Economic Forecast Symposium

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Economic Forecast Symposium

November 4, 2026 | San Juan, PR

2027 ECONOMIC FORECAST SYMPOSIUM

US economy remains resilient

Global Insight · October 2026



Ben Herzon
Executive Director & Co-head of US Economics
S&P Global Market Intelligence

Financial Oversight & Management Board for Puerto Rico

S&P Global
Market Intelligence

Global Insight

US economy remains resilient



Ben Herzon, Executive Director, Co-head US Economics

October 2026

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Hallmarks of the US forecast

- The US economy has **remained resilient** and grew at a near-potential rate in 2025, largely thanks to PCE.
- In the near-term forecast, **growth firms**, and the composition of growth shifts.
- Unemployment rate **drifts modestly higher** to a peak of 4.3% by the first quarter of 2027.
- On inflation, **tariffs**, and now elevated **oil prices**, push through to finished goods prices.
- Federal Reserve **tightens again**, in December 2026. Easing begins in December 2027.

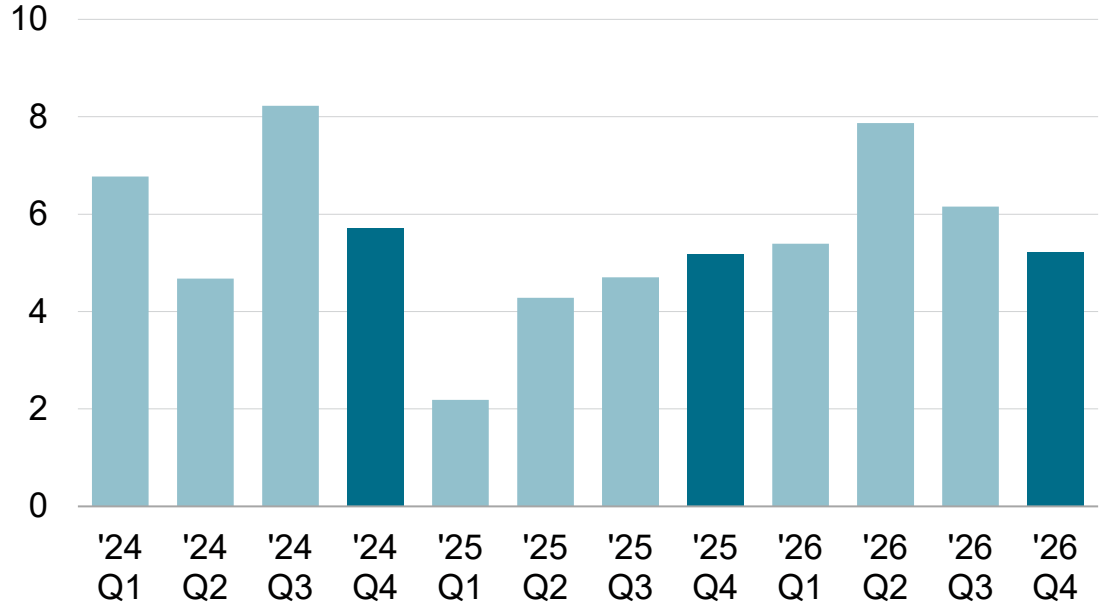
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Personal consumption expenditures: support to GDP growth has diminished

Fundamentals are playing a role

Growth of real household net worth remains steady

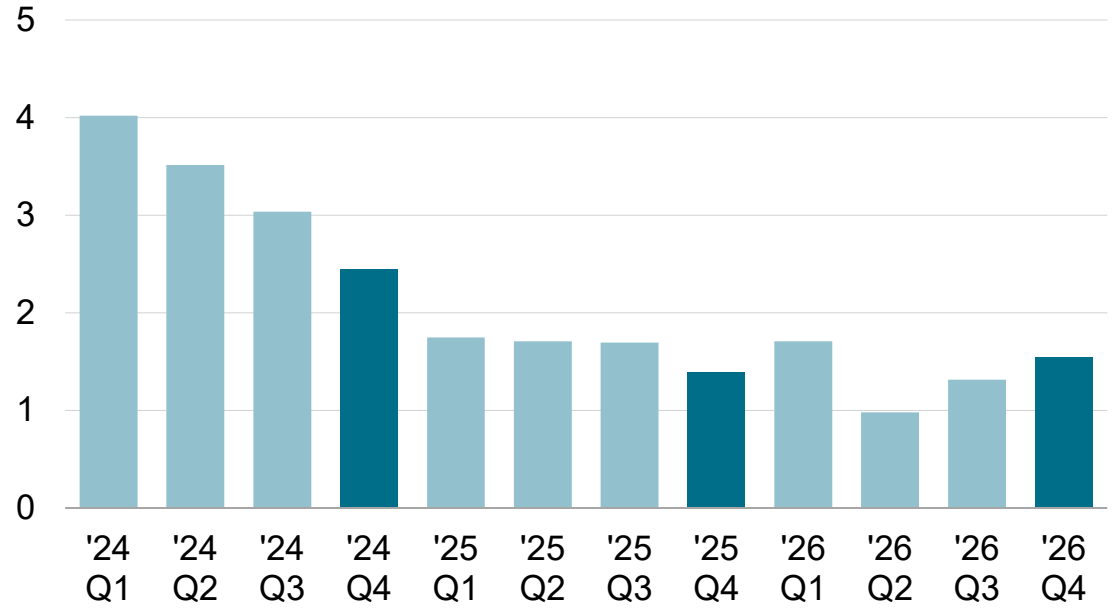
4-quarter percent change



As of Oct. 7, 2026.
Source: S&P Global Market Intelligence; Federal Reserve; BEA.
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Growth of real disposable personal income has slowed

4-quarter percent change



As of Oct. 7 2026.
Source: S&P Global Market Intelligence; BEA.
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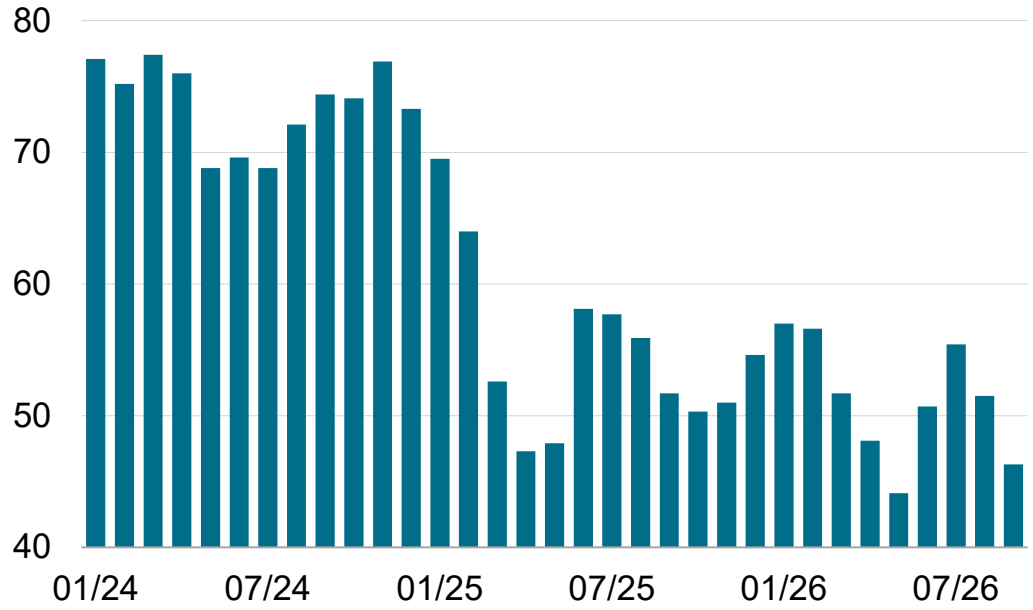
Personal consumption expenditures: support to GDP growth has diminished

Expectations are also likely playing a role

Consumer expectations have deteriorated

Index of consumer expectations

1966 Q1 = 100

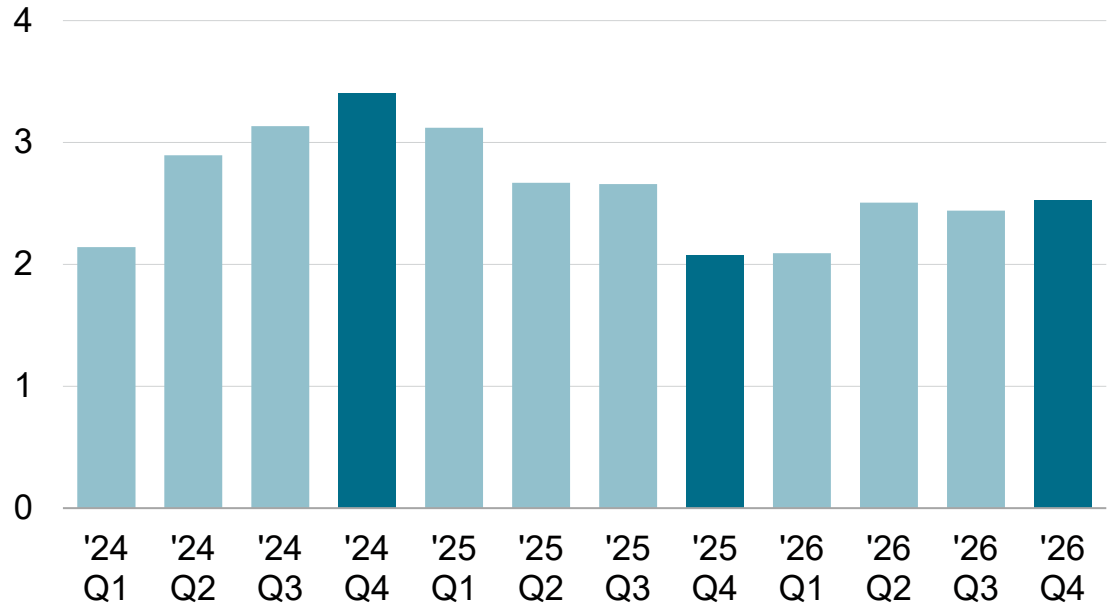


As of Oct. 7, 2026.
Source: University of Michigan
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PCE has slowed, settles above 2%

Real personal consumption expenditures

4-quarter percent change

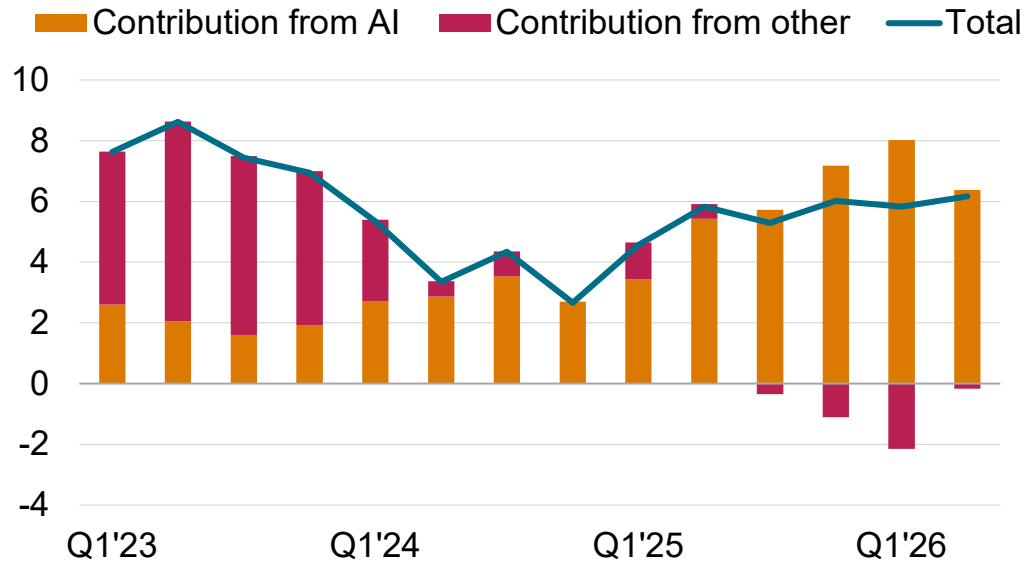


As of Oct. 7, 2026.
Source: S&P Global Market Intelligence; BEA.
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Business fixed investment: the AI sector is providing a boost

Real nonresidential fixed investment

4-quarter percent change



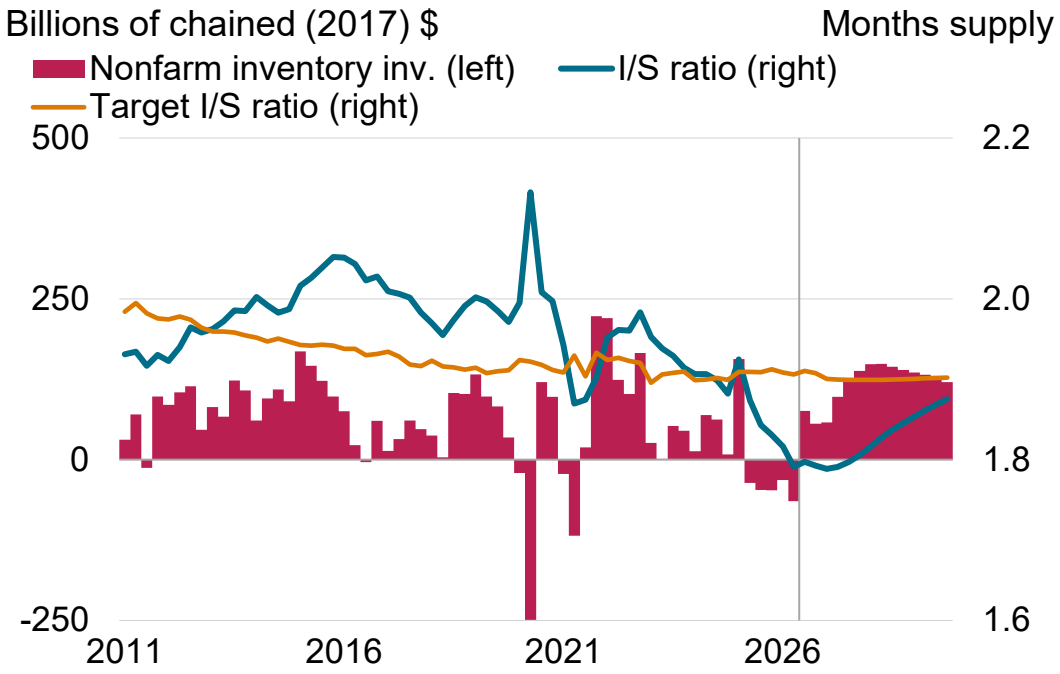
As of Sept. 30, 2026.
Note: AI includes data centers, computers, software, and R&D.
Source: S&P Global Market Intelligence.
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- AI investment is in data centers, computers, software, and R&D.
- Four-quarter growth of BFI rose from 2.7% in 2024Q4 to 6.2% in 2026Q2.
- All of that acceleration is accounted for by AI investment.

Inventory investment: aggregate I/S ratio is well below optimal

Firms to pick up the pace of production to restock

Nonfarm I/S ratio & inventory investment



As of October 7, 2026
Source: S&P Global Market Intelligence, BEA
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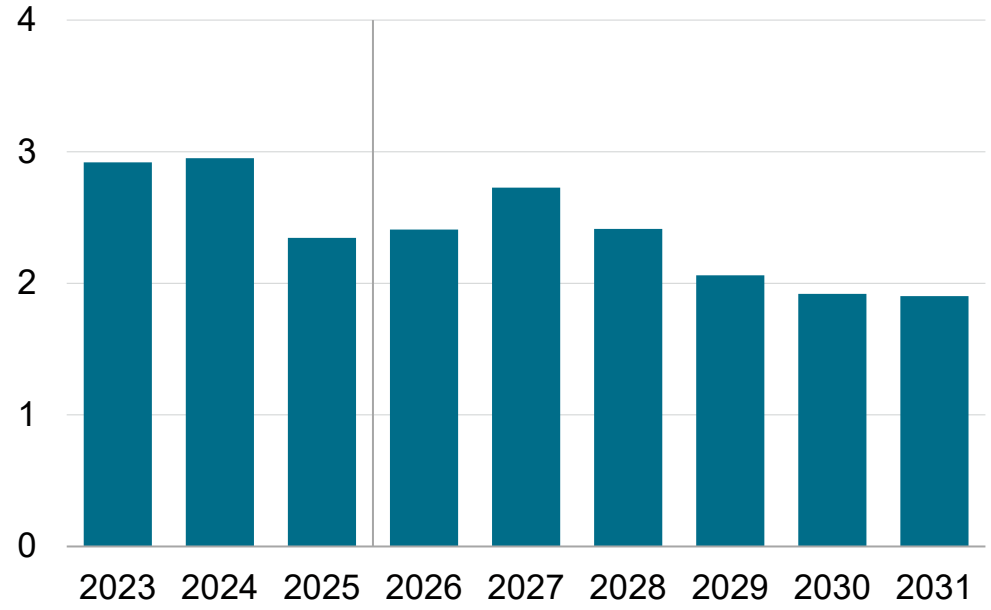
- Inventories jumped in early 2025, as businesses rushed to import commodities ahead of tariffs.
- In every quarter since, nonfarm inventories have declined.
- The I/S ratio is well below a level our model views as optimal.
- This leads to a rising pace of inventory investment into 2028.
- The average forecasted contribution to GDP growth is 0.4 ppt per quarter through 2028Q2.

GDP growth returns to potential following temporary boost in 2027 and 2028

GDP growth settles near long-run potential

Real GDP growth

Percent change

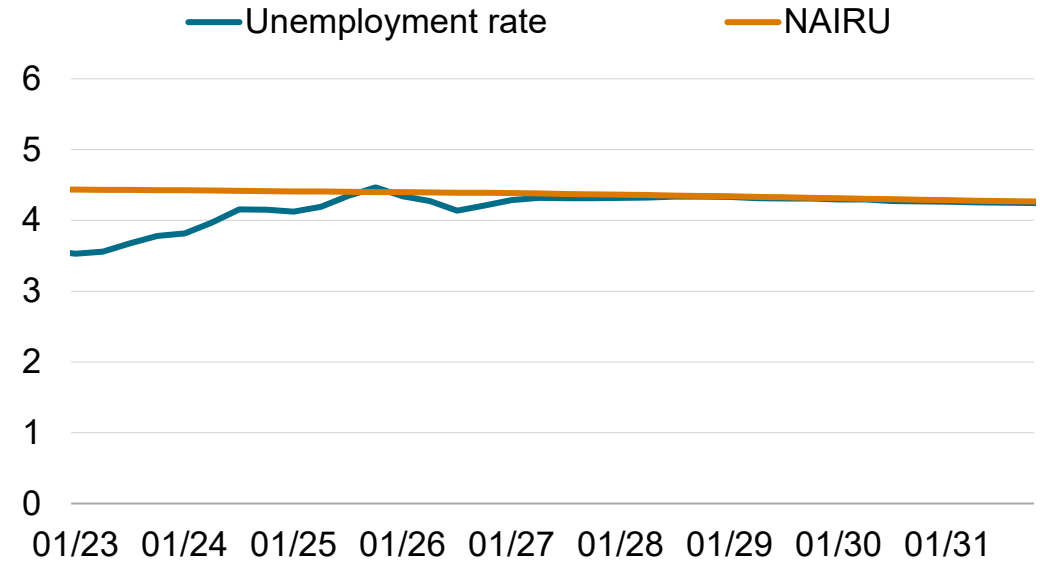


As of Oct. 7, 2026.
Source: S&P Global Market Intelligence; BEA.
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Unemployment rate reaches, settles at NAIRU

Unemployment rate and NAIRU

Percent of labor force

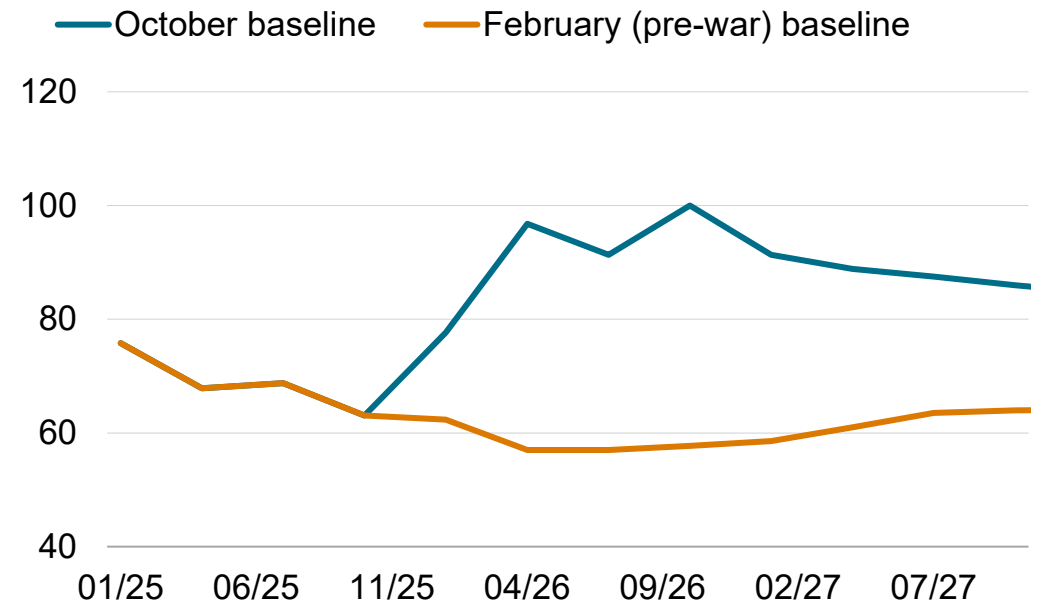


Data compiled Oct. 7, 2026.
Note: NAIRU is the non-accelerating inflation rate of unemployment.
Source: S&P Global Market Intelligence; Bureau of Labor Statistics; Congressional Budget Office.
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Elevated energy prices will pass through to consumer prices

Brent crude oil averages $96 per barrel in H2

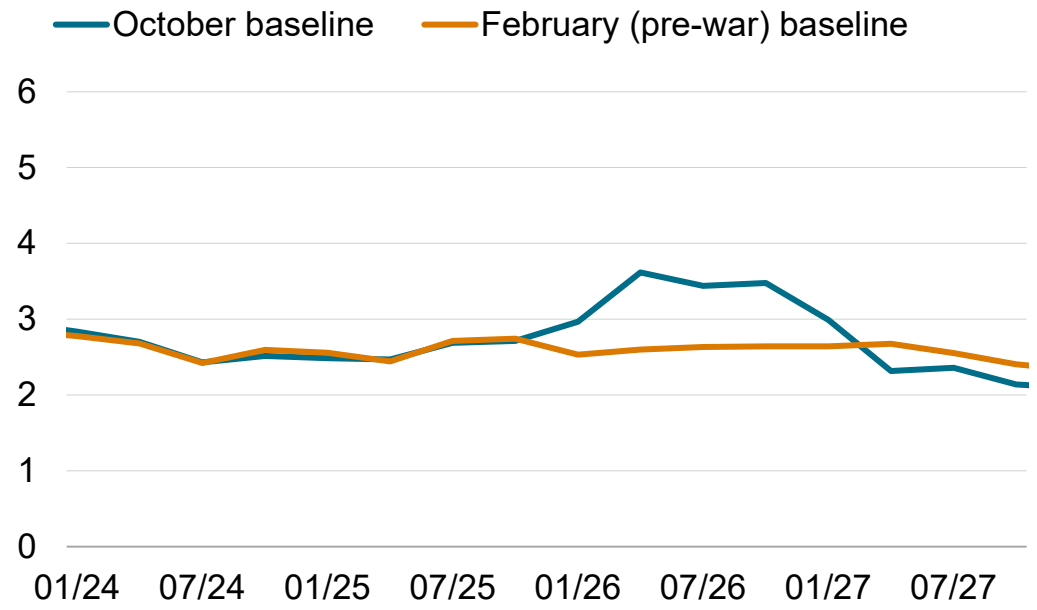
Spot price, dollars per barrel



Data compiled Oct. 7, 2026.
Source: S&P Global Market Intelligence; Commodity Research Bureau.
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PCE inflation remains elevated through 2026 Q4

4-quarter percent change

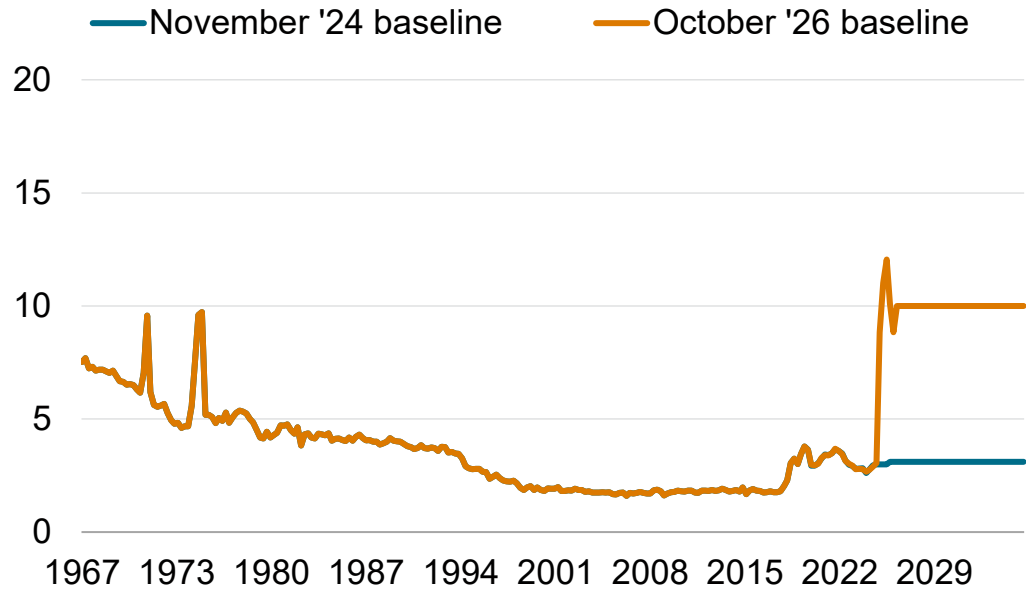


Data compiled Oct. 7, 2026.
Source: S&P Global Market Intelligence; Bureau of Economic Analysis
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The boost to inflation from energy prices is on top of a boost from tariffs

Average effective tariff rate near historic highs

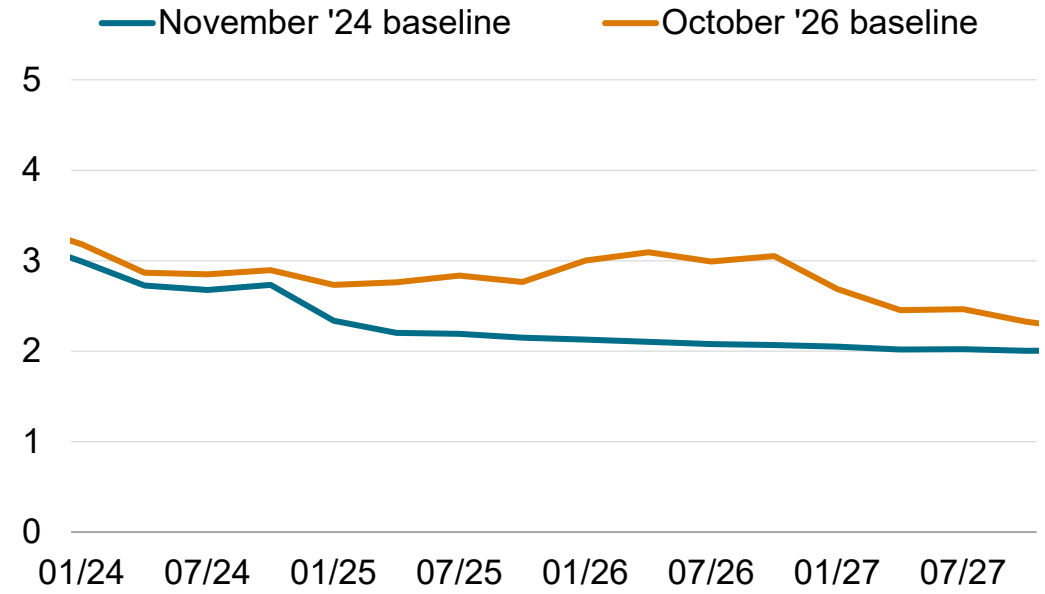
Customs duties as a percentage of nonpetroleum imports



Data compiled Oct. 7, 2026.
Source: S&P Global Market Intelligence.
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Core PCE inflation reached 3.1%, remains elevated

4-quarter percent change

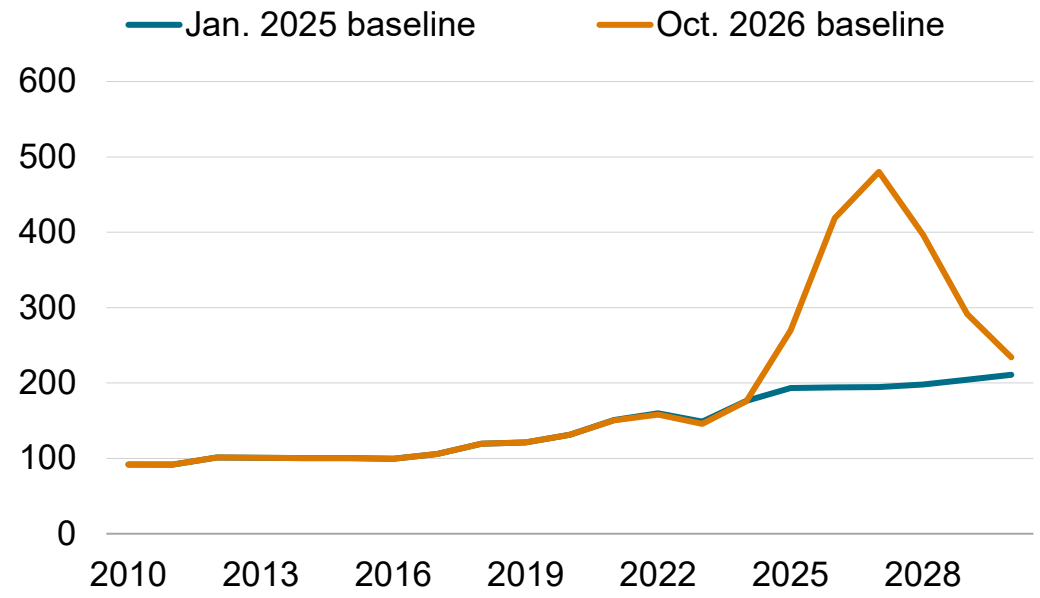


Data compiled Oct.7, 2026.
Source: S&P Global Market Intelligence; Bureau of Economic Analysis
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The AI buildout will slow, but productivity gains will be boosted in perpetuity

Business fixed investment in computers surges

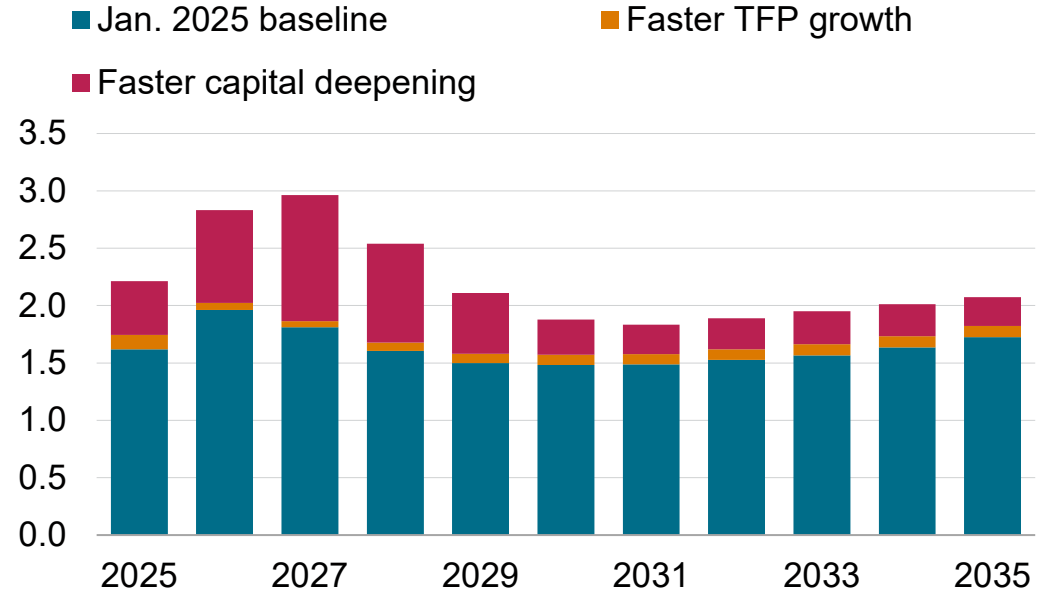
Billions of chained 2017 dollars



Data compiled Oct. 7, 2026.
Source: S&P Global Market Intelligence; BEA.
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AI has boosted potential labor productivity growth

Percent



As of Oct. 7, 2026.
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Economic Conditions in Puerto Rico

Federal Reserve Bank of New York · November 4, 2026



Joelle W. Scally

Economic Policy Advisor, Microeconomics

Federal Reserve Bank of New York

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Financial Oversight & Management Board for Puerto Rico

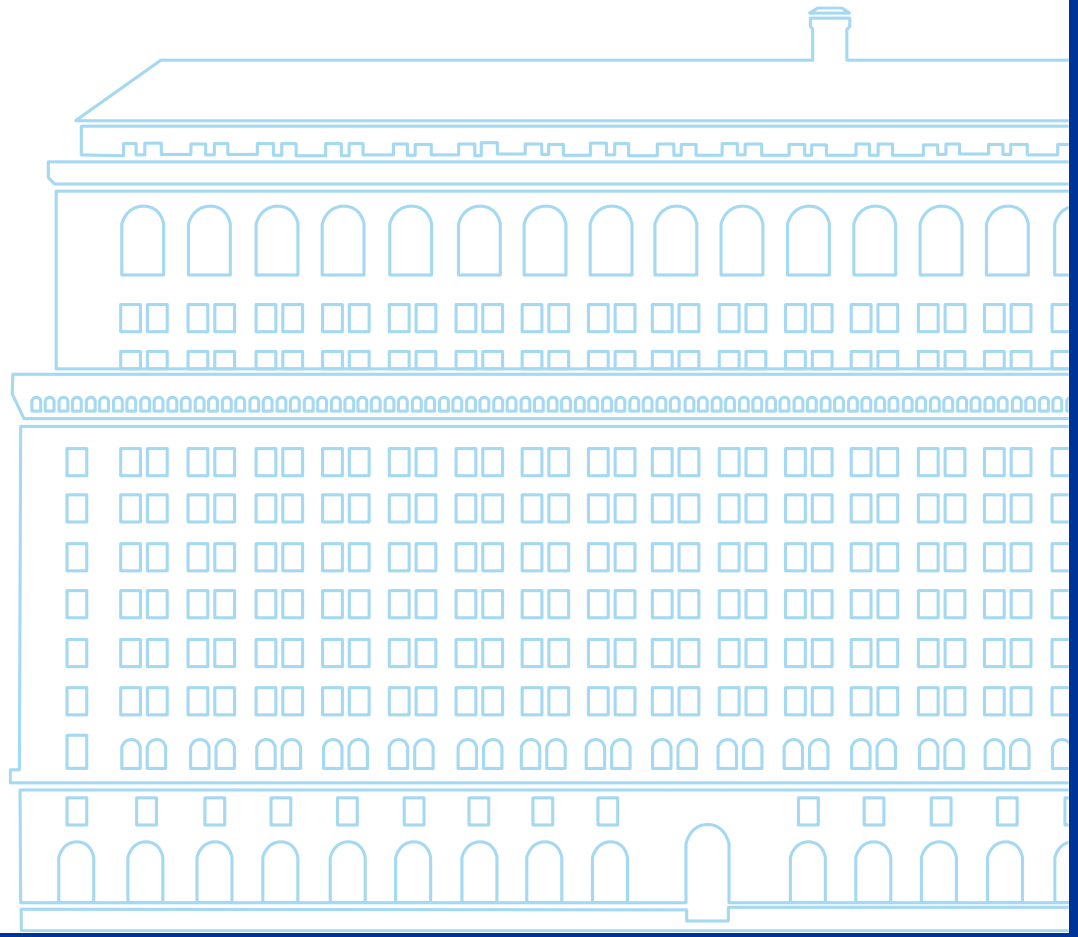
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Economic Conditions in Puerto Rico

Joelle Scally
Economic Policy Advisor

2027 Economic Forecast Symposium
Puerto Rico Financial Oversight Management Board

November 4, 2026

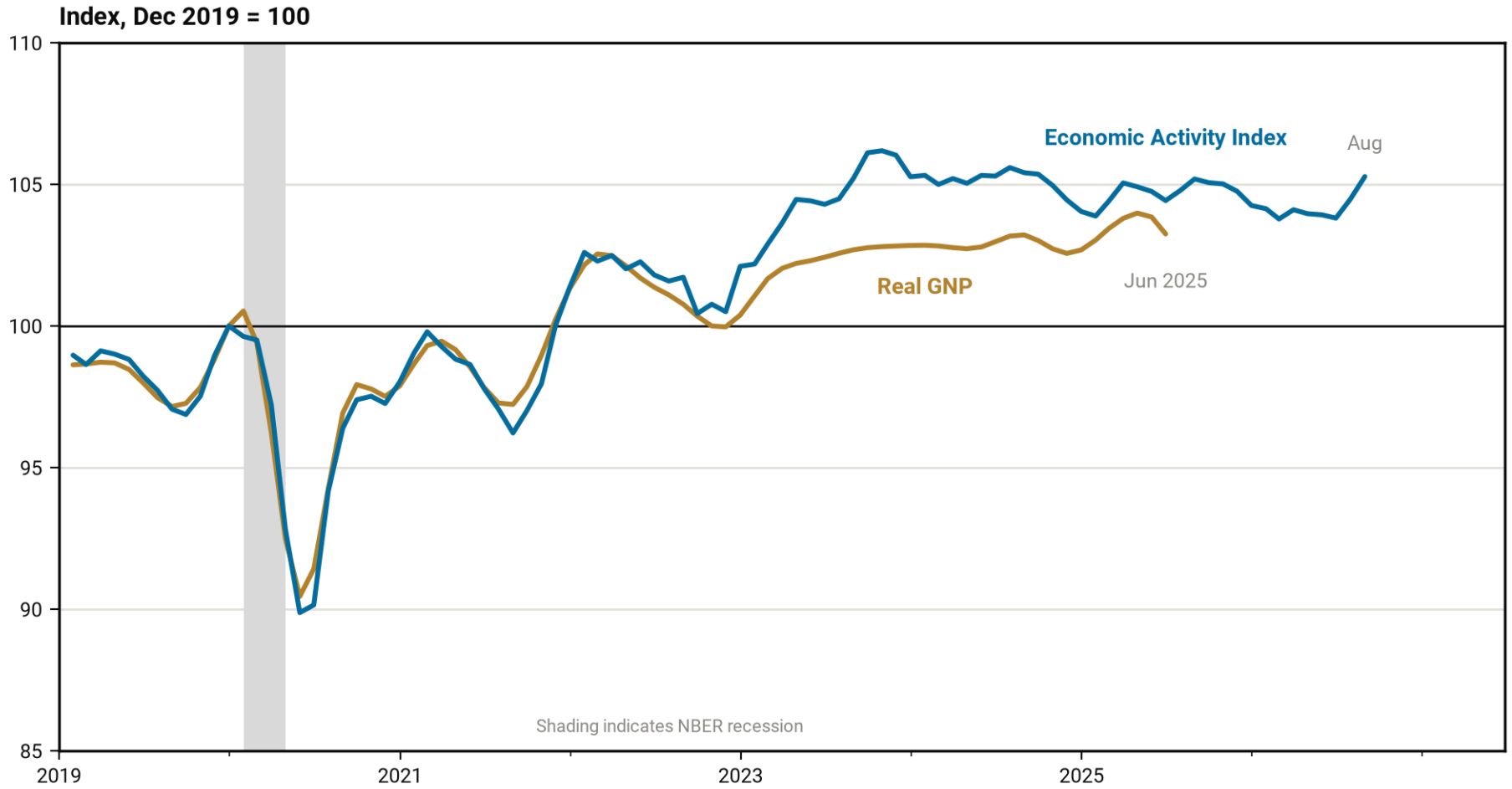


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Overview of Economic Conditions

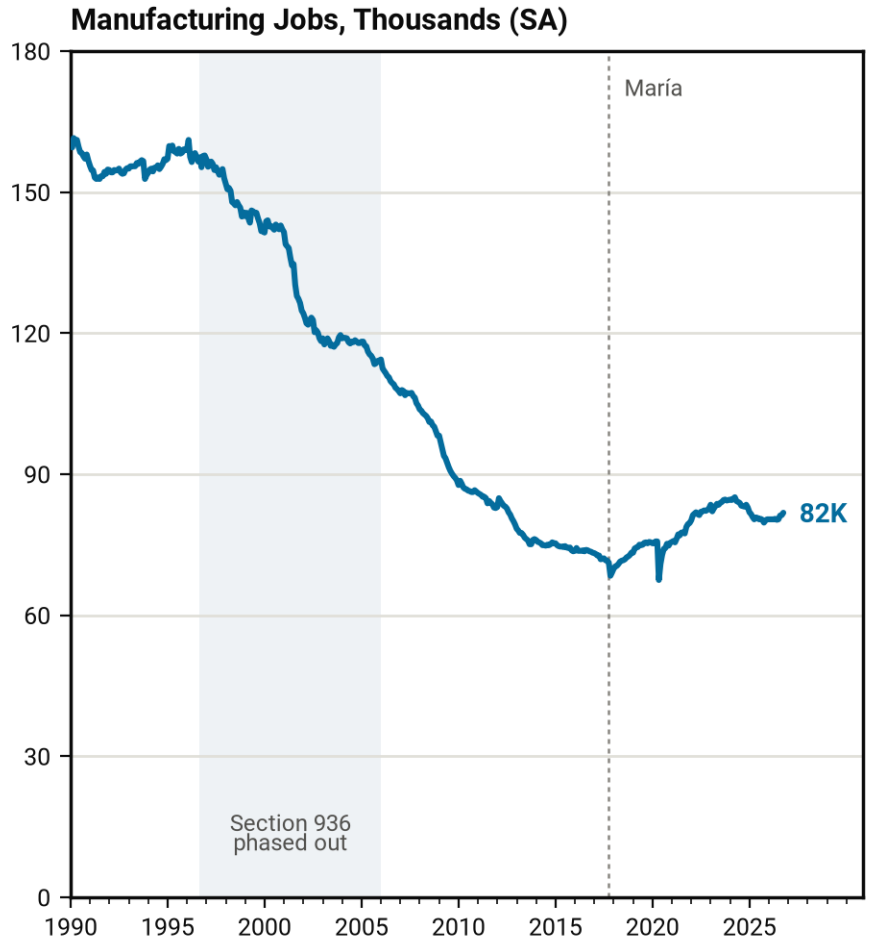
- The economy has seen little growth in the last two years.
- The job market has been stable, but has shown strength in tourism.
- There is some stress among households, with elevated credit card delinquency rates.
- Aging and out-migration are key challenges for Puerto Rico.

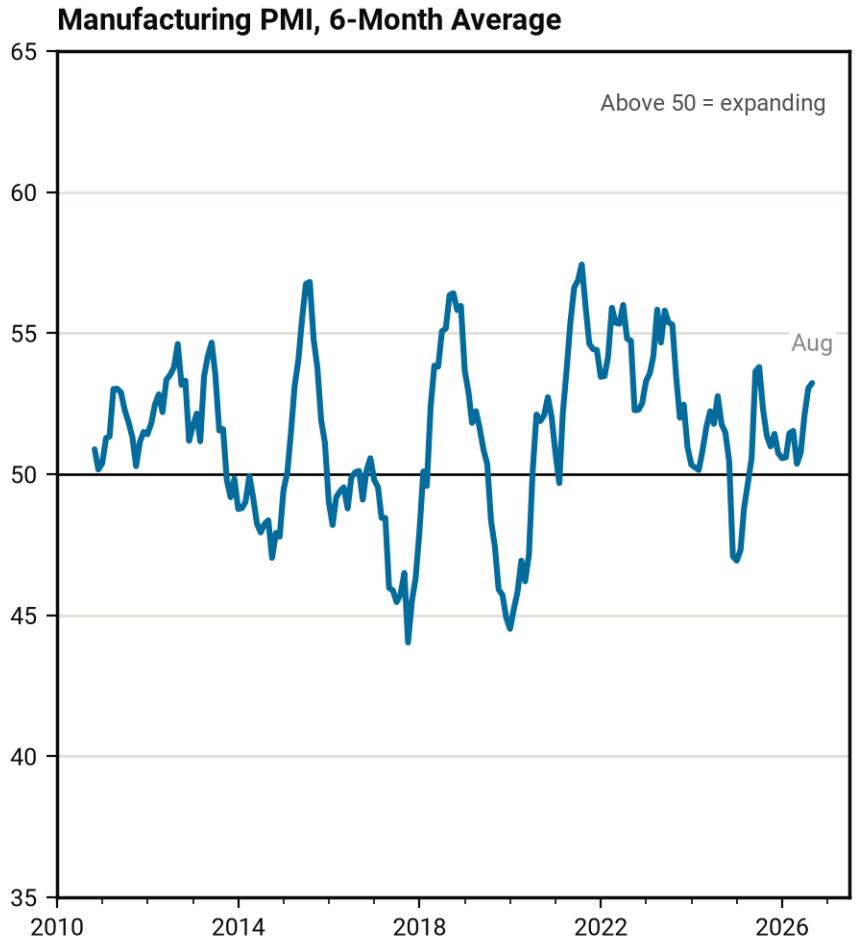
Economic Activity Has Been Flat for Two Years



Source: Puerto Rico Department of Economic Development and Commerce (Economic Activity Index, formerly published by the Economic Development Bank); Puerto Rico Planning Board and Moody's Analytics via Haver Analytics (real GNP, 2017 dollars; monthly estimates through June 2025, the end of fiscal year 2025).

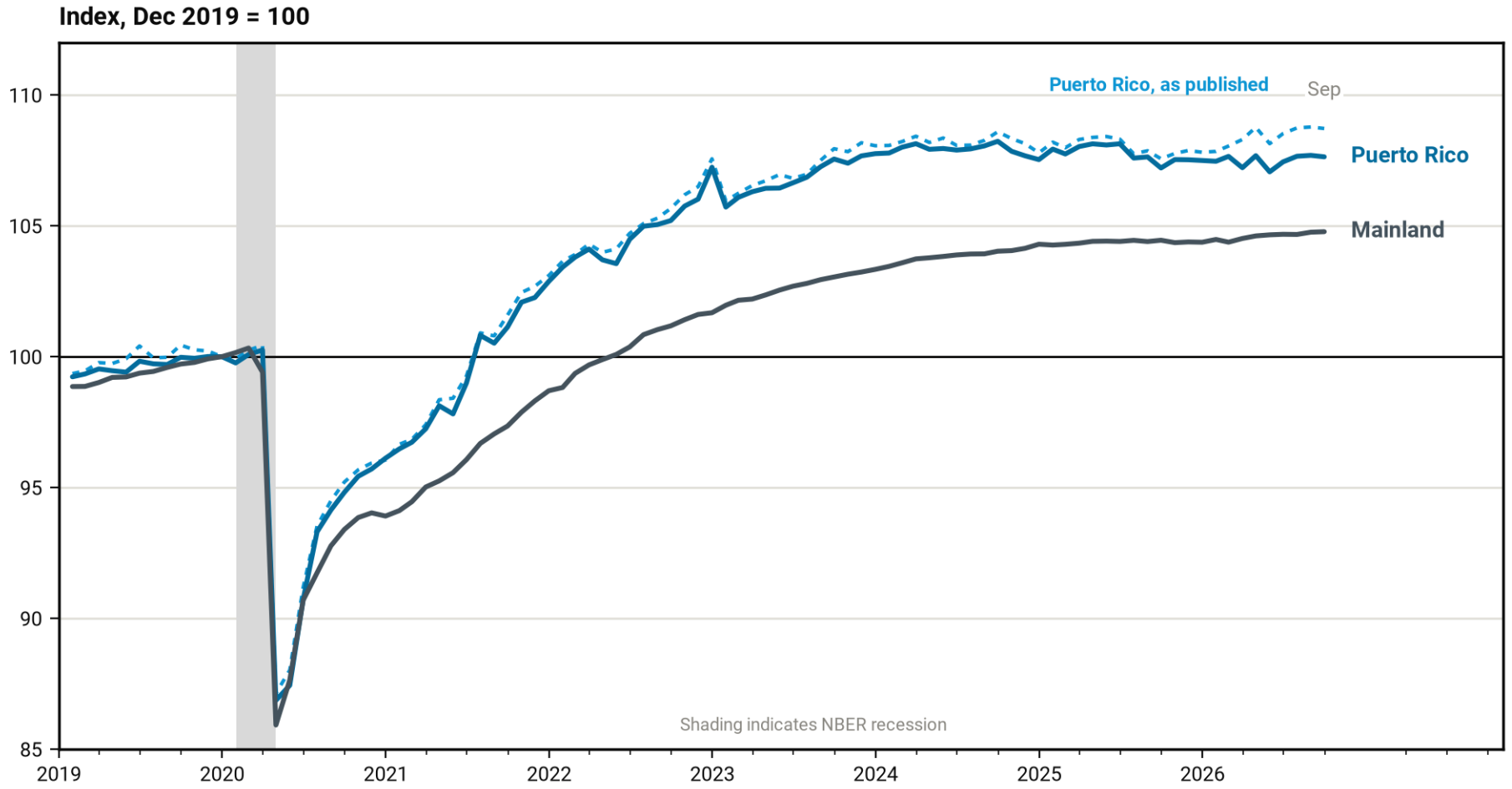
Manufacturing Has Stabilized





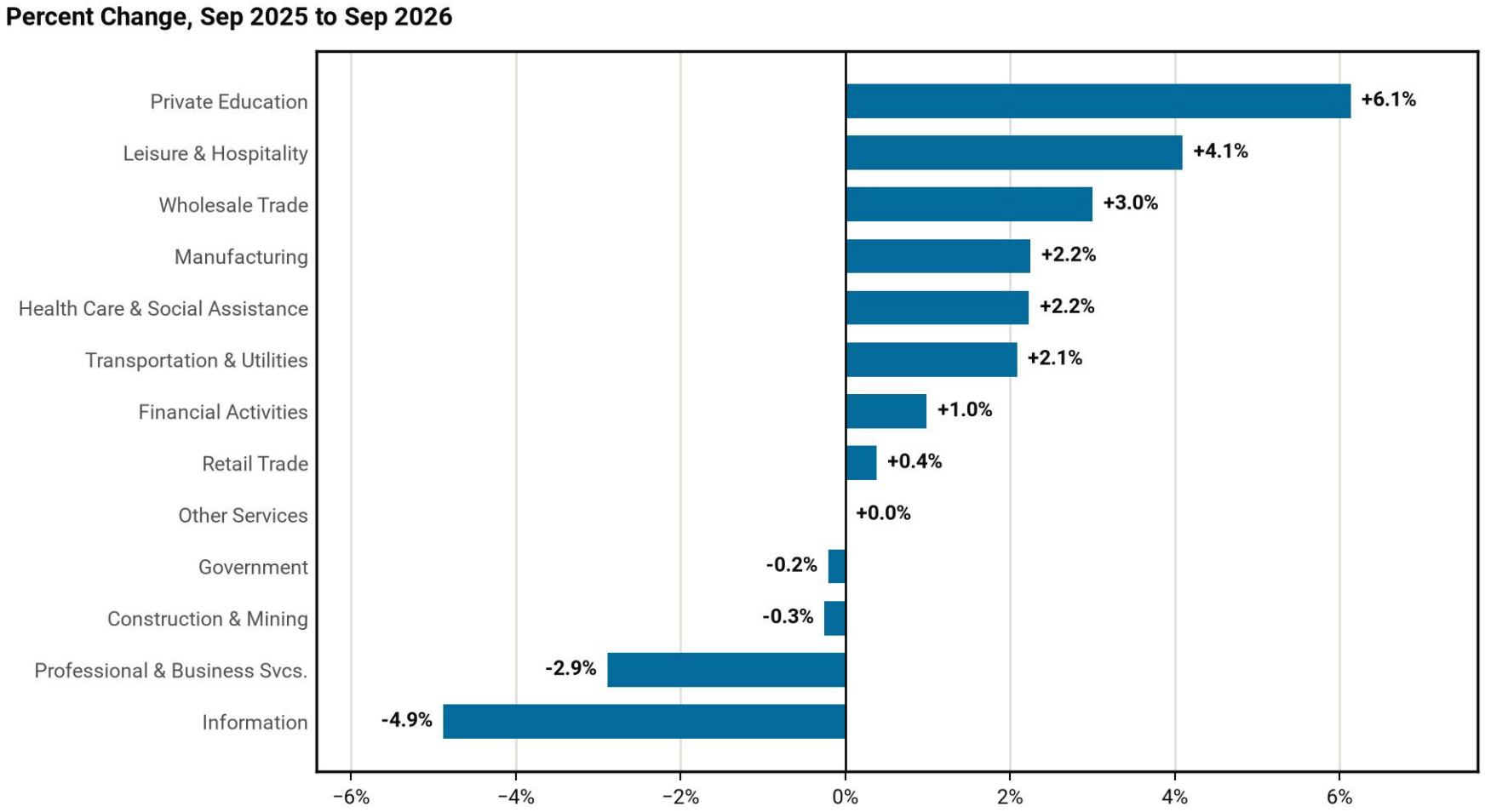
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics, via Haver Analytics (jobs, seasonally adjusted); Puerto Rico Manufacturing Purchasing Managers' Index (PRM-PMI), via the Puerto Rico Institute of Statistics. Section 936 tax credits were phased out from 1996 through 2005.

Job Growth Has Stalled Over the Past Year



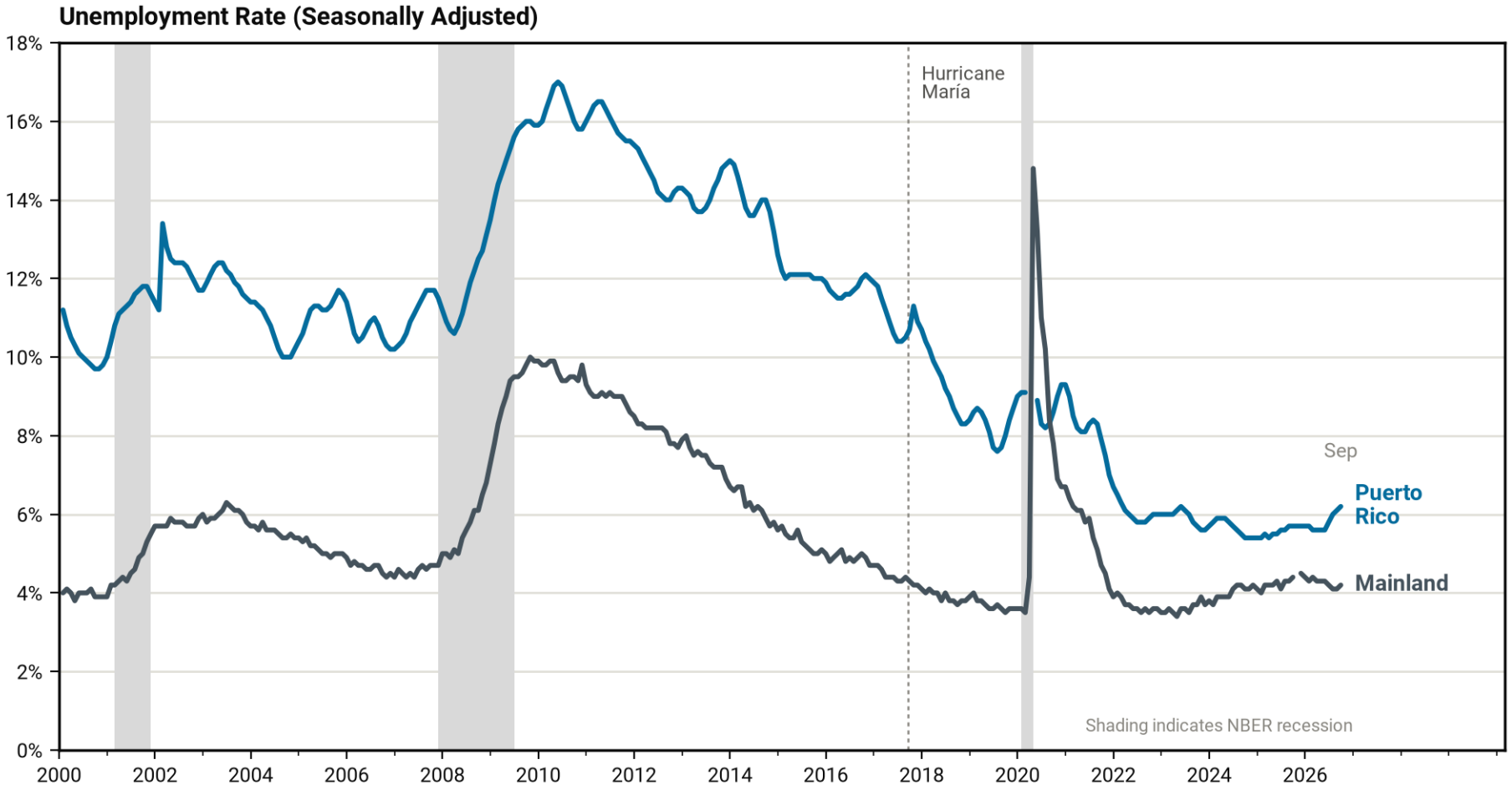
Source: U.S. Bureau of Labor Statistics and Moody's Economy.com via Haver Analytics. Puerto Rico data early benchmarked by NY Fed; dotted line is the BLS payroll survey as published. Mainland is the national payroll survey (50 states and DC). Seasonally adjusted.

Job Gains Led by Education, Tourism, and Wholesale Trade



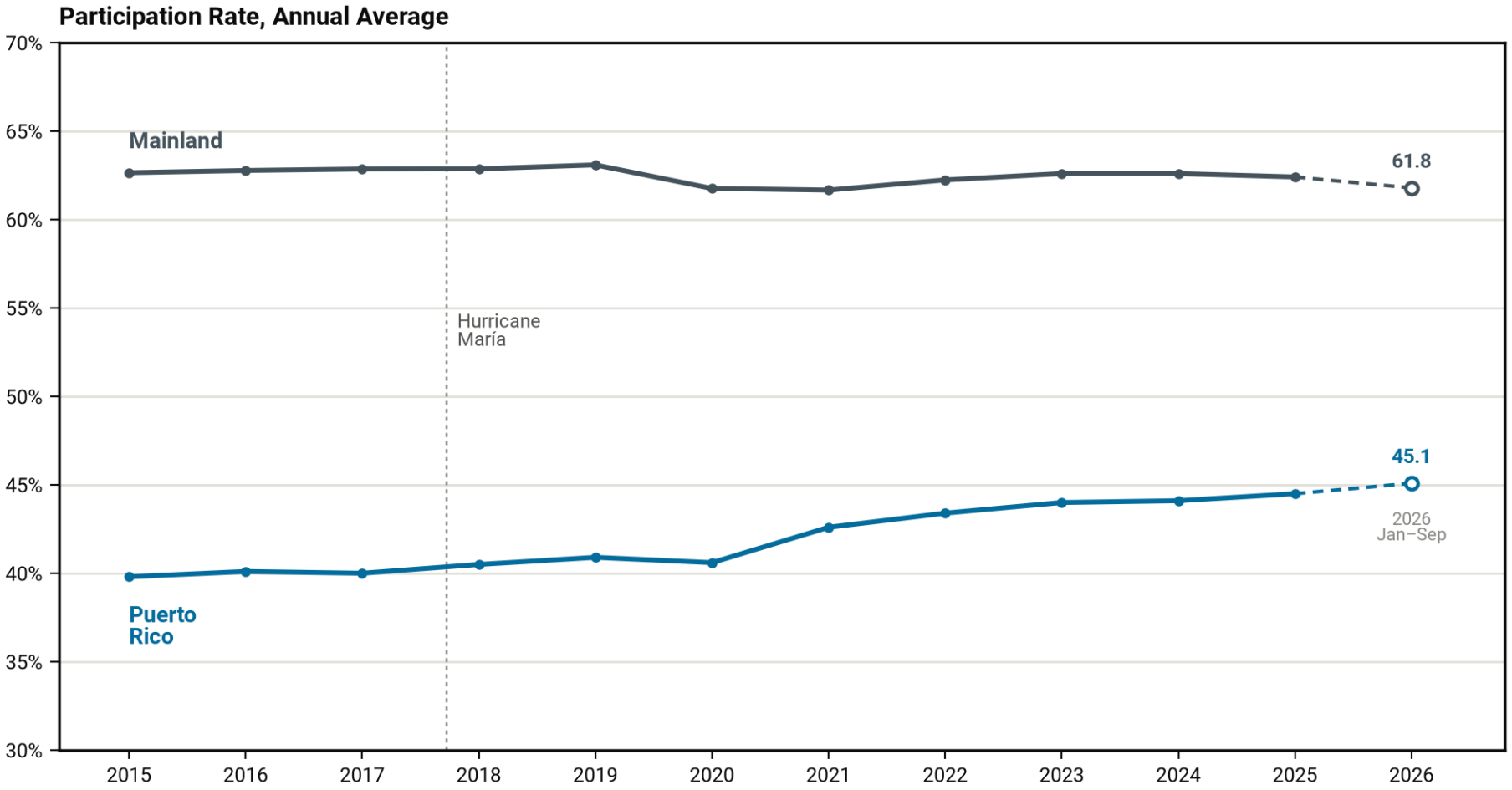
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics, via Haver Analytics. Not seasonally adjusted. Published survey data, not early benchmarked.

Unemployment Is Near Record Lows but Up This Year



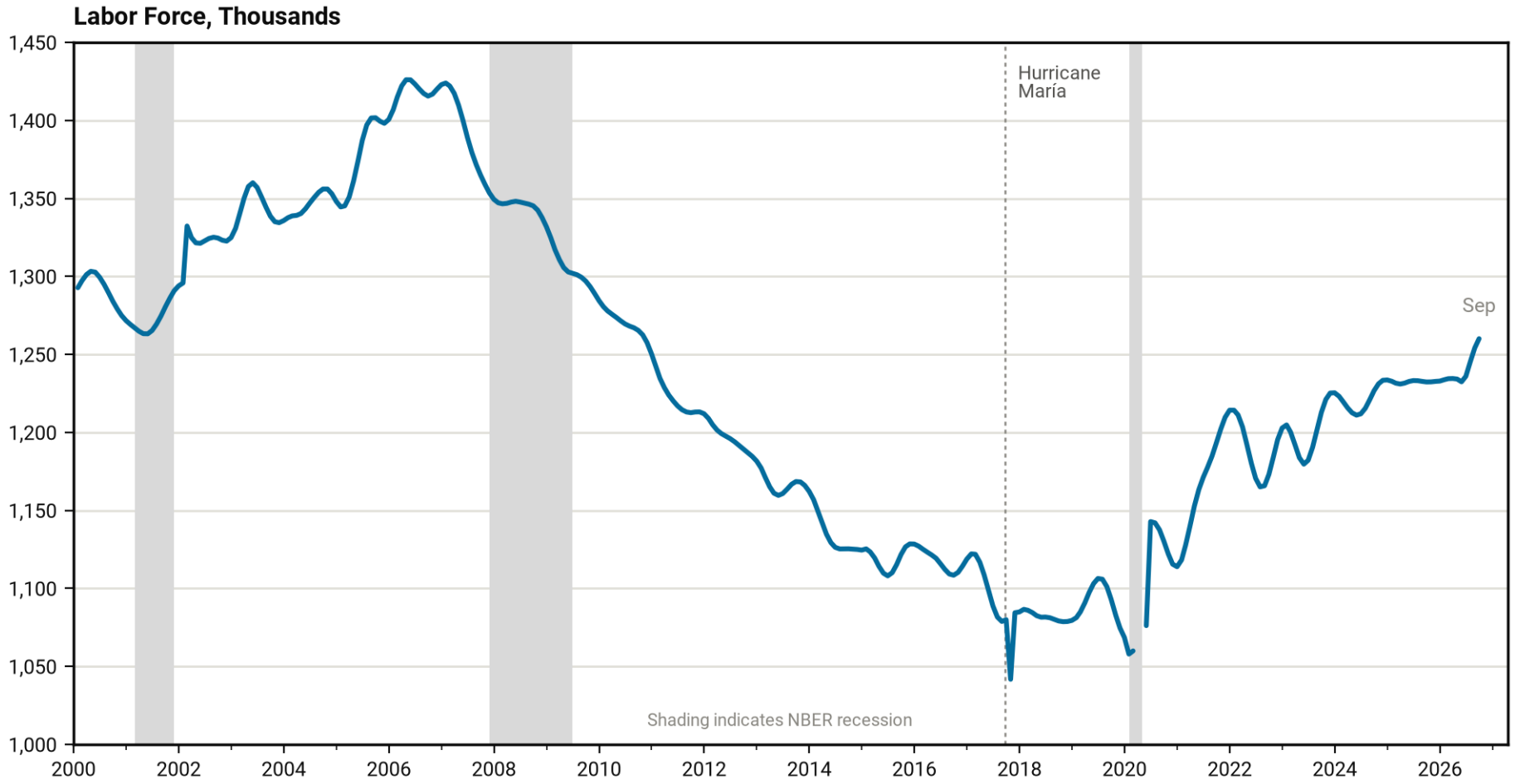
Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (Puerto Rico) and Current Population Survey (mainland), via Haver Analytics. No Puerto Rico estimates for March–April 2020; no mainland estimate for October 2025 (federal government shutdown).

Participation Is Rising but Remains Far Below the Mainland's



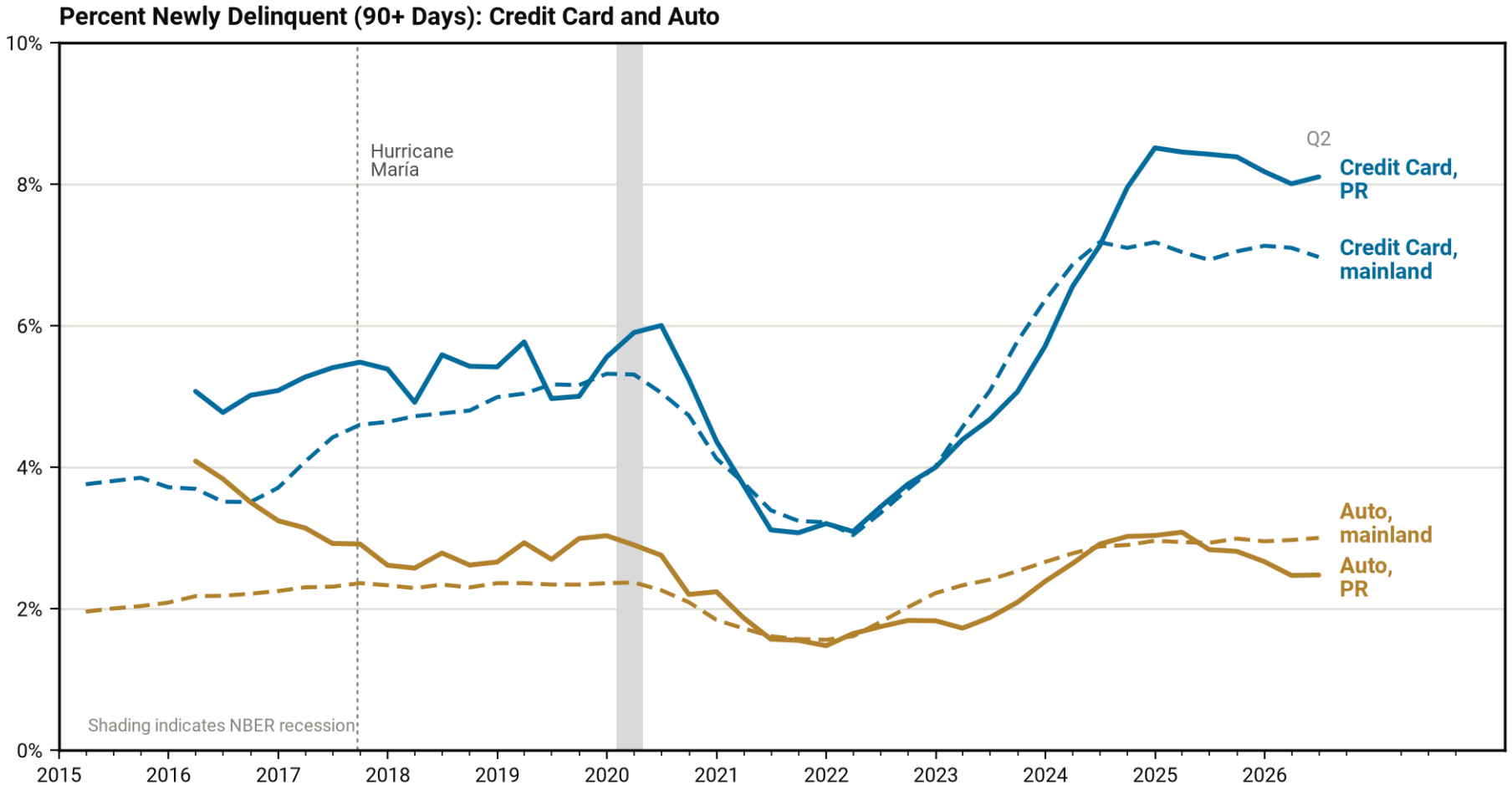
Source: Puerto Rico Department of Labor and Human Resources, Encuesta de Grupo Trabajador; U.S. Bureau of Labor Statistics, Current Population Survey, via FRED. Annual averages, not seasonally adjusted; the latest year is the average of the months so far. Puerto Rico's population controls were revised to the 2020 Census from 2024 on.

The Labor Force Has Rebounded From Its Post-María Low



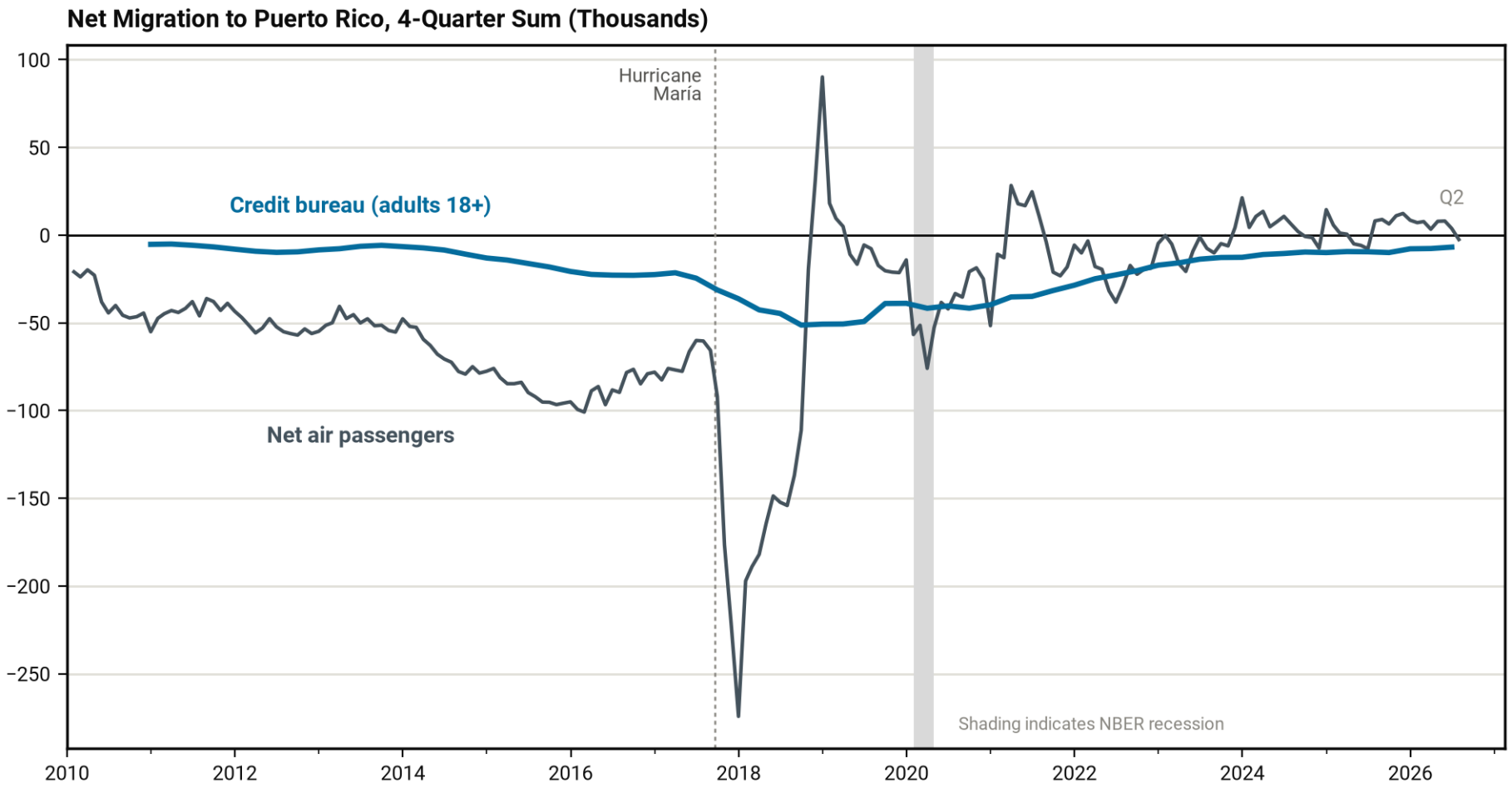
Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, via Haver Analytics. Seasonally adjusted. No estimates were published for March–April 2020.

Card Delinquency Is Elevated; Auto Delinquency Has Improved



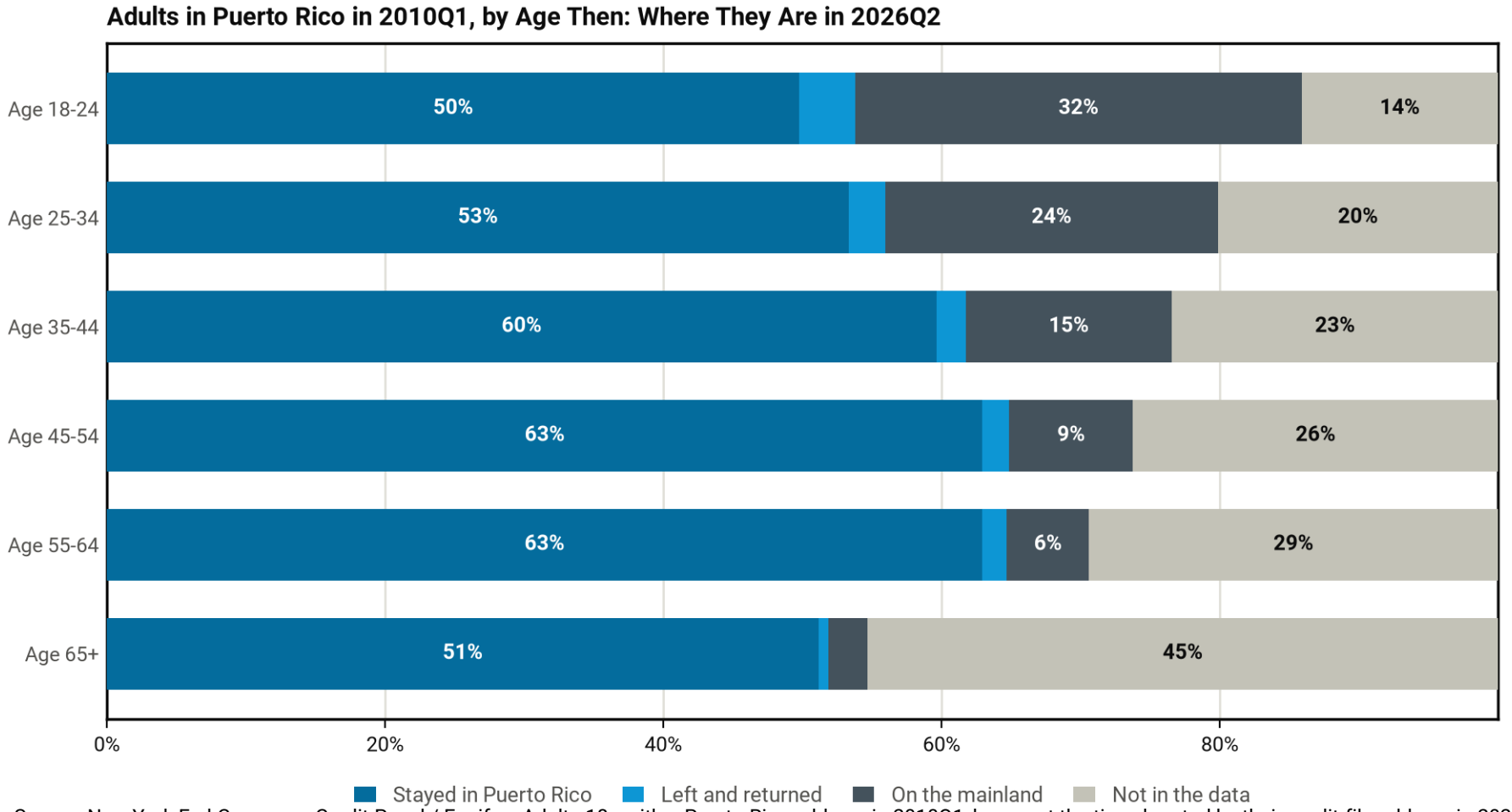
Source: New York Fed Consumer Credit Panel / Equifax. Share of balances that became 90+ days delinquent in the past four quarters (4-quarter moving sum of the quarterly flow).
Mainland = U.S. total.

Net Out-Migration Has Slowed



Source: New York Fed Consumer Credit Panel / Equifax. Adults 18+ whose credit-file address moved between Puerto Rico and the mainland, net, 4-quarter sum. 2024Q3 is interpolated from the adjacent quarters (an address-reporting anomaly that quarter inflated moves in both directions). Net air passengers: U.S. Bureau of Transportation Statistics (T-100 domestic segments), arrivals minus departures, 12-month sum. Mainland = the 50 states and DC.

A Third of Puerto Rico's 2010 Young Adults Now Live on the Mainland U.S.



Source: New York Fed Consumer Credit Panel / Equifax. Adults 18+ with a Puerto Rico address in 2010Q1, by age at the time, located by their credit-file address in 2026Q2. "Not in the data" = deaths and credit files no longer observed. Mainland = the 50 states and DC.

Wrap-Up

- The economy has been flat for about two years, with strength in tourism.
- Households remain resilient, but some stress is emerging.
- A longer-run challenge: out-migration of young adults compounds population decline and erodes economic dynamism.

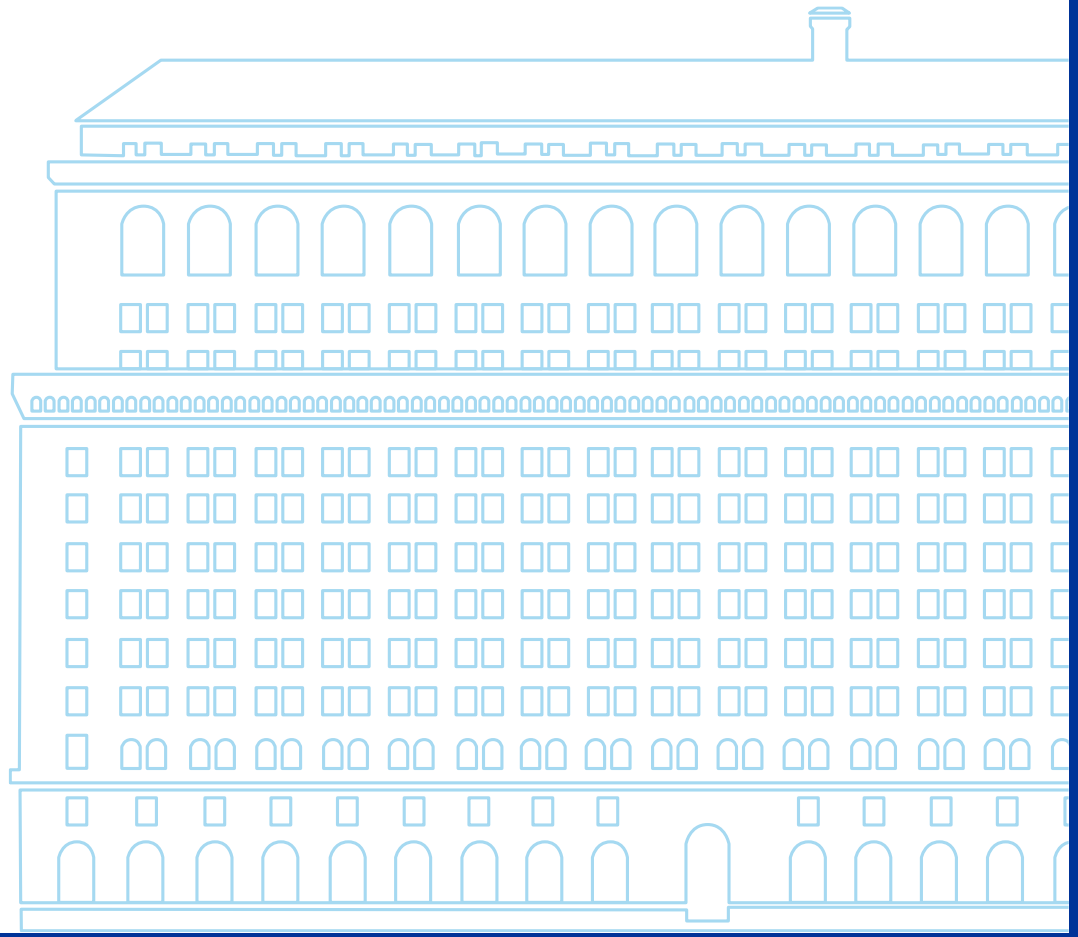
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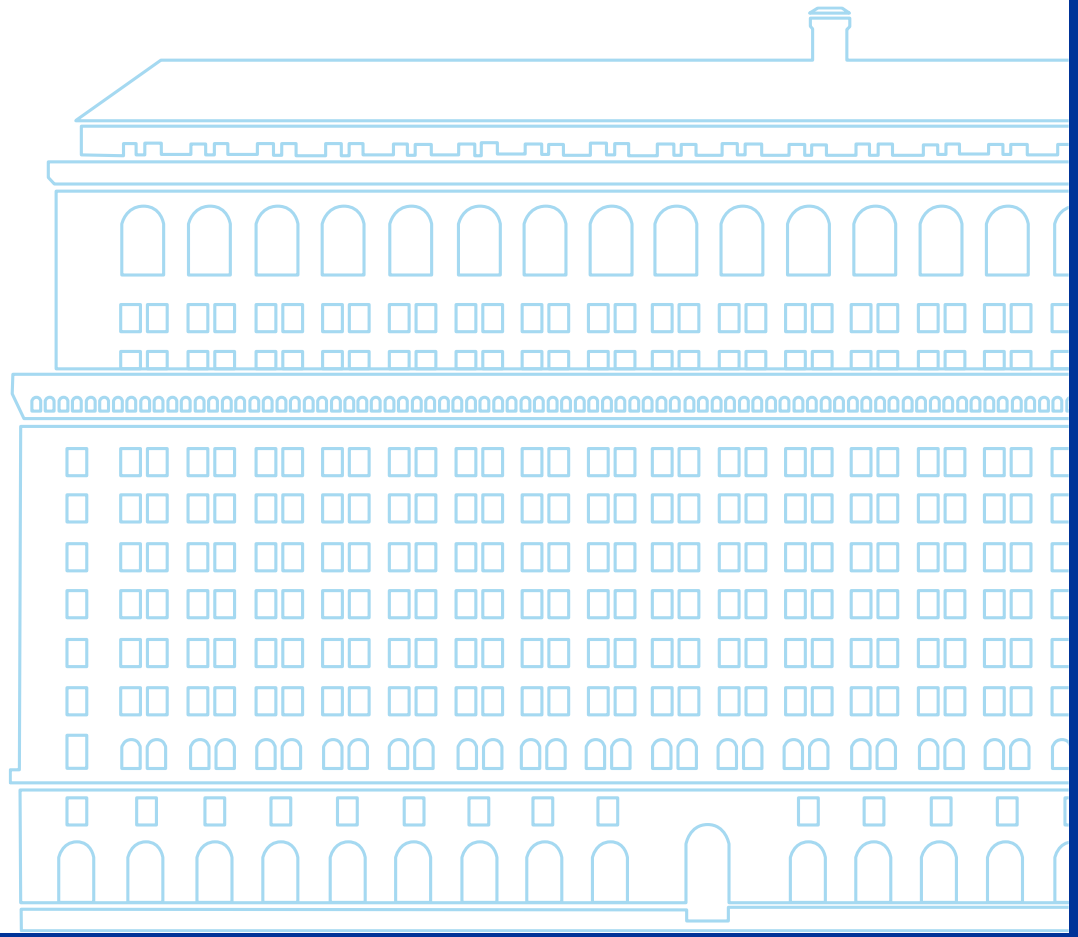
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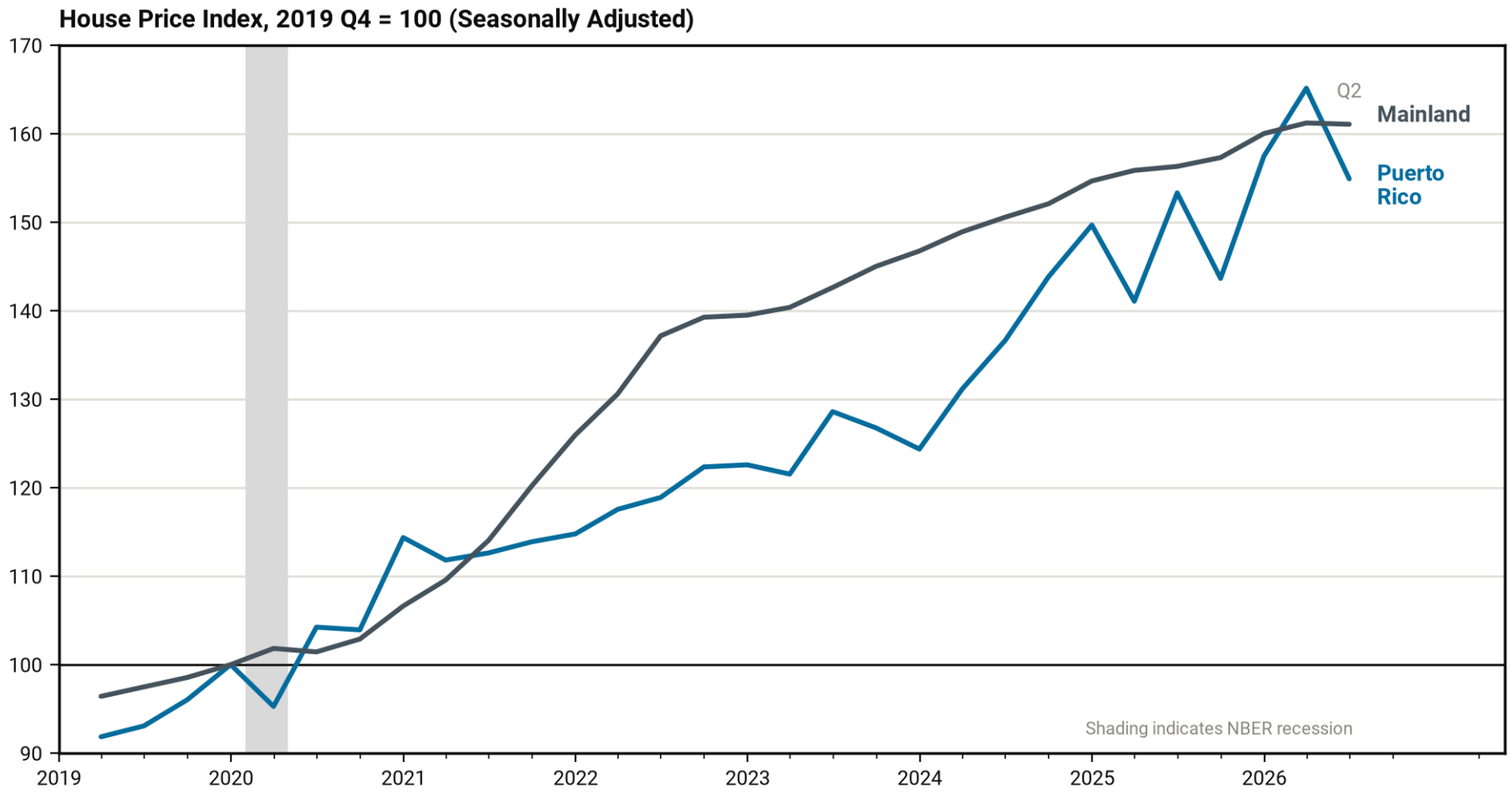
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Appendix



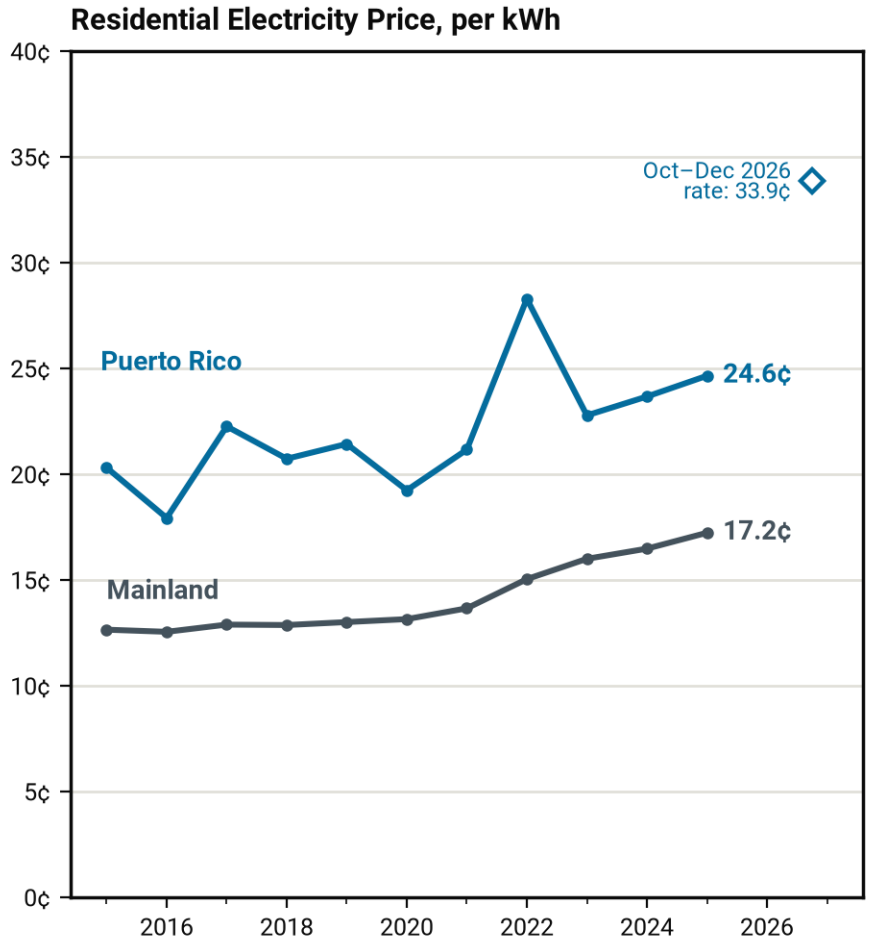
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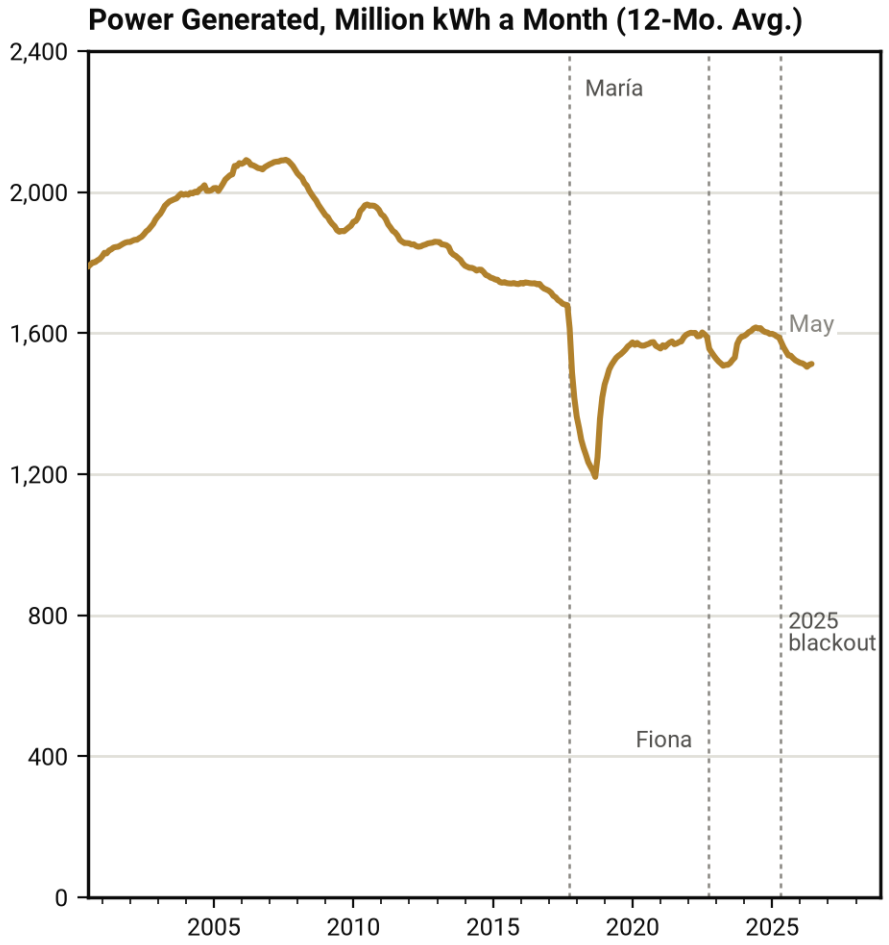
Home Prices Are Up Sharply Since 2019



Source: Federal Housing Finance Agency, all-transactions house price index (seasonally adjusted by Moody's Analytics), via Haver Analytics. Mainland = FHFA U.S. index (50 states and DC). The Puerto Rico index rests on few transactions and is volatile from quarter to quarter.

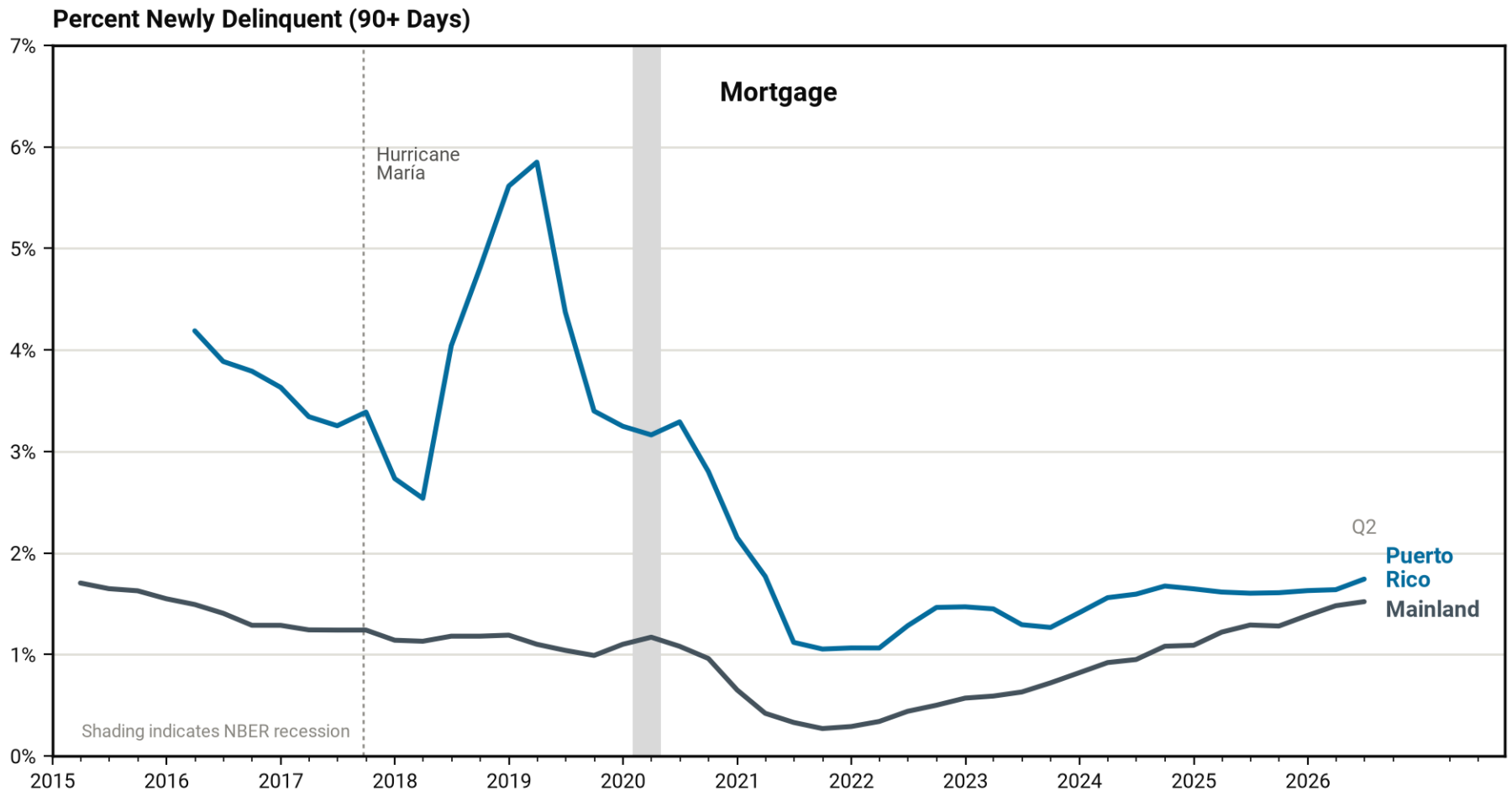
Electricity Costs Far More Than on the Mainland





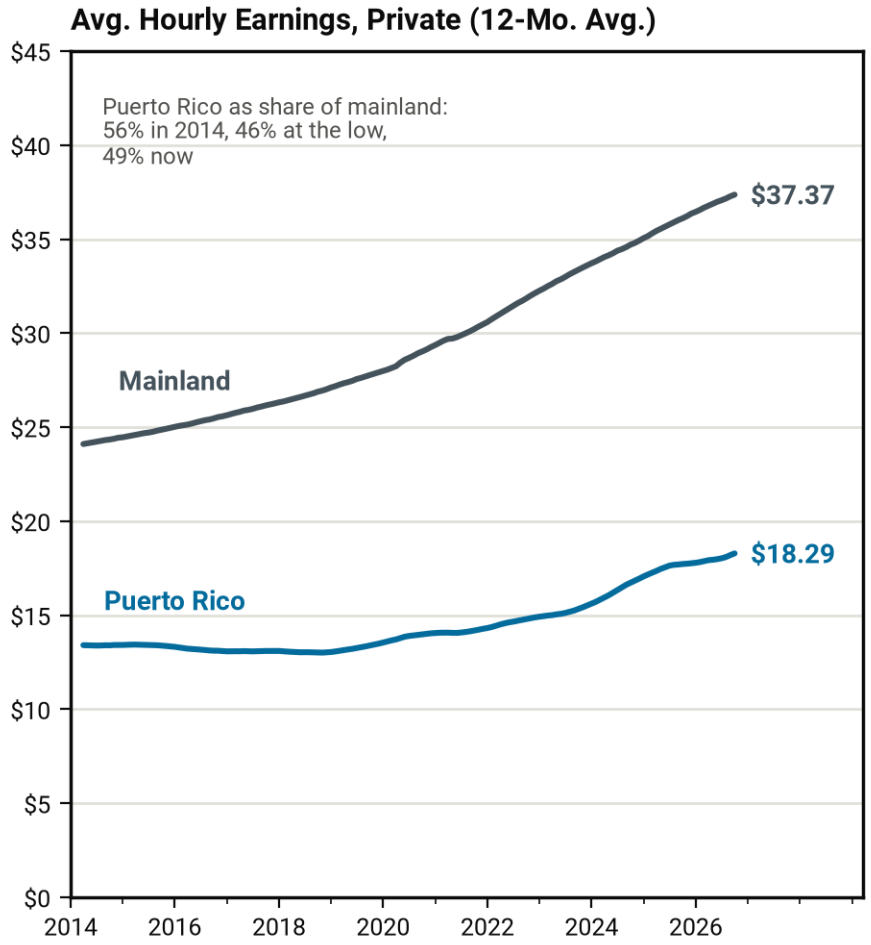
Source: U.S. Energy Information Administration, Electric Power Annual (annual average residential price; mainland = 50 states and DC); Oct–Dec 2026 rate from LUMA Energy and the Puerto Rico Energy Bureau, as reported by the Associated Press; Puerto Rico Planning Board (generation, not seasonally adjusted).

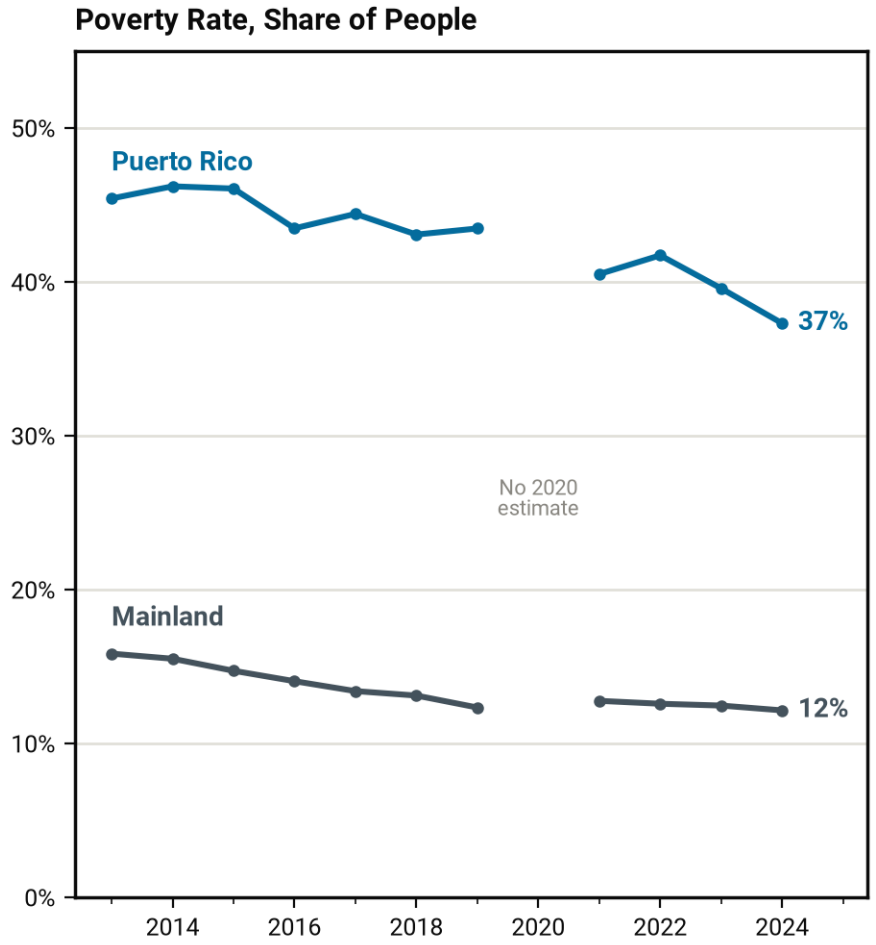
Mortgage Delinquency Has Been Lower



Source: New York Fed Consumer Credit Panel / Equifax. Share of balances that became 90+ days delinquent in the past four quarters (4-quarter moving sum of the quarterly flow).
Mainland = U.S. total.

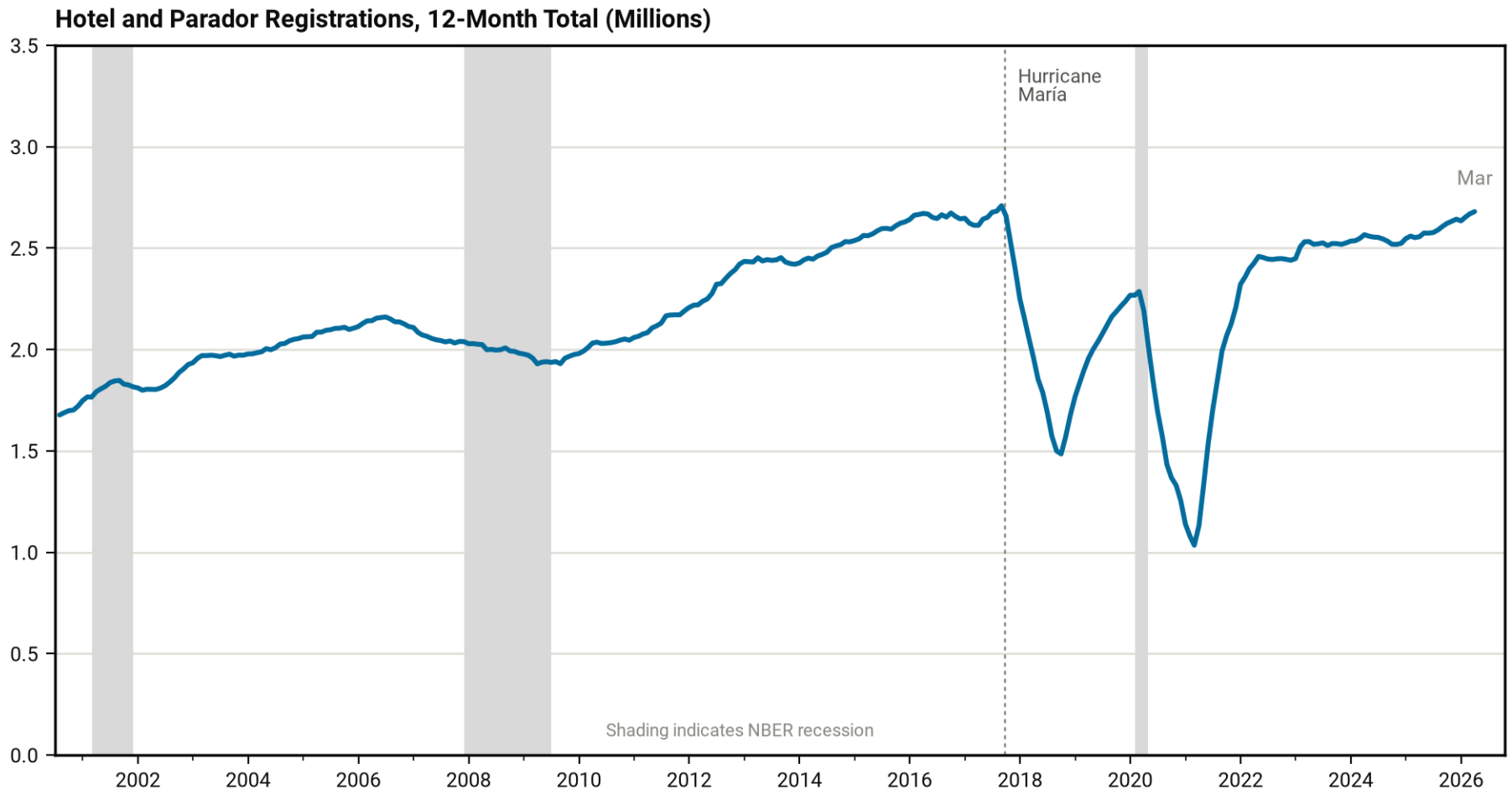
The Share of People in Poverty Has Fallen





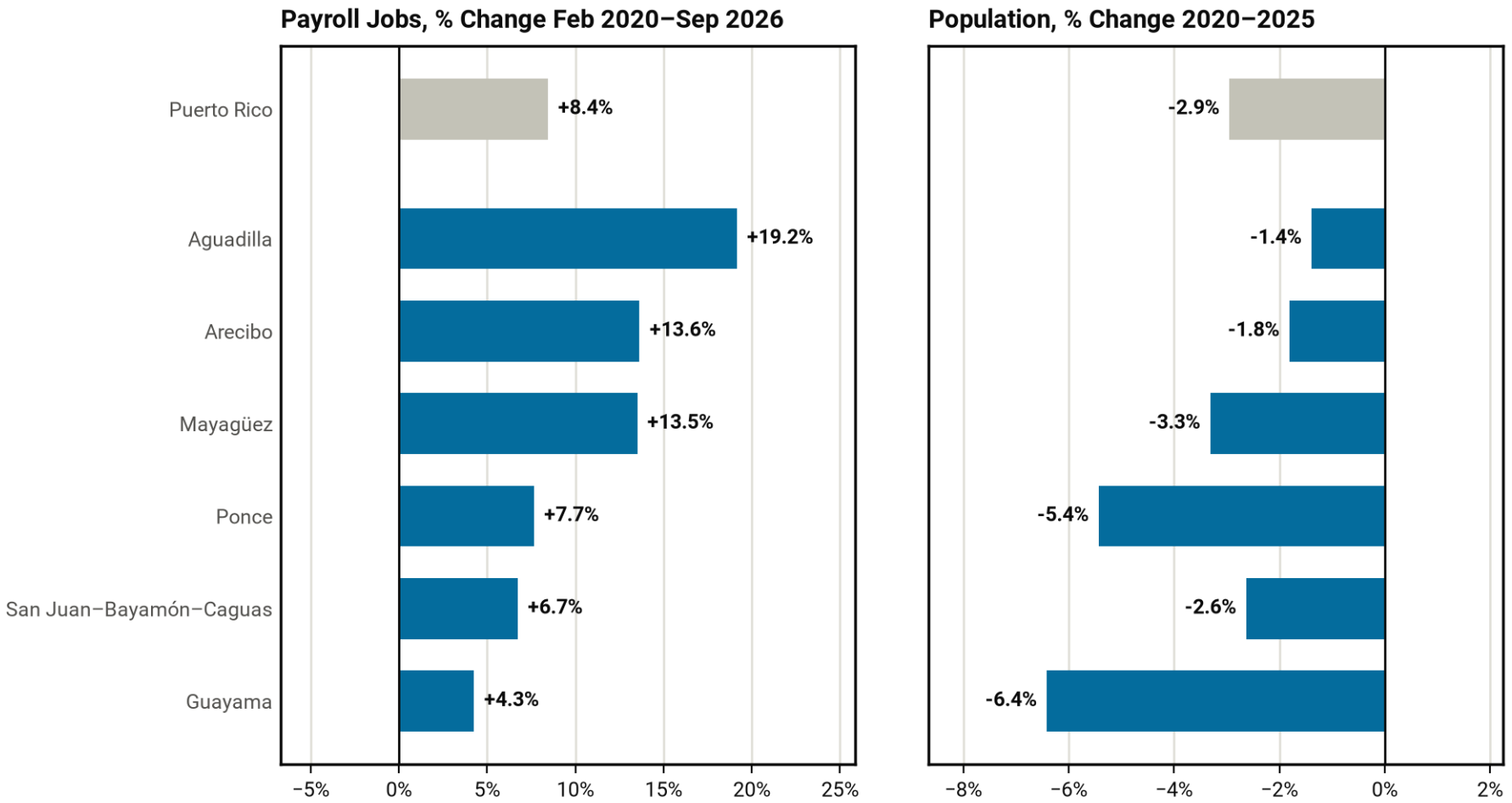
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (average hourly earnings, all private employees, not seasonally adjusted), via FRED; U.S. Census Bureau, American Community Survey and Puerto Rico Community Survey, 1-year estimates (none released for 2020). Mainland = the 50 states and DC.

Hotel Stays Are Back Near Their Pre-María Peak



Source: Puerto Rico Tourism Company, via the Puerto Rico Planning Board. Guest registrations at hotels and paradores, not seasonally adjusted.

Job Growth Has Been Strongest Outside San Juan



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (seasonally adjusted); U.S. Census Bureau population estimates, July 1, with Moody's Analytics metro estimates; via Haver Analytics. Published survey data, not early benchmarked. Metro areas don't cover every municipio.

Economic Forecast Symposium

November 4, 2026 | San Juan, PR

2027 ECONOMIC FORECAST SYMPOSIUM

Fragile Growth

The Economic Outlook for the U.S. and Puerto Rico · November 2026



Gustavo Rojas-Matute
Assistant Director
Moody's Analytics

Financial Oversight & Management Board for Puerto Rico

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Fragile Growth

The Economic Outlook for the U.S. and Puerto Rico

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Gustavo Rojas Matute, Economist

November 2026

De-Globalization Headwinds Battle Artificial Intelligence Tailwinds

Decomposing the change in U.S. real GDP growth, 4th qtr to 4th qtr, ppt

	2025	2026	2027
Real GDP growth, %	2.05	2.23	1.98
Change in Real GDP growth	*-0.35*	*0.18*	*-0.25*
De-Globalization	-0.92	-0.94	-0.50
Iran War	0.00	-0.38	-0.11
Tariffs & Trade Restrictions	-0.57	-0.22	-0.11
Restrictive Immigration Policy	-0.35	-0.34	-0.28
Artificial Intelligence	0.52	0.71	0.60
Capital Investment	0.18	0.34	0.35
Stock Wealth Effects	0.34	0.37	0.25
Economic Policy	0.05	0.41	-0.35
Monetary Policy	0.15	-0.05	-0.29
Fiscal Policy	-0.10	0.46	-0.06

-0.94 ppt
Drag from de-globalization in 2026: the Iran war, tariffs and immigration curbs

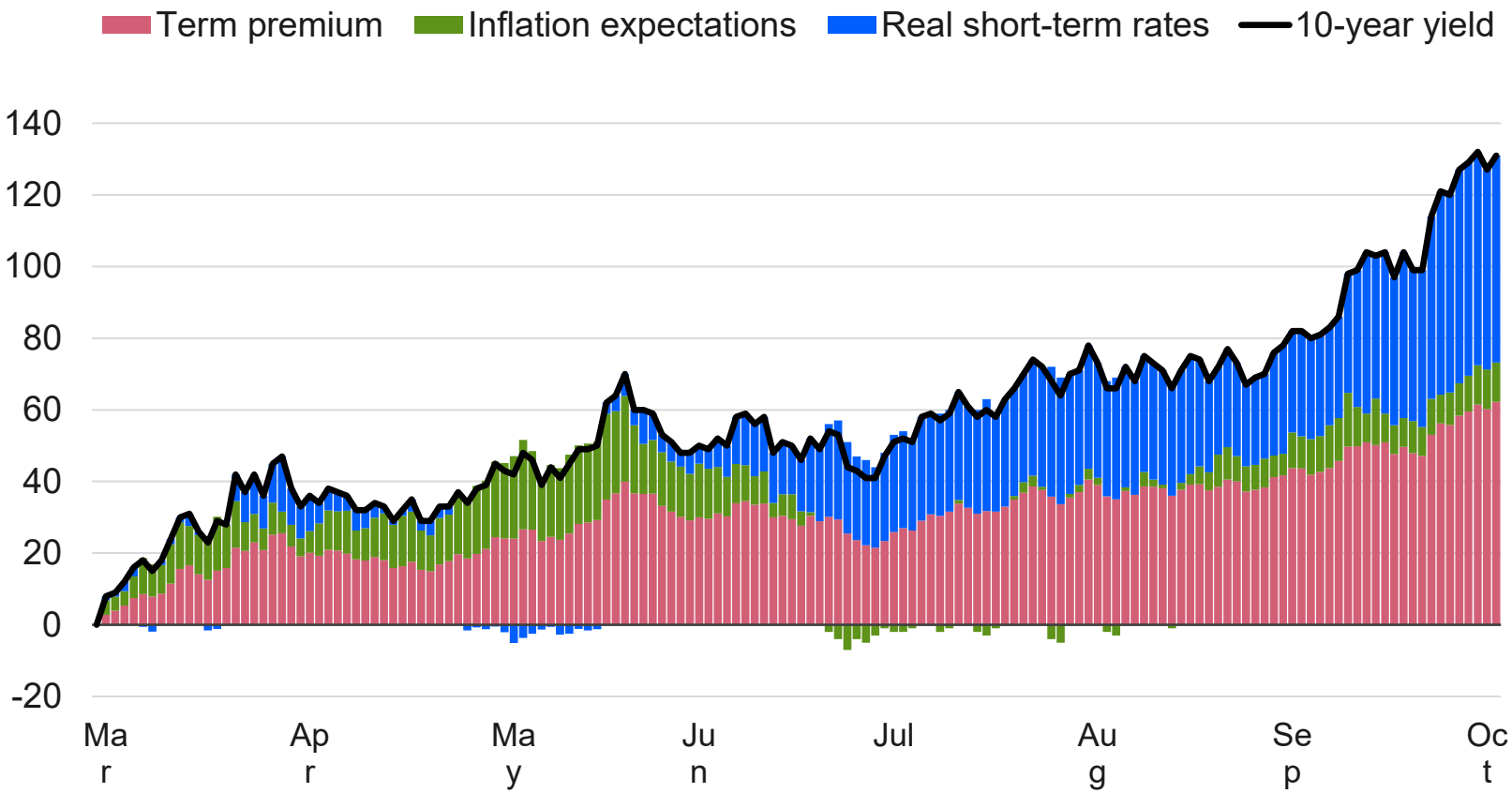
+0.71 ppt
Boost to growth this year from AI investment and AI-fueled stock wealth

+0.46 ppt
Boost from fiscal policy, mostly tax cuts, which fades next year

Note: October 2026 baseline forecast.
Sources: BEA, Moody's Analytics

The Iran War is the Proximate Cause For the Higher Interest Rates

Change in the 10-year Treasury yield since the war began, basis points



5.2%
10-year Treasury yield, near its highest since 2002

$100+
Brent crude per barrel, up from about $70 before the war

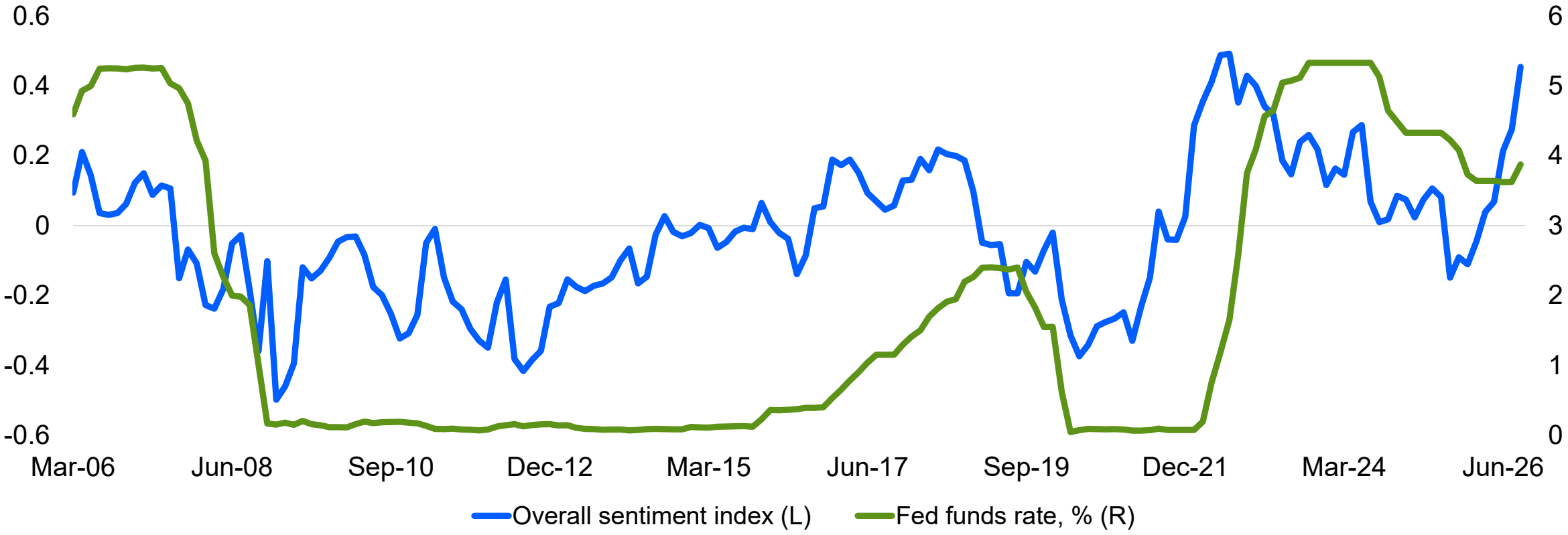
7.4%
30-year fixed mortgage rate, up from 6.7% in August

3.75%–4%
Fed funds target after September's hike, the first since 2023

Note: Decomposition through Oct. 2, 2026; 10-year yield, Brent and mortgage rate as of Oct. 8.
Sources: Federal Reserve, U.S. Treasury, Freddie Mac, ICE, Moody's Analytics

Fed Signals a More Hawkish Stance

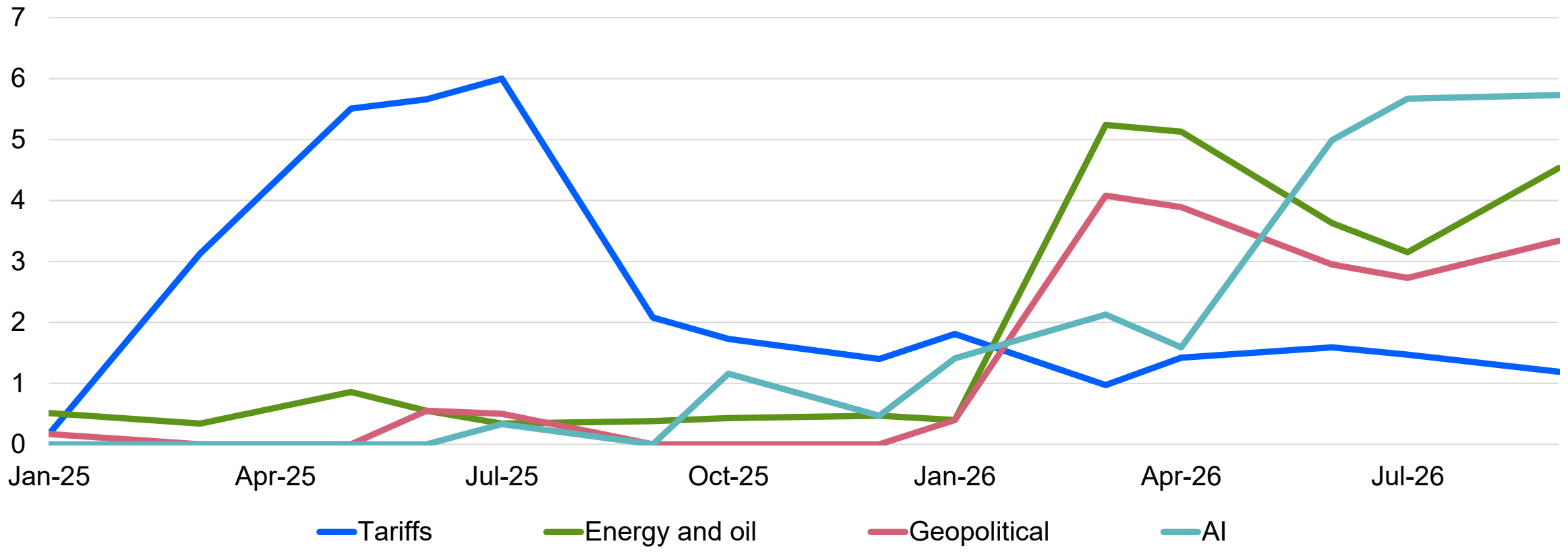
Central bank sentiment index (L) / Fed funds rate, % (R)



Sources: Federal Reserve, Moody's Analytics

Fed Explanations Shift From Tariffs to Energy and AI

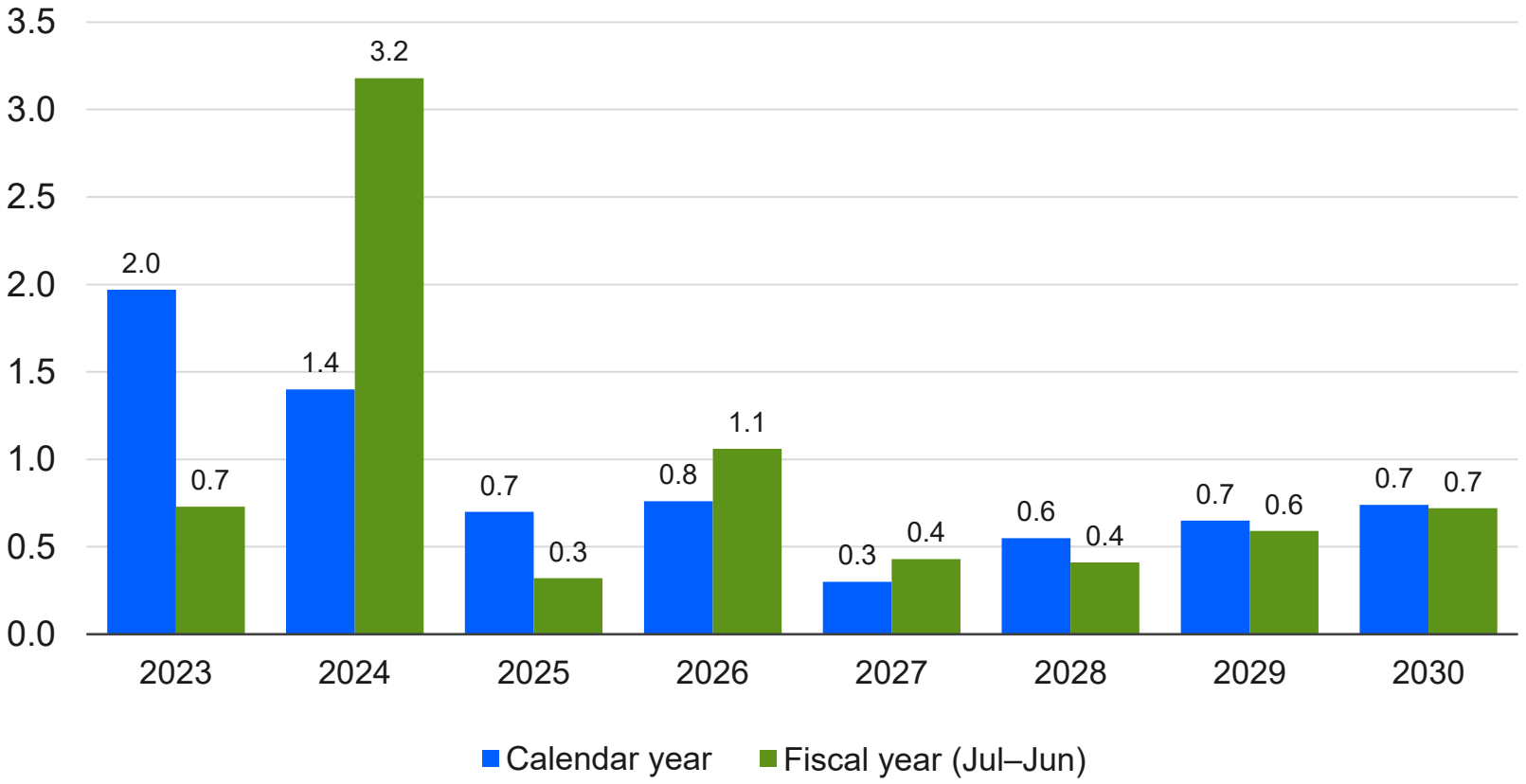
Mentions in FOMC minutes, per 1,000 words



Sources: Federal Reserve, Moody's Analytics

Growth Stays Around or Below 1% Through 2030, Calendar or Fiscal Year

Puerto Rico real GDP, % change yr ago, calendar year vs. fiscal year (July–June)



Real GDP growth, October baseline

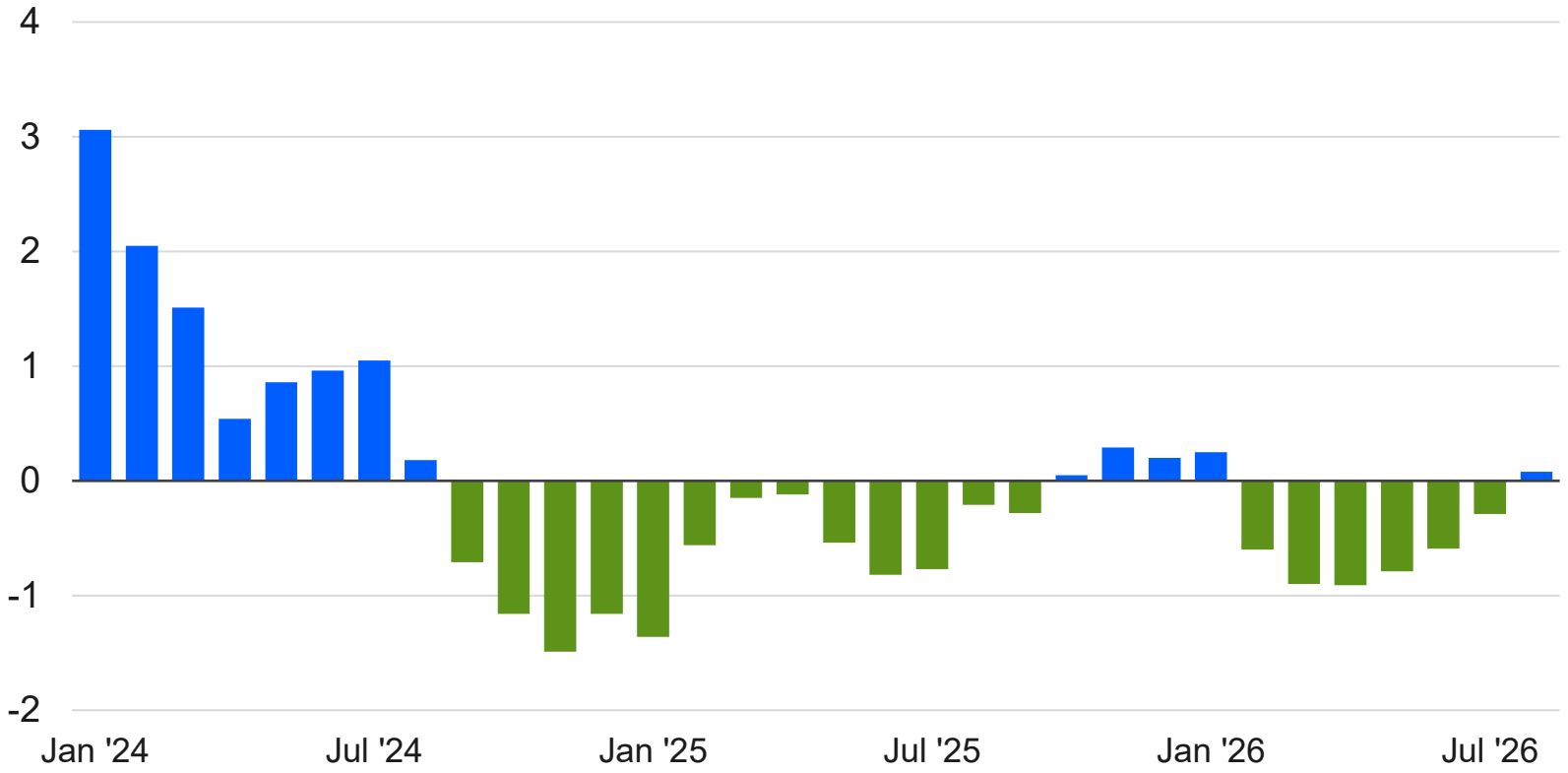
	CY	FY
2026	**+0.8%**	**+1.1%**
2027	**+0.3%**	**+0.4%**
2030	**+0.7%**	**+0.7%**

Note: Moody's Analytics October 2026 baseline; data through 2025Q2, forecast thereafter. CY = calendar year; FY = fiscal year, July–June (FY2026 = Jul 2025–Jun 2026). Annual growth is the change in the 4-quarter average; headline growth on other slides is Q4 to Q4.

Sources: Puerto Rico Planning Board, Moody's Analytics

Puerto Rico's Economy Goes Sideways…

Economic activity index, % change yr ago (August 2026: +0.1%)



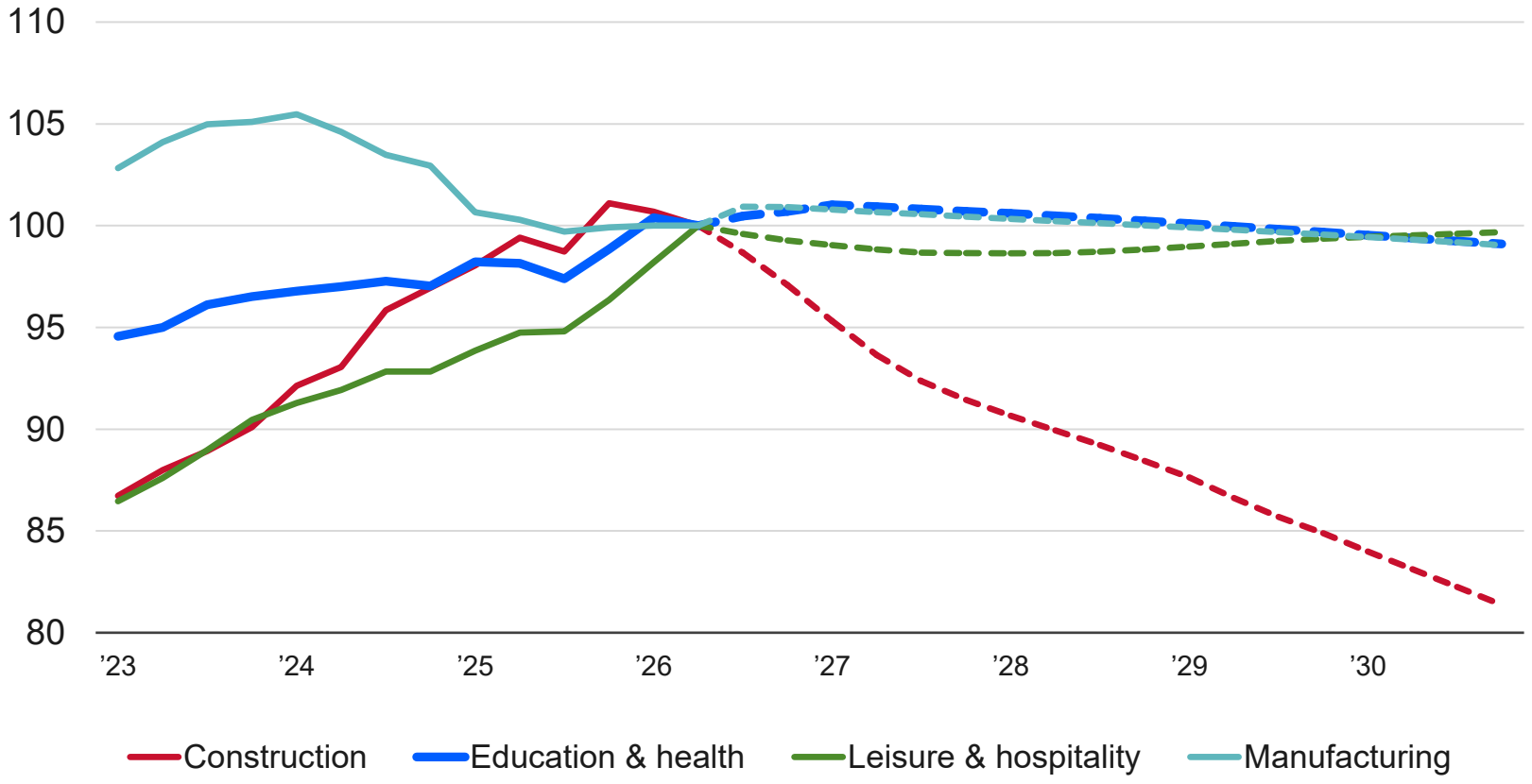
Moody's Analytics baseline forecast

	2026	2027
Real GDP growth	**+0.8%**	**+0.3%**
Unemployment rate	**5.9%**	**6.2%**

Note: Forecasts are the Moody's Analytics October 2026 baseline; growth is Q4 to Q4, and the unemployment rate is the Q4 average.
Sources: Economic Development Bank for Puerto Rico, PR Department of Economic Development and Commerce, BLS, Moody's Analytics

Construction Keeps Shedding Jobs While Other Key Sectors Plateau

Puerto Rico nonfarm payroll employment by industry, SA, index 2026Q2 = 100



Jobs, 2026Q2 to 2030Q4

	Ths	%
Construction	-7.3	-18.6%
Education / health	-1.2	-0.9%
Leisure / hospitality	-0.3	-0.3%
Manufacturing	-0.8	-1.0%

Note: Moody's Analytics October 2026 baseline; actuals through 2026Q2, forecast (dashed) thereafter.
Sources: BLS, Puerto Rico Department of Labor and Human Resources, Moody's Analytics

…as Oil and Interest Rates Offset Solid Tourism and Pharma Investment

Headwinds outweigh tailwinds: real GDP grows just 0.5% this year and 0.4% in 2027



Tailwinds

Tourism

+9% rooms sold in Q2, a record

Cruise passengers up 39% in H1; leisure and hospitality jobs up 4.8%; air traffic down 3.5%

Pharma and medical devices

$2B+ in new plant investment since 2025

Led by Lilly ($1.2 billion) and Amgen (nearly $1 billion); manufacturing jobs up 1.4%



Headwinds

Oil prices

33.9¢ per kWh, a record power rate as of Oct. 1

A household using 800 kWh a month pays 18% more; petroleum supplies 63% of the island's energy

Interest rates

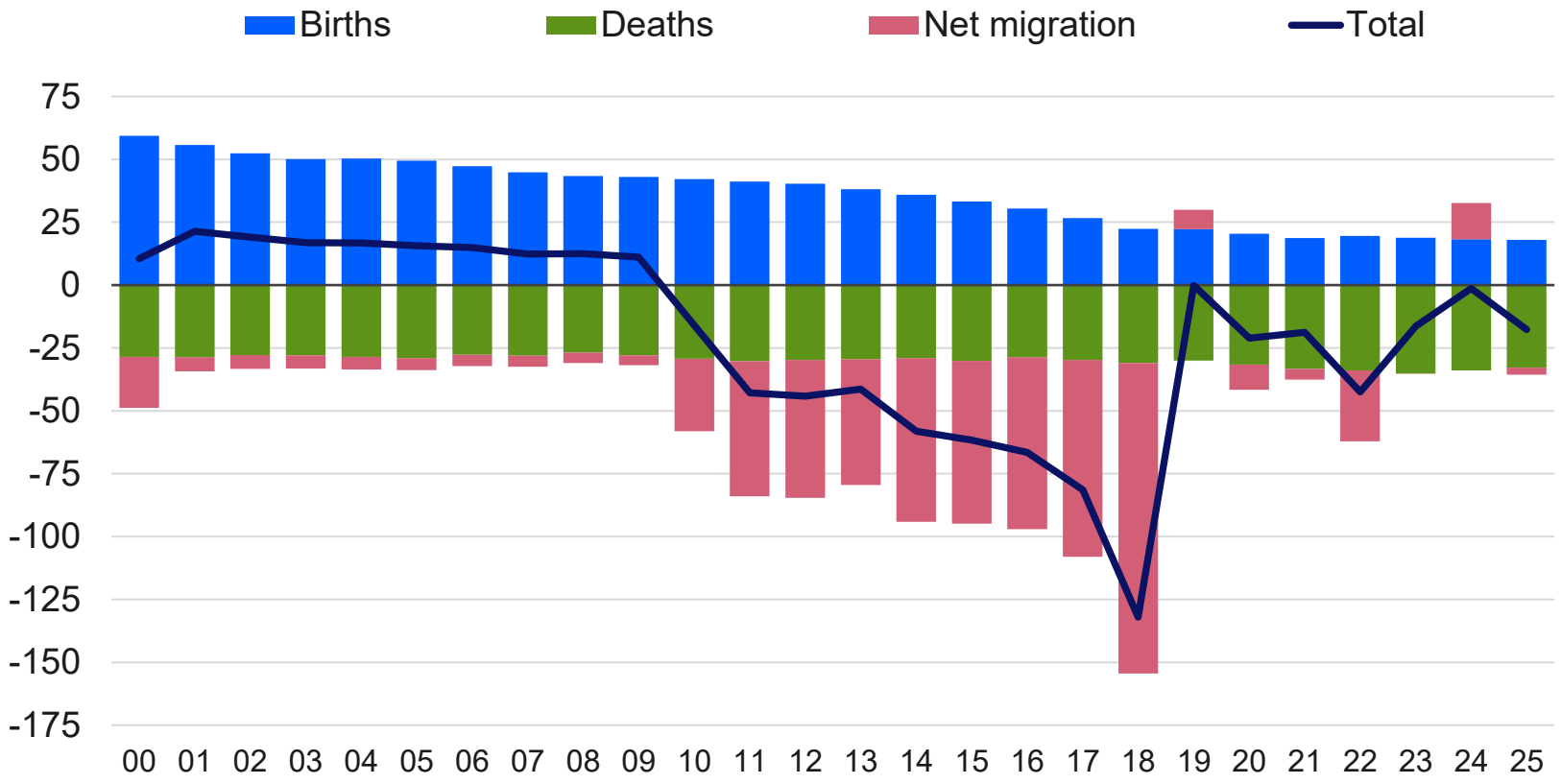
7.4% U.S. 30-year fixed mortgage rate

Up from 6.7% in August; auto loan, credit card and business borrowing costs are rising too

Note: Rooms sold are occupied rooms in hotels and paradores, Q2 2026 vs. Q2 2025; cruise passengers are H1 (Jan–Jun) 2026 vs. 2025; air traffic is SJU in Q2. Sources: Puerto Rico Energy Bureau, Freddie Mac, PR Department of Economic Development and Commerce, Puerto Rico Tourism Co., Puerto Rico Ports Authority, BLS, company reports, Moody's Analytics

The Island Struggles with Tough Demographics

Puerto Rico, contribution to population growth, 12 mo ending Jun 30, ths



-18K
Population change in the year to June 2025, vs. -132K in 2018

-3K
Net migration, after an exodus of 123K following Hurricane Maria

-15K
Natural decrease: deaths now outnumber births almost 2 to 1

Sources: Census Bureau, Moody's Analytics

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Thank you!

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November 4, 2026 | San Juan, PR

2027 ECONOMIC FORECAST SYMPOSIUM

Industrial and Fiscal Policy for Puerto Rico's Economic Development

Proposals to Foster Growth and Increase Tax Revenues · Department of Economics · November 4, 2026



Indira Luciano Montalvo
Associate Professor of Economics
University of Puerto Rico

Financial Oversight & Management Board for Puerto Rico

Industrial and Fiscal Policy for Puerto Rico's Economic Development: Proposals to Foster Growth and Increase Tax Revenues

Indira Luciano Montalvo, PhD

Department of Economics
University of Puerto Rico

Economic Forecast Symposium

November 4, 2026

Industrial policy should begin with development goals

Development goals

Growth • productive transformation • fiscal capacity

↓

Industry characterization

Productive linkages • local integration • strategic roles

↓

Industry selection

Prioritize sectors based on policy objectives

↓

Policy instruments

Tax and non-tax measures, evaluated against alternatives

A Framework for Industry Characterization

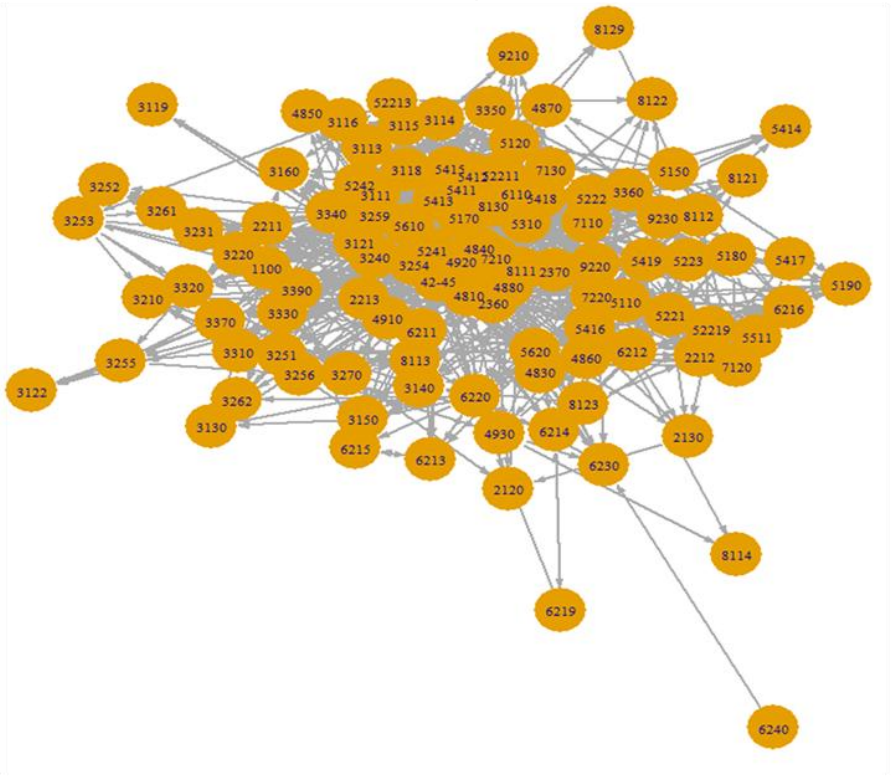
Aligning industry selection with economic development objectives

Industrial Policy Should Target Sectors That…	Input–Output and Network Analysis Indicators
Belong to the productive core	Core membership
Belong to an industrial community	Community detection; assortativity
Maintain significant demand-side linkages	Input-output linkages
Can stimulate other industries	Pulling effects
Can transmit economic impulses	Induction effects; network connections
Are integrated with local production	Locally produced input coefficients
Offer opportunities for import substitution	Imported input and final demand coefficients
Have export potential	Export capacity

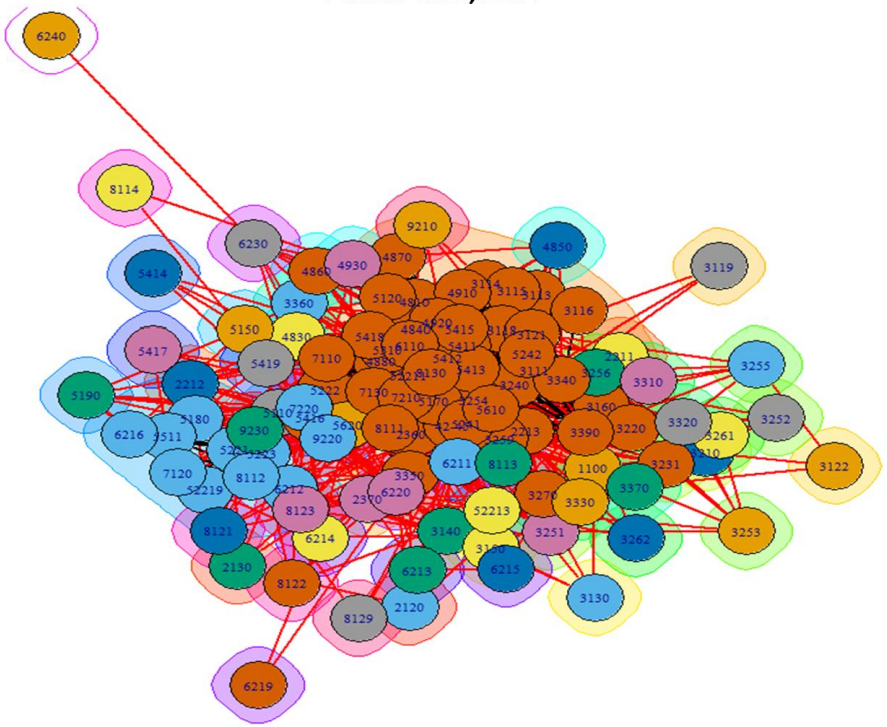
These are characterization criteria, not requirements every industry must meet. Their relevance depends on the economic development objectives being pursued.

Visualizing Puerto Rico's Productive Structure Through Network Analysis

Graph 3
Local Production Matrix Digraph
Puerto Rico, 2007



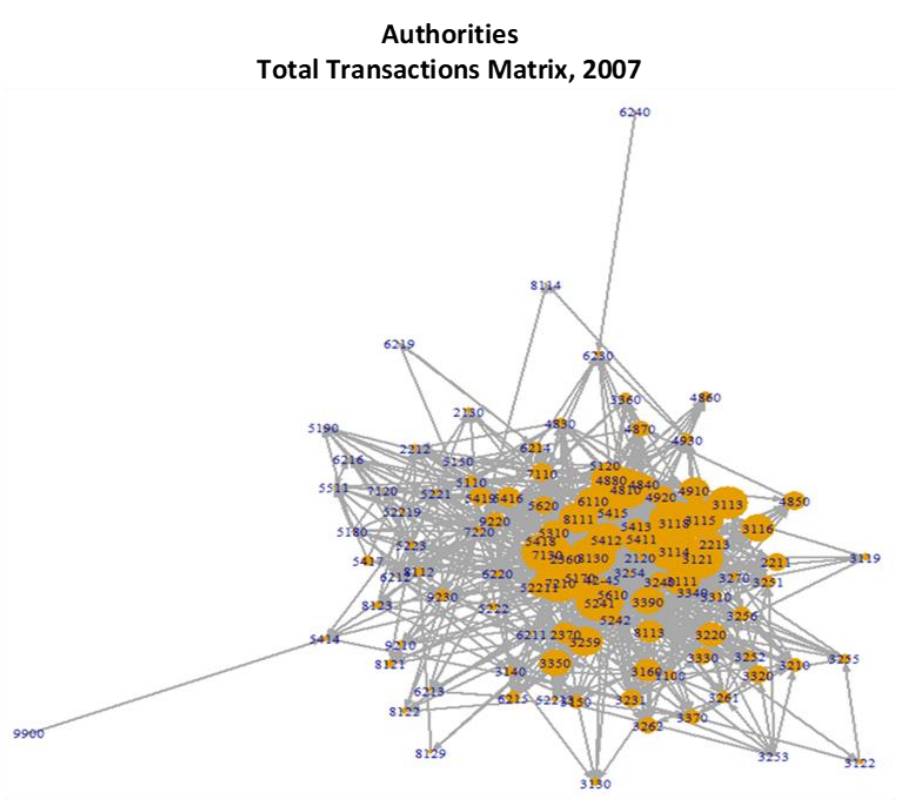
Assortativity
Local Production Matrix
Puerto Rico, 2007

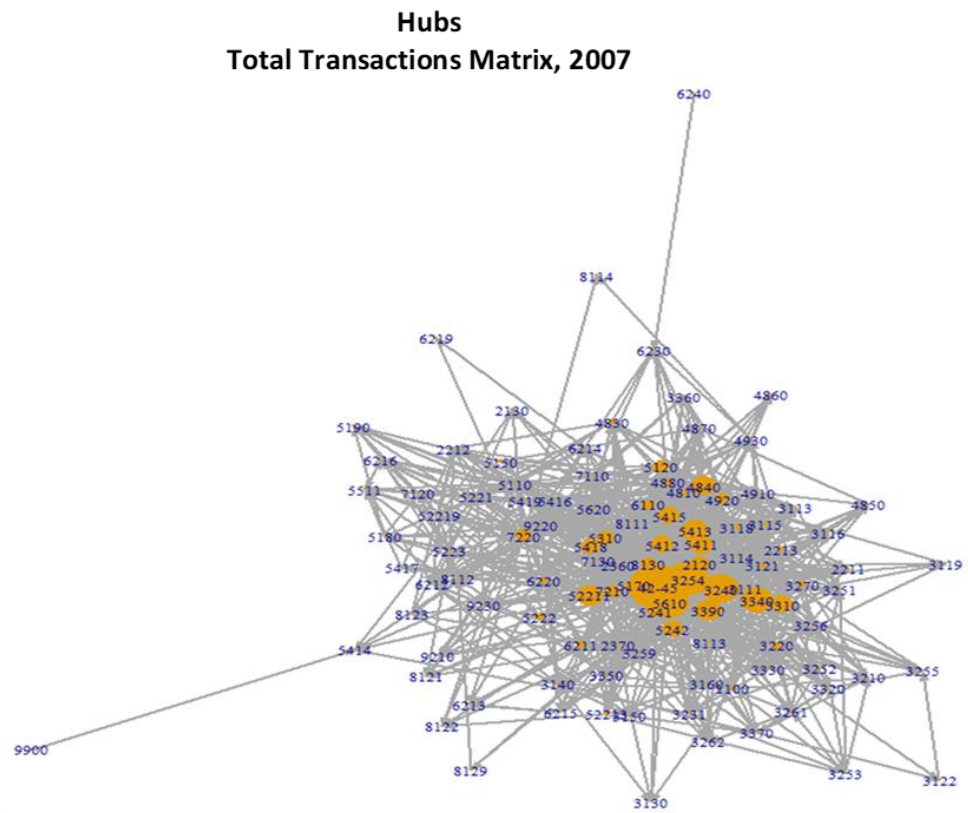


Illustrative application using Puerto Rico's 2007 input–output table.

Identifying Key Sectors: Hubs and Authorities

Hub and authority sectors are key players in the production network due to their strategic linkages and capacity to transmit economic impulses across industries.





Identifying Key Sectors: Pull & Push Effects

PULL EFFECT

55%

Sectors with strong capacity to stimulate production in other industries through changes in their own demand.

Influence coefficient > 1

PUSH EFFECT

45%

Sectors that respond strongly to changes in demand from other industries.

Induction coefficient > 1

INDUSTRIAL POLICY IMPLICATION

These indicators reveal distinct roles within the productive structure and inform industry selection according to development objectives.

Tourism Investment Incentives: Puerto Rico in Comparative Perspective

FISCAL INCENTIVES DOMINATE

Tax exemptions and credits are central to Puerto Rico's tourism incentive framework, particularly for lodging.

UP TO 100%

Certain tax exemptions could reach 100%.

UP TO 15 YEARS

The incentive arrangements examined could extend for as long as 15 years.

INTERNATIONAL BENCHMARKING

Long-term tax exemptions are common across tourism destinations, including the Caribbean. Non-tax measures (such as marketing, training, and technical assistance) also support investment.

Investors also value competitiveness factors. Public infrastructure and the business environment may yield broader benefits.

POLICY QUESTION

Are we evaluating incentives' contribution to economic development, or primarily their return on investment?

Individual Investor Incentives: Do They Transform the Productive Structure?

Former Act 22 | Incorporated into Act 60

ATTRACTING WEALTH VS. PRODUCTIVE DEVELOPMENT

Attracting capital does not necessarily create local productive linkages, diversification, knowledge spillovers, or sustained growth.

THE COUNTERFACTUAL PROBLEM

How much of the observed economic activity occurred because of the incentive, and how much would have occurred without it?

POLICY IMPLICATION

Evaluate additionality, productive transformation, and long-term fiscal capacity, not merely the wealth or investment attracted.

Attracting capital is not the same as building productive capacity.

Conceptual policy argument; not an estimated causal impact of Act 22.

Policy Recommendations: Tourism and Individual Investors

TOURISM INVESTMENT

Redesign fiscal incentives

Review tax exemptions, preferential rates, and the duration of benefits.

Strengthen non-tax instruments

Improve infrastructure, the business environment, tourism promotion, and local supplier support.

Expand evaluation

Assess additionality, spillovers, fiscal costs, and the effectiveness of tourism promotion.

INDIVIDUAL INVESTORS (FORMER ACT 22)

Link benefits to productive activity

Encourage investment in local enterprises and productive sectors.

Promote local economic linkages

Support business development, employment, and knowledge transfer.

Evaluate additionality and fiscal impact

Estimate which investment and economic activity would have occurred without the incentive.

From attracting investment to building productive capacity and sustainable fiscal revenues.

Closing Remarks: From Tax Incentives to Productive Transformation

01 Economic Development Objectives

↓

02 Evidence-Based Industrial Policy

↓

03 Strategic Industry Selection & Appropriate Policy Instruments

↓

04 Productive Transformation & Sustained Economic Growth

↓

05 A Stronger Tax Base & Long-Term Fiscal Sustainability

Fiscal sustainability should be built on a stronger productive economy, not solely on tax incentives or short-term revenue measures.

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Puerto Rico: recent trends and outlook for 2027

V2A Consulting · November 2026



Xavier Diví
Director
V2A Consulting

Financial Oversight & Management Board for Puerto Rico

Economic Forecast Symposium

Puerto Rico: recent trends and outlook for 2027

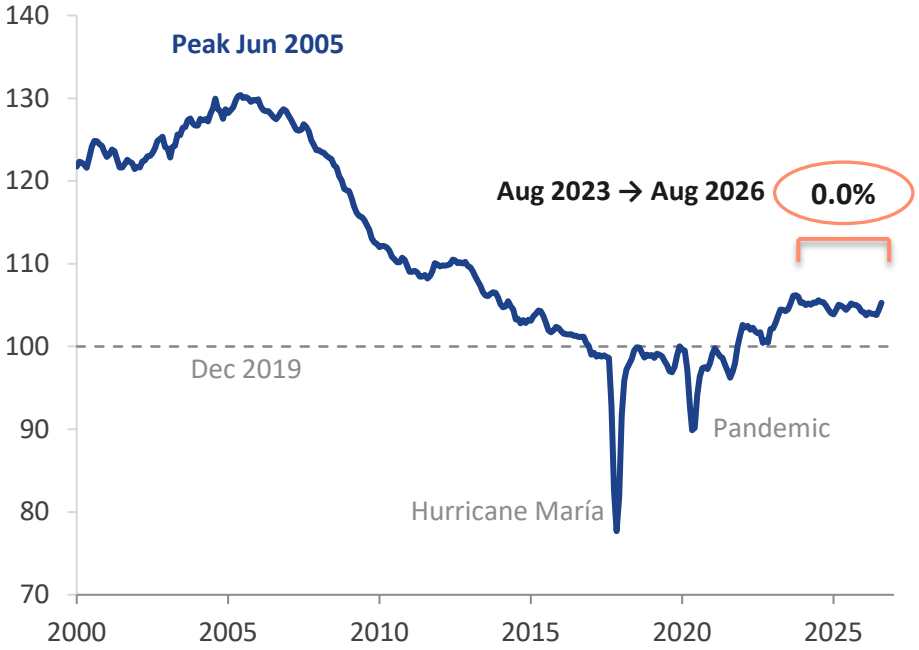
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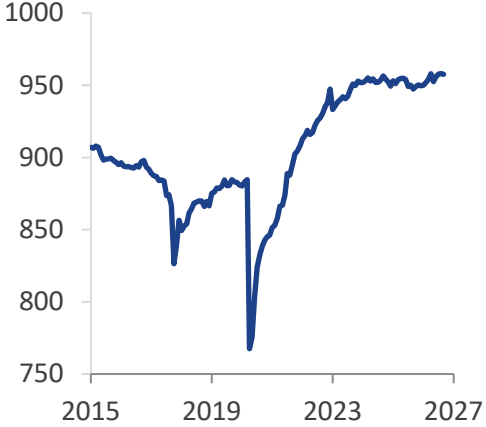
Puerto Rico's economy is stagnating: activity is at its 2023 level and payroll jobs at their 2024 level

Economic Activity Index (Dec 2019 = 100)



Source: DDEC, PR Economic Activity Index (seasonally adjusted), latest Aug 2026

Payroll jobs ('000, seasonally adjusted)



957.6k Sep 2026
Sep 2024: 956.5k

6.2% unemployment
Sep 2025: 5.7%

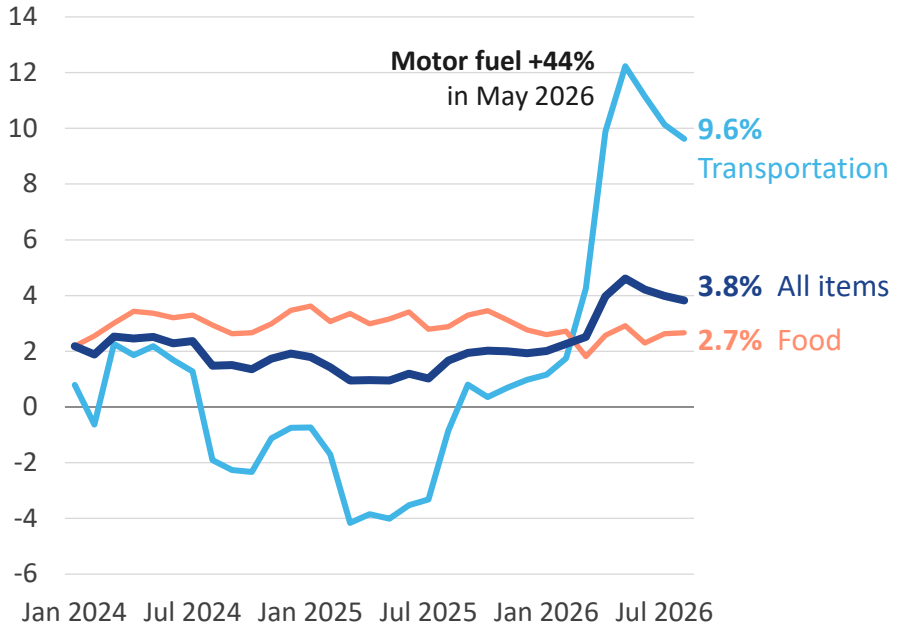
Last 12 months ('000)

▲ Education & health	+5.3
▲ Leisure & hospitality	+4.7
▲ Manufacturing	+2.1
▼ Information	−0.4
▼ Prof. & business services	−4.1

Source: BLS CES and LAUS; Sep 2026 preliminary, vs Sep 2025

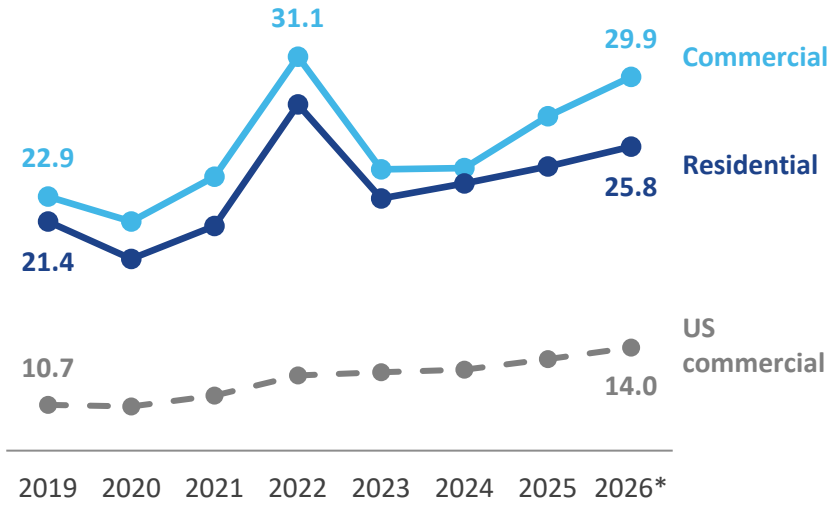
Beyond stagnation, inflation and power costs are squeezing household budgets and business margins

Consumer price inflation, year-over-year (%)



Source: PR Department of Labor (DTRH) CPI, latest Aug 2026

Average electricity price, Puerto Rico (¢/kWh)



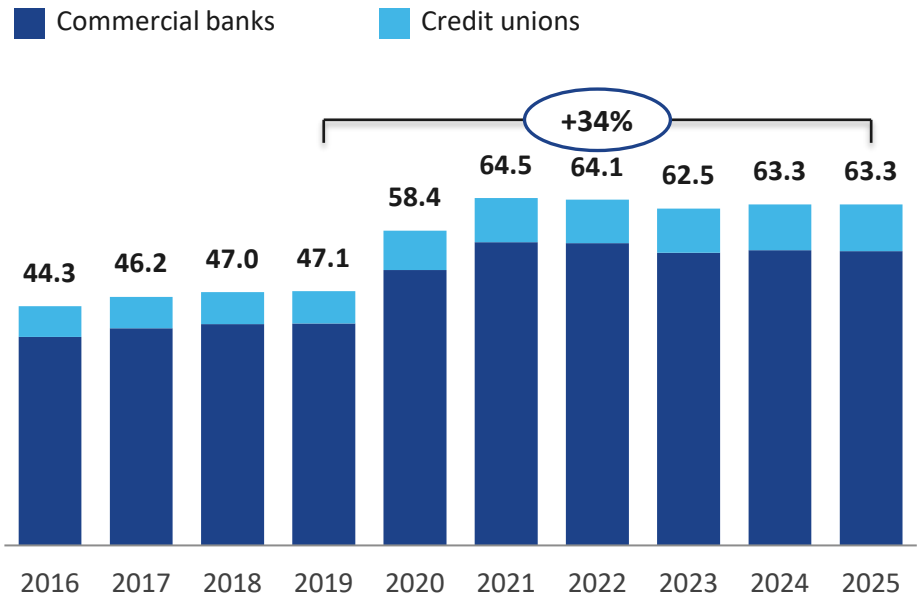
Change 2019 → 2026*: **Commercial +31%** · **Residential +21%**

Source: EIA; *2026 = Jan-Aug average, preliminary

A 20% rise in power prices costs Puerto Rico ~$935M a year; it cuts in halve a typical supermarket's net margin

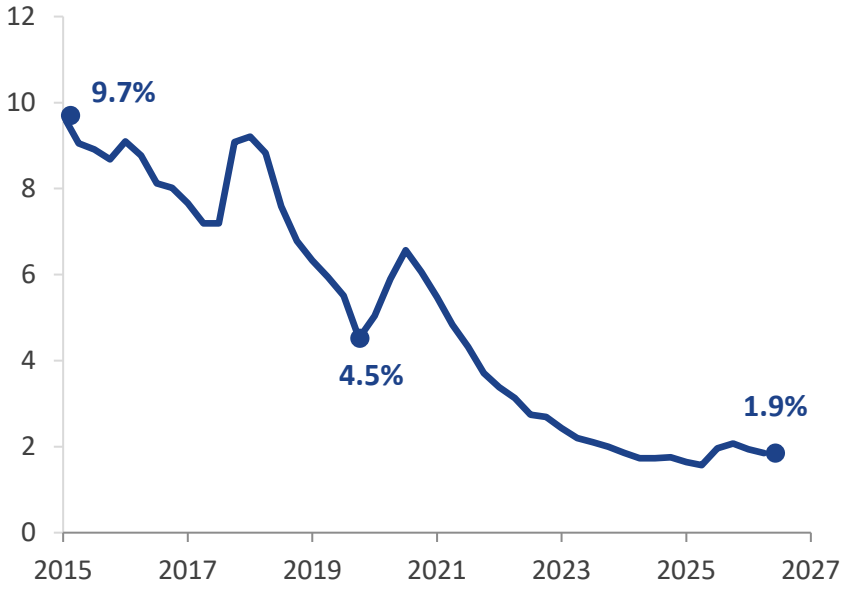
On the other hand, families and firms keep a liquidity cushion 34% above 2019, and loan delinquency is in historic lows

Private deposits in banks and credit unions ($B, year-end)



Source: OCIF (banks, individuals & businesses) and COSSEC (credit unions); public deposits excluded; latest Dec 2025

Bank noncurrent loans ratio (% of total loans)



Source: FDIC call reports, PR-chartered banks; latest Q2 2026

The key question for 2027: how long does the cushion last if income flows do not improve?

Tourism and manufacturing are holding up activity, while consumption and business services lose ground

Tourism ▲ Growing from a high base	**+4.7%** leisure & hospitality jobs, y/y	**+43%** cruise passengers, 2025-26 season	**+7.6%** hotel demand Jan-Apr 2026 (US: +2%)
Manufacturing ▲ Expanding, led by onshoring	**+2.6%** manufacturing jobs, y/y	**52.9** PMI, Aug 2026 (8 of past 12 months above 50)	**$1.6B** announced in the last 12 months, led by Lilly and Amgen
Retail and consumption ▼ Losing steam	**−12.7%** new auto sales, Jan-Sep 2026	**+1.2%** retail sales FY2026, below inflation	**+0.5%** retail jobs, y/y
Professional and business services ▼ Contracting	**−4.1k** jobs y/y (−3.0%)	**−5.1%** administrative & support jobs, y/y	**13** straight months of y/y job losses in admin & support

Sources: BLS CES (SA, Sep 2026 vs Sep 2025) and QCEW; PR Tourism Co.; Discover PR/CoStar; IEPR-AIPR PMI; GUIA; DDEC

Heading into 2027, the headwinds outweigh the tailwinds

Headwinds

Geopolitics and oil prices

Brent at $115 vs $61 a year ago; EIA expects $84 on average in 2027

Delayed tariff pass-through

Tariffs paid quadrupled in 2025 (**$920M**); squeezed margins point to more pass-through in 2026-27

Federal funds

Medicaid cliff (Oct 1, 2027): ~$4.2B → ~$0.5B a year; **75%** of grid funds undisbursed

Tailwinds

Tourism

Passport-free for US travelers: December air seats +6% and new cruise homeports in 2026-27 (Norwegian, Explora, Royal Caribbean)

Manufacturing onshoring

$2.65B committed since Jan 2025 in 30+ projects, led by Lilly and Amgen; PMI at 52.9

Unknowns

US economy

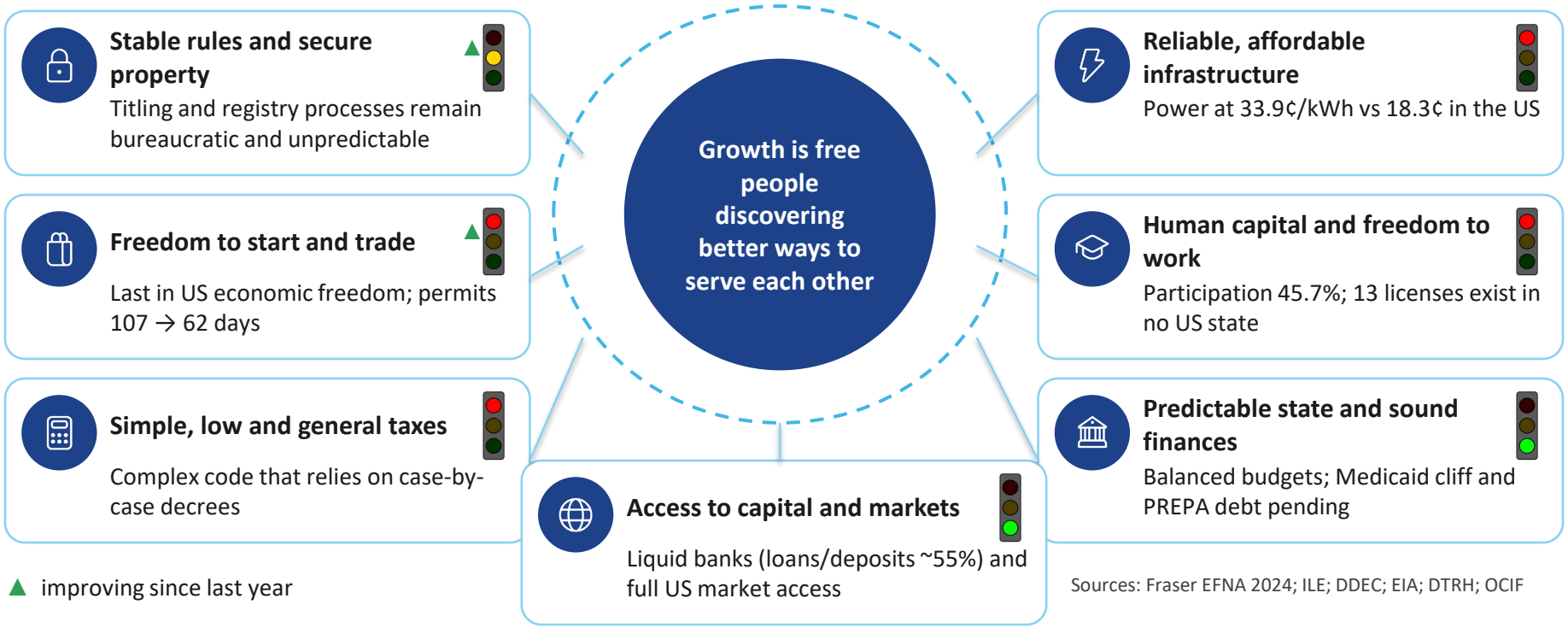
Fed sees **2.4%** GDP growth in 2027; IMF puts **~30%** odds on growth below 1%

Impact of AI

Productivity gains, but firms are **holding back hiring**: Professional/Business services jobs −3% y/y

On balance, 2027 tilts negative: if the global environment holds, Puerto Rico is headed for another year of stagnation and inflation

Sustained growth needs an ecosystem where businesses can start, invest and grow, and most of its enablers remain red



▲ improving since last year

Sources: Fraser EFNA 2024; ILE; DDEC; EIA; DTRH; OCIF

Outcomes: investment · jobs · people who stay (population −14% in 15 years)

Thank you!



V2A
CONSULTING

Economic Forecast Symposium

November 4, 2026 | San Juan, PR

2027 ECONOMIC FORECAST SYMPOSIUM

Puerto Rico Economic Outlook

Estudios Técnicos, Inc. · November 4, 2026



Leslie Adames
Director of Economic Analysis and Policy Division
Estudios Técnicos

Financial Oversight & Management Board for Puerto Rico

Estudios Técnicos Inc.
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PUERTO RICO ECONOMIC OUTLOOK

Economic Forecasting Symposium
Financial Oversight and Management Board
November 4, 2026



THE ISLAND FACES AN ECONOMY MARKED BY UNCERTAINTY

Private employment and business applications rise, while several indicators point to weaker activity in 2026

Indicator	Period	2025	2026		Δ 26 / 25
LEVEL VARIABLES (% change vs. 2025)					
Private employment (jobs)	Jan–Sep	756,011	**762,100**	↑	+0.8%
Business applications	Jan–Aug	16,850	**18,352**	↑	+8.9%
Cement sales (000's bags)	Jan–Aug	11,822	**11,589**	↓	−2.0%
New car sales (units)	Jan–Jul	66,412	**56,644**	↓	−14.7%
RATES AND INDEXES (percentage-point change vs. 2025)					
DDEC Economic Activity Index growth	Jan–Jul	-0.6%	**-0.5%**	↗	+0.1 pp
Unemployment rate	Jan–Sep	5.5%	**5.8%**	↑	+0.3 pp
Average weekly wage	Jan–Sep	5.8%	**5.4%**	↘	−0.4 pp
ETI's Consumer Financial Fragility Index	Jan–Jun	40.2%	**42.3%**	↑	+2.1 pp
Consumer Price inflation	Jan–Aug	1.2%	**3.4%**	↑	+2.2 pp
Real retail sales	Jan–Jul	-0.1%	**-3.2%**	↓	−3.1 pp
Construction materials cost	Jan–Aug	1.9%	**7.7%**	↑	+5.5 pp

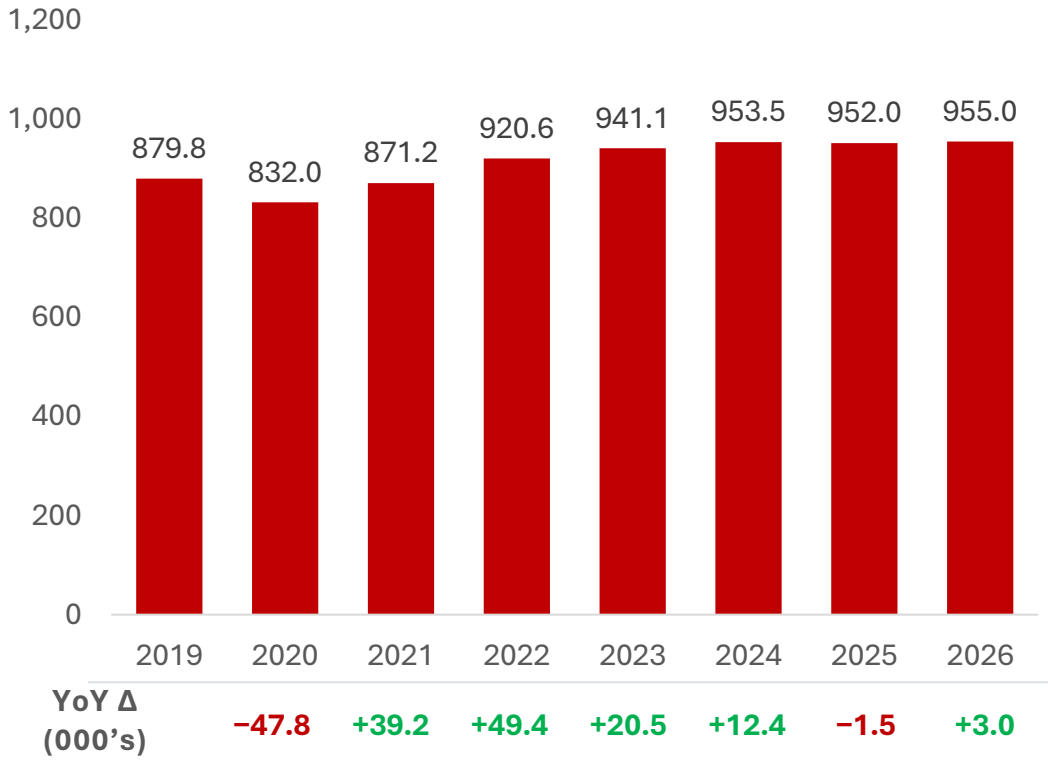
Source: Department of Economic Development and Commerce, Puerto Rico Department of Labor, and Puerto Rico Institute of Statistics. The U.S. Producer Price Index published by FRED is used as a proxy: Input to Industries: Net Inputs to Construction Industries, Goods (WPUIP2300001). Note: vertical arrows show acceleration or contraction; diagonal arrows show a slowdown or an easing contraction. Green favors the economy; red does not; lighter shades mark slowing growth or an easing contraction.

EMPLOYMENT REMAINS RESILIENT, WITH RECENT GAINS CONCENTRATED IN LEISURE AND HOSPITALITY AND HEALTH AND EDUCATION

Private employment rose 6.1K in January–September 2026 vs. the same period of 2025, partly offset by a 3.1K government decline

TOTAL NONFARM EMPLOYMENT

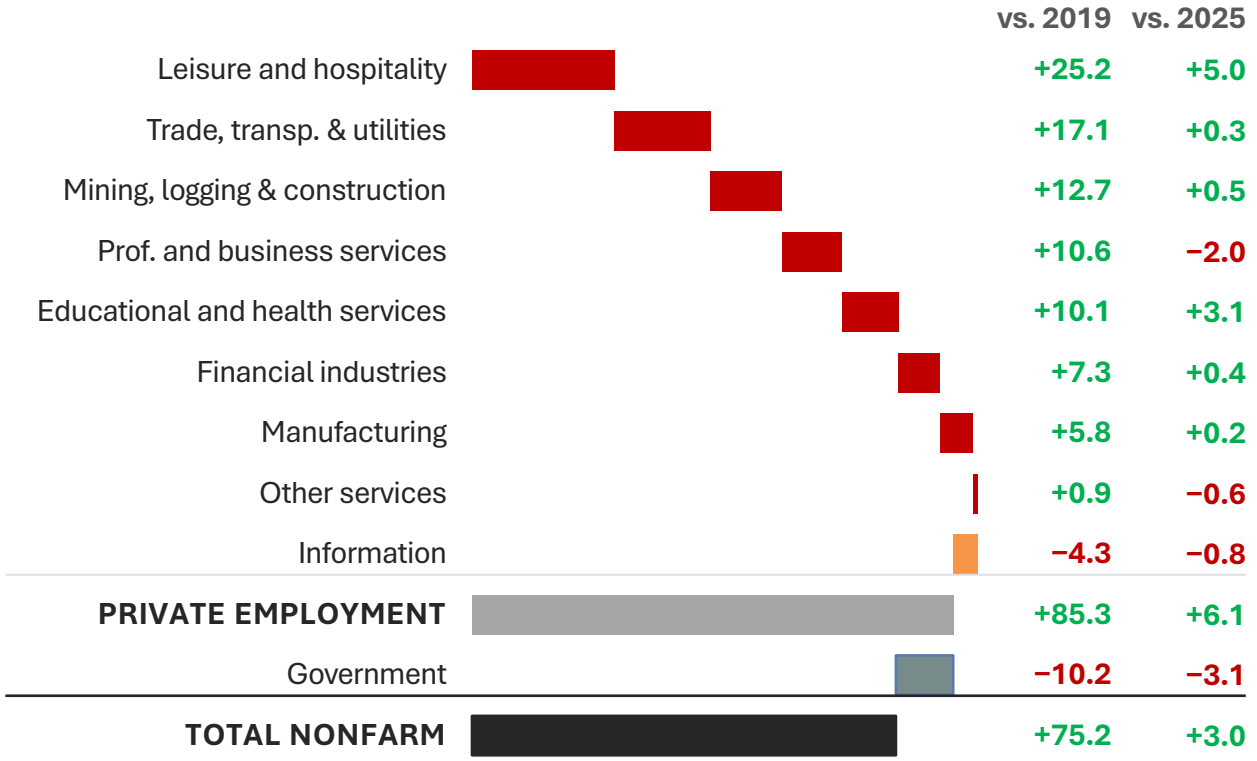
000's, January–September average of each year, seasonally adjusted



	2020	2021	2022	2023	2024	2025	2026
YoY Δ (000's)	−47.8	+39.2	+49.4	+20.5	+12.4	−1.5	+3.0

WHERE THE 75.2K GAIN SINCE 2019 CAME FROM

Change in employment by sector, 2026 vs. 2019 and 2025 (000's, January–September average)



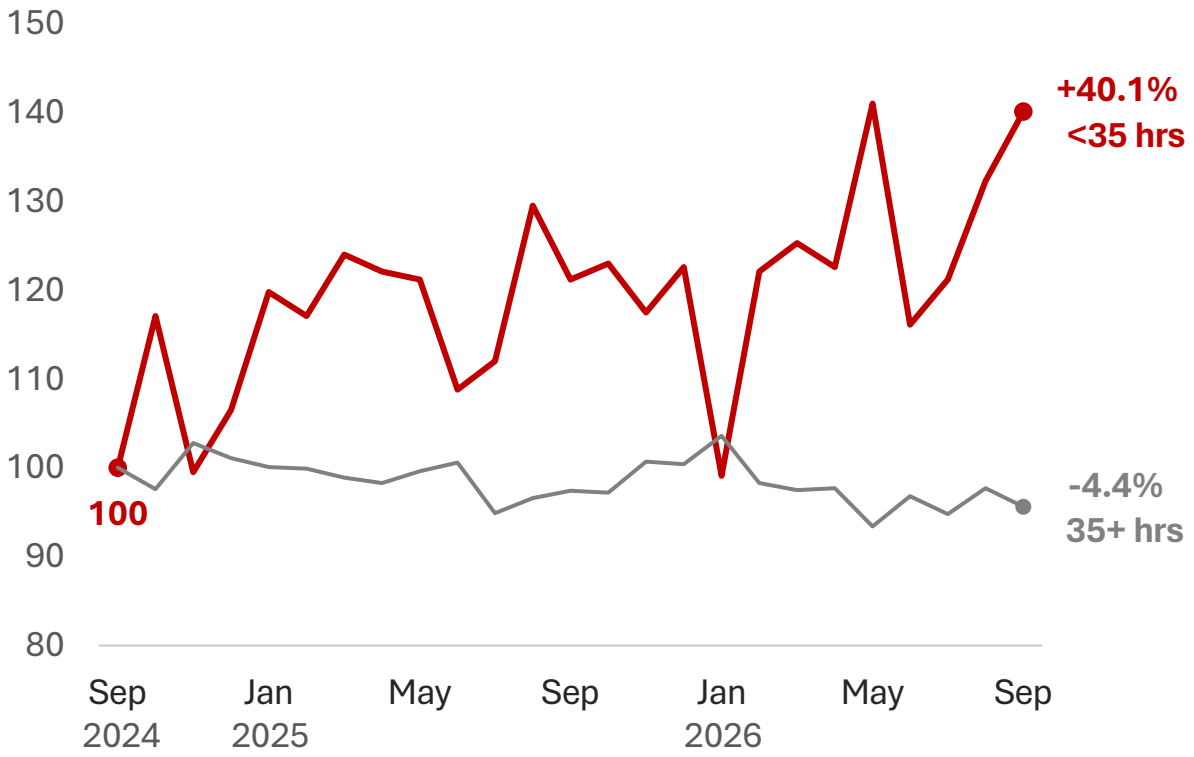
	vs. 2019	vs. 2025
Leisure and hospitality	+25.2	+5.0
Trade, transp. & utilities	+17.1	+0.3
Mining, logging & construction	+12.7	+0.5
Prof. and business services	+10.6	−2.0
Educational and health services	+10.1	+3.1
Financial industries	+7.3	+0.4
Manufacturing	+5.8	+0.2
Other services	+0.9	−0.6
Information	−4.3	−0.8
PRIVATE EMPLOYMENT	+85.3	+6.1
Government	−10.2	−3.1
TOTAL NONFARM	+75.2	+3.0

Gains in tourism (+5.0K) and health and education (+3.1K) support payroll, consumer and small business opportunities; professional services (−2.0K) and government (−3.1K) warrant close monitoring.

Source: Puerto Rico Department of Labor and Human Resources, CES seasonally adjusted series (000's). Note: January–September average of each year; September 2026 is preliminary. Private employment is total nonfarm less government; seasonally adjusted sectors may not add exactly to the total.

SINCE SEPTEMBER 2024, PEOPLE AT WORK UNDER 35 HOURS ROSE 40% WHILE THOSE AT 35+ HOURS FELL 4%*

Workers by hours actually worked
Based on people at work and hours worked
Monthly index, Sep 2024 = 100



1,154k
People at work
Jan–Sep 2026 avg., unchanged vs. Jan–Sep 2025 (1,154k)

23.4%
Share working <35 hrs/week
Up from 22.5% (+0.9 pp): +11k workers <35 hrs, −11k at 35+ hrs

35.9 hrs
Average weekly hours
Down from 36.4; below prior year in 8 of 8 months since February

−1.2%
Total weekly hours worked
Employment × avg. hours, Jan–Sep 2026 vs. 2025

Total hours worked fell by 1.2%, while people at work remained flat. Unless hourly pay makes up the gap, household spending will soften, and so will the income and sales tax base.

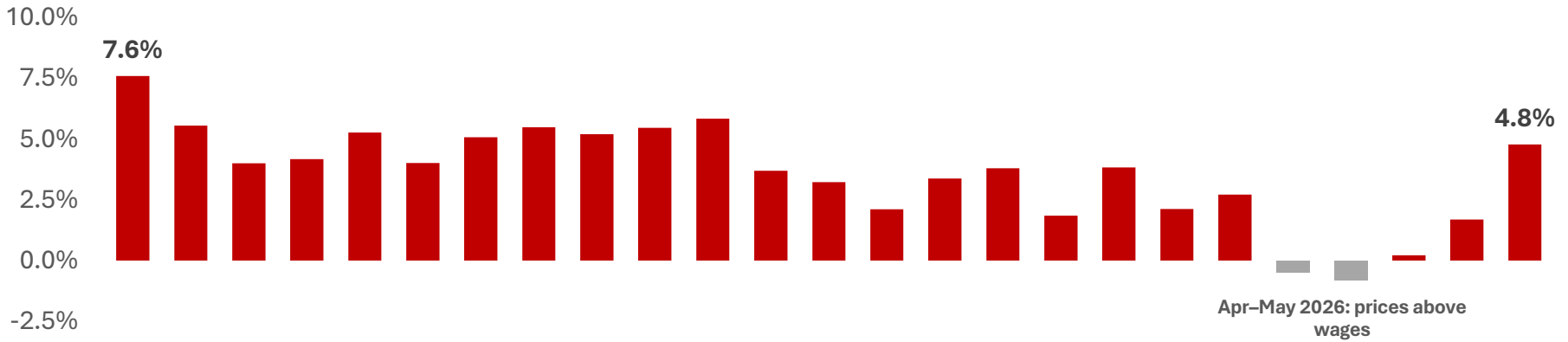
Source: Puerto Rico Department of Labor and Human Resources; Estudios Técnicos, Inc. calculations.
*Refers to employment growth corresponding to people at work, not those with a job but not at work.

INFLATION ERODES PURCHASING POWER WHILE NOMINAL WAGES RAISE BUSINESS OPERATING COSTS

In January–August 2026 the average weekly wage rose 5.2% and prices rose 3.4%

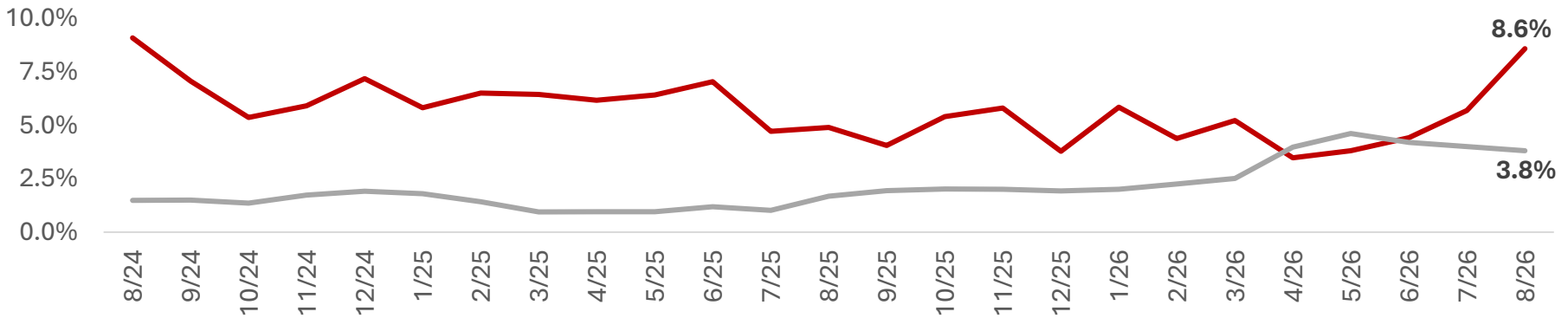
REAL WAGE GROWTH

Average weekly wage growth minus inflation, pp



THE TWO SERIES BEHIND THE CALCULATION

Annual growth, % — *Private payroll average weekly earnings* — *Inflation rate*



Source: Puerto Rico Department of Labor and Human Resources
*Wage growth minus Inflation.

FOR HOUSEHOLDS

1.8 percentage points

average real wage* growth in January–August 2026, compared with 4.8 pp in the same months of 2025.

Purchasing power declined in April–May and recovered to 4.8 pp in August.

FOR EMPLOYERS

+5.2%

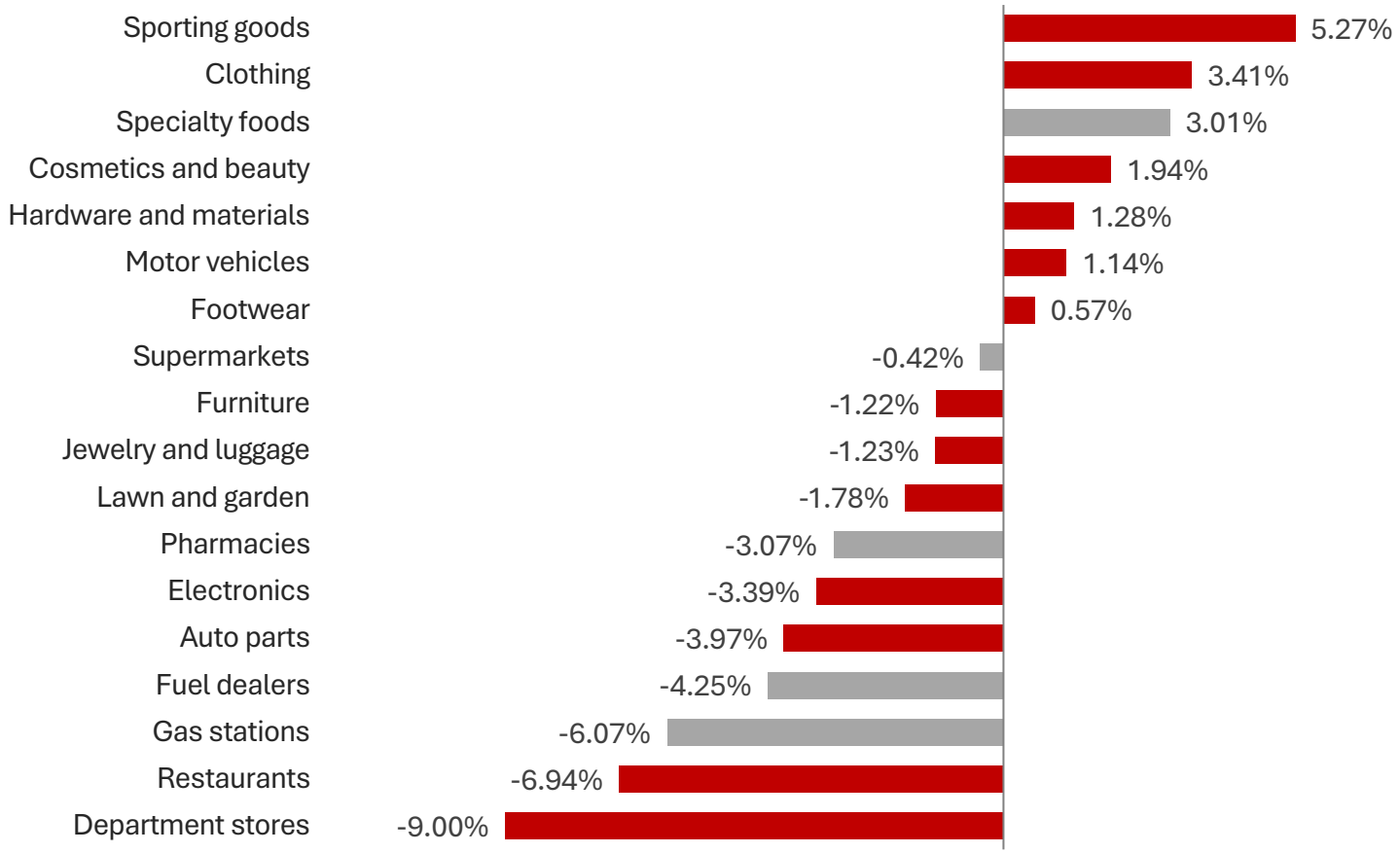
estimated average weekly wage growth in January–August 2026.

REAL RETAIL SALES FELL 3.2%. DEPARTMENT STORES AND RESTAURANTS RECORDED THE LARGEST PERCENTAGE DECLINES.

Real retail sales growth by category · Jan–Jul 2026 vs. 2025 · %, inflation-adjusted

DISCRETIONARY	NON-DISCRETIONARY	REAL RETAIL SALES, TOTAL
−3.76%	−2.52%	−3.22%

Discretionary categories fell 1.24 percentage points more than non-discretionary ones



Discretionary Non-discretionary

THE DECLINE IS CONCENTRATED

Department stores	**−9.00%**
Restaurants	**−6.94%**

The data align with shifts in consumer spending patterns. Some households could be maintaining their discretionary spending, while others cut back.

Source: Estudios Técnicos, Inc., Puerto Rico Retail Sales, July 2026. Real = inflation-adjusted; Jan–Jul 2026 year-to-date vs. 2025. Segmentation per GICS (S&P Global/MSCI).

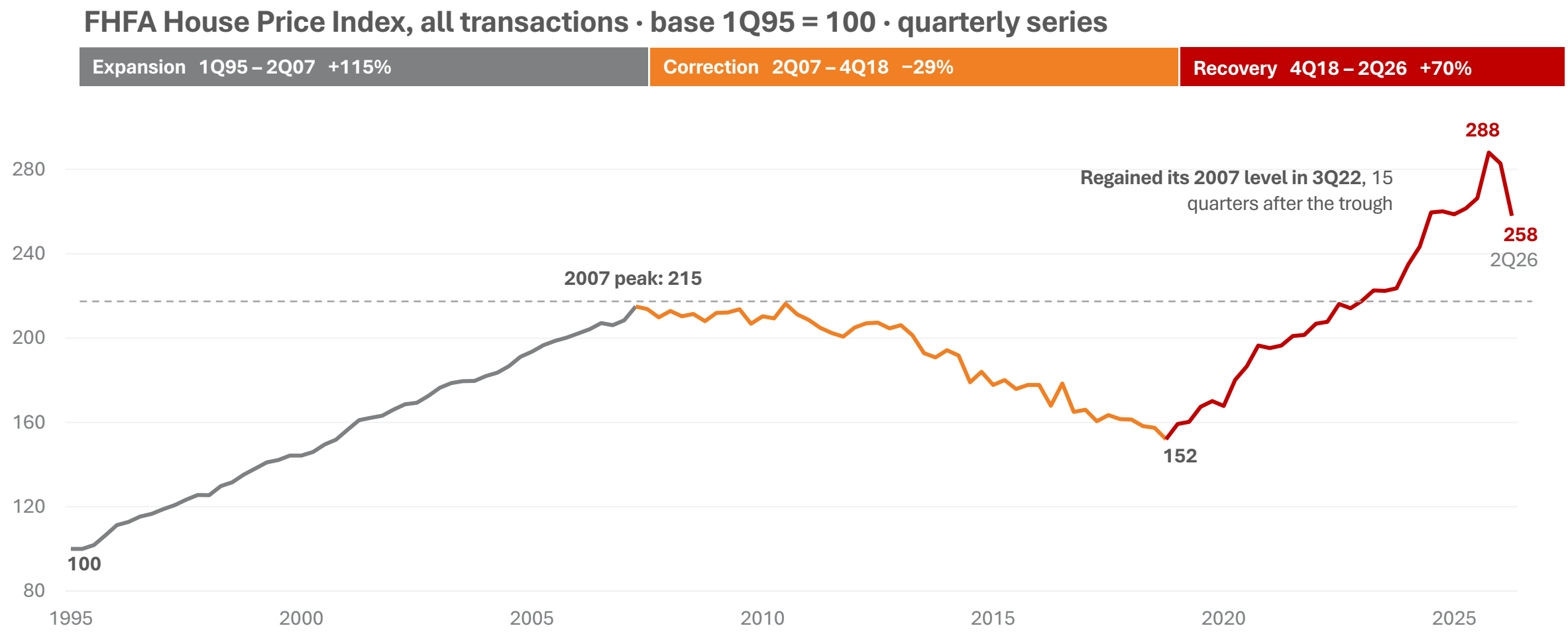
VISITOR ARRIVALS ARE 44.7% ABOVE 2019, BUT A REVERSAL IN U.S. ECONOMIC GROWTH THAT CURBS CONSUMER SPENDING COULD SLOW TOURISM GROWTH

Metric	Starting point Fiscal year	Latest Fiscal year	Change	Recent trend
Visitor arrivals	4,717,446 (2019)	6,824,061 (2025)	**+44.7%**	−3.4% (Jan–Jul)
Hotel registrations	2.07M (2019)	2.68M (2026)	**+29.4%**	+3.1% (Jan–Jun)
Hotel rooms available	11,789 (2019)	11,052 (2026)	**−6.2%**	—
Visitor spending	$3.6B (2019)	$6.5B (2025)	**+81%**	—
Leisure & hospitality jobs	77,000	98,600	**+21,600**	—

With more than 90% of tourists from the U.S., persistent high inflation and slower U.S. job growth, together with elevated interest rates, would slow consumer discretionary spending and the tourism sector's growth.

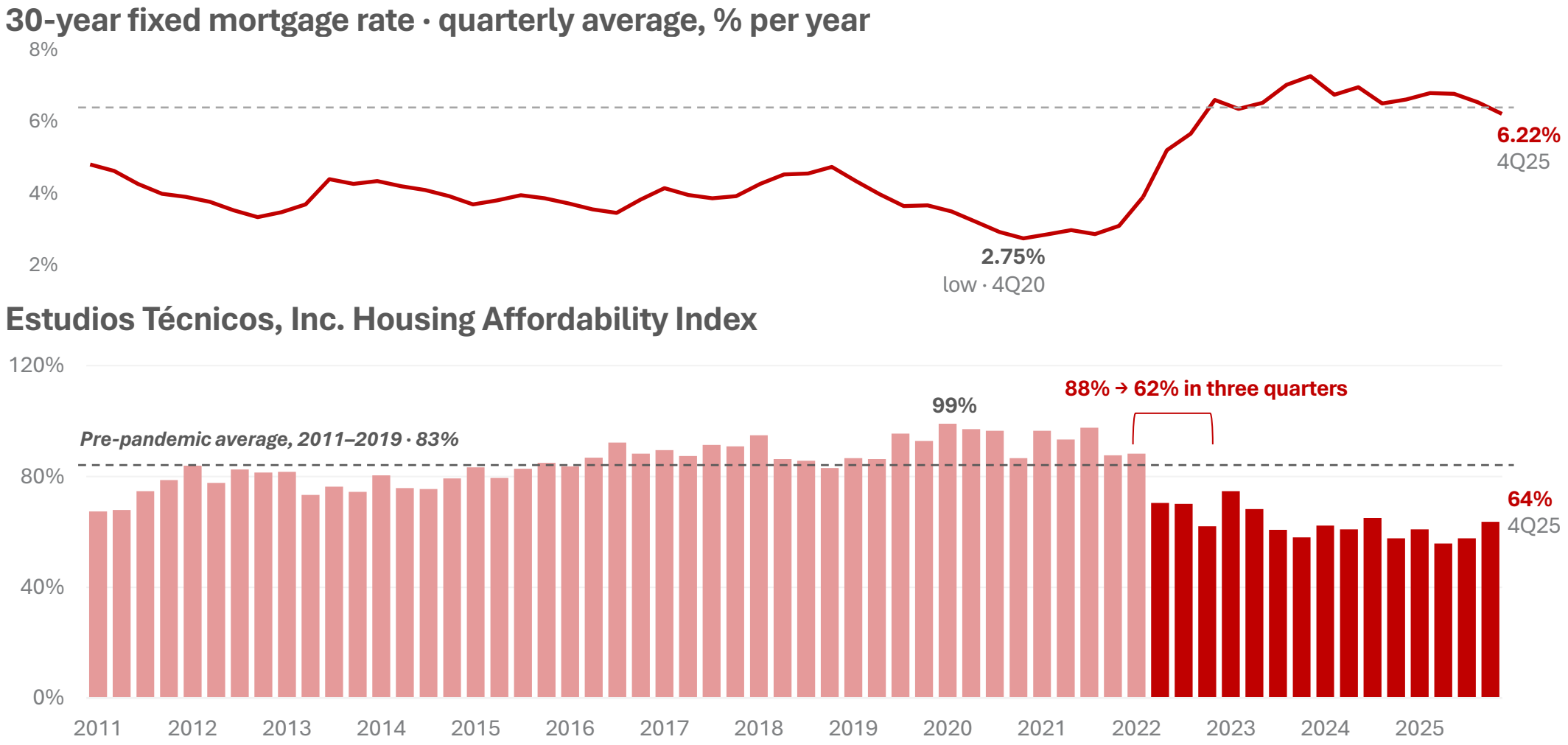
Note: Information provided by Puerto Rico Tourism Company. There are 3,396 additional rooms corresponding to resorts, *paradores*, timesharing, and guest houses. Condo-hotels, tourist villas, inns, hostels, gampling, among others.
Source: Puerto Rico Ports Authority; Puerto Rico Tourism Company; PR Planning Board (2025); Estudios Técnicos estimates.

HOUSE PRICES REMAIN 21% ABOVE THEIR 2007 LEVEL, DESPITE A SHARP DECLINE IN 2Q26



Source: Federal Housing Finance Agency (FHFA), House Price Index, all transactions, Puerto Rico; reindexed to 1Q95 = 100. Quarterly series 1Q95–2Q26.
Note: Nominal index, not adjusted for inflation. Changes calculated from peak to trough and from trough to latest data point.

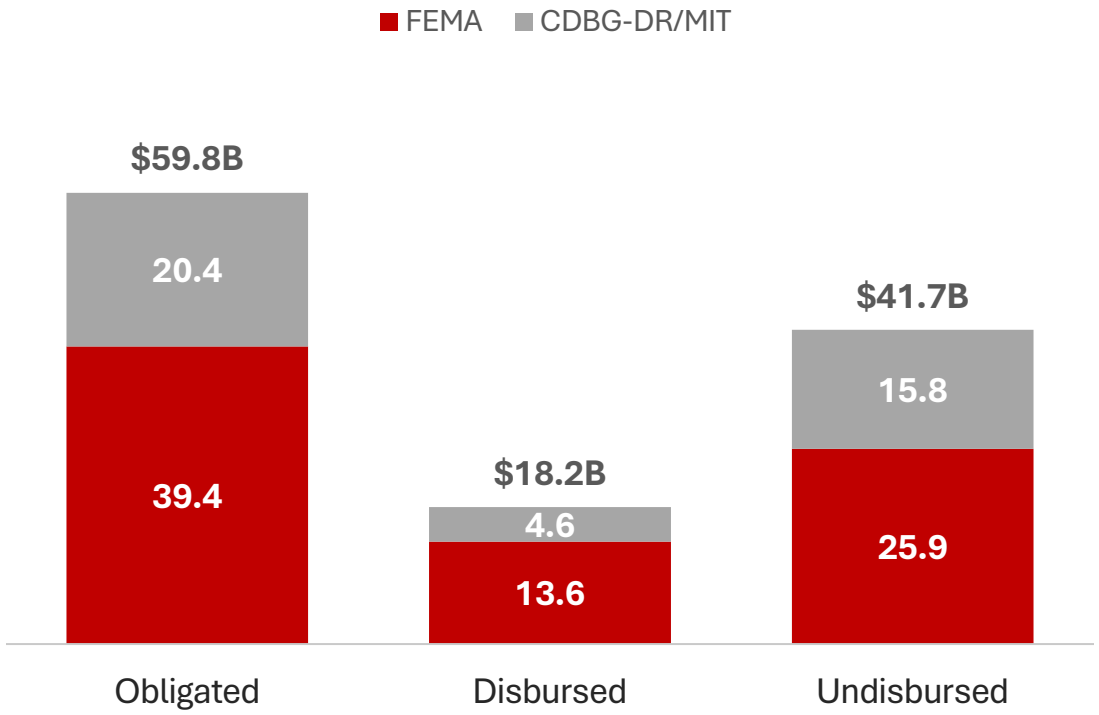
AT 7.40% ON OCTOBER 8, 2026, MORTGAGE RATES THREATEN TO PUSH AFFORDABILITY BELOW ITS 2025 CLOSE OF 64%



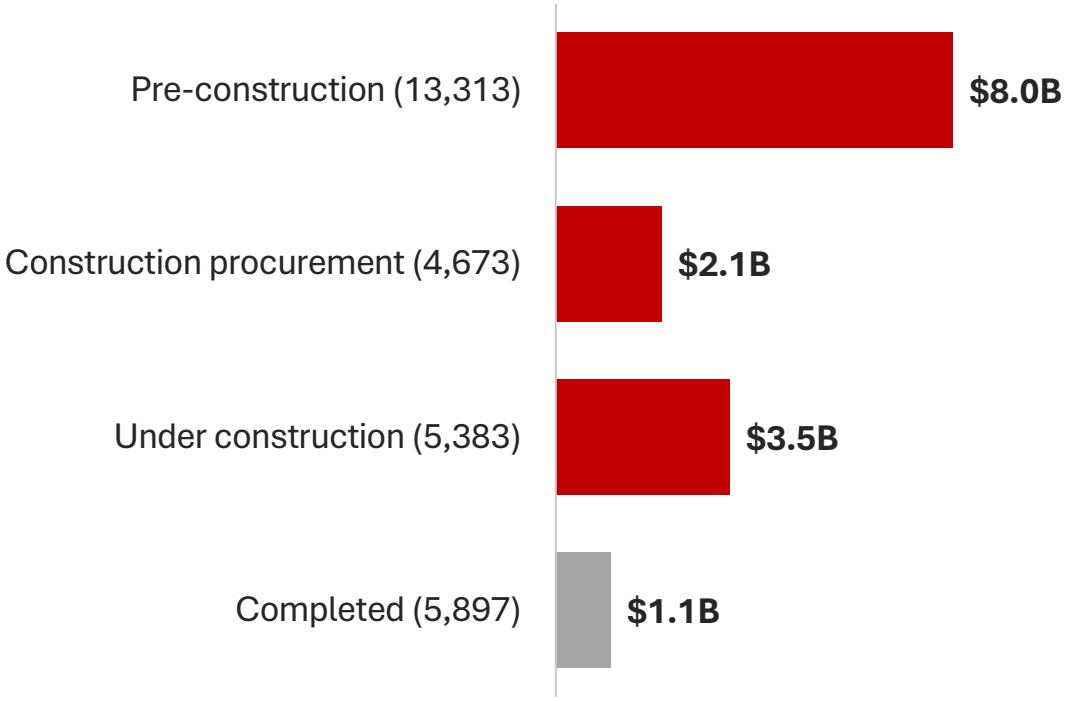
Source: Estudios Técnicos, Inc., OCIF, and Federal Reserve Economic Data. Note: Both panels share the 1Q11–4Q25 time axis, so each vertical line corresponds to the same quarter. The mortgage rate is the U.S. quarterly average and is used as a benchmark for the island's conforming mortgages.

$41.7B IN RECONSTRUCTION FUNDS REMAIN UNDISBURSED, AND 92% OF FEMA PUBLIC ASSISTANCE PROJECT COSTS ARE STILL AHEAD

Reconstruction funds by program, as of June 10, 2026



FEMA Public Assistance project costs by stage ($B); project counts in parentheses, as of 2Q26



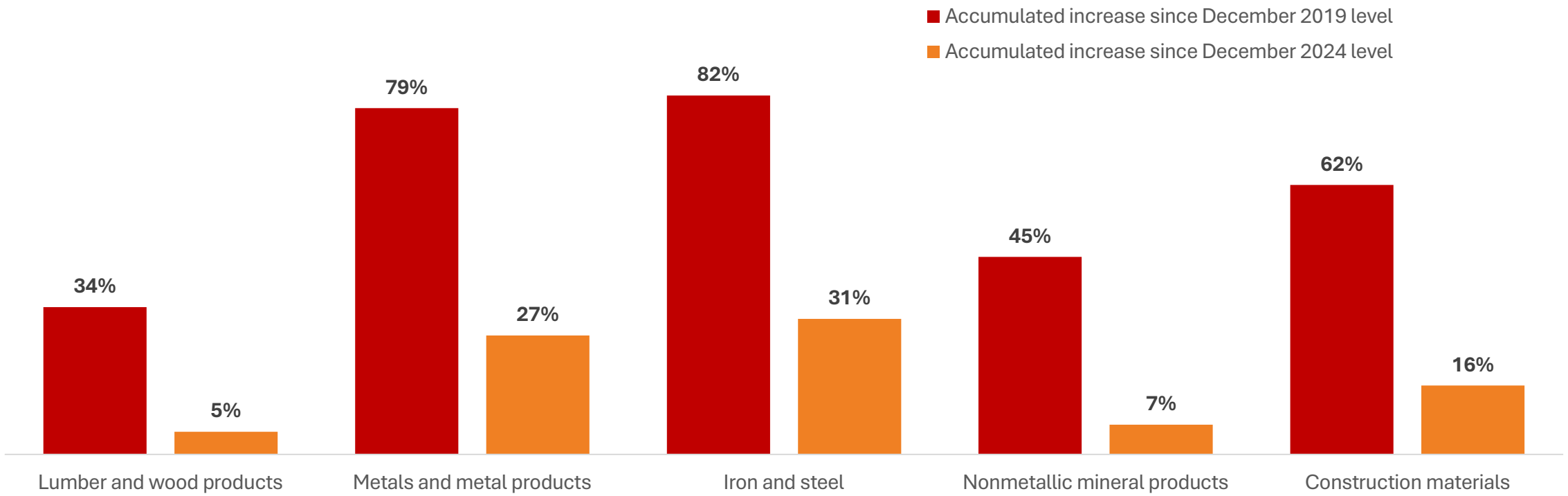
The $41.7B still undisbursed can sustain near-term investment, but its annual impact depends on execution. Limited industry capacity and slow disbursement could hold reconstruction spending below $4.1B a year through 2035.*

Note: FEMA Public Assistance ($14.7B in project costs, 29,266 projects, 20.1% of projects and 7.5% of costs completed) is part of the FEMA funds shown on the left; the two figures should not be added. FEMA and CDBG programs use different obligation and disbursement mechanisms. Stages from the 3Q26 Quarterly Progress Report (April 1–June 30, 2026), 2026; pre-construction includes planning, design, and permitting. * $4.1 billion is the annual reconstruction spending, assuming a 10-year period ending in 2036.
Source: Central Office for Recovery, Reconstruction and Resiliency (COR3), Road to Recovery: Project Execution.

CONSTRUCTION MATERIALS PRICES HAVE RISEN 62% SINCE 2019

In January–August 2026, prices averaged 7.7% above the same months of 2025, led by metals (+16.6%) and iron and steel (+13.3%)

Cumulative change in the U.S. Producer Price Index for construction materials



Source: U.S. Bureau of Labor Statistics.
Note: The series are for the United States and are used as a proxy for cost pressures on imported inputs in Puerto Rico. The categories are independent PPI series. Current tariffs on steel, aluminum, copper, lumber and certain derivative products could keep pressure on costs in the coming quarters.

RISING U.S. DEBT COSTS COULD FORCE SPENDING AND TAX CHANGES

FEDERAL DEBT
Held by the public, % of GDP

120.2%

in FY2036, up from 100.6% in FY2026

Deficit, FY2026	**5.8%**
Deficit, FY2036	**6.7%**

Interest drives the rise; the primary deficit narrows from 2.6% to 2.1% of GDP

NET INTEREST
Federal payments, $ trillions

$2.1T

in FY2036, up from $1.0T in FY2026

% of GDP, FY2026	**3.3%**
% of GDP, FY2036	**4.6%**

Rises as debt mounts and longer-term interest rates climb

TREASURY YIELDS
Change since January 2, 2026

+134 bp

3-year note, largest of any term

10-year, Jan 2	**4.19%**
10-year, Oct 9	**5.24%**

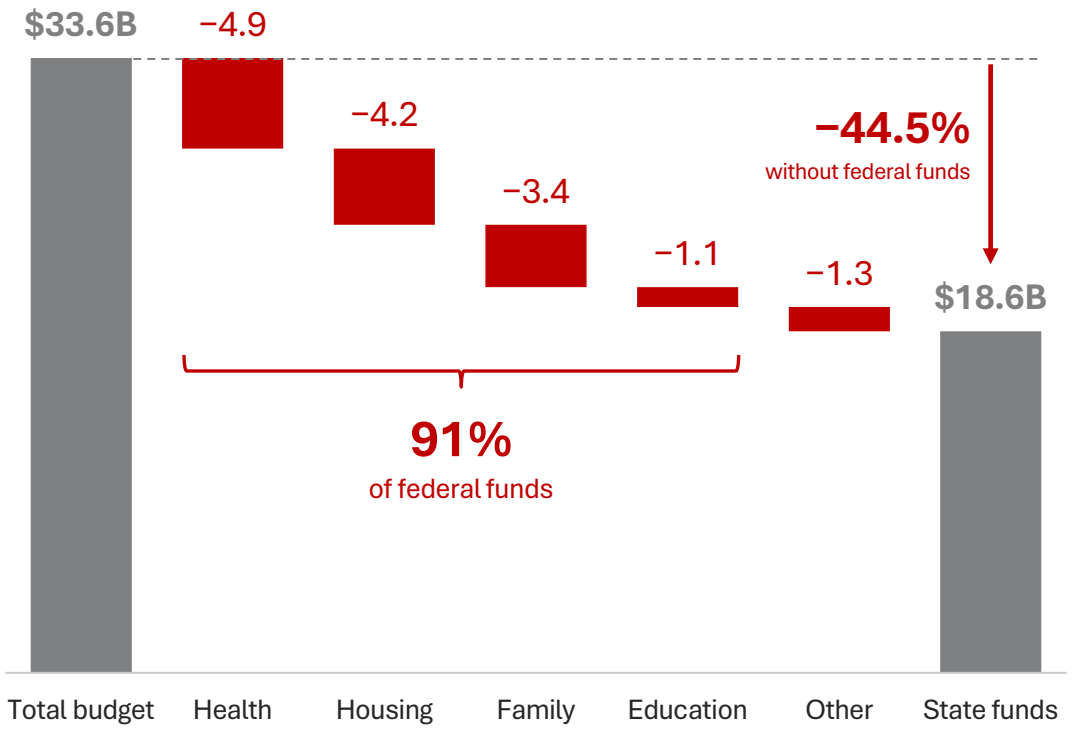
The Fed raised its rate 25 bp in September, to 3.75%–4.00%

Rising federal debt service and higher Treasury yields raise borrowing costs across the economy

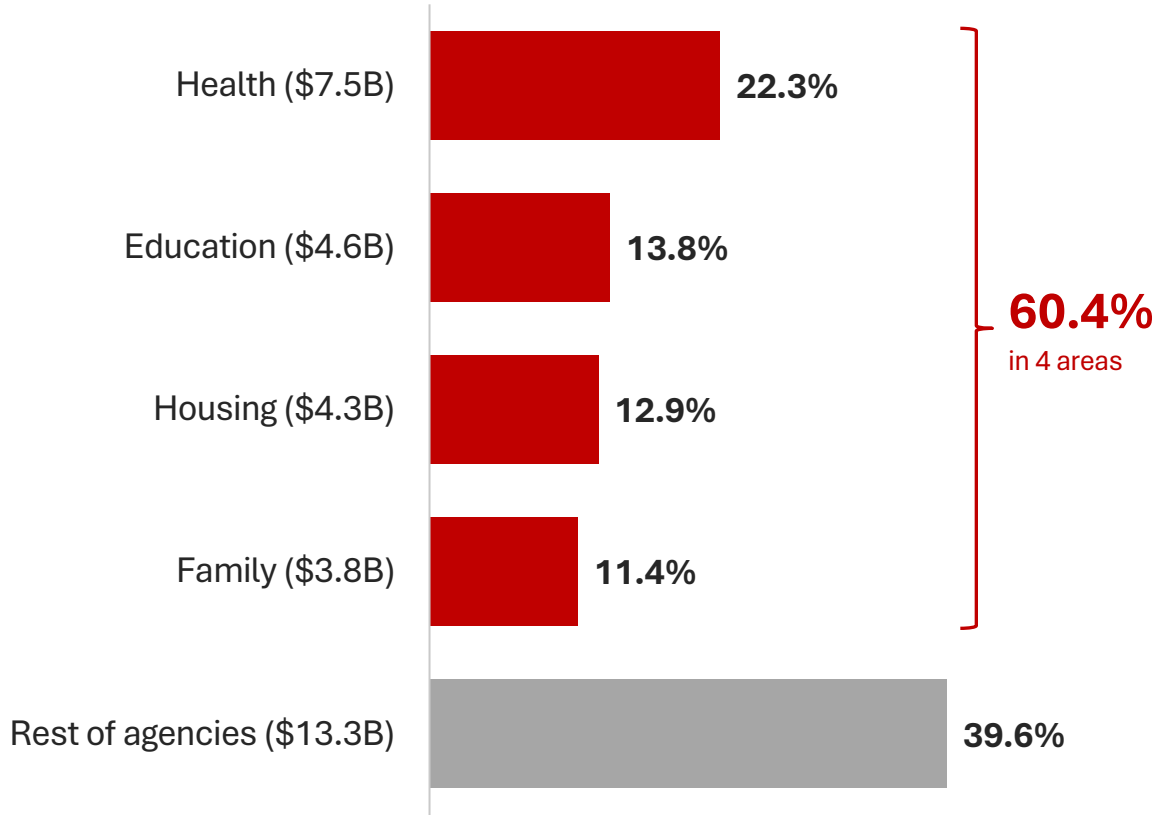
Source: Congressional Budget Office (February 2026), The Budget and Economic Outlook: 2026 to 2036; U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates (Jan 2 and Oct 9, 2026); Federal Reserve, FOMC decision (Sep 16, 2026). FY = federal fiscal year; bp = basis points.

FEDERAL FUNDS REPRESENT 44.5% OF THE FY 2027 CONSOLIDATED BUDGET, AND 91% OF THEM GO TO FOUR AREAS

Commonwealth of Puerto Rico Consolidated Budget
FY 2027, ($B)



Concentration of the budget, FY2027
Share of consolidated budget by area, % ($B)



Note: State funds = General Fund + special funds.
Source: Financial Oversight and Management Board, FY2027 Certified Budget for the Commonwealth of Puerto Rico (June 29, 2026).

RISKS WEIGH ON PUERTO RICO'S ECONOMY

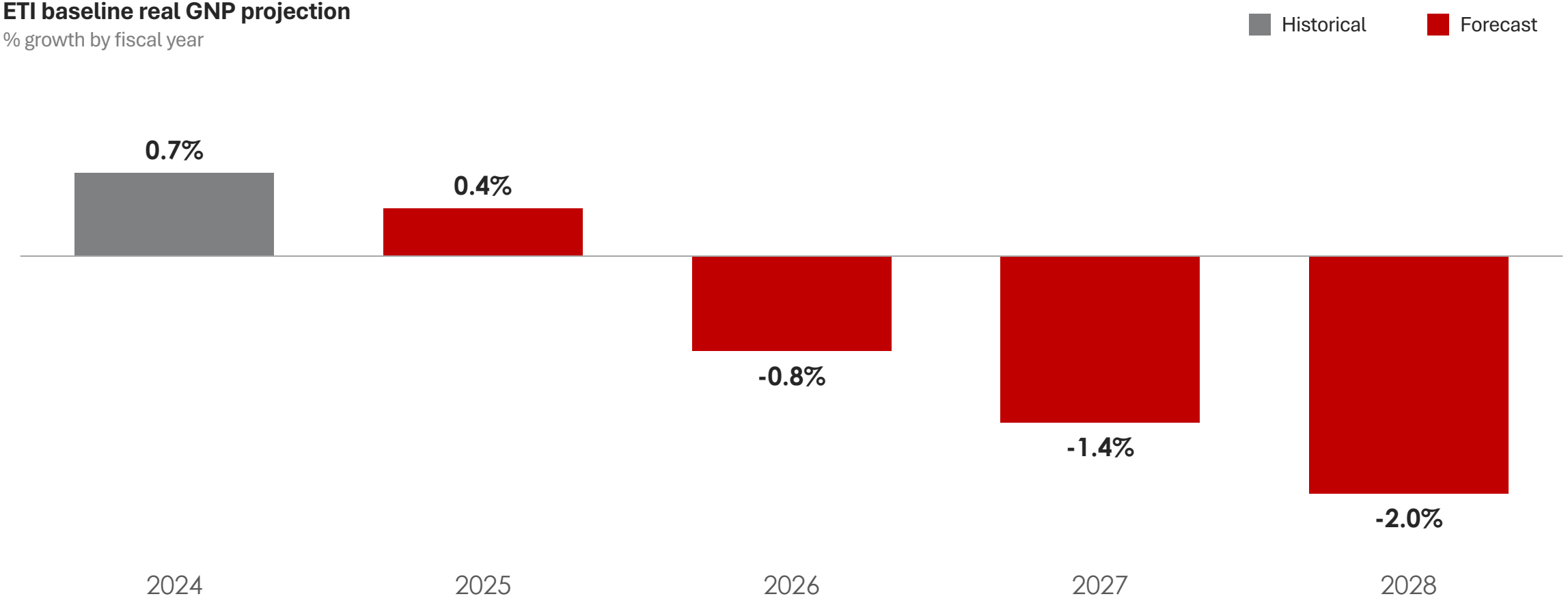
	RISK	WHAT IS DRIVING IT	WHAT IT MEANS FOR THE ECONOMY
1	**Demographics**	• **Smaller market base** and a narrower tax base	• **Pressure on government revenues** • **Rising demand for public services** among retirees with limited accumulated net worth
2	**Energy costs**	• **Geopolitical instability** keeps pressure on oil and oil-related products (e.g., gasoline and diesel)	• **Squeezes business earnings and consumer purchasing power** • Grid investment must build resilience **and scale renewables** to cut fossil-fuel dependence
3	**Infrastructure investment**	• **~$4.1B per year** in reconstruction funds through 2036* • **Absorption capped** by permits, taxes, construction materials costs, and a limited labor force	• **Construction costs stay high** as U.S. data centers and industrial expansion compete for inputs • **Gradual climate-adaptation investment** is critical given asset vulnerability
4	**Federal funding dependency**	• **44.5% of the consolidated budget** comes from federal funds (FY 2027) • **Weak U.S. fiscal position** may cut transfers to states and territories	• **Medicaid cliff** at the end of federal FY2027 is the main short-term risk: part of Vital's 1.4M enrollees affected • **Local fiscal strain:** higher taxes, spending cuts or reduced coverage
5	**Tourism and manufacturing**	• **90% of visitors** come from the U.S. • **Reshoring** is an opportunity, but energy and water infrastructure is a constraint	• **A U.S. slowdown** would hit tourism activity directly • **Automation limits job growth;** human capital development is critical • Infrastructure issues could reduce competitiveness
6	**Financing costs**	• **Mortgage rates at 7.40%** (Oct 2026) and higher-for-longer U.S. monetary policy	• **Higher financing costs** make some pipeline projects unviable • **Debt stress may tighten underwriting,** curbing investment and consumption

Source: Estudios Técnicos, Inc. analysis. Reconstruction funding is an approximate annual average through 2035.
* $4.1 billion is the annual reconstruction spending, assuming a 10-year period ending in 2036.

BASELINE PROJECTION OF A 1.4% CONTRACTION IN REAL GNP IN 2027

ETI baseline real GNP projection

% growth by fiscal year



Faster infrastructure execution is essential to support growth and improve this outlook

Source: Estudios Técnicos, Inc. estimate for the Baseline scenario.



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