

Economic Report

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Economic Indicators

General Fund Net Revenues for the month of July totaled \$626.5 million

Total net revenues to the General Fund in the Treasury Department for the month of July were \$626.5 million, a \$2.3 million increase compared to July 2014. Revenues also exceeded estimates by \$21.1 million.

(millions of \$)	July 2015	July 2016	Dif.	Estimates July	Collections vs Estimates
General Fund Net Revenues	\$624.4	\$626.5	\$2.3	\$605.2	\$21.1
Individual	142.1	163.5	21.4	156.3	7.2
Corporations	99.3	96.3	-3.0	95.0	1.3
Foreign (Act. 154)	283.3	258.9	-24.4	254.3	4.6
Alcoholic Beverages	16.2	22.8	6.6	18.3	4.5
Motor Vehicles	7.1	1.4	-5.7	4.1	-2.7
Sales and Use Tax (SUT)	-	11.6	11.6	9.5	2.1

Source: Department of Treasury

The foreign excise tax was the main revenue driver, with \$258.9 million, or 41.3% of total collections in July 2015; in the year-over-year comparison this category reflected a decrease as a result of the specific effect of one transaction by one corporation.

Other excise taxes showed mixed results: alcoholic beverages collections were up and cigarette and motor vehicle revenues were down. Motor vehicle excise tax revenues were \$21.4 million; however, \$20 million was transferred to the Green Energy Fund.

Sales and Use Tax (SUT) collections totaled \$154.3 million in July 2015, a \$40.6 million, or 35.7%, increase compared to July 2014 and the highest amount of revenues for any month. The \$154.3 million SUT collected in July 2015 were distributed as follows: \$142.7 million to COFINA to cover debt service and \$11.3 million to the General Fund.

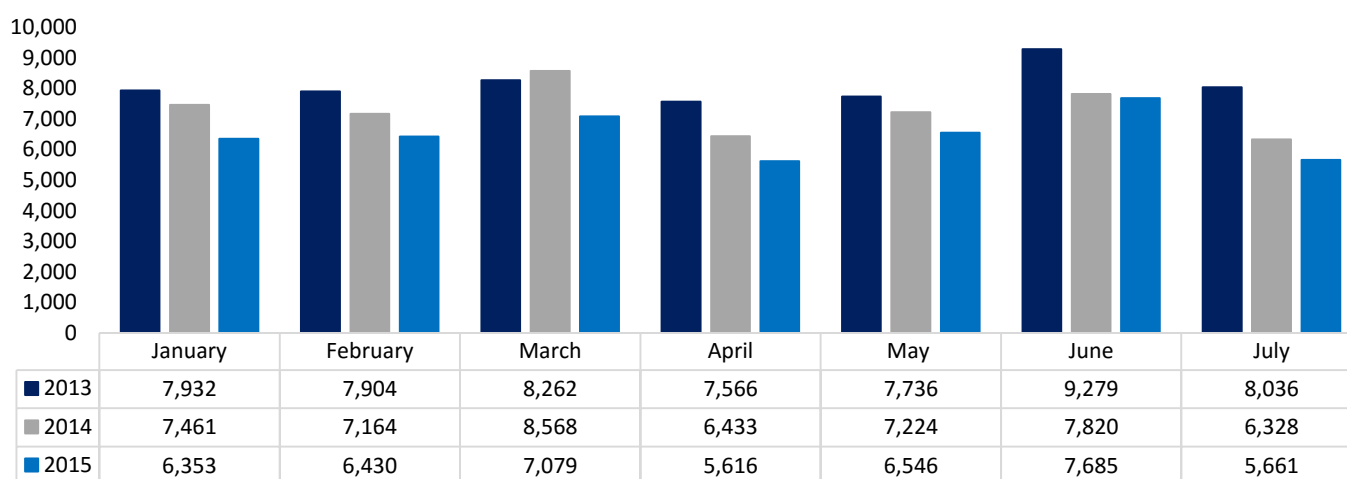


Treasury Secretary, Juan Zaragoza Gómez attributed the increase in SUT to the implementation of the last phase of the Integrated Merchant Portal (PICO, by its Spanish acronym), which was completed on May 1st. Another factor that may have influenced collections is the effect of consumers making purchases in advance of the rate increase.

Car sales decrease 11.2% in July

The automotive industry reported sales for the month of July totaled 5,661, a reduction of 665 cars less (-10.5%) compared to July 2014. Figures for the current year, from January to July 2015, total 45,370, 5,718 less cars (-11.2%) than in the same period last year.

Total Car Sales



In July, American car sales dropped -10.3%, and Japanese brand cars dropped 15.7%. Korean brand cars increased sales by 0.2%, and European brand car sales increased 10.6%. High-end model cars, such as Jaguar, Mercedes, and Mini Coopers keep increasing sales during the turbulent year.

The first half of 2015 reflected sustained declines in sales, month after month. March is the month in with the largest decline in sales -18.2%, while the month with the smallest decline was June with -1.7%. Sustained declines in sales over the course of 2015, coming from 2014, the year closed with accumulated losses of -12%. Even during the summer months in which car rental companies usually renew fleet, these sales failed to cushion the decline, since it also suffered losses compared with the same month in 2014 -16.6%.

"The industry continues to operate in a highly unstable environment in which there is no sign that sales will normalize soon. At end-July this year, we are very close to the accumulated losses with which we ended the previous year." commented Jose Ordeix, GUIA president.



NEWS

Moody's classifies "Caa3" PRASA's \$750 million issue

Moody's Investors Service (Moody's) assigned a rating of "Caa3" to the issuance of \$750 million by the Puerto Rico Aqueduct and Sewer Authority (PRASA), with an expected sale date on the 18th of August, this week. This is the same rating Moody's gave when they downgraded the government's debt and PRASA last July.

This is the first emission a government agency has made since March 2014. PRASA anticipates it will pay an interest rate of 10%, this is a very high interest for the market but the government agency is in need of liquidity.

The issuance will be used to repay a line of credit with Banco Popular of \$90 million; a debt with the Government Development Bank (GDB) of \$68 million; \$125 million to be used for operational costs in PRASA for capital improvement; and \$60 million to repay debt payed to Oriental Bank. The bond issue will allow the agency to continue the program of capital improvements and continue to comply with the Federal Environmental Protection Agency (EPA).

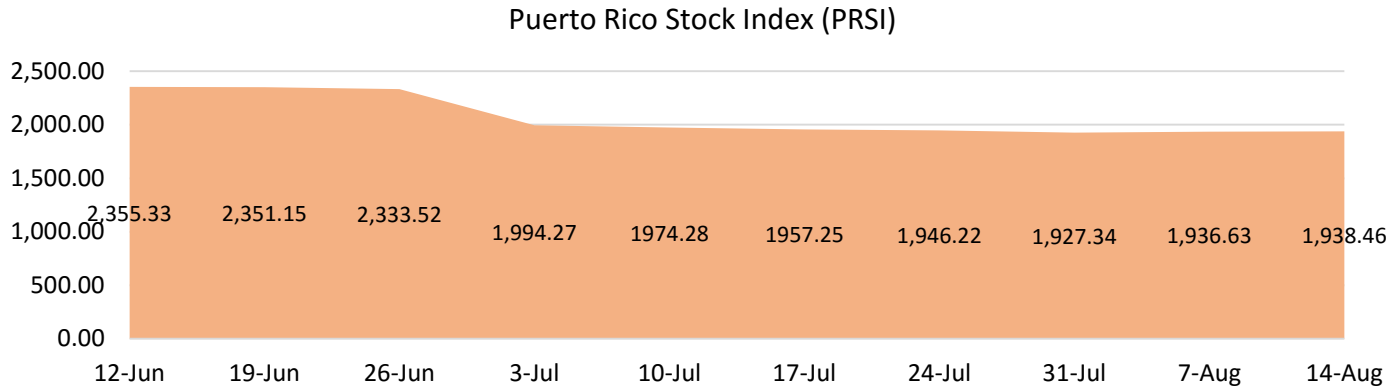
"PRASA's outlook is negative, reflecting expectations that the commonwealth will pursue a consolidated restructuring of its debt. While PRASA revenues have increased substantially since a 2013 rate hike, exposure to the central government's financial, economic and political risks indicates a heightened loss potential" read the report by Moody's.

Moody's suggested the rating could go up if the government improves its liquidity and heads towards a structural balance and market access. Additionally the government would have to provide evidence that if they were to restructure the debt, PRASA's bondholders wouldn't be affected. The rating could go down if efforts to restructure PRASA's bonds resulting in lower expected recovery rates.



The Puerto Rico Stock Index (PRSI) closes in negative

The PRSI closed last week at 1,938.46.22, a slight 0.1% increase. This is the second increase after seven weeks posting negative numbers following the government’s assertion that it could not pay its debt.



Source: Government Development Bank

The largest decrease was First BanCorp at \$3.85, a 4.9% decrease. The largest increase was Popular Inc. at \$31.10, a 1.5% increase.

The PRSI is a capitalization-weighted (or market value weighted) index, composed of five companies headquartered and/or with their main place of business in Puerto Rico. The companies included in the index are traded on national stock markets (i.e., NYSE, AMEX) and in the over-the-counter market (i.e., NASDAQ). These include: OFG Bancorp; Popular Inc.; First Bancorp Puerto Rico’ Triple-S MGMT Corp; and Evertec Inc.

The week it was announced the government could not repay the debt, all indexes dropped, with OFG Bancorp (-31.39%), First Bancorp PR (-26.28%), and Triple S MGMT Corp (-22.07%). The PRSI dropped -14.54%. The governor’s decision to publicly announce the threat of a default led the private sector into dark waters in the stock exchange. These past two weeks the indexes have been increasing marginally.