



# PUERTO RICO'S CURRENT ECONOMIC ENVIRONMENT AND IMPLICATIONS FOR THE INSURANCE INDUSTRY

May 11, 2023



# Contents

- ❑ Current Economic Context...
- ❑ Insurance Industry Performance...
- ❑ Economic Outlook...

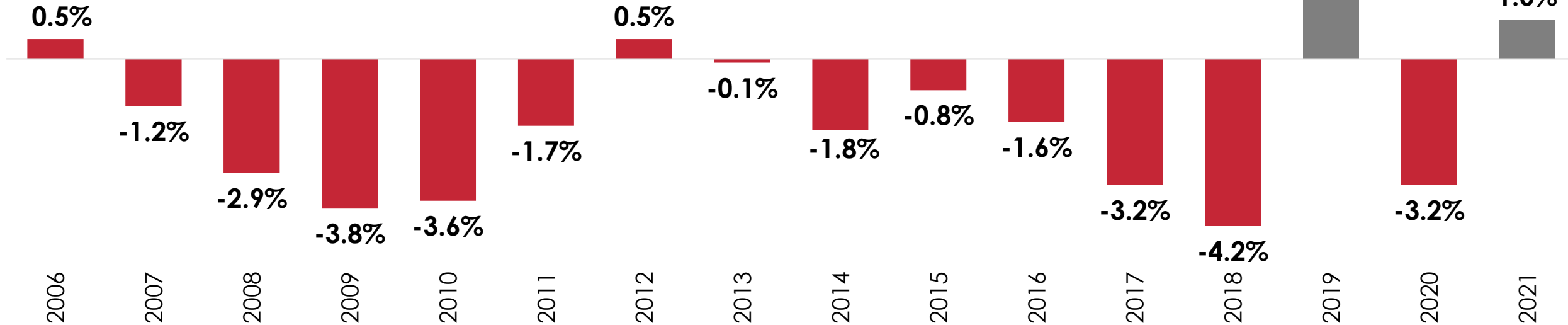


# CURRENT ECONOMIC CONTEXT...

# PUERTO RICO'S ECONOMY IS SMALLER

## Real GNP Growth in Puerto Rico Fiscal Year: 2006-2021

The size of the economy shrank since 2006: **22%\***



\*Real investment in construction declined by 39% during the period.  
Source: Puerto Rico Planning Board. *Statistical Appendix to the Governor, 2021.*

# FEDERAL STIMULUS UNDER CARES ACT OF 2021 WAS IMPORTANT TO THE STABILIZATION OF THE ECONOMY AFTER ITS REOPENING IN 2H20

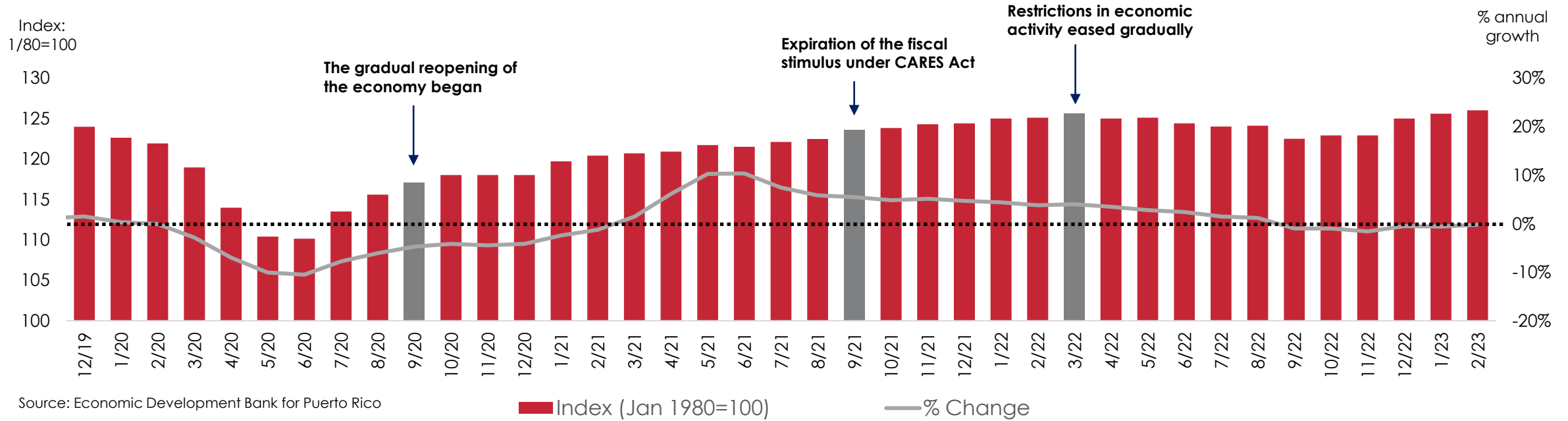
## Funding Granted to Puerto Rico as of April 19, 2023

Funding	Quantity Allowed	Quantity Committed and/or Disbursed	% of Total Allowed	% committed or Disbursed from Allowed
Income Support	\$11.0B	\$9.3B	36.9%	85%
Business Support	\$6.1B	\$6.0B	20.5%	98%
State & Local Funding	\$11.5B	\$11.5B	38.6%	100%
Health Spending	\$651M	\$630M	2.2%	97%
Other Spending	\$423M	\$265M	1.4%	63%
<b>Total</b>	<b>\$29.8B</b>	<b>\$27.7B</b>	<b>100%</b>	

Source: Committee for a Responsible Budget (2021). Covidmoney Tracker - Puerto Rico. Figures updated as of April 7, 2023.

# THE ECONOMIC ACTIVITY STAGNATED IN LATE 2022 AS ELECTRIC ENERGY GENERATION, CEMENT SALES AND GASOLINE SALES WEAKENED

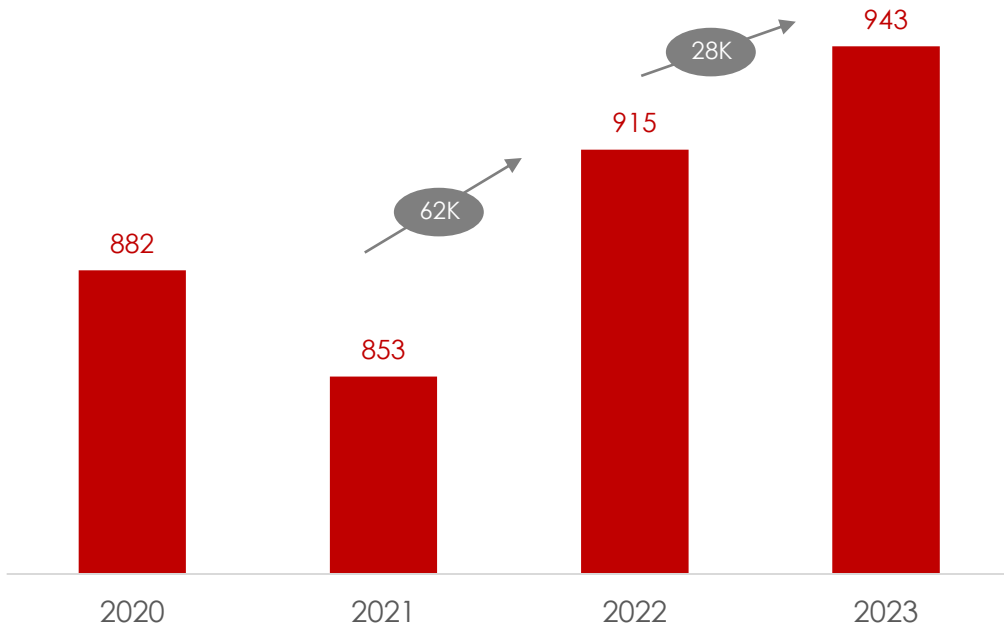
**Economic Development Bank of Puerto Rico - Index of Economic Activity**  
December 2019 – February 2023



# THE LABOR MARKET CONTINUES PERFORMING WELL WITH 28,500 JOBS CREATED DURING THE FIRST QUARTER OF 2023 VS. 2022

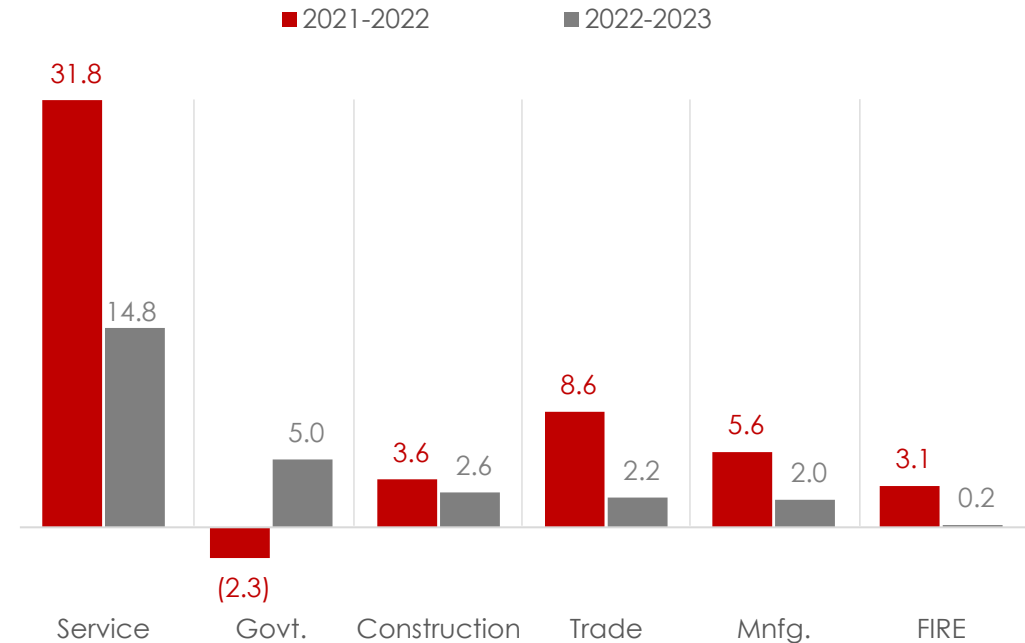
Current nonfarm employment levels is exceeding the average of 925,064 jobs since 2006...

**Nonfarm Employment (# in 000's)**  
First quarter figures (Jan-Mar) for selected years



... but employment growth is moderating signaling a stabilization in labor demand particularly in services

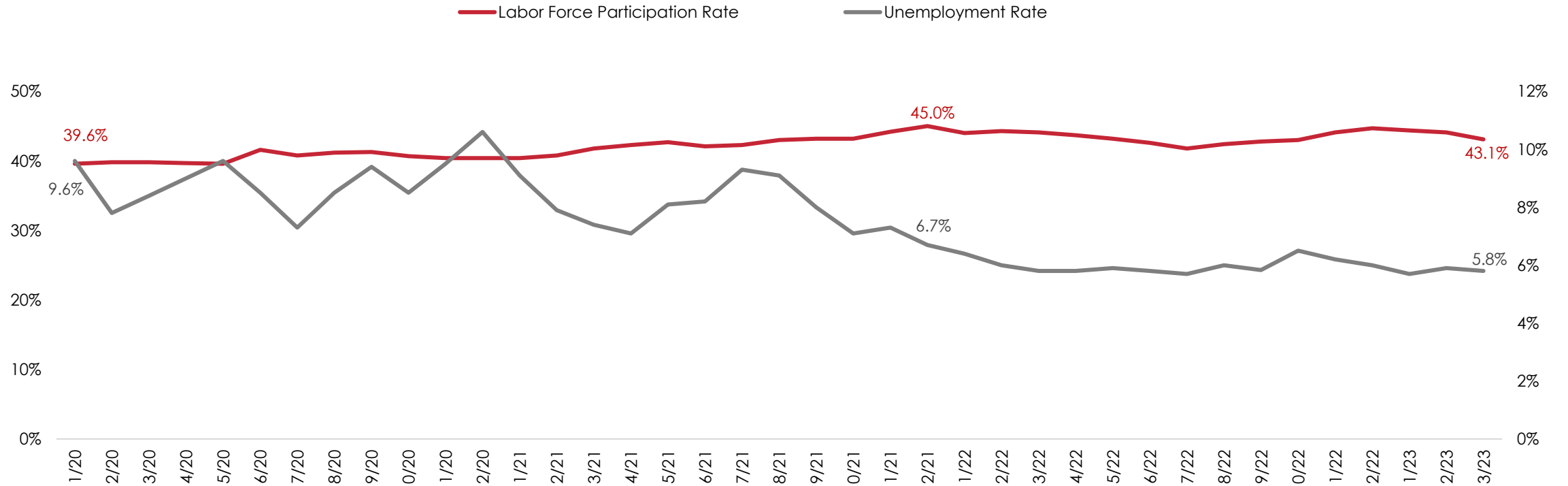
**Job Gains or Losses for Selected Sectors (# in 000's)**  
First quarter figures (Jan-Mar) for selected years



# THE UNEMPLOYMENT RATE REMAINS AT AN ALL-TIME LOW WHILE THE LABOR FORCE PARTICIPATION IS GRADUALLY DECLINING

## Unemployment Rate and Labor Participation (%)

January 2020 – March 2023



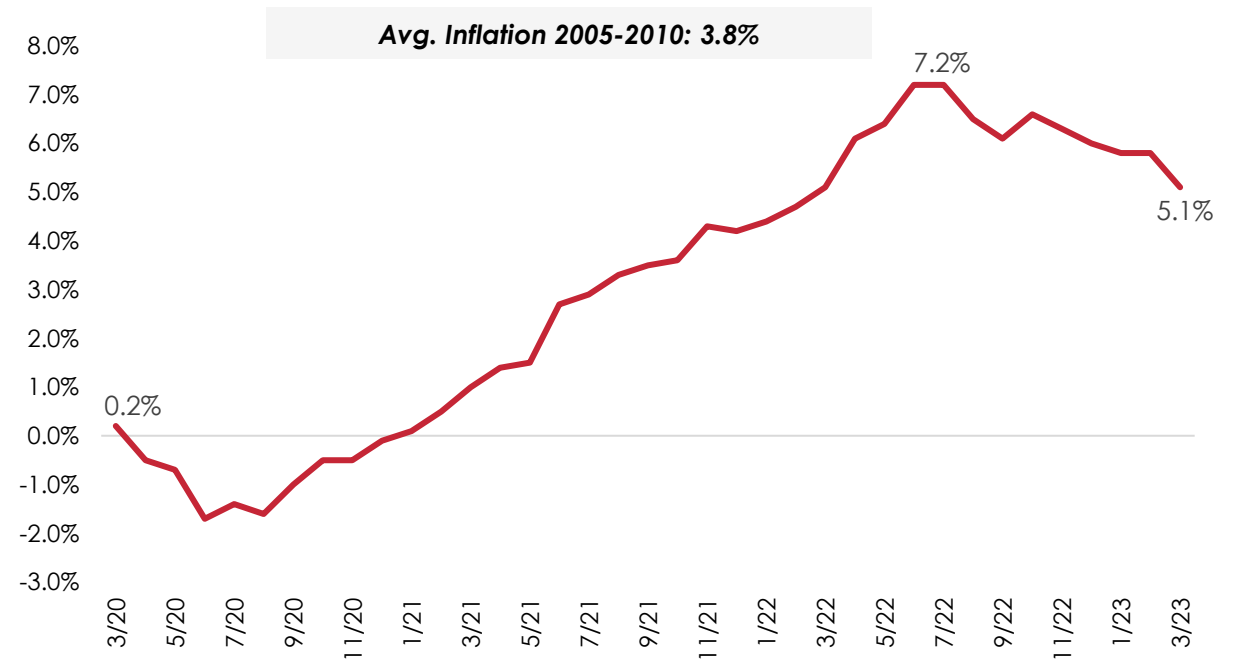


# INFLATIONARY PRESSURE PERSISTS ON THE ECONOMY

## Inflation Drivers

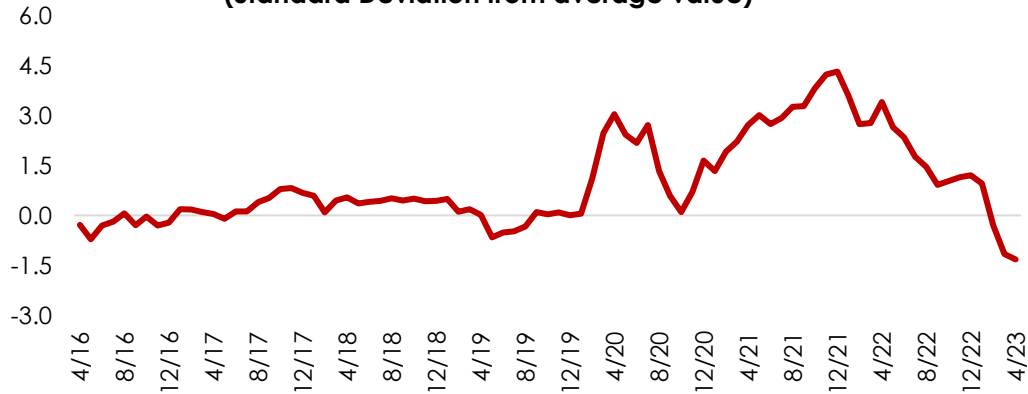
- ✓ Disruptions in global supply chains
- ✓ Installed capacity problems
- ✓ Russia-Ukraine crisis
- ✓ Climate change
- ✓ China's Economic reopening
- ✓ Increase in land transportation fees
- ✓ Increases (7) in electric bills
- ✓ State minimum wage
- ✓ Minimum wage for FEMA's construction workers
- ✓ LUMA-IBEW agreement

**Inflation rate in Puerto Rico**  
March 2020 – March 2023 (% annual growth in the CPI)

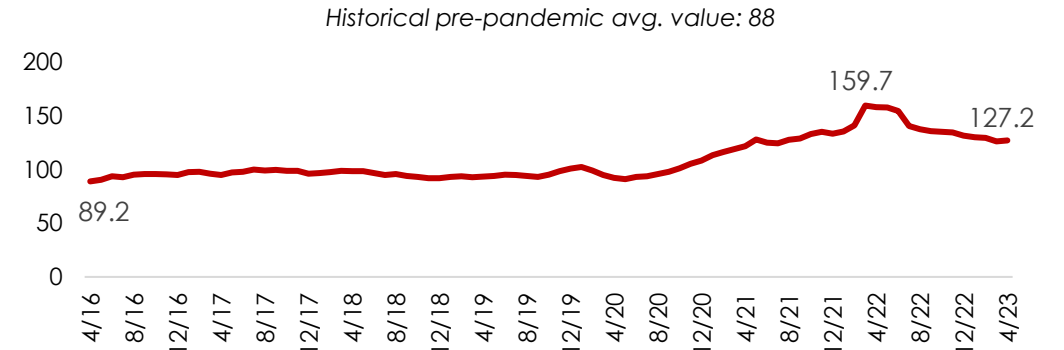


# EXTERNAL FACTORS INFLUENCING INFLATION HAS STABILIZED

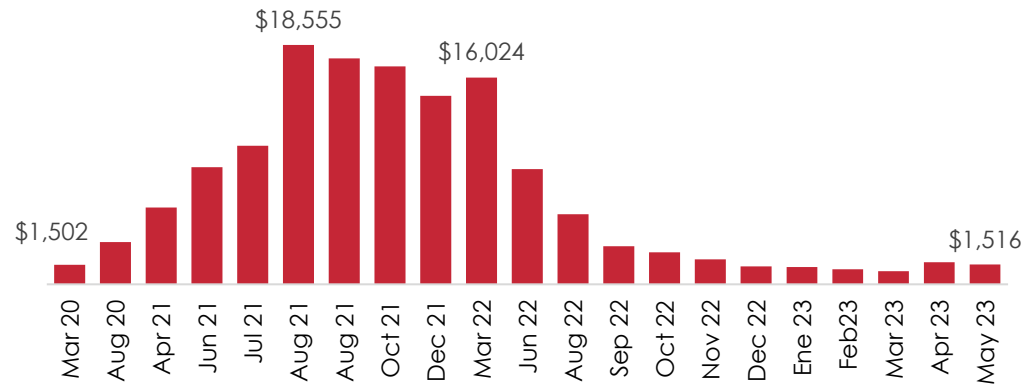
**Global Supply Chain Index Pressure**  
(Standard Deviation from average value)



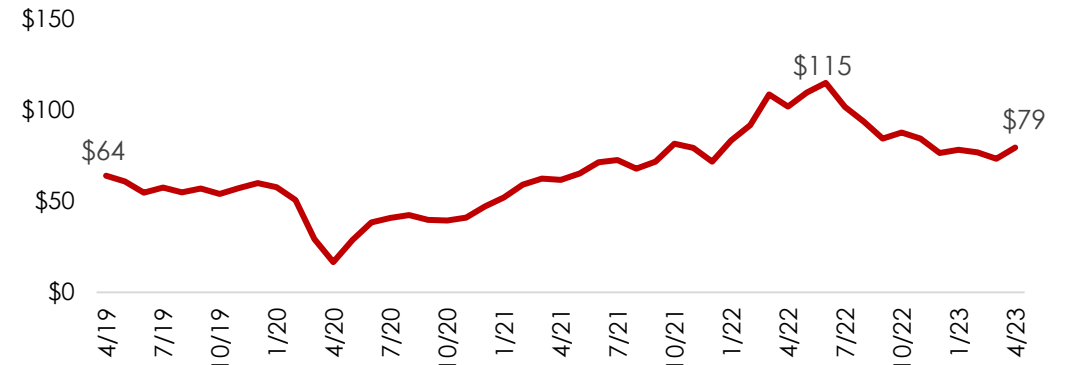
**Global Food Price Index from the Food Agriculture Organization**  
(2014-2016=100)



**Container Freight from China to North America West Coast**  
(\$ per FEU)

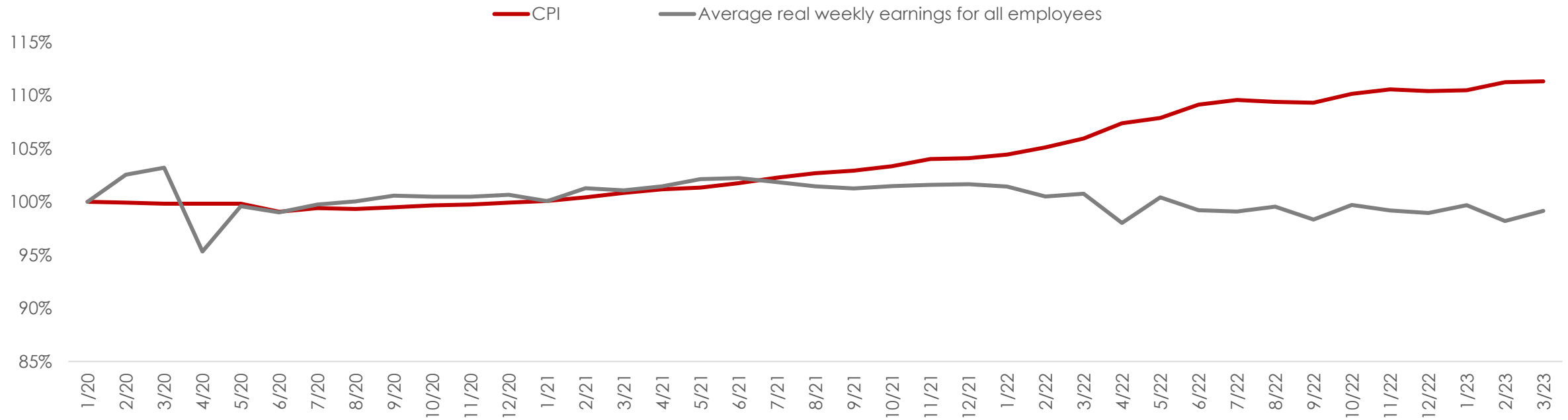


**Western Texas Intermediate Oil Price**  
(\$ per barrel)



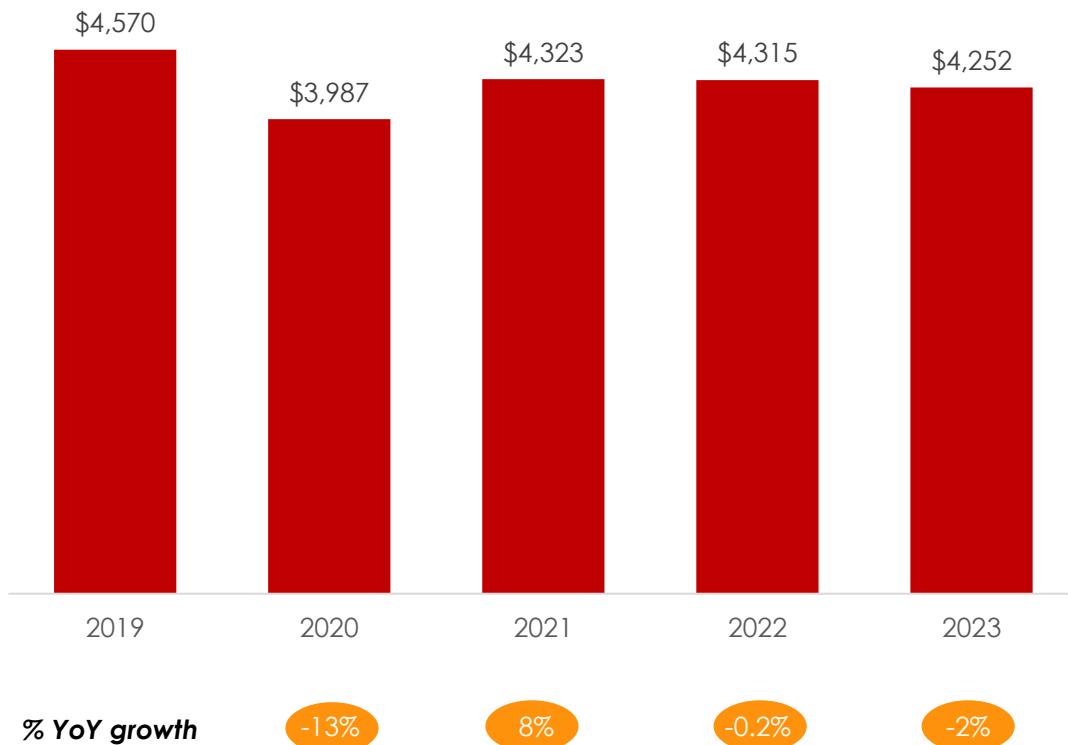
# YET INFLATION CONTINUES ERODING CONSUMERS' REAL EARNINGS

## Inflation and Average Real Weekly Earnings of All Employees (2010 = 100)

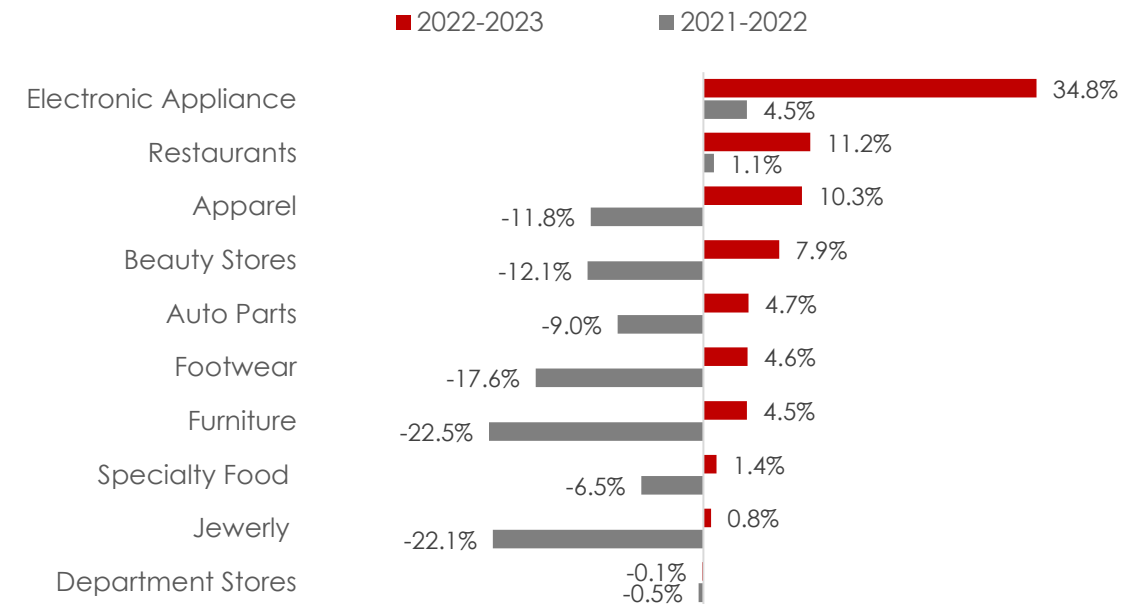


# RETAIL SALES AT CONSTANT PRICES IS BELOW PRE-PANDEMIC LEVELS FOR JAN-FEB 2023... GROWTH DRIVEN BY DISCRETIONARY GOODS

**Retail Sales (Constant Prices, \$ Million)**  
January – February of Every Year

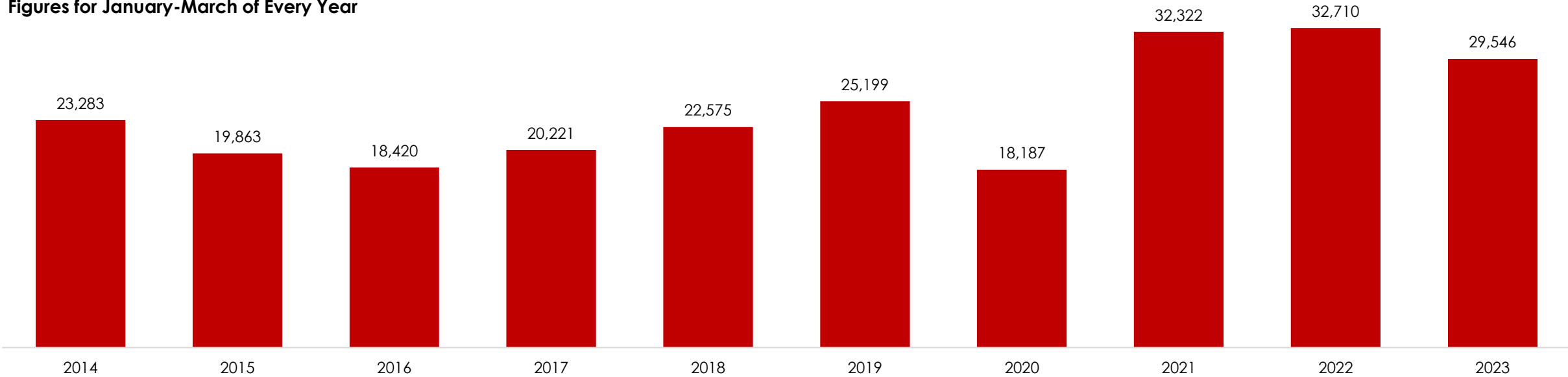


**Retail Sales for Selected Stores (Constant Prices, \$ Million)**  
January – February of Every Year



# AUTOMOBILE SALES DROPPED 10% IN 1Q23 DRIVEN BY HIGHER INTEREST RATES, BUDGET CONSTRAINTS AND SHORTAGE OF AUTOMOBILE UNITS

**Automobile Sales (# of Units)**  
 Figures for January-March of Every Year



**Automobile sales transitioning from an environment supported by pent-up demand to an organic growth consistent with market fundamentals...**

**2019-2020**

- Automobile sales declined by 4.3% year-on-year or by 5,543 units in 2021-2022



**2021-2022**

- Limited inventory due to global microchip shortages and the loss of consumers' purchasing power to inflation affected demand

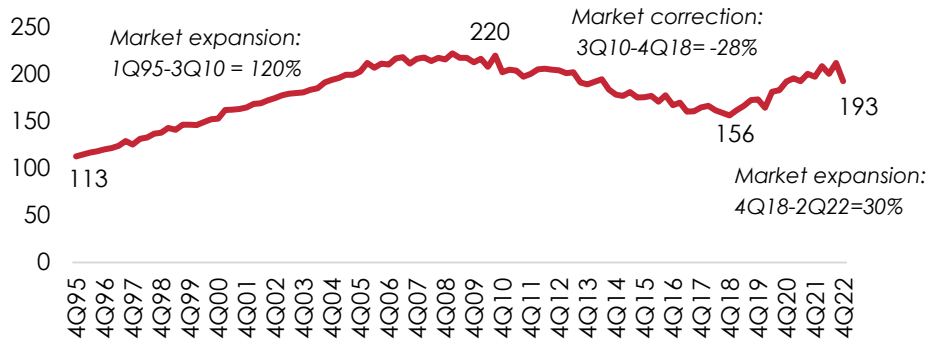


**2023-2024**

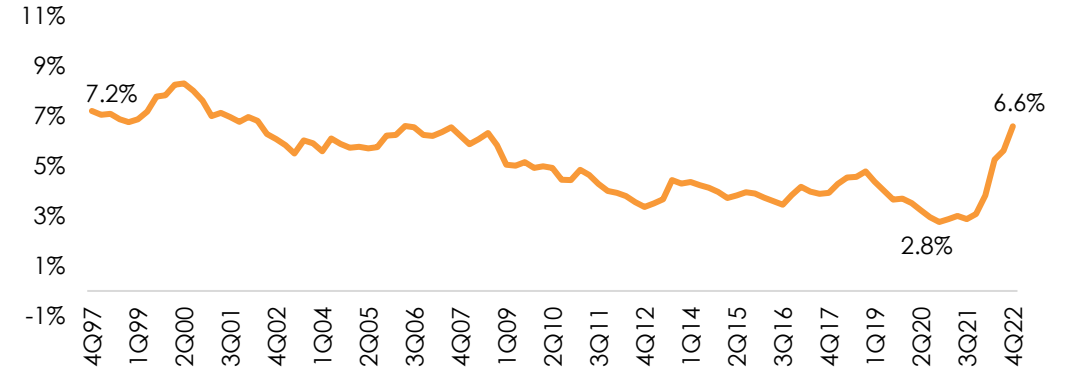
- Persistent inflation and higher interest rate will continue affecting demand with sales slowly returning to pre-pandemic levels

# HIGHER PRICES AND INTEREST RATES IS ALSO AFFECTING HOUSING AFFORDABILITY AND DEMAND IN THE HOUSING MARKET

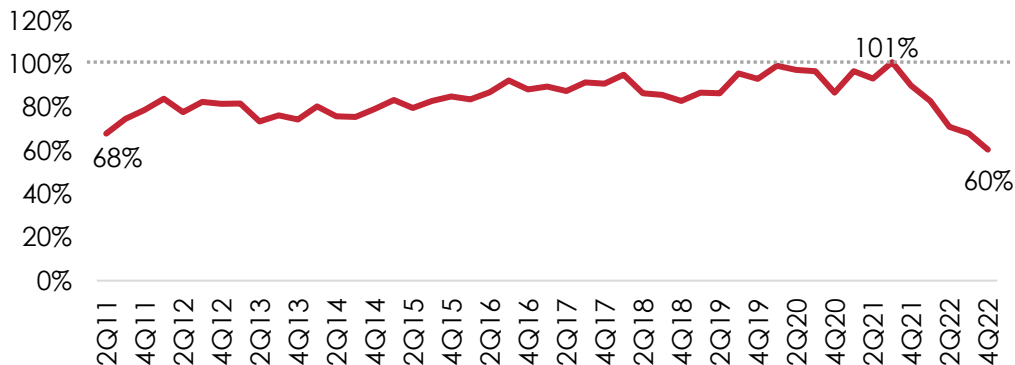
**FHFA House Price Index\***  
(All transactions, 1995=100)



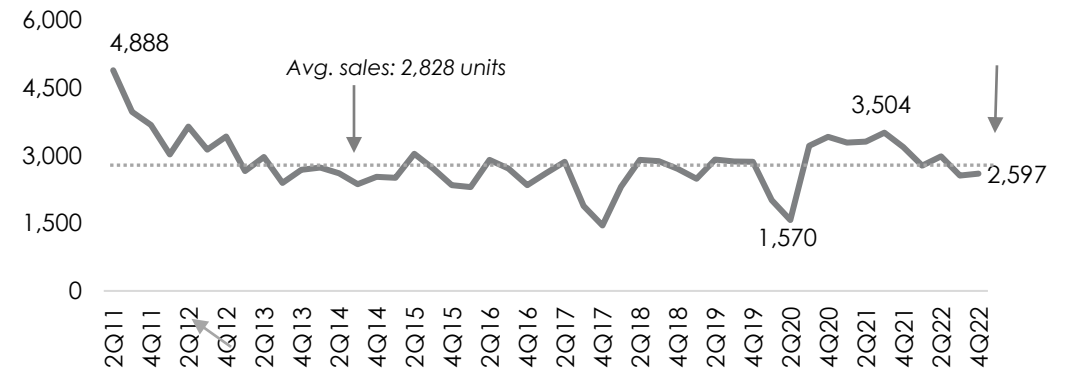
**30-year fixed mortgage rate**



**Estudios Tecnicos Housing Affordability Index (%)**



**Housing Sales (# of units)**





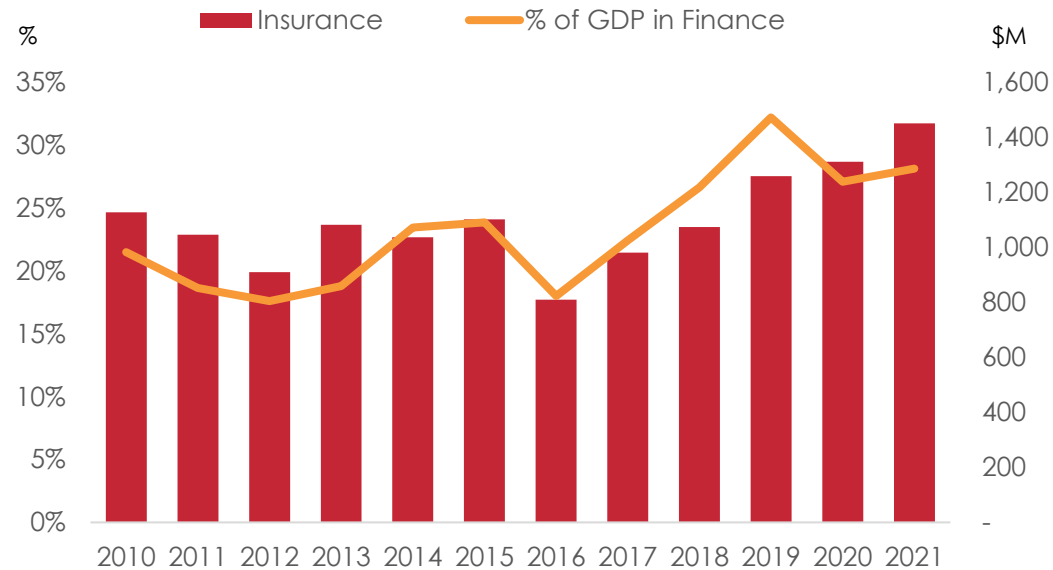
# INSURANCE INDUSTRY PERFORMANCE...

# THE INSURANCE INDUSTRY GROWS DESPITE THE DIFFICULT ENVIRONMENT

The GDP of the insurance industry amounted to \$1.45 billion in fiscal year 2021, representing 28% of the financial sector's GDP

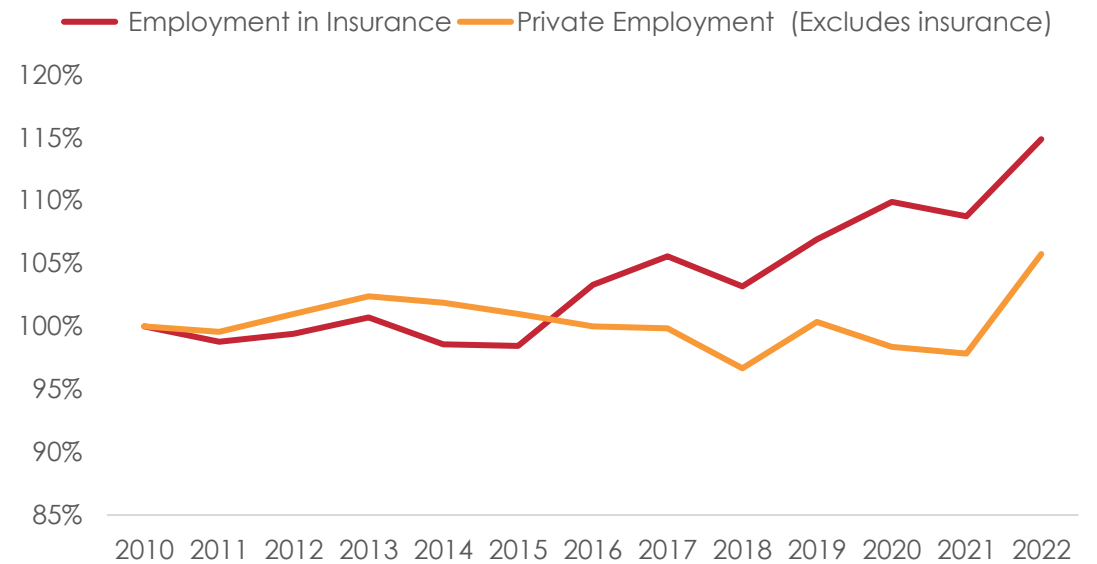
It employed 14,000 workers in fiscal 2021 (32% of finance employment), 1,125 additional jobs versus the 12,883 in fiscal 2010

**Insurance and Related Services Sector GDP, Fiscal Year**



Source: PR Planning Board. *Ingreso y Producto (2019)*

**Job Growth, Fiscal Year (2010=100%)**



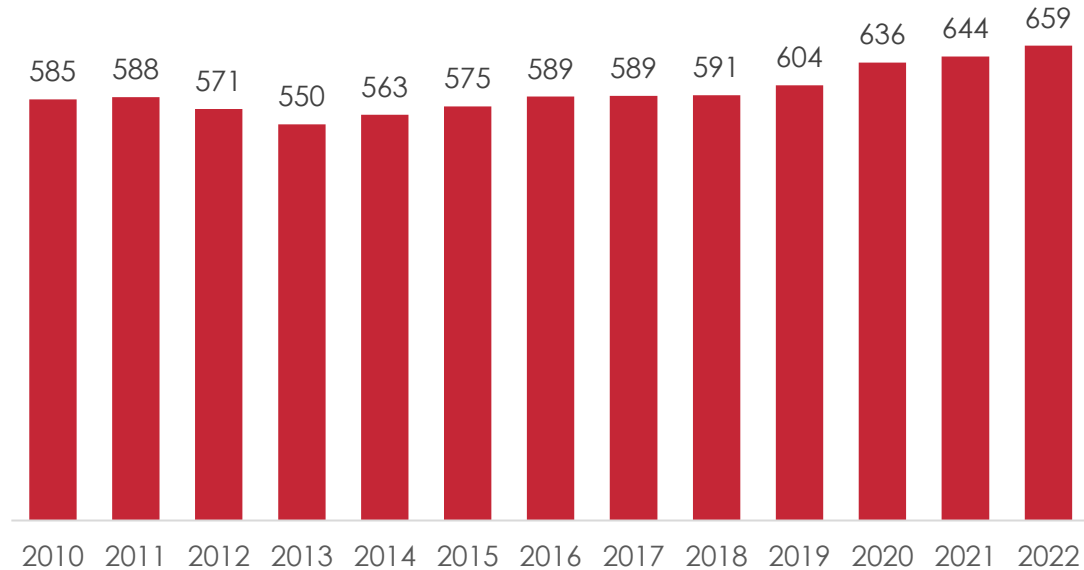
Source: Puerto Rico Department of Labor.



# THE INSURANCE INDUSTRY GROWS DESPITE THE DIFFICULT ENVIRONMENT

The number of establishments in the insurance industry and related activities increased moderately...

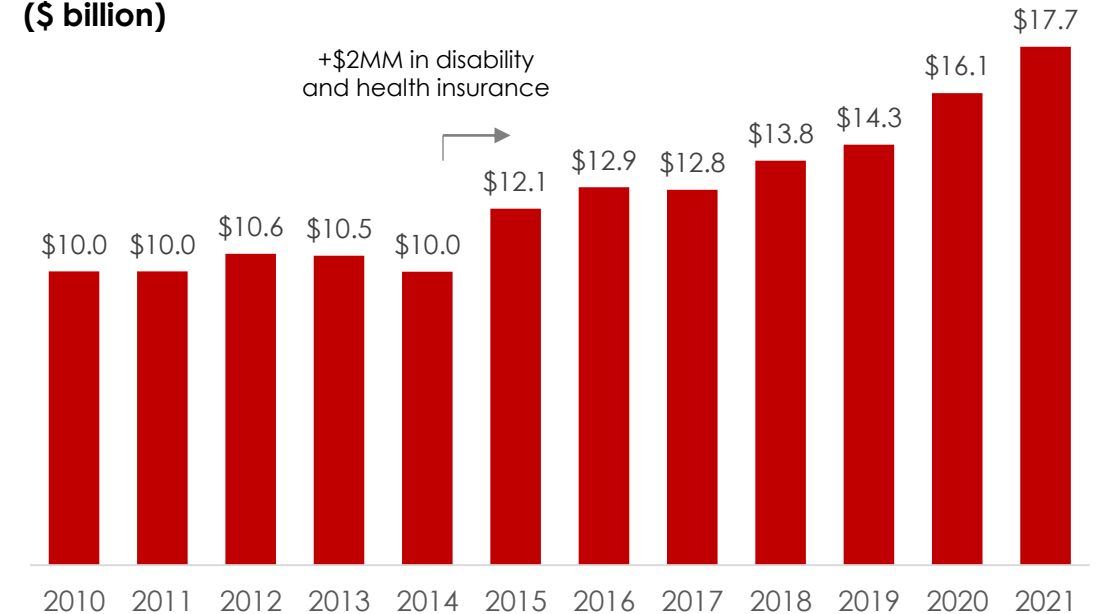
**Insurance establishments and related activities\***  
(# of establishments, Fiscal Year)



Source: Bureau of Labor Statistics

... although written premiums rose notably by \$7.7 billion since 2014

**Total premiums written**  
(\$ billion)



Source: Office of the Commissioner of Insurance of Puerto Rico

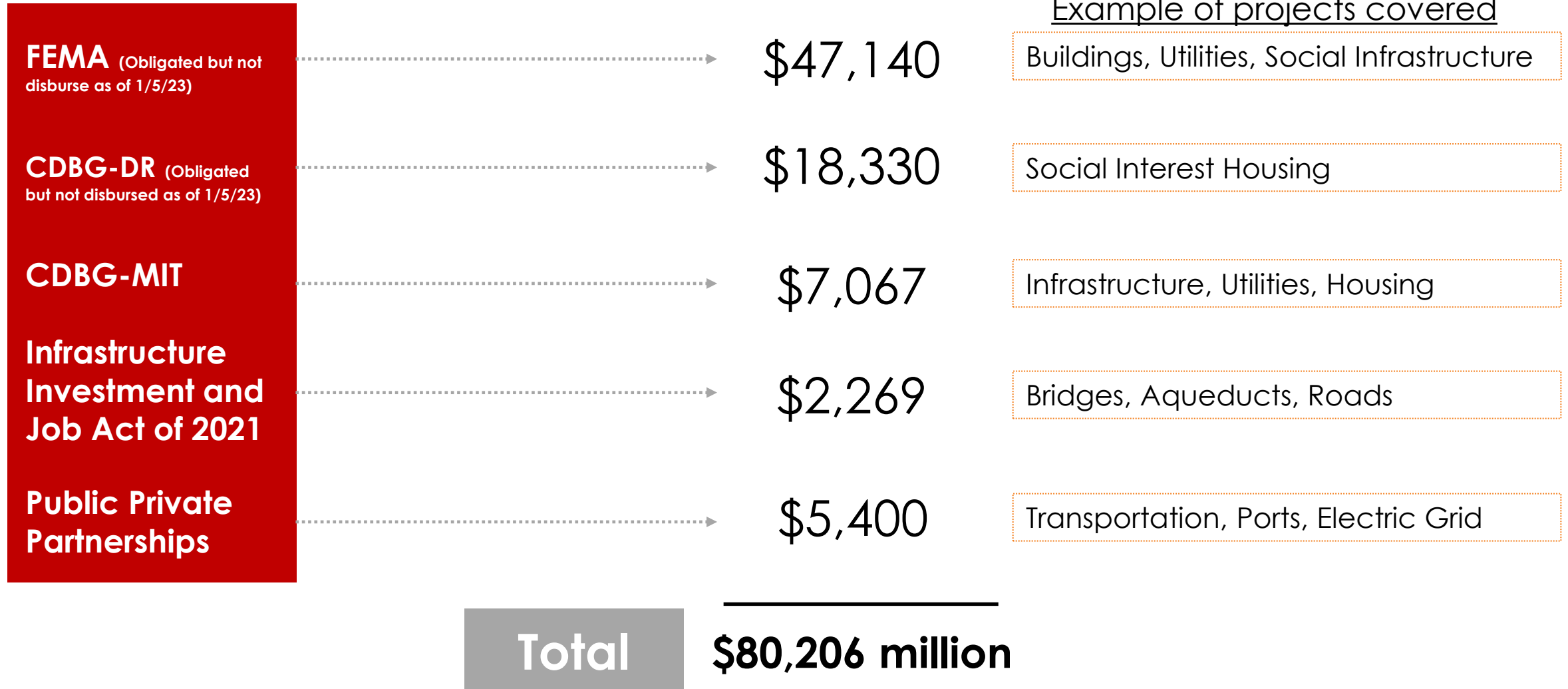
# THE INFLATIONARY ENVIRONMENT AND HIGHER INTEREST RATES POSES IMPORTANT CHALLENGES TO THE INSURANCE INDUSTRY

- 1 The rising cost of goods and services raises the cost of claims payouts, leading to higher premiums
- 2 Higher premiums may lead customers to rescind insurance coverage due to budget constraint
- 3 High operating cost require companies to assess cost structure to improve efficiency and margins
- 4 Higher inflation and interest rate reduce bonds prices and investment portfolio value
- 5 Reinvestment at a high yield (high-interest rate) leads to an increase in investment income
- 6 Uncertainty and market volatility reduce risk appetite, limit capacity, and increase premiums
- 7 Solvency margin requirements may increase to ensure that funds are available to cover claims



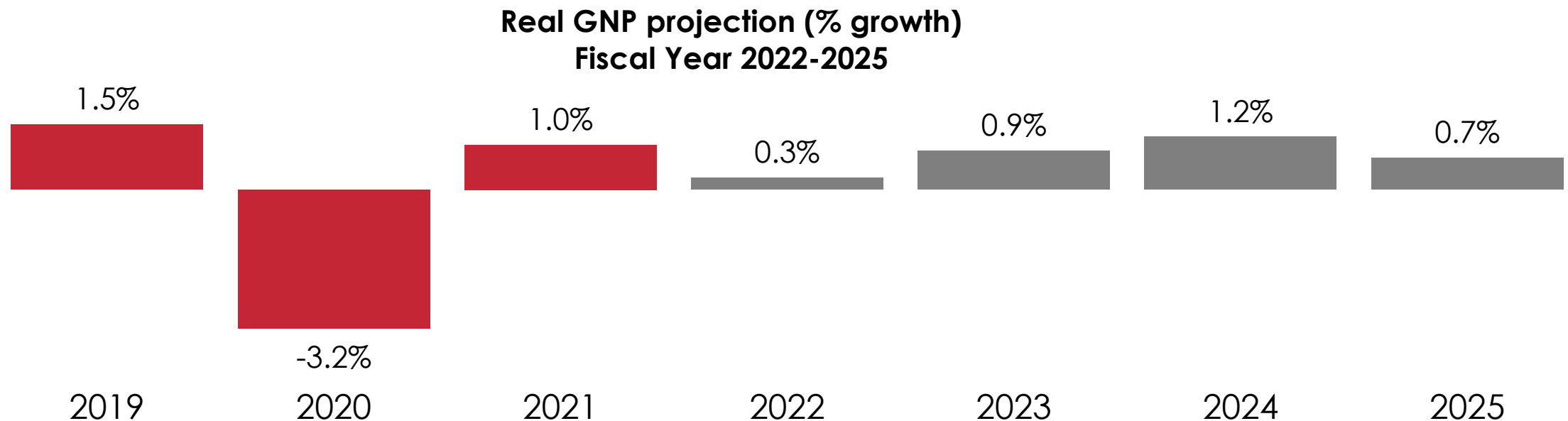
# ECONOMIC OUTLOOK...

# EXPEDITING THE INFRASTRUCTURE PROJECTS IN THE PIPELINE IS ESSENTIAL TO SUPPORT SHORT-TERM ECONOMIC GROWTH



# EXPEDITING THE INFRASTRUCTURE PROJECTS IN THE PIPELINE IS ESSENTIAL TO SUPPORT SHORT-TERM ECONOMIC GROWTH

- Higher prices for construction materials and limited internal resources to support the amount of construction projects in the pipeline will continue exerting pressure on construction costs.
- Persistent inflationary pressure may reduce the multiplier effect of the construction projects in the economy. Consequently, economic growth is projected to average 1.0% between fiscal years 2023-2025.
- It is imperative to implement structural reforms for sustainable economic growth in the medium to long-term.



# ¡Thank you!

