

No More Cause to Pause

First we were waiting on the global financial crisis to play out; then we were waiting on the general elections; then, local government elections and the national budget. There is nothing to wait for again. We have a clearer view of the horizon; we have the information. The significant changes that have occurred both globally and locally, have spawned an avalanche of information and analysis as well as a high level of uncertainty. This has led to a slowdown in economic activity, with everyone from captains of industry to the average consumer 'waiting to see what happens' before they invest or buy. While pressing 'pause' may be a wise approach at times, it shouldn't be a long-term, collective strategy.

With the constant stream of news and data coming at you on a daily basis, it is easy to become either overwhelmed and tentative or utterly numb to it all. All of which can lead to either the wrong decision or to no decision at all. By focusing on key indicators and trends, this article seeks to simplify the information, explain the results and provide the understanding and confidence needed for investing in the future.

The Outside World

- **Developed countries.** Unemployment in the USA currently stands at 9.6 percent and is expected to stay high, only falling to 7 percent by 2012. Foreclosures remain high as many people cannot or will not pay their mortgages. Consumers are also taking fewer loans and have cut back on spending. Europe and the UK are experiencing similar circumstances while Canada's economy is in somewhat better shape. Overall, most developed countries will have weak growth over the next 2 years, along with low inflation of about 1-3 percent.
- **Developing countries.** Led by China and India, the economies of developing countries are showing healthy activity levels, with Latin America and Africa also showing solid growth. Because these countries weren't as connected to the financial sectors of the developed countries, they didn't suffer as much during the global financial crisis. Also, because their economies are still developing, they have the ability to grow faster (as, for example, the differing growth rates of a teenager and someone in their 20's). These countries will continue to have strong growth but they will also face higher inflation rates than developed countries.
- **Interest rates.** Because of the weak economic growth, low inflation and reduced loan demand, key interest rates should remain low in the leading economies over the next 12 months. Interest rates in developing countries, which are normally higher are not likely to increase by much, if any at all, during this time.
- **Foreign exchange.** Despite recent concerns, the US dollar will remain for some time yet, the world's leading currency against which all others will be measured. At this time, the movement of the Euro, Pound and Canadian dollar relative to the US dollar will be largely influenced by the state of the economies of each currency area. Simply put, bad news coming out of Europe (when compared to the US situation) will lower the value of the Euro, making travel, imports and college tuition cheaper, with good news having the opposite effect.
- **The Caribbean.** With consumers in the US, UK and Europe cutting back on spending, tourist arrivals to the region have declined. This, combined with reduced foreign investment, has led to lower revenues, reduced economic activity and higher unemployment for the mostly tourism-dependent Caribbean islands.



- **Oil and gas.** These commodities are expected to stay at their current price levels of US\$70-80 per barrel for crude oil and US\$4-6 per mmbtu for natural gas, for the next 2 years. Despite the weak growth in the developed countries the demand for crude oil is being sustained by the faster-growing developing countries.
- **Food.** International food prices are likely to stay on the high side over the next 18 months as global demand remains solid and high energy prices add to the cost of production. Also, extreme weather conditions in major food-producing countries, like the recent drought in Russia, are likely to lead to shortages and price hikes.

Trinidad and Tobago

- **Economy.** This country's economy is likely to grow by 2.5 percent this year after shrinking by 3.5 percent in 2009. With a relatively low unemployment rate of around 6 percent, relatively low debt levels and some savings, T&T is not badly off.
- **Inflation.** Average prices in 2010 are likely to be about 8 percent higher than the average prices of 2009. While food prices are a major part of our inflation, another factor - the relatively low unemployment rate - means that there are still lots of people who can buy lots of things. Also, inasmuch as T&T benefits from high oil prices, after a while these high prices affect the costs of many of the things we import, leading to price increases. Average prices are likely to increase by around 8 percent in 2011 also.
- **Interest rates.** By reducing its key interest rate, the Central Bank has been signaling to commercial banks that it wants interest rates to go down, and the banks have duly complied. Low interest rates make it more attractive for people and companies to borrow money to invest or to buy goods and services, all of which increases economic activity. While it makes sense for our interest rates to be heading lower if international rates (US, UK and Europe) are low, if our prices become too high the Central Bank may be forced to increase interest rates to prevent further price increases.
- **Budget.** The recently presented 2010/2011 National Budget provided insight to the policy intentions of the new administration and listed a number of measures deserving of consideration by those looking to invest. There are initiatives in manufacturing, energy, agriculture, alternative energy and innovation.

What Does It All Mean?

With the information laid out above, charting the way forward should be less daunting. Clearly, most key factors locally and internationally are unlikely to change much over the next 12 months. So, knowing that oil prices are likely to remain high, we can also expect the prices of food and imported goods to stay up as well. What, some might ask, is the use of knowing this? For starters, we should appreciate that this knowledge is relevant to and can be used by everyone; not just business people and investors, as is sometimes thought. Families can plan a purchasing strategy that results in greater savings over the long term, whether it is comparing alternative sources or suppliers, buying in bulk or buying direct. They can also offset the extra money needed for food, fuel and consumer goods, with increased savings or even earnings in other areas. For example, the government's stated thrust towards the use of cheaper and cleaner energy sources presents opportunities for savings by vehicle owners and earnings by investors who can provide services in this area.

With weak conditions likely to persist in the leading economies, their consumers will spend less, regional economies will continue to suffer and will in turn buy less T&T goods and services. This presents challenges and opportunities. The challenge for local exporters is to find new markets in some of the developing countries which are likely to have greater purchasing power at this time. The reduced economic activity in some Caribbean countries translates to higher unemployment, lower demand and lower prices. This may in turn present opportunities for more affordable vacations or for business ventures made more feasible because of lower labour and material costs. With the right approach, consumers and investors alike can develop many other initiatives and strategies.

The information above seeks to describe the likely terrain that lies ahead and illuminate the challenges and opportunities that lie therein. There is no more cause to pause. Anyone and everyone willing to venture forward can use this knowledge to reduce losses, increase savings or even earn greater income. The key is to venture forward and take some risk.

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The Senior Economist, Republic Bank Limited, P.O. Box 1153, Head Office, 9-17 Park Street, Port of Spain, Trinidad and Tobago.
Tel: 868 623 1056. Fax: 868 624 1323, E-mail: email@republictt.com