Republic Economic Newsletter

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Global Conditions Bring Negative Quarterly Growth

Beleaguered by challenging global market conditions, the local economy is estimated to have contracted further in the second quarter of 2009 after estimated declines of 3.3 percent in the first quarter of 2009 and 1.1 percent in fourth quarter 2008 (Figure 1). (Republic Bank's forecasts of real GDP growth were positive for quarter IV, 2008 and quarter I, 2009. However, actual data point to negative real output and a slowing economy, with which we now concur. We have adjusted our model and analysis accordingly.)

The energy sector experienced mixed fortunes in the second quarter, as oil prices increased to average US$59.48 per barrel, but natural gas prices softened further. For the first time in twelve months, the rate of inflation fell to a single digit in June, when it eased considerably to 8.4 percent. The rate fell further to 5.9 percent in July. Tougher economic conditions pushed the rate of unemployment to an estimated 5.5 percent during the second quarter, compared to 5 percent in the previous three months. The local currency showed a marginal depreciation against the US dollar in the second quarter to TT$6.31 per US$1 from TT$6.28.

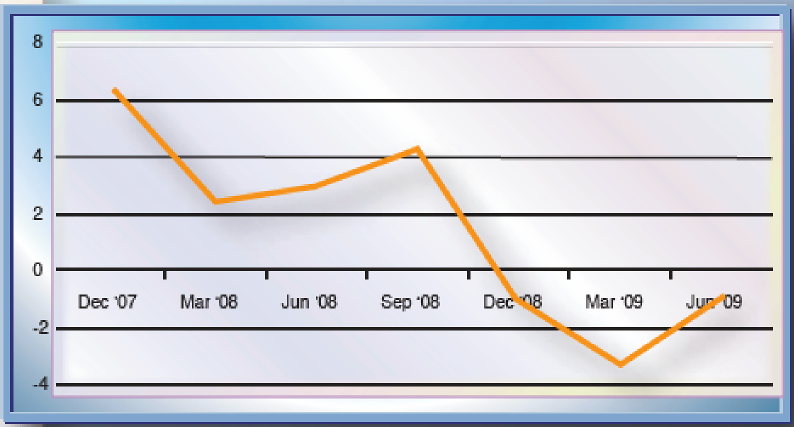
On the positive side, the country's ranking improved to 86th from 92nd according to the Global Competitive Index 2009, produced by The World Economic Forum. Further, international rating agency, Standard and Poor's, restored the country to a stable outlook from negative credit watch citing limited debt pressures from the recent bailout of CL Financial.

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATORS	2008	2008.2	2009.2 p/e
Real GDP (% Change)	3.5	3.0	-1.0
Retail Prices (% Change)	12	2.4	1.1
Unemployment Rate (%)	4.6	4.6	5.5
Fiscal Surplus/ Deficit ($M)	9,817	9,438.8	1,300
Bank Deposits (% Change)	16.6	5.9	4.3
Private Sector Bank Credit (% Change)	17.7	1.6	1.5
Net Foreign Reserves (US$M)	11,271	10,785.2	9,997.4
Exchange Rate (TT$/US$)	6.22/6.29	6.21/6.28	6.25/6.31
Stock Market Comp. Price Index	842.93	1,150.24	779.62
Oil Price (WTI) (US$ per barrel)	99.57	123.95	59.48

Source: - Central Bank of Trinidad and Tobago, TTSE, Energy Information Administration
p - Provisional Data
e - Republic Bank Limited Estimate

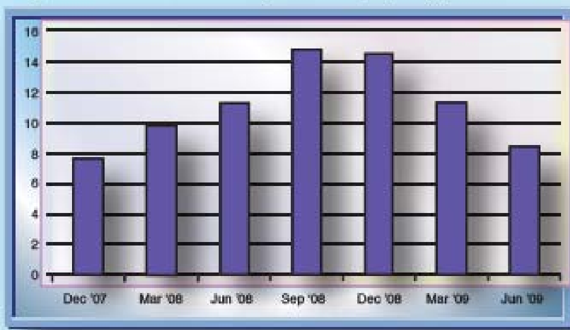
Figure 1: GDP Growth (% Change)



Energy Sector

Conditions in the energy sector remained subdued during the period, notwithstanding an increase of the average oil price to US$59.48 per barrel from US$42.90 in the previous quarter. Gas prices continued their downward trend, sliding further to US$3.83 per mcf from US$4.71. Any gains from increased oil prices may have been offset by the continued slide in production. Oil production for the first five months of 2009 fell 4.1 percent compared to the same period a year ago. On the other hand, gas output increased 3.3 percent during the period. However, the latest Ryder Scott gas audit confirmed that proven reserves fell by approximately 9 percent, reaching an eight-year low. With increased supply on the global market this year, natural gas prices are expected to remain low over the next few months before rising in 2010. The Energy Information Administration forecasts oil and gas prices to average US$67.38 per barrel and US$3.05 per mcf, respectively in the third quarter.

Figure 2: Inflation Rate (% Change y-o-y)



Fiscal Conditions

Weaker energy revenue has severely restricted government's finances. In spite of this, a surplus of approximately $1,300 million was recorded during the second quarter, compared to a deficit of $2,320.3 in the previous period. The government announced that its 2009/2010 budget is projected to carry a deficit of $7.7 billion (5.3 percent of GDP), down slightly from $8.5 billion (6.3 percent of GDP) in the just concluded fiscal year. The falloff of revenue is expected to push public debt upward as government turns to borrowing to meet the deficit. Reserves of foreign currency dipped marginally to approximately US$10,000 million in June 2009 from US$10,371 in March or approximately 11 months of imports.

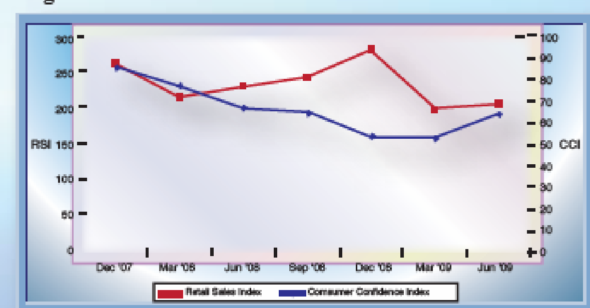
Monetary Conditions

As international prices continue to weaken, the rate of inflation stood at 8.4 percent in June, eventually falling further to 5.9 percent by July (figure 2). Given the easing of price pressures, the Central Bank lowered the "Repo" rate twice during the quarter. By the end of June the "Repo" rate had been cut to 7.5 percent from 8.5 percent in March and was reduced further to 6.75 percent in August. In July, Republic Bank lowered its prime lending rate to 11 percent from 12.25 percent, still the lowest prime rate in the market. Year-on-year growth of private sector credit improved to 4.3 percent in June from 3.1 percent in March, spurred on by increases in commercial bank credit to businesses and increased real estate mortgages. However, when compared to the 18.4 percent of a year earlier, this represents significant slowing of credit, which has led to the build-up of liquidity in the system. As a consequence, short-term interest rates have declined with the three-month Treasury bill rate falling to 2.3 percent in August from 6.9 percent at the end of 2008.

Consumer Confidence

After a persistent slide since September 2007, MFO/RBL Consumer Confidence Index (CCI) increased by eleven points from 53 to 64 in June 2009 (figure 3). This reversal of consumer pessimism was linked to the consumers' optimistic outlook for their personal finances, as 61 percent of those surveyed at the time expected improved or comparable financial circumstances in 2010. Another measure of consumer sentiment is the Retail Sales Index, which, after plunging by 29 percent to 198.4 in the first quarter, like the CCI, is anticipated to have recovered slightly in June.

Figure 3: Retail Sales & Consumer Confidence



Outlook

The global economic slowdown adversely impacted the Trinidad and Tobago economy during the second quarter of 2009. The economy is expected to face a challenging environment for the rest of the year. The energy sector, which is the lifeblood of the economy, is not expected to register significant growth, if any at all, during the period. Low gas prices and flagging oil production are expected to characterize the sector's performance. However, government expenditure is expected to provide some stimulus and therefore maintain some level of domestic economic activity. In addition, the easing of inflation means that the Central Bank has greater leeway in pursuing a more accommodating monetary policy.

Caribbean Update

Testing Times and Difficult Decisions

Testing times are truly upon the region, with all Caribbean states grappling with revenue shortfalls due to reduced receipts from tourism and commodities. Many states faced additional anxious moments over the possibility of a revision of the repayment terms of the Petrocaribe programme, having incurred significant debt since its inception three years ago. Spats have flared up between some states over immigration laws and their enforcement, while others have aligned themselves with trading blocs based on economic need rather than shared ideology. While the fallout from global economic conditions was inevitable, one wonders if its effects needed to have been as severe and far-reaching. Historically, regional efforts at building capacity and forging integration have moved at glacial pace, with extensions and postponements an established routine; an almost political parallel to 'island time', that languid, laid-back lifestyle that used to distinguish a Caribbean existence from the faster-paced, less tolerant, developed world. One wonders if a fully established integration effort with agreed goals, philosophies and strategies, would have better prepared individual states for the present challenges. Has 'Island time' exacerbated the severity of these testing times?

Table 1: GDP Growth (% Change)

	2007	2008	2009 f
Antigua & Barbuda	6.9	5.0	-5.2
Barbados	3.2	0.5	-3.6
Cuba	7.3	4.3	0.8
Dominica	1.8	2.1	-4.7
Grenada	4.5	3.3	-4.6
Guyana	5.3	3.1	-1.0
Jamaica	1.4	-1.2	-4.0
St. Kitts Nevis	2.9	4.3	-1.5
St. Lucia	1.5	0.7	-2.0
St. Vincent and The Grenadines	4.5	4.3	-2.5

Source: Latin America Monitor f - forecast

Barbados

Economic activity in Barbados contracted by 3 percent during the first half of this year, with sharp declines recorded in both tourist arrivals and manufacturing output. Arrivals fell by 8.5 percent from January to May, as a surge in visitors from Canada was not enough to offset double-digit declines from the key source markets of the US, the UK and Caricom. Reduced foreign financing inflows resulted in a number of big projects being postponed or cancelled, leading to a 4.4 percent contraction in the construction sector for the first 6 months. Not surprisingly, unemployment increased to 10.1 percent in the first 3 months of 2009.

Declines in the cost of housing, fuel and transportation led to a fall in the twelve-month moving average rate of inflation to 8.3 percent in April from 8.6 percent in March. Both credit and deposit growth was virtually flat during the first half of the year, with a persistence of liquidity in the banking system. Consequently, the downward pressure on rates saw the Treasury bill rate, minimum deposit rate and weighted average lending rate all decline during the period. Lower rates are expected to persist into 2010.

Cuba

The prevailing difficult conditions have prompted a revision of Cuba's official GDP forecast from 6 percent to 2-2.5 percent. With lower nickel prices and lacklustre tourism receipts, government has sought to mitigate significant increases in debt levels by cutting fiscal expenditure and import spending. Declines in food and fuel prices have brought some relief; nonetheless, Cuba continues to draw heavily on favourable oil financing arrangements with Venezuela.

Recent months have brought some positive developments, with nickel prices (though still lower than in 2008) rising from under US$10,000 per tonne in March to US$15,000 per tonne in June. Also, bucking the regional trend, arrivals for the first half of the year grew by 2.7 percent bolstered by increased Canadian demand, Cuban-American visitors and some diversion from Mexico following that country's Swine flu epidemic. However, tourism earnings declined significantly in the period, as competition forced down prices and tourists spent less money.

Grenada

Grenada's economy is currently experiencing the full effects of the global economic recession and is on course to record a significant economic contraction this year. Government revenues for the first half of the year are estimated to be down 30 percent from last year, as the tourism sector is estimated to have declined about 20 percent for the same period, while construction contracted by about 30 percent. The unemployment rate was estimated at 25 percent at the end of the year, while inflation, which averaged 8 percent for 2008, fell to 2.8 percent in March this year. Nonetheless, the authorities continue to remain focused and are pushing ahead with plans to introduce a value added tax (VAT) regime by 2010. The authorities, through an existing Poverty Reduction and Growth Facility, administered by the IMF, secured additional financial assistance of US$6.8m in June. In June, representatives of Grenada attended the Bolivaran Alternative for the Americas (ALBA) summit as observers, joining fellow Caricom states Antigua Barbuda, Dominica and St. Vincent and the Grenadines who were there as full members of this Latin American bloc.

Guyana

Guyana has enjoyed mixed fortunes this year. The central government's fiscal surplus grew by 13.5 percent in the first quarter compared to the 2008 period due to higher collections of tax revenue and lower expenditure. The fiscal accounts are expected to weaken during the rest of the year however, due to slowing economic activity and weakening tax receipts.

The government's optimistic 2009 forecast of 4.6 percent GDP growth is even less probable now, as sugar production fell by 11 percent year-on-year for the first quarter due to poor weather conditions. The mining & quarrying sector also contracted, with bauxite production down 12.4 percent and gold production falling by 1.5 percent despite increased global demand for gold. There was, however, a strong performance by the rice sector, with first quarter production jumping by 21 percent year-on-year to 45,000 tonnes. The current dry spell attributed to the El Nino phenomenon can potentially wreak havoc with agriculture production and threaten export revenue. In April Guyana finalized a US$28m Inter-American Development Bank (IDB) loan for housing construction and in May secured Euro 53m (US$76.5m) from the EU for budget support and sea defense maintenance.

The Region

The OECS states have been impacted by lower tourist arrivals, reduced remittances and foreign investment resulting in reduced revenue and a slowdown in economic activity. The severity of the slowdown has forced OECS governments to seek assistance to compensate for revenue shortfalls. Thus far, St. Vincent, Dominica, St. Lucia and St. Kitts Nevis have received assistance from the IMF.

A similar scenario exists in Jamaica, where as a result of the significant contraction of the bauxite sector and reductions in remittances and tourism receipts, the Ministry of Finance expects a US$1.3b shortfall in revenue and foreign exchange. As a corollary, the Bank of Jamaica expects the economy to contract by 4 percent in 2009. Jamaica is currently negotiating an US$1.2b loan from the IMF.

Outlook

With a tentative recovery now taking place in the key source markets of the US and Europe, there are prospects for improved economic conditions in 12–15 months. For the rest of the year however, conditions are expected to remain relatively unchanged, signalling months of economic hardship and difficult decisions. For already debt-ridden Caribbean states, one legacy of these times is sure to be even higher debt levels. Extreme care should be taken to ensure the decisions made in these times do not lead to more insidious legacies like uncomfortable alliances, threats to sovereignty and a stymied integration movement.

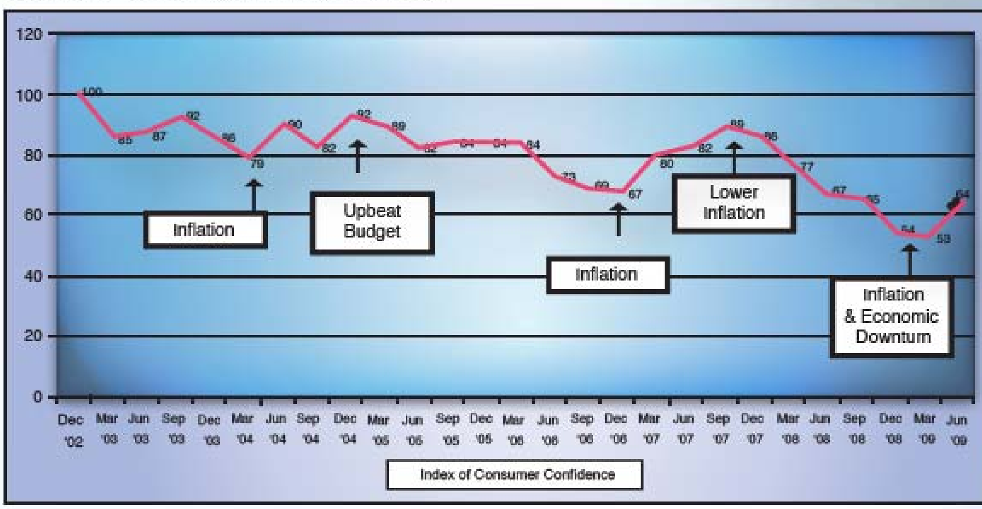
Sources: Central Bank of Barbados, Economist Intelligence Unit (EIU) UK, Latin America Monitor

Whither Consumer Sentiment in Trinidad and Tobago?

by Ronald Ramkissoon, Ph.D., Senior Economist, Republic Bank Limited

In March of this year consumer sentiment in Trinidad and Tobago (T&T) dropped to its lowest point since the Consumer Confidence Index (CCI) was originally pioneered almost seven years ago by Republic Bank Limited (RBL) and Market Facts and Opinions (MFO). This country's only CCI which measures consumer sentiment quarterly, fell to 53 in March of this year, from 100 when computation of the Index was first started in December 2002. Barring the original base of 100, the Index never regained its peak of 92 which was attained on two occasions over the seven-year period, in September 2003 and December 2004 (figure 1). Nevertheless, the Index rose to 64 in June 2009 after six quarterly declines.

Figure 1- T&T's MFO/RBL C.C.I.



The decline in March should not be too much of a surprise. Consumers indicated then that in addition to price pressures, they were now concerned as well about an economic downturn. This was consistent with the announcement of lay-offs by some companies at the time and was also consistent with the worsening global financial and economic conditions. Further, the survey upon which the Index is based was conducted in March 2009, the period during which the news of the CLICO calamity continued to grab the headlines.

In fact, the Index has been declining since December 2007, falling for six consecutive quarters until March 2009 when it hit its lowest point of 53. Disheartening and unfolding news about the US financial crisis in particular, coupled with domestic issues of rising food prices, crime and the CLICO problems at the beginning of 2009, no doubt all had a telling role in this decline of the Index. The only time the Index came closest to 53 was in December 2006 when it reached 67. In that period and similar to reasons advanced for the present sentiment, rising prices were pinpointed by consumers as the major cause of the negative outlook. Indeed, the end-of-year inflation rate that year (2006), reached 9.1 percent, approximately three times the rate in 2003.

Use of the CCI is well established in developed countries as it is another tool that is used to gauge, not so much economic performance as measured by economic indicators but how the consumer "feels" about day to day living in general. It therefore goes beyond consumer perceptions of economic issues to include socio-political issues as well. Understandably, sentiment can be a nebulous phenomenon based as it is on a range of factors including consumers' response to actual domestic economic conditions, external conditions, news events, seasonal factors, expected conditions and other imponderables. The Index is often viewed as a leading indicator of other indicators - such as gross domestic product (GDP) - as its computation takes account of not only current sentiments but expectations about the future as well. In this way it is viewed as useful in foretelling short term trends in output and consumer demand.

Interestingly, except for the inflation rate, almost all the economic indicators for Trinidad and Tobago read better now, or to be more precise, at the end of 2008, than they did at the starting point of the CCI in 2002 (table1).

Table 1- T&T's Selected Economic Indicators

Economic Indicator	2002	2008
Real GDP growth (%)	3.2	3.5
GDP per capita (US$)	8,863	18,660
Retail Price Index (% change)	4.2	12.00
Unemployment Rate (%)	10.4	4.6
Fiscal Surplus (TT$m)	360	9,816
Net Foreign Reserves (US$b)	1.9	11.3
Stock Market Index	545.6	842
Oil Price (US$)	25.9	99.6

Source: Central Bank of T&T, Various Publications

For example, the unemployment rate at the end of 2002 was 10.4 percent compared to less than 5.0 percent at the end of 2008; net foreign reserves were almost six times larger over the same period; the oil price at just around US$100 per barrel was about four times higher and government's fiscal surplus, about 27 times higher in 2008 than was the surplus in 2002. Only the inflation rate was worse at a higher 12 percent at the end of 2008 compared to 4.2 percent in 2002.

What does all of this suggest? One suggestion is that price changes have a more telling effect on consumer sentiment than might otherwise be thought. In other words the impact of high food prices in particular, on the consumer may very well outweigh all other positive trends in an economy. So too rising crime which might explain the general decline in the Index since inception. Another explanation might be that purely material improvement does not guarantee a feeling of satisfaction or happiness. These explanations hold no surprises.

The good news is that the latest survey shows that the Index rose to 64 in June 2009 from its lowest spot of 53 in March 2009. This was explained in the survey by an improvement in consumer expectations for 2010 and might have been related to rising crude oil prices. Is this the beginning of a more positive trend? One will have to wait on the results of the next MFO/RBL CCI in September, 2009 to find out.

The Executive Summary of the Index is available on Republic Bank's website www.republictt.com every quarter, while the entire Report is available for purchase from Market Facts and Opinions, Tel.: 627-8417 or Republic Bank Ltd., Tel.: 625-3617 Ext. 3107.

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