

## **U.S. Virgin Islands Economic Review and Industry Outlook** **Bureau of Economic Research (BER)**

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### **Introduction**

The economy continues to move forward at a moderate pace in step with projections that growth in 2007 will be modestly above trend. Construction and retail trade are the prime movers at the moment, but other sectors are experiencing moderate growth. The Financial Activities and the Information sectors are the two that are currently underperforming. Changes in residency and source of income in the American Job Creation Act 2004 are impacting the Economic Development incentive program and causing a loss of jobs in the financial services sector, while job losses in the telecommunication industry has caused a decline in employment in the Information sector.

Nonetheless, activity in the tourism sector and strong private sector development are off-setting the drag in these two sectors and sustaining growth. Indicative of growth, the unemployment rate averaged 6.2 percent for the first four months of the fiscal year, slightly below the 6.6 percent for the corresponding period last fiscal year. Encouragingly, there are about 1,100 more persons employed in the first five months of fiscal year 2007 than during the matching period last year, a rise of 2.3 percent.

The concerns that increased interest rates, weaknesses in the housing sector and high

oil prices would squeeze household and business and cause a slow down in the general economy are real but not significant. While there has been some decline in public and private residential construction, private nonresidential building is robust and has limited the downside in residential construction. A number of highly visible and lucrative projects such as Yacht Haven Grande Hotel and Marina have generated increased business activity and have caused growth to remain steady. Similarly, extraordinary corporate profit growth continues to be generated by the oil industry and despite the fact that corporate tax revenues are currently below target levels, it anticipated that the local treasury will continue to reap substantial corporate income tax revenues. An issue of timing may explain the under target levels of corporate income receipts.

### **Outlook for 2008**

The outlook is for stronger growth in the economy as we move into 2008. The construction, manufacture and tourism sectors are expected to drive growth. With new hotel construction and other public sector capital projects that are on the drawing board commencing within the next year, economic activity should be robust. Some of these projects include construction of an \$80 million 70-room boutique hotel at Yacht

Haven Grande, \$47 million Gallows Bay Marina and the \$20 million Carombola Beach Resort on St. Croix.

### **Tourism**

Visitor arrivals have been lackluster for the first five months of fiscal year 2007. Air arrivals are down by 9 percent and cruise passenger arrivals are at the same level as last fiscal year. There were 262,357 air visitors during this period compared to 287,947 air visitors for the corresponding period in fiscal year 2006. There were 954,602 cruise passengers during this five-month period compared to 918,138 during last fiscal year, a 4 percent increase. In total there were 1,216,959 visitors, up just 1.0 percent from last year.

A softening in demand for Caribbean cruises blamed on a drop in personal consumption as a result of higher gas prices and slowing in the housing market are behind the lackluster performance in cruise industry according to industry experts. Questions are being raised by some as to whether fundamental structural issues that have caused the industry to max out are to blame for the drop in demand for the Caribbean as a destination. Although the cruise industry is building new ships, most of these are not bound for the Caribbean but intend to draw their passengers from Europe, the world's fastest growing cruise passenger market. Despite the dire diagnosis, the Caribbean market is still considered to be competitive and is expected to rebound. Cruise passenger arrivals in 2007 and 2008 therefore, are expected to be marginally higher and reach 1.9 million passen-

gers.

The slump in air visitor arrivals last year continued into the first five months of the fiscal year. This is troubling since we are in the midst of the peak tourist season. Improvement in the approaching months is not anticipated. In fact, we may continue to see a decline in numbers. Presently, there are fewer direct seats into the Territory than last year and a further drop is anticipated with an interruption in May of US Air flight from Charlotte, North Carolina into St. Croix. The flight is expected to resume in December. New projections call for a decline in passengers in 2007 to about 665,000. It is hopeful that new efforts to attract air passengers will turn the tide and lead to stronger arrivals in 2008. Slightly less than 700,000 air visitors are projected for 2008.

### **Manufacture**

The manufacturing sector showed some gains in the past year, with both the volume and value of its major export—refined petroleum—rising sharply. The refinery has shipped almost \$10 billion of refined petroleum within the past year, and although the price of oil has declined in recent months, strong demand for oil is expected to continue. A drop in the value or volume of export is not anticipated in the next year.

A large percentage of manufacturing shipments come from rum production, the industry's next strongest performer. The industry shipped some 7.7 million proof gallons of rum to the US in the past year. Increased production and shipment levels are expected for 2007 and 2008. The federal

government imposes and collects federal excise taxes on rum produced the Virgin Islands and exported to the United States. The current assessed excise tax rate in \$13.50 price per proof gallon and the Cover Over rate (the rate at which excise taxes are transferred back to the Virgin Islands) is \$13.25.

The number of manufacturing jobs averaged 2,292 for the first five months of fiscal year 2007, a marginal 1 percent increase over the corresponding period in fiscal year 2006. Growth in jobs is expected to pick-up as we proceed into 2008 with the growing of the EDC program.

### **Construction**

This construction sector was one of the strongest in past year. Major hotel construction, the upgrade and expansion of roads, housing and seaports, and the development of commercial and residential properties accounted for the strength of this sector. This sector is expected to continue to grow in fiscal year 2007 on account of anticipated new capital projects such as the 57,000 square foot Regional Library and Record Center on St. Thomas, affordable housing development and road construction on both islands. Additionally, continued development at Yacht Haven Grand and Frenchman's Marriott Cove should propel growth this fiscal year. For the first five months of fiscal year 2007 job growth is up 15 percent. Growth will be even stronger as new private sector projects come on line over the next few months and continue into 2008. For example, the construction of sewage and solid waste disposal facilities at the oil

refinery and upgrade and installation of water treatment plants are expected to create a number of jobs.

### **Leisure and Hospitality**

The leisure and hospitality sector—which is comprised of hotels and other lodging places, restaurants and food services, and arts and entertainment—has averaged approximately 7,240 jobs so far in fiscal year 2007, about 1.5 percent over the previous fiscal year's average of 7,140. This year-to-year increase in jobs occurred primarily in restaurants and hotels. Additional growth is forecast for this sector with the opening of new hotels rooms and villas.

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

The trade, transportation and public utilities sector has averaged of 8,673 jobs in 2007, up 1.2 percent over the last fiscal year. Employment in this sector is likely to continue to improve in 2007 and 2008, particularly in the area of retail trade.

### **Trade**

There are about 7,000 jobs in the trade sector during the first five months—about 1.2 percent over the same period in fiscal year 2006. Retail trade jobs averaged 6,221 and are up 1.7 percent while wholesale trade jobs averaged 779 during this period. Trade jobs and retail jobs in particular are expected to continue to increase during the year and for fiscal year 2008 with the opening of new retail stores at Yacht Haven Grande and Crown Bay Carnival Center.

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

The financial services sector continues to show decline in jobs, albeit marginal. Job in this sector fell by 2.5 percent in fiscal year 2007 compared to 2006. The number of jobs averaged 2,559, down from 2,624 in fiscal year 2006.

The stagnancy of this sector points to uncertainties in the Economic Development Commission (EDC) program brought about by the American Job Creation Act 2004 that drastically changed the residency requirement. Because of the stiffer residency requirements a number of EDC beneficiaries closed their operations, thereby drastically reducing substantial tax revenues for the Territory.

The recent US Treasury Regulations (TD9297) effective November 14, 2006 which relaxed the rules governing residency requirements under the tax laws, may ease some concerns and allow for the EDC to rebound and to thrive. The relaxed

rule allows taxpayers to average the 183-day residency over a period of three years instead of requiring they spend 183 days each tax year in the Territory. Taxpayers are still required to spend at least 60 days in the Territory.

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

Public sector jobs have increased marginally by 1.8 percent in the past year. The increase occurred exclusively in local government jobs. Local government jobs averaged 11,527 for the first five months of fiscal year 2007, up 2.1 percent over last year while federal government jobs averaged 825 or a 1.5 percent decline from last year.

About 70 percent of the Territory's jobs are provided by the private sector. The turnaround in private sector jobs that began in 2006 continued into 2007. The number of jobs is currently up 2.4 percent over the corresponding period last fiscal year.

**Labor Force Data**

**U.S. Virgin Island: Calendar Years 1995-2007**

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	20,401	18,440	1,961	9.6	29,665	27,661	2,004	6.8
2005	51,159	47,553	3,606	7.0	22,268	20,448	1,819	8.2	28,891	27,105	1,786	6.2
2006	51,831	48,639	3,192	6.2	22,574	20,916	1,658	7.3	29,258	27,724	1,534	5.2
2007	51,972	48,895	3,077	5.9	22,625	21,025	1,600	7.1	29,347	27,870	1,477	5.0

Note: data for 2007 is a 3-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

**Labor Force Data**

**U.S. Virgin Island: Fiscal Years 2000-2007**

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	50,867	47,063	3,689	7.3	21,751	19,941	1,810	8.3	29,116	27,239	1,880	6.5
2006	51,565	48,312	3,253	6.3	22,462	20,774	1,687	7.5	29,103	27,538	1,565	5.4
2007	52,007	48,874	3,134	6.0	22,632	21,016	1,616	7.2	29,375	27,858	1,517	5.2

Note: data for 2007 is a 6-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

**U.S. Virgin Islands Tourism Statistics, Calendar Years 1995-2007**

Year	Total Visitors		Air Visitors		Cruise Visitors		Tourist Rooms					Total Rooms	Number Hotels
	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 (%)			
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	57	
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	48	
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	52	
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	51	
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	48	
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	49	
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	49	
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	46	
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	48	
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	48	
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	47	
2006	2,574.9	-1.2	671.4	-3.1	1,903.5	-0.5	1,717.9	1,702.4	4.3	60.6	4,810	47	
2007	836.4	-	199.3	-	637.1	-	429.0	293.2	4.4	68.4	4,765	-	

Note: data for 2007 are through March