1240/5(5768)

WRITTEN QUESTION TO THE MINISTER FOR ECONOMIC DEVELOPMENT BY DEPUTY M.R. HIGGINS OF ST. HELIER ANSWER TO BE TABLED ON TUESDAY 2nd NOVEMBER 2010

Question

Will the Minister advise Members of his estimates for economic growth in Jersey over the next 12 to 18 months stating the reasons for his forecast and identifying which sectors of the economy he expects to perform well/poorly over this period and give the reasons why he expects these sectors to perform in this way.

Answer

As members would expect, the Ministerial team at Economic Development consults with a wide body of people on the state of the economy and the direction we believe the economy will move in during the coming months and years.

The world economy is only just emerging from the worst economic downturn since the 1930's. The latest forecasts from the International Monetary Fund (IMF) are that the world economy will grow by 4.8% in 2010 and 4.2% in 2011 although the IMF points out that recovery is likely to be "slow and sluggish." Central banks and governments across the world have so far prevented a replay of the 1930s Great Depression through the massive policy response they put in place. The larger economies have returned to growth this year but recovery remains fragile as recent estimates of GDP from the UK have proved, not least because once the policy stimulus is withdrawn it is unclear how strong the underlying economies will be. A 'double dip' global recession is still a risk although it is not a central scenario for most economic forecasters.

Although the decline in global activity may have abated, the fallout remains. That is, the significant deterioration in government finances, the sharp rise in public debt and widespread unemployment in the leading economies across the globe.

From a Jersey perspective it would be imprudent to rely on a quick global rebound to repair the damage. We must plan for the fallout of what is now being called the 'great recession' to be long lasting.

The September Business Tendency Survey published by the States Statistics Unit shows there is scope for cautious optimism with finance firms reporting a further rise in business activity and they are more optimistic about future business. However, profitability still remains under significant pressure.

Gross Value Added (GVA) fell by 6% in 2009, with the financial services sector recording the largest real-term fall at 12%. The only sectors to report positive growth in 2009 were agriculture and transport and communications. Overall retail sales volumes have begun to stabilise after significant falls since 2008. However, non-food volumes are still well below their level in 2008 and fell in the second quarter of 2010. The September Business Tendency Survey shows that in the non-finance sector as a whole business activity is still falling, profitability remains under pressure, employment is being reduced and firms are still not optimistic about future business.

Whilst neither EDD nor the States Economics Unit estimates growth on a sector by sector basis, latest data from the Business Tendency Survey and anecdotal information suggest that the finance sector is increasingly optimistic about its prospects over the next few months and the rest of the economy is showing some signs of stabilisation, if not quite optimism.

The most recent forecasts for the whole Jersey economy point to a further decline in GVA in 2010. Next year should see a weak recovery with growth of about 1% predicted, and further moderate growth in 2012 of 2%. The FPP will publish their latest assessment of economic conditions and the outlook for States finances in November and members will have their latest advice ahead of the Budget debate.