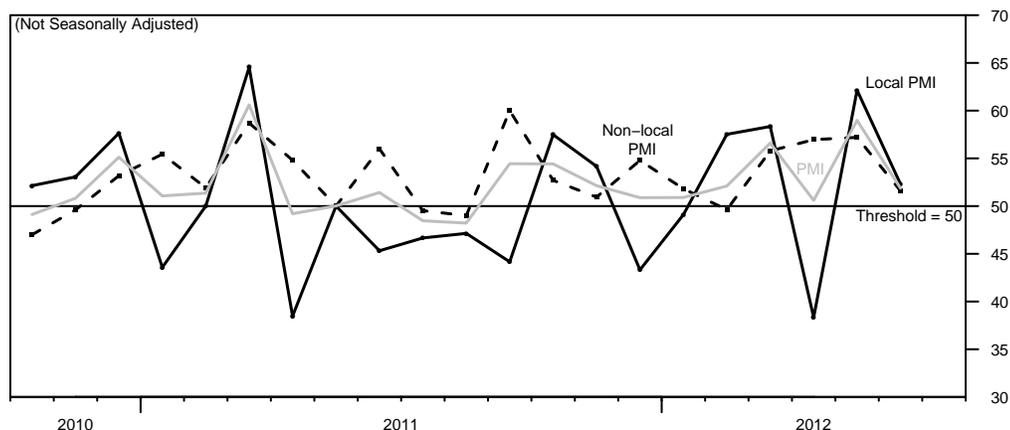


Business Conditions appear more volatile in Locally-Owned Manufacturing Establishments

The PRM-PMI includes establishments that are owned by residents of Puerto Rico, as well as establishments that are owned by non-residents of Puerto Rico. As a result, one question that naturally rises is whether the business conditions of locally-owned manufacturing establishments behave differently than the business conditions of non-locally-owned establishments. In this supplement, we explore this question. In specific, the sample of manufacturing establishments with more than 50 employees was classified into two groups (locally-owned establishments and non-locally-owned establishments), using the standard regulatory definition of the Puerto Rico Industrial Development Company.¹ About 37 percent of sampled manufacturing establishments, as well as 37 percent of responding establishments, were classified as locally-owned. Subsequently, a PMI index was estimated for each subsample, using the same methodology as the PRM-PMI.

The Chart below presents the behavior of the PRM-PMI for locally-owned manufacturing establishments (or “Local PRM-PMI” for short) and the PRM-PMI of non-locally owned manufacturing establishments (or “Non-local PRM-PMI”). The Local PRM-PMI exhibits relatively more fluctuations and volatility than the Non-local PRM-PMI. In specific, the standard deviation of the Local PRM-PMI is more than double the standard deviation of the overall PRM-PMI. There may be methodological reasons for this observation: the group of locally-owned manufacturing establishments is smaller than the group of non-locally-owned establishments. On the other hand, this observation may reflect real underlying economic phenomena. For example, the business conditions of non-locally-owned manufacturing establishments may be less volatile because of their relatively greater access to external capital. Also, locally-owned manufacturing establishments tend to be more concentrated in the food and beverage manufacturing industry which largely depends on orders from within Puerto Rico. By their very nature, the business conditions of food and beverage manufacturers can face significant seasonal volatility depending on how the volume of consumer purchases evolves throughout the different peaks and troughs that regularly occur in any given year.

The Local PRM-PMI has been at or above the threshold value in just 12 out of the last 22 months, whereas the Non-local PRM-PMI has been at or above the threshold in 16 of the last 22 months. In June 2012, Local-PMI went down to 52.3 remaining above the threshold.



¹ In specific, the majority of shareholders of a locally-owned manufacturing establishment must be residents of Puerto Rico by birth, or by residing in Puerto Rico for at least two (five) consecutive years for U.S. citizens (for non-U.S. citizens). All others are classified as non-locally-owned.