

# U.S. Virgin Islands Economic Review

## Bureau of Economic Research

May 2016

### Economic Overview

#### *Economic Highlights*

*General economic indicators were mixed for the first six-months of fiscal year 2016 compared to the same period in fiscal year 2015.*

*In total there were 1,612,171 visitors, down 2.6 percent from last year. Territory-wide the average hotel occupancy rate for first quarter of fiscal year 2016 was 52.1 percent compared to the recorded 50.5 percent for same period one year earlier.*

*Limetree Bay Terminals, LLC, will operate oil storage facility with 13 million barrels of storage capacity, later on with the potential up to 30 million barrels of capacity.*

*In the fall of 2016, the Bureau of Economic Research will also undertake a Tourism Master Plan. The Plan will be a reflection of industry and market needs, and will require input and buy-in from the Department of Tourism and other industry key stakeholders, and the public.*

*The number of homes sold in the Territory was flat and remained at 355. The average value of the sale price of a home in the Territory was \$508,811 in 2015, down from \$568,295 in 2014.*

Current macroeconomic indicators show the U.S. Virgin Islands economy is emerging from the deep contraction wrought by the recession intertwined with the closing of the oil refinery, but the pace of progress has been slow, subpar, and uneven. In the labor market, nonagricultural wage and salary jobs averaged 37,613 for the first half of fiscal year 2016, just marginally lower than the 37,894 jobs the same period a year ago. The Territory's unemployment rate has fallen by 1.9 percentage points from its peak 13.4 percent average in fiscal year 2012 to an 11.5 percent average for the 6-month period in fiscal year 2016, its lowest level since April 2012. However, the improvement in the unemployment rate may not only be the result of workers finding jobs, but also due to discouraged workers leaving the labor force.

Employment conditions, despite some improvement, remain weak and there continues to be sectoral weaknesses in construction, manufacturing, financial services, trade, and professional and business services. The tourism and hospitality sector oppositely demonstrates resiliency but show mixed results the first six months of fiscal year 2016. Air visitor arrivals increased 1.4 percent to 403,876 from 398,373 air visitors for the equivalent period in fiscal year 2015. By contrast, cruise passengers decreased 3.9 percent to 1,208,295 compared to 1,256,972 recorded last fiscal year, a decline of 3.9 percent. In total there were 1,612,171 visitors, down 2.6 percent from last year. Territory-wide the average hotel occupancy rate was 52.1 percent for first quarter 2016 compared to 50.5 percent one year earlier.

Other economic and financial indicators were mixed; for example, hotel room tax revenues increased 17.0 percent, partly due to an increase in the rate in January from 10.0 percent to 12.5 percent. Trade and excise revenues showed growth of 8.0 percent, but individual, corporate, and gross receipts declined by 1.7 percent, 25.5 percent and 1.5 percent, respectively. Property taxes declined 43.7 percent as the government has issued all prior years property tax bills. There will be the issuing of one property assessment bill in 2016 fiscal year.

The housing market continues to be soft in 2016. Total value of construction permits fell 39.6 percent to \$61.5 million from \$101.8 million in fiscal year 2015. Permit value for private non-residential

home contracted to \$16.3 million from \$52.8 million in 2015.

## **Economic Outlook 2017**

The economy will continue on its present course of mild improvements with the major contributions coming from tourism, manufacture and construction. In addition, several initiatives are being undertaken by Government such as high way infrastructure improvements, energy, and waste water improvements that will assist in the recovery. However, a strong recovery of private sector demand, including consumer and investment spending, is required to give momentum to the recovery that brings the economy back to its pre-recession growth.

## **Policy and Initiative**

The government continues to put forward initiatives to position the government along a path of economic and fiscal recovery. These measures include the expediting of the Water and Power Authority (WAPA) propane conversion project. In April 2016, WAPA began the commissioning of propane fuel to the St. Croix Estate Richmond facility. Once testing and procedures are completed, the plant will then begin the introduction of liquefied petroleum gas (LPG) into retrofitted units. Commencement is scheduled for August 2016 to conduct similar propane fueling at St. Thomas Randolph Harley Power Plant. The units have been permitted to allow usage of three fuel types: oil, propane and natural gas in the generation of electricity. It is anticipated that the usage of LPG will result in a 30 percent reduction in the ratepayer's utility cost.

The government continues to leverage federal funds for hiring and program services. In 2015, the Governor met with Environmental Protection Agency (EPA) Administrators regarding the proper usage of EPA funds regarding projects in the Territory. As a result of these meetings, additional funding is now being made available for wastewater treatment facilities. Moreover

funding is being provided for ensuring quality drinking water, educational and preserved projects. Additionally, the Public Finance Authority (PFA) closed on financing \$91 million to fund critical highway infrastructure projects. Two major road construction projects listed are the \$40 million Veterans Drive Highway Phase 1 on St. Thomas and Governor Melvin H. Evans Highway on St. Croix.

One of the goals of the current administration is to move both the public and private sector labor force closer to a livable wage. The Governor signed Bill No. 31-0236 that authorizes step wage increases to USVI public sector employees and Bill No. 31-0320 that increases the Territory's minimum wage to \$10.50 by January 2018. The Bureau of Economic Research (BER) conducted an impact assessment of increasing the minimum wage. An estimated 14,416 workers—or about 37 percent of the USVI workforce—would receive a pay raise resulting from the passage of this bill.

BER also commissioned a 2015 Business Needs and Employer Survey. The study provided empirical data to understand the factors influencing the demand for labor and types of skills, so as to better align labor market skills to the needs of industries that may build economic resiliency and promote job creation and retention.

In general, the study illustrated that approximately 38 percent of businesses indicate they have difficulties filling positions. The sectors where there are hiring difficulties include retail; professional, scientific and technical services; health care and social services; and accommodation and food services.

In the fall of 2016, the Bureau of Economic Research will also undertake a Tourism Master Plan. The Plan will be a reflection of industry and market needs, and will require input and buy-in from the Department of Tourism and other

industry key stakeholders, and the public. The planning process will also include participation from other government agencies, economic development agencies, and community groups to the extent feasible.

## Sector Activity and Labor Market Conditions

### Tourism

The St. Thomas and St. John district experienced a less than one percent decline in air visitors the first half of 2016 fiscal year to 326,632 from 327,636 reported in fiscal year 2015. The St. Croix district showed a strong 9.2 percent increase in air visitors to 77,244 from 70,737 recorded in fiscal year 2015.

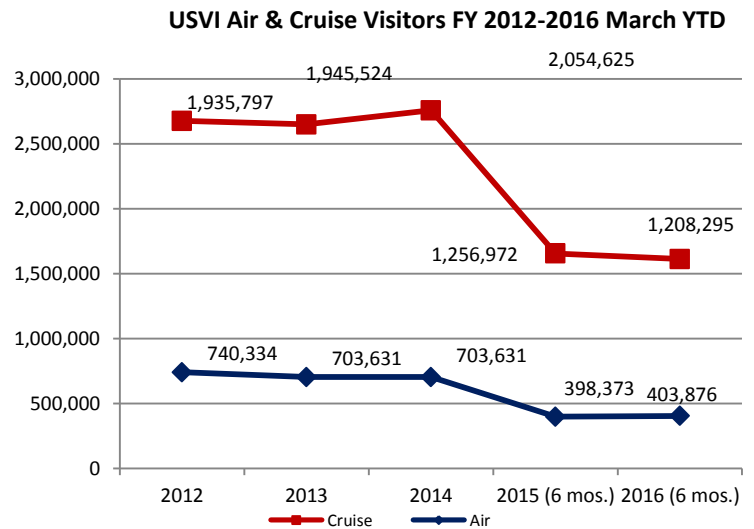
In contrast, cruise passengers to the St. Thomas and St. John district fell by 2.0 percent from 1,155,741 to 1,132,368. The island of St. Croix counted fewer cruise passengers coming to the island's shores. There were 109,869 cruise passengers compared to 121,344 in fiscal year 2015.

The first quarter fiscal year 2016 hotel occupancy rate in the St. Thomas and St. John district was 53.8 percent, 2.3 percentage points lower than the current rate of 56.1 percent. St. Croix current hotel occupancy rate for first quarter fiscal year 2016 is 38.9 percent versus the 39.7 percent one year ago.

There were fewer direct major carrier seats during first six months of fiscal year 2016. There was an average 17,115 major carrier direct compared to 17,780 seats for the corresponding period in fiscal year 2015, a decline of 3.7 percent.

The Department of Tourism continues to sponsor promotions and pursue extended or additional flights to the Territory. Active 2016 Summer & Fall Promotions include; *A Quaint Getaway Somewhere Special* and a *Thank You Service Promotion* for

*Military Personnel*. On St. Croix, Delta Airlines will offer daily service from Atlanta to St. Croix during the peak Christmas holiday season. In the St. Thomas-St. John district, United Airlines will operate four days a week flights from George Bush Intercontinental Airport in Houston, Texas from early June through mid-August, and the airline will operate daily flights from Washington Dulles International Airport to St. Thomas in Summer of 2016.



### Manufacture

There was an average 607 manufacturing jobs versus the 611 reported in fiscal year 2015, a marginal loss of less than one percent. Businesses in this sector include fabricators, concrete firms, the distilleries, and small firms producing goods. These establishments have an average workforce of 20 employees.

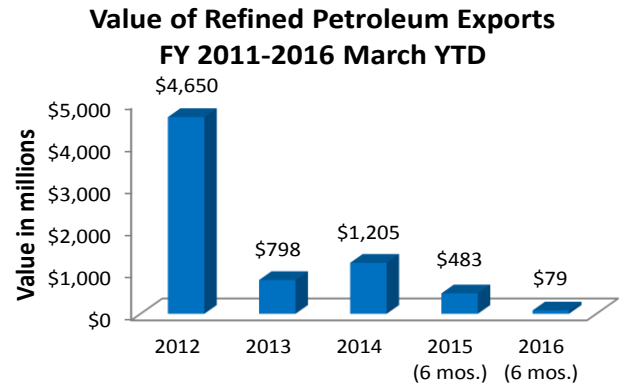
### Oil Industry

In December 2015, after being shuttered for nearly four years, the 31<sup>st</sup> Legislature of the Virgin Islands ratified a landmark agreement signed between the Government of the Virgin Islands and Limetree Bay Terminals, LLC, a subsidiary of Arc Light Capital Partners, The agreement will

create approximately 80 jobs in St. Croix. Limetree Bay Terminals, LLC, will operate an oil storage facility with 13 million barrels of storage capacity, later on with the potential of up to 30 million barrels of capacity. The Government will receive an annual percentage of the stored oil sold by Limetree Bay Terminals, LLC.

As part of the agreement the Government of the Virgin Islands, received a payment of \$220 million and the deeds to 350 acres land, housing, the community center and vocational school. The agreement calls for Limetree Bay Terminal is expected to hire 80 employees initially, with 80 percent of workforce being residents of the Territory. Limetree Bay Terminal has also committed \$125 million of capital spending towards the facility infrastructure. The construction of an asphalt storage facility dedicated to the Government. Ongoing payments to GVI: Tax payments of 9-10 percent of the terminal revenue; with a minimum annual payment of \$7 million. The entity will make annual contributions of \$500,000 in charitable and educational commitments, to the University of the Virgin Islands and local charities. Limetree Bay has also leased 80 housing units at the cost of \$1.2 million annually. The entity will be responsible for maintenance and repairs. Furthermore, the company is looking into the possibility of restarting refining operations-- albeit on a smaller scale.

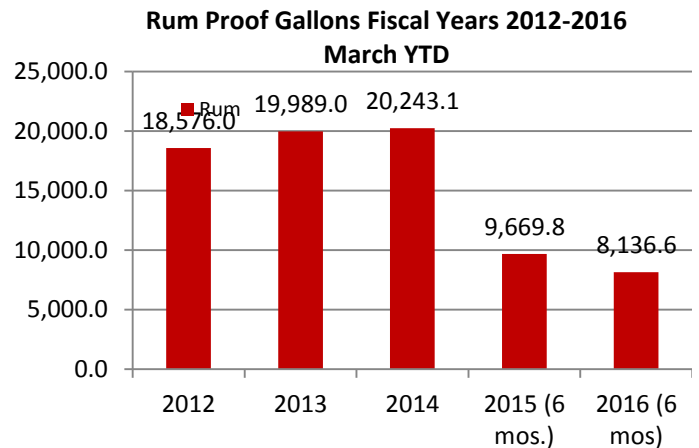
The exported refined petroleum products are from wholesale oil companies that import products for consumption within the Territory and also export fuels to other destinations. HOVENSA stopped exporting manufactured refined petroleum products in 2014. In the final year of full refinery operations, the value of exported petroleum products was \$12.7 billion fiscal year 2011.



### Rum Industry

Shipments for the six-month period of fiscal year 2016 totaled 8,136.6 proof gallons compared to 9,669.8 proof gallons for the same period in 2015. Cruzan VIRIL, Ltd., produces nearly 9 million proof gallons of rum per year. The Diageo distillery has the capacity to produce 20 million proof gallons annually.

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 brands.



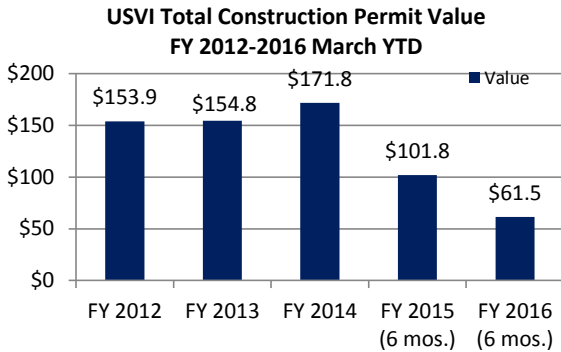
### Watch industry

The last watch company closed its doors in June 2015. .



## Construction

The number of construction jobs averaged 1,487 for the first half of fiscal year 2016 compared to 1,592 for the corresponding period in fiscal year 2015.



Total value of construction permits fell by 39.6 percent to \$61.5 million from \$101.8 million in fiscal year 2015. The first half of 2016 also saw permit value for private non-residential home contract to \$16.3 million from \$52.8 million from in 2015.

There are several public sector projects expected to start or continue into fiscal year 2017. The island of St. Thomas will continue the ongoing \$9.5 million Fire Station Facility in Estate Ross and the possible start of the \$6.2 million Turpentine Run Bridge Project. Additionally, the continued widening and improvement of St. Thomas Raphune Hill is expected to commence in summer of 2016. The project is valued at \$1.2 million. The construction of the new \$3.4 million Fredriksted Head Start for the Department of Human Services and the \$20 million Paul E. Joseph Stadium projects continue on St. Croix. On St. John a \$1.2 million road restoration project has begun on Centerline Road. Additionally, on the island of St. Croix the approximate \$30 million Anna's Hope Villas Development is scheduled to be completed in Fall of 2016. In July 2016, the mixed commercial and Magens Junction Apartments facility is slated to begin construction.

The project is valued at \$26.5 million.

## Leisure and Hospitality

The leisure and hospitality sector number of jobs averaged 7,333, less than one percent growth over the same six-month period a year earlier. Jobs are expected to remain at the same level or slightly decline during the months of September to October 2016. The job growth is expected to occur during seasonal employment in winter season 2016-2017.

## Trade, Transportation and Utilities

The trade, transportation and public utilities sector averaged 8,069 jobs during the six months of fiscal year 2016—less than one percent over the last fiscal year.

Retail trade jobs, which represent 90 percent of the trade sector's total employment, rose 1.3 percent in fiscal year 2016, averaging 5,913 jobs. Wholesale trade jobs averaged 697 for the six-month period of fiscal year 2016 versus the reported 791 jobs during the same period in fiscal year 2015. Jobs in the field of transportation, warehouse and utility remained unchanged and averaged 1,459 jobs.

## Financial Activities, Real Estate, Professional and Business Services

The number of homes sold in the Territory was flat and remained at 355. The average value of the sale price of a home in the Territory was \$508,811 in 2015, down from \$568,295 in 2014. Overall, the average price decreased because fewer houses sold for over one million dollars. For example in the St. Thomas-St. John district, 13 homes sold for over one million dollars in 2015, compared to 22 houses sold in 2014. St. Thomas and St. John district average home prices fell by 10.8 percent to \$644,945 from \$772,770. While on the island of St. Croix average 2015 home prices were \$368,789 from \$321,910, an increase of 14.6 percent. Territory-wide, the sales price of

condominiums was \$215,142.

In fiscal year 2016, the financial services sector reported 2,138 year-on-year comparison to 2,169 for the corresponding period in fiscal year 2015.

For the six-month period, the number of jobs in the business and professional services sector averaged 3,287 compared to 3,343—1.7 percent lower than the corresponding period in 2015.

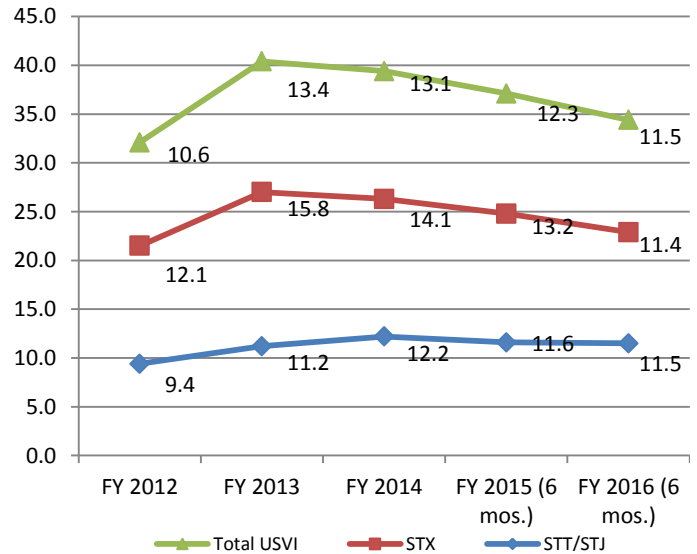
The combined total assets of commercial banks in the U.S. Virgin Islands at the end of 2015 were \$2,524.7 billion. Total assets fell by \$43.7 million or a 1.7 percent loss over the previous year's total assets of \$2,568.4 billion. Bank deposits—which consist of savings demand accounts, demand deposits and time deposits—grew by 2.2 percent or by \$47.3 million to \$2,222.9 billion from \$2,175.6 billion in 2014.

## Employment Trends

According to the Bureau of Labor Statistics, there were 42,752 persons employed in civilian jobs during the six-month period of fiscal year 2016—19,378 in St. Croix and 23,343 in the St. Thomas and St. John district. This is a 2.3 percent increase from the 41,802 persons employed for the corresponding period in fiscal year 2015.

six-months, while the rate for St. Thomas and St. John was 11.5 percent. The unemployment rate reflects the number of persons actively pursuing employment.

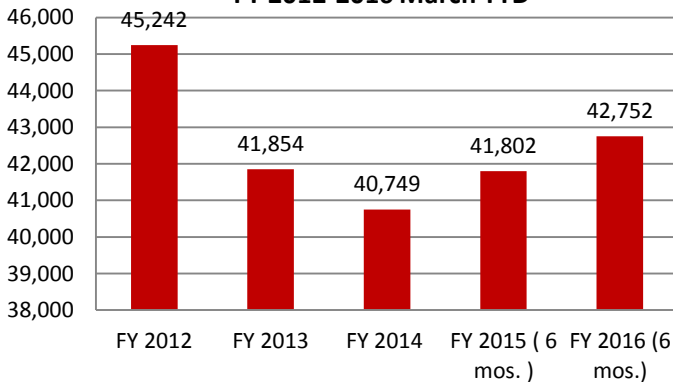
**USVI Civilian Unemployment 2012-2016  
March YTD**



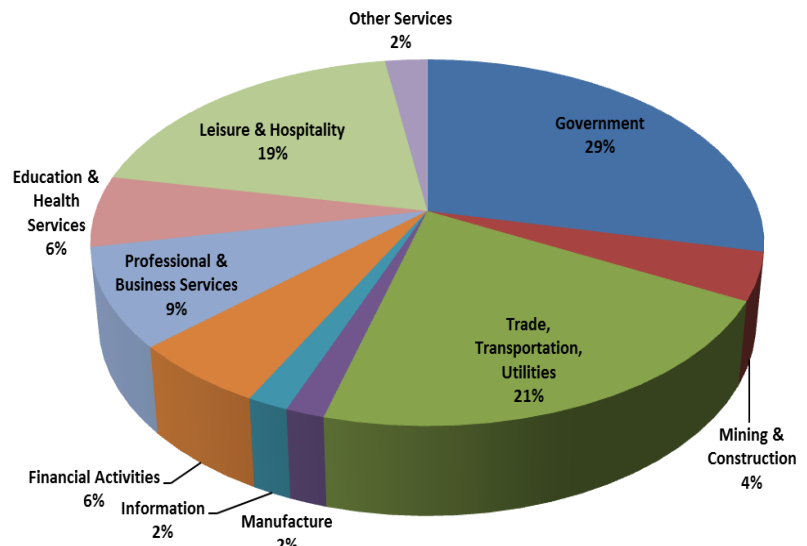
## Wage and Salary Employment

The average salary in the Territory was \$39,258 in 2016. Total private sector annual salary wage was \$34,088. Total public sector average annual salary was \$52,572.

**USVI Average Civilian Employment  
FY 2012-2016 March YTD**



**Percent of Nonagricultural Jobs, FY 2016**



The Territorial jobless rate was 11.5 percent. The rate for St. Croix was at 11.4 percent for the past

Nine in ten of these jobs are in the service-producing industries and one in ten jobs is in the goods producing industries. Government; transportation and utilities; and leisure and hospitality are the industries with the largest number of jobs. These three sectors account for 69 percent of all jobs. Professional and business services, financial activities, and construction account for 9 percent, 6 percent and 4 percent, respectively. Manufacturing, Other Services, and Information account for 2 percent. Educational and health services account for 6 percent.

### **Public and Private Sector Jobs**

Public sector jobs which comprise of 29 percent of total nonagricultural jobs remained at same levels as one year earlier. There were 10,743 jobs during

the first six-months of fiscal year 2016 compared to the 10,788 jobs during same period year earlier. Federal government jobs averaged 961 compared to 957 reported last fiscal year. Local government jobs averaged 9,782, down 0.5 percent over fiscal year 2015.

Private sector jobs accounted for 71 percent of wage and salary jobs. Job growth has been flat. The private sector has added no significant number of jobs in the past six- months. However, it is expected that the other services sector will see an increase in employment due to activities occurring at the Limetree Bay facility. There were 26,870 private sector jobs in the first half of fiscal year 2016 compared to 27,106 one year ago.

# FISCAL YEAR ECONOMIC INDICATORS

United States Virgin Islands

2015 & 2016: 1st/2nd Quarter and Half-Year Percent Annual Change

Series	1st QTR			2nd QTR			6 MONTHS		
	2015	2016	% Annual Change	2015	2016	% Annual Change	2015	2016	% Annual Change
<b>Labor Force</b>	<b>46,720</b>	<b>48,516</b>	<b>3.8</b>	<b>48,622</b>	<b>48,040</b>	<b>-1.2</b>	<b>47,671</b>	<b>48,278</b>	<b>1.3</b>
Civilian employed	40,774	42,922	5.3	42,830	42,582	-0.6	41,802	42,752	2.3
Civilian unemployed	5,946	5,594	-5.9	5,792	5,458	-5.8	5,869	5,526	-5.8
Unemployment rate (%)	12.7	11.5	-	11.9	11.4	-	12.3	11.5	-
<b>Total Nonfarm</b>	<b>37,928</b>	<b>37,586</b>	<b>-0.9</b>	<b>37,859</b>	<b>37,640</b>	<b>-0.6</b>	<b>37,894</b>	<b>37,613</b>	<b>-0.7</b>
<b>Total Private</b>	<b>27,047</b>	<b>26,811</b>	<b>-0.9</b>	<b>27,164</b>	<b>26,929</b>	<b>-0.9</b>	<b>27,106</b>	<b>26,870</b>	<b>-0.9</b>
<b>Production Sectors</b>	<b>2,224</b>	<b>2,095</b>	<b>-5.8</b>	<b>2,181</b>	<b>2,094</b>	<b>-4.0</b>	<b>2,203</b>	<b>2,095</b>	<b>-4.9</b>
Natural Resources & Construction	1,603	1,498	-6.6	1,581	1,476	-6.6	1,592	1,487	-6.6
Manufacturing	621	597	-3.9	600	618	3.0	611	607	-0.7
<b>Service Sectors</b>	<b>35,704</b>	<b>35,491</b>	<b>-0.6</b>	<b>35,678</b>	<b>35,546</b>	<b>-0.4</b>	<b>35,691</b>	<b>35,519</b>	<b>-0.5</b>
<b>Trade, Transportation &amp; Utilities</b>	<b>8,067</b>	<b>8,067</b>	<b>0.0</b>	<b>8,141</b>	<b>8,072</b>	<b>-0.8</b>	<b>8,104</b>	<b>8,069</b>	<b>-0.4</b>
Wholesale Trade	793	697	-12.1	789	698	-11.5	791	697	-11.9
Retail Trade	5,817	5,901	1.4	5,861	5,921	1.0	5,839	5,913	1.3
Transp., Warehousing, Utilities	1,448	1,469	1.5	1,474	1,448	-1.8	1,461	1,459	-0.1
<b>Information</b>	<b>747</b>	<b>665</b>	<b>-11.0</b>	<b>742</b>	<b>640</b>	<b>-13.7</b>	<b>745</b>	<b>652</b>	<b>-12.5</b>
<b>Financial Activities</b>	<b>2,168</b>	<b>2,157</b>	<b>-0.5</b>	<b>2,169</b>	<b>2,119</b>	<b>-2.3</b>	<b>2,169</b>	<b>2,138</b>	<b>-1.4</b>
<b>Professional &amp; Business Services</b>	<b>3,351</b>	<b>3,292</b>	<b>-1.8</b>	<b>3,334</b>	<b>3,281</b>	<b>-1.6</b>	<b>3,343</b>	<b>3,287</b>	<b>-1.7</b>
<b>Education and Health</b>	<b>2,402</b>	<b>2,374</b>	<b>-1.2</b>	<b>2,386</b>	<b>2,391</b>	<b>0.2</b>	<b>2,394</b>	<b>2,383</b>	<b>-0.5</b>
<b>Leisure &amp; Hospitality</b>	<b>7,214</b>	<b>7,269</b>	<b>0.8</b>	<b>7,382</b>	<b>7,396</b>	<b>0.2</b>	<b>7,298</b>	<b>7,333</b>	<b>0.5</b>
Arts and Entertainment	857	808	-5.7	862	775	-10.1	859	792	-7.8
Accommodation & Food	6,357	6,461	1.6	6,520	6,621	1.5	6,439	6,541	1.6
Accommodation	3,727	3,732	0.1	3,865	3,818	-1.2	3,796	3,775	-0.6
Food Services & Drink	2,631	2,729	3.7	2,655	2,803	5.6	2,643	2,766	4.7
<b>Other Services</b>	<b>874</b>	<b>891</b>	<b>1.9</b>	<b>829</b>	<b>936</b>	<b>12.9</b>	<b>851</b>	<b>914</b>	<b>7.4</b>
<b>Government</b>	<b>10,881</b>	<b>10,775</b>	<b>-1.0</b>	<b>10,695</b>	<b>10,711</b>	<b>0.1</b>	<b>10,788</b>	<b>10,743</b>	<b>-0.4</b>
Federal	955	963	0.8	958	959	0.1	957	961	0.4
Local	9,926	9,813	-1.1	9,737	9,752	0.2	9,831	9,782	-0.5
<b>General fund revenues (\$1,000)</b>	<b>148,965</b>	<b>127,607</b>	<b>-14.3</b>	<b>160,152</b>	<b>151,605</b>	<b>-5.3</b>	<b>308,937</b>	<b>279,210</b>	<b>-9.6</b>
Individual	68,980	62,719	-9.1	76,191	80,013	5.0	145,141	142,731	-1.7
Corporate	14,958	8,817	-41.1	16,916	14,930	-11.7	31,874	23,747	-25.5
Real Property	25,482	15,618	-38.7	17,999	8,777	-51.2	43,331	24,394	-43.7
Trade and Excise	6,169	6,242	1.2	5,275	6,124	16.1	11,449	12,366	8.0
Gross Receipts	33,377	34,211	2.5	43,771	41,761	-4.6	77,142	75,972	-1.5
Hotel Room	2,478	2,861	15.5	8,783	9,038	2.9	11,260	13,178	17.0
<b>Visitor Arrivals</b>	<b>780,210</b>	<b>728,180</b>	<b>-6.7</b>	<b>875,135</b>	<b>881,835</b>	<b>0.8</b>	<b>1,655,345</b>	<b>1,612,171</b>	<b>-2.6</b>
Air	168,424	168,413	0.0	229,949	233,307	1.5	398,373	403,876	1.4
Cruise	611,786	559,767	-8.5	645,186	648,528	0.5	1,256,972	1,208,295	-3.9