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VIRGIN ISLANDS LABOR MARKET INFORMATION

## PY 2013 Employment Conditions in the United States Virgin Islands

### Overview

Current employment conditions continue to show higher rates of unemployment as the annual average rate reached 13.4 percent from 11.7 percent in the preceding year in the U.S. Virgin Islands. Overall employment conditions remained stagnant, as over 6,000 workers remain unemployed as 2014 began. When the tourism economy and the HOVENSA oil refinery on the island of St. Croix peaked in 2007, the island-wide unemployment rate was less than 6 percent. As the tourism economy declined and the refinery closed in 2012, the annual unemployment rate in the Territory reached 13.6 percent while averaging 11.7 percent in 2012. While the annual average unemployment rate of 13.4 percent in the Virgin Islands is extremely high, employment conditions have leveled off as the economy recovers from the aftermath of the Great Recession and refinery closure. The total number of filings for initial claims for unemployment benefits is lower in 2013, the lowest level in over five years in the Territory.

For St. Croix, as a direct result of the refinery closure, unemployed workers on the island continue to bear the major economic brunt of the loss in employment in the Territory. The average annual rate of unemployment for St. Croix was over 15% in 2013, after reaching 17.8 percent in January 2013. While the rate of unemployment for St. Croix is well below the January 2013 peak, over 3,000 unemployed workers are currently seeking jobs while others deemed discouraged, have dropped out of the local workforce or pursued employment opportunities outside the Virgin Islands market.

As the unemployment rate continues to remain high in the Virgin Islands, employment opportunities are unfavorable as overall economic activity remains deflated. Current economic indicators show mixed performance as the Virgin Islands economy progressed slightly in 2013. While tourism, business and information services sectors are experiencing minor growth, the refinery closure continues to devastate the Territory's manufacturing and support services sectors.

As the annual average unemployment rate increased in 2012 and continuing into 2013 resulting from the refinery closure and seasonal factors, overall economic growth declined as measured in real or price adjusted Territorial Gross Domestic Product. Territorial GDP decreased 6.6 percent in 2011 followed by a 13.2 percent decline in 2012, as estimated by the U.S. Department of Commerce's Bureau of Economic Analysis ("BEA"). The agency noted the decline in the Virgin Islands economy reflected decreases in refined petroleum product exports and local government spending. The decline in government spending reflects the reduction in tax revenues from the refinery closure and weak recovery of the U.S. economy.

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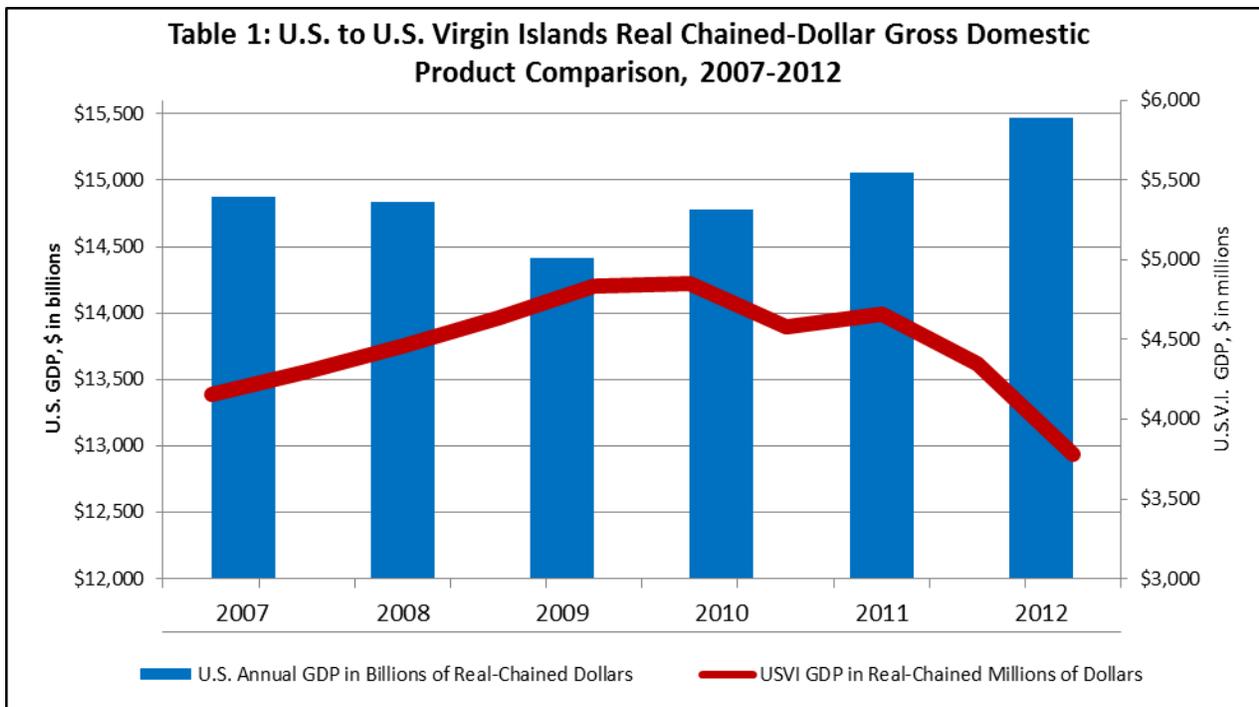
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## Economic Impact of the HOVENSA Refinery Closure and Tourism Decline

With the termination of 1,200 refinery and 950 subcontractor positions at HOVENSA, along with seasonal positions associated with the tourism and trade industries, unemployment has substantially risen in the Territory. At the beginning of 2013, Territory-wide unemployment rate reached 13.7%, and 17.8% on St. Croix, as the manufacturing, and leisure and hospitality sectors declined in addition to marginal construction activity.

The estimated \$580 million shortfall in economic output resulting from the HOVENSA oil refinery closure in 2012 impacted the Territorial Gross Domestic Product. This loss in employment is attributable to manufacturing, leisure and hospitality, construction, and public sectors reduced overall economic output. The contraction of the labor market led to diminished economic expenditures in 2012 and continued into 2013. Table 1 displays the graphical comparison between the U.S. economy and the Virgin Islands economy as measured by real GDP. (*Real GDP is the broadest view of an economy's output, as it adjusts for rising price levels experienced here in the Virgin Islands and determines the changes in the volume of business activity in the economy.*) The table below compares real Territorial GDP with the U.S. GDP from 2007 to 2012.

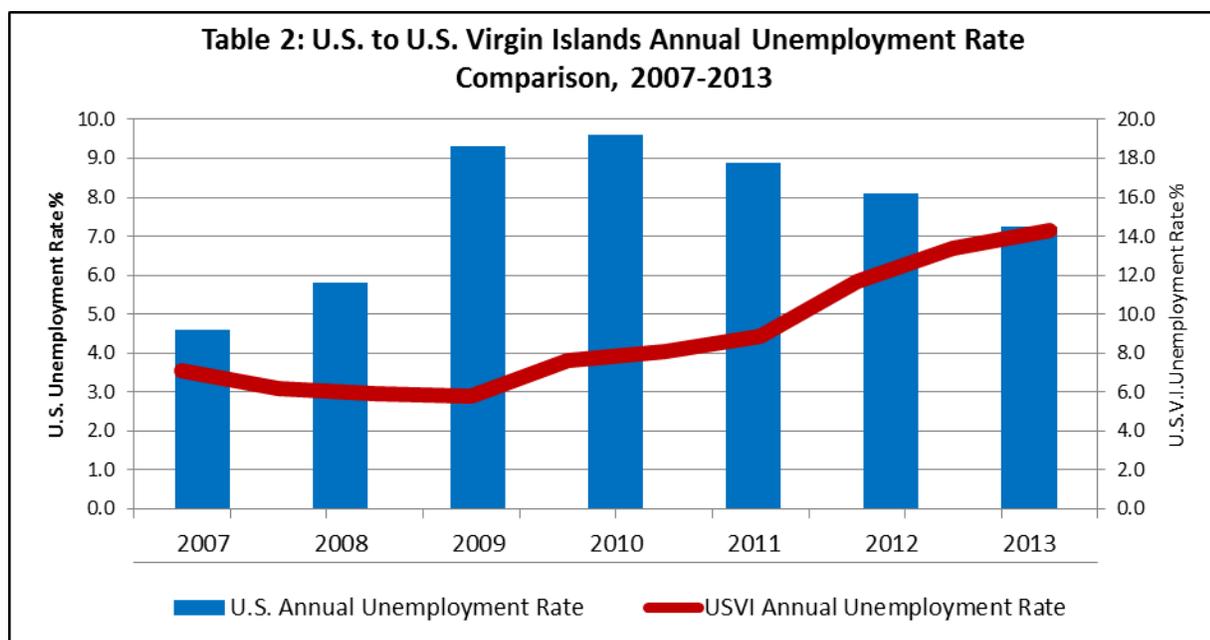


The 2012 Territorial GDP estimate underscores the effect of the oil refinery closure on the territory's economic growth in current and real chained dollars or price adjusted terms. From 2002 to 2008, real Territorial GDP grew at an average annual rate of about 2.9 percent. Real Territorial GDP decreased substantially in 2011 and 2012 as many sectors of the Virgin Islands economy declined with petroleum product exports, crude oil imports, and private investment (including inventory investment) associated with the oil refining industry accounting for much of the year-to-year decline in real GDP. Table 1 compares real Territorial GDP with the U.S., and displays a significant decline in economic output. The U.S. economy is currently growing at 3% on an annual basis. As the global recession took hold, the Virgin Islands economy stalled in 2008 and in

2009 followed by a 1.7 percent increase in 2010. Real GDP decreased 6.6 percent in 2011 and 13.2 percent in 2012. The decrease in real GDP in both years reflected changes in imports, inventory investment, and exports associated with the oil refining processes.

### Employment Impact of the HOVENSA Refinery Closure and Tourism Decline

The Territory’s unemployment rate has steadily increased since the refinery closure in 2012, from an annual average of 11.7 percent in 2012 to 13.4 percent for 2013. The average unemployment rate for the St. Croix district is 15.1 percent for 2013, while the unemployment rate for St. Thomas and St. John district averaged 11.8 percent. While St. Croix unemployment rate peaked at 17.8 percent in January 2013, the unemployment rate for the St. Thomas and St. John district reached 14.2 percent for both September and October of 2013 due to seasonal factors before declining to 12.2 percent by December 2013. Table 2 below compares the Virgin Islands annual unemployment rate with the U.S unemployment rate since 2007.



For many terminated workers in the territory, unemployment benefits have sustained the Virgin Islands economy adding benefit payments totaling over \$14 million annually since the economic decline. The Virgin Islands was confronted with high unemployment and a moderate decline in tourist related visitors beginning in 2012. Combining the HOVENSA oil refinery closure, and meager growth in both air visitor and cruise passenger arrivals to the territory, both having an adverse impact in all sectors of the Virgin Islands employment.

Taking into account geographical and regional factors, research studies confirm future economic growth performance of small island open economies is dependent on the economic performance of its major trading partners. Based on this conclusion, continued economic growth of the Virgin Islands depends on the performance of the U.S. economy. Current U.S. employment conditions are improving and inflation expectations remain low while energy prices continue to decline. Stronger U.S. economic growth in the first half of 2012 led to an 8.6% increase in 2012 air arrivals from 2011. Cruise passenger arrivals declined by 5.2%, over the same time period, as cruise ship calls declined by 4.4%.

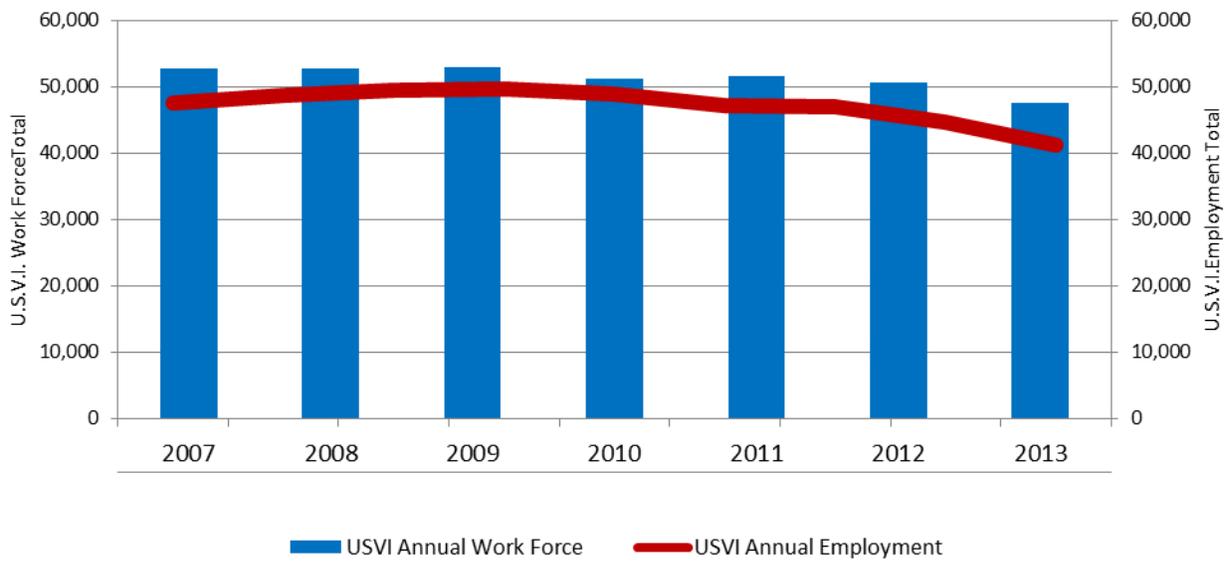
While U.S. economic growth stimulates the Virgin Islands economy, sustainable economic growth is highly dependent upon near-shore capital investments to achieve economic and export expansion and diversification. Recent capital investments including the Virgin Islands Next Generation Network, Research & Technology Park, Economic Development Commission initiatives, St. Croix rum manufacturing partnerships, alternative energy projects, and public and private infrastructure investments are anticipated to expand goods and services sectors within the entire Virgin Islands.

### **Impact of Work Force and Employment Opportunities on Unemployment and Initial Claims**

The U.S. Virgin Islands continues to be affected from three external economic policy occurrences. The US Congress passage of the 2004 JOBS Act, which extended residency requirements and U.S. Internal Revenue Service change in the statute of limitations enforcement. This change resulted in departure of establishments that provided employment and reduced economic development commission beneficiary applications despite the global recruitment and marketing efforts. The subsequent impact of the anemic recovery from the Great Recession compounded with the closure of HOVENSA oil refinery both continue to have a profound impact on the Territorial economy. In addition, the Caribbean region is becoming more competitive as more tourists are travelling to other Caribbean destinations and local businesses are incentivized to relocate to competitive jurisdictions. The cumulative economic impact of these industry shifts curb the territory's economic recovery efforts as diverting business investment and waning consumption trigger lower job demand, and goods and services production.

Unemployment rates in the Virgin Islands remained below the U.S. levels during the onset of the global recession but as the full impact of the recession took hold economic resources declined and unemployment accelerated in all local industries, including government. Table 3 below illustrates the rapid deterioration in the Territorial employment.

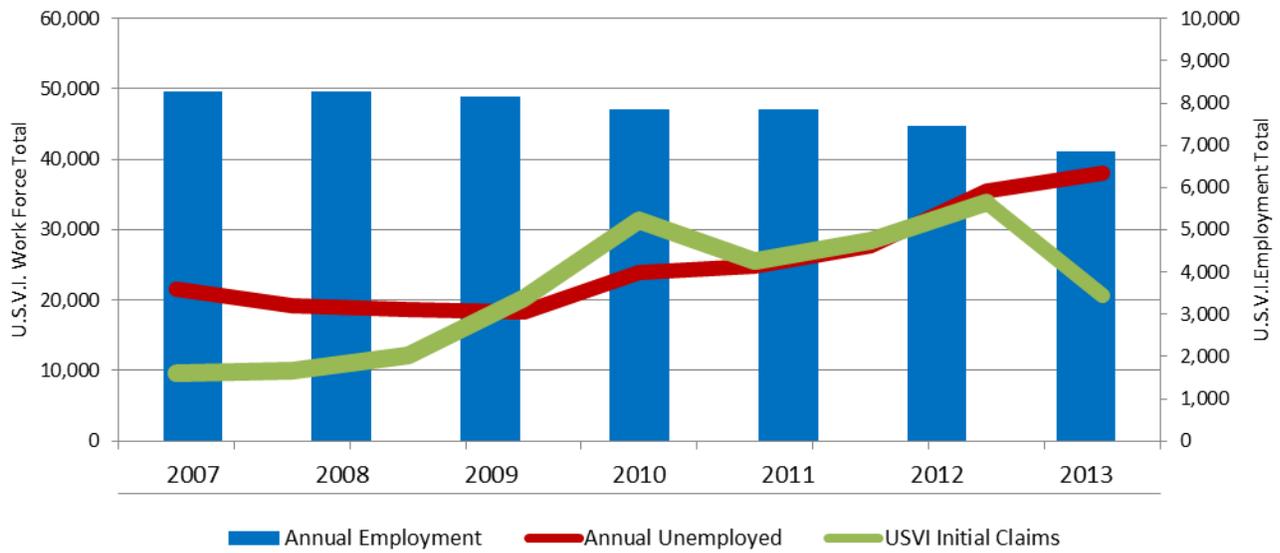
**Table 3: U.S. Virgin Islands Annual Work Force and Employment Comparison, 2007-2013**



From an economic perspective, sustained high levels of unemployment negatively impacts economic growth and have the possibility of reducing economic activity over time. Although unemployment benefits and public assistance programs provide temporary financial assistance, as fewer people are engaged in the labor market earning sustainable wages, or are involved in productive opportunities overall economic growth diminishes. As a result, less currency is circulated within the local economy and results in decreased consumption.

In 2013, initial claims for unemployment benefits declined on an annual basis for the first time since 2009 as shown in Table 4 below. This decline is a result of less individuals filing for unemployment insurance due to reduced working hours, or furloughs from establishments. This leading indicator reflects a turning point in the economic decline experienced over the past four cycles of higher averages of initial claims. Although this new trend denotes the dwindling of job loss, the converse is not as apparent in the job creation with current employment statistics (measure of monthly job creation within a jurisdiction) still down for the same period, despite seasonality. In addition, as a result of the continued slowdown in economic activity, the overall workforce (+16 year population) has in turn declined as job supply continues to outweigh job demand.

**Table 4: U.S. Virgin Islands Annual Employment, Unemployed and Initial Claim for Unemployment Benefits Comparison, 2007-2013**



### Virgin Islands Employment Industry and Average Occupational Salary Distribution

On average, 41,224 persons were employed in the civilian work force for 2013, 18,685 for the district of St. Croix and 22,539 for the St. Thomas and St. John. In Table 5, an average of 38,704 persons was employed in nonagricultural wage and salary jobs in 2013 compared to 40,466 in 2012. Nine in ten of these jobs were in the service-producing industries and one in ten jobs is in the goods producing industries. Government, retail trade, transportation and utilities, and leisure and hospitality are the major industry sectors with the largest number of jobs. These four sectors account for 67 percent of all jobs in the Virgin Islands.

During the period, all facets of employment in both the goods and services producing sector experienced decline. The largest decline however, was in the goods producing side of the economy, and other small firms within the sector that have been impacted by the slowdown. The manufacturing, retail trade, leisure and hospitality, and government sub-sectors all experienced weakness, with the other services and manufacturing impacted based on the loss of the refinery production. This change was slightly offset by marginal growth in the food services, accommodations, and ambulatory health care services. Although these sectors saw change, the overall employment count and change have not resulted in sustained growth in the labor market.

**Table 5: U.S. Virgin Islands Annual Industry Employment Distribution Series, 2009-2013**

Series Code	Industry Title	2009	2010	2011	2012	2013	Series Percent Change	Annual Percent Change
	Total nonfarm	43,750	44,240	43,719	40,466	38,704	-3.0	-4.4
5000000	Total private	30,750	31,157	31,242	28,990	27,681	-2.5	-4.5
6000000	Goods-producing	4,399	4,279	4,151	2,890	2,319	-14.0	-19.8
7000000	Service-providing	39,351	39,961	39,568	37,576	36,385	-1.9	-3.2
8000000	Private service-providing	26,351	26,877	27,091	26,101	25,362	-0.9	-2.8
15000000	Natural Resources, Mining and Construction	2,179	2,091	2,055	1,739	1,647	-6.6	-5.3
30000000	Manufacturing	2,220	2,189	2,096	1,151	672	-23.1	-41.6
40000000	Trade, Transportation, and Utilities	8,420	8,226	8,425	8,483	8,249	-0.5	-2.8
41000000	Wholesale Trade	683	670	683	804	811	4.7	0.9
42000000	Retail Trade	6,124	6,039	6,163	6,199	5,944	-0.7	-4.1
42448000	Clothing and Clothing Accessories Stores	1,552	1,522	1,517	1,521	1,429	-2.0	-6.0
43000000	Transportation and Warehousing	1,613	1,517	1,579	1,481	1,494	-1.8	0.9
43400089	Transportation and Warehousing	1,545	1,461	1,521	1,420	1,424	-1.9	0.3
50000000	Information	777	769	801	804	769	-0.2	-4.4
55000000	Financial Activities	2,458	2,355	2,379	2,276	2,240	-2.3	-1.6
55520000	Finance and Insurance	1,346	1,232	1,210	1,152	1,123	-4.4	-2.5
55530000	Real estate, Rental and Leasing	1,112	1,124	1,169	1,124	1,117	0.2	-0.6
60000000	Professional and Business Services	3,359	3,456	3,536	3,385	3,346	-0.1	-1.2
60540000	Professional and Technical Services	1,199	1,172	1,187	1,126	1,167	-0.6	3.6
60550000	Management of Companies and Enterprises	288	337	359	367	306	2.3	-16.6
60560000	Administrative and Waste Services	1,873	1,947	1,990	1,892	1,873	0.1	-1.0
65000000	Education and Health Services	2,398	2,601	2,622	2,451	2,390	0.1	-2.5
65620000	Health Care and Social Assistance	1,446	1,545	1,624	1,596	1,635	3.2	2.4
65621000	Ambulatory Health Care Services	858	852	878	882	936	2.2	6.1
70000000	Leisure and Hospitality	6,875	7,210	7,372	7,292	7,247	1.4	-0.6
70710000	Arts, Entertainment, and Recreation	878	830	823	854	855	-0.6	0.1
70720000	Accommodations and Food Services	5,997	6,380	6,549	6,438	6,392	1.7	-0.7
70721000	Accommodations	3,520	3,587	3,633	3,617	3,627	0.8	0.3
70721100	Traveler and Longer-term Accommodations	3,447	3,504	3,550	3,534	3,564	0.8	0.8
70722000	Food services and Drinking Places	2,477	2,793	2,917	2,821	2,765	3.0	-2.0
80000000	Other Services	2,065	2,260	1,957	1,410	1,122	-13.1	-20.4
80813000	Membership Associations and Organizations	593	556	540	532	482	-5.0	-9.4
90000000	Government	13,000	13,084	12,477	11,476	11,023	-4.0	-3.9
90910000	Federal	991	962	937	946	952	-1.0	0.6
90920000	Territorial Government	12,009	12,122	11,540	10,530	10,071	-4.2	-4.4

Occupations within the Virgin Islands are detailed in Table 6. Based on the occupational employment survey for the 2012 panel, the entry level annual salaries were \$20,760, mean (average) salaries \$36,920.00, with median (measure where most salaries in survey rank) salaries at \$28,880 ,and experienced (managerial/higher scale) salaries at \$44,740.

On the higher scale, occupations in management, computer and mathematical, legal, healthcare practitioners, and engineering annual salary was at \$34k and up, however these occupations represent a smaller share of the employed. The middle scale occupations of teachers, construction workers, community and social service ranged from \$29-31k at the entry level. At the lower end of the scale, the range in food preparation, sales, office support, and healthcare support is \$18-24k annually.

<b>Table 6: U.S. Virgin Islands Average Occupational Salary Distribution , 2012</b>					
Occupation Code (SOC)	Occupational Title	Entry Level	Mean (average)	Median	Experienced
110000	Management	\$46,154	\$67,884	\$61,150	\$79,357
130000	Business and Financial Operations	\$37,812	\$52,481	\$49,456	\$63,043
150000	Computer and Mathematical	\$34,520	\$55,540	\$46,530	\$69,770
170000	Architecture and Engineering	\$43,330	\$65,430	\$57,390	\$86,750
190000	Life, Physical, and Social Science	\$31,030	\$46,500	\$41,680	\$54,383
210000	Community and Social Services	\$32,735	\$41,657	\$38,433	\$47,512
230000	Legal	\$58,330	\$86,397	\$77,627	\$96,417
250000	Teachers, Librarians and Education Related	\$33,620	\$40,745	\$39,916	\$49,114
270000	Arts, Design, Entertainment, Sports, and Media	\$29,895	\$41,125	\$37,910	\$45,660
290000	Healthcare Practitioners and Technical	\$52,566	\$67,286	\$68,110	\$81,232
310000	Healthcare Support	\$24,867	\$30,657	\$29,623	\$34,683
330000	Protective Service	\$22,447	\$31,250	\$31,030	\$37,440
350000	Food Preparation and Serving Related	\$18,903	\$23,777	\$22,298	\$26,589
370000	Building and Grounds Cleaning and Maintenance	\$20,410	\$25,193	\$23,728	\$28,745
390000	Personal Care and Service	\$19,409	\$23,865	\$22,281	\$26,655
410000	Sales and Related	\$23,907	\$36,588	\$30,390	\$43,241
430000	Office and Administrative Support	\$26,636	\$33,257	\$31,297	\$38,390
470000	Construction Trades and Extraction Workers	\$31,903	\$43,969	\$43,598	\$54,560
490000	Installation, Maintenance, and Repair	\$29,557	\$40,151	\$37,618	\$49,036
510000	Production and Operating Workers	\$24,972	\$37,572	\$34,766	\$48,776
530000	Transportation and Material Moving	\$22,934	\$30,852	\$28,599	\$35,644

The Virgin Islands economy still is impacted from the anemic U.S. economic recovery combined with the loss of the HOVENSA oil refinery. As a consequence, employment and subsequent economic output diminished resulting in reduced Government revenues. While employment and tax revenues were both hit hard, the economic loss extended well beyond the direct impacts. The loss of the primary import and exporting base completely shifted the local product market orientation, and moved the Territory to a primarily local serving economy except in tourist related activities, and minor light manufacturing exports. This shift has impacted all facets of the Virgin Islands economy, as seen in declines of the current employment statistics trends, reduction in taxable wages, and weakened job demand compared to supply. The economy seems to be past the steady decline experienced over the past five business cycles, however, the data reflects the trend to be significantly lower, mostly remaining flat despite seasonality factors that tend to have an uptick during the winter months from visitors' arrivals, and increased commerce during the cycle. In the short to midterm period, this trend is expected to remain the same, with fluctuations primarily derived from cyclical activity of the local economy at the producer and consumer levels. Based on recent infrastructural investments, and planned energy cost containment measures, labor market trends are anticipated to experience a slow paced increase in next two business cycles barring any key economic occurrences.