



# PUERTO RICO'S ECONOMIC ENVIRONMENT

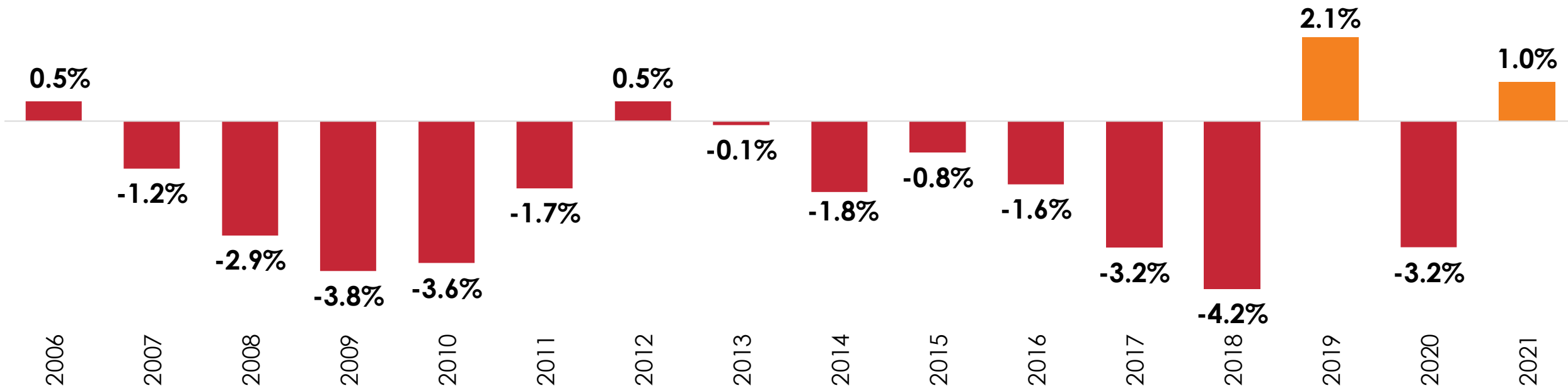
February 24, 2023



# PUERTO RICO'S ECONOMY IS SMALLER

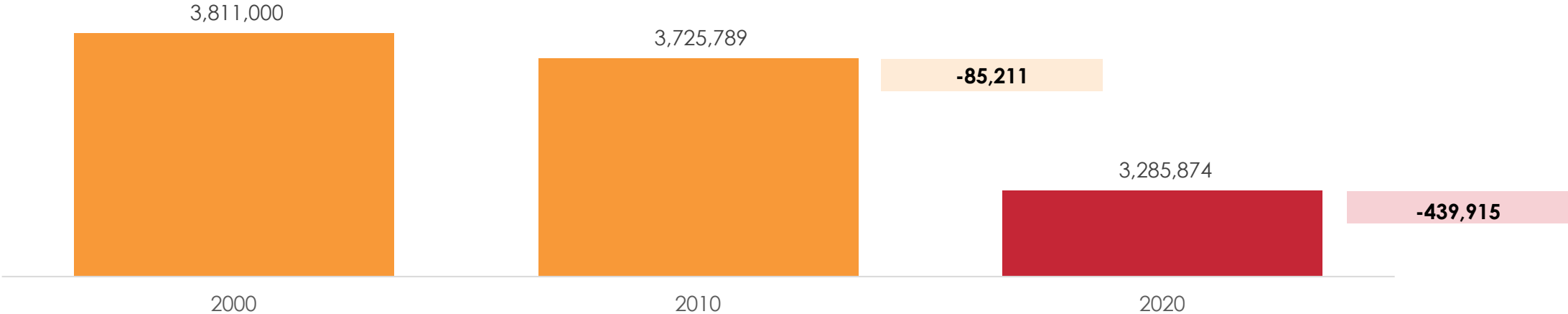
## Real GNP Growth in Puerto Rico Fiscal Year: 2006-2021

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

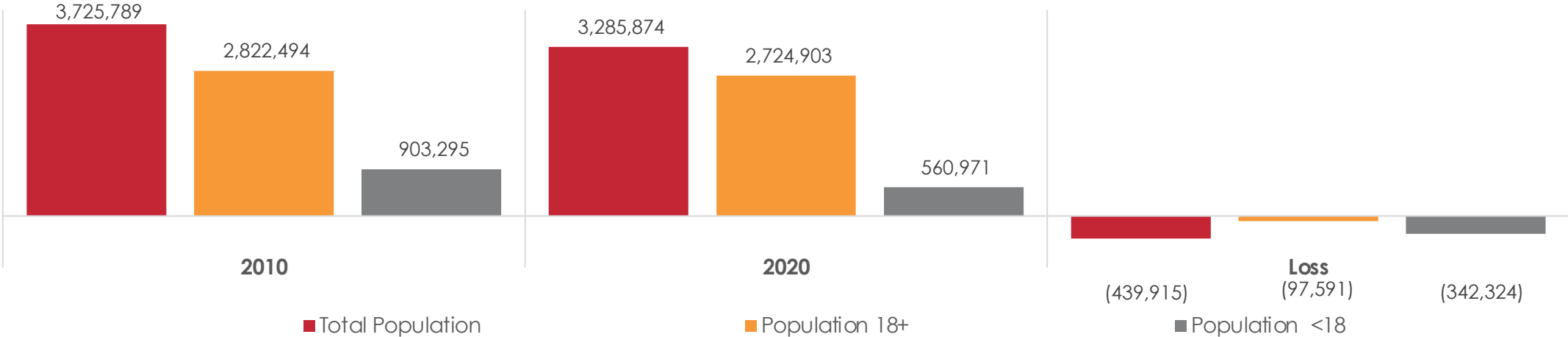


# DEMOGRAPHIC TRANSITION

Census Annual Population, 2000-2020

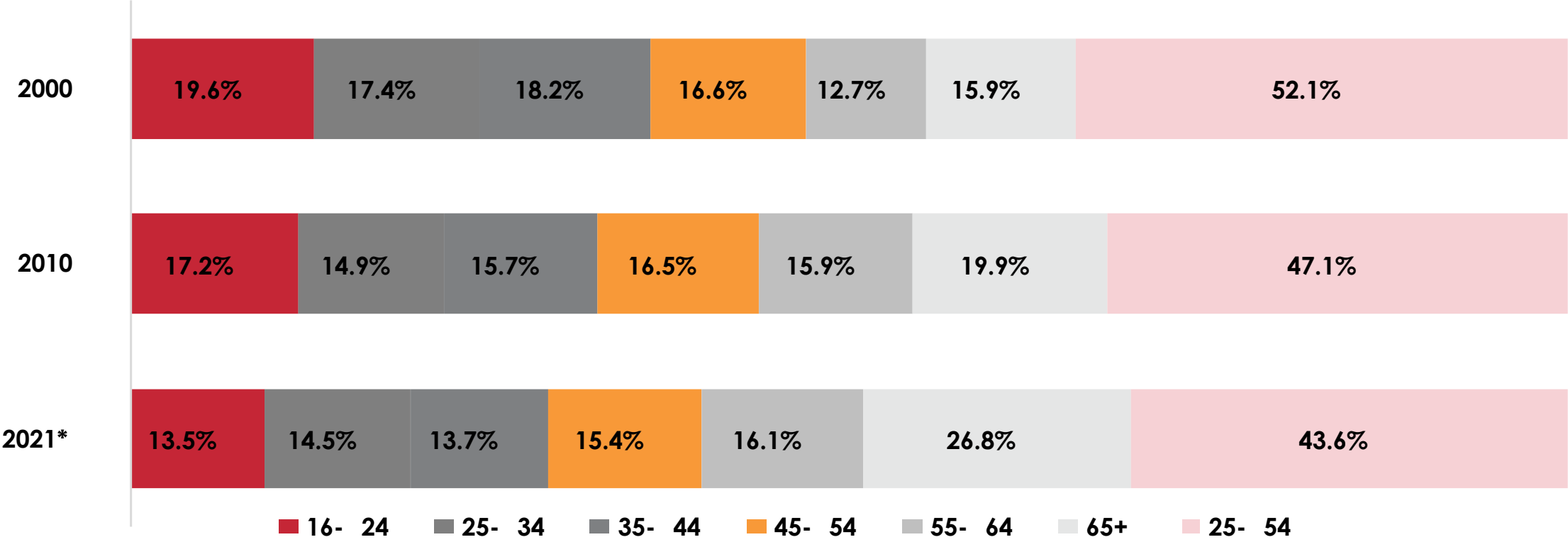


Total Population and by Age Group, 2020



# DEMOGRAPHIC TRANSITION

Distribution by Age Group of the Civil Non-Institutionalized Population, 2000, 2010 & 2021



Source: Puerto Rico Department of Labor (2021). Employment and Unemployment (various years). \*May 2021.

# FEDERAL FISCAL STIMULUS FUNDING UNDER CARES ACT, ESSENTIAL TO THE ECONOMIC STABILIZATION PROCESS SINCE 2020

## CARES Act Funding Granted to Puerto Rico as of January 23, 2023

Funding	Quantity Allowed	Quantity Committed and/or Disbursed	% of Total Allowed	% Committed or Disbursed from Allowed
Income Support	\$10.9B	\$9.2B	37%	84%
Business Support	\$6.1B	\$5.9B	21%	97%
State & Local Funding	\$11.5B	\$11.5B	39%	100%
GaHealth Spending	\$651M	\$630M	2%	97%
Other Spending	\$423M	\$265M	1%	63%
<b>Total</b>	<b>\$29.6B</b>	<b>\$27.5B</b>	<b>100%</b>	

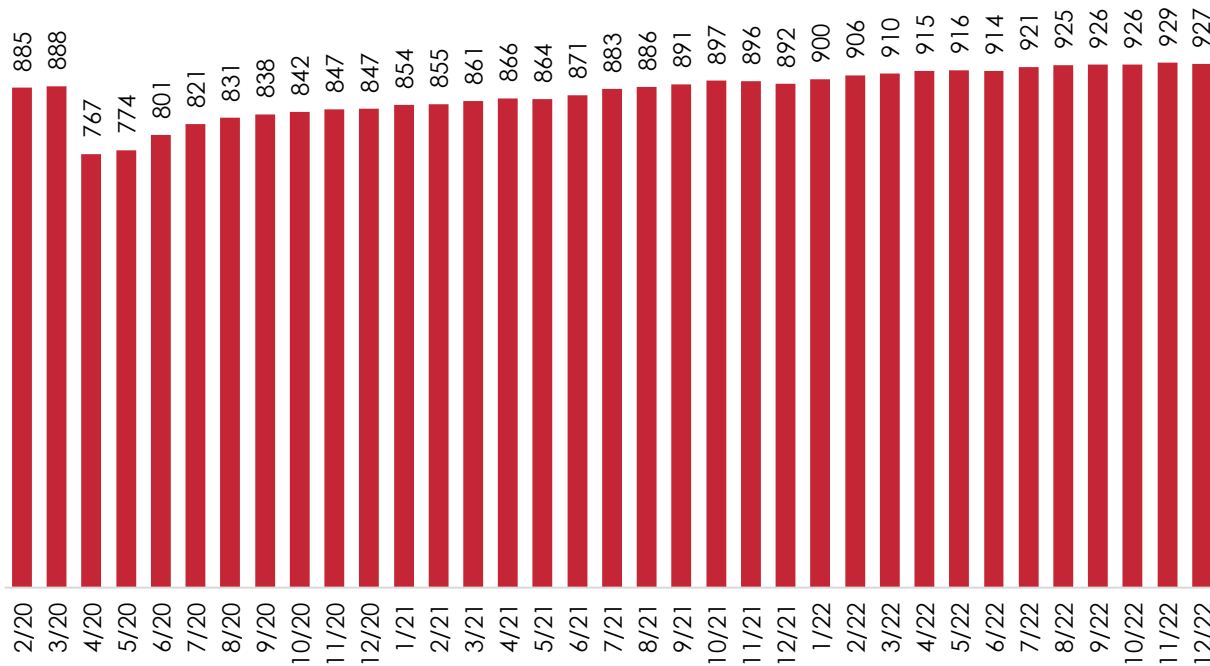
Source: Committee for a Responsible Budget (2021). Covidmoney Tracker - Puerto Rico. Updated as of January 23, 2023.

# THE LABOR MARKET CONTINUES PERFORMING WELL

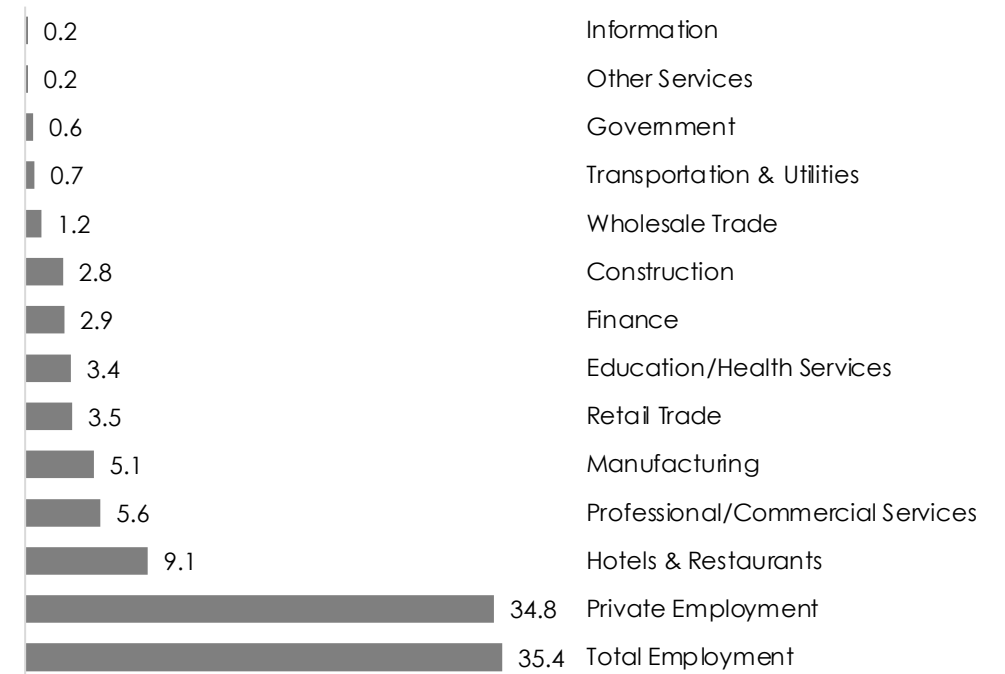
A total of 35,400 nonfarm jobs were created between 2021-2022, thus exceeding pre-pandemic levels...

... yet sequential trends show that labor demand is slowing down in construction, retail, educational/health services

**Nonfarm Salaried Employment (# in 000's)**  
March 2020 – December 2022



**Gain/Loss in Nonfarm Employment (in 000's)**  
Annual Variation for December 2021 vs. 2022

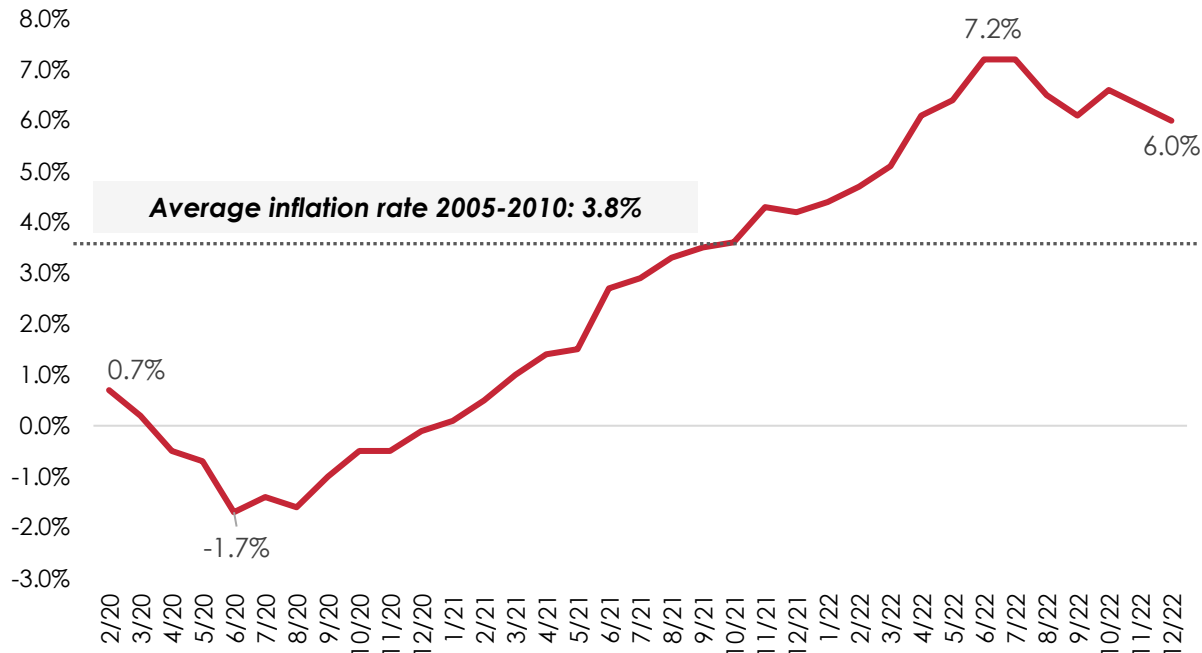


# PRICE PRESSURE PERSISTS DESPITE RECENT SLOWDOWN IN INFLATION

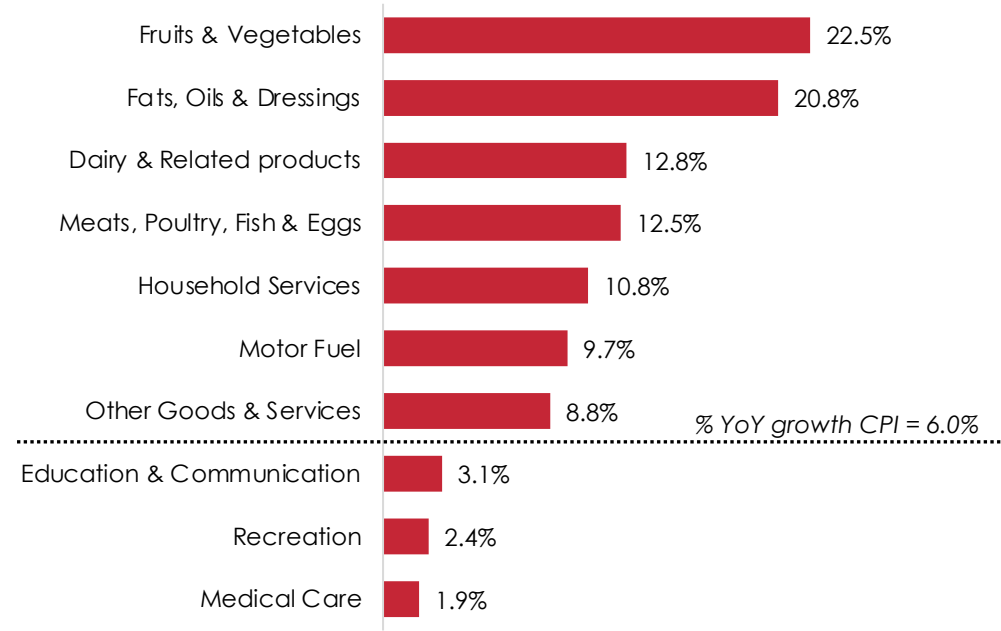
Inflation rate dropped from 7.2% in June 2022 to 6.0% in December but remains well above the 3.8% historical average

Price pressure in the local economy is influenced by high levels of food, fuel and service prices

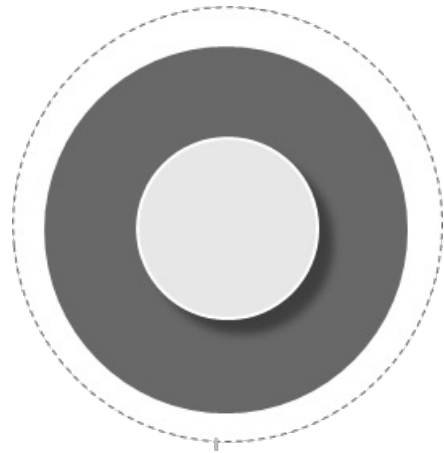
**Inflation rate (CPI % Annual Growth)**  
February 2020 – November 2022



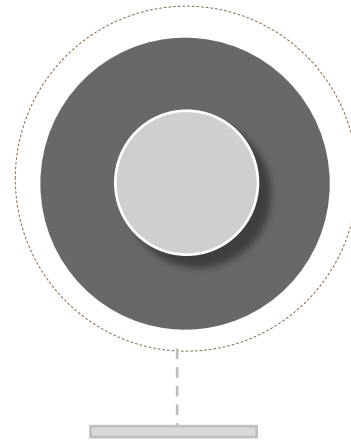
**Inflation for Selected Items**  
December 2021 – December 2022 (% Annual Growth)



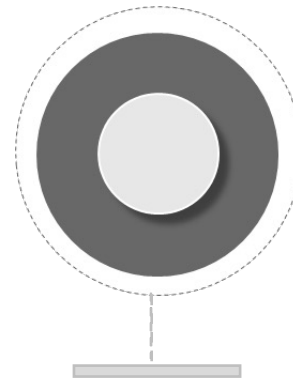
# FEDERAL RECONSTRUCTION FUNDING IS ESSENTIAL TO JUMPSTART CONSTRUCTION BUT RED TAPE CONTINUES AFFECTING THE DISBURSEMENT PROCESS



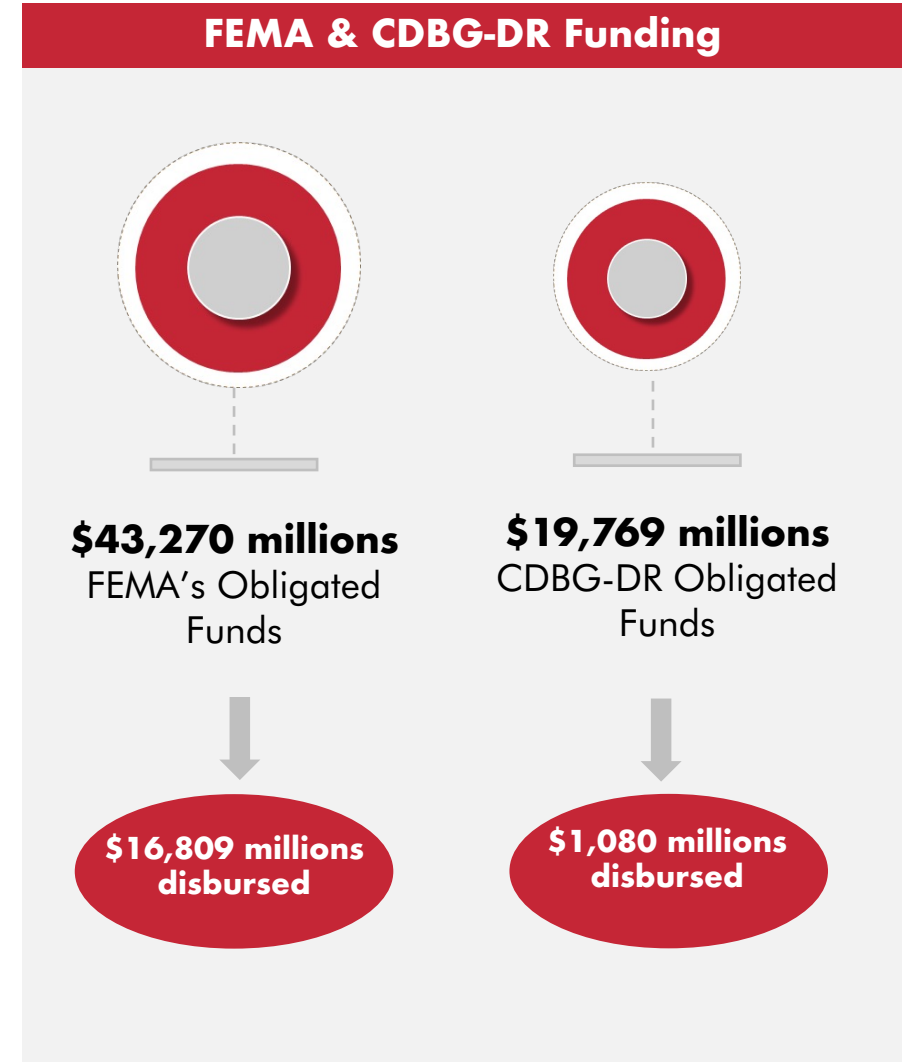
**\$74,217 millions**  
Funds allocated by the U.S. Congress for the reconstruction efforts in P.R.



**\$68,482 millions**  
Funds obligated by federal agencies for distribution



**\$21,635 millions**  
Funds disbursed as of 1/23/2023



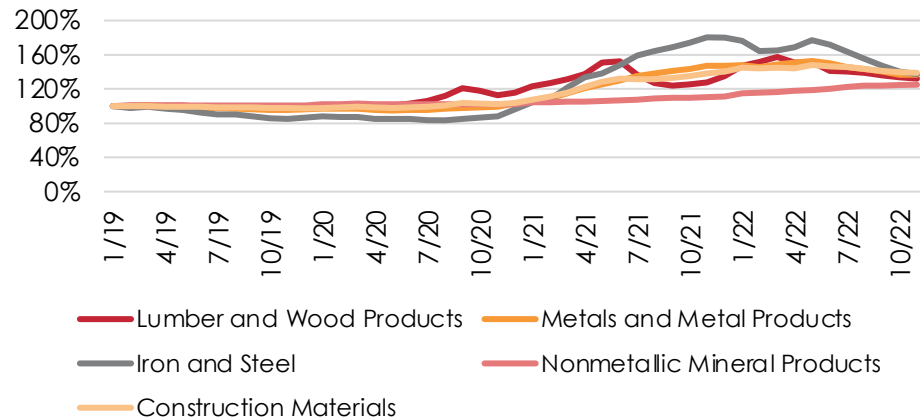
Source: COR3



# RIISING COSTS OF CONSTRUCTION MATERIALS POSES A RISK TO THE SECTOR'S ACTIVITY

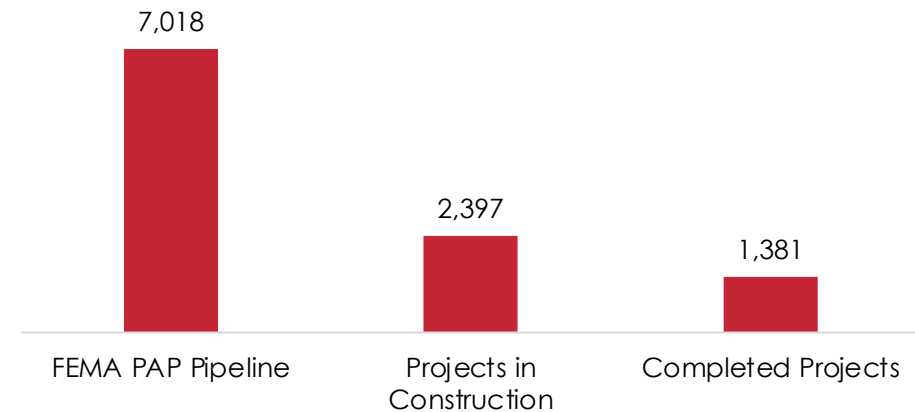
The cost of construction materials are moving toward pre-pandemic levels but import cost will add pressure locally

**U.S. PPI for Construction Materials (1/19 = 100)**

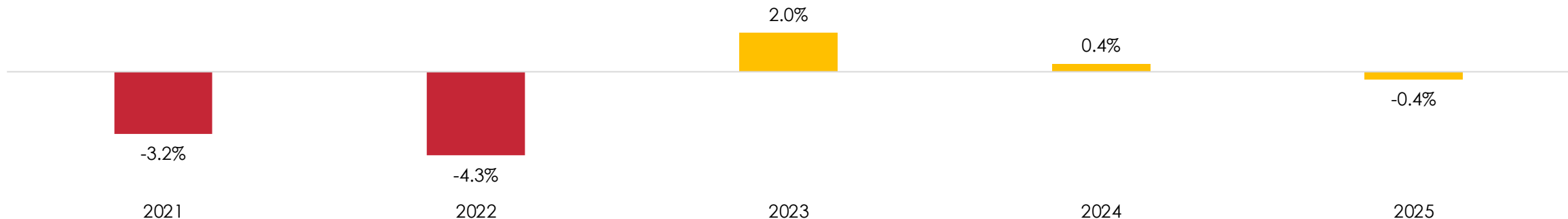


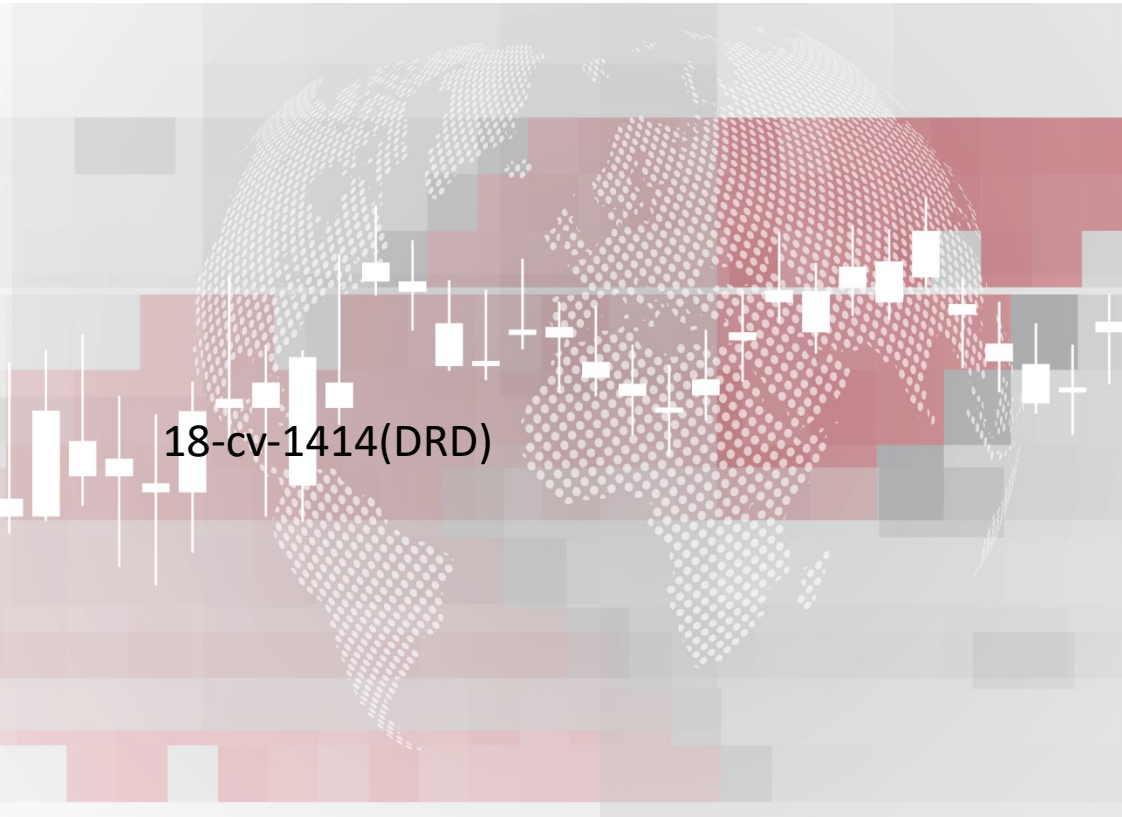
34% of PAP are in construction but FEMA's effort to expedite funding disbursement would support short-term growth

**FEMA Public Assistance Projects\* (#)**



**Investment Forecast (Fiscal Year, % Annual Growth)**





# ECONOMIC OUTLOOK...

# FISCAL BOARD ESTIMATES

- The Certified Fiscal Plan the FOMB included a projection of federal funding until 2032.
- The numbers appear to be very optimistic for the period to 2024.

## Projected Private and Public Disaster Relief Funding Roll Out as Stated by the FOMB (Millions) Fiscal Years 2018-2032

Source of Funding	2018	2019	2020	2021	2022	2023	2024	2025-2032	Total 2018-32
FEMA Public Assistance, Hazard Mitigation, Mission Assignments	\$6,400	\$5,112	\$3,439	\$3,197	\$3,489	\$3,489	\$3,489	\$17,228	<b>\$45,843</b>
FEMA Individual Assistance	\$1,996	\$604	\$604	\$0	\$0	\$0	\$0	\$0	<b>\$3,204</b>
CDBG	\$0	\$170	\$2,059	\$3,446	\$4,999	\$4,870	\$3,096	\$1,305	<b>\$19,945</b>
Private Insurance	\$4,299	\$1,851	\$1,851	\$0	\$0	\$0	\$0	\$0	<b>\$8,001</b>
Other federal funding	\$1,924	\$1,373	\$617	\$489	\$341	\$204	\$189	\$915	<b>\$6,052</b>
<b>Total</b>	<b>\$14,619</b>	<b>\$9,109</b>	<b>\$8,570</b>	<b>\$7,133</b>	<b>\$8,829</b>	<b>\$8,563</b>	<b>\$6,774</b>	<b>\$19,447</b>	<b>\$83,044</b>

Source: Financial Oversight & Management Board for Puerto Rico. (2019) 2019 Fiscal Plan for Puerto Rico. Exhibit 8, p. 20. (May 2019).

# MODERATE ECONOMIC GROWTH IS EXPECTED IN THE SHORT-TERM

- Short-term economic growth to be supported by 1) private spending (more than \$6.0 billion in liquidity still available in personal and companies' deposit accounts) and 2) the investment of \$1.5 billion annually in capital expenditure projects between 2022-2026.
- Growth in private spending (albeit slower than in 2021-2022) and the local purchase of construction materials and intermediate goods in manufacturing will support demand for logistic and maritime transportation services locally.

<b>GNP Real (Growths)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Personal Consumption Expenditures	19.0%	3.2%	0.3%	0.0%	-0.2%
Investment	-3.2%	-4.3%	2.0%	0.4%	-0.4%
Government Expenditures	1.1%	-1.3%	9.5%	0.5%	-1.0%
Exports	-3.9%	0.6%	0.6%	1.0%	1.4%
Imports	9.1%	2.0%	1.2%	0.3%	0.2%
<b>Real GNP</b>	<b>1.0%</b>	<b>-0.5%</b>	<b>1.5%</b>	<b>0.7%</b>	<b>0.4%</b>

Source: Estimates by Estudios Técnicos, Inc. (December 8, 2022)

# FINAL REMARKS

- Puerto Rico's short term Outlook depends on the amount of federal funds disbursed and invested, particularly from the CDBG-DR and CDBG-MIT programs. The CARES Act funds went mostly to consumption, as well as the EITC. This has maintained retail sales fairly stable.
- There is now a great deal of uncertainty not only with respect to amounts, but also the timeline for disbursing the funds.
- Projections of the economic outlook for Puerto Rico are not based on concrete and definitive information on federal fund allocations and disbursements. Both COR3 and Housing have put in place procedures for accelerating access to federal funds.
- Economic projections for Puerto are also affected by a large number of external factors that are beyond our control, US economic and inflation trends as well as geopolitical events that impact the global economy.

# FINAL REMARKS

- The war in Ukraine is perhaps the main generator of uncertainty and will almost certainly continue to impact economic expectations.
- The US economy is projecting mixed signals with respect to financial, labor and construction markets and it is not at all certain how the economy will perform in the short and medium terms. Likewise, inflation will continue to be a key issue in the near term and will impact sectors such as construction and retail sales.
- The implications of recent events, such as increased Chinese investments in the region and aggressive initiatives by Mexico, Colombia, the Dominican Republic and others to benefit from the near-shoring policy present major competitive challenges for Puerto Rico. The CHIPS Act presents an opportunity for Puerto Rico, but it is not clear what actions are being taken to benefit from it.
- There is no post-reconstruction road-map and it is sorely needed. Puerto Rico has many positives, but it is abundantly clear, however, that the political class is not inclined to returning Puerto Rico to a sustainable economic growth path.



¡Gracias!