



Puerto Rico: Economic Prospects

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Presentation plan

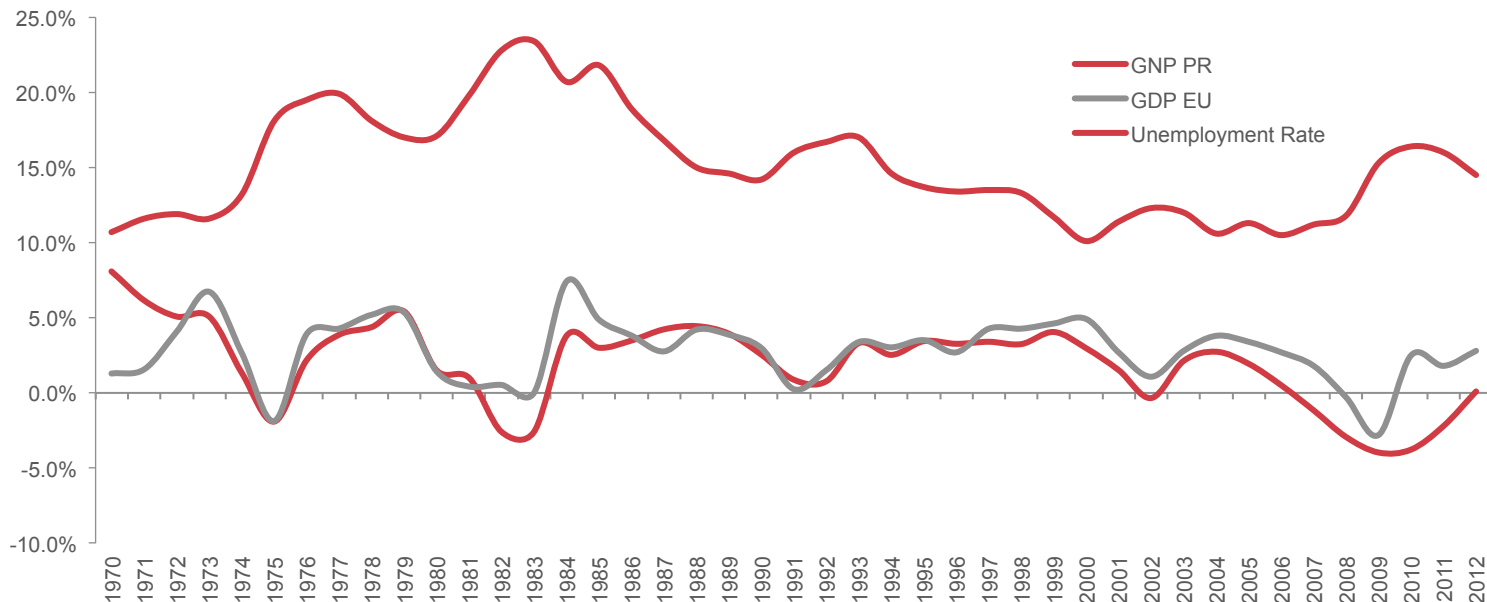




Macro Economic Overview and Economic Prospects for Puerto Rico

GNP & GDP: Puerto Rico & U.S.

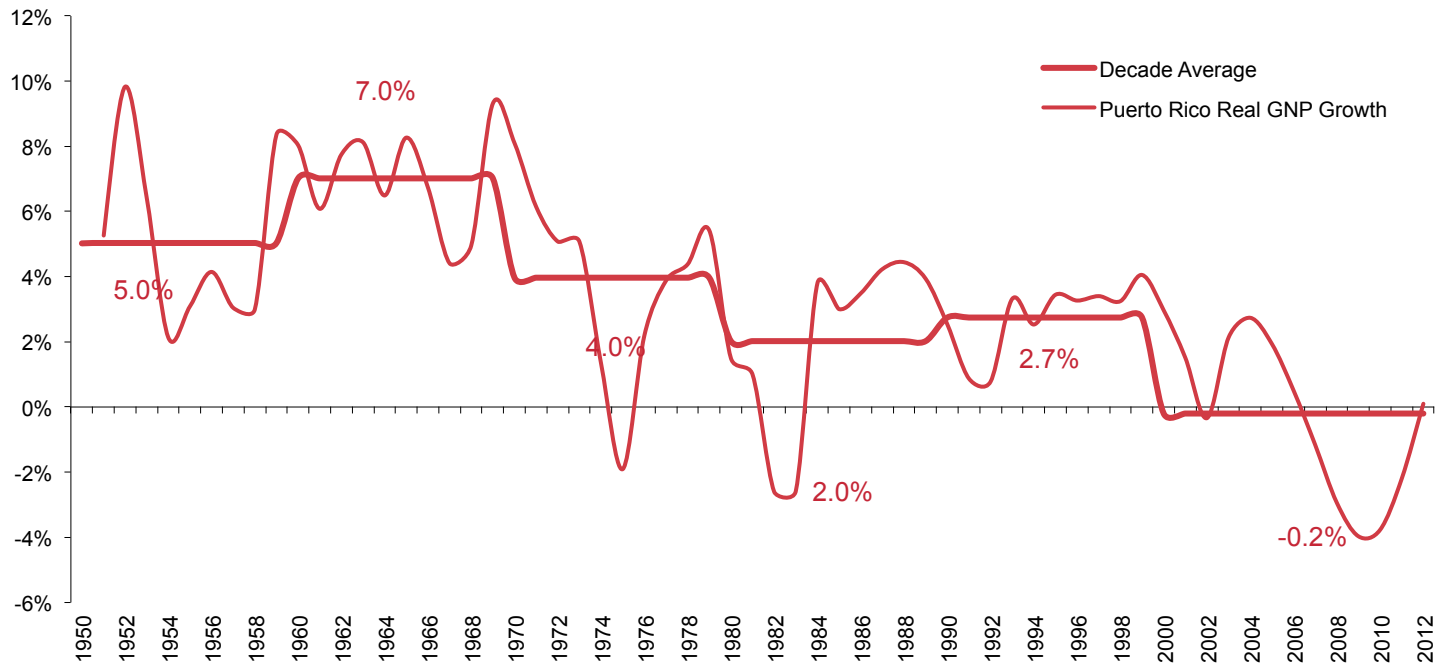
- The local economy has experienced secular deceleration in economic growth since the mid 1970s.
- Up to the late 1990s, the local economy's cycle was significantly correlated with the U.S business cycle.
- Since then, their growth paths have diverged.
- The underlying reasons leading to the U.S recession in 2008 are fundamentally different from those that led to the start of the P.R recession in 2006.



The Economy Has Come to a Standstill

Real GNP Growth for PR – annually and per decade

- The decade 2001 – 2011 was the culmination of a long period of slow growth not just a simple cyclical recession.

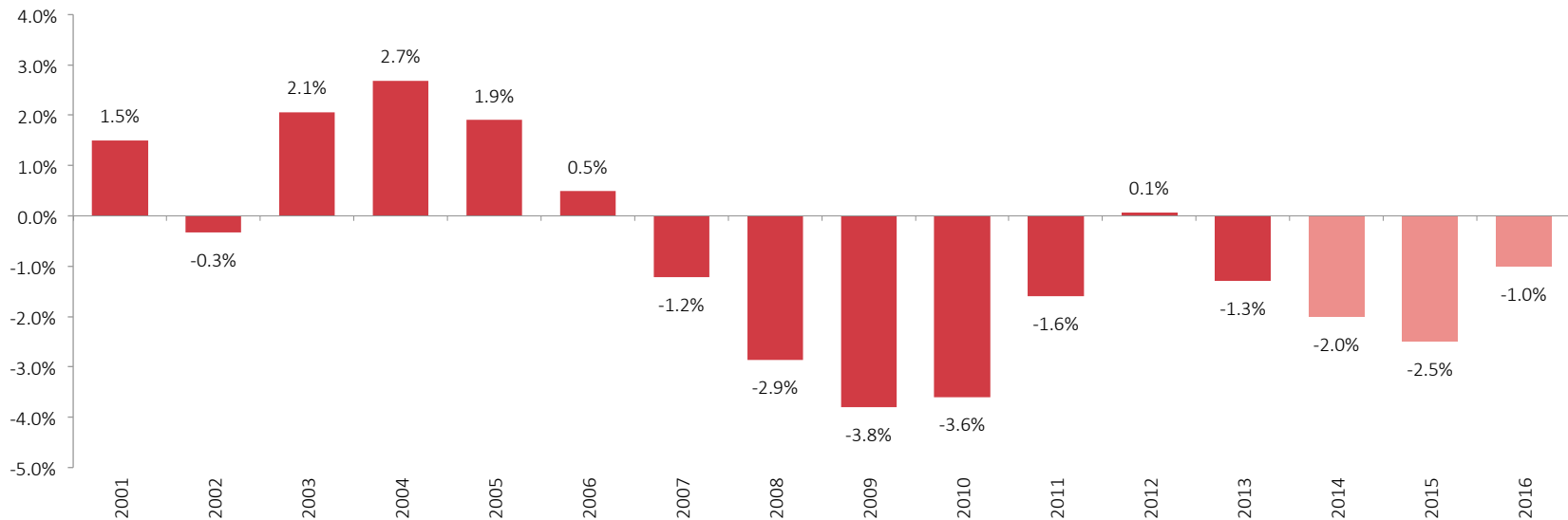


Source: Puerto Rico Planning Board (2013).

GNP Trends

Annual Real GNP Growth for PR and its Forecast

- Puerto Rico Planning Board's growth estimate for 2013 was -0.03% and in 2014 -0.1%. The government has projected that only in 2018 will the economy grow.

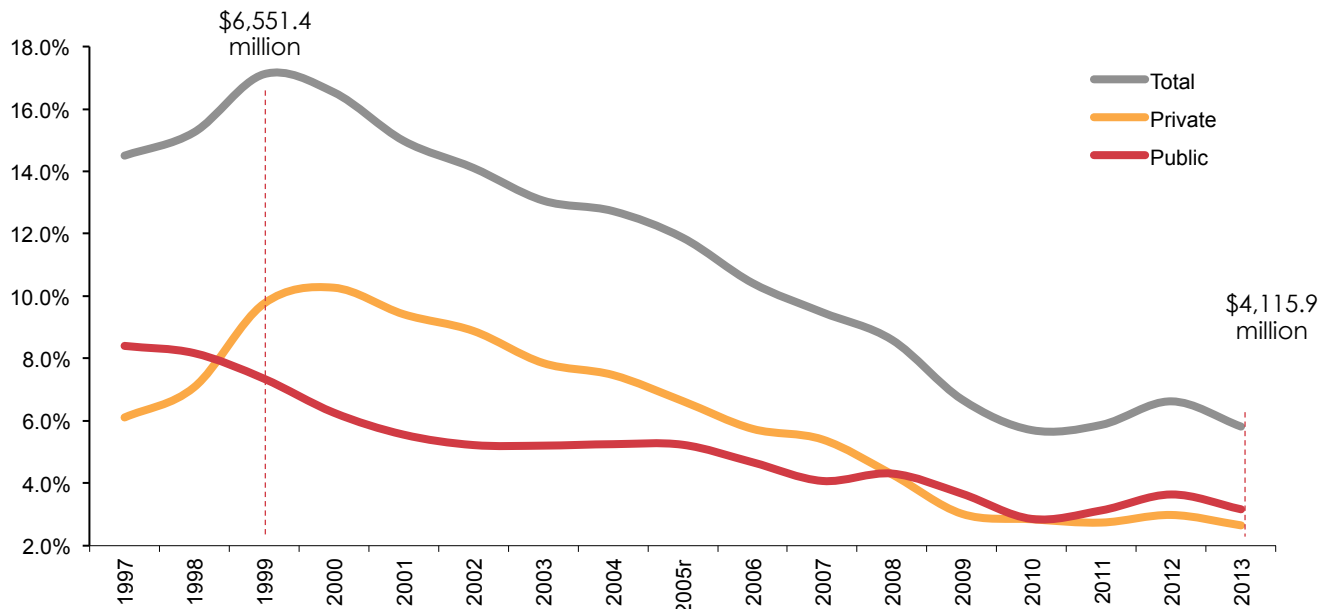


Source: Puerto Rico Planning Board (2012). Fiscal years. Estudios Técnicos, Inc. 2013-2016.

Investment trends

Investment in construction / GNP
(Current dollars)

- A major problem is the decrease in investment

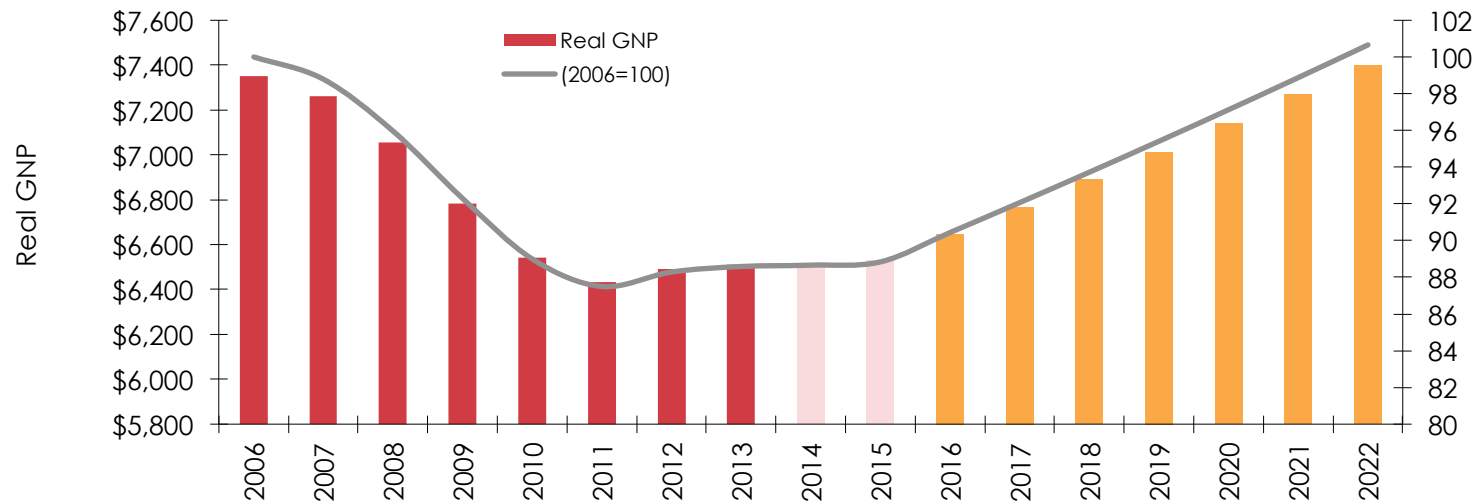


Source: Puerto Rico Planning Board.

Outlook

**Puerto Rico would reach the
real GNP level of 2006 by 2022**

(Assuming an annual rate of 1.8% for 2016 - 2022)



Source: P.R. Planning Board; Estudios Técnicos, Inc.

Note: The years 2014 and 2015 corresponds to forecast by the Planning Board.

Economic Composition

Real GDP Growth

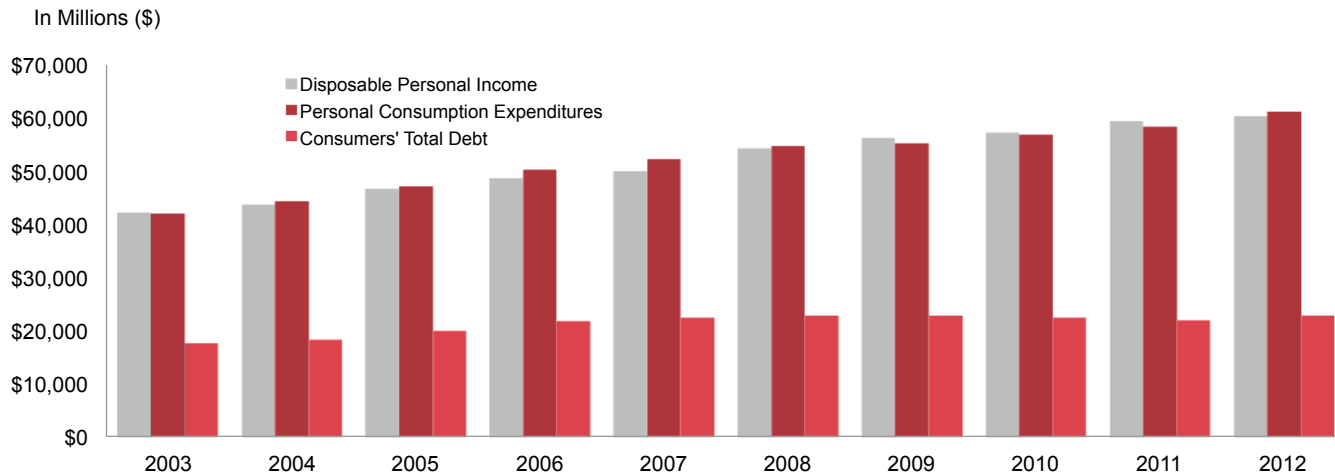
	Fiscal Years											
	Annual Growth Rate											
	Historic								Forecast (a)			
	2005	2006	2007	2008	2009	2010	2011	2012p	2013	2014	2015	2016
Real GNP	1.9%	0.5%	-1.2%	-2.9%	-3.8%	-3.6%	-1.6%	0.1%	-1.3%	-2.0%	-2.5%	-1.0%
Personal consumption expenditures	3.4%	2.2%	3.5%	-1.2%	-2.9%	1.4%	0.7%	3.0%	1.2%	1.0%	1.1%	1.5%
Public spending	4.2%	0.1%	-1.5%	-4.7%	2.5%	-3.4%	-4.7%	-0.7%	-0.6%	-1.5%	-2.8%	-1.2%
Gross domestic investment	-4.0%	2.2%	-6.3%	-7.9%	-12.5%	-7.8%	12.8%	4.4%	-7.7%	-8.3%	-10.5%	-5.3%
Construction	-6.9%	-10.9%	-7.6%	-9.4%	-22.2%	-14.1%	2.0%	11.0%	-13.1%	-13.5%	-15.1%	-7.4%
Private	-11.3%	-12.1%	-4.5%	-20.8%	-29.5%	-5.1%	-4.1%	-3.0%	-12.0%	-13.3%	-14.5%	-6.4%
Public	-0.5%	-9.4%	-11.5%	5.7%	-15.0%	-21.5%	8.1%	23.3%	-14.6%	-13.8%	-15.9%	-8.9%
Exports	2.7%	0.7%	-7.9%	-1.3%	-3.6%	-3.9%	1.7%	-4.1%	-1.9%	-2.4%	0.7%	3.8%
Imports	2.7%	1.9%	-4.5%	-1.7%	-3.2%	-0.5%	3.0%	0.5%	-0.5%	-0.6%	0.9%	2.8%

Sources: PR Planning Board (2013). *Statistical Appendix 2012*; Estudios Técnicos, Inc. (February 20, 2014). P = Preliminary (a) Subject to revisions.

Income and Consumption

Level and Growth in Personal Income, Personal Consumption Expenditures and Consumer Debt (current dollars)

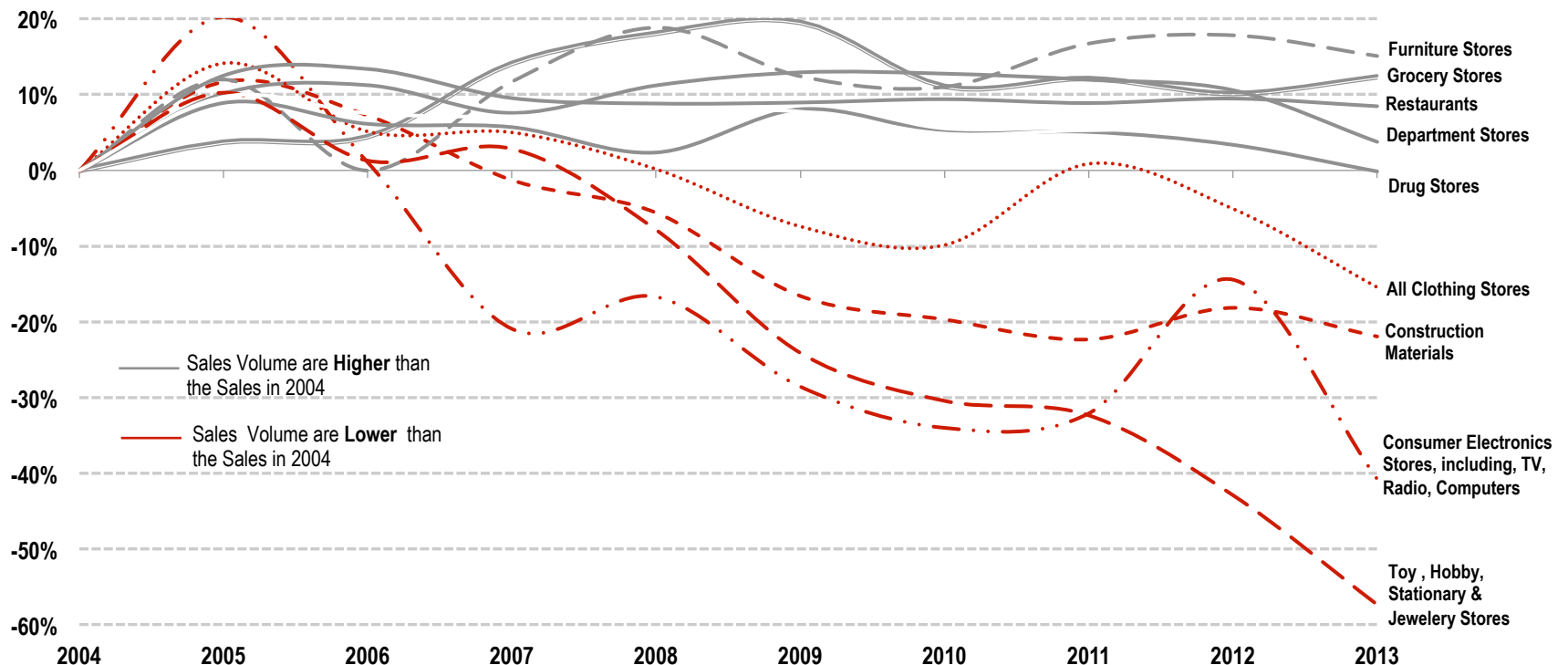
- Consumers have reacted as expected since the onset of the economic recessions with worsening expectations and increasing their debt repayment.



Source: Puerto Rico Planning Board.

THE TRANSFORMATION IN RETAIL SALES

- A major shift to large retail units is transforming the retail sector at the same time that total sales are falling.



Source: Compañía de Comercio y Exportación.

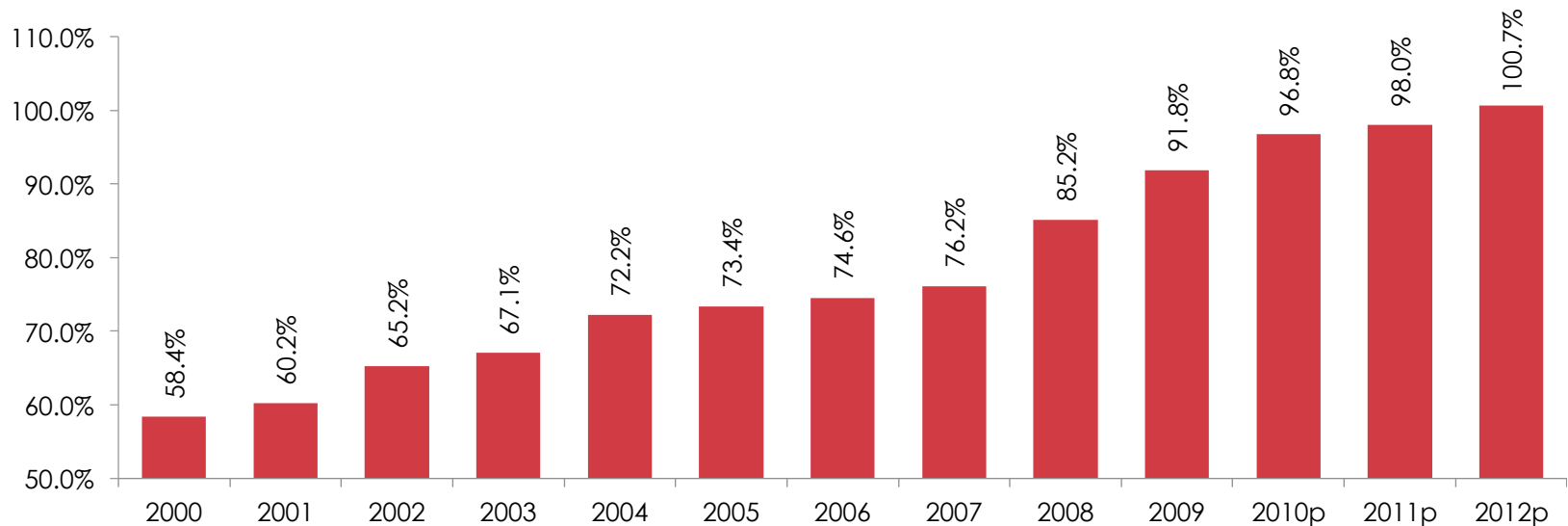


The Fiscal Situation

The Fiscal Situation

Public Debt as percent of the Gross National Product

- In fiscal 2012 the public debt/GNP ratio was 100.7%, now 104% after the 2-14 debt issue.
- The government is extremely constrained with respect to issuing of new debt for infrastructure investment. \$1.9 billion in infrastructure projects was announced recently, but no time framework was presented.
- The Public-Private Partnerships can help to mitigate this limitation but not in the next two to three years. The PR 22 and Airport PPPs are both “brownfield” projects, entailing no significant new investment.



Sources: Puerto Rico Planning Board (2013).

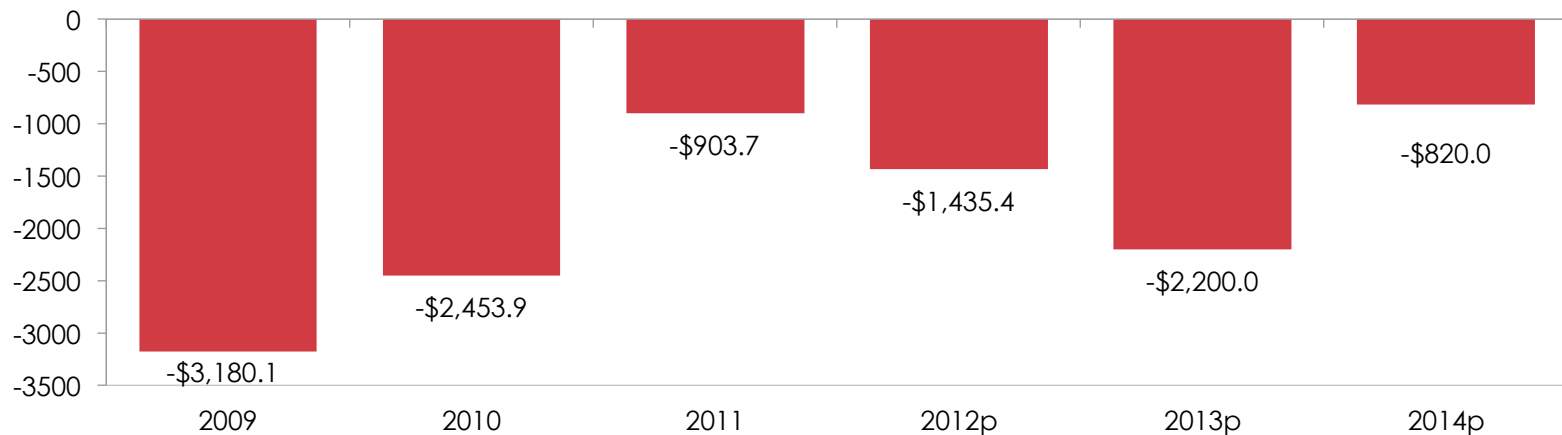
The Fiscal Situation

The fiscal Situation

- Accumulating budget deficits, financed by issuing debt, reached a critical point in fiscal 2009 and 2010. Rating agencies had warned that the situation was unsustainable.
- The budget deficit in fiscal 2013 was \$2.2 billion, including debt service.
- The tax measures adopted to balance the 2014 budget were complex, difficult and costly to implement. The shortfall of over \$400 million is in great measure due to this.
- Assuring a balanced budget in 2015 will require major cuts in government expenditures and this will aggravate the economic situation.

Budget Deficit, General Fund

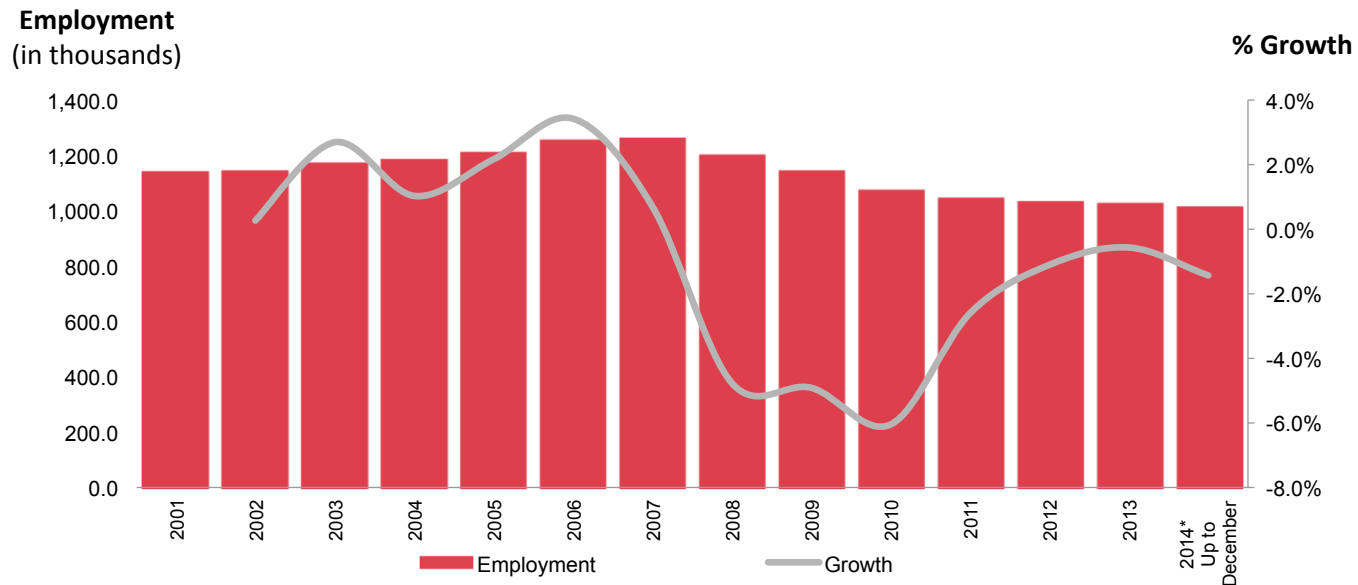
Difference between recurrent revenues and actual expenditures



The Labor Market

Number of Jobs

- Between 2006-2013 over 200,000 jobs were lost.
- Unemployment among the 16-24 age cohort is 36.8%.
- The Labor Force Participation Rate is at a historically low level of 39.4% (in the U.S. it is 63%). In 2006 it was 48.6%.
- Private sector employment has stabilized but continues to fall in manufacturing.

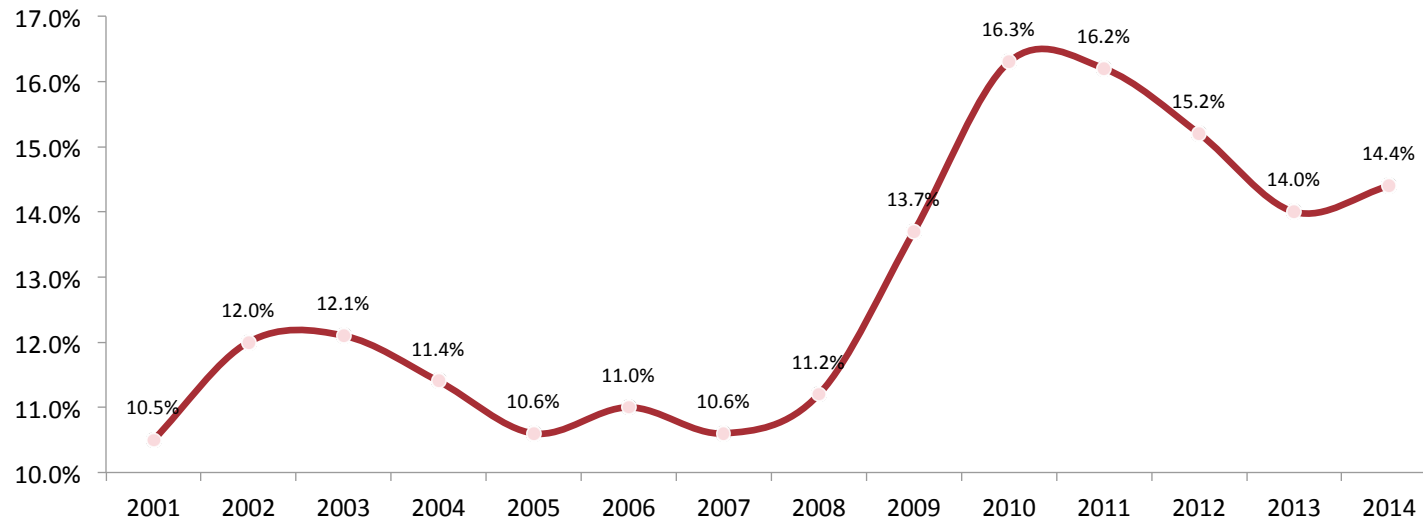


Source: Puerto Rico Department of Labor & Human Resources.

The Labor Market

Historic unemployment rate in Puerto Rico – 2001 to 2014

- Current unemployment rate as of December 2013 was 14.8%.

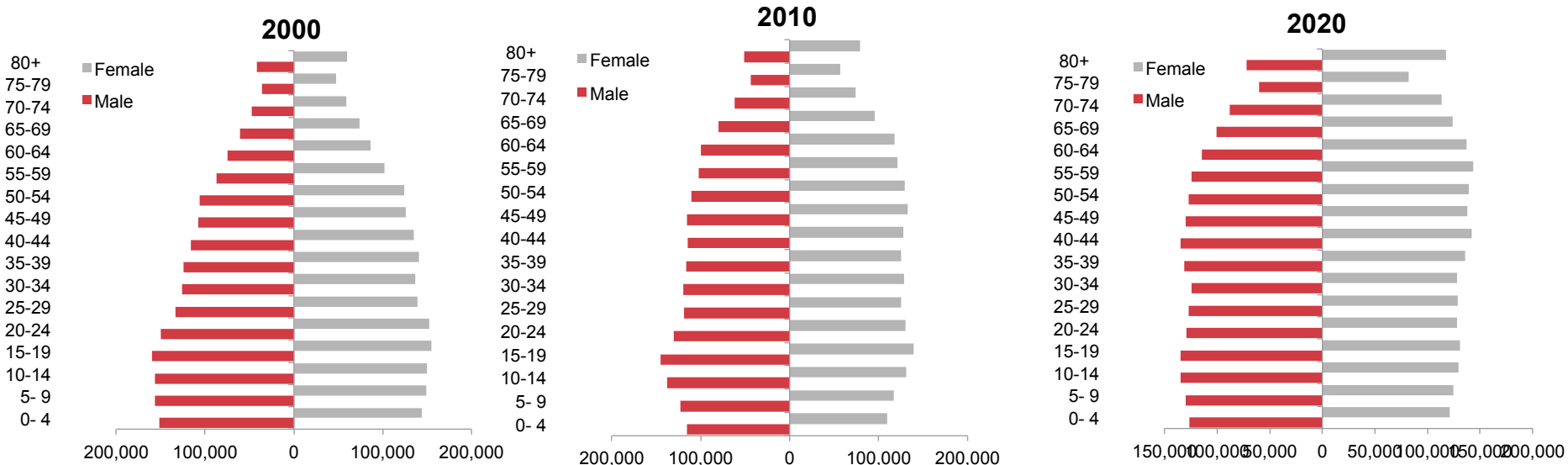


Source: Department of Labor and Human Resources.

Population

Historic and Forecasted Population in Puerto Rico by age group

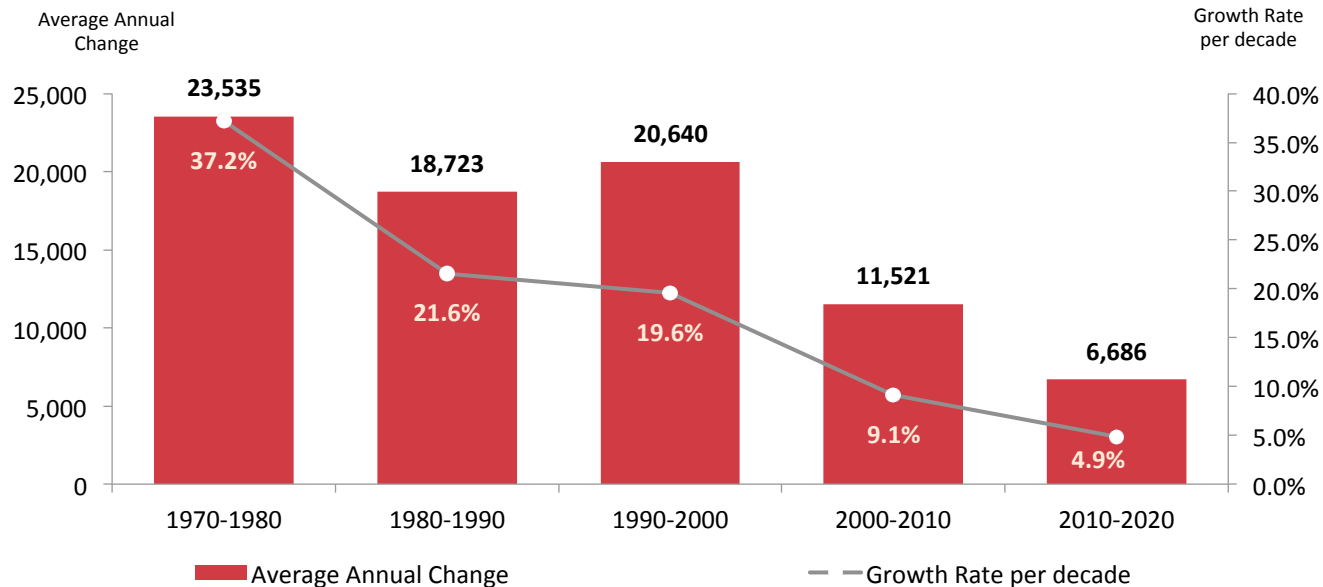
- Little or no growth in population. In fact, according to the Census Bureau the loss of population between 2000 and 2010 was close to 250,000, not the 82,821 announced earlier in the 2010 Census.
- A rapidly aging population.
- Net out migration has continued after 2010.
- The demographic transition impacts all markets: health, education, labor, housing, financial services.



Households

Household formation in Puerto Rico

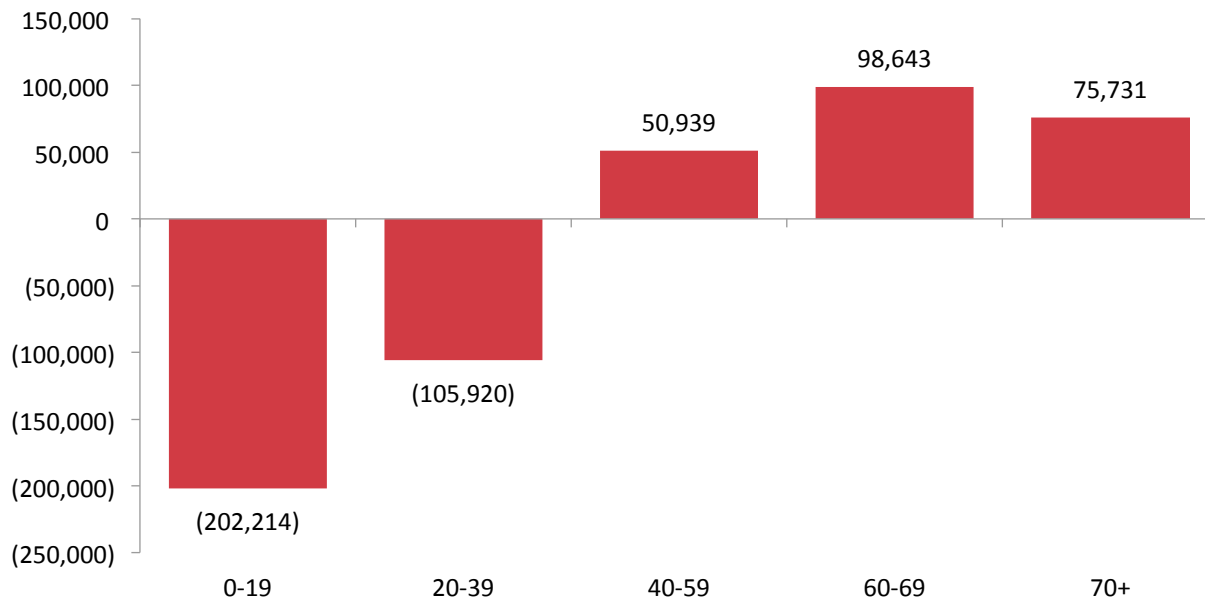
- The much lower rate of household formation will have a negative impact on the housing sector since it is a key determinant of new housing needs, and on other sectors including health services.



Source: U.S. Bureau of the Census, P.R. Planning Board

Change in Population by Age Group

- The evidence is clear that a decreasing and aging population will lead to slower growth.
- Given the low incomes of the aging population new pressures will be placed on the public sector budget.
- The demographic transition is a key fact in defining Puerto Rico's economic prospects and its economic and social geography.

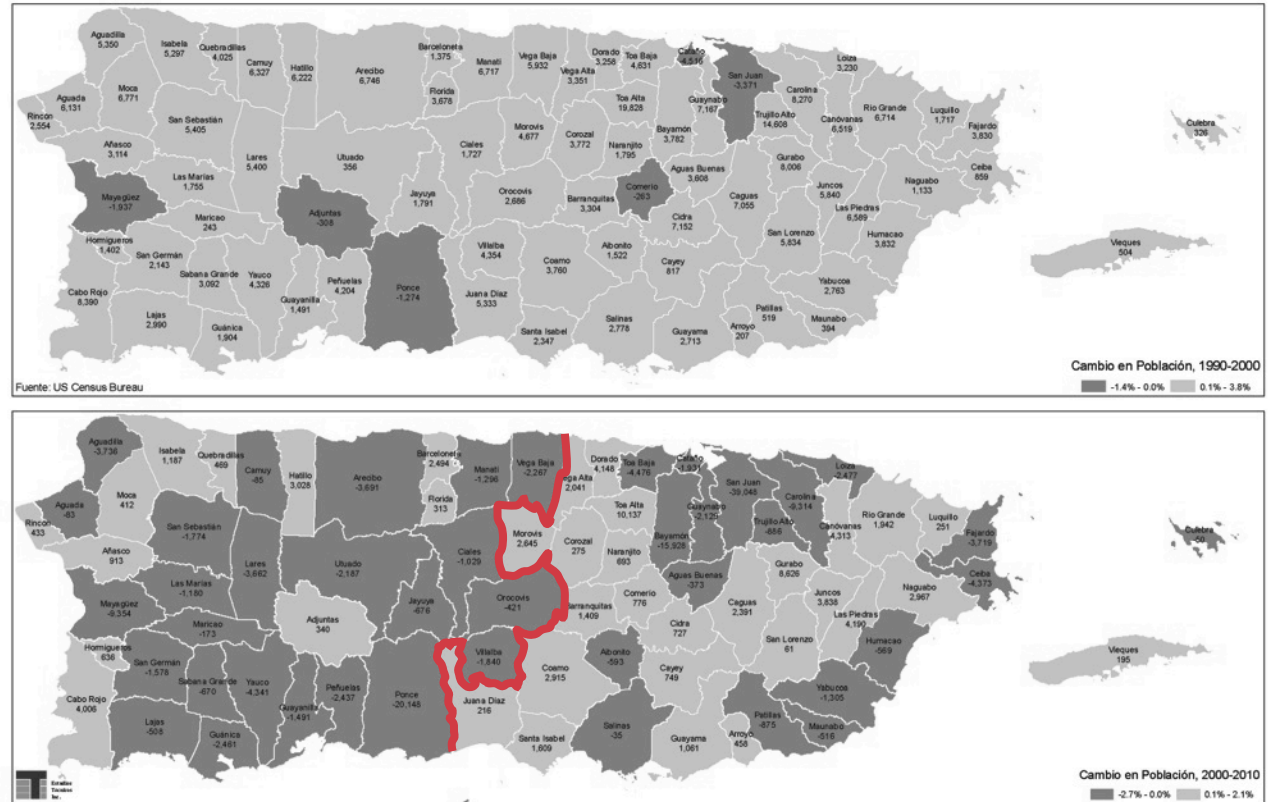


Source: U.S. Census Bureau. Estudios Técnicos, Inc.

Population Change

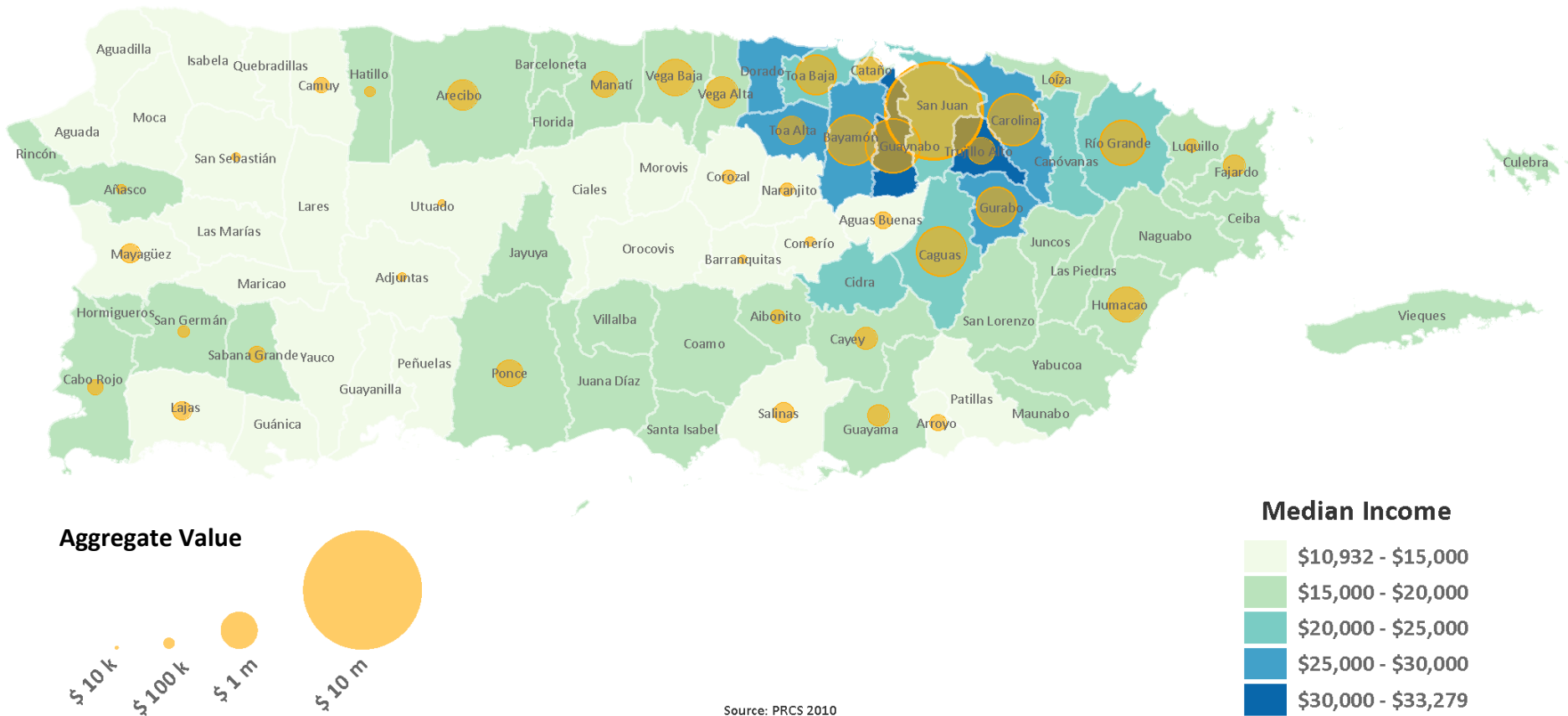
(Census 2010)

- The 2000 – 2010 loss of population was close to 250,000, not the 83,000 2010 Census figure. Since 2010, population loss has continued due to out migration and a very low birth rate. The Community Survey suggests a loss of approximately 100,000 since 2010.
- The band extending from Vega Baja to Ponce in the lower map, segments two very different Puerto Rico's in terms of population growth.



Median Household Income, 2010

Highest incomes in suburban municipalities around San Juan



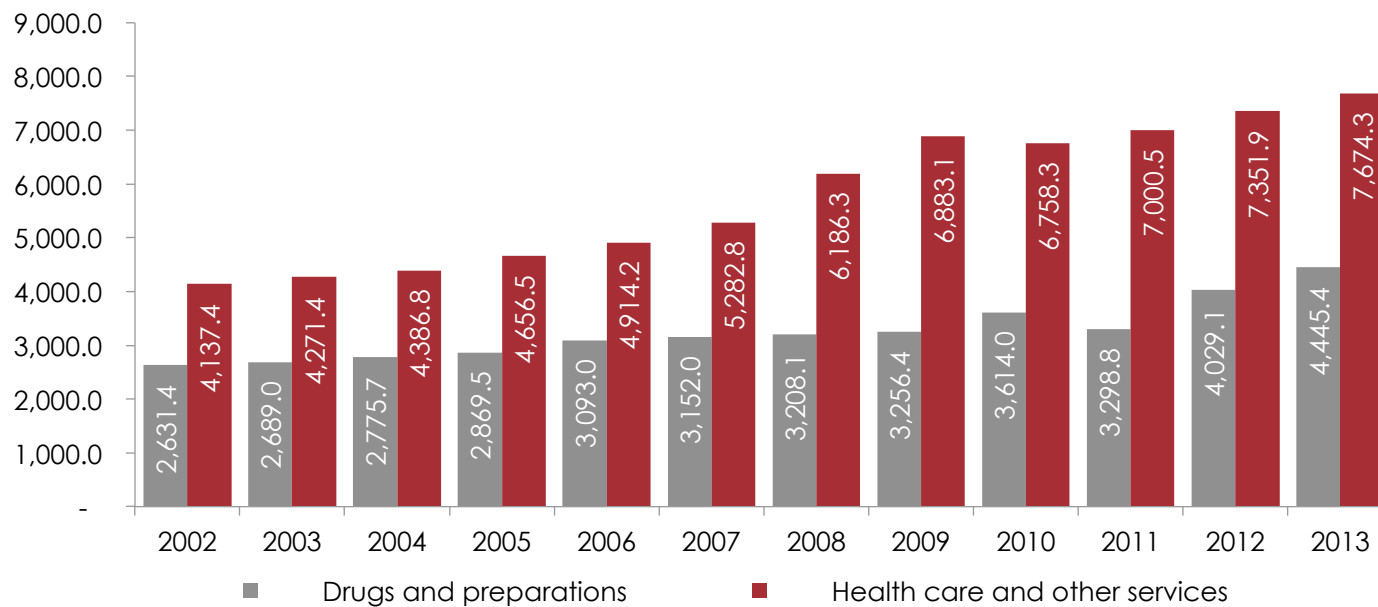


Potential Opportunities

The Health Sector

Health Services and Products Personal Consumption Expenditures

Health Services and Medicinal Products:
(millions)

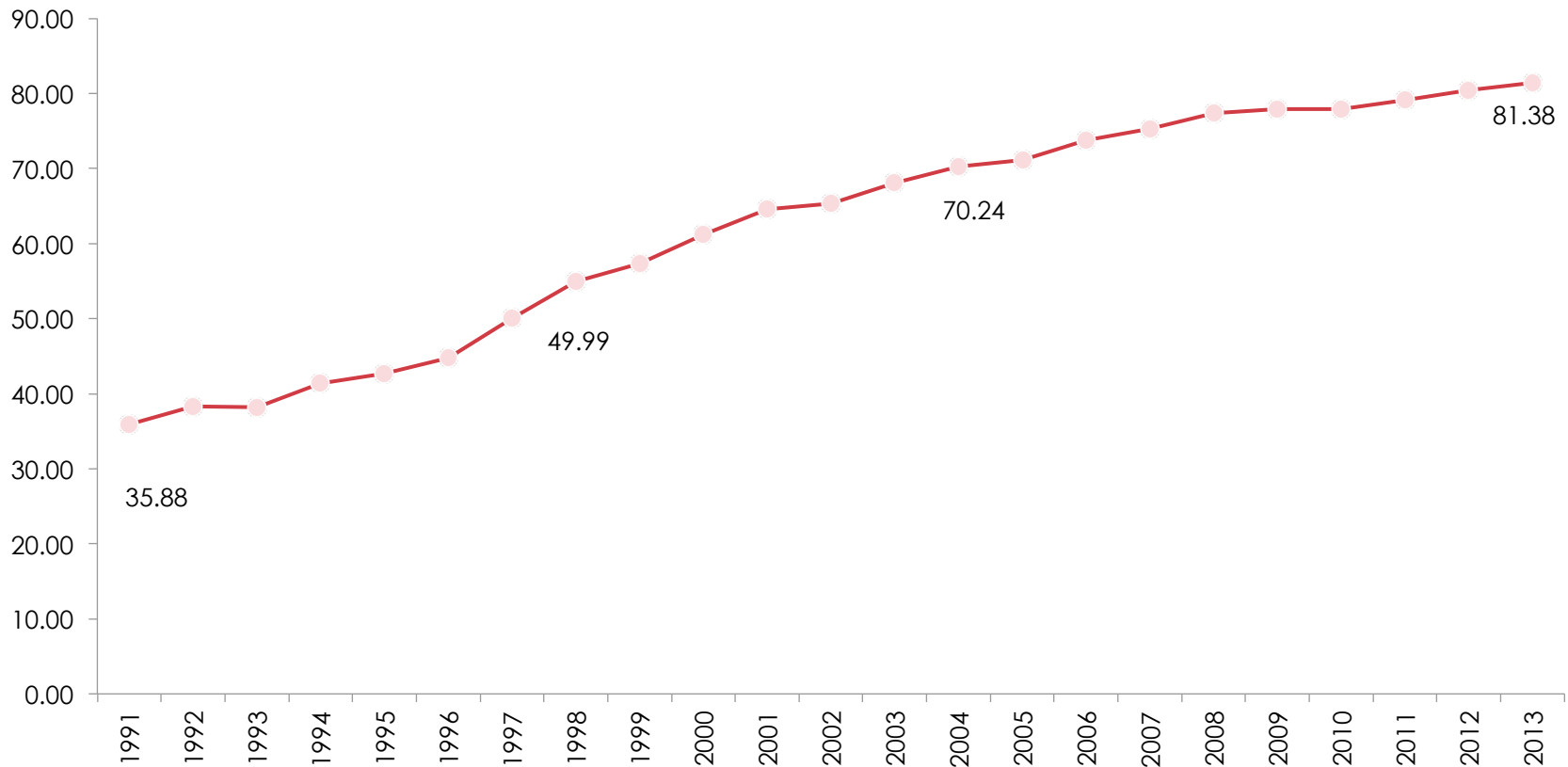


Source: Income and Product 2012. Puerto Rico Planning Board.

The Health Sector

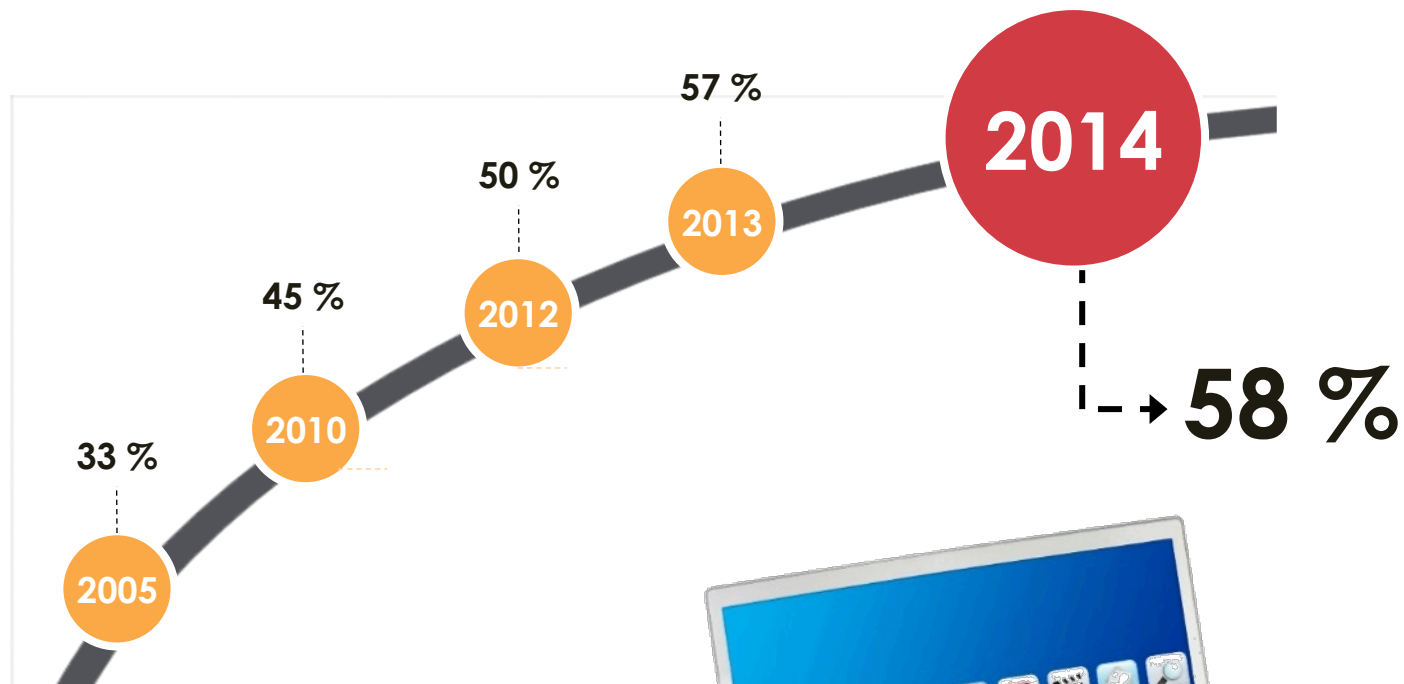
Employment in the Health Sector

(Fiscal Years)



Source: Negociado de Estadísticas Laborales .

Internet penetration increases rapidly



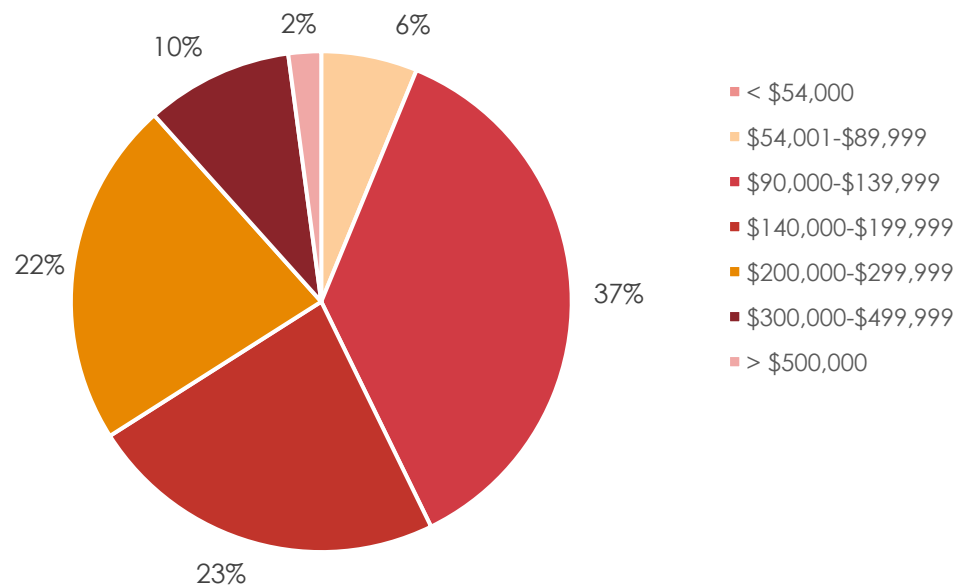
1,827,239 users 12+ online



New Construction Housing

- About 70% of purchases during 2013 occurred at prices below \$199,999.

New Housing Sales by Price Level, 2013



Source: CSAR, Estudios Técnicos, Inc.

Advanced Services

- Law 20 of January, 2012 provides incentives for exporting services.
- The emphasis is on advanced services, including:
 - Research and Development
 - Engineering services
 - Design and architectural services
 - Project Management
 - Health services
 - Financial services
 - Insurance
 - C & IT
- Puerto Rico has an emerging technology sector that is growing and already exporting services



Risk Factors

Politics and Economics

- Agreement on a shared vision is very difficult to achieve in a highly politicized environment.
- There seems to be resistance to recognizing the seriousness of the economic crisis and the fact that it is not simply a cyclical event but rather a reflection of a serious structural problem.
- The new law making possible debt restructuring by public corporations provides an instrument for dealing with the fiscal problem. It addresses restrictions in the U.S. Bankruptcy legislation.
- There is a need for an overall strategic direction for social and economic change.
- The emphasis is still very much on the fiscal situation and on putting in place positive but isolated initiatives such as Law 22 and Law 20.
- Initiatives need to address “jump starting” the economy and laying the foundations for sustainable mid and long term growth.
- A recent pact on economic issues that included the three major political parties, private sector organizations and academia, is a very positive sign but execution is a big question mark.

Summing Up

- The fiscal morass continues to be the main element creating uncertainty in terms of the prospects for the economy.
- Major areas of concern continue to be economic stagnation and the poor prospects for growth in the economy. The government's liquidity is another concern.
- What is abundantly clear is that Puerto Rico's economic performance has been the result of a political system that is unresponsive to economic and social needs and which meets the criteria for what has been defined as an "extractive political system", i.e., one that has as its main concern maintaining itself in power.
- Decisions that should have been made on technical grounds were made based on political needs with serious short and long term consequences.
- Major reforms are needed not only in the energy and labor markets, but also in the institutional framework in order for Puerto Rico to succeed in the new global environment.
- The recent FED-NY study does not add anything new, but is a welcome development if it helps in implementing needed reforms.

Thank you!



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