US Virgin Islands
Economic Review & Outlook
Fiscal Year-to-Date May 2018

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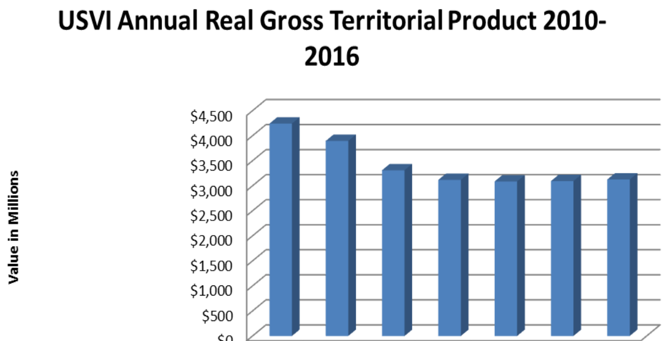
Overview

On September 6th, 2017 the Territory was struck by Hurricane Irma categorized as a five on the Saffir-Simpson wind scale. The St. Thomas-St. John district sustained severe infrastructure damage. Approximately, twelve days later the US Virgin Islands was again impacted by another category five storm, Hurricane Maria on September 12th, 2017. Both districts experienced flooding and windstorm damaged. According to the recently released 2018 USVI Community Development Block Grant-Disaster Recovery plan, an estimated $10.76 billion in damage was done to the Territory's public infrastructure and economy. Additionally, millions of dollars were lost from business interruptions, property damage, lost wages, and tax revenues.

Prior to the storms, the USVI economy was on the cusp of improvement. Data released by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), showed that the Territory's real Gross Domestic Product (GDP) increased 0.3 percent in 2015 and 0.9 percent in 2016.



	2010	2011	2012	2013	2014	2015	2016
USVI Annual Real Gross Territorial Product	$4,241	$3,895	$3,310	$3,118	$3,087	$3,093	$3,124

The 2016 GDP estimates showed two areas of growth in the USVI economy. First, an increase in visitor and local consumer spending. Second, petroleum and crude oil transactions accounted for the majority of the growth in inventory investments, reflecting the April 2016 opening of Limetree Bay Terminals, LLC's oil storage facility on St. Croix.

Government Tax Revenues

The pre-disasters fiscal condition of the Government of the Virgin Islands was well documented. The USVI Office of Management and Budget (OMB) projected an $80.9 million budget deficit for the fiscal year 2018. However, soft estimates widened the budget gap to $423.6 million as a result of revenue losses and additional unreimbursed expenditures resulting from the hurricanes.

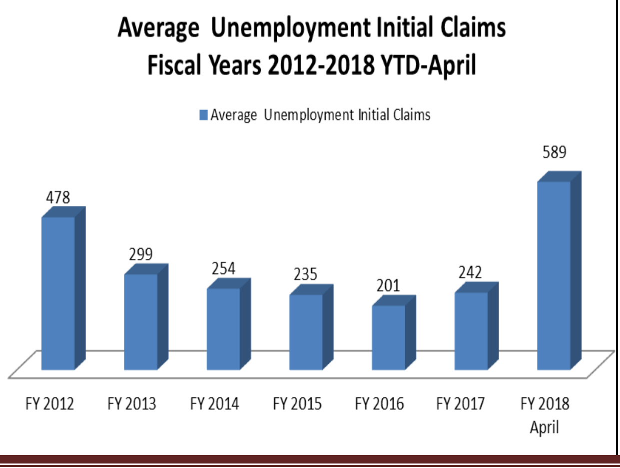
In December 2017, the 32nd Legislature of the Virgin Islands approved and the Governor signed the community disaster loan bill, also called a CDL, which provides $500 million to the local government in low-interest loans from the federal government over the course of three fiscal years. The CDL program provides assistance in overcoming the disaster-related revenue losses. Thus far, the government has drawn approximately $121 million to assist in government budget operations.

Government revenues ended with mixed results in the fiscal year 2017. Gross receipts collections rose by 3.9 percent, while Hotel Room occupancy tax climbed by 3.6 percent. The fiscal months prior to the storms all showed growth in the hotel tax revenue, thereby offsetting the decline in September 2017. Trade and excise experienced growth at 4.1 percent. Conversely, corporate income taxes fell by 6.9 percent. Property tax declined by 13.7 percent, while individual income fell by 3.7 percent.

The period after the hurricanes saw general fund revenues experiencing mixed results. Individual income taxes grew by 11.3 percent April Year-to-date fiscal year 2018, partly as a result of federal contractors and utility workers arriving to assist in debris removal, power restoration and other disaster-related activities. Trade and Excise rose a strong 100.6 percent due to fees collected on recovery vehicles and equipment that entered the Territory's ports. Corporate tax increased by 74.8 percent. On the other hand, Gross receipts fell in the first two quarters of 2018 by 20.7 percent. Similarly, real property taxes fell by 16.2 percent for the first two quarters of 2018. Hotel room tax collections fell by 51.4 percent. According to the USVI Department of Tourism and the Bureau of Economic Research, the current census conducted estimates the number of Territorial rooms loss due to the storms was 2,627, an estimated reduction of 68.1 percent.

Employment Conditions

Employment conditions during fiscal year 2017 appeared to be stabilizing after the loss of some jobs post-hurricanes, but the job market remained fragile. The Territory's non-agricultural jobs for fiscal year 2017 were 38,182, compared to 38,099 in fiscal year 2016. Approximately, 27,277 jobs were in the private sector and 10,905 in the public sector. The last unemployment rate recorded prior to the storms was 10.4 percent



Since the storms, initial claims began trending upward. Overall, most private sector industries employment were affected in the past eight months of fiscal year 2018, including retail trade, manufacturing, financial services, and information but the larger job losses occurred in the leisure and hospitality sector. In the seven months of fiscal year 2017, the average initial claims were 149. For the same period of fiscal year 2018, the average initial claims rose to 589.

Economic Outlook 2019-2020

For the foreseeable future, air arrival numbers will remain at post-hurricane levels until accommodation rooms from larger hotels come online. As a result, job improvements are not anticipated in the hospitality and leisure sector. The construction sector is expected to have an uptick in jobs and become a major contributor to employment.

The injection of additional federal funding will enable the Territory to rebuild its infrastructure and in the short-term stimulate economic activity and generate additional revenues for the Government. As the Territory focuses on reconstruction and building for resiliency, there is a need to diversify the economy to make it more hardened to withstand future impacts of economic, natural, and other disasters and to recover more quickly from disaster events.

Policy and Initiatives

In the aftermath of two hurricanes, the Government shifted immediately to initiatives to assist in hurricane recovery. The Governor signed the Territorial State of Emergency Declarations before the landfalls of both Hurricanes Irma and Maria both of which were approved by the President of the

United States. The State of Emergency Declarations allowed for Federal Emergency Management Agency (FEMA) and other federal partners to provide recovery and planning logistics to the Territory.

As a major part of FEMA's charter, the agency provides state and local governments with experts in specialized fields and funding for rebuilding efforts and relief funds for infrastructure, by directing individuals to access low-interest loans, in conjunction with the US Small Business Administration. Additionally, the US Department of Housing and Urban Development (HUD) also provides Community Development Block Grant (CDBG) as Disaster Recovery grants (CDBG-DR) to rebuild the affected areas and provide crucial seed money to start the recovery process. Congress may appropriate additional funding for the CDBG-DR through congressional appropriations. Since CDBG Disaster Recovery assistance may fund a broad range of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources.

In November 2017, the Governor testified before both the US Senate Energy Committee and the US House of Representatives Committee of Natural Resources. The goal of the Territorial Government is not only to rebuild to pre-disaster condition, but to rebuild for mitigation, sustainability, and resiliency. The administration firmly lobbied the White House, members of Congress, and various federal agencies.

In February 2018, Congress passed, and the President approved the Bipartisan Budget Act of 2018. The statue comprised of an $89.3 billion supplemental disaster recovery spending bill (H.R. 4667) for areas affected by 2017 natural disasters. Approximately, $11 billion CDBG-DR funding was made available to Puerto Rico and the US Virgin Islands. Of the amount, $2 billion is targeted for repair and reconstruction of the electricity systems in Puerto Rico and the USVI. Furthermore, the government was able to secure $142 million in additional Medicaid funding for the Territory’s health care system. The bipartisan package also allowed for the temporary rum tax cover-over rate to move from $10.50 to $13.25 for five years. Normally, the US Virgin Islands would make the request for this extension on an annual basis.

Major Sector Trends

Tourism

Prior to the storms, air visitor arrivals were performing well over the last few years. The promotional and marketing efforts of the USVI Department of Tourism (DOT) and its partners partly contributed to the increase of air arrivals visitors. The marketing initiatives offered included airfare and minimum stay-overs that included spending credits and that allowed for the eligible to have one extra night free. Promotions offered by DOT in 2017 included *100th Centennial, Bridal Promotion,* and *Family Reunion.* Additionally, a St. Croix only promotion was done for a minimum of three nights and a $150 in spending in credits.

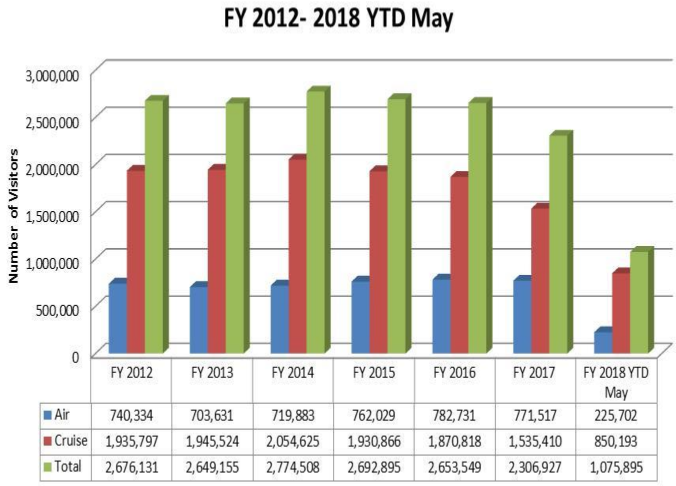
For the eight-month period of fiscal year 2018, air arrivals were 225,702, a loss of 60.2 percent compared to the 566,828, air visitors one year ago. Cruise passengers were 850,193 for the corresponding period in fiscal year 2018 compared to 1,266,802 cruise passengers who came in 2017, representing a drop of 32.9 percent. This downward trend in cruise passengers is expected to continue for the balance of fiscal year 2018, partly due to the summer season and scheduled cruise calls to St. Croix ended in May 2018.

Cumulatively, total visitors for eight-month period in fiscal year 2018 was 1,075,895 compared to the 1,833,630 who came to the islands during the corresponding period in fiscal year 2017, a reduction of 41.3 percent.

The losses of accommodation rooms are evident in the number of hoteliers, guesthouses, and other units that reported their occupancy rate to the Bureau of Economic Research since the hurricanes. The hotel occupancy rate averaged 11.4 percent in the first quarter of 2018 fiscal year compared to the recorded 50.7 percent in fiscal year 2017. The St. Thomas-St. John occupancy rate registered at 5.9 percent versus 54.0 percent first quarter 2017. The St. Croix district reported 28.6 percent occupancy compared to 40.4 percent in the first three months of 2017.

Major carrier seats in fiscal year 2017 averaged 17,123 compared to 17,293 direct seats in fiscal year 2016, a marginal decline of 1.0 percent. The number of direct major carrier seats during the seven months of fiscal year 2018 was 8,817. The average number of seats during the same period in fiscal year 2017 was 18,401.

Major carrier direct seats are based on daily scheduled flights from main carriers or charter flights that operate outside the Caribbean. Due to the storms, the airlines reduced the number of incoming flights to the Territory. American, Delta, JetBlue, and Spirit are airlines that reduced the number of weekly flights for the first quarter of 2018. Charter flights from Norwegian and Sun Country Airlines opted to suspend service for the 2017-2018 winter season. United Airlines discontinued flights until February 2018.



The Department of Tourism (DOT) has embarked on repositioning the Territory following the two storms. DOT announced in January 2018 three airlines expanded their services in fiscal year 2018. Spirit Airlines began in March 2018 daily services from Fort Lauderdale to St. Thomas. JetBlue Airways began operating a second daily flight from San Juan to St. Thomas in February 2018. Delta Airlines will reinstate its daily flight from New York to St. Thomas effective May 24, 2018. Spirit Airlines will inaugurate service between Orlando International Airport (MCO) and Governor Cyril E. King Airport on St. Thomas (STT) with three flights a week on Tuesdays, Thursdays and Sundays, beginning November 8, 2018. Spirit will also begin an inaugural flight from Fort Lauderdale-Hollywood International Airport (FLL) with nonstop service to St. Croix's Henry E. Rohlsen Airport effective May 24, 2018. The airlines new service to the St. Croix district will be three times weekly.

Additionally, DOT began a joint venture with Airbnb, villas, and other accommodation entities to provide rooms that can be utilized to increase weekly seats from the major airlines.

The Bureau of Economic Research received funding to conduct a Tourism Master Plan. In conjunction with the Department of Tourism, this will create a roadmap for the USVI tourism, repositioning the Territory as a leading tourism destination, and cementing the Territory's future as a visitor destination. The passages of both Hurricanes Irma and Maria has allowed the study to not only examine improving the Territory's tourism industry, but planning for economic diversity of the product in the future.

Leisure and Hospitality

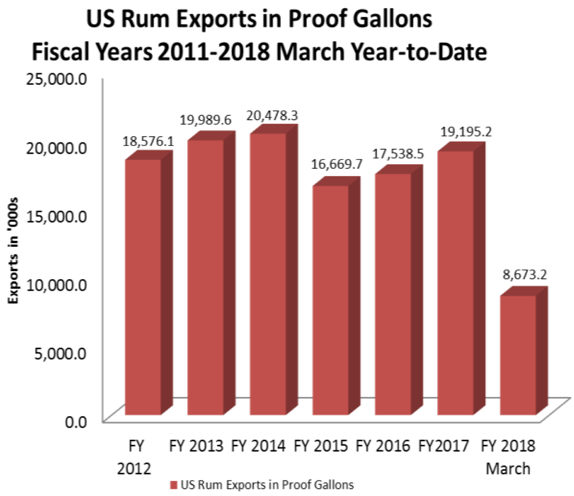
For fiscal year-to-date May 2018, leisure and hospitality net jobs averaged 6,242, down 19.6 percent from the corresponding period in fiscal year 2017. During the same period, the restaurants and other food services showed an 18.6 percent job decreased from 3,214 to 2,817. The arts, entertainment, and recreation sector employment also declined by 10.3 percent.

Manufacture

Employment in the manufacturing sector held steady in 2017, averaging 615 jobs or 3.5 percent fiscal year-on-year increase. Businesses in this sector include fabricators, concrete firms, the distilleries, and small firms producing goods. For the eight months of fiscal year 2018, the manufacturing sector posted a 6.1 percent decrease from 607 to 570.

Rum Industry

Cruzan VIRIL, Ltd. and Diageo plc distilleries shipped 19.1 million proof gallons of rum, up 10.8 percent from the 17.3 million proof gallons of rum to the U.S. in fiscal year 2017 for which the Territory received $205.0 million in excise taxes.



For the two quarters of fiscal year 2018, the amount of rum shipments to the United States was 8,673,291 proof gallons, a 10.7 percent decline from the 9,715,917 proof gallons shipped in the first six-months of fiscal year 2017. March 2018 fiscal year-to-date rum excise tax collections were $125.7 million.

Construction

April 2018 fiscal year-to-date data illustrate jobs in the construction sector began showing growth due to the reconstruction of residential and commercial properties. Construction jobs rose 23.6 percent in the first quarter and by 24.7 percent for the second quarter of fiscal year 2018. For eight month period of fiscal year 2018, construction jobs averaged 2,007. Compared to 1,627 construction jobs recorded for the corresponding period in fiscal year 2017. This represents a robust growth of 23.4 percent.

In late January 2018, the Virgin Islands Housing Finance Authority rolled out the

Emergency Home Repairs VI Project. AECOM, an American multinational engineering firm won the bid for the project, and is working with a number of subcontractors across the Territory. The USVI officials are targeting to repair up to 12,000 homes in the Territory that were damaged during Hurricanes Irma and Maria in September 2017. The program's repairs are not necessarily permanent, but provide homeowners a suitable and safe residential environment. The maximum qualified value per home repairs is up to $25,000. Since the inception of the program, FEMA has approved $186.6 million in funding for approximately 7,466 homes.

For the first two quarters fiscal year 2018, the total value of construction permits grew by 4.3 percent to $68.6 million from the $65.8 million in fiscal year 2017. The first half of 2018 also saw permit value for private residential homes grew to $35.1 million from $33.0 million in 2017, an increase of 6.4 percent. The homeowners' insurance settlement claims contributed to the spike in permit values for private residential homes. According to the Lieutenant Governor's Office, Division of Banking and Insurance the recent Hurricanes Irma and Maria settlements for residential properties totaled $451.1 million.

For fiscal year 2019, several projects will start or continue. For example, the $42 million phase 1 of the St. Thomas Waterfront project is scheduled to begin Spring 2018. The road project is being funded from the $91 million in Garvee Bond proceeds, acquired in December 2015. The remaining amount of the road bonds will be used on the island of St. Croix for various road projects including the enhancement of Governor Melvin H. Evans Highway. Construction will continue on St. Thomas' $9.6 million Turpentine Run Bridge Project and the $12.4 million rehabilitation of Main Street will begin in fiscal year 2018. On the island of St. Croix, phase three of the $34 million Louis Brown 90 villa units and the $20.5 million Paul E. Joseph Stadium has started.

The Port Authority began construction of a $5 million two-level parking garage and the University of the Virgin Islands began $11 million construction of both the St. Thomas Medical School and the St. Croix Simulation Center facilities. Both districts should experience construction activities related to a $12 million renovation of the St. Thomas Clinton Phipps racetrack, and $14 million renovations of St. Croix's Randall "Doc" James facility. Currently, a mixed commercial Magens Junction Apartments facility is being constructed for $26.6 million.

Trade, Transportation and Utilities

The trade, transportation and public utilities sector averaged 7,955 jobs in fiscal year 2017— down about one percent over the last fiscal year. For the eight-month period of fiscal year 2018, the number of jobs averaged 7,213 compared to 8,031 during the same period one year earlier, a drop of 10.1 percent.

Year-to-date May 2018 retail trade employment fell by 14.8 percent to 5,042 from 5,920 jobs. Wholesale trade jobs averaged 691 during the same period for fiscal year 2018. Jobs in transportation, warehouse, and utility grew 4.2 percent from last year, with an eight-month average of 1,486 jobs.

Financial Activities and Professional, Real Estate Business Services

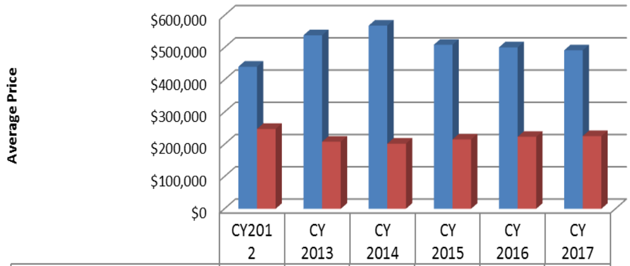
For the eight-month period of fiscal year 2018, financial services sector employment decline by 2.8 percent to 2,053 from 2,113. The financial services sector may continue to experience declines in employment. Several USVI Economic Development Commission financial services entities have requested a provisional reduction in employment to restructure their operations since the storms.

Occupations in the business and professional services sector averaged 3,134 during this period in fiscal year 2018 compared 3,288 the same period in fiscal year 2017.

The real estate activity and sales were impacted for the last four months of 2017. The number of homes sold in the Territory decreased by 18.1 percent from 431 in 2016 to 353 in 2017. The average value of the sale price of a home in the Territory was $491,574 in 2017, down from $500,791 in 2016. Overall, the average price decreased because fewer houses sold for over one million dollars. For example, in the St. Thomas-St. John district, one house sold for over $3 million compared to three houses in 2016 that sold for over $3 million.

The 2017 St. Thomas and St. John district average home prices were close to the same pricing levels as in 2016. The average home price in the St. Thomas and St. John district in 2017 was 646,118 compared to 650,076 in 2016. While on the island of St. Croix home prices averaged $350,495 in 2017 compared to $336,215 in 2016, an increase of 4.2 percent.

Real Estate Average Prices Calendar Year 2012-2017



	CY2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017
Average Home Sales Price	$440,808	$538,369	$568,295	$508,811	$500,791	$491,574
Average Condominium Sales Price	$247,630	$208,205	$201,990	$215,142	$223,237	$225,480

Territory-wide, the average sales price of condominiums was $225,480, up one percent from $223,237 recorded last year. The Territorial increase in condo prices was partly due to the healthy 11.7 percent increase experienced in the St. Thomas-St. John district. The 2017 St. Thomas-St. John district condominium average price was $281,708 compared to $252,291 in 2016. Conversely, the St. Croix district average price fell by 12.5 percent in 2017 to $160,923 from $183,861 in 2016.

Labor Force Trends

Directly following the hurricanes the Territory's labor force contracted. Most employment sectors suspended operations due to power, communication, and infrastructure damages. The cessation of commercial activity resulted in temporary work stoppage and drove up the filing of unemployment benefits in the first quarter for fiscal year 2018.

As business activity resumed in both the public and private sector, the counts in unemployment applications dipped. According to data provided by BLS, the average number of unemployed workers Territory-wide for the first two quarters of fiscal year 2018 was 5,992— 2,228 on the island of St. Croix and in the St. Thomas and St. John district was 3,764.

An average 40,743 persons were employed in civilian jobs during the two quarters of fiscal year 2018— 16,447 on St. Croix and 24,291 in the St. Thomas and St. John district. The Territory-wide decrease is 5.7 percent from the 43,204 persons employed for the corresponding period in fiscal year 2017.

The Territory's unemployment rate during the six-month period of fiscal year 2018 was 10.8 percent from 12.7 percent during the same period in fiscal year 2017. The eight month fiscal year 2018 rate for St. Croix was at 11.8 percent from 11.2 percent one year earlier. The rate for St. Thomas and St. John district May year-to-date fiscal year 2018 was 13.3 percent compared to 10.5 percent one year ago.

Non-Agriculture Wage and Salary Employment

An average 35,626 persons were employed in the nonagricultural wage and salary jobs in the eight months of the 2018 fiscal year, about 7.1 percent lower than the 38,348 reported during the corresponding period a year earlier.

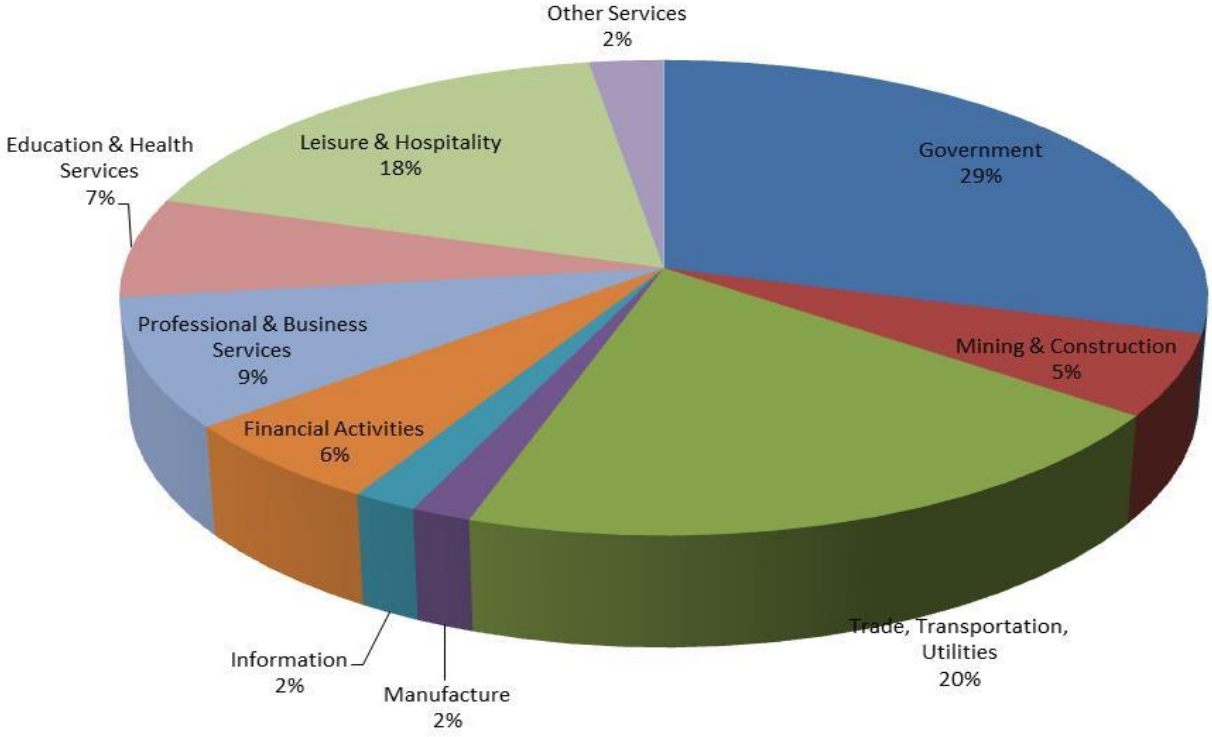
Public and Private Sector Jobs

Public sector jobs for the past eight months averaged 10,465, a reduction of 3.5 percent. Territorial government jobs averaged 9,607 compared to 9,986 during same period in fiscal year 2017. The loss of local public sector jobs was caused by resignations and retirement. Federal jobs remained at the same level as last year posting 858 jobs.

Private sector jobs account for 70.6 percent of non-agricultural wage and salary jobs during the eight-month period in fiscal year 2018. May 2018 fiscal year-to-date showed private employment declined 8.5 percent from 27,507 to 25,161.

Annual average salary estimates for calendar year 2017 revealed that average salary in the Territory grew from $39,802 to $40,759, a growth of 2.4 percent. Total private sector annual salary wages rose by 3.0 percent to $35,495 from $34,443. Total public sector average annual salary remained unchanged at $53,625.

PERCENT NON-AGRICUTURAL JOBS, 8 mths. FY 2018



FISCAL YEAR ECONOMIC INDICATORS
United States Virgin Islands
2017 & 2018: 1st/2nd, Quarter and Half-Year Percent Annual Change

	1st QTR			2nd QTR			(6 months) Fiscal Year		
Series	2017	2018	% Annual Change	2017	2018	% Annual Change	2017	2018	% Annual Change
Labor Force	**48,516**	**48,657**	**0.3**	**48,044**	**40,361**	**-16.0**	**48,280**	**44,509**	**-7.8**
Civilian employed	42,957	41,126	-4.3	43,450	40,361	-7.1	43,204	40,744	-5.7
Civilian unemployed	5,297	7,531	42.2	5,183	4,453	-14.1	5,240	5,992	14.4
Unemployment rate (%)	11.0	15.5	-	10.7	9.9	-	10.8	12.7	-
Total Nonfarm	**37,986**	**35,472**	**-6.6**	**38,497**	**35,649**	**-7.4**	**38,242**	**35,561**	**-7.0**
Total Private	**27,199**	**24,967**	**-8.2**	**27,662**	**25,213**	**-8.9**	**27,413**	**25,090**	**-8.5**
Production Sectors	**2,165**	**2,482**	**14.6**	**2,249**	**2,617**	**16.4**	**2,207**	**2,550**	**15.5**
Natural Resources & Construction	1,550	1,916	**23.6**	1,642	2,048	24.7	1,596	1,982	24.2
Manufacturing	615	566	**-8.0**	607	569	-6.3	611	568	-7.0
Service Sectors	**35,820**	**32,990**	**-7.9**	**36,249**	**33,033**	**-8.9**	**36,035**	**33,012**	**-8.4**
Trade, Transportation & Utilities	**7,985**	**7,079**	**-11.3**	**8,059**	**7,285**	**-9.6**	**8,022**	**7,182**	**-10.5**
Wholesale Trade	681	693	1.8	698	690	-1.1	690	691	0.1
Retail Trade	5,922	4,940	-16.6	5,927	5,088	-14.2	5,925	5,014	-15.4
Transp., Warehousing, Utilities	1,382	1,446	4.6	1,433	1,507	5.2	1,408	1,476	4.8
Information	**636**	**519**	**-18.4**	**642**	**612**	**-4.7**	**639**	**601**	**-5.9**
Financial Activities	**2,114**	**2,025**	**-4.2**	**2,115**	**2,048**	**-3.2**	**2,114**	**2,050**	**-3.0**
Professional & Business Services	**3,287**	**3,114**	**-5.3**	**3,296**	**3,131**	**-5.0**	**3,292**	**3,123**	**-5.1**
Education and Health	**2,495**	**2,411**	**-3.4**	**2,488**	**2,437**	**-2.0**	**2,491**	**2,424**	**-2.7**
Leisure & Hospitality	**7,544**	**6,390**	**-15.3**	**7,895**	**6,195**	**-21.5**	**7,720**	**6,277**	**-18.7**
Arts and Entertainment	889	803	-9.7	888	807	-9.1	889	805	-9.4
Accommodation & Food	6,655	5,587	-16.0	7,007	5,358	-23.5	6,831	5,472	-19.9
Accommodation	3,522	2,978	-15.4	3,736	2,744	-26.6	3,629	2,861	-21.2
Food Services & Drink	3,134	2,608	-16.8	3,271	2,614	-20.1	3,203	2,861	-10.7
Other Services	**973**	**848**	**-12.8**	**919**	**918**	**-0.1**	**946**	**883**	**-6.7**
Government	**10,786**	**10,505**	**-2.6**	**10,943**	**10,436**	**-4.6**	**10,811**	**10,471**	**-3.1**
Federal	862	863	0.1	959	849	-11.5	857	856	-0.1
Local	9,924	9,642	-2.8	9,984	9,587	-4.0	9,954	9,615	-3.4
General fund revenues ($1,000)	**130,582**	**129,146**	**-1.1**	**156,593**	**164,854**	**5.3**	**287,175**	**294,000**	**2.4**
Individual	63,086	66,088	4.8	82,031	95,447	16.4	145,117	161,535	11.3
Corporate	10,370	11,328	9.2	5,796	10,129	74.8	16,166	21,457	32.7
Real Property	6,761	5,789	-14.4	4,461	3,614	-19.0	11,222	9,403	-16.2
Trade and Excise	6,071	14,360	136.5	6,401	10,692	67.0	12,472	25,052	100.9
Gross Receipts	40,332	28,568	-29.2	47,268	40,886	-13.5	87,600	69,454	-20.7
Hotel Room	3,962	3,013	-24.0	10,636	4,086	-61.6	14,598	7,099	-51.4
Visitor Arrivals	**650,361**	**284,549**	**-56.2**	**796,858**	**510,420**	**-35.9**	**1,447,219**	**794,969**	**-45.1**
Air	184,727	50,022	-72.9	238,975	102,746	-57.0	423,702	152,768	-63.9
Cruise	465,634	234,527	-49.6	557,883	407,674	-26.9	1,023,517	642,201	-37.3