ValuationNEWS

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Economy

According to the International Monetary Fund (IMF), global growth lost momentum during the first half of 2018. It further stated that global economic output is projected to expand by 3.7% in 2018 and 2019, which represents a downward revision of 0.2 percentage points from its April 2018 forecast.

Locally, the Central Bank, in its Monetary Policy Report November 2018, reported that there was an improvement in the overall activity in the domestic economy during the first half of 2018 (year-on-year), supported, not surprisingly, mainly by the energy sector. The report states that preliminary estimates suggest an increase in real economic activity of 3.0 % (year-on-year) in the first six months of 2018, which is a significant improvement from last year when it declined by 4.7%. While oil output declined, energy output expanded by 9.1%, largely due to additional gas output from bpTT's Juniper gas platform. The Government of Trinidad and Tobago stated in the recent budget that they expect growth of 1.9% in 2018 increasing to 2.1% by 2021 while the IMF's predictions were more conservative (1% in 2018, 0.9% in 2019 and 1.8% through 2023). Subsequent to this, the Central Bank revealed that the growth momentum mentioned above appeared to have slackened in the third quarter of 2018.

The non-energy sector as a whole is yet to recover and preliminary data suggests that activity fell slightly by 0.2% (year-on-year) in the first half of 2018. This compares favourably with stronger declines of 2.6% in the latter half of 2017 and 4.4% in the first half of 2017.

During 2018, inflation, according to the Central Statistical Office, has remained relatively low increasing marginally to 1.2% in September 2018 (versus 0.9% in January 2018). However, with the overall economy still struggling to recover fully, the unemployment rate increased to 4.4% in the fourth quarter of 2017 versus 3.6% in the corresponding period of 2016.

On the one hand, the Central Bank expects that the local economy will benefit from the strength in the energy sector for the remainder of 2018. This outlook is further enhanced by:

- The possibility of further increases in both international energy prices and domestic natural gas production;
- The proposed Phoenix Park Industrial Estate (US$104 million investment), which is due to be completed by the end of 2019 and is expected to create 10,000 jobs by the end of 2020;
- The La Brea dry dock project, which is expected to bring 5,000 jobs;
- The planned aluminium plant at the Tamana Industrial Park.

However, there are several factors that could adversely affect this outlook, some of which include:

- The Central Bank has reported that rising US-TT interest rate differentials from higher foreign interest rates could encourage capital outflows and place pressure on the externall accounts".
- They also mentioned that "an exacerbation of international trade and wider geopolitical tensions could also negatively affect Trinidad and Tobago".
- The economic effects of the Petrotrin closure coupled with the proposed layoffs at TSTT.
- Inflationary pressures caused in part by –
    - o The increase in the price of super gasoline;
    - o The proposed property tax;
    - o Possible shortages in agricultural products due to recent widespread flooding.

Despite these risks, the IMF stated that it expects the local economy to return to positive growth for 2018 following two years of recession. They expect near-term growth will likely be led by natural gas production while gradual recovery in the non-energy sector would help stabilize growth over the medium term.

It is therefore felt, that quite possibly, the economy is turning around and in the words of the Minister of Finance in the 2018 Mid-Year Budget Review, "the rain is gone".

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