

ECONOMY

Hope on the economic horizon
with Cidre at DDEC helm

THINK STRATEGICALLY:

Puerto Rico Divided into 2: Public vs. Private Sectors

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The Legacy of Gov. Vázquez

One of the more distinctive contributions of Gov. Wanda Vázquez has been the segregation of Puerto Rico into two different islands, inhabited by people from the public and private sectors, respectively.

Since the lockdown orders began March 15, through its design, the brunt of the pain and suffering was passed on to the private sector, becoming the worst possible nightmare for businesses and employees who were laid off. At one point, more than 52 percent of the private sector's employees were unemployed. Meanwhile, in the public sector, 70 percent of the employees were sent home and continued to get paid without working. Let's review the lives of each island sector:

The Island of the Public Sector:

Most of the 201,900 government employees were at some point quarantining at home; only essential agencies were working.

All continue to receive their pay on the 15th and 30th of every month.

Seventy percent did not work a single day for nearly six months; many remain at home.

Each accumulates vacation and sick leave days and benefits.

All receive either free or highly subsidized medical insurance.

Most agencies were closed and are now open fewer hours.

The Government of Puerto Rico will pay \$122 million in Christmas Bonuses.

Critical essential services such as the

provision of unemployment benefits, were either not being provided or were delayed beyond comprehension.

The transition hearings have demonstrated just how little the government achieved during this term. One ludicrous example of this was a statement by the secretary of the Transportation and Public Works Department: "People in the street congratulate me for the conditions of Puerto Rico's roads." It is obvious to anyone who drives that road conditions could be considered dangerous. Another example was uttered by the Housing secretary, who called the construction of 28 homes in the aftermath of Hurricane Maria and the earthquakes a great success.

The Government does not recognize that all these luxuries it provides to its employees are paid for by the revenue it collects from taxes and other government-imposed payments from the private sector, and more significantly, these luxuries were denied to the private sector.

The Island of the Private Sector:

The private sector hires 80 percent of the island's workforce, with more than 650,000 workers and a combined payroll that exceeds \$30.2 billion a year.

The private sector works hand in hand with communities, non-profit entities that collectively add up to \$40 billion, or 83 percent of the economy's total income.

At its worst point, private sector

employees had filed 328,000 claims for unemployment insurance benefits, or 52 percent of the total private-sector labor force, which according to the Labor Department consists of 654,224 workers.

Most economists pointed out that the overall number of unemployed people was 55 percent of the private sector labor force.

Private sector workers lost not only their jobs, they lost their health insurance.

With 33 percent of all small and mid-size businesses closed and thousands facing insolvency, bankruptcies will quadruple.

43.3 percent of all businesses have closed for more than 100 days in 2020.

56 percent of all businesses had a reduction in sales of 40 percent or more.

60 percent of all Puerto Rico businesses have stated that they lack the capital to continue open.

55 percent fear they will never recover their pre-Covid-19 sales levels.

Puerto Rico hospitals have lost \$633 million since the pandemic began, with losses mounting; 30 hospitals could dramatically reduce operations, and there is a systemic risk in healthcare in Puerto Rico that will, in turn, create a full-fledged humanitarian crisis.

As you can see from this list, the Island of the Private Sector is facing insolvency, bankruptcies, losses, high unemployment and the potential for loss of life if our hospitals begin to close.

While the Island of the Public Sector remains undeterred by the crisis and continues to operate happily, the Island of the Private Sector is weakening, businesses closing left and right. The Government of Puerto Rico does

not realize the severity of the private sector's situation without any stimulus funding. The sector is not only big corporations, it includes cashiers, baggers, butchers, nurses, cooks, auto sales people, mechanics, construction workers, waiters, teachers, engineers, dentists, doctors and business owners.

Every governor has a lasting legacy; their outstanding accomplishments are often remembered, while others' legacy has been to leave Puerto Rico in a much worse shape than they found it in, such will be the case of Gov. Vázquez.

Week in Markets: U.S. Stock Markets Lose Momentum as COVID Cases Surge, No deal on Stimulus

The U.S. stock market ended the week with losses across the board; the U.S. Congress continues to work on a fiscal stimulus agreement as employment growth evaporates, but discussions to implement another round of aid continue to linger. A postponed stimulus package poses a headwind for stocks, as further economic restrictions from rising cases constrict growth. The number of U.S. workers claiming unemployment insurance exceeded projected estimates for the first time. Even as the economic momentum slows in the near term, we believe the outlook for the economy is positive over the next year, though the road may be bumpy.

Finally, the Food and Drug Administration granted emergency-use authorization of the Pfizer\BioNTech Covid-19 vaccines on Friday night and the U.S. has begun to administer it to its first-responders as the number of positive coronavirus cases post new records.

Wall Street Results for the Week of Dec. 11:

The Dow Jones Industrial Average closed at 30,046.37, down 171.89 points, or 0.57 percent, for a year-to-date (YTD) return of 5.28 percent.

The Standard & Poor's 500 closed at 3,663.46, down 35.66 points, or 0.96 percent, for a YTD return of 13.39 percent.

The Nasdaq Composite Index closed at 12,377.87, down 86.36 points, or 0.69 percent, for a YTD return of 37.95 percent.

The Birling Puerto Rico Stock Index

Weekly Market	Close Comparison	12/11/20	12/4/20	Change %	YTD
Dow Jones Industrial Average		30,046.37	30,218.26	-0.57%	5.28%
Standard & Poor's 500		3,663.46	3,699.12	-0.96%	13.39%
Nasdaq		12,377.87	12,464.23	-0.69%	37.95%
Birling Puerto Rico Stock Index		1,993.46	2,056.26	-3.05%	-2.18%
10-year U.S. Treasury		0.90%	0.97%	-7.22%	-1.10%
2-year U.S. Treasury		0.11%	0.16%	-31.25%	-1.20%

closed at 1,993.46, down 62.80 points, or 3.05 percent, for a YTD return of minus-2.18 percent.

The U.S. Treasury 10-year note closed at 0.9 percent, a change of minus-7.22 percent, for a YTD return of minus-1.1 percent.

The U.S. Treasury 2-year note closed at 0.11 percent, down 31.25 percent, for a YTD return of minus-1.2 percent.

The Final Word: Puerto Rico's 2021 Economic Outlook with Manolo Cidre at the Helm

One of the true testaments that the Covid-19 pandemic continues to prove is that Puerto Ricans have a perseverance that has no equal. As 2020 draws to a close, we all must concentrate our focus on the year ahead, 2021. With all of Puerto Rico's troubles, us residents have shown we will prevail in everything we do. We endure the challenges and continue to produce new ways to revamp the island's economy. We will summarize the 2021 Economic Outlook with the numbers we have been analyzing at Birling Capital.

Every new year, and this coming one with a new administration, brings a new canvas to paint Puerto Rico's future. Governor-Elect Pedro Pierluisi has a tremendous challenge ahead of him. However, he has made several nominations that give us hope. They include Economic Development Secretary-Designate Manolo Cidre, a successful executive in his own right, who knows and understands the problems facing Puerto Rico deeply.

The expectations for Cidre are high, as he leads the Economic Development agenda, and in the past 35 years, no businessman has ever led the agency or taken control of Puerto Rico's economic engine. An engine that needs a stable investment climate, new industries, investors, bringing manufacturing back and attracting new banks, as well as reworking and reimagining how the whole economic development apparatus works. The entire private sector is behind Cidre in this effort. We have your back.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.