

ECONOMIC NEWSLETTER



Volume 1 | Issue 1 | December 2020



Welcome to the first issue of the ***Puerto Rico Chamber of Commerce Economic Newsletter***. This monthly report, prepared by economist Gustavo Vélez, from Inteligencia Económica, will report about economic trends in the United States and Puerto Rico. During these uncertain times, it is more valuable than ever to keep informed and have hands-on information on the tendencies and forces shaping our economy. Please enjoy this issue and let us know your comments and recommendations.

Juan Carlos Agosto
President & Chairman of the Board
Puerto Rico Chamber of Commerce



This first issue of the ***Puerto Rico Chamber of Commerce Economic Newsletter*** hopes to shed light on the events of 2020 that changed the economy forever and what we can expect next year. This monthly newsletter is prepared by economists and researchers at Inteligencia Económica, with the support of the Puerto Rico Chamber of Commerce. We hope this adds value to your business decisions and provide a clearer view of economic trends and business intelligence. If you want more detailed analysis, please access our platform at EconomiaPR.com. Thank you for your support!

Gustavo Vélez
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Economic outlook for 2021

Heading into 2021, the COVID-19 pandemic's continuing effects inform almost all doubts regarding the economy both in Puerto Rico and the United States. Further economic stimulus packages as well as the rollout of COVID vaccines could end up determining what 2021 will bring.

This pandemic has had effects felt on a global level. Almost the entire world entered a lockdown in the months of March and April, and the effect that this has had has been unequally distributed.

Among the regions that have suffered the most economically has been Latin America. The International Monetary fund published a series of economic growth forecasts in June of this year that stated that Latin America could suffer from an economic contraction of more than 9% in 2020. Compared to their projection for the world, which was a contraction of 4.9%, this will be a giant setback for the already impoverished region.

Latin America had already struggled with inequality before the pandemic, and this year will only serve to worsen it. Anti-vaccine attitudes and general science denialism have been rampant in Brazil, a country that has been ravaged by COVID. Intensive care units throughout the South American country have almost reached maximum capacity in November, and lockdown orders have been all but non-existent in the nation.

China on the other hand, is the one major economic player whose economy is expected to grow this year, even if by just 1%. Strict measures in the country where the pandemic originated have allowed a return to normality throughout the nation. The IMF forecasts their growth to reach more than 8% in 2021.

IMF Growth Projections

Region	2020	2021
Brazil	-9.1%	3.6%
China	1.0%	8.2%
US	-8.0%	4.5%
World	-4.9%	5.4%
Puerto Rico	-4.7%	0.5%

Source: International Monetary Fund

Growth projections for Puerto Rico's economy range from a contraction between -5.4% and -4.7%. The Financial Oversight and Management Board's projections indicate that even in 2021 there will be a contraction of -2% in the island. Other projections by the Planning Board and Inteligencia Económica show modest growth of 0.5 or 0.8% in 2021.

With a vaccine already being rolled out in the United Kingdom, the question is when will this vaccine be administered in the United States and Puerto Rico, but more importantly,

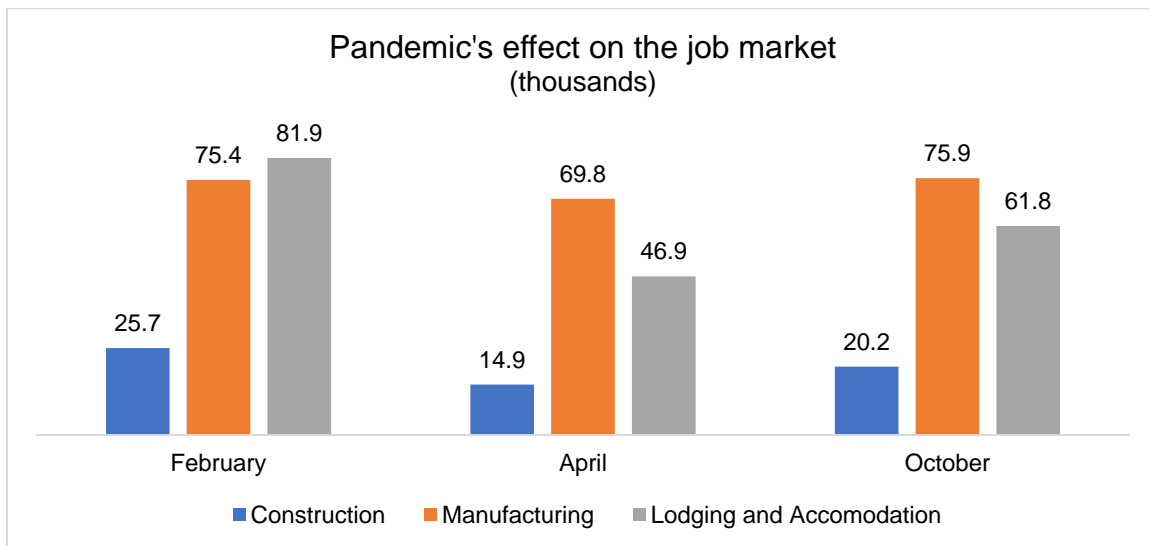
will people be willing to take it? This is a difficult question to answer but could end up determining whether predictions about robust economic growth in 2021 come to fruition or if this coming year will bring more of the same as 2020.

The results of the last election in the United States could seem to be very promising for the future of the country's management of the pandemic. However, social distancing measures will have to continue well into 2021, regardless of a vaccine.

Millions of Americans are currently struggling with rent and mortgage payments, with a recent study showing that they will owe more than \$70 billion in back rent and mortgage by January. Without a stronger stimulus package than the one currently being negotiated in Congress, the rebound from this pandemic could be much weaker and take longer than expected. This could have a knock-on effect that greatly affects retail sales throughout the nation.

This pandemic has had a devastating effect on the local economy as well. Employment in Puerto Rico was heavily affected by the pandemic. Some of the more affected industries are as follows:

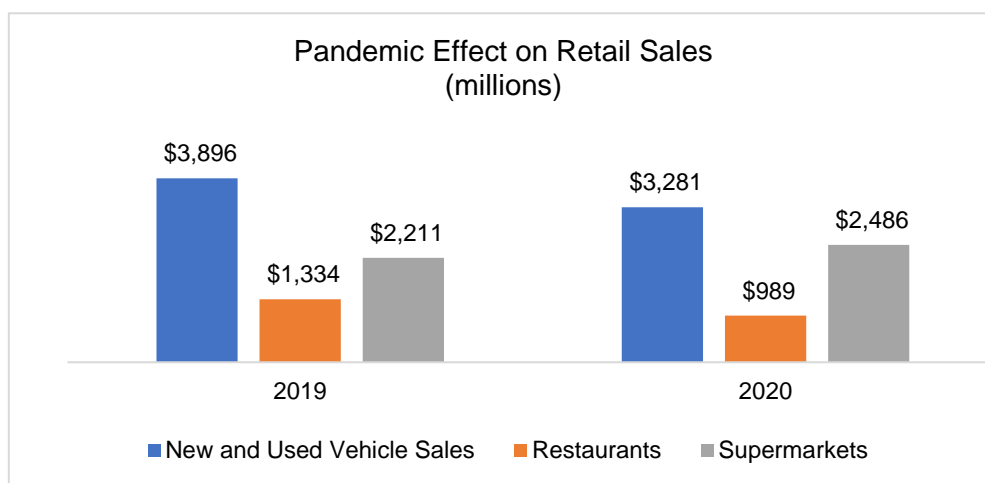
- 10,000 jobs in construction were lost, due to the complete shutdown in March and April. Out of these 10,000, only half have been recovered for a total of 20,200 construction jobs in October.
- 5,000 jobs in manufacturing were lost. This has been one of the only sectors of the local economy to recover and even surpass previous levels of employment, going from 74,700 jobs before the pandemic to 75,900 in October.
- Out of the 83,100 lodging and accommodation jobs (tourism industry) on the island, more than 36,000 were lost. Current employment in this industry stands at 61,800.



Source: Department of Labor and Human Resources

Aside from employment, retail trade has probably been the most affected by the pandemic. Aside from shutdowns and stay-at-home orders, shifts in consumer spending towards online shopping have badly affected department stores and other retailers.

- New and used car sales are down 15.8% compared with 2019. Sales have been high in the past months, but the shutdown in March and April has severely affected car dealerships.
- Restaurant sales have been the most affected. Despite many restaurants adapting to serve food and drinks to go, sales for the year to date are down 25.9%.
- Supermarkets have been amongst the few retailers to see their sales go up in 2020 due to restaurant closures and stay-at-home order. Their sales have increased by 12.4% compared to 2019.



Source: PR Trade

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