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Econews

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Puerto Rico* The Economy

- The year 2021 started with some positive notes. Yes, the pandemic was - and still - is a problem, but less so than during the summer, and the funding from the five federal relief spending packages enacted between March and December 2020 managed to keep the local economy afloat, sustaining consumer spending, boosting retail sales, as well as new motor vehicle sales. Although they had declined by November, after their highest level in August, retail sales continued above the level of February 2020. Importantly, there were signs of an improving labor market, with a gradual recuperation in private employment, lower unemployment claims numbers, but unemployment is still high.
- At the end of March president Biden introduced his American Jobs Plan, which proposes an investment of \$2.3 trillion in infrastructure and other areas of the economy. The proposal has potential implications for the manufacturing sector in Puerto Rico, as the plan would be financed entirely by increasing taxes, including increasing the Global Intangible Low-Taxed Income of US corporations.¹

* After this issue was written COVID-19 contagions accelerated significantly and a new lockdown is foreseen.

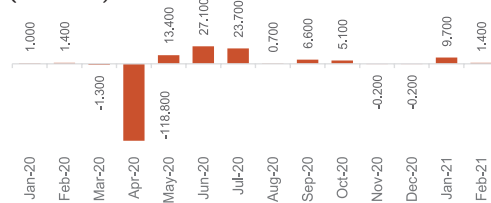
EMPLOYMENT

Higher private nonfarm salaried employment, lower unemployment claims compared to 2020 were on the positive side during Q1-21 (up to February), but still below

pre-pandemic levels. The year 2020 ended with 635,480 jobs, about 43,000 less than in 2019, and employment in the quarter was 63,000, lower than in same quarter in 2020.

The m/m pace of increases in private nonfarm salaried employment, after the big fall of 118,800 in April 2020 was up in January (9,700) but slowed down to 1,400 in February. Employment in Q1-21 was 652,300, higher than employment in 2020 but below its level of 684,500 in February of 2020. So far, of the 120,100 jobs that were lost during March-April 2020, up to February 2021 83,300 net jobs have been recovered.

Net M/M Change in Private Employment (thousand)



Source: P.R. Department of Labor and Human Resources, Establishment Survey, SA = Seasonally Adjusted.

Private Nonfarm Salaried Employment (thousand)



Source: P.R. Department of Labor and Human Resources, Establishment Survey.

As of February, only three sectors registered gains in employment: construction, manufacturing and wholesale trade. Overall, private employment was 31,500 below its level

in February 2020, but represented 95% of total private employment of 2020.

Continued unemployment claims, although lower than at the high point of the pandemic at the end of June 2020, when they reached 229,039, trended up since the end of November 2020, rising to 50,083 in the week of March 20th, showing how fragile the labor market still is. The unemployment rate decreased, from 11.2% in December 2020, to 9.6% in February 2021.²

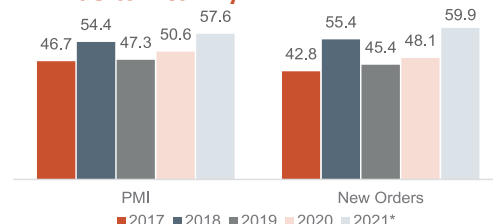
Puerto Rico - Continued Unemployment Claims



Source: U.S. Department of Labor (2021). Unemployment Insurance Weekly Claims.

MANUFACTURING

PMI Puerto Rico 2017-2021



Source: Puerto Rico Institute of Statistics. * Up to February

Activity in the sector surged during Q1-21 (up to February), as suggested by its Purchasing Managers' Index (PMI), when it increased 20.0% y/y, to 57.6, after being below its expansion level of 50 during October and



Changes in Nonfarm Salaried Employment by Sector, 2020 and February 2021

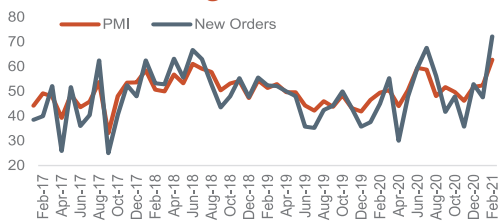
Sector	2019	2020	Feb 2020	Feb 2021	Feb. 2021 Feb. 2020	Change	Change Feb. 2021/2020
Nonfarm Wage and salary Employment (SA)	880.5	833.1	883.5	847.9	-4.0%	-35.600	14.825
Mining, Logging, and Construction	27.3	26.8	28.5	30.5	7.0%	2.000	3.750
Construction	26.8	26.2	27.9	29.9	7.2%	2.000	3.725
Manufacturing	75.1	74.2	75.7	77.1	1.8%	1.400	2.900
Trade, Transportation, and Utilities	174.2	163.3	173.5	170.0	-2.0%	-3.500	6.717
Wholesale Trade	30.3	29.8	30.4	30.8	1.3%	0.400	0.992
Retail Trade	126.0	117.6	125.3	123.5	-1.4%	-1.800	5.883
Transportation and Utilities	17.9	15.9	17.8	15.7	-11.8%	-2.100	-0.158
Information	16.8	15.6	18.6	14.7	-21.0%	-3.900	-0.875
Financial Activities	43.8	43.5	45.1	43.3	-4.0%	-1.800	-0.183
Professional & Business Services	123.9	117.7	124.6	118.6	-4.8%	-6.000	0.917
Education & Health Services	119.6	110.8	119.6	111.0	-7.2%	-8.600	0.158
Leisure & Hospitality	79.7	67.6	80.8	71.5	-11.5%	-9.300	3.933
Accommodation & Food Services	75.5	64.5	76.2	67.4	-11.5%	-8.800	2.917
Other Services	18.1	16.1	18.1	16.3	-9.9%	-1.800	0.200
Government	202.0	197.6	199.0	194.9	-2.1%	-4.100	-2.700
Private Employment	678.5	635.5	684.5	653.0	-4.6%	-31.500	17.525

Source: P.R. Department of Labor and Human Resources (2021). Establishment Survey (March 2021).

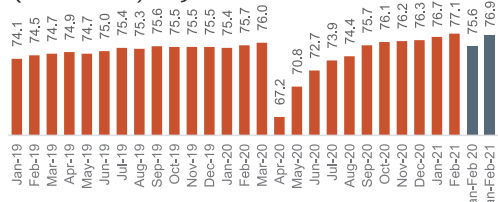
November 2020, led by a rise in its New Orders component of 45.2% y/y. Its other components also expanded, that of Production by 21.0%, and Suppliers Delivery by 15.4% y/y.

Manufacturing is one of the few sectors whose employment has recovered, exceeding pre-pandemic levels. Since May 2020, employment has been steadily increasing. During Q1-21 (up to February), employment in the sector averaged 76,900, up from the 76,000 jobs in March 2020 and the low of 67,200 in April.

PMI Manufacturing



Manufacturing Employment (in thousands) 2019-2021



INFLATION

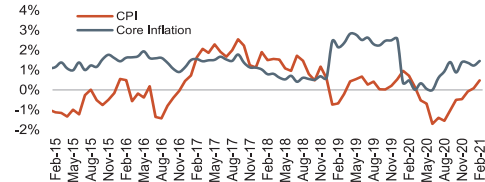
After months of inflation actually decreasing (y/y) since April 2020, the Consumer Price Index (CPI) has been trending up, with the CPI increasing by an average of 0.3% y/y in the first quarter (up to February), as the economy reopened and demand for goods and services increased. Food and beverage

prices have led the increase, with the index increasing an average of 1.4% y/y in the quarter, from -0.4% y/y in 2020.

Core inflation (which excludes food and energy) has also increased since October, with the index rising by 0.6% in the first quarter, from almost no change in 2020, suggesting that inflation is extending to other sectors of the economy as well.

General and Core Inflation

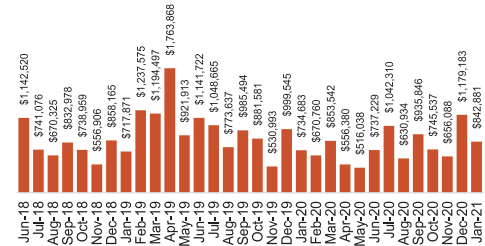
(December 2006 = 100)



FISCAL REVENUES

After taking a hit as a result of the pandemic, receipts for the General Fund have been increasing steadily since May 2020. Increasing receipts from the Sales and Use Tax (SUT), as personal consumption has been expanding, leads the trend. In January 2021, receipts were 15.0% above those of January 2020. So far, fiscal year 2021 receipts are ahead, led by an increase of 26.0% in SUT's receipts.

Net Revenues to General Fund



SHORT-TERM OUTLOOK

The American Rescue Plan, enacted in mid-March, will definitely add a new boost to personal incomes and expenditure. Approximately \$15.0 billion in COVID-19 federal funds to the local economy have been committed or disbursed, with more to come this year.

Debt-restructuring is another key issue pending solution at the start of the year. Last year, Judge Swain requested to the Federal Financial Oversight and Management Board (FOMB) changes to the Debt Adjustment Plan submitted previously but put in hold because of the pandemic emergency. On March 8th the FOMB submitted to Judge Swain in Federal Court the amended Debt Adjustment Ahead for this year the Plan to restructure approximately \$35.0 billion of debt, plus other claims against the Commonwealth, the Public Buildings Authority, and the Public Employees Retirement System, and the \$50.0 billion in pension debts. If approved, approximately 90% of the public debt would be restructured.

So far, so good. There are, though, troubling signs, e.g. increasing contagions rates which can hamper business activity through a return to a stringent lockdown. Challenges for 2021 remain in how to compensate for the loss in jobs and commercial activity, and in controlling the pandemic through massive vaccination. Restrictions in operating capacity in restaurants remain a limitation for recovery in the sector.

Notes:

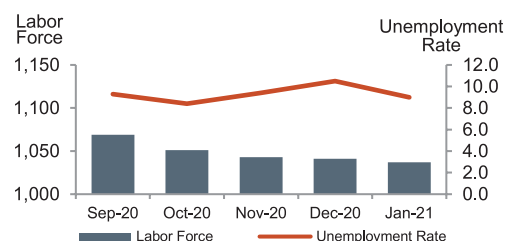
- See Tax Policy Center. Key Elements of the U.S. Tax System. Briefing Book (2020). At: <https://www.taxpolicycenter.org/briefing-book/what-global-intangible-low-taxed-income-and-how-it-taxed-under-tcja> The tax on GILTI generally ranges from 10.5% to 13.125%, well below the regular U.S. corporate tax rate.
- Unemployment rate including those with a job but currently unemployed. See P.R. Department of Labor and Human Resources, Empleo y Desempleo en Puerto Rico, December 2020 through February 2021, p. 4. At: <http://www.mercadolaboral.pr.gov/Publicaciones.aspx>

Puerto Rico Economic Indicators

Employment

	Dec-20	Jan-21	Feb-21	Percent Change	
				Fiscal Year 2021-2020	Accumulated year to date
Labor Force (Household Survey, thousands)	1,041	1,037		1.2%	-1.6%
Employment (Establishment Survey)	859	842	848	5.3%	-3.5%
Private	662	647	653	6.1%	-4.1%
Construction	30	29	30	-3.9%	8.8%
Manufacturing	78	76	77	-0.6%	2.2%
Public Administration	197	195	195	2.6%	-1.5%
Unemployment Rate (Household survey, %)	10.5	9.0		-5.6%	3.4%

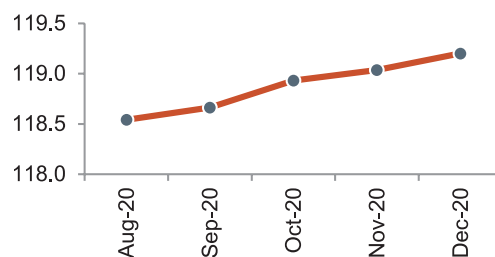
Total Employment
(December 2006 = 100)



Consumer Price Index

	Oct-20	Nov-20	Dec-20	Percent Change	
				Fiscal Year 2019-2020	Accumulated year to date
All Items	118.9	119.0	119.2	0.0%	-0.5%
Food & Beverages	130.7	130.9	131.1	-0.4%	-0.4%
Housing	115.7	115.8	115.8	1.1%	1.0%
Apparel & Upkeep	84.4	85.5	84.9	-2.7%	-2.6%
Transportation	108.1	107.9	108.5	-0.4%	-2.0%
Medical Care	156.8	156.7	156.7	0.9%	1.0%
Education	119.1	119.2	119.2	0.8%	0.5%
Recreation	113.0	113.6	114.1	0.3%	-0.1%
Other Services	123.7	124.0	124.0	-0.8%	-1.9%

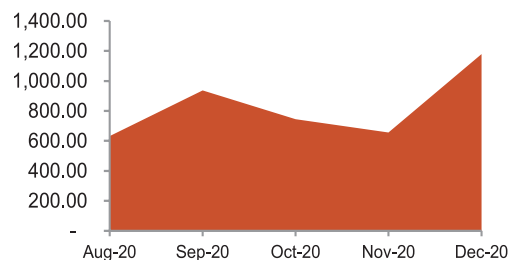
Consumer Price Index



Fiscal Revenues

	Oct-20	Nov-20	Dec-20	Percent Change	
				Fiscal Year 2019-2020	Accumulated year to date
Total Revenues (Mill.\$)	745.5	656.1	1,179.2	-18.3%	-24.1%
Taxes	696.3	646.4	1,113.8	-18.4%	-24.5%
Income Taxes	315.2	244.3	622.1	-18.4%	-34.4%

Net Revenues to the General Fund

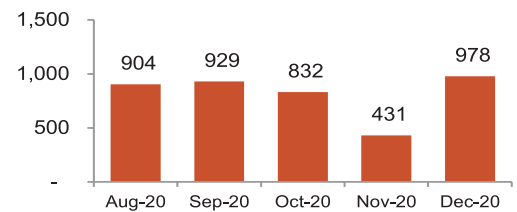


Puerto Rico Economic Indicators

Construction

	Oct-20	Nov-20	Dec-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Cement Production (Thousand 94-lb Bags)	832	431	978	-8.8%	-14.6%
Cement Sales (Thousand 94-lb Bags)	1,368	1,103	1,409	-9.8%	2.8%

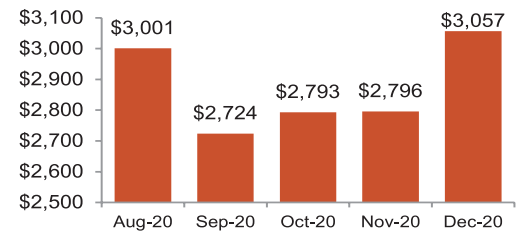
Cement Production



Retail

	Oct-20	Nov-20	Dec-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total (Bill. \$)	2,793	2,796	3,057	-11.2%	-2.4%
Department Stores (Mill. \$)	975	1,016	1,051	-13.7%	-0.4%
Supermarkets (Mill. \$)	288	290	324	1.0%	10.5%
Used and New Autos (Mill. \$)	484	482	480	-22.3%	-6.0%
Gasoline Stations (Mill. \$)	129	123	158	-7.5%	-20.4%
Restaurants (Mill. \$)	157	151	154	-16.1%	-19.7%

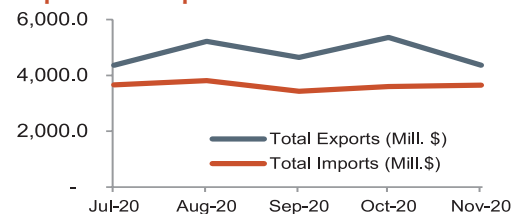
Retail Sales



Exports and Imports

	Sep-20	Oct-20	Nov-20	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Total Exports (Mill. \$)	4,648.3	5,359.6	4,367.7	-2.2%	-8.4%
Foreign Countries	955.3	1,038.5	979.3	-2.5%	-23.7%
Total Imports (Mill. \$)	3,431.5	3,603.1	3,648.6	-7.2%	-6.7%
Foreign Countries	1,371.0	1,338.0	1,720.5	-6.1%	-10.4%

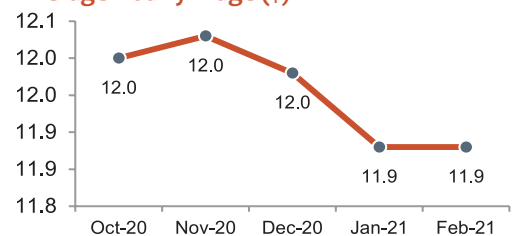
Exports and Imports



Manufacturing

	Dec-20	Jan-21	Feb-21	Fiscal Year 2019-2020	Percent Change Accumulated year to date
Weekly Hours (#)	38.6	38.3	38.3	1.2%	-3.1%
Average Hourly Wage (\$)	12.0	11.9	11.9	0.0%	-3.1%

Average Hourly Wage (\$)



United States The Economy

The first quarter of the year started with three major developments:

- The inauguration of a new president in January;
- The introduction and approval of a broader package of federal relief (The American Rescue Plan Act) in March, the sixth since March of last year, to support the distribution of vaccines and accelerate the post-COVID-19 economic recovery of \$1.9 trillion. In all, a total of \$5.8 trillion have been approved so far in federal relief funds for COVID-19, representing 31% of the U.S. nominal GDP of 2020;
- The third development is the introduction in March by president Biden of his infrastructure plan of \$2.3 trillion (The American Jobs Plan), that would be spent in the coming eight years. Of this amount, \$300.0 billion is being proposed to be invested in manufacturing and \$180.0 billion in R&D with a focus on clean energy. Of the \$300.0 billion, \$50.0 billion would be invested in semiconductor manufacturing, and another \$56.0 billion in medical manufacturing to increase the capability of the U.S. to respond to future outbreaks of diseases. This could benefit Puerto Rico. The plan would make multiple changes to U.S. tax rules, to place the financing of the entire plan on companies (including those with operations in Puerto Rico).

ECONOMIC GROWTH

The year 2020 ended with real GDP decreasing by -3.5% y/y, but already the economy was on the upside, as real GDP increased by 1.1% in Q4-20 from the previous quarter, lower than in Q3-20, as the effects of the pandemic stimulus became less significant. On a year-over-year basis, though, the economy remained in contraction.

Expectations on the economy are positive. Contributing to this optimism on the economy are the increasing rates of vaccination nationwide, plus the new federal relief package of \$1.9 trillion that, together with the one approved in December should contribute to the expansion in the first half of 2021. Real GDP growth is expected to rise to 3.2%

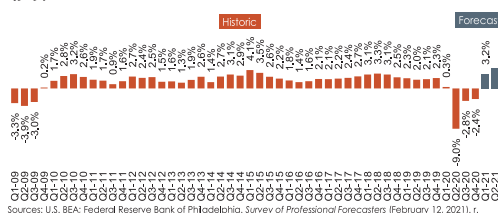
COVID-19 Relief Spending Packages, 2020 - 2021

Bill	Date	Funding
Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (Public Law 116-123)	March 6, 2020	\$8.3 billion
Families First Coronavirus Response Act (Public Law 116-127)	March 18, 2020	\$192.0 billion
Coronavirus Aid, Relief, and Economic Security ACT (CARES Act) (Public Law 116-136)	March 27, 2020	\$2.2 trillion
Paycheck Protection Program and Health Care Enhancement Act (Public Law 116-139)	April 24, 2020	\$484.0 billion
Consolidated Appropriations Act (Public Law 116-260)	December 27, 2020	Omnibus spending bill with \$900.0 billion stimulus relief.
American Rescue Plan Act (Public Law 117-2)	March 11, 2021	\$1.9 trillion
Total (Trillion)		\$5.756

Source: Laura Schultz, *The American Rescue Plan Act: State and Local Funding Breakdown* (March 24, 2021). Rockefeller Institute of Government, AT: <https://rockinst.org/blog/the-american-rescue-plan-act-state-and-local-funding-breakdown/>.

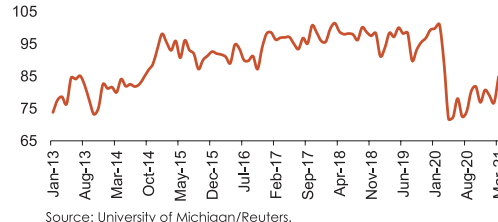
this quarter, and 5.0% in Q2-20, led by the federal relief stimulus, increasing personal consumption, and a stronger labor market, for an overall growth rate of 4.5% in 2021. But there are renewed concerns about impediments to a strong recovery.

Quarterly Real GDP Growth (y/y)



Consumer confidence has been improving, after falling to its lowest levels after March 2020. By Q1-21, according to the Reuter's/ University of Michigan index of consumer sentiment, the index increased from 74.1 in Q2-20 to 80.2, with a one-year high of 84.9 in March of 2021, as households welcomed the third disbursement of relief checks and a better than anticipated vaccination progress. Expectations for the coming months have also improved, pointing toward robust increases in consumer spending.

U.S. Consumer Sentiment Index

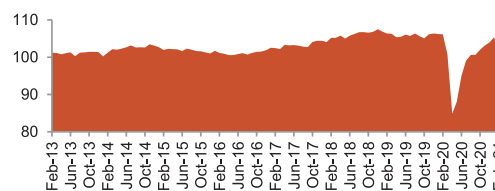


PRODUCTION - MANUFACTURING

Since June 2020 manufacturing production has been recovering, after the slowdown in April and May, rising almost to pre-pandemic levels during Q1-21 (up to February). Manufacturing output decreased in February due to the severe winter weather. Capacity utilization followed a similar trend, with the index rising from 60.5 in April to 75.2 in January. The index fell by -3.1% in February due to weather conditions.

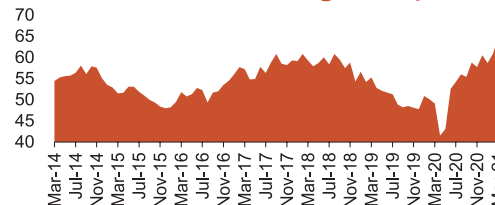
There are concerns, though, about supply problems in certain industries, such as the auto industry, and of more global supply constraints that could hamper U.S. production in the coming months.

US Industrial Manufacturing Production Index (2012 = 100)



Economic activity in the manufacturing sector continued its upbeat trend during the first quarter, with the Institute for Supply Management (ISM) PMI for manufacturing averaging 61.4, from the low of 45.7 in Q2-20. In March the index rose to 64.7, its highest level since September 2017, led by continuing increases in production in computer and electronics products, fabricated metal products, food and beverages products, and chemical products. The ISM's report for March, points to supplier problems affecting producers, availability of parts and materials, and rising commodity prices.²

ISM Index of Manufacturing Activity

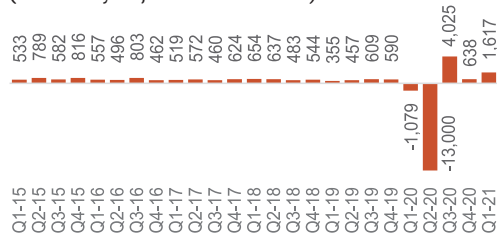


EMPLOYMENT

After the catastrophic decrease in salaried employment during the pandemic of 22.4 million jobs in March and April of 2020, there has been an improvement in the labor market. During the first two quarters of 2020 there was a net loss of 14.1 million

salaried jobs. Afterwards, between Q3-20 and Q1-21 nonfarm salaried employment increased by 6.3 million jobs. Still, nonfarm employment is 7.8 million below the net losses at the beginning of the pandemic. In Q1-21 employment increased by 1.6 million jobs, but below its high of 4.0 million in Q3-20, pointing to continuing weaknesses in the labor market.

Quarterly Changes in Employment (Seasonally Adjusted - Thousands)

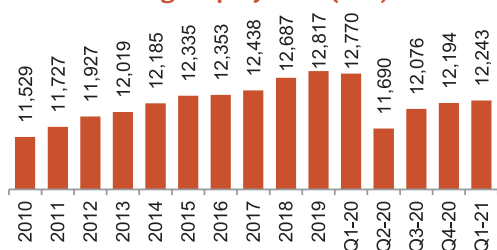


Source: U.S. BLS, Current Employment Statistics (April 2021).

Employment in the manufacturing sector has also followed an upward trend, but it is still below its pre-pandemic levels. In Q2-20 employment decreased by 1.1 million jobs; by Q1-21 it increased by 553,000 jobs to 12.2 million, remaining below its pre-pandemic level of 12.8 million jobs in Q1-20.

The q/q increases have been declining, from a high of 386,000 in Q3-20 to 49,000 in Q1-21, suggesting that the limitations mentioned before to production in the sector are limiting expansion of employment.

Manufacturing Employment (th's)



Source: U.S. BLS, Current Employment Statistics (April 2021).

The unemployment rate edged down a bit, averaging 6.2% in Q1-21 from 6.7% in December 2020, still above its pre-pandemic level of 4.4% in March of 2020. The participation rate averaged 61.4%, from 62.6% in March of 2020.³

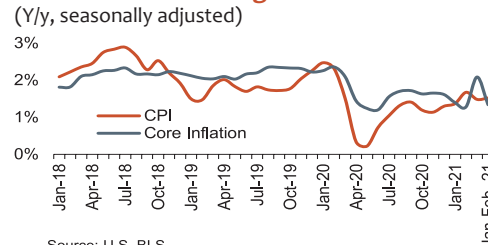
INFLATION

As personal consumption and business activity have expanded, demand for goods and services have also increased, contributing to the upward trend in headline inflation (CPI). In Q1-21 (up to February), headline inflation increased by an average of 1.5% y/y, from 1.2% in Q4-20, and 0.4% in

Q2-20. Core inflation (which excludes food and energy), moderated somewhat in Q1-21, to 1.3% from 1.6% in Q4-20.

Expectations are that it will increase in 2021. In its most recent forecast, the Federal Reserve projected that its inflation measure (the Personal Consumption Expenditures index) will rise to 2.2%, from a December forecast of 1.8%.⁴ Overall inflation is expected to rise 2.5%, reflecting increases in prices as the pandemic recedes, and core inflation by 2.0% this year.⁵ General inflation ended 2020 at 1.3%, and core inflation at 1.7%.

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



Source: U.S. BLS.

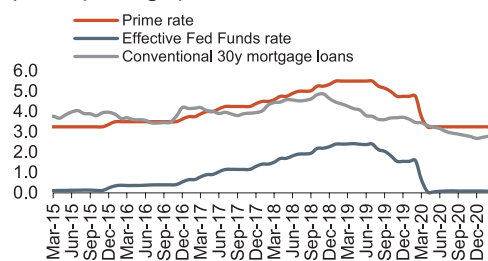
INTEREST RATES

Since the onset of the pandemic the Federal Reserve has adopted a very accommodating policy with respect to economic policies. That policy will continue, according to its March 17th meeting.⁶

The effective Fed Funds rate has actually decreased, from 0.10 in August 2020 to 0.07 in March 2021, averaging 0.08% in Q1-21. The prime rate unchanged, with that for conventional 30-year mortgage loans actually rising, from 2.94% in August 2020 to 3.08% in March, averaging 2.88% in Q1-21, but still below its high of 3.45% in March 2020.

Selected Interest Rates

(Monthly averages)



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

U.S. OUTLOOK

One year into the COVID-19 pandemic the U.S. and the global economies have undergone tremendous pressures and changes, with uneven results. The search for the way out of the health and economic crisis continues, in some cases with positive

results, but, as the IMF (2021) points out in its recent report, "prospects remain highly uncertain."⁷

In 2020, the world economy (Real GDP growth) is estimated to have contracted by -3.3%, from growth of 2.8% in 2019. The impacts of the pandemic are reflected there. For this year, as the world economies slowly outside the pandemic, with high expectations, real growth is projected at 6.0%.

For 2021, the main drivers are India, China, and the U.S., with growth rates exceeding pre-COVID-19 GDP levels of 2019. In 2022, as the pace of public stimulus funding, personal consumption expenditures, and recovery "normalize", real growth slows to 4.4%, still, higher than 2019.

In its latest update (April 2021), the Brookings-Financial Times Tracking Indexes for the Global Economic Recovery (TIGER) point out to "grounds for optimism about global growth prospects but also renewed concerns about impediments to a strong recovery."⁸

World Economic Growth: Outlook 2019 - 2022

	Projections			
	2019	2020e	2021	2022
World GDP	2.8%	-3.3%	6.0%	4.4%
Advanced Economies	1.6%	-4.7%	5.1%	3.6%
Euro Zone	1.3%	-6.6%	4.4%	3.8%
U.S.	2.2%	-3.5%	6.4%	3.5%
Emerging Economies	3.6%	-2.2%	6.7%	5.0%
China	6.0%	2.3%	8.4%	5.6%
India	4.2%	-8.0%	12.5%	6.9%
Latin America & Caribbean	0.2%	-4.1%	3.7%	2.6%

Source: International Monetary Fund (2021), World Economic Outlook - April 2021, Table 1.1, e=estimate

Notes:

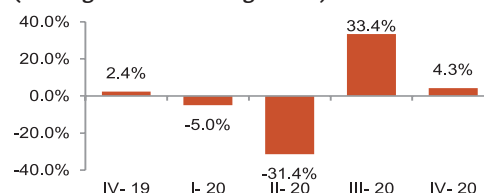
- See source at the bottom of the first table; U.S. Bureau of Economic Analysis, Gross Domestic Product (Third Estimate), Corporate Profits, and GDP by Industry, Fourth Quarter and Year 2020 (March 25, 2021), Table 3. To put it in historical perspective, comparing this spending with the cost to the U.S. of World War II, "adjusted for inflation and to today's dollars, the war cost over \$4.0 trillion." See Norwich University Online, The Cost of U.S. Wars Then and Now (October 20, 2020), at: <https://online.norwich.edu/academic-programs/resources/cost-us-wars-then-and-now>
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United States Economic Indicators

GDP

	I- 20	II- 20	III- 20	IV- 20
GDP (% Change From Preceding Period)	-5	-31.4	33.4	4.3
Private Consumption	-6.9	-33.2	41	2.3
Fixed Investment	-1.4	-29.2	31.3	18.6
Residential	19	-35.6	63	36.6
Non-Residential	-6.7	-27.2	22.9	13.1
Government Spending	1.3	2.5	-4.8	-0.8
Exports	-9.5	-64.4	59.6	22.3
Imports	-15	-54.1	93.1	29.8

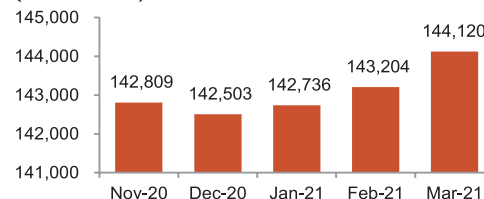
Gross Domestic Product (% Change From Preceding Period)



Employment

	Dec-20	Jan-21	Feb-21	Mar-21
Employees on Non-Farm Payrolls (SA) (Thousands)	142,503	142,736	143,204	144,120
Change (%)	-0.2%	0.2%	0.3%	0.6%
Goods Producing	20,228	20,221	20,177	20,360
Change (%)	0.4%	0.0%	-0.2%	0.9%
Service Industries	122,275	122,515	123,027	123,760
Change (%)	-0.3%	0.2%	0.4%	0.6%

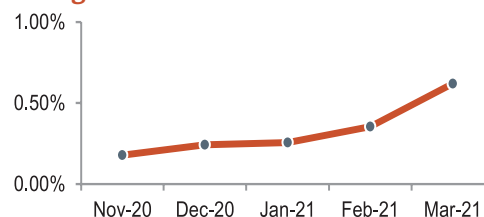
Employees on Non-Farm Payrolls (In thousands)



Consumer Price Index

	Dec-20	Jan-21	Feb-21	Mar-21
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	0.2%	0.3%	0.4%	0.6%
Change from preceeding year	1.3%	1.4%	1.7%	2.6%
CPI - Less Food and Energy				
Change from preceeding month	0.0%	0.0%	0.1%	0.3%
Change from preceeding year	1.6%	1.4%	1.3%	1.6%

Change in CPI



Interest Rates

	Dec-20	Jan-21	Feb-21	Mar-21
Effective Federal Funds	0.09	0.09	0.08	0.07
Three Month Treasury Bill (Constant Maturity Rate)	0.09	0.08	0.04	0.03
Prime Rate	3.25	3.25	3.25	3.25
Ten Year Treasury Bond	0.93	1.08	1.26	1.61
Moody's Seasoned Aaa Rate	2.26	2.45	2.70	3.04
30-Year Conventional Mortgage Rate	2.68	2.74	2.81	3.08

Selected Interest Rates (3month T Bills)

