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PSOJ CONFIDENTIAL ECONOMIC BULLETIN

A Monthly Analysis of the Jamaican Economy

Overview

So far the April quarter reflects continued stability in the macroeconomy as well as positive news concerning the GDP outturn for the previous quarter. According to the Planning Institute Of Jamaica (PIOJ), Real GDP grew by an estimated 2.4 percent in the January quarter fuelled by strong growth in mining, tourism and manufacturing. Growth in the real economy was also supported by stable conditions in the foreign exchange market, the continued decline in interest rates, and a \$7.5 billion surplus in the fiscal accounts which was \$4 billion higher than anticipated. The PIOJ is projecting further growth for the April quarter in an environment of continued improvements in a number of sectors, particularly mining and tourism.

Prices continued to be stable during April with inflation weighing in at 0.4%, slightly lower than March's figure of 0.5% with a less than one percent rise in the heavily-weighted Food & Drink index.

For the first time in over three years the Jamaican dollar has posted healthy gains against all three of its major counterparts in month-to-month trading. The dollar gained \$0.25 against the US dollar, \$2.28 against the Canadian dollar, and \$3.57 against the pound during April.

For the past five months, favourable conditions in the foreign exchange market have allowed for an uninterrupted buildup of the Net International Reserve (NIR). The NIR at the end of April was US\$173 million higher than that of the previous month.

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The buoyancy in tourism continues with April's preliminary data showing a 17% increase in airport arrivals relative to April 2003. Steady growth is expected to continue in tandem with the recovery of the US economy and the continued rise in European arrivals.

April's Bauxite production was 13% higher than in April of 2003 in the context of increased capacity utilization in alumina. Exports also grew by an impressive 26% with an upsurge in alumina exports.

Interest rates continued to fall in April as the Central Bank cut the yields on all of its instruments, particularly the 360-day rate which fell by as much as 105 basis points. The market-clearing Treasury bill yield also fell by another 48 basis points during the month as market conditions again remained conducive to the Government's cost-cutting efforts.

For the ten-month period January to October 2003 the nation incurred a US\$2.1-billion deficit on its merchandise trade account. This shortfall was 4.4% worse than that of the corresponding period in the previous year.

Net International Reserves

The Net International Reserve (NIR) for April 2004 increased to US\$1,741.62 million, roughly \$173 million more than the reserves for March (*please see Table 1*). April's reserve represents nearly 27 weeks or six months of goods imports. The growth in reserves is the result of a US\$173-million increase in foreign assets with no material change in foreign liabilities during the month.

Table 1: Changes in the NIR

	NIR	Change			Imports (Weeks)
		Mthly	12 Mth	YTD	
Apr-2004	1,741.62	172.96	379.52	576.64	26.71
Apr-2003	1,362.10	22.43	-537.65	-234.88	22.72

Source: Compiled from the BOJ (Preliminary)

Foreign Currency Deposits

For the month of March total foreign currency deposits amounted to US\$1,770.19 million, US\$42.7 million higher than February's figure (*Table 2*). This reflected increased deposits in all three categories of institutions (commercial banks, building societies and merchant banks). In April, Spot Sales exceeded Purchases for the fourth consecutive month, facilitating an appreciation of the currency.

Table 2: Foreign Currency Deposits

	Mar-04	Change (US\$M)		% 12 Mth
		Mthly	12 Mth	
Total Deposits	1,770.19	42.68	214.94	13.82
Apr-04				
Spot Purchases	554.97	-85.51	-192.46	-25.75
Spot Sales	630.62	-70.67	-127.13	-16.78

Source: Compiled from the BOJ (Preliminary)

Foreign Exchange Rates

The Jamaican dollar gained significant ground against all three of its major counterparts during April, appreciating by \$0.25 against the US dollar, \$2.28 against the Canadian dollar, and \$3.57 against the pound. The dollar traded at \$60.76 (daily J\$/US\$ weighted average selling rate) against the US dollar on April 30 (see *Table 3*). This represents a year-to-date depreciation of \$0.14 or 0.23%, significantly better than the \$6.33 or 12.43% observed during the same period last year.

Figure 1: Daily J\$/US\$ Movements

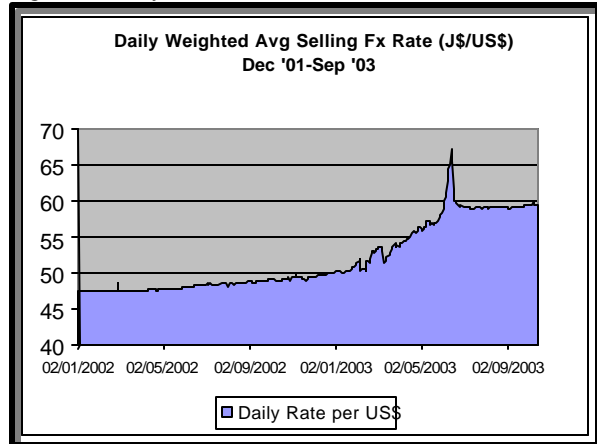


Table 3: Foreign Exchange Trends *

	Year-to-Date: Apr 30, '04 (report date: May. 19)					
	us\$	%?	can\$	%?	uk£	%?
2004	0.14	0.23	-2.41	-5.17	0.32	0.30
2003	6.33	12.43	7.51	23.39	10.12	12.50
2002	0.51	1.08	1.00	3.40	1.14	1.68
Monthly						
Apr -04	-0.25	-0.41	-2.28	-4.90	-3.57	-3.20

** minus = appreciation.*
Source: BOJ, PSOJ Economic Research

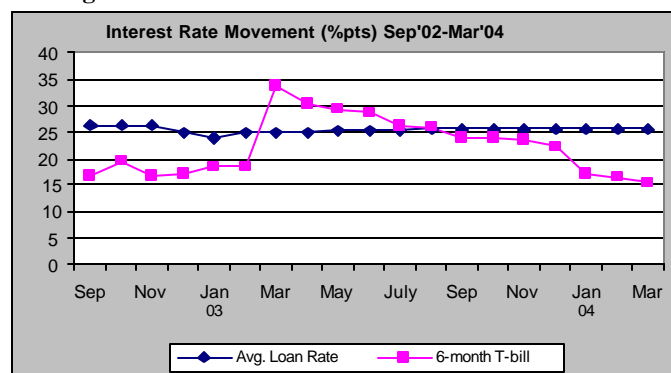
Short Term Forecast

Stable conditions should continue through the end of May although modest adjustments are possible with the normal tapering off of the winter tourist season. Any depreciation during June is expected to be mild as strong alumina earnings should continue to buttress the supply side of the foreign exchange market.

Table 4: Short Term FX Forecasts (J\$/US\$)

	Forecast	Actual	Diff.
Oct.	49.72 – 49.76	49.44	0.28
Nov.	49.86 – 49.90	49.91	-0.01
Dec.	50.12 – 50.16	50.97	-0.81
Jan. '03	50.69 – 50.73	52.98	-2.25
Feb.	52.32 – 52.36	53.74	-1.38
Mar.	54.51 – 54.55	56.24	-1.69
April	57.11 – 57.15	57.31	-0.16
May	N/a	59.42	
June	N/a	59.01	
July	59.42 – 59.46	59.16	0.30
August	60.23 – 60.27	59.40	-0.87
September	59.60-59.65	59.71	0.06
October	60.25 -60.50	60.44	-0.06
November	60.55-60.60	60.65	0.05
December	60.64-60.68	60.62	-0.02
Jan. '04	60.59-60.64	60.73	0.09
Feb.	60.68-60.75	60.95	0.20
Mar.	60.65-60.70	61.01	0.31
Apr	60.75-60.80	60.65	-0.10
May	60.65 – 60.74		

Source: PSOJ Economic Research

Figure 2: Interest Rate Movements**Table 5: Interest Rate Movements**

	Apr-04	Change (%age pts)		
		Mthly	12 Mth	YTD
30 Day Repo	14.40	14.85	15.00	15.00
365 Day Repo	16.90	17.95	33.00	23.00
Avg Savings Deposit				
Avg Loan Rate				
6 Month T-Bill	15.09	15.57	30.34	22.05
12 Month T-Bill	n/a*	n/a	n/a	n/a

Source: Compiled from the BOJ (Preliminary)
*no instrument offered

Interest Rates

The Bank of Jamaica cut interest rates on all of its open market instruments during April. The 270 and 360-day rates in particular were cut by 95 and 105 basis points, respectively. April's adjustments constitute a flattening of the BOJ's yield curve as a result of stable inflation and an improved outlook for the currency market.

The average commercial bank savings and lending rates were not available at the time of publication. However, it is expected that these rates will continue to gradually adjust downwards in response to a more relaxed monetary policy (**Table 5**).

Base Money and Money Supply

The monetary base grew by 1.10% in March 2004 compared to the previous month. M2 for February showed a 1.4% increase over the January figure reflecting increases in both M1 and the Quasi-money stock.

Table 6: Base Money and Money Supply

	J\$M		Change (%)	
	Feb-04	Mthly	12 Mth	
M1	55,715.0	3.10	30.86	
Quasi Money	130,472.7	0.65	15.98	
M2	186,187.7	1.37	20.07	
		March-04	<i>Mthly %</i>	
Base Money	36,186.4	1.10	36,186.4	

Source: Compiled from the BOJ (Preliminary)

Inflation

In April the inflation rate slowed marginally to 0.4% as the Consumer Price Index crept upwards from 1,820.8 to 1,828.2. This resulted in a year-to-date inflation rate of 2.3% (**Table 7**). There was a 0.8% increase in the *Food & Drink* sub-index due to higher prices in the areas of Vegetables & Fruit (up 1.9%), Meat, Poultry & Fish (1.0%), Starchy Foods (0.9%), and Dairy Products

(0.8%). *Household Furniture & Furnishings* generally cost 0.6% more than in the previous month, as did *Healthcare & Personal Expenses*. In general all categories registered increases except *Housing & Other Housing Expenses* which fell by 1.1%.

Table 7: Inflation Trends

	Percent Changes			
	Apr-04	12 Mth	YTD	Fiscal
2004	0.4	15.4	2.3	0.4
2003	1.6	7.3	1.1	1.6

Source: STATIN

Production of Selected Commodities

Mining: Total Bauxite production in April amounted to 1.261 million metric tones, a 13% increase over that of last April. Crude Bauxite production jumped by more than 21% to 411,200 metric tonnes. Alumina continued to benefit from increased capacity utilization as production grew by roughly 10.8% (to 341,776 metric tonnes – see Table 8). Total exports grew by an impressive 26% in the context of a sharp 34% rise in Alumina exports which reached 419,672 metric tones. Crude exports were also 12% higher than in April of the previous year.

Table 8: Mining Production

	Y-T-D				
	Apr-03	Apr-04	%	Apr-04	04/03%
Production					
Alumina	308,615	341,776	10.75	1,388,787	11.75
C. Bauxite	338,339	411,200	21.53	1,368,668	5.06
Tot. Bauxite	1,113,033	1,261,206	13.31	4,818,253	9.47
Export					
Alumina	313,450	419,672	33.89	1,436,876	15.18
C. Bauxite	379,993	425,749	12.04	1,412,696	8.88
Tot. Bauxite	1,166,519	1,469,003	25.93	4,979,912	13.08
<i>Units=tonnes</i>					
<i>Source: Compiled from Jamaica Bauxite Institute</i>					

Sugar & Bananas: Total sugar production for the month of April was 37,045 metric tones, 35% higher than in the same period last year. There was improved productivity as the industry was able to produce roughly 14% more sugar from each tonne of cane ground.

Tourism

(April's tourism data was not available at the time of publication)

Total Stopover arrivals for the month of March were 136,606, over 5% higher than in March of 2003. Within the Stopover category there was a 12% growth in visits from Non-Resident Jamaicans, supported by a 5.2% increase in visits by Foreign Nationals (Table 9). There was no notable growth in Cruise Passenger arrivals as an 8% increase in Montego Bay arrivals was offset by a 3.4% decline in visitors at Ocho Rios. The European customer base continues to grow as evidenced by a 23% increase in arrivals from European destinations compared to March of 2003.

Table 9: Tourist Arrivals

	2003	2004	% Change	
	Y-T-D	Y-T-D	Y-T-D	March
<i>Stopover</i>	342,249	366,085	7.0	5.5
Foreign	326,458	350,244	7.3	5.2
National	15,791	15,841	0.3	11.8
<i>Cruise</i>	364,043	369,267	1.4	0.4
Total	706,292	735,352	4.1	
<i>US\$m*</i>				
<i>Source: Jamaica Tourist Board (Preliminary)</i>				

External Trade

For the period January to October 2003 the nation incurred a trade deficit of US\$2,109.9 million, 4.4% worse than the corresponding period in 2002 (**Table 10**). This resulted from a US\$129-million growth in imports which outweighed export growth for the period.

Exports: Total Export Earnings (fob) for January to October 2003 stood at roughly US\$970 million, an improvement of more than US\$39 million over the corresponding period in 2002. Major Traditional Exports increased by US\$35.6 million to US\$772.7 million, due to a US\$43.8-million growth in Mining & Quarrying. There was no material change in Agriculture, which earned approximately US\$49 million in both periods. Manufacturing fell by more than US\$8 million or 8.2% as the sector continued to be affected by a falloff in rum earnings from Mexico. Growth in Mining & Quarrying was the result of a US\$55-million (11%) growth in Alumina earnings, but this was partially offset by an US\$11-million fall in Bauxite revenues. The lack of growth in traditional Agriculture was mainly the result of a US\$2.4-million (8%) fall in earnings from Coffee. All other sub-categories registered growth, particularly the

Citrus industry whose revenues grew by over 53%. Declines were also experienced in all the other areas in the traditional Manufacturing category.

Non-Traditional exports earned roughly US\$3.6 million more than in the previous period, largely attributable to a US\$9.3-million growth in Foods which was complemented by a US\$4-million increase in Beverages & Tobacco. The Other Non-Traditionals category declined by more than US\$10 million due largely to a sharp 43% drop in Wearing Apparel whose earnings fell by over US\$7 million. Mineral Fuels also fell by over 24% or US\$6.5 million. However, the Chemicals industry earned over US\$4 million more than in the prior period while the sub-category of Other Domestic Exports also improved by US\$1.4 million. In Non-Traditional Foods, revenue growth was mainly attributable to a US\$6-million increase in the Other Exports category. Exporters of Fish, Crustaceans & Molluscs also earned US\$2.3 million more than in the 2002 period. A US\$1.3-million improvement in earnings from Ackees was offset by a US\$1.6 decline in Papayas. Revenues from Beverages & Tobacco grew by US\$4 million (nearly 22%) as a 23% growth in Beverages was tempered by a 31% falloff in Tobacco.

Imports: Total imports (cif) increased by 4.4% to US\$3,079.7 million, resulting from a US\$233-million increase in Raw Materials/Intermediate Goods. This was particularly pronounced in the sub-category 'Other Fuels & Lubricants', which grew by more than 55% (US\$204 million) due to higher fuel prices on the world market. The nation also spent over US\$65 million more on Industrial Supplies and US\$10 million more on Food (incl. Beverages) than in the same period in 2002.

Consumer goods imports slipped by 2.8% as the import bill was lower in every sub-category except Non-Durables, which rose by US\$9.1 million.

Capital goods fell by more than US\$80 million (14.4%) as the maturing cellular phone market contributed to a US\$73-million fall in Machinery & Equipment imports. The bill was also US\$28 million lower in the category of Other Industrial Transport Equipment. However, the nation spent nearly US\$25 million more on Construction Materials (an increase of 21%) partially due to strong demand for lumber and ceramic tiles.

Table 10: External Trade (US\$ million)

	Jan-Oct '02	Jan-Oct '03	Change	% Change
TOTAL EXPORTS (fob)	930.73	969.88	39.15	4.2
Major Traditional Exports	737.12	772.71	35.59	4.8
Bauxite	85.28	73.94	-11.33	-13.3
Alumina	503.66	558.64	54.98	10.9
Sugar	66.15	65.20	-0.95	-1.4
Other Traditional Exports	82.03	74.93	-7.10	-8.7
Non-Traditional Exports	193.61	197.17	3.56	1.8
Re-exports				
Freezone Exports	0.14	0.12	-0.02	-16.8
Goods Procured In Ports	0.02	0.03	0.00	3.7
TOTAL IMPORTS (cif)	2,950.82	3,079.75	128.93	4.4
Consumer Goods	874.91	850.84	-24.08	-2.8
Durables	296.56	277.04	-19.52	-6.6
Raw Materials	1,520.10	1,753.17	233.07	15.3
Fuels - crude	169.53	137.68	-31.85	-18.8
Other Fuels & Lubrics.	370.69	575.29	204.59	55.2
Capital Goods	555.81	475.75	-80.07	-14.4
Freezone Imports	0.08	0.08	0.00	1.1
Goods Procured In Ports	0.03	0.03	0.00	3.1
Trade Balance	-2,020.09	-2,109.88	-89.78	4.4

Source: Compiled from BOJ and STATIN data

Balance of Payments –2003 (prov.)

The current account deficit for the calendar year 2003 showed a US\$115-million improvement over that of 2002. This can be credited to continued growth in the Services balance which increased by a marked 64.3% or US\$174 million. However, the Goods balance worsened by roughly US\$79 million as a US\$47-million growth in exports was outweighed by a US\$126-million growth in imports for the period.

The continued improvement in the Services balance was largely due to higher net inflows from Travel services, which grew by US\$125 million in the context of a 9% increase in tourism revenues. It was further improved by a US\$41-million narrowing of the deficit in Transportation services.

The shortfall on the Income account was US\$28 million worse than in the previous period as higher

net outflows in Investment Income were compounded by lower net inflows in Compensation of Employees.

Current Transfers netted over US\$48 million more as the US\$71-million increase in Private Transfers was more than sufficient to compensate for the fall in Official Transfers.

The Capital and Financial account mainly reflected changes in the Financial account, where net proceeds grew by more than US\$141 million in the area of Other Private Investments. Other Official Investments plunged from a net inflow of US\$77.1 million in the previous period to a net outflow of US\$368 million in the latter. Overall, inflows on the Capital & Financial account were insufficient to fund the deficit on the Current account, necessitating a US\$414-million drawdown on the reserves.

Table 11: Balance Of Payments (US\$M)

	<u>Jan-Dec '02</u>	<u>Jan-Dec '03</u>	<u>Change</u>	<u>% Change</u>
CURRENT ACCOUNT	-1,118.7	-1,003.4	115.3	-10.3
Goods Balance	-1,870.5	-1,949.4	-78.9	4.2
Exports (fob)	1,309.1	1,356.5	47.4	3.6
Imports (fob)	3,179.6	3,305.9	126.3	4.0
Services Balance	270.4	444.3	173.9	64.3
Transportation	-245.6	-204.6	41.0	-16.7
Travel	950.3	1,075.3	125.0	13.2
Other Services	-434.3	-426.4	7.9	-1.8
Income	-605.5	-633.3	-27.8	4.6
Compensation of Employees	82.1	75.5	-6.6	-8.0
Investment Income	-687.6	-708.8	-21.2	3.1
Current Transfers	1,086.9	1,135.0	48.1	4.4
Official	107.6	84.7	-22.9	-21.3
Private	979.3	1,050.3	71.0	7.3
CAPITAL & FINANCIAL A/C	1,118.7	1,003.4	-115.3	-10.3
Net Capital Movement	-16.9	-17.1	-0.2	1.2
Official	0.2	0.1	-0.1	-50.0
Private	-17.1	-17.2	-0.1	0.6
Financial Account	1,135.6	1,020.5	-115.1	-10.1
Other Official Investment	77.1	-367.8	-444.9	-577.0
Other Private Investment (incl. errors & omis s)	814.8	956.2	141.4	17.4
Reserves (minus=increase)	243.7	432.1		

Source: Bank of Jamaica (Preliminary)

Fiscal Accounts

During the 2003-04 Fiscal Year Government's operations generated a deficit of \$28.20 billion, roughly 16% worse than budget. Although the Revenue outturn was \$4.3 billion better than anticipated, Expenditures exceeded budget by \$8.2 billion. However, the Government achieved its deficit target of 5.6% of GDP, thus making a positive step

towards regaining its credibility in the domestic and overseas credit markets.

Revenue and Grants collected for the year amounted to \$151,405.8 million, 3% higher than projected. This was largely due to a favourable variance in Capital Revenue which was three times higher than the

planned amount. Capital revenues were boosted by some \$1.5 billion in divestment proceeds as well as \$2.3 billion from the sale of AIC receivables in March. Non-tax Revenues also exceeded estimates by some \$1.24 billion or 16%. There were 20% shortfalls in both GCT and SCT receipts, with the GCT outturn being affected by the roll-back on some consumer items and delayed implementation of the tax on lottery winnings.

The \$8,211-million overrun in Total Expenditures is a reflection of higher than budgeted Interest payments and Wages and Salaries. Last year's interest rate hikes in response to the foreign exchange crisis drove Domestic interest payments \$11 billion above budget. In addition, the targeted Wages & Salaries bill was overshot by some \$6.3 billion. Programmes continue to be within budget and were \$3.7 billion lower than projected, albeit with adverse consequences for the

operations of a number of Ministries. Government fell \$3.3 billion short of its investment target in Capital Expenditures as debt servicing costs continued to command the bulk of available funds.

Loan receipts exceeded budget by \$15.8 billion or 13.6%. External receipts were a marked 52% higher than projected, bolstered in February by the receipt of proceeds from the €250-million Eurobond issue. Domestic receipts also exceeded budget as the year's higher-than-planned debt costs necessitated greater new borrowing to meet recurrent expenditures.

Total public debt at the end of March stood at \$693.89 billion, an increase of \$2.3 billion over February's figure. Domestic Debt fell by \$2.2 billion to \$417,571.3 million while External Debt grew by roughly US\$70 million to US\$4,529.0 million.

Table 12: Fiscal Accounts (J\$ million)

	April 2003 - March 2004				Change from 02/03	
	Provisional	Budget	Deviation		J\$m	(%)
			J\$m	(%)		
Revenue & Grants	151,405.8	147,062.9	4,342.8	3.0	32,876.9	27.7
Tax Revenue	131,087.5	133,692.8	-2,605.3	-1.9	28,158.4	27.4
Non-Tax Revenue	9,044.0	7,804.0	1,240.1	15.9	4,161.1	85.2
Bauxite Levy	2,137.9	1,767.5	370.4	21.0	375.2	21.3
Capital Revenue	8,596.7	2,877.0	5,719.7	198.8	556.9	6.9
Grants	539.6	921.6	-382.0	-41.4	-374.7	-41.0
Expenditure	179,607.3	171,396.1	8,211.2	4.8	30,578.3	20.5
Recurrent	173,917.1	162,350.0	11,567.1	7.1	32,836.7	23.3
Programmes	25,269.5	28,975.4	-3,705.9	-12.8	-2,193.6	-8.0
Wages & Salaries	60,463.1	54,163.0	6,300.1	11.6	8,966.4	17.4
Interest	88,184.5	79,211.6	8,972.9	11.3	26,064.0	42.0
<i>Domestic</i>	71,460.7	60,460.6	11,000.1	18.2	24,525.9	52.3
<i>External</i>	16,723.8	18,751.0	-2,027.2	-10.8	1,538.1	10.1
Capital Expenditure	5,690.2	9,046.1	-3,355.9	-37.1	-2,258.4	-28.4
Fiscal Balance	-28,201.5	-24,333.2	-3,868.4	15.9	2,298.6	-7.5
Loan Receipts	132,280.7	116,436.3	15,844.4	13.6	25,082.6	23.4
<i>Domestic</i>	108,148.9	100,539.2	7,609.7	7.6	23,990.3	28.5
<i>External</i>	24,131.8	15,897.1	8,234.7	51.8	1,092.3	4.7
Amortization	99,197.5	90,308.8	8,888.7	9.8	9,280.2	10.3
<i>Domestic</i>	81,857.5	76,728.3	5,129.2	6.7	27,900.1	51.7
<i>External</i>	17,340.0	13,580.5	3,759.5	27.7	-18,619.9	-51.8
Overall Balance	4,881.7	1,794.3	3,087.3	172.1	18,101.0	-136.9
Primary Balance	59,983.0	54,878.4	5,104.5	9.3	28,362.5	89.7

Source: Ministry of Finance & Planning

Stock Market

During April the main JSE Index advanced by 8,644.74 points (8.68%) to close at 108,274.96 points. Market capitalization grew by \$65.8 billion or 8.5% over March's figure to reach \$837.65 billion as at April 30.

For the first four months of the year the JSE Index experienced remarkable gains, so much so that only two stocks declined during the period and the declines were single-digit in percentage terms. The top performing stock for year- to-date to April 30 was Kingston Wharves, which appreciated by 361.54% from \$1.30 to \$6.00 (see Table 13). The worst loser in price terms was the Ciboney Group, which lost 8.33% of its value over the period closing at \$0.11 on April 30.

Table 13: Returns for Listed Companies on the JSE

Year-to-Date Performers on the Jamaica Stock Exchange				
Top Five (unadjusted for dividends or transaction costs)				
	31/12/03	30/04/04	\$	%
Kingston Wharves	1.30	6.00	4.70	361.54
Dyoll Group	10.40	37.00	26.60	255.77
Pan Caribbean Financial Services	6.60	23.00	16.40	248.48
First Caribbean International Bank	9.00	30.00	21.00	233.33
Caribbean Cement	3.50	11.50	8.00	228.57
Bottom Two* (unadjusted for dividends or transact. costs)				
Ciboney Group	0.12	0.11	-0.01	-8.33
Trinidad Cement Ltd.	61.00	60.00	-1.00	-1.64
*in ascending order, from worst to best performer				
<i>Source: Compiled from the JSE</i>				

Developments and Outlook

Jamaica's GDP grew by an estimated two percent during the recently ended fiscal year, according to information from the Planning Institute of Jamaica (PIOJ). Growth was strongly driven by a 2 percent rise in real output in the Goods-producing sector particularly in the areas of Mining & Quarrying and Agriculture. The growth in Agriculture was despite a 2.1 percent decline in the January quarter due to severe drought conditions which affected domestic production. However, overall GDP for the quarter grew by 2.4 percent over January to March 2003 in a context of strong performances in mining and tourism. Real GDP in Mining & Quarrying grew by 11 percent, buoyed by an 8 percent rise in total bauxite production. Growth in tourism was driven by increases in both arrivals (up 3.4%) and expenditures (up 6.8%). The PIOJ is projecting economic growth of 2-3 percent in the April-to-June quarter if stable conditions prevail.

Surging oil prices on the world market have been driving up Jamaica's energy bill in recent weeks. Imported fuel prices hit US\$43 per barrel on May 12, and gas prices at the pumps reached J\$37 per litre by the following day. Of particular concern is the amount of foreign exchange that will be needed to finance the import bill if the increase is sustained and the impact of this on the macroeconomic prospects for the coming months. In their quarterly press briefings both the Bank of Jamaica and the PIOJ identified oil price volatility as a possible threat to the continued price and currency stability that the country is now experiencing.

The spike in prices is also pushing up the fuel bill for the national airline Air Jamaica, which has had to pay \$260 million more than budgeted for jet fuel in the first three months of this year. The price of jet fuel has now risen to a 21-year high of US\$1.26 per gallon. As a result the airline has been forced to increase a number of its North American and Caribbean fares (by as much as US\$40 in some cases) in order to offset the additional costs. This situation also has the potential to affect the tourism sector as Air Jamaica is an important conduit between Jamaica and its North American market. On the other hand travel to Europe will become more expensive, so Jamaica may actually

gain market share from North American visitors who opt for a closer destination.

Concerns have been raised that a sustained rise in oil prices may make it more difficult to achieve the inflation target set out in the recent GOJ/trade union Memorandum of Understanding (MoU), which targets an inflation rate of between eight and nine percent. It is important that this target be met in order to create a conducive environment for stable and sustainable growth in the coming years.

The Budget presentation by Edward Seaga has sparked renewed discussion on the issue of fixed vs. floating exchange rates and which policy would better facilitate sustainable economic growth for Jamaica. Mr. Seaga points to a number of countries which maintain fixed/pegged currencies and which also enjoy relatively favourable inflation and interest rates. Jamaica presently operates a 'managed float', i.e. a flexible exchange rate with interventions by the Central Bank whenever this is deemed necessary to maintain currency stability. We clearly need to debate this issue as there is merit in both schools of thought on exchange rate policy.

The US trade deficit reached a record US\$46 billion in March due to strong economic growth in that country as well as the highest oil import prices in 21 years. Surging domestic demand led to a ballooning of imports particularly in the areas of consumer goods and capital goods. At the same time the oil import bill for March jumped by 20 percent over February's figure to hit a record US\$10.2 billion. The combined effect of these factors was a 4.6 percent jump in the country's total import bill to US\$140.7 billion, and a larger-than-expected 9.1 percent widening of the deficit. The deficit also placed downward pressure on the value of the US dollar during the month. America's trading partners continue to closely observe that country's current account balance in light of its impact on the dollar and consequent implications for trade dynamics between the US and the rest of the world. Jamaica in particular relies heavily on the American market for its tourism revenues as the island receives over 70 percent of its tourists from the US.

Statistical Index
Major Macro-Economic Indicators

	BM		M2		NIR	Fx Dep	CPI		Tourism	J\$/US\$	Tbill	Loan	Sav	Dom Debt	Fx Debt
	M	P	M	P	US\$M	US\$M	M	P	P		%	%	%	J\$M	US\$M
Sep	-3.4	-5.1	1.8	9.1	935.5	1,072.4	1.0	9.0	7.58	43.85	17.13	31.50	9.96	184,337.90	3,208.60
Oct	1.4	-3.4	0.3	6.6	845.7	1,065.0	0.1	8.3	7.60	44.71	17.13	31.67	9.86	181,507.81	3,208.81
Nov	0.9	-3.2	1.1	9.6	831.7	1,077.1	0.1	7.3	9.88	45.08	17.28	31.67	9.86	184,795.00	3,265.20
Dec	12.7	-6.4	2.4	10.6	969.3	1,111.3	-0.7	6.1	8.20	45.48	20.16	31.67	9.86	187,520.03	3,375.30
Jan-01	-9.5	-3.2	-0.3	8.7	931.2	1,115.7	0.0	5.9	10.07	45.67	19.41	32.18	9.86	193,616.74	3,492.06
Feb	1.9	1.0	-0.5	8.0	1,106.6	1,128.5	1.1r	6.7r	2.82	45.76	18.27	32.18	9.86	190,384.80	3,636.78
Mar	-3.8	-0.1	1.4	8.9	1,286.3	1,117.3	0.5r	6.4	-0.08	45.70	16.88	31.33	9.84	215,084.05	3,624.30
Apr	1.6	-1.4	0.1	7.7	1,281.8	1,130.5	0.4	5.8	4.24	45.68	16.50	31.21r	9.84	n/a	3,625.70
May	-0.5	-2.4	2	10.6	1,480.6	1,152.6	0.8	6.2	3.36	45.77	15.46	30.88	9.50	n/a	3,971.40
Jun	-0.9	-1.8	-0.7	8.2	1,540.5	1,154.2	1.7	7.1	-2.22	45.77	16.2	30.67	9.45	285,660.00	3,944.15
Jul	3.7	3.3	2.0	10.7	1,526.3	1,153.3	1	7.1	-2.62	45.78	16.45	30.33	9.18	n/a	n/a
Aug	-1.1	1.5	1.0	11.2	1,599.0	1,158.7	0.9	7.1	-8.08	45.77	16.04	28.21	9.08	n/a	n/a
Sep	-4.6	0.3	1.3	10.6	1,537.7	1,192.1r	0.8	6.9	-21.73	45.94	15.10	26.96	9.08	292,262.82	3,882.21
Oct	-2.1	-1.0	0.84	11.2	1,477.5	1,222.9	0.8	7.7	-18.39	46.57	15.11	26.79	9.08	n/a	n/a
Nov	3.5	0.4	n/a	n/a	1,477.0	1,214.0	0.1	7.7	-14.86	47.35	17.82	26.79	9.08	n/a	n/a
Dec	12.4	0.2	n/a	n/a	1,840.7	n/a	n/a	n/a	n/a	47.36	17.03	26.79	9.08	309,358.11	4,146.10
Jan-02	-10.3	-0.78	-1.34	8.63	1,848.7	1,174.9	0.6	9.4	-11.6s	47.46	17.08	26.79r	9.08	297,181.62	4,107.50
Feb	3.5	0.8	1.21	10.52	1,820.9	1,197.9	-0.1	8.1	-11.76	47.51	15.93	26.63	9.02	298,316.27	4,098.6
Mar	-4.9	-0.4	1.1	2.2	1,941.47	1,293.4	0.0	7.6	-12.96	47.64	14.3	26.29	9.36	300,201.53	4,135.30
Apr	-2.3	-4.2	2.04	12.24	1,899.6	1,280.9	0.5	7.7	-14.56	47.76	13.84	26.29	9.34	302,293.04	4,144.93
May	1.6	-2.2	-0.8	9.3	1,810.6	1,273.3r	0.3	7.2	-12.28	48.14	13.79	26.25	9.34	305,116.45	4,156.13
Jun	0.7	-0.6	0.82	10.92	1,782.3	1,270.6	0.9	6.3	-2.33	48.43	13.81	25.92	9.00	310,741.77	4,463.94
Jul	3.0	-1.3	0.34	9.15	1,743.9	1,288.17	1.5	6.8	14.80	48.5	13.79	25.92	8.97	313,667.59	4,253.01
Aug	-1.27	-1.45	0.41	8.48	1,685.6	1,316.1	0.4	6.3	-2.04	49.01	13.78	26.25	8.97	329,216.58	4,221.19
Sep	-0.28	2.97	5.89	13.42	1,687.3	1,335.23	0.4	5.9	21.51	49.27	16.69	26.25	8.86	331,618.89	4,230.84
Oct	2.02	6.19	-5.10	7.4	1,655.16	1,328.78	0.7	5.8	15.56	49.44	19.54	26.13	8.96	342,248.95	4,224.40
Nov	2.18	4.86	3.36	11.58	1,614.40	1,397.17	1.2	7.1	16.85	49.91	16.89	26.13	8.96	340,245.86	4,292.91
Dec	11.44	3.99	4.76	12.98	1,596.98	1,423.21	0.5	7.3	34.77	50.97	17.01	25.04	8.96	351,106.70	4,347.46
Jan-03	-10.91	3.72	-3.04	11.03	1,510.25	1,428.27	-0.3	7.0	21.29	52.98	18.45	23.9	8.88	357,519.32	4,389.10
Feb	2.01	0.04	-1.82	6.32	1,252.94	1,421.05	-0.6	5.7	28.90	53.74	18.45	24.73	8.59	363,846.41	4,152.56
Mar	-0.14	7.54	2.35	7.47	1,339.67	1,499.96	0.5	6.2	23.12	56.24	33.47	24.73	8.22	366,158.13	4,180.00
April	-0.48	9.61	5.90	11.68	1,362.10	1,501.76	1.6	7.3	24.90	57.31	30.34	24.73	8.22	376,664.71	4,178.82
May	1.22	9.20	-0.019	12.55	1,233.33	1,530.56	1.9	9.0	21.68	59.42	29.29	25.18	8.22	384,739.26	4,198.03
June	-1.02	7.36	-0.73	10.83	1,127.39	1,514.18	2.5	10.7	20.05	59.01	28.46	25.18	8.22	388,125.86	4,165.30
July	1.20	5.31	0.0	10.46	1,124.92	1,468.85	1.5	10.7	18.90	59.16	26.31	25.18	8.22	393,970.29	4,133
August	0.84	7.63	n/a	n/a	1,080.10	1,586.08	1.4	11.9	17.61	59.39	25.74	25.60	8.22	396,498.28	4,096.65
Sept	-1.32	4.09	n/a	n/a	1,182.63	1,627.60	1.6	13.1	17.20	59.71	23.42	25.60	8.94	402,317.57	4,129.12
Oct	2.90	n/a	n/a	n/a	1,131.13	1,655.11	1.6	14.1	7.7	60.44	none	25.60	8.43	404,949.94	4,164.23
Nov	3.17	n/a	n/a	n/a	1,103.25	1,637.24	0.9	13.8	6.1	60.65	23.46	25.60	8.43	410,984.43	4,185.10
Dec	n/a	n/a	n/a	n/a	1,164.98	1,670.59	0.8	14.1	n/a	60.62	22.05	25.60	8.43	417,834.25	4,192.06
Jan '04	n/a	n/a	n/a	n/a	1,251.01	1,691.67	0.6	15.2	6.3	60.73	17.15	25.60	8.43	427,363.66	4,169.33
Feb	n/a	n/a	n/a	n/a	1,473.96	1,727.51	0.6	16.5	n/a	60.95	16.31	25.56	8.30	419,763.43	4,459.14
Mar	n/a	n/a	n/a	n/a	1,568.66	1,770.19	0.5	16.8	n/a	61.01	15.57	25.40	8.30	417,571.30	4,529.00
Apr	n/a	n/a	n/a	n/a	1,741.62	n/a	0.4	15.4	n/a	60.65	15.09	n/a	n/a	n/a	n/a

Source: Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance and Planning, Jamaica Tourist Board and the Planning Institute of Jamaica.

Revised periodically when necessary.

Key:

BM – Base Money

NIR – Net International Reserves

CPI – Consumer Price Index

Tbill – 6-month Treasury Bill Yield

Save – Average Savings Deposit Rate

P – Point-to-Point Percentage Change

N/a – Not Available

WATBY- weighted average Treasury bill yield

M2 – Money Supply

FX Dep – Foreign Exchange Deposit

Tourism – Total Tourist Arrivals

Loan – Average Loan Rate

M – Monthly Percentage Change

R – Revised

S – Stopover

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