

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

August 2005

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

Introduction

The US Virgin Islands economy is in the midst of an economic expansion, which is expected to continue into 2006. The Gross Territorial Product is estimated to have grown by 3.0 percent last year and is projected at 3.2 percent for 2005. Remarkably, and in spite of higher oil prices and challenges to the Economic Development Commission (EDC) program posed by the American Jobs Creation Act (H.R. 4520), the economy expanded for the first nine months of fiscal year 2005. The growth is owed to a vibrant tourism sector, with total visitors showing record levels and to strong business investment and financial services activity. Nearly all of the major economic sectors have demonstrated marginal to modest growth over the past year, the exceptions being accommodation which lost jobs due to the closure of Grand Bay Palace, and retail trade which had a decline in jobs caused by the closure of Hard Rock Cafe. The retail sector is expected to turnaround as workers are repositioned and as new job opportunities become available in the economy.

The outlook for the final quarter this year and for fiscal year 2006 is one of continued, but slower growth tempered by the pending EDC ruling, and a slow down in consumer spending resulting from rising interest rates. Growth will be supported by a

strong tourism sector and private sector development projects such as Hovensa's \$400 million desulphurization unit, the \$150 million Yacht Haven Hotel and the \$63 million Sapphire Beach Recreational Center.

Tourism

The tourism industry was one of the strongest performer and a main contributor to the economic performance during 2004, with increases in both air and cruise ship passengers. Total visitors to the Territory in fiscal year 2004 reached a record 2.6 million, up 12.2 percent over 2003. There were 1,922,626 cruise passengers, representing a 12.7 percent growth, and 666,720 overnight visitors or a 10.3 percent growth over fiscal year 2003. There were 948 cruise ship calls in fiscal year 2004, up 13.2 percent over the 836 calls in fiscal year 2003.

For the first three-quarters of fiscal year 2005, total visitor arrivals have reached 2,243,878, up 4.8 percent over the corresponding period in fiscal year 2004. There were 563,074 air visitors and 1,680,804 cruise passengers. Air arrivals were up by 7.2 percent and cruise passenger arrivals by 4.8 percent over last year.

Barring any significant shocks, the Bureau of Economic Research projects visitor arrivals will peak at 2.7 million by the end of

fiscal year 2005 and 2.8 million in fiscal year 2006.

Manufacturing

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. This strong growth was the result of higher production levels and higher commodity prices combined with increased demand. Additionally, in November 2004, Royal Caribbean cruise ships began refueling from Hovensa oil refinery, a process called bunkering. This arrangement is expected to last through October 2005.

The rum industry is 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. Rum produced in the US Virgin Islands is exported to the US primarily in bulk, and sold to local and regional bottlers for sale under a variety of private label and regional brand names. About 5.9 million proof gallons of rum were shipped to the United States in fiscal year 2004 and 6 million proof gallons are 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 May year-to-date, total watch shipment was 90,141, down from 119,793 for the same period in 2004. Presently, there are three firms in the industry employing about 117 workers—Belair Quartz, Hampden Watch, Co., and Tropex Watch Co.

The number of manufacturing jobs has averaged 2,146 for the first nine months of fiscal year 2005, up slightly from 2,043 for the same period in fiscal year 2004. This represents a 5.1 percent growth over last fiscal year. This growth occurred primarily in the oil industry. There should be continued improvement during the year with increased efforts by the VI Port Authority and the Economic Development Authority to attract new industries to the Territory.

Construction

Construction activity in 2004 was at a slower pace than in 2003, reflecting the end to major private sector projects, lower levels of tourism-related construction, a slowdown in the implementation of ongoing public sector projects and delay in start-up of others. The number of construction jobs averaged 1,695 in fiscal year 2004, down from 1,737 for the corresponding period in fiscal year 2003. However, the construction sector has begun to show signs of job growth. For the first nine months of fiscal year 2005, this sector has averaged 1,798 or 7.3 percent growth over the corresponding period in fiscal year 2004.

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 seaports, and the development of commercial and residential properties. The construction of Hovensa's desulfurization unit, which should begin 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 places, restaurants and food services, and arts and entertainment—held approximately 7,084 jobs in fiscal year 2004, about 4.0 percent more than the previous fiscal year's average of 6,811. For the first nine months of fiscal year 2005, there was an average of 7,005 jobs in this sector, down 1.8 percent from the corresponding period in the 2004 fiscal year. This year-to-year decline resulted primarily from jobs losses in hotels and other lodging places and restaurants and food stores.

An improvement in jobs in the tourism and hospitality industry is forecast for fiscal year 2006, in tandem with anticipated growth in tourist and business travel precipitated by a weaker US dollar and security issues. European destinations are more expensive and this makes travel to the US Virgin Islands cheaper and more attractive. Additionally, security issues are compelling

tourists to stay closer to home and the Virgin Islands represents that sense of safety and familiarity.

Trade, Transportation and Utilities

The trade, transportation and public utilities sector had an average of 8,350 jobs in fiscal year 2004, up slightly from 8,278 a year earlier. Jobs in this sector, which currently average 8,446, are up by nearly 1.0 percent for the first nine month of fiscal year 2005 when compared to the corresponding period last fiscal year. Employment in this sector is unlikely to change for the remainder of 2005, but should improve in 2006.

Trade

The number of jobs in the trade sector in fiscal year 2004 decreased by 0.5 percent to 6,871 from 6,905 in fiscal year 2003. There was an average of 6,166 retail jobs and 705 wholesale jobs. The number of jobs in trade—6,910—has not improved during the first nine months of fiscal year 2005 when compared to 6,918 for the same period last fiscal year. Retail trade jobs have averaged 6,199, while wholesale trade jobs averaged 711 for this nine-month period.

Employment levels in trade will be flat for the rest of fiscal year 2005. However, 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 year. Jobs averaged 2,480 in fiscal year 2004, up 7.7 percent over fiscal year 2003. For the first three-quarters of fiscal year 2005 the number of jobs averaged 2,543 or 3.4 percent over the corresponding period in fiscal year 2004. Although rising interest rates as well as uncertainty surrounding the EDC program may cause investors to become jittery and more risk averse, no significant job losses are expected in this sector during this fiscal year. The strength of this sector in 2006 is dependent on the federal monetary policy and importantly on the outcome of H.R. 4520.

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. There were 12,487 public sector jobs in fiscal year 2004 (11,575 local government and 912 federal government). The number both local and federal government jobs have decreased by 1.6 percent in the first nine months of fiscal year 2005 when compared to the corresponding period last fiscal year. Local government jobs have averaged 11,300 during this fiscal year and federal government jobs have averaged 869.

About 70 percent of the Territory's jobs are provided by the private sector. Average employment in the private sector fell by 1.0 percent in fiscal year 2004 to 28,935 from 29,207 in fiscal year 2003. There is a turn-

around in private sector jobs in 2005 as evident by fiscal year-to-date growth of 1.0 percent. Growth should continue into fiscal year 2006.

Employment and unemployment

Nonagricultural wage and salary employment has grown marginally for the nine-month period in fiscal year 2005. There was an average of 42,331 nonfarm jobs compared to 42,264 for the same period last fiscal year.

According to the Bureau of Labor Statistics, the labor force fell to 47,508 in fiscal year 2004 from 48,460 in fiscal year 2003. For the first nine months of fiscal year 2005, the labor force increase 1.0 percent to 49,793 compared to 49,280 for the same period last fiscal year. Civilian employment declined 1.0 percent in fiscal year 2004, down to 43,424 from 43,833 in fiscal year 2003. Fiscal 2005 year-to-date civilian employment which totaled 46,265 shows a 1.7 percent increase over fiscal year 2004 year-to-date. The Territory's civilian unemployment rate fell to 8.6 percent in fiscal year 2004 from 9.5 in fiscal year 2003 and averaged 7.4 percent for the first nine months of fiscal year 2005.

The rate for St. Croix fell 2 percentage points to 10.8 percent in fiscal year 2004 from 12.9 in fiscal year 2003 and is currently down to 8.6 percent for fiscal year 2005. The rate for the St. Thomas and St. John district is steady at 6.5 percent 2005 June fiscal year-to-date.

U.S. Virgin Island: Calendar Years 1995:2005

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	54,785	46,287	3,665	7.4	19,470	17,367	2,103	10.8	29,059	27,211	1,848	6.3

Note: data for 2005 is a 6-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

U.S. Virgin Island: Fiscal Years 2000-2005

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	49,793	46,265	3,700	7.4	20,526	18,745	1,782	8.7	29,267	27,349	1,920	6.5

Note: data for 2005 is a 9-month average.

Source: VI Department of Labor, Bureau of Labor Statistics

U.S. Virgin Islands Tourism Statistics, Calendar Years 1995-2005

Year	Total Visitors		Air Visitors		Cruise Visitors		Tourist Rooms				Total 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 (%)	
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	1,174.7	-	279.3	-	895.4	-	569.3	429.3	4.5	75.5	4,743

Note: data for 2005 are through April