

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

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Prepared by Lauritz Mills, Director, Bureau of Economic Research (BER)

### Introduction

Macroeconomic performance over the past year was characterized by contractions in output and employment and deepening fiscal problems. The fall in economic activity was linked to the sluggish recovery of the US economy, lingering concerns about the safety of air travel, as well as to the hostilities in Iraq and the oil-sector strike in Venezuela.

The spill-over effects from each of these factors were transmitted to the already weak local economy, which was experiencing a contraction in sectors such as construction and manufacturing. The downturn in economic activity also brought about a worsening of the Territory's fiscal position which deteriorated as revenue inflows contracted. By the second quarter of fiscal year 2003, the Territory was faced with a current annual budget deficit of \$152 million. The deficit has been reduced to \$55.8 million by the end of July 2003 through a combination of cost cutting and revenue enhancement measures.

Although a number of expenditure control and revenue enhancement measures have been implemented and proposed to mitigate revenue declines and offset the

impact of new expenditures resulting from recent federal tax cuts, a more significant effort is needed over the medium-term to generate sufficient revenues to meet obligations, restore fiscal health and grow the economy.

Over the next year, then, the Virgin Islands' economic performance will be largely tied to the economic health of the national economy as well as to local economic development initiatives. A gradual recovery in economic activity in the US is projected over the medium term which could provide a stimulus for growth locally. A continuing of lower interest rate policies by the Federal Reserve is likely to support the Territory's economic expansion though real estate and business development, the extension of the home buying and building market, and the expansion of financial services.

Other positive signs for the local economy are new investment in public and private sector capital projects development such as the \$100 million Yacht Haven Hotel and Marina, the \$35 million Crown Bay Cruise pier development, the \$16 million Enighed Pond development, the \$6 million Red Hook Terminal and the \$12.5 million Grand Bay Resort . Absent major hurdles to the projects' development and com-

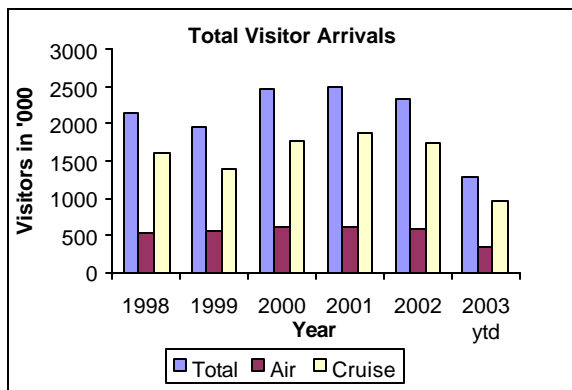
mencement, the Territory is positioned to benefit from new capital investments.

**2003 in review and outlook for 2004**

For the first three-quarters of fiscal year 2003, economic health as measured by employment and output were mixed. The construction, manufacturing, information and other services sectors declined; wholesale and retail trade, leisure and hospitality, and education and health services improved; and financial activities and professional and business services showed no improvement over fiscal year 2002.

**Tourism**

The performance in the tourism sector was uneven during the first three-quarters of fiscal year 2003. Total visitor arrivals fell to 1,891,603 from 1,996,287 in fiscal year 2002—a decline of 5.2 percent. Total overnight visitors increased by a modest 2.3 percent to 475,729 from 465,198; however, cruise passenger arrivals fell by 7.5 percent to 1,415,874 from 1,531,089 for the first nine months of fiscal year 2002.



By calendar year, total visitor arrivals from January to June 2003, totaled 1,347,310 or 3.8 percent less than the 1,296,035 visitors for the corresponding period in 2002. Air visitor arrivals, which totaled 336,034 for this period, declined by a marginal 0.9 percent over 2002. Cruise ship passenger arrivals, which totaled 960,001, were down by 4.8 percent over 2002. Cruise calls were 3.5 percent lower than last year. The continuing absence of ships calling on St. Croix led to a 78 percent drop in cruise ship passenger arrivals to that island and contributed to the overall loss in visitor arrivals.

The tourism and hospitality industry continued to face a number of challenges during the year. Air arrivals were uneven and cruise passenger arrivals have not returned to normal levels. However, but there are signs that the cruise industry is rebounding. Since April, cruise passenger arrivals have consistently improved and this trend is likely to continue since early schedules show that there will be 152 more calls in fiscal year 2004 than in the previous fiscal year. Air arrivals are also likely to improve barring further threat of arm conflict and terrorist acts which would dampen tourist demand.

The Bureau is projecting that total visitor arrivals will reach 2.5 million in fiscal year 2004. Air arrivals are projected to increase by 3 percent to 614,000 and cruise passenger arrivals are forecast to grow by 9 percent and reach 1.8 million.

The hotel occupancy rate has averaged

64.2 percent for 2003 compared to 64.6 percent for 2002. The occupancy rate for the St. Thomas and St. John district averaged 69.7 percent compared to 69.1 percent in 2002, while the rate for St. Croix averaged 46.3 percent compared to 49.4 percent in 2002.

The number of hotel and condominium rooms has fallen slightly to 5,064 from 5,095 in 2002. The closure of a few small hotels, particularly on St. Croix, accounted for the drop in available rooms. Through June 2003, there were 919,677 available room nights—about 1 percent less than the 931,068 room nights available in the corresponding period last year. Occupied room nights June 2003 year-to-date at 593,671 were also 1 percent less than the same period in 2002.

### **Manufacturing**

Higher production and operating costs as well as a contraction in demand remained constraining factors to the manufacturing sector's development. This sector, which accounts for 5 percent of nonagricultural jobs, lost an additional 50 jobs in fiscal year 2003. The job losses occurred primarily in the watch industry. Unitime Ind., Co., the largest employer and the second largest of watch exporter closed operation in December 2002. Presently, there are three firms in the industry employing about 119 workers.

In spite of the fact that there are fewer firms in the watch industry, there has been an increase in watch shipment. From Janu-

ary to May 2003 watch shipment rose 6.4 percent to 193,853 from 182,140 the corresponding period last year.

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. In 2002 the oil company completed a \$535 million coker unit with the capacity to process 58,000 barrels of crude daily. The coker will enable the refinery to process heavy crude into marketable oil products.

The company plans to build a \$650 million desulphurization unit to remove sulfur from fuel. This unit is needed to meet stricter Environmental Protection Agency standards to be phased in over three years beginning in 2004. The protest strike which paralyzed Venezuela at the end of 2002, forced Hovensa to delay construction and to cut its daily output of oil from 440,000 barrels to 270,000 barrels daily. Venezuela, the world's fifth largest oil exporter, supplies Hovensa with more than 50 percent of its crude. With an end to the strike and a resumption of crude exports from Venezuela, Hovensa has resumed the processing of 440,000 barrels daily of crude. The refinery has a crude capacity of 495,000 barrels per day.

The refinery suffered financial losses of \$90 million last year. 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) con-

tributed to financial losses for Hovensa. The strike and resulting financial losses forced Hovensa and its subcontractors to layoff some 300 of the 2,500 workers employed. Hovensa's situation has improved in recent months with increased shipments of Venezuela crude oil. The company announced, however, that it will not increase its contractor manpower workforce to the level that existed prior to the layoffs until the resumption of regular crude, and improvement in the US economy sufficient to sustain demand for petroleum products.

The number of jobs in manufacturing jobs averaged 2,040 for the first three-quarters of fiscal year 2003. The performance of the manufacturing sector should improve over the next year with increased efforts by the University of the Virgin Islands technology park, the VI Port Authority and the Economic Development Authority to attract new industries to the Territory.

### **Construction**

The end to construction of the coker unit brought a reduction in the number of construction jobs. During the construction of the coker unit some 2,000 construction jobs were added to the economy. In fiscal year 2002, the construction sector was the strongest performer, averaging 3,182 jobs. 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 development 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. However, since the completion of the coker and other capital projects neared or reached completion, construction jobs have fallen nearly 39 percent June 2003 fiscal year-to-date. Construction jobs currently average 1,950.

In 2002, permit value ? a leading indicator of growth in the industry? rose 58 percent. Private residential construction increased 6 percent and private non-residential construction increased 71 percent during this period. Public construction permits value was strong during this period increasing nearly 600 percent. However, for the first quarter of calendar year 2003, total construction permit value dropped nearly 52 percent as projects ended. The slow implementation of public sector projects and obstacles to some projects in the private sector is limiting this sectors growth.

Construction is expected to be strong over the next year supported by major hotel and casino construction, the upgrade and expansion of roads, housing and sea-ports, and the development of commercial and residential properties. The construction of Hovensa's desulfurization unit, which should begin in 2004, 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.

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

In 2003, the VI Bureau of Labor Statistics implemented the North American Industrial Classification System (NAICS) which replaced the Standard Industry Code. There are differences in classification between the two systems; therefore, the data for some sectors are not comparable with previous years. The data for 2002 have been re-benchmarked using NAICS; therefore appropriate comparisons can be made.

The improvement in jobs in the trade, transportation and public utilities sector, which occurred in fiscal year 2002, continued in fiscal year 2003. Jobs in this sector, which currently average 8,540, increased by 2 percent for the first nine month of fiscal year 2003. Employment in this sector is likely to remain stable in 2004.

### **Trade**

Trade is now a subset of the trade, transportation and public utilities sector under NAICS. The number of jobs in the trade sector has increased by 2 percent to an average of 7,165 in fiscal year 2003. The number of jobs in retail trade grew by 2 percent for the first three-quarters of fiscal year 2003 and currently averaged 6,390. The average number of jobs in wholesale trade increased by 6 percent in fiscal year 2003 to 775.

The number of jobs in trade is expected to continue to grow in fiscal year 2004 on the

strength of retail sales.

### **Finance, insurance, and real estate**

Jobs in the finance, insurance and real estate sector in fiscal year 2003 averaged 2,008 or about 1 percent more than the previous fiscal year. 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.

### **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? held approximately 7,691 jobs for the period June 2003 fiscal year-to-date, or about 14 percent more jobs than the previous fiscal year's average of 6,776. An upturn in the tourism and hospitality industry within past several months, specifically in hotel accommodation, has improved this sector's performance. This sector should continue to grow during the next fiscal year as demand grows in travel and tourist-related industries.

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

Total public sector employment, which accounts for 30 percent of all jobs in the Territory, is virtually at the same level as last fiscal year. There are currently 12,545 public sector jobs compared to an average of 12,518 in fiscal year 2002. The number of local government jobs averaged 11,626 in fiscal year 2003 compared to 11,621 jobs in fiscal year 2002. Local government jobs are expected to decline in fiscal year 2004 as part of the government's cost cutting measures. There is expected to be no major change in federal government jobs, which averaged 919 in fiscal year 2003 up slightly from 905 in fiscal year 2002. The addition of Federal government's security agents at the Territory's airports is largely responsible for this increase.

About 70 percent of the Territory's jobs are provided by the private sector. Average employment in the private sector fell by 3 percent for the first nine months of fiscal year 2003 to 29,764 from 30,799 in fiscal year 2002. The Bureau expects the number of private sector jobs to grow during fiscal year 2004 on account of increase investment in capital projects

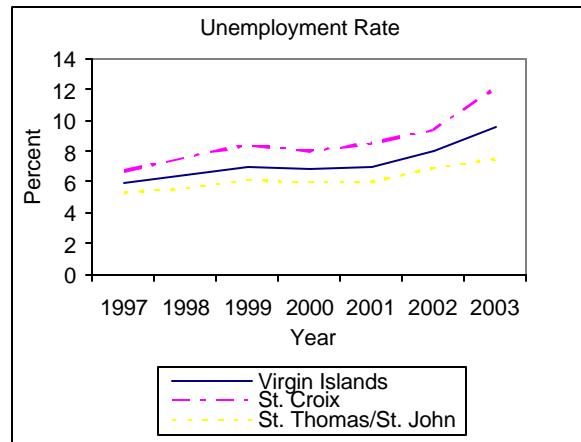
**Employment and unemployment**

Total nonagricultural wage and salary employment June 2003 fiscal year-to-date averaged 2 percent less than in fiscal year 2002, decreasing to 42,309 jobs from 43,318 jobs.

According to the Bureau of Labor Statistics, the labor force fell to 48,974 for the first

three-quarters of fiscal year 2003 from 49,507 for the corresponding period in fiscal year 2002. The Territory's unemployment rate rose to 9.5 percent in fiscal year 2003 from 8.4 percent in fiscal year 2002.

The rate for St. Croix grew nearly 3 percentage points to 12.1 percent in fiscal year June 2003 year-to-date from 9.5 in fiscal year 2002. The rate for the St. Thomas and St. John district averaged 7.5 percent in fiscal year 2003 compared to 7.0 percent in fiscal year 2002.



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

<b>INDUSTRY</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>TOTAL NONAGRICULTURAL</b>	<b>41,340</b>	<b>41,500</b>	<b>41,690</b>	<b>41,140</b>	<b>42,050</b>	<b>44,367</b>	<b>43,129</b>
<b>CONSTRUCTION AND MINING</b>	<b>2,520</b>	<b>1,880</b>	<b>1,530</b>	<b>1,690</b>	<b>1,950</b>	<b>3,697</b>	<b>3,017</b>
<b>MANUFACTURING</b>	<b>2,340</b>	<b>2,230</b>	<b>2,420</b>	<b>2,430</b>	<b>2,480</b>	<b>2,191</b>	<b>2,148</b>
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
<b>TRANSPORTATION, COMM., &amp; PUB. UTILITIES</b>	<b>2,280</b>	<b>2,360</b>	<b>2,370</b>	<b>2,360</b>	<b>2,450</b>	<b>2,507</b>	<b>2,446</b>
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
<b>WHOLESALE TRADE &amp; RETAIL TRADE</b>	<b>9,320</b>	<b>9,440</b>	<b>9,110</b>	<b>8,820</b>	<b>8,950</b>	<b>9,602</b>	<b>9,788</b>
<b>WHOLESALE TRADE</b>	<b>1,070</b>	<b>1,150</b>	<b>1,150</b>	<b>1,090</b>	<b>1,080</b>	<b>1,116</b>	<b>1,108</b>
<b>RETAIL TRADE</b>	<b>8,250</b>	<b>8,290</b>	<b>7,960</b>	<b>7,730</b>	<b>7,870</b>	<b>8,486</b>	<b>8,680</b>
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
<b>FINANCE, INSURANCE, &amp; REAL ESTATE</b>	<b>1,800</b>	<b>1,870</b>	<b>1,880</b>	<b>1,940</b>	<b>1,950</b>	<b>1,931</b>	<b>1,918</b>
BANKING	890	890	890	910	920	878	838
REAL ESTATE	540	610	620	680	680	655	679
<b>SERVICES</b>	<b>9,020</b>	<b>9,980</b>	<b>10,620</b>	<b>10,450</b>	<b>11,240</b>	<b>12,113</b>	<b>11,195</b>
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
<b>TOTAL PRIVATE SECTOR</b>	<b>27,280</b>	<b>27,760</b>	<b>27,930</b>	<b>27,690</b>	<b>29,020</b>	<b>32,041</b>	<b>30,512</b>
<b>GOVERNMENT</b>	<b>14,060</b>	<b>13,740</b>	<b>13,760</b>	<b>13,450</b>	<b>13,030</b>	<b>12,326</b>	<b>12,617</b>
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