



2021 Revenue Estimating Conference: Situation and Outlook

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Headline Summary and Outline

Economic Situation: Recovery giving way to COVID induced recession

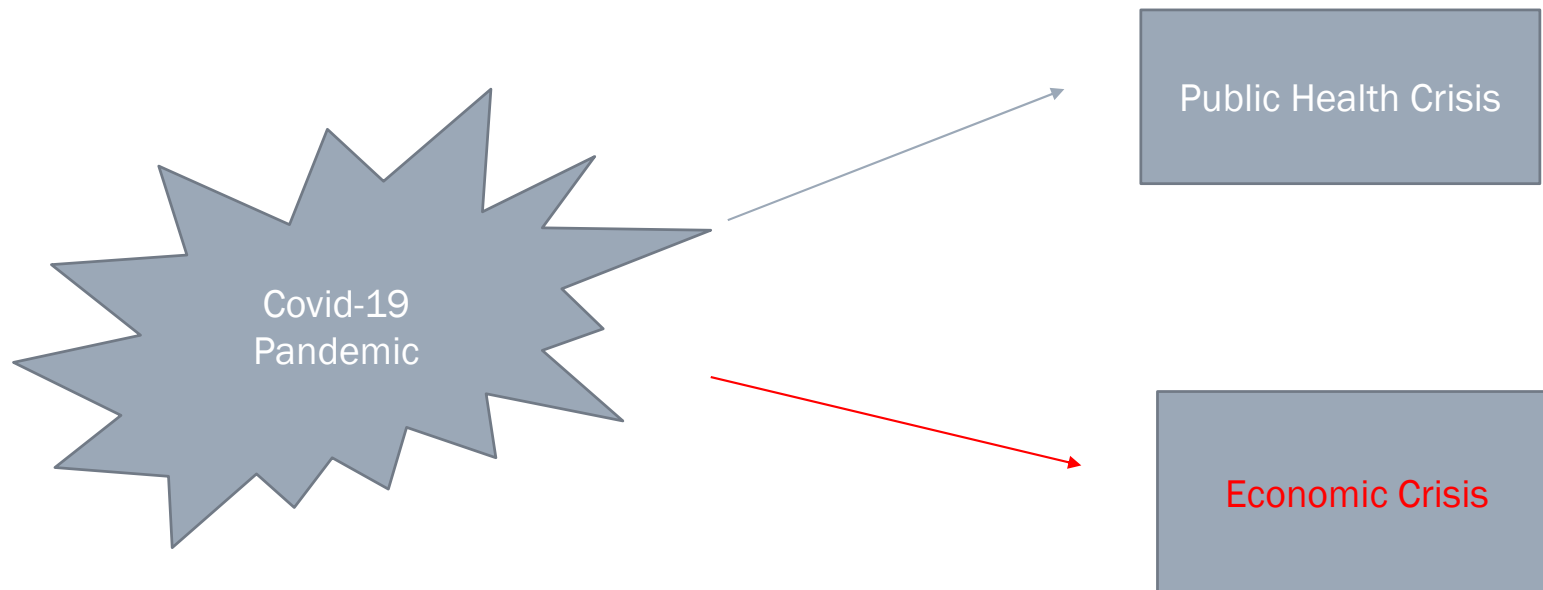
- Key Economic Indicators and Forecasts Weakening. COVID ended recovery.*
- Local Success in Containing COVID But Territory's Principal Tourist Source Market is World's Epicenter of Viral Outbreak Making for a Delayed Tourism Resurgence
- Facing a Budget Crisis but \$2.8 billion of COVID related Federal assistance hopefully on way
 - COVID exacerbated fiscal frailties and reexposed long simmering structural problems—GERS and WAPA.

Outline

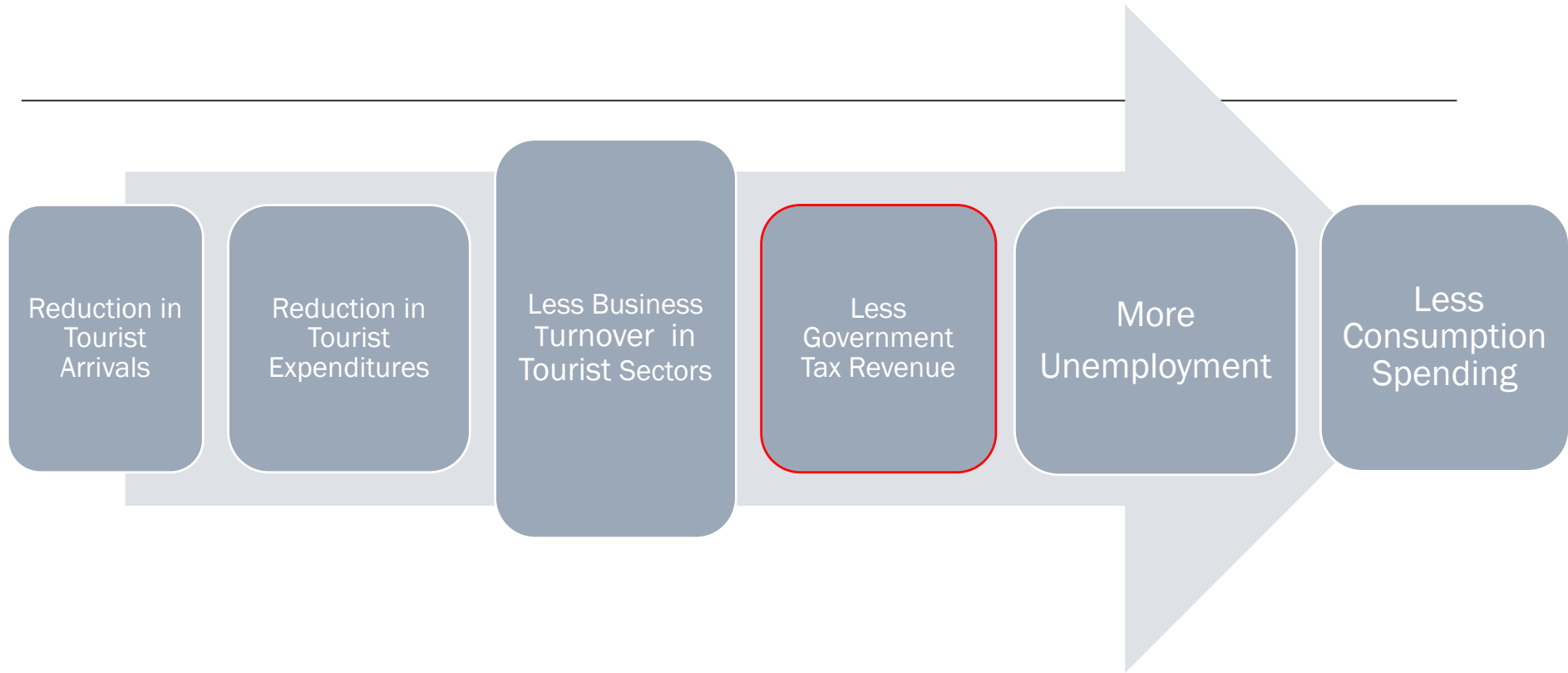
Outlook: Fragile

- Heavy Dependence on Federal Assistance since excluded from Bond Markets. Premium will be on improved financial management and execution.
- What Strategy to Pursue in Opening Tourist Economy?
 - A. Restrictive opening: COVID FREE CERTIFICATION
 - Immunity Passports (Negative COVID Test less than 48 hrs. old required for entry;
 - Temperature Screening and COVID Testing at Ports of Entry
 - Many Sanitization Sites; Frequent Use of Disinfectants in Hotels, Taxis, Retail Venues, etc.
 - Extended Restrictions on Cruise Ships
 - B. Tourism Bubbles (Accept visitors from places with containment)
 - C. Opening without Antigen Testing at either Point of Departure or Entry
- Imperative of Diversification (Prerequisite-Better Business Climate,-Education, Health, Waste Mgt.)

SITUATION: COVID-19 has triggered twin crises

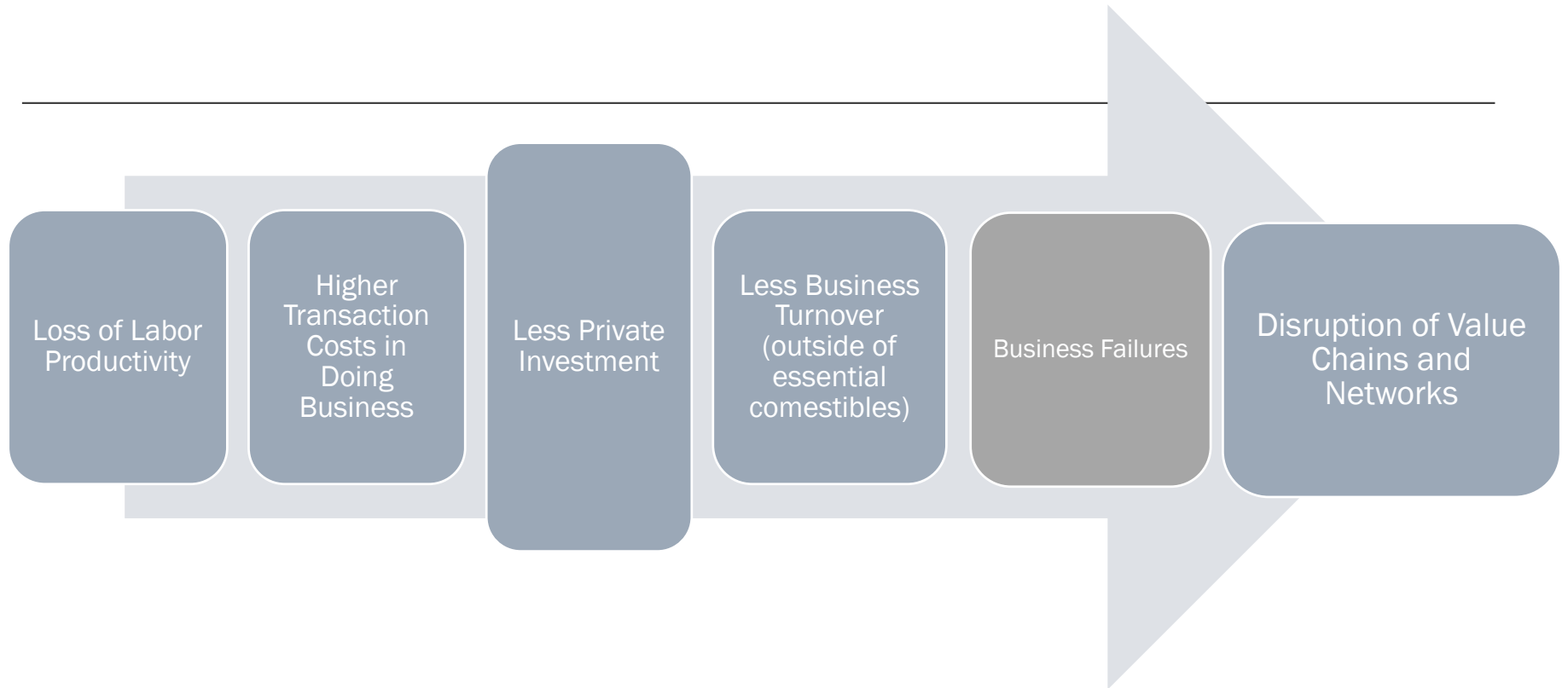


Primary Channel of Economic Shock Transmission– Closing of Export Service Economy--Travel Restrictions/Cruise Ship Suspension Decimated Tourism Sector



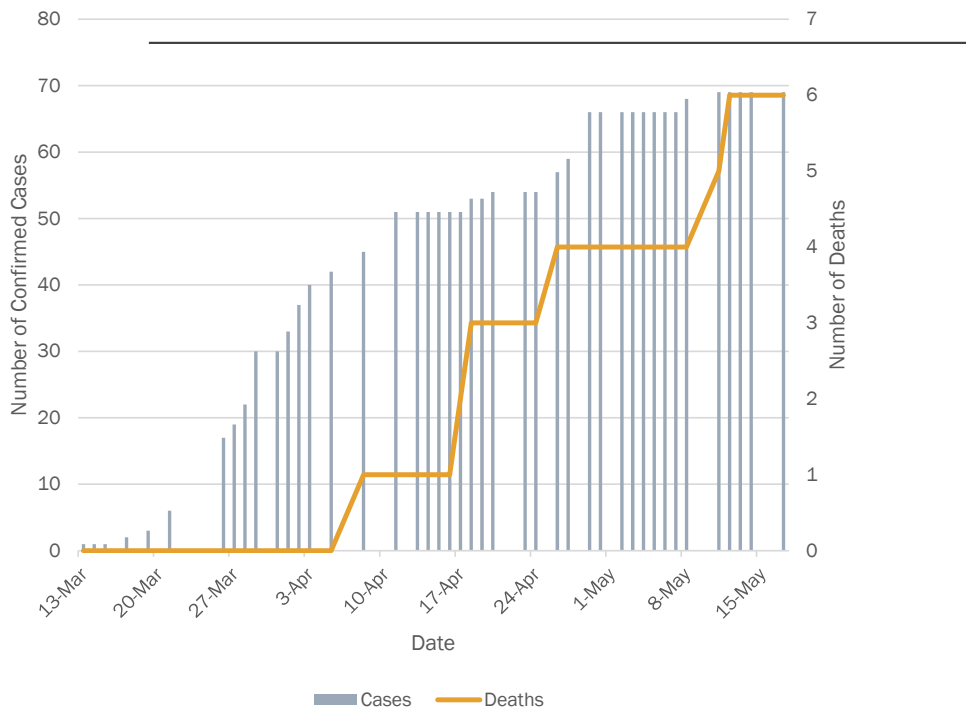
Secondary Channel of Economic Shock Transmission:

Medically Targeted Containment Policies - (Social Distancing, Stay at Home Orders, Temporary Business Closings, Public Event Cancellations)—Gravely Affected Local Economy



COVID Contained in VI

COVID 19 Cases and Deaths in the USVI as of May 20, 2020



Country/Territory	Number of Confirmed Cases	Number of Deaths	Number of Recovered	Current Infection Rate	Share of Tourism nominal in GDP (2018)	Scaled-Case per million	Scaled-Deaths per million
Virgin Islands	69	6	61	2	30%	660	57
Aruba	101	3	95	3	27.64%	900	27
Caymans	111	1	55	55	8.29%	1687	15
British Virgin Islands	8	1	6	1	32.96%	266	33
Antigua and Barbuda	24	3	11	10	13.09%	249	31
Barbados	90	7	68	15	13.13%	314	24
St. Kitts and Nevis	15	0	15	0	6.56%	284	0
Sint Maarten (NE)	77	15	54	8	45%	1795	395
St. Martin (Fr)	40	3	33	4	50%	1034	77
St. Lucia	18	0	18	0	15.61%	98	0
Jamaica	520	9	127	384	34%	176	3
Bahamas	96	11	43	42	19.22%	249	29
Dominican Republic	13,477	466	7,142	5,869	5.38%	1,277	43
Puerto Rico	2,805	124	850	726	2.52%	878	39

Economic Impacts

Tourist Expenditures Rest of FY20:

Down \$273 M Est.

Unemployment:

March 4.2% → April 8.4%%

Tax Revenue FY20:

Down \$150.1 M from initial forecast

Worsening Fiscal Stress:

- Looming Operational Deficit FY20
- FY21 Budget will be austere limiting capability to radically invest in transforming and investing in a “new government”. Hiring and pay freezes prevent recruitment of high skilled people. Implementing technology

Gov't Liquidity Position Worsened in QIII of FY20:

Ideal is to have 24 days+ cash on hand

Now weekly cash on hand is averaging 2-6 days

Tourism Arrivals and Expenditures

Cruise Ship Arrivals averaged 178,644 cruise ship visitors in March, from 2013-2019.

The actual number for March 2020 was 78,078, or 43% of the typical monthly average, due to the global suspension of cruise ship activity that started on March 14.

Cruise Ship Arrivals will be 0 at least until July 18th.

Only one cruise ship operator, Carnival, has announced a restart in August of just 8 ships out of a fleet of 100.

Before COVID, the USVI could reasonably have expected 186,031 air arrivals (average quarter II arrivals -2013-2019) and 346,338 cruise visitors (average quarter II arrivals 2013-2019)

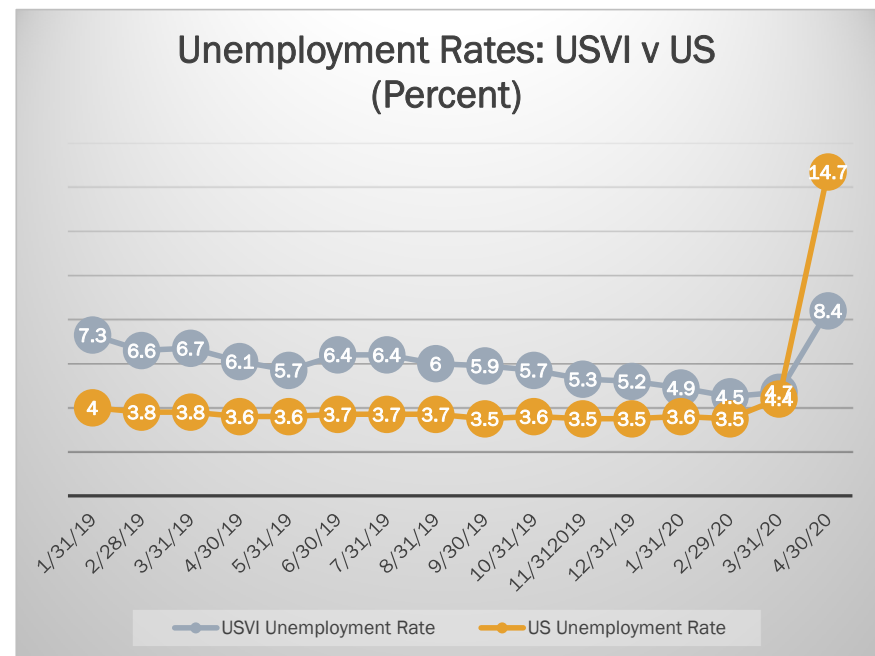
Tourist expenditures average \$1.2 billion a year. If the the April to September 2020 total arrivals are 50% off from historical averages, the likely expenditures will be just \$43.8 m.

Unemployment

Unemployment had fallen from 13% in 2013 to 4.3% in March 2020 and then jumped to 8.4% in April 2020. Due to backlog in claims processing, expect UE to be in double-digits in May and June.

Unemployment applications surged in April and May. As of May 21 were 8074 applications and 5,400 claims were approved.

The two largest private sector employment categories are retail and hospitality and leisure.



GDP

GDP is likely to contract 12-14% depending on length of shutdown.

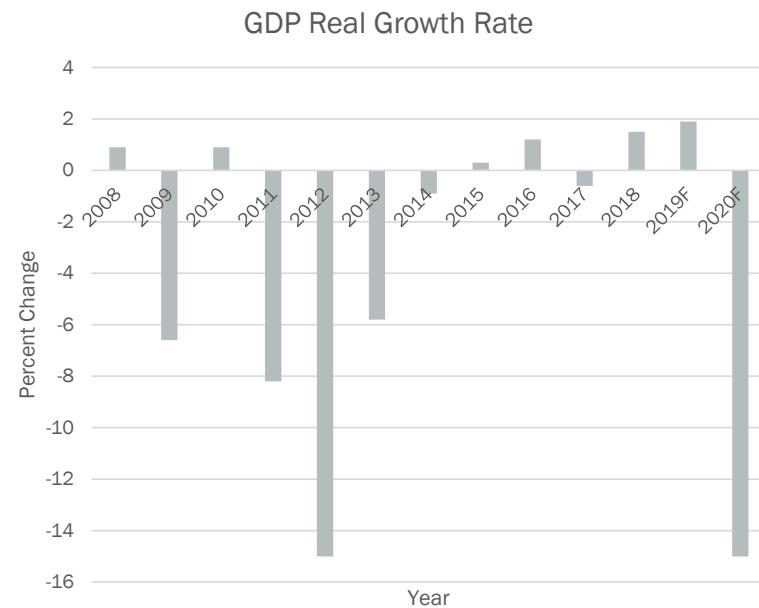
90 days from March 13-June 11—12%

120 days from March 13-July 11—14%

Note Financial stimulus Package 3 will help if approved by the Senate and President. 2.4 billion is estimated to be allocated to the Territory if House version.

Biggest risk to output performance is the slow rate of containment of the virus in the US. 24 states uncontained.

Vaccine expected between March-September 2021



Tax Revenues

Tax Revenue from April 2019 to April 2020 off by 15%.

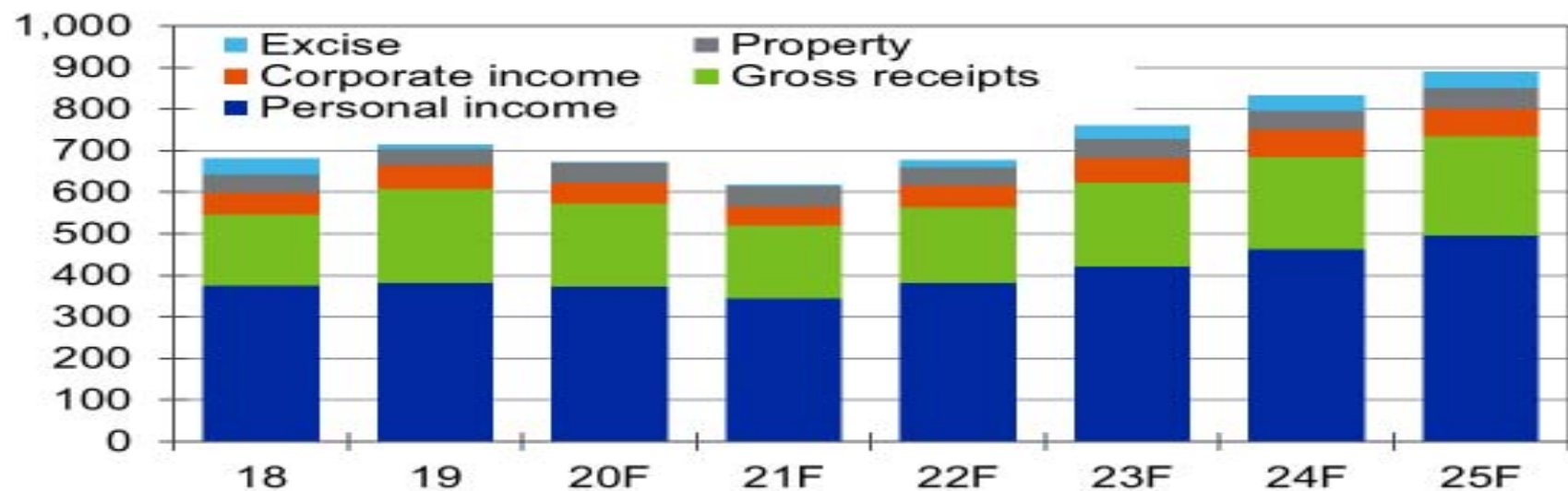
Tax Revenues for FY 20 are estimated to be \$150 m less than initial forecast, .

The category of taxes that are likely to experience the most decline are

- Gross Tax Receipts
- Corporate
- Personal

Chart 5: Outlook for Major Revenues

Baseline forecast of USVI tax revenue, fiscal yr total, \$ mil



Sources: USVI Office of Management & Budget, Moody's Analytics

Outlook: Fragile

Likely Realities

Negative real economic growth in the calendar year even with substantial Federal stimulus.

Double-digit unemployment that will persist for some time.

Operating budget deficits assuaged only with Federal Government transfers and loan forgiveness.

Tourist Arrivals will remain far below historical averages until a new vaccine is developed.

The public sector will be stressed for prolonged period to provide basic services with reduced budgets, to quickly disburse assistance to lessen economic hardship and minimize the failure of small businesses, to create an enabling environment for economic diversification.

Uncertainties:

Great uncertainty about when confidence of travelers will rebound and when personal disposable income will improve to permit a rebound in tourism?

How aviation and cruise ship industries will be revived and what new health and passenger safety protocols will be adopted?

Whether second waves of infections on the US mainland will occur and effectively diminish the likelihood of a “good high season”-Dec. 2020-March 2021.

Will a vaccine(s) be developed on or before March 2021?

Supplement Employment Data: April 2020

Area	Labor Force	Employment	Unemployment	Unemployment Rate
Virgin Islands	43,586	39,922	3,664	8.4%
St. Croix	19,339	17,987	1,352	7.0%
St. Thomas/St. John	24,247	21,935	2,312	9.5%

March to April, the unemployed population increased from 2,195 to 3,664, an increase of 67.0%.
Employed population decline from 43,609 in March to 39,922 in April, a decrease of 8.5%.
Labor Force decline of 4.8% to 43,586.