

Elections, Inflation, Crime... Concerns In Paradise!

“Morvant man gunned down”! “Four men in court for robbery, kidnapping”!, Inflation reaches double digits! These are not the sort of news stories one would expect to see in a ‘tropical paradise’. However, like it or not, these are the issues that we are faced with this year in Trinidad and Tobago. In this article, I wish to address these concerns as they relate to the Stock Market and the overall economy.

This is an election year in Trinidad and Tobago. Many citizens look forward to this period as it is usually the time when you are able to see something being done which would directly benefit the citizens. Activities such as road paving and the construction or renovation of buildings such as schools are usually accelerated. For example, in recent times we have heard of the government’s plans to help curb the horrid vehicular traffic by the implementation of a water taxi system. There are now also initiatives to extend the Churchill Roosevelt Highway into freeway status and to add flyovers at certain points. Additionally, there was the announcement of plans to renovate Queen’s Royal College.

Given that we are already in the middle of an economic boom, heightened activity as the government takes on additional projects would no doubt benefit companies listed on the local stock market and also by extension, the economy.

Increased construction activity for instance should profit a company such as Trinidad Cement Limited (TCL). TCL should now be rid of such problems that plagued its results last year due the production of sub-standard product by its subsidiary Caribbean Cement Company Limited (CCC). Thus, the revenue reaped from the current construction boom in addition to increased activity from government projects should see its way into handsome profits from the Company. In addition, Jamaica is also in an election year and so, CCC should also benefit from the actions of that Government as the elections approaches. Unfortunately, in Jamaica, there is usually some instability with respect to elections and if such a situation materializes this could have a negative effect on that market.

Also among the groups to derive a great deal of benefit from general elections would be the media houses and advertising companies. As we are all aware, as elections approach there will be a slew of advertisements via print and air by all parties involved, in a bid to persuade nationals to vote for their party. Thus, media houses such as Trinidad Publishing Limited (PUB) and One Caribbean Media Limited (OCM) would no doubt gain from the increase in advertising activity. Trinidad Publishing Company has been delivering stellar results over the past year while OCM has also had commendable results. It will be interesting to see how profitable these two companies may be this year and the effect of these profits on its share price. By extension, Ansa McAl, which has a majority shareholding in PUB would also benefit from PUB’s good fortune. Of course, all of this spending could add to inflationary pressures.

Inflation, in particular headline inflation has been on a worrisome rise since 2004. Headline inflation roared its way into double digit figures last year but subsequently

declined to 9.6 per cent. While, the Honourable Prime Minister, Patrick Manning has said that double digit inflation is not a cause of concern, there is nothing preventing headline inflation from once again entering double digits. This is because despite efforts to subdue inflation by the Central Bank, with continuous growth in consumer and government expenditure coupled with an increase in lending activity, it would be difficult to contain.

What is interesting is that inflation is a double edged sword. For example, Neal & Massy, a conglomerate which owns stores such as Hi-Lo Food Stores have actually benefited from the causes of inflation as consumers have more money to spend in its stores. Given that its retail sector is one of the major sources of revenue, this should filter positively to its bottom line.

On the other hand, inflationary pressures could pressure stock market investors as the stock market is usually one of the tools used to beat inflation as returns are usually well above the inflation mark. For instance, in 2003 and 2004 when headline inflation was 3.8 per cent and 7.2 per cent, the Stock Market return was over 27 per cent and 54 per cent respectively. This year, there is an expectation for the market to return approximately 10 to 15 per cent, hence if inflation reaches such a level equal to this return it would then have already eaten away at any capital gains for the year.

In addition, inflation could also lead to an increase in interest rates which would have a dampening effect on the stock market. In an attempt to quell inflation last year, the Central Bank continued to tighten monetary policy by increasing open market operations to absorb liquidity and reduce the banks' capacity to extend credit. The Bank also increased the repo rate in order to dampen credit demand and have engaged in increased foreign exchange sales. In an election year, the government is expected to try its best to contain inflation. This was evident in November 2006 when it issued a TT\$700 million 8-year government bond in order to tighten domestic demand. Since then, according to a Central Bank report, inflation has dropped from 10 per cent to 9.6 per cent. The Government has also recently announced a number of measures to address the high level of agricultural retail prices. If the government successfully contains inflation this would bode well for shareholders and investors as the value of a dollar would be maintained.

In addition to inflation, another problem plaguing 'paradise' is heightened criminal activity. Crime is an ill that has been rampant in Trinidad & Tobago and has recently been brought back to the forefront of everyone's mind with a recent rise in criminal activity. While some may turn a blind eye to these social challenges, the criminal element and more so the bad publicity garnered from this activity could have a host of negative impacts on the country and the economy.

Crime has the effect of deterring Foreign Direct Investments (FDI) and also drives out scared nationals as they decide to migrate in order to live more comfortably. The movement of such people along with their knowledge and monetary capital has adverse effects on the economy. This is because after sometime there will be an intellectual capital drain in the country and the lack of locals to effectively drive the country toward

its Vision 2020. Along with knowledge is capital flight which would add to capital outflows and an increase in the demand for foreign exchange.

In an election year, the government should therefore make a fervent attempt to abate the criminal activity. Already this year we have seen a note-worthy attempt to help rescue Mrs. Naipaul-Coolman. However, there is a general consensus that much more has to be done in order to win the fight against crime. Efforts to help reduce crime and therefore make citizens confident that they are safe would also be important for the long-term economic success of the country.

Thus in conclusion, elections could lead to increased profits for some of the listed companies and so could therefore positively influence these companies on the market. While inflation can help some companies, the overall impact of accelerated inflation on the economy is not healthy. However, we should see a greater effort to contain it. Finally, the advent of general elections could result in the government taking more initiative in the fight against crime. Hence, while there is reason to be concerned, there are potential positive ripple effects from being in a year of general elections and there are things that can be done to restore our tropical paradise. If measures are taken in this direction maybe one day we will see the headlines, "Inflation down to 5 per cent", "No crime today"!