

ECONOMY

Primary U.S. economic indicators up for Feb. 3-7



THINK STRATEGICALLY:

Transforming Puerto Rico

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Global economy to increase with or without coronavirus

The U.S. Federal Reserve Bank stated during its annual report to Congress that the coronavirus has the potential to harm global economic growth. The Chinese economy is so large and so intertwined in the global trade that as the pandemic spreads, it will continue to limit travel, disrupt supply chains, close businesses and impact an already fragile global economy. To combat the damage to its own economy, China has implemented a series of stimulus measures to help prop it up. The economic forecast is thus maintained, with global growth rising at 3.3 percent in 2020 and 3.4 percent for 2021.

Coronavirus update: Numbers rising

At the beginning of the week, the virus had already infected more than 43,000 people, a more than 150 percent increase from last week. Of the more than 1,010 deaths reported, all but one had occurred in China.

Week in markets—U.S. markets: Significant gains fueled by positive data

In the middle of all the presidential drama that included President Trump's State of the Union address, the impeachment acquittal and the coronavirus pandemic, U.S. stocks jumped close to their highest level in the past two quarters. The mostly positive results arise from a mix of upbeat U.S. economic data and investors' optimistic view that the pandemic will be controlled. As the week closed, the S&P 500 reached a record high.

The market absorbed a slew of economic reports that included January's jobs report that recorded an impressive growth of 225,000 jobs and showed wages are increasing. The economy is adding more and more people from unemployment lines to the workforce. Another benchmark showing hefty increases was the Purchasing Managers' Index (PMI), which measures manufacturing activity, rising to the highest level since July. Another item on the list is the announcement China would cut

tariffs on \$75 billion on U.S. goods as part of the phase-one trade agreement.

The Dow Jones Industrial Average closed the week of Feb. 7 at 29,102.51, for an increase of 849.21 points, or 3 percent, and a year-to-date (YTD) return of 2 percent. In addition, the S&P 500 closed Feb. 7 at 3,327.71, for a gain of 102.19, or 3.17 percent, and a YTD return of 3 percent. The Nasdaq closed Feb. 7 at 9,520.51, gaining 369.57, or 4.04 percent, for a YTD return of 6.01 percent.

The Birling Capital Puerto Rico Stock Index closed Feb. 7 at 1,867.23, for a loss of 8.38, or 0.45 percent, and YTD return of minus-8.37 percent. Meanwhile, the U.S. Treasury's 10-year note rose, closing at 1.59 percent, an increase of 5.3 percent and YTD return of minus-0.4 percent.

The U.S. Treasury's 2-year note rose to close at 1.41 percent, an increase of 6.025 and a YTD return of minus-0.4 percent.

Economic front: Primary indicators for Feb. 3-7

• **U.S. Institute for Supply Management (ISM) PMI:** Reported Feb. 3 at a level of 55.5, up from 54.9 last month and down from 56.7 a year ago.

• **U.S. Manufacturing Shipments:**

Reported Feb. 4 at a level of 504.08 billion, up from 501.82 billion last month.

• **U.S. Manufacturing New Orders:**

Reported Feb. 4 at a level of 499.33 billion, up from 490.71 billion last month, for a monthly annualized growth rate of 21.07 percent, which compares with the long-term average annualized growth rate of 3.22 percent.

• **U.S. Trade Deficit:**

Reported Feb. 5 at 48.88 billion, up from 43.69 billion last month and down from 60.81 billion one year ago. This is an increase of 11.88 percent from the previous month.

• **U.S. Initial Jobless Claims:**

Reported Feb. 6, there were 225,000 active jobs in January, boosted by robust gains in education and health services.

Final word: Transforming Puerto Rico

Puerto Rico needs to implement a set of supranational goals that will stand the test of time and people will protect, goals that will transcend party, ideology or any government in power. These goals are needed in our quest to transform Puerto Rico; we will discuss three according to their economic impact.

Supranational goals

• **Transform Puerto Rico with robust economic development and sustained 4 percent growth for at least five consecutive years.** The gross national product (GNP) for Puerto Rico in 2019 was north of \$70 billion at the current economic rate; let us compare Puerto Rico at 1.7 percent versus 4 percent growth. At a growth rate of 1.7 percent, less 1 percent adjusted for inflation, in real terms, means the economy grew at 0.7 percent or \$490 million. Had Puerto Rico grown at 4 percent, less 1 percent adjusted for inflation, in practical terms the economy would have grown at 3 percent or \$2.1 billion.

• **Implement industrial structure, with employment activities related to a knowledge-based economy, at not less than 25 percent of GNP within 10 years.** Achieving this metric is quite essential for Puerto Rico. Unlike a traditional economy where resources are depleted, information and knowledge can be shared and grown through applications. Assuming a 4 percent growth rate, it would translate into real growth closer to 6 percent and additional wealth of \$3.5 billion a year.

• **Create 300,000 new jobs in the private sector in the next six years.** The labor force is currently at 852,292 workers. If we create 300,000 new jobs, it would mean our labor force would be of 1,152,292 employees, which is higher than our most significant recorded number of 1,032,000 in 2007. Assuming the current median annual household income, that would translate to \$6.2 billion in new wages.

• **Increase median annual household income 30 percent, from the current \$20,873.80.** Grow the median annual household income to \$27,135.94, which translates into \$7.2 billion in additional wages. All told, the supranational goals would create more than \$15.5 billion in increased economic activity, wealth creation, job growth and education, and that is before analyzing the benefits of extracting the government from the equation and leaving the private sector to do what it does best.

The supranational goals are the keys to transforming Puerto Rico.

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Weekly Market Close Comparison	2/7/20	1/31/2020	Change	YTD
Dow Jones Industrial Average	29,102.51	28,256.03	3.00%	2.00%
Standard & Poor's 500	3,327.71	3,225.52	3.17%	3.00%
Nasdaq	9,520.51	9,150.94	4.04%	6.01%
Birling Puerto Rico Stock Index	1,867.23	1,920.05	-0.45%	-8.37%
U.S. Treasury 10-Year Note	1.59%	1.51%	5.30%	-0.4%
U.S. Treasury 2-Year Note	1.41%	1.33%	6.02%	-0.4%