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# Econews

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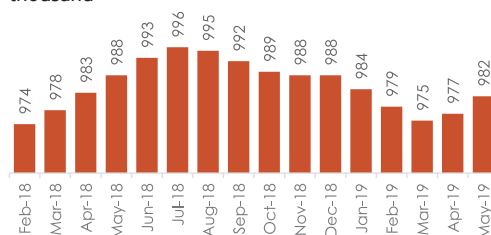
## Puerto Rico The Economy

- The start of the new fiscal year brings with it the recurring conflict between the Fiscal Oversight & Management Board (FOMB) and the Roselló Administration regarding the Island's budget. The Administration is firm in its stance of implementing the budget approved by the legislature, while the FOMB decided that this budget wasn't in compliance with the fiscal plan and implemented its own. This dispute will have to be settled in the courts over the coming weeks. This will be another important test as it will help determine the extent of the FOMB's oversight of the Government.
- Meanwhile, the US Supreme Court decided to hear a federal appeals court ruling that established that the board's members were appointed in violation of the Constitution. The Court's decision could change the way the board members are selected and affect the current members' terms.

### EMPLOYMENT

After a steady decline in employment since mid-2018, April and May registered the first increases in total employment. Employment in the coming months will be dependent on the disbursement of federal funds.

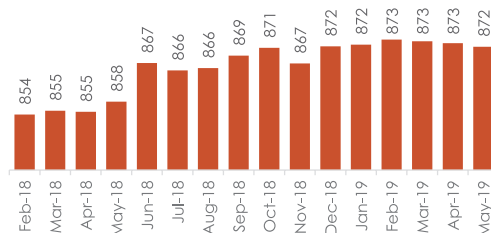
#### Total Employment thousand



Source: P.R. Department of Labor, Household Survey

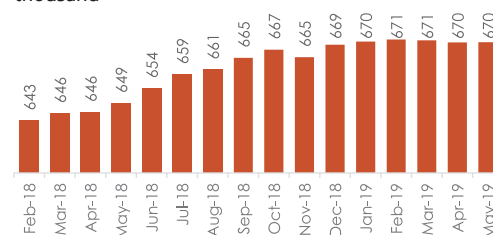
Nonfarm private salaried employment has remained above 870,000 since December, this is a positive sign of economic stability in salaried employment. In May 2019, salaried employment was 14,000 jobs higher than in May of 2018. Meanwhile, private salaried employment has followed a consistent upward trend reaching 872,000 in May of 2019. On the other hand, public employment has continued to decline mostly through attrition.

#### Non Farm Salaried Employment thousand



Source: P.R. Department of Labor, Establishment Survey.

#### Private Salaried Non Farm Employment thousand

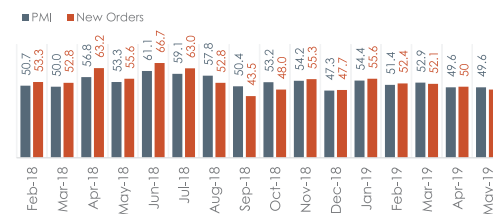


Source: P.R. Department of Labor, Establishment Survey.

### MANUFACTURING

After a strong start earlier in the year, the Purchasing Managers Index (PMI) has been stagnant in the past two months. Even more importantly, the New Orders sub-index which serves as a proxy for future manufacturing activity has been below 50, pointing to a reduction in new orders.

#### Purchasing Managers Manufacturing Index

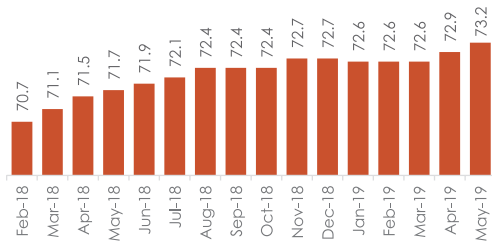


Source: P.R. Institute of Statistics (July 5, 2019).

Employment in the sector has recovered and reached 2016 levels by surpassing 73,000. At this time, it's difficult to say how much more manufacturing employment will increase. Yet, given that the PMI has hovered near 50, it's likely that manufacturing employment in the Island won't increase much in the short term.



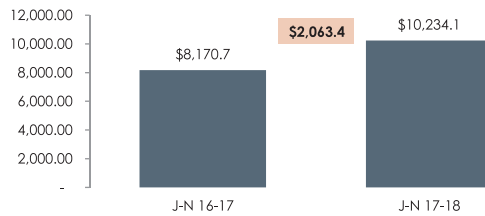
## Manufacturing Employment



Source: P.R. Department of Labor, Establishment Survey.

## Net Revenues to the General Fund

December fiscal 2018 & 2019



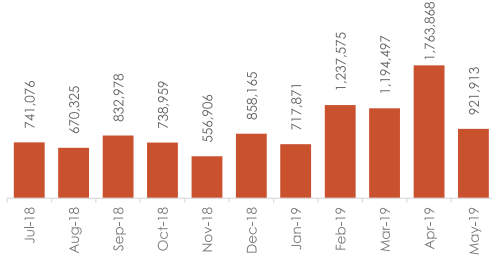
Source: P.R. Treasury Department.

## FISCAL REVENUES

Fiscal revenues in 2019 have been very positive as they surpassed fiscal 2018 revenues by 25.3% or \$2 billion. Sales and Use tax revenues have seen the largest increase at almost 50% followed by income tax revenue with an increase near 25%.

### Net Revenues to the General Fund

July 2018 to May 2019



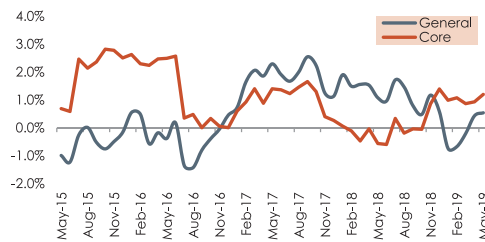
Source: Treasury Department (December 2018).

## INFLATION

General inflation (CPI) has continued to be below 1% something that has been quite baffling as the amount of federal funding and economic activity associated with it should be generating higher prices. Because of this, inflation is expected to pick up in 2020 as more federal funds are disbursed.

### Headline and Core Inflation

(December 2006 = 100)



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

## SHORT-TERM OUTLOOK

The approval of the modified new incentives code, additional federal nutrition program funds, an expected increase in CDBG-DR (Community Development Block Grant – Disaster Recovery) spending, and an expected increase in medicaid funds, will underline expectations in the economic front.

Both the FOMB and Estudios Técnicos' forecast additional federal funds being spent in fiscal 2020, with real GNP growth estimated at between 3.1% and 4.0% in fiscal 2020, the highest GNP growth in a long a time. But real growth will be back to trend afterwards. Much will depend, though, on the pace of disbursements of the federal recuperation funds. Recent arrests related to corruption in major areas such as health and education and the consequences of a scandal in the Administration add to the uncertainty concerning the capacity of the Administration to implement government programs.

### Forecasts of Real GNP Growth for Puerto Rico

	2018	2019	2020	2021	2022
ETI	-4.7%	3.1%	4.2%	2.1%	1.7%
Junta de Planificación (Marzo 2019)	-4.7%	2.0%	3.6%		
Rev. Fiscal Plan (May 8, 2019)	-4.7%	4.0%	1.5%	-0.9%	0.2%

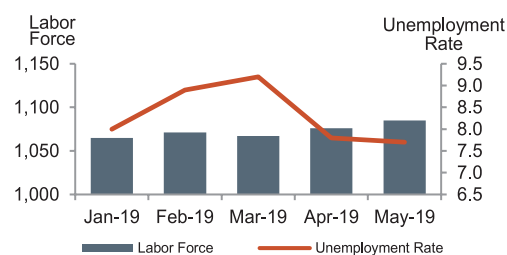
Sources: Estudios Técnicos, Inc. (May 2019); Junta de Planificación, Marzo 2019; Junta Fiscal, Certified Fiscal Plan (May 8, 2019).

## Puerto Rico Economic Indicators

### Employment

	Mar-19	Apr-19	May-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Labor Force (Household Survey, thousands)	1,067	1,076	1,085	-0.7%	-1.2%
Employment (Establishment Survey)					
Private	671	669	670	3.6%	4.2%
Construction	27	27	27	17.9%	12.7%
Manufacturing	73	73	73	2.7%	2.7%
Public Administration	203	203	202	-4.2%	-3.7%
Unemployment Rate (Household survey, %)	9.2	7.8	7.7	-18.2%	-15.4%

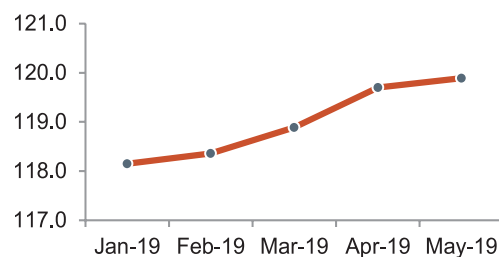
**Total Employment**  
(December 2006 = 100)



### Consumer Price Index

	Mar-19	Apr-19	May-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
All Items	118.9	119.7	119.9	0.5%	-0.1%
Food & Beverages	130.9	131.1	131.1	0.3%	-0.4%
Housing	113.8	114.3	114.3	0.2%	0.2%
Apparel & Upkeep	86.2	87.0746	88.1588	-1.9%	-1.2%
Transportation	108.9	111.2	111.6	-0.5%	-2.9%
Medical Care	154.8	154.9	155.1	1.6%	1.5%
Education	117.6	117.6	117.5	2.6%	2.9%
Recreation	113.4	113.3	113.5	-0.3%	0.0%
Other Services	126.6	127.1	127.5	3.2%	3.5%

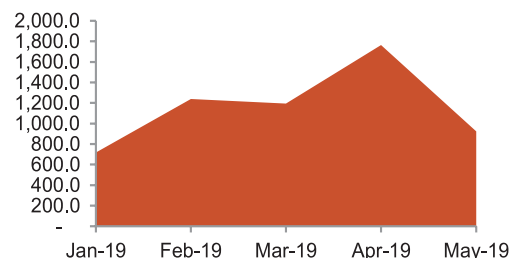
**Consumer Price Index**



### Fiscal Revenues

	Mar-19	Apr-19	May-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Total Revenues (Mill.\$)	1,194.5	1,763.9	921.9	25.3%	28.5%
Taxes	1,166.2	1,669.8	889.5	24.9%	27.8%
Income Taxes	599.7	1,135.7	361.8	24.5%	23.3%

**Net Revenues to the General Fund**

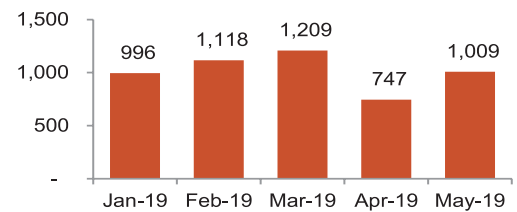


## Puerto Rico Economic Indicators

### Construction

	Mar-19	Apr-19	May-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Cement Production (Thousand 94-lb Bags)	1,209	747	1,009	12.6%	-18.9%
Cement Sales (Thousand 94-lb Bags)	1,174	1,146	1,214	20.0%	-7.8%

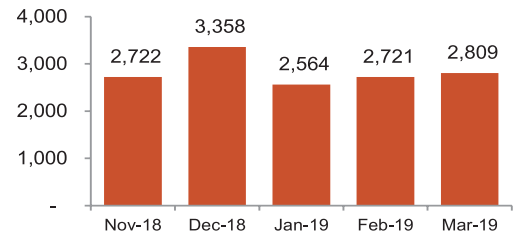
### Cement Production



### Retail

	Jan-19	Feb-19	Mar-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Total (Bill. \$)	2,564	2,721	2,809	3.8%	-1.1%
Department Stores (Mill. \$)	834	847	905	1.0%	-3.0%
Supermarkets (Mill. \$)	286	268	275	-6.1%	-3.8%
Used and New Autos (Mill. \$)	462	720	643	24.9%	11.6%
Gasoline Stations (Mill. \$)	170	166	164	1.7%	-6.4%
Restaurants (Mill. \$)	160	149	175	-11.7%	-6.1%

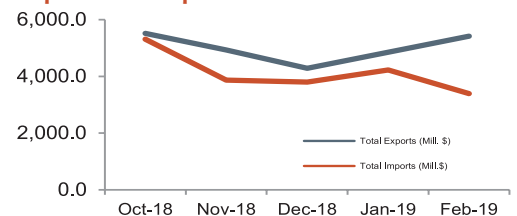
### Retail Sales



### Exports and Imports

	Dec-18	Jan-19	Feb-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Total Exports (Mill. \$)	4,285.5	4,854.2	5,417.5	6.1%	1.4%
Foreign Countries	873.2	1,170.3	1,872.7	50.8%	61.6%
Total Imports (Mill. \$)	3,795.1	4,230.8	3,393.5	23.2%	-9.8%
Foreign Countries	2,035.3	2,075.0	1,508.3	43.5%	-4.9%

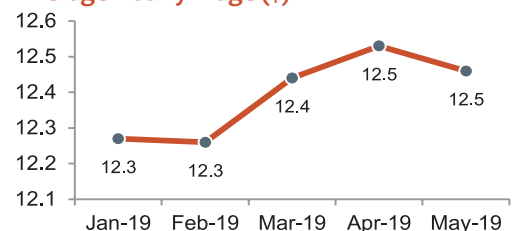
### Exports and Imports



### Manufacturing

	Mar-19	Apr-19	May-19	Percent Change Fiscal Year 2018-2019	Percent Change Accumulated year to date
Weekly Hours (#)	39.4	39.4	38.8	0.9%	3.4%
Average Hourly Wage (\$)	12.4	12.5	12.5	-0.9%	0.2%

### Average Hourly Wage (\$)



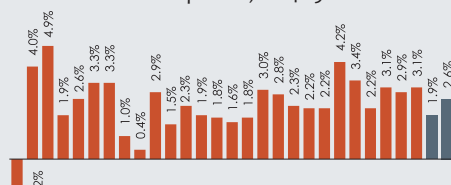


# United States The Economy

- Concerns over trade tensions between the U.S. and China, and slowing global economic growth, were dominant factors during the second quarter, risks that are continuing in the coming months. Notwithstanding the uneasy trade peace agreed between China and the U.S. in Osaka in June, the trade war so far has cost \$600.0 billion globally.<sup>1</sup> Add to this the next Fed moves, and the scenario is one of uncertainty.<sup>2</sup>
- The U.S. entered into its 11th year of economic expansion, with lower unemployment, GDP growth at robust rates, yet slowing.<sup>3</sup> Growth in the first quarter was at a revised 3.1%, but is expected to have slowed down in the second quarter to 1.9%, with lower business investment and with trade issues affecting U.S. exports to China and Europe. Thus, the economy may continue growing but with increasing downside risks.

## Quarterly U.S. GDP

Real Growth and Expected, 2014-19



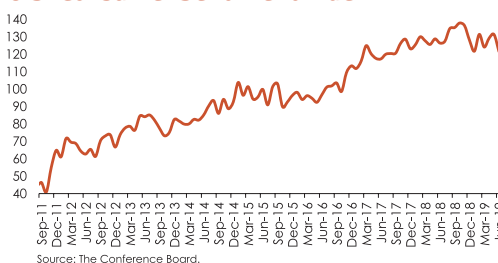
Sources: U.S. Bureau of Economic Analysis; Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, Second Quarter 2019 (May 10, 2019). Seasonally adjusted at annual rates. f = Forecast.

- After two consecutive months of improvement, consumer confidence declined in June to its lowest level since January, with the confidence index increasing by 0.3% y/y in the second quarter. A less favorable view of the labor market, consumer views of short-term conditions of the economy turned less positive influenced by trade and tariff tensions, so did their expectations for the coming six months. Favorable labor market conditions notwithstanding, the risks mentioned before, in the coming months could lower their

confidence, but, on the other hand, as long as job growth continues and house prices keep rising, consumer spending will remain strong.<sup>4</sup>

## PRODUCTION

### U.S. Consumer Sentiment Index

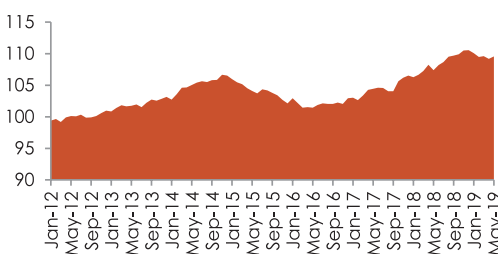


Manufacturing activity is showing signs of concern.

The index of industrial production has been slowing down, from 110.6 in December 2018, to 109.6 in May. Manufacturing capacity also decreased by -0.8% y/y in the first two months of the second quarter.

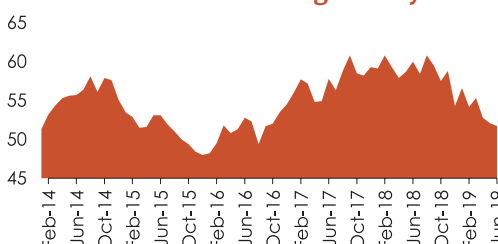
### U.S. Industrial Production Index

(2012=100)



The widely used Purchasing Managers' Index (PMI index) decreased to 52.2 from 55.4 in the previous quarter, and it has been decreasing since the third quarter of 2018, when it rose to 59.6. In June (when it falls below 50, economic activity in the sector is contracting), the index fell to 51.7, its lowest reading since a high of 60.8 in August 2018.

### ISM Index of Manufacturing Activity



## EMPLOYMENT

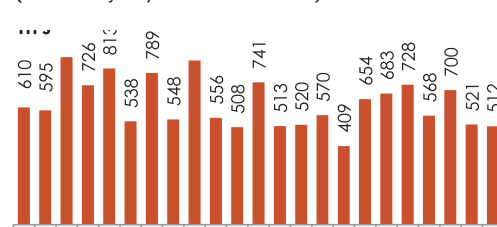
In Q2-19 the economy added 512,000 jobs, down from the 521,000 created in the previous quarter, the lowest level since the high of 728,000 in Q2-18. The labor market rebounded in June, after May's lackluster jobs report, reflecting another strong month for health-care hiring, which has repeatedly led industry-based employment gains over the last year.

Manufacturing posted an additional 17,000 jobs in June. The sector added just 3,000 jobs in both April and May following a contraction in March. So far this year, job growth in manufacturing has averaged 8,000 per month, compared with an average of 22,000 per month in 2018.

The unemployment rate averaged 3.6% in the second quarter, from 4.0% in June 2018. The employment-population ratio (proportion of those 16-64 years old employed) averaged 60.6% in the quarter, barely higher than the 60.4% in June of last year.

### Monthly Changes in Employment

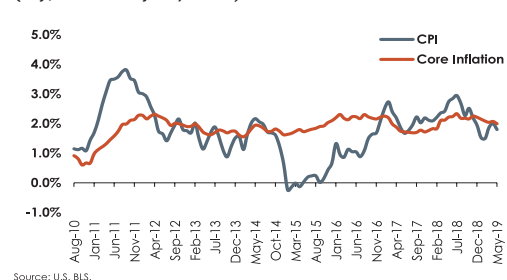
(Seasonally Adjusted - Thousands)



## INFLATION

### Annual Percent Change in CPI

(Y/y, seasonally adjusted)



Inflation moved up a bit in the second quarter, averaging 1.9% from 1.5% in the previous quarter, but it is below a high of 2.7% in Q2-18. For this year, headline CPI

inflation is expected to average 2.5% in the second half, and 1.9% in all 2019, down from 2.4% in 2018.

Core inflation (excluding food and energy), remained weak in the second quarter, averaging 2.0% from 2.1% in the previous quarter. The outlook for the second half of the year is that it will remain at that level, and 2.1% for all 2019.

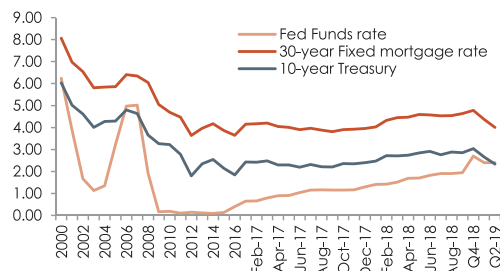
## INTEREST RATES

The continuing increases in jobs by June (albeit at a slower pace), creates a difficult situation for the Fed in its decision on whether to cut interest rates. At its most recent meeting in June, the Fed suggested possible rate cuts in coming months, but job expansion makes it harder to do so.

Expectations are, though, that its next move will be a rate cut. If it happens, it would be the first since the financial crisis of a decade ago. Currently the Fed's benchmark rate is between 2.25%-2.50%.

### Selected Interest Rates

(Annual and monthly averages)



Source: U.S. Federal Reserve Bank of St. Louis (FRED).

## U.S./GLOBAL OUTLOOK

The outlook for the second half of the year for both, the U.S. and the global economies, has weakened, as a result of geopolitical and continuing trade frictions.

The recent threat by President Trump of imposing tariffs on all Mexican goods, because of immigration issues, added to the uncertainty.

Notwithstanding increasing jobs, the consensus is that the U.S. economy is slowing after a robust growth in 2018, with some analysts expecting a slowdown by the end of the year.<sup>5</sup> In particular in the manufacturing sector, where business spending is slowing, new hiring has decreased, output is slowing, and exports to the rest of the world on edge, given tariff issues. Real GDP growth is expected to decrease to 2.2% in the second half of this year, from 3.1% in Q1-19, and between 1.7% and 2.0% in 2020.<sup>6</sup>

Global growth is expected to rise a bit, to 2.7% in 2020, from 2.6% in 2019, led by growth in emerging economies.

### World Economic Growth: Historic and Outlook

2016 - 2021

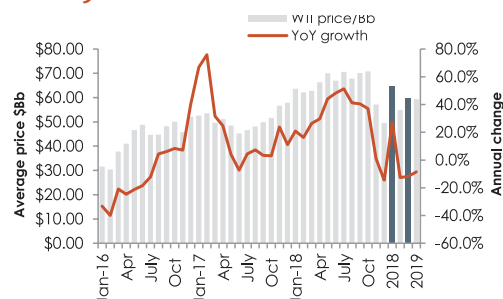
	2016	2017	2018e
World GDP	2.6%	3.1%	3.0%
Advanced Economies	1.7%	2.3%	2.1%
Euro Zone	2.0%	2.4%	1.8%
U.S.	1.6%	2.2%	2.9%
Emerging Economies	4.1%	4.5%	4.3%
China	6.7%	6.8%	6.6%
Latin America & Caribbean	-0.3%	1.7%	1.6%
Forecasts			
	2019f	2020f	2021f
World GDP	2.6%	2.7%	2.8%
Advanced Economies	1.7%	1.5%	1.5%
Euro Zone	1.2%	1.4%	1.3%
U.S.	2.5%	1.7%	1.6%
Emerging Economies	4.0%	4.6%	4.6%
China	6.2%	6.1%	6.0%
Latin America & Caribbean	1.7%	2.5%	2.7%

Source: World Bank (2019). Global Economic Prospects June, 2019. Table 1.1. e = Estimate f = Forecast

Reflecting concerns over trade tensions between the U.S. and China, and slowing global economic growth, along with strong

oil production in the U.S., the price of the WTI (West Texas Intermediate) rose in the second quarter, averaging \$59.82/Bb, from \$54.90 in the first quarter. Prices are still below those in 2018. The outlook for this year, according to the U.S. Energy Information Administration, is that it will fall to \$59.29/Bb, below its average of \$64.82/Bb in 2018.<sup>7</sup> The recent agreements by OPEC and Russia to maintain production at current levels will prevent a deeper decline in prices.

### Recent Evolution of WTI Prices and Expected for 2019



Sources: Bloomberg; U.S. Energy Information Administration (June 11, 2019).

### Notes:

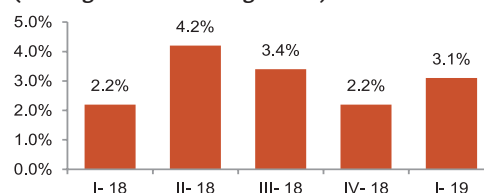
1. Ben Holland and Cedric Sam (2019). A \$600 Billion Bill: Counting the Global Cost of the U.S.-China Trade War. Bloomberg News (May 27, 2019). At: <https://www.bloomberg.com/graphics/2019-us-china-trade-war-economic-fallout/>
2. Daniel Bachman and Rumki Majumdar (2019). United States Economy – 2nd Quarter 2019, Deloitte Insights (June 19, 2019). At: <https://www2.deloitte.com/insights/us/en/economy/us-economic-forecast/united-states-outlook-analysis.html>
3. Christopher Rugaber (2019). Why wealth gap has grown despite record-long economic growth (July 1, 2019), Associated Press. At: <https://apnews.com/d4fca4016d27405791c10eb5772c06a4>
4. Bachman and Majumdar (2019), p. 2.
5. Heather Long (2019). How healthy is the U.S. economy? Here's what 7 key indicators reveal. The Washington Post (June 28, 2019). At: [https://www.washingtonpost.com/business/2019/06/28/how-healthy-is-us-economy-heres-what-key-indicators-reveal/?hpid=hp\\_hp-top-table-main-business%3Ahow-healthy-is-us-economy%3Ahomepage%2Fstory&hpid=hp\\_hp-top-table-main-business%3Ahow-healthy-is-us-economy%3Ahomepage%2Fstory](https://www.washingtonpost.com/business/2019/06/28/how-healthy-is-us-economy-heres-what-key-indicators-reveal/?hpid=hp_hp-top-table-main-business%3Ahow-healthy-is-us-economy%3Ahomepage%2Fstory&hpid=hp_hp-top-table-main-business%3Ahow-healthy-is-us-economy%3Ahomepage%2Fstory)
6. Federal Reserve Bank of Philadelphia (2019). Second Quarter 2019 Survey of Professional Forecasters (May 10, 2019). At: <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2019/survq219>
7. U.S. Energy Administration Office (2019). Short-Term Energy Outlook (June 11, 2019). At: <https://www.eia.gov/outlooks/steo/>

## United States Economic Indicators

### GDP

	II- 18	III- 18	IV- 18	I- 19
GDP (% Change From Preceding Period)	4.2	3.4	2.2	3.1
Private Consumption	3.8	3.5	2.5	0.9
Fixed Investment	6.4	1.1	3.1	3
Residential	-1.3	-3.6	-4.7	-2
Non-Residential	8.7	2.5	5.4	4.4
Government Spending	2.5	2.6	-0.4	2.8
Exports	9.3	-4.9	1.8	5.4
Imports	-0.6	9.3	2	-1.9

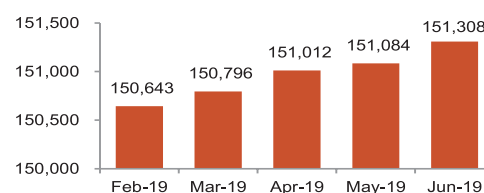
### Gross Domestic Product (% Change From Preceding Period)



### Employment

	Mar-19	Apr-19	May-19	Jun-19
Employees on Non-Farm Payrolls (SA) (Thousands)	150,796	151,012	151,084	151,308
Change (%)	0.1%	0.1%	0.0%	0.1%
Goods Producing	21,035	21,072	21,083	21,120
Change (%)	0.1%	0.2%	0.1%	0.2%
Service Industries	129,761	129,940	130,001	130,188
Change (%)	0.1%	0.1%	0.0%	0.1%

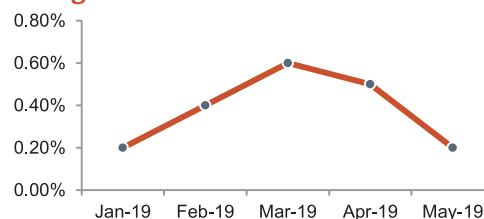
### Employees on Non-Farm Payrolls (In thousands)



### Consumer Price Index

	Feb-19	Mar-19	Apr-19	May-19
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	0.4%	0.6%	0.5%	0.2%
Change from preceeding year	1.5%	1.9%	2.0%	1.8%
CPI - Less Food and Energy				
Change from preceeding month	0.4%	0.3%	0.2%	0.1%
Change from preceeding year	2.1%	2.0%	2.1%	2.0%

### Change in CPI



### Interest Rates

	Mar-19	Apr-19	May-19	Jun-19
Effective Federal Funds	2.41	2.42	2.39	2.38
Three Month Treasury Bill (Constant Maturity Rate)	2.40	2.38	2.35	2.17
Prime Rate	5.50	5.50	5.50	5.50
Ten Year Treasury Bond	2.57	2.53	2.40	2.07
Moody's Seasoned Aaa Rate	3.77	3.69	3.67	3.42
30-Year Conventional Mortgage Rate	4.27	4.14	4.07	3.80

### Selected Interest Rates (3month T Bills)

