

# Republic Economic NEWSLETTER

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## Economic Turnaround? Not Just Yet

### Overview

No significant improvement in the economy is estimated to have occurred in the third quarter of 2012. Activity in both the energy and non-energy sectors remained weak, following contractions in the previous quarter. In the energy sector, output continued to be constrained by plant upgrades and maintenance work, while industrial action, low investment and the slow pace of public project implementation remain the main encumbrances in the non-energy sector. The domestic economy is estimated by Republic Bank to have contracted by 1.0 percent in the third quarter. Despite this, the estimated rate of unemployment remained low at approximately 5.5 percent during the period. Activity on the domestic stock

market intensified, as the Composite Price Index grew 4.3 percent to 1,066.44 while interest rates remained low. The rate of inflation appears to have slowed in the third quarter as the year-on-year rate to September fell to 7.7 percent.

### Energy sector

The energy sector is projected to have experienced its fifth successive quarter of contraction. Oil production fell 2.6 percent to an average of 81,003 bpd (Figure 1). Prices also fell to an average of US\$92.24pb from US\$93.42pb between April and June. As a result, government revenue from this source fell-off during the period. On the other hand, natural gas production rose to an average of 4.2 billion cubic feet per day (Bcf/d) from 4.1 Bcf/d, as the Henry Hub gas price rose to US\$2.88 per million BTU from US\$2.28. In the downstream sector, ammonia and urea production fell by 7 percent and 31 percent, respectively, while methanol output increased by 3 percent during the three months to September. Weaker exploration activity occurred compared to the second quarter, as the number of rig days slipped to 558 from 678 and depth drilled plunged by 23 percent. On the positive side, in November BPTT announced the discovery of major natural gas reserves (1 trillion cubic feet) in the Savonette gas field. The find has infused some excitement in the industry and is expected to enhance the outlook for that sector..

### Non-Energy

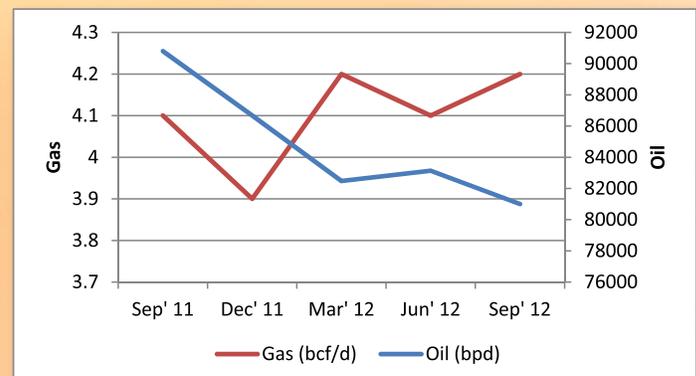
After shrinking by 0.7 percent between April and June 2012, the non-energy sector is anticipated to record a second successive quarter of contraction. During the period, government was unable to make significant headway with several of its major construction projects. The construction sector likely declined in

### Trinidad and Tobago Key Economic Indicators

Indicator	2011	2011.3	2012.3
Real GDP (% change)	-1.4	-1.7	-1.0
Retail Prices (% change)	5.2	2.1	-0.06
Unemployment Rate (%)	5.4	5.2	5.5
Fiscal Surplus/ Deficit (\$M)	1153	-2,265.9	Deficit
Bank Deposits (% change)	14.1	3.1	4
Private Sector Bank Credit (% change)	6.5	4.7	3.5
Net Foreign Reserves (US\$M)	11,958.6	11,305	11,000
Exchange Rate (TT\$/US\$)	6.37/6.43	6.37/6.43	6.37/6.44
Stock Market Comp. Price Index	1,012.9	989.3	1,066.44
Oil Price (WTI) (US\$ per barrel)	94.86	89.72	92.24
Gas Price (Henry Hub) (US\$ per mmbtu)	4	4.25	2.88

Source: Central Bank of Trinidad and Tobago, TTSE, EIA  
p - Provisional data  
e - Republic Bank Limited estimate

Figure 1: Oil & Gas Production





the third quarter of 2012. This represents the third consecutive quarter of shrinkage and is evidenced by declining retail sales for construction materials. Latest available data indicates that second quarter retail sales for construction materials were down 2 percent from the previous quarter and 5.9 percent from the same period a year ago. This trend likely continued in the third quarter. Manufacturing is estimated to have suffered its fourth straight quarterly decline, given weak demand from CARICOM, the sector's largest export market. Although distribution is estimated to have expanded during the three months to September 2012, this was not sufficient to offset the shrinkage experienced in other industries. The industrial relations climate remained tense during the period.

### Fiscal Policy

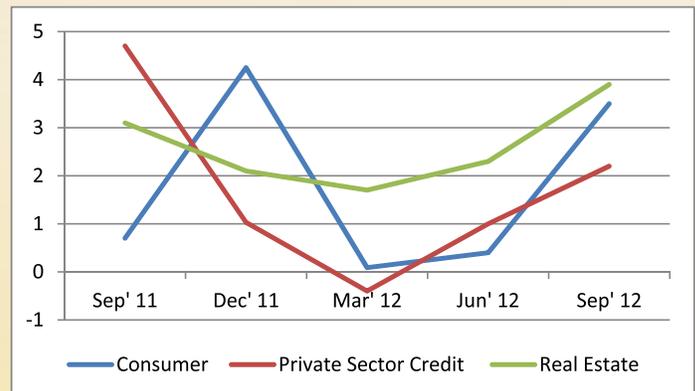
Given the high level of government expenditure and the expected decline of total revenue as a result of lower oil price and output during the quarter, the fiscal account likely fell into deficit. This follows on a surplus estimated at \$1.3 billion in the quarter ending June 2012. The fiscal balance is anticipated to remain in deficit heading into 2013 as the government pursues an agenda designed to stimulate the domestic economy. The removal of value-added-tax (VAT) on additional food items in November, while providing temporary relief to consumers, will not help the revenue side of the fiscal accounts.

### Monetary Policy

Headline inflation which measured 11 percent in June 2012 fell to 7.7 percent by September. The slower rise in prices occurred as a consequence of an ease in the food component, which traditionally provides the largest impetus for inflation. Food price inflation fell from 24.1 percent in June to 14.7 percent in September. Core inflation on the other hand, remained at 2.8 percent. However, headline inflation rose to 9.4 percent in October, as food prices accelerated by 18.2 percent. To further support domestic economic activity, the Central Bank reduced the "Repo" rate from 3 percent to 2.75 percent in September. By November 2012, several commercial banks had reduced their prime rate to 7.5 percent. During the period, private sector credit expanded by 3.5 percent, up from 1 percent between April and June, but down from 4.7 percent recorded in the same period in 2011 (Figure 2). Credit also increased for consumers (2.2 percent) and real estate mortgages (3.9)

percent. The government's November initiative to remove VAT from all food items not yet zero-rated, would cause a one-time ease of inflation. Further relief may come once produce from government's large farms begin to hit the market.

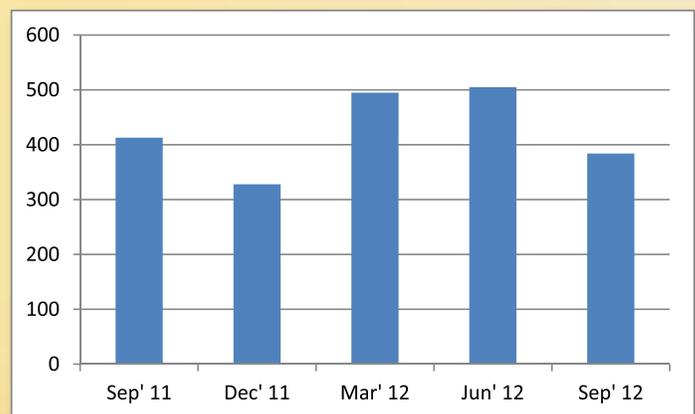
Figure 2: Credit Growth (%)



### Reserves

With energy prices above budgeted figures for most of the year, the country's foreign currency reserves, reflected by the Net Foreign Position, remained high. Reserves are estimated to have reached US\$11 billion by September 2012, marginally down from US\$11.6 billion in June. During the third quarter, net sales of foreign currency fell to US\$384 from US\$505 million in the previous quarter and US\$413 million in the third quarter of 2011 (Figure 3).

Figure 3: Net Sales of Foreign Currency (US\$m)



### Outlook

Preliminary data suggest that relatively subdued economic activity continued into the third quarter as new investment in major sectors was slow in coming. Some improvement might be on the cards in the fourth quarter, as government construction activity picks up, and as retail and consumption expenditure, in general, are at their highest in that quarter. However, whether this will be sufficient to produce overall positive growth for the year is uncertain.

# Caribbean Update

## Competitiveness Slips as Challenges Persist

The difficult economic conditions in the first half of the year persisted into the second half. While grappling with high commodity prices, many states endured weak performances in their all-important tourism sectors as arrivals and overall revenues stagnated. With little fiscal breathing room, cut-backs in government and private sector spending continued. In this environment, the region's competitiveness, as indicated by individual country rankings, has slipped over the last year. After a relatively calm year thus far, a destructive late-season hurricane caused significant damage to some countries.

### Global Competitiveness Ranking

Country	2012/2013 Rank/144	2011/2012 Rank /142
T&T	84	81
Barbados	44	42
Jamaica	97	107
Guyana	109	109
Dominican Republic	105	110
Haiti	142	141
Suriname	114	112

Source: World Economic Forum, Global Competitiveness Report, 2011/2012 and 2012/2013.

### Barbados

Following growth of 0.6 percent for the first six months of 2012, economic activity slowed in the third quarter, as growth for the January to September period averaged only 0.2 percent. The main culprit was the tourism sector, as arrivals from the key markets, US and UK, continued to decline. On a positive note, sugar production increased by 4.4 percent in the third quarter of 2012; and the international business and financial services sector showed signs of improvement with the total number of companies increasing by 3.2 percent in January-

September 2012 when compared to the similar period in 2011. The unemployment rate increased to 12.2 percent at the end of June, one percentage point higher than the average for 2011. In contrast, the inflation rate fell to 7.8 percent at the end of the second quarter, due to a moderation in international food and fuel prices. According to the Central Bank of Barbados (CBB), as at September 2012, the government's gross debt-to-GDP ratio was 79 percent and foreign reserves stood at BDS \$1,312 million, representing 16 weeks of import cover. Major on going private investment in the tourism sector is projected to result in about BDS \$70 million in long-term capital inflows for the fourth quarter of 2012. Despite this boost, the Barbados economy will continue to struggle, with the CBB forecasting growth of just 0.1 percent for 2012. While the island remains the most competitive one in the region, its ranking in the Global Competitiveness Report (GCR) slipped two notches from 42 in 2011/2012 to 44 in 2012/2013.

### Guyana

In the absence of more recent data, reports indicate the sugar sector is slowly rebounding from its poor performance in the first half of the year, which saw a contraction of 33.4 percent in June 2012 compared to the similar 2011 period. While the mining and quarrying sector, together with the services sector showed signs of improvement, the manufacturing sector declined by 2.2 percent in the first six months of 2012. Economic activity and specifically the construction sector will receive a fillip in the short term, with the imminent start of two major projects. In September, government signed the agreement for the construction of the US\$840 million Amaila Falls Hydroelectric project and in October, accessed a concessional loan of US\$130 million from the Chinese Exim Bank for the Cheddi Jagan International Airport expansion. In addition to this, the expected continuation of buoyant commodity prices, suggests healthy economic conditions, at least through the next two quarters. The Bank of Guyana expects growth of 3.8 percent for 2012, a downward revision of its earlier 4.1 percent forecast, which was impacted by the poor performance in the sugar sector for the first half of

the year. While Guyana continues to perform well, its ranking remained the same at 109 in both the 2011/2012 and 2012/2013 edition of the GCR.

### **Grenada**

Grenada's agricultural sector continues to perform strongly, however the tourism sector remains challenged as its main source markets, the US and UK, grapple with faltering economic growth. After missing a semi-annual payment on its US\$193 million 2025 bond in September, the country's foreign currency credit rating was lowered from B-/B stable to selective default (SD) by credit rating agency Standard and Poor's. Following Grenada's full payment on the last day of the thirty-day grace period on October 12, 2012, the country's credit rating was upgraded to CCC+/CCC with a negative outlook. Economic activity in the short to medium term could be negatively affected due to liquidity problems that continue after the bond payment. The ruling National Democratic Congress, grappling with internal conflicts and accusations of economic mismanagement, is likely to face an uphill battle in the coming general elections. While Grenada is not featured in the GCR, not surprisingly, its Ease of Doing Business ranking fell from 68 in 2011/2012 to 73 in 2012/2013. The government in March projected growth of 1.9 percent for 2012, however conditions have deteriorated since then and, in our view, any growth recorded is likely to be lower.

### **Cuba**

In Cuba, tourist arrivals increased by 4.2 percent year-on-year in September 2012. This, together with increased nickel exports, will help the island to register a solid performance in the second half of the year. Cuba sustained significant damage from hurricane Sandy with 11 lives lost and thousands of buildings damaged. Despite this, growth is unlikely to be affected over the short term as key infrastructure such as the oil refinery, was largely unaffected. Further, the additional government spending on repairs is expected to stimulate the economy. Government's initiative to curb food imports by boosting local production is likely to see an expansion in agriculture, with the sector contributing more to growth in 2013. Following growth of 2.1 percent for the first half of the year, Cuba's economy is expected to grow by 3 percent in 2012. Cuba-US relations are likely to remain relatively unchanged in the short term, with the possibility of improvement further down the

road, following the re-election of Barack Obama as US President. The re-election of President Hugo Chávez in Venezuela is likely to see the continuation of the mutually beneficial relationship between the two states.

### **The Region**

In addition to Cuba, hurricane Sandy also affected Haiti with approximately 54 lives lost and more than 70 percent of crops in the southern part of the island destroyed; and Jamaica with severe crop damage to the tune of J\$1.7 billion. In Jamaica, production of alumina and bauxite declined by 11.4 percent and 7.5 percent respectively in the third quarter of 2012. No economic growth was recorded for this period. Despite a slight improvement in the tourism sector in the third quarter, growth prospects for the short term remain weak, due to declining mining output, government cut-backs and the additional impact of hurricane Sandy. On a positive note, total net remittances of US\$1,320.7 million were recorded for January to September 2012, a 9 percent increase over the similar period in 2011. Jamaica significantly improved its GCR ranking from 107 in 2011/2012 to 97 in 2012/2013.

Generally the OECS countries continue to be challenged by high commodity prices and difficult global conditions which resulted in weaker performance in their tourism sectors. Any growth in 2012 is likely to be modest with Dominica, Antigua and Barbuda, St Kitts and Nevis and St Vincent and the Grenadines all forecasted to grow by no more than 1.0 percent. Anecdotal evidence suggests that the difficult economic conditions may have led to a fall in competitiveness. While these countries are not featured in the GCR, as a proxy indicator there has been a general decline in their Ease of Doing Business ranking in the 2012/2013 report.

### **Outlook**

Commodity producers such as Cuba and Guyana should continue to do well over the next six months, as the prices of food, minerals and metals are expected to remain high. Declining tourist arrivals and spending will continue to affect most states as they struggle to raise revenue and spur economic growth. With the exception of those countries significantly affected by hurricane Sandy, the agriculture sectors of most states should continue to make gains in early 2013, having suffered relatively minor weather-related destruction in 2012.

# Review of the Economy 2012

After leaving 2011 behind, with its negative growth, high crime, State of Emergency, curfew and industrial unrest, 2012 was a year of high expectations. However, the new year continued where the old one left off, with some unexpected twists along the way.

On the economic front, the 2012 National Budget promised at least three large construction and energy projects and a return to growth of 1.7 percent. This was not to be, however, as two of the major projects, the Ammonia Urea Melamine complex (AUM 2) and the Caribbean Salt (Carisal) chemical plant did not get off the ground in 2012. The third, the San Fernando to Point Fortin Highway Extension, began in March, with the first construction phase due to be completed by March 2013. The project faced opposition from some quarters from its inception, with the protracted protest action culminating in a hunger strike by the group's leader towards the end of the year.

The return to growth didn't materialize, as we believe the economy remained flat this year. Slightly less people held on to their jobs, as the unemployment rate averaged an estimated 5.6 percent in 2012 compared to 5.3 percent in 2011. In October, the Minister of Finance and the Economy delivered a \$58 billion budget for the 2012/2013 fiscal year. The package promised an increase in the roll-out of construction projects, included the first of a planned series of reductions in the fuel subsidy and established a framework for partnership between the government and the private sector. Economic growth was forecasted to average 2.5 percent over the next three years.

In March, Bayfield Energy and Petrotrin announced oil finds of 32 million barrels and 48 million barrels respectively. The best news was to come towards the end of the year, on November 19, 2012 when the Government and BPTT announced in London that the company had found 1 trillion cubic feet (tcf) of natural gas in its Savonette gas field on the southeast coast of Trinidad. This was especially good news as the Ryder Scott Report in August 2012, had shown a 2 percent decline in the country's proven gas reserves. The announcement of final payments to depositors of the failed Colonial Life Insurance Company (CLICO) and the Hindu Credit Union (HCU) was also welcome news for many, as was the reduction in value-added-tax in November, on previously "VATable" food items.

Economic performance during the year was mixed. The all-important hydrocarbon sector suffered declining production in the case of crude oil and

most petrochemicals, while in the case of natural gas, output remained basically flat. Petrochemical production declined on account of shortages of natural gas to major plants. Overall, the prices of energy commodities, as measured by the Energy Commodity Price Index (ECPI), fell about 5 percent in the first eight months of 2012 compared to the corresponding period in 2011. Specifically, oil prices were 0.3 percent lower on average while the price of natural gas was 41.5 percent lower. Led by finance and distribution, the non-energy sector performance was encouraging, recording growth in at least one of the two quarters in the first half of the year.

Reflecting both domestic and international food supply conditions, the inflation rate rose early in the year but moderated in the latter half of the year, with headline inflation reaching 7.7 percent in September before climbing to 9.4 percent in October. The inflation rate is likely to average 9 percent in 2012. Backed by high liquidity and weak loan demand, interest rates continued their slow descent. The Central Bank lowered the "repo" rate to 2.75 percent in September and commercial banks adjusted their prime rates downward to 7.5 percent in November. The mortgage lending market continued to grow during the year expanding by 10.3 percent to August, year-on-year.

While monetary easing has not been able to generate growth so far, neither has fiscal easing. Specifically, while the fiscal deficit of \$6.1 billion or 4.0 percent of GDP was larger in fiscal year 2012 than in fiscal 2011, much of the increase was in recurrent expenditure rather than capital expenditure. The public debt as of September 2012 rose to 46.6 percent of GDP, largely as a result of financing the CLICO bailout.

The low interest rate environment was hardly beneficial to financial investors and the stock market was not as strong as last year. The Composite Price Index increased by 5.3 percent in the first nine months of the year, compared to 18.4 percent in the corresponding period in 2011.

The external accounts largely reflected higher imports and the weaker performance of the energy sector compared to 2011. According to the Central Bank, international reserves for the first nine months of the year registered an overall deficit of US\$487 million compared to a surplus of US\$276 million over the same period of 2011. Net official reserves were marginally down to US\$9.3 billion in September 2012 and the final figure in December may not differ much.

The industrial relations climate continued to be rocky. The year began with strike action at Petrotrin, which was quickly resolved as management and the workers' union came to an amicable agreement. The Trinidad Cement Limited (TCL) strike was a different matter. This impasse, which became acrimonious at times, lasted the full 90-day period before moving to the Industrial Court for a determination. The resulting cement shortages significantly affected the construction sector and aspects of manufacturing as well. While a number of wage negotiations were settled this year, the turbulent climate prevailed. The year ended with teachers absenting themselves from school on various days in protest of the state of wage negotiations.

The political environment was no more settled. Following months of internal disagreements, one of the minor parties in the coalition government withdrew from the group in June. A subsequent Cabinet reshuffle saw some ministers replaced and new portfolios created. The "Clause 34" imbroglio, which unfolded in the second half of the year, resulted in the firing of a government minister and some deterioration in the relationship between the government and the opposition. In all, four ministers were relieved of their portfolios for various reasons in 2012.

In June, the Central Statistical Office's 2011 Population and Housing Census Preliminary Count Report was released. The report put Trinidad and Tobago's population at 1,324,699 as at January 2011, a 4.9 percent increase from the 2000 population figure. The number of households stood at 406,198. The prevalence of serious crimes continued, with the homicide figure as at November 30th of 361 already exceeding the 2011 total.

The global economy should improve towards the second half of 2013 but this is based on the resolution of major challenges facing both the United States and the European Union over the next few months. The domestic outlook for 2013 is potentially better. This is so, partly because of the psychological effect of the gas find on investors in and out of energy, but also because of the almost complete settlement with the CLICO/HCU depositors. The fact that government's capital expenditure programme is expected to be ramped up in 2013 is also likely to have a positive effect on the investment climate. Converting this country's potential achievements

## Key Events of 2012

<b>February</b>	TCL strike begins.
<b>March</b>	Bayfield Energy and Petrotrin announce finds of 32 million and 48 million barrels of oil respectively. Construction of the San Fernando to Point Fortin Highway begins.
<b>May</b>	After 90 days the TCL strike ends and the dispute is referred to the Industrial Court.
<b>June</b>	The Movement for Social Justice withdraws from the People's Partnership coalition. A cabinet reshuffle results in new ministries, new portfolios and the removal of two ministers.
<b>September</b>	With bids from 12 international companies, the 2012 Competitive Deepwater Bid Round is the most successful since 1998. The "Clause 34" matter causes disquiet in both the legislature and the judiciary.
<b>October</b>	The \$58 billion 2013 National Budget is delivered in Parliament.
<b>November</b>	The \$5.1 billion CLICO investment fund is launched. bpTT announces the discovery of 1 trillion cubic feet of gas.

## 2012 Compared

Indicator	2012e	2011	2010
Real GDP (% change)	0.0	-2.5	0.0
Unemployment Rate (%)	5.6	5.3	5.9
Prime Rate (%)	7.75	8	9.3
Composite Price Index – end of year (% change)	5.8	21.2	9.2
Inflation Rate (%)	9.0	5.2	10.5
Public Debt (% GDP)	46.6	36.2	38.6

to actual accomplishments will take focused leadership, intelligent planning and efficient execution. One can only hope that the positive developments in energy and other areas are maximized in the promotion of investment and growth and are not nullified by counter-productive actions and missteps on political and other fronts.



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