

## Puerto Rico Economic Activity Index Falls 300%, U.S. Consumer Confidence Index Fell, U.K. Economy Snaps from Recession to Growth, and Wall Street Closed Mixed.

May 10, 2024

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The U.S. and European stock markets closed the week mostly up, following a week that provided investors with new hope of interest rate cuts later in the year, mainly the Fed's assertion by Chairman Powell that **"I think it's unlikely that the next policy rate move will be a hike, and I'd say it's unlikely"**; has been the fuel of the change in sentiment.

Also, the Jobs market is showing cracks, with nonfarm payrolls falling in April by 27.08% to 175,000, and yesterday's unemployment claims that rose to 231,000, the highest since August 2023, is trending evidence that U.S. labor market cracks have widened.

Most markets globally are experiencing an upward trend, accompanied by rising commodity prices, including oil and gold. Leading the charge are the technology, utilities, and financial services sectors, reflecting an overall optimistic sentiment. Both growth sectors and previously lagging areas showed strong performance during this sustained rally that commenced last October.

The eagerly awaited CPI report shows that bond markets are holding off today, with the 10-year yield closing at 4.50%.

While concerns over persistent inflation previously led to apprehensions about the Fed's ability to lower rates this year, recent days have seen these concerns morph into optimism. The upcoming CPI report will be pivotal in validating whether the market's current optimism is justified. We anticipate the Fed's next move to be a rate cut, albeit later than initially expected.

Earnings continue to provide a solid foundation – As we near the end of the first-quarter earnings season, with almost 90% of companies having reported, earnings growth remains a bright spot for market performance. Over three-quarters of companies have surpassed consensus estimates, with earnings up 5% year-over-year, propelled by double-digit increases from the communication services, technology, utilities, and consumer discretionary sectors. Profit margins remain robust, underscoring companies' ability to navigate elevated labor costs while benefiting from resilient sales. We anticipate that healthy profit growth will underpin equity-market performance in 2024, bolstered by a robust job market and prospects of less stringent interest-rate policies moving forward.

### **Puerto Rico Economic Update:**

Recent economic indicators from Puerto Rico reveal a mixed picture, with specific parameters showing signs of deterioration. To illustrate:

- The **unemployment rate** has seen an uptick of 1.75%, rising from 5.70% to **5.80%**. This increase in unemployment is a concerning trend that warrants close monitoring.

- **The Economic Activity Index (EAI) for Puerto Rico** has been falling for two quarters and contracting for two consecutive months. Here's a detailed breakdown:

Month	EAI	Change
Sep 2023	5.10%	64.51%
Oct 2023	4.80%	-5.9%
Nov 2023	4.70%	-2.1%
Dec 2023	1.60%	-193.8%
Jan 2024	1.10%	-31.3%
Feb 2024	-0.20%	-118.2%
Mar 2024	-0.80%	-300.0%

As you can see, the EAI was positive in September 2023 but started to decline in October 2023. The decline became more pronounced in March 2024, with the EAI falling by a staggering 300%. The downward trend continued, with the EAI falling into negative territory in February and March. This sharp contraction in the EAI over two consecutive quarters indicates an economic slowdown. Policymakers must address this trend to prevent further economic deterioration.

### What is driving down the Economic Activity Index?

- **Nonfarm payroll employment:** averaged 953,400 in March, a 0.6% decrease, and 959,500 in February, a 0.3% increase.
- **Electric power generation:** In March and February 2024, it was 1,576.4 and 1,528.3 million kWh, respectively, marking monthly changes of +3.1% and -2.2 %.
- **Gasoline consumption:** In March 2024, it was 60.1 million gallons, a 6.5% monthly and 22.8% annual decrease. It was 64.3 million gallons in February, a 2.4% monthly and 16.2% yearly decrease.
- **Sales of Bags of Cement:** in March and February 2024 were 1.2 and 1.1 1.3 million 94lb. Bags respectively. The monthly changes were +10.9% and -16.0%, while the annual changes were -4.0% and -12.2%, respectively.

### Puerto Rico GDP Forecasts for 2024:

The Puerto Rico Planning Board's economic growth projection for Puerto Rico in 2024 has been revised upwards. The forecast for GDP growth has been increased from **1.8%** to **2.8%**, representing a substantial increase of **55.55%**. Compared to the GDP growth rate of **0.7%** in 2023, this means a remarkable increase of **300%**. Furthermore, this growth rate surpasses the IMF's projected GDP growth rate for the U.S. in 2024, which stands at **2.7%**.

### Key Economic Data:

- **U.S. Index of Consumer Sentiment:** fell to 77.20, down from 79.40 last month, decreasing -2.77%.
- **U.K. Real GDP QoQ:** rose to 0.60%, compared to -0.30% last quarter.
- **U.K. Industrial Production Index YoY:** fell to 0.50%, compared to 1.00% last month.
- **U.K. Balance of Trade:** improved to the current level of -4.068 Billion, up from -7.353 Billion last quarter.

- **U.K. Business Investment YoY:** fell -0.65%, compared to 2.84% last quarter.
- **China Inflation Rate:** fell to 0.10%, compared to 0.70% last month.
- **China Producer Price Index YoY:** fell -2.80%, compared to -2.70% last month.

#### Eurozone Summary:

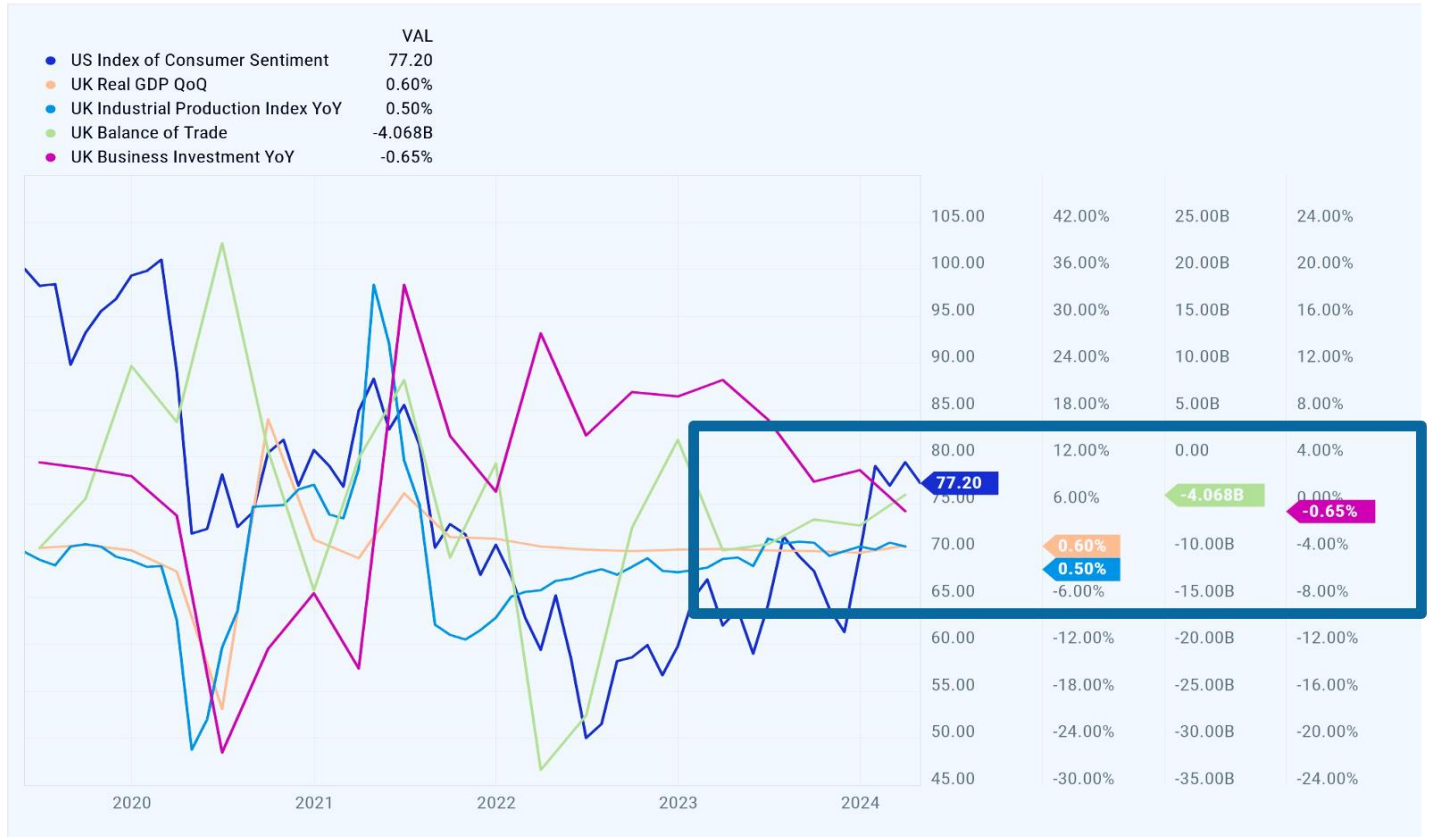
- **Stoxx 600:** closed at 520.76, up 3.99 points or 0.77%.
- **FTSE 100:** closed at 8,433.76, up 52.41 points or 0.63%.
- **Dax Index:** closed at 18,772.85, up 86.25 points or 0.46%.

#### Wall Street Summary:

- **Dow Jones Industrial Average** closed 39,512.84 up 125.08 points or 0.32%.
- **S&P 500** closed at 5,222.68, up 8.60 points or 0.16%.
- **Nasdaq Composite** closed at 16,340.87, down 5.40 points or 0.03%.
- **Birling Capital Puerto Rico Stock Index** closed at 3,469.91, down 4.97 points or 0.14%.
- **Birling Capital U.S. Bank Stock Index** closed at 5,160.83, up 72.61 points or 1.43%.
- **U.S. Treasury 10-year note** closed at 4.50%.
- **U.S. Treasury 2-year note** closed at 4.87%.



# US Index of Consumer Sentiment, UK GDP, UK Industrial Production Index, UK Balance of Trade & UK Business Inventories





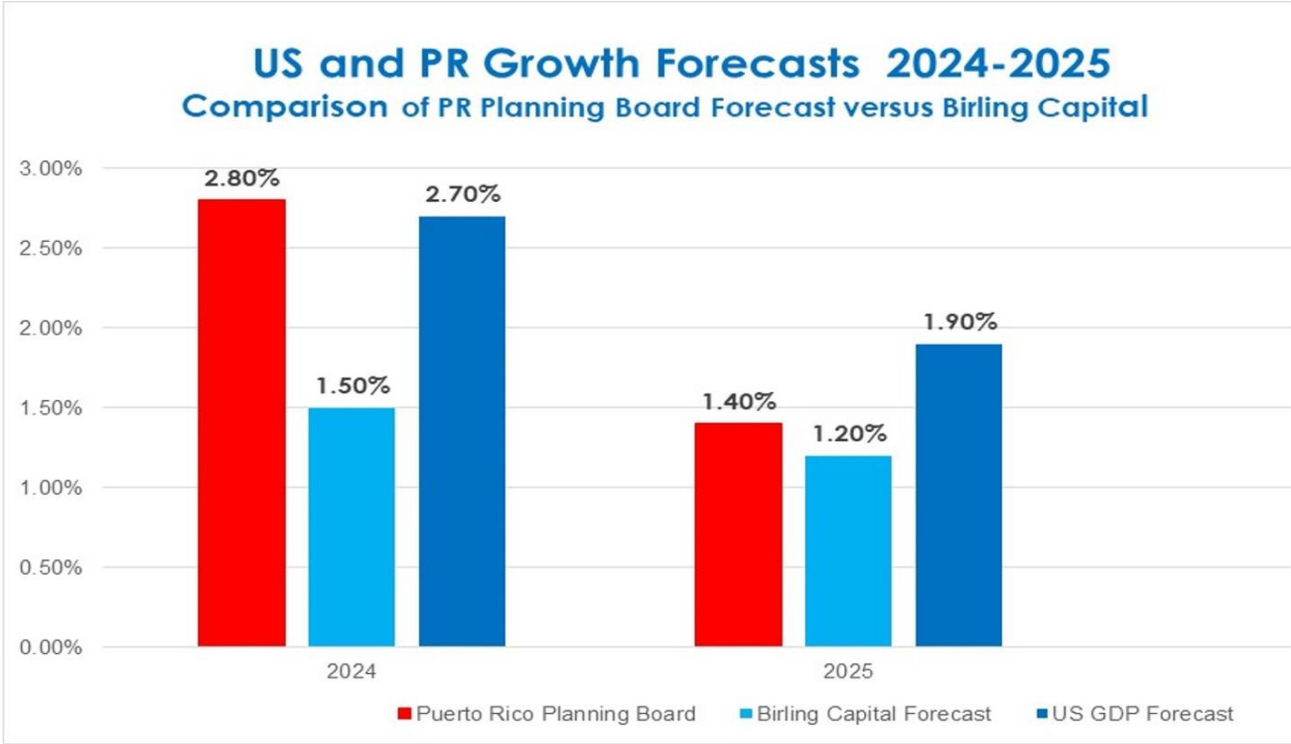
# P.R. Economic Activity Index Falls 300%

<b>Economic Activity Index</b>		
<b>Month</b>	<b>EAI</b>	<b>Change</b>
9/1/23	5.10%	64.51%
10/1/23	4.80%	-5.9%
11/1/23	4.70%	-2.1%
12/1/23	1.60%	-193.8%
1/1/24	1.10%	-31.3%
2/1/24	-0.20%	-118.2%
3/1/24	-0.80%	300.0%

As you can see, the EAI had been positive in September 2023, but it started to decline in October 2023. The decline became more pronounced in March, with the EAI falling by a staggering 300%. This sharp contraction in the EAI over two consecutive quarters indicates an economic slowdown



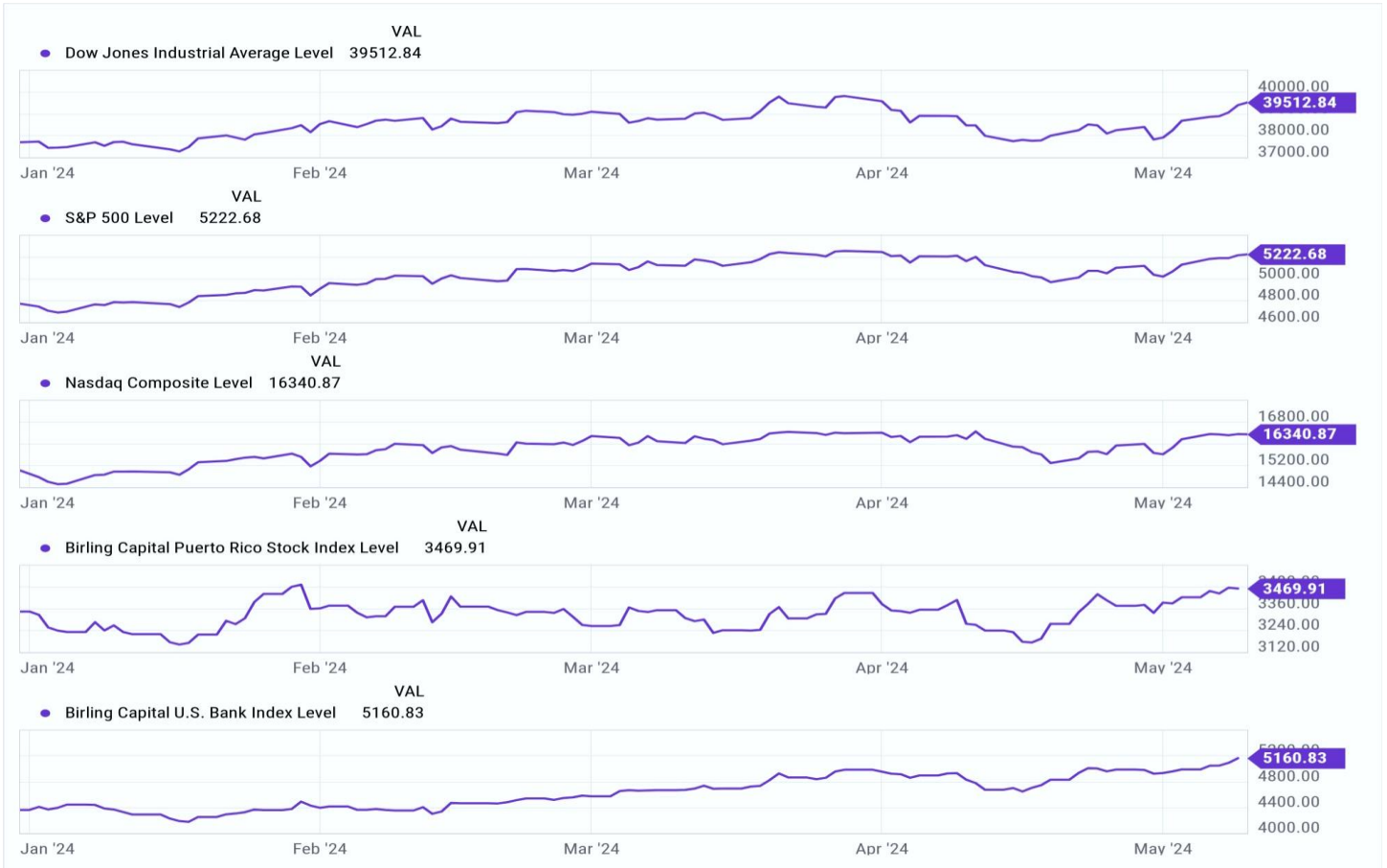
# Two Economic Perspectives of Puerto Rico's Economic Growth for 2024-2025



Sources: IMF World Economic Outlook, Puerto Rico Planning Board & Birling Capital



# Wall Street Recap May 10, 2024



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