



Monthly Economic and Financial Developments June 2007

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

Future Release Dates:

2007: September 3rd, October 1st, October 29th, December 3rd

1. Domestic Economic Developments

Preliminary data indicate that the expansion in the Bahamian economy was sustained during the month of June, buoyed by demand stimulus from private sector credit expansion and healthy foreign investment inflows, which countered softening in tourism activity.

Comparative data for the first five months of 2007 revealed a 6.0% reduction in tourist arrivals from the same period last year, as air and sea traffic declined by 6.8% and 5.6%, respectively. Weakness in the key stopover market was most pronounced for the United States, but inclusive of the European segment, which combined to overshadow robust growth from the Latin American and Caribbean markets. All of the major ports of entry experienced shortfalls, with Grand Bahama noting the largest contraction of 12.9%, due to respective declines of 16.2% and 5.3% in sea and air arrivals. In New Providence, an 8.7% falloff in air visitors coupled with a 4.6% reduction in sea passengers, caused a 6.2% decrease in overall arrivals. Also, the Family Islands recorded a 1.7% reduction in visitors, owing to a 2.3% decline in sea traffic, which eclipsed a 0.9% improvement in air visitors.

Hotel sector indicators through the first quarter of the year, suggest a less pronounced weakening in industry earnings relative to the estimated reduction in stopover visitors, as improvements in average room rates partly cushioned lower occupancy levels. Data revealed that estimated room revenues at major resort properties declined by 5.5%, with losses in Grand Bahama and New Providence at 19.2% and 3.3%, respectively. In contrast, Family Island room revenues rose by 4.0%.

Retail price inflation during the twelve months ending June 2007 firmed to 2.43% from 1.63% a year ago, amid the continuing influence of rising oil prices. Increases in average costs were most notable for food & beverages (4.18%) and recreation entertainment & services (3.21%).

2. International Developments

The world economy remained on an expansionary trend during the first half of the year, with sustained strengthening in the Asian economies and healthy growth in Europe, contrasting with a more moderate outturn for the United States. As inflation pressures continued to pose concerns, several major central banks raised their key interest rates.

In the United States, although initial estimates of the second quarter expansion exceeded expectations, weakness in the housing sector continued to constrain the economic momentum. On a year-on-year basis, housing starts for single and multi-family homes softened respectively, by 21.6% and 9.7% during June, with total building permits also falling sharply and signalling a softer outlook for the sector. Also notable was evidence of more conservative household spending, amid the 0.9% dip in retail sales. Otherwise, labour market conditions stabilized, as the rise in non-farm payroll employment maintained the unemployment rate at 4.5% in June. Meanwhile, moderation in housing prices partly contributed to easing in consumer price inflation to 0.2% in June, from 0.7% in May. Citing the need to balance the moderating pace of growth against the threat of increased inflation, the Federal Reserve Open Market Committee decided to maintain its primary lending and target funds rates at 6.25% and 5.25%, respectively.

Buoyed by increased exports and a surge in commercial investments, China's economy strengthened to its fastest pace in 12 years during the second quarter. Underscoring the continued significance of exports, the trade surplus reached a monthly record in June of \$26.9 billion, 85.5% higher than the previous year. Further, the country's foreign exchange reserves rose by an estimated \$266.3 billion during the first half to a record \$1.3 trillion. As concerns lingered about the unsustainable pace of the brisk expansion, China's central bank tightened credit conditions, raising banking sector reserve requirements by 0.5 percentage points during the month.

The Japanese economy remained on a steady growth path, with real GDP expanding by 0.8% in the first quarter after a 1.3% uptrend during the previous three-months. The unemployment rate steadied in May at 3.8%, but declined by 0.3% from a year earlier. Owing to lower cost pressures on durable goods and housing prices, inflation remained marginally negative on a year-on-year basis at 0.1% through May. In view of a stable inflation outlook and sustainable growth prospects, the Bank of Japan decided to keep its key uncollateralized overnight call rate at 0.5%.

Preliminary indications point to further firming in the United Kingdom's economy during the second quarter, as manufacturing output increased by 0.3% in the three-months to May 2007, and the unemployment rate was marginally lowered to 5.4%. Additionally, the deficit on trade in goods and services narrowed on a monthly basis, by £0.7 million to £3.5 billion in May, reflecting an expansion in exports. Meanwhile, softer food prices and lower utility bills decreased the average consumer price inflation slightly to 2.4% in June. With evidence that the effects of official tightening from the previous month were taking hold, the Bank of England kept its repurchase rate at 5.5%.

Economic conditions in the Euro area remained buoyant in the second quarter, supported by continued increases in external demand and some recovery in household consumption since the first quarter. Amid these gains, the unemployment rate decreased marginally to 7.0% in May. In June, Euro area inflation steadied at 1.9%, slightly below the ECB's target rate of 2.0%; however, the Central Bank increased its key interest rate by 25 basis points to 4.0%, due to the concerns over the upside risks to price stability in the medium to long term.

On account of the ongoing geopolitical concerns and refinery disruptions which constrained supply, the price of crude oil firmed by 4.3% in June to \$70.77 per barrel. In particular, OPEC's production contracted during the month by 0.3% to 30.0 million barrels per day. In contrast, precious metal prices decreased during the period, with the cost of gold easing by 1.6% to \$649.65 per ounce and silver, by 7.6% to \$12.41 per ounce.

The performance of major equity indices was mixed during the review month. In the US, the Dow Jones Industrial Average and the S&P 500 indices fell by 1.61% and 2.1%, respectively. In Europe, the United Kingdom's FTSE 100 index declined marginally by 0.2% and France's CAC 40 index by 0.8%; however, Germany's DAX gained 1.58%. In Asia, Japan's Nikkei 225 index moved higher by 1.5%.

3. Monthly Domestic Monetary and Credit Trends

Domestic monetary and credit developments during June culminated in some reduction in bank liquidity and external reserves, as net Bahamian dollar lending exceeded the growth in the deposit base. During the first half of the year, liquidity conditions improved considerably, owing to

