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Monthly Economic and Financial Developments
November 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:

2008: January 28th, March 3rd, March 31st, April 28th, June 2nd, July 28th, September 1st, November 3rd, December 1st, December 23rd

1. Domestic Economic Developments

Partial indications suggest a moderate rate of economic expansion during the month of November, amid signs of an improving tourism outturn and stable construction activity. In the monetary sector, liquidity levels were comparatively more buoyant, whereas external reserves contracted, reflecting the seasonal firming in consumer demand and persistently higher payments for fuel imports.

Based on the latest tourism data, visitor arrivals for the third quarter increased by 1.7% to 1.0 million, in comparison to the corresponding period last year, benefiting from a 4.8% gain in air passengers and a modest 0.2% rise in sea visitors. The improvement was concentrated in the New Providence and Grand Bahama markets, which secured increases of 2.6% and 15.1% respectively. Conversely, a reduction in sea traffic to the Family Islands resulted in total visitors declining by 5.8%.

In the fiscal sector, the latest available data for the first quarter of FY2007/08 showed Government's position reversing from a surplus of $3.6 million last year to a deficit of $50.7 million. Aggregate expenditure advanced by 6.5% to $344.4 million, while total revenue narrowed by 10.2% to $293.6 million, following last year's extraordinary boost in tax revenue. Budgetary financing was primarily obtained from domestic sources, including a $100.0 million Registered Stock issue and a $28.0 million increase in Treasury bills outstanding.

Inflation during the twelve-months to November firmed to 2.45% from 1.74% in the corresponding period of 2006. Higher average costs were recorded for furniture & household operation (4.85%), recreation entertainment & services (3.65%), food & beverages (3.56%) and transport & communication (3.40%). Average price increases of less than 3.0% were noted for the other categories.

2. International Developments

Economic growth for several of the major economies continued to be sluggish leading into the final quarter of 2007, as countries grappled with the fallout from the United States housing crisis and the severe tightening in the global credit market. Conversely, buoyed by sustained export growth, economic activity in the Asian markets expanded.

Despite the weakness in the residential market, revised data showed that the United States economy expanded by 4.9% on an annualized basis during the third quarter—an improvement over the second quarter's 3.8% growth. In the external sector, the goods and services deficit in October widened on a monthly basis by $0.7 billion to $57.8 billion, as accretions to imports outstripped the firming in exports. For the third consecutive month, the unemployment rate held steady at 4.7% in November, while average prices rose by 0.8% over the previous month, on account of higher fuel and transportation costs. An analysis of the minutes from the Federal Reserve's October meeting showed that members expected economic growth to slow in the coming quarters, amid tightened credit conditions, and therefore determined that a less restrictive monetary policy stance was warranted.

China's robust growth was sustained during 2007, as foreign direct investment surged by 10.9% over the first three quarters to US$47.2 billion. Fuelled by increased automobile and electronics production, the country's industrial output advanced on an annual basis by 17.3% in November. Foreign investment inflows boosted bank liquidity and led to a hike in average prices by 6.9% on a year on year basis in November, the highest level in eleven years.

The Japanese economy continued to expand modestly in the fourth quarter, as industrial output rose by 1.6% during October in contrast to a 1.4% downturn a month earlier. Buttressed by increased demand for more fuel efficient vehicles by Chinese and European buyers, exports of goods surged by 13.9% on a yearly basis in October. Labour market conditions held the unemployment rate steady at 4.0%, while relatively benign monthly inflation of 0.3% in October led the Bank of Japan to keep its overnight call rate at 0.5% at its November meeting.

In the United Kingdom, economic activity firmed by 3.2% in the third quarter, in comparison to the same period a year earlier. During the three-months to October, manufacturing output edged up by 0.1%, compared to the prior quarter, while retail sales strengthened by 1.4% in October, buoyed by increased purchases of grocery items. The unemployment rate remained relatively unchanged at 5.4%; however, inflation rose to 2.1%, 0.3 percentage points higher than the previous month's level. Despite the rise in consumer prices, the Bank of England left its key policy rate unchanged at 5.75%.

Fueled by increased consumption expenditure, investment and exports, euro area output firmed by 0.7% in the third quarter compared to the previous three-month period. For October, retail trade weakened by 0.7%, a turnaround from an increase of 0.2% in the previous month; and the unemployment rate softened by 0.1 percentage points to 7.1%. Reflecting higher education, transportation and food costs, average inflation in the euro area rose on a monthly basis by 0.4 percentage points to 3.1% in November. However, the European Central Bank did not alter its monetary policy stance.

In the oil markets, despite OPEC's prior decision to increase crude oil production in November, the cartel's output fell by 0.13 million barrels per day (mb/d) to an average of 31.5 mb/d, due to continuing maintenance work on a major oil field in the United Arab Emirates. Amid concerns over the weakness of the United States dollar, and a volatile geopolitical environment in the Middle East, the cost of oil rose by 2.9% to $91.37 per barrel during the review month. In the precious metals market, the price of silver grew by 3.3% to $14.01 per ounce, while gold prices contracted by 1.6% to $783.75 per ounce.

Negative sentiments, linked to the collapse in the US sub-prime mortgage market and the spillover effects to the global financial system, adversely impacted equity markets during the month. In the United States, the Dow Jones Industrial Average and the S&P 500 fell by 4.01% and 4.48% respectively. Similarly, the major European indices, the FTSE100, CAC 40, and DAX, recorded losses of 4.30%, 3.03% and 1.85%, respectively; while Japan's Nikkei 225 contracted by 6.31%.