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Econews

○ ISSUE 4 | ○ VOLUME 48 | ○ DECEMBER 2020

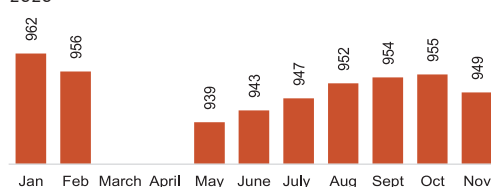
Puerto Rico The Economy

- The year 2020, was characterized by three significant events: the earthquakes of January, the onset of the COVID-19 pandemic in March, and the general elections in Puerto Rico and in the Mainland. Most important have been the impacts of the pandemic on the economy, the labor market, and business activities, as a result of the measures adopted to control it, a challenge that still is present.
- There have been signs of a recovery, albeit at a slow pace. For one, the number of new claims for unemployment have decreased, from a high of 66,555 in the first week of April, to 4,835 in December. Private nonfarm salaried employment increased but is still below its February level. The federal funds for the pandemic contributed to a great extent to boost the economy, as evidenced in the increases in retail sales, and sales of new vehicles. The incoming administration in Washington, D.C. will propose a new stimulus package of \$1.9 trillion, which includes \$1,400 checks, on top of the \$600 checks delivered by the congressional stimulus legislation of December 2020. Supplemental unemployment insurance would also increase to \$400 a week from \$300 a week now and would be extended to September. For Puerto Rico it would mean, for instance, an additional \$900.0 million for supplementary nutritional assistance (PAN).¹ It also has serious implications for Puerto Rico, as it proposes increasing the federal minimum wage to \$15.00.

EMPLOYMENT

The labor market has been hit hard by the pandemic. Between May and October total employment (Household Survey) trended up, rising to 956,000 in October. Total employment (Household Survey) for Q4-20, excluding December, averaged 952,000. Employment in November, though, decreased to 949,000 by -0.6% or 6,000 jobs. The number in Q4-20 represents a considerable reduction in total jobs, down 2.5% from last quarter (959,000) and -2.7% year-over-year (961,000). Within the last decade, the last time a fourth quarter had reached such levels was in Q4-10.

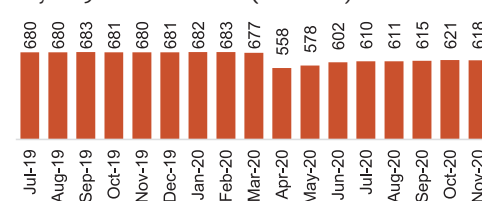
Total Employment 2020



Source: Department of Labor and Human Resources. Note: No surveys in March and April.

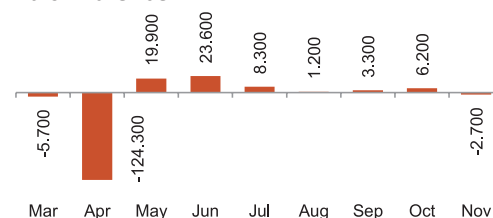
Private nonfarm salaried employment increased after its record low of 124,300 in April, to 621,000 in October. That trend is reversed in November, when it decreased by 2,700 jobs m/m. The recovery in jobs has been slow. Between March and November there was a net loss of 70,200 jobs, and private employment continued to be below its 2019 levels.

Private Salaried Non-Farm Employment July 2019- November 2020 (thousand)



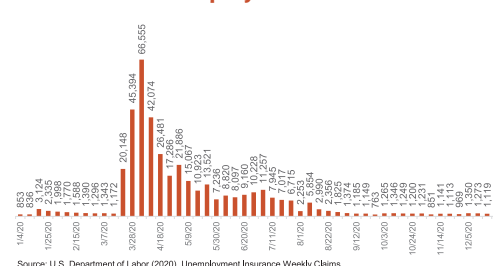
Source: Bureau of Labor Statistics. CES

Net M/M Change in Private Employment March - November 2020



Conditions in the labor market started to improve. New unemployment insurance claims in Q4-20 totaled 15,200, from 52,683 in Q3-20, after a high of 257,334 in Q2-20.

Puerto Rico Unemployment Insurance Claims



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



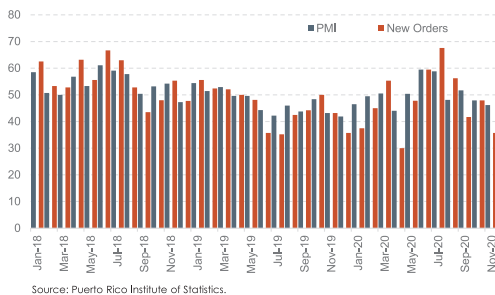
Nevertheless, unemployment still remains high with respect to February, 2020. In November, the unemployment rate (including those with a job but not working as a result of the pandemic) was 11.8%, from 12.7% in September.² In February, the rate was 8.8%.

MANUFACTURING

Activity in the sector has trended downward, according to its Purchasing Managers' Index (PMI). From a high of 59.5 in June, the index fell to below expansion to 46.2 in November, as its New Orders component took a deep fall change falling to 35.7 in November, its lowest level since January 2020.³

The year's PMI (Jan-Nov 2020) ended with an average of 50.3, which is above the average of 2019 by 6.3%, though below that of 2018 by 7.5%. New orders component averaged 47.7 for the year, an increase of 5.0% relative to 2019 and a decline of 13.9% with respects to 2018.

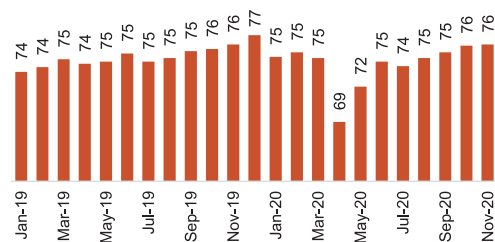
PMI Manufacturing



On the other hand, employment in manufacturing improved, rising to pre-pandemic levels. Other than the substantial decrease in the month of April, jobs in the industry for 2020 maintained an average of 74,300. The yearly average figure of jobs in manufacturing was down 1.1% relative to 2019, but up 3.1% compared to 2018.

Manufacturing Employment

(in thousands) January 2019 - November 2020

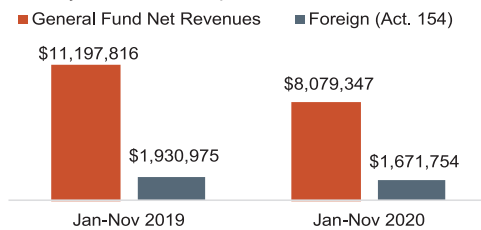


FISCAL REVENUES

On an accumulated basis, net revenues to the General Fund decreased by \$3.1 billion since January (up to November), reflecting decreases in receipts from Law 154, and in income taxes. On the other hand, receipts from the Sales and Use Tax increased, as commercial activity picked up due to CARES funds.

Net Revenues to General Fund and Taxes from Act. 154

January-November 2019 and 2020

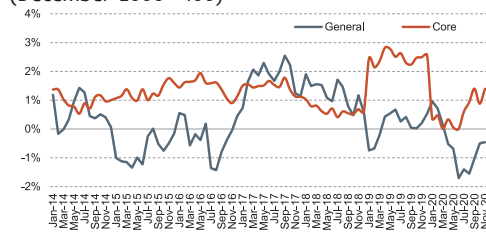


INFLATION

General inflation (CPI) remained quite moderate. Since the onset of the pandemic (up to November) the index decreased by -0.9%, as there was less consumption of gasoline, with the gasoline index decreasing by -12.0%. Prices, though, have been moving up slowly since October, as consumption of food and durable goods increased. The Core Index (which excludes energy and food) increased on average by 0.4% during October-November.

General and Core Inflation

(December 2006 = 100)



SHORT-TERM OUTLOOK

The year 2021 will start with three key factors that will influence developments: the new administrations of Governor Pierluisi and President Joseph Biden, the expansion of COVID-19 vaccination, which started in mid-December 2020, and the inflows of new pandemic-related federal funds.

The proposed \$1.9 trillion stimulus on top of the \$892.0 billion approved at the end

of December 2020, will have a similar impact as before, sustaining personal consumption, reopening or continuing operations of small businesses, and supporting public spending on COVID-19 related activities. Expanding vaccination, as in the Mainland, should contribute to more optimism with respect to controlling the pandemic, contributing to more business activity. The effects of the latter, though, should be felt more by Summer, as conditions mature.

There is still the issue of the federal funds for post-Maria recovery. As of December 2020, only 29.3% of the total funds allocated, according to COR3, have been disbursed. The expectation is that as things normalize the pace of disbursements will accelerate.

Disaster Funds according to COR3

December 2020

	A	B	C	B/A	C/A
	Allocated	Obligated	Disbursed		
Public Assistance	\$19,732,633,874	\$19,732,633,874	\$4,440,839,201	100.0%	22.5%
Administration	\$3,448,919,317	\$3,448,919,317	\$3,079,699,252	100.0%	89.3%
Operations	\$4,247,123,149	\$4,247,123,149	\$3,962,688,839	100.0%	93.1%
CDL	\$306,389,192	\$306,389,192	\$276,672,145	100.0%	90.3%
Individual Assistance	\$3,300,153,620	\$3,300,153,620	\$2,849,110,811	100.0%	86.3%
Mitigation Assistance	\$54,761,111	\$54,761,111	\$643,882	100.0%	1.2%
Other Federal Funds	\$29,392,316,548	\$7,995,558,143	\$3,123,118,932	27.2%	10.6%
CDBG_DR PL 115-56	\$1,507,179,000	\$1,507,179,000	\$111,994,863	100.0%	7.4%
PL 115-123	\$18,438,414,000	\$1,700,000,000	\$471	9.2%	0.0%
Other	\$9,446,723,548	\$4,788,379,143	\$3,011,123,598	50.7%	31.9%
Total	\$60,482,296,811	\$39,085,538,406	\$17,722,773,062	64.6%	29.3%

Source: COR3 (2020), Transparency Portal, Financial Analysis. Retrieved December 9, 2020. At: <https://recovery.pr.gov/financial-analysis/tittle-viewtable-view>

Based on past and current conditions, for the short-term (fiscal year 2021) we expect another contraction in real GNP growth of -0.9% but lower than estimated for fiscal year 2020. This forecast, though, could change with the new COVID-19 funding for individuals and the unemployed, that would sustain fresh personal consumption. If the disbursements of federal reconstruction funds flow as expected, it will also have a positive impact.⁴

Puerto Rico: Real GNP Forecast

	2017	2018	2019	2020	2021
Real GNP	-3.0%	-4.2%	1.5%	-4.4%	-0.9%
Personal Consumption Expenditures	-0.4%	0.9%	5.6%	-3.2%	-0.7%
Government Expenditures	2.9%	-1.8%	10.2%	1.0%	3.0%
Gross Domestic Investment	-2.8%	64.7%	-2.2%	-12.0%	10.0%
Construction	-12.9%	245.7%	-14.8%	-5.6%	17.3%
Public	-17.5%	686.3%	69.8%	3.8%	20.3%
Private	-10.5%	81.2%	13.3%	-14.0%	14.2%
Exports	-4.1%	-0.6%	-3.4%	-5.1%	-8.3%
Imports	-0.8%	9.3%	2.7%	-4.3%	-1.7%

Sources: P.R. Planning Board (2020), Statistical Appendix 2019 (May 2020); Estudios Técnicos, Inc. (December 2020).

Notes:

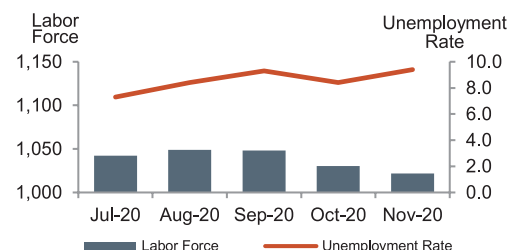
- For details of the proposal see The Fiscal Times, Biden Unveils \$1.9 Trillion "American Rescue Plan", (Thursday, January 14, 2021). At: <https://www.thefiscaltimes.com/newsletter/20210114-Biden-Unveils-19-Trillion-American-Rescue-Plan>
- Department of Labor and Human Resources (2021). Empleo y Desempleo en Puerto Rico (September and November 2020). At: <http://www.mercadolaboral.pr.gov/Publicaciones.aspx>
- A value above 50 suggest expansion in activity, below 50 contraction.
- It should be noted that part of the inflows to individuals spent on personal consumption goes back through imports, so their net impact is lower.

Puerto Rico Economic Indicators

Employment

	Sep-20	Oct-20	Nov-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Labor Force (Household Survey, thousands)	1,048	1,030	1,022	-2.0%	-3.8%
Employment (Establishment Survey)	815	819	827	-1.8%	-6.2%
Private	611	619	624	-2.2%	-8.0%
Construction	20	20	21	-10.1%	-21.7%
Manufacturing	75	76	76	1.1%	-0.7%
Public Administration	204	200	203	-0.3%	-0.1%
Unemployment Rate (Household survey, %)	9.3	8.4	9.4	0.8%	6.0%

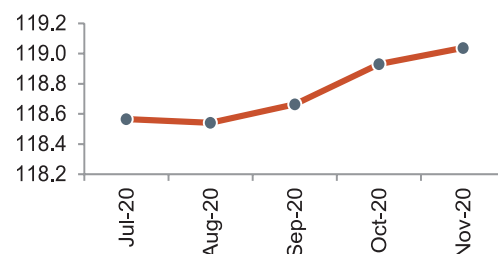
Total Employment
(December 2006 = 100)



Consumer Price Index

	Sep-20	Oct-20	Nov-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
All Items	118.7	118.9	119.0	0.0%	-0.6%
Food & Beverages	130.4	130.7	130.9	-0.4%	-0.6%
Housing	115.8	115.7	115.8	1.1%	1.0%
Apparel & Upkeep	83.7	84.4	85.5	-2.7%	-2.8%
Transportation	107.8	108.1	107.9	-0.4%	-1.9%
Medical Care	156.7	156.8	156.7	0.9%	1.0%
Education	118.0	119.1	119.2	0.8%	0.5%
Recreation	112.7	113.0	113.6	0.3%	-0.2%
Other Services	123.3	123.7	124.0	-0.8%	-2.1%

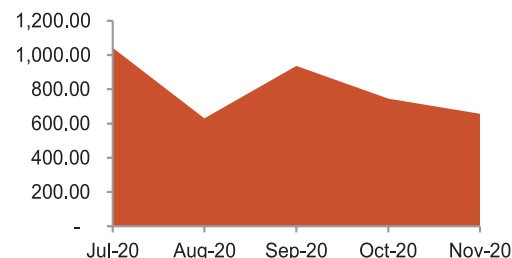
Consumer Price Index



Fiscal Revenues

	Sep-20	Oct-20	Nov-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total Revenues (Mill.\$)	935.85	745.54	656.09	-18.3%	-27.8%
Taxes	891.2	696.3	646.4	-18.4%	-28.1%
Income Taxes	556.3	315.2	244.3	-18.4%	-38.7%

Net Revenues to the General Fund

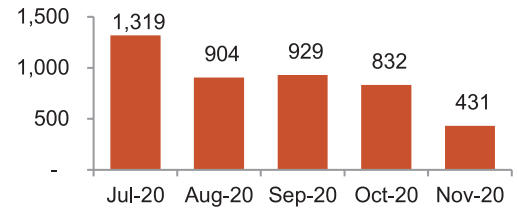


Puerto Rico Economic Indicators

Construction

	Sep-20	Oct-20	Nov-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Cement Production (Thousand 94-lb Bags)	929	832	431	-8.8%	-15.5%
Cement Sales (Thousand 94-lb Bags)	1,411	1,368	1,103	-9.8%	-0.2%

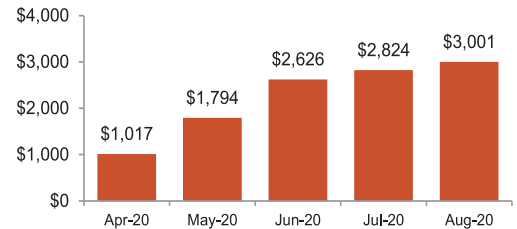
Cement Production



Retail

	Jun-20	Jul-20	Aug-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total (Bill. \$)	2,626	2,824	3,001	-11.2%	-8.3%
Department Stores (Mill. \$)	641	882	931	-13.7%	-8.8%
Supermarkets (Mill. \$)	304	328	306	1.0%	12.4%
Used and New Autos (Mill. \$)	597	502	715	-22.3%	-15.8%
Gasoline Stations (Mill. \$)	82	130	133	-7.5%	-21.7%
Restaurants (Mill. \$)	138	156	150	-16.1%	-25.9%

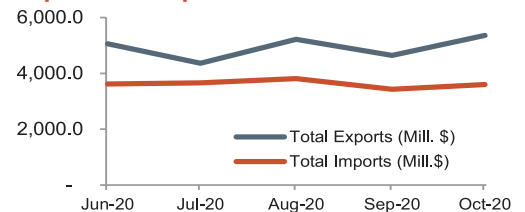
Retail Sales



Exports and Imports

	Aug-20	Sep-20	Oct-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total Exports (Mill. \$)	5,215.8	4,648.3	5,359.6	-2.2%	-7.4%
Foreign Countries	923.2	955.3	1,038.5	-2.5%	-24.1%
Total Imports (Mill. \$)	3,813.0	3,431.5	3,603.1	-7.2%	-6.3%
Foreign Countries	1,906.2	1,371.0	1,338.0	-6.1%	-9.2%

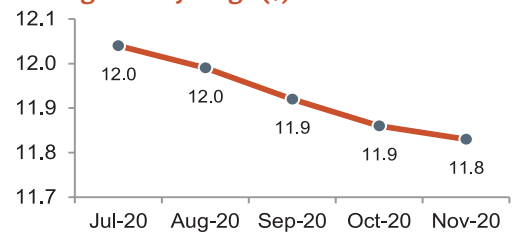
Exports and Imports



Manufacturing

	Sep-20	Oct-20	Nov-20	Percent Change Fiscal Year 2019-2020	Percent Change Accumulated year to date
Weekly Hours (#)	37.7	37.9	38.0	1.3%	-2.9%
Average Hourly Wage (\$)	11.9	11.9	11.8	0.0%	-3.3%

Average Hourly Wage (\$)



United States The Economy

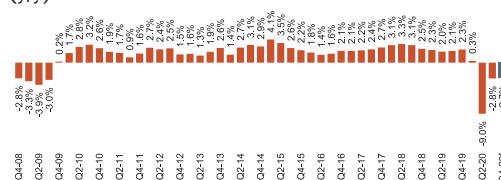
- Early in 2020 the world changed almost suddenly. With the furious surge in the pandemic, along with new ways to live and work, the U.S. economy (and the world economy) took the sharpest drop into recession on record, and the uncertainty of a recovery prevailed, as the pandemic expanded. At the end of December, the U.S. ranked among the top five countries in number of cases, and of daily new reported cases and new deaths.
- An additional factor to consider is the U.S. presidential election, with a new incoming president and administration, the ensuing political crisis that resulted, contributing to a lot of uncertainty, and the implementation of the new economic policies of the incoming new administration.
- Few details of President-elect Biden policy priorities are known (the nomination of Dr. Janet Yellen, former president of the Federal Reserve, for Treasury secretary was well received by the financial markets), although there is a strong labor market emphasis in the proposals (for instance, proposing to double the federal minimum wage to \$15.00 an hour), responses to the pandemic, recession recovery, higher taxes for high-income individuals, increased federal funding for K-12 education, and jobs creation through his "Buy American" plan, in which the federal government would spend \$400 billion to buy American products and services, and more environmental friendly policies.
- The fact that the Democratic Party has a majority in the U.S. Congress should assure them space to approve and implement their economic program, but, even so, President Biden will confront opposition.

ECONOMIC GROWTH

By the end of 2020 there were statistical signs of an economic recovery, boosted by the fiscal stimulus related to the pandemic. Real GDP increased 7.5% q/q in Q3-20 from the previous quarter and is expected to expand further in Q4-20 but at a slower rate of 1.0% q/q, as the effects of the pandemic stimulus became less significant. On a y/y basis, real GDP growth is below same quarter in 2019.

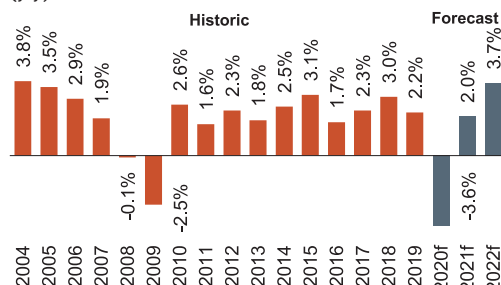
Expectations about the vaccines have contributed to up the forecasts for 2021, with real GDP growth increasing by 2.0% y/y from a negative 3.6% y/y in 2020. Moreover, the new pandemic funding approved by the Congress at the end of December should also contribute to the expansion in the first half of 2021. On balance, economic growth is expected to recover fully by the end of 2021.

Quarterly Real GDP Growth (y/y)



Sources: U.S. BEA; Estudios Técnicos Inc. fourth quarter. F = Forecast

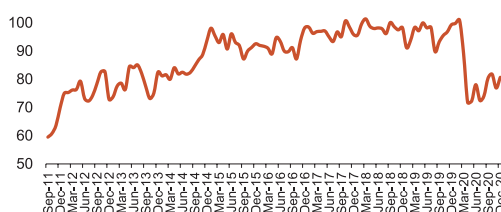
Annual Real GDP Growth (y/y)



Sources: U.S. BEA.; Deloitte Insights 4th Quarter 2020 (December 16, 2020). F = Forecast

Consumer sentiment since the onset of the pandemic has been understandably low but showed some improvement. According to Reuter's/University of Michigan index of consumer sentiment, the index moved up in September and October, reflecting the disbursements of the pandemic relief funds. The index turned down, though, in November and December, as consumer's assessment of current conditions turned negative, with the resurgence of COVID-19, but their expectations for the following months were somewhat less pessimistic.

U.S. Consumer Sentiment Index



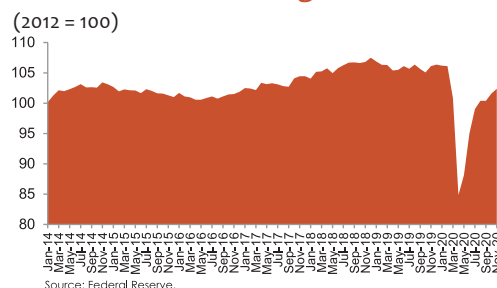
Source: University of Michigan/Reuters.

PRODUCTION - MANUFACTURING

Manufacturing production, which registered a slowdown during the months of April and May, started to recover, with levels of the index returning to almost pre-COVID-19 levels by October-November. Output of motor vehicles and parts, and of computers and electronics led the way. Capacity utilization also rose, from a low of 60.5 in April to a high of 73.1 in November, still slightly below its February level of 75.7.

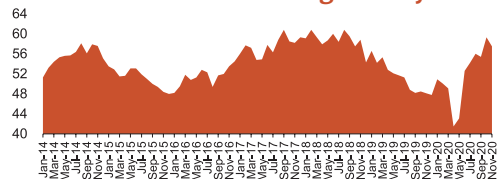
On the other hand, the PMI for manufacturing activity increased steadily since May, rising to a level higher than in February, 57.5, indicating expansion in the sector, as its New Orders component continued to grow at robust levels.

US Industrial Manufacturing Production Index



Source: Federal Reserve.

ISM Index of Manufacturing Activity

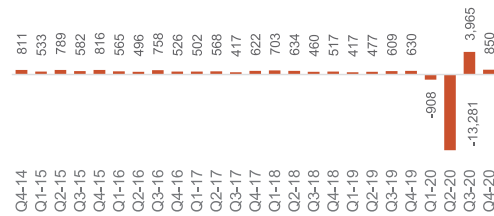


Source: Institute for Supply Management. **Note:** A reading above 50 points indicates that the manufacturing economy is generally expanding, and declining when the reading falls below 50 points.

EMPLOYMENT

The labor market was impacted seriously by the pandemic. During the months of March and April nonfarm salaried employment decreased by 22.2 million jobs. During the third quarter there was an improvement in the labor market, with nonfarm salaried employment rising by 3.9 million jobs. That changed in the fourth quarter, with the expansion in nonfarm employment slowing significantly to 850,000 jobs. There was a net loss of 140,000 jobs in December. The decline reflects the increases in COVID-19 cases, and the efforts to contain the expansion. The year 2020 ended with a net loss of 9.4 million jobs, from a net increase of 2.1 million in 2019.

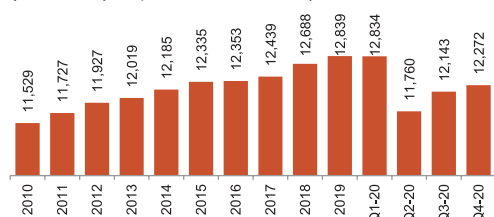
Quarterly Changes in Employment (Seasonally Adjusted - Thousands)



Source: U.S. BLS, Establishment Survey.

After decreasing to 11.8 million jobs in Q2-20, employment in the manufacturing sector increased to 12.3 million jobs. That level was 562,000 jobs below that in Q1-20 and in 2019.

Manufacturing Employment (Seasonally Adjusted - Thousands)



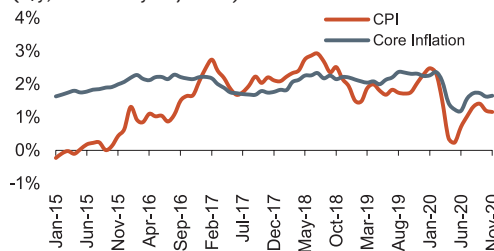
Source: U.S. BLS, Establishment Survey.

The unemployment rate (SA), which reached a high of 13.1% in May, decreased to an average of 6.7% in the fourth quarter, as the reopening of business activity took place. The rate in February 2020 was 3.5%.

INFLATION

General inflation (CPI), which at the beginning of the year averaged 2.1% in Q1-20, remained below that level afterwards, averaging (up to November) 1.2% in Q4-20. Core inflation (which excludes food and energy), also trended downwards, from 2.2% in Q1-20 to 1.6% in Q4-20.

Annual Percent Change in CPI (Y/y, seasonally adjusted)



Source: U.S. BLS.

The expectation is that inflation will pick up as the economy reopens and as the government stimulus funds work through the economy. At the beginning of January,

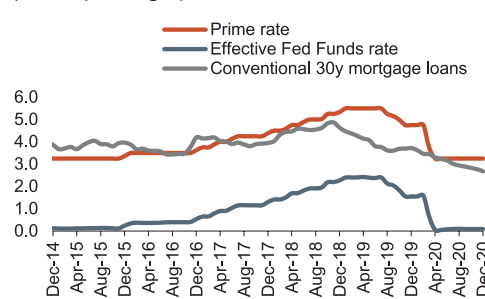
the interest rate for the 10-year Treasury bond, a benchmark for trends in inflation and interest rates, rose to 2.11%, suggesting that general inflation (CPI) will average that level in 2021.

INTEREST RATES

The Fed's work in keeping the financial system operating during the pandemic has been quite successful, with banks remaining well capitalized, and companies able to borrow on reasonable terms.

The Federal funds rate target remained in the range of 0.00%-0.25%, expected to remain in that range in 2021. The Prime Rate remained at 3.25% since April, and the interest rate for conventional 30-year mortgage loans trended down, from 3.45% in March to 2.68% in December, providing a boost to the sales of housing.

Selected Interest Rates (Monthly averages)



Source: St. Louis Federal Reserve Bank (FRED).

U.S. OUTLOOK

The pandemic has thrown the world economy into its worst recession ever, with, in some cases long-lasting effects, as it has reduced further growth prospects, in particular for some emerging economies. It has demanded significant fiscal responses in terms of government expenditures at the cost of increased public indebtedness. At the same time, it has created new challenges; for instance, how to adapt to new ways of working, restoring critical supply chains and changes in spending patterns.

In its most recent revised outlook for the world economy, the World Bank (2021) summarizes the following points:

"Although the global economy is emerging from the collapse triggered by COVID-19, the recovery is likely to be subdued, and global GDP is projected to remain well below its pre-pandemic trend for a prolonged period. Several risks cloud the outlook, including

those related to the pandemic and to rapidly rising debt. The pandemic has further diminished already-weak growth prospects for the next decade. Decisive policy actions will be critical in raising the likelihood of better growth outcomes while warding off worse ones. Immediate priorities include supporting vulnerable groups and ensuring a prompt and widespread vaccination process to bring the pandemic under control. Although macroeconomic policy support will continue to be important, limited fiscal policy space amid high debt highlights the need for an ambitious reform agenda that bolsters growth prospects. To address many of these challenges, global cooperation will be key."

In 2020 the world economy (Real GDP growth) is estimated to have contracted -4.3% y/y from a positive growth of 2.3% in 2019. For 2021 and 2022, the world economy is expected to recover, led by China, moderating somewhat in 2022. The U.S. economy is expected to move into positive territory, with real GDP increasing by 3.5% in 2021 and 3.3% in 2022 (these estimates do not take into consideration what would be the impacts of President-elect Biden's economic policies).

As stated by The World Bank (2021), there are strong downside risks to these forecasts.

World Economic Growth: Outlook 2019 - 2022

	Forecasts			
	2019	2020	2021	2022
World GDP	2.3%	-4.3%	4.0%	3.8%
Advanced Economies	1.6%	-5.4%	3.3%	3.5%
Euro Zone	1.3%	-7.4%	3.6%	4.0%
U.S.	2.2%	-3.6%	3.5%	3.3%
Emerging Economies	3.6%	-2.6%	5.0%	4.2%
China	6.1%	2.0%	7.9%	5.2%
Latin America & Caribbean	1.0%	-6.9%	3.7%	2.8%

Source: World Bank (2021), Global Economic Prospects, January 2021, Table 1.1.

Notes:

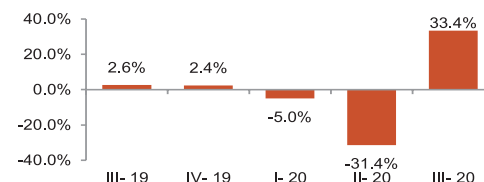
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United States Economic Indicators

GDP

	IV- 19	I- 20	II- 20	III- 20
GDP (% Change From Preceding Period)	2.4	-5	-31.4	33.4
Private Consumption	1.6	-6.9	-33.2	41
Fixed Investment	1	-1.4	-29.2	31.3
Residential	5.8	19	-35.6	63
Non-Residential	-0.3	-6.7	-27.2	22.9
Government Spending	2.4	1.3	2.5	-4.8
Exports	3.4	-9.5	-64.4	59.6
Imports	-7.5	-15	-54.1	93.1

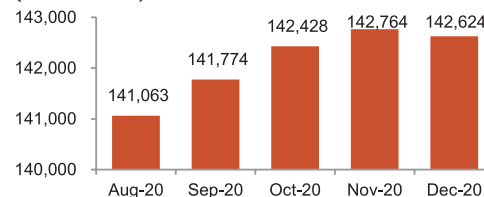
Gross Domestic Product (% Change From Preceding Period)



Employment

	Sep-20	Oct-20	Nov-20	Dec-20
Employees on Non-Farm Payrolls (SA) (Thousands)	141,774	142,428	142,764	142,624
Change (%)	0.5%	0.5%	0.2%	-0.1%
Goods Producing	20,075	20,192	20,259	20,352
Change (%)	0.5%	0.6%	0.3%	0.5%
Service Industries	121,699	122,236	122,505	122,272
Change (%)	0.5%	0.4%	0.2%	-0.2%

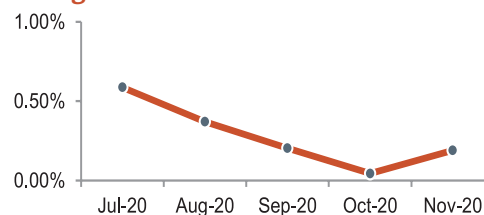
Employees on Non-Farm Payrolls (In thousands)



Consumer Price Index

	Aug-20	Sep-20	Oct-20	Nov-20
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	0.4%	0.2%	0.0%	0.2%
Change from preceeding year	1.3%	1.4%	1.2%	1.2%
CPI - Less Food and Energy				
Change from preceeding month	0.4%	0.2%	0.0%	0.2%
Change from preceeding year	1.7%	1.7%	1.6%	1.7%

Change in CPI



Interest Rates

	Sep-20	Oct-20	Nov-20	Dec-20
Effective Federal Funds	0.09	0.09	0.09	0.09
Three Month Treasury Bill (Constant Maturity Rate)	0.11	0.10	0.09	0.09
Prime Rate	3.25	3.25	3.25	3.25
Ten Year Treasury Bond	0.68	0.79	0.87	0.93
Moody's Seasoned Aaa Rate	2.31	2.35	2.30	2.26
30-Year Conventional Mortgage Rate	2.89	2.83	2.77	2.68

Selected Interest Rates (3month T Bills)

