



Jamaica's Construction Sector Remains Strong Amid Economic Downturn

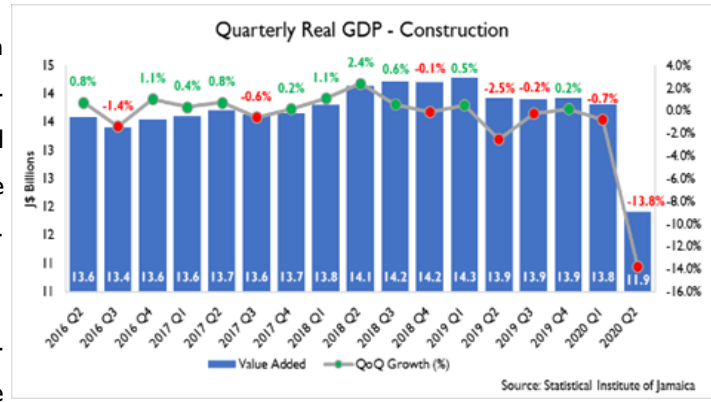
The coronavirus 2019 (COVID-19) pandemic has disrupted business activities locally and continues to negatively impact Jamaica's largely service-based economy. After declining by 18.0% in the April to June 2020 quarter, the Planning Institute of Jamaica (PIOJ) estimated that Jamaica's economy declined by another 11.3% in the July to September period. However, this PIOJ projection was probably unsurprising, given that activities within "tourism" and "mining and quarrying" remained depressed throughout the quarter due largely to the effects of COVID-19. What may have surprised many, however, was the performance of the local Construction Sector, which expanded by 5.0% after declining by 13.8%¹ in the second quarter and was only one of two industries within the goods-producing segment to record growth in the quarter.

The Construction Sector represents a critical component of any economy based on its impact on national development. Construction is the process through which the entire built environment is created and shaped, including critical physical infrastructure, shelter and urban spaces, and has a significant impact on the natural environment. The Construction Sector also draws on a wide range of inputs including building materials and supplies, labour and professional services, energy, transport and other supplies. Activities in this sector generally have major implications for other areas in Jamaica's economy including housing, transport, tourism and manufacturing. As a result, during the pandemic, construction entities generally were able to continue their normal operations, as their activities were classified as an essential service and exempted from stay-at-home orders. Being designated as an essential service, however, does not mean that the construction sector has not felt the impact from the coronavirus pandemic.

COVID-19 Impact on Construction Sector

As a result of the lockdown orders and other restrictions, the construction industry recorded a decline of ~\$1.9 billion in the second quarter with declines registered in all sub-groups within the sector. These include reduced activities in both residential and non-residential projects; lower expenditure levels on civil engineering activities and rehabilitation work which was primarily due to the recent road completions.

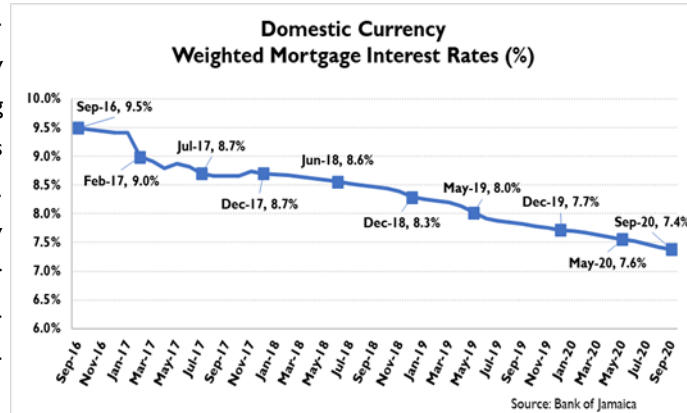
However, as many construction activities were probably already in train before the start of the pandemic, activities within the sector appeared to have picked in the third quarter once restrictions were eased. The data reported by the PIOJ suggested that the sector largely rebounded in the third quarter buoyed by growth in the Other Construction component. This strong performance was reflected in the 18.3% real increase in the sale of construction-related components. Capital expenditure on civil engineering including works carried out by the National Works Agency and NROCC also jumped within the period according to the report. In terms of the Building Construction component, works on hotels and commercial offices supported the robust performance, however, this was partially offset by housing starts by the National Housing Trust, which started 400 units down from 475 in the previous quarter.



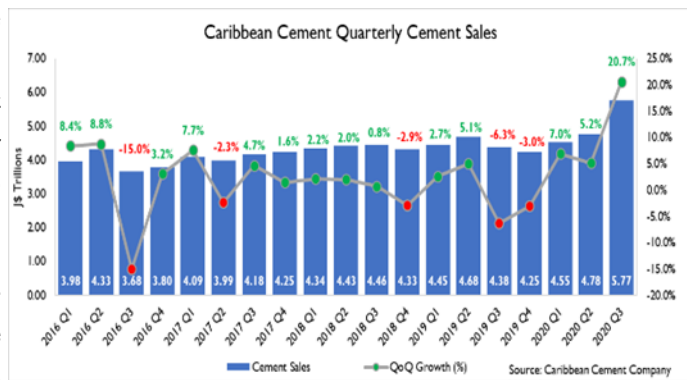
¹Source – Statistical Institute of Jamaica

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The availability of credit to the construction sector provides further clarity to the expansion reported by the Institute. Loans and advances to the non-financial private sector by deposit-taking institutions (DTIs) expanded by 12.2% in the September quarter, following the growth of 13.3% in June quarter. This growth was underpinned by expansions in loans and advances of 15.7% and 9.6% to the productive sector and individuals, respectively. According to the Bank of Jamaica, growth in loans to the productive sector was mainly attributed to increase loans to the Tourism, Construction & Land Development and Other Professional industries. During the period, the weighted mortgage interest rate which continued its declining trend fell to 7.4% as some lenders reported that they planned to reduce interest rates by up to 3 bps in some instances to attract borrowers.



The PIOJ also reported that cement supply grew by 148.5% during the third quarter as the Caribbean Cement Company (CCC) reported an increase in cement sales by over 20.7%. The data retrieved from the CCC also showed that sales to the sector remained robust during the periods when the economy was under severe lockdowns in the second quarter and probably reflected that contractors and builders made the necessary preparations to continue activities once restriction was lifted.



Looking ahead, we believe that, considering the number of private real estate developments that are expected to either begin over the short term or come on stream in the medium term, activities within the Construction Sector will likely remain robust. This is also in line with the improvement of credit in the private sector and lower mortgage rates to induce borrowing, as well as the increased cement sales. In addition, road works including the development of the Southern Coastal Highway and the Williamsfield bypass and road work projects following the substantial damage resulting from the recent heavy rains and floods are likely to contribute to a pick-up in activity. Nonetheless, the rise in activity in the sector depends on the containment of the virus but, we remain hopeful since multiple vaccines have demonstrated an efficacy level of over 95% and are currently being rolled out in other parts of the world and are expected to be available in Jamaica by April 2021.

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