



Government of Puerto Rico  
Department of Labor and Human Resources  
Bureau of Labor Statistics

# **Puerto Rico Economic Analysis Report 2008-2009**



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Secretary

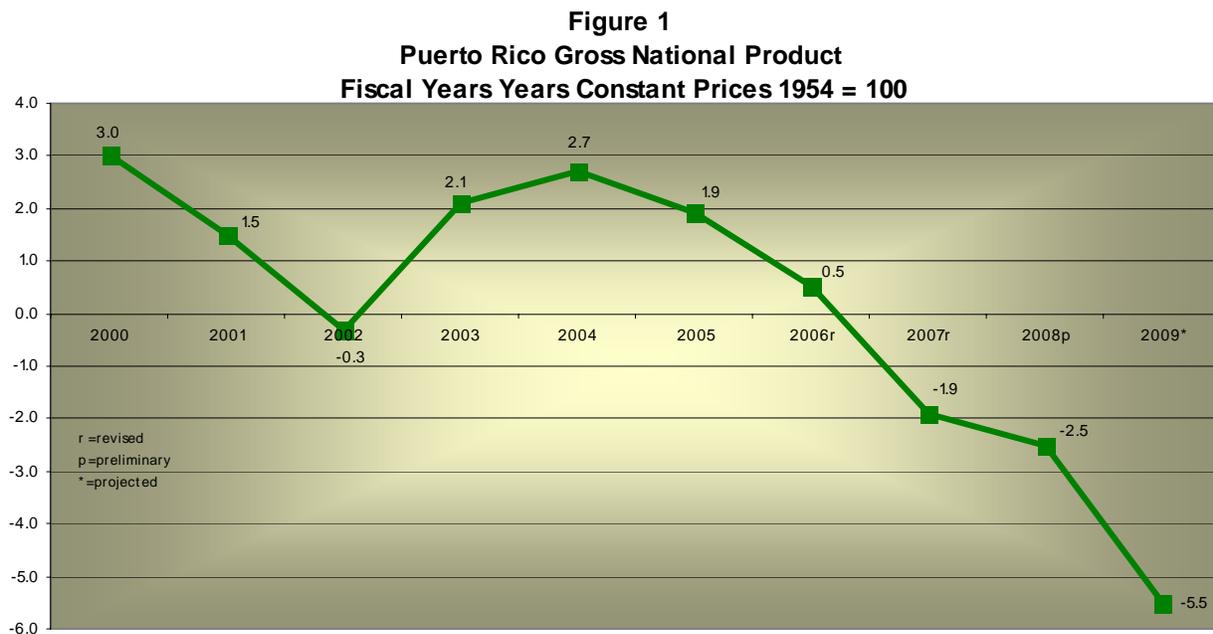
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## I. Trends and Development

### A. Economic Overview

Puerto Rico's economy is currently in a recession that began in FY (fiscal year) 2006 (July 1<sup>st</sup> to June 30<sup>th</sup>), a FY in which the real gross national product grew by only 0.5%. For FYs 2007 and 2008, the real gross national product contracted by 1.9% and 2.5%, respectively. This contraction has continued into FY 2009, for which the Planning Board expects a reduction of 5.5% in real gross national product. Although the economy of Puerto Rico is closely linked to the United States economy, the Island's current deep recession preceded the economic recession on the US mainland by three years. Most of the external factors that affect the Puerto Rico economy are determined by the policies and performance of the mainland economy.



The Planning Board's preliminary reports on the performance of the Puerto Rico economy for FY 2008 indicate that real gross national product decreased 2.5% (3.8% in current dollars) over FY 2007. Nominal gross national product was \$60,787.2 million in FY 2008, compared to \$58,563.0 million in FY 2007. At current prices, personal income rose from \$52,294.7 million in FY 2007 to \$56,201.0 million in FY 2008. The personal income per capita increased from \$13,269 in FY 2007 to \$14,237 in FY 2008 (\$11,341 in 2000 prices). The significant increase in personal income in FY 2008 is due in part to the tax rebate program implemented by the Bush Administration during that FY.

**Table 1**  
**Gross National Product – Current Prices**  
**(millions dollars-fiscal years)**

Indicator	2006r	2007r	2008p	2009*	Change					
					Absolute			Percentage		
					2007-2006	2008-2007	2009-2008	2007-2006	2008-2007	2009-2008
Gross Domestic Product	86,157.5	88,902.3	93,262.9	95,128.0	2,744.8	4,360.6	1,865.1	3.2	4.9	2.0
Gross National Product	56,732.3	58,563.1	60,787.2	60,605.0	1,830.8	2,224.1	-182.2	3.2	3.8	-0.3
Domestic Demand goods & services	72,200.8	74,501.9	76,055.5	75,912.0	2,301.1	1,553.6	-143.5	3.2	2.1	-0.2
Personal Income	50,842.3	52,294.7	56,201.4	55,855.0	1,452.4	3,906.7	-346.4	2.9	7.5	-0.6
Personal Consumption Expenditure	49,660.0	52,009.0	54,354.3	55,918.0	2,349.0	2,345.3	1,563.7	4.7	4.5	2.9
durable	5,650.2	5,652.7	5,564.5	n/a	2.5	-88.2	n/a	0	-1.6	n/a
non-durable	19,434.0	20,723.8	21,893.9	n/a	1,289.8	1,170.1	n/a	6.6	5.6	n/a
services	24,575.8	25,632.6	26,895.8	n/a	1,056.8	1,263.2	n/a	4.3	4.9	n/a

**Table 2**  
**Gross National Product – Constant Prices**  
**(million dollars-fiscal years)**

Indicator	2006r	2007r	2008p	2009*	Change					
					Absolute			Percentage		
					2007-2006	2008-2007	2009-2008	2007-2006	2008-2007	2009-2008
Gross Domestic Product	11,073.2	10,920.0	10,770.0	10,487.0	-153.2	-150.0	-283.0	-1.4	-1.4	-2.6
Gross National Product	7,055.5	6,918.8	6,742.4	6,370.0	-136.7	-176.4	-372.4	-1.9	-2.5	-5.5
Domestic Demand goods & services	13,197.4	13,267.5	12,967.7	12,454.0	70.1	-299.8	-513.7	0.5	-2.3	-4.0
Personal Income	9,555.0	9,560.0	9,783.0	9,282.0	5.0	223.0	-501.0	0.1	2.3	-5.1
Personal Consumption Expenditure	9,333.0	9,507.5	9,461.4	9,283.0	174.5	-46.1	-178.4	1.9	-0.5	-1.9
durable	1,709.2	1,740.5	1,634.8	n/a	31.3	-105.7	n/a	1.8	-6.1	n/a
non-durable	3,578.4	3,716.3	3,693.9	n/a	137.9	-22.4	n/a	3.9	-0.6	n/a
services	4,045.4	4,050.8	4,132.7	n/a	5.4	81.9	n/a	0.1	2.0	n/a

r = revised  
p = preliminary  
\* = projected  
Source: Planning Board

Among the variables contributing to the decrease in gross national product were the continuous contraction of the manufacturing and construction sectors, as well as the current contraction of U.S. economic activity. The persistent high level of the price of oil and its derivatives (such as gasoline) during that period served to reduce the income available for other purchases and, thereby, negatively affected domestic demand. In addition, the current difficulties associated with the financial crisis resulted in lower short-term interest rates, but this did not translate into an improvement in the construction sector.

Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product. The Planning Board figures show that in FY 2008 manufacturing generated \$38,457.7 million, or 41.2%, of gross domestic product. In FY 2008, the 90% of the total manufacturing in Puerto Rico was concentrated in two major industries, pharmaceuticals and other chemical products, and machinery and metal products. There are several reasons that explain this sector's job shrinkage: the end of the phase-out of Section 936 of the U.S. Code, the net loss of patents on certain pharmaceutical products, the escalation of manufacturing production costs (particularly labor and electricity), the increased use of job outsourcing, and, currently, the effects of the global economic decline. Puerto Rico's manufacturing sector is facing increased international competition, and new ideas and initiatives are needed to improve it.

The service sector in Puerto Rico has expanded in terms of both income and employment over the past decade, following the general trend of other industrialized economies, but with differences on the magnitudes of those changes. During the period between FYs 2004 and 2008, the payroll employment in this sector increased at an average annual rate of 0.8%. In the Puerto Rico labor market, self-employment, represents approximately 15% of total employment according to the Household Survey. Most of the self-employment is concentrated in the service and construction sectors. The service sector ranks second to manufacturing in its contribution to gross domestic product, and it is the sector with the greatest employment. In FY 2008, the service sector generated \$37,068.4 million of gross domestic product, or 40% of the total.

During FY 2009, the number of persons registered in hotels and paradores was 1,935,733, a decrease of 5.4% over the same period of FY 2008. The occupancy rate in hotels and paradores during FY 2009 was 63.2%. The number of non-resident tourists registered in tourist hotels during FY 2009 drop by 4.3%. The daily average of rooms available in hotels and paradores during FY 2009 increased by 1.6% compared to FY 2005.

In the past decade, the construction industry had made significant contributions to the growth of economic activity due to its multiplier effect on the whole economy. During FY 2009, the total value of construction permits drop by 28.0% as compared to FY 2008, total value of new housing units decreased by 48.6%, and the total sales of cement decreased by 25.4% %, the largest decline during the last decade.

Puerto Rico is experiencing a fiscal crisis as a result of the structural imbalance between recurring government revenues and expenses. The structural imbalance has been exacerbated during FYs 2008 and 2009, with recurring government expenses significantly higher than recurring revenues. The estimated structural deficit for FY 2009 is projected to be \$3.2 billion. The new administration has developed a multi-year Fiscal Stabilization and Economic Reconstruction Plan that seeks to achieve fiscal balance and restore economic growth. The administration believes that fiscal stabilization is central to safeguarding the Puerto Rico's investment-grade credit rating and restoring Puerto Rico's economic growth and development. During the first quarter of 2009, the Legislative Assembly enacted three bills providing for the implementation of this plan, which is composed of two main elements: the Fiscal Stabilization Plan (the Fiscal Plan) and the Economic Reconstruction Plan (the Economic Plan).

The Fiscal Plan, which is generally contained in Act No. 7 of March 9, 2009 (Act 7) and includes operating expense-reduction measures, tax revenue enforcement measures, tax increases, seeks to achieve budgetary balance on or before FY 2013, while addressing expected fiscal deficits in the intervening years through the implementation of a number of indicatives, including, (i) a \$2 billion operating expense-reduction plan during FY 2010, through government reorganization and reduction of operating expenses, including payroll which is the main component of government expenditures;

(ii) a combination of temporary and permanent tax increases, coupled with additional tax enforcement measures; (iii) a bond issuance program through Puerto Rico Sales Tax Financing Corporation (COFINA, by its Spanish-language acronym).

The Fiscal Plan establishes a government-wide operating expense-reduction program aimed at reducing payroll and other operating expenses by \$2 billion. And will be implemented in three phases: *Phase I: Incentivized Voluntary Resignation and Voluntary Permanent Workday Reduction Programs*: The Incentivized Voluntary Resignation Program offered public employees a compensation incentive based on the time of service in the government and was available to public employees with 20 or more years of service reducing two regular workday every month, which is equivalent to approximately a 10% reduction; *Phase II: Involuntary Layoff Plan*: As provided in Act 7, Phase II will go into effect if the objective of reducing \$2 billion in expenses was not achieved after implementation of Phase I and Phase III. Under Phase II, all employees with non-permanent positions will be terminated. In addition, Phase II provides for one or more rounds of involuntary layoffs and applies to all public employees unless specifically excluded by Act 7; and, *Phase III: Temporary Suspension of Certain Provisions of Laws, Collective Bargaining Agreements, and Other Agreements*: Imposes a temporary freeze of salary increases and other economic benefits included in laws, collective bargaining agreements for a period of two years.

The Fiscal Plan also seeks to increase tax revenues by implementing a more rigorous and ongoing tax enforcement and compliance strategy. Specific tax enforcement initiatives include: (i) enhancements to federal grants and fund receipts, (ii) stronger collections and auditing efforts on Puerto Rico's sales and use tax, and (iii) a voluntary tax compliance program.

To balance the impact of the Fiscal Plan, the administration has developed an economic reconstruction program to stimulate growth in the short term and lay the foundation for long-term economic development. The Economic Plan consists of three main components: (i) two economic stimulus programs, (ii) Public-Private Partnerships, and (iii) a supplemental stimulus plan.

**Federal Stimulus Program:** Puerto Rico expects to receive up to \$5 billion in stimulus funds from the American Recovery Act of 2009 (ARRA). The funds will be distributed in four main categories: relief to individuals, budgetary and fiscal relief, taxpayers' relief, and capital improvements. In terms of government programs, the Federal Stimulus allocates funds to education, agriculture and food assistance, health, housing and urban development, labor, and transportation, among others.

**Local Stimulus Program:** The administration has formulated the Local Stimulus to supplement the Federal Stimulus and improve specific local challenges associated with the local mortgage market, the availability of credit, and the infrastructure and construction sectors. Despite the fact that the Local Stimulus amounts to a \$500 million investment by the government, it has been estimated that its effect will be greater due to its loan-guarantee programs, which will be coordinated in collaboration with commercial banks in Puerto Rico.

**Public-Private Partnerships:** For the present administration, the Public-Private Partnerships (PPPs) represent an important tool for economic development. PPPs are collaborations between government and non-governmental entities such as private-sector, non-profit organizations, credit unions, and township corporations (*corporaciones municipales*) to develop infrastructure projects, manage government assets or provide services. The non-governmental partner takes on certain responsibilities and risks related to the development of the project in exchange for receiving the benefits of operating it.

**Supplemental Stimulus Plan:** The Economic Plan includes a Supplemental Stimulus Plan, which will provide investment in strategic areas with the objective of laying the foundations for long-term growth in Puerto Rico. Specifically, the Supplemental Stimulus will target critical areas such as the banking system, key infrastructure projects, public capital improvement programs, private-sector lending to specific industries, and the export and research-and-development knowledge industries. The Supplemental Stimulus will take into account the strategic needs that Puerto Rico must fulfill in order to become a more competitive player in its region and in the global economy.

## B. Labor Force Trends and Developments

### 1. Labor Force Statistics

Table 3

***Employment Status of the Civilian Non-Institutional Population***  
***Average Fiscal Years 2007 to 2009***  
***(thousands of persons)***

Employment Status	2009	2008	2007	Net Change	
				2009	2008
Civilian non-institutional population	3,057	3,036	3,001	21	35
Participation rate <sup>1</sup>	44.1	45.1	47.0	-1.0	-1.9
Labor Force	1,349	1,368	1,409	-19	-41
Employment	1,168	1,218	1,263	-50	-45
Unemployment	181	151	147	30	4
Unemployment rate <sup>2</sup>	13.4	11.0	10.4	2.4	0.6

Source: Household Survey

1/ Percentage of the civilian population 16 years old and over in the labor force.

2/ Percentage of unemployed persons in the labor force.

#### a. Labor Force Participation

The population constitutes a very important element of the economic development dynamics. From a broad point of view, the human resources can be defined like equivalent to the total population for his double nature as consumer population and as producer of good and services.

The Household Survey is designed so that each person age 16 and over who is neither in an institution (for example, correctional facilities and residential nursing and mental health care facilities) nor on active duty in the Armed Forces is counted and classified in only one group. The sum of the employed and the unemployed constitutes the civilian

labor force. Persons not in the labor force combined with those in the civilian labor force constitute the civilian non-institutional population 16 years and over.

In Puerto Rico the non institutional population has increased consistently through the decades. In FY 2009, it was estimated in 3,057,000 persons, representing a rise of 21,000 persons or 0.7%. During the last ten years this variable has showed an average annual growth of 1.0%.

In FY 2009, the group not in the labor force represented 56% of the non institutional population; this is a larger proportion than the labor force which represented 44%. The labor force reflected a reduction of 1,400 persons in FY 2009. Since FY 2000 to FY 2009, the labor force has registered an increase of 0.4%. The present recessionary period has had a negative impact on the workforce. The fall in the labor force caused a decrease in the participation rate of 44.1%, representing a drop of 1.0 percentage points compared with FY 2008 (45.1%).

The participation rate is an indicator of the propensity of the persons to participate in the labor market. The FY 2009 registered the lowest point, 44.1% since FY 2000, 46.2%. There is a relationship between the participation rate and the economic activity. Due to various factors, among them, the flow for decades of federal incentives to the population under different programs has affected the participation rate in the labor force.

There are some differences between the participation rate in the labor force of men and women. In FY 2009 the rate for women diminished only by 0.4% and for men in 1.9%. The male participation rate showed three sharp consecutive declines, from 59.2% in FY 2006 to 53.8% in FY 2009, the lowest male participation rate recorded in 45 years. The female rate also declined in the last four fiscal years, from 38.5% in 2006 to 36.1% in FY 2009. Some factors that can influence the behavior of the participation rate of women are the changes in the civil status and the level of education.

## **b. Employment**

In the Household Survey, people are considered employed if they did any work at all for pay or profit during the surveyed week. This includes all part-time and temporary work, as well as regular full-time, year-round employment. In FY 2009, the number of employed persons reached a total of 1,168,000. According to the Survey, total employment began to decline on a yearly basis in June 2006. The decrease registered in June 2009 (93,300), represents 25 consecutive months showing a decline in employment. The local economy has lost 94,700 employees in the last two years, 45,000 in FY 2008 and 49,300 in FY 2009. This figure represents a loss of 50,000 jobs over the year. Another 95,000 jobs were lost over the two year period as compared to FY 2007. Since FY 2000, the employment has increased annually at a rate of 0.2%, compared with 2.1% registered in the last decade. Between FY 2006 and 2009, it showed a reduction of 85,200.

## **c. Unemployment**

According to the Household Survey, persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work. In FY 2009, unemployment registered 181,000 or 30,000 jobseekers less than in 2008. However, the over two year's comparison reveals a loss of 34,000 job seekers when compared with FY 2009. The number of unemployed began to increase on a year to year basis since July 2008 and has continued with this trend for 12 consecutive months. This apparently descending unemployment trend is supported by percent rates of 13.4% in 2009, 11.0% in 2008 and 10.4% in 2007. In the period between FY 2006 and FY 2009, the unemployment rate has increased annually at a rate of 1.7 percentage points.





#### d. Employment by Industry

The total non farm employment shows a decreasing pattern since 2007. The decline of June 2009 represents the 35<sup>th</sup> consecutive monthly reduction. In FY 2009 according to the Establishment Survey, the employment was 993,700, reflecting a decrease of 2.5%. An over the year comparison reveals a 26,000 employees reduction. All of the industries except Educational and Health Services and Government reported annual losses. The largest job losses in FY 2009 were in, construction, 7,200; manufacturing, 6,400; trade, transportation and utilities, 5,700; and professional and business services, 5,200. In contrast, the government increased by 2,400 employees.

**Table 4**

***Total Non Farm Employment in Puerto Rico  
Fiscal Years 2007 to 2009  
(In Thousands)***

Industrial Group				Net Change	
	2009	2008	2007	2009	2008
<b>Total Non Farm</b>	<b>993.7</b>	<b>1,019.7</b>	<b>1,034.4</b>	<b>-2.5</b>	<b>-1.4</b>
Mining, Logging and Construction	52.8	60.0	64.7	-12.0	-7.3
Manufacturing	97.8	104.2	107.9	-6.1	-3.4
Trade, Transportation and Utilities	176.1	181.8	184.0	-3.1	-1.2
Information	19.9	21.3	22.6	-6.6	-5.8
Financial Industries	45.5	48.1	49.1	-5.4	-2.0
Professional and Bussiness Services	103.5	108.7	108.8	-4.8	-0.1
Educational and Health Services	109.1	108.7	105.2	0.4	3.3
Leisure and Hospitality	73.0	73.8	73.6	-1.1	0.3
Other Services	15.9	17.4	18.2	-8.6	-4.4
Government	300.1	297.7	298.1	0.8	-0.1

Source: Current Employment Survey (CES).

The total employment showed an average decrease of 0.1% in this decade. Between FY 2006 and FY 2009, the decline was of 55,600. There have been key changes in the

sector's composition in the past years. Among them, the percentage representation of the manufacturing sector from 18.0% in FY 1991 to 9.8% in FY 2009. During FY 2009, payroll employment for the manufacturing sector was 97,800, a decrease of 6.1% compared with FY 2008. The total employment in the manufacturing sector has decreased by 10,100 from FY 2006 to FY 2009.

The payroll employment in the construction sector during FY 2009 was 52,800, a reduction of 12.0% from FY 2008. In average terms, between FY 2006 and FY 2009 this employment decreased by 11,900. The percentage representation of the construction sector in total employment, declined from 7.2% in FY 2002 to 5.3% in FY 2009.

The government sector of Puerto Rico plays an important role in the economy. In FY 2008, the government accounted for \$8,762.2 million, or 9.4%, of Puerto Rico's gross domestic product. The Puerto Rico government is also a significant employer, providing jobs for 285,400 workers (state and local), or 28.7% of total, non-farm, payroll employment in FY 2009. From FY 2006 to FY 2009, the government employment (states and local) has been reduced by approximately 2,300 positions. The percentage representation of the government sector increase from 26.3% in FY 2000 to 28.7% in FY 2009.

#### **e. Wages**

In terms of employment and wages by major occupational group, the office and administrative support occupational group had the highest employment coverage with 191,710 workers, which represent 19.2% of total employment. Management was the occupational group with the highest mean and median wage per hour (\$31.43 and \$25.96, respectively).

In 2008 the top ten (10) highest paying occupations were professional and managerial. The highest mean wage was reached by chief executives with \$51.05 per hour. Other occupations with high mean wages per hour were: anesthesiologists with \$50.53, and engineering managers with \$45.25.

The ten (10) occupations with the highest employment shows that retail salespersons was the occupation with the highest employment with 42,470 workers (4.3% of total employment). The mean wage for this occupation was \$8.09 per hour.

The industrial groups and the percent of distribution they represent of total employment shows that Services (including health and educational services) was the industrial group with the highest employment: 362,660 (36.3%) workers. Public administration follows with 219,930 workers; and wholesale and retail trade with 164,560. These three (3) industrial groups combined represent 74.8% of total employment.

Respect to the ten (10) industries with the highest estimated employment, Public administration was the industry with the highest number of workers with 219,930 that represents 22.0% of total employment. Educational services; and Administrative and support services follow with 87,310 (8.7%) and 65,870 (6.6%) workers, respectively.

**Table 5*****Employment and Wages by Wages by Major Occupational Group, 2008***

Occupations	Employment		Wages	
	Total	Percent Distribution	Hourly Mean	Annual Mean
<b>Totals</b>	<b>999,010</b>		<b>\$11.85</b>	<b>\$24,650</b>
Office and administrative support	191,710	19.2	10.43	21,690
Sales and related	108,140	10.8	9.75	20,270
Production	80,150	8.0	9.95	20,690
Education, training, and library	68,340	6.8	15.38	31,990
Protective service	67,190	6.7	10.40	21,620
Food preparation and serving related	67,140	6.7	7.47	15,540
Construction and extraction	62,440	6.3	9.19	19,120
Transportation and material moving	60,460	6.1	8.82	18,340
Healthcare practitioners and technical	45,400	4.5	14.79	30,760
Building and grounds cleaning and maintenance	44,990	4.5	7.91	16,440
Retail salespersons	42,470	4.3	8.09	16,830
Business and financial operations	42,310	4.2	16.56	34,440
Management	35,740	3.6	31.43	65,370
Installation, maintenance, and repair	34,580	3.5	12.35	25,700
Security guards	31,350	3.1	7.62	15,840
Janitors and cleaners, except maids and housekeeping cleaners	29,140	2.9	7.79	16,200
Cashiers	28,900	2.9	7.04	14,650
Office clerks, general	26,610	2.7	8.99	18,690
Secretaries, except legal, medical, and executive	25,710	2.6	9.05	18,830

Source: Occupational Employment Survey (OES)

**Table 6*****Highest Paying Occupations, 2008***

Occupation	Hourly Mean	Annual Mean
Chief executives	\$51.05	\$106,170
Anesthesiologists	50.53	105,100
Physicians and surgeons, all other	49.53	103,030
Engineering managers	45.25	94,120
Industrial production managers	44.66	92,890
Obstetricians and gynecologists	44.07	91,670
Dentists, general	43.77	91,040
Psychiatrists	43.72	90,930
Marketing managers	39.95	83,100
General and operations managers	39.90	82,980

Source: Occupational Employment Survey (OES)

## C. Other Indicators

### 1. Insured Unemployment

**Table 7**

***Unemployment Insurance Benefits***

Item	2008	2007	2006
Weeks Claimed	2,287,004	2,118,045	2,091,939
Claimants	547,470	411,772	461,017
Exhausters	48,438	46,820	46,920

Source: B.L.S. – P.R. Department of Labor and Human Resources  
Research and Statistics Division  
[www.ows.doleta.gov/unemploy/claimssum.asp](http://www.ows.doleta.gov/unemploy/claimssum.asp)

#### **a. Characteristics of the Insured Unemployed**

The increment in overall unemployment is reflected by the upward trend in total weeks claimed since 2006 (2,091,939) to 2008 (2,287,004) weeks. The same pattern is observed in the number of claimants registered climbing from 461,017 two years ago to 547,470 in 2008. The number of exhausters however, presented a contrasting pattern as it declined from 46,920 in 2006 to 46,820 in 2007 and increased by 48,438 in year 2008. A sample averaging 46,072 unemployment insurance claimants during FY 2009 discloses the following industrial background and characteristics for the insured unemployed.

**Table 8**  
**Characteristics of the Insured Unemployed**  
**Puerto Rico**  
**Fiscal Year 2008-2009**  
**Gender and Age**

Gender	Average	Percent
<b>Total</b>	<b>46,072</b>	<b>100.0</b>
Male	25,968	56.4
Female	20,104	43.6
Age		
<b>Total</b>	<b>46,072</b>	<b>100.0</b>
<22	2,495	5.4
22-24	4,451	9.7
25-34	15,212	33
35-44	11,037	24
45-54	8,070	17.5
55-59	2,638	5.7
60-64	1,527	3.3
>65	642	1.4

Source: B.L.S. – P.R. Department of Labor and Human Resources  
 Research and Statistics Division

**b. Gender**

The gender distribution of the sample was 25,968 males or 56.4% and 20,104 females or 43.6% of the total. This has been a consistent pattern for the past years as the number of unemployed men collecting unemployment insurance benefits is usually higher than for women.

**c. Age**

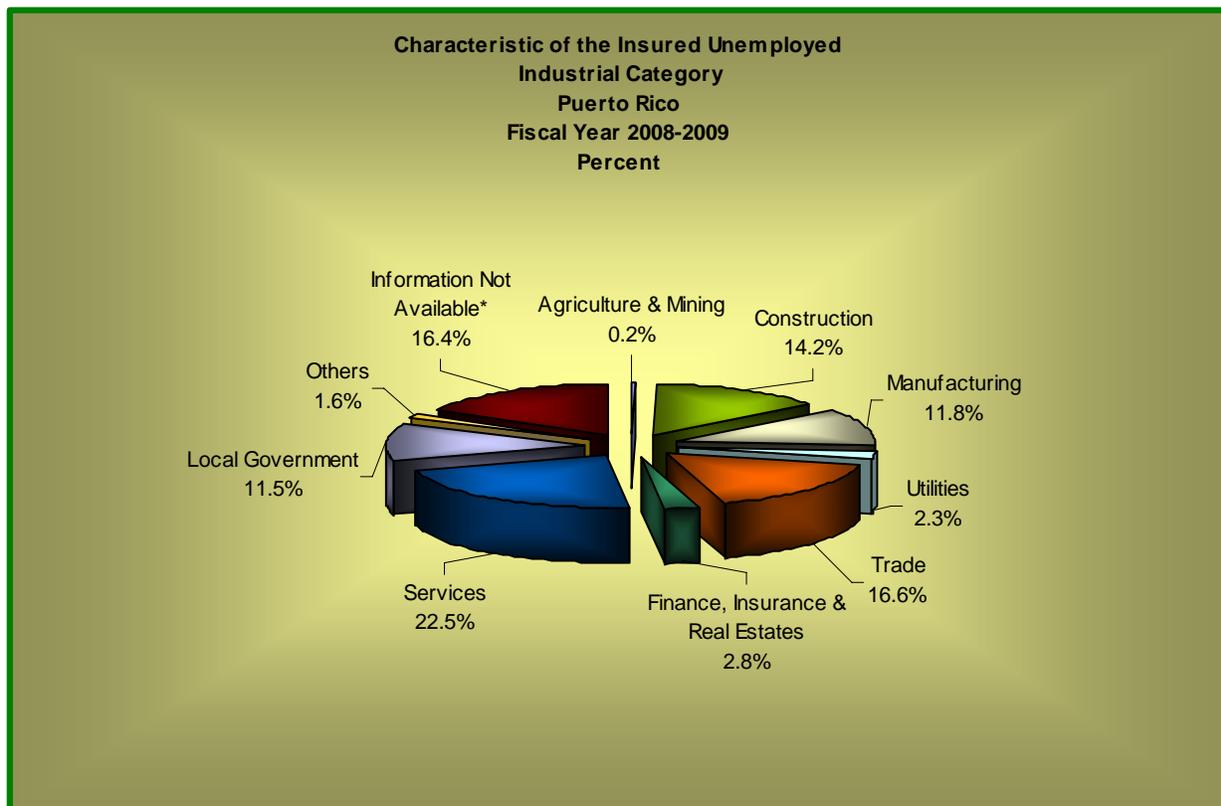
In relation to age of both sexes, persons between 25 to 34 years comprised the most significant group with an average of 33.0% for the PY 2008-09. It was followed by the

age cohort between 35 to 44 years representing 24.0% of all claimants. The group with the smallest representation was 65 years or more with 1.4%.

**d. Industry**

The industry reporting the greatest workers loss was Services, as it holds 22.5% of all claimants in FY 2009. In Services category, restaurants and entertainment declined as people reduce leisure activities from their immediate priorities. Trade industry was second with 16.6% of all unemployed claimants. Auto Dealers (trade) are facing a reduction in sales as a result of the economic slowdown. Both industries are characterized by a high labor turnover, entry level positions and low pay jobs. These industries are highly vulnerable to economic changes. Manufacturing recorded an 11.8% of the total claimants. The 14.2% in the construction industry is typical since this industry lays off workers as it moves from one building phase to another.

**Figure 4**



Source: Current Employment Survey  
P.R. Department of Labor and Human Resources

## 2. Price Index

The Consumer Price Index rose 8.0% in FY 2009. The most remarkable rise was in the food and beverage group which increase by 15.4%. Contributing to this increase were advances in fruit and vegetables, 50.4%; fats, oil and dressing, 30.0%; and food at home, 24.5%. The housing index also increased in FY 2009 caused by, the index for owner's equivalent rent of primary residence, 18.9%; shelter, 18.2%; and rent of primary residence, 16.7%. The apparel index rose mainly for the index for men's and boy's apparel, 10.2%; and women's and girl's apparel, 8.2%. The recreation index showed an increase, as well as education and communication index, other good and services, and medical care. In contrast, the transportation index declined caused by drop in motor fuel, 12.7% and private transportation, 0.7%.

**Table 9**

***Consumer Price Index for All Families in Puerto Rico  
Average by Groups of Items  
Fiscal Year 2009***

Group Items	Indexes December 2006 = 100 Fiscal Years		Percent Change
	2009	2008	
<b>All Items</b>	<b>115.876</b>	<b>107.270</b>	<b>8.0</b>
Food and Beverages	127.022	110.106	15.4
Housing	124.129	109.737	13.1
Apparel	111.502	103.032	8.2
Transportation	105.960	106.760	-0.7
Medical Care	104.808	102.520	2.2
Recreation	107.577	103.272	4.2
Education and Communication	108.566	105.765	2.6
Other Goods and Services	105.400	102.732	2.6

Source: Puerto Rico Bureau of Labor Statistics-PRDOL

## **II. Projections**

### **1. Population**

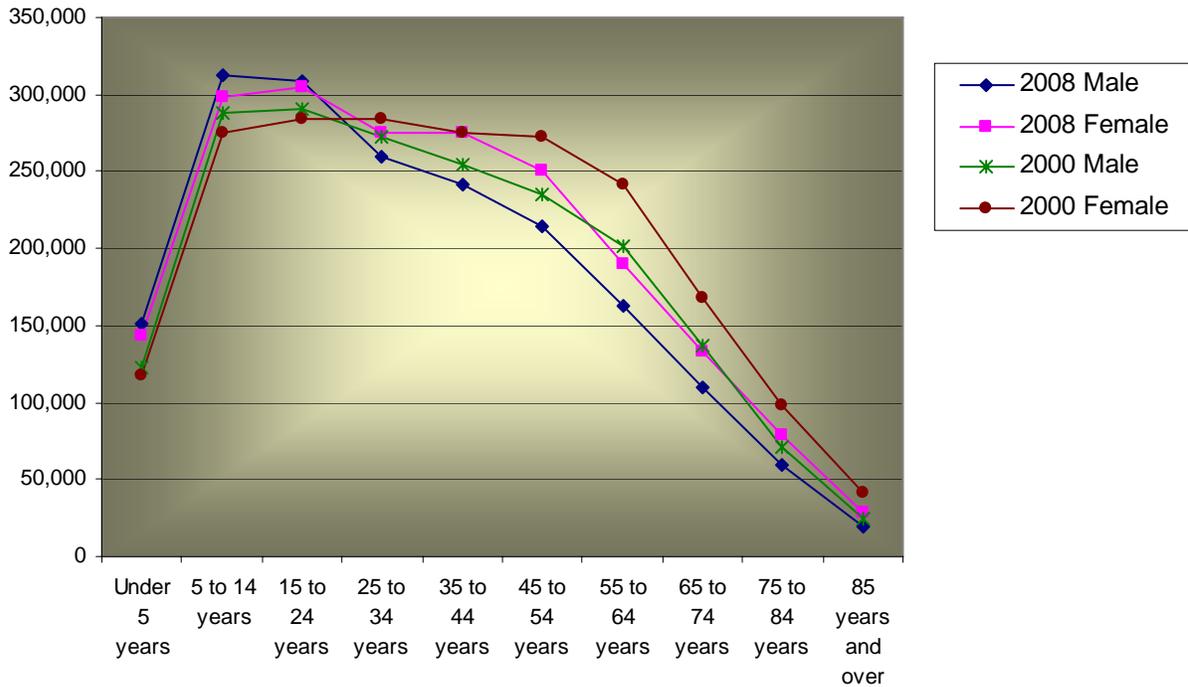
Activity in a market economy is highly determined by population change. Puerto Rico's future economic development depends on the population's participation in the labor force during the coming years. Population projections for the 2005 to 2025 period indicate labor shortages over the next lustrums as a slow overall growth rate is expected.

This reduced rhythm of expansion is reflected by declining percentage rates from 11.0% in 2010 to 1.8% in 2015, 1.3% in 2020 and 0.7% in 2025. This decline in population could mean shortage of human capital in some occupational areas.

Contrary to the overall declining trend is the expansion rate of the aging population. In fact, the Islands' population is growing older. This trend is supported by statistics showing an increase of persons 50 years and over which in 2005 presented an increase of 11.8% over year 2000. This expansion is expected to continue all the way through year 2025, the last projected lustrum.

As the baby boomers cohort ages, and the number of younger individuals decreases, a shortage of skilled labor will likely surface.

**Figure 5**  
**Distribution by Age and Sex 2000, 2008**



Source: Population Division U.S. Census Bureau

A study conducted by the AARP office in Puerto Rico (2009) indicates that the biggest challenge facing Puerto Rico employers will be retaining and recruiting skilled and qualified employees.

An important finding is that seven in ten (69%) Puerto Rican workers indicate it is likely that they will put off complete retirement. The concept of traditional retirement seems to be fading as workers 55 years old and over expect to work at their current jobs as long as possible or as a consultant on as needed basis. Others anticipate working part time.

This trend will help lessen, to a certain degree, the effect of scarcity of skill workers. Nonetheless, the economy will require a skilled labor force and sufficient jobs to prevent further instability.

**Table 10**

***Puerto Rico***  
***Population Projections***  
***Age 15 – 29***  
***Years 2000 – 2025***

Age	Census	Projection to July 1				
	2000	2005	2010	2015	2020	2025
<b>Total</b>	<b>919,725</b>	<b>895,841</b>	<b>888,436</b>	<b>869,264</b>	<b>853,703</b>	<b>834,845</b>
15 - 19	313,436	304,610	300,894	288,586	286,644	270,425
20 - 24	301,191	305,098	297,380	295,141	283,186	284,719
25 - 29	305,098	286,133	290,162	285,537	283,873	279,701
<b>Net Change 2000 to:</b>						
	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	
15 - 19	-8,826	-12,542	-24,850	-26,792	-43,011	
20 - 24	3,907	-3,811	-6,050	-18,005	-16,472	
25 - 29	-18,965	-14,936	-19,561	-21,225	-25,397	
<b>Per Cent Change 2000 to:</b>						
	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	
15 - 19	-2.8%	-4.0%	-7.9%	-8.5%	-13.7%	
20 - 24	1.3%	-1.3%	-2.0%	-6.0%	-5.5%	
25 - 29	-6.2%	-4.9%	-6.4%	-7.0%	-8.3%	

Source: Puerto Rico Planning Board  
 Bureau Labor Statistics

**Table 11**

**Puerto Rico**  
**Population Projections**  
**Years 2000-2025**

Age	Census	Projection to July 1 rst.				
	2000	2005	2010	2015	2020	2025
0-4	295,406	293,461	276,225	270,312	266,094	261,872
5-9	305,162	291,095	289,192	273,103	267,591	264,511
10-14	305,800	301,449	289,111	287,266	271,519	266,058
15-19	313,436	304,610	300,894	288,586	286,644	270,425
20-24	301,191	305,098	297,380	295,141	283,186	284,719
25-29	305,098	286,133	290,162	285,537	283,873	279,701
30-34	262,825	259,717	273,220	279,364	275,903	279,210
35-39	264,849	256,453	254,505	267,677	274,330	271,365
40-44	250,814	260,945	253,792	251,730	264,577	269,842
45-49	233,120	248,033	257,981	250,739	248,698	259,565
50-54	229,916	231,111	245,546	254,722	247,610	242,953
55-59	188,883	225,516	227,047	240,477	249,454	239,744
60-64	160,564	184,925	218,413	219,151	232,106	237,823
65-69	134,281	153,636	175,868	206,786	207,404	216,276
70-74	106,670	122,304	139,706	159,597	187,619	186,181
75 and over	184,186	205,399	233,404	265,454	302,683	346,832
<b>Total</b>	<b>3,842,201</b>	<b>3,929,885</b>	<b>4,022,446</b>	<b>4,095,642</b>	<b>4,149,291</b>	<b>4,177,077</b>
<b>Change</b>		<b>3.2%</b>	<b>11.0%</b>	<b>1.8%</b>	<b>1.3%</b>	<b>0.7%</b>
50-54	229,916	231,111	245,546	254,722	247,610	242,953
55-59	188,883	225,516	227,047	240,477	249,454	239,744
60-64	160,564	184,925	218,413	219,151	232,106	237,823
65-69	134,281	153,636	175,868	206,786	207,404	216,276
70-74	106,670	122,304	130,706	159,597	187,619	186,181
75 and over	184,186	205,399	233,404	265,454	302,683	346,832
<b>Total</b>	<b>1,004,500</b>	<b>1,122,891</b>	<b>1,230,984</b>	<b>1,346,187</b>	<b>1,426,876</b>	<b>1,469,809</b>
<b>Change</b>		<b>11.8%</b>	<b>10.4%</b>	<b>8.6%</b>	<b>6.0%</b>	<b>3.0%</b>

Source: Puerto Rico Planning Board  
Bureau Labor Statistics

## 2. Federal Grants

Puerto Rico receives grants under numerous federal programs. Federal grants to agencies and instrumentalities of the Commonwealth government are estimated in \$5.750 billion for fiscal year 2010, an increase of \$1.097 billion, or 23.5%, from fiscal year 2009. The following table presents revenues from federal grants by broad program areas, registered in the central accounting system of the Puerto Rico Department of the Treasury. The figures for fiscal years 2006 through 2008 are actual figures, for fiscal year 2009 are estimates based on the information submitted by each agency to Office of Management and Budget (OMB), and the figures for fiscal year 2010 are the amounts included in the recommended budget.

Puerto Rico expects to receive approximately \$5 billion in stimulus funds from ARRA, of which \$229.6 million and \$1.332 billion are expected to be received by the government during fiscal years 2009 and 2010, respectively. Such amounts are reflected in the table below.

**Table 12**  
**The Commonwealth of Puerto Rico**  
**Federal Grants\***  
**(in thousands)**

Items	2006	2007	2008	2009 <sup>(1)</sup>	2010 <sup>(2)</sup>
Education	\$1,004,138	\$986,574	\$992,087	\$1,050,756	\$1,789,484
Social Services	1,888,150	1,923,845	2,054,897	2,206,944	2,452,216
Health	432,868	436,892	465,466	539,633	545,405
Labor and Human Resources <sup>(3)</sup>	197,296	183,228	140,186	216,809	224,302
Crime	41,461	29,631	20,319	28,394	58,158
Housing <sup>(4)</sup>	371,104	375,581	363,589	490,852	504,955
Drug and Justice	36,979	35,321	19,394	37,164	46,200
Agriculture and Natural Resources	11,402	12,484	11,054	17,867	45,198
Contributions to Municipalities	53,744	48,531	49,543	48,414	60,495
Other	18,251	17,095	15,782	16,422	23,760
<b>Total</b>	<b>\$4,055,393</b>	<b>\$4,049,182</b>	<b>\$4,132,317</b>	<b>\$4,653,255</b>	<b>\$5,750,173</b>

\* Does not include grants received by agencies whose accounting systems are not centralized in the Treasury.

(1) Approved budget.

(2) Estimated.

(3) Amounts include grants to the Right to Work Administration and the Occupational Development and Human Resources Council.

(4) Amounts include grants to the Public Housing Administration.

Source: Office of Management and Budget

### III. Economic Perspectives

#### Strategic Model for a New Economy

The new administration took office on January 2009. Since then it has formulated a vision for Puerto Rico and a strategic model to reach its Plan for the Strategic Sustainable Development of Puerto Rico (“PIDES”, for its acronym in Spanish), Tools of Sustainable Strategic Action and Coordination (“HACES” for its acronym in Spanish) Economic Development Infrastructure Development Social Development Strategic Model for a New Economy \*VisionAction\*. As part of developing PIDES, 52 round table meetings and 6 public hearings were held throughout the Island. Its Spanish acronym is MENE = Modelo Estratégico para la Nueva Economía.

Restoring economic growth is based on the effective implementation of short-term stimuli and the long-term development of the productive base. The goals of this Strategic Model are:

•**GROWTH:** To achieve Real GNP growth of 1.8% by 2013 and 3.0 % by 2017.

•**COMPETTITIVENESS:** To raise the credit rating of General Obligation debt to “A” and our global ranking in the World Economic Forum to 25 by 2017.

•**JOBS:** To reduce the unemployment rate to 12.7% by 2013 and 10% by 2017 by creating 125,000 new jobs by 2013 and a total of 260,000 jobs by 2017.

Restoring economic growth is based on the effective implementation of short term stimuli and the long term development of the productive base. Long and short term measures for all sectors:

#### **Short Term Growth Measures**

##### Federal Stimulus Plan (ARRA)

• Objective: Invest a total of \$6,044 million into the Puerto Rico economy, of which 14% have been disbursed and will create 42,065 jobs in the next two years.

### Local Stimulus Plan (PEC)

- Objective: Invest \$500 million in stimuli at the local level of which approximately \$100 million are in the process of being disbursed.

### **Long Term Growth Measures for all sectors**

#### Integration into the Global Economy

- Objective: Foster the development and strengthening of local companies capable of exporting competitive goods and services.

#### Transition to a Knowledge based Economy

- Objective: Leverage the industrial base to create new jobs and businesses by creating new clusters and consortia with a focus on innovation.

The strategic model includes fostering strategic sectors, emphasizing competitiveness and sustainable growth:

### **Focus on strategic sectors that will enhance production capacity Tourism and Entertainment**

- Objective: To retain, expand and diversify the current industrial base and attract manufacturing of high-value products based on R&D and high tech.

### **Manufacturing**

- Objective: To foster a strong and healthy financial system in order to ease the efficient flow of capital in the economy.

### **Banking, Insurance and Credit Unions**

- Objective: To develop new and attractive offers in order to retain and attract new tourist segments.

### **Agriculture**

- Objective: To foster entrepreneurship and improve the value proposition for the consumer by emphasizing diversification and competition.

## **Commerce**

- Objective: To develop an entrepreneurial and hard working culture that is based on quality and competitiveness, and to maximize the yield of soils of high agricultural potential.

## **Film and Creative Services**

- Objective: To develop a film and creative services industry that is financially viable in the long-term.

Strategic projects will generate investments in all the regions of the Island to foster balanced economic development.

## **Strategic investments in infrastructure will expand the Island's productive capacity**

- Objective: The redevelopment of areas of Old San Juan, Puerta de Tierra, Isla Grande, the Convention District and Condado, among others (\$1,538 million / 24,685 jobs).

## **Golden Triangle**

- Objective: To develop a tourism complex, related to the concept of destinations of entertainment and gambling (\$1,900 million / 30,495 jobs).

## **Caribbean Riviera**

- Objective: To create a district to position Puerto Rico at the forefront of the science, technology and R&D industries (\$1,765 million / 28,328 jobs).

## **Science City**

- Objective: To create an international trans-shipment port of global caliber with value-added zones in the southern region of Puerto Rico (\$750 million / 12,038 jobs).

## Aguadilla Airport

- Objective: To redevelop the Aguadilla airport as the second most important international airport of P.R. and as a regional logistical center (\$21.8 million / 350 jobs).

## Mayagüez 2010

- Objective: To develop the infrastructure to hold the XXI Central American and Caribbean Games in the summer of 2010 (\$332 million / 5,329 jobs).

**Table 13**

***Objectives and Indicators in the mid-and long-term (4 and 8 years, respectively)***

Indicator	Actual	2013	2017
<b>GROWTH</b>			
Economic Activity Index	133.9	145.1	160.5
GNP Annual Growth Rate	(5.5 %)	1.8 %	3.0 %
Participation Rate	44.1 %	45.6 %	48 %
Unemployment Rate	15.8 %	12.7 %	10 %
New Jobs (Accumulative since August 2009)	---	125,000	260,000
Internet Users per each 100 Individuals	37.5	60	80
Budget Surplus / (Deficit)	(\$3,200 MM)	-balanced -	-balanced -
<b>INFRASTRUCTURE</b>			
# of PPP Projects (Accumulative)	---	13	21
Private Investment in PPPs (Accumulative)	---	\$4,537 MM	\$6,214 MM
% of Energy Dependence on Oil-based Sources	68 %	55 %	32 %
% of Energy Dependence on Renewable Sources	0.7 %	6 %	13 %
<b>COMPETITIVENESS</b>			
Central Government Credit Ranking	BBB-	BBB+	A
Competitiveness Ranking (WEF)	42	35	25
Energy Price (cents/kWh)*	21.52	18	14

Source WWW.BGFPR.com

## **Conclusion: Growth, Competitiveness and Jobs**

This Strategic Model establishes the measures to reactivate the economy in the short-term, while creating the foundations to rebuild the Puerto Rico's economy in the long-term.

Achievement of Growth, Competitiveness and Jobs by:

- Re-igniting existing industries
- Attracting and creating new industries and jobs
- Developing world-class infrastructure projects
- Implementing institutional reforms that make us more competitive
- This model establishes a clear implementation strategy with defined Performance Metrics and with a Steering Committee to ensure compliance and results
- The collaboration of all the sectors of the economy and all Puerto Ricans is an integral component of the success of this Strategic Model.

## **Green Jobs Profile**

Recently, the US Department of Labor (DOL) published the availability of funds providing incentives for job creation and training for activities geared to reduce dependency on fossil fuels and lowering the effect on green house gas emissions under President Obama's Green Jobs initiative. Puerto Rico is being affected by both, high energy production costs and a deteriorating environmental quality. Aware of this situation, Puerto Rico needs external funding to obtain the statistical and research information necessary for the decision making process in the development of the green industry. This will require the integration of the different sources or data bases within the Puerto Rico Department of Labor (PRDOL) and its partners, to create the products that will provide the market and the general public with the information for development activities and career decision process. Federal funds are also needed to develop and

modify the existing information systems, to gather Green Jobs data and comply with the initiative requirements.

An information system will allow the development of the activities that will enhance the feasibility of the green jobs industry. With federal funds, the PRDOL, as a single State applicant, will be able to identify green activity characteristics and develop the mechanisms for its conversion to a solid and effective workforce. The objectives and needs to be addressed by the proposed information system are:

- Develop a “Green Economy” Industry Profile and roadmap to support planning and development process
- Research and identification of human resources and capabilities needed for target industries
- Identify the industry’s educational and skill requirements from private, public, community, and non-profit organization initiatives and research
- Transitional requirements needed in declining industries to emerging industries
- Coordination with educational institutions for curriculum development
- Information leading to the reduction of production cost alternative
- Promote a fertile environment for target industries by providing the necessary regional and state information thus increasing its feasibility
- Identify green jobs creation potential in the target industries
- Identify renewable energy sources to reduce dependency on fossil fuels
- Competitiveness and innovation create industry clusters through the supply chain required for its sustainability; identify and develop profile of supply chain for each industry
- Develop incumbent worker training and employment
- Diversify the employment ladder
- Align of information systems within different agency components of the PRDOL

The policy framework for the selection of these industries include: The Puerto Rico Energy Policy Act of 1993, currently under revision by the Governor’s Administrative Order No. OE-2009-23 of July 2009, and the Governor’s Assurance for the ARRA State

Energy Plan. The table below presents the specific energy efficiency and renewable energy industries and occupations identified as target “green” industries for this project.

The main occupations are presented in three main categories:

**Table 14**

Industries	Main Occupations		
	Professional	Skilled	Unskilled
Energy Efficient building construction and retrofit industries	<ul style="list-style-type: none"> <li>· Engineers</li> <li>· Architects</li> <li>· Auditors</li> <li>· Inspectors</li> <li>· Managers</li> <li>· Contractors</li> </ul>	<ul style="list-style-type: none"> <li>· Electricians</li> <li>· Plumbers</li> <li>· A/C Technicians</li> <li>· Assemblers</li> <li>· Mechanics</li> <li>· Contractors</li> </ul>	<ul style="list-style-type: none"> <li>· Electric, Plumbing Assistants</li> <li>· Handyman</li> <li>· Installers</li> <li>· Masons</li> <li>· Roofers</li> <li>· General Construction Workers</li> <li>· Maintenance Workers</li> </ul>
Renewable Electric Power Industry	<ul style="list-style-type: none"> <li>· Engineers</li> <li>· Scientist</li> <li>· Auditors</li> <li>· Inspectors</li> <li>· Managers</li> <li>· Contractors</li> </ul>	<ul style="list-style-type: none"> <li>· Electricians</li> <li>· Assemblers</li> <li>· Mechanics</li> <li>· Contractors</li> </ul>	<ul style="list-style-type: none"> <li>· Electric, Plumbing Assistants</li> <li>· Handyman</li> <li>· Installers</li> <li>· General Construction Workers</li> <li>· Maintenance Workers</li> </ul>
Biofuels Industry	<ul style="list-style-type: none"> <li>· Engineers</li> <li>· Scientist</li> <li>· Auditors</li> <li>· Inspectors</li> <li>· Managers</li> </ul>	<ul style="list-style-type: none"> <li>· Assemblers</li> <li>· Mechanics</li> <li>· Operators</li> <li>· Distributors</li> </ul>	<ul style="list-style-type: none"> <li>· Agricultural Workers</li> <li>· Maintenance &amp; Repair Workers</li> <li>· Transportation and Distribution</li> <li>· Plant Operators</li> </ul>
Energy Efficiency Assessment Serving Residential, Commercial or Industrial Sectors	<ul style="list-style-type: none"> <li>· Engineers</li> <li>· Architects</li> <li>· Scientist</li> <li>· Auditors</li> <li>· Inspectors</li> <li>· Managers</li> <li>· Consultants</li> </ul>	<ul style="list-style-type: none"> <li>· Contractors</li> <li>· Technicians</li> </ul>	<ul style="list-style-type: none"> <li>· Helpers-Installation, Maintenance and Repair Workers</li> </ul>

## NOTES

1. The picture of the Golden Triangle that appears in the front page was obtained from The Caribbean Business newspaper.
2. Parts of the Economic Overview were extracted from the 2009 Financial Information and Operating Data Report on the Puerto Rico Government Development Bank ([www.bgfpr.com](http://www.bgfpr.com)).
3. For more information about the Strategic Model for a New Economy please access [www.bgfpr.com](http://www.bgfpr.com).

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