



## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

# *PUERTO RICO'S ECONOMIC ENVIRONMENT*

***Leslie Adames***

**Estudios  
Técnicos  
Inc.**  
Investigación | Estrategias | Soluciones





# SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

**GENERAL  
CONTEXT...**

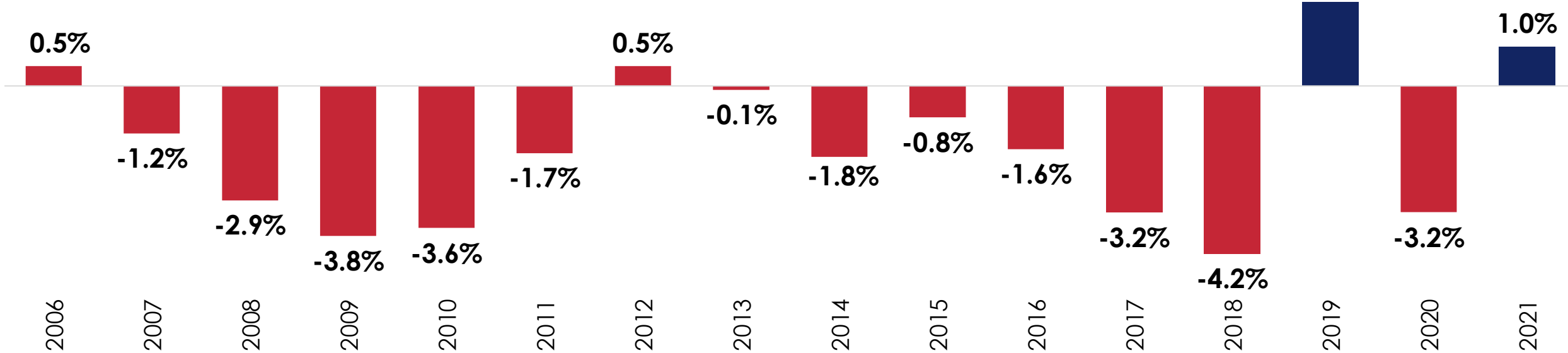


## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

# PUERTO RICO'S ECONOMY IS SMALLER

Real GNP Growth in Puerto Rico  
Fiscal Year: 2006-2021

The size of the economy shrank since 2006: **22%\***



\*Real investment in construction declined by 39% during the period.  
Source: Puerto Rico Planning Board. *Statistical Appendix to the Governor, 2021.*



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# FEDERAL STIMULIS UNDER CARES ACT CONTRIBUTED TO THE STABILIZATION OF THE ECONOMY

### Funding Granted to Puerto Rico as of April 7, 2023

Funding	Quantity Allowed	Quantity Committed and/or Disbursed	% of Total Allowed	% committed or Disbursed from Allowed
Income Support	\$11.0B	\$9.3B	36.9%	85%
Business Support	\$6.1B	\$6.0B	20.5%	98%
State & Local Funding	\$11.5B	\$11.5B	38.6%	100%
Health Spending	\$651M	\$630M	2.2%	97%
Other Spending	\$423M	\$265M	1.4%	63%
<b>Total</b>	<b>\$29.8B</b>	<b>\$27.7B</b>	<b>100%</b>	

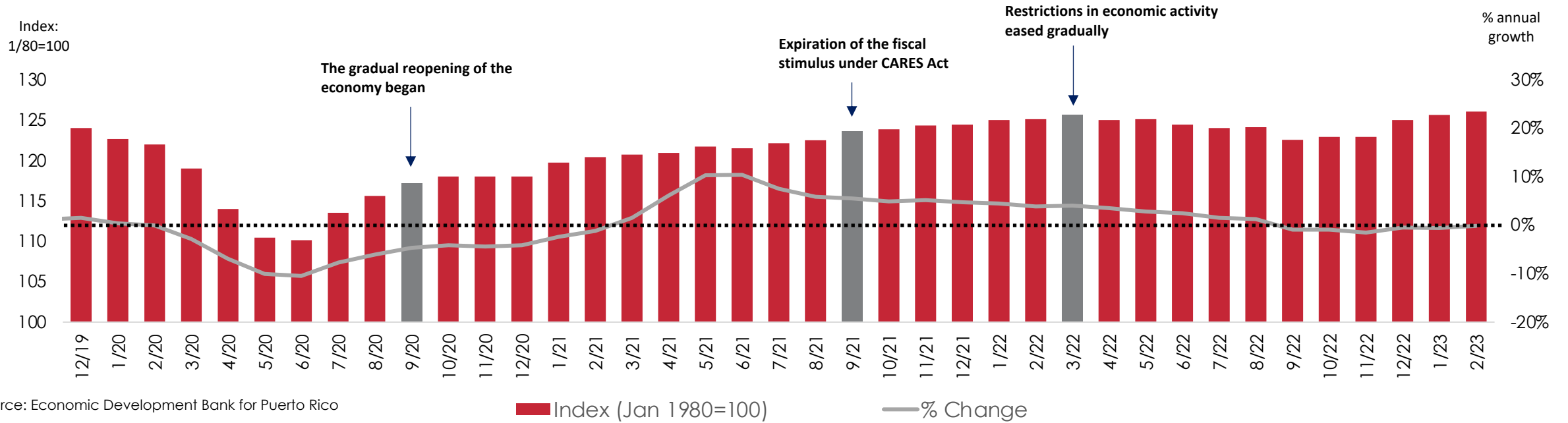
Source: Committee for a Responsible Budget (2021). Covidmoney Tracker - Puerto Rico. Figures updated as of April 7, 2023.



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## THE SLOWDOWN IN ECONOMIC ACTIVITY SUBSIDED

Economic Development Bank of Puerto Rico - Index of Economic Activity  
December 2019 – February 2023





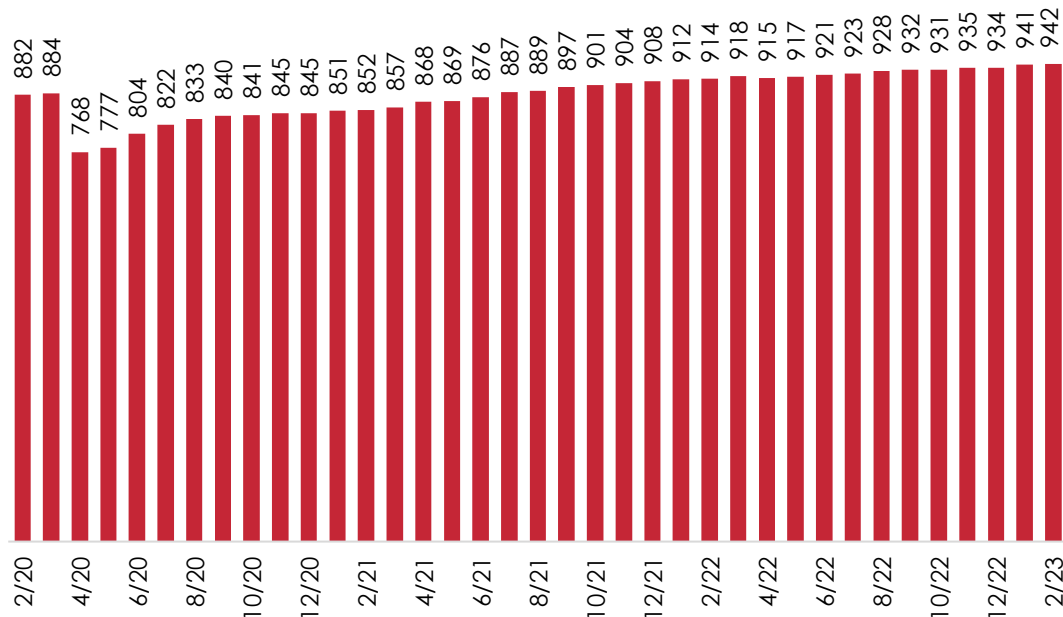
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## THE LABOR MARKET CONTINUES PERFORMING WELL

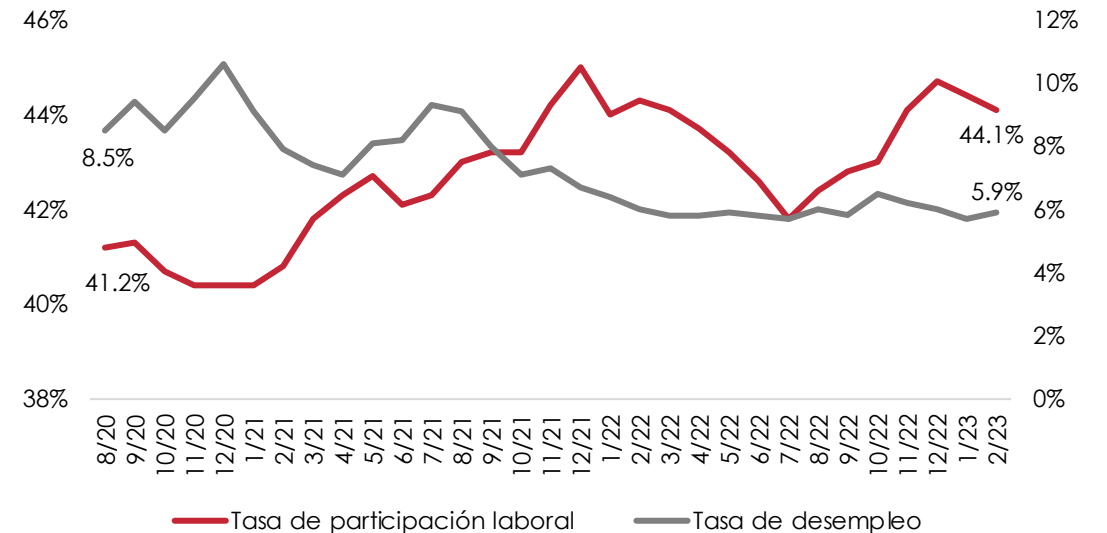
28,500 jobs created between Dec. 2021-2022, exceeding the average of 925,604 since 2006

The unemployment rate reached an all-time low...

Nonfarm Employment (# in 000's)  
February 2020 – February 2023



Unemployment Rate and Labor Participation (%)  
January 2020 – February 2023



Source: Puerto Rico Department of Labor (2022). Household and Establishment Surveys.

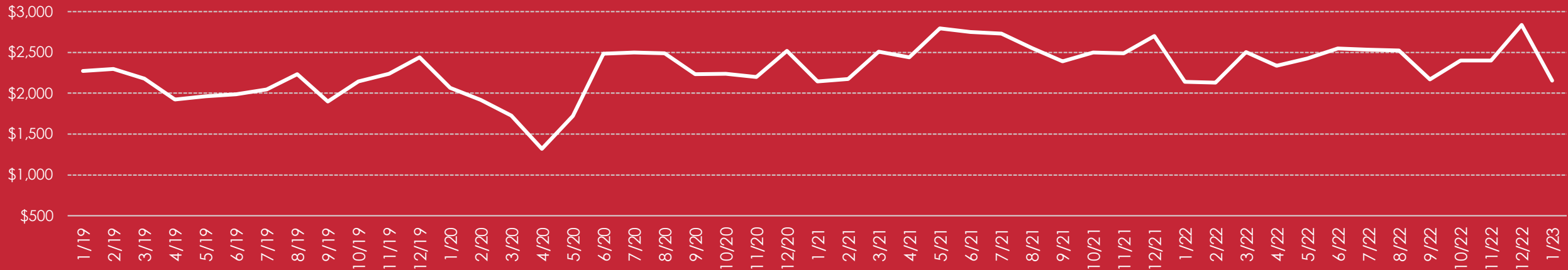




## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

# RETAIL SALES ADJUSTED FOR INFLATION DECLINED 24% ANNUALLY AS CONSUMERS ADJUST SPENDING HABITS

Retail Sales (Constant prices, \$ million)  
January 2018 – December 2022

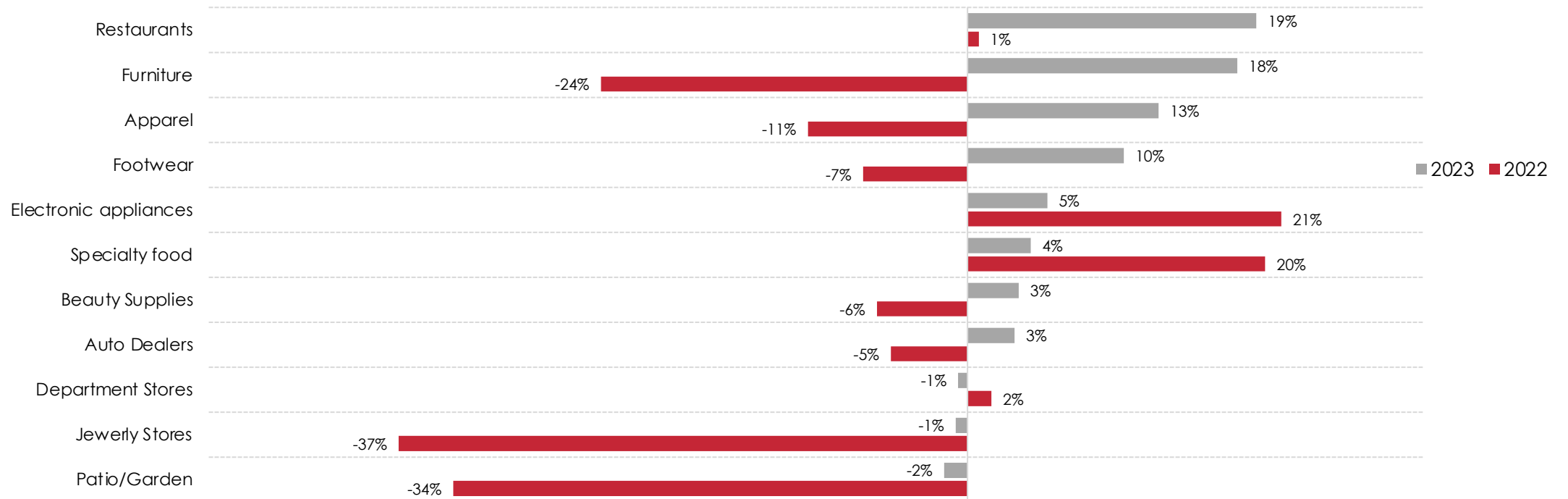




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# RETAIL SALES ADJUSTED FOR INFLATION DECLINED 24% ANNUALLY AS CONSUMERS ADJUST SPENDING HABITS

Retail Sales Constant Prices (Top Retail Establishments, % Annual Growth, January 2023 vs January 2022)



Source: Economic Development Bank for Puerto Rico and Export and Trade Company.

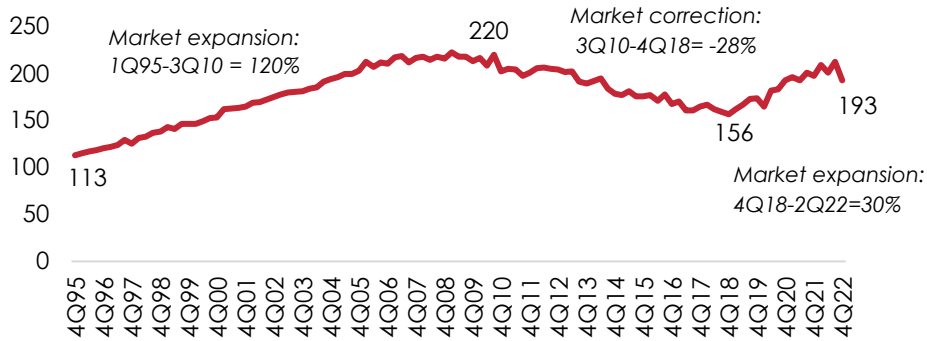




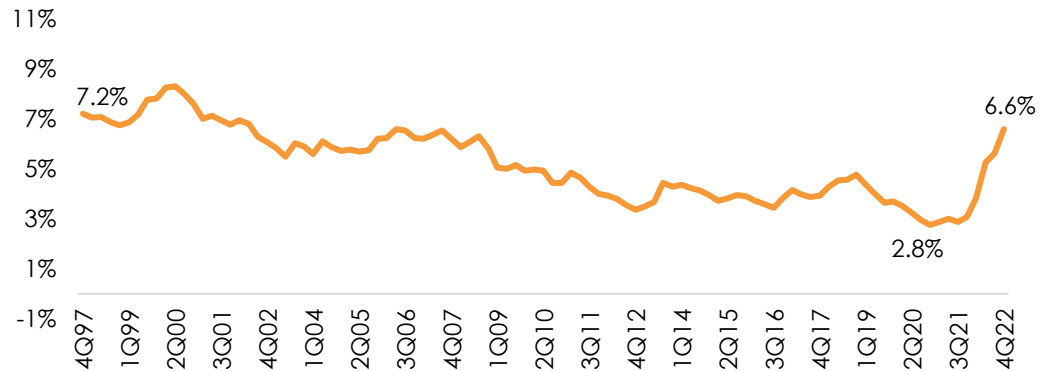
# SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

## HIGHER PRICES AND INTEREST RATES IS AFFECTING HOUSING AFFORDABILITY AND DEMAND IN THE HOUSING MARKET

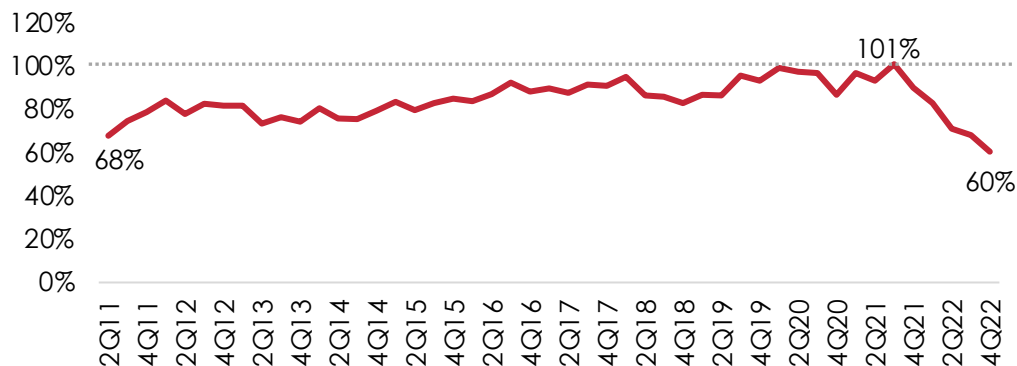
**FHFA House Price Index\***  
(All transactions, 1995=100)



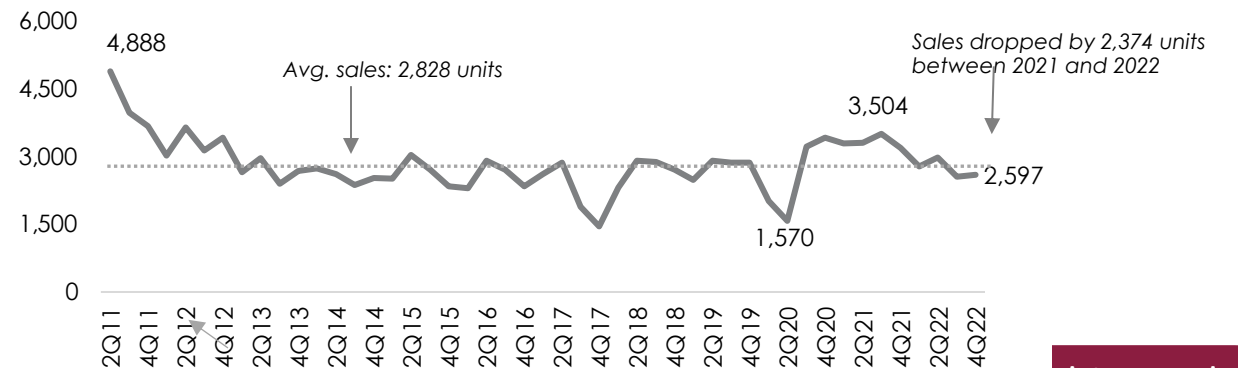
**30-year fixed mortgage rate**



**Affordable Housing Index – TSI (%)**



**Housing Sales (# of units)**



Source: Office of the Commissioner of Financial Institutions, Federal reserve Economic Data and Estudios Técnicos, Inc.  
\*FHFA = federal Housing Finance Agency



## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

**... BUT IS  
EXPERIENCING  
INFLATION**



# SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

## FACTORS INFLUENCING INFLATION

### Internal Factors Related to Public Policy:

- Increase in land transportation fees
- Increases (7) in electric bills
- State minimum wage
- Min. wage for FEMA’s construction workers
- LUMA-IBEW agreement

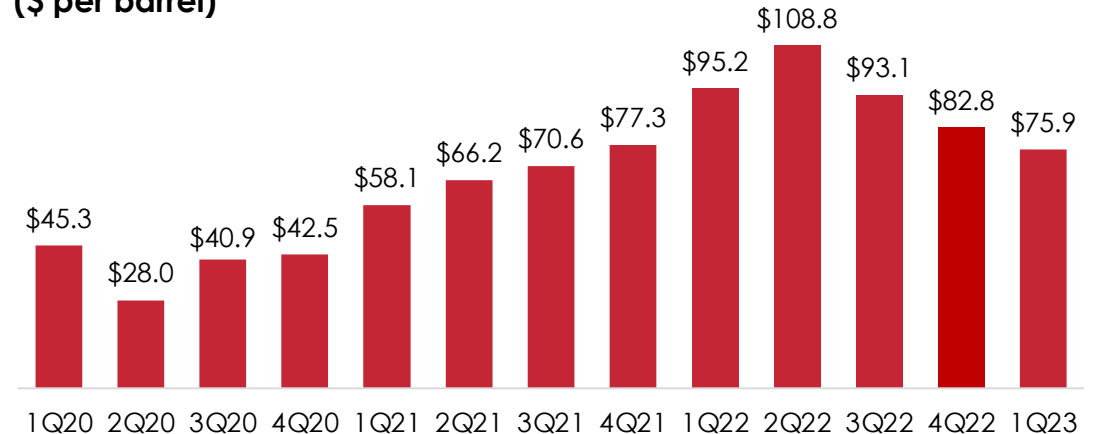
### External Factors :

- Disruptions in global supply chains
- Transportation and production installed capacity problems
- Russia-Ukraine crisis
- Climate change
- China's economy reopening

Residential customer rate  
(average consumption 800 kWh/month)



WTI crude oil price  
(\$ per barrel)



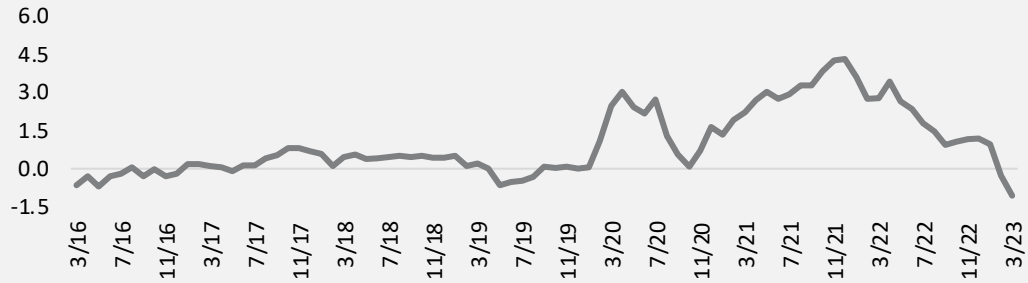
Source: Statistical Institute of Puerto Rico and Federal Reserve Bank of St. Louis.



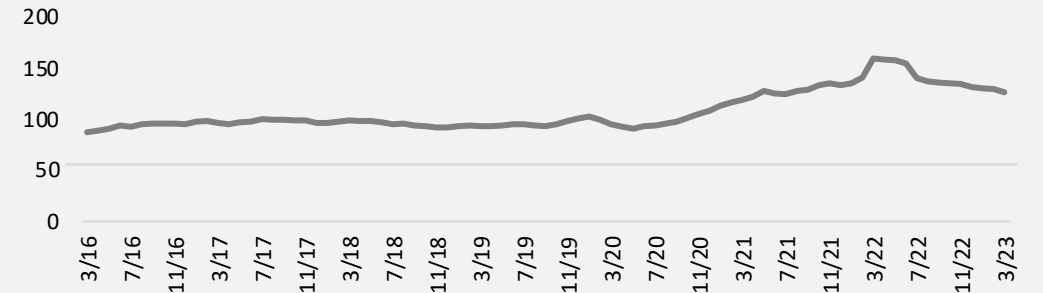
# SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

## SOME EXTERNAL FACTOR DRIVING INFLATION ARE STABILIZING

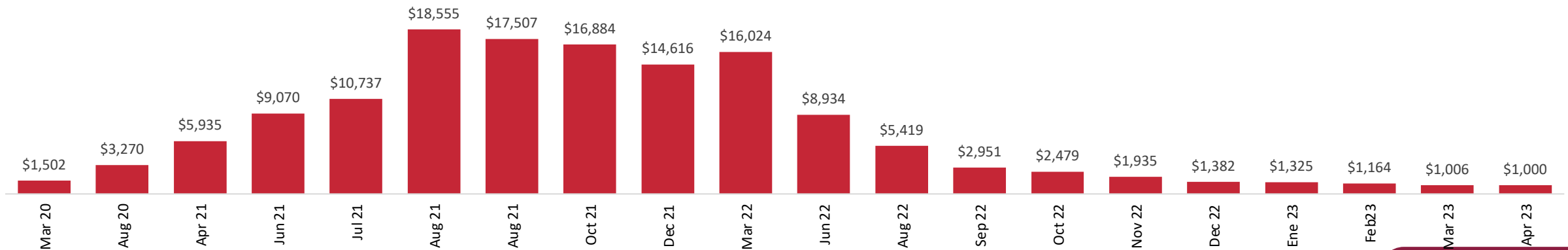
### Global Supply Chain Pressure Index (Standard Deviation from Avg. Value)



### Global Food Price Index from the Food Agriculture Organization (2014-2016 = 100)



### Container Freight from China to North America West Coast (\$ por FEU)



Source: FBX – Freightos Baltic Index; FAO; federal reserve Bank of New York.



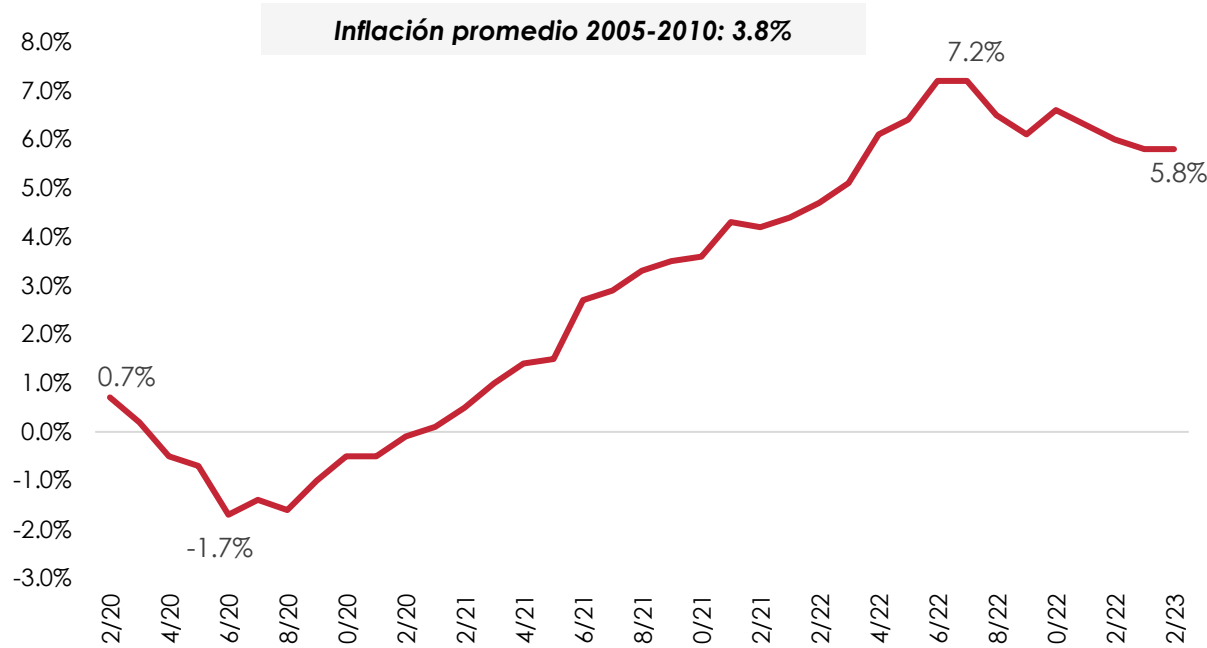
# SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

## INFLATIONARY PRESSURE PERSISTS IN THE ISLAND

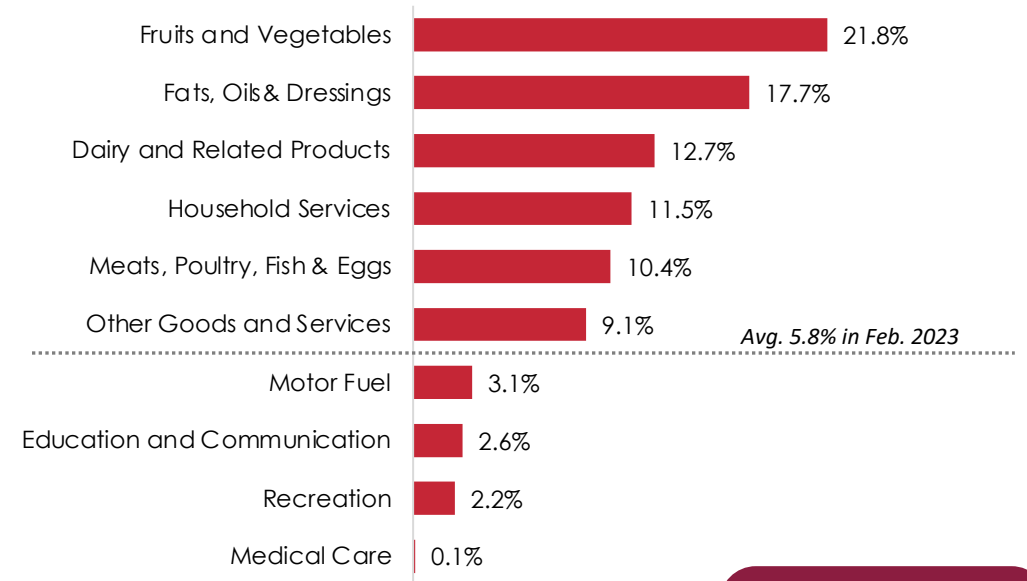
Inflation dropped from 7.2% in July 2022 to 5.8% in January but exceeds the historical avg. of 2005-2010

Higher food and service-related costs are now the key drivers for inflation in the Island

**Inflation rate in Puerto Rico**  
February 2020 – February 2023 (% annual CPI growth)



**Inflation for selected items and services**  
January 2022 – January 2023 (% annual growth)



Source: Puerto Rico Department of Labor





## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

**... AND A  
COMPLICATED  
EXTERNAL  
ENVIRONMENT**

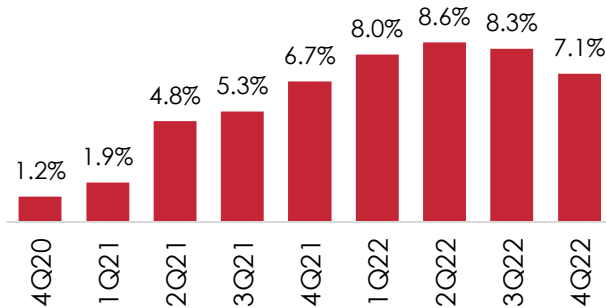


## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

# UNCERTAINTY PREVAILS IN THE U.S. ECONOMY WHILE FURTHER HIKES IN INTEREST RATES IS EXPECTED

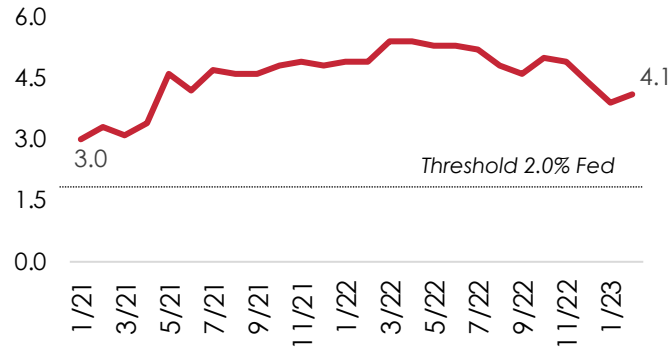
The inflation rate exceeds the 2.0% threshold set by the Fed

Inflation Rate (% annual growth)



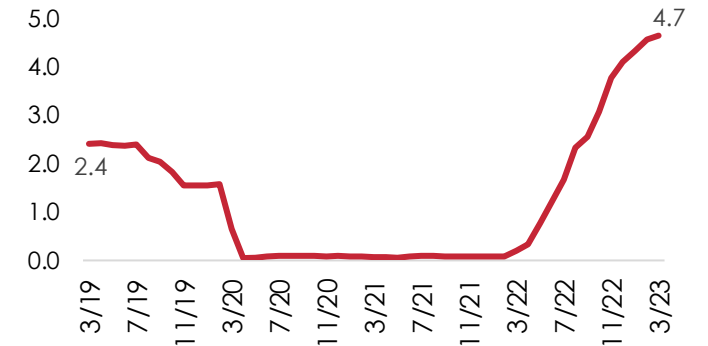
One-year inflation expectations fell from 4.9% in Feb. 2022 to 4.1% in Feb. 2023

Inflation Expectations (%)\*



The terminal interest rate is expected at 5.0%-5.5% range

Fed Fund Rate (%)



The policy of short-term rate hikes and the reduction in bond purchases to reduce liquidity is intended to moderate growth in demand and curb inflation. This will be a complicated task because a mistake in the implementation of this strategy could result in stagflation.

Source: Federal Reserve Economic Database. \*Corresponds to inflation expectations based on the University of Michigan Inflation expectation Index.

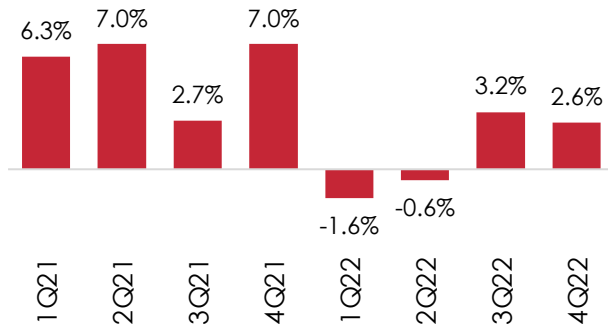


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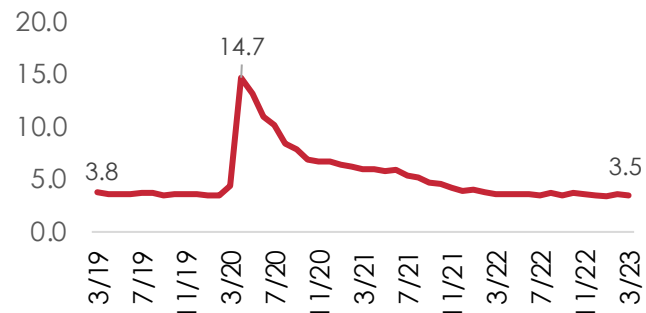
The economy grows but the consumption of goods and residential investment falls

Growth in Real GDP (%)



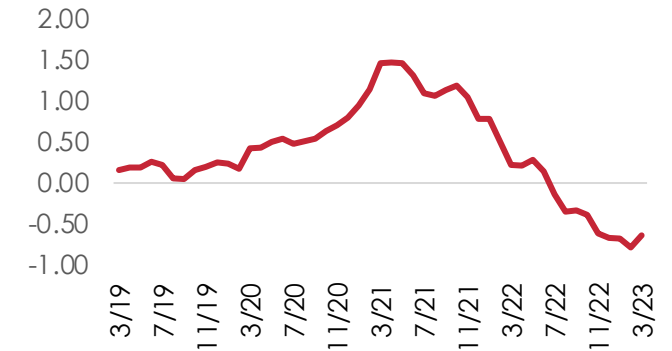
The unemployment rate is at historic lows and wage pressure persists

Unemployment rate (%)



The Treasury yield curve is inverted suggesting recession risk

10 vs 2 yrs. Treasuries Spread (%)







**SEMINARIO VIRTUAL: Impacto de la Inflación en su  
PROGRAMA DE SEGUROS**

**... IMPLICATIONS  
FOR INSURANCE  
INDUSTRY**



## SEMINARIO VIRTUAL: Impacto de la Inflación en su PROGRAMA DE SEGUROS

# ***INFLATION POSED CHALLENGES TO THE INSURANCE INDUSTRY***

- 1 The rising cost of goods and services raises the cost of claims payouts, leading to higher premiums
- 2 Higher premiums may lead consumers to rescind insurance coverage amidst budget constraint
- 3 Rising operating cost require companies to assess cost structure to improve efficiency and margins
- 4 Higher inflation and interest rate leads to a reduction in bonds prices and investment portfolio value
- 5 Reinvestment at a high yield (high-interest rate) leads to an increase in investment income
- 6 Uncertainty and market volatility reduce risk appetite, limit capacity, and increase premiums
- 7 Solvency margin requirements may increase to insure that funds are available to cover claims



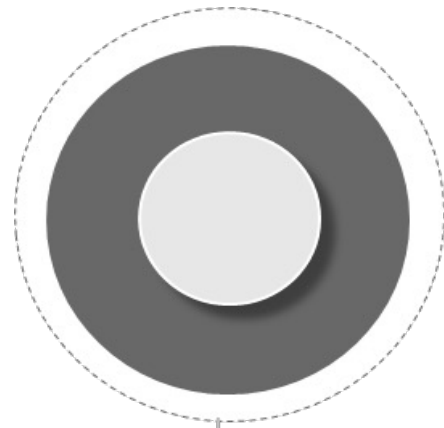
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**ECONOMIC  
OUTLOOK...**

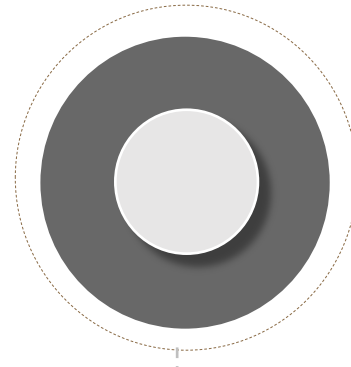


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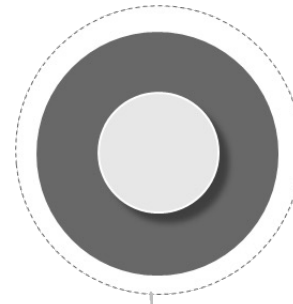
# THE DISBURSEMENT OF THE RECONSTRUCTION FUNDS ARE ESSENTIAL TO SUPPORT SHORT-TERM ECONOMIC GROWTH



**\$77,788 millions**  
Funds granted by the U.S. Congress to PR for recovery and reconstruction

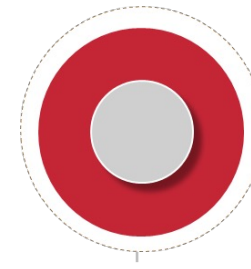


**\$69,150 millions**  
Obligated funds committed by federal agencies for distribution



**\$22,560 millions**  
Disbursed funds as of 3/4/23

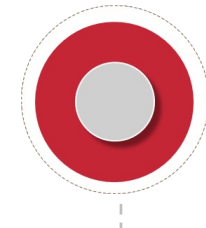
### FEMA and CDBG-DR Funding



**\$43,780 millions**  
Obligated funds from FEMA



**\$17,280 millions**  
disbursed



**\$19,769 millones**  
Obligated funds from CDBG-DR



**\$1,438 millions**  
disbursed



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# THE DISBURSEMENT OF THE RECONSTRUCTION FUNDS ARE ESSENTIAL TO SUPPORT SHORT-TERM ECONOMIC GROWTH

Proyecto	\$ million	Schedule			Source of Funding
		Immediate	Pre-construction, Engineering, and Design	Construction	
Urban Cities rehabilitation	\$1,300	1-2 years	1-2 years	1-2 years	HUD
PR-22 Road Extension	\$1,200	1-2 years	2-4 years	> 5 years	HUD
Increase access to internet band width with 5G technology	\$1,000	1-2 years	1-2 years	1-2 years	Local, HUD, FCC
Development of Caño Martín Peña	\$532	1-2 years	1-2 years	1-2 years	FEMA, HUD, Corpos of Engineers
Building the new Trauma Hospital of Centro Medico	\$260	1-2 years	1-2 years	2-4 years	HUD
Construction of the Valenciano Reservoir	\$246	1-2 years	1-2 years	2-4 years	FEMA
PR-10 Road Extension	\$227	1-2 years	1-2 years	1-2 years	HUD
PR-5 Road extension	\$150	1-2 years	1-2 years	2-4 years	Local, HUD, Private
Development of Bahía Urbana in the Convention District	\$120	1-2 years	1-2 years	1-2 years	FEMA, HUD, Private
Construction of Culebra's Landfill	\$120	1-2 years	1-2 years	2-4 years	HUD, Local
Roosevelt Roads Development	\$75	1-2 years	1-2 years	1-2 years	FEMA, HUD, Private
Construction of an Hospital in Vieques	\$43	1-2 years	1-2 years	1-2 years	FEMA
Trauma System	n/a	1-2 years	1-2 years	1-2 years	HUD
Desarrollo of the Port of the Americas and Ponce's Airport	n/a	1-2 years	1-2 years	1-2 years	HUD, FEMA, Private
Development of the International Airport Mercedita	n/a				
Airhub Strategy	n/a	-	-	1-2 years	HUD, Local
<b>Total</b>	<b>\$5,273</b>				

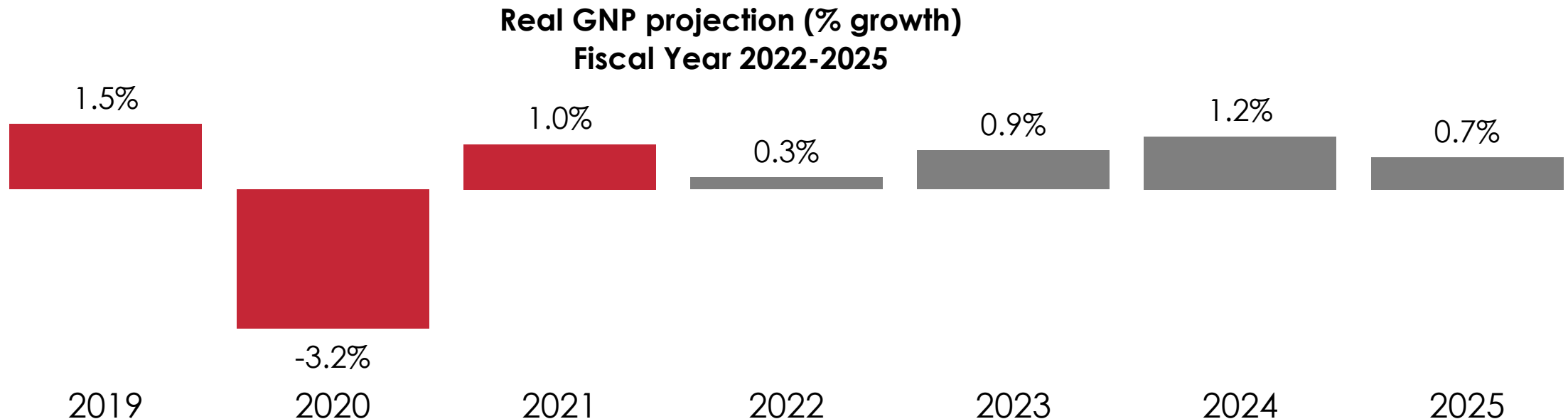
Source: Office of the Governor, La Fortaleza and El Vocero.



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# ***THE DISBURSEMENT OF THE RECONSTRUCTION FUNDS ARE ESSENTIAL TO SUPPORT SHORT-TERM ECONOMIC GROWTH***

- Funding for reconstruction: \$71.1 billion including \$69.1 billion of obligated funding for reconstruction and \$2.3 billion from the Infrastructure Investment and Employment Act
- There are \$5.4 billion in PPP projects related to capital improvement and essential projects (i.e., energy and transportation)
- At least \$440 million in construction and reconstruction of housing affected by natural disasters



Source: Puerto Rico Planning Board (2021) and ETI's Forecast.



# Contacto

 **Leslie Adames**

Director  
Análisis y Política Económica



 **751-1675**

 **ladames@estudios tecnicos.com**

 **www.estudios tecnicos.com**



# ¡Gracias!



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