CRECE
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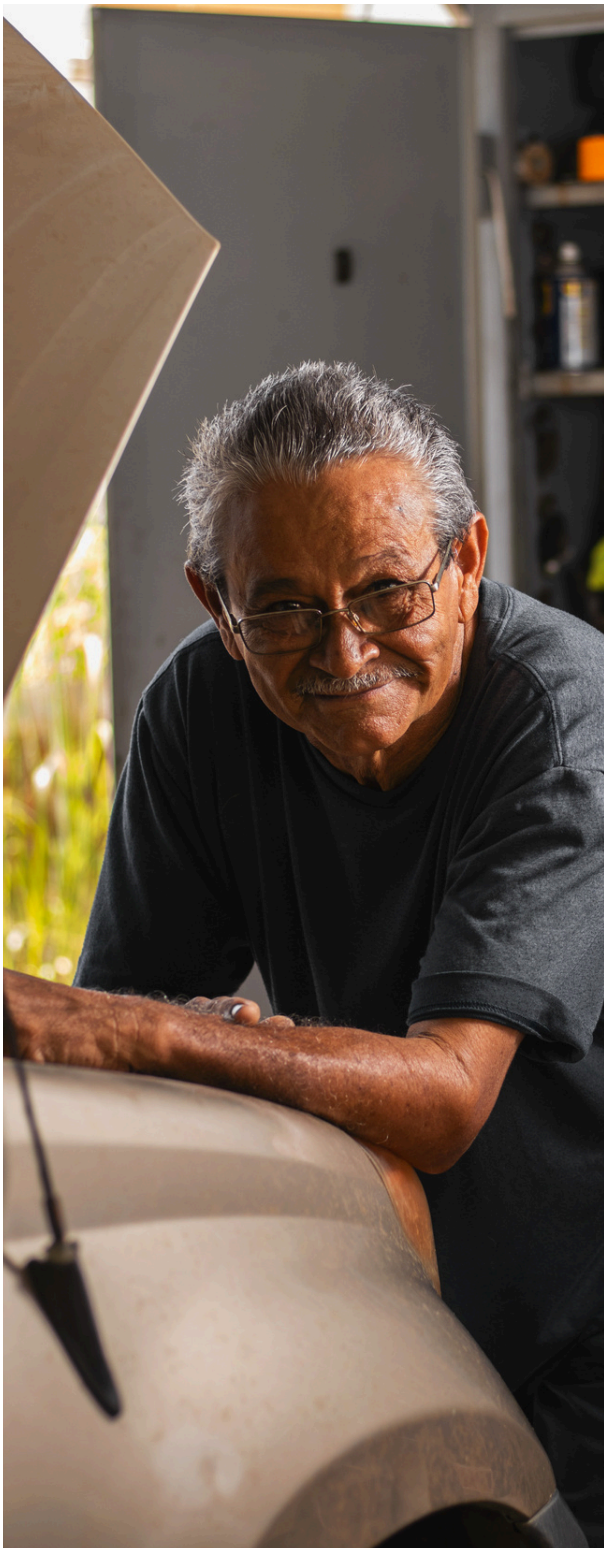
The Center for Economic Renewal, Growth, and Excellence (CRECE, for its Spanish acronym) and Intelligent Economics have partnered to bring you the ***The Road to Prosperity Newsletter***. This periodic publication offers concise yet comprehensive economic analyses, providing insights for informed policy decisions that advance free entrepreneurship and economic freedom in Puerto Rico. From industry overviews to policy impacts, each issue is crafted to be an essential source of information with a primary emphasis on Puerto Rico's recovery efforts post-María and post-COVID, complemented by insights into U.S. and global trends.

Socioeconomic trends and their effects on economic freedom in Puerto Rico

For the US economy, transitioning into the new millennium has been a turbulent ride. It began with the terrorist attack on September 11, 2001 (9/11), and followed by a financial crisis, which plunged the national economy into recession.

Regarding Puerto Rico, from 2001 to the present, a series of fiscal and economic events have exerted significant pressure on the island's socioeconomic structure and its aspirations for greater economic freedom. Among them, the most impactful has been the exodus of 600,000 residents, which has altered the island's demographic composition.



The new socio demographic structure 2001 - 2020

In 20 years, the socioeconomic face of the island has changed radically as the economic environment has deteriorated. The median age in Puerto Rico increased from 32 to 43 years and people are living longer. The older segment of the population – 65 years and older – has increased its share by 6.4 percentage points from 14.3% in 2001 to 20.7% in 2020. During the same period, the share of the younger segment of the population – 18 years or younger – decreased by 6.1 percentage points, from 23.6% to 17.5%. Also worrying is the fact that the percentage of households depending on government assistance programs increased from 38.9% to 45.5%, hindering self-reliance.

These changes are not only affecting people's aspirations for greater economic freedom; they place the survival of the middle class at risk. One of the most significant risks we are facing is the gradual disappearance of the middle class, which was one of the major achievements of the industrialization project in the 1950s and 1960s.

The challenges of the middle class

The best indicator to validate the decline in the working middle class is the labor participation rate, which dropped from approximately 50% in 2005 to 39% in 2020. This means that 61% of the working-age population was outside the formal labor force. During this period, a sizable portion of the middle-class workforce may have opted to join the informal economy while receiving government assistance to maintain their standard of living, forming an alternative model to the traditional salary. It is no coincidence that federal transfers increased significantly during this time.

The proportion of income from salaries, which is the main source of personal income, decreased from 40% in 2014 to 33% in 2023, with federal transfers compensating for the difference. For instance, between 2016 and 2022, median household income rose from $20,078 to $24,112, a 20.1% increase. Meanwhile, during the same period, the proportion of households relying on the Nutrition Assistance Program (NAP) grew from 38.9% to 48.3%, a 24.1% increase.

The high costs of living, the lack of high-paying jobs, high taxes, and the deterioration in the quality of life have eroded the middle class. These factors are driving families in that segment to emigrate and forcing others to depend on government assistance.

Simultaneously, recent natural disasters and the COVID-19 pandemic in 2020 have increased the population's reliance on temporary federal aid. In 2022, federal aid accounted for 42% of personal income, the highest level in recent times; and significantly greater than 29% in 2013.

As we approach 2030, and in the context of the gradual exit from bankruptcy and economic reconstruction, it is crucial to implement public policies and strategies that foster a sustainable and resilient economy while reducing dependency. This will expand opportunities for greater economic freedom. Liberal economic theory underscores the importance of human capital in driving economic growth. To counteract the brain-drain and population decline, policies should focus on investing in human capital. Initiatives such as the Earned Income Tax Credit (EITC) and the "Welfare to Work" pilot program are promising efforts aligned with reducing individuals' dependence on the state.

Economic freedom should be the foundation for outlining economic reactivation and social development policies in the coming years, with pragmatic and executable strategies for governments in collaboration with the private sector. While liberal economic theory supports limited government intervention, it recognizes the need for a supportive role in creating the right conditions for economic growth. In Puerto Rico, the government should focus on providing essential public services, such as infrastructure, and education while allowing the private sector to drive economic activities. This approach can create a more dynamic and resilient economy capable of adapting to demographic changes.

The Puerto Rico Economic Activity Index falls -2.0% in April 2024

The Economic Activity Index (EAI) is a monthly indicator published by the Economic Development Bank (EDB) that tracks Puerto Rico's economy. This index fell 2.0% compared to April 2023. This is the third consecutive month with contraction compared to the same month in 2023. On a month-over-month basis, the index also decreased 0.6% from March. This marks the sixth consecutive month of decline (month-over-month) and the index' lowest level since November 2022.

The sub-indexes analyzed for April 2024:

- Total non-farm payroll employment was 960.3 jobs in April 2024, an increase of 2.4% compared to April 2023.
- Electric power generation stood at 1,585.4 million kWh in April 2024, a 4.7% growth
- compared to April 2023. This is the largest increase this year.
- The preliminary data for gasoline consumption totaled 59.3 million gallons, a decrease of 22.6% in April 2024 compared to April 2023. This is the fourth consecutive month of drops compared to the previous year.
- Cement sales totaled 1,163.2 million 94lb. bags in April 2024, a decrease of 7.1% compared to April 2023. This is the third consecutive month in decline.

The EDB believes that inflationary pressures continue to impact gasoline consumption and cement sales. In April, the index was at the same level as in July 2022, when inflation was high. Still, inflation continues to persist, and consumers are cautiously managing their money.

The EAI closed FY 2024 with a 2.4% increase, very close to the Planning Board's base projections for FY 2024 of 2.8%.

Employment increases 1.8% in May 2024

Non-Farm Major s.a. Payroll Category	March 2020	May 2023	May 2024
Construction	27.4	34.7	35.9
Manufacturing	75.6	83.3	84.8
Trade, Transportation, and Utilities	172.7	186.4	189.5
Financial Industries	45.0	47.3	48.2
Professional and Business Services	124.1	140.8	140.6
Education and Healthcare	118.9	123.1	127.3
Leisure and Hospitality	80.9	91.8	98.4
Government	203.1	199.5	201.0
Total	**885.4**	**942.0**	**959.3**

Source: Puerto Rico Department of Labor and Human Resources

Nonfarm payroll, seasonally adjusted, totaled 959,300 employees in May 2024, according to preliminary figures published by the Puerto Rico Department of Labor and Human Resources (DTRH, for its Spanish acronym). Preliminary data reflects an increase of 17,300 jobs or 1.8% in May 2024 compared to May 2023. However, May's rise in employment is below the 18,700 additional jobs registered in April and is the slowest growth in the last five months. Employment now has 38 months of uninterrupted increases.

Of the 17,300 jobs that were created in May, 15,800 are in the private sector, which represents an increase of 2.1% compared to last year. Government employment rose 0.8% in May, the slowest growth in 11 months.

Compared to May 2023, jobs increased in most categories. Leisure and Hospitality had the largest increase at 7.2% followed by Construction at 3.5%. Professional services remained stagnant (-0.1%) and Government also remained stagnant (0.8%).

Since March 2020, when lockdowns were implemented to mitigate the COVID-19 pandemic, jobs in Construction have increased the most at 31% mainly due to reconstruction efforts.

In May 2024, the unemployment rate remained at 5.8%, which is below the 6.2% in May 2023 The participation rate also increased with 44.0% of those who can work, working in May 2024 vs. 42.7% in May 2023. The participation rate in Puerto Rico continues to be below global standards - 62.5% in the USA and 63.8% in Colombia.

Employment increased in all regions of Puerto Rico. The San Germán region registered the largest increase with 4.7%, while the San Juan regions reported a more modest increase with 2.0%.

In May 2024, the average weekly hours worked by employees was 37 in a given week.

Inflation remains at 2.5% in May 2024

Inflation in Puerto Rico stood at 2.5% in May, maintaining the same level for three months, according to data from the DTRH. In February, the rate of inflation dropped to 1.9%, the lowest level in two years. However, it quickly increased to 2.5% in March. Between April and May, the Consumer Price Index (CPI) grew 0.1%, the lowest growth so far this year.

Prices rose, mainly for food, medicine, and entertainment. The largest year-on-year increase occurred in the Medical Care category (+3.8%), mostly because of a 4.8% increase in non-prescription medicines and medical equipment and health insurance (+6.7). Prices also rose in the Food and Beverages group (+3.4%), and Entertainment (+2.6%).

Source: Puerto Rico Department of Labor and Human Resources

The price of gasoline rose 6.5% compared to last year, the second consecutive increase and the largest increase in 17 months.

In the food segment, the price of cereals and cereal products had a month-over-month decline of -1.3%. Fats and oils and dressings also registered a 2.3% decrease in month-over-month prices, while year-over year prices increased 5.3% much lower than previous double-digit increases.

Inflation is projected to decline between 2.0% and 2.5% in FY 2024 and FY 2025.

All Major Categories	Compared to April 2024	Compared to May 2023
All Goods and Services	**0.1**	**2.5**
Food and Beverages	0.0	3.4
Housing	0.1	1.9
Apparel	-0.4	0.5
Transportation	0.2	2.2
Medical Care	0.1	3.8
Recreation	0.1	2.6
Education and Communication	0.0	2.0
Other Goods and Services	0.0	2.3

Source: Puerto Rico Department of Labor and Human Resources