

Econews

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Puerto Rico The Economy

- A key development in the second quarter is related to the establishment of a “state” minimum wage. On June 22nd the Puerto Rico Senate passed P.C. 338 (as amended), which establishes the public policy toward the adoption and implementation of a new “state” minimum wage, rising it to \$9.00/hour. In a modified version in the House of Representatives the minimum is set initially at \$8.50 later to be increased to \$9.00. The final version is still pending for approval.

Federal and New “State” Minimum Wages



Source: P.R. Department of Labor and Human Resources (2021). *Indice Oficial de Precios al Consumidor en Puerto Rico - Revisión 2010 - Mayo 2021* (June 25, 2021); P. de la C. 338 (June 22, 2021).

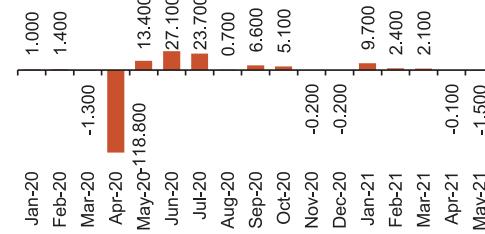
- An \$8.50 minimum would represent an increase of 17.2% or \$1.25 from the current nominal federal minimum wage (unchanged since 2009). Adjusted by inflation the local minimum would be higher than the deflated federal minimum wage (\$6.00) and higher than the nominal federal minimum wage.

- The other resolved issue, after some haggling with the Financial Oversight and Management Board, is the final approval of the budget for fiscal year 2022 by the FOMB. The General Fund Budget was set at \$10.1 billion, practically the same as in fiscal 2021, and the consolidated budget at \$21.4 billion.

EMPLOYMENT

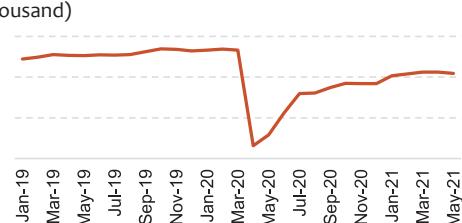
The recovery in employment continued but at a slower pace. During the second quarter (April-May), nonfarm salaried employment (seasonally adjusted (SA)) increased 0.2% from previous quarter, and private employment rose at the same rate to 655,250 from Q1-21. On a m/m basis, there was a net loss of 1,600 jobs in the quarter, from a gain of 14,200 jobs during the first quarter. So far, since May 2020 the labor market has recovered 74% of the total private jobs lost during the first two months of the pandemic. Some of these will likely not be recovered at all.

M/M Change in Private Nonfarm Employment (February 2020 Through May 2021 (SA))



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

Private Nonfarm Salaried Employment (thousand)

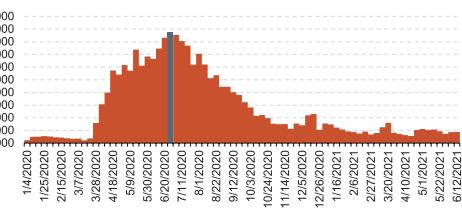


Source: P.R. Department of Labor and Human Resources, Establishment Survey. SA = Seasonally Adjusted.

Private salaried employment in May (last month with information), though, represented an increase of 13.0% from May 2020. The sectors that posted gains in employment, y/y, were Retail Trade, with an increase of 22,900 jobs, followed by that in Accommodation & Food Services of 17,200 jobs, Professional and Business Services with 8,500, and Manufacturing with 7,100 jobs.

Unemployment claims continued to be filed but at a diminishing rate. Continued unemployment claims were 103,483 lower than the previous quarter. The number of new claims during the first half of the year decreased by 85% from the same period in 2020.

Puerto Rico Continued Unemployment Claims



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

The unemployment rate averaged 8.3% during the second quarter (April-May), lower than the rate of 9.1% in the first quarter. In February 2020 the rate was 9.2%.

MANUFACTURING

As suggested by its Purchasing Managers Index, overall activity during the second quarter (April-May) was up by 18.2% from Q2-20, led by a significant increase of 52.2% y/y of its New Orders component. But, after a high of 62.8 in February the index has been trending downward to 53.7 in May, remaining above the expansion level of 50, as the New Orders index fell by 3.3%.

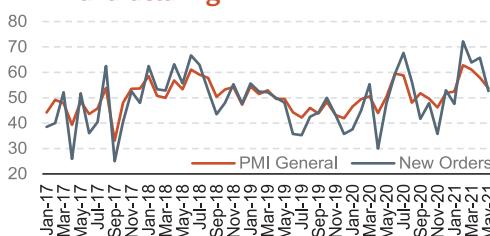
PMI Puerto Rico

2017-2021



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

PMI Manufacturing

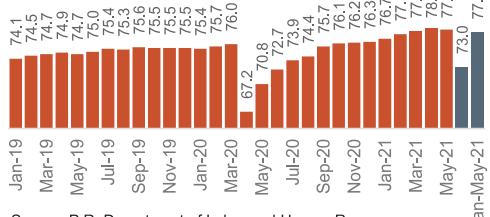


Source: Puerto Rico Institute of Statistics.

Employment in the sector continued to increase in the second quarter (April-May), to 78,000, from 77,200 in the first quarter. Compared to same quarter in 2020, employment saw an increase of 9,000 jobs, which is significant.

Manufacturing Employment

(thousand)



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

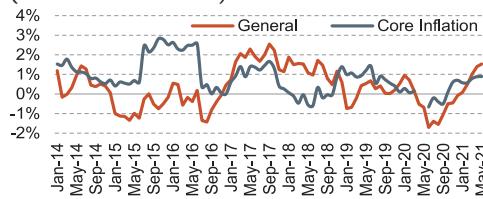
INFLATION

Since January general inflation (CPI) has been trending up, after decreases in most of 2020 at the onset of the pandemic control measures, which had an impact on consumers' demand. From a low of 0.1% in January, headline inflation (CPI) rose to 1.5% in May, averaging 1.5% in the second quarter, from 0.5% in the first quarter. They were led by increases in energy prices, with the gasoline index rising by 11%, and in food and beverages, with the index increasing an average of 1.4% in the second quarter.

Core inflation, which excludes the more volatile components of the CPI (Food & Beverages and Energy), also trended up, 0.9% in the second quarter, from 0.6% in the first quarter, which underscores how inflation has expanded throughout the economy.

General and Core Inflation

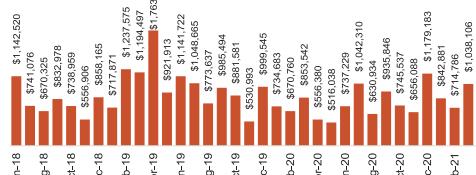
(December 2006 = 100)



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

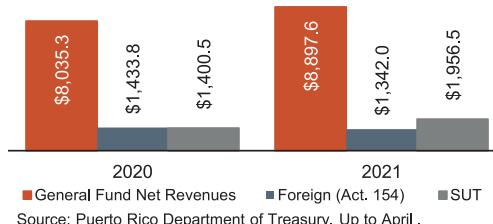
FISCAL REVENUES

Net Revenues to the General Fund



Net Revenues to the General Fund and Receipts from Act. 154

Fiscal Years



Source: Puerto Rico Department of Treasury. Up to April.

Receipts of the General Fund have evolved on a positive note. Since January (Up to April) revenues increased by 32% y/y, reflecting the increase of 19% in general taxes. On a fiscal year basis, receipts were up by 11% from fiscal 2020, reflecting the notable increase in SUT's receipts of 40%. The latter accounted for 64% of the net absolute increase in General Fund revenues, compared to fiscal 2020.

SHORT-TERM OUTLOOK

Much of the economic activity for the balance of the year will continue to be determined, to a significant extent, by the continuing disbursements of COVID-19-related federal funds, albeit at a diminishing rate. For individuals, most of them will end by the end of September, and the continuing disbursement but expectedly at a faster pace of the remaining CDBG-DR reconstruction federal funds.

The slower pace in the expansion of private employment would continue, consumers' spending ought to remain relatively high, as bank's deposits are at a high level. The question is, once the funds that sustained these high deposits are exhausted or diminish, if spending will remain at healthy levels in order to sustain demand.

Construction activity should expand further, providing additional support to aggregate demand.

Inflation ought to remain above current levels, until the constraints in the supply chains are alleviated, and the expected increase in oil prices.

The commercial banking sector has performed quite well, flush with liquidity, with deposits reaching \$77.9 billion, from \$59.6 billion at the end of 2019. Part of these new deposits, though, are volatile; for instance, the public sector ones, which represented 28.4% of the total deposits in Q1-21. The commercial, industrial, and agricultural loans portfolio increased to \$4.5 billion from \$3.7 billion at the end of 2019.¹

The budget bill submitted by the Biden Administration for fiscal year 2022 provides incentives for U.S. onshoring, and disincentivizes offshoring. The 10% tax credit for the cost that a company assumes by relocating to the United States, including Puerto Rico, could provide an added stimulus for investment in the local manufacturing sector. The proposal, though, do not include capital expenditures or costs for severance pay.

Notes:

1. OCIF (2021). Commercial Banks – Q1-2021. At: <https://ocif.pr.gov/DatosEstadisticos/Datos%20Estadisticos/Commercial%20Banks.pdf>

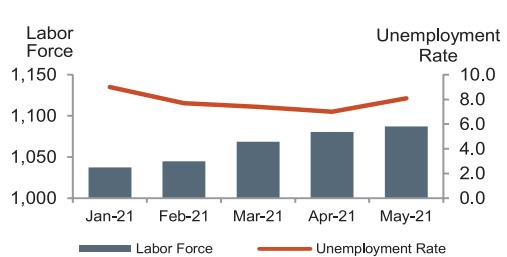
Puerto Rico Economic Indicators

Employment

	Mar-21	Apr-21	May-21	Percent Change Fiscal Year 2020-2021	Accumulated year to date
Labor Force (Household Survey, thousands)	1,068	1,080	1,087	1.4%	1.6%
Employment (Establishment Survey)	851	850	849	2.5%	1.6%
Private	655	654	653	2.7%	2.6%
Construction	30	30	29	-7.8%	18.7%
Manufacturing	78	77	78	-2.5%	6.1%
Public Administration	196	196	196	2.0%	-1.8%
Unemployment Rate (Household survey, %)	7.4	7.0	8.1	1.4%	-12.9%

Total Employment

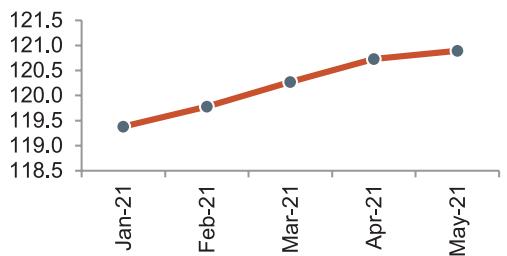
(December 2006 = 100)



Consumer Price Index

	Mar-21	Apr-21	May-21	Percent Change Fiscal Year 2020-2021	Accumulated year to date
All Items	120.3	120.7	120.9	-0.1%	0.9%
Food & Beverages	131.0	131.4	131.5	0.6%	1.4%
Housing	116.2	116.4	116.4	0.8%	0.8%
Apparel & Upkeep	85.4	85.2	84.661	-0.1%	1.4%
Transportation	112.2	113.5	114.2	-1.7%	1.1%
Medical Care	157.3	157.3	157.3	0.8%	0.6%
Education	119.2	119.6	119.6	0.4%	0.7%
Recreation	114.4	114.3	114.5	0.2%	0.8%
Other Services	124.1	124.1	124.1	-0.9%	-0.2%

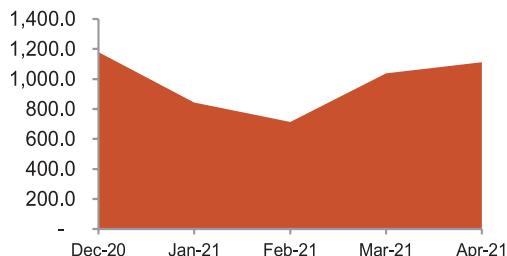
Consumer Price Index



Fiscal Revenues

	Feb-21	Mar-21	Apr-21	Percent Change Fiscal Year 2020-2021	Accumulated year to date
Total Revenues (Mill.\$)	714.8	1,038.1	1,111.6	10.7%	31.7%
Taxes	698.5	938.3	1,073.3	9.6%	28.9%
Income Taxes	233.3	370.0	445.0	-1.1%	29.3%

Net Revenues to the General Fund

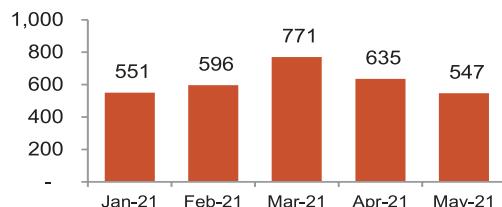


Puerto Rico Economic Indicators

Construction

	Mar-21	Apr-21	May-21	Fiscal Year 2020-2021	Percent Change year to date
Cement Production (Thousand 94-lb Bags)	771	635	547	-13.6%	-17.5%
Cement Sales (Thousand 94-lb Bags)	1,573	1,366	1,389	39.2%	66.2%

Cement Production



Retail

	Dec-20	Jan-21	Feb-21	Fiscal Year 2020-2021	Percent Change year to date
Total (Bill. \$)	3,057	2,896	2,585	11.6%	15.3%
Department Stores (Mill. \$)	1,051	848	857	13.1%	13.3%
Supermarkets (Mill. \$)	324	343	348	6.3%	3.4%
Used and New Autos (Mill. \$)	480	541	348	22.0%	26.8%
Gasoline Stations (Mill. \$)	158	148	120	-14.9%	-16.2%
Restaurants (Mill. \$)	154	161	160	-5.8%	-0.9%

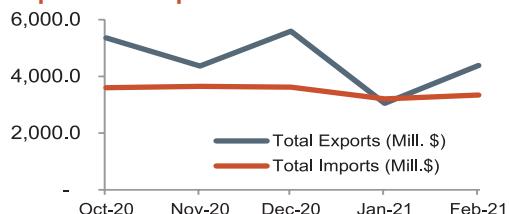
Retail Sales



Exports and Imports

	Dec-20	Jan-21	Feb-21	Fiscal Year 2020-2021	Percent Change year to date
Total Exports (Mill. \$)	5,593.5	3,049.8	4,387.2	-10.2%	-18.9%
Foreign Countries	891.2	956.4	1,100.3	-22.1%	-1.0%
Total Imports (Mill.\$)	3,619.1	3,207.3	3,343.4	-9.4%	-14.4%
Foreign Countries	1,478.8	1,264.4	1,477.8	-20.6%	-22.9%

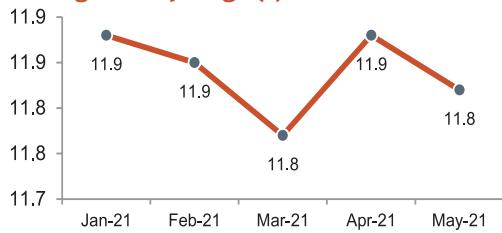
Exports and Imports



Manufacturing

	Mar-21	Apr-21	May-21	Fiscal Year 2020-2021	Percent Change year to date
Weekly Hours (#)	39.0	38.0	38.1	-3.3%	-1.3%
Average Hourly Wage (\$)	11.8	11.9	11.8	-4.2%	-3.7%

Average Hourly Wage (\$)



United States

The Economy

- Six months into 2021 and the U.S. economy continues its travails toward economic recovery. As of the second quarter, there are reasons for expecting accelerated growth in 2021.
- The federal government actions since 2020 have contributed significantly to bolster the financial system, providing much-needed liquidity, households have greater savings, about \$2.8 trillion more in Q1-21 than expected under normal circumstances, the pandemic accelerated productivity trends and supported growth through additional spending.¹
- There is a legitimate concern of what will happen to the economy, as the huge fiscal stimulus will fade in the coming months with the cessation of that federal spending related to COVID-19. According to a recent report from the Hutchins Center on Fiscal and Monetary Policy, in Q1-21 federal spending added 8.6 percentage points to the economic growth rate in that quarter, but that fiscal impact will turn negative in the following two quarters, becoming a drag starting in Q4-21.² In Q2-22, it would subtract 3.3 percentage points from the economic growth rate of the quarter.³

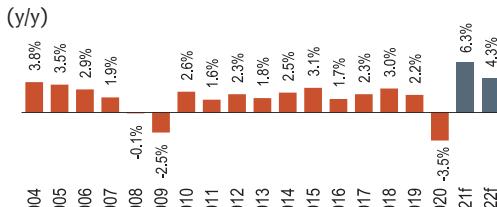
ECONOMIC GROWTH

Real GDP growth perspectives have improved since the last report. Real GDP growth for the second quarter is projected at 12.4% y/y, from 0.4% in the previous quarter. On a q/q basis real GDP growth was 1.9%. The new round of COVID-19 funding approved in March of \$1.9 trillion is having its intended effects, but, as pointed out, most of it will wane after the third quarter.

Quarterly Real GDP Growth (y/y)



Annual Real GDP Growth (y/y)

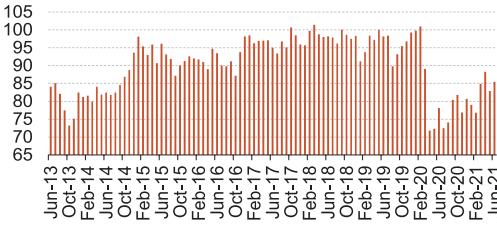


Sources: U.S. BEA; Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters (May 14, 2021). F = Forecast

Consumer confidence increased during the second quarter, following gains in the previous quarter. The average index rose by 15.5% y/y and 6.6% q/q, according to the Reuter's/University of Michigan Index. Besides the new round of COVID-19 federal funding, the improvement in the labor market contributed to short-term expectations again. Job gains seems to offset inflation concerns, although inflation expectations increased.

So far, consumer spending is expected to get stronger in the coming months, with rising vaccinations, and the expectation that the US economy could be back to a pre-pandemic "normal" by the end of the year.⁴ The U.S. personal saving rate has increased due to the huge amounts of COVID-19 federal funds from 8.3% in February 2020 to 27.6% in March 2021, decreasing to 12.4% in May 2020. Not necessarily all of these savings will be spent.⁵

U.S. Consumer Sentiment Index



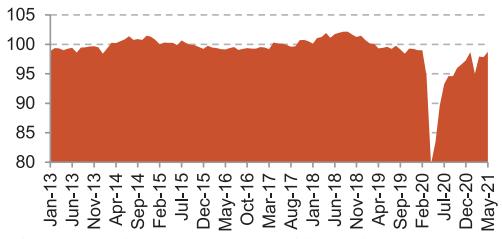
Sources: University Michigan/Reuters

PRODUCTION - MANUFACTURING

Manufacturing activity continued to proceed on high notes since the end of 2020, but constrained by supply chains issues, material shortages, and rising commodity prices.

Demand continued to be strong. Manufacturing output, according to the FED's index of industrial production rose 1.1% (up to May) from the previous quarter, led by gains in motor vehicle assemblies, as did manufacturing capacity, increasing 1.4% q/q.

US Industrial Manufacturing Production Index (2017 = 100)



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

Overall, activity in the sector, as measured by the purchasing managers index (PMI) increased by 33.0% y/y from 23.0% in the previous quarter. On a quarter-to-quarter basis, though, the index decreased by -0.9%, as reflecting increasing shortages of basic materials and higher prices. In June, the price index component rose 92.1% y/y. According to respondents to the PMI survey, with customer demand strong, "Supply chain constraints continue to be challenging, with no end in sight".⁶

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

Reflecting the gradual reopening of the economy, there was a continued reacceleration in the pace of job growth. During the second quarter, non-farm salaried employment expanded by a net increase of 1.7 million jobs, from growth of 1.6 million in the first quarter. In June, employment increased by 850,000 jobs, its biggest m/m change since March.

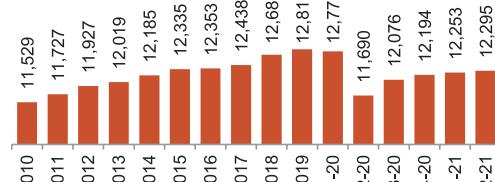
Quarterly Changes in Employment (Seasonally Adjusted - Thousands)



Notwithstanding those gains, non-farm employment is still 6.2 million jobs below the first two quarters of 2020. Likely, some of those jobs will not be recovered due to technology changes and improvement in productivity.

As of June manufacturing employment is already above its level of 2020 by 44,000 jobs. Manufacturing represents 8.5% of total non-farm salaried employment. Employment in the second quarter edged up by 42,000 jobs from the previous quarter.

Manufacturing Employment (th's)



Source: U.S. BLS, Current Employment Statistics (July 2, 2021).

Unemployment has been decreasing, with the unemployment rate averaging 5.9% in the second quarter, from a high of 11.1% in June 2020, but still above its pre-pandemic level of 4.4% in March of 2020. The labor force participation rate has remained practically at the same level, 61.6% in the second quarter, from 61.4% in June 2020.⁷

INFLATION

The pandemic has brought quite a few "shocks", one of them to prices. Constraints in supply chains, increased demand for food and basic commodities plus the trillions disbursed of COVID-19 federal funds, are having an impact on general inflation. Worldwide, according to the Food and Agriculture Organization Food Price Index, international prices for key commodities rose 4.8% m/m in May, from 1.8% m/m in April.⁸

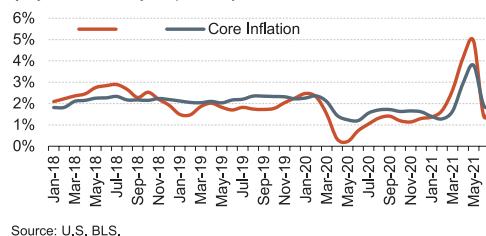
During the second quarter, headline inflation moved up steadily averaging 4.5% y/y (up to May), from 1.9% y/y in the previous quarter, and 1.3% y/y in 2020. But higher food prices are not necessarily the biggest contributor. In May, the index for used cars and trucks continued to rise considerably, increasing 7.3%, m/m while the energy index was unchanged.⁹

Core inflation (excludes food and energy) also has been increasing, averaging 3.4% y/y, from 1.4% y/y in the previous quarter, its highest level in over 10 years. It should be understood, though, that it is also distorted by the comparison to the pandemic-depressed readings of last year.

What to expect in the coming months/years? According to the recent forecasts by the Federal Reserve (June 16th), inflation (the measure they use is the personal consumption expenditures price index) will fluctuate from a high of 3.4% in 2021 to 2.2% in 2023, and 2.0% in the longer run.¹⁰ During 2018 and 2019 general inflation (as measured by the CPI) averaged 2.1% y/y.

Annual Percent Change in CPI

(Y/y, seasonally adjusted)



Source: U.S. BLS.

INTEREST RATES

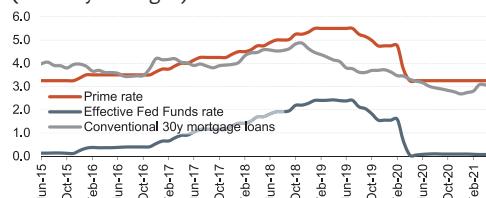
On June 16th the Federal Reserve announced that it was keeping interest rates near zero for now but indicated that it may raise rates sooner than previously expected, in response to strong growth and rising inflationary pressures. It maintained its target federal funds rate range of between zero and 0.25%, where it has remained since March 2020. The Fed expressed a belief that the recent rise in inflation is largely due to "transitory factors".

During the second quarter (April-May), the prime rate remained at 3.25%, and the effective Fed Funds rate edged slightly down to 0.07, from 0.08% in the first quarter. Interest rates for 30-year mortgage loans averaged 3.0% in the quarter, from 2.9% in the previous quarter.

The latest projections from Fed officials suggest interest rates will be increased to 0.6% in 2023, compared to previous projections indicating rates would remain at near-zero levels, but a rate hike could be expected as soon as 2022.

Selected Interest Rates

(Monthly averages)



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

U.S. OUTLOOK

For 2021 and 2022 the world economy is expected to achieve robust real GDP growth, 5.6% this year and 4.3% in 2022, according to the most recent forecasts from the World Bank (June 2021).¹¹ That recovery is uneven and will trend lower in 2022 and 2023. The U.S. is expected to lead real growth of advanced economies, at 6.8% in 2021 and 4.2% in 2023. In the case of emerging economies, China and India will continue to lead their growth, with both economies averaging real GDP growth of 8.4% in 2021 and 6.4% in 2022.

These rebounds, though, face some headwinds, according to the World Bank. For one, there are vaccination delays, in particular in the poorer emerging economies, additional COVID-19 waves from the new variants, rising inflationary pressures, and mounting levels of public debt.

World Economic Growth: Outlook

2019 - 2022

	2019	2020e	2021	2022	2023
World Real GDP	2.5%	-3.5%	5.6%	4.3%	3.1%
Advanced Economies	1.6%	-4.7%	5.4%	4.0%	2.2%
Euro Zone	1.3%	-6.6%	4.2%	4.4%	2.4%
U.S.	2.2%	-3.5%	6.8%	4.2%	2.3%
Emerging Economies	3.8%	-1.7%	6.0%	4.7%	4.4%
China	6.0%	2.3%	8.5%	5.4%	5.3%
India	4.0%	-7.3%	8.3%	7.5%	6.5%
Latin America & Caribbean	0.9%	-6.5%	5.2%	2.9%	2.5%

Source: World Bank (2021), Global Economic Prospects (June 2021), Table 1.1. e = Estimate.

Notes:

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United States

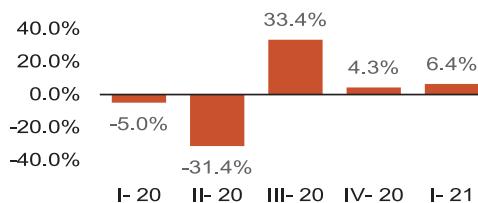
Economic Indicators

GDP

	II- 20	III- 20	IV- 20	I- 21
GDP (% Change From Preceding Period)	-31.4	33.4	4.3	6.4
Private Consumption	-33.2	41	2.3	11.4
Fixed Investment	-29.2	31.3	18.6	12.1
Residential	-35.6	63	36.6	13.1
Non-Residential	-27.2	22.9	13.1	11.7
Government Spending	2.5	-4.8	-0.8	5.7
Exports	-64.4	59.6	22.3	-2.1
Imports	-54.1	93.1	29.8	9.5

Gross Domestic Product

(% Change From Preceding Period)

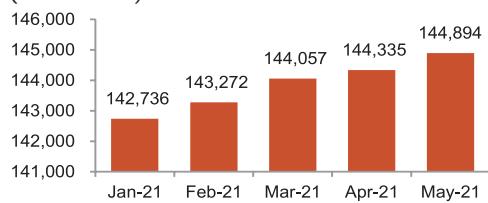


Employment

	Feb-21	Mar-21	Apr-21	May-21
Employees on Non-Farm Payrolls (SA)				
(Thousands)	143,272	144,057	144,335	144,894
Change (%)	0.4%	0.5%	0.2%	0.4%
Goods Producing	20,201	20,360	20,324	20,327
Change (%)	-0.1%	0.8%	-0.2%	0.0%
Service Industries	123,071	123,697	124,011	124,567
Change (%)	0.5%	0.5%	0.3%	0.4%

Employees on Non-Farm Payrolls

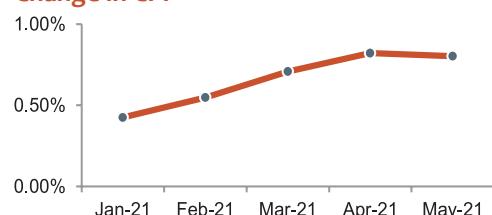
(In thousands)



Consumer Price Index

	Feb-21	Mar-21	Apr-21	May-21
CPI - All Urban Consumers (1984=100)				
Change from preceeding month	0.5%	0.7%	0.8%	0.8%
Change from preceeding year	1.7%	2.6%	4.2%	5.0%
CPI - Less Food and Energy				
Change from preceeding month	0.3%	0.4%	0.8%	0.7%
Change from preceeding year	1.3%	1.6%	3.0%	3.8%

Change in CPI



Interest Rates

	Mar-21	Apr-21	May-21	Jun-21
Effective Federal Funds	0.07	0.07	0.06	0.08
Three Month Treasury Bill (Constant Maturity Rate)	0.03	0.02	0.02	0.04
Prime Rate	3.25	3.25	3.25	3.25
Ten Year Treasury Bond	1.61	1.64	1.62	1.52
Moody's Seasoned Aaa Rate	3.04	2.90	2.96	2.79
30-Year Conventional Mortgage Rate	3.08	3.06	2.96	2.98

Selected Interest Rates

(3month T Bills)

