USVI BUREAU OF ECONOMIC RESEARCH

USVI ECONOMY IN REVIEW 2022 AND OUTLOOK 2023

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In early 2020, the U.S Virgin Islands (USVI) economy grew moderately until lockdowns and containment measures to stem the coronavirus (COVID-19) pandemic shuttered economic activity, except for a few essential businesses and some services remaining open. Travel restrictions, reduced air travel demand, and "no sail order" for cruise ships halted sailings for over a year, which led to an unprecedented decrease in visitors. The ensuing contraction was one of the economic activities' deepest and most sudden downswings. In 2022, indicators showed that the economy had generally recovered from the sharp decline that followed the onset of the pandemic. Some were returning to, and others were exceeding pre-pandemic levels.

Note: The chart above shows the percent change of total real GDP and contributions (in percentage points) of each major component to that change. For example, exports accounted for 0.41 percentage points of the 2.8 percent increase in real GDP in 2021. Imports are a subtraction item; thus, a decrease in imports results in a positive contribution to GDP.

Source: Bureau of Economic Analysis

Gross Domestic Product 2021

The U.S. Virgin Islands economy grew in 2021, returning with resilience from 2020. Real gross domestic product (GDP) increased by 2.8 percent at an annual rate, or to a level of $4 billion in 2021, according to the U.S. Bureau of Economic Analysis (BEA). Real GDP had shrunk by 1.9 percent in 2020 ($3.9 billion) when the pandemic led to ordered lockdowns and businesses to shut down or reduce hours.

As shown in Figure 1, contributions to GDP growth in 2021 came from exports and consumer spending, which contributed 40.91 and 0.41 percentage points, respectively, to the overall 2.8 percent growth rate. Exports, which grew 94.9 percent, reflected a surge in crude oil and petroleum products exports and services, primarily visitor spending. The 0.6 percent growth in consumer spending reflected increased spending on goods and services. Among goods, the leading contributor was nondurable goods. Health care, food services, and visitor accommodations led to the growth of services.

Subtractions to growth came from fixed private investment, which decreased 36.8 percent and subtracted 6.6 percentage points from the overall GDP growth rate. The decrease reflected declines in business spending on construction and equipment, which were elevated in prior years to support capital improvement projects, including the restart of the oil refinery on St. Croix. Decreasing private inventory investment subtracted another 32.3 percentage points from overall GDP growth due to crude oil and petroleum product inventories drawn down for export and use in petroleum refining. Government spending decreased by 1.2 percent and subtracted 0.42 percentage points from growth, primarily reflecting a decline in federal government spending to support the reconstruction of federal facilities damaged during the 2017 hurricanes Irma and Maria. Territorial government spending decreased by 0.3 percent, reflecting a decline in the compensation of government employees. Imports, which are a subtraction in the calculation of GDP, also decreased.

Labor Market

There was an unprecedented drop in monthly employment in April 2020 from a shutdown of economic activity. Employment plummeted by 2,894 or a decline of 7.5 percent month-over-month—wiping out the two years of job growth in one month and elevating the unemployment rate to 8.9 percent and then to 12.3 percent in May. The swiftness and depth of job loss were remarkable compared to previous employment downturns. For example, after the 2012 oil refinery closing, the most significant job losses came in May, three months after its February closing, and employment fell by 5.9 percent between February and May.

The labor market continued to rack up modest gains, narrowing the job deficit to 3,217 by December 2022. Total nonfarm employment averaged 34,797 and was 91 percent of pre-pandemic levels in February 2020. The unemployment rate declined to an average of 6.2 percent in 2022, a marked improvement compared to the 12 percent annual rate in 2020. As of April 2023, the unemployment rate declined further to a low of 3.1 percent, below pre-pandemic levels of 3.5 percent in 2020.

Figure 2: ***LABOR MARKET SNAPSHOT, NON-AGRICULTURE EMPLOYMENT 2007-2022***

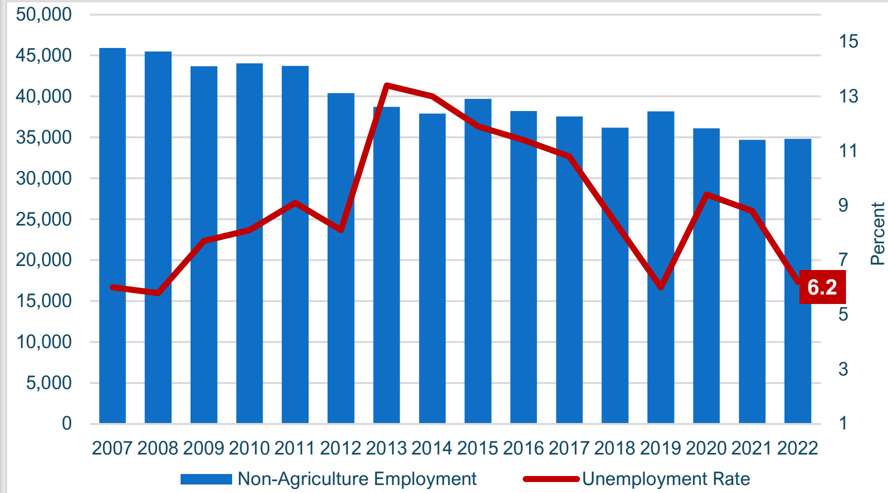
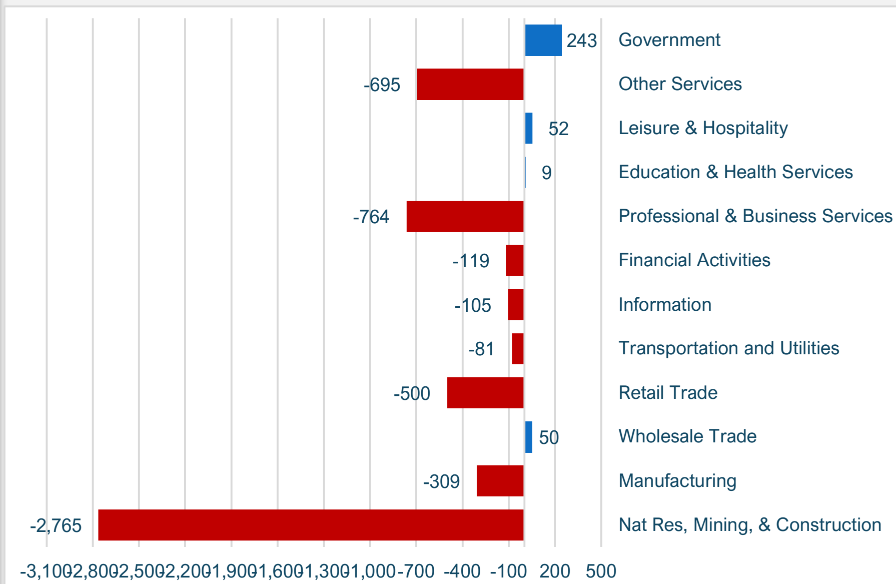


Figure 3: ***NET NONFARM EMPLOYMENT CHANGE BETWEEN FEBRUARY 2020 & DECEMBER 2022***



Source: USVI Department of Labor

Employment losses during the pandemic were distributed across most industries, but the heaviest losses were in wholesale and retail trade, recreation and other entertainment sectors, accommodations, transportation, restaurants, and other businesses highly dependent on tourism. Evaluating the change in jobs between February 2020 and December 2022 by industry, some of those sectors' employment remained depressed, and others were fully recovering and expanding to exceed their pre-pandemic levels (Figure 3).

The construction sector job losses (-2,765) were primarily the result of support activities for hurricane home rebuilding and business investment receding. Leisure and hospitality, which suffered the largest of any major industry group, had fully recovered exceeding the pre-pandemic level in February 2020. Wholesale trade recovered and exceeded (+50) pre-pandemic job levels. Retail trade (-500), professional and business services (-764), and other services (-695) were substantially still below their pre-pandemic levels. Employment in financial activities, information, transportation and utilities, and manufacturing recovered to near their pre-pandemic employment levels. The government sector was 243 above its February 2020 levels.

Tourism

In 2019, the territory's 2.1 million visitors generated $1.0 billion in visitor spending, accounted for one in five jobs in the economy, and directly contributed 25.2 percent of real GDP. One year later, a nosedive in travel resulted in a 58 percent drop in visitors to 861,274 (Figure 3.). By BEA estimates, this decline in arrivals led to a 43.5 percent fall in visitor spending to $558 million, and the industry's direct share of real GDP fell to 14.4 percent in 2020. In 2022, tourism's spending was $992 million, and its share of GDP rose to 24.8 percent.

Air Arrivals

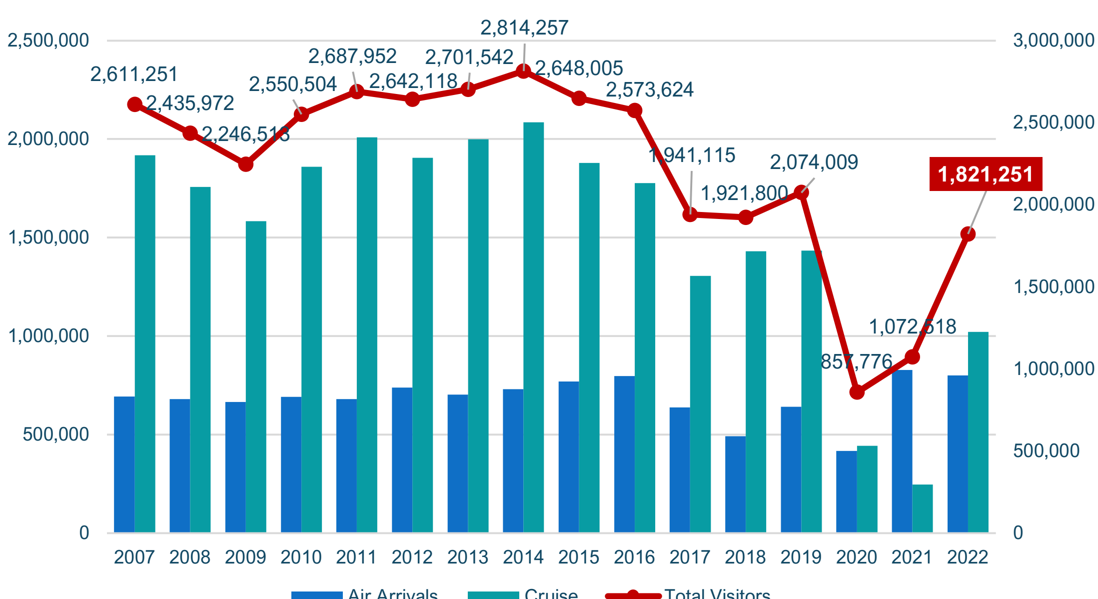
Air arrivals decreased to 800,073 in 2022, a 3.2 percent decline compared to the 826,823 visits in 2021.

Further, in 2022 the sector was breaking air visitor arrival numbers, surpassing 2019 levels by 29 percent, and continued to show growth in the first quarter of 2022, up 10.6 percent. However, air visitor arrivals began to slow in the second quarter of 2022, and by the years end, arrivals decreased by 3.2 percent compared to 2021.

Cruise Arrivals

Activity in the cruise passenger counts dropped in March of 2020, and no activity followed for the remainder of the year as cruise ship travel was suspended. The result was a 69.2 percent plunge in cruise passengers to 442,027 compared to 1,433,122 passengers in 2019 (Figure 4). A total of 245,695 cruise passengers arrived in 2021, down 83 percent below 2019 levels. In 2022 the territory saw a 315.6 percent increase in cruise arrivals compared to 2021, bringing 1,021,182 passengers.

*Figure 4: **USVI Total Visitor Arrivals 2007-2022***

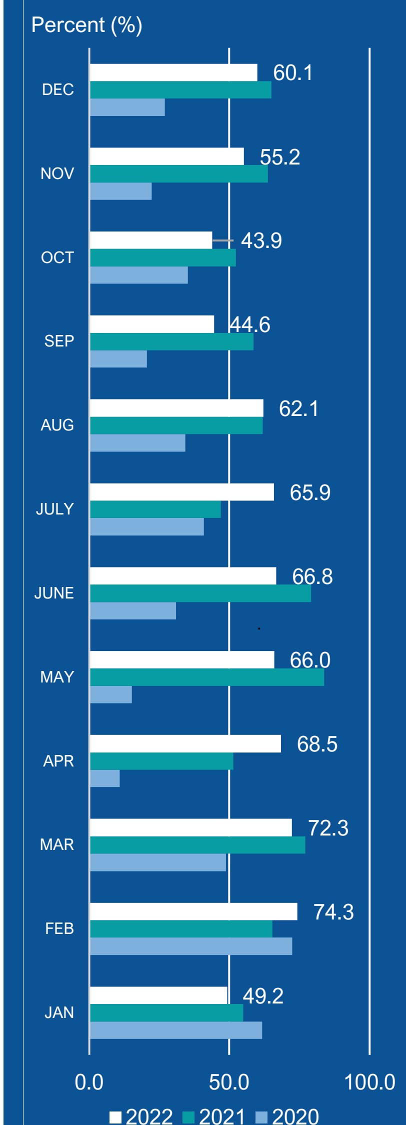


Source: USVI Bureau of Economic Research

Hotel Occupancy

Hotel occupancy plummeted to 34.9 percent in calendar year 2020, but strong leisure travel demand drove the overall hotel occupancy rate to an average of 63.2 percent in calendar year 2021 from its pandemic low and remained stable in 2022 at 60.5 percent. This occupancy shows a steady pace of growth when compared to the previous two years.

FIGURE 5: **USVI OCCUPANCY RATES 2020,2021 & 2022**



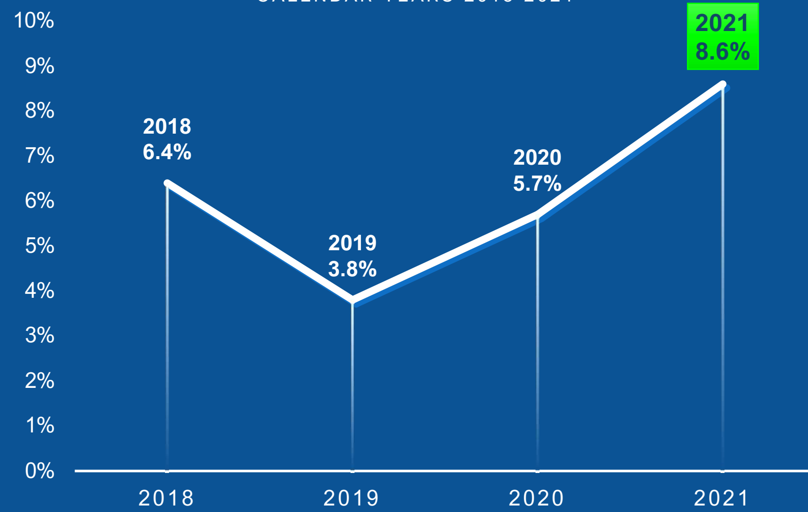
Source: USVI Bureau of Economic Research

USVI Inflation 2021

The annual inflation rate for the USVI was 8.6 percent for the twelve months ending December 2021.

The average price of food surged 10.6 percent in 2021, primarily driven by higher prices for meat, poultry, fish, and dairy products and fruits and vegetables. Significant inflationary pressure also came from housing (7.5 percent). Higher rents, higher building costs, and other factors linked to the pandemic, such as prices of household products, helped push housing costs higher in 2021. The inflation rate was 7.0 percent as of July 2022, reflecting moderate decreases in some consumer categories.

FIGURE 6: USVI INFLATION RATES (%)
CALENDAR YEARS 2018-2021



Note: U.S. Virgin Islands Consumer Price Index 2022 inflation rates will be released August 2023.

Source: USVI Bureau of Economic Research

Construction and Real Estate

Trends in construction building permit values indicate future building construction activity in the territory. In 2022, the value of issued building permits totaled almost $220.5 million, compared to 2021 values of $438 million—a 49.6 percent decrease. The decline in the value of construction permits reflects the completion of reconstruction capital projects, including the restart of the oil refinery. In 2022 private residential totaled $119.6 million when compared to (2021). In 2022 non-residential construction declined by 25.4 percent totaling 28.1 million when compared to 37.4 million in 2021. Government construction permit values were 176.2 million in 2021, decreasing by 79.5 percent to $36.1 million in 2022.

USVI Outlook for 2023 and 2024

While overall economic conditions have dramatically improved in 2022, the economy continues to reflect the impact of the pandemic, and other challenges remain. The recovery in demand for goods and services following the pandemic, global supply disruptions, and surging food and energy prices have pushed inflation to high levels. However, annual inflation is moderating and should move appreciably lower by the end of 2022.

The volatility that dominated the USVI economy over the pandemic period should continue diminishing. Real GDP growth should average above 2 percent while inflation will drift lower, though unlikely to reach pre-pandemic rates until 2025. The labor market should continue to improve over the next two years with low unemployment and modest job growth. The growth in tourist arrivals will continue, though at a slightly more moderate pace.