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Econews

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Puerto Rico The Economy

- The second quarter of 2020 was characterized by the outbreak of Covid-19, alongside the implementation of extensive measures in mid-March to safeguard public health.
- The gradual reopening of the economy began to take place in late May. This allowed businesses that had not been exempt, such as construction, manufacturing, and other health services, to operate under the mandated provisions.
- Through the incentives measures enacted by the federal government (CARES Act), and the local stimulus package, designated towards efforts to mitigate the economic impacts of the pandemic, the economy received an inflow of approximately \$5.2 billion, in particular from the PUA and PPP programs, and the \$1,200 per household. The question now, at the beginning of the third quarter is if the federal stimulus will continue, and what amounts will be forthcoming.
- As per federal funds for recovery efforts, \$16.4 billion has been disbursed, which represents only a third of what was allocated. Furthermore, only 2.7% of CDBG-DR funds have been disbursed according to COR3 recent data. On the other hand in its most recent certified fiscal plan of May 2020 the amount was \$88 million (Exhibit 8, page 30).

Disaster Funds according to COR3 as of May 2020

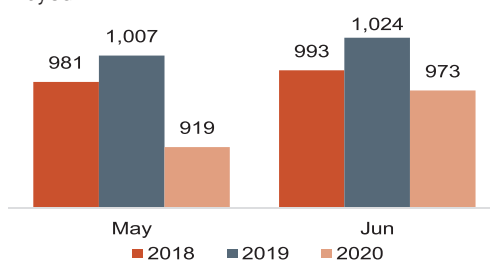
	A	B	C
	Allocated	Obligated	Disbursed
Public Assistance	\$7,123,315,679	\$7,123,315,679	\$4,194,950,057
Administration	\$3,173,158,052	\$3,173,158,052	\$2,783,498,461
Operations	\$4,308,440,582	\$4,308,440,582	\$3,936,290,173
CDL	\$306,389,192	\$306,389,192	\$248,610,044
Individual Assistance	\$2,654,810,069	\$2,654,810,069	\$2,556,746,767
Mitigation Assistance	\$2,999,975,000	\$100,381,575	\$0
Risk Mitigation	\$36,341,174	\$36,341,174	\$567,162
Other Federal Funds	\$29,272,678,144	\$7,703,073,574	\$2,747,786,820
CDBG_DR PL 115-56	\$1,507,179,000	\$1,507,179,000	\$41,071,777
PL 115-123	\$18,438,414,000	\$1,700,000,000	\$0
Other	\$9,327,085,144	\$4,495,894,574	\$2,706,715,043
Total	\$49,875,107,892	\$25,405,909,897	\$16,468,449,484

Source: COR3 (2020). Transparency Portal. Financial Analysis. Retrieved July 28, 2020. At: <https://recovery.pr/es/financial-analysis/table-view#table-view>

EMPLOYMENT

Total Employment

May-Jun 2018-2020



Source: Estimates by the US Bureau of Labor Statistics. Household Survey.

Total employment (Household Survey) averaged 946,000 for May and June 2020. This represented a decrease of -6.8% and -4.1% compared to the averages for the same

period during 2019 and 2018, respectively. In June, total employment rose by 15,880 jobs from its level in February, but remained below its level in June of last year by 50,591 jobs.

Private employment (Establishment Survey) in April fell to the lowest in the last decade, -16.7% below the ten-year average. On average, private employment for Q2-20 was 578,000, down -14.4% from the average for Q2-19. It went up by 22,000 jobs in June, signaling a slight recuperation from the levels of April and May, but still below that of March.¹

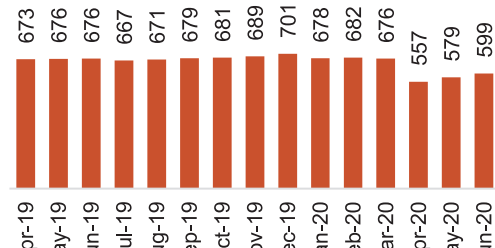
Unemployment insurance claims have trended downwards, after peaking in April, with 66,555 claims in a single week. Throughout June and July, claims averaged 8,641 per week, reaching a high of 11,257 in



the first week of July but declining -41.4% during the third week. The reduction brought weekly claims to the lowest they have been since the second week of March when lockdown measures were implemented.

Private Salaried Non-Farm Employment

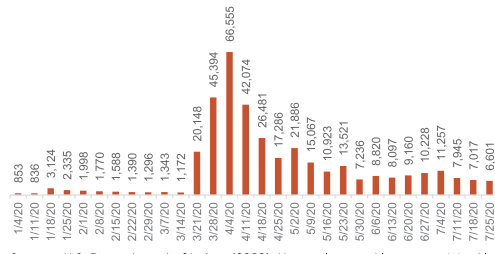
April 2019 - June 2020 (thousand)



Source: Department of Labor and Human Resources.

Puerto Rico Unemployment Insurance Claims

Jan 4 - Jul 25 2020



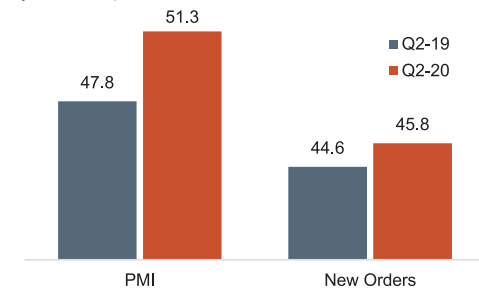
Source: U.S. Department of Labor (2020). Unemployment Insurance Weekly Claims.

MANUFACTURING

The average Purchasing Manager's Index for Q2-20 went up 7.2% y/y, falling -12.9% in April but recovering 14.5% in May. Moreover, PMI increased 18.1% in June q/q and 34.3% y/y. Similarly, the average for New Orders during the same period increased 2.6%. In April, New Orders declined -48.5% but went up 59.3% in May and 24.5% in June.

Puerto Rico PMI and New Orders

Apr-Jun 2019 & 2020



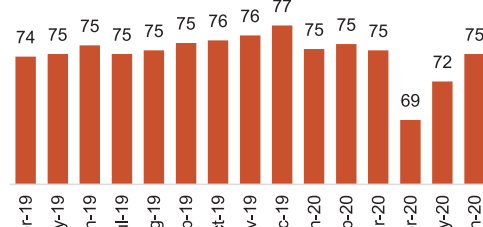
Source: Puerto Rico Institute of Statistics.

Employment in manufacturing reached an all-time low in April 2020 to 69,000 since

October 2017, right after the impact of Hurricane María. On average, employment fell -3.6% y/y during Q2-20. The largest decline happened in April (-7.5% m/m); however, by the end of the quarter, employment in manufacturing was able to recover to Q1-20 levels.

Manufacturing Employment

(in thousands) April 2019- June 2020



Source: Department of Labor and Human Resources.

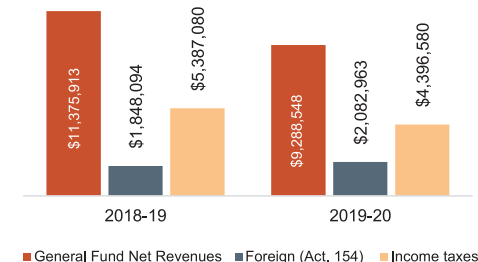
FISCAL REVENUES

Net revenues for fiscal year 2020 were \$2.1 billion lower from fiscal 2019, not surprising, as it reflects the impacts of the earthquakes in January and of the COVID-19 pandemic. Contributing to the decrease was the reduction in Law 154 receipts of \$1.0 billion, followed by that in income taxes of \$991.1 million, and of the SUT by \$664.0 million.

On the other hand, one must take into account the inflows of the federal stimulus funds related to COVID-19, which contributed to mitigate public spending in controlling the pandemic, and the local stimulus program.

Net Revenues to General Fund

Fiscal Years 2019 and 2020



Source: Puerto Rico Department of Treasury.

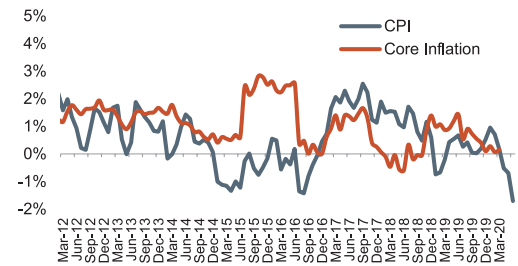
INFLATION

General inflation for Q2-20 was -0.97% compared to 0.61% in Q1-20. Data for Core Inflation was 0.7% (only available for June 2020), a 2.1 percentage point decrease relative to June 2019. It should be noted, though, that inflation probably is being underestimated, as COVID-19 has radically

changed what consumers are buying, and quantities. They are now spending more on food at grocery stores, and a lot less on transportation, healthcare, and items such as sanitizers, alcohol, and other articles related to personal care. Also, since overall spending is down, housing costs could be representing a larger share of personal expenditures.²

General and Core Inflation

(December 2006 = 100)



Sources: P.R. Department of Labor and Human Resources; Estudios Técnicos, Inc.

SHORT-TERM OUTLOOK

Two key priority issues are: the surge in the pandemic, and the continuation of the federal stimulus and what it will look like.

Currently, for two weeks now, Democrats and Republicans in the U.S. Congress have been at odds negotiating a new assistance package, with no agreement yet. The key point separating Democrats and Republicans continues to be the federal stimulus to unemployment assistance (PUA), which was set at \$600 per week in March but lapsed on July 31st. Democrats rejected the possibility of passing a short-term extension while the sides negotiate a broader deal. They want to maintain the \$600 per week jobless benefit, on top of what recipients get from states, into next year. Republicans, on the other hand, want to reduce it to \$200 per week through September, then set it at 70% wage replacement.

The surge in new cases has already caused a fallback in the reopening, with the possibility of it being increased further, if the number of new cases is not controlled, with its potential negative effects on the economy.

Notes:

1. No data for the months of March and April.
2. U.S. Bureau of Labor Statistics. Consumer Price Index. The impact of the coronavirus (COVID-19) pandemic on CPI data (July 14, 2020). At: <https://www.bls.gov/covid19/effects-of-covid-19-pandemic-on-consumer-price-index.htm>

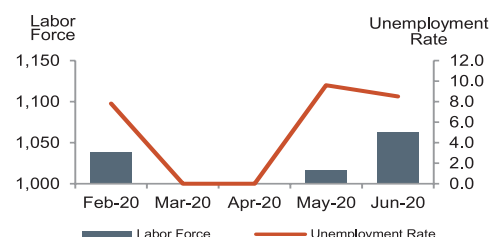
Puerto Rico Economic Indicators

Employment

	Apr-20	May-20	Jun-20	Percent Change Fiscal Year 2019*-2020*	Percent Change Accumulated year to date
Labor Force (Household Survey, thousands)	NA	1,016	1,063	-2.0%	-4.3%
Employment (Household Survey)	NA	919	973	-2.1%	-4.8%
Total nonfarm employment (Establishment Survey)	764	782	800		
Private	557	579	599	-2.2%	-6.6%
Construction	15	18	20	-10.2%	-19.3%
Manufacturing	69	72	75	1.1%	-1.2%
Public Administration	207	203	201	-0.3%	0.5%
Unemployment Rate (Household survey, %)	NA	9.6	8.5	0.8%	7.1%

*Jul - Feb or Mar

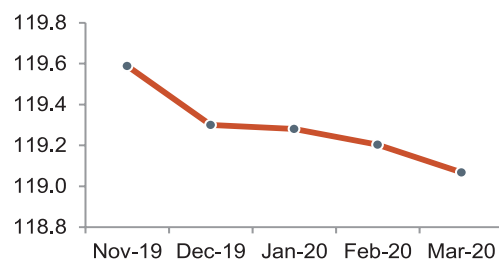
Total Employment
(December 2006 = 100)



Consumer Price Index

	Jan-20	Feb-20	Mar-20	Percent Change Fiscal Year 2019*-2020*	Percent Change Accumulated Year to date
All Items	119.3	119.2	119.1	0.4%	0.6%
Food & Beverages	129.0	129.8	129.6	-0.2%	-0.9%
Housing	115.1	115.0	115.4	1.2%	1.4%
Apparel & Upkeep	84.1	84.4	83.5	-2.0%	-2.8%
Transportation	111.8	110.7	110.2	0.4%	2.9%
Medical Care	156.3	156.5	156.4	1.0%	1.2%
Education	118.7	118.7	118.5	0.9%	0.9%
Recreation	113.3	113.4	113.5	0.4%	0.2%
Other Services	124.2	124.2	124.2	-0.1%	-1.8%

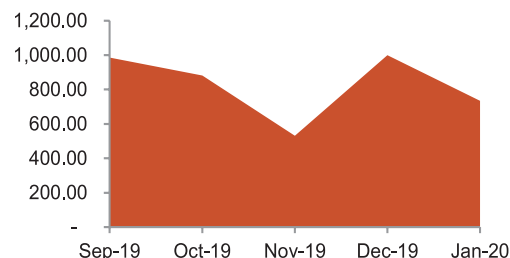
Consumer Price Index



Fiscal Revenues

	Nov-19	Dec-19	Jan-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total Revenues (Mill.\$)	530.99	999.55	734.68	16.3%	2.3%
Taxes	509.98	970.76	718.80	17.6%	2.9%
Income Taxes	234.87	580.55	329.73	29.7%	-5.9%

Net Revenues to the General Fund

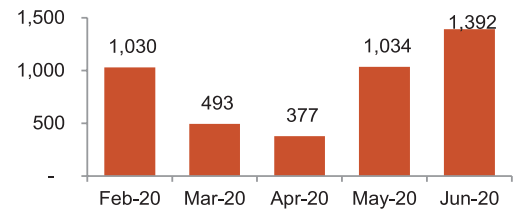


Puerto Rico Economic Indicators

Construction

	Apr-20	May-20	Jun-20	Fiscal Year 2019-2020	Accumulated year to date
Cement Production (Thousand 94-lb Bags)	377	1,034	1,392	-8.8%	-17.9%
Cement Sales (Thousand 94-lb Bags)	451	1,240	1,597	-9.8%	-16.1%

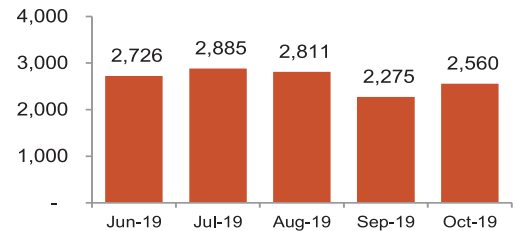
Cement Production



Retail

	Aug-19	Sep-19	Oct-19	Percent Change Fiscal Year 2019-2020	Accumulated year to date
Total (Bill. \$)	2,811	2,275	2,560	-4.9%	n/a
Department Stores (Mill. \$)	1,027	720	908	-1.0%	n/a
Supermarkets (Mill. \$)	303	271	275	-13.1%	n/a
Used and New Autos (Mill. \$)	507	357	381	-15.8%	n/a
Gasoline Stations (Mill. \$)	162	161	155	-1.3%	n/a
Restaurants (Mill. \$)	161	153	163	-2.2%	n/a

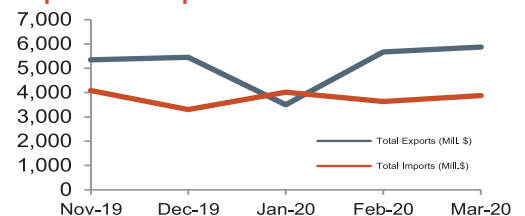
Retail Sales



Exports and Imports

	Jan-20	Feb-20	Mar-20	Percent Change Fiscal Year 2019-2020	Accumulated year to date
Total Exports (Mill. \$)	3,500.0	5,671.8	5,873.4	0.6%	-4.4%
Foreign Countries	976.3	1,101.1	1,236.1	2.0%	-21.4%
Total Imports (Mill. \$)	4,018.2	3,631.8	3,882.0	-7.9%	-2.2%
Foreign Countries	1,868.3	1,688.2	1,869.8	-10.0%	-5.0%

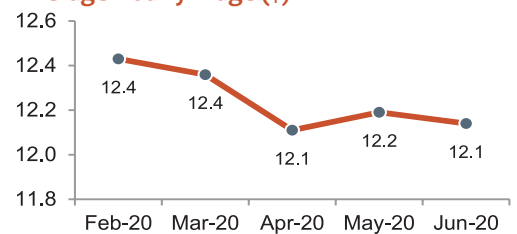
Exports and Imports



Manufacturing

	Apr-20	May-20	Jun-20	Percent Change Fiscal Year 2019-2020	Accumulated year to date
Weekly Hours (#)	38.7	36.9	37.1	1.2%	-1.4%
Average Hourly Wage (\$)	12.1	12.2	12.1	0.1%	-1.3%

Average Hourly Wage (\$)



United States The Economy

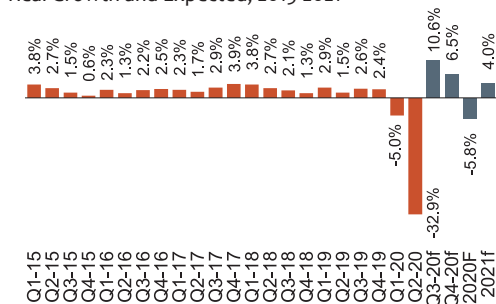
- On January 31st, 2020, the United States declared a public health emergency in response to the Covid-19 outbreak. In March, Congress passed the Coronavirus Aid Relief and Economic Security Act (CARES), a fiscal stimulus package of \$2.2 trillion meant to alleviate the abrupt economic disruption. The CARES Act included expanded unemployment benefits, investments to the healthcare system, and loan and grant programs for small business, among others.
- Despite the largest economic stimulus package in U.S. history, the country became the epicenter of the virus in a matter of weeks. As of the first Monday of August, over 4.6 million cases had been confirmed since the onset of the outbreak and more than 155,500 individuals had died.¹ The number of cases in the U.S. is alarming as they almost double those of Brazil, the second country to top the list of confirmed cases. The states that have been impacted the most are California, Florida, Texas, and New York, averaging 471,137 confirmed cases among all four.²
- As the outbreak in the U.S. enters its second wave, a second economic stimulus package is in the works, with hopes of Congress concluding agreements before August 7th, the day Congress adjourns for a thirty-day recess. The Help, Economic Assistance, Liability Protection and Schools Act (HEALS), proposed by the Senate Republicans, would provide \$200 for weekly unemployment benefits through September after which it would be replaced with a payment that equals 70% of the individual's previous earnings.³ Moreover, the program would provide several payments: a one-time \$1,200 second stimulus check (HEALS Act) and a \$1,000 second stimulus check (Coronavirus Assistance for American Families Act).
- On August 9, President Trump issued four executive orders with the purpose of extending some of the CARES provisions, in particular the special supplement to unemployment, but with limitations, as the negotiations between the two parties for the extension of CARES are stalled. It is unlikely, though, that they will be implemented immediately, as they face legal challenges.

REAL GDP

Gross domestic product in the U.S. dipped -32.9% in Q2-20, a historic low since the series began in 1947, from 1.5% in same quarter of last year, following a contraction of 5.0% in Q1-20.⁴ The key driver of the steep contraction in Q2-20 was a decrease in personal expenditures of 35.0%, as consumers retracted their spending, reflecting job losses and the lockdowns, which affected commercial activity.

Quarterly U.S. GDP

Real Growth and Expected, 2015-2021

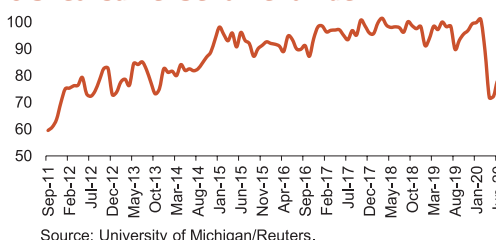


Sources: U.S. Bureau of Economic Analysis; Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, Second Quarter 2020 (May 15, 2020); CBO (2020), CBO's Economic Projections for Calendar Years 2020 to 2030 (July 2, 2020), Seasonally adjusted at annual rates. f = Forecast.

In Q2-20 consumer sentiment in the U.S. plunged to 74.1, a decrease of 23.4% q/q and -24.8% y/y. The index fell an average of -15.6% for February and March but gained 0.7% in May and 8.0% in June, signaling a recovery in expectations. However, the index declined, down -7.2% m/m and -26.3% y/y.

It seems unlikely that consumers believe that the recession will end anytime soon, though federal relief programs to alleviate the economic downturn have served as a buffer in job losses, consumer finances, and declines in salary. What comes out of Congress in the coming days will weight on their confidence.

U.S. Consumer Sentiment Index



Source: University of Michigan/Reuters.

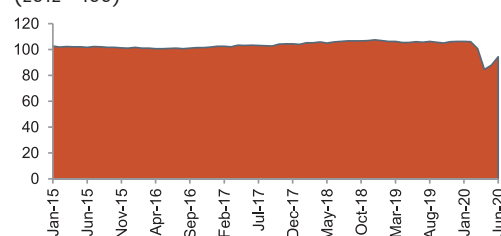
PRODUCTION

The Manufacturing Production Index in the U.S. averaged 89 in Q2-20, -15.8% relative to the average for Q2-19 (105.7).

The Purchasing Managers Index (PMI) fell by -8.6%, after going from an average of 50 in Q1-20 to 45.7 in Q2-20. While the PMI remained below 50 during April and May, denoting a contraction in manufacturing activity, the index increased 22% to 52.6% in June. Further signs of recovery were witnessed in July when the index expanded to 54.2%, improving for the third month in a row after plummeting in April.

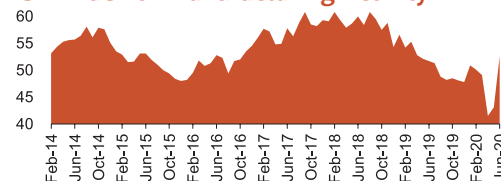
US Industrial Manufacturing Production Index

(2012 = 100)



Source: Federal Reserve.

ISM Index of Manufacturing Activity



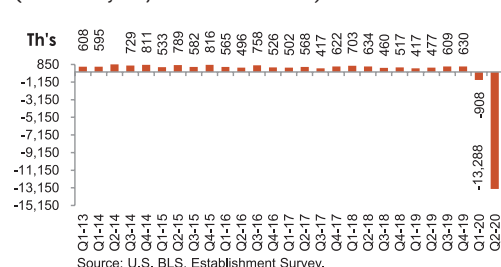
Source: Institute for Supply Management. **Note:** A reading above 50 points indicates that the manufacturing economy is generally expanding, and declining when the reading falls below 50 points.

EMPLOYMENT

Total nonfarm employment decreased by 13.2 million jobs in Q2-20 with the largest losses occurring in April (-20.7 million) when businesses closed due to the measures to prevent the spread of the virus. However, gains for May and June totaled 7.5 million.

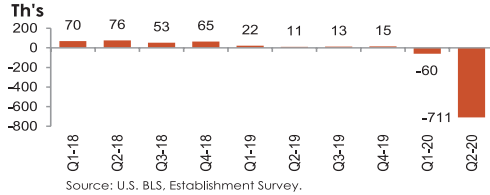
In Q2-20, employment in manufacturing went down by 711,000. Employment averaged 35.3 million jobs for the quarter, a drop of -8.2% compared to Q2-19.

Quarterly Changes in Employment (Seasonally Adjusted - Thousands)



Source: U.S. BLS, Establishment Survey.

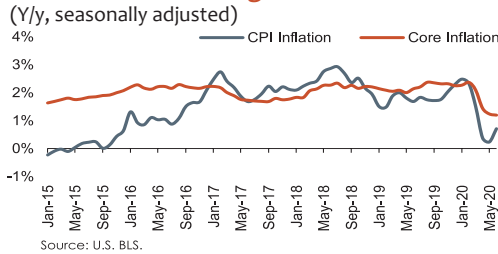
Changes in Manufacturing Employment (Seasonally Adjusted - Thousands)



INFLATION

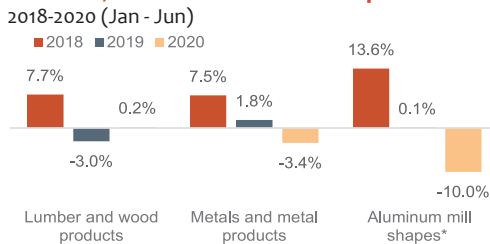
CPI was up 0.7% y/y while core inflation experienced an increase of 1.2% y/y. The money supply has grown 20%, driven primarily by the federal stimulus programs, going from \$15.33 trillion at the end of 2019 to \$18.3 trillion by the end of July 2020. Moreover, the surge has been the highest since 1981, according to records held by the Federal Reserve.

Annual Percent Change in CPI



Producer Price Index contracted during the first two quarters of 2020 relative to the same period for 2019 and 2018. Inflation for lumber and wood products averaged 0.3% for Q2-20, an improvement from -4.6% in 2019. Metal and metal products had an average deflation of -3.6%, though aluminum mill shapes fell the most by an average of -13.8%.

US Producer Price Index (PPI) Annual Growth - Lumber and Wood Products, Metals and Metal Products, and Aluminum Mill Shapes



INTEREST RATES

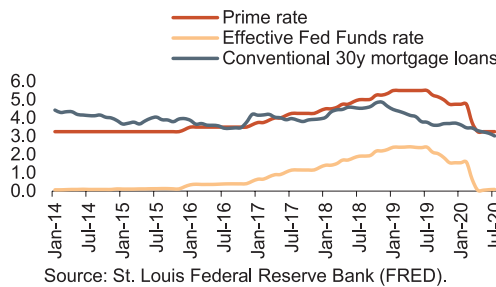
Interest rates have trended to record levels. Prime rates have reached the lowest levels since November 2015, at 3.25% for Q2-20. Likewise, the effective funds rate and the

30-year mortgage loans averaged 0.07% and 3.14%, respectively.

While skeptics are anticipating negative rates in the U.S., Jerome Powell, Chairman of the Federal Reserve, stated that the Fed was not considering this as a monetary policy tool. Moreover, a continued decline in interest rates might suggest investors are still apprehensive and thus, risk averse.

Selected Interest Rates

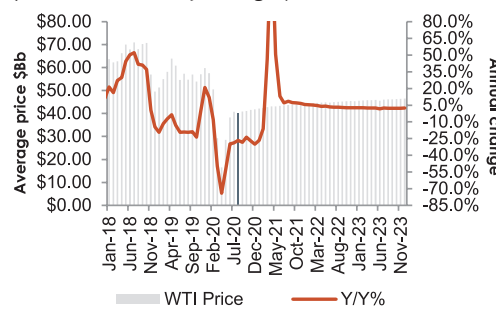
(Annual and monthly averages)



WTI PRICES

Oil prices steeped to lows of \$16.55/Bb, a plunge of -74.1% y/y. WTI averaged \$27.81 in Q2-20, as compared to \$59.78 in Q2-19. Expectations are that the average WTI price for 2021 and 2022 will be around \$43.36 and \$44.95, respectively.

Recent Evolution of WTI Prices and Expected



U.S. OUTLOOK

The onset of the pandemic has represented a challenging quarter for the U.S., and the world economy, as real GDP and employment have fallen to record lows. The coronavirus recession has been the deepest since the Great Depression. A new stimulus bill is being currently negotiated in Congress, which would likely continue measures taken previously including unemployment benefits and check payments, albeit at a lesser cost.

The extent of the recovery of the economy in the U.S. will depend on how

the administration continues to manage the epidemic, and the ensuing spikes as the economy continues to reopen.

According to the World Bank recent estimates (June 2020), real GDP growth for the world economy will contract by -5.2% this year, from a positive rate of 2.4% in 2019, but improving by 2021, when real growth is expected to rise to 4.2%.⁵ Real GDP for the Euro Zone will drop 9.1%. For the U.S. they forecast a contraction of -6.1% for 2020, and positive growth of 4.0% in 2021.

A similar expectation in real GDP growth for the U.S. for the coming quarters is that from the Survey of Professional Forecasters of the Federal Reserve Bank of Philadelphia.⁶ For Q3-20 they expect real GDP to grow at 10.6% and 6.5% in Q4-20. The key driver of that positive forecast is a recovery in the labor market. Yet, that expectation has a downside risk, namely, the final stimulus package that comes out of Congress, in terms of coverage and magnitude, and if the new surge in the pandemic is controlled.

Amid all the uncertainty created by COVID-19 and its recent surge worldwide, it is interesting – and surprising – to see that there is some optimism toward the immediate future. A recent global survey on COVID-19 and its economic impact, of executives of companies, reflected that, although their overall expectations suggest “growing caution and uncertainty, their outlook for their companies continues to brighten,” but they are more uncertain about COVID-19 recovery.⁷

World Economic Growth: Outlook

2019 - 2021

	Forecasts		
	2019e	2020f	2021f
World GDP	2.4%	-5.2%	4.2%
Advanced Economies	1.6%	-7.0%	3.9%
Euro Zone	1.2%	-9.1%	4.5%
U.S.	2.9%	-6.1%	4.0%
Emerging Economies	3.5%	-2.5%	4.0%
China	6.1%	1.0%	6.9%
Latin America & Caribbean	0.8%	-7.2%	2.8%

Source: World Bank (June 2020), Global Economic Prospects, Table 1.1. e = Estimate f = Forecast

Notes:

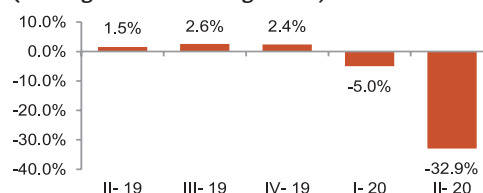
1. The New York Times. (2020, August 3). Coronavirus in the U.S.: Latest Map and Case Count. Retrieved from <https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html>
2. As of August 3, 2020.
3. Forbes (2020, August 3). Second Stimulus Package: Negotiations Continue in Congress. Retrieved from <https://www.forbes.com/sites/advisor/2020/08/03/second-stimulus-package-negotiations-continue-in-congress/#5814cd2f4441>
4. U.S. Bureau of Economic Analysis (2020). Real GDP Growth (July 30, 2020). Table 1.1.1. At: <https://www.bea.gov/news/2020/gross-domestic-product-2nd-quarter-2020-advance-estimate-and-annual-update>
5. The World Bank (2020). Global Economic Prospects (June 2020). Table 1.1. At: www.worldbank.org
6. Federal Reserve Bank of Philadelphia. Survey of Professional Forecasters, Second Quarter 2020 (May 15, 2020). P. 1 At: <http://www.philadelphiafed.org>
7. McKinsey & Company (2020). The coronavirus effect on global economic sentiment (July 27, 2020). At: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-coronavirus-effect-on-global-economic-sentiment>

United States Economic Indicators

GDP

	III- 19	IV- 19	I- 20	II- 20
GDP (% Change From Preceding Period)	2.6	2.4	-5	-32.9
Private Consumption	2.7	1.6	-6.9	-34.6
Fixed Investment	2.4	1	-1.4	-29.9
Residential	4.6	5.8	19	-38.7
Non-Residential	1.9	-0.3	-6.7	-27
Government Spending	2.1	2.4	1.3	2.7
Exports	0.8	3.4	-9.5	-64.1
Imports	0.5	-7.5	-15	-53.4

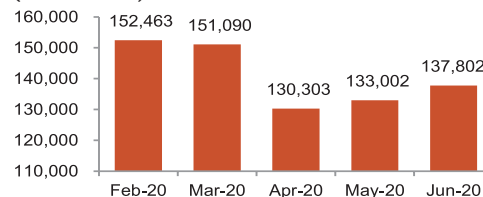
Gross Domestic Product (% Change From Preceding Period)



Employment

	Mar-20	Apr-20	May-20	Jun-20
Employees on Non-Farm Payrolls (SA) (Thousands)	151,090	130,303	133,002	137,802
Change (%)	-0.9%	-13.8%	2.1%	3.6%
Goods Producing	21,086	18,698	19,382	19,886
Change (%)	-0.6%	-11.3%	3.7%	2.6%
Service Industries	130,004	111,605	113,620	117,916
Change (%)	-1.0%	-14.2%	1.8%	3.8%

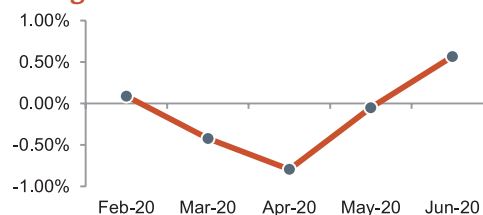
Employees on Non-Farm Payrolls (In thousands)



Consumer Price Index

	Mar-20	Apr-20	May-20	Jun-20
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	-0.4%	-0.8%	-0.1%	0.6%
Change from preceeding year	1.5%	0.4%	0.2%	0.7%
CPI - Less Food and Energy				
Change from preceeding month	-0.1%	-0.4%	-0.1%	0.2%
Change from preceeding year	2.1%	1.4%	1.2%	1.2%

Change in CPI



Interest Rates

	Apr-20	May-20	Jun-20	Jul-20
Effective Federal Funds	0.05	0.05	0.08	0.09
Three Month Treasury Bill (Constant Maturity Rate)	0.14	0.13	0.16	0.13
Prime Rate	3.25	3.25	3.25	3.25
Ten Year Treasury Bond	0.66	0.67	0.73	0.63
Moody's Seasoned Aaa Rate	2.43	2.50	2.44	2.15
30-Year Conventional Mortgage Rate	3.31	3.23	3.16	3.02

Selected Interest Rates (3month T Bills)

