

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

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Introduction

The economy continued to deliver good results in most sectors in the final quarter, reaffirming that 2006 will emerge as one of the strongest in recent years and should match last year's growth of about 3.3 percent. Output and employment levels have improved, the unemployment rate has fallen to the lowest levels of the past six years, inflation rates remain under control despite a rapid run-up in oil prices, and government General Fund balance is experiencing a surplus.

The good standing of the economy is the result of several factors. Improved macro-economic management and revenue enhancement measures which led to a reduction in government expenditure, diversity in the economic base, and higher standards of performance and efficiency have placed the economy on a positive footing.

Unprecedented corporate profits from soaring oil prices, business investments and real estate development have contributed to record tax revenues.

The strong turnaround in the economy and the economic progress made has been recognized by the financial markets. For the first time ever, three of the world's leading investment rating agencies, Moody's Investment Services, Standard

and Poor's and Fitch gave the government an investment grade bond rating.

Moody's assigned the investment grade Baa3 rating while Standard and Poor's and Fitch assigned a BBB- investment grade rating. The credit rating enables the government to seek financing at the most favorable interest rates and provides the government the ability to issue bonds independent of specific tax revenues. This bond rating has already paid-off. The Territory was able to reduce its bond insurance costs by \$6 million.

Outlook for 2007

Most sectors of the economy should experience growth in the next year. Real growth is anticipated to be about 3.6 percent in 2006 and to moderate in 2007 but still remain at a rate that is close to trend. The unemployment rate which averaged 6.4 percent in 2006 should edge lower in 2007.

There are a number of reasons for this sanguine outlook. Business activity and tourism-related development are expected to be robust given the increased number of public and private sector capital projects on-line or are planned. For example, the Yacht Haven Grande Hotel and marina began to accept yachts in November. The world's second largest megayacht, the

452-foot-long \$194 million Rising Sun docked at the new facility. This is just one of six vessels that have docked so far. The return of luxury yachting, raises hope that the Territory can recapture its place as a premier destination for yachting, and regain the once \$100 million that the industry brought. In tandem with the marina is the opening of some retail shops in January 2007. Additionally, the Marriott Frenchman's Reef Villas is scheduled to open its first set of villas in December and the 180 room Ritz Carlton is also scheduled to reopen in December after a major \$40 million renovation. The Ritz Carlton Hotel is attempting to receive a five-diamond rating, and would be the first for any hotel in the Territory.

Other projects include the \$9 million Regional Library and Records Center on St. Thomas which broke ground this month, and two road improvement projects on St. Croix that are critical to support the construction of a \$500 million resort in Anny Bay and a \$47 million marina in Gallows Bay should begin during 2007. These new businesses and tourism developments will be in a position to support continued employment growth and capital spending. Business investment and tourism related development, therefore, should be the main drivers of economic growth over the next year.

Tourism

Looking in more detail at the performance of individual sectors, the tourism industry showed robust growth in 2005. Visitor arrivals totaled at 2,648,025. Growth in

visitor arrivals has moderated in 2006 largely a result of a fall-off in cruise passengers in the first nine months of the fiscal year. There was a 2.4 percent drop in cruise passengers to 1,904,256 from 1,950,992 in fiscal year 2006. The cruise industry has redeployed certain vessels from the Caribbean for new opportunities in South America and Asia.

The cruise industry began to rebound in the final quarter of the year and this growth is expected to carry over to the fiscal year 2007. However, there are new challenges that the cruise industry is facing. Among the challenges is the small number of ships home-porting in San Juan. Since the terrorist attacks, the cruise lines moved heavily toward using US homeports to originate cruises. This has created a shift in passengers from the Eastern and southern Caribbean to the western Caribbean. While this shift has brought some increases to some western Caribbean ports such as Jamaica, it has negatively impacted the eastern and western Caribbean. Only four ships will be home porting in San Juan in the 2007 season with the remainder originating from mainland homeports. Fortunately, more than three-fourths of the cruises will visit the Territory. A total of 710 calls are scheduled to bring some 1.9 million passengers in 2007.

Air visitor arrivals were practically the same this year as last year---687,720 and 687,205, respectively. Air visitor arrivals are expected to improve in 2007. One airline, Northwest, will begin new non-stop service from Detroit to the Territory in

January 2007. This, in addition to activities such as Paradise Jam and other cultural events should increase arrivals. Slightly more than 700,000 air visitors are projected for 2007.

Manufacture

The manufacturing sector showed strong gains in 2006, with both the volume and value of its major export—refined petroleum—rising sharply. The value of refined petroleum grew by 41 percent in 2005 to reach \$9.4 billion and is on target to exceed \$10 billion in 2006. The number of barrels of refined petroleum products shipped almost doubled in 2005 to 488,747 barrels from 253,560 the previous year. Strong demand and higher oil prices have created unprecedented growth in oil profits which have benefited the Territory. The enormous growth in corporate income taxes paid to the government in the past year is attributed to booming oil revenues.

A large percentage of manufacturing shipments come from rum production, the industry's next strongest performer. About 6.7 million proof gallons of rum were shipped to the United States in 2005 for which \$75.1 millions were returned to the government. In fiscal year 2006, a record 7.7 million proof gallons of rum were shipped to the US, up 17 percent over the 6.6 million proof gallons of rum shipped in 2005. 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 watch industry has been on the decline in recent years. In 2006, however, total watch shipment was 285,528, up 6 percent from 269,585 in 2005. Presently, there are three firms in the industry employing about 137 workers—Belair Quartz, Hampden Watch, Co., and Tropex Watch Co.

The number of manufacturing jobs averaged 2,366 in fiscal year 2006, up from 2,170 in 2005. This represents a 9.0 percent growth over last fiscal year. Growth in expected to continued in 2007 and will primarily be concentrated in the oil and rum industries.

Construction

This construction sector was strong in fiscal year 2006 averaging 2,105 jobs or 14.8 percent growth over fiscal year 2005. The growth was supported by major hotel construction, the upgrade and expansion of roads, housing and seaports, and the development of commercial and residential properties. This sector is expected to continue to grow in the next fiscal year 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, Frenchman's Marriott Cove and the former Grand Bay Palace hotel which was recently sold and will be opening as the Crowne Plaza St. Thomas

should propel growth during the next fiscal year.

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 7,271 jobs in fiscal year 2006, about 4.3 percent more than the previous fiscal year's average of 6,974. This year-to-year increase in jobs occurred primarily in restaurants and hotels. Additional growth is forecast for this sector with the opening of the \$40 million renovated Crowne Plaza in February 2007.

Trade, Transportation and Utilities

The trade, transportation and public utilities sector had an average of 8,630 jobs in 2006, up 2.4 percent over last fiscal year. Employment in this sector is likely to improve in 2007, particularly in the area of retail trade.

Trade

The number of jobs in the trade sector—7,002—improved by 1.5 percent in 2006 when compared to 6,899 for last fiscal year. Retail trade jobs averaged 6,225, while wholesale trade jobs averaged 777 during this period. Trade jobs and retail jobs in particular are expected to increase in fiscal year 2007 with the opening of new retail stores at Yacht Haven Grande and Crowne Bay Carnival Center.

Financial Services and Real Estate

The financial services sector which was one of the most vibrant has slowed in the past year. Job in this sector grew by less than one percent in fiscal year 2006. The number of jobs averaged 2,558, up from 2,539 in fiscal year 2005. 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, 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. In the past year, however, the number of local government jobs increase marginally

while the number of Federal government jobs declined. Local government jobs averaged 11,476 and federal government jobs averaged 835.

About 70 percent of the Territory's jobs are provided by the private sector. There

is a turnaround in private sector jobs in 2006 as evident by a growth of 4.7 percent growth to 31,702 from 30,289 last fiscal year.

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	50,794	47,590	3,204	6.3	22,133	20,463	1,669	7.5	28,661	27,126	1,534	5.3

Note: data for 2006 is a 10-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	50,681	47,429	3,252	6.4	21,846	20,159	1,687	7.7	28,835	27,269	1,565	5.4

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				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	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	1,902.6	-	528.3	-	1,374.3	-	1,294.3	813.1	4.3	66.1	4,813

Note: data for 2006 are through September