

Puerto Rico Economic Perspectives Fiscal years 2019-20

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Antonio L. Rosado

March 7, 2019

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The world market international monetary fund

- Global economic growth remains on track, projected to grow by:

- 3.7 % in 2018
- 3.5 % in 2019
- 3.6 % in 2020



The USA Economy

Federal reserve board

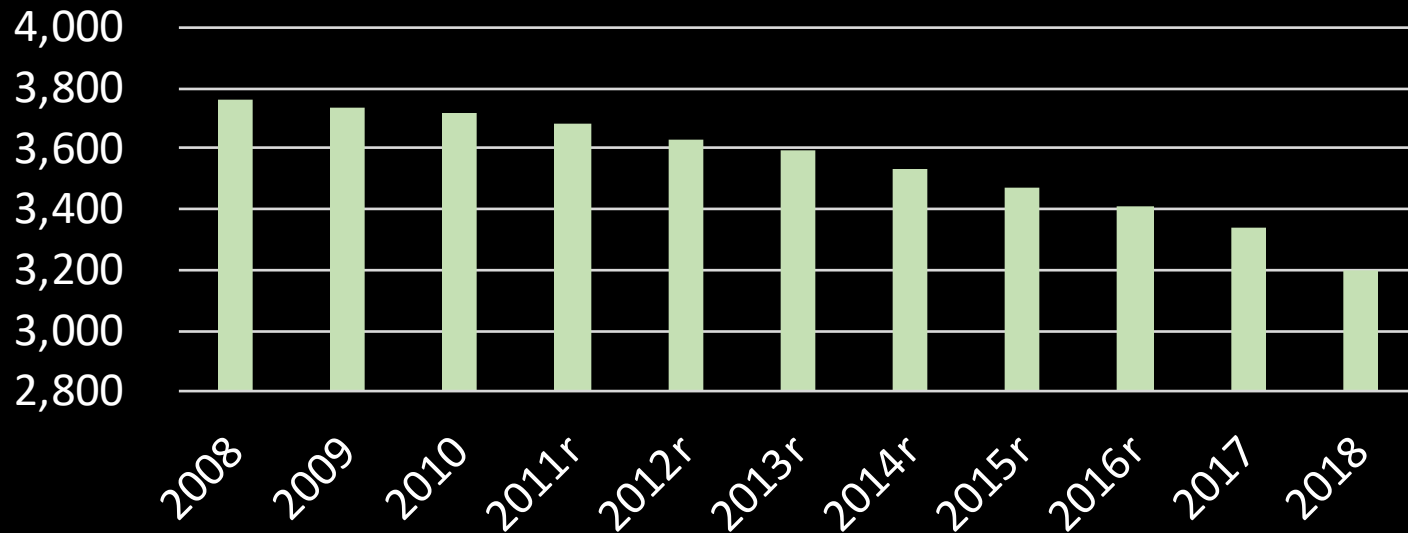
- GDP growth is expected to be **2.4% for 2019** and 2.0 % for 2020.
- The unemployment rate is expected to decrease from **3.6 % in 2018 to 3.5 % in 2019** and 2020.
- Personal consumption expenditures inflation is expected to remain in **2.1 %** for the next couple of years.

The USA Economy

- The Federal Tax reform will **increase the deficit by \$1.4 trillion** in the next 10 years.
- A significant **reduction in corporate income taxes** will promote a short term increase in GDP.

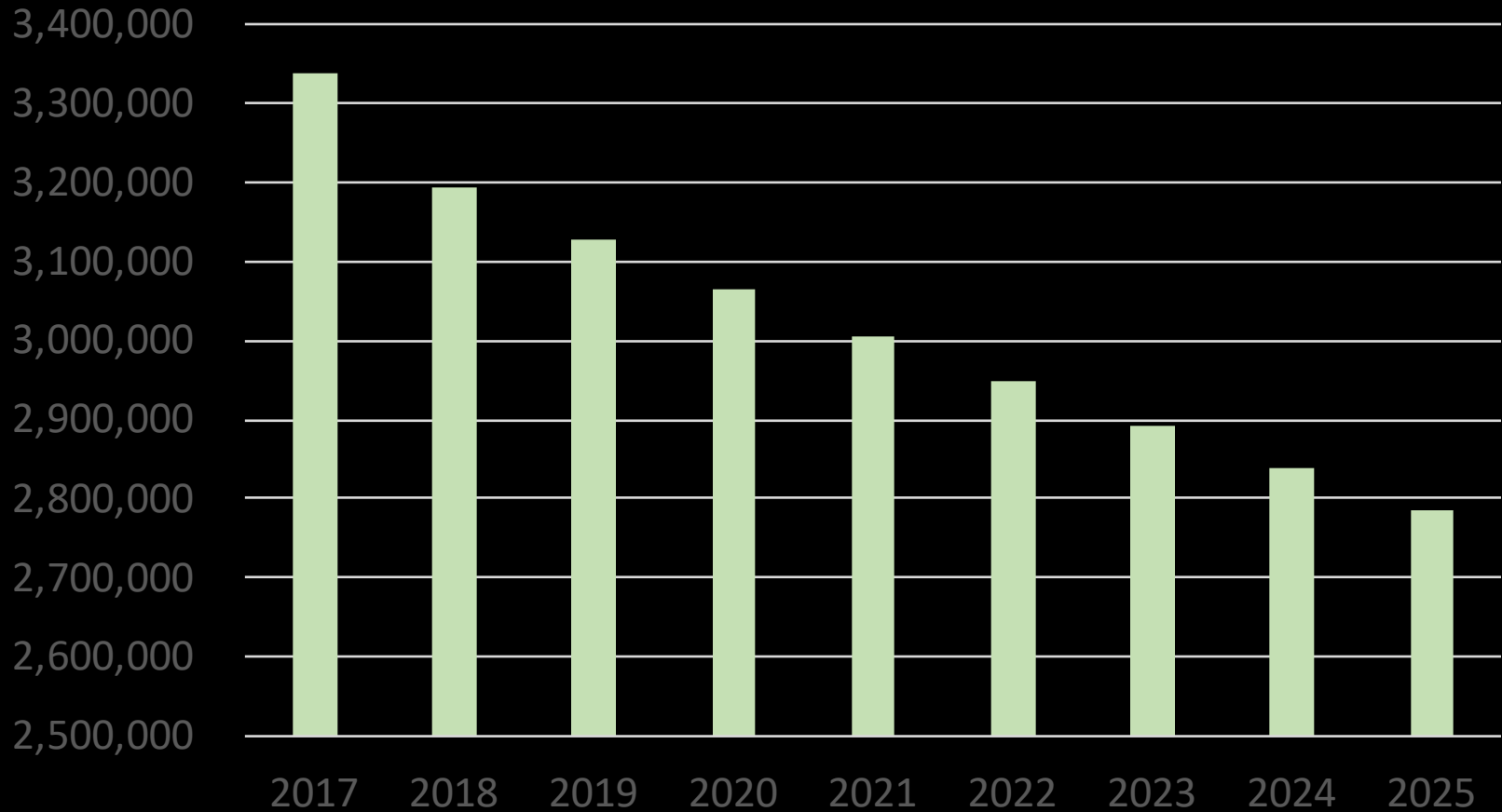


Total Population (000)



The 2018 Census population estimate was 3,195,153 or 530,636 reduction from 2010 or 14.2 % decrease.

Population forecast



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Maria and the population

- Using data from the cellular phones, between October 2017 and February 2018:

- **407,465** individuals left the Island

- **359,813** returned

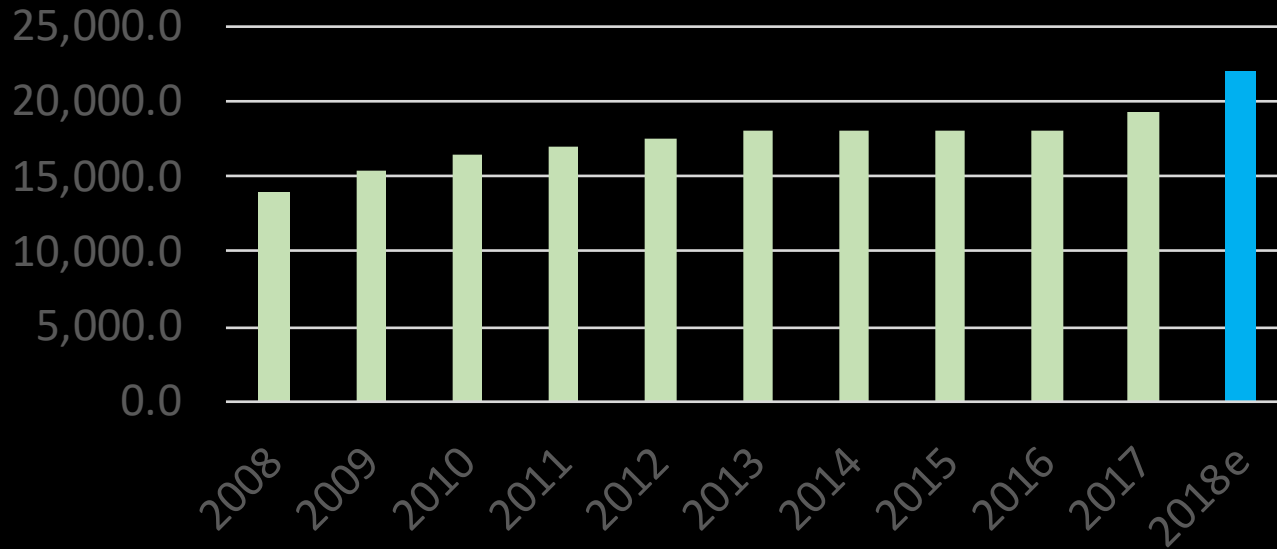
net decrease of 47,652

Puerto Rico Real GDP (millions \$ 2017)



The decline in real GDP from 2008 to 2017 was \$18,370 millions or 15 %.

Puerto Rico Total Federal Transfers (000)



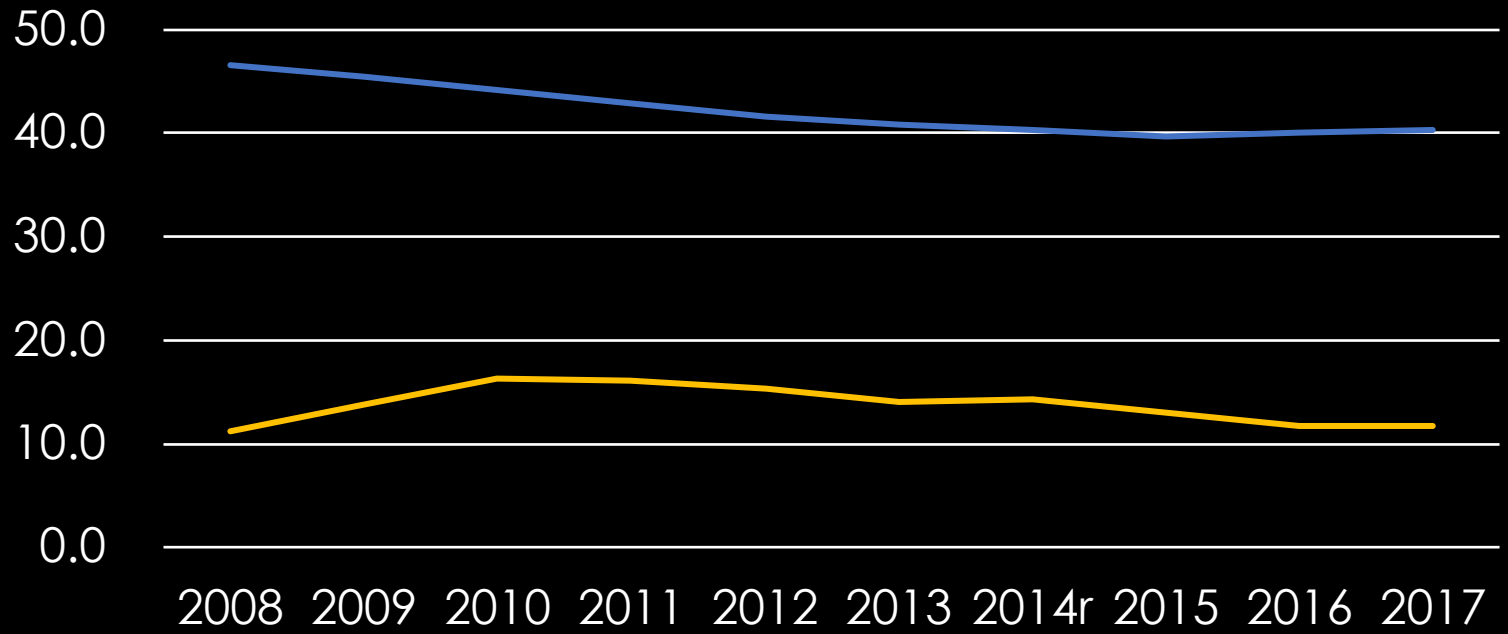
The destruction done by Hurricane Maria will bring the greatest amount of construction financing in the economic history of Puerto Rico.

Puerto Rico Real Investment Expenditures (000) 2017 prices

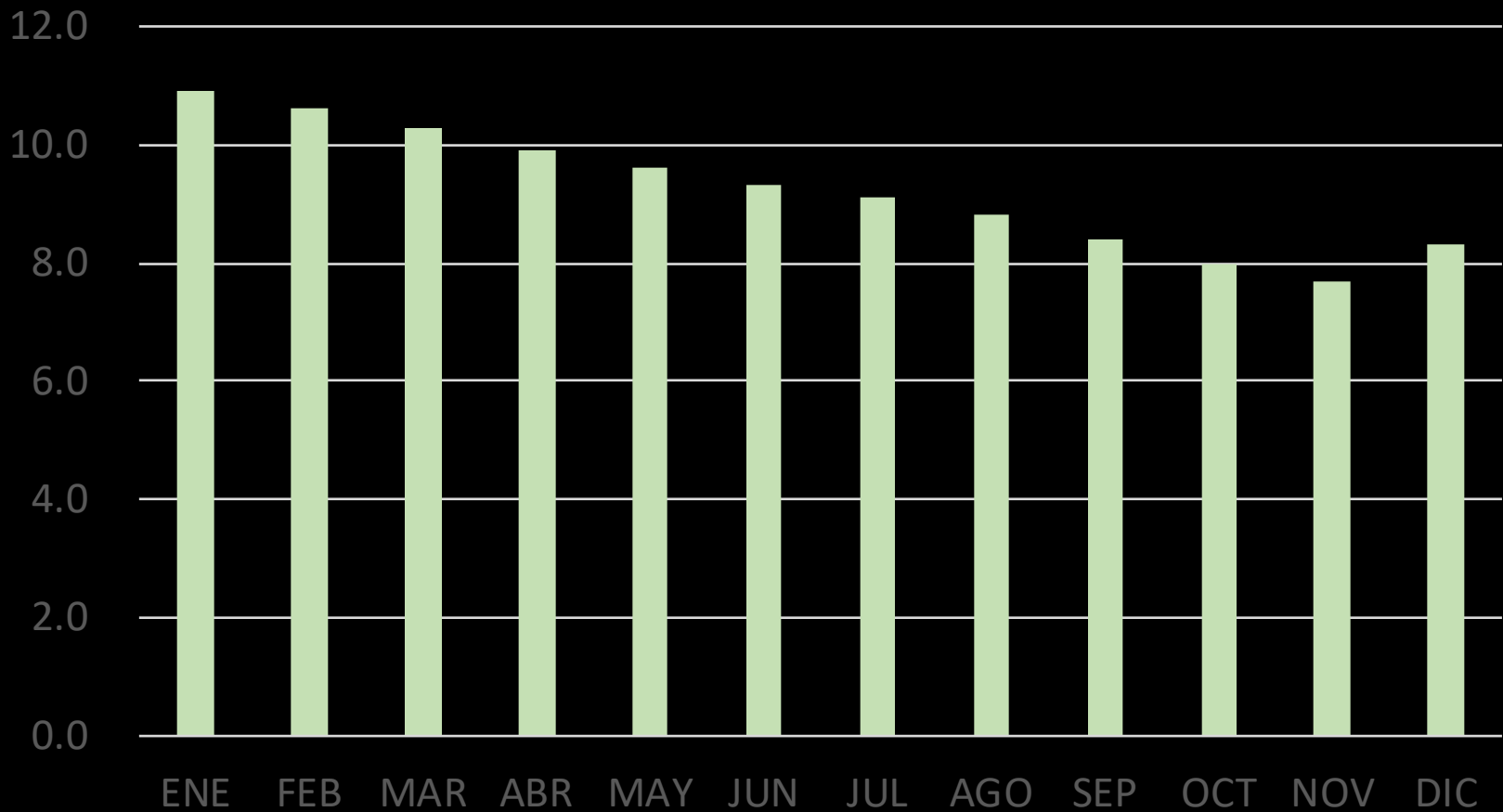


- Total real investment decreased to \$7,758.2 million in 2017 (prices of 2017).
- **Real investment decreased by \$3.3 billion from 2008 or 30 %**

Puerto Rico Labor Participation and Unemployment Rates (in %)



Unemployment rate monthly 2018 (%)



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GDP Forecast: Changes in Real Investment 2019

Real GDP	Investment	Change
108,997.1	8,534.0	10%
112,512.7	9,309.0	20%
101,956.7	6,982.0	-10%
98,436.6	6,206.0	-20%

- **The best case forecast will produce an increase in GDP of \$4,778.5 million or a 4.6 percent.**
- Base in the reconstruction needs from Hurricane Maria we should expect an increase in real investment in the next five fiscal years.



Investment and employment

- **\$1 million** of investment = new **22 jobs**.
- A **20% increase** in investment = **\$1,551.6 million**.
= 34,135 new jobs

Implications for population growth

- If the economy start growing with the increase in investment the unemployment rate will fall because there are not enough labor force available.
- **If the unemployment rate in Puerto Rico go down to 5 percent net migration in 2019 change from -69,337 to -27,640.**



Implications for Retail Sales

- **Consumption and retail sales will increase with:**
 - 4.6 % growth rate in RGDP
 - The increase in \$1.3 billion in payments to Food Stamps beneficiaries



Retail sales

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Retail sales: August & July 2017-18

- Total retail sales increased to \$3,011.8 million in August 2018.
 - **13.8 % higher than in August 2017**

We expect Retail Sales to increase with changes in the general economy or around 5 % per year for the next few years.

Retail sales: Compañía de Comercio y exportación(\$)

Description	Estimate 2018	Estimate 2017	Change \$	Change %
Vehicles new and used	6,873,192,879	6,127,280,809	745,912,069	12%
Auto parts	771,094,137	611,849,235	159,244,902	26%
Furniture	707,593,988	450,420,497	257,173,491	57%
Electronics	403,388,376	376,052,538	27,335,837	7%
Hardware	1,304,491,586	919,895,249	384,596,337	41%
Garden & related	109,051,946	107,738,459	1,313,487	1%



Retail sales: Compañía de Comercio y exportación(\$)

Description	Estimate 2018	Estimate 2017	Change \$	Change %
Supermarkets & liquor stores	4,181,809,501	3,798,813,278	382,996,223	10%
Special food	141,875,034	116,199,017	25,676,017	22%
Pharmacies	1,849,391,656	1,876,154,208	(26,762,553)	(1%)
Cosmetics	232,381,248	232,711,806	(330,558)	(.01%)
Gas stations	1,855,700,572	1,434,104,590	421,595,983	30%
Clothing	1,040,705,892	889,156,522	151,549,370	17%
Shoes	778,688,626	794,189,035	(15,500,409)	(2%)



Retail sales: Compañía de Comercio y exportación(\$)

Description	Estimate 2018	Estimate 2017	Change \$	Change %
Jewelry	227,222,450	276,797,560	(49,575,109)	(18%)
Sports and entertainment	215,476,167	225,440,105	(9,963,938)	(4%)
Department stores	9,893,887,658	7,844,326,058	2,049,561,601	26%
Oil and gas distributors	579,917,051	522,699,195	57,217,856	11%
Restaurants and bars	2,115,623,008	1,998,850,406	116,772,602	5%
Total	33,281,491,775	28,602,678,568	4,678,813,207	16%

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Main Challenges

Puerto Rico Retail Sales

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Inventory tax

- The inventory tax is the worst source of income for the municipal governments in Puerto Rico.
- The negative impacts in the quality of life in the Island inhabitants are historical.
- Not only with hurricane Maria but with the simple lost of a cargo ship, the population is subject to the absence of the most basic consumption items.



Inventory tax price effect

- Average inventory in retail sales: **\$2.0 billion for 2018**
- Average inventory tax rate: **8%**
- Total estimate tax revenues: **\$160.0 million**
- Average sales price increase: **0.48 %**

Inventory tax order cost increase

- The ratio of sales to average inventory is **16.82**.
- This implies an order every **21 days**.
 - In order to avoid the inventory tax retailers increase the number of orders.
 - This situation increases the cost of orders, the probability of out of stock and the probability of loss sales.



USA & Puerto Rico

• Average inventories to sales ratio:

- USA 1.53
- Puerto Rico .71

USA/Puerto Rico 2.15



Puerto Rico Inventory

- Puerto Rico average inventory: **\$1.5 billion**
- Puerto Rico additional inventory to equal USA ratio: **\$1.7 billion**



Puerto Rico total floor space - investment employment

- Additional storage: **35.5 million square feet**
- Cost per square feet: **\$100**
- Total investment: **\$3.5 billion**
- New employment: **79,200**



Internet sales taxes

- Estimated annual internet sales in Puerto Rico: **\$127.0 million⁽¹⁾**
- Estimated sales to business outside Puerto Rico: **73%**
- Estimated sales tax: **\$13.3 million**
- Estimated new sales tax: **\$9.7 million**

(1) 2017 Estudios Técnicos



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