

ECONOMY

People's strength is reflected in how they change their ways



THINK STRATEGICALLY:

Measure for Measure: 28 Months of Trump, Rosselló

Stark Differences in Behavior, Tone, Personal Qualities and Outlook Revealed Between the two Leaders who Have our Future in Their Hands

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com

The famous poet, author and civil rights activist Maya Angelou used to say, and she is paraphrased here, that when we are born, we are more alike than different, and somewhere along our lives, the variety of our skin tones can confuse, bemuse or delight, brown, pink, beige and purple, tan and blue and white. We are more alike than unlike, no matter the differences, and it is what we carry inside, in our hearts, that matters and how we approach life...

As we begin an analysis of the ways both President Trump and Gov. Rosselló have managed their respective offices, we note there are stark differences in the manners of behavior, tone, sentiment, personal qualities and overall outlook between these two leaders who have our future in their hands. Financial and economic metrics will be used to evaluate, measure for

measure, the jobs of both Trump and Rosselló over their past 28 months in office. Measuring any elected official includes much more than these metrics, which at least provide a mechanism to assess the overall direction of our economic well-being. This scorecard's intention is to serve as an aid for achieving success and recognizing it.

President Donald Trump

On Jan. 20, 2017, when the administration of President Trump took over the country, he inherited a set of economic benchmarks that indicated the nation was doing quite well. After 28 months in office, and moving into re-election mode, a comparison can be made of how the economy has fared and how U.S. Americans perceive his work.

It is evident the economy is performing well under President Trump and

he appears to be reviewing the financial metrics used to judge how the U.S. economy is performing. However, there is much more going on than meets the eye and, to properly discuss his success and failures, we must go deeper than these routine variables.

He has 173 major wins, such as adding more than 5.1 million jobs, increasing corporate profits by 12 percent, reducing the number of food stamp recipients by 10.4 percent and other key metrics.

The president's significant wins have been:

- Passing the 2017 federal tax reform. After-tax profits have increased 12 percent, which is higher than the full-year figure for 2016, the year before Trump took office. Profits also were 4.9 percent above the best previous full-year figure, which was \$1.86 trillion in 2014.

- Many in corporate America embracing his policies. The stock market has increased, often at a double-digit clip, at least up to the U.S.-China trade war.
- The new USMCA deal. Agreeing to the new Nafta deal is a big political win, although results are questionable and Congress has not ratified it.
- U.S. unemployment rate at 3.6 percent, the lowest since the 1960s.
- Number of unfilled job openings hits record high.
- Economic growth continued at a 3.1 percent annual rate. A 2.8 percent rate since he took office.
- Median household income rose to the highest level ever recorded.
- With current economic growth, poverty has declined, evidenced by a 10.4 percent reduction in the number of food stamp recipients.
- University of Michigan's Surveys of Consumers reported its Index of Consumer Sentiment hit 101.4 in March 2018. This figure was the highest in more than 15 years. For all of 2018, this level averaged 98.4, which was the best full-year average since 2000.
- Home prices soared to \$276,500, a record level, under Trump.
- The FBI shows violent crimes were

down 4.3 percent in the first half of last year, and property crimes declined 7.2 percent.

On the negative side, most experts agree the president's challenges have been self-inflicted. Below are the top six examples:

- The U.S.' sentiment and tone have changed. Along with Trump's narrative, there is widespread racial discrimination and other provocations.
- There is no unity coming from the president. The president's focus is clearly on being the president of his conservative Republican base.
- Illegal U.S.-Mexico border crossings are surging to the highest levels in more than a decade.
- Use of Twitter account. He continues to overshadow his policy achievements by tweeting mundane, even Byzantine and divisive topics.
- Number of citizens without health insurance increases to 7 million.
- Not understanding presidential role. Most believe the president lacks an understanding of how to approach his job and the power that comes with it. Petty issues have eroded his standing as a world leader.

President Trump recently tweeted that tariffs were “partially responsible for his enormous economic boom” and stated the U.S.-China trade war would continue with more 25 percent tariffs on \$325 billion of additional Chinese imports. Signing a final trade deal with China seems elusive at best. The top-line growth rate was 3.2 percent in the first quarter, but the underlying growth composition was troubling. Hitting a household sector growing at a 1.2 percent rate with a massive tax increase is exceptionally wrong-headed. It raises the specter of the president trying the same disruptive strategy to pass the USMCA (first secede from Nafta) or negotiate with Europe and Japan (related to auto tariffs). More troubling, it raises the possibility of a mostly self-inflicted wound for an economy that is finally delivering. Of course, if the president does enough damage, the Fed will finally cut rates.

President Trump’s handling of the economy has been without equal. What is hurting the president are his frequent attacks that demean his standing as a leader, racially infused rethoric and lack of honesty discussing his accomplishments.

What has hurt him most recently was the press conference by Special Counsel Robert S. Mueller III, who stated the conclusions of the two-year investigation into Russia’s interference in the 2016 U.S. presidential elections. “If we had had confidence that the president clearly did not commit a crime, we would have said so,” Mueller said. U.S. Department of Justice policy prohibits charging a sitting president with a crime, he said.

As the 2020 presidential elections fast approach, expect lots to happen.

Gov. Ricardo Rosselló

No one can dispute that Gov. Ricardo Rosselló inherited a Puerto Rico that was declared bankrupt, with a Financial Oversight & Management Board (FOMB) to deal with, an economy in retraction and without access to capital markets. Adding more pressure, Puerto Rico went through two hurricanes that brought the island to its knees.

There have been notable improvements in unemployment rates, with a 25.64 percent decrease over the past 28 months. In addition, the labor-force participation rate increased by nearly 0.01 percent during the same period. Median household income has improved, with a 6.65 percent increase, and the 2019 GNP growth rate is 3.1 percent, or 241 percent better than the previous projection. The tourism sector suffered considerably after hurricanes Irama and Maria, but is actively growing and expanding once again.

Puerto Rico has what is needed to realize its potential, grow the economy and, at the same time, break with the fiscal imprudence that has hampered the island’s economic evolution.

The disruption of the electric grid, water supply, telecommunications, roads, bridges, 250,000 houses, and the paralyzation of the island in some areas for months, has changed every government priority. This crisis has elevated most essential services’ fragility to new levels.

Some of Gov. Rosselló’s critical advances now have to be reworked because the 2017 hurricanes derailed some of the FOMB-mandated initiatives incorporated in the fiscal plan. Even as disruptive as this event was, the entire country has seen a governor

who works hard for his people, is committed and has a sense of urgency and work ethic that is impressive.

His most essential advances include:

- Placing Puerto Rico on Washington’s agenda for hurricane relief & FEMA. For decades, Puerto Rico was absent from Washington’s agenda, and Gov. Rosselló, Maria and Irma changed that.
- Seeking Medicare and Medicaid parity. Puerto Ricans pay 100 percent of the required Medicare and Medicaid insurance costs, yet receive less than 40 percent of the benefits, which in any book is a discriminatory practice. The governor repeated that message to the point that parity may be on the horizon.
- The inflow of reconstruction funds is significant. More than \$54.0 billion in federal recovery and \$8.0 billion from private insurance funds have been promised. As of August 2018, FEMA estimates it has disbursed or approved \$8.1 billion in public and private assistance funding. The total expected over 10 years is \$62.4 billion.
- Total employment, including self-employed had been declining since 2007. This trend has reversed since Hurricane Maria, with total employment increasing since then. In May 2019. More than 1 million residents reported having work, which is the highest level since February 2017.
- *Manufacturing: The New Orders Index has averaged a score of 55 post-Maria. This means further increases in manufacturing activity are expected over the coming months.

On the negative side, experts agree the governor’s challenges came after the

hurricanes. Below some observations:

- Not working with the Legislature and FOMB as a team. The best way to cure P.R.’s financial crisis is by reaching agreements with the FOMB, Legislature and U.S. Congress. Doing so will allow the island to accomplish the needed five years of balanced budgets and eventual return to the capital markets. This will imply significant budget cuts and changes in the ways Puerto Rico conducts its operations.
- Puerto Rico’s GNP growth may be temporary, with positive real GNP growth rates for fiscal years 2019 and 2020 at current and expected growth rates, according to Estudios Técnicos Inc.
- Puerto Rico must reach a sustainable rate of economic growth. Hurricane Maria struck when our economy had been in contraction since fiscal year 2007. As a result of the significant inflows of reconstruction funds, economic activity was generated although this stimulus may very well be temporary.
- Puerto Rico debt burden. The still mostly unresolved issues related to the government’s debt will affect its advances in other areas.
- Puerto Rico at systemic risk in healthcare. The challenges facing Puerto Rico hospitals, and even those stateside, are that they are being forced to reduce costs at the expense of creating potentially devastating impacts on the communities served. This scenario is the indubitable Hobsons Choice that has developed through profound public policy and market moves that transfer financial risk into local healthcare systems. With little or no financing available in Puerto Rico,

we have considerable similarity to 2008’s systemic risk crisis.

- Demographic changes and population loss. Although recent data suggest it will not be as severe as expected, by 2025 one consensus puts Puerto Rico’s population at nearly 3.1 million. This will place additional pressure on scarce government resources.
- This roadmap is provided to assist the government in evaluating significant economic benchmarks. Ways must be found to strengthen how the government is managed, and this can be accomplished if there are appropriate metrics.

Benchmarking is a necessary function of government because it can enhance program oversight and accountability, improve service effectiveness and efficiency, and assess what works and what does not while providing critically needed information for making difficult policy decisions.

More than any time in recent history, Puerto Rico’s destiny hangs in the balance. What direction the people of Puerto Rico take is our choice. There are dangers related to our freedom, democracy and way of life.

For decades, many chose to ignore the signs of impending doom brought about by our wrongful ways, always with the hope that somehow a fix would be found.

An accurate measure of the people’s strength is how they rise to accept their circumstances and change their ways.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.

U.S. Economic Benchmarks

Under President Trump	05/31/2019	01/20/2017	Change
Price Per Gallon Regular Gasoline	\$ 2.81	\$2.44	15.4%
Dow Jones Industrial Average	24,815.04	19,819	25.2%
Nasdaq	7,910.59	5,561	42.3%
S&P 500	2,752.06	2,271	21.2%
Unemployment	3.6%	4.7%	-23.4%
Average GDP Growth Rate in Office	2.8%	1.78%	63.57%
Labor-Force Participation Rate	62.8%	62.7%	0.2%
Homeownership Rate	64.2%	62.9%	2.1%
Median Household Income	\$63,688	\$58,221	9.4%
National Debt	\$22,028,706,063,175	\$19,962,644,407,252	10.3%
Credit Ratings	S&P (AA+), Moody’s (AAA), Fitch (AAA)	S&P (AA+), Moody’s (AAA), Fitch (AAA)	Unchanged
Access to Markets	Full Access	Full Access	Unchanged
Approval Rating	48	46	4.35%

Benchmarks for Puerto Rico

Under Governor Rosselló	05/31/2019	01/20/2017	Change
Price Per Liter Regular Gasoline	\$ 0.73	\$0.65	12.48%
Cement Sales	10,230	8,567	19.41%
Unemployment	8.7%	11.7%	-25.64%
Average GNP Growth Rate in Office	3.1%	-2.2%	241%
Labor-Force Participation Rate	40.7%	40.6%	0.25%
Homeownership Rate	62.9%	62.9%	0.00%
Median Household Income	\$20,078	\$ 18,826	6.65%
National Debt	\$69 Billion + Interest	\$69 Billion + Interest	Unchanged
Credit Ratings	S&P (D), Moody’s (D) and Fitch (D)		Default
Access to markets	No access	No access	Unchanged