.0
Exchange Rate (TT$/US$)	6.27/6.3	6.27/6.3	6.27/6.3
Stock Market Comp. Price Index	982.0	922.4	1,126.0
Oil Price (WTI) (US$ per barrel)	72.3	75.3	118.1

Source: - Central Bank of Trinidad and Tobago
p - Provisional Data
e - Republic Bank Limited Estimate

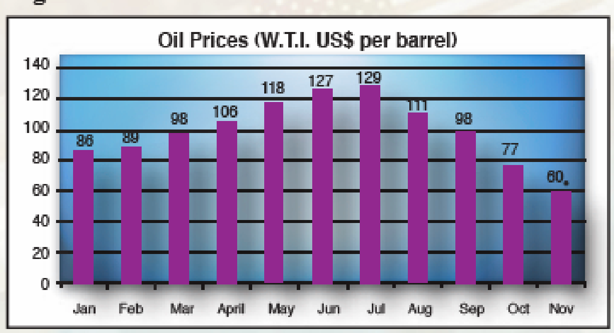
Figure 1



Energy Sector

The downward trend in the global economy has seen benchmark oil prices (W.T.I.) fall from an average of US$129 a barrel in July to US$60 in November (Figure 2) as the global financial crisis spread to the real sector of developed and emerging economies. Coupled with falling energy prices, Trinidad and Tobago's oil production has also been on the decline since 2007, falling from 120,028 barrels a day at the end of 2007 to 111,792 by June 2008. In addition to falling oil prices, there has been a fall off in other commodity prices. Coupled with the fall in prices, domestic petrochemical companies have cut back production. The end result of all of this was a substantial slowdown in energy output to an estimated 0.4 percent growth in 2008.

Figure 2



Fiscal Policy

Consequent on the rapidly deteriorating global economy and oil and gas prices in particular, the government on November 30 reduced its fiscal estimates for oil and gas prices from US$70 per barrel and US$4 per mmbtu to US$55 and US$3.25/3.50, respectively. Accordingly, budgeted expenditure was cut by $5.3 billion. The government advised that it will be delaying commencement of a number of construction projects which it had not yet started, to a later date. Some of these projects include, the Carnival Centre in Port-of-Spain, new hospitals in Couva and Port-of-Spain, new housing units, and new schools. The government is projecting a fiscal deficit of $741 million for the current fiscal year. At the same time government has committed itself to continue all of its social sector programmes including the much-maligned Community Environmental Protection and Enhancement Programme (CEPEP) and the Unemployment Relief Programme (URP).

Monetary policy

Over the quarter under review, the Central Bank has utilized several measures to reduce liquidity pressures. These ranged from increasing open market operations via the sale of treasury bills, to foreign exchange sales, to raising the Repo rate by 25 basis points to 8.75 percent; as well as increasing the cash reserve requirement of commercial banks from 11 percent to 17 percent. Notwithstanding these initiatives, year-on-year prices rose through October to 15.4 percent. However, with recent declines in some basic food items and government's projected expenditure cuts, inflationary pressures are likely to ease beginning in early 2009.

The Stock Market

The local stock market index declined by 9.1 percent in the 3rd quarter of 2008, as the Composite Index fell by 106 points (Figure 3). This compares with a decline of 6.1 percent in the USA's NASDAQ Composite Index. It would appear that local investors have become increasingly weary of the domestic stock market as they observe the volatility in global equity markets, which shows little sign of easing. The lack of activity in the domestic stock market has historically resulted in small trading volumes causing significant fluctuations in share prices. In this context, new regulations were introduced by the Securities and Exchange Commission (SEC), which sought to prevent small trading quantities from resulting in significant price fluctuations. The new regulations require a certain value of shares to be traded before the price of a stock can change. This should help restore greater stability in the market.

Outlook

The global crisis which began in the housing sector of the USA in 2007 has started to have a direct impact on government's energy sector revenues. As noted above, this has prompted the government to review its expenditure plans for fiscal 2008/9. The planned cuts of $5.3 billion which represents 3.5 percent of GDP ought not to have a major adverse impact on growth. Nevertheless, the steps taken are anticipated to reduce construction activity and cause a small increase in the unemployment rate. It is to be noted however that even before the expenditure cut, the economy was projected to slow to an estimated 2 percent rate of growth in 2009. It should be of some consolation that the country is in a far better position to withstand an economic slowdown than before. Further, international reserves support almost 12 months of import cover (Figure 4) and the Heritage and Stabilization Fund stands at an estimated US$2.9 billion at the end of September.

Figure 3

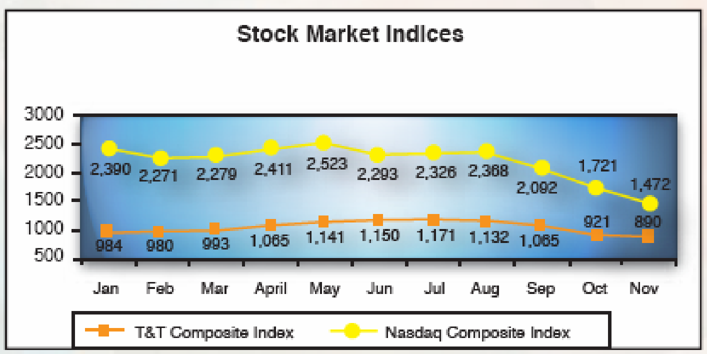
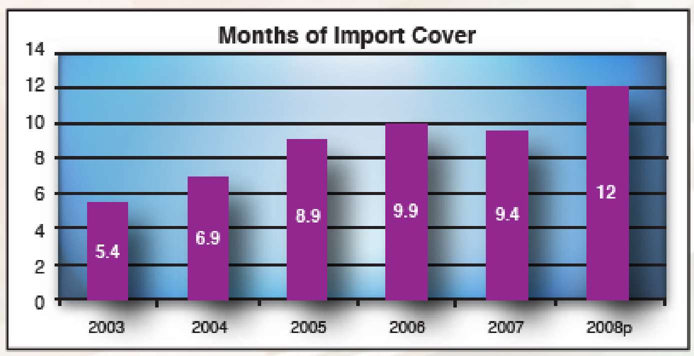


Figure 4



CARIBBEAN UPDATE

Regional Growth Subdued by Sliding Global Economy

For developing economies, operating in the global environment is becoming increasingly challenging. Most of the world's leading economies have fallen into recession as the debacle associated with the global financial crisis continues to unfold. In fact, the IMF forecasts global growth to fall from 5.5 percent in 2007 to 3.7 percent in 2008 and 2.2 percent in 2009. In this context, the Caribbean economy is expected to slow considerably, but still experience positive growth in 2008. Table A below compares 2007 growth with growth projections for 2008 of selected Caribbean countries. Growth in the tourism industry has already started to temper, while the region's exports are expected to be severely challenged. On the positive side, the substantial softening of energy prices will lead to reduced transport and electricity costs. Additionally, import prices, particularly food prices should fall in response to cheaper oil and gas. In October the Caribbean Forum of African, Caribbean and Pacific States (with the exception of Haiti and Guyana) signed the Economic Partnership Agreement with the E.U. Although this agreement brings an end to preferential trade, it holds significant opportunities for the region.

Table A: GDP Growth for Selected Caribbean Countries

	2007	2008p
Barbados	3.3	1.7
Cuba	7.3	4.5
Dominican Republic	8.5	4.7
Grenada	4.3	3.1
Guyana	5.5	4.6
Jamaica	1.2	0.7

Source: IMF, EIU.com
p - Projected

BARBADOS

In the face of a difficult global environment, Barbados' economy expanded by 1.7 percent for the first nine months of 2008. This represents less than half of the 3.5 percent growth for the same period last year and is a consequence of slower growth in the traded and non-traded sectors. In the tourism sector, value added rose by 1.4 percent, due largely to 11 percent growth in cruise passenger arrivals, which compensated for flat long-stay arrivals. During the period, the government's fiscal deficit doubled to 3.4 percent of GDP on the back of an 11.6 percent increase in expenditure and despite a 6 percent increase in tax revenue. Weaker growth has caused unemployment to climb to 8.6 percent in June compared to 8.1 percent in June 2007.

GRENADA

At well over 100 percent of GDP, Grenada's debt situation is worrying to say the least. However, in September the IMF praised the Tillman Thomas administration for its efforts with regard to structural reform and macroeconomic management under the terms of the Poverty Reduction and Growth Facility (PRGF) programme. Like the rest of the region, Grenada must contend with the effects of a slowing global economy which has already started to retard the country's economic expansion. According to the IMF, annual inflation increased sharply in April, reaching 8.7 percent. This was directly linked to high food and fuel prices and the depreciation of the U.S. dollar. However, recent easing of energy prices should reduce the pressure on the economy.

GUYANA

Guyana continues to perform solidly, despite global pressures. Growth in the second half of 2008 will be bolstered by the upgraded Skeldon sugar facility. The agricultural sector and in particular rice production, has benefited from strong government support in the form of increased investment in technology. The expansion of agricultural production has significantly increased the country's exports. The resurgent mining industry will be challenged by falling commodity prices notwithstanding new investments in gold and bauxite mining. Inflation was recorded at 7.4 percent in June 2008, representing a significant fall from its peak of near 15 percent in October 2007. The slide of energy prices could contribute greatly to further easing of general prices. As the government seeks to maintain a healthy level of public investment as agreed under the Poverty Reduction Strategy Paper, the fiscal deficit is projected to remain large for 2008.

CUBA

The Cuban economy expanded by approximately 6 percent in the first half of 2008. However, growth is expected to slow in the second half because of weaker nickel prices, combined with damage to infrastructure, and agricultural losses inflicted by hurricanes Gustav and Ike. The fiscal deficit is expected to expand as food subsidies increased in response to rising import prices and a surge in imports owing to crop losses. This is likely to contribute to inflationary pressures that exist on the island. Evidence suggests that the country's tourism sector has, thus far, experienced little negative consequence from global conditions, with arrivals expected to increase firmly in 2008. As U.S President elect Barack Obama takes office in January 2009, it is hoped that relations between the two countries will be improved.

THE REGION

With debt currently in excess of 120 percent of GDP, Jamaica will be severely challenged by the global recession. Further, the country's rate of inflation reached over 25 percent in the twelve months ending in September 2008. For the first 6 months of the year, the economy expanded by 0.6 percent, with the tourism sector registering solid growth. Nevertheless, conditions in the United States, the island's main market for tourism and exports are expected to restrict growth further for the remainder of 2008. In the Dominican Republic GDP grew by 7.5 percent for the first half of the year as a result of strong private consumption and a rise in government spending. In the first three quarters of 2008 tourist arrivals grew by 1.4 percent compared to 0.5 percent a year earlier. Inflation continued to rise during the year and was recorded at 14.6 percent in September. Global conditions will constrain the tourism sector as well as the economy's expansion for the rest of the year.

OUTLOOK

Although market conditions have become less favourable for the region, the Caribbean as a whole is still expected to record positive growth for the remainder of 2008. The tourism industry is expected to be significantly affected, with arrivals (particularly stay over arrivals) already showing signs of contraction. Growth is anticipated to slow during the last quarter of 2008. However, the easing of energy prices may provide some relief to tourism and also moderate inflation pressures. Given a sliding world economy, the high degree of debt and large fiscal deficits that many Caribbean nations possess, 2009 will be even more challenging.

To: • Request an E-mail version • Unsubscribe • Change recipient
E-mail to: kdepeza@republictt.com include E-mail address, name and institution.
Acrobat Reader required for E-mail version

The Trinidad and Tobago Economy: Preparing for Inclement Weather

With the 2008 Atlantic hurricane season now behind us, the Office of Disaster Preparedness and Management (ODPM) would no doubt be taking down posters, withdrawing television and radio messages and closing off their 2008 "Get Ready" campaign, which sought to educate the public about preparing for a hurricane. Maybe they should just start a whole new drive in preparation for the economic storm ahead.

It is now public knowledge that the global crisis will impact Trinidad and Tobago. The last such "storm" to visit Trinidad and Tobago touched down in 1983 bringing in its wake some seven years of economic contraction accompanied by company failures, high unemployment and years of structural adjustment. Will this imminent storm be as bad? How can we prepare for it? Not surprisingly, traditional storm preparations hold valuable lessons.

Perform repairs to your house and particularly the roof, outside of the hurricane season. In this case your 'house' represents your financial security and well-being. The time to make gains in your financial security is during times of growth and prosperity. Just as doing roof repairs in the rainy season is risky, as a sudden shower can leave you exposed to water damage and losses, the risks involved in trying to boost your finances, generally increase in times of economic hardship.

Bring inside any lawn furniture, outdoor decorations or ornaments, trash cans, hanging plants and anything else that can be picked up by the wind. This is symbolic of relatively non-essential purchases or liabilities. Just as flying lawn furniture can threaten your safety and the well being of your house in a storm, in an economic storm 'non-essential' debts or expenses can become even more of a liability and a threat to your financial security. You should decide early on if you are going to jettison these debts or consolidate them.

Continue to closely monitor the weather forecast and especially bulletins from the radio and television stations. This one is pretty clear. The more information you have about economic developments and the earlier you have it, the better. In the eighties, communication was restricted to the print media, a few radio stations and the one television station. People's awareness of developments would have largely come about as the events unfolded: i.e. as layoffs were announced or as someone you knew lost their home. With a plethora of radio and television stations, multiple cable news sources and the Internet, we have a significant advantage now. Information on the development of this storm has been coming in for the better part of a year. While this in itself cannot counteract the effects, surely there are things that we should have done and can still do, to allow us to better ride out the 'bad weather'.

Check batteries, keep matches, candles, stock up on canned food, first aid supplies, drinking water and prescription medication. While some see this as unnecessary expense that is unlikely to be used, if disaster strikes, there are no substitutes for these things. When you need them, you need them! Similarly, there is no substitute for a stash of ready cash for specific needs when all else fails. Whether it's the funds to keep the business running for a week until a delayed customer payment comes in, or money to pay the critical household bills while you are between jobs, there is no disputing the value of these 'emergency supplies'.

Store valuables and personal papers in a waterproof container on the highest level of your home. Protect your assets! Just as valuables can be lost in a storm, often, assets are sacrificed for a fraction of their worth during hard times. Pawning items, quick sales or using assets as collateral to secure benefits of much lesser value are the main avenues through which this occurs. Though the quick gains are often urgent, it invariably leads to a reduction of your net worth in the long run. If the disposal of assets cannot be avoided, try to do it before the storm hits, so you are selling from a position of some strength rather than desperation.

Do not walk through moving water. Six inches of moving water can make you fall. If you have to walk in water, walk where the water is not moving. A bad but stable situation is better than a bad and still evolving situation. Even if your financial situation has deteriorated somewhat, exercising some judgment and patience may see you through or at least prevent even greater loss.

Discuss the type of hazards that could affect your family. Know your home's vulnerability to storm surge, flooding and wind. This speaks to appraising your financial security and realistically assessing potential threats to that security. While clearly this needs to be done before the 'storm' hits, the earlier the better. That way you will have more flexibility with your options and whatever steps you take will have a greater chance of being effective.

Identify ahead of time where you could go if you are told to evacuate. Choose several places such as a friend's home in another part of the country, a hotel, or a shelter. This is perhaps the most critical point and flows naturally out of some earlier ones. If an external agency such as the government or your own pre-storm assessment of your home (financial security) suggests that it could be damaged or destroyed, identifying a shelter before hand is a must. Just as a shelter serves as a temporary home in a tropical storm, in an economic storm it represents a temporary form of financial security until your own financial security is adequately restored. Whether at a personal or business level, the keys are early assessment, planning and communication. If you are relying on a friend then the friend will need to know beforehand that you may be depending on his or her resources so that it can be catered for. Even more importantly, your financial institution will have to be brought into the picture. If your financial security is in jeopardy or shows signs of weakness, through early discussions with your creditor you may be able to stop the deterioration and restore it over time. It must be stressed that early action is important.

One irrefutable advantage is the volume and timeliness of information that is now a feature of the world in which we live. Just as education and early warning reduce the casualties in natural disasters, they can play a similar role in an economic context. Having been forewarned and thus forearmed by a steady stream of data, analysis and advice, individuals and businesses have more than a fighting chance to ride out the coming storm. But again, that can only happen if people act, if they get ready. ***Better be ready than sorry…!.***

Read this Newsletter on our website at: http://www.republictt.com/1asp/ren.asp

 Subscriptions, enquiries and other correspondence should be addressed to:
The Senior Economist, Republic Bank Limited, P.O. Box 1153, Head Office, 9-17 Park Street, Port of Spain, Trinidad and Tobago.
Tel: 868 623 1056. Fax: 868 624 1323, E-mail: email@republictt.com