

ECONOMIC OVERVIEW

Economic Overview

Economic indicators show a moderate recovery of the US Virgin Islands economy on a whole, but the recovery appears to be pausing. General economic conditions softened in the second quarter of fiscal year 2011, dampening the momentum in output and employment gains. Employment growth slowed in the wake of redundancy in the manufacturing, accommodation and other services industries. Other sectors retrenched workers as well. Jobs in trade, education and health and construction sectors decreased in the second quarter from the same quarter last year.

The latest economic reading supports the picture that employment gains appeared to be losing momentum. In the second quarter of fiscal year 2011, nonagricultural wage and salary jobs were 1.7 percent below a year ago. Job losses helped to push the unemployment rate to a second quarter average of 8.6 percent, a full percentage point higher when compared to a year ago. New claims for unemployment insurance were also consistent with continuing weaknesses in the labor market. In recent months initial claims increased to average 280 in the second quarter, still elevated relative to the 212 average in 2007, before the economic crisis emerged.

Other economic indicators in the housing and real estate sector and tourism and hospitality sectors likewise showed a slowing in the pace of growth. The latest data on real estate transactions in 2010 revealed while the industry was stabilizing, the overall number of homes sold and the value of sales showed a slight decrease from the year before. In the construction sector, the permit value for private residential home decreased \$16.5 million in the second quarter, offsetting \$6.1 million increase in public projects permit value and \$1.7 million increase in private non-residential construction permit value.

The most propitious sign that the recovery was underway was in tourism. Visitor arrivals have increased consistently since the first quarter of fiscal year 2010. Total arrivals improved 8.1 percent in the second quarter and 9.4 percent in the first half of fiscal year 2011. However, tourism performance has tempered by monthly declines in air visitor arrivals since September 2010. Air arrivals dropped 3.7 percent in the second quarter and 4.4 percent in the first half of the year. Concomitantly, hotel occupancy declined nearly 8.8 percentage points in the second quarter and 6.2 percentage points in the first six months of the fiscal year compared to last fiscal year. Cruise passengers arrivals, which increased solidly every month since January 2010, turned negative in March 2011. Hopefully this is an anomalous event, but it may be a harbinger of things to come. A drop in cruise passengers is anticipated this summer.

Even so, the job losses and the drop in demand from air visitors were not large enough to indicate a broad-based negative turn in the economy. There are a few sectors that continue to show a steady upward climb, such as professional and business service, arts and entertainment, leisure and hospitality and food services which have improved over last year.

Government revenues likewise continue to depict a steady upward movement. During the first half of fiscal year 2011, tax revenues collections increased 18 percent over last fiscal year. Individual income tax increased 10 percent, corporate income tax grew 15 percent, trade and excise grew 7 percent and gross receipts improved 3 percent.

Notwithstanding, it will be sometime before the economy resumes a normal growth path and unemployment returns to the 5 to 6 percent normal range. A number of factors continue to restrain economic growth, not the least of which is the continuing frailty of the US economy, the Territory's major partner for trade and investment. Additionally, the government's budget shortfall is placing pressure on public spending. The Territory faces a budget shortfall in fiscal years 2011 and 2012. To close the gap, a number of deficit-reduction and revenue enhancement measures were proposed and implemented to ensure that the Territory overcomes its fiscal challenges and position the economy along a growth path. These measures include lay-offs, various tax increases, a freeze on hiring, a two-year freeze on salaries and compensation, deferment of negotiated wage increases, and non-compensation for three legal holidays.

Looking Ahead to 2012

Many of the same economic conditions will persist in the year ahead. Despite accumulating signs of recovery in the national economy, the Territory will remain under pressure exhibiting a weak job market and sluggish economic activity. While the recovery is envisaged to continue, growth in the economy will be slow and uneven. The unemployment rate will remain elevated near 8 percent in 2011, before giving way to greater improvement in 2012. As such, the outlook calls for continuing economic recovery with modest output and employment expansion, but real growth is not projected to return until about 2014.