

# U.S. Virgin Islands Economic Review and Industry Outlook

## Bureau of Economic Research (BER)

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### Introduction

The Virgin Islands economy had a break-out year in 2005 after struggling for several years from weak demand, and low levels of output and employment. The economy grew by an estimated 3.2 percent on account of a vibrant tourism sector, strong business investment and financial services activity. Nearly all of the major sector showed marginal to modest growth. Jobs increased by 2,857 or 7.0 percent over 2004. As a result, the Territory unemployment rate fell to 7.1 percent from 7.9 percent in 2004. Both island districts experienced a drop in the unemployment rate. The rate for the St. Croix district fell to 8.6 percent from 9.6 percent, while the rate for the St. Thomas and St. John district fell to 6.0 percent from 6.8 percent the year before.

### Tourism

Looking at the performance of individual sectors, the tourism industry was one of the strongest performer in fiscal year 2005. Visitor arrivals peaked at 2,651,329, up 2.7 percent over 2004. There were 700,337 air visitors and 1,950,992 cruise passengers. Air arrivals were up by 6.1 percent and cruise passenger arrivals by a modest 1.5 percent. Visitor arrivals are expected to continue to be strong and should approach 2.8 million by the end of 2006.

### Manufacture

The manufacturing sector improved last year after suffering decline in the past few years. The major commodities produced by this sector, in addition to watches, are refined petroleum products and rum. The value of refined petroleum, the industry's largest export and strongest performer grew by 40 percent in 2004 to reach \$6.7 billion and was on target to exceed \$7 billion in 2005. This strong growth is the result of higher production levels and higher commodity prices combined with increased demand.

The rum industry is also performing well. It consists of one company, Virgin Islands Rum Industries, Ltd., a subsidiary of Todhunter International, Inc., which is 68 percent owned by Angostura Limited, a Trinidad-based distiller. The industry has about 50 employees and produces Cruzan and Old St. Croix brand rum as well as bulk shipments for other labels. About 5.9 million proof gallons of rum were shipped to the United States in fiscal year 2004 and 6 million proof gallons were projected for fiscal year 2005.

The watch industry has been on the decline over the past 10 years. In 2004, approximately 319,624 watches were exported compared to over 1,000,000 before 1997. In 2005, September year-to-date total watch shipment was 180,390, down 22 percent from 230,429 for the same period

in 2004. Presently, there are three firms in the industry employing about 118 workers—Belair Quartz, Hampden Watch, Co., and Tropex Watch Co.

The number of manufacturing jobs averaged 2,170 in fiscal year 2005, up from 2,062 in 2004. This represents a 5.3 percent growth over last fiscal year. Growth continued in 2006 with the first quarter showing a 7.1 percent growth compared to 2005. Although, this sector has showed some gains, it remains under pressure from lower cost competitors.

### **Construction**

This construction sector averaged 1,834 in fiscal 2005 or 8.2 percent growth over fiscal year 2004. First quarter fiscal year 2006 showed a strong 15.8 percent job growth over fiscal year 2005. Construction is expected to be strong during the 2006 supported by major hotel construction, the upgrade and expansion of roads, housing and seaports, and the development of commercial and residential properties. The construction of Hovensa's desulfurization unit, which began in September 2005, is expected to create 400 construction jobs. Additionally, the Yacht Haven Hotel and Marina is expected to add 120 jobs, and there are a number of private sector projects such as Grand Bay Condominiums on St. John and Sapphire Beach Development that will create additional construction jobs.

### **Leisure and Hospitality**

The leisure and hospitality sector—which is comprised of hotels and other lodging

*U.S. Virgin Islands Bureau of Economic Research* places, restaurants and food services, and arts and entertainment—held approximately 7,084 jobs in fiscal year 2005, about 1.6 percent less than the previous fiscal year's average of 6,811. This year-to-year decline in jobs resulted primarily from the closing of Renaissance Hotel and the Hard Rock Café. This sector is expected to improve in 2006 with the creation of new job opportunities in restaurants and hotels.

### **Trade, Transportation and Utilities**

The trade, transportation and public utilities sector had an average of 8,428 jobs in 2005, up by nearly 1.0 percent when compared to last fiscal year. Employment in this sector is likely to improve in 2006 as evident from a 2.1 percent increase for the first quarter of fiscal year 2006.

### **Trade**

The number of jobs in trade—6,899—improved marginally in 2005 when compared to 6,871 for last fiscal year. Retail trade jobs averaged 6,187, while wholesale trade jobs averaged 712 during this period.

Trade jobs and retail jobs in particular are expected to increase in fiscal year 2006 as the economy expands and spending grows.

### **Financial Services and Real Estate**

The financial services sector was one of the most vibrant in the past years, but has begun to show signs of decline not only in loss of revenue but also in jobs. In fiscal year 2005 the number of jobs averaged 2,538 or 2.2 percent over fiscal year 2004.

For the first quarter of fiscal year 2006, the number of jobs declined marginally by one percent. While some loss is attributed to the uncertain with respect to the EDC program, the impact of job losses were offset by new jobs in the tourism and manufacturing sectors.

The strength of this sector in 2006 is dependent in large measure on the final Treasury ruling on the American Job Creation Act, 2004. The uncertainty has caused investors to become jittery and more risk averse. Consequently some companies have suspended their operations pending the final ruling from the US Treasury Department with respect to source income. Growth will also depend on the federal monetary and fiscal policy as it pertains to interest rates and tax policy.

#### **Public-and private-sector employment**

Public sector jobs, which account for 30 percent of all jobs in the Territory, have been declining in recent years. Efforts by the administration to reduce local government jobs through attrition, retirement and the elimination of vacant positions have been met with great success. The number of both local and federal government jobs decreased by 1.1 percent in fis-

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cal year 2005 when compared to last fiscal year. Local government jobs averaged 11,451 and federal government jobs averaged 871.

About 70 percent of the Territory's jobs are provided by the private sector. There is a turnaround in private sector jobs in 2005 as evident by a growth of 1.6 percent growth to 30,289 from 29,816 last year. There were 31,148 private sector jobs for the first quarter of fiscal year 2006.

#### **Outlook for 2006 and 2007**

The outlook for 2006 and 2007 is for continued but moderated growth. Growth over the next year will be supported by a the tourism sector and private sector development projects such as the William and Punch Hotel and Casino development on St. Croix, possible Inter-Continental Hotel and the Frenchman's Cove Condominiums development on St. Thomas. However, a number of factors such as further spikes in energy prices, increases interest rates and federal regulations will keep pressure on the economy. It is absolutely critical, therefore, the public policy ensures that the Virgin Islands remains an attractive place for businesses to locate and invest.

**Labor Force Data**

**U.S. Virgin Island: Calendar Years 1995:2006**

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	27,100	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	49,670	46,140	3,530	7.1	21,610	19,840	1,770	8.2	28,290	26,300	1,760	6.2
2002	49,430	44,980	4,320	8.8	20,320	17,990	2,330	11.5	28,980	26,990	1,990	6.7
2003	48,170	43,640	4,530	9.4	19,960	17,460	2,500	12.5	28,210	26,180	2,030	7.2
2004	50,066	46,101	3,965	7.9	19,470	17,367	2,103	10.8	29,665	27,661	2,004	6.8
2005	50,906	47,301	3,605	7.1	21,212	19,393	1,819	8.6	29,694	27,908	1,786	6.0
2006	50,502	47,401	3,100	6.1	22,013	20,383	1,631	7.4	28,488	27,019	1,470	5.2

Note: data for 2006 is a 4-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

**Labor Force Data**

**U.S. Virgin Island: Fiscal Years 2000-2006**

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
2000	47,181	43,873	3,224	6.8	19,571	18,023	1,557	8.0	27,602	25,934	1,668	6.1
2001	49,476	46,104	3,372	6.8	21,287	19,600	1,687	7.9	28,400	26,504	1,685	5.9
2002	49,346	45,203	4,143	8.5	20,621	18,452	2,169	10.5	28,895	26,835	1,973	6.8
2003	48,460	43,833	4,627	9.5	20,096	17,533	2,585	12.9	28,342	26,300	2,042	7.2
2004	49,536	45,694	4,092	8.3	20,275	18,175	2,097	10.4	29,261	27,266	1,995	6.8
2005	50,085	47,063	3,689	7.3	20,990	19,180	1,810	8.6	29,762	27,882	1,881	6.3
2006	50,469	47,226	3,243	6.4	21,585	19,904	1,681	7.8	28,884	27,332	1,562	5.4

Note: data for 2006 is a 7-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

**U.S. Virgin Islands Tourism Statistics, Calendar Years 1995-2006**

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	55.7	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	57.7	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	55.7	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	57.0	5,092
2003	2,394.7	2.5	620.8	3.8	1,773.9	2.0	1,840.7	1,051.5	4.4	57.2	5,045
2004	2,623.3	9.5	658.6	6.1	1,964.7	10.8	1,784.9	1,103.6	4.3	61.3	4,983
2005	2,605.1	-0.7	692.6	5.2	1,912.5	-2.7	1,776.3	1,094.7	4.3	63.8	4,761
2006	516.6	-	128.4	-	388.2	-	280.3	194.6	4.3	69.4	4,759

Note: data for 2006 are through February