



## ***Letting the Numbers Do the Talking...***

*A logical fallacy is an error in logical reasoning. In logic, a fallacy is defined as a particularly deceptive argument which seems correct, but upon further examination is found to be incorrect. The maker of such an argument, however, need not be aware of its fallacious nature.*

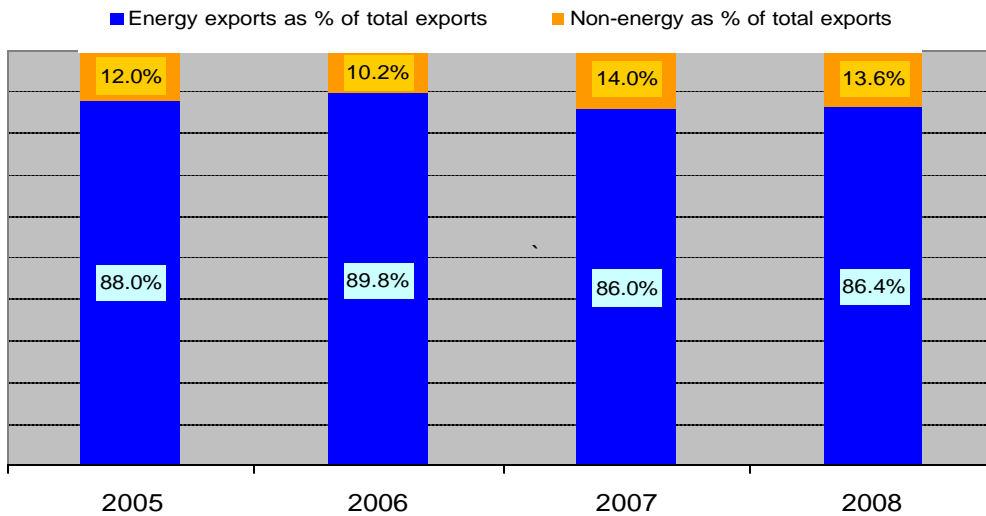
Copi, Irving M. and Carl Cohen. "Introduction to Logic, 12e". Pearson Education: 2005

Data and hard facts usually help to verify/disprove logical fallacies and preconceived notions. Indeed, a plethora of conflicting opinions from all sides are being thrown around about the state of the Trinidad and Tobago economy, and the direction in which it is headed. Of course everyone is entitled to his/her views, although many may not necessarily agree with them. But in the midst of a very vocal citizenry, how could one determine the real state of the economy, if we are unsure of which side of the story is in fact the most accurate? Well, in this author's opinion, readers can discern for themselves from the empirical evidence. Let's allow the numbers to do the talking!

The Central Bank of Trinidad and Tobago (CBTT) recently released its Monetary Policy Report for April 2009, along with its Summary Economic Indicators which gave the public some new and important pieces of data – data which will help to substantiate the concerns which many have been expressing for the past few months. The statistics undeniably highlight the adverse impact of the deteriorating global economy on Trinidad and Tobago as well as the degree of dependence of the domestic economy upon a very volatile energy market.

Figure 1 illustrates the breakdown of total exports over a four year period. For 2008, CBTT estimates showed that energy exports accounted for a considerable 86% of total exports, while the non-energy sector accounted for just 14%. While this reliance has supported Trinidad and Tobago's economic position in the past few years, it may very well be the reason for the country's significantly diminished foreign exchange earning capacity in the coming months. Naturally, this will be dependent upon the direction of energy prices as well as the progress of diversifying the country's exports away from the energy sector, which in any case, will take some time to attain.

Figure 1: Composition of Total Exports



Source: Central Bank of Trinidad and Tobago – Monetary Policy Report (April 2009)

Even more recent data illustrates that for the period October 2008 – February 2009, the volume of oil and petrochemical exports declined by 11.6%, relative to the same period of the preceding year. This was largely expected by analysts, given the slump in energy demand globally. Crude oil prices plunged by more than 50% during October 08 – February 09, while natural gas prices declined by about 45%. In fact, the Dow Jones-AIG Energy Index, which represents the energy sector and includes petroleum and natural gas, plummeted 57% over the five month period. Since then, it has fallen a further 5%. The buoyancy of commodity prices during the first half of 2008 facilitated a current account surplus of 27.6% of GDP, about three percentage points higher than in the previous year. While energy exports grew by 26.4% over 2008, the non-energy exports also rose by a notable 32%.

The capital and financial account of the balance of payments continues to paint a different picture though, as it showed yet another net financial outflow in 2008. Essentially, the capital account records all transactions between a domestic and foreign resident that involves a change in ownership of an asset. The financial account records government-owned assets, private sector assets held in other countries, local assets held by foreigners, foreign direct investment and global monetary flows related to investment in business, real estate, bonds and stocks. Despite the large inflow from the Royal Bank of Canada (RBC) acquisition of RBTT, the capital and financial account still shows net outflows of US\$4.0 billion in 2008. Foreign Direct Investment (FDI), inclusive of the RBC/ RBTT transaction reached US\$1.5 billion. This figure should come under pressure this year, given the tightness in global credit markets, which is likely to affect investment flows into general emerging markets, including Trinidad and Tobago. The CBTT even highlighted three proposed gas-based projects which are now in doubt.

On the domestic side, which represents about 50% of GDP (close to 50% of GDP comes from the energy sector), there is a definite deceleration. The index of retail sales, which is a gauge of consumer demand, grew at a slower 7.2% (y-o-y) during the fourth quarter of 2008, compared to growth of 22.4% in the corresponding period of the previous year. There was a marked decline of 18.8% (y-o-y) in the construction subsector of the index. Motor vehicle sales have also begun to

show signs of weakening, with new vehicles sales in the first quarter of 2009 declining by 40.9%. Due to the erosion of confidence and general pessimism about the economy, consumer credit growth slowed to 3.6% in the 12 months to February 2009. The high lending rates in the banking sector had a tightening effect on borrowing and credit demand during the past few months. The growth in commercial bank credit to the private sector slowed to 9.7% (y-o-y) in February 2009, compared to growth of close to 20% recorded in mid 2008.

Labor market conditions are also deteriorating with hundreds already plunged into joblessness. The most recent data available (third quarter 2008), shows that employment increased by 1.3% (y-o-y), as employment in agriculture and construction increased by 7.4% and 8.6% respectively. This resulted in an unemployment rate of 4.7%. However, with the recent slackening of the labor market, the unemployment rate is expected to climb this year. Approximately 7,200 people have lost their jobs so far across different sectors of the economy, including energy, construction and manufacturing among others, with the construction sector feeling the brunt of the job losses. Inflation remains stubbornly high at 11.3%, even though global commodity prices have been declining, the US dollar has regained strength and domestic demand has been weakening.

On the fiscal accounts, the first five months of the fiscal year (Oct 08 – Feb 09) shows an overall budget deficit (which is common in times of economic downturn, as it is used to stimulate economic activity) of TT\$3 billion, which is more than double the deficit recorded during the same period of the last fiscal year. As oil revenues grew at a 9% pace and non-energy revenue declined by 4.2%, the non-energy fiscal deficit widened by 26% in the 5-month period compared to the same period a year earlier.

Is this economic slowdown merely a bump in the road where the worst will soon be over? ... Or is the worst yet to come? The data has been presented. Draw your own conclusions.

---

## FINANCIAL & ECONOMIC INDICATORS

As at 30 April, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	98.63	97.96
Euro	1.32	1.31
Jamaica	88.98	88.92
Guyana	204.70	203.90

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	51.12	49.62
Natural Gas (US\$/mmbtu)	3.25	3.47
Gold (US\$/Troy Ounce)	888.20	904.30

### Eurobond Indices (As at 30-April-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	-2.38
JP Morgan EMBI+ (Basis points)	532
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	10.48

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0-0.25	0-0.25
Euro Zone	1.25	1.25
Japan	0.10	0.10
Brazil	10.25	11.25
Trinidad	8.00	8.50
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.13	0.10
US 10-Yr Treasury	3.12	2.92
3-month UK Libor	1.45	1.49
Japan 90-day T-Bill	0.38	0.38
Brazil 90-day T-Bill	10.29	9.95
TT 90-day T-Bill	2.30	2.56
Jamaica 90-day T-Bill	19.82	19.82
Barbados 90-day T-Bill	3.85	3.92

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

### DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.