The Virgin Islands Consortium

Private Sector Employment Sees 8.5 Percent Decline In Aftermath Of Storms; Visitor Arrivals See Dramatic 44.7 Percent Reduction

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Ernice Gilbert June 01, 2018

Data provided in the Mapp administration's 2019 $1.278 billion budget proposal shows a dramatic decline in the territory's tourism sector following the devastating 2017 storms. Visitor arrivals dropped to 799,969 in the first six months after the storms from the 1,447,219 visitor arrivals recorded for the same period in Fiscal Year 2017, according to the territory's Bureau of Economic Research (B.E.R.).

Along with the declines in the tourism industry, the territory also experienced a combined wage and salary employment reduction of 7 percent in the first six months of Fiscal Year

2018, to 35,561 jobs from 38,242 jobs in Fiscal Year 2017 -- its first such decline in over two years, according to B.E.R.

The fall in employment was reflected in both public and private sectors. B.E.R. said while the loss of public jobs stemmed from resignations and retirement, most of the private sector job losses appeared to be caused by the effects of Hurricanes Irma and Maria. But resignations and retirement does not mean that at least some of those decisions were not affected by the storms.

According to data gathered by the Federal Reserve Bank of New York, following the hurricanes, the initial job losses in the U.S. Virgin Islands totaled about 8 percent, with no rebound as of March. These losses are considerably steeper than what has typically been experienced after most major natural disasters that have hit the United States, but not nearly as devastating as Katrina’s unprecedented impact on the New Orleans economy more than a decade ago, according to NY Fed economists working at the intersection of research and policy.

B.E.R. said private sector employment declined by 8.5 percent to 25,090 from 27,431. Except for construction jobs which rebounded by 7 percent from rebuilding activities, most of the other sectors suffered job losses. As a result, initial unemployment claims peaked to an average 676 in the first half of fiscal year 2018 in comparison to an average 156 in the corresponding period in fiscal year 2017, according to B.E.R.

Before Hurricanes Irma and Maria, the Bureau of Economic Analysis (BEA) said the USVI's gross domestic product rose by 0.3 percent in 2015 and 0.9 percent in 2016. B.E.R. said the impacts on the economy are evident from the lost output, decline in employment, substantial increases in initial unemployment claims, and declines in tourism.

Speaking of tourism, the territory's number one product saw a drop in cruise ship visitors of 37.3 percent or 642,201 in 2018 from 1,023,517 in 2017. Air visitor arrivals decreased 62.8 percent to 157,768 in 2018 from 423,702 in 2017, according to B.E.R. The loss of accommodation rooms following the 2017 storms is evident in the number of hotels, guesthouses, and other units available, the bureau said. Approximately 60 percent of the islands' lodging accommodation is currently unavailable primarily due to physical damage to many of the large hotels. Based on hotels and other accommodation reported, the territory’s hotel occupancy rate averaged 11.4 percent in the first quarter of 2018 compared to 50.7 percent in 2017. The St. Thomas and St. John district’s occupancy rate was 5.9 percent versus 54.0 percent for the first quarter in 2017. The St. Croix district reported an occupancy of 28.6 percent compared to 40.4 percent in the first quarter of 2017, according to B.E.R.

As for the economic outlook, B.E.R. said growth has weakened in the aftermath of the storms. Even so, the bureau said there is heightened expectation for improvement based on the injection of federal hurricane recovery funding and passage of tax cuts which could boost short-term growth. Looking ahead, B.E.R. said it expects government and consumer spending from rebuilding to be the primary contributor to growth in the economy. Additionally, the bureau said policy actions taken by the government will be important in helping to get the economy back on track.

Notably, the implementation of capital projects and facilitation of the recovery and rebuilding efforts, and tax cuts will provide incentives for businesses to expand capital investments and increase disposable income for taxpayers, supporting consumer confidence and spending, B.E.R. said. And it pointed to the governor's approval of Act No. 7856 and Act No. 7837, which increased wages and is expected to help support consumer spending.

Together with expansionary economic and fiscal initiatives, these policy actions should help to spur economic growth in the long-run, B.E.R. said. However, much of it will depend on the government's actions in implementing strategies and adopting policies that will foster growth. BE.R. said while the destruction wrought by the hurricanes may reduce growth somewhat in the short run, based on the rebuilding efforts and appropriate economic and fiscal policies, the longer-term growth trajectory remains in place.