



COMMONWEALTH OF
PUERTO RICO

Government Development Bank
for Puerto Rico

May 2014

Economic Activity Index (“GDB-EAI”)

General Commentary - May 2014

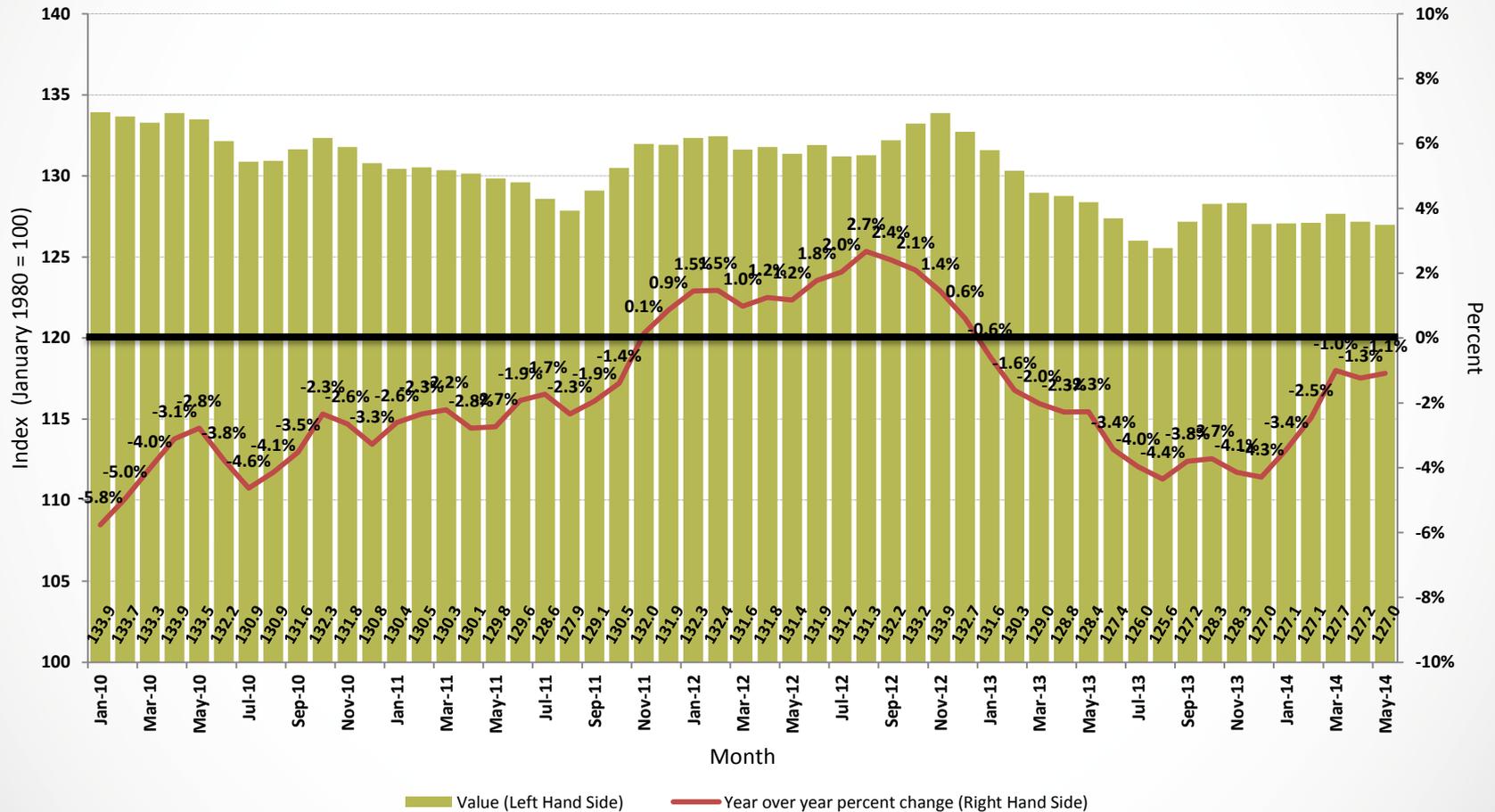
The GDB-EAI registered a 1.1% year-over-year reduction in May, after showing a 1.3% y-o-y decrease in April 2014, holding up with a stabilization scenario.

- Total non-farm payroll employment for May 2014 averaged 932,100, an annual increase of 0.4%, while FY2014 YTD total non-farm payroll employment showed a 1.3% decrease with respect to the corresponding figure for FY2013. During this month, total private employment increased by 1.8% y-o-y (12,000 jobs), while total public employment decreased by 3.4% y-o-y (8,400 jobs).
- Electric power generation for May 2014 totaled 1,784.4 million kWh, an annual reduction of 3.3%. Electricity generation for FY2014 YTD was 3.1% less than during the same period of FY2013.
- The preliminary number for gasoline consumption* in May 2014 was 90.0 million gallons, 0.5% below May 2013. The FY2014 YTD gasoline consumption number was 2.1% below the corresponding figure for FY2013.
- Cement sales for May 2014 totaled 1.25 million bags, registering an annual reduction of 10.8%. Sales for FY2014 YTD were 14.2% below the figure for the same period of FY2013.

* The monthly gasoline consumption is estimated by the GDB 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.

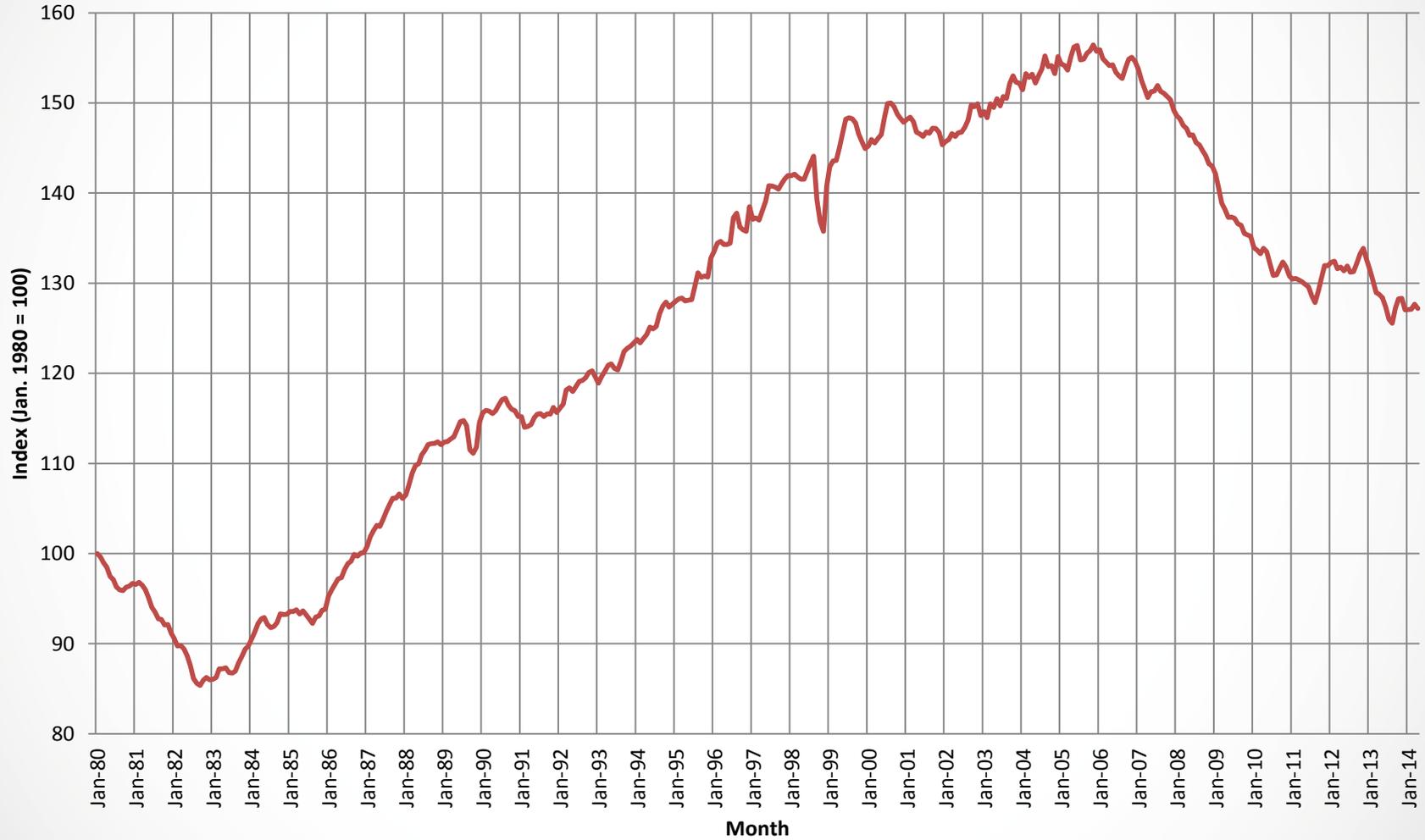
- The GDB-EAI registered a 1.1% year-over-year reduction in May, after showing a 1.3% y-o-y decrease in April 2014, holding up with a stabilization scenario.

GDB Economic Activity Index



- The complete series of the new EAI, which starts in January 1980, shows the recessions of FY1982 and FY1983, and the mild recession of FY1991, the recession of 2001. It also shows the path of the Index since the beginning of the recession and its recent signs of stabilization.

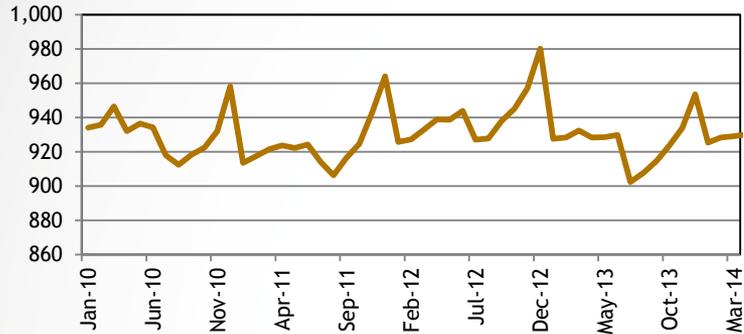
GDB Economic Activity Index



GDB Economic Activity Index Components

Total Non-Farm Payroll Employment*

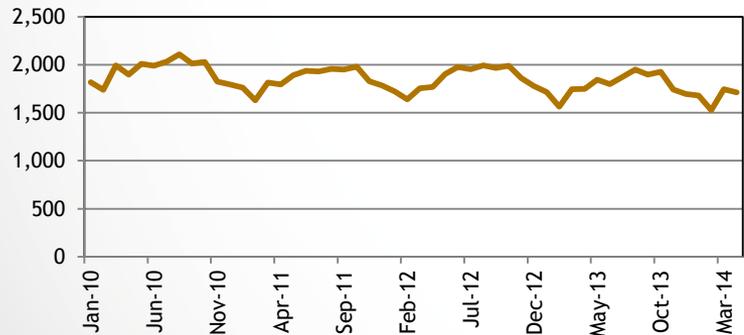
(Thousands of jobs)



- Total non-farm payroll employment for May 2014 averaged 932,100, an annual increase of 0.4%. During this month, private employment increased by 1.8% y-o-y (12,000 jobs), while public employment decreased by 3.4% y-o-y (8,400 jobs).

Electric Power Generation

(Millions of kWh)



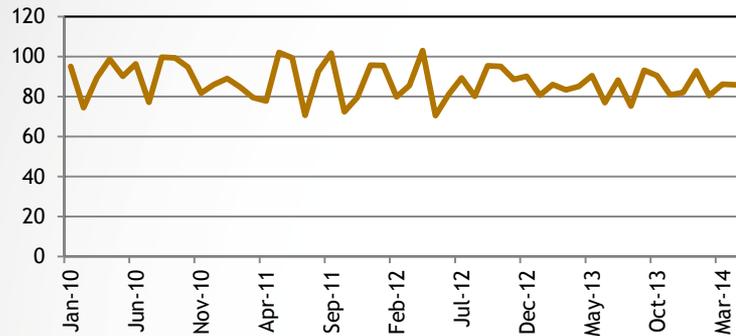
- Electric power generation for May 2014 averaged 1,784.4 million kWh, an annual reduction of 3.3%.

Sources: BLS and PREPA
* Not seasonally adjusted.

GDB Economic Activity Index Components

Gasoline Consumption

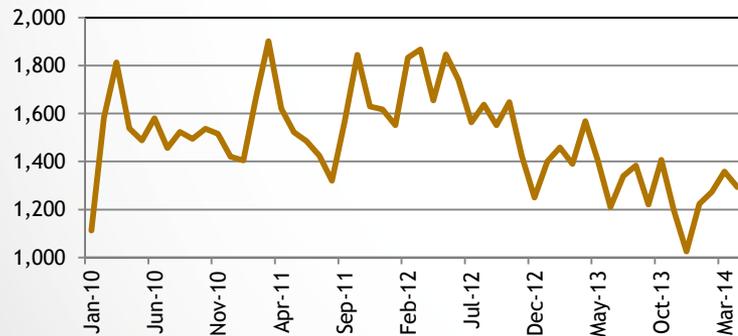
(Millions of gallons)



- The preliminary estimate of gasoline consumption* for May 2014 was 90.0 million gallons, for an annual decrease of 0.5%.

Cement Sales

(Cement bags sold, in thousands)



- Cement Sales for May 2014 totaled 1.25 million bags, an annual decrease of 10.8%.

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

Sources: PRHTA and GDB
* Not seasonally adjusted.

Description of the GDB-Economic Activity Index

GDB-EAI Highlights and Composition

GDB Economic Activity Index Highlights

Advantages of the GDB-EAI:

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

The GDB-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)

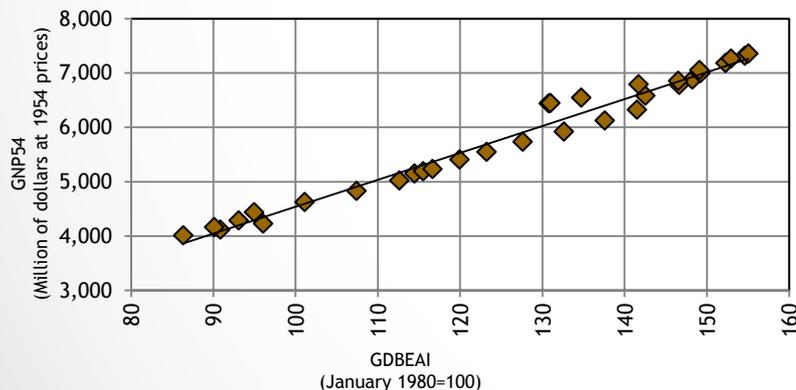
Description of the GDB-EAI

- The GDB-EAI is a coincident index for the economic activity of Puerto Rico. It is highly correlated to Puerto Rico's real GNP not only on the levels, but also on the annual growth rates.
- This index was developed following the methodology similar to that used by The Conference Board in their coincident index. This methodology follows a standard procedure to adjust the data for seasonality and volatility factors.

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

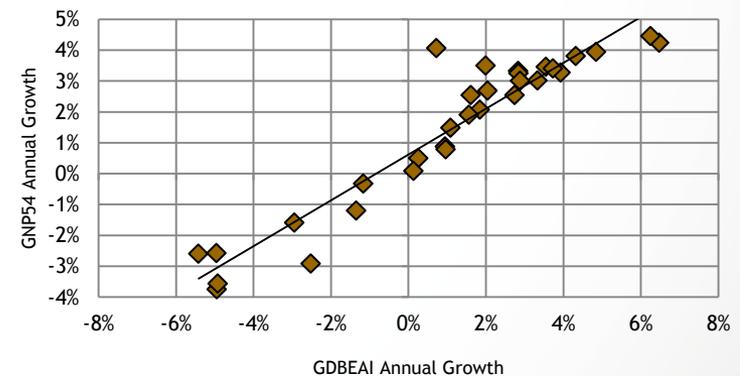
Relationship on the levels: FY1981-FY2012

$$y = 49.495x - 408.29 \quad R^2 = 0.9773$$



Relationship on the growth rates: FY1982-FY2012

$$y = 0.7421x + 0.0062 \quad R^2 = 0.8949$$



Sources: GDB

Appendix

Clarification about the interpretation of the GDB-EAI figures

The GDB-EAI is an indicator of the general economic activity, not a direct measurement of the real GNP. Moreover, the GDB-EAI annual growth rates are not the same as the real GNP growth rates, because the former are more volatile than the latter.

- When it is annualized, the level of the EAI is highly correlated with the **level** of the real GNP (with a Pearson correlation coefficient of 0.9886, for FY1981-FY2012).
- The annual **growth rates** of both variables are also highly correlated (with a Pearson correlation coefficient of 0.9508, for FY1982-FY2012).
- Nevertheless, the annual growth rate of the EAI **IS NOT** the same as the annual growth rate of the real GNP. Being highly correlated does not mean being equal.
- In order to approximate real GNP growth from the EAI annual growth, we estimate a linear regression model relating both variables.
- Plugging in the EAI annual growth rates into the resulting equation we obtain estimates for the annual growth rates of the real GNP.
- This transformation generates an approximation of the actual real GNP growth figures.

Clarification about the interpretation of the GDB-EAI figures (2)

Here is a comparison of the annual growth rates of the GDB-EAI with the actual real GNP figures. There are also estimates of the annual growth of the real GNP using the figures coming from the GDB-EAI.

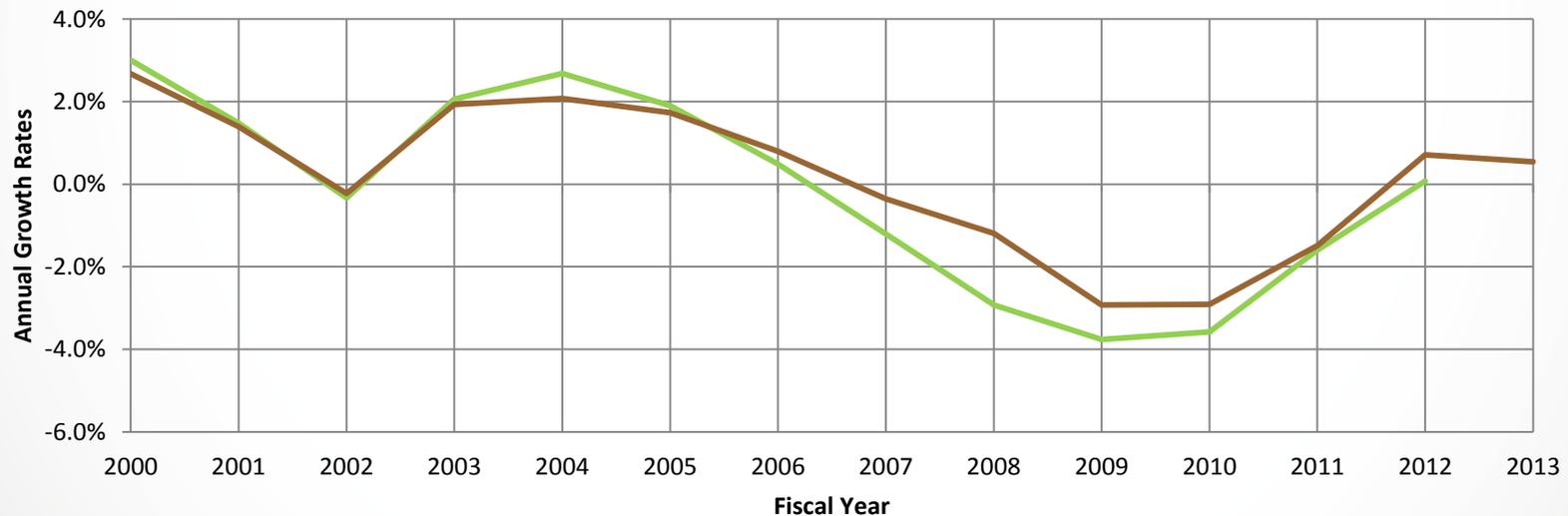
Fiscal Year	EAI Annual growth	Real GNP annual growth estimated using the EAI	Actual Real GNP annual Growth
2000	2.9%	2.7%	3.0%
2001	1.1%	1.4%	1.5%
2002	-1.2%	-0.2%	0.3%
2003	1.8%	1.9%	2.1%
2004	2.0%	2.1%	2.7%
2005	1.6%	1.7%	1.9%
2006	0.3%	0.8%	0.5%
2007	-1.3%	-0.4%	-1.2%
2008	-2.5%	-1.2%	-2.9%
2009	-4.9%	-2.9%	-3.8%
2010	-4.9%	-2.9%	-3.6%
2011	-2.9%	-1.5%	-1.6%
2012	0.1%	0.7%	0.1%

- Notice that the real GNP growth estimates coming from the EAI are relatively close to the actual real GNP growth figures.

Clarification about the interpretation of the GDB-EAI figures (3)

Here is a comparison graph of the actual real GNP figures and the estimates of the annual growth of the real GNP using the figures coming from the GDB-EAI.

**Growth Rates Comparisons:
Real GNP, and real GNP estimated with the GDB-EAI**



— Real GNP annual growth rate — Real GNP annual growth estimated using the EAI

Disclaimer

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