

U.S. Virgin Islands Economic Review **Bureau of Economic Research (BER)**

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Introduction

There was some weakening in the performance of the US Virgin Islands economy during 2002, reflecting the general downturn in the US economy and the lingering effects of September 11, 2001. Negative growth in the tourism and hospitality sector and in manufacturing was the major influence on the overall performance of the economy. Although the other sectors improved marginally over 2001, the improvement was too soft to effect overall economic growth.

Prospects for growth appear better in 2003. The recovery of the US and global economies is set to continue in 2003, albeit at a slow but steady pace. This recovery should spill-over and lead to a rebound of the local economy. Other factors such as lower interest rates and improvements in the capital markets should affect the local economy positively. Additionally, there are a number of capital projects to come online over the course of the year that will encourage economic growth. These projects include the \$560 million Robin Bay Hotel and Casino and the \$100 million Golden Gaming Casino Resort on St. Croix, and the \$165 million Botany Bay Hotel, the \$100 million Yacht Hotel and Marina and Home Depot on St. Thomas.

There are, however, tenuous situations that can likely affect this positive outlook. The possibility of armed conflict in Iraq, political instability in the middle-east and Venezuela, and an anemic US economy, are developments that may lead to weaker economic output.

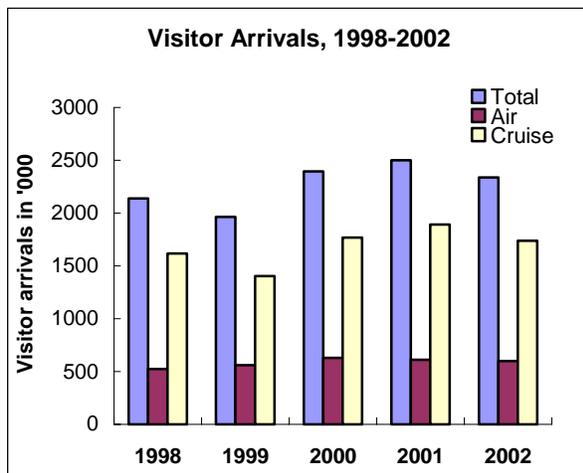
2002 in review and outlook for 2003

Measures of economic health, such as employment and output, were mixed in 2002. The major sectors: construction; wholesale and retail trade; eating and drinking places; finance insurance and real estate; and transportation, communication and public utilities showed some improvement over 2001. However, the tourism and hospitality industries and manufacturing were the two sectors that showed negative growth. The former sector has reeled from the terrorist attacks and the sluggish US economy and the latter from falling demand and production issues as well as shortage of skilled labor and high labor costs.

Tourism

The tourism industry faced sharply reduced demand as a result of September 11th. With US visitors accounting for nearly

75 percent of tourist arrivals, the industry experienced a sudden drop in arrivals which continued into 2002. Total visitor arrivals for fiscal year 2002 fell to 2,390,755 from 2,604,849 in fiscal year 2001—a decline of 8.2 percent. Total overnight visitors fell by 7.3 percent to 585,129 from 630,987, while cruise passenger arrivals fell by 8.5 percent to 1,805,628 from 1,973,862 3 in fiscal year 2001.



For calendar year 2002, visitor arrivals totaled 2,336,668 or 6.6 percent lower than the 2,501,035 count in calendar year 2001. Air visitor arrivals, which totaled 597,958 for this period, declined by 1.9 percent over 2001. Cruise ship passenger arrivals, which totaled 1,738,710, were down by 8.1 percent over 2001. Cruise calls were 13.4 percent lower than last year. The absence of ships calling on St. Croix from June to September led to a 49 percent drop in cruise ship passenger arrivals to that island and contributed to the overall loss in visitor arrivals.

Despite the difficulties faced by the tour-

ism industry during the year, it fared better than initial expectations especially when compared to many other Caribbean destinations, which suffered double-digit reductions in arrivals. The last four months of 2002 point to a rebound of the industry as evident by consecutive months of growth in air arrivals. While cruise passenger arrivals are yet to return to normal levels, there are expectations that the cruise industry will also rebound. However, growth will likely not occur until the second fiscal quarter of 2003.

Early indications also point to a strong mid-winter performance in hotel registrations following many months of decline. The frigid winter in the US and Canada is sending many tourists to our shores. Beginning in October, the territory recorded positive growth in hotel occupancy rates, so that by year-end 2002 the territory's hotel occupancy rate was virtually the same as last year. The hotel occupancy rate was 56.9 percent compared to 56.5 percent for 2001. The occupancy rate for the St. Thomas and St. John district was 61.1 percent compared to 59.5 percent in 2001, while the rate for St. Croix was 43.1 percent compared to 47.2 percent in 2001.

The number of hotel and condominium rooms increased to 5,095 in 2002 from 5,049 in 2001. There were just over 1,857,538 room nights available in 2002, about 1.0 percent more rooms available than in the previous year. Occupied room nights were also up by 1.7 percent to 1,057,488 in 2002 from 1,039,699 in 2001.

The number of people employed in tourism-related jobs in fiscal year 2002 fell to 8,797 from 8,846 in 2001. A loss of jobs in hotels, gift shops and restaurants accounted for the decline.

Visitor arrivals are forecast to expand by the first quarter of fiscal year 2003 and reach just over 2.5 million by the end of the fiscal year (1.9 million cruise passengers and 615,000 air visitors).

Manufacturing

The manufacturing sector, which accounts for 5 percent of nonagricultural jobs, lost nearly 150 jobs in 2002. The high costs of operation and weak demand for some products in this sector are behind this sector's troubles. The VI Alumina refinery, also known as VIALCO, closed operation in January 2001. The watch industry is faced with stiff competition and production issues. In fact, watch shipment from January to September of 2002 fell to 310,581 from 351,182 the same period the year before.

The watch industry has been in decline for a number of years. Prior to 1996, there were 7 firms that employed approximately 700 workers. In early 1997, two of the largest factories closed and the workforce in this industry declined to 280 workers. Presently, there are three firms in the industry employing about 162 workers. Unitime Industries Inc., the largest watch industry employer, which employed some 50 workers or 31 percent of the total watch industry employment, closed the plant in

December 2002.

Hovensa, a 50-50 joint venture between Amerada Hess and Venezuela's national oil company, *Petróleos de Venezuela*, is the Territory's largest manufacturer and the industry's strongest performer. The limited partnership company just completed a \$535 million coker plant with the capability to refine heavy crude into marketable oil products.

The company plans to build a \$650 million desulfurization unit to remove sulfur from fuel in order to meet stricter Environmental Protection Agency standards to be phased in over three years beginning in 2004. The strike in Venezuela, which began in December 2002, caused Hovensa to delay construction of the unit because of a cut in crude oil. Venezuela, the world's fifth largest oil exporter, supplies Hovensa with more than 50 percent of its crude. Since December, Hovensa was unable to import any crude oil from Venezuela. Until the strike, Hovensa was processing 440,000 barrels per day, but cut production in early December to 270,000 barrels daily. It is anticipated that Hovensa will soon increase its daily production since it received its first shipment of crude oil from Venezuela at the end of January.

The refinery is struggling financially. The lack of a steady supply of crude oil from Venezuela plus unfavorable market conditions and increasing costs (such as the increased cost of liability insurance as a result of 9/11) contributed to financial losses for Hovensa. It was reported that the refinery

had a net income of \$120 million in 2001, but lost \$90 million in 2002. The strike and resulting financial losses forced Hovensa and its subcontractors to layoff some 300 of the 2,500 workers employed. And more cuts are expected to follow. These layoffs will worsen conditions in the manufacturing sector in particular and the economy of St. Croix in general.

The number of jobs in manufacturing averaged 2,164 in fiscal year 2002 compared to 2,300 in fiscal year 2001. For the first quarter of fiscal year 2003, there was an average of 2,148 manufacturing jobs.

The performance of the manufacturing sector is likely to improve over the next year with increased efforts by the VI Port Authority and the Economic Development Authority to attract new industries to the Territory. Additionally, some jobs are expected to be created in the coker plant. As fuel production picks up in Venezuela, Hovensa is likely to rehire laid off employees.

Construction

The construction sector recorded the highest rates of employment growth in fiscal year 2002. There was an average of 3,286 construction jobs or 23.8 percent increase over the previous fiscal year's average of 2,654. Growth in the construction sector was driven by private-sector capital projects, such as Hovensa's \$535 million coker unit and the expansion and refurbishing of the Ritz Carlton Hotel and Timeshare. Public sector infrastructure devel-

opment projects such as the St. Croix' Henry E. Rohlsen Airport expansion, Crown Bay dredging, and roads and housing construction also fueled the growth in construction.

In 2002, permit value—a leading indicator of growth in the industry—rose 84 percent for the first three quarters compared to the same period in 2001. Private residential construction increased 2 percent and private non-residential construction increased 11 percent during this period. Public construction permits value was strong during this period increasing by 804 percent compared to the corresponding period in 2001.

Construction activity has slowed in recent months with the completion of Hovensa's coker and hotel construction. The average number of construction jobs has fallen to 2,345 for the first quarter of fiscal year 2003. However, construction is expected to be strong this year supported by major hotel and casino construction, the upgrade and expansion of roads, housing and seaports, and the development of commercial and residential properties.

Among the hotels to spur growth in construction are Botany Bay, Robin Bay Hotel and Casino, Yacht Haven Hotel and Marina and Golden Gaming Hotel. The VI Port Authority capital investment projects such as Crown Bay cruise ship dock extension, Enighed Pond commercial port and Redhook terminal building as well as the Home Depot and the construction of the old Grand Union building are activities that will lead to strong growth in the con-

struction sector. The construction of Hovensa's desulfurization unit is expected to create between 600 to 800 construction-jobs. Lower mortgage rates are also expected to boost private home construction and real estate development.

Transportation, communication and public utilities

The improvement in jobs in the transportation, communications and public utilities sector, which occurred in fiscal year 2001, has leveled off in fiscal year 2002, is averaging 2,450. Employment in this sector is likely to remain stable in 2003.

Trade

The number of jobs in the trade sector has increased by 5 percent annually to an average of 9,669 in fiscal year 2002 from 9,185 in fiscal year 2001. The main source of overall growth in the industry came from food stores, eating and drinking establishments and jewelry, liquor and gift shops. The number of jobs in retail trade averaged 8,577 in fiscal year 2002 compared to 8,110 in fiscal year 2001. For the first quarter of fiscal year 2003, jobs in retail trade averaged 8,650, about 4 percent more than the corresponding period in fiscal year 2002. The average number of jobs in wholesale trade increased 2 percent to 1,092 in fiscal

First quarter 2003 showed that there were 1,045 jobs in wholesale trade. The number of jobs in trade, which so far in fiscal year 2003 has averaged 9,750, is expected to continue to grow in fiscal year 2003 on the

strength of retail sales.

Finance, insurance, and real estate

Jobs in the finance, insurance and real estate sector in fiscal year 2002 averaged 1,915, roughly the same as in fiscal year 2001. For the first quarter of fiscal year 2003, however, jobs in this sector were down to 1,893. Weaknesses in the insurance market such as affordability and availability of coverage are affecting this sector's performance. This sector, however, is expected to expand with a boost from sliding mortgage rates which have benefited new home buyers as well as those who refinanced or tapped into their equity. Additionally, growth in business and financial services should create additional employment opportunities.

Service

The service industry—which is comprised of hotels and other lodging places, business, legal, educational and auto and miscellaneous repair services—held approximately 11,157 jobs in fiscal year 2002, or about 2.5 percent less jobs than the previous fiscal year's average of 11,444. The downturn in the tourism and hospitality industry, specifically in hotel and other lodging places and in air travel and business services have weakened this sector's performance. First quarter 2003 numbers show a contraction of jobs in this sector, down to 10,640. However, this sector is expected to improve by the second quarter of the fiscal year as demand grows in travel and tourist-related industries.

and tourist-related industries.

Public-and private-sector employment

Total employment in the public sector grew by 1 percent in fiscal year 2002 to 12,515 from 12,353. However, public sector jobs averaged 12,171 for the first quarter of fiscal year 2003. The decrease in public-sector jobs occurred in the local government. The number of local government jobs averaged 11,706 in fiscal year 2002 or about 2 percent higher than the 11,494 jobs in fiscal year 2001. Local government jobs are expected to decline into fiscal year 2002 2003. There is expected to be no major change in federal government jobs, which averaged 892 in fiscal year 2002 and have averaged 854 for first quarter of fiscal year 2003.

Average employment in the private sector grew by 2 percent in fiscal year 2002 to 30,669 from 29,923 in fiscal year 2001. For the first quarter of fiscal year 2003, there were 29,267 private sector jobs or about 2 percent less than the corresponding period one year earlier.

Employment and unemployment

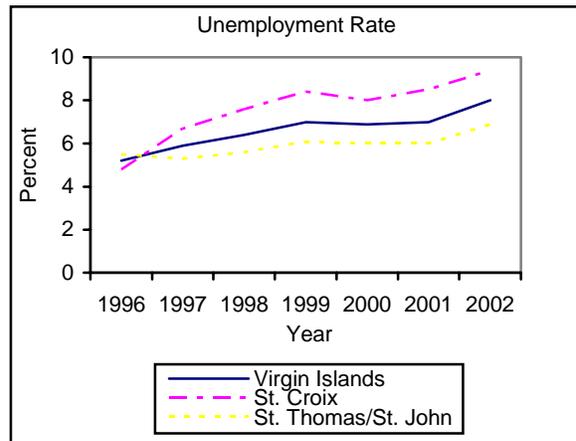
Total nonagricultural wage and salary employment in fiscal year 2002 averaged 2 percent higher than the corresponding period in fiscal year 2001, increasing to 43,158 jobs from 42,275 jobs.

According to the Bureau of Labor Statistics the labor force grew to 49,740 in fiscal

year 2002 from 49,381 in 2001. For the first quarter of fiscal year 2003 the labor force averaged 48,620. The Territory’s unemployment rate rose to 8.3 percent in fiscal year 2002 from 6.8 percent in fiscal year 2001 and currently stands at 9.6 percent.

The rate for St. Croix grew 2 percentage points to 10.0 percent in fiscal year 2002 from 8.0 in fiscal year 2001, and currently stands at 12.0 percent.

The rate for the St. Thomas and St. John district was approximately 7.1 percent in fiscal year 2002 compared to 6.0 percent in fiscal year 2001, and 7.6 percent for the first quarter of fiscal year 2003.



V.I. NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
Annual Average, Calendar Years 1996-2002

INDUSTRY	1996	1997	1998	1999	2000	2001	2002
TOTAL NONAGRICULTURAL	41,340	41,500	41,690	41,140	42,050	44,367	43,129
CONSTRUCTION AND MINING	2,520	1,880	1,530	1,690	1,950	3,697	3,017
MANUFACTURING	2,340	2,230	2,420	2,430	2,480	2,191	2,148
DURABLE GOODS	670	660	620	600	610	695	683
INSTRUMENTS & RELATED PRODUCTS	300	270	260	240	280	307	292
NONDURABLE GOODS	1,670	1,570	1,800	1,830	1,870	1,496	1,465
FOOD & KINDRED PRODUCTS	260	260	250	260	260	262	270
PRINTING & PUBLISHING	200	190	240	230	230	214	198
TRANSPORTATION, COMM., & PUB. UTILITIES	2,280	2,360	2,370	2,360	2,450	2,507	2,446
WATER TRANSPORTATION	460	450	480	480	480	543	532
TRANSPORTATION BY AIR	500	490	480	510	570	556	552
COMMUNICATIONS	750	750	790	770	760	781	738
WHOLESALE TRADE & RETAIL TRADE	9,320	9,440	9,110	8,820	8,950	9,602	9,788
WHOLESALE TRADE	1,070	1,150	1,150	1,090	1,080	1,116	1,108
RETAIL TRADE	8,250	8,290	7,960	7,730	7,870	8,486	8,680
FOOD STORES	1,340	1,260	1,160	1,070	1,130	1,174	1,204
EATING & DRINKING PLACES	1,990	2,050	2,090	2,010	2,100	2,294	2,296
JEWELRY, LIQUOR, GIFT & REL. STORES	2,080	2,090	2,090	1,970	2,050	2,101	2,134
FINANCE, INSURANCE, & REAL ESTATE	1,800	1,870	1,880	1,940	1,950	1,931	1,918
BANKING	890	890	890	910	920	878	838
REAL ESTATE	540	610	620	680	680	655	679
SERVICES	9,020	9,980	10,620	10,450	11,240	12,113	11,195
HOTELS & OTHER LODGING PLACES	2,580	3,340	3,820	4,030	4,230	4,054	3,934
BUSINESS SERVICES	1,260	1,370	1,420	1,210	1,280	1,916	1,968
AUTO & MISCELLANEOUS REPAIR SERV.	1,530	1,520	1,480	1,380	1,930	2,050	1,223
LEGAL SERVICES	370	380	400	420	410	420	416
EDUCATIONAL SERVICES	730	730	740	740	730	723	726
TOTAL PRIVATE SECTOR	27,280	27,760	27,930	27,690	29,020	32,041	30,512
GOVERNMENT	14,060	13,740	13,760	13,450	13,030	12,326	12,617
FEDERAL	990	860	880	880	860	905	905
TERRITORIAL	13,070	12,880	12,880	12,570	12,170	11,438	11,796

SOURCE: V.I. Department of Labor, Bureau of Labor Statistics.

Labor Force Data

U.S. Virgin Island: Calendar Years 1995:2002

Year	Virgin Islands				St. Croix				St. Thomas & St. John			
	Labor Force	Civilian Employed	Unemployment Monthly	Unemployment Rates	Labor Force	Civilian Employed	Unemployment Monthly	Unemployment Rates	Labor Force	Civilian Employed	Unemployment Monthly	Unemployment Rates
1995	47,810	45,070	2,740	5.7	19,970	18,480	1,490	7.4	27,840	26,590	1,250	4.5
1996	45,760	43,370	2,380	5.2	18,670	17,780	890	4.8	27,090	25,590	1,490	5.5
1997	46,200	43,500	2,700	5.9	19,100	17,830	1,270	6.7	27,100	25,670	1,430	5.3
1998	46,690	43,690	3,000	6.4	19,380	17,910	1,470	7.6	27,310	25,780	1,530	5.6
1999	46,400	43,140	3,260	7.0	19,300	17,690	1,610	8.3	27,110	25,360	1,650	6.1
2000	47,730	44,500	3,230	6.8	19,820	18,250	1,570	7.9	27,910	26,250	1,660	5.9
2001	49,900	46,370	3,530	7.1	21,710	19,940	1,770	8.2	28,190	26,430	1,760	6.2
2002	49,440	45,120	4,320	8.7	21,730	19,400	2,330	10.7	27,710	25,720	1,990	7.2

Source: VI Department of Labor, Bureau of Labor Statistics

U.S. Virgin Islands Tourism Statistics, Calendar Years 1995-2002

Year	Total Visitors		Air Visitors		Cruise Visitors		Tourist Rooms				
	Number (000s)	Percent Annual Change	Number (000s)	Percent Annual Change	Number (000s)	Percent Annual Change	Room Nights Available (000s)	Room Nights Occupied (000s)	Average Stay (Nights)	Occupancy Rate (%)	Total Rooms
1995	1,741.3	-9.4	570.0	-16.0	1,171.3	-5.8	1,793.4	1,047.8	4.4	59.0	5,154
1996	1,778.7	2.1	462.3	-18.9	1,316.4	12.4	1,374.9	711.0	4.3	51.6	4,087
1997	2,128.0	19.6	508.8	10.1	1,619.0	23.0	1,544.4	824.6	4.2	53.3	4,401
1998	2,138.9	0.5	523.4	2.9	1,615.5	-0.2	1,742.2	914.4	4.4	52.5	4,929
1999	1,964.3	-8.2	560.1	7.0	1,403.6	-13.1	1,742.0	967.9	4.4	56.0	4,849
2000	2,396.6	22.0	628.2	12.2	1,768.4	26.0	1,815.2	1,059.7	4.5	58.4	4,997
2001	2,501.0	4.4	609.6	-3.0	1,891.4	7.0	1,838.4	1,051.3	4.5	57.2	5,045
2002	2,336.7	-6.6	598.0	-1.9	1,738.7	-8.1	1,857.5	1,057.5	4.4	56.9	5,095

Note: Hotels do not include condo and villas