

Economic Overview – July 2017

Summary Economic Indicators	2017				
	Actual (A)			Projections (P)	
	Apr	May	Jun	Jul	Dec
12M PTP Inflation (%)	4.77	4.63	4.05 (P)	3.87	3.72
Interest Rates					
180D T-Bill (%)	6.40	6.10	6.13	6.10	5.58
Overnight Rate (%)	4.00	4.00	4.00	4.00	4.00
30D BOJ Repo (%)	4.75	4.75	4.75	4.75	4.50
J\$/US\$ (EOM)	129.40	130.14	128.62	128.39 (A ¹)	130.72
NIR (US\$B)	2,848.87	2,672.77	2,616.81	2,700.00	3,000.00
Net Remittances (US\$M)	179.90	183.00 (P)	178.00 (P)	178.00 (P)	210.00 (P)

DOMESTIC ECONOMIC INDICATORS

Gross Domestic Product

Annual Growth Rates (%)	2014	2015				2016				2017
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total Value Added at Basic Prices	-0.3	0.4	0.8	1.7	0.9	0.8	1.4	2.0	1.1	0.1
Goods Producing	-3.9	-0.4	0.9	3.9	1.2	0.9	3.3	6.4	3.1	-0.9
Agriculture, Forestry & Fishing	-13.3	-0.6	0.5	4.7	-3.6	3.3	8.9	28.8	16.4	-3.6
Mining & Quarrying	-1.9	0.7	5.7	-0.8	-2.1	-1.4	-1.9	1.9	-11.7	-9.9
Manufacture	-1.4	-2.0	0.3	8.9	6.7	0.7	2.1	2.3	2.5	2.7
Construction	1.5	1.4	0.9	1.2	1.0	0.5	2.1	-0.8	0.5	0.6
Services Industry	0.8	0.6	0.7	0.8	0.7	0.9	0.8	0.6	0.5	0.4
Electricity & Water Supply	-2.4	-2.8	0.8	3.1	4.5	5.3	5.0	2.5	1.9	0.5
Wholesale & Retail Trade, etc.	0.4	0.3	0.6	0.6	0.6	0.6	0.5	-0.2	0.3	0.3
Hotels and Restaurants	5.6	4.1	1.3	1.2	0.9	2.4	1.3	2.2	2.5	1.1
Transport, Storage & Communication	1.3	1.1	1.5	1.7	0.7	0.6	0.9	0.7	0.6	0.4
Finance & Insurance Services	0.8	0.2	0.5	0.5	0.7	1.7	1.4	1.0	1.0	1.0
Real Estate, Renting & Business Activities	0.4	0.4	0.6	0.6	0.5	0.6	0.6	0.5	0.4	0.3
Producers of Government Services	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	0.0
Other Services	1.6	1.5	0.9	0.9	1.1	1.0	1.0	1.0	1.0	0.2

Growth in Q1 2017 was virtually flat, mainly as a result of the declines in the Mining & Quarrying and Agriculture, Forestry & Fishing industries. Notably, the performance in agriculture was a stark contrast to the

¹ As at July 14, 2017

prior 3 quarters that recorded strong recoveries from the prior year. As a result of this pullback in the quarter, the fiscal year 2016/17 growth rate was 1.3%.

Outlook:

For Q2 2017 the PIOJ has scaled back its growth projection to a range of 0.5% to 1.5%, down from its Q1 projection of 1.0% to 2.0. However, given the performance in Q1, coupled with the damaging rainfall experienced between March and May, we are more cautious in our projections. Preliminary estimates of rehabilitation effort are in excess of \$2B, from the National Works Agency (NWA), just to re-open roads and these do not include real reconstruction efforts. The volatile fortunes of agriculture and mining, two important sectors, have been enough to sway the fortunes of the overall economy. In Q2, we expect this to be no different. As such, our expectation is for a period of much slower economic growth and potentially even economic contraction over the short-term. Although both the domestic and external macro-environments are conducive to accelerating economic activity, there isn't yet any evidence that economic activity will break out of this low range of growth. Our vulnerability to exogenous shocks such as weather and international commodity prices was starkly highlighted in the recent events.

Business and Consumer Confidence

Business Confidence decreased slightly in Q2 as business operators have grown uneasy about the increase in crime and violence with survey respondents indicating impatience with promises to transform the economy. Meanwhile, **Consumer Confidence** increased in the quarter, because consumers viewed the increase in job availability favourably.

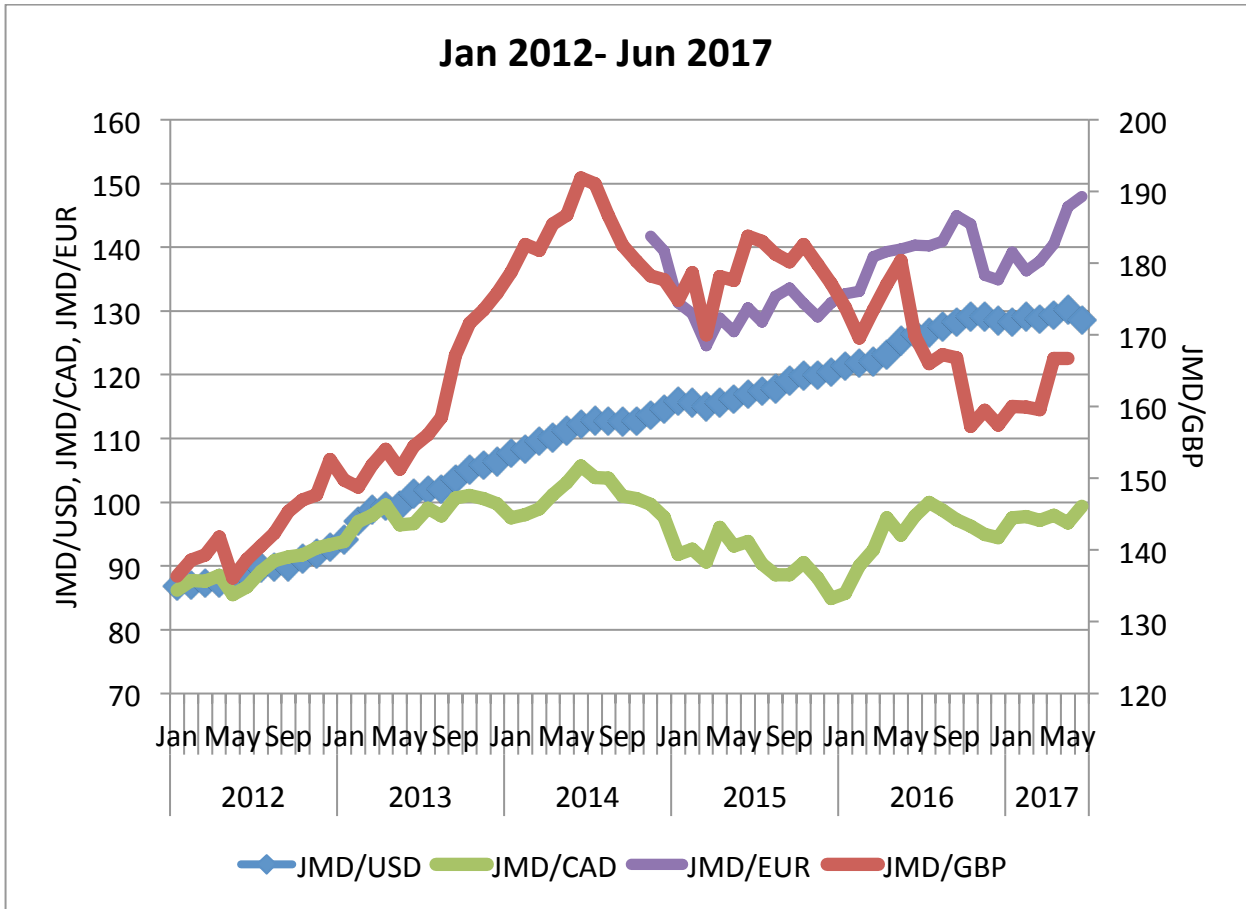
Inflation

Producer prices in the Mining & Quarrying industry increased by 0.3% in May, for a 12-month point-to-point increase of 26.1%. For Manufacturing producer prices increased by 0.2% in May and by 6.8 % for the 12-month period ended May 2017. The major groups contributing the movements were 'Bauxite Mining & Alumina Processing' for Mining & Quarrying and, for Manufacturing, 'Food, Beverages and Tobacco,' 'Refined Petroleum Products' and 'Chemicals and Chemical Products.'

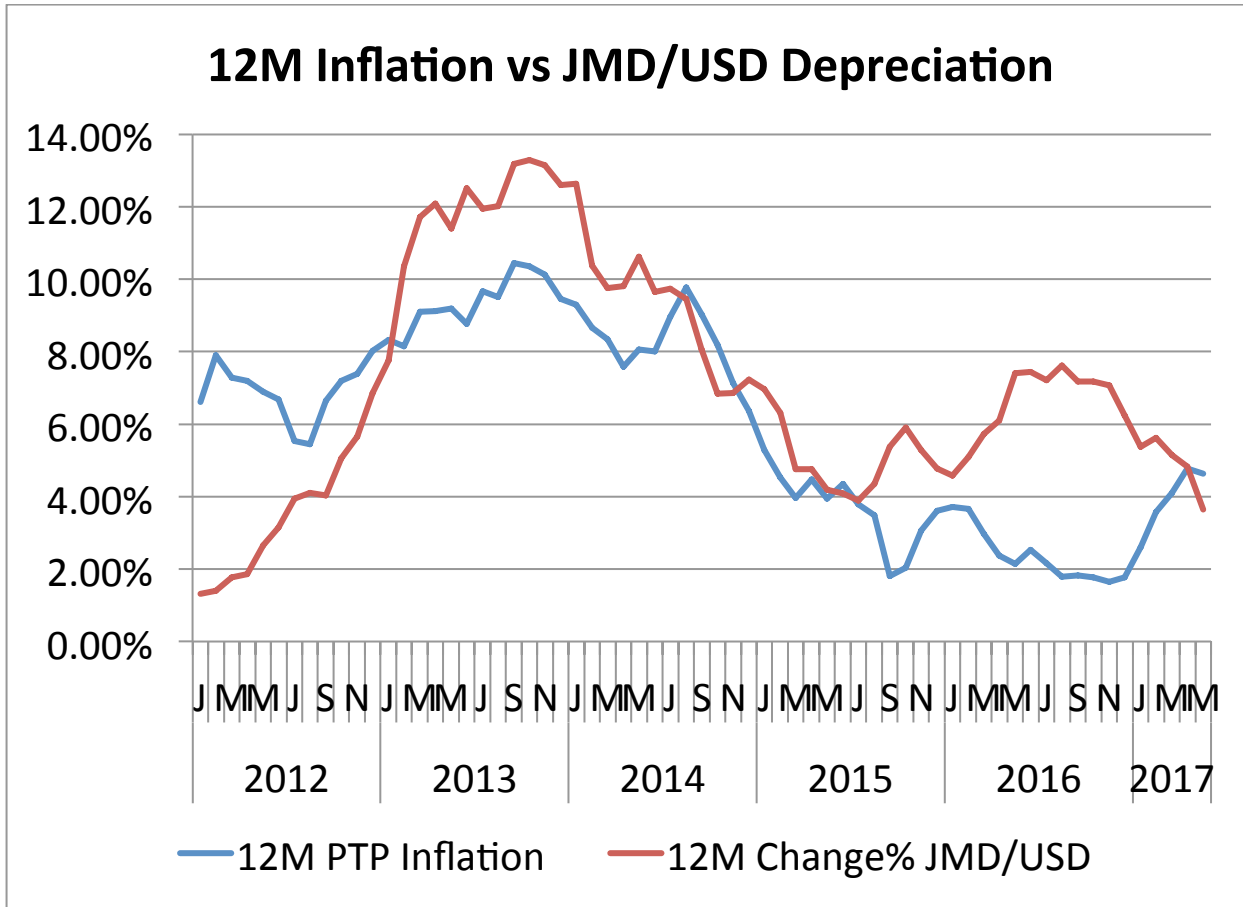
Exchange Rates

	June 2016			June 2017				July ²
	Rate per unit of FX	Change (%)		Rate per unit of FX	Change (%)			Rate per unit of FX
		1-Month	12-Month		1-Month	12-Month	YTD	
JMD/USD	126.38	-0.77	-7.44	128.62	1.18	-1.74	-0.14	128.39
JMD/GBP	169.85	6.19	8.20	166.58	0.06	1.96	-5.50	166.41
JMD/CAD	97.88	-3.07	-4.13	99.39	-2.69	-1.52	-5.01	101.44
JMD/EUR	140.31	-0.41	-7.02	147.94	-1.09	-5.16	-8.81	145.65

² Rate on July 14, 2017



Year	Month	Inflation – 12M PTP	Depreciation – 12M JMD/USD
2016	June	2.53	-7.44
	July	2.14	-7.22
	August	1.79	-7.62
	September	1.83	-7.18
	October	1.78	-7.18
	November	1.64	-7.08
	December	1.77	-6.25
2017	January	2.59	-5.37
	February	3.57	-5.62
	March	4.10	-5.15
	April	4.77	-4.83
	May	4.63	-3.64
	June	N/A	-1.74



Implications: The Bank of Jamaica (BOJ) implemented its Foreign Exchange Intervention Trading Tool – B-FXITT pilot project on June 29, 2017. With this programme, there is a restriction on the amount of FX that companies can hold. As a result, companies have had to offload some of their holdings, which has resulted in a revaluation of the local currency. The BOJ hasn't disclosed a date for full implementation of the programme. However, the appreciation of the J\$ can be expected to continue as long as companies hold excess positions.

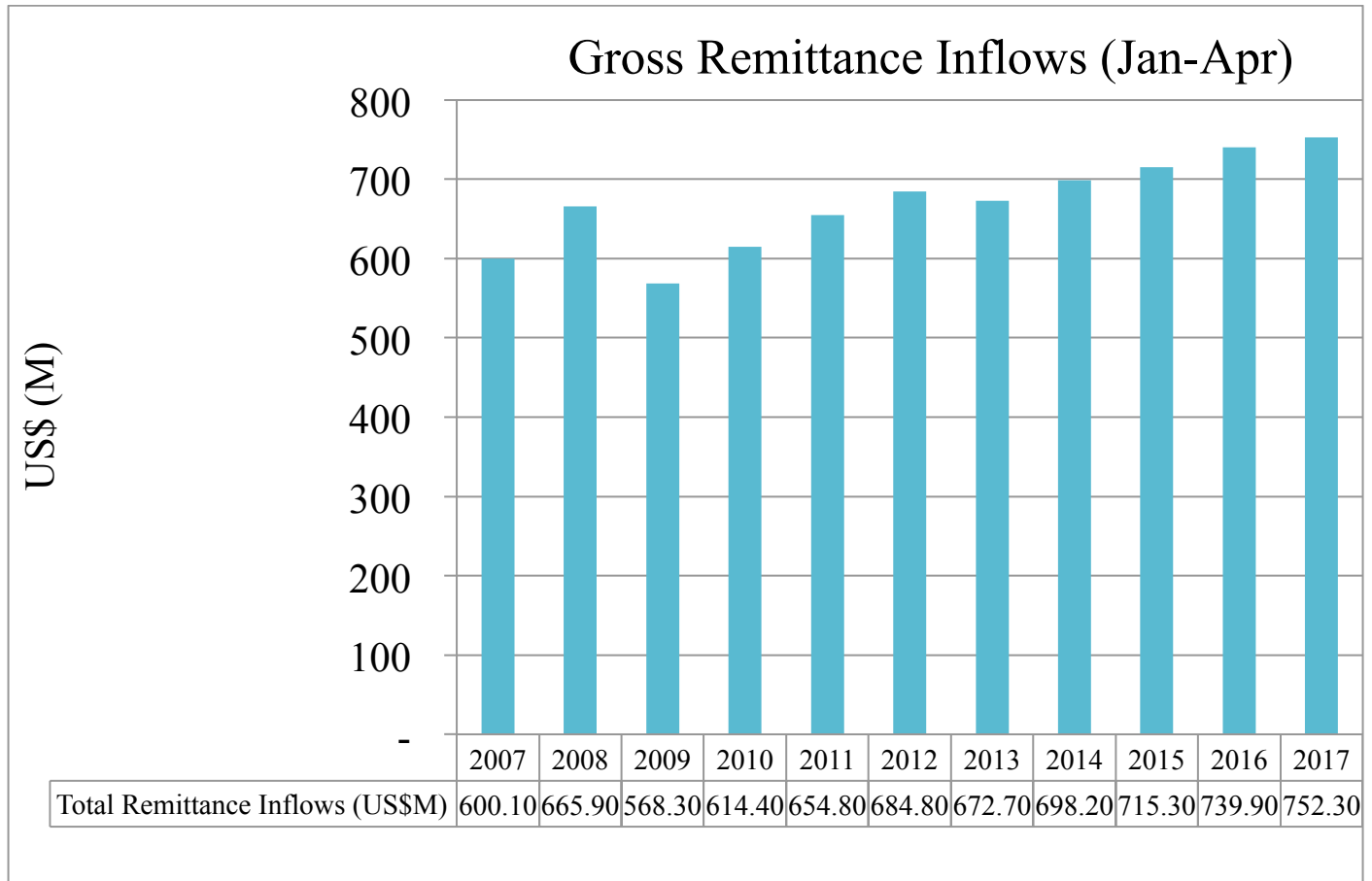
External Merchandise Trade

Jan-Mar 2017	US\$Million			
	2017	2016	Difference	% Difference
Expenditure on Imports	1,313.1	1,067.1	246.0	23.1
Earnings from Exports	317.1	271.1	45.5	16.7
Trade Balance	-995.9	-795.4	-200.5	-25.2

The trade balance deteriorated for the first three months of 2017 mainly due to higher imports expenditure relative to the higher level of earnings from exports. The major commodities that recorded growth in imports were 'Mineral Fuels, etc,' 'Machinery and Transport Equipment,' 'Manufactured Goods' and 'Chemicals.' Apart from higher importation of fuels, there were higher imports of medicinal, pharmaceutical products and inorganic chemicals, iron and steel, non-metallic mineral manufactures and manufactures of metals. While Traditional Domestic Exports represented 51.5% of the total domestic exports, there was an increase in Traditional Domestic Exports by only \$7.7 million to \$155 million, while Non-traditional exports increased by \$43.0 million to \$145.8 million.

Implications: The appreciation of the J\$ will make importation from our major trading partners more attractive and possibly result in an increase of our import bill. Non-traditional exports are increasing at a faster rate than traditional exports; however, the total exports are not increasing at as fast a rate as imports. This has resulted in the current account deficit for the quarter outweighing that of the same period last year. In order for the deficit to be improved or sustained, the rate of increase in importation needs to be slowed with a simultaneous acceleration in our rate of increase in exports.

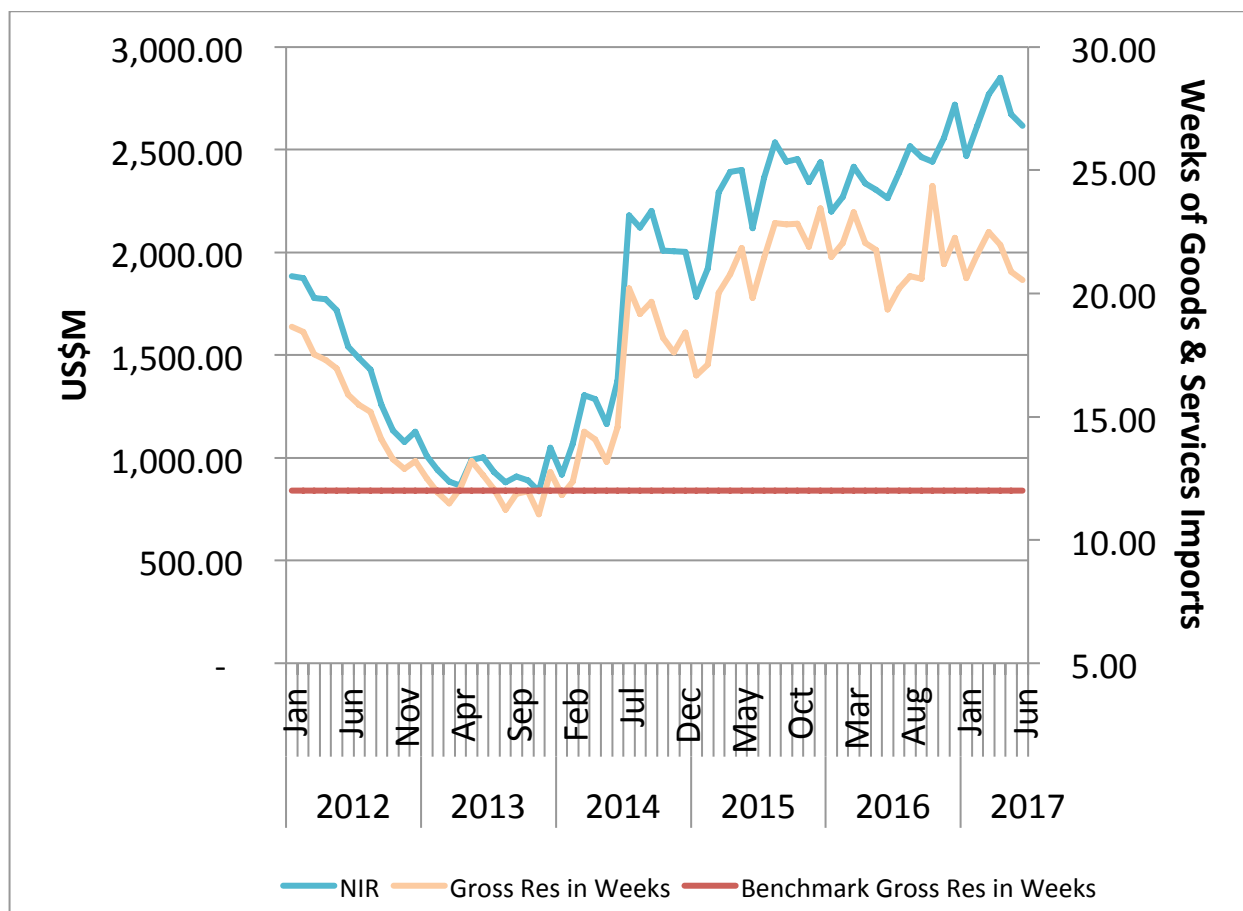
Remittances



Net International Reserves

NET INTERNATIONAL RESERVES					
Year	Month	Stock (USD M)	Monthly Δ (USD M)	Gross Reserves in Weeks of Goods Imports	Gross Reserves in Weeks of Goods & Services Imports
2017	Jan	2,469.43	-249.94	35.55	20.62
	Feb	2,615.26	145.84	37.23	21.59
	Mar	2,769.17	153.92	38.78	22.49
	Apr	2,848.87	79.70	37.93	21.98

NET INTERNATIONAL RESERVES					
Year	Month	Stock (USD M)	Monthly Δ (USD M)	Gross Reserves in Weeks of Goods Imports	Gross Reserves in Weeks of Goods & Services Imports
	May	2,672.77	-176.10	36.03	20.88
	June	2,616.81	-55.96	35.44	20.54



Implications: Though there has been a slight decrease in the NIR level, the BOJ's ability to defend the currency is still in a comfortable position since the reserve levels exceed that of the benchmark. Also with the appreciation of J\$ there is no significant threat to the currency on the horizon and the current levels have secured the central bank a good position to intervene if there is any sudden change in the FX market.

GOJ Fiscal Operations

JMD Million	Monthly Provisional				
	May 2017	Apr 2017	May 2016	MoM % Diff.	YoY % Diff.
Revenue & Grants	41,833.9	34,346.2	36,051.2	5.8	10.3
PAYE	4,042.7	4,888.9	6,542.0	6.0	13.8
Companies (ex Bauxite/Alumina)	506.5	1,146.9	524.8	-43.9	-6.9
GCT (Local)	7,744.1	6,330.3	7,033.6	10.7	121.7

JMD Million	Monthly Provisional				
	May 2017	Apr 2017	May 2016	MoM % Diff.	YoY % Diff.
GCT (Imports)	6,904.3	5,212.2	6,028.0	11.1	23.1
Custom Duty	3,264.2	2,501.4	2,836.5	1.6	29.2
Expenditure	40,019.7	40,354.5	30,889.0	-28.6	0.1
Interest	7070.5	12,617.1	3,158.6	-58.4	-8.7
Capital Expenditure	745.1	1,371.2	451.4	-61.9	58.1
Fiscal Surplus	1,814.2	-6,008.3	5,162.2	-156.3	181.1
Primary Surplus	8,884.7	6,608.8	11,487.7	90.1	31.1

JMD Million	Fiscal Year Apr 2017-May 2017		
	Provisional	Budget	% Deviation
Revenue & Grants	76,180.1	70,448.0	8.1
PAYE	8,931.6	9,500.0	-6.0
Companies (ex Bauxite/Alumina)	1,653.4	1,881.2	-12.1
GCT (Local)	14,074.4	13,556.1	3.8
GCT (Imports)	12,116.5	11,741.1	3.2
Custom Duty	5,765.6	5,417.8	6.4
Expenditure	80,374.2	82,269.8	-2.3
Interest	19,687.6	19,998.1	-1.6
Capital Expenditure	2,116.3	2,928.8	-27.7
Fiscal Surplus	-4,194.1	-11,821.8	64.5
Primary Surplus	15,493.5	8,176.3	89.5

Implications: The year is off to a strong start fiscally. Recent revelations of outsized phone bills for the Finance Minister are troubling, but are not sufficient to derail the fiscal programme. May rains and the attendant infrastructural damage island wide have highlighted that major expenditure will need to take place in order to rehabilitate roads, etc. Although there is some contingency provision in the budget, it's won't yet be known whether this provision is adequate.

Stock Market

Stock Market Summary – July 17, 2017								
Index	Value	% Change					Avg Annual % Change	
		Daily	WTD	MTD	YTD	1 YR	5 YR	10 YR
JSE Market Index	233,174.01	-0.19	-0.19	-0.80	21.27	45.94	33.90	15.74
JSE Select Index	7,392.05	-0.68	-0.68	1.83	15.43	32.58	39.96	20.01
JSE All Jamaican Composite	255,922.08	-0.19	-0.19	-0.80	21.79	44.17	38.04	18.13
JSE Junior Market Index	2,987.07	-0.72	-0.72	-7.30	15.17	38.46	71.91	N/A
JSE USD Equities Index	181.86	5.08	5.08	0.49	10.55	38.92	N/A	N/A

OVERSEAS ECONOMIC NEWS BITES

Latin America & the Caribbean

Venezuela's local and foreign currency bonds were downgraded from a CCC rating to a CCC- rating on Wednesday by S&P, with the expectation that inflation will rise to 950% by this year-end compared to 500% last year. This downgrade has come with the growing political instability and worsening economic conditions.

North America

US GDP for the first quarter of 2017 was revised upward on Thursday, due to higher than expected consumer spending and a bigger jump in exports. The annualized increase in **GDP** now stands at 1.4%, compared to 1.2% reported last month.

The US **unemployment rate** inched up from 4.3% to 4.4% in June, due to more persons entering the workforce. This outweighed the surge in **non-farm payrolls** which was up 222,000 jobs, beating economists' expectations of a 179,000 job increase.

The **FOMC meeting minutes** released this month revealed concerns among some Federal Reserve Officials that keeping policy too loose was increasing risk to financial stability and the economy. A plan to reduce their US\$4.5 trillion balance sheet was outlined, with the view that it can be reduced with "limited" disruption to financial markets. A timetable for reduction was not revealed.

US Inflation has continued its decline to 1.6% in June and is creating growing uncertainty about the FED's ability to achieve its inflation target of 2% this year. This has increased widespread belief that the Fed will not increase rates.

Employment in Canada increased in June, with 45,300 jobs added, compared to market expectations of 10,000 jobs added. This pushed the **unemployment rate** down to 6.5% from 6.6% the month before, with two thirds of the jobs added being full time positions. On July 12, the Bank of Canada increased the policy rate to 0.75% from 0.5%, the first increase in over 7 years. Since this announcement, there has been an appreciation of the Canadian dollar.

Europe

The **Euro-zone Consumer Price Index** rose 1.3% year-over-year in June, a deceleration from May where the figure was 1.4%. Inflation subsided due largely to a moderation of increases in energy prices. The ECB continues to buy billions of bonds on the secondary market, injecting cash into the economy with a view to induce faster price growth.

Brexit negotiations in Brussels saw the UK agreeing to the EU's demand that discussions be held in 2 phases, the first dealing with the terms of Britain's withdrawal and the second phase dealing with a possible trade deal. Orders submitted to the UK's manufacturers hit a 29-year high, as a falling pound and recovering global economy boosted demand. Overall confidence expressed by UK businesses dropped to a 6-year low in June. The proportion of businesses expecting improved business activity over the next 12 months was 35%, down from 52% in February.

Asian Pacific

US index provider, MSCI, said on Wednesday, that it would add a selection of China's "A" shares to its Emerging Markets Index. This after having rejected them for 3 years running.

China's GDP rose 6.9% in Q2, exceeding most forecasts, driven by stronger domestic spending and manufacturing activity.

Moody's has downgraded the credit ratings of 12 Australian banks, including the biggest ones.

Sources: Statistical Institute of Jamaica (STATIN), Ministry of Finance and the Public Service (MOF), Bank of Jamaica (BOJ), Jamaica Stock Exchange (JSE), Jamaica Observer, Bloomberg, Toronto Sun, Reuters, CNBC, Fox Business, EU Observer (Brussels), The Guardian (London)

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