

Economic Alert iQ



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Domestic

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“...Action does need to take place and I would suggest that the best approach is to consider the shock as long lasting and utilize the country’s available buffers at a measured pace while making other more fundamental adjustments...”-

- Governor Hilare

Today, the CBTT released its Monetary Policy Report, here are some of the key findings:

- Persistently low energy prices internationally have exasperated the supply side issues being faced locally. Both crude oil (↓9.0%) and natural gas production (↓10.2 %) fell sharply from a year earlier. In addition to the lower extraction rates currently being experienced, production was further hampered by maintenance and upgrade works within the industry, such as the planned shutdown of operations by BHP Biliton for ten days in February 2016 for pipeline maintenance. Additionally, LNG output was affected by lowered natural gas supplies while Methanol production contracted by 6.6% due to planned maintenance work. **Overall, in the first quarter of 2016 output from the energy sector is estimated to have contracted by roughly 9.9% when compared with the corresponding period one year earlier.**
- Preliminary indicators suggest that the non-energy sector contracted for Q1 2016. Latest available information showed that local sales of cement – a key gauge of construction sector activity – fell by 15.8% (year-on-year) in the first quarter of

2016. Additionally, motor vehicle sales, which is used as an indicator of activity in the distribution sector, contracted by 0.4% (year-on-year) in the first quarter of 2016.

- Real GDP growth for 2016 is projected to be in the region of -2.0% to -2.50% as a direct result of weakness in the Energy sector and its spillover effects onto the overall economy.
- In the subdued economic climate, overall price pressures were contained over the first four months of 2016. According to the CSO's Index of Retail Prices (RPI), headline inflation rose on a year-on-year basis by 3.5% in April 2016, up from 1.5 % in December 2015. Food inflation, the main driver of headline inflation jumped to 9.9% in April 2016 versus 2.75 in December 2015. On a year-on-year basis, core inflation, which excludes food prices, measured 2.1 % in April 2016 compared with 2.3 % in December 2015. Facilitating the slowdown in core inflation was 0.4% decline in the housing sub index partially offset by a 4.2% increase in the transportation sub index.
- In the fourth quarter of 2015, job losses occurred across several sectors of the economy. Data from the CSO showed that the unemployment rate rose marginally to 3.5% in the fourth quarter of 2015 from 3.4% in the previous quarter and 3.3% one year ago. Supplemental information provides some evidence of further weakening in the labour market in early 2016. According to retrenchment notices filed at the Ministry of Labour and Small Enterprise Development, 381 persons were retrenched over the period January to April 2016.

Moreover, according to Central Bank estimates, job vacancies posted in the major daily newspapers over the period January to April 2016 fell by 22.0%. **In all, these indicators may point to higher rates of unemployment in the first quarter of 2016.**

- Private sector credit growth has been relatively resilient despite the anaemic macroeconomic environment. On a year-on-year basis, private sector credit granted by the consolidated banking system grew by 6.2% in March 2016 compared with 6.7 % in October 2015. For the 12 months to March 2016, business lending grew by 3.6% compared with 4.4% in October 2015, indicative of a

possible change in business lending trends as the corporate sector may be more guarded in their willingness to increase leverage.

- Liquidity levels were more relaxed in the first four months of 2016 when compared with the last four months of 2015. Commercial banks' holdings of excess reserves rose to a daily average of \$3.9 billion in the first four months of 2016 compared with \$3.1 billion in the final four months of 2015. Over the period January to April 2016, net domestic fiscal injections, usually the major source of domestic liquidity fell to \$3.2 billion from \$3.9 billion in the last four months of 2015.
- Revised estimates indicated that the budgeted deficit for FY2015/2016 may be around 4.0% of GDP, compared with the initial budgeted deficit of 1.5% of GDP.

At the end of 2015 (calendar year), total public sector debt (excluding sterilized debt) stood at 41.7% of GDP, with domestic debt at 34.3% of GDP and external debt at 7.4% of GDP. With Government expected to finance a portion of the 2015/2016 budget deficit through borrowing, public sector debt is expected to increase but remain broadly sustainable.

- In the first six months of FY 2015/16 (October 2015 – March 2016), the Central Government recorded a deficit of \$3.1 billion, compared with a surplus of \$47.3 million in the same period one year earlier. Total revenue declined by 17.6 %(year-on-year) to reach \$20.6 billion owing to the sharp fall-off in energy revenues.
- The trade balance as a per cent of GDP fell sharply over the last two years to 5.1% in 2015 from 12.0 % in 2014 and 23.0% in 2013. Energy exports were 30.4% lower in 2015 than in the previous year. The sharp fall in the trade balance contributed in part to a balance of payments deficit of roughly 5.9% of GDP in 2015 compared with relatively strong surplus positions in the previous two years. At the end of 2015, gross official reserves stood at USD9.8 billion or roughly 11.1 months of prospective import cover.
- Preliminary estimates reveal that net foreign direct investment fell by more than half in 2015 to USD582 million, while commercial banks increased their holdings abroad (net foreign assets) to USD421.3 million. However, portfolio outflows in 2015 of USD96.1

million were lower than in the previous year. In 2015, the capital and financial account registered a deficit of 5.5% of GDP.

- In 2016, two major credit rating agencies downgraded Trinidad and Tobago's sovereign rating:

| Credit Rating Agency | Rating | Outlook |
|-----------------------------|---------------|-----------------|
| S&P | A- | Negative |
| Moody | Baa3 | Negative |



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