

CARIBBEAN CEMENT COMPANY LIMITED

An Overview of the Construction Building Industry in 1995 and some Short and Medium Term Prospects

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OVERVIEW

In the national income accounts or Gross Domestic Product (GDP) the construction sector is defined as construction and installation to include construction activities on roads, bridges and other infrastructure, building construction and installation.

The construction and installation sector absorbs approximately 8.0 percent of the country's employed labour force, and accounts for approximately 9.0 percent of the GDP. Over the period 1987 to 1995, the average annual growth rate in construction GDP was 5.5 percent. In 1995 the real growth in the construction and Installation Sector was 6.7% compared with a decline of 6.3% in 1994 (STATIN).

At the level of the Macro-economy in 1995, the estimated growth in the GDP was 0.5% (STATIN); a reflection of the adverse impact of the high interest rate regime on the level of economic activities in the country. The high interest rate regime will remain as the centre piece of the Government's monetary policy for some time yet based on the parameters of the 1996/97 budget.

For the 1996/97 fiscal period the programmed capital expenditure is expected to be 32.4% above the figure for 1995/96 (J\$38.9 Billion vs J\$29.3 Billion). Approximately J\$3.7 Billion has been earmarked for the Ministry of Local Government and Works and a significant share of this expenditure will be going towards construction and maintenance of roads and structures (J\$78 Million). Flood damage control (J\$29.3 Million). Housing (J\$28.3 Million) and rehabilitation and maintenance of office buildings (J\$5.1 Million). All of these categories of expenditure within the Ministry of Local Government and Works should have a positive effect on the level of activities in the construction and building sector during the financial year 1996/97.

Other ministries/agencies with substantial increases in planned capital expenditure and with positive implications for the construction/building industry in 1996/97 are as follows:

- * The Ministry of Education Youth and Culture at J\$840.1 Million
- * The Ministry of Health at J\$946.3 Million and
- * The Urban Development Corporation (UDC) with J\$681 Million for capital expenditure on projects like the Eastern and Central Kingston Development project.

The Gross Domestic Product of the Construction and installation subsector has shown some declines in response to the Government's economic adjustment policy measures. However, while the infrastructure component of the Construction and Installation sub-sector has been adversely affected by the Government's fiscal policies, there has been over-all growth in the building component of the Construction sector: and this has been reflected in areas like:

- (a) the growth in imported construction materials: for example US\$143.56 Million in 1995 compared with US\$92.74 Million in 1994: a growth of 54.8%: (STATIN).
- (b) the significant growth in the square footage of approved residential building projects was 6.5 Million, between January to July 1995, a growth of 45% above 1994. The comparable figure for commercial building projects 2.04 Million, (1) or a growth of 129.5% above the figure for 1994.

A significant share of the growth in residential building activities is concentrated in the parishes where a growing number of returning residents select to purchase or build their homes: for example Manchester, St. Elizabeth, Clarendon, St. Ann, St. Catherine, St. James and to a lesser extent St. Mary.

It is also useful to observe that the investments by returning residents and overseas Jamaicans in the building/construction sector is not constrained by the domestic high interest rate regime, and therefore the high cost of domestic credit has not had a dampening effect on this area of demand in the building/construction industry. In addition, there is a significant level of informal economic activity in Jamaica, and these activities by-pass the formal credit system of the financial sector and would not be adversely affected by expensive bank credit.

The foregoing are some of the main factors that explain why despite the prevailing tight economic adjustment policy measures, the volume of domestic cement sales continue to show impressive growth, moving up from 524,298 tonnes in 1994 to 562,774 tonnes in 1995, a growth of 7.3%.

- (1) Data derived from annual surveys on the construction/building industry by Fidelity Economics Limited.

The construction sector (especially building construction) not only managed to retain its relative share of commercial bank loans and advances between 1995 and 1994, but was also able to secure a growth of almost 34% in the amount of commercial bank loans and advances (at November 1995 compared to November 1994). Amongst the other categories of financial lending institutions (merchant banks, finance houses and trust companies), the construction/building sector also

secured a good growth of 30% in loans and advances in 1995 vs 1994: and also the sector's share of loans and advances from these financial institutions grew from J\$1.16 Billion to J\$1.51 at November 1995 vs November 1994.

Short and Medium Term Prospects for the Industry.

The short and medium term prospect for the construction/building industry will be conditioned in one respect by the Government's restrictive monetary policies, underpinned by the high interest rate regime and this is on the negative side.

However, on the positive side, the higher programmed capital expenditure of the Government in the financial year 1996/97 has major positive implications for the construction industry in general and cement demand in particular.

There are no indications to suggest that there is any pending fall-off in the flow of investment capital from Jamaicans abroad into residential construction activities. Indeed, the prevailing exchange rates for the Pound Sterling, the US Dollar and Canadian Dollar are very attractive to Jamaicans overseas returning to live in Jamaica and to invest in residential properties.

After the imposition of the reserve requirements on the building societies, new residential mortgage rates went up to an average of 25%. However, the size of the mortgage offered by the National Housing Trust (NHT) has been increased and the proportion and amount of NHT resources ear-marked for the housing sector increased. These developments at the NHT could offset the negative effects of the rise in mortgage rates from the building societies in terms of the access of potential home-owners to mortgage financing. The positive effects of the policy changes at the NHT should be felt mostly at the middle to the lower end of the housing market.

The re-entry of the Jamaica Mortgage Bank into the secondary mortgage market has some positive implications for the building industry in terms of liquidity support to the primary mortgage lending institutions.

The next phase of the Greater Portmore Housing Project will be on stream over the medium term period. This has good potentials for growth in the construction sector, especially for residential construction, for infrastructure work and for the construction of community based structures like schools and church buildings.