COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
BUREAU OF LABOR STATISTICS

Puerto Rico

Economy Analysis Report

2007-2008

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Secretary of Labor

Content

Preface

Puerto Rico's economic future depends upon the development of a world-class labor force able to compete in today's global market. Being a first class worker enables him/her to occupy a position at any world of work scenario.

Knowing beforehand the future workforce and employers' need is of a paramount importance for the Island to develop policies and strategies to remain not only competitive but to move its citizens to higher and better living standard.

A declining and aging population poses challenging situations, as fewer youth will be available to enter the labor force.

This report is the result of an examination of demographic, economic and labor market developments unfolding in Puerto Rico.

I. Trends and Developments

A. Economic Overview

The United States economy continued its reduced pace of expansion during the fourth quarter of 2007. Measured by the Gross Domestic Product (G.D.P.) it grew at an annualized rate of a minimal 0.6%. New private housing starts in December stood near a 16 year low of approximately one million annualized units, and new single family home sales were at an annualized rate of about six hundred and eleven thousand units, near a 12 year low. Retail sales as of December 2007 advanced at an over the year rate of approximately 3.4% down from a high of over 9% in July 2005.

Knowledge of the United States' economy behavior is of a paramount importance to understand the Puerto Rico's economy as it is closely connected to that one. Any change in that economy is usually mirrored immediately by the local one. Being an open economy it is also vulnerable to changes at the international scenario. Oil changes are an example of international factors affecting deeply this economy.

The Island's Gross Domestic Product stood at 89,701 million dollars at current prices in fiscal 2006-07. This figure represents a growth rate of 3.2%. This rate, however, is under that of 5.0% registered last 2005-06. At constant prices the Gross Domestic Product amounted to 11,014 million revealing and over the fiscal year drop of 1.6%. This negative growth was expected as a very slow expansion trend was foreseen over the last years.

Many factors are combined to produce this drop, among them the negative condition of the United States economy as stated previously. At the local level an inactive investment scenario due mainly to the absence of an economic development program was responsible. The approval of a new incentive law to stimulate investment took a long time. Other factors like the instability of oil prices plus imposition of a sales tax joined to curtail any possible growth.

It should be noted that the demand for goods and services` went up over the fiscal by 9.1% a gain apparently due to high prices.

Gross National Product- current prices
(million dollars-fiscal years)
Table 1

	2005r	2006r	2007p	Change: Absolute 2006-2005	Change: Absolute 2007-2006	Change: Percentage 2006-2005	Change: Percentage 2007-2006
Gross Domestic Product	82,808.5	86,942.6	89,701.2	4,134.1	2,758.6	5.0	3.2
Gross National Product	53,752.4	56,732.9	58,712.4	2,980.5	1,979.5	5.5	3.5
Domestic Demand goods & services	68,849.3	71,869.4	74,361.0	3,020.1	2,491.6	4.4	3.5
Personal Comsumption Expenditure	46,535.40	49,467.8	51,889.4	2,932.4	2,421.6	6.3	4.9
durable	5,512.8	5,729.5	5,673.1	216.7	-56.4	3.9	-1.0
non-durable	17,976.8	19,471.3	20,689.8	1,494.5	1,218.5	8.3	6.3
services	23,045.9	24,267.1	25,526.5	1,221.2	1,259.4	5.3	5.2

Gross National Product- constant prices
(million dollars-fiscal years)
Table 2

	2005r	2006r	2007p	Change: Absolute 2006-2005	Change: Absolute 2007-2006	Change: Percentage 2006-2005	Change: Percentage 2007-2006
Gross Domestic Product	11,089.7	11,193.7	11,014.3	104.0	-179.4	0.9	-1.6
Gross National Product	7,019.6	7,057.6	6,930.8	38.0	-126.8	0.5	-1.8
Domestic Demand goods & services	13,031.9	12,147.7	13,254.7	-884.2	1,107.0	-6.8	9.1
Personal Comsumption Expenditure	9,161.4	9,213.4	9,479.6	52.0	266.2	0.6	2.9
durable	1,658.8	1,722.1	1,741.0	63.3	18.9	3.8	1.1
non-durable	3,461.9	3,582.6	3,704.8	120.7	122.2	3.5	3.4
services	4,048.8	4,008.8	4,033.8	-40.0	25.0	-1.0	0.6

r- revised

p-preliminary

Source: Puerto Rico Planning Board, Social and Economy Planning Program.

B. Labor Force Trends and Developments

1. Labor Force Statistics

Employment Status of the Civilian Noninstitutional Population
Average Fiscal Years 2006 to 2008
(thousands of persons 16 years of age and over)
Table 3

Employment Status	*2008*	*2007*	*2006*	*Net Change: 2007*	*Net Change: 2006*
Civilian noninstitutional population	3,036	3,001	2,972	35	64
Participation rate 1/	45.1	47.0	47.9	-1.9	-2.8
Labor Force	1,368	1,409	1,422	-41	-54
Employment	1,218	1,263	1,256	-45	-38
Unemployment	151	147	166	4	-15
Unemployment rate 2/	11.0	10.4	11.7	0.6	-0.7

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

The civilian noninstitutional population is composed of those persons 16 years old and over, who are or might be in the labor force, working or looking for a job. It is necessary to look into this figure to determine the labor participation rate. It goes up when employment opportunities increase or when the perception that there is work increases. On the contrary, it declines when individuals get tired of looking for a job and leave the labor market.

a. Labor Force Participation

Figures in table, "Employment Status of the Civilian Noninstitutional Population" reflects a declining trend in the participation rate of individuals since fiscal 2006 all the way to fiscal 2008. Reductions of 1.9% and 2.8% were registered, respectively.

Contrary to populations' increases during the corresponding periods, the participation rate went down from 47.9% in 2006 and 47.9% in 2007 to 45.1% this fiscal year. One of the lowest in recent years.

b. Employment

Individuals holding a job, this fiscal reached a total of 1,218,000. This figure represents a loss of 45,000 jobs over the year. Another 38,000 jobs were lost over the two year period as compared to fiscal 2006. Again, the economy was not providing sufficient jobs to meet neither needs of experienced workers nor those of new entrants.

c. Unemployment

Total unemployment was estimated at 151,000 persons this fiscal. It represents a rise of 4,000 not corresponding to the significant decline in employment. However, the over the two years comparison reveals a gain 15,000 job seekers as the total moved down from 166,000 at that time.

The drop in total employment and unemployment explained the decline in the participation rate. A reduced labor force is the logic result of the losses within its components. It is an overall result of the economy slowdown. A time when job opportunities are scarce competition gets tight and individuals end leaving the labor force.

d. Industry Employment

The nonagricultural wage and salary employment changed its trend since 2006 to a downward one. An over the year comparison reveals a drop of 44,000 versus a loss of 31,000 two years ago. A rise of 13,000 is registered in the pace of reduction in overall nonagriculture employment. All of the industries comprising the sector reported annual losses. The most significant one was recorded by public administration (-17,000). It is explainable by the objective of reducing the government payroll adopted by the present administration. Construction reported, the second important loss with a reduction 12,000 employees. The over the two years comparison shows trade leading losses with 14,000 less employment.

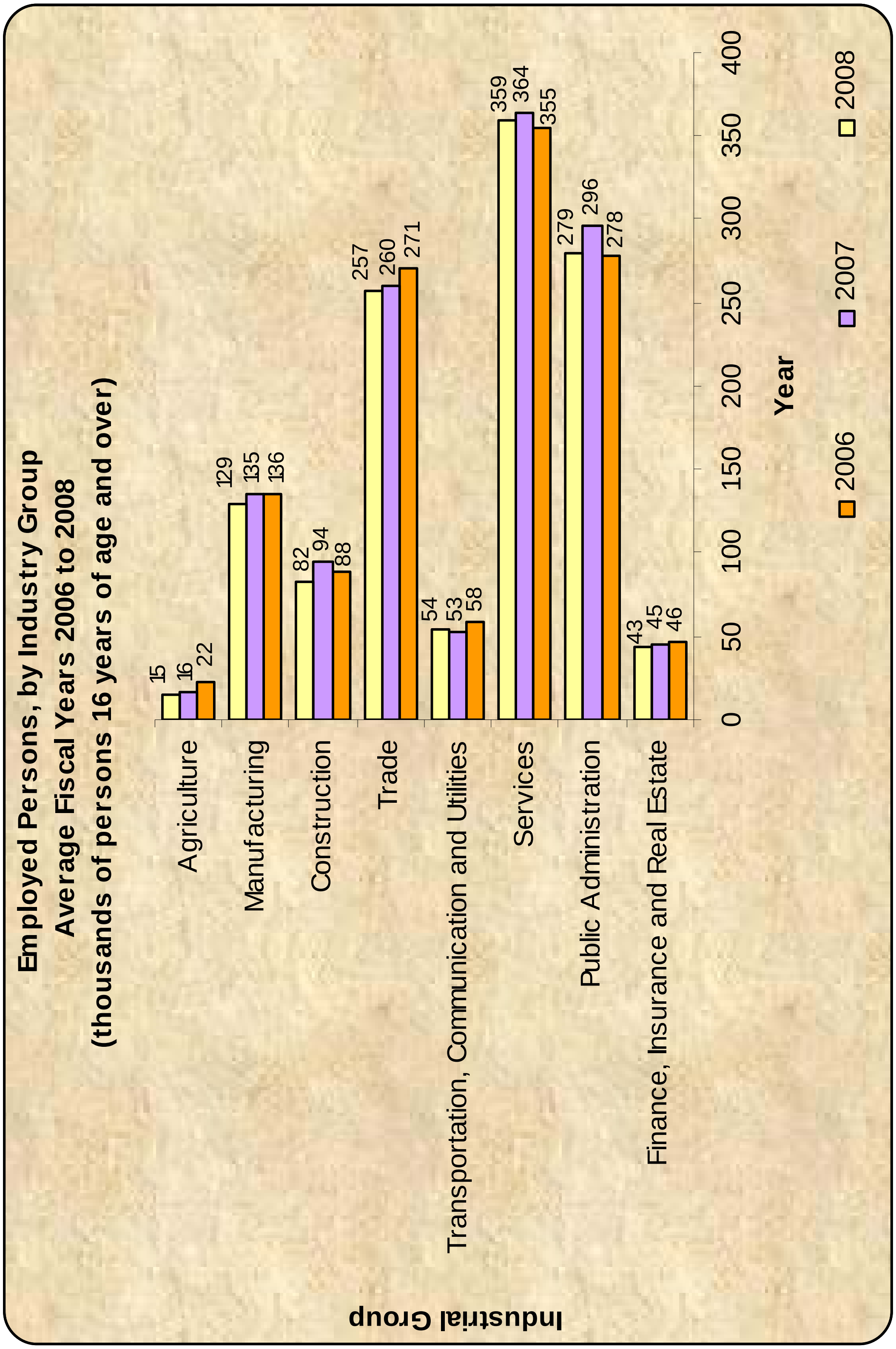
Employed Persons, by Industry Group
Average Fiscal Years 2006 to 2008
(thousands of persons 16 years of age and over)
Table 4

Industrial Group	2008	2007*	2006	Net Change: 2007	Net Change: 2006
All Industries	1,218	1,263	1,256	-45	-38
Agriculture 1/	15	16	22	-1	-7
Nonagricultural Industries	1,203	1,247	1,234	-44	-31
Manufacturing	129	135	136	-6	-7
Construction	82	94	88	-12	-6
Trade	257	260	271	-3	-14
Transportatiom, Communication and Utilities	54	53	58	1	-4
Services	359	364	355	-5	4
Public Administration	279	296	278	-17	1
Finance, Insurance and Real Estate	43	45	46	-2	-3

1/ Includes forestry, pineapple and fishing

* *Estimates affected by the partial government shut down on May, 2006.*

Graphic A


Employed Persons, by Industry Group
Average Fiscal Years 2006 to 2008
(thousands of persons 16 years of age and over)
Industrial Group
Agriculture
Manufacturing
Construction
Trade
Transportation, Communication and Utilities
Services
Public Administration
Finance, Insurance and Real Estate
15
16
22
129
135
136
82
94
88
257
260
271
54
53
58
359
364
355
279
296
278
43
45
46
0
50
100
150
200
250
300
350
400
Year
2006
2007
2008

C. Other Indicators

1. Insured Unemployment

Table 5

Item	*Unemployment Insurance Benefits*		
	2008	***2007***	***2006***
Weeks Claimed	2,067,025	2,028,317	2,003,832
Claimants	427,784	416,006	401,456
Exhaustees	47,306	46,820	46,920

Source: BLS - P.R. Department of Labor and Human Resources
Research and Statistics Division

a. Characteristics of the Insured

The same upward trend continued uninterrupted since the last comparison span in year 2005. The total weeks claimed this fiscal 2008 stood at 2,067,025 representing an advance of 38,708 more weeks claimed than last fiscal. The over the two years comparison reflects a jump of 63,193 more weeks claimed. These figures mean in terms of claimants 11,678 more claimants over the year and 26,328 over the two years period.

Again, these figures correspond to a continued upward trend in unemployment produced by a reduced economic activity in the Island.

Table 6

Characteristics of the Insured Unemployed ***Puerto Rico*** ***Fiscal Year 2007-2008*** ***Gender and Age***		
Gender	***Average***	***Percent***
Total	**35,649**	**100.0**
Male	19,496	54.7
Female	16,153	45.3
	Age	
Total	**35,649**	**100.0**
<22	2,134	6.0
22-24	3,504	9.8
25-34	11,891	33.4
35-44	8,584	24.1
45-54	6,002	16.8
55-59	1,900	5.3
60-64	1,165	3.3
>65	469	1.3

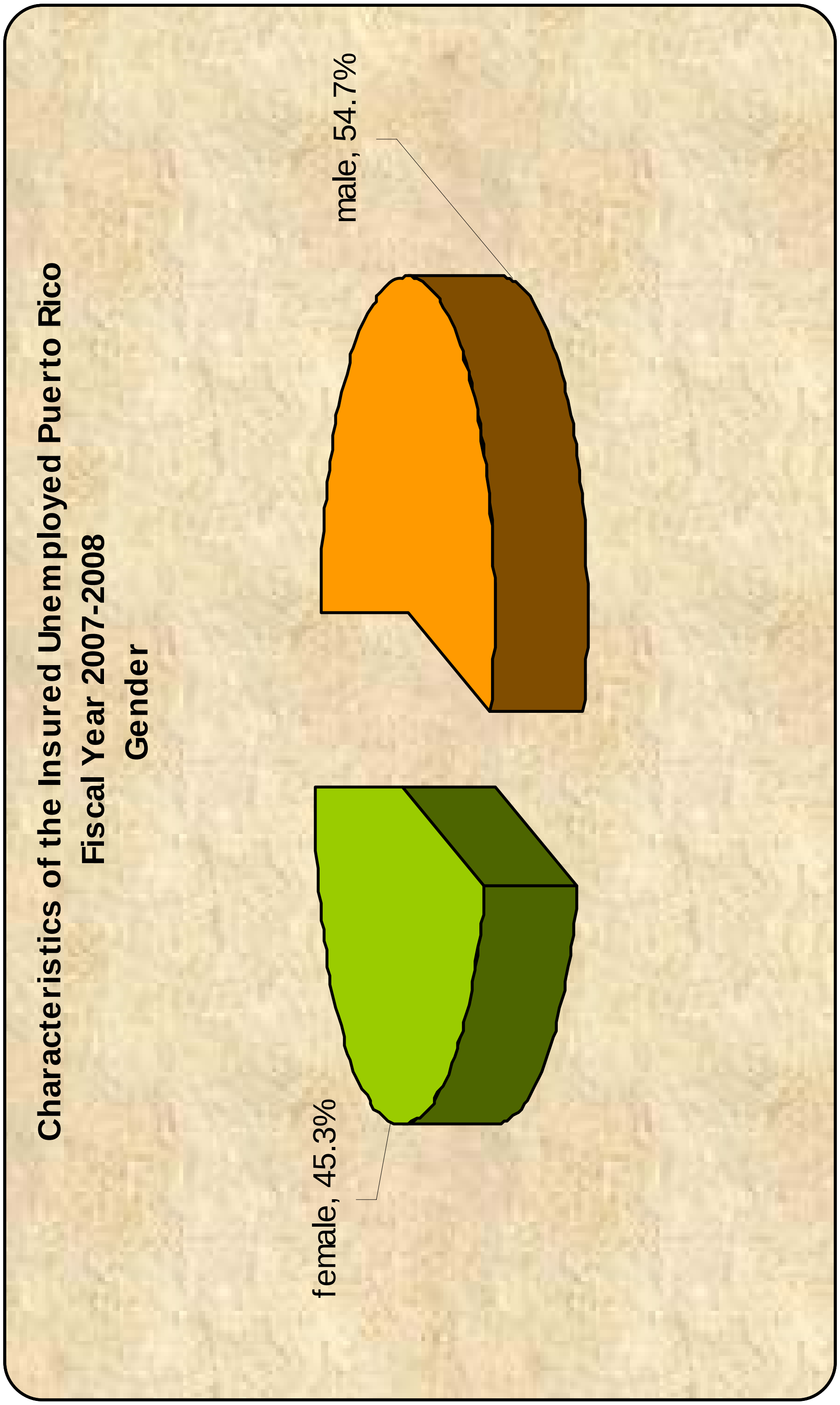
b. Gender

An average sample of the unemployed claimants was taken to view some of their characteristics. From a total average of 35,649 individuals 19,496 (54.7%) were males and 16,153 (45.3%) females. Men surpassing women is an over the years trend.

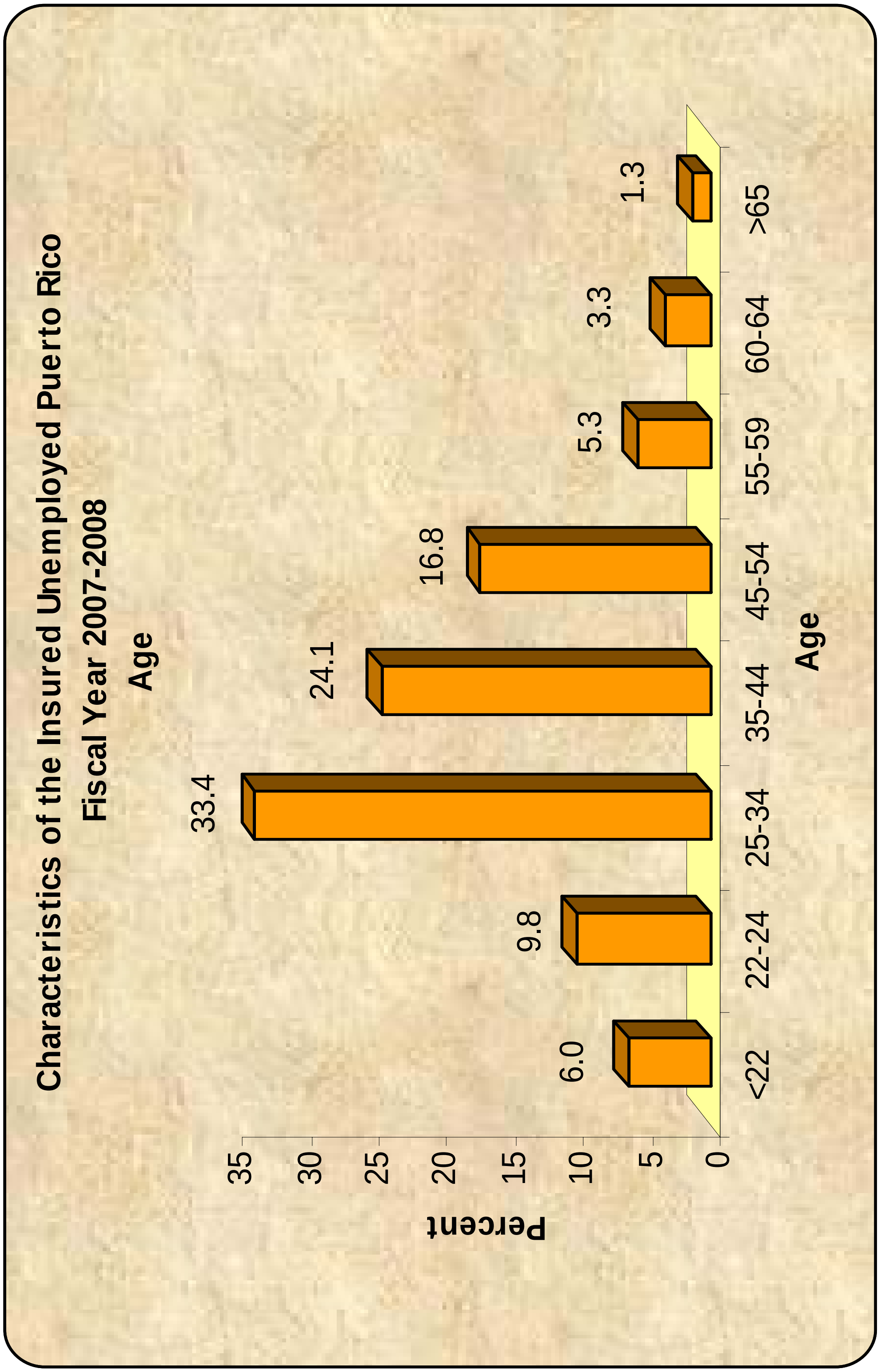
c. Age

The same trend observed in previous years was recorded this time, again. Persons in the age bracket of 25 to 34 were majority representing a 34.4 percent of the total. Secondly, was the next age group of 35 to 44 which got 24.1 in total average. A significant trait is noted as the last year analysis reported nearly, the same participation of these age groups.

Graphic B


Characteristics of the Insured Unemployed Puerto Rico
Fiscal Year 2007-2008
Gender
male, 54.7%
female, 45.3%

Graphic C


Characteristics of the Insured Unemployed Puerto Rico
Fiscal Year 2007-2008
Age
Percent
35
30
25
20
15
10
5
0
6.0
9.8
33.4
24.1
16.8
5.3
3.3
1.3
<22
22-24
25-34
35-44
45-54
55-59
60-64
>65
Age

2. Price Index

Starting on July 2007, the Puerto Rico's Bureau of Labor Statistics began publishing a new consumer price index (CPI). It's a revised version incorporating the one found in the Urban Consumer's Income and Expense Survey covering a time span from 1999 through 2003.

This new CPI is comprised by three samples representing the entire island of P.R. That is articles and services establishments and renting housing. Articles and services are incorporated into the basket of goods and services as they emerge in the market as well as new commercial establishment according to consumers' preferences.

The production of this revised index in year 2007 required the elimination of the previous one, as it used year 1984 as its database. The new index's structural change includes a communication group added to education and entertainment as a main group. Another difference is that eight new categories in articles and services had been added to main groups.

Therefore, the following is a descriptive analysis of a one year trend (July 2008 from July 2007).

In July of 2008, the Consumer Price index (115.160) reflected an increase of 11.7 per cent in comparison to the corresponding month of July of 2007 (103.132). For this period all principal groups showed index advances.

The most rise (231.9 per cent) was seen in the Lodging group due mainly, to the rise in electricity and housing. The second major group increase was registered in Food and Beverages (14.2 per cent).

In the subgroup of Fruits and Vegetables, prices increased by 54.9 per cent. The index under the classification of Grease, Oils and Dressings advanced 46.8 per cent, due to the increase in corn oil prices.

Cereals and cereal-derived products became more expensive by 31.9 per cent due mainly to a higher price of rice.

In Transportation, the index increased by 8.9 per cent as a direct result of the price in gasoline.

In Clothing, the index increased by 7.1 per cent, reflecting an even higher rise in the shoe line item.

In the Education and Communication group, prices expanded by 2.9 per cent. The subgroup with a major increase was Education (6.4 per cent) mostly due to the rise in tuition cost and monthly payment of colleges an universities.

All of the other groups and sub groups joined to the upward trend in overall prices.

The average Consumer Price index for the 2008 fiscal year was 107.270.

The acquisition power of the consumer's dollar was 93 cents, with respect to the value of 100 in December of 2006

Table 7
Consumer Price Index for All Families in Puerto Rico
July 2007 and 2008

Groups of Items	***Indexes December 2006=100***		***Percent changes***	***Indexes December 2006=100***
	July 2007	***July 2008***		***Fiscal Year 2008***
ALL ITEMS	**103.132**	**115.160**	**11.7**	**107.270**
Food and Beverages	**104.182**	**118.976**	**14.2**	**110.106**
Food	**104.276**	**123.897**	**18.8**	**111.912**
Alcoholic Beverages	**102.922**	**109.765**	**6.6**	**104.963**
Housing	**101.723**	**124.021**	**21.9**	**109.737**
Apparel	**99.794**	**106.913**	**7.1**	**103.032**
Transportation	**105.031**	**114.407**	**8.9**	**106.760**
Medical Care	**101.516**	**103.896**	**2.3**	**102.520**
Recreation	**102.634**	**105.367**	**2.7**	**103.272**
Education and Communication	**105.011**	**108.027**	**2.9**	**105.765**
Other Goods and Services	**101.763**	**104.384**	**2.6**	**102.732**

3. Other Information

Teen Motherhood

An important sector of the total population that might not be entering the future labor force if employability development services are not provided is that of teen mothers. The Puerto Rico's Department of Health-Mothers, Children an Adolescents Division established an age category of individuals 10 to 19 years to keep account of the teen group. According to its record there was a total of 296,339 adolescents in fiscal 2004-05. During this period a total amount of 50,387 births were registered with 9,140 from teen mothers. The previous fiscal, overall births totaled 51,239 out of which 9,299 were birth given by adolescents.

The municipalities (countries) with highest birth rates were: Vieques (35.6%), Orocovis (29.0%), Maunabo (26.9%), Loiza (26.4%) and Comerio (25.3%).

As compared to 2004 a no significant drop is observed. It is evidence that programs aim at stimulating youths to stay in school are needed.

P R O J E C T I O N S

II. Projections

A. Demographics

1. Population

Activity in a market economy is highly determined by population change. Thus, Puerto Rico's future economic development depends on the total population's economic behavior throughout next years.

Population projections for the 2005 to 2025 period point toward labor shortages over the next quinquennial as a slow overall rate of growth 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 means shortage of human capital in some areas.

The hard impact of this downward movement might be softened by two exogenous factors. One is individuals coming back from United States and a second one is aliens coming from the neighboring Dominican Republic. Figures for these currents are hard to project.

Contrary to the overall downward trend is the aging population rate of expansion. In fact, the Islands' population is growing older. Such trend is supported by statistics showing the growth of persons 50 years and over who in the 2005 recorded an advance of 11.8 percent over year 2000. This expansion is expected to continue all the way trough year 2025, the last projected quinquennial.

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

A study conducted by the AARP office in Puerto Rico 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. Other expect to work part time.

This trend will help ameliorate to a certain degree the scarcity of skill workers. But anyway, the economy will be pressed to produce a skilled labor force and sufficient jobs.

Table 8

Puerto Rico

Population Projections

Age 15 - 29

Years 2000 - 2025

Age	*Census*	*Projection to July 1*				
	2000	*2005*	*2010*	*2015*	*2020*	*2025*
Total	***919,725***	***895,841***	***888,436***	***869,264***	***853,703***	***834,845***
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
Net Change 2000 to:						
	2005	*2010*	*2015*	*2020*	*2025*	
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	
Per Cent Change 2000 to:						
	2005	*2010*	*2015*	*2020*	*2025*	
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

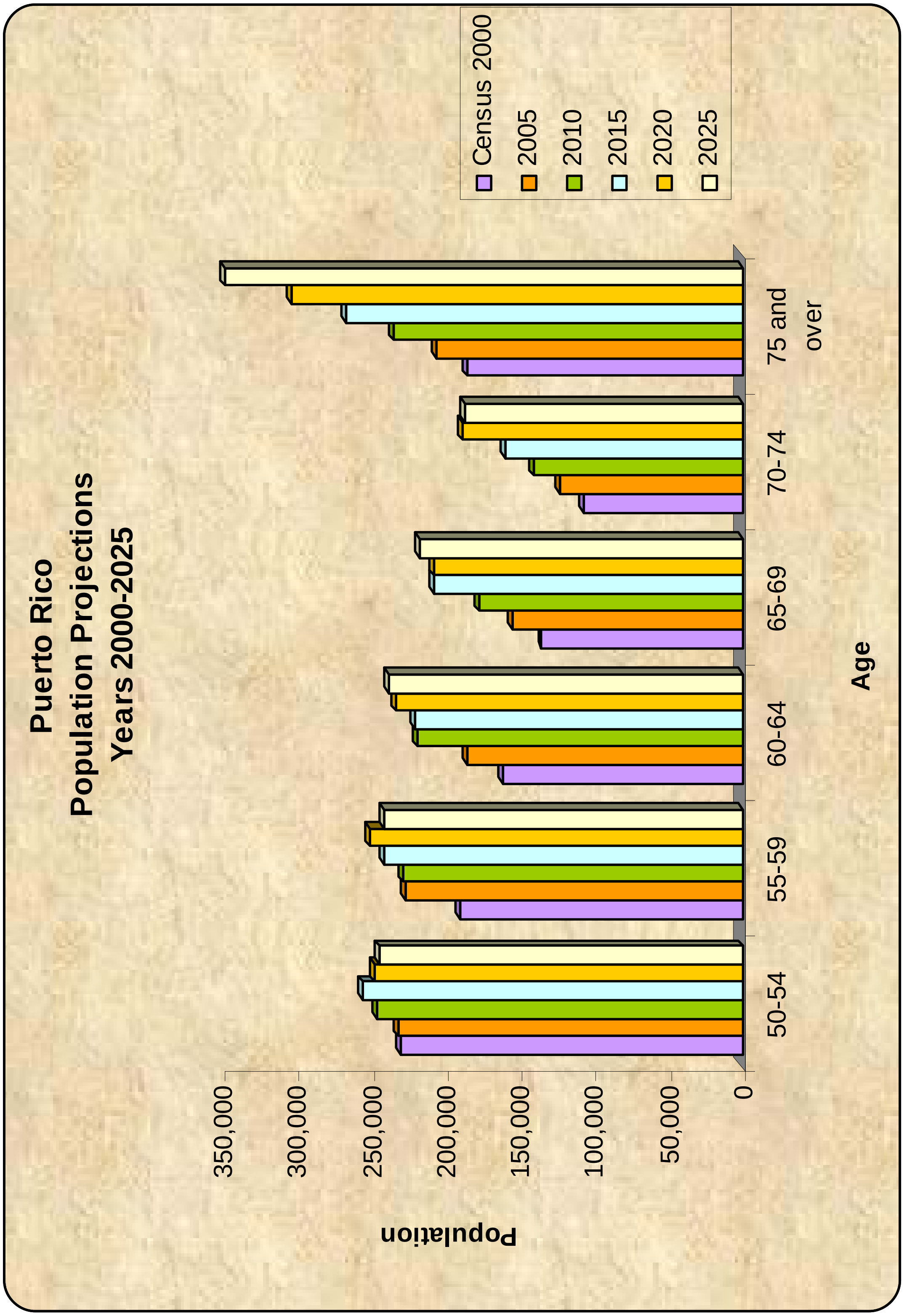
Table 9

Puerto Rico
Population Projections
Years 2000-2025

	Census	*Projection to July 1 rst.*				
Age	***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
Total	3,842,201	3,929,885	4,022,446	4,095,642	4,149,291	4,177,077
Change		3.2%	11.0%	1.8%	1.3%	0.7%
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
Total	1,004,500	1,122,891	1,230,984	1,346,187	1,426,876	1,469,809
Change		11.8%	10.4%	8.6%	6.0%	3.0%

Source: Puerto Rico planning Board
Bureau of Labor Statastics

Graphic D


Puerto Rico
Population Projections
Years 2000-2025
Population
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
50-54
55-59
60-64
65-69
70-74
75 and over
Age
Census 2000
2005
2010
2015
2020
2025

2. Occupations

Occupational projections available go until year 2010. An overall expansion of 15.3% jobs available within the next two years is expected. It should be noted that the materialization of these expectations depends on the behavior of the economy at various scenarios.

The group expected to see the highest advance is in the category of Combined Food Preparation and Serving Workers, including Fast Food (94.9). This expansion is explained by the close relation of this category with tourism. Tourism has been showing a strong upward movement. A second group to increase notably is Police and sheriffs Patrol Officers (81.0%). A third growing one is Security Guards (34.5%).

Specifically, food preparation and service related will embrace, a most significant growth at a 60.9%.

Protective Service will see an expansion of 51.7% within the next two years. Two factors are combined to foresee this future gain. One is government efforts to counteract crime in some areas. Hiring of protection is the second factor. It is related to the private housing trend of controlling access to communities and hiring police services.

In Computer and Mathematical an increment of 45.8% is projected as this field is related to a rising pace of technological updating by most business concerns. The highly competitive and rapidly changing information sector forces entrepreneurs and trade concerns to update so as to survive in a global market.

Table 10

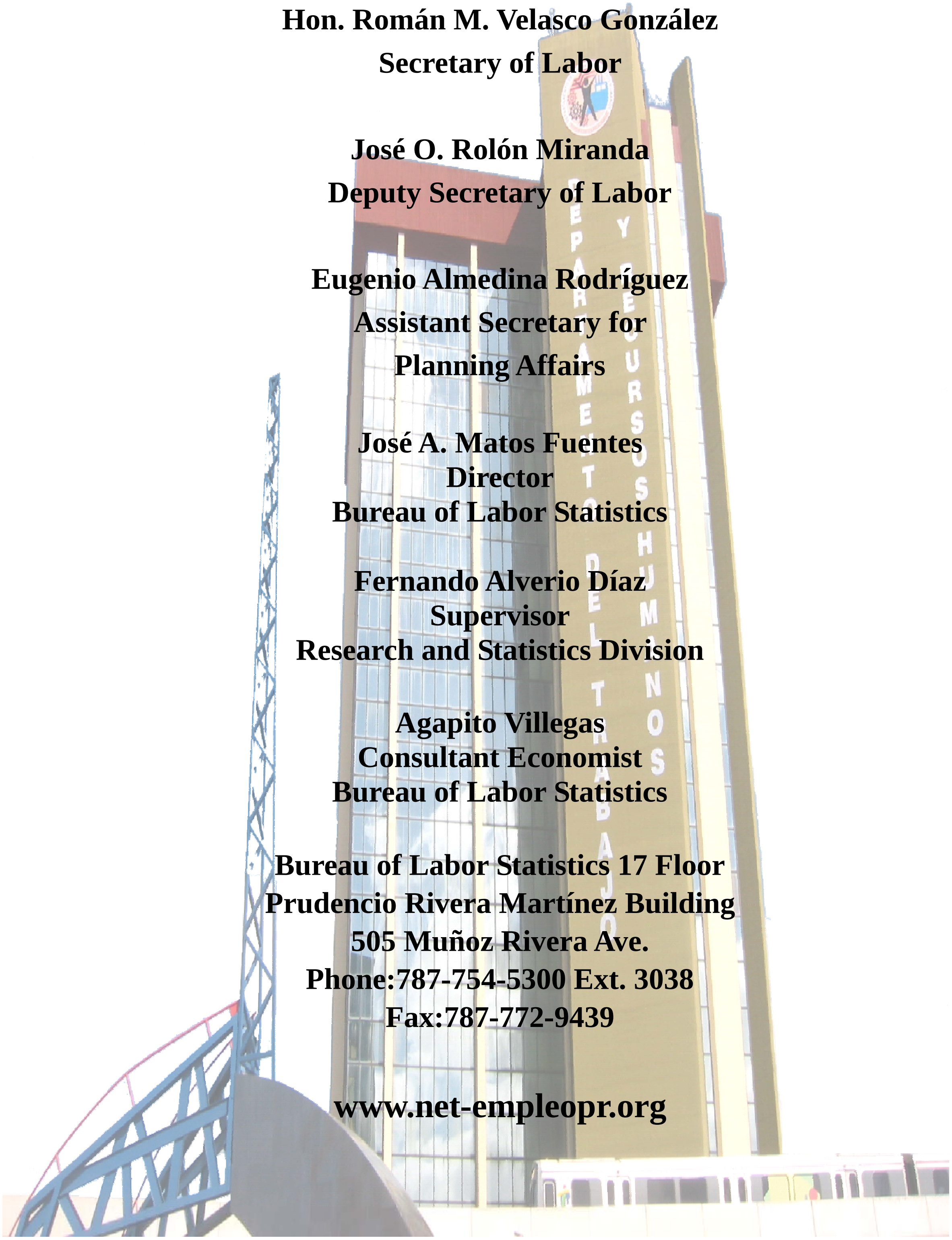
Occupations with highest projected employment

Occupation	Employment		Growth	
	2000	2010	Absolute	%
Retail Salespersons	40,815	49,317	8,502	20.8
Combined Food Preparation and Serving Workers, Inc Fast Food	21,800	42,490	20,690	94.9
Security Guards	26,078	35,076	8,998	34.5
Janitors and Cleaners, ex Maids and Housekeeping Cleaners	27,581	34,105	6,254	22.5
Police and Sheriff's Patrol Officers	18,389	33,276	14,887	81.0
Cashiers	24,608	32,576	7,968	32.4
Office Clerks, General	25,708	32,190	6,482	25.2
Laborers and Freight, Stock, and Material Movers, Hand	26,942	30,579	3,637	13.5
Secretaries ex Legal, Medical, and Executive	24,988	26,530	1,542	6.2
Construction Laborers	20,282	25,447	5,165	25.5

Table 11

Employment by Major Occupational Group

Occupational Group	2000		2010		2010	
	Total	%	Total	%	Absolute	%
Total*	**1,170,584**	**100.0****	**1,453,509**	**100.0****	**282,925**	**24.2**
Management	35,920	3.1	43,878	3.0	7,958	22.2
Business and financial	31,608	2.7	39,734	2.7	8,126	25.7
Computer and mathematical	5,661	0.5	8,256	0.6	2,595	45.8
Architecture and engineering	11,837	1.0	13,884	1.0	2,047	17.3
Life, physical / and social science	6,874	0.6	8,836	0.6	1,962	28.5
Community and social services	14,327	1.2	19,255	1.3	4,928	34.4
Legal	4,922	0.4	6,761	0.5	1,839	37.4
Education, training and library	63,806	5.4	73,486	5.1	9,680	15.2
Arts, design, entertainment, sports and media	5,967	0.5	7,327	0.5	1,360	22.8
Healthcare practitioner and technical	39,233	3.3	53,230	3.7	13,997	35.7
Healthcare support	10,817	0.9	14,921	1.0	4,104	37.9
Protective service	59,778	5.1	90,655	6.2	30,877	51.7
Food preparation and serving related	64,231	5.5	103,341	7.1	39,110	60.9
Building and grounds cleaning and maintenance	40,269	3.4	50,715	3.5	10,446	25.9
Personal care and service	14,047	1.2	18,543	1.3	4,496	32.0
Sales and related	105,915	9.0	130,193	9.0	24,278	22.9
Office and administrative support	181,294	15.5	211,114	14.5	29,820	16.4
Farming, fishing, and forestry	1,023	0.1	1,267	0.1	244	23.9
Construction and extraction	69,855	6.0	87,111	6.0	17,256	24.7
Installation, maintenance, and repair	37,106	3.2	44,606	3.1	7,500	20.2
Production	108,492	9.3	124,079	8.5	15,587	14.4
Transportation and material moving	87,887	7.5	106,656	7.3	18,769	21.4
* Includes self-employed and unpaid family workers ** No sum 100.0 due to rounding	169,715	14.5	195,661	13.5	25,946	15.3



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