



COMMONWEALTH OF
PUERTO RICO

Puerto Rico Fiscal Agency and
Financial Advisory Authority

May 2016

Economic Activity Index (“FAFAA-EAI”)

About the interpretation of the FAFAA-EAI

The FAFAA-EAI is an indicator of general economic activity, not a direct measurement of real GNP. The annual growth rate of the FAFAA-EAI **is not** the same as the annual growth rate of real GNP.

- When it is annualized, the **level** of the FAFAA-EAI is highly correlated with the **level** of **real GNP** (with a Pearson correlation coefficient of 0.9792, for FY1981-FY2015).
- Annual **growth rates** of both variables are also highly correlated (with a Pearson correlation coefficient of 0.9538, for FY1982-FY2015).
- Nevertheless, the annual growth rate of the FAFAA-EAI **IS NOT** the same as the annual growth rate of real GNP. Being highly correlated does not mean being equal.
- In order to approximate real GNP growth from EAI annual growth, we estimate a linear regression model relating both variables.
- Plugging in FAFAA-EAI annual growth rates into the resulting equation, we obtain estimates for the annual growth rates of real GNP, which approximate real GNP annual growth figures published by the Planning Board.

About the interpretation of the FAFAA-EAI (2)

The FAFAA-EAI is an indicator of the general economic activity, not a direct measurement of real GNP. The annual growth rate of the FAFAA-EAI **is not** the same as the annual growth rate of real GNP.

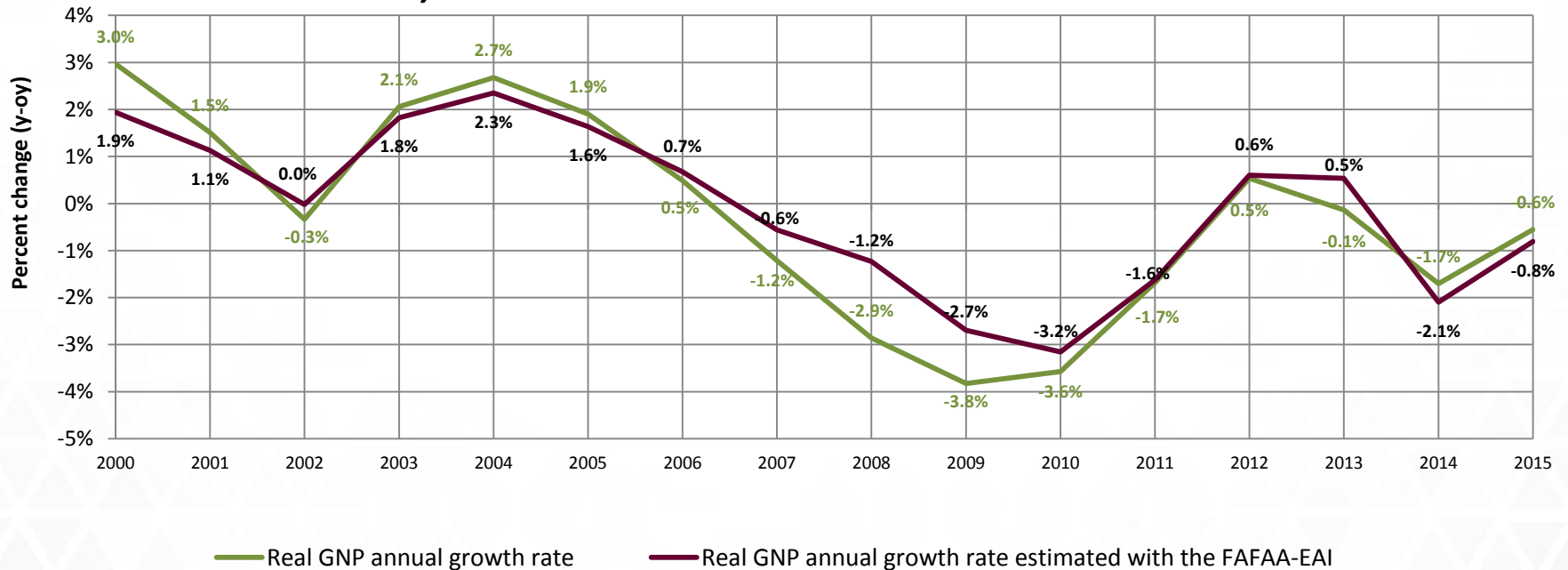
Fiscal Year	FAFAA-EAI annual growth	Real GNP annual growth estimated using the FAFAA-EAI	Current real GNP annual growth
2002	-0.8%	0.0%	-0.3%
2003	1.6%	1.8%	2.1%
2004	2.3%	2.3%	2.7%
2005	1.4%	1.6%	1.9%
2006	0.1%	0.7%	0.5%
2007	-1.5%	-0.6%	-1.2%
2008	-2.3%	-1.2%	-2.9%
2009	-4.2%	-2.7%	-3.8%
2010	-4.8%	-3.2%	-3.6%
2011	-2.8%	-1.6%	-1.7%
2012	0.0%	0.6%	0.5%
2013	-0.1%	0.5%	-0.1%
2014	-3.4%	-2.1%	-1.7%
2015	-1.8%	-0.8%	-0.6%

- However, real GNP growth estimates based on the FAFAA-EAI are relatively close (although not identical) to actual real GNP growth figures.
- Real GNP growth for FY2015 was estimated at -0.8% using a regression equation with the growth of the FAFAA-EAI as the independent variable. The index's annual growth is calculated as the annual percentage change of the twelve-month average.
- For FY2014, the index-based estimate for real GNP growth showed a slightly larger decline than the actual official measure of the Puerto Rico Planning Board; while for FY2015, that index-based estimate was closer to the Planning Board measure.

About the interpretation of the FAFAA-EAI (3)

The graph compares actual real GNP growth rates with projected real GNP growth rates based on the FAFAA-EAI.

Annual Growth Rate Comparisons: Real GNP, and real GNP estimated with the FAFAA-EAI



Real GNP data source: Puerto Rico Planning Board

Overview - May 2016

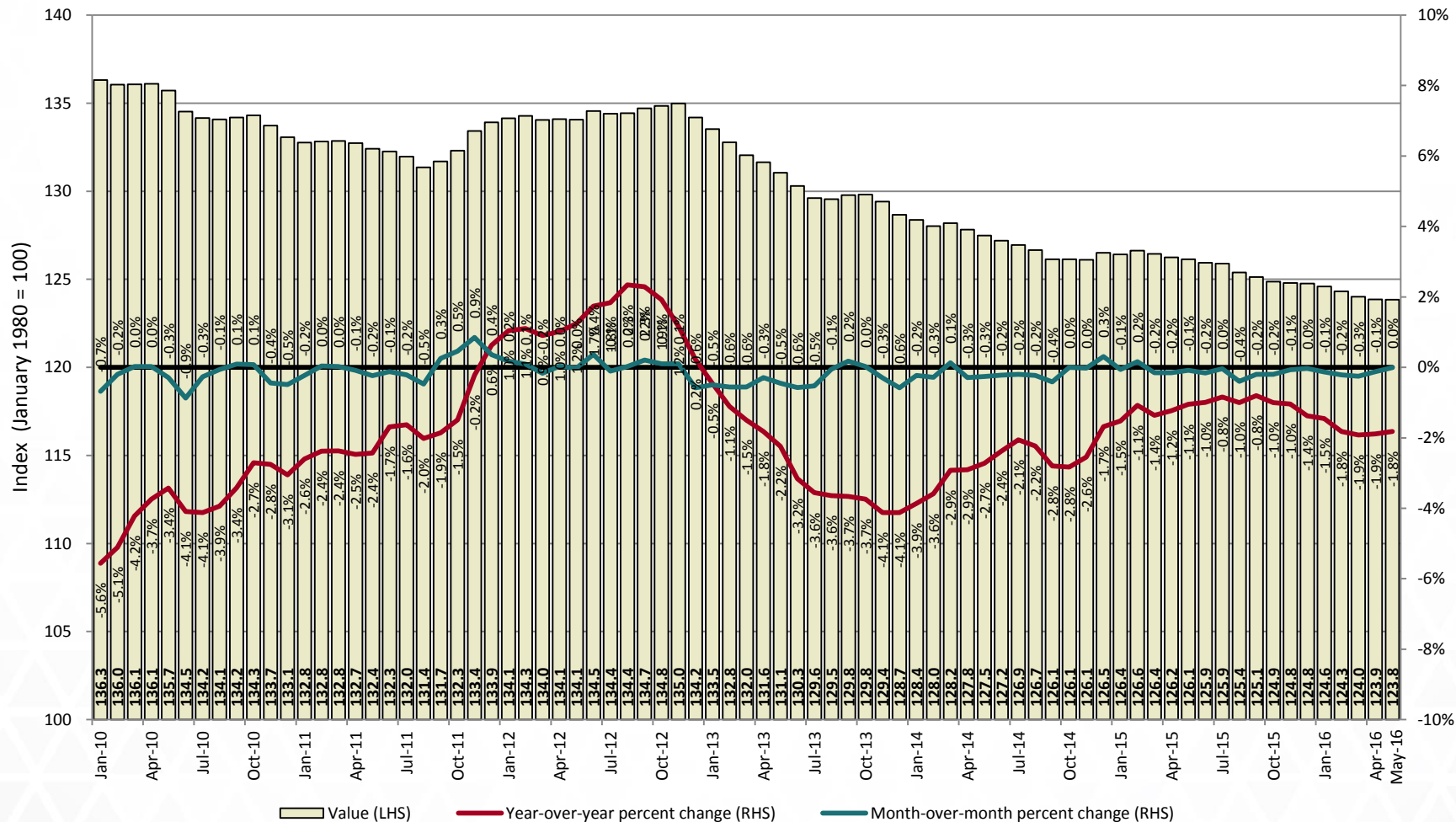
In May 2016, the FAFAA-EAI registered a 1.8% y-o-y reduction, and a month-over-month (m-o-m) decrease of 0.1%.

- The May 2016 figure for the FAFAA-EAI was 123.8, a 1.8% reduction compared to May 2015, and a 0.1% reduction compared to April 2016. On a year-to-date basis (July 2015 to May 2016) the decline was of 1.4% with respect to the same period of the previous fiscal year.
- Total non-farm payroll employment for May 2016 averaged 893,200, an annual decrease of 1.2%.
- Electric power generation for May 2016 totaled 1,797.6 million kWh, an annual decrease of 0.4%.
- The preliminary number for gasoline consumption* in May 2016 was 82.2 million gallons, 3.5% above May 2015.
- Cement sales for May 2016 totaled 1.00 million bags, registering an annual decrease of 15.0%.

* The monthly gasoline consumption is estimated by the FAFAA from the Treasury Department's monthly gasoline excise tax collections paid by importers which are transferred to P.R. Highways and Transportation Authority. These collections fluctuate due to changes in inventories and purchases, which do not necessarily reflect the actual monthly consumption reported by retailers.

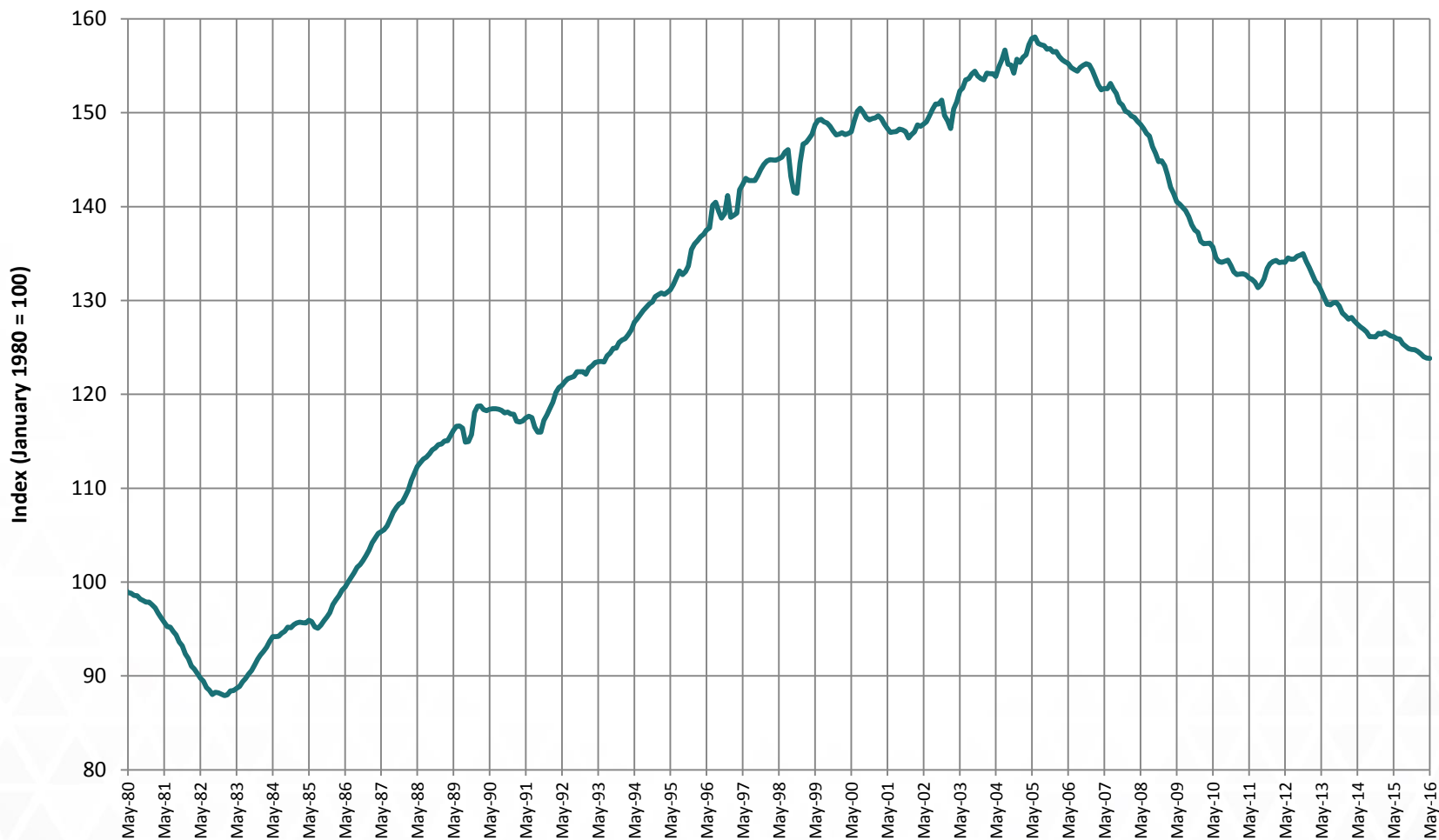
In May 2016, the FAFAA-EAI registered a 1.8% year-over-year (y-o-y) reduction, and a month-over-month (m-o-m) decrease of 0.1%.

FAFAA Economic Activity Index



The complete series of the FAFAA-EAI, which starts in January 1980, shows the recessions of FY1982 and FY1983, the mild recession of FY1991, and the recession of 2001. It also shows the downward path of the Index since the beginning of the current recession.

FAFAA Economic Activity Index



FAFAA Economic Activity Index: Data for the past decade

PUERTO RICO ECONOMIC INDICATORS

New FAFAA Economic Activity Index
(January 1980 = 100)

GOVERNMENT DEVELOPMENT BANK

ECONOMIC ANALYSIS DIVISION

FISCAL YEAR *	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
JULY	154.6	153.1	147.8	139.9	134.2	132.0	134.4	129.6	126.9	125.9
AUGUST	154.4	152.5	147.5	139.6	134.1	131.4	134.4	129.5	126.7	125.4
SEPTEMBER	154.8	152.1	146.4	138.9	134.2	131.7	134.7	129.8	126.1	125.1
OCTOBER	155.1	151.1	145.7	138.1	134.3	132.3	134.8	129.8	126.1	124.9
NOVEMBER	155.2	150.8	144.8	137.5	133.7	133.4	135.0	129.4	126.1	124.8
DECEMBER	155.1	150.2	144.9	137.3	133.1	133.9	134.2	128.7	126.5	124.8
JANUARY	154.5	150.0	144.3	136.3	132.8	134.1	133.5	128.4	126.4	124.6
FEBRUARY	153.7	149.7	143.4	136.0	132.8	134.3	132.8	128.0	126.6	124.3
MARCH	153.0	149.5	142.1	136.1	132.8	134.0	132.0	128.2	126.4	124.0
APRIL	152.5	149.1	141.4	136.1	132.7	134.1	131.6	127.8	126.2	123.9
MAY	152.6	148.8	140.5	135.7	132.4	134.1	131.1	127.5	126.1	123.8
JUNE	152.6	148.3	140.3	134.5	132.3	134.5	130.3	127.2	125.9	

YEAR OVER YEAR PERCENTAGE CHANGE

FISCAL YEAR *	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
JULY	-1.8	-1.0	-3.5	-5.3	-4.1	-1.6	1.8	-3.6	-2.1	-0.8
AUGUST	-1.8	-1.3	-3.3	-5.4	-3.9	-2.0	2.3	-3.6	-2.2	-1.0
SEPTEMBER	-1.5	-1.8	-3.7	-5.1	-3.4	-1.9	2.3	-3.7	-2.8	-0.8
OCTOBER	-1.1	-2.6	-3.6	-5.2	-2.7	-1.5	1.9	-3.7	-2.8	-1.0
NOVEMBER	-1.0	-2.9	-4.0	-5.0	-2.7	-0.2	1.2	-4.1	-2.6	-1.0
DECEMBER	-0.9	-3.2	-3.5	-5.3	-3.1	0.6	0.2	-4.1	-1.7	-1.4
JANUARY	-1.3	-2.9	-3.8	-5.6	-2.6	1.0	-0.5	-3.9	-1.5	-1.4
FEBRUARY	-1.5	-2.6	-4.2	-5.1	-2.4	1.1	-1.1	-3.6	-1.1	-1.8
MARCH	-1.7	-2.3	-5.0	-4.2	-2.4	0.9	-1.5	-2.9	-1.4	-1.9
APRIL	-1.9	-2.2	-5.2	-3.7	-2.5	1.0	-1.8	-2.9	-1.2	-1.9
MAY	-1.7	-2.5	-5.5	-3.4	-2.4	1.2	-2.2	-2.7	-1.1	-1.8
JUNE	-1.5	-2.8	-5.4	-4.1	-1.7	1.7	-3.2	-2.4	-1.0	

YEAR OVER YEAR DIFFERENCE

FISCAL YEAR *	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
JULY	-2.8	-1.5	-5.3	-7.9	-5.8	-2.2	2.4	-4.8	-2.7	-1.1
AUGUST	-2.8	-1.9	-5.0	-8.0	-5.5	-2.7	3.1	-4.9	-2.9	-1.3
SEPTEMBER	-2.3	-2.8	-5.7	-7.4	-4.8	-2.5	3.0	-4.9	-3.6	-1.0
OCTOBER	-1.7	-4.0	-5.4	-7.6	-3.7	-2.0	2.5	-5.0	-3.7	-1.3
NOVEMBER	-1.6	-4.4	-6.0	-7.3	-3.8	-0.3	1.6	-5.6	-3.3	-1.3
DECEMBER	-1.4	-5.0	-5.3	-7.6	-4.2	0.8	0.3	-5.5	-2.2	-1.7
JANUARY	-2.0	-4.5	-5.7	-8.0	-3.6	1.4	-0.6	-5.2	-1.9	-1.8
FEBRUARY	-2.3	-4.1	-6.3	-7.3	-3.2	1.5	-1.5	-4.8	-1.4	-2.3
MARCH	-2.7	-3.5	-7.5	-6.0	-3.2	1.2	-2.0	-3.9	-1.7	-2.4
APRIL	-3.0	-3.4	-7.7	-5.3	-3.4	1.4	-2.4	-3.8	-1.6	-2.4
MAY	-2.7	-3.8	-8.2	-4.8	-3.3	1.6	-3.0	-3.6	-1.3	-2.3
JUNE	-2.3	-4.2	-8.1	-5.7	-2.3	2.3	-4.2	-3.1	-1.3	

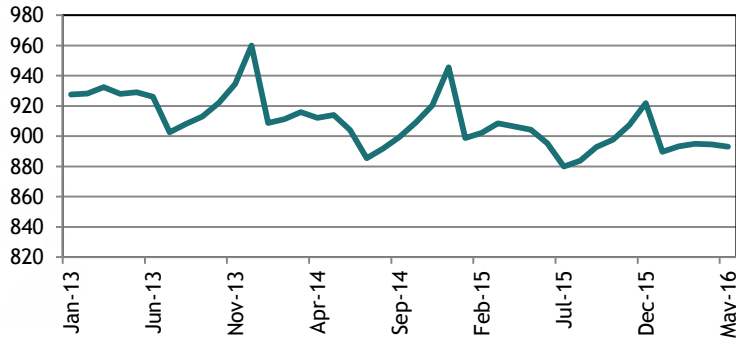
SUMMARY DATA

FISCAL YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
AVERAGE	154.0	150.4	144.1	137.2	133.3	133.3	133.2	128.7	126.4	
DIFFERENCE	-2.3	-3.6	-6.3	-6.9	-3.9	0.0	-0.1	-4.6	-2.3	
% CHANGE	-1.5	-2.3	-4.2	-4.8	-2.8	0.0	-0.1	-3.4	-1.8	
JUL-MAY										
AVERAGE	154.1	150.6	144.4	137.4	133.4	133.2	133.5	128.8	126.4	124.7
DIFFERENCE	-2.3	-3.5	-6.2	-7.0	-4.0	-0.2	0.3	-4.7	-2.4	-1.7
% CHANGE	-1.5	-2.3	-4.1	-4.9	-2.9	-0.1	0.2	-3.5	-1.9	-1.4
CALENDAR YEAR										
AVERAGE	152.4	147.7	140.3	134.9	132.5	134.4	130.7	127.1	125.7	
DIFFERENCE	-2.9	-4.7	-7.4	-5.4	-2.3	1.9	-3.7	-3.6	-1.4	
% CHANGE	-1.8	-3.1	-5.0	-3.9	-1.7	1.4	-2.8	-2.7	-1.1	
JAN-MAY										
AVERAGE	153.3	149.4	142.3	136.0	132.7	134.1	132.2	128.0	126.4	124.1
DIFFERENCE	-2.5	-3.8	-7.1	-6.3	-3.3	1.4	-1.9	-4.2	-1.6	-2.3
% CHANGE	-1.6	-2.5	-4.7	-4.4	-2.4	1.1	-1.4	-3.2	-1.2	-1.8

FAFAA Economic Activity Index Components

Total Non-Farm Payroll Employment*

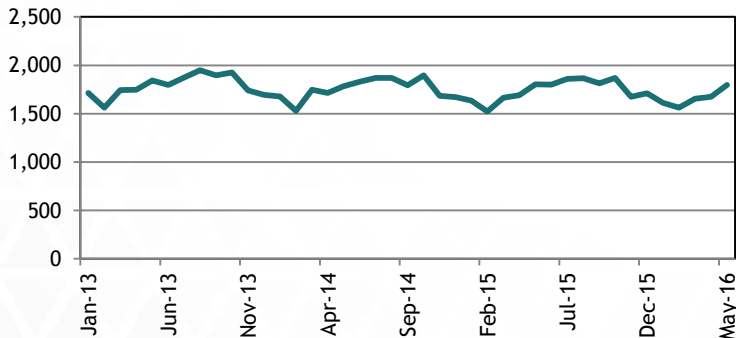
(Thousands of jobs)



- Total non-farm payroll employment for May 2016 averaged 893,200, an annual decrease of 1.2%.

Electric Power Generation*

(Millions of kWh)



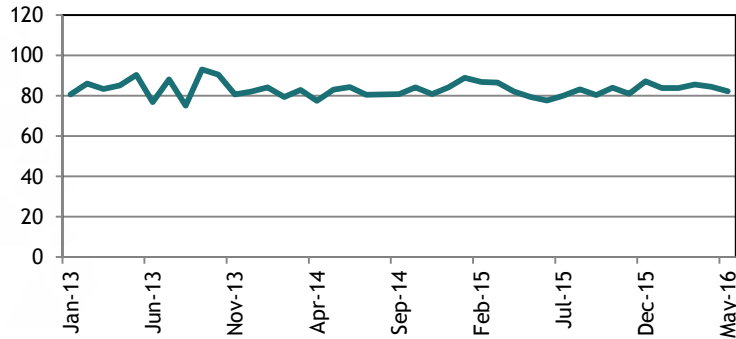
- Electric power generation for May 2016 averaged 1,797.6 million kWh, an annual decrease of 0.4%.

Sources: BLS and PREPA
* Not seasonally adjusted.

FAFAA Economic Activity Index Components

Gasoline Consumption*

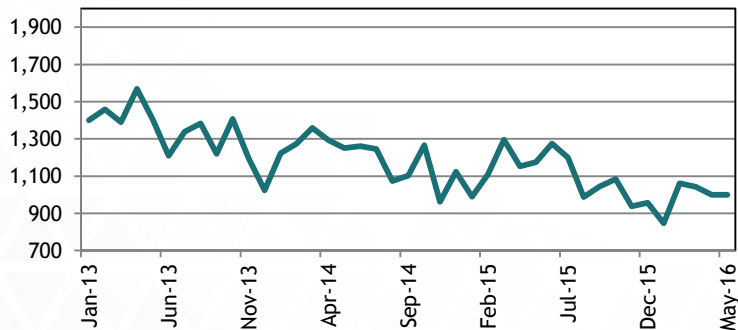
(Millions of gallons)



- The preliminary estimate of gasoline consumption for May 2016 was 82.2 million gallons, for an annual increase of 3.5%.

Cement Sales*

(Cement bags sold, in thousands)



- Cement Sales for May 2016 totaled 1.00 million bags, an annual decrease of 15.0%.

Sources: PRHTA and FAFAA
 * Not seasonally adjusted.

*The monthly gasoline consumption is estimated by the FAFAA from the Treasury Department's monthly gasoline excise tax collections paid by importers which are transferred to P.R. Highways and Transportation Authority.

Description of the FAFAA-Economic Activity Index

FAFAA-EAI Highlights and Composition

FAFAA Economic Activity Index Highlights

Advantages of the FAFAA-EAI:

- Readily available
- Highly correlated to Puerto Rico's real GNP
- Reliable tool to monitor actual trend of Puerto Rico economy

The FAFAA-EAI is made up of 4 indicators:

- Total Payroll Employment (Establishment Survey/ Thousand of employees)
- Total Electric Power Generation (Millions of kWh)
- Cement Sales (Millions of bags)
- Gas Consumption (Millions of gallons)

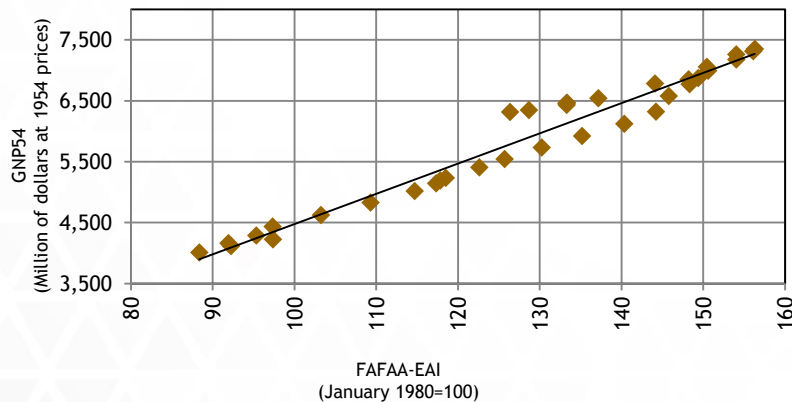
Description of the FAFAA-EAI

- The FAFAA-EAI is a coincident index for the economic activity of Puerto Rico. It is highly correlated to Puerto Rico's real GNP in both, levels and annual growth rates.
- This index's methodology is similar to that used in The Conference Board's coincident index of the US economy. This methodology follows a standard procedure to adjust the data for seasonality and volatility factors.

Real Gross National Product as a function of the FAFAA Economic Activity Index

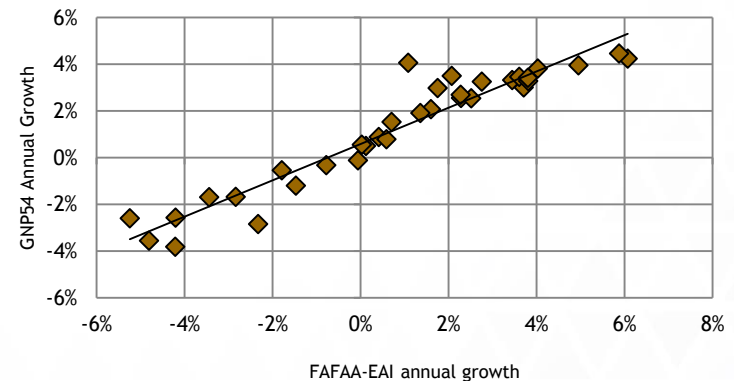
Relationship on the levels: FY1981-FY2015

$$y = 49.683x - 492.72 \quad R^2 = 0.9588$$



Relationship on the growth rates: FY1982-FY2015

$$y = 0.774x + 0.0058 \quad R^2 = 0.9098$$



Sources: FAFAA

Disclaimer

The FAFAA-EAI and its indicators are subject to revisions. While the information comprising the FAFAA-EAI has been obtained from sources FAFAA believes to be reliable, FAFAA is not responsible for any errors or omissions, or for the results obtained from the use of this information.