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ROBUST FIRST QUARTER PERFORMANCE KEEPS ECONOMY ON GROWTH TARGET

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A. Introduction*:*

The Ghana Statistical Service (GSS) currently provides three interrelated measures of real GDP. For any specified period of time — typically a quarter or calendar year — real GDP is the constant price (2006) value of relevant economic activities in that specified period. Constant prices are used in the valuation in order to eliminate the effect of inflation which otherwise could confuse the assessment of economic performance. The growth rate is obtained by comparing the value of the current period with that of a previous period. The three measures of data are the following:

- year-on-year for each of the four quarters of the calendar year, defined by GSS as comparing current economic developments with that of the same period in the previous year. There is little or no influence by seasonal factors;
- quarter-on-quarter for each of the four quarters in comparison with the preceding quarter defined by GSS as providing a short-term (six months) picture of current economic developments. The estimates are influenced by seasonal factors that are caused by economic behaviour or recurrent exogenous factors such as weather patterns, holidays, religious events etc ; and
- the current calendar year compared to the previous calendar year — the more common measure used in public discussions, as for example: the economy grew at 14.1 percent in 2011.

Moreover, all of the above measures of economic performance are subject to periodic revisions. According to the GSS, revisions provide the opportunity for "*incorporation of additional and improved data.* For example, *"some data that were not available at the released date are incorporated through revisions into subsequent releases".*

The three measures produce growth rates that are also interrelated, with each of them having implications for the other two. Figuring out these implications raises some technical computational problems. The GSS does not always appear to reconcile the data. On the matter of reconciliation of quarterly and annual measures, the GSS notes in its Revision Policy: "*The* *process of reconciling the quarterly measures to the annual measures can lead to further revisions. The quarterly measures of these series are based on a smaller range of data than the annual measures".*

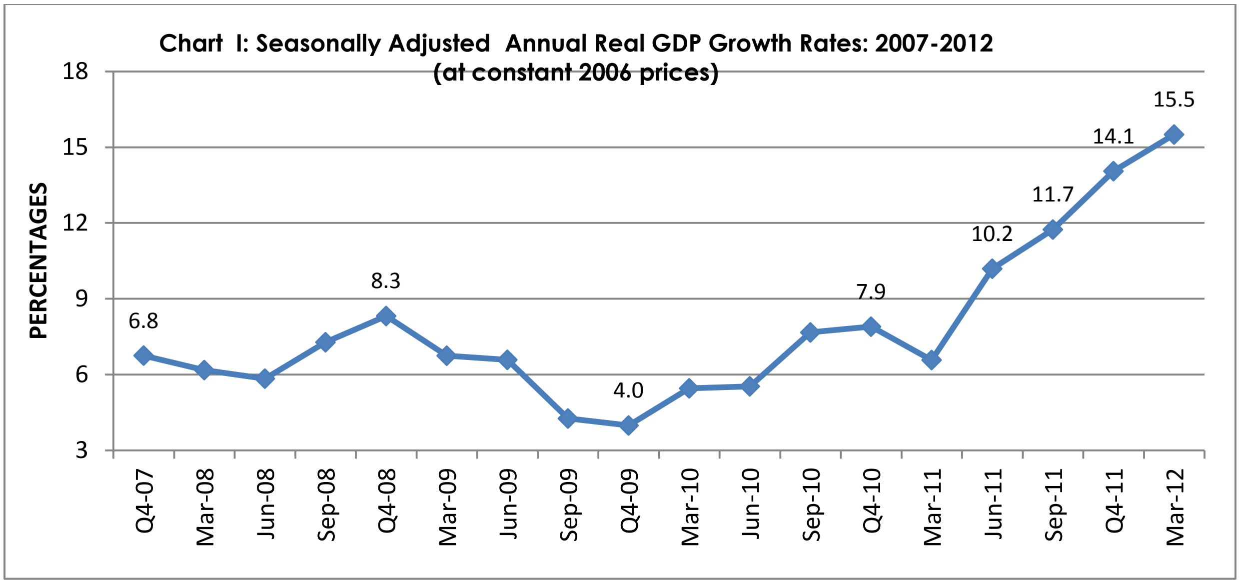
The fact remains that the GSS has had to withdraw and replace a release in the course of last year 2011. All of these reasons for revision and the revisions themselves add to the complications of proper assessment and interpretation of the statistics of economic performance.

B. Overall Performance

For the four quarters that constitute the calendar year, namely the first, second, third and fourth quarters of 2011, the real GDP growth rate is estimated at 14.1 percent. This comprises a trend growth rate of 8.2 percent of the non-oil sector together with a contribution equivalent to 5.9 percent of non-oil GDP from the oil (both Jubilee and Saltpond) sector. By way of comparison, CEPA estimates, on the basis of the data released by the GSS, that for the 12 month period ending first quarter of 2012 — namely the second, third and fourth quarters of 2011 plus the first quarter of 2012 — the overall growth rate (also called the seasonally adjusted annual growth rate) accelerated to an annual rate of 15.5 percent (see Chart 1).

The acceleration in the seasonally adjusted growth rate for the first quarter of 2012 is explained by the fact that the year-on-year growth rate of 8.7 percent recorded for that quarter is a marked improvement — two and half times — over the 3.3 percent recorded for the first quarter of the preceding year 2011. In other words, the expected deceleration points to the fact that the sterling performances of the second, third and fourth quarters of the first year in the oil era are unlikely to be matched in the second year.

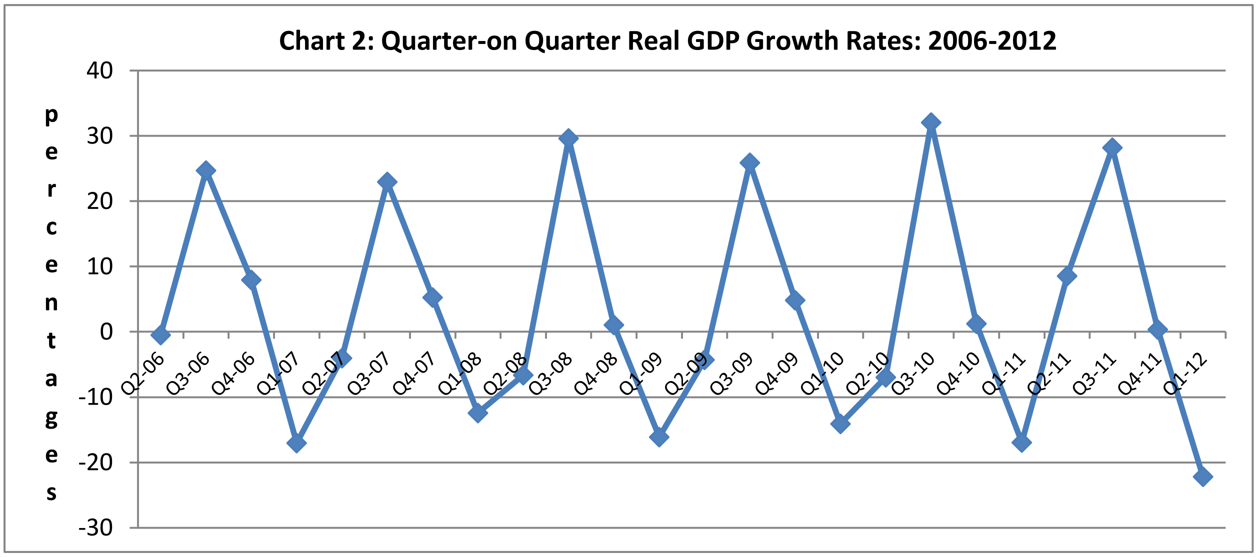
For calendar year 2012, the projected or target growth of 9.1 percent comprises a trend growth of the non-oil sector conservatively estimated at 8.2 percent and the contribution of the oil sector equivalent to 0.9 percent of non-oil GDP. An implication of the projection of 9.1 percent for calendar year 2012 is that the so-called seasonally adjusted annual growth rates for the succeeding second, third and fourth quarters will decelerate successively to the final target.



The question this brings up is what can these observations tell us about the likely economic performance in election year 2012 — targeted at 9.1 percent?

Data from the previous years warn against unwarranted extrapolation from the growth rate of the first quarter. For example, in 2011 the growth rate of 3.3 percent recorded for the first quarter — poor performance largely on account of Agriculture and Services — was followed by strong growth rates in the succeeding quarters — 20.6 percent in the second, 17.0 percent in the third, and 16.0 percent in the fourth. The overall growth rate of 14.1 percent is estimated for the calendar year.

Therefore, there is nothing to suggest that for this year, the 8.7 percent recorded for the first quarter necessarily implies that the target for the year of 9.1 percent will not be achieved. Nonetheless the quarter-on-quarter absolute decline of 22.2 percent for the first quarter of 2012 over the fourth quarter of 2011, does give some cause for concern of a likelihood that the target could be missed. There is a seasonal factor at play here, namely; the constant value of GDP in the first quarter is traditionally <u>lower</u> than that of the fourth quarter of the preceding calendar year. Since 2006, the decline has been in the range of between 10.0 percent and 20.0 percent (see Chart 2).



The recorded decline of 22.2 percent is the largest decline since the rebasing exercise for the period 2006 to date.

According to the GSS Newsletter, the "decline *was driven by the seasonal nature of agricultural activities* (the Harmattan in the early months of the calendar year accounts for a particularly poor agricultural outcome) *and weakness in the Services sector"*.

Agriculture declined by 57.3 percent — the largest fall since rebasing. The record poor performance in this year is on account of the seasonal agriculture sector performance together with an additional weakness in the Services sector. The Services sector fell by 16.5 percent — again the poorest performance to date compared to a decline of 8.5 percent for 2011 and increases for the previous years.

Clearly the quarter-to- quarter growth rates in the Services sector show considerable volatility. It may also be added that the sharp deterioration of the cedi in the first quarter of the year raised concerns about the increased cedi cost of imported inputs. Failure to pass these costs into product prices could mean reduced profit margins to producers. While this, if it persists, could lead to cut backs in production and employment, the data produced does not reflect any such development except possibly in the Services sector since the Manufacturing subsector of Industry recorded a welcome upsurge.

C Sectoral Performance

While not creating undue difficulties with interpretation, it is nonetheless important to point out that sectoral estimates are provided by the GSS only at basic prices. The overall GDP for each calendar is provided at market prices (purchases values) the difference being net indirect taxes (indirect taxes less subsidies) which show up in the market prices.

Agricultural Sector

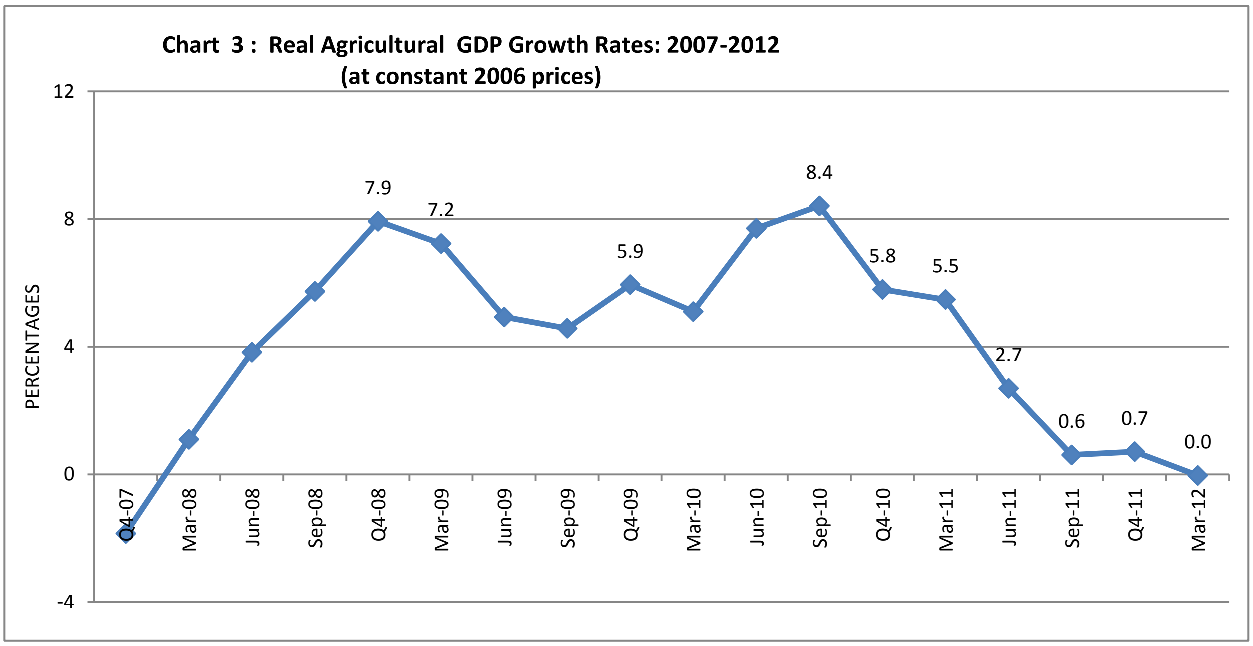
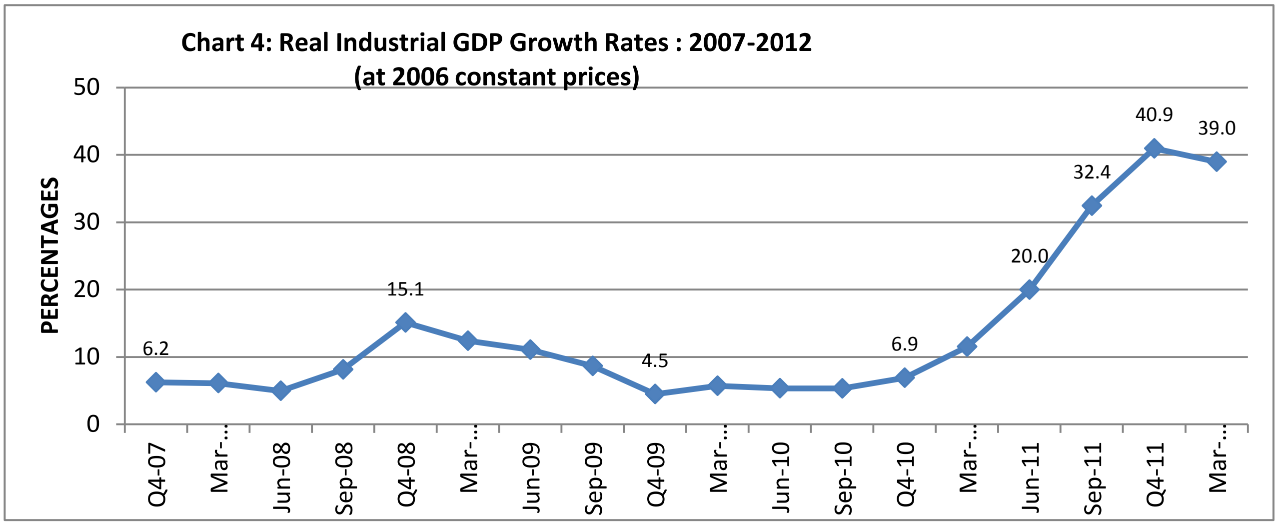


Chart 3 presents the GDP growth rates for Agricultural sector performance for the period 2007 - 2012. After reaching a peak of 8.4 percent in the third quarter of 2010, performance in the sector has followed a decelerating growth path reaching 0.7 percent for 2011, with a stagnant outcome for the 12-month period ending the first quarter of 2012. Most of the subsectors except cocoa have not done well. Non-cocoa agriculture and livestock have been decent but forestry and fishing have done relatively poorly. Forestry appears to have resumed growth in the first quarter of 2012 but fishing continues to perform poorly.

Industrial Sector



The Industrial sector has largely been driven by the oil subsector since the closing months of 2010. After the peak performance of 15.1 percent in 2008, boosted by high domestic demand of election year spending, performance of the sector has been lackluster largely on account of declines recorded in the manufacturing subsector. The record growth of 40.9 percent achieved by the sector in 2011 is on account of its being the first year in the oil era. The feat of 2011 cannot be reproduced in the current context until new oil discoveries are made and production boosted.

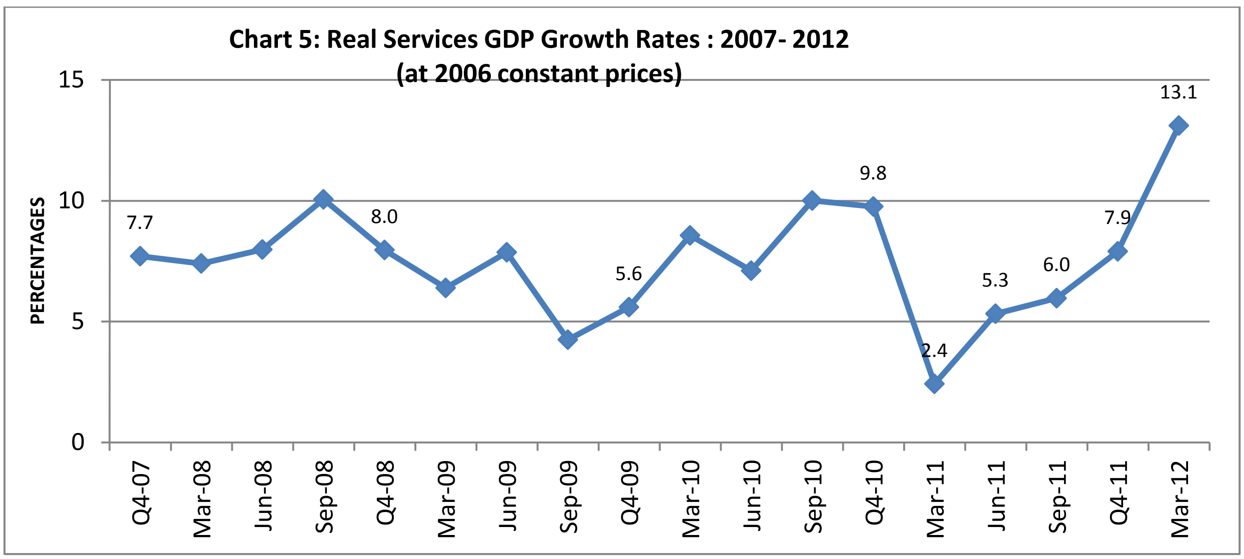
Production difficulties mean that recovery in 2012 is not expected to be spectacular and therefore the contribution of the oil subsector is estimated at a poor 0.9 percentage points of non-oil GDP. Even this could prove a bit optimistic. According to Tullow;

> *In the first half of the year, field production has averaged 63,100 bopd gross and is currently producing 63,000 bopd gross with a number of wells temporarily offline for ongoing acid stimulation activity. Significant increases are expected in the second half of 2012 as the benefit of the acidisation programme is realized and new Phase 1A wells are brought on-stream. Jubilee field production is expected to average between 70,000 and 80,000 bopd gross in 2012, underpinned by the successful remediation programme. The field is expected to exit 2012 with*

a gross production rate in excess of 90,000 bopd as it ramps up to plateau production in 2013.

All subsectors in the Industrial sector showed positive growth. The Mining and Quarrying subsector led the way with 40.9 percent year-on-year growth. Manufacture of wood products — including wood processing, furniture and paper — and the Food and Beverages subsector sent the Manufacturing subsector growth to a high 22.6 percent. Electricity production also performed creditably with a growth rate of 16.9 percent.

Services Sector



After a peak growth rate of 9.8 percent in 2010, there was a sharp drop in the Services output in the first quarter of 2011 to 2.4 percent (see Chart 5). Since then growth has been on a rising trend with the growth for the first quarter of 2012 estimated at 13.1 percent, almost 70 percent faster than the 7.9 percent recorded for calendar year 2011.

The leading subsectors are Other Personal Activities which shot up by 88.2 percent, Business and Other Service Activities with a growth rate of 15.8 percent, Transport and Storage grew at 14.0 percent, Finance and Insurance growing at13.9 percent. The Trade and Repair of Vehicle to the contrary recorded a surprising decline of 19.3 percent.

D Conclusion

The data for the first quarter of the year suggest that in spite of the poor performance of the Agriculture sector and the lackluster performance in the oil subsector, the overall GDP growth target of 9.1 percent for calendar year 2012 is achievable. Last year — the first full year in the oil era — saw the economy growing at an all time high of 14.1 percent powered by the contribution of about 5.9 percent of non-oil GDP. The slowdown in oil production which occurred in the fourth quarter is expected to be rectified only next year accounting for the sharp reduction in the sector's contribution to growth this year.