



Recession Confusion!

When Every Penny Counts

Economists have always been viewed as quirky, humorless and generally a dreary bunch of folks. But there is an old joke amongst the fraternity which alludes to the distinction between a recession and depression – ‘a recession is when your neighbor loses his job: a depression is when YOU lose your job’. More often than not, recession fears stem from a misapprehension of what this concept really means. But the ongoing confusion surrounding the issue of whether or not Trinidad and Tobago’s economy is in a recession or heading into a recession or simply just slowing, has no substantial consequences because at the end of the day it begs the same question – what should be done to prevent the situation from worsening, at the macro as well as the individual level? With speculation aplenty, people are reminded of the economic recession in the early 1980’s, when the Trinidad and Tobago economy virtually crashed. Authorities were in denial for so long that nothing was put in place to deal with it. Many people were left in bewilderment and misery and this picture is more likely than not, etched in people’s minds.

The National Bureau of Economic Research (NBER) suggests that a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Recessions are usually synonymous with job losses, closure of plants and factories, decline in corporate profits as well as a general fall in price levels (deflation). They are a normal part of what is known as the business cycle, which is merely the predictable long term pattern of economic growth and contraction. However the timing of the cycle is unpredictable and very much random.

The data available for the Trinidad and Tobago economy has underlined some serious challenges. Real GDP growth has slowed significantly over the past few months. During the fourth quarter of 2008, GDP growth contracted 1.1% and this contraction was extended into the first quarter of 2009, when it shrank 3.3%. The data shows a broad base decline in almost all sectors across the economy, including the energy sector, construction, manufacturing, and distribution. The labor market is still in a relatively good position. The latest unemployment rate (first quarter 2009) came in at 5%. Employment in the manufacturing sector declined by 4.3% during the first quarter of 2009, while construction employment fell by 0.60%. Notably for the same period, employment in the energy sector contracted by 13.55%! There are a lot of other key pieces of data which suggest that the Trinidad and Tobago economy is in for some tough times, such as the slowdown in retail sales and credit expansion and lower import demand coupled with lower export demand amid a challenging global economy.

Regardless of the definition or interpretation of a 'recession' the data strongly suggests that the T&T economy is in for challenging times. Important considerations therefore must be made in executing proactive measures which can limit the effects upon the consumer. However, there is a limit to what the authorities can do to support the economy in terms of generalized expansionary fiscal and monetary policies, including cutting interest rates to encourage investments etc. and to increase the spending capacity of the consumer, possibly through tax rebates or lower tax rates. The rest is basically up to the discretion of the consumer.

Many experts have expounded on what the authorities (government and central bank) can do in economically challenging periods like the current situation in Trinidad and Tobago, but what can the individual do to protect his wealth or to survive such harsh conditions? Well there are some simple things one can do to 'beat the recession bug'; a lot of which are intuitive. Firstly, individuals should always be aware of what is going on around them and search for opportunities. During recessionary times, typically weak companies fail and the strong ones stand firmly, or new industries emerge and there are also numerous mergers and acquisitions. Staying on top of news and events can help with one of the best defense strategies – being prepared for financial opportunities. Remember that everything is cyclical, and the economy will rebound at some point in time.

To survive through a rough economic period, another piece of advice is to reduce debt levels and prepare a budget. A budget usually helps in prioritizing expenditure and cutting out unnecessary spending and will greatly assist in distinguishing needs from wants. Individuals' mantra should now be to spend less – cut your food bill, eat out less, and shop smarter. Additionally, one of the policy responses of central banks during recessionary times is to lower interest rates, which would make it easier to pay off debt, especially on variable rate consumer debt such as credit cards, or even refinance loans such as mortgages and start building a saving/investment fund. Creating or building on an emergency fund is essential and there are simple ways to develop a consistent savings habit. One of the easiest ways is through a standing order, so that your bank can automatically transfer money into a savings fund and usually if it is with the same bank, there are no charges to you.

One of the consequences of a recession is the increase in unemployment as businesses cut jobs to reduce costs and survive through difficult economic scenarios. One way to deal with this is to establish supplemental sources of income. Creativity and innovation shines through when people are up against a wall, and now is the ideal time to look at alternative means of earning money.

The reality of the situation in Trinidad and Tobago is that economic activity is slowing, and whether or not it is slowing at a pace to justify the use of the word 'recession' is irrelevant at this point. The main concern now is really coming up with ways (and implementing them) to prevent the situation from deteriorating further. While recessionary periods are difficult for most people, it can also be an opportunity to improve and re-examine your financial future. Making smarter choices becomes a whole lot easier when you realize that every penny truly does count.

FINANCIAL & ECONOMIC INDICATORS

As at 20 August, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	94.19	95.48
Euro	1.43	1.43
Jamaica	88.65	88.38
Guyana	204.90	205.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	72.54	70.52
Natural Gas (US\$/mmbtu)	3.02	3.34
Gold (US\$/Troy Ounce)	940.65	954.95

Eurobond Indices (As at 20-Aug-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	4.70
JP Morgan EMBI+ (Basis points)	381
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	23.53

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.16	0-0.25
Euro Zone	1.00	1.00
Japan	0.10	0.11
Brazil	8.75	8.75
Trinidad	7.25	7.25
Jamaica	13.50	14.50
Barbados	2.50	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.16	0.17
US 10-Yr Treasury	3.43	3.60
3-month UK Libor	0.73	0.78
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	8.96	8.58
TT 90-day T-Bill	2.46	2.46
Jamaica 90-day T-Bill	18.46	18.46
Barbados 90-day T-Bill	3.69	3.78

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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