



CENTRAL BANK OF TRINIDAD & TOBAGO

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REMARKS

at

A MEDIA CONFERENCE

on

“Recession or Slowdown”

at

The Central Bank Conference Facility

by

Ewart S. Williams
Governor, Central Bank of Trinidad and Tobago
August 11th, 2009

I am truly amazed at the interest that this “recession” theme has generated. There is widespread agreement among all parties that the economy is going

through a difficult stretch and the latest data confirm that. The issue seems to be whether we have reached crisis proportions, since my guess is that is what, in the popular parlance, **recession** is taken to mean.

The local media published an article in which Governor Marion Williams of Barbados was quoted as saying that “**the Barbadian economy was in recession but was not in crisis**”. I cannot comment on the Barbadian case, but **I remain unconvinced that the current state of the economy would meet the accepted definition of recession.**

I realize that it's not only in Trinidad and Tobago, but all over the world and particularly in the advanced countries there is an intense interest among the media about recessions. In the US, for instance, the media made the call months before the designated authority – the National Bureau of Economic Research (NBER).

I recall, for instance a Bloomberg headline in May 2008, which read “**the business press recession**

obsession continues". The NBER Committee formally called "recession" in December 2008 at which time they indicated that the recession in the US economy began in December 2007.

(This simply shows how complicated and ill-defined these things are).

Economists define "recession" in several ways. One widely accepted definition **"is a significant decline in economic activity, spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators"**. By convention, the "more than a few months" has been taken to mean two quarters (although some analysts argue that three quarters is a more appropriate period).

What the definition makes clear is that:

- (i) **you cannot look at real GDP alone; you need to look at the other indicators also;**

- (ii) **the decline must be broad-based across sectors;** and
- (iii) **it must be self-reinforcing** i.e. a GDP decline leading to a decline in incomes and employment which prompts a further GDP decline.

Like most things in economic analysis, we also have to be careful that in the application of the definition we do not take a **“one size fits all”** approach. What I mean is that in making the call we must take into consideration the structure of the particular economy.

The beginning and end of a recession is a judgment to be made based on several indicators, some of which may exhibit conflicting behaviour – and there is always healthy debate on the issue. That is why the US has designated a private institution to make the judgment and that is why the designated institution takes considerable

time to make the call – as I noted above, most times long after the fact.

It bears noting that the Central Bank is not the official source of national accounts data, nor, obviously, the institution assigned to determine whether we are or are not in recession. The Bank prepares its quarterly national accounts estimates based on a sample of selected indicators, which is much smaller than that used by CSO in the calculation of the annual national accounts statistics. I say all this to introduce an element of caution on the interpretation that is given to our quarterly data series.

Whether the current situation is a recession or a slowdown is less important than making sure that we adopt the right policies for our specific circumstances. The US and other advanced countries may be able to spend their way out of recession because there is significant spare capacity, and an abundance of other productive factors, which are waiting to be mobilized. Most developing countries, including Trinidad and

Tobago, lack that luxury and need to be more aware of the implications of **demand stimulus**, for inflation, foreign exchange, public debt and medium term sustainability.

Accordingly, we need to be more circumspect and more targeted in responding to the current slowdown, since the correct response will depend on whether we are going through a temporary cyclical event or structural change.

With this (perhaps too lengthy preamble), let's look at the data.

END



CENTRAL BANK OF
TRINIDAD & TOBAGO

Recession or Slowdown?

Media Conference
Central Bank Conference Facility
August 11, 2009

What is a recession?

- A significant decline in economic activity over a sustained period of time.
- It refers not simply to two consecutive quarters of decline in real GDP *but also to declines in other key indicators* such as employment, incomes, retail sales and industrial production to mention a few.

What's the message so far from the preliminary data?

- The information confirms there has been a sharp slowdown in economic activity.
- At the same time it does not suggest that things have reached crisis proportions.

Real GDP growth

Real GDP Growth
(Year-on-Year Per cent Change)

- Total real GDP declined in QIV-08 and QI-09, with a decline in the energy sector in both quarters.
- There was a small increase in non-energy GDP in QIV-08, but this was offset by a drop in energy output, primarily petrochemicals.
- For QI-09 however, there was a broad-based contraction across most sectors of the economy.

	QI-09 ^P	QIV-08	QIII-08
Total GDP	-3.3	-1.1	4.2
<i>Energy</i>	<i>-2.0</i>	<i>-4.3</i>	<i>1.3</i>
Petrochemicals	-4.3	-14.4	0.4
<i>Non-Energy</i>	<i>-5.4</i>	<i>1.1</i>	<i>6.2</i>
Construction	-2.7	2.9	3.4
Manufacturing	-11.7	-8.9	-4.7
Distribution	-3.7	2.9	16.0
Agriculture	27.5	-16.6	-1.8

Employment

Employment – Selected Indicators

(in thousands; changes are year-on-year)

- In QIV-08, the number of employed persons increased by about 8,000 resulting in a fall in the unemployment rate to 3.9%.
- The decline in total employment took place in the first quarter of 2009.
- The net loss of jobs in QI-09 pushed the unemployment rate to 5% which is relatively low compared to other developing countries.

	QI-09	QIV-08	QIII-08
Total Employed	598.2	608.7	600.8
<i>(% Change)</i>	<i>(1.7)</i>	<i>(0.9)</i>	<i>(1.3)</i>
Petroleum	18.5	21.4	20.1
<i>(% Change)</i>	<i>(0.5)</i>	<i>(7.5)</i>	<i>(-11.5)</i>
Construction	111.5	112.5	121.3
<i>(%Change)</i>	<i>(-3.3)</i>	<i>(-0.9)</i>	<i>(8.6)</i>
Manufacturing	53.7	56.1	53.2
<i>(% Change)</i>	<i>(-5.8)</i>	<i>(5.5)</i>	<i>(-2.0)</i>
<i>Memo Item:</i>			
Unemployment Rate (per cent)	5.0	3.9	4.7

Retail sales

Index of Retail Sales

- After increasing in the last 2 quarters of 2008, overall retail sales declined in QI-09.
- The decrease in sales of construction materials and hardware was evident since the last quarter of 2008.

	QI-09	QIV-08	QIII-08
All Items	198.4	281.1	242.1
<i>(Year-on-Year % change)</i>	<i>(-7.8)</i>	<i>(7.2)</i>	<i>(14.4)</i>
Supermarkets & Groceries	202.8	252.6	217.5
<i>(Year-on-Year % Change)</i>	<i>(0.1)</i>	<i>(4.1)</i>	<i>(7.2)</i>
Construction Materials & Hardware	234.0	247.0	244.5
<i>(Year-on-Year % Change)</i>	<i>(-2.9)</i>	<i>(-18.8)</i>	<i>(6.6)</i>
Motor Vehicle & Parts	257.3	336.3	308.1
<i>(Year-on-Year % Change)</i>	<i>(-8.4)</i>	<i>(19.1)</i>	<i>(16.0)</i>

Banking system indicators

Commercial Banks – Selected Indicators (TT\$Mn)

- Non-performing loans as a share of total loans increased in early 2009 but still remain relatively small.
- Overall loans and advances to the private sector declined in Q1-09 largely because of the sharp fall in loans to consumers.

	Q1-09	QIV-08	QIII-08
Quarterly Change in Total Deposits	3,779.0	3,738.7	-2,777.3
Quarterly Change in Private Sector Loans & Advances	-280.1	1,254.6	1,576.5
Business	-36.9	588.3	937.1
Real Estate Mortgage	195.2	248.1	368.5
Consumer	-438.5	418.2	270.9
Asset Quality			
Nonperforming Loans: Total Loans (per cent)	1.80	1.00	0.83

Fiscal accounts

Fiscal Accounts – TT\$Mn

- There has been a sharp decline in both energy and non-energy sector revenues.
- The fiscal accounts recorded a deficit for the first nine months of FY 2008/09.

	October-June		Oct-Sept
	2008/09	2007/08	2008/09*
Revenue	28,548.1	40,533.0	42,244.0
Energy	14,226.7	22,084.6	15,136.4
Non-Energy	14,321.4	18,448.4	27,107.6
Expenditure	30,150.6	30,232.5	44,105.0
Current	25,641.7	24,852.9	36,048.9
Capital	4,508.9	5,379.6	8,056.1
Overall Fiscal Balance	-1,602.5	10,300.5	-1,861.0

* revised budget (Jan 2009)

Inflation

Index of Retail Prices
(Year-on-Year Per cent Change)

- There has been a marked deceleration in headline inflation in 2009.
- It is still too early to say whether inflation expectations have been fully reversed.

	Jun-09	Mar-09	Dec-08	Sept-08
Headline	8.4	11.3	14.5	14.8
Food	16.5	24.5	30.6	34.6
Core	4.5	5.3	7.1	6.2

Merchandise trade

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Merchandise Trade (US\$Mn)

- There has been a significant compression in imports in the first two months of 2009.
- Non-energy exports have also slowed.
- A recovery in energy prices since early 2009 has helped to boost the value of energy exports.

	Jan-Feb 2009	QIV-08	QIII-08	Jan-Feb 2008
Exports	3,424.3	4,295.3	5,926.3	2,206.2
Energy	3,193.1	3,790.1	5,391.2	1,956.7
Non-Energy	231.2	505.2	535.4	249.5
Imports	911.0	2,113.9	2,670.5	1,553.5
Merchandise Trade Balance	2,513.4	2,181.4	3,256.1	652.6

Foreign exchange

The Foreign Exchange Market (US\$Mn)

- Authorized dealers net purchases of foreign exchange have been declining in 2009.
- The Central Bank has continued to support the market during periods of tightness through increased sales of foreign exchange.
- The Bank sold US\$1.1 billion in the first seven months of 2009, more than twice the amount sold in the corresponding period of 2008.

	January-July	
	2009	2008
Authorized dealers Purchases from Public	2,084.3	3,263.1
Authorized dealers Sales to Public	3,187.3	3,668.8
Net Sales	1,103.0	405.7
Central Bank Sales to the market	1,084.1	435.0
Net International Reserves (end July)	8,750.8	8,581.4
Months of Import Cover	10.3	10.1

Short-term economic prospects

- As of now, there are no signs that things are beginning to turn around.
- Local sales of cement for the first six months of 2009 were 7.0 percent lower than in the first half of 2008.
- Median house prices fell by 6.7% to TT\$800,000 in the second quarter of 2009.

Short-term economic prospects

- The number and value of new real estate mortgage loans approved in the first half of 2009 were 29% and 20% lower than in the first half of 2008.
- New motor vehicle car sales declined by 41% in the first half of 2009 compared to the similar period in 2008.

Short-term economic prospects

- The number of job layoffs continued to rise in the second quarter of 2009.
- According to the data collected by the Ministry of Labour, close to 1,000 persons received retrenchment notices between April and mid-July.

Short-term economic prospects

- In the April 2009 Monetary Policy Report, we had envisaged growth for 2009 in the range of 0-1%.
- We are still reviewing our projections, but all indications are that there would be a decline in real GDP for 2009 as a whole.
- If this occurs, it would be the first annual decline in real GDP since 1993.

Short-term economic prospects

- There is a risk that unemployment could increase to 6-7%.
- International food price reversals and uncertainties regarding agricultural output could keep inflation above the targeted 6 per cent.
- Lagging consumer and business confidence could make for a slow recovery in private sector credit demand.

What are the policy options in the current economic climate?

- Preventing unemployment from getting out of hand is a key policy objective.
- There is considerable room for interest rate reduction if inflation continues to decline.

What are the policy options in the current economic climate?

- There is room for a small fiscal deficit of around 2-3% of GDP in FY2009/2010.
- This deficit will still imply difficult fiscal choices as:
 - economic infrastructure needs remain large;
 - large subsidies have become embedded in the budget;
 - several large on-going projects need to be completed.
- Room for new projects and new expenditure programmes is limited.

What are the policy options in the current economic climate?

- There needs to be greater focus on factors restraining private sector expansion such as:
 - business facilitation;
 - assistance in finding new markets;
 - support for productivity enhancing improvements;
 - research and development;
 - joint ventures.
- Fiscal incentives cannot be the only answer; all options must be considered.

End of Presentation



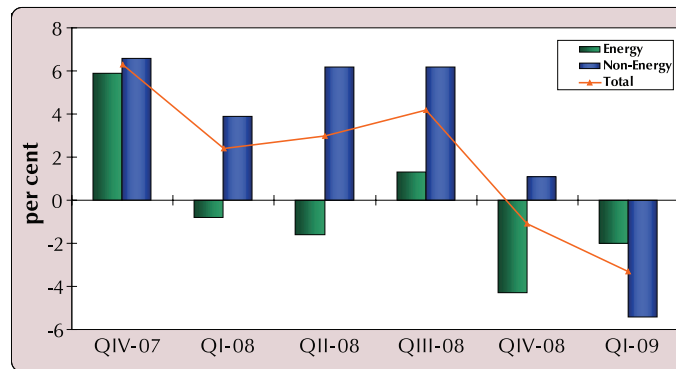
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RECESSION OR SLOWDOWN?

MEDIA CONFERENCE
AUGUST 11, 2009

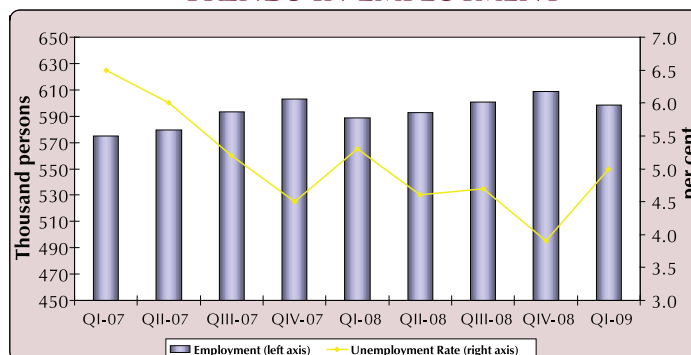
NOTES

CHART 1
REAL GDP GROWTH
YEAR-ON-YEAR PER CENT CHANGE



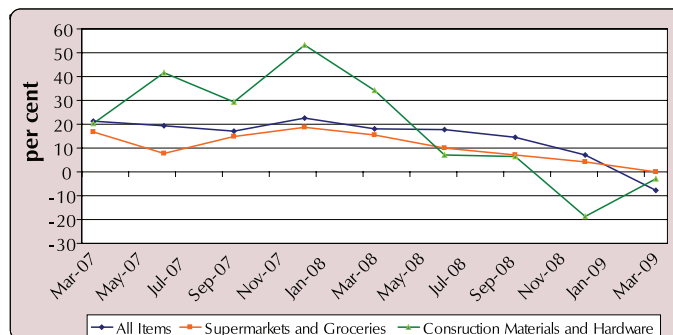
Source: Central Bank of Trinidad and Tobago estimates.

CHART 2
TRENDS IN EMPLOYMENT



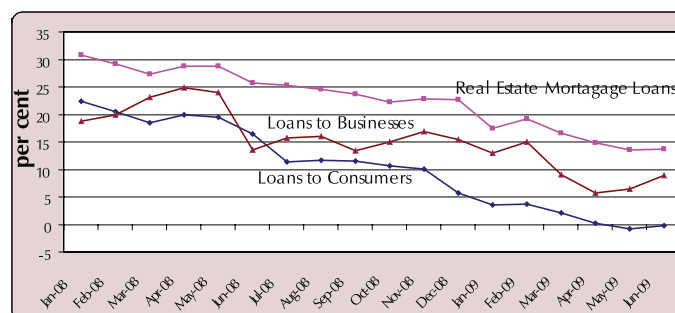
Source: Central Statistical Office.

CHART 3
INDEX OF RETAIL SALES
YEAR-ON-YEAR PER CENT CHANGE



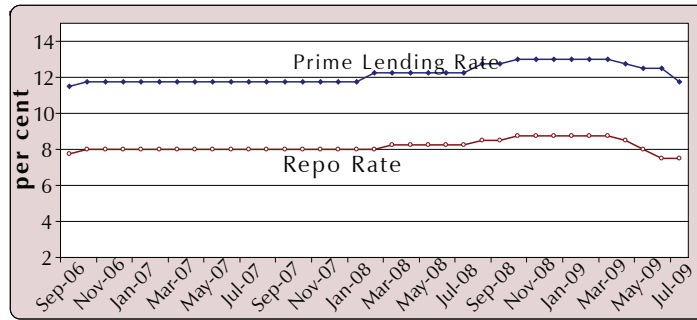
Source: Central Statistical Office.

CHART 4
COMMERCIAL BANKS LOANS AND
ADVANCES TO THE PRIVATE SECTOR
(YEAR-ON-YEAR PER CENT CHANGE)



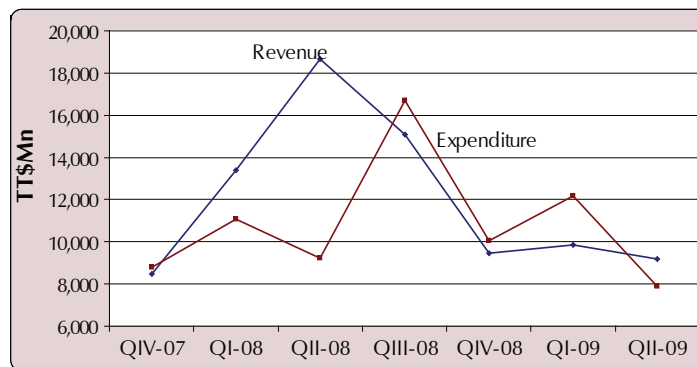
Source: Central Bank of Trinidad and Tobago.

CHART 5
SELECTED INTEREST RATES



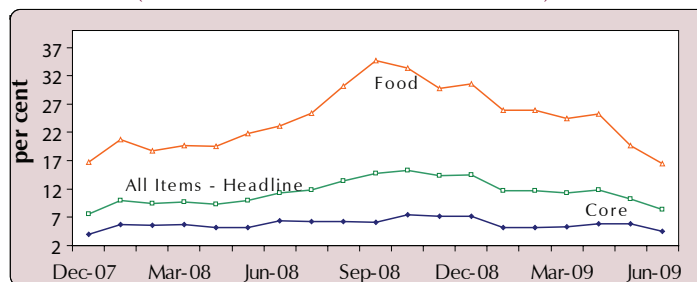
Source: Central Bank of Trinidad and Tobago.

CHART 6
CENTRAL GOVERNMENT REVENUE AND EXPENDITURE



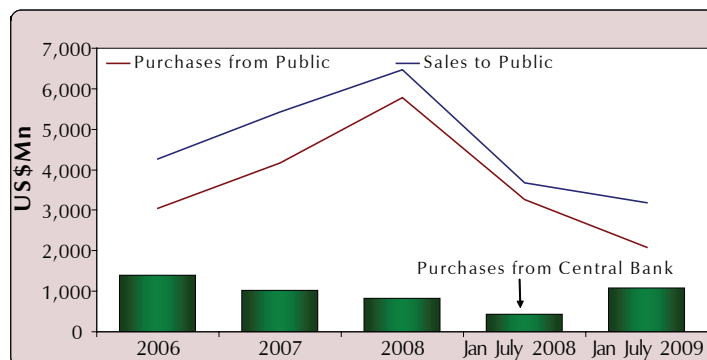
Source: Ministry of Finance.

CHART 7
INDEX OF RETAIL PRICES (YEAR-ON-YEAR PER CENT CHANGE)



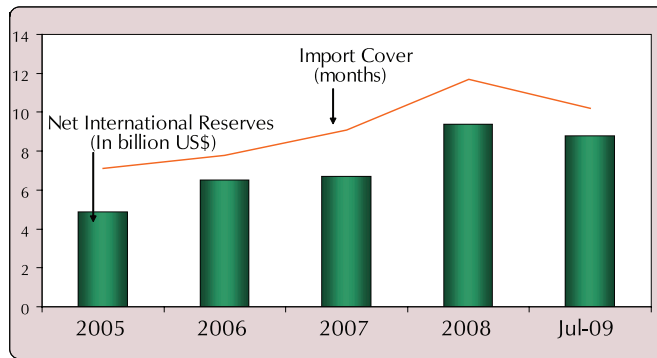
Source: Central Statistical Office.

CHART 8
AUTHORIZED DEALERS PURCHASES AND SALES OF FOREIGN CURRENCY



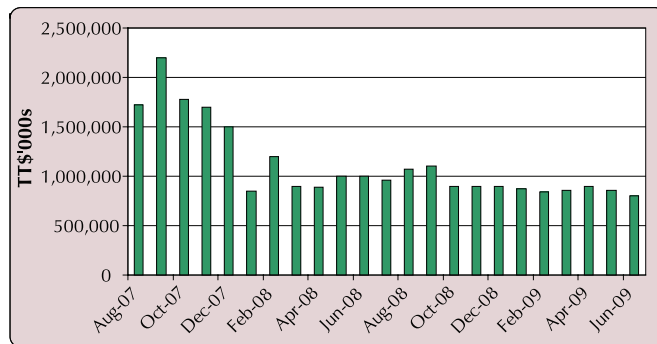
Source: Central Bank of Trinidad and Tobago.

CHART 9
NET INTERNATIONAL RESERVES AND IMPORT COVER



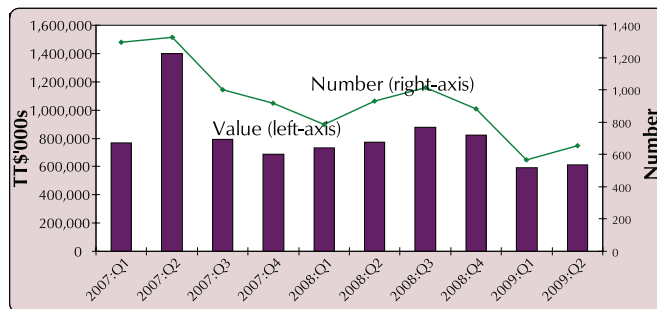
Source: Central Bank of Trinidad and Tobago.

CHART 10
MEDIAN HOUSE PRICES



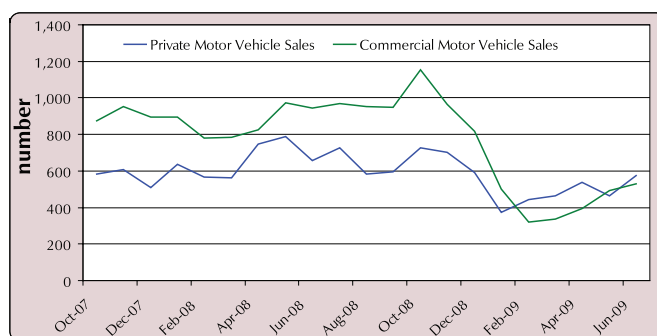
Source: Central Bank of Trinidad and Tobago estimates.

CHART 11
NEW REAL ESTATE MORTGAGE APPROVALS



Source: Central Bank of Trinidad and Tobago.

CHART 12
NEW MOTOR VEHICLE SALES



Source: Sales and Administration Department, Neal and Massy Motors.