

ECONOMY

Re-Opening
Bolsters Demand

THINK STRATEGICALLY:

Losing the Lux Lifestyle Perks

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How your private chauffeur is a now a luxury

The Uber era arrived in Puerto Rico on July 11, 2016, initially with several restrictions but ultimately, progress could not be stopped, and Uber became part of our lives. Until the pandemic, it had more or less 4,000 drivers island-wide. One could get an Uber from Kennedy Avenue to Hato Rey for \$8 during rush hour. Other times we requested an Uber for a concert from Dorado, knowing this long trip could cost \$70 each way; instead, we paid \$32.00 each way. Additionally, most of my friends would let their high-school or college kids use Uber to go to La Placita or parties, becoming everyday routines for both parents and children. These new modern routines had been the norm in the millennial way of living from July 2016 to March 2020. As the pandemic hit and Uber had already become a public company, the price points for most trips changed overnight.

Having a chauffeur service available at your fingertips is a luxury for most, and these luxuries usually carry lofty price tags. Now, most users realize for the

first time that their inexpensive, chauffeured Uber rides have disappeared and now carry a luxury price tag.

You were able to get an Uber Black Car from Terminal 2 in John F. Kennedy International Airport to a hotel in midtown for less than \$150. These days, an Uber ride from Midtown to JFK costs me as much as my flight from JFK to San Juan, \$267.47, a 78.3 percent increase since early last year.

Other millennial public companies such as Airbnb and Lyft have increased their fees north of 35 to 50 percent since the exogenous shock of the pandemic began. We reviewed the first-quarter 2021 (1Q21) financials of Airbnb and noted that their average daily rate had increased 35 percent compared to 1Q20.

Much of what transpired is a direct result of excessive demand for these types of services; while companies like Uber or Airbnb initially had to compete to get customers, they now have a plethora of them. Also, another factor is the impact that the enhanced unemployment benefits have had on these companies to find drivers and employees.

Another recent trend that our beloved new tourists have made famous is scooter rentals. Since they are easy to get, simpler than renting a car, and are convenient for short trips, their use has taken off like a rocket.

Nowadays, you will find them in almost every place around San Juan, even as far as San Patricio Plaza.

At least stateside, when Bird Scooters began, you could rent a scooter for \$1 and then 15 cents a mile, which is cheaper than anything on the planet. However, locally, I suspect that as demand changes and restrictions from municipalities are applied, these will become more expensive to rent.

As life often progresses, these cheap alternatives morphed into what they indeed are, luxuries for the human race. Meanwhile, similar trends have occurred in travel. Do you remember when JetBlue began you could travel across the United States usually for less than \$99? Well, try that now.

In conclusion, these companies are now charging what they should have charged for these luxuries because they have become more mature companies currently trading their stocks on the New York Stock Exchange. They have a more profound need to comply with their quarterly earnings estimates.

Week in Markets: Consumer Price Index Rises 4.99 percent, used car prices up, Wall Street saw a volatile week.

The U.S. stock market had one of the most volatile weeks in recent memory resulting in the Dow Jones falling 276 plus points and the S&P and Nasdaq gaining ground. Although the main culprit is inflation, investor expectation is that these increases are temporary. Nevertheless, inflation, for now, will be part of the market equation.

The most recent Consumer Price Index (CPI) rose to 4.99 percent from last year. Additionally, the core index, which eliminates food and energy, increased 3.8 percent, resulting in the most significant year-over-year increase since 1992. However, the period

when prices collapsed last year during the height of the pandemic results in easy comparisons, continuing to exaggerate the yearly increases.

Meanwhile, the U.S. Consumer Price Index rose to 0.64 percent, compared to 0.77 percent last month, resulting in higher than the long term average of 0.28 percent and three times the average monthly increase.

In our view, the pace of the economy's reopening, mixed with a lightning-fast rise in demand is impacting a supply chain that had prepared for a recession, and this is the main reason prices are higher, more demand than supply.

Digging deeper into the inflation stats, we discover that the price increases were driven by specific categories deeply impacted by the pandemic and are now positioned to benefit from the recovery. These include Car Rentals, Airfare, Restaurants and Hotels. These four are like an MRI of consumers returning to their seasonal spending patterns. We must also expect travel and lodging prices to increase as they are below their pre-COVID-19 levels by about 12 percent for airfare and 5 percent for hotels.

Another industry that supply shortages has deeply impacted is the auto industry, which is suffering from computer chip shortages and unfinished cars.

The top 10 most impacted are:

1. Ford
 - Ford Explorer: 46,766
 - Ford F-series: 109,710
 - Ford Edge: 37,521
 - Ford Escape: 36,463
 - Ford Transit: 26,507
2. General Motors:
 - Chevrolet Equinox: 81,833
 - Chevrolet Malibu: 56,929
3. Stellantis:
 - Chrysler Voyager: 25,728
 - Jeep Cherokee: 98,584
 - Jeep Compass: 42,195

These models alone add up to 562,836 units. In total the Auto industry will lose 3.9 million car sales that will cost a combined \$110 billion in revenue. These shortages in new cars have

increased demand and prices for used vehicles by 7.3 percent.

The market reaction has more or less dismissed the jump in inflation, evidencing that most investors agree with the Federal Reserve Bank's stance that these price increases are temporary. We shall soon see.

The economy is growing at a robust rate, vaccinations are massively available in the U.S., consumer demand is rising to normal levels, corporate profits have essentially beat estimates and employment data continue to improve. In our view, we expect the bull market to continue rising, albeit with increased volatility.

The Final Word: The First Great LUMA Blackout

Last Thursday, LUMA Energy, during its second week as the operator of Puerto Rico's power transmission and distribution system, faced its first crisis.

At one point, the Monacillos substation fire left more than one million households without power for hours. The social media frenzy full of all kinds of theories that ensued seemed like a bad movie.

It is pretty unrealistic to expect that LUMA could fix in less than two weeks what it took the Puerto Rico Electric Power Authority 70 years to destroy. At the same time, the new private concessionaire could have handled the emergency much better, with more hands-on communication and addressing the public sooner rather than later. Any new operator like LUMA needs to fully understand that all Puerto Ricans are still affected since the aftermath of Hurricane Maria. We all arrived home Thursday, and in my case, without our backup generator working; it was *deja vu* all over again.

Most Puerto Ricans are already suffering from post-traumatic stress disorder due to what they went through with Hurricane Maria, which will take much time to solve.

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Monthly Market Close Comparison	6/11/2021	6/4/2021	Return	YTD
Dow Jones Industrial Average	34,479.60	34,756.39	-0.80%	12.65%
Standard & Poor's 500	4,247.44	4,229.89	0.41%	13.08%
Nasdaq Composite	14,069.42	13,814.49	1.85%	9.16%
Birling Puerto Rico Stock Index	2,614.43	2,650.69	-1.37%	27.84%
U.S. Treasury 10-Year Note	1.47%	1.56%	-5.77%	0.70%
U.S. Treasury 2-Year Note	0.16%	0.14%	14.29%	0.70%