



PUERTO RICO PLANNING BOARD
COMMONWEALTH OF PUERTO RICO
OFFICE OF THE GOVERNOR

PRESS RELEASE

THE BOARD REVISES ECONOMIC FIGURES FOR FISCAL YEAR 2008 AND UPDATES FORECASTS FOR FISCAL YEARS 2009 AND 2010

SAN JUAN (February 9, 2009) – The President of the Planning Board, Héctor Morales Vargas, announced today the release of Puerto Rico’s macroeconomic data for fiscal year 2008, as well as projected figures for fiscal years 2009 and 2010.

The Planning Board’s revision for fiscal year 2008 shows the growth of the Puerto Rico economy slowing down by 2.5%. The Planning Board’s projections point toward an economy that will have contracted by 3.4% during the current fiscal year of 2009 (ending on June 30, 2009) and that will suffer an estimated reduction of 2.0% during fiscal year 2010.

“The economic reality that Puerto Ricans currently live clearly shows a negative trend through indicators such as employment, construction permits, sale of cement and Treasury Department revenues. These indicators contrast dramatically with the positive projections that the Planning Board released at the beginning of 2008,” declared engineer Morales Vargas.

At the beginning of calendar year 2008, the Planning Board projected a 2.1% real growth of the economy for fiscal year 2009, which is clearly inconsistent with the current economic reality. Given this disparity, the Planning Board engaged in accelerating the process of revising the economic projections and providing the public with more clarity regarding the current economic conditions.

Certainty in these figures is vital because they are used to estimate government revenues or income for the coming fiscal years. It is now acknowledged that one of the causes of the current crisis in government finances was precisely overestimating economic growth. This, in turn, caused a disparity between revenue estimates at the beginning of the past fiscal years and what really entered the government coffers at the end of each fiscal year.

“These data and projections represent an adjusted evaluation of the pace of our economy and of short term perspectives, leaving out measures of economic relief or stimuli for Puerto Rico,” engineer Morales Vargas explained.

For making these projections, the Board decided not to incorporate economic stimulus measures such as the Local Stimulus Plan proposed by the current administration or

the economic recovery package currently under discussion in the U.S. Congress, because they are still in development stages. Integrating those measures would have introduced uncertainty into the projections. It was also decided that those initiatives should be evaluated together with the fiscal reconstruction measures in order to have an integrated analysis.

Morales Vargas explained that Puerto Rico is living a prolonged recessionary period. This period is estimated to have started in fiscal year 2006 and it has deepened and reached real economic contractions of 1.9% and 2.5% during fiscal years 2007 and 2008, respectively.

The growth deceleration during fiscal year 2008 constitutes the sharpest economic reduction since fiscal year 1983.

Regarding the calculations for the projections, the Planning Board uses the *Modelo Econométrico Modular*, a tool designed specifically for very complex economic projections. This model allowed the Planning Board to project three economic scenarios for fiscal years 2009 and 2010.

The following table presents a summary of the main economic variables for fiscal years 2007 and 2008, and the base projections for fiscal years 2009 and 2010.

Table 1. Summary of Annual Growth Rates of Selected Variables

ANNUAL GROWTH RATES OF SELECTED MACROECONOMIC VARIABLES

(At constant prices of 1954 = 100 - constant prices 1954 = 100)

MACROECONOMIC VARIABLES	2006r	2007r	2008p	PROJECTIONS	
				BASE 2009	BASE 2010
GROSS NATIONAL PRODUCT (GNP)	0.5	-1.9	-2.5	-3.4	-2.0
PERSONAL CONSUMPTION EXPENDITURES	1.9	1.9	-0.5	-0.6	0.2
CONSTRUCTION INVESTMENT	-10.9	-7.6	-8.8	-11.1	-10.5
MACHINERY AND EQUIPMENT INVESTMENT	7.8	0.9	-8.1	-9.9	-11.3
GOVERNMENT CONSUMPTION EXPENDITURES	0.1	-1.3	-6.5	-2.8	-1.4
PERSONAL INCOME	-0.6	0.0	2.3	-1.5	0.1

r - REVISED FIGURES.

p - PRELIMINARY FIGURES

SOURCE: PUERTO RICO PLANNING BOARD; ECONOMIC AND SOCIAL PLANNING PROGRAM; SOCIAL ANALYSIS, MODELS AND PROJECTIONS
SUBPROGRAM

Press Contact: Tulio J. Endi Gómez
Tel. (787) 607-1371
E-mail: endi_t@jp.gobierno.pr

The economic downturn for fiscal year 2008 was caused by sharp slowdowns in all the economic variables that make up the Gross National Product for fiscal year 2007.

In particular, individual spending turned negative when compared with fiscal year 2007. The spending decreases were sharpest in the area of durable goods, such as automobiles, and services. Puerto Rican consumers experienced steep raises in oil prices and its derivatives during the second half of fiscal year 2008, which produced diminished consumer trends. In fact, personal consumption expenditure is the segment with the highest weight in the Puerto Rico economy. Also, decreases were registered in government spending, which also had an impact on the deepening of the recession with respect to fiscal year 2007.

The economic projections of the base scenarios point toward 3.4% decrease in fiscal year 2009, which ends this coming June 30th, and another 2% contraction in fiscal year 2010. These projections take into account the pace of the monthly economic indicators of the first half of fiscal year 2009, which reflect the continuation of a descending trend in the economy. The economic projections in the base scenarios for fiscal years 2009 and 2010 are consistent with projected contractions in the U.S. economy of 1.4% during fiscal year 2009 and 0.5% for fiscal year 2010.

In addition, a series of special factors that will continue to affect the local economy during the rest of fiscal year 2009 and the next fiscal year, 2010, were taken into account, and they are shown in the next table.

Table 2. Other factors that will continue affecting our economy

Factors	Description
Restriction in personal consumption	Consumers' spending will continue to be cautious due mostly to increases in the unemployment rate, which reached 13.1% in December 2008. In addition, individuals are experiencing tighter restrictions in the granting of loans from commercial banks.
Fall in construction investment	Estimates show the construction sector will continue to be affected due to: 1) the high level of vacant housing, 2) the reduction in the granting of loans to construction projects and residential mortgages, and 3) a reduction of public investment.

U.S. Recession	The U.S. economy is registering a recession that is largely concentrated in fiscal year 2009. Unprecedented events in the housing sector, the financial markets and the banking system in the United States have caused restrictions in investment and the loss of millions of jobs.
Fiscal Deficit	The seriousness of the deficit and the sharp reduction of Treasury revenues, which registered a 5.2% fall during the first half of fiscal year 2009, will continue to limit the government's financial capacity.

During the coming weeks, the Planning Board will carry out an analysis of the measures proposed by the current administration and the stimulus plans for development such as the Local Stimulus Plan and the U.S. Recovery plan. The Board will use the projections used here as a starting point for its analysis.

“The projections that we are announcing today tell us the status of our economy and establish the base on which we will analyze the aggregate impact of the fiscal reconstruction measures and the very important stimulus and relief plans on all Puerto Ricans,” Héctor Morales Vargas stated.

In addition, Morales Vargas explained that the Board also analyzed the effects of new investment on the economy. The analysis shows that for each dollar invested in construction, a total of \$1.63 would be generated in the economy of Puerto Rico. According to the most recent estimates, construction investment has the highest multiplier effect on the Gross National Product or the economy of Puerto Rico. “This finding is important and it can be key to achieving the Island’s economic recovery. Puerto Rico’s economy needs more investment in infrastructure, construction and research,” Morales Vargas concluded.

The cost of the oil barrel and the growth of the economy of the United States are factors of great weight in the Puerto Rico economy. With the goal of presenting a dynamic picture, we provide in Appendix A a summary of the estimate of the effects of these factors on the growth of the economy of Puerto Rico.

On the other hand, the Planning Board announced that efforts to publish the Economic Activity Index will be renewed. This index serves as a monthly barometer of the economy of Puerto Rico and it will allow not only to keep the citizenry informed about the pace of the economy, but also to monitor the effects of the programmed fiscal measures and economic stimuli.

The Planning Board publishes the bulletin “*Actividad Socio-Económica de Puerto Rico.*” targeted to all those who want to follow closely the evolution of Puerto Rico’s

economic and social indicators. This bulletin, as well as the monthly economic indicators and other economic analysis developed by the Economic and Social Analysis Program of the Planning Board can be found at our site in the internet: www.jp.gobierno.pr

The Puerto Rico Planning Board

Created in 1942, the Planning Board fulfills a key function in the design and implementation of public policy with long-term vision. The mission of the Planning Board is to face the development challenges of a society, based in principles of a sustainable economy, and the conservation and protection of our environment for the benefit of current and future generations. The Economic and Social Planning Program serves the role of carrying out analysis and economic recommendations of high importance for Puerto Rico.

Economic and Social Planning Program

P.O. Box 41119, San Juan, Puerto Rico 00940-1119
Tel. (787) 723-6200 ext. 5648 Fax (787) 722-6783

www.jp.gobierno.pr

Appendix A. Summary of the estimates of the effects of the price of oil and the

*Press Contact: Tulio J. Endi Gómez
Tel. (787) 607-1371
E-mail: endi_t@jp.gobierno.pr*

real growth of the U.S. economy on the Puerto Rico Economy

Price of Oil*	Real Growth of the U.S. Economy (GNP)							2.5%
	-2.0%	-1.5%	-1.0%	0.0%	1.0%	1.5%	2.0%	
	Real Growth of the Puerto Rico Economy (GNP)							
\$30	-1.9%	-1.5%	-1.1%	-0.3%	0.5%	0.9%	1.3%	1.7%
\$45	-2.8%	-2.4%	-2.0%	-1.2%	-0.4%	0.0%	0.4%	0.8%
\$55	-3.4%	-3.0%	-2.6%	-1.8%	-1.0%	-0.6%	-0.2%	0.3%
\$65	-4.0%	-3.6%	-3.2%	-2.4%	-1.5%	-1.1%	-0.7%	-0.3%
\$75	-4.6%	-4.2%	-3.8%	-2.9%	-2.1%	-1.7%	-1.3%	-0.9%
\$85	-5.2%	-4.7%	-4.3%	-3.5%	-2.7%	-2.3%	-1.9%	-1.5%
\$95	-5.7%	-5.3%	-4.9%	-4.1%	-3.3%	-2.9%	-2.5%	-2.1%
\$100	-6.0%	-5.6%	-5.2%	-4.4%	-3.6%	-3.2%	-2.8%	-2.4%
\$150	-8.9%	-8.5%	-8.1%	-7.3%	-6.5%	-6.1%	-5.7%	-5.3%

Source: Planning Board, Economic and Social Planning Programó.

* West Texas Intermediate (WTI) average price for the barrel of oil.