



CENTRAL BANK OF
TRINIDAD & TOBAGO

Understanding Economic Indicators:

What Every Businessman Should Know

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Research Department

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National Financial Literacy Program

Employers' Consultative Association Breakfast
Workshop

Crown Plaza Hotel and Conference Centre

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The Issues

1. What do business people care about?
2. What key economic indicators can help businesses?
3. Selected Indicators for Trinidad and Tobago.
4. Can the National Financial Literacy Program contribute?
5. How can businesses benefit from an appropriate set of indicators?

1. What do business people care about?

- Businesses need information on anything that could affect the bottom line -- **PROFIT**.
- **PROFIT = Income minus Expenses**
- **Income—sales volume and prices**
- **Expenses—labor, other business inputs, technology**
- **So, you need indicators to help in assessing 4 items: a) Sales volume; b) Prices; c) Labor; d) Other business inputs**

2. What key economic indicators can help businesses?

- Economic indicators are numerical measures allowing for useful comparisons.**
- Knowledge is power—can make the difference between a strong versus a bankrupt company!**
- With globalization and the internet, business reaction times must be much, much faster...**

a. Sales volume—How much can you sell?

- **Local private demand—Gross Domestic Product**
- **Local demand—government accounts**
- **Foreign demand—GDP in other countries**
- **Trade possibilities—balance of payments**

b. Price—How much can you get?

- **Overall Inflation**
- **Price changes in different sectors**
- **Inflation in competing countries**

c. Labour—what's the wage bill going to look like?

- **Employment**
- **Wage settlements**
- **Worker benefits**
- **Industrial relations climate**

d. Other business inputs—how much will materials, machinery, advertising etc. cost?

- **Taxes**
- **“Cost of Doing Business”**
- **Exchange rates**
- **Interest rates**
- **Availability of finance**

5. How can businesses ensure their activities are properly reflected in the economic indicators?

- Respond to surveys in a timely manner**
- Review and assess indicators for suitability and relevance**
- Engage: Strategic alliances with Central Bank, CSO and other agencies**

Economic Indicators

- **Gross Domestic Product (GDP) – Output**
(Important for sustaining profitability of businesses)
- **Index of Retail Prices – Inflation**
(Indicator of cost of doing business and whether to invest, spend or save)
- **Exchange Rates**
(Indicator of cost of doing business and whether to invest, spend or save)
- **Interest Rates**
(Indicator of cost of doing business and whether to invest, spend or save)
- **Labour Market Indicators (Unemployment Rate)**
(Indicates if labour market is tightening & implications for wage bill)
- **Balance of Payments – Reserves, Import Cover**
(Indication of a country's trade performance and its foreign exchange earnings)
- **Fiscal Accounts**
(Implication of state of government's revenue & expenditure)

Selected Key Economic Indicators

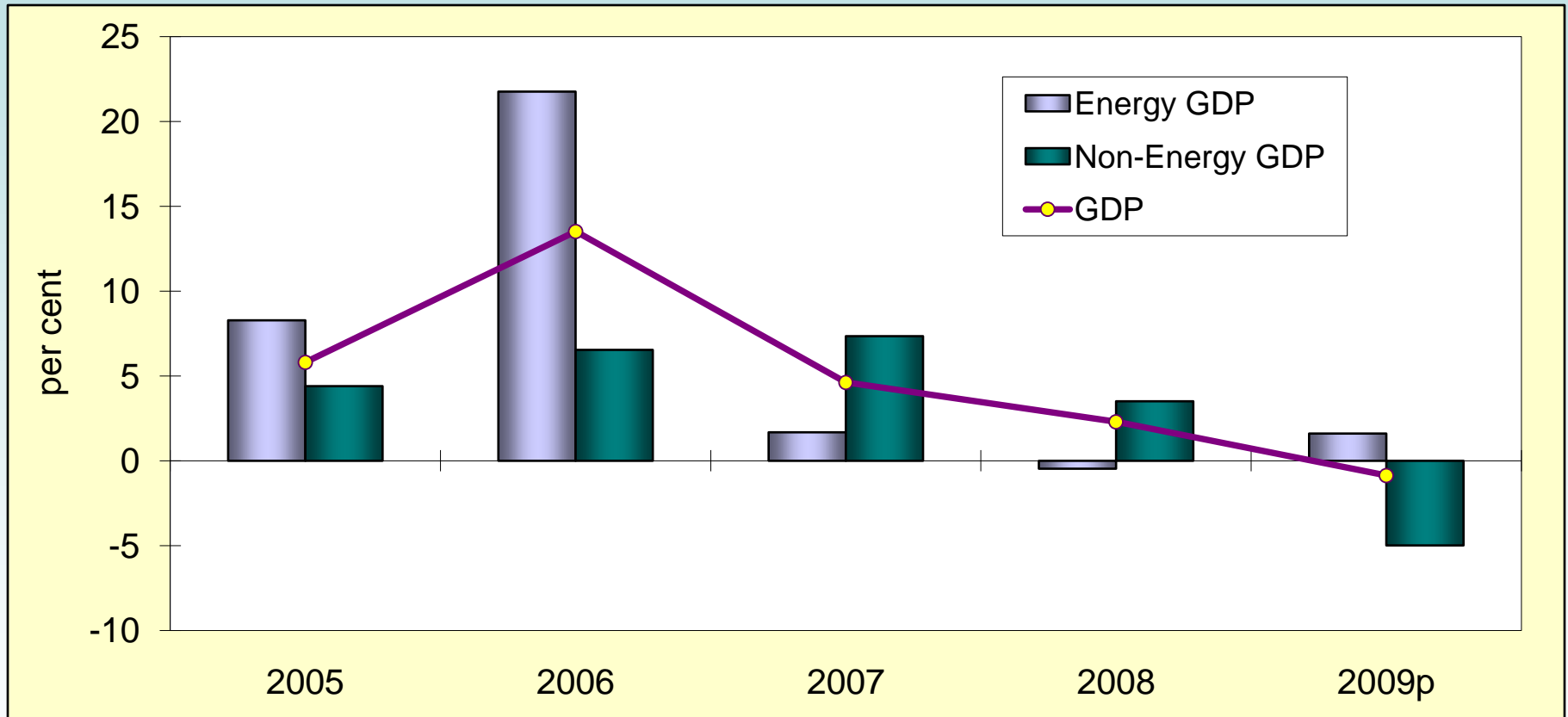
	2005	2006	2007	2008	2009 ^p
Real GDP Growth (%)	5.8	13.5	4.6	2.3	(0.9)
Energy	8.3	21.8	1.7	(0.5)	1.6
Non-Energy	4.4	6.5	7.3	3.5	(5.0)
GDP Per Capita (US\$)	12,417.7	14,222.6	16,112.3	20,035.2	16,220.0
Population (millions of persons)	1.294	1.298	1.303	1.303	1.310
Inflation Rate (end-of-period; %)	7.2	9.1	7.6	14.5	4.3*
Unemployment Rate (%)	8.0	6.2	5.5	4.6	5.1**
Fiscal Balance/GDP (%)	5.2	6.9	1.8	7.8	(6.0)
External Current Account/GDP (%)	22.4	39.4	25.6	33.7	n.a.
Net Official Reserves (US\$Bn)	4.0	5.1	6.7	9.4	8.9***
Import Cover (Months)	8.96	9.9	9.4	11.5	13.5
Heritage & Stabilization Fund (US\$Bn)	0.9	1.4	1.8	2.9	3.0***
Energy Prices:					
Crude Oil – WTI (US\$/bbl)	56.6	66.01	72.3	99.6	69.44***
Natural Gas – Henry Hub (US\$/mmbtu)	8.88	6.76	6.97	8.86	2.99***

* - August 2009; ** - June 2009; *** - September.

Sources: CSO, CBTT, Min of Finance

Chart 1

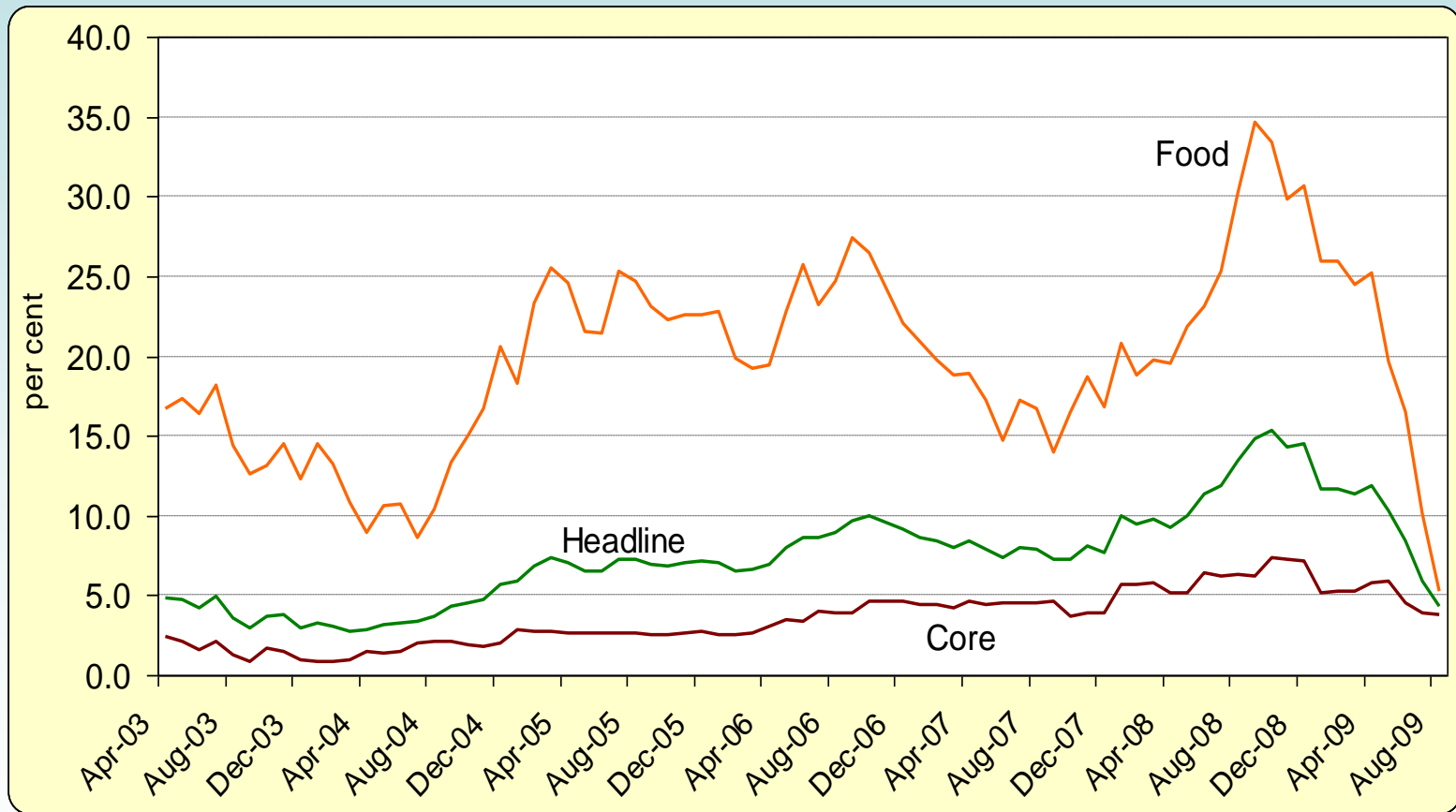
Evolution of Real GDP



Source: Ministry of Finance, Review of the Economy 2009

Chart 2

Evolution of Inflation



Source: Central Statistical Office

Interest Rates

- **Interest Rates are the price of money –**
 - **Lending Rate:** price an individual pays the bank for a loan.
 - **Deposit Rate:** price the bank pays individuals for depositing funds with them, that is for delaying current consumption.
- **Main Lending Rate – Basic Prime Lending Rate:** Interest Rate that the commercial banks charge their most credit worthy customer.
- **No Single Deposit Rate – Interest Rates vary on the type of deposit.**

Policy Rate

- The Central Bank attempts to influence interest rates through the adjustment of the policy rate – Repo Rate (Signaling Rate).
- Repo Rate: the rate at which the Central Bank is prepared to provide overnight financing to commercial banks that are temporarily unable to meet their liquidity requirements.

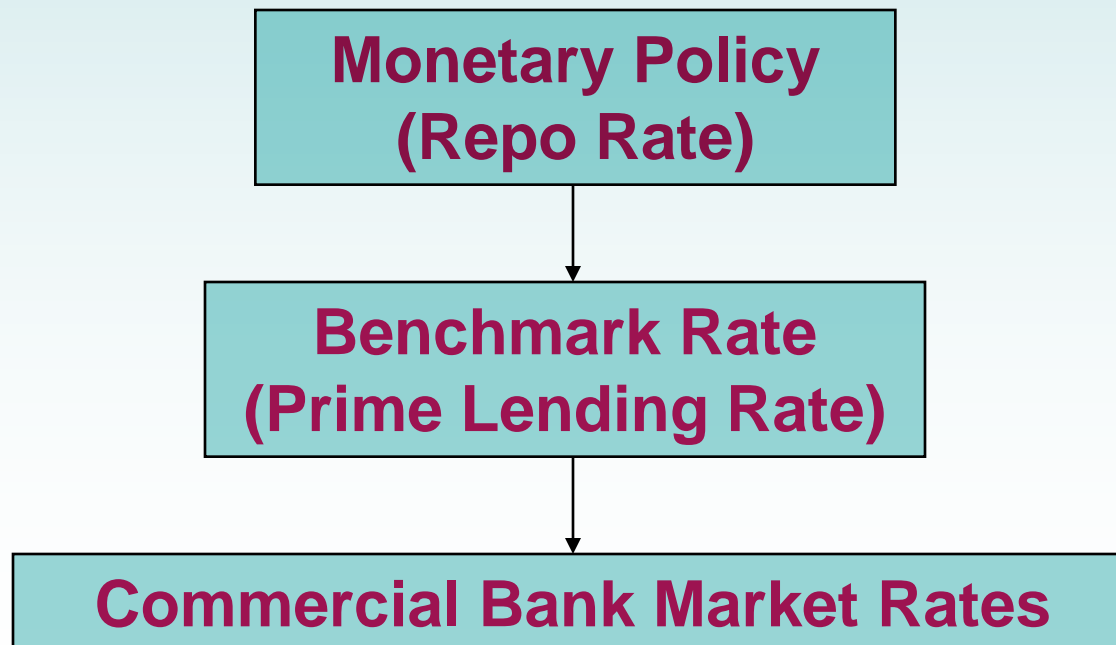
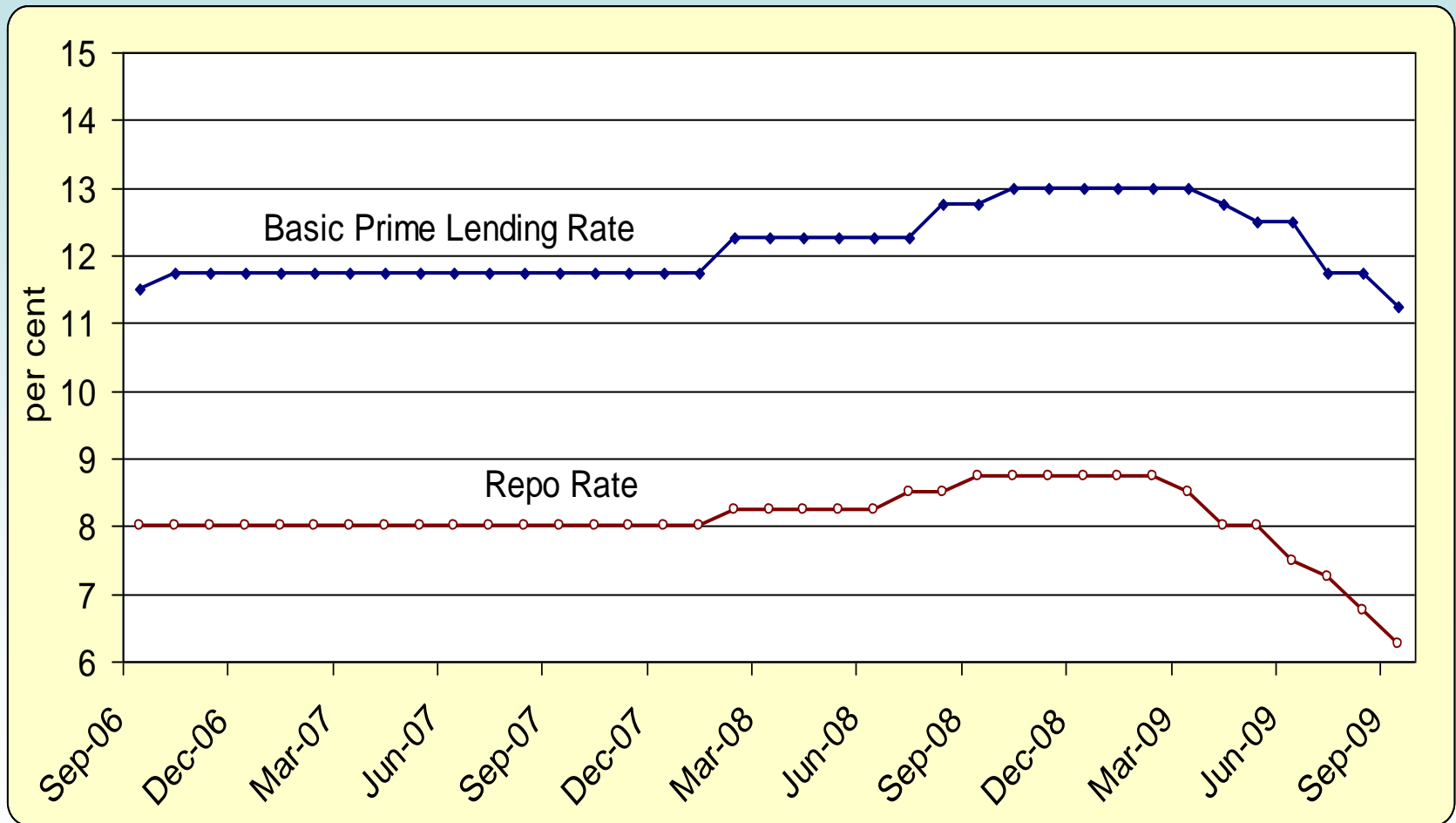


Chart 3

Repo Rate and Prime Lending Rates

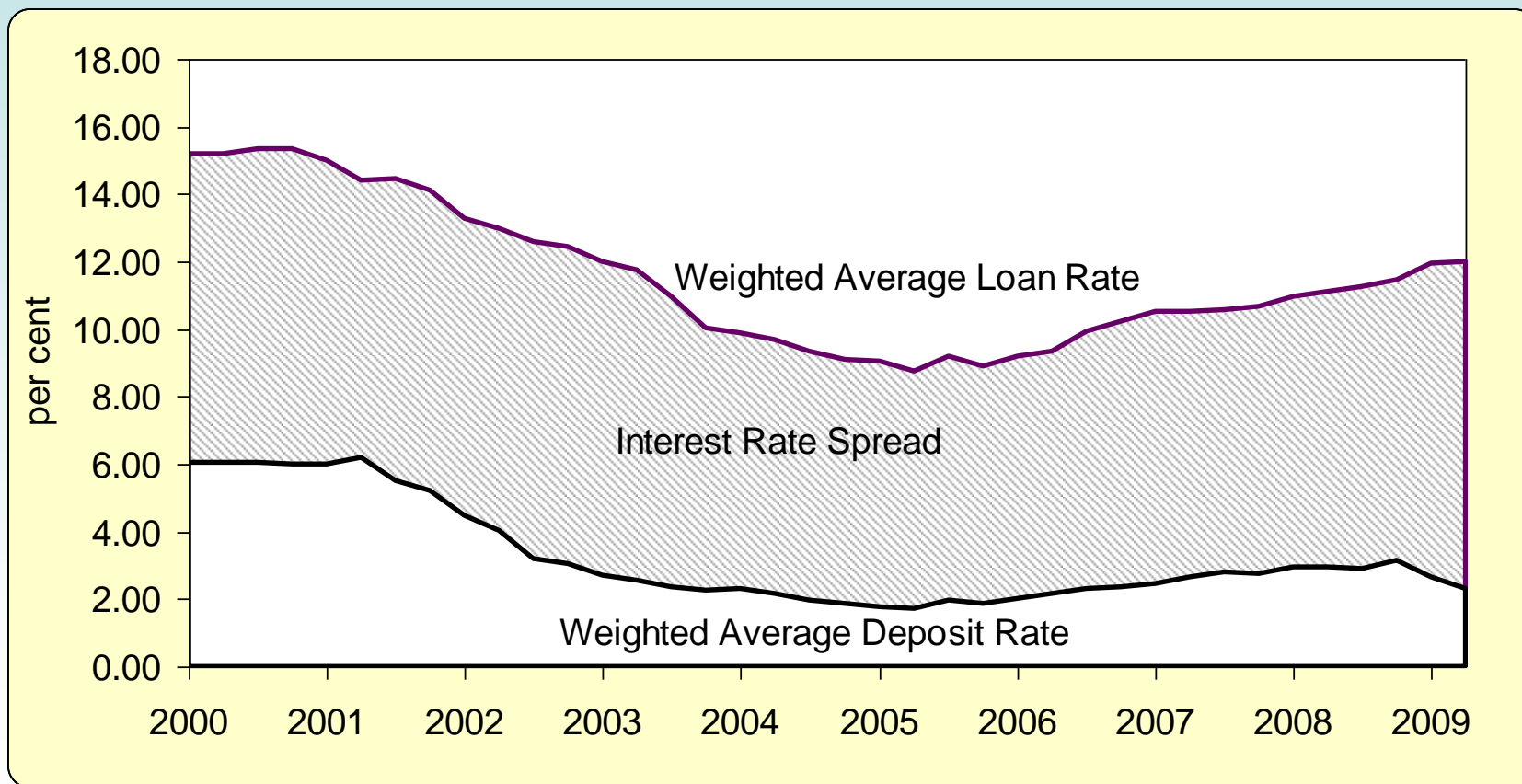


Source: Central Bank of Trinidad and Tobago

Chart 4

Interest Rate Spreads

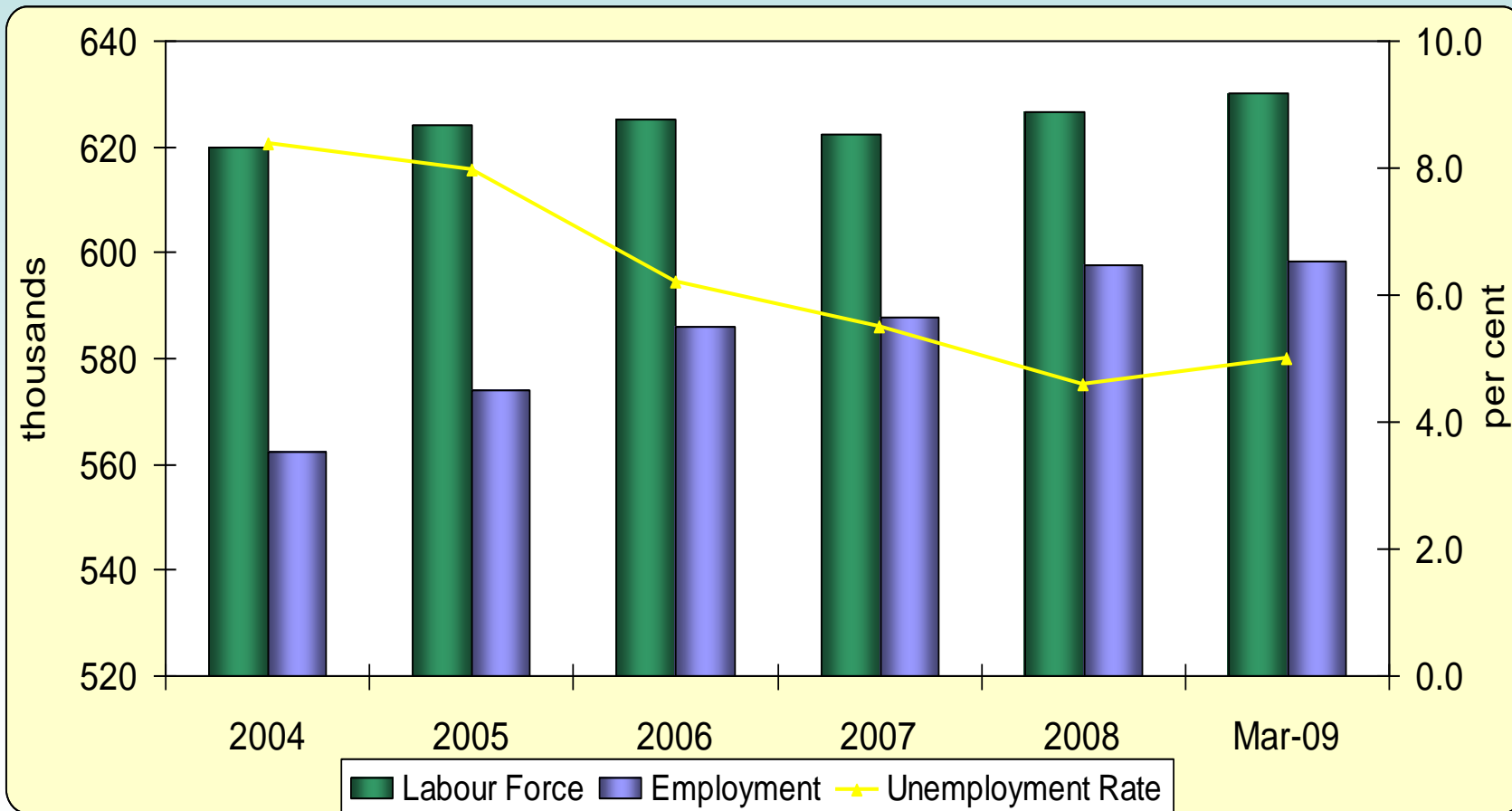
- The interest rate spread is the difference between the average lending and deposit rates:



Source: Central Bank of Trinidad and Tobago

Chart 5

Unemployment Rate



Source: CSO

Balance of Payments

- **A statement that summarizes, for a specific time period, the economic transactions of an economy with the rest of the world.**
- **Key Indicators include:**
 - **Current Account Balance**
 - **Trade Balance**
 - **International Reserves**
 - **External Debt**

Current Account Balance (CAB)

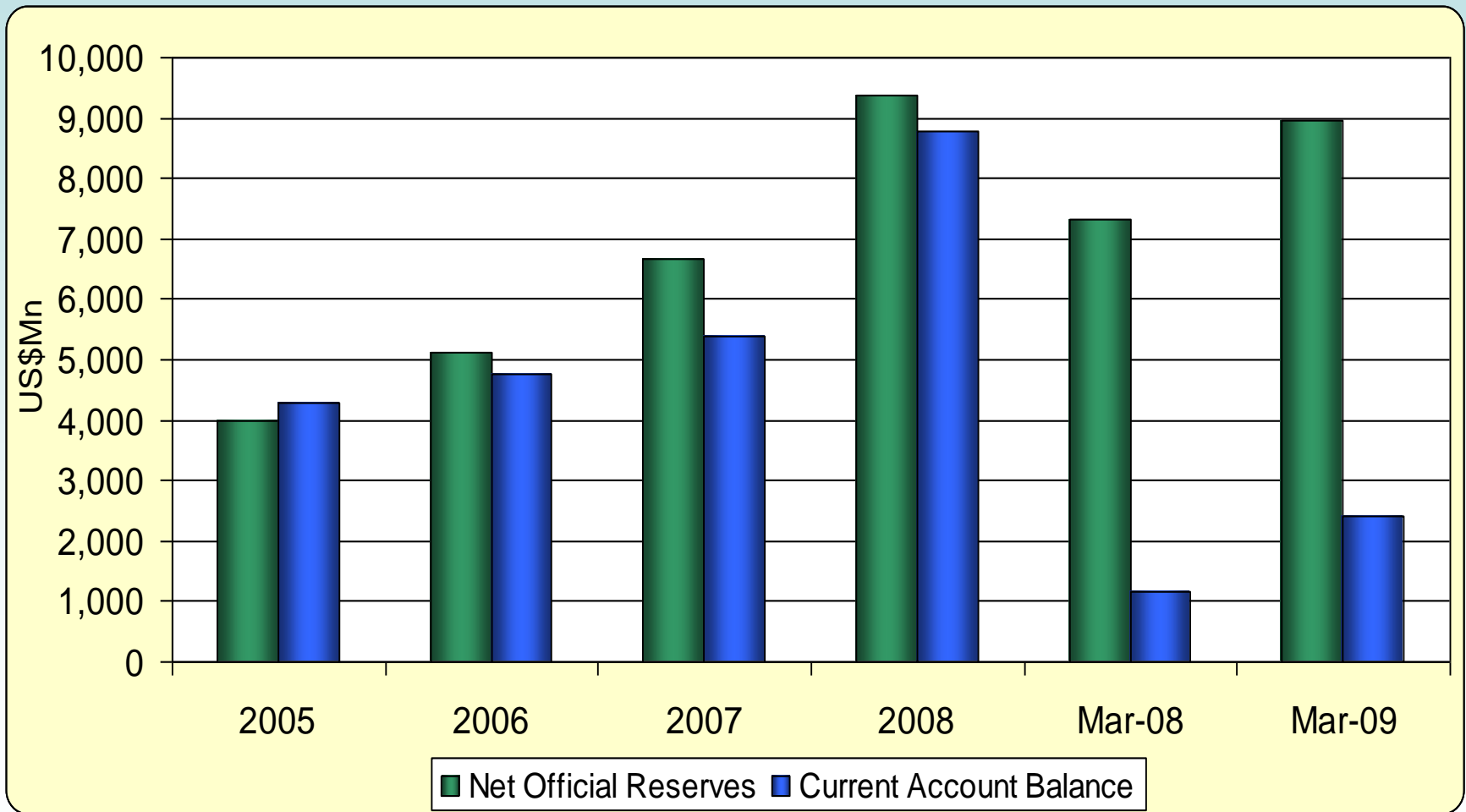
- The CAB records transactions in goods, services, income and unrequited transfers.
- It is the sum of net sales from trade in goods and services, net factor income and unilateral transfers from abroad.
- The CAB is in surplus when net sales from abroad are positive and in deficit when net sales from abroad are negative.

Current Account Balance

- **The merchandise trade balance is typically the largest component of the current account.**
- **It is a record of all international transactions for goods only (imports and exports).**
- **A CAB surplus is usually associated with positive net exports.**

Chart 6

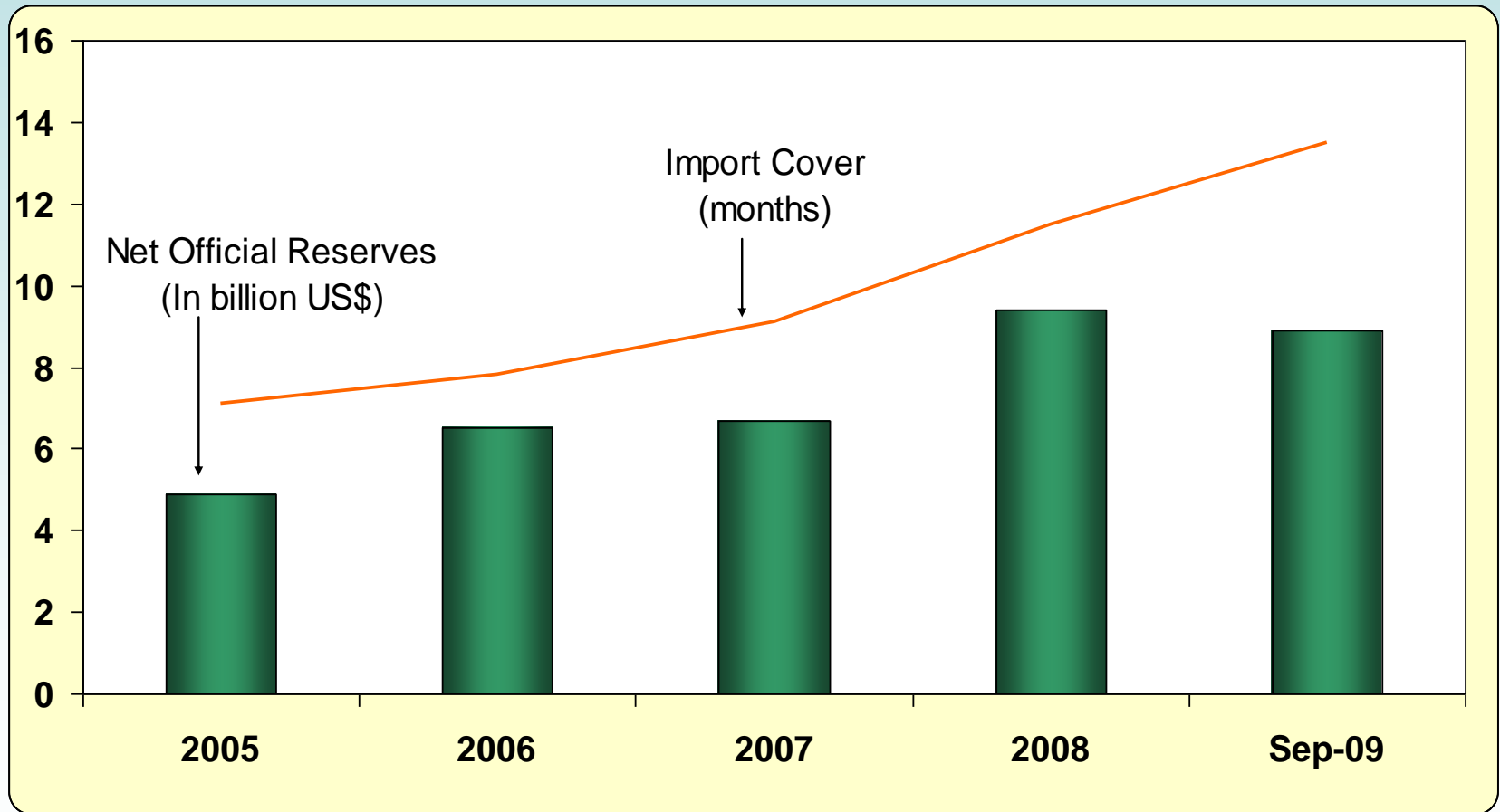
CAB and NIR



Source: CBTT

Chart 7

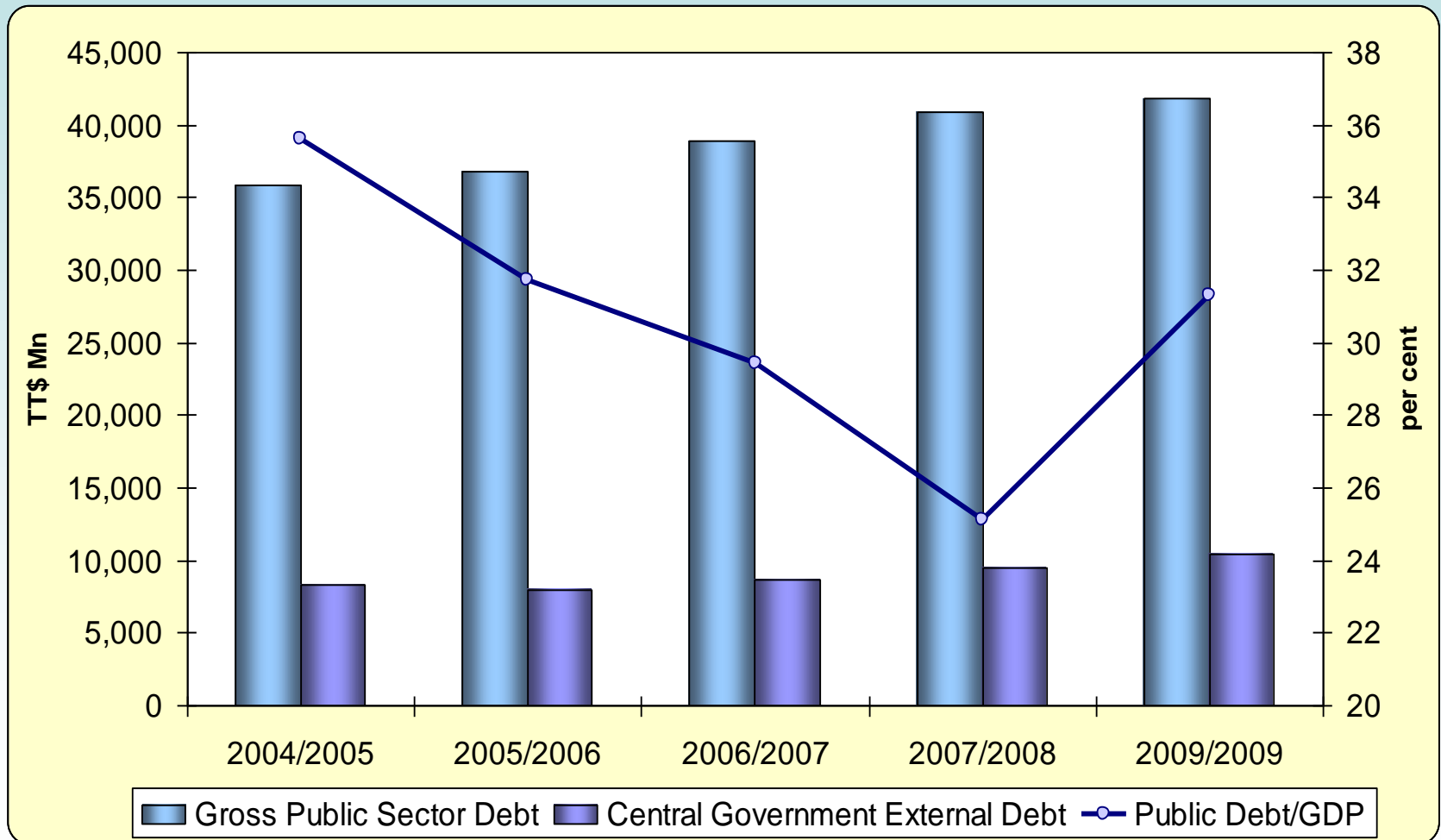
Reserves and Import Cover



Source: CBTT

Chart 8

Public Sector Debt to GDP



Sources: Min of Finance, CBTT

Chart 9

US:TT Exchange Rate

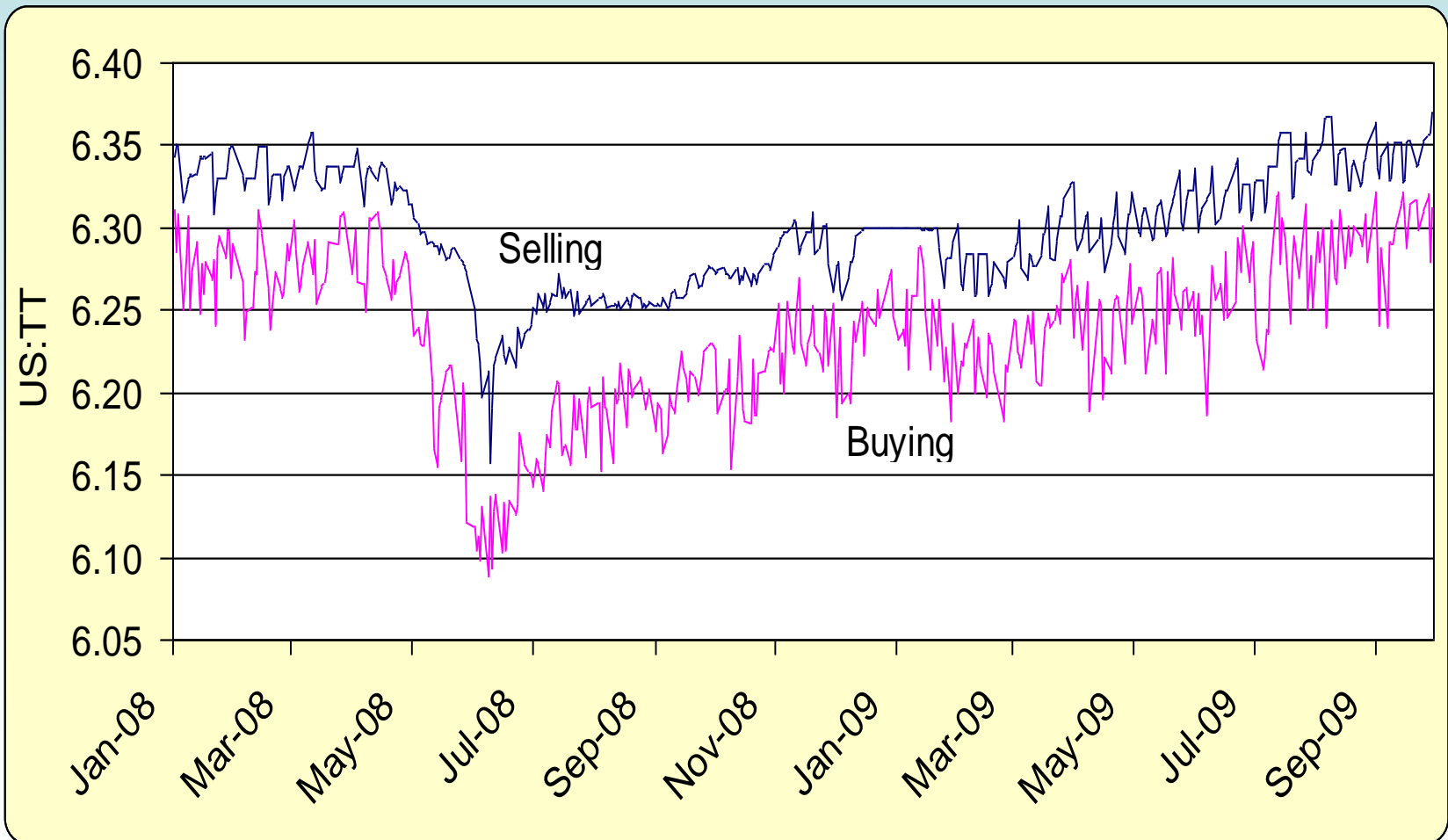
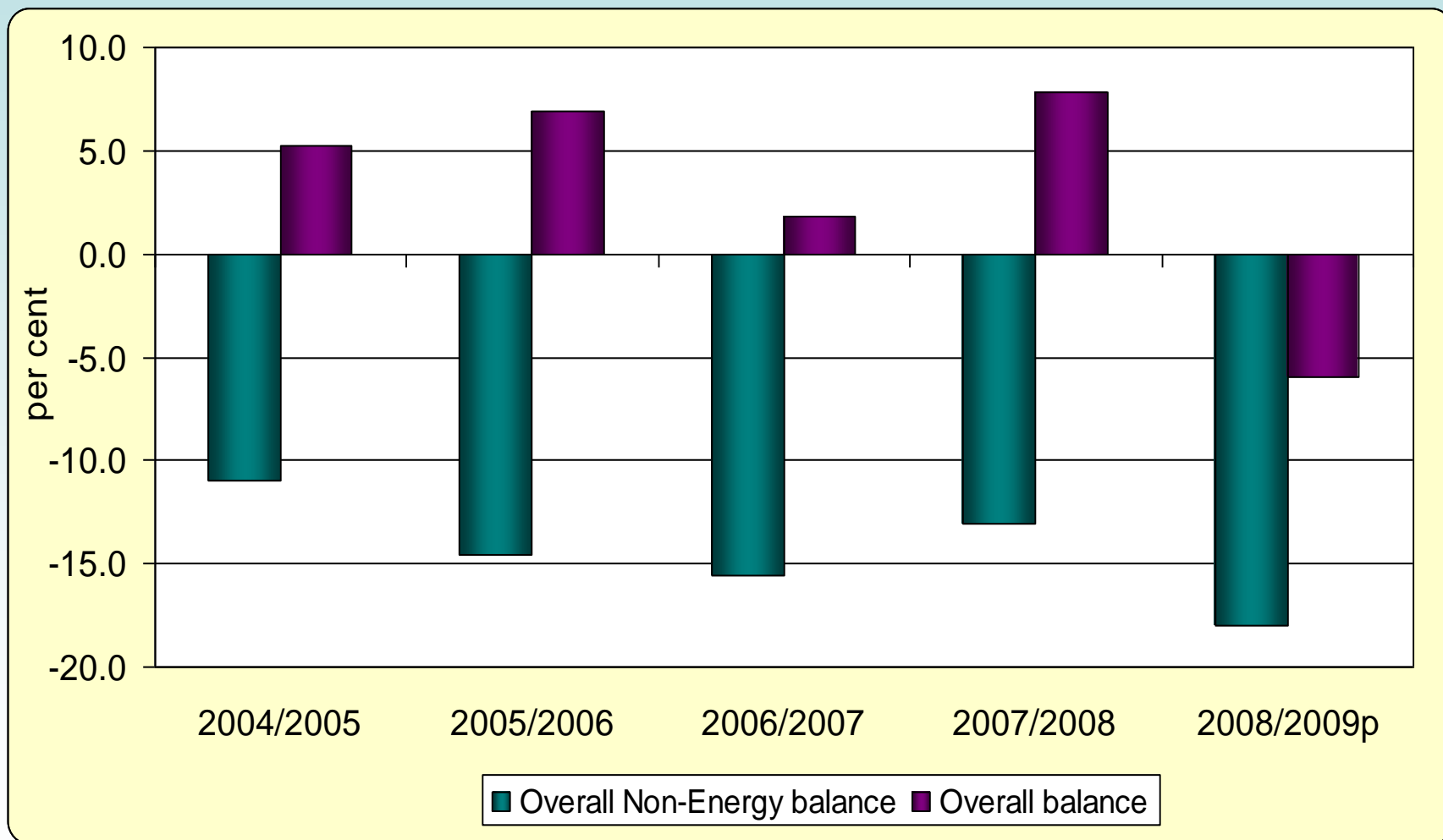


Chart 10

Fiscal Balance to GDP



Sources: Min of Finance, CBTT

Indicators and Financial Literacy

- Also important for employees
- 27 per cent of retirees (1 in 4) continue to work because they need additional income
- 54 per cent of retirees do not have occupational or personal pension
- 45% say income insufficient for the standard of living they hoped for in retirement
- 69 per cent rely on government pensions



CENTRAL BANK OF
TRINIDAD & TOBAGO

The National Financial Literacy Programme (NFLP)

Your MONEY... Know It To GROW It!



FINANCIAL LITERACY?

“...the process by which financial consumers improve their understanding of financial products, concepts and risks and, through information, instruction and objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.”



REFLECTION ON THE INDIVIDUAL

A financially literate individual will display positive attitudes towards:

- **Budgeting**
- **Saving**
- **Investing**
- **Protecting assets**
- **Managing debt**
- **Providing for Retirement**



OBJECTIVES OF THE NFLFP

- **To provide education and information on a range of issues regarding personal financial management**
- **To sensitize citizens about prudent personal financial money management practices**
- **To provide individuals with the tools and skills to undertake financial transactions**
- **To develop a better understanding of the general financial environment**



PRIORITY GROUPS

- **Students and Young Adults**
- **Employees in the Workplace**
- **Special interest Groups**
- **Community Groups**
- **Differently-abled**



MEDIA UTILIZED FOR OUTREACH

- Delivery of Financial Literacy Sessions/Presentations to groups
- TV and Radio Programmes
- Advertisements
- Website: www.national-financial-literacy.org.tt
- Leaflets: Articles: Booklets
 - Dollars and \$ense
 - In the Driver's Seat – Understanding Motor Insurance
 - Budget Buddy
 - Making the Most of Your Money
 - Getting a Lump Sum?
 - Newspaper articles
 - On the Money Quarterly Newsletter





Contact

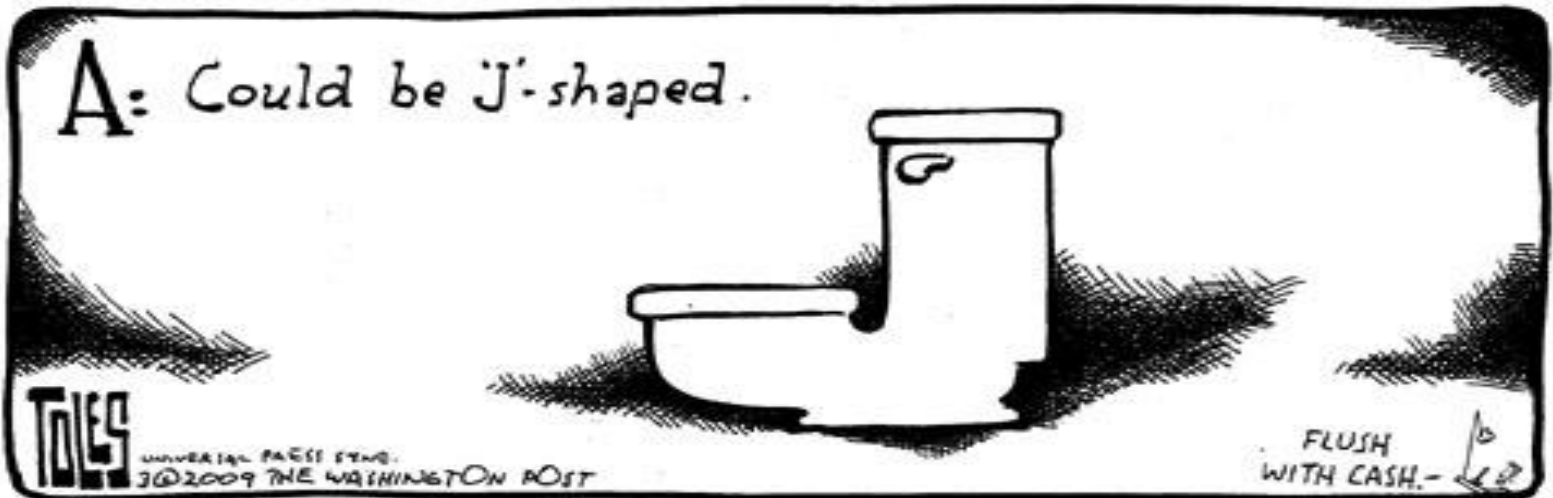
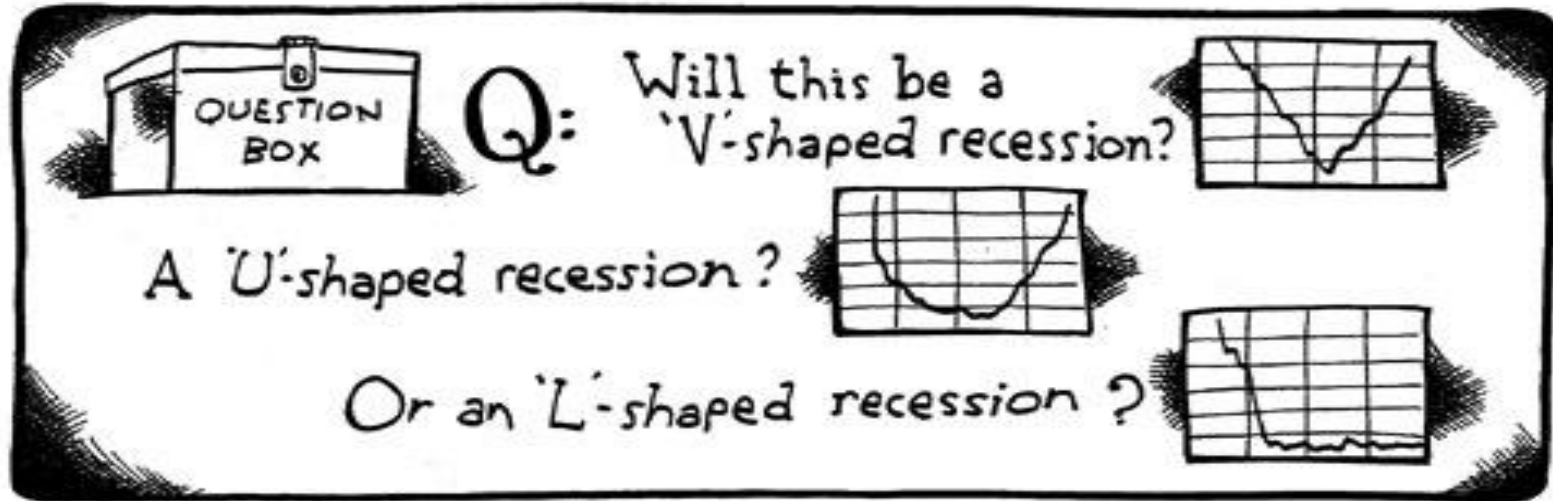
- **Tel: 625 -4835 Ext. 2815**
- **Correspondence:**
 - Project Manager
 - National Financial Literacy Programme
 - Central Bank of Trinidad & Tobago
 - Eric Williams Plaza
 - Independence Square
 - Port of Spain
- **Website: www.national-financial-literacy.org.tt**

Expanding the Range of Economic Indicators

Economic Indicators



Economic Indicators



TOLES

UNIVERSAL PAPER SYND.
3/4/2009 THE WASHINGTON POST

3-4-09

New Information Imperatives

- **Renewed emphasis on forward looking (leading v. Lagging) indicators**
- **Orderly dissemination of forecasts**
- **Assess firm relative to industry (benchmarking)**
- **Providing information for competitiveness**
- **Managing the tradeoffs between speed and rigour**

Proposed List of New Indicators

Index/Category	Publication Item
Production	<ul style="list-style-type: none"> • Capacity Utilization • Index of Inventories • Constraints to expansion
Employment	<ul style="list-style-type: none"> • Help Wanted • Productivity • Compensation Cost Indicator
Real Estate/Construction	<ul style="list-style-type: none"> • Median House Prices • Detailed Mortgage Data • Building Material Prices
Durable Goods	<ul style="list-style-type: none"> • Motor Vehicle Sales • Other Durable Goods
Financial	<ul style="list-style-type: none"> • Hire Purchase Credit

Compensation Cost Indicator

- **More practical to focus on Total Cash Compensation (TCC) rather than composition of employment cost**
- **Purpose:**
 - **It is an early warning indicator of further increases in inflation via the wage price spiral**
 - **Capable of disaggregating compensation costs by skill segments**

Employment Conditions

- **Help Wanted Index (HWI)**
- **Calculated from newspaper advertisements**
- **Supplemented by other sources**
- **Weaknesses:**
 - **Some firms advertise on their websites**
 - **One ad can seek several employees**
 - **Indicated confidence in future but lags behind economic “take-off”**
- **Lay offs derived by change in numbers employed**

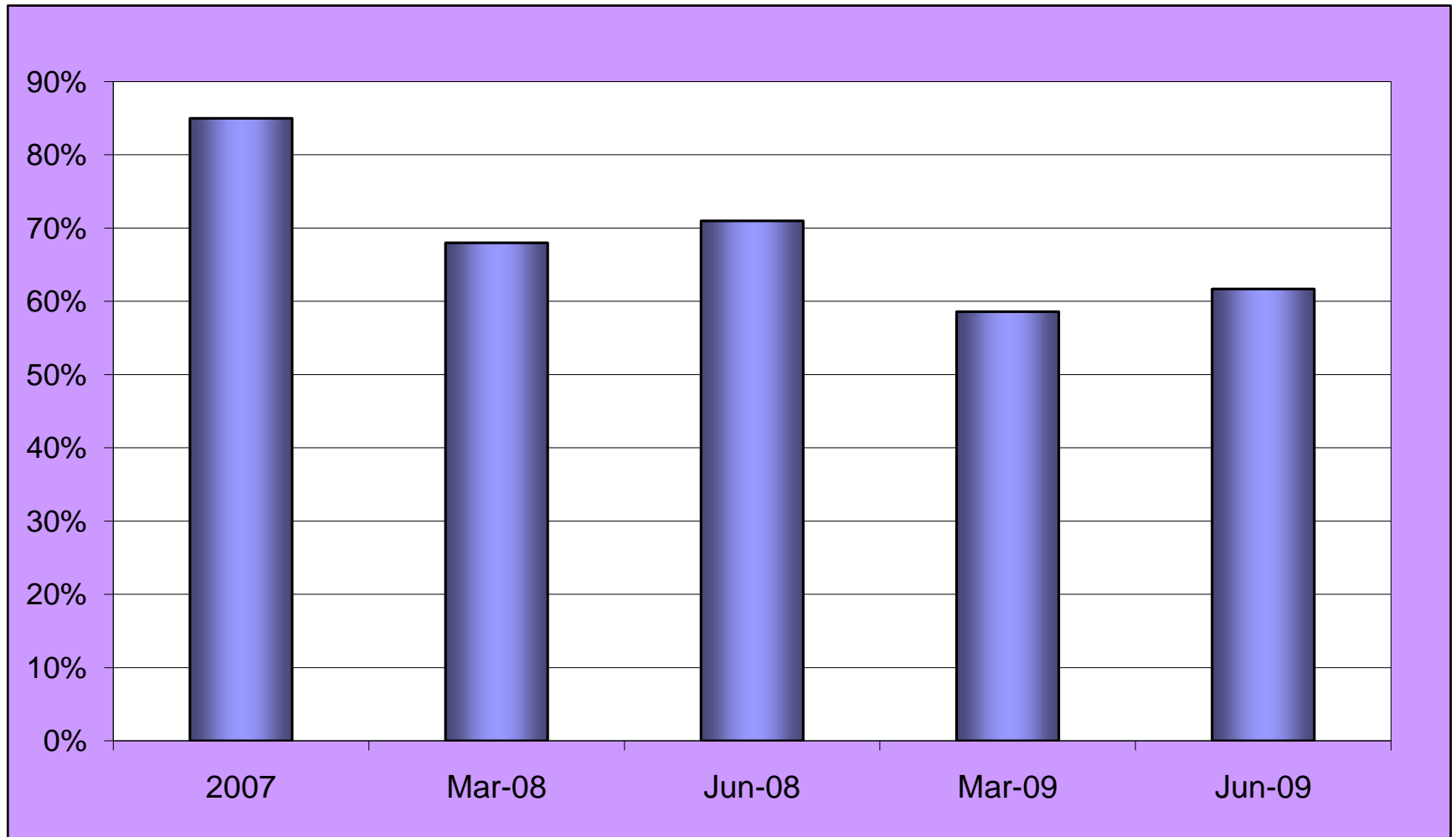
Real Estate Indicators

- **Number of Transactions (Sales and Rental) – indicator of the level of activity**
- **Truncated Median Price (80% centered):**
 - Indicator of house price inflation
- **Listing volumes may also indicate slack or weak demand**
- **Data source: AREA, Mark Farrell & Assoc.**
- **Foundation laid for a consistent series**

Other Indicators

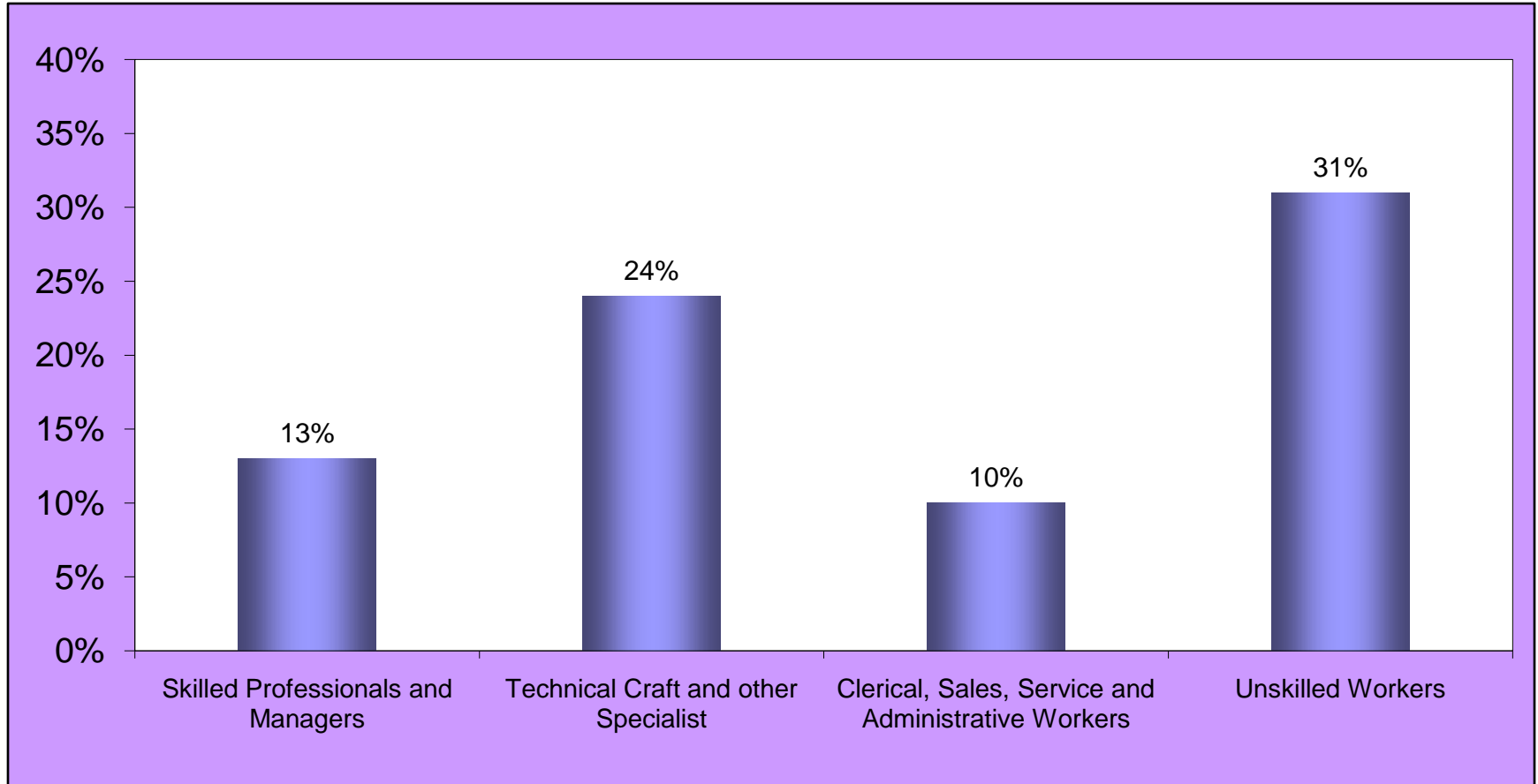
- **Durable Goods**
 - **New Motor Vehicle Sales**
 - Private
 - Commercial
 - **Other Durable Goods**
 - Furniture and Appliances
- **Financial Indicators**
 - **Hire Purchase Credit**

Capacity Utilization Ratio



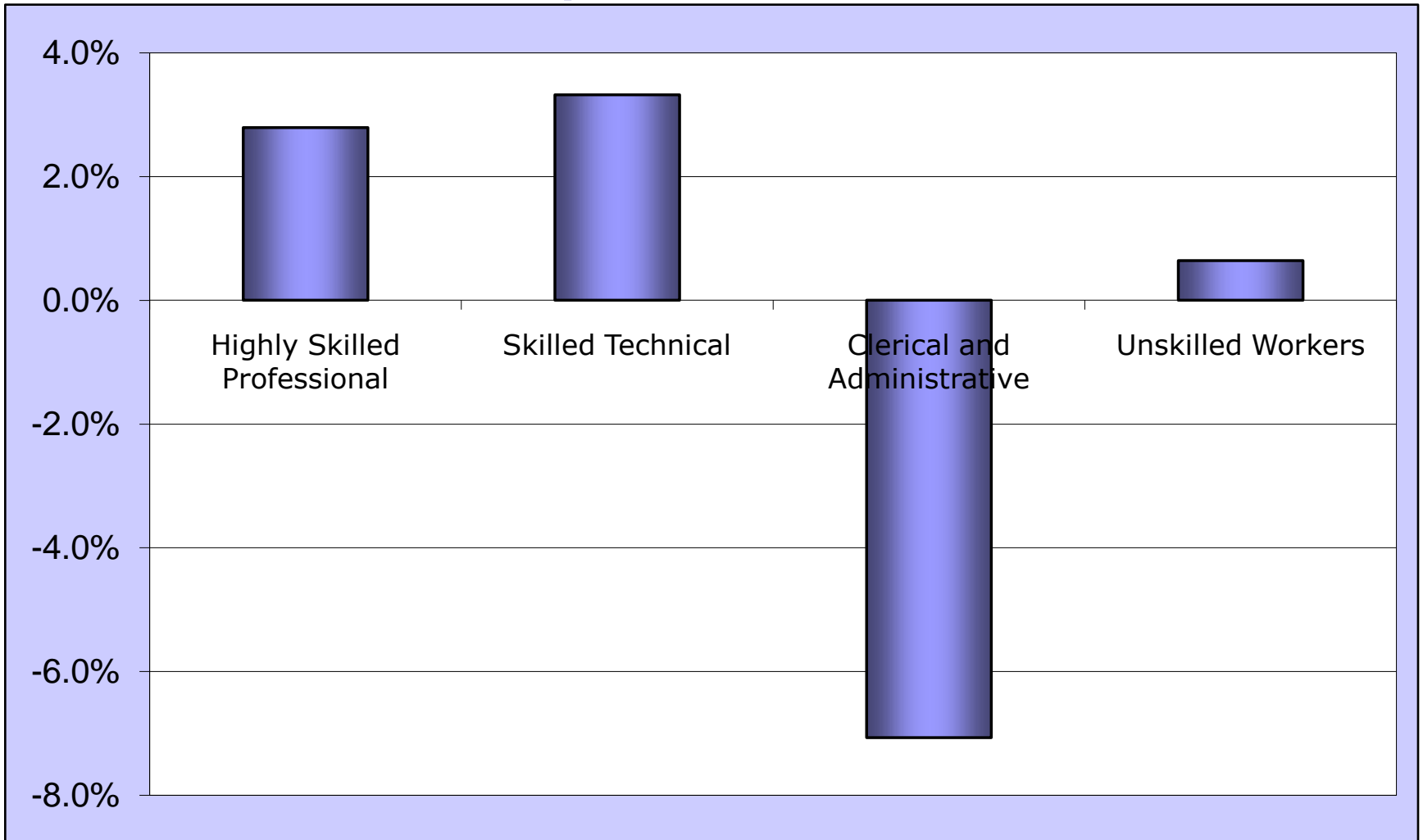
Source: Central Bank of Trinidad and Tobago; Trinidad and Tobago Manufacturers Association and Trinidad and Tobago Chamber of Commerce

Change in Average Earnings 2008

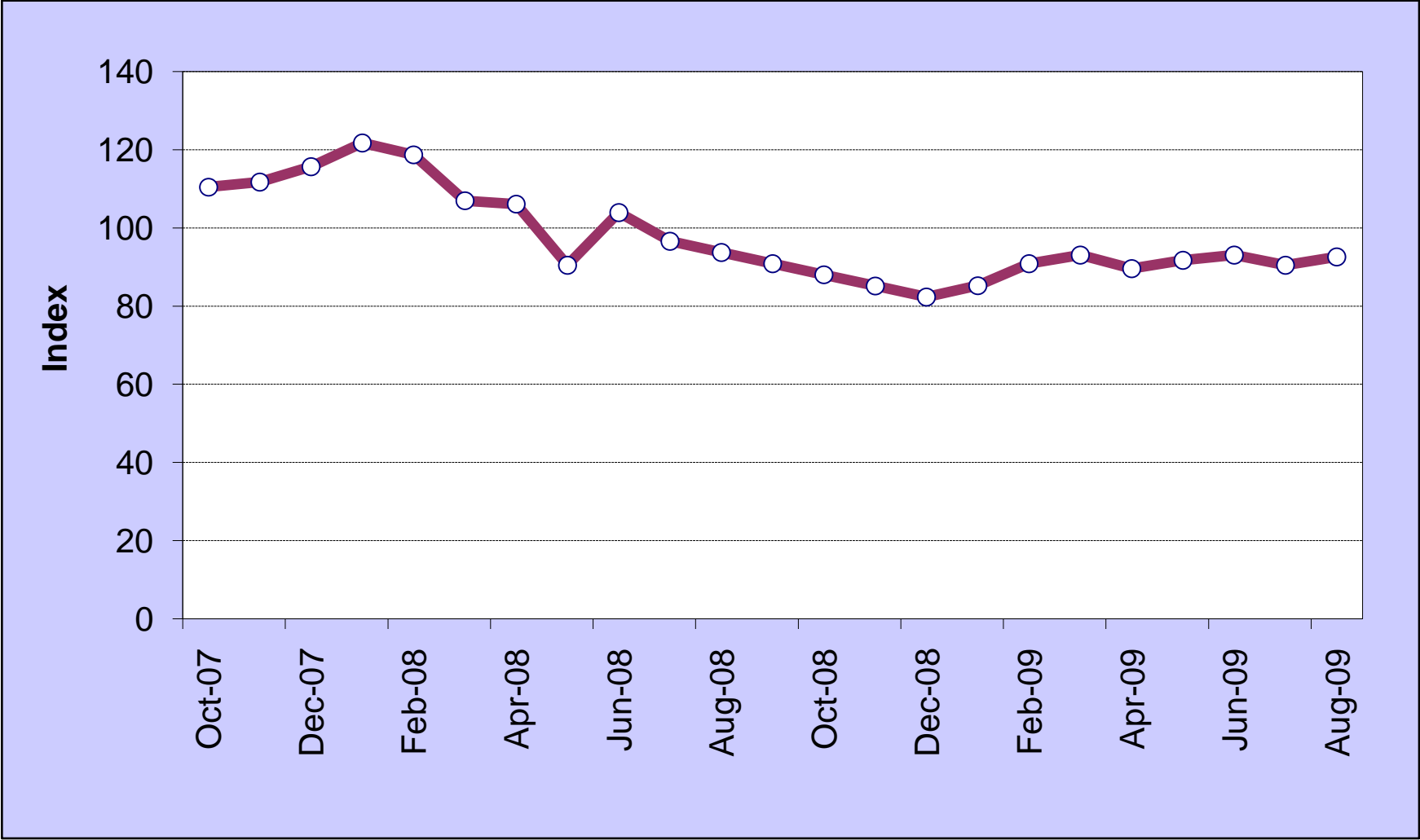


Source: Central Bank of Trinidad and Tobago; Trinidad and Tobago Manufacturers Association and Trinidad and Tobago Chamber of Commerce

Change in the Average Earnings (Q2- 2009)

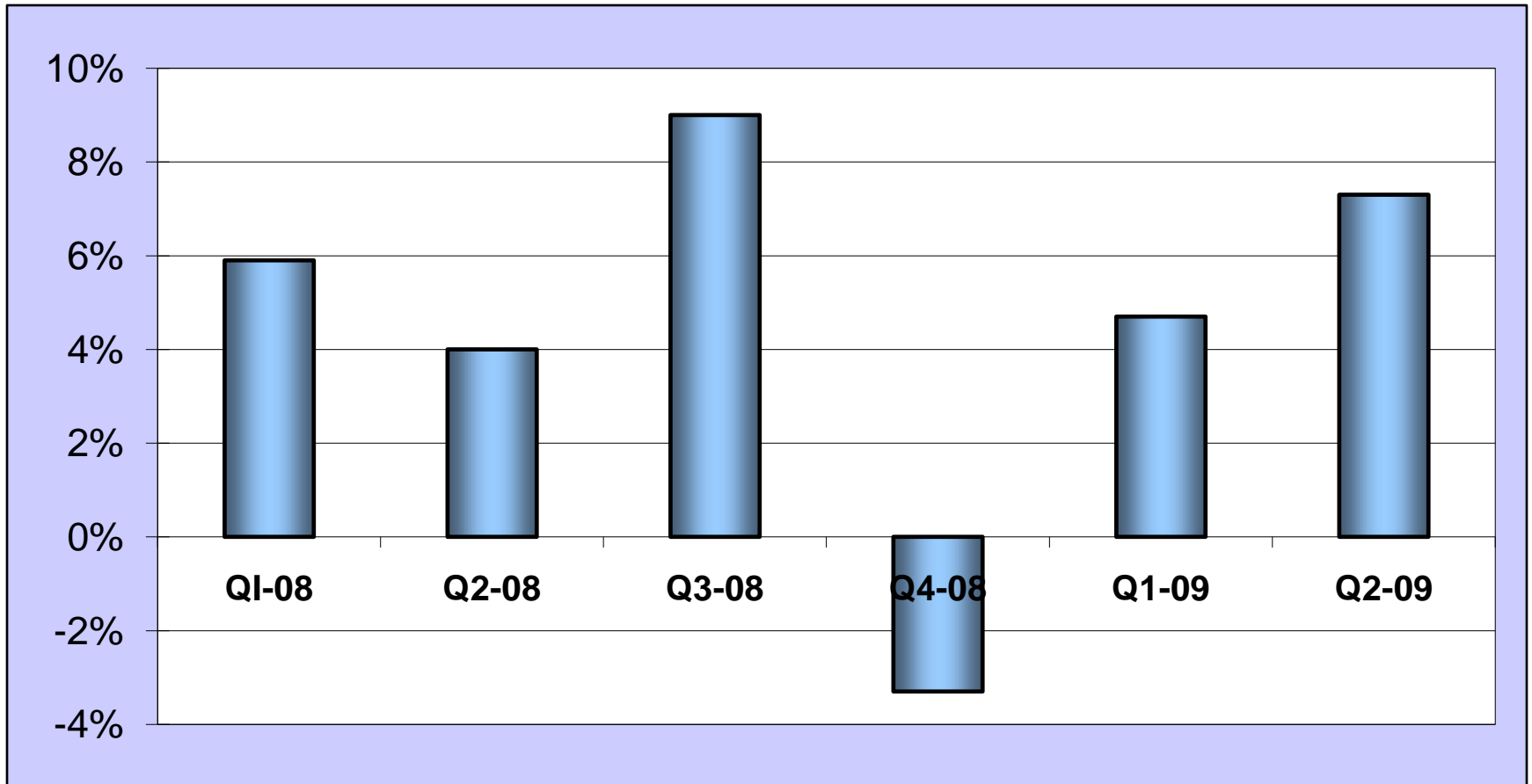


Index of Help Wanted Ads



Source: Authors Calculations; Daily Newspapers

Change in Manufacturing Inventories



Source: Central Bank of Trinidad and Tobago; Trinidad and Tobago Manufacturers Association and Trinidad and Tobago Chamber of Commerce

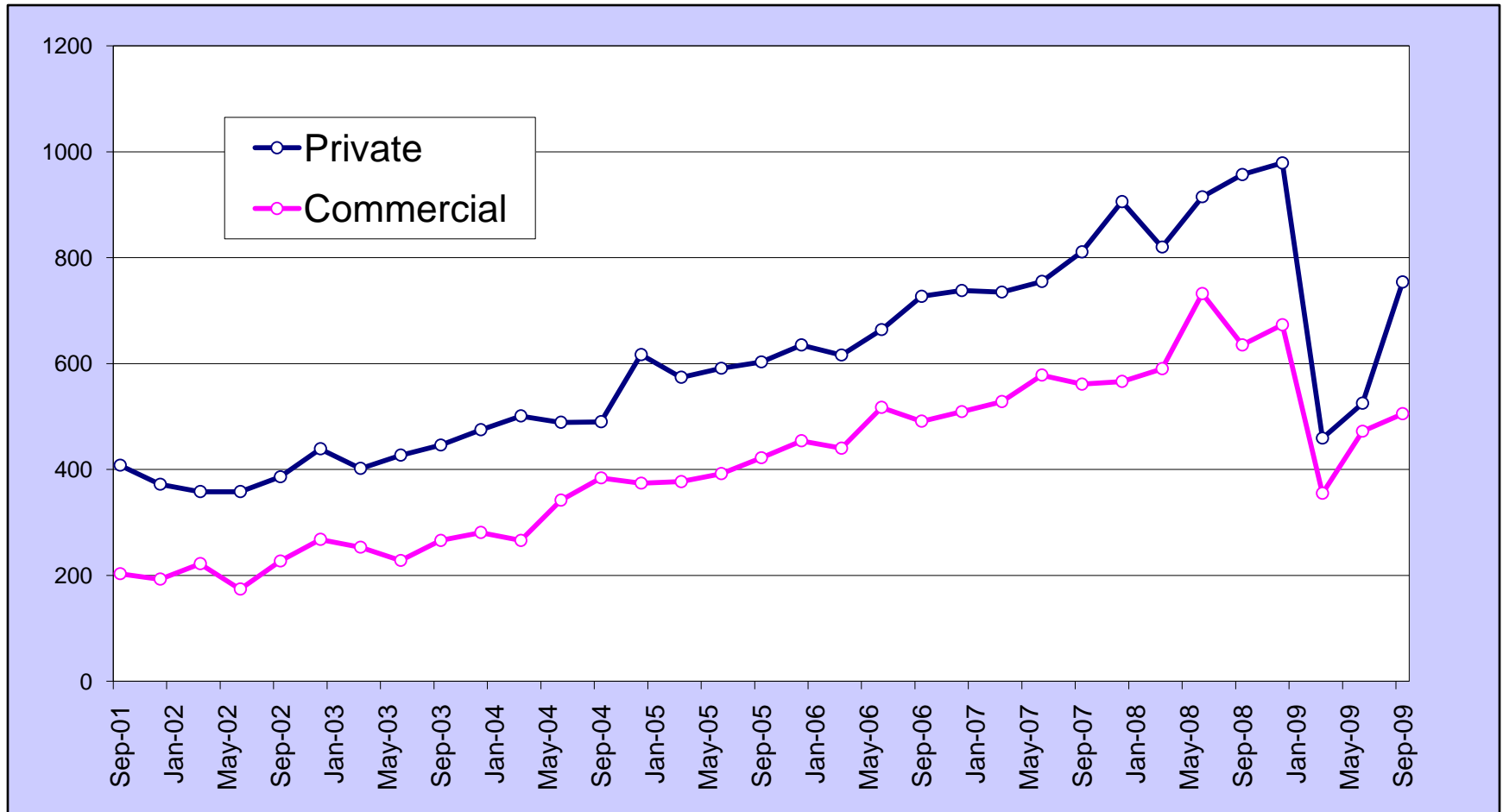
Real Estate Indicators

	QIII-08	QIV-08	QI-09	QII-09
Median Price (TT\$)	1,044,402	900,000	857,306	852,044
New Houses Completed (TTEC residential connections)				
Prime Real Estate Mortgage Loan Rate (%)	12.75	13.00	13.00	12.25
Mortgage Loans				
New Disbursements (TT\$Mn)	791.3	650.1	564.2	559.3
Balance Outstanding (TT\$Mn)	7,767.5	8,015	8,213.7	8,410.1

Source: Central Bank of Trinidad and Tobago; Association of Real Estate Agents; Trinidad and Tobago Electricity Company; The Home Mortgage Bank

New Motor Vehicle Sales

(3 month moving average)



Source: Neal and Massy Sales and Administration Division

Conclusion

- **Established need to expand the range of indicators of business conditions**
- **Shift focus to emphasize data supplier needs**
- **Provide info important for strategic planning and competitiveness**
- **Output from this exercise:**
 - **new monthly publication jointly published by Central Bank, Chamber of Commerce, Manufacturers Association and other strategic partners**
 - **Where possible, confidential reports to individual firms showing position relative to the rest of the industry**

The end