



2026

Economic Forecast Symposium



**Economic
Forecast
Symposium**



U.S. grows near potential, avoids recession

Michael Zdinak, Ph.D.

US grows near potential, avoids recession

Michael Zdinak, Director, US Economics

January 2026



Last year was an unusually uncertain time for business and economic forecasts



Uncertainty surrounding swings
in **GDP source data**

Gold in the trade data
Imports and inventories



Uncertainty surrounding where
tariff rates will settle

How high will they go?
How long will they last?
What will the economic fallout be?



Uncertainty surrounding the
impact of uncertainty

Are businesses pausing capital investment plans?
How can we quantify this in the forecast?



Uncertainty surrounding the
government shutdown

How long will it last?
What is the GDP impact?
What challenges are posed from a lack of government data?

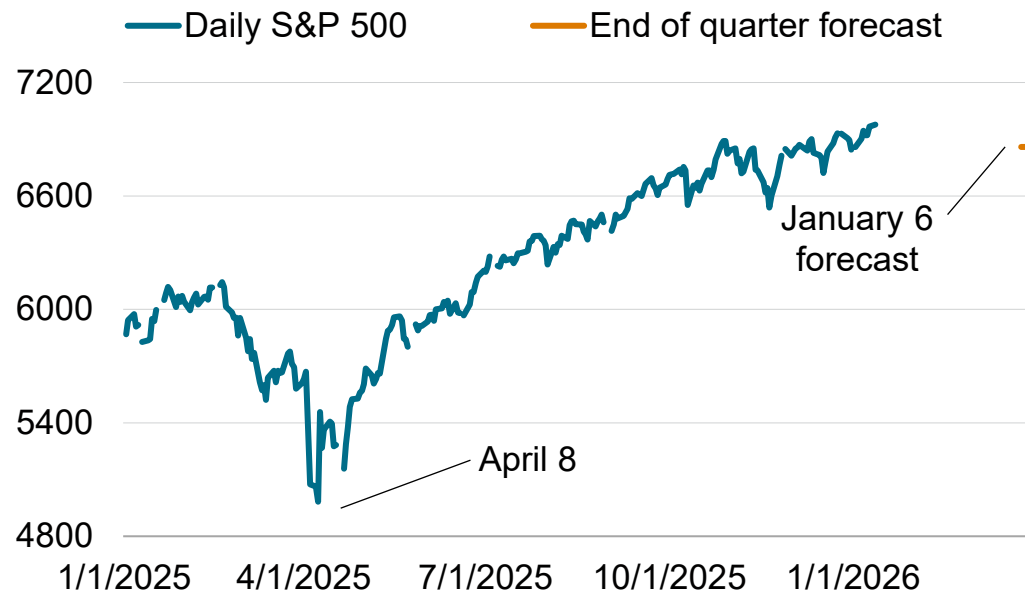
Yet the US economy has proved resilient

Equities have continued to firm as tariffs have come online, and uncertainty has eased

Equity values tumbled in early April, rallied since

S&P 500 index

Index



As of Jan. 12, 2026.

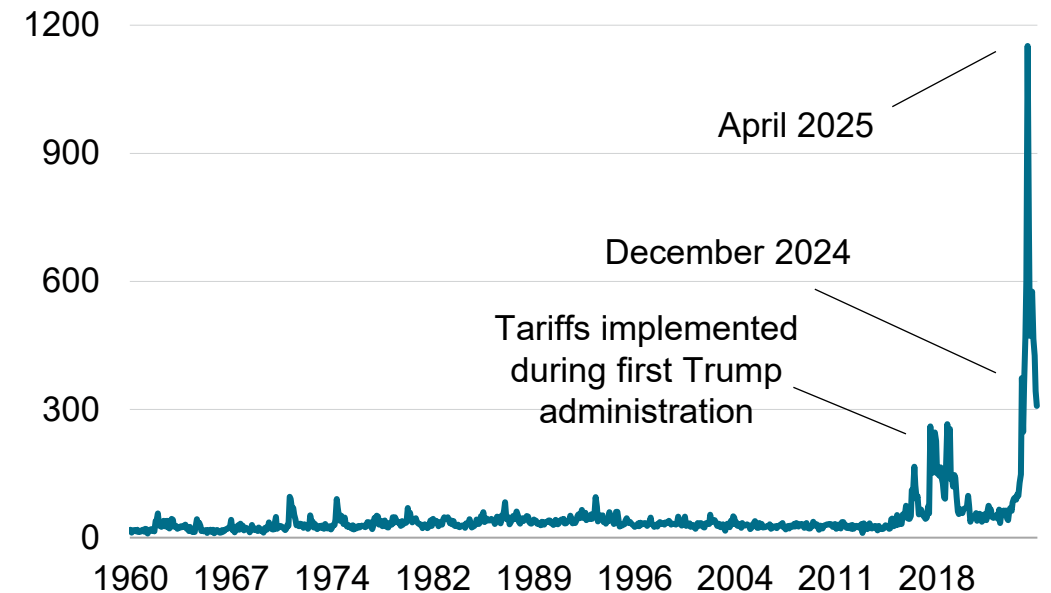
Source: S&P Global Market Intelligence; S&P.

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Trade policy uncertainty elevated but down

Trade policy uncertainty

Index = 100 when 1% of articles reference trade policy uncertainty



As of Jan. 12, 2026.

Note: Data are monthly.

Source: International Finance Division of the Federal Reserve Board.

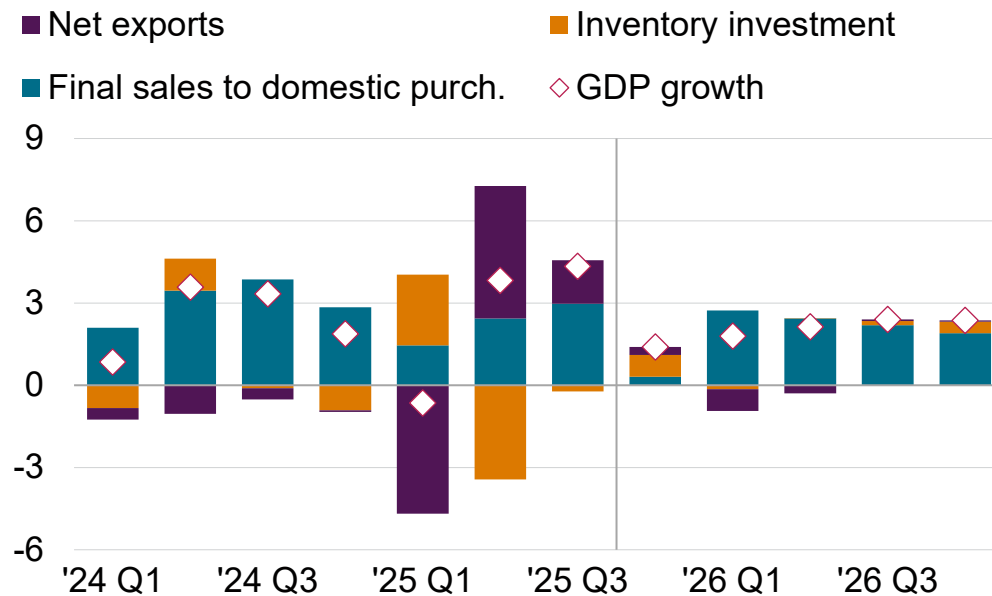
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GDP growth distorted by the effects of tariffs

Large swings in imports and exports in 2025

Real annualized GDP growth and contributions

Percentage points



As of January 6, 2026

Source: S&P Global Market Intelligence, BEA

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Fundamentals play a leading role in 2026

• **Tailwinds adding to growth in 2026**

- Larger personal tax cuts
- Rising federal spending
- Narrowing mortgage spread
- Rising inventory investment
- Redirected domestic demand

• **Headwinds dragging on growth**

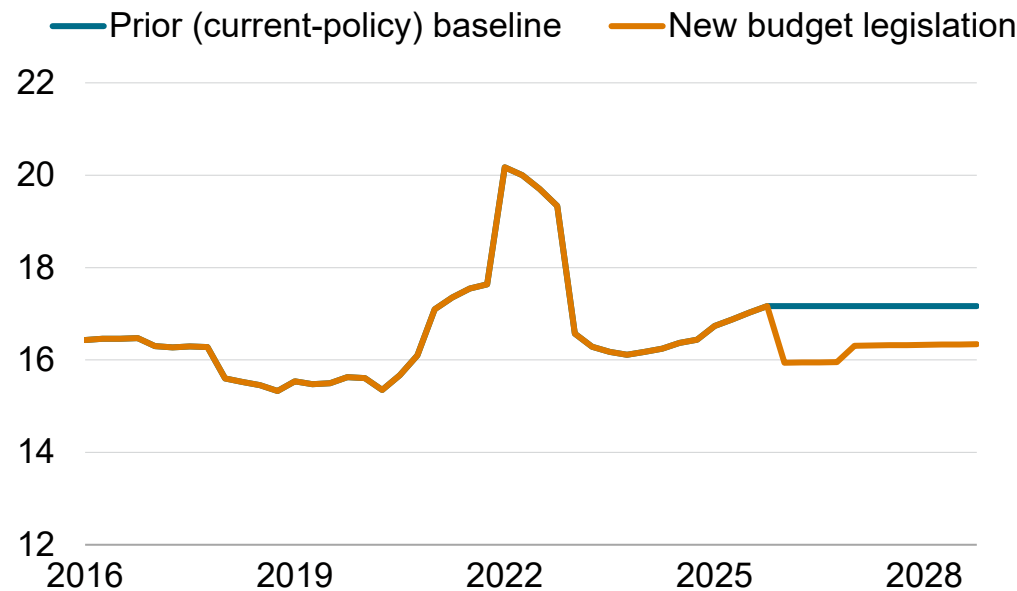
- Fallout from tariffs
- Ongoing tight Fed policy
- Diminished fiscal tailwinds
- Rising credit spreads
- Downturn in equity values
- Trade policy uncertainty
- Slowdown in immigration

Tailwinds: Personal tax cuts and rising federal spending

Recently passed budget legislation includes personal tax cuts and increases in federal spending

Average federal personal tax rate

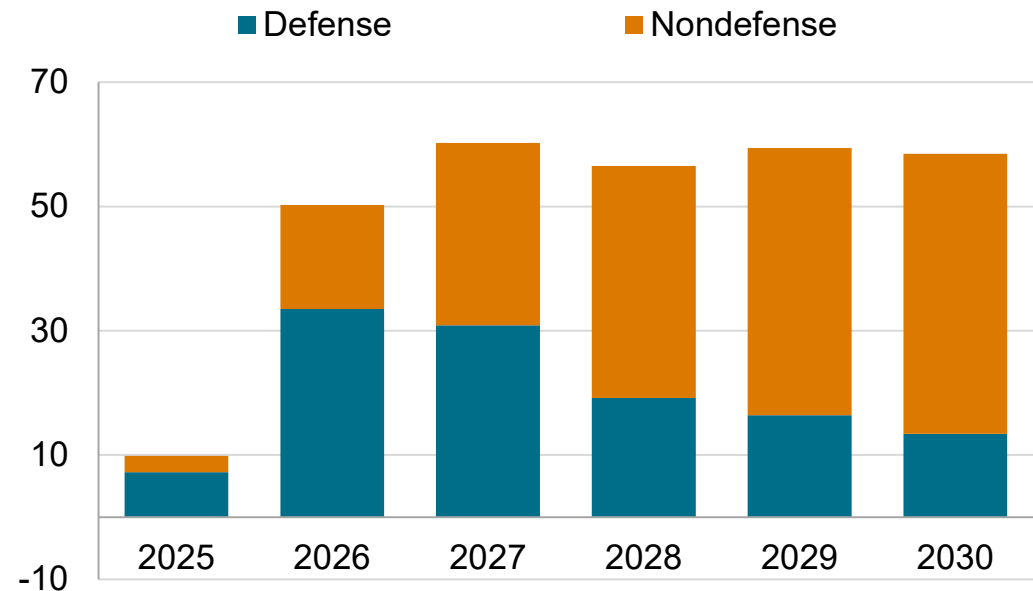
Percent of taxable income



As of Jan. 6, 2026.
Source: S&P Global Market Intelligence.
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Real federal consumption and gross investment

Difference from July baseline, billions of (chained) 2017 dollars



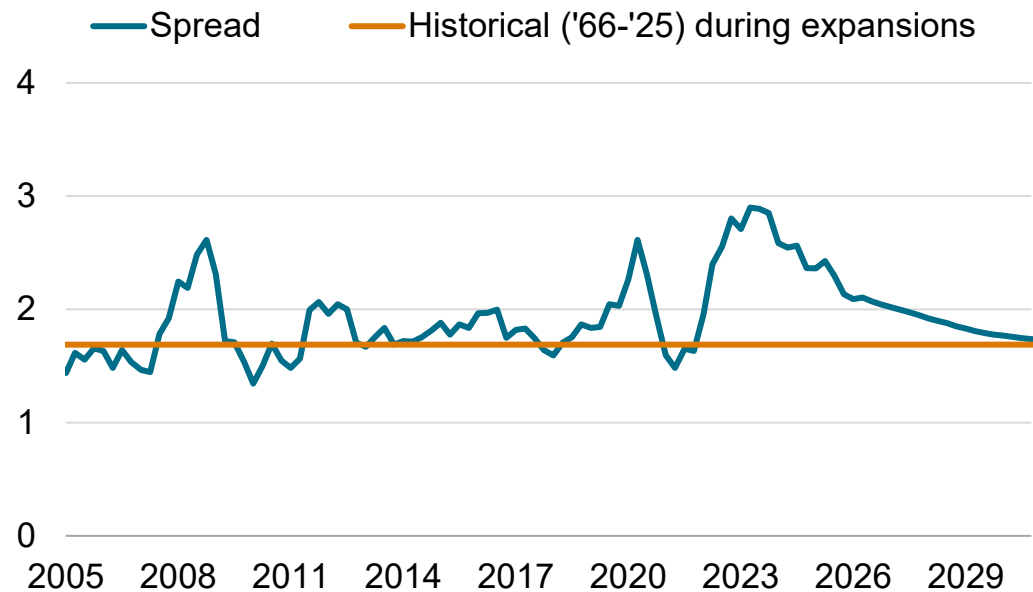
As of Aug. 6, 2025.
Source: S&P Global Market Intelligence.
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Tailwinds: Narrowing mortgage spread, rising inventory investment

Narrowing mortgage spread supports housing

Mortgage spread

Conventional 30-year mortgage rate less 10-year Treasury

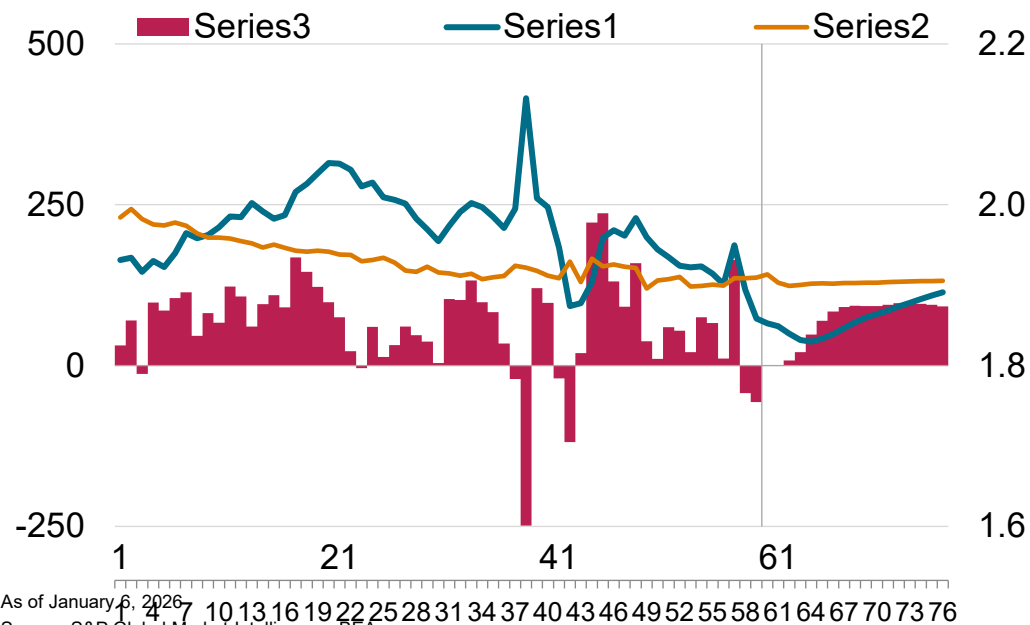


As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; Freddie Mac; Federal Reserve
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Inventory investment boosts near-term growth

Nonfarm I/S ratio & inventory investment

Billions of chained (2017) \$ Months supply



As of January 6, 2026.
Source: S&P Global Market Intelligence, BEA
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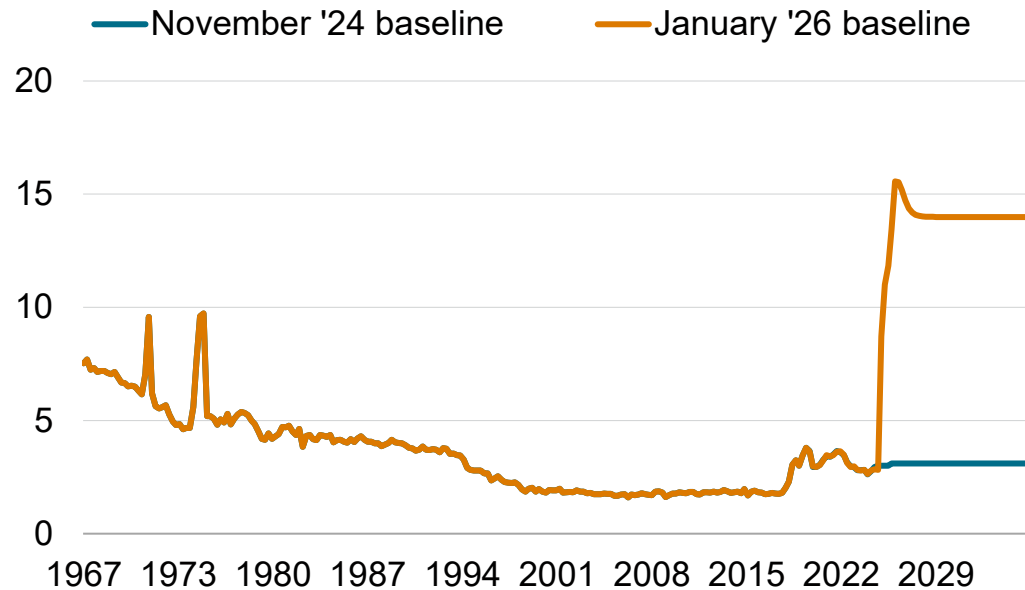
Headwinds: Fallout from tariffs

Tariffs are inflationary and give rise to **tighter monetary policy**, tighter financial conditions generally

Tariff rates reach historic highs

Average effective tariff rate

Customs duties as a percentage of nonpetroleum imports

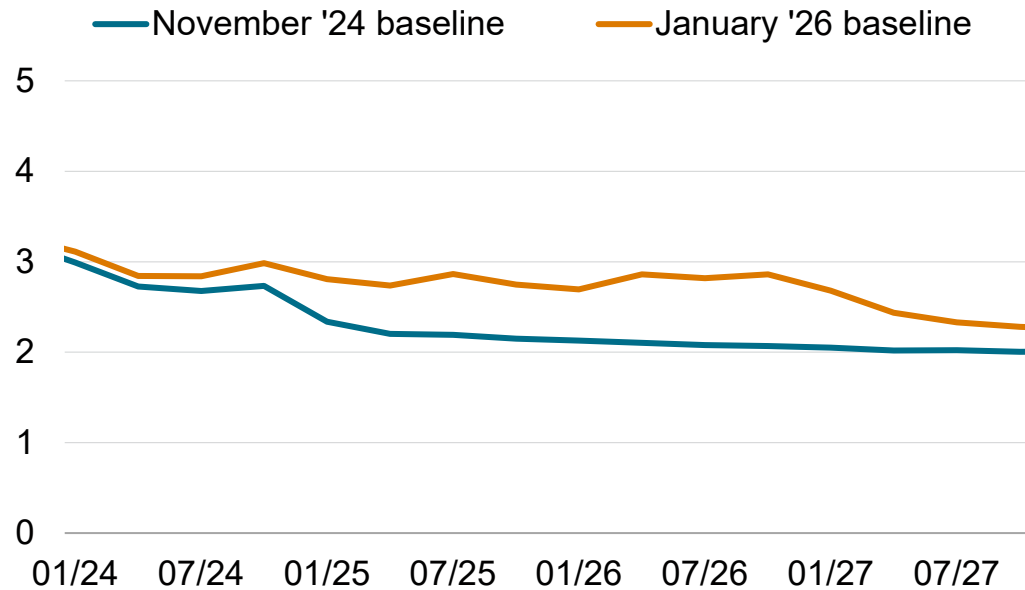


Data compiled Jan. 6, 2026.
Source: S&P Global Market Intelligence.
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Inflation remains elevated at 2.7% to 2.9%

Core personal consumption expenditures inflation

4-quarter percent change



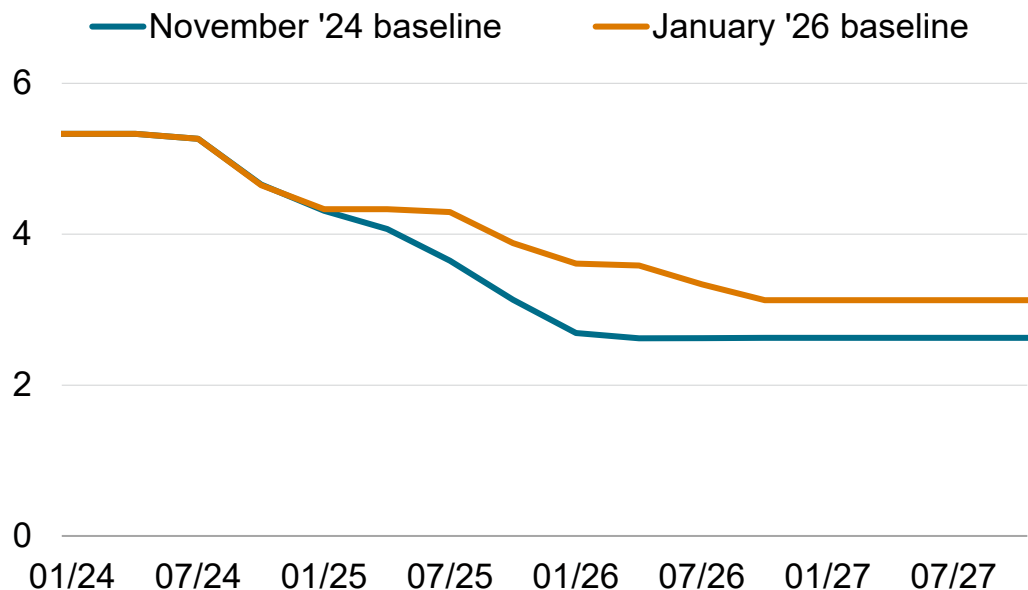
Data compiled Jan. 6, 2026.
Source: S&P Global Market Intelligence; Bureau of Economic Analysis
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Headwinds: Fallout from tariffs

Tariffs are inflationary and give rise to **tighter monetary policy**, tighter financial conditions generally *Fed slows easing cycle, terminal rate is higher* *Treasury yield rises to 50 bps above baseline*

Federal funds rate

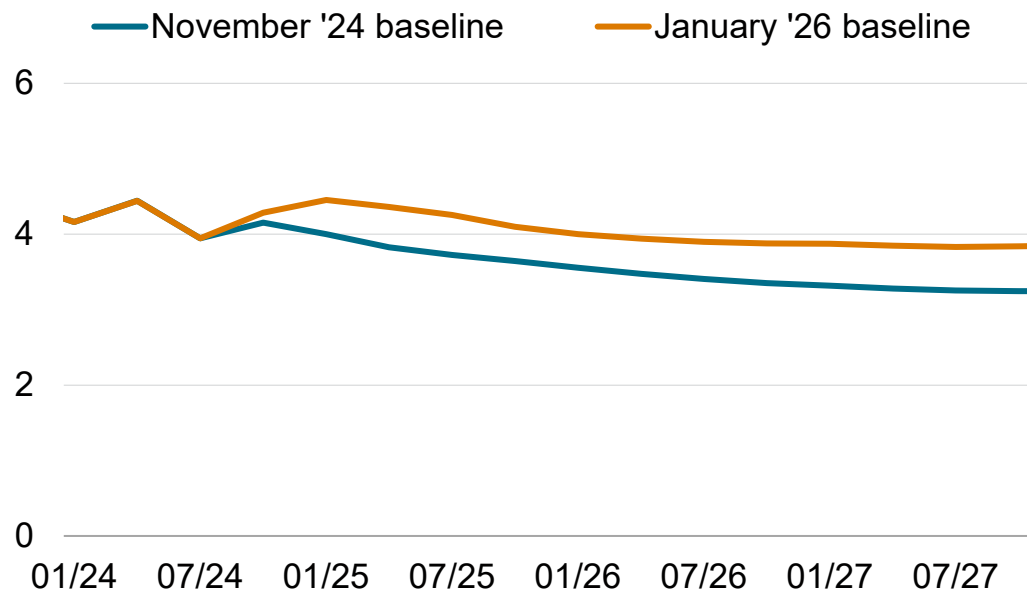
Percent



Data compiled Jan. 6, 2026.
Source: S&P Global Market Intelligence; Federal Reserve Board
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10-year Treasury note yield

Percent



Data compiled Jan. 6, 2026.
Source: S&P Global Market Intelligence; Federal Reserve Board
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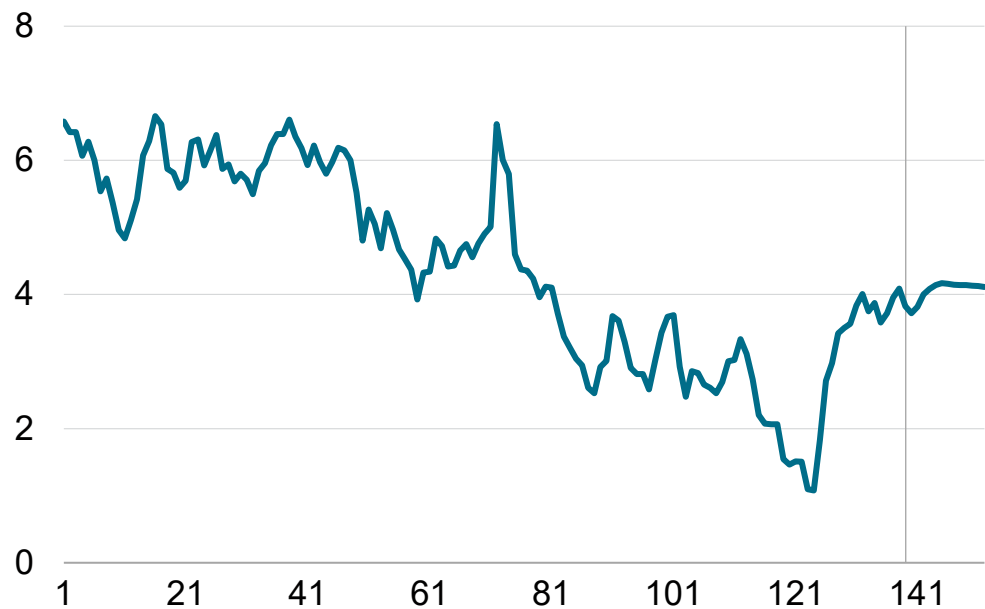
Headwinds: Ongoing effects of restrictive Fed policy and TPU

Sharp increase in **real corporate borrowing costs**, **elevated TPU** weighing on business fixed investment

Highest real borrowing cost in 15 years

Real corporate borrowing cost

Baa yield less expected inflation, percent

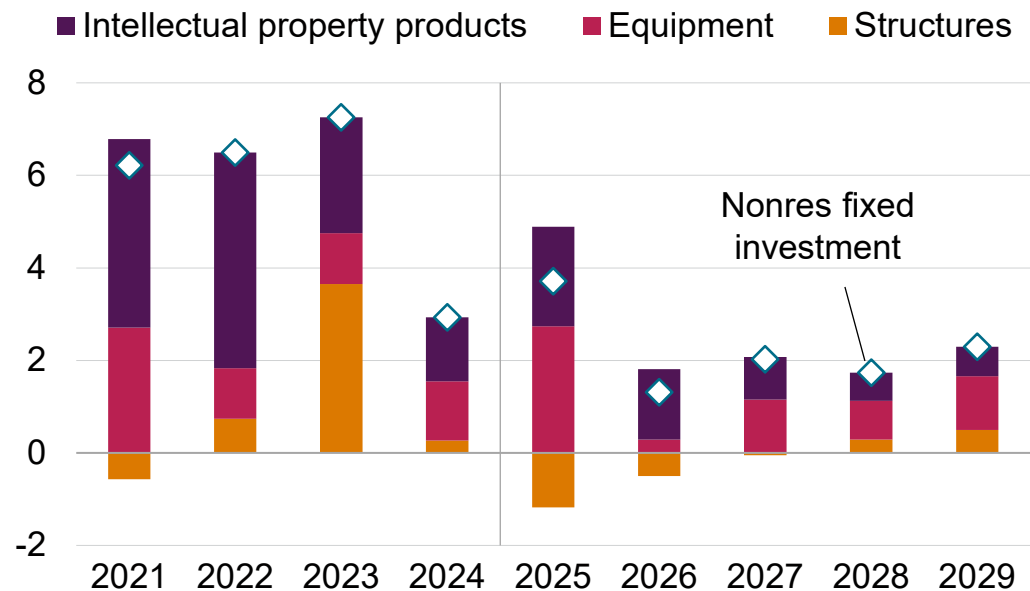


As of January 6, 2026.
Source: S&P Global Market Intelligence.
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BFI slows in 2026, firms only gradually after

Growth of nonresidential fixed investment

Contributions to percent change



As of January 6, 2026.
Sources: S&P Global Market Intelligence, Bureau of Economic Analysis.
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Headwinds: Diminished fiscal tailwinds that had been boosting growth

Spending on **manufacturing structures** has peaked and **state & local gross investment** has plateaued

*Support from IRA is **fading**, tax credits rescinded*

Real fixed investment in manufacturing structures

Billions of chained (2017) dollars, SAAR

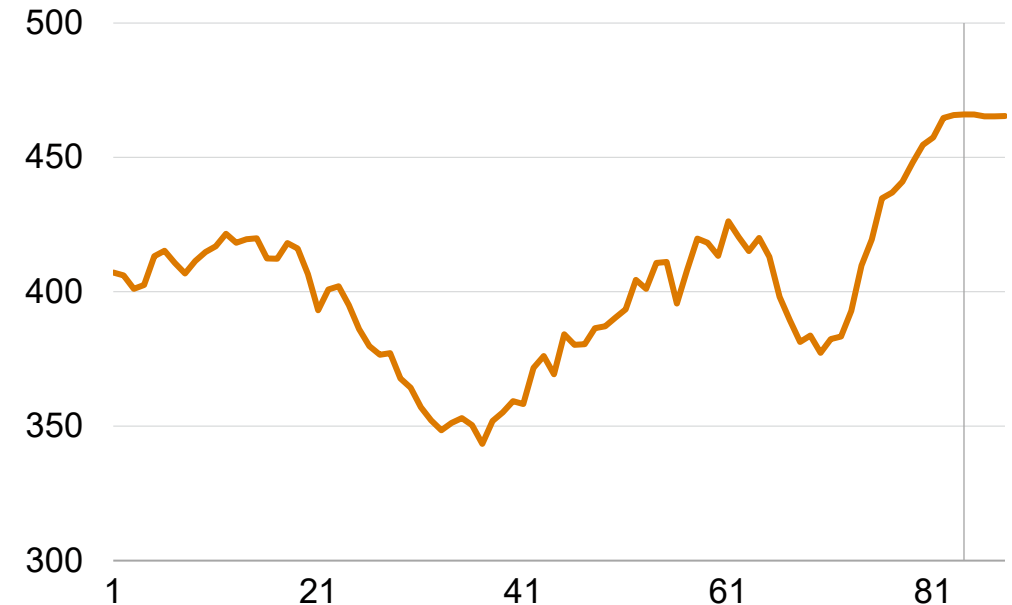


As of January 6, 2026.
Source: S&P Global Market Intelligence; BEA.
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*IIJA no longer supports **growth***

State & local government gross investment

Billions of 2017 dollars, seasonally adjusted annual rate



As of January 6, 2026
Sources: S&P Global Market Intelligence; BEA.
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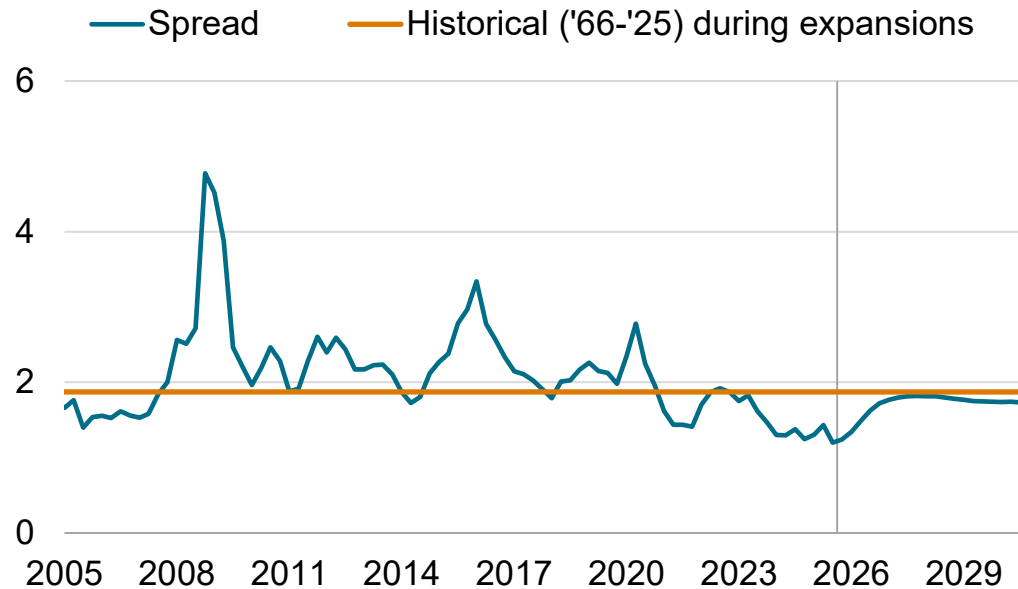
Headwinds: Rising credit spread, downturn in equity values

Rising credit spread props up borrowing costs, rising equity risk premium weighs on equity values

Credit spread is near historic lows, set to rise

Credit spread

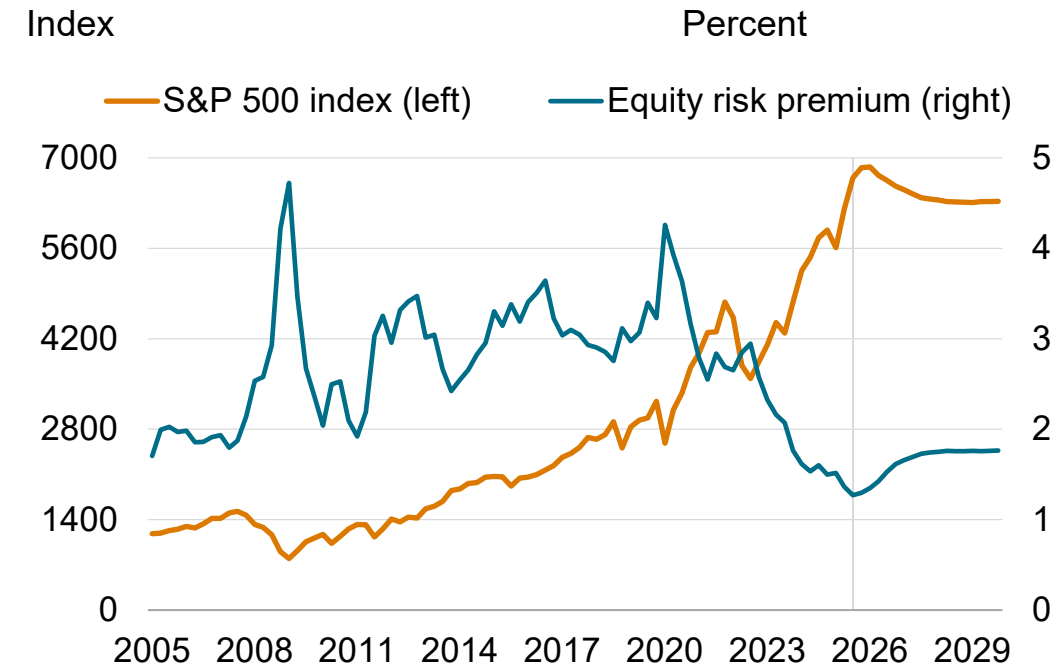
iBoxx Baa yield less 20-year Treasury



As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; iBoxx; Federal Reserve
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Rising equity risk premium to weigh on equities

Equities ease through 2028



As of Jan. 6, 2026.
Sources: S&P Global Market Intelligence; S&P.
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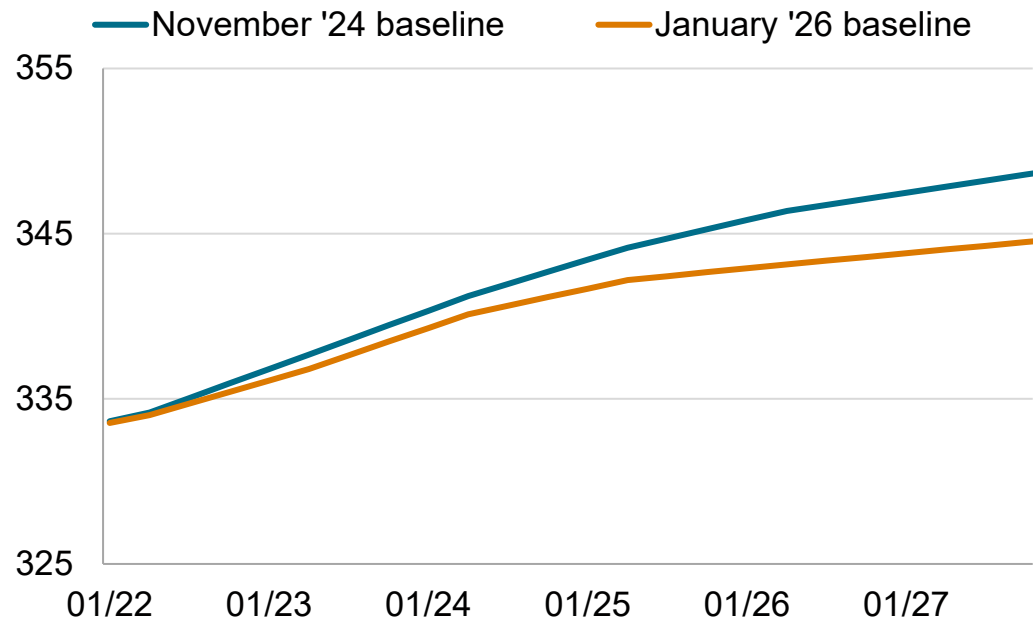
Headwinds: Slowing immigration and rising deportations

Slowdown reduces the **number of households formed**, the primary source of long-term demand

Less immigration slows population growth

Total population

Millions

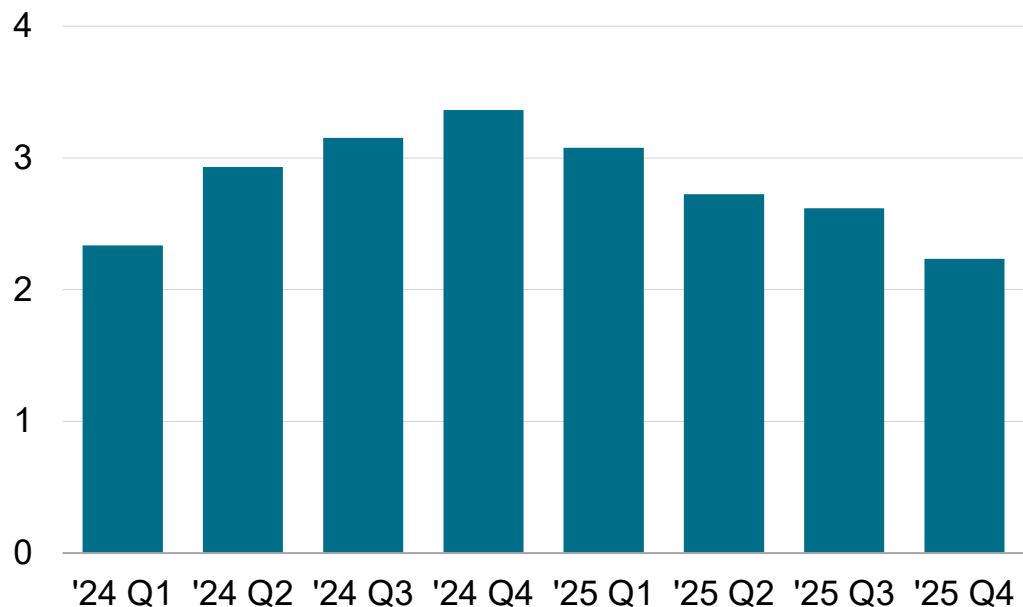


Data compiled Nov. 5, 2025.
Source: S&P Global Market Intelligence.
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PCE slowed from 3.4% last year to 2.2% last year

Real personal consumption expenditures

4-quarter percent change



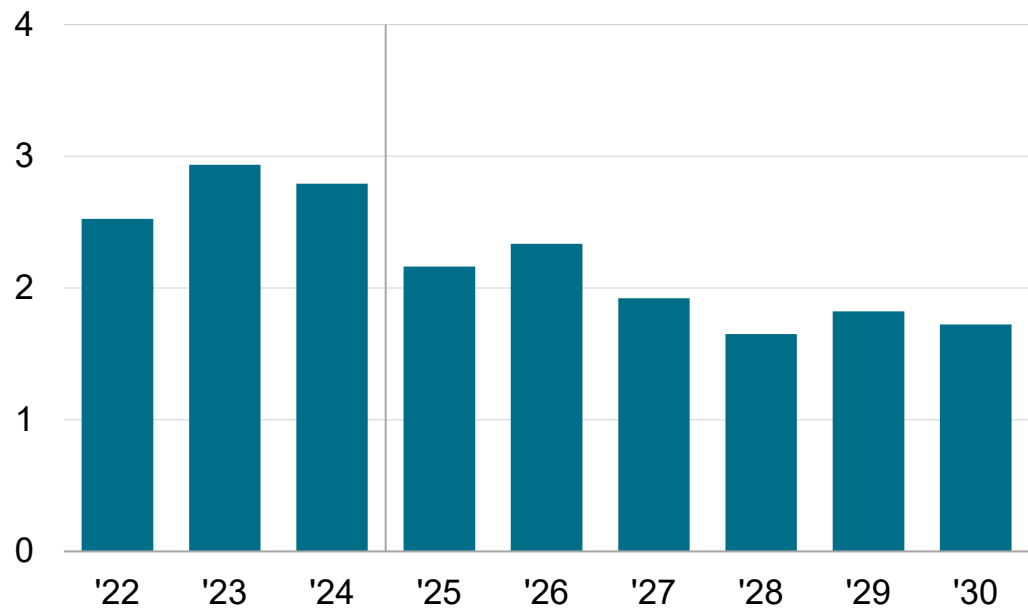
As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; BEA.
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GDP growth slows from recent rates as headwinds broadly dominate tailwinds

GDP growth slows unevenly to long-run potential

Real GDP growth

Percent change

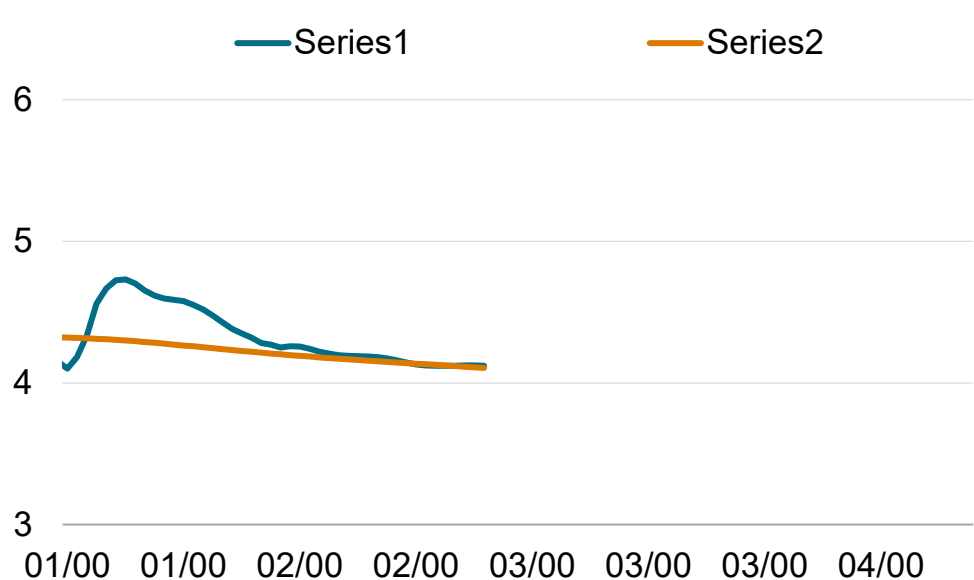


As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; BEA.
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Unemployment rate rises a bit above the NAIRU

Unemployment rate and NAIRU

Percent of labor force



Data compiled Jan. 6, 2026.
Note: NAIRU is the non-accelerating inflation rate of unemployment.
Source: S&P Global Market Intelligence; Bureau of Labor Statistics; Congressional Budget Office.
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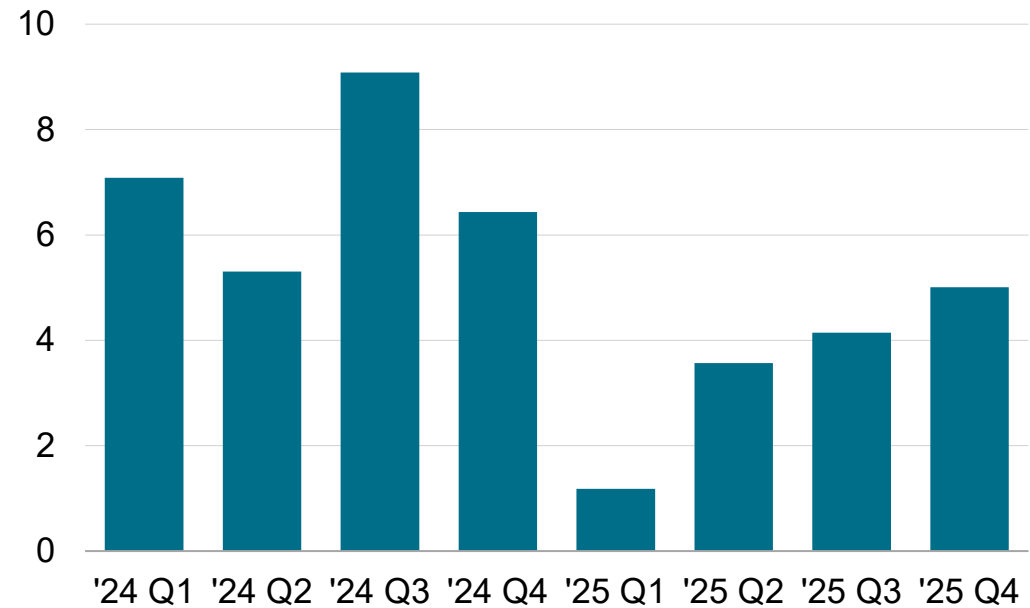
Slowdown in domestic demand is mainly in PCE

Fundamentals – jobs and incomes – are playing a leading role

Growth of real wealth is slowing

Real household net worth

4-quarter percent change

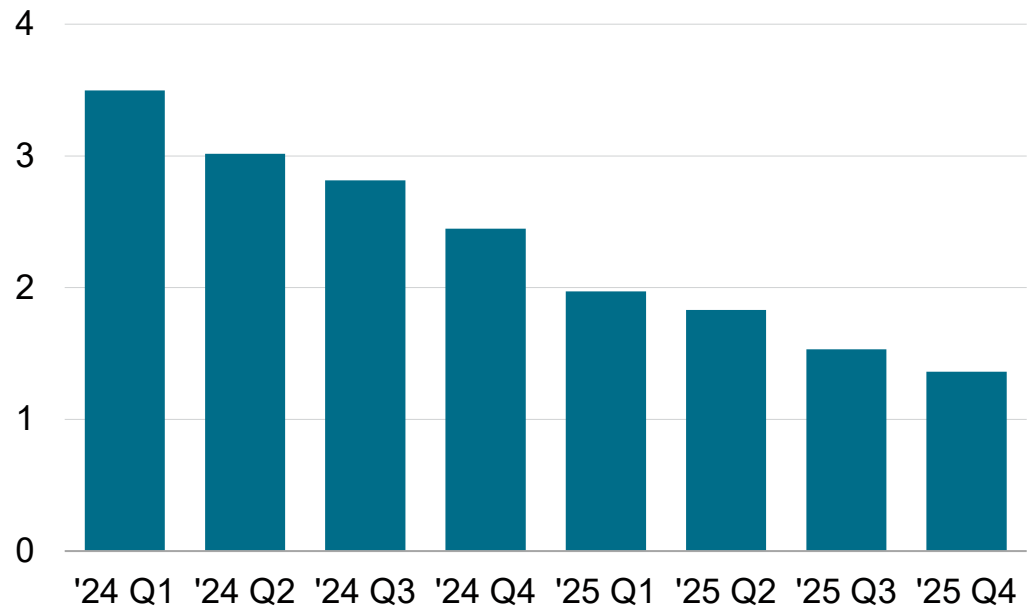


As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; Federal Reserve; BEA.
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Growth of real DPI is slowing

Real disposable personal income

4-quarter percent change



As of Jan. 6, 2026.
Source: S&P Global Market Intelligence; BEA.
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January baseline forecast

Key summary variables and differences from previous forecast (annual)

	% ch from prior year, or annual average						% ch from Q4 of prior year, or Q4 level					
	2024	2025	2026	2027	2028	2029	2024.4	2025.4	2026.4	2027.4	2028.4	2029.4
Real Gross Domestic Product*	2.8	2.2	2.3	1.9	1.7	1.8	2.4	2.2	2.2	1.6	1.8	1.8
		0.2	0.1	0.1				0.4	-0.1	0.1		
Dom. Final Sales Contribution	3.2	2.4	2.1	1.7	1.7	2.0	3.1	1.8	2.3	1.5	1.9	2.0
		0.1	0.1	0.1				0.2	0.1	0.1		
Net Exports Contribution	-0.4	-0.2	0.3	0.0	-0.1	-0.2	-0.5	0.5	-0.2	-0.1	-0.1	-0.2
				-0.1				0.2	-0.1	-0.1	0.1	
Inventory Invest. Contribution	0.0	0.0	-0.1	0.2	0.0	0.0	-0.2	0.0	0.1	0.2	0.0	0.0
		0.1								0.1		
Real PCE*	2.9	2.7	2.6	1.9	2.1	2.4	3.4	2.2	2.4	1.7	2.3	2.4
		0.2	0.3	0.1	-0.1	-0.1		0.4	0.1		-0.1	-0.1
Unemployment Rate**	4.0	4.3	4.7	4.6	4.5	4.4	4.2	4.6	4.7	4.6	4.5	4.3
			0.1		-0.1			0.1	0.1			-0.1
Core PCE Inflation*	2.9	2.8	2.8	2.4	2.2	2.1	3.0	2.7	2.9	2.3	2.2	2.1
			-0.1	0.2	0.1			-0.3	0.2	0.2	0.1	
Federal Funds Rate**	5.14	4.21	3.41	3.12	3.13	3.13	4.65	3.88	3.12	3.12	3.13	3.13
10-year T-Note Yield**	4.21	4.29	3.93	3.85	3.87	3.93	4.28	4.10	3.88	3.84	3.90	3.94
						0.01		0.02	-0.01		0.01	
S&P 500 (period end)***	26.9	13.4	5.7	-4.1	-1.6	0.0	23.3	16.4	-4.2	-3.0	-0.8	0.2
		-0.1	2.8	1.9	-0.9	-0.6		-0.3	4.6	-0.4	-0.9	-0.5

Notes: Positive differences from previous forecast shown in teal font, negative differences shown in red font.

* % ch; ** annual average level or level at Q4; ***level at Q4 is last trading day of the year.

Source: S&P Global Market Intelligence

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Key policy assumptions in the January forecast

- Tariffs
 - IEEPA (fentanyl/immigration) **Canada** (35%) and **Mexico** (25%), excludes USMCA, steps down to 15% by mid-2026.
 - Effective tariff rate on imports from **mainland China** peaked at 82% in April, currently about 40%.
 - Global (outside of Can/Mex/China) **reciprocal** rates set to deals and announcements as of Sep 1; effective rate currently 22%.
 - **Sec. 232**: in addition to those in place, **pharmaceuticals** beginning in 2026, **critical minerals** beginning in 2027.
 - US **average effective tariff rate** peaks at **15.6%** in 2026 Q2, declines to **14.0%** by 2028.
- Fiscal: OBBBA
 - Permanent **extension** of 2017 personal tax cuts.
 - New deductions for **overtime pay, tip income, seniors**; expanded **standard** deduction, **SALT** deduction, and **child tax credit**.
 - Permanent 100% **expensing** for **equipment** and **R&D**; temporary 100% expensing for **manufacturing** plants.
 - Increases in **direct federal spending** for defense, homeland security, border security.
 - Cuts to outlays for **Medicaid, Affordable Care Act** insurance premium tax credits, **SNAP** benefits, and **student loan** forgiveness.
- Federal layoffs
 - **255,000 layoffs** by October 2025, none thereafter.
- Immigration
 - Reduced by **500,000 per year** for 4 years of Trump presidency.

Hallmarks of the US forecast

- US economy has remained resilient and grew at a near-potential rate in 2025.
 - US GDP growth during H1 2025 was volatile, distorted by the effects of tariffs.
 - For all of 2025, US GDP growth averaged an estimated 2.2% per quarter.
 - This is down only slightly from an average of 2.4% per quarter during 2024.
 - Still, domestic demand slowed from an average of 3.0% per quarter in 2024 to an average of 1.7% in 2025.
 - This slowdown was largely accounted for by personal consumption expenditures.
- After 2025, forecasted growth remains close to potential.
 - Growth profile from year to year reflects countervailing effects of headwinds and tailwinds.
- Unemployment rate rises only modestly to a peak of 4.7% by early 2026.
- On inflation, tariffs have been slow to pass through to consumer prices ... there is more pass-through to come.
 - Core PCE inflation remains elevated in a range of 2.7% - 2.9% through all of 2026.
- Federal Reserve is now on pause. Easing resumes in June 2026.
 - Neutral range (3.00% - 3.25%) reached in September 2026.

Contact us

Primary contacts

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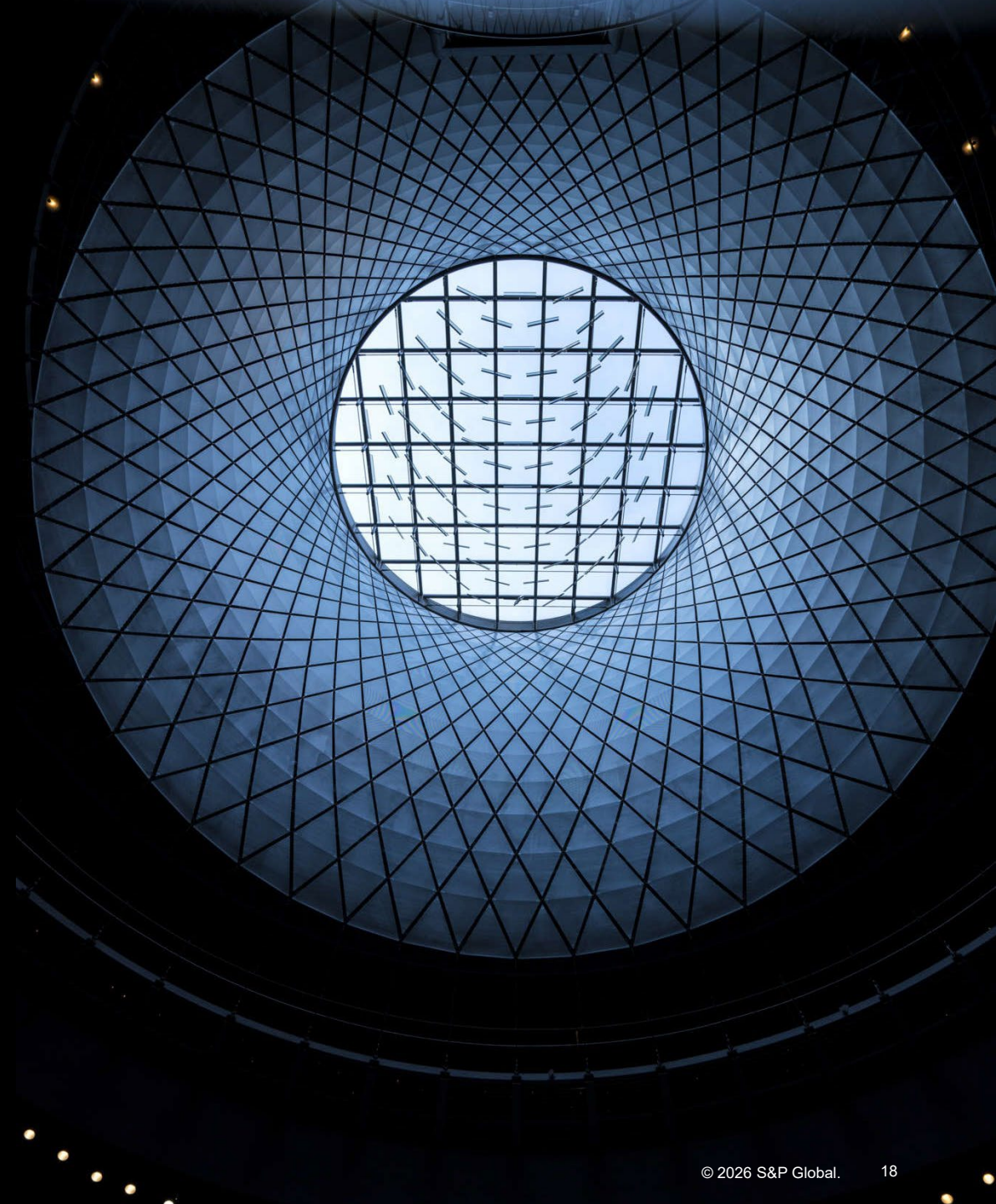
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**Economic
Forecast
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New Year, Same Worries

Gustavo Rojas-Matute

MOODY'S

New Year, Same Worries

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Gustavo Rojas-Matute, Assistant Director

February 10, 2026

Agenda

- 1 **Recent Performance**
- 2 **Threats and Opportunities**
- 3 **Additional Q&A**

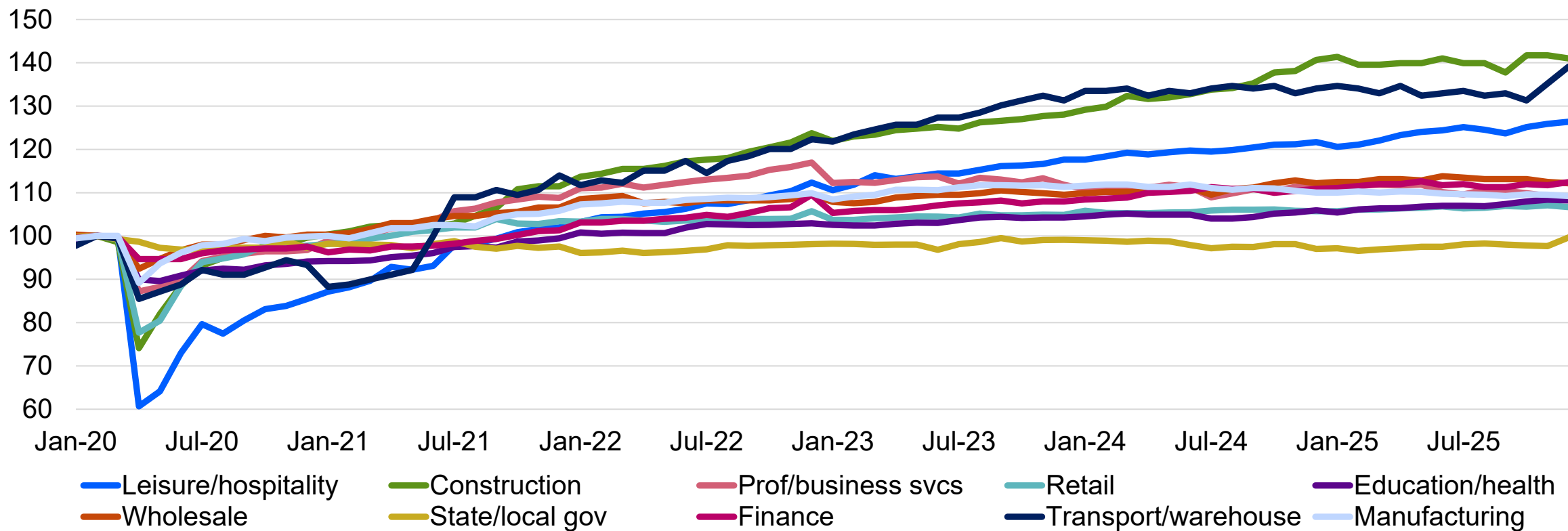
The background of the slide is a solid dark blue. Overlaid on this are several layers of thin, light blue lines that form a complex, wavy, and undulating pattern. These lines create a sense of depth and movement, resembling a stylized topographical map or a series of overlapping waves. The pattern is most dense on the left side and fades slightly towards the right.

1

Recent Performance

Construction and Tourism Still Lead the Way, but Each Is Fading

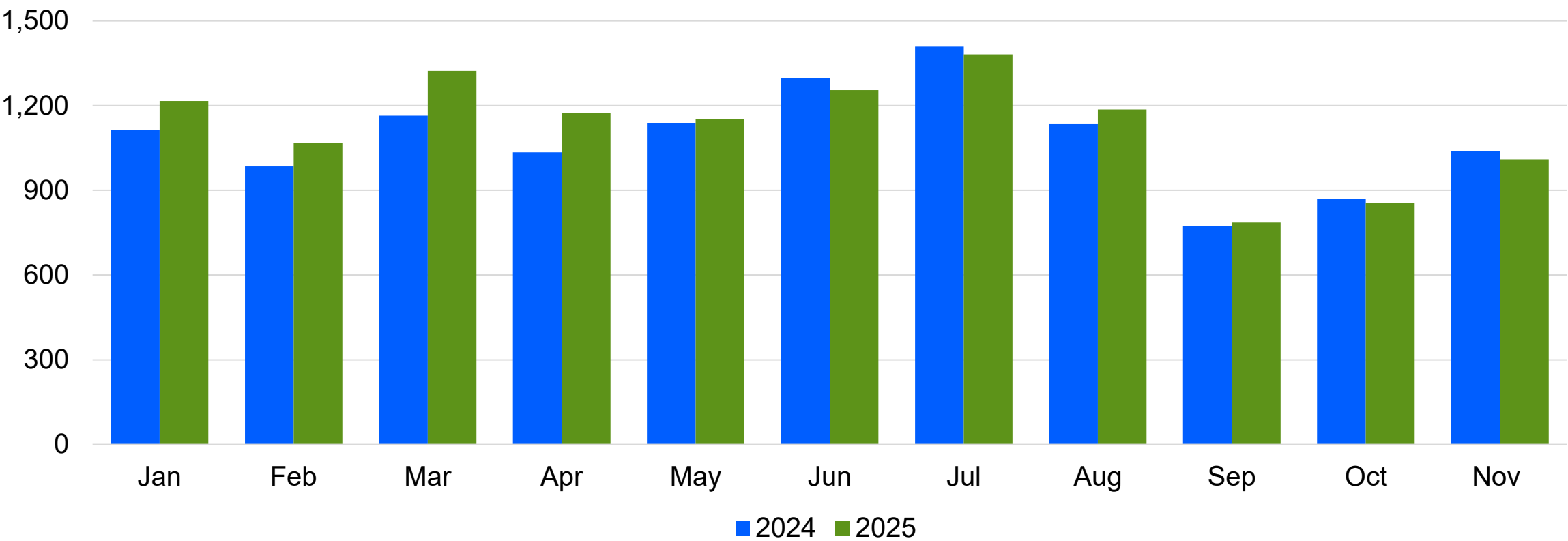
Puerto Rico nonfarm employment by industry, Feb 2020=100



Sources: BLS, Moody's Analytics

As Bad Bunny Surge Fades, Tourism Shows Signs of Softness

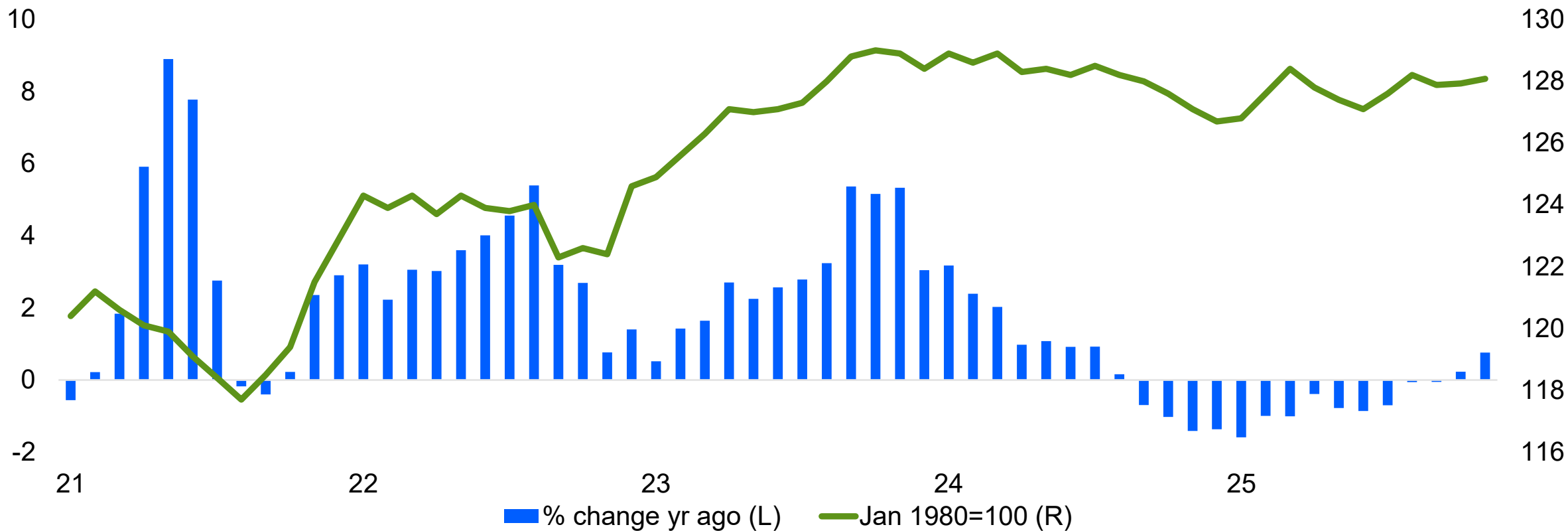
Monthly passenger counts at Luis Muñoz Marín International Airport, ths



Sources: ASUR, Moody's Analytics

Economy Slows Again, but Most Indicators Are Holding Steady

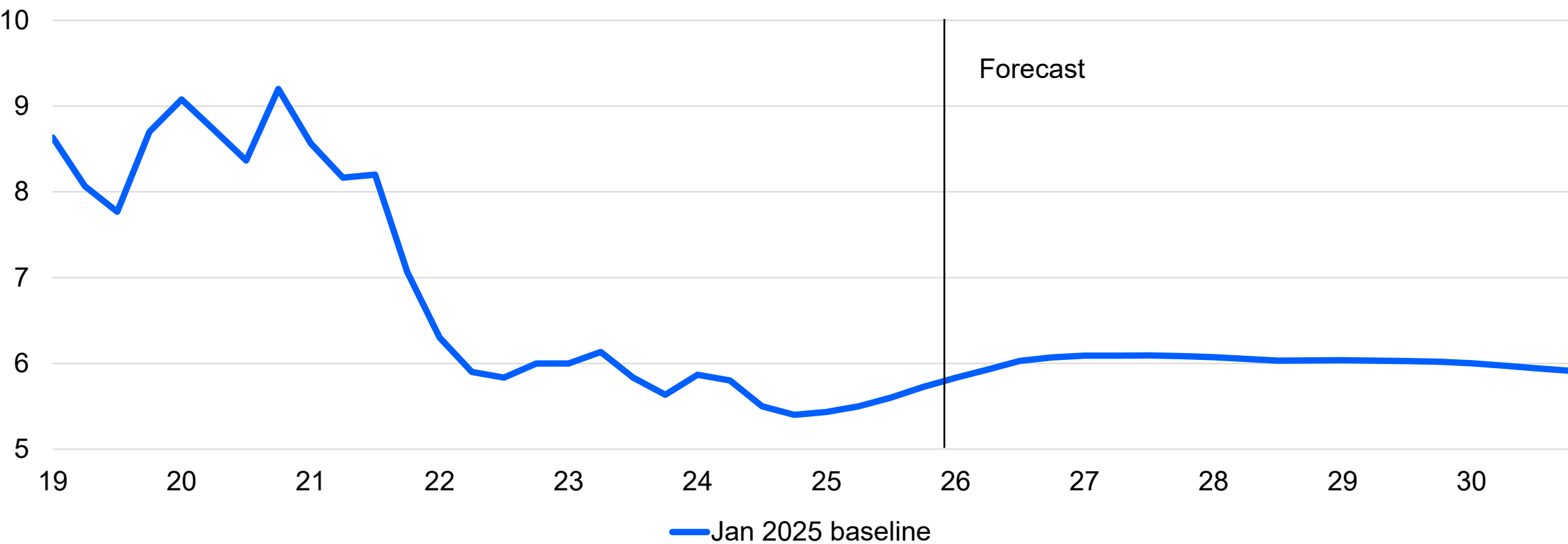
Economic activity



Sources: Economic Development Bank for Puerto Rico, Moody's Analytics

Shrinking Labor Force Helps Keep Unemployment Rate Near All-Time Low

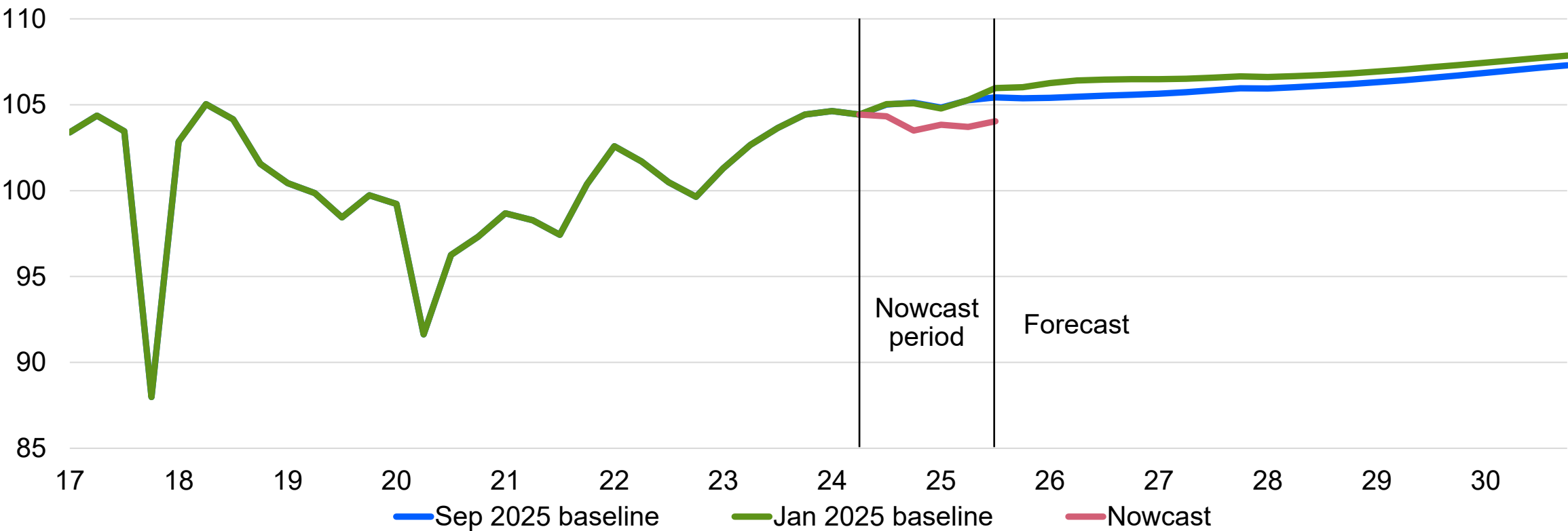
Unemployment rate, %, SA, Jan 2025 baseline



Sources: BLS, Puerto Rico Planning Board, Moody's Analytics

Lower Tariffs and Reduced Out-Migration Benefit GDP Outlook

Puerto Rico real GDP, 2017\$ bil, SAAR



Sources: Puerto Rico Planning Board, Economic Development Bank for Puerto Rico, Moody's Analytics

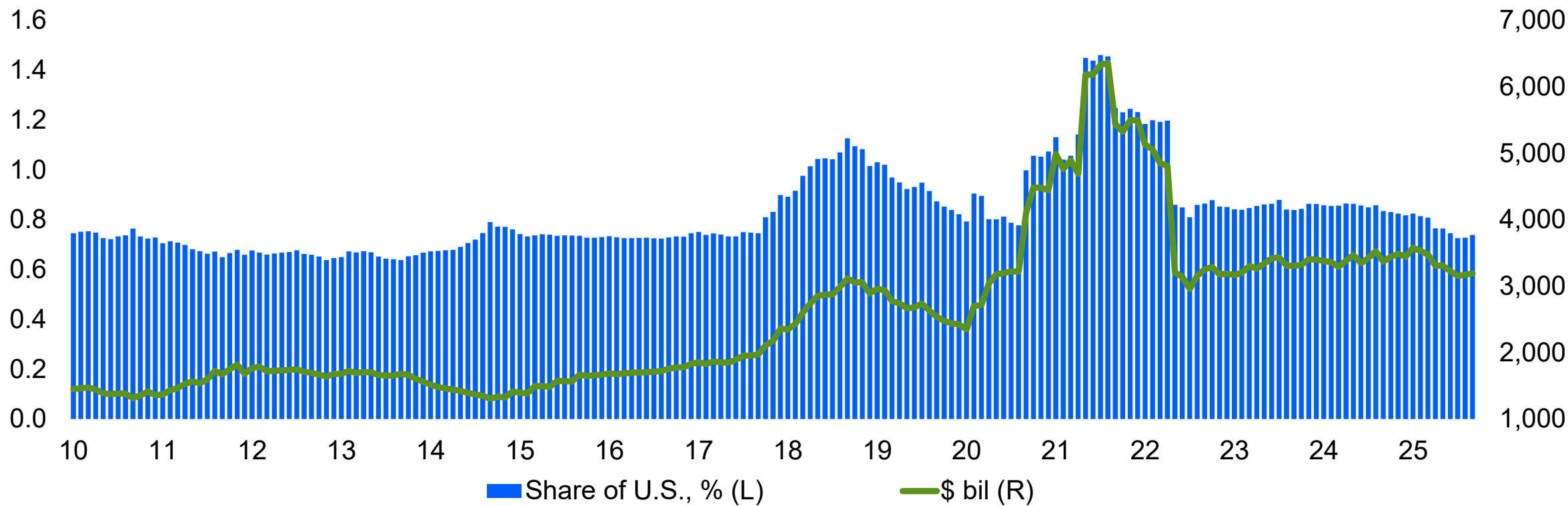
The background is a solid dark blue. Overlaid on this are several sets of thin, white, wavy lines that create a sense of depth and movement, resembling a stylized landscape or a complex network. A large, white, serif number '2' is positioned on the left side of the image.

2

Threats and Opportunities

Reliance on Federal Funds Lessens but Remains Above Last Decade's Norms

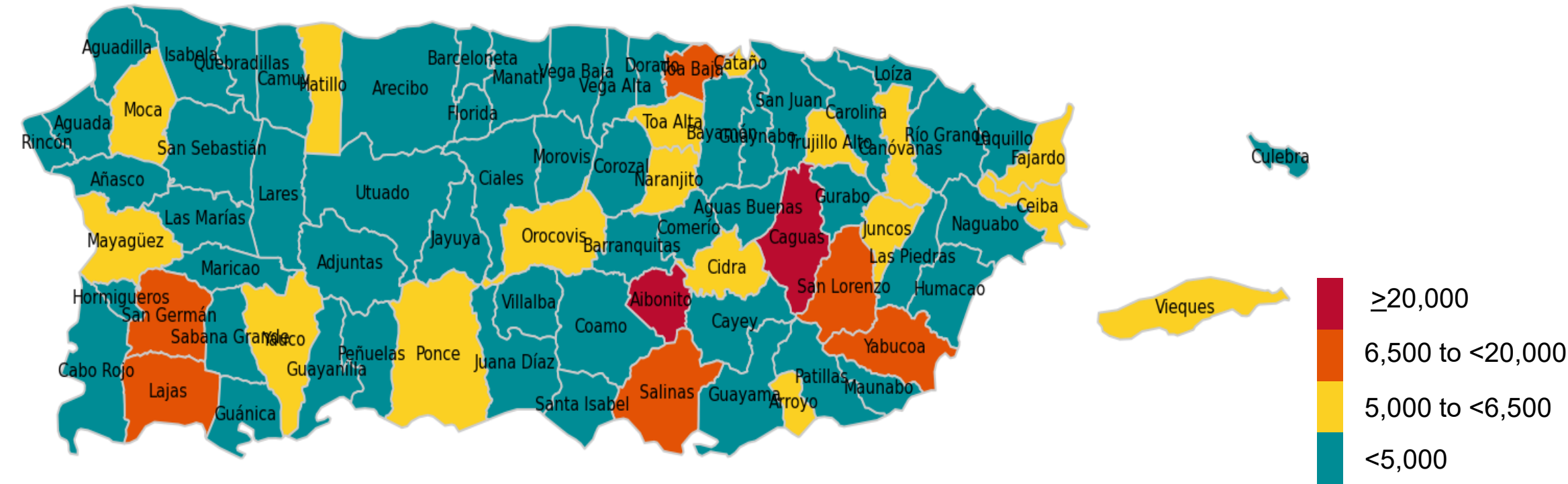
U.S. government spending in Puerto Rico



Sources: U.S. Department of the Treasury, Moody's Analytics

Federal Government Reliance Is Elevated in Southern Municipios

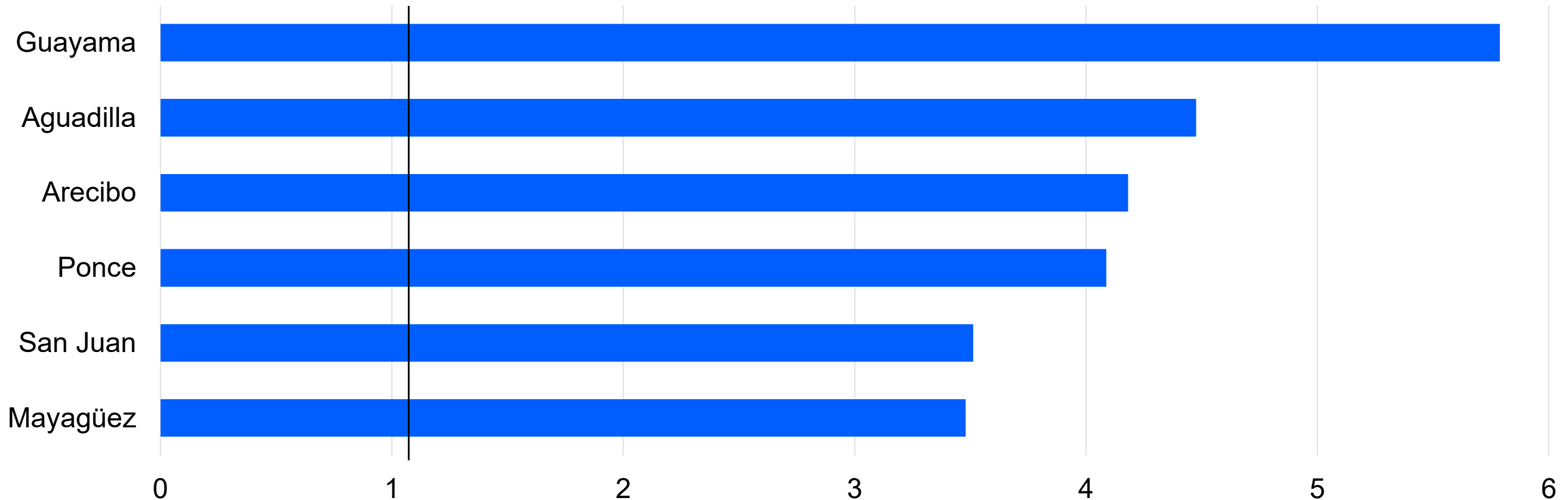
Per capita federal spending, \$, FY2024



Sources: U.S. Department of the Treasury, Moody's Analytics

Tariffs Could Provide Some Benefit to the Island's Metro Areas

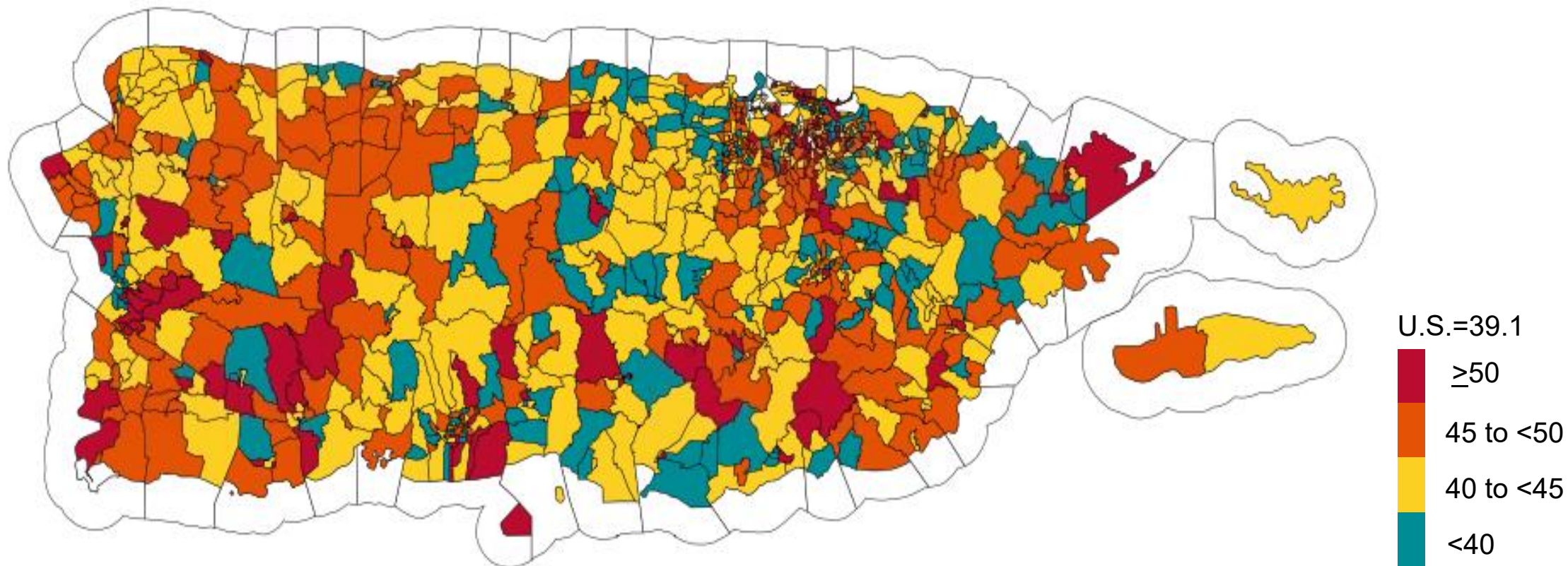
Pharmaceutical manufacturing share of total employment, 2024, U.S.=1



Sources: BLS, Moody's Analytics

Puerto Rico's Population Is Older Than Average, but Not Everywhere

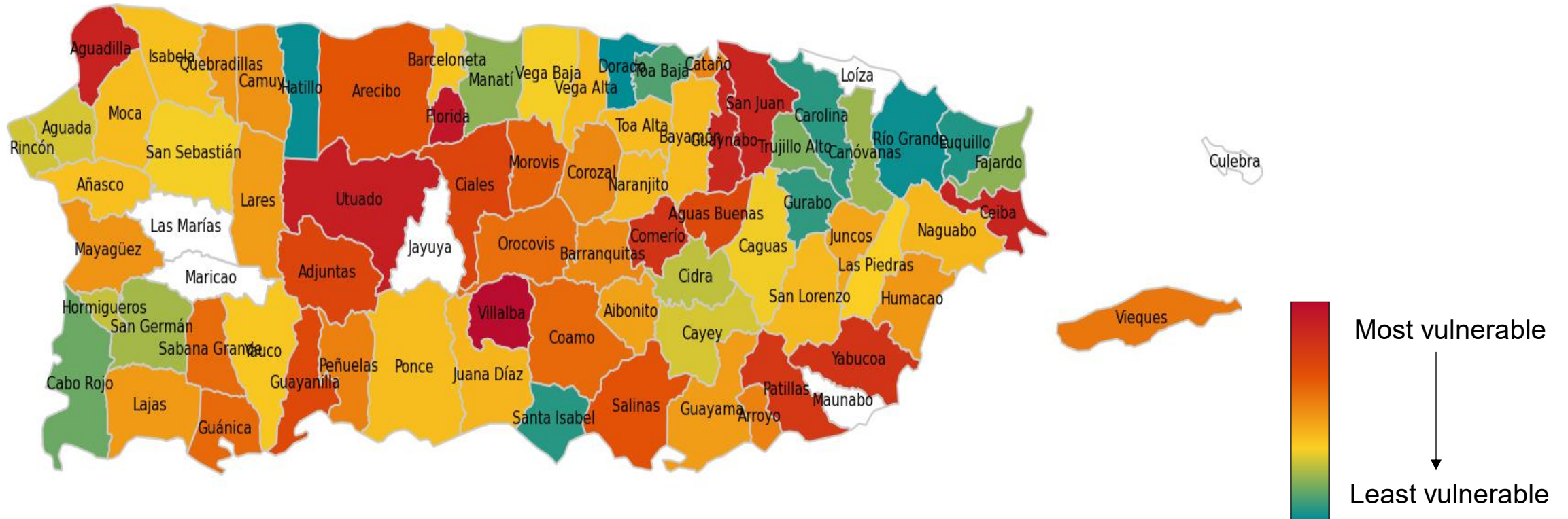
Median age by census tract, 2019-2023, #



Sources: Census Bureau, Moody's Analytics

San Juan and Other White-Collar Municipios Are More Exposed to AI

Potential job loss associated with generative AI, based on industrial composition as of 2024



Sources: Pew Research Center, Moody's Analytics

The background of the slide is a solid dark blue. Overlaid on this are several layers of thin, light blue lines that form a complex, wavy, and somewhat chaotic pattern. These lines create a sense of depth and movement, resembling a stylized topographical map or a series of overlapping waves. The pattern is most dense on the left side and fades slightly towards the right.

3

Additional Q&A

MOODY'S

Thank you!

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**Economic
Forecast
Symposium**



Puerto Rico Economic Environment

Leslie Adames

PUERTO RICO ECONOMIC ENVIRONMENT

February 10, 2026



GENERAL CONTEXT

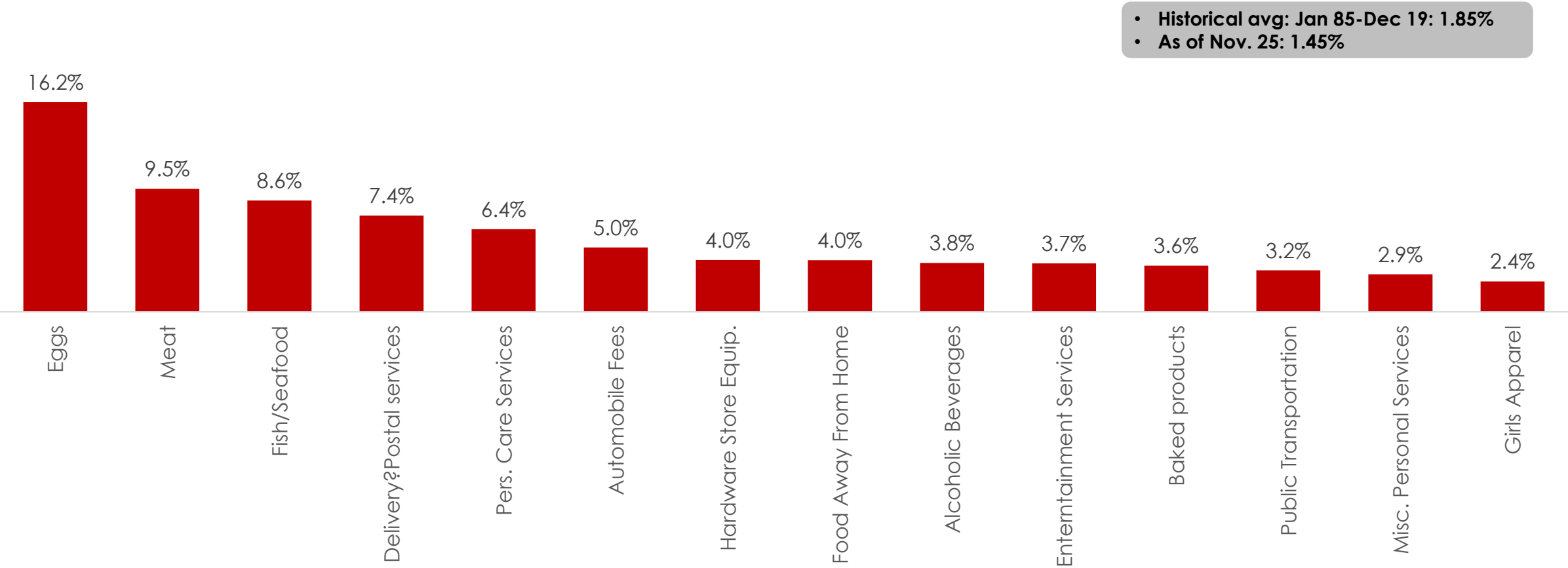
PUERTO RICO FACES AN UNCERTAIN ECONOMIC CONTEXT

		2019	2024	2025	Δ 2025 / 2024	Period
Labor Market	Private employment (# of jobs created)	23,444	10,566	9,877	↓	Jan-Sep
	Unemployment rate (%)	8.20%	5.70%	5.50%	↓	Jan-Oct
Commerce	Real retail sales (% annual growth)	-9.90%	-0.70%	0.90%	↑	Jan-Oct
	New automobile sales (#)	106,624	121,999	110,983	↓	Jan-Dec
	Commercial Bankruptcies (# of filings)	2,962	1,900	2,119	↑	Jan-Dec
Construction	Cement sales (# of bags)	14,304	14,593	15,560	↑	Jan-Dec
	Cost of construction materials (% annual growth)*	0.22%	-0.99%	2.56%	↑	Jan-Dec
Consumer	Weekly average salary (% annual growth)	4.63%	9.14%	5.64%	↓	Jan-Dec
	Personal Bankruptcies (# of filings)	4,693	3,799	3,811	↑	Jan-Dec
Economic Activity	EDB Index of Economic Activity (% annual growth)	0.25%	1.42%	-0.71%	↓	Jan-Aug
Inflation	Consumer Price Index (% annual growth)	0.09%	2.02%	1.45%	↓	Jan-Nov

Source: Economic Development Bank, Puerto Rico Department of Labor, Statistical Institute of Puerto Rico, and Estudios Técnicos, Inc. *
Used as a proxy the U.S. producer price index for construction.

AS OF NOVEMBER 2026, PRICES REMAIN HIGH FOR SOME ESSENTIAL GOODS AND SERVICES. IN SOME CASES THEY ARE ACCELERATING.

Inflation Rate for Selected Goods and Services (% anual growth)



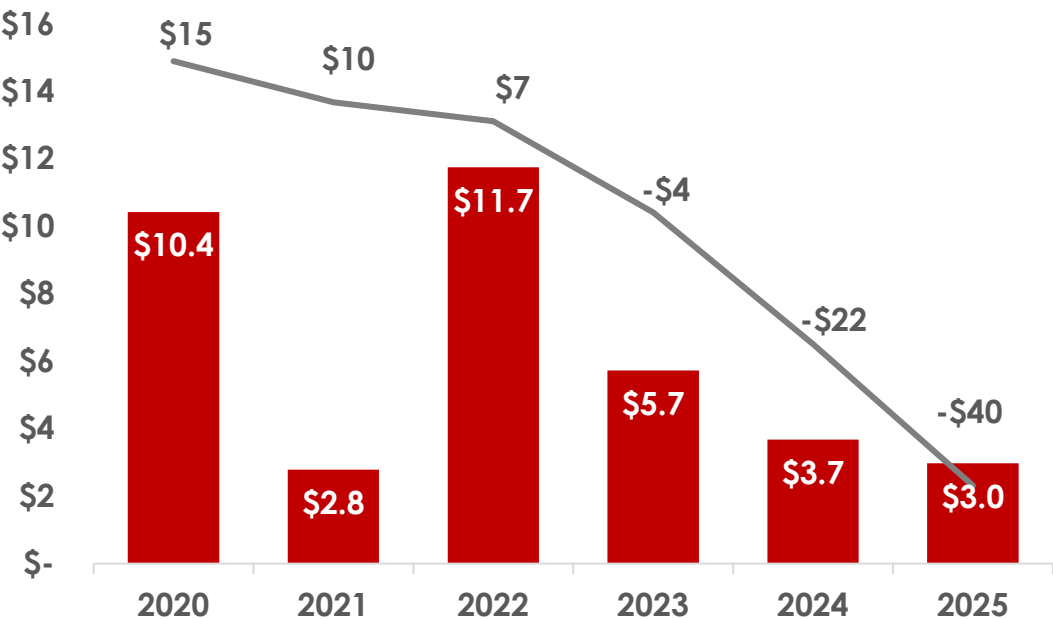
EXCESS HOUSEHOLD LIQUIDITY HAS LARGELY DISSIPATED WITH CONSUMPTION GROWTH DRIVEN PRIMARILY BY A \$4.4 BILLION INCREASE IN CREDIT GROWTH

Excess liquidity that reached \$15 billion in 2020 was essential in reactivating demand

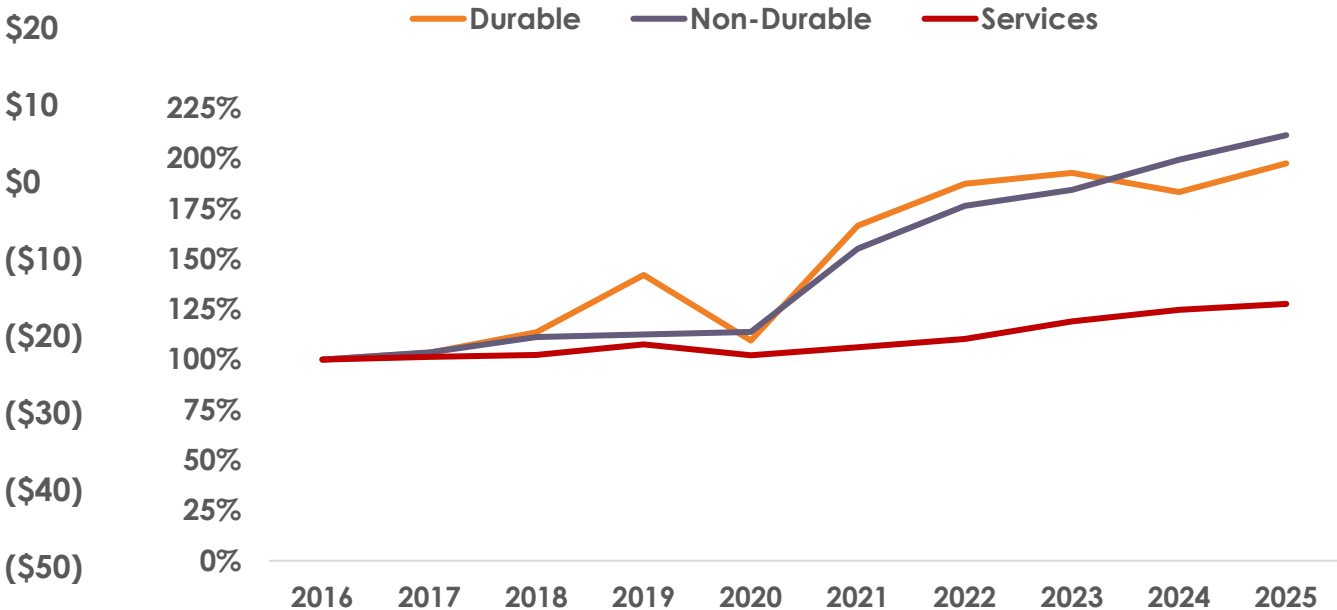
With this liquidity unavailable, and personal disp. income stagnant, consumption was fueled by bank's lending**

Consumer's excess liquidity (\$ billions)*

■ Excess Savings — Accumulated Liquidity



Trends in consumer spending (2015=100)



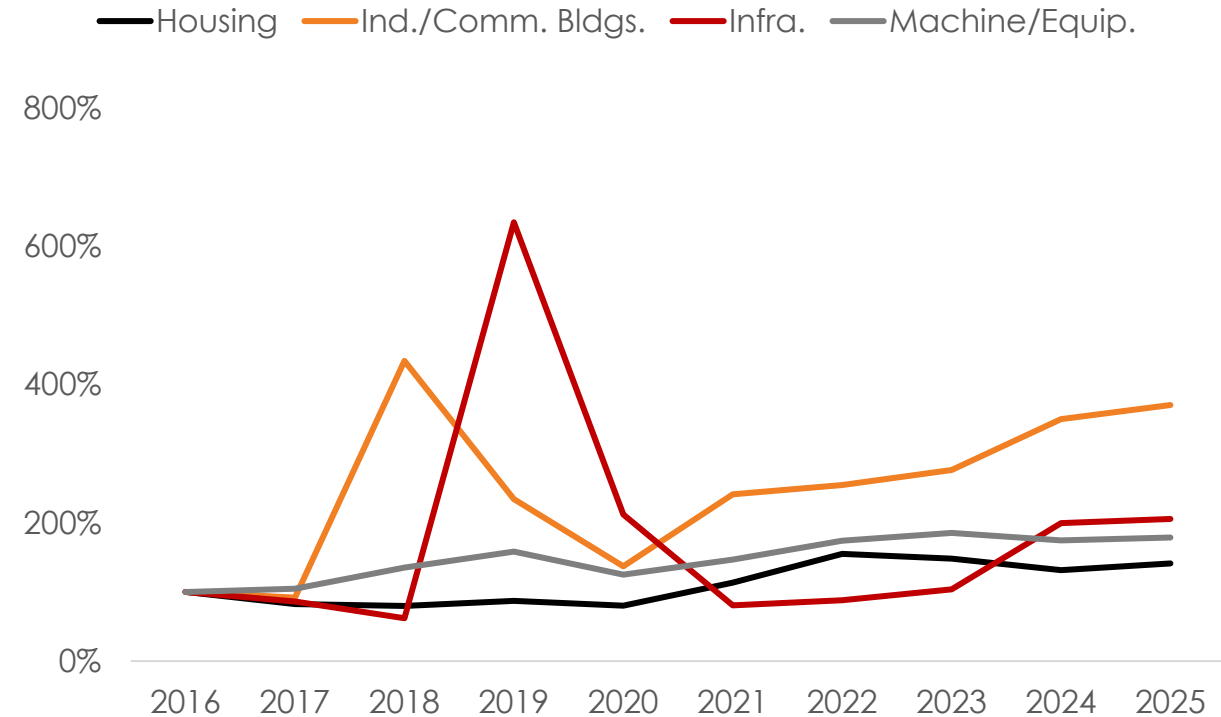
Source: Puerto Rico Planning Board. Statistical Appendix to the Governor (2024) and Ingreso y Producto (2025). Estimates by Estudios Técnicos, Inc. *Non-durable goods consumption was driven mainly by higher spending on medicines, while food and apparel declined. Durable goods spending reflected automobile maintenance and household equipment, and services were influenced by housing, business services, utilities, and recreation. The decline in durable and non-durable goods reflects consumer adjustments to inflation. ** Excess liquidity = Excess savings – Excess consumption

INVESTMENT GROWTH DRIVEN PRIMARILY BY CONSTRUCTION IN INDUSTRIAL, COMMERCIAL AND UTILITIES-RELATED INFRASTRUCTURE

Headwinds:

- Construction growth is constrained by slow disbursement of reconstruction funds, despite significant obligated resources.
- Labor shortages and wage pressure raise costs and extend project timelines. Projected shortage of ~500,000 construction workers in the U.S. may continue affecting the local market.
- Skilled labor outmigration and aging workforce limit long-term sector capacity.
- High construction costs (materials, logistics, energy) reduce project feasibility. The construction of data centers in the U.S. may increase pressure on resource availability and input costs.
- Limited contractors' capacity slows scaling of large reconstruction projects. Financing and cash-flow constraints affect smaller and local contractors.
- Construction activity related to reconstruction projects, together with the dilution of available funding due to higher construction costs, suggests that construction output will remain below the \$4.4 billion annually, thereby dampening multiplier effects across the economy.*

Gross Domestic Fixed Investment, FY (2016 = 100)

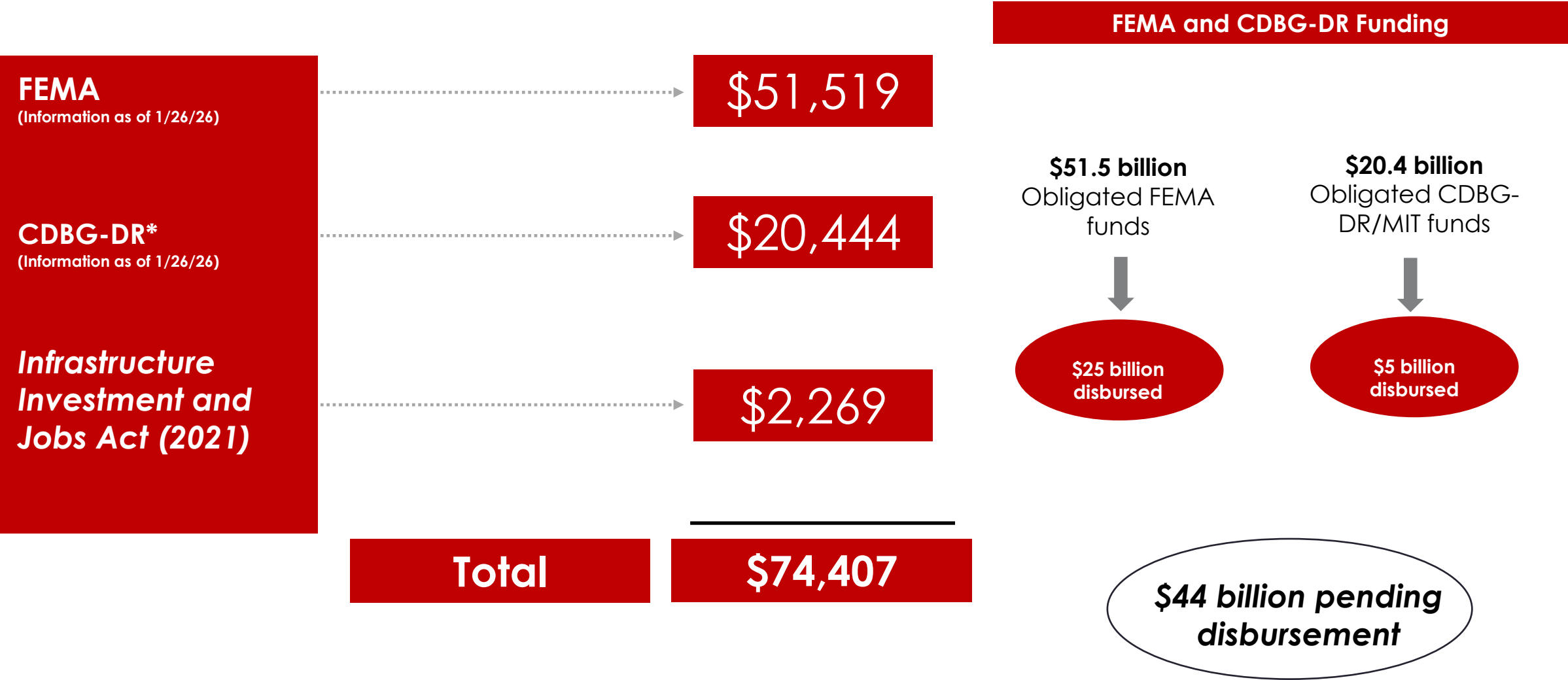


Source: Puerto Rico Planning Board. Statistical Appendix to the Governor (2025).

*ETI assumed in its GNP forecast an annual average investment of \$3 billion which reflects a 50% pass-through.

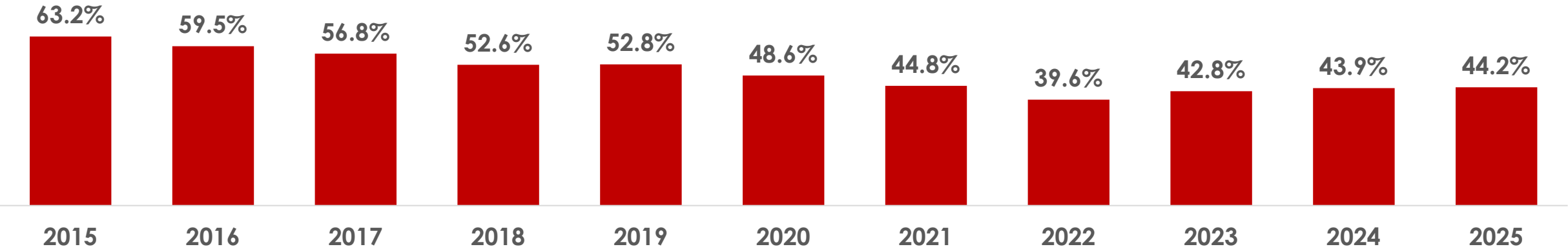
RELEVANT RISKS

LARGE RECONSTRUCTION FUNDS ARE AVAILABLE, BUT SLOW DISBURSEMENT IS CONSTRAINING CONSTRUCTION-LED GROWTH

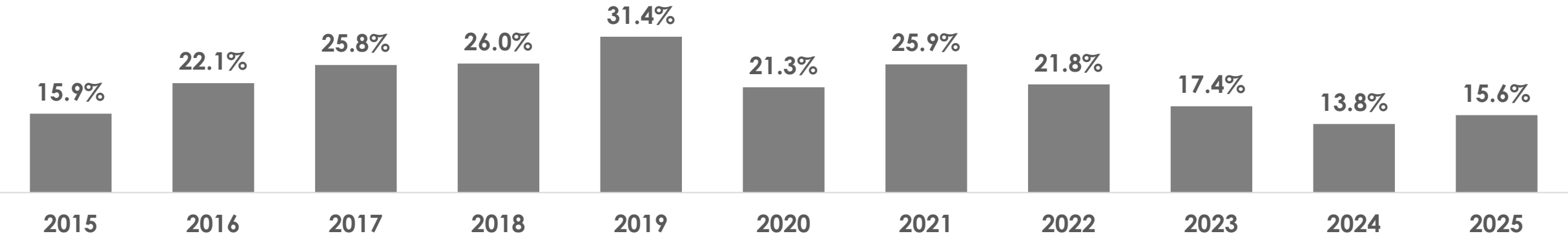


CONSUMERS FACE HIGHER LEVERAGE AND WEAKER NET WORTH, RAISING DOWNSIDE RISK TO CONSUMPTION AND CREDIT PERFORMANCE

Consumers' Debt* to Personal Disposable Income (%)



Net Worth (%)



CONSUMERS' LOAN DELINQUENCIES ARE INCREASING SEQUENTIALLY

ASSET QUALITY METRICS FOR COMERCIAL BANKS IN PUERTO RICO (%)

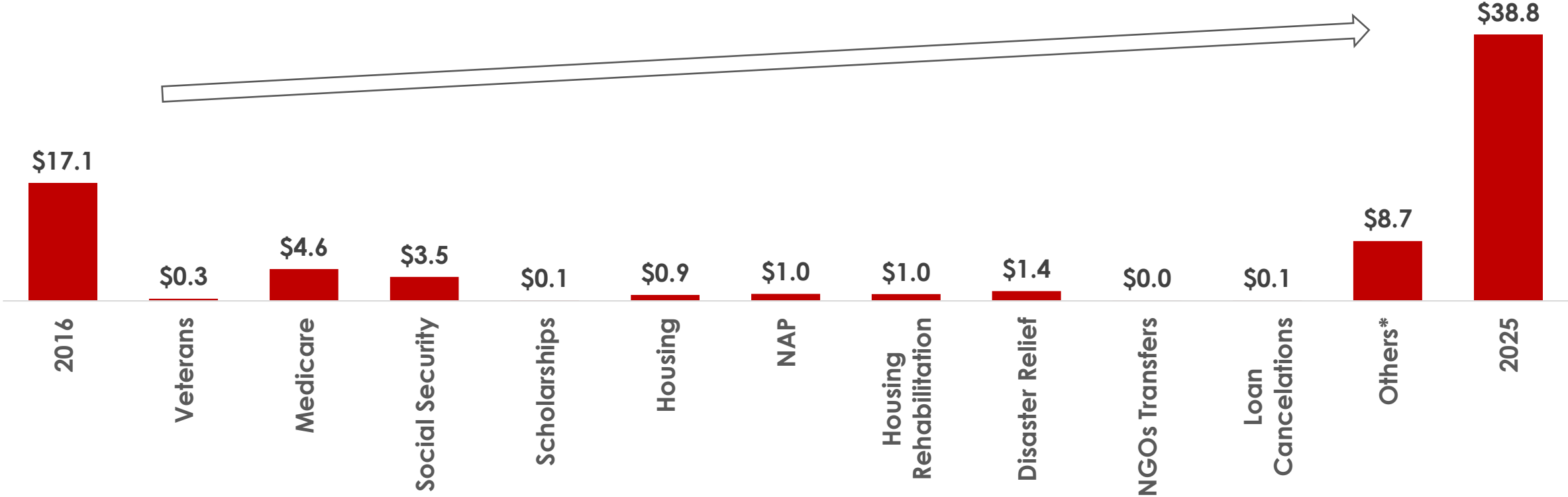
	4Q19	3Q24	4Q24	1Q25	2Q25	3Q25	Annual Var.	Quarterly Var.	Status: 3Q25 vs. 4T19
Delinquency 30-89 DPD									
Consumer Loans	2.98%	3.33%	3.49%	2.70%	3.04%	3.27%	-0.07%	0.22%	
Credit card	1.87%	2.51%	2.60%	2.31%	2.15%	2.40%	-0.10%	0.25%	
Automobiles	3.00%	3.52%	3.72%	2.77%	3.23%	3.47%	-0.04%	0.24%	
Residential Mortgage	2.87%	1.41%	1.39%	1.18%	1.15%	1.25%	-0.16%	0.10%	

Source: Federal Deposit Insurance Corporation

Note: Delinquency figures correspond to the average delinquency for the three comercial banks in operation in the island.

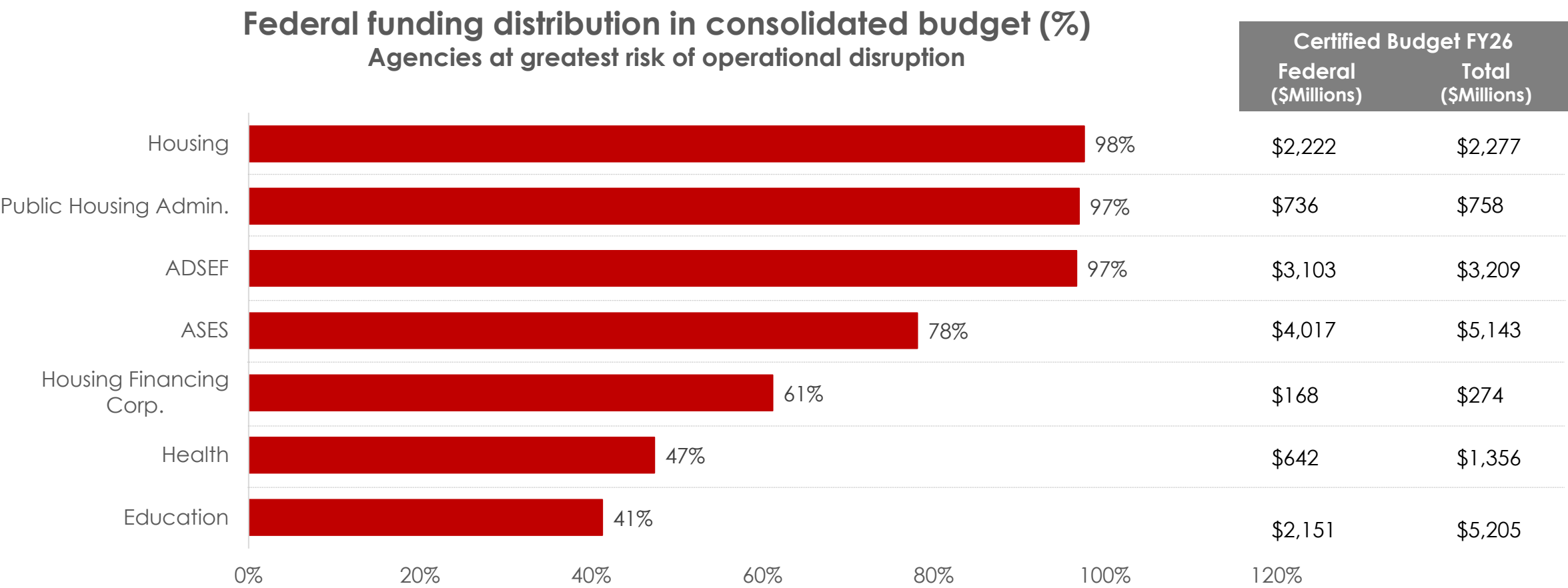
FEDERAL TRANSFERS INCREASED BY \$21,650 MILLION SINCE FISCAL 2016, WITH 43% BEING DISCRETIONARY SPENDING AT RISK OF CUTS

Evolution of Federal Transfer Payments to Individuals: 2016-2025 (\$ millions)



DEPENDENCE ON FEDERAL FUNDS AT SOME AGENCIES RAISES OPERATIONAL RED FLAGS WHEN FACED WITH SPENDING CUTS

- 43% of the \$32.7 billion in the government's consolidated budget are funded by the federal government.



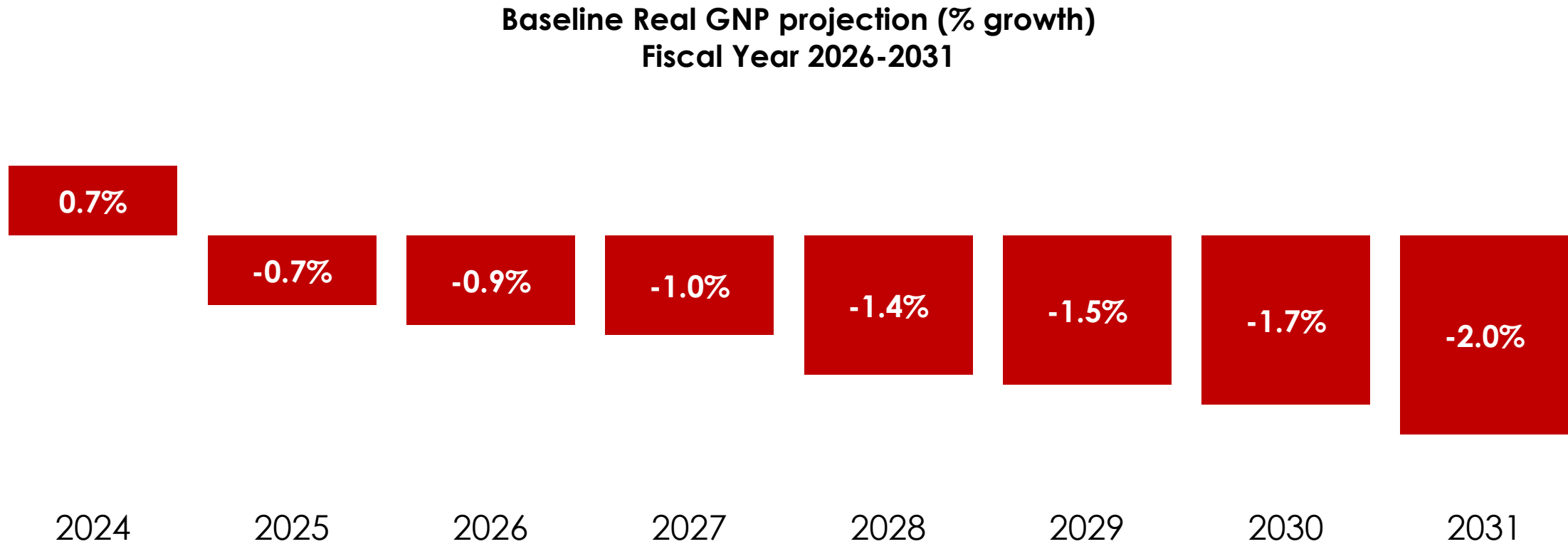
ECONOMIC OUTLOOK

ECONOMIC OUTLOOK NARRATIVE - BASELINE

- 1. Infrastructure projects are expected to be the primary driver of economic growth in the short to medium term**, supported by obligated funds equivalent to 82% of Puerto Rico's GNP. Elevated construction costs, labor shortages, slow fund disbursement (~10% avg. yearly reduction from FY26-30), and limited local participation may constrain their overall impact on growth.
- 2. Despite ongoing economic uncertainty, several positive trends remain.** The labor market shows resilience, although employment growth is moderating. SMEs are expanding, manufacturing activity is benefiting from reshoring, and real wages continue to outpace inflation.
- 3. Inflation is expected to remain high despite lower oil prices.** Various factors may potentially keep inflation sticky for some goods and services. Locally, higher utility fees and labor supply shortages. Internationally, higher U.S. trade tariffs.
- 4. Elevated inflation and interest rates are straining household and business finances**, prompting tighter credit standards that may weigh on consumption and investment, with financial institution's liquidity remaining a priority among financial intermediaries.
- 5. Absent federal legislation, the Medicaid fiscal cliff poses a serious medium-to-long-term economic risk.** Up to a \$3 billion shortfall in funding for healthcare could ensue, forcing fiscal adjustments and substantial economic losses.
- 6. Policy continuity supports economic diversification**, with growth in pharmaceuticals, aerospace, tourism, SME exports, IT, and expanding service industries. But the cumulative effect of 20 years of underinvestment in critical infrastructure is still felt.
- 7. Supply chain shifts and geopolitical issues are driving reshoring.** Investment in expansions by existing operations in the island is positive but the potential contribution to employment growth is limited due to automation of production processes.
- 8. Tourism growth remains highly exposed to U.S. economic conditions**, with potential softness in travel spending weighing on leisure and hospitality activity and employment.



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





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Puerto Rico Economic Trends and Outlook for 2026

Xavier Diví

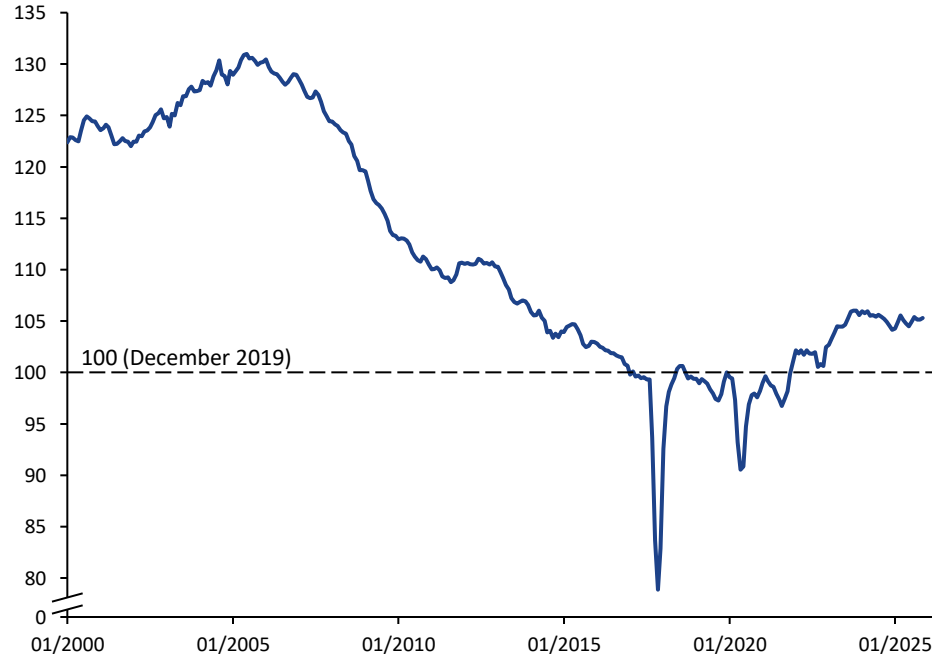
Economic Forecast Symposium

Puerto Rico economic trends and outlook for 2026

February 2026

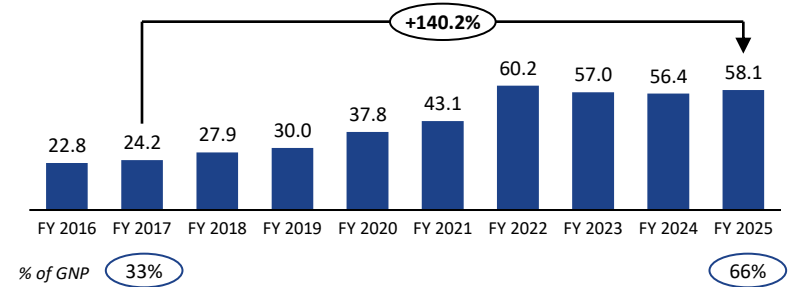
Fed funds played a key role in driving economic recovery and liquidity after the pandemic, but economic activity has remained flat over the past year

Economic Activity Index – December 2019 = 100



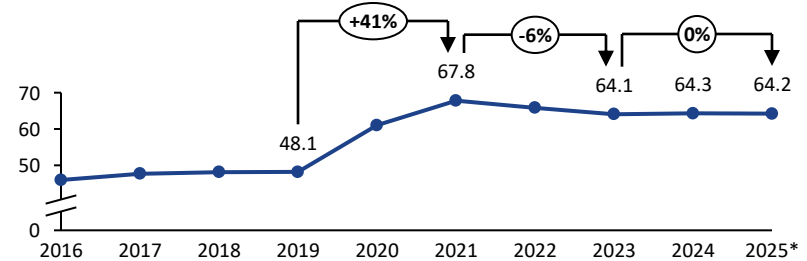
Source: Instituto de Estadísticas de Puerto Rico

Federal funds expenditures, transfers and grants to Puerto Rico (US\$)



Source: Puerto Rico Planning Board: "Apéndice Estadístico del Informe Económico al Gobernador"

Individual and business deposits in PR banks and credit unions (US\$)

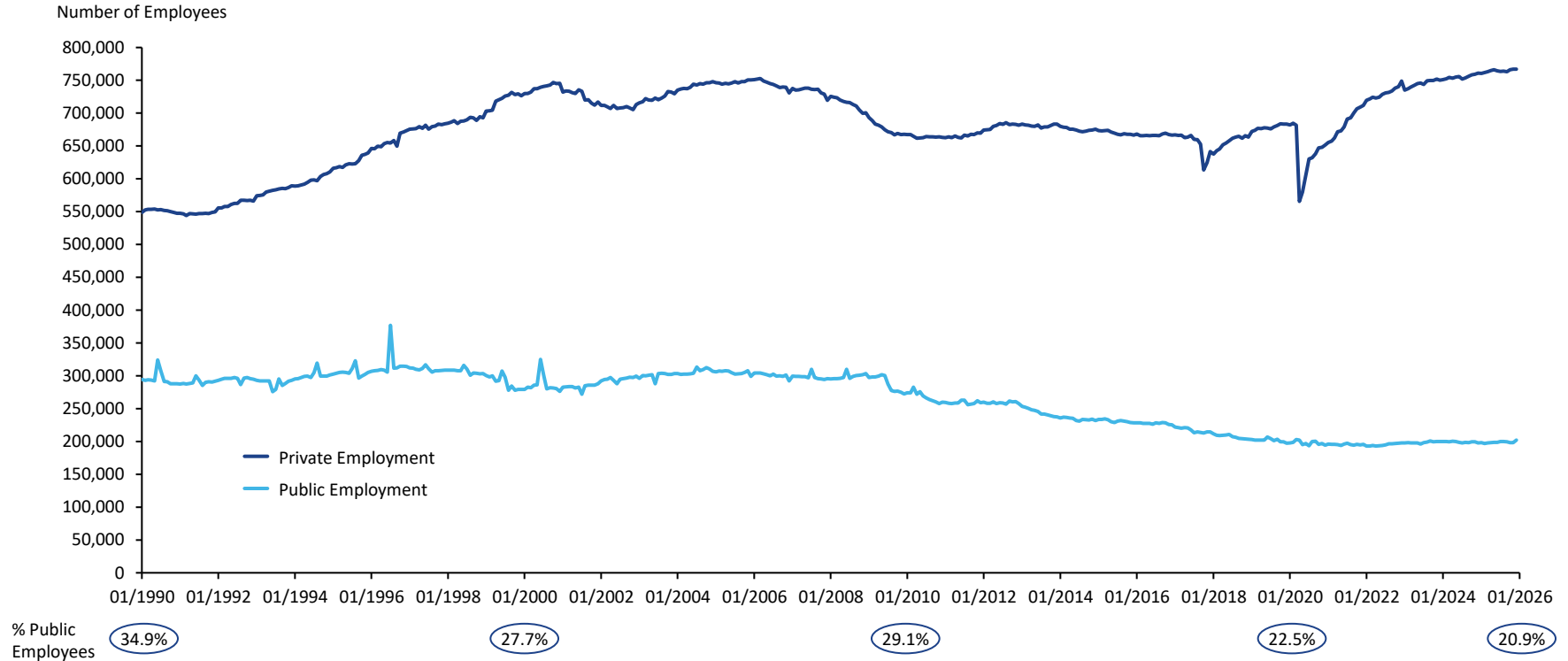


*As of June 2025 (latest data point available)

Source: Office of the Commissioner of Financial Institutions (OCFI)

Historically high private employment despite a 14% population drop since 2010, while public employment remains at lowest historical level

Number of public and private employees



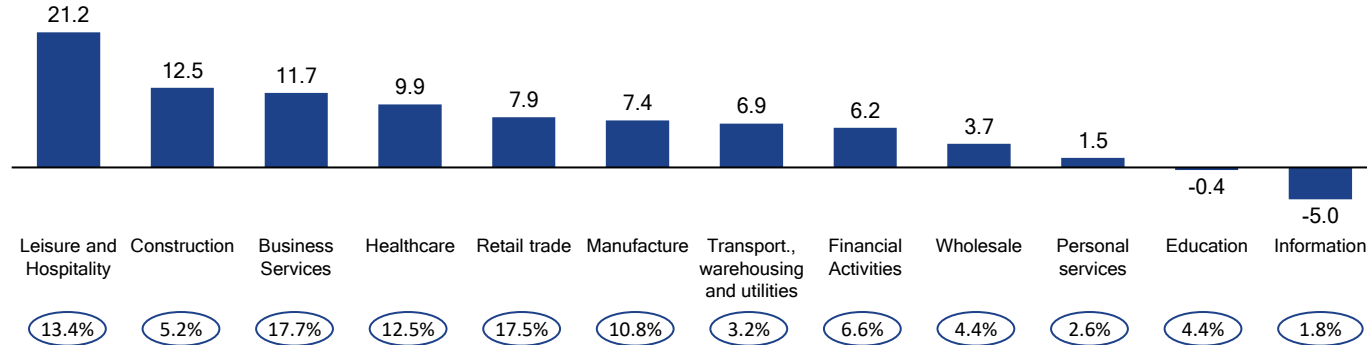
Source: Puerto Rico Department of Labor and Human Resources

Tourism, construction and business services have driven employment growth in Puerto Rico in the past years

Change in the number of employees ('000)

XX% % of total employment

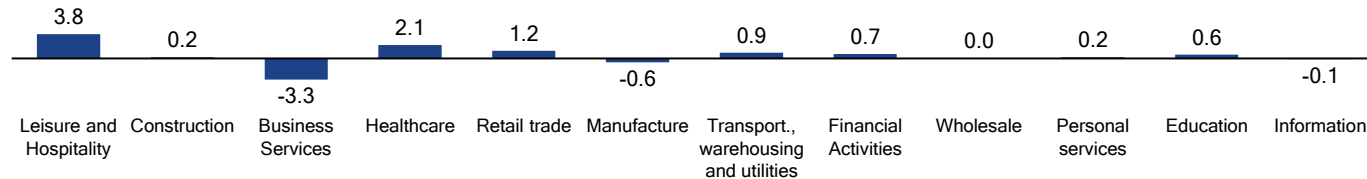
Since before pandemic
(Dec. 2025 vs Dec. 2019)



Total Increase
83.5k

% Increase
12.2%

Last 12 months
(Dec. 2025 vs Dec. 2024)



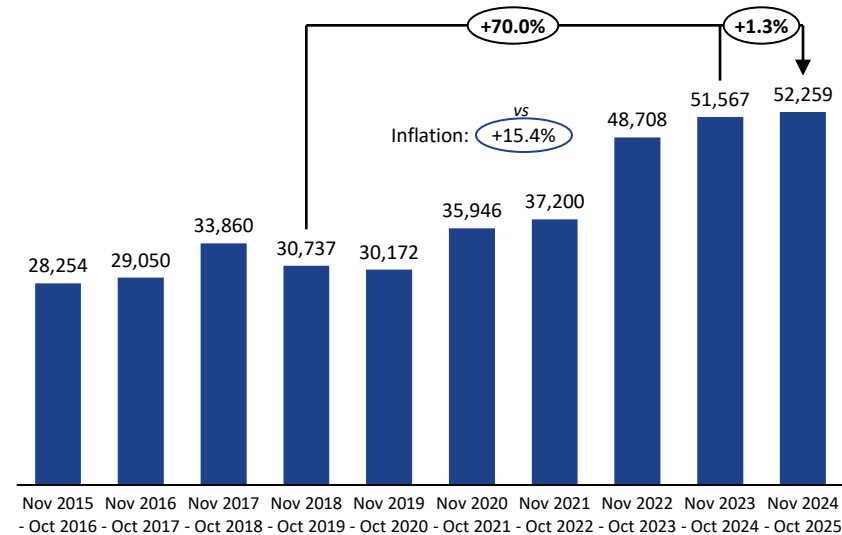
Total Increase
5.7k

% Increase
0.7%

Liquidity and salary increases in real terms supported high consumption levels after the pandemic, but consumption has slowed down in the past year

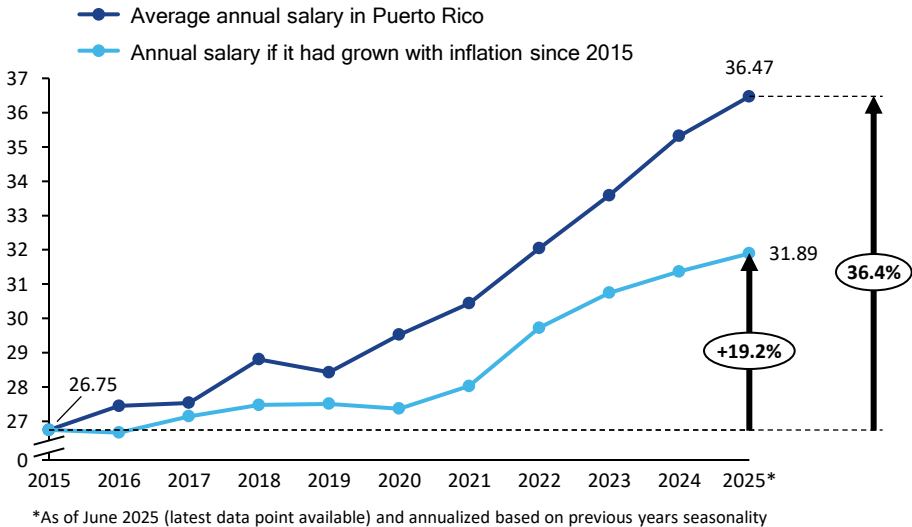
Consumption – Retail Sales (US\$)

Annual rolling 12 months (most recent data point: Oct 2025)



Source: Instituto de Estadísticas de Puerto Rico

Average annual salary in Puerto Rico ('000\$)



Source: Puerto Rico Department of Labor and Human Resources



US Economy



Federal Funding



Trade Tariffs



Tourism



Manufacturing Onshoring

WHY IT MATTERS

- The **Puerto Rico economic growth** is **closely tied** to US economic trends
- The **US market** accounts for approximately **70% of Puerto Rico exports**
- Approximately **93% of Puerto Rico's visitors** originate from the **United States**
- **Federal inflows** have **increased by 140%** since 2017 driven by non-recurring funds that will progressively **return to pre hurricane and pre pandemic levels**
- Total federal funds reached **\$58B (66% of GDP)** in FY2025
- The current **US Administration** is pursuing significant **federal budget reductions**
- The **Puerto Rico market** is highly **dependent** on **imported goods**
- **85% of food is imported** (41% from **other countries**) with nearly half the residents living under the federal poverty line
- The **tourism sector** has been a **key driver** of economic activity in the past years with total visitors to San Juan LMM airport in **2025 reaching 13.6M, 44% (4.2M) above pre-pandemic levels**
- **37% of employment growth** in 2025 driven by **tourism** (24% of growth since 2019)
- **Manufacturing** represents **44% of GDP** and more than **80% of total exports**
- **\$2.1B in investments** in the manufacturing sector in **2025** (not seen since the 1990s)
- Sector **expanding in 10 of the past 12 months** based on the Purchasing Managers Index

OUR OUTLOOK

No significant change vs 2025, with **US GDP growth** in the 2-2.5% range
Geopolitical and economic **uncertainty** likely to continue to influence **local investments**

Moderately optimistic: much **lower risk** of significant **reductions** in Federal Funds in 2026 impacting **Puerto Rico**

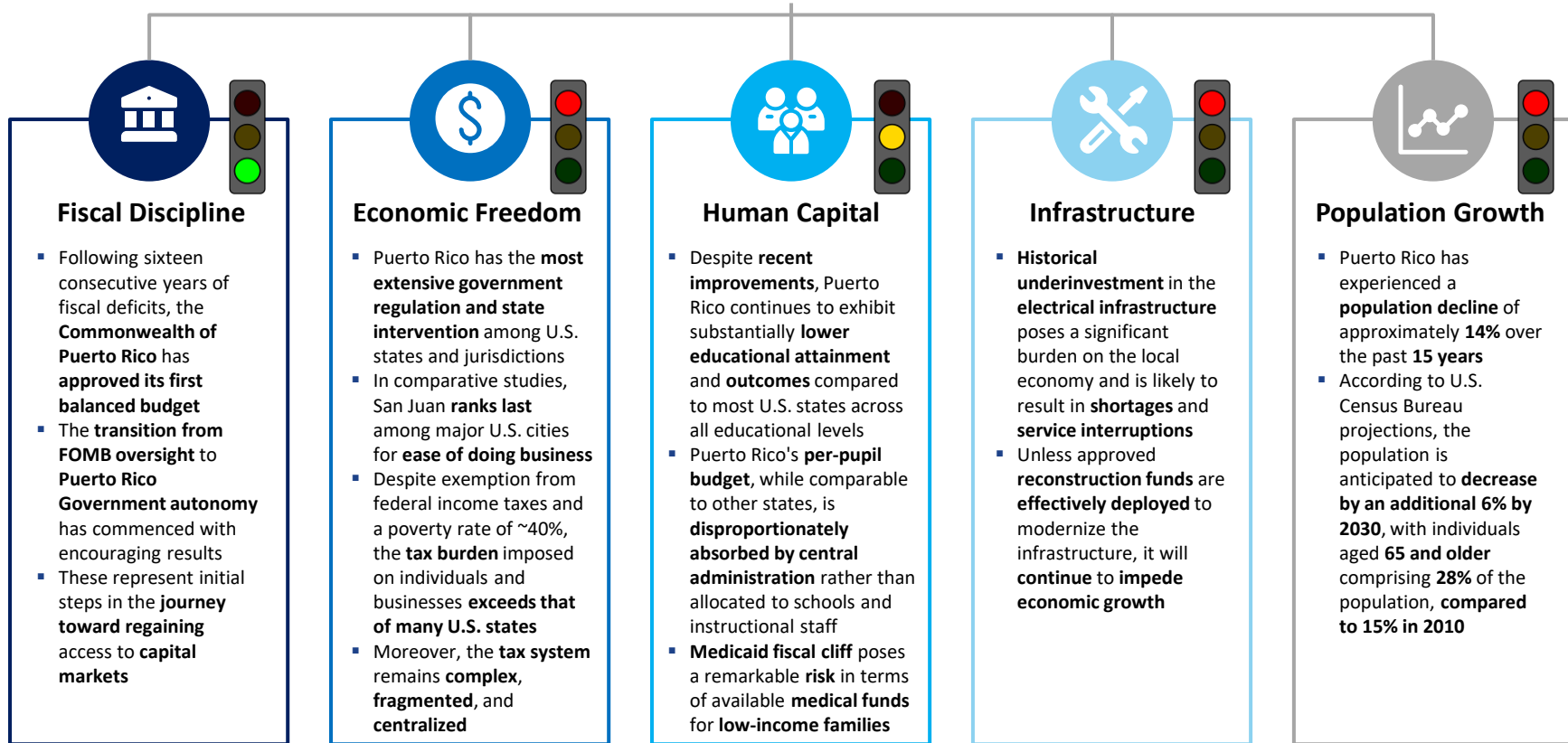
While initial price impacts were modest in 2025, we **expect consumer absorption of tariff costs** to rise in 2026

Will **continue** to be a **key driver** of economic activity but slowing down driven by **expected tourist spending softening**

The **outlook is cautiously optimistic**, though tariff policy volatility and infrastructure challenges could hinder future relocation decisions

Under our base case scenario, we anticipate Puerto Rico economic activity to remain relatively flat compared to 2025

Sustained economic growth not driven by external support



Thank you!



2026

Economic Forecast Symposium