

G.A. FARRELL & ASSOCIATES LIMITED

Chartered Valuation & Quantity Surveyors

Market Conditions - March 2022



It would seem needless to mention that, after more than two years, the COVID-19 pandemic has had a severe impact on the lives of the citizenry and the economy worldwide. As variants continue to emerge, there seems to be no telling when the Coronavirus will be relegated to merely a period in history, as its onslaught continues to ravage on. From a global vantage, it is expected that there will be an economic recovery in 2022, which has been assessed by the International Monetary Fund (IMF) to be 4.4%. Considering this, what then lies ahead for Trinidad & Tobago (T&T) in 2022?

For comparison purposes, the following lends insight into the US market. According to a panel discussion in January 2022 between professionals of an American wealth management firm, Plante Moran, it was reported that the US showed a significant GDP growth of 6% in 2021, which is the highest growth rate since 1984. Notwithstanding a forecast of 3.9% for 2022 being less than the previous year, this was considered to be particularly good since GDP is still expected to exceed the average of just about 2%. However, the downside to growth would be inflation, which was at 7% in 2021.

It was also mentioned that despite the rising number of COVID-19 infections, the percentage number of cases requiring hospitalization and those leading to death were on the decline. With that said, the consumer sector is in good shape. Spending will be influenced by the number of job vacancies exceeding demand thereby pushing down unemployment, availability of higher wages and excess savings held by consumers.

The Bonds market in 2021 was poor performing with subdued returns and only modest upward price movements. However, being at the low end of the risk spectrum, investment in bonds reduce risk in a portfolio and provides a potential source of liquidity which can be re-invested in risk assets, such as real property.

Turning the attention domestically, the T&T economy is also anticipated to grow this year, fueled by the resumption of business activity after mobility restrictions and lockdowns were removed in the last quarter of 2021. Revenues have also been bolstered by increases in crude oil prices which have averaged at US\$73.96 per barrel up until the Russo-Ukrainian conflict escalated into a hostile invasion of Ukraine by Russia on 24th February 2022. Following the invasion, the price of oil surpassed US\$100.00 per barrel for the first time since 2014.

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Despite higher energy prices in 2021, the Central Bank of Trinidad & Tobago (CBTT), in its quarterly index of Real Economic Activity (2012=100) showed a decline by 3% in 2021 when compared to the corresponding period in 2020. It was also reported that this decline was due to a 3.5% fall in non-energy production and a 1.9% fall in production in the energy sector (refer to Table 'A' for other Key Indicators). In 2022, natural gas and non-energy sector production are set to increase, once there is no re-implementation of COVID-19 restrictive measures.

Table 'A' **QUARTERLY INDEX OF REAL ECONOMIC ACTIVITY - KEY INDICATORS**
(Year-on-Year Per Cent Change)

	QI-20	QII-20	QIII-20	QIV-20	QI-21 ^P	QII-21 ^P	QIII-21 ^P
Total QIEA	-1.0	-15.3	-9.6	-9.3	-8.8	-5.5	-3.0
Energy	-4.9	-9.4	-20.1	-20.9	-13.4	-9.4	-1.9
Non-Energy	1.6	-18.9	-3.0	-2.7	-6.0	-2.8	-3.5
Construction	-0.7	-35.3	12.4	19.4	4.6	-41.4	-13.0
Wholesale and Retail Trade (Exc. Energy)	1.5	-28.8	0.4	-3.3	-11.4	-3.1	-10.9
Manufacturing (Exc. Refining and Petrochemical)	3.8	-7.8	0.3	-0.6	1.6	-1.9	1.1
Financial and Insurance Activities	5.5	4.8	5.6	6.6	3.1	4.2	3.2

Source: Central Bank of Trinidad and Tobago

Like the US economy, inflation has and will continue to be a challenge. Costs of building materials and generally all imported items have significantly increased due to a shortage of shipping containers and higher shipping costs; not to mention China's "zero-COVID" policy which has placed limitations on production levels, ultimately affecting commodity supplies across the globe. However, softened monetary policy is maintained to allow affordable access to borrowing, and as such the Repo Rate of 3.5% remains unchanged in T&T.

Whilst there are indicators that growth will take place in 2022 given the decline over the period 2016-2021, technocrats have put comparatively less weight on growth estimates of 5.0% and 5.7% which were postulated by the Minister of Finance and the IMF, respectively. The primary concern is the quantum increase in oil & gas production that will actually be achieved this year, since it is anticipated to be below predictions. This has already begun to manifest as it has been reported that crude oil production at the BHP Ruby field is only producing a quarter of the crude oil production initially predicted (NGC silent on Ruby field's low production, Trinidad Guardian, 1st March 2022, page 16). The other major concern is the direction that COVID-19 infections will take, and the response to it.

Furthermore, the Russo-Ukrainian crisis is expected to have a far-reaching impact on global economies, with the upward pressure on energy prices being the immediate observable result. On 1st March 2022, Curtis Williams, Business Guardian Media's Lead Editor on the CNC3 nightly News, briefly described what can be expected in terms of the impact on the local economy. He echoed an increase in the prices of imported commodities / food, as the cost of shipping increases with higher fuel prices. Particular reference was also made to the cost of flour, as Russia and Ukraine supports approximately 30% of the world trade in wheat.

Subsequently, as inflationary pressures mount, he also suggested that revisions in monetary policy, such as increasing the repo rate, can impact on mortgage payments as the cost of borrowing rises.

Only time will tell how exactly the local economy would be affected by the aforementioned crisis, the severity of which is likely to be influenced by the duration of the conflict and the countermeasures, such as sanctions on Russia, that have been and would be levied by the North Atlantic Treaty Organization (NATO).

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