

First Hawaiian Bank Economic Forecast for Guam and CNMI: Uncertain Times for Guam's Tourism, Military Build-Up

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UNCERTAIN TIMES FOR GUAM'S TOURISM, MILITARY BUILD-UP FIRST HAWAIIAN BANK REPORTS CONCLUDES

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(Hagåtña, Guam, December 5, 2011) – Fallout from the Japan earthquake and ongoing discussions in Tokyo and Washington over the scope and timing of Guam's pending military build-up have created uncertainty for Guam's economic outlook in 2012, a new First Hawaiian Bank economic analysis of Guam and CNMI has found.

The report was prepared for the bank by Dr. Maria Claret M. Ruane, resident development economist at the University of Guam-Pacific Center for Economic Initiatives.

"A year ago, economic signals for Guam were upbeat, but subsequent developments have dampened some of that optimism and generated doubts about short-term prospects for two of the island's main economic drivers, tourism and the military," Dr. Ruane said. "Current and future developments will test the Guam economy and provide it with an opportunity to show its resilience.

In key sectors of the Guam economy, the report noted:

- Tourism was down 4.8% between January and October 2011, owing to the March earthquake in Japan, the main source of Guam's visitors. Fortunately, there has been some rebound in tourist arrivals from Japan since June, other tourist markets show promise and the weakening of the U.S. dollar makes Guam vacations more affordable.
- The terms, size and timing of the long-planned relocation of troops from Japan to Guam have become the subject of increasing speculation due to fiscal problems in Japanese and U.S. governments and a delay in releasing the Master Plan. The Navy Secretary says the plan will likely look "much different" than had been envisioned earlier.
- Employment on Guam is down 1.35% in 2011, with decreases in both private and local government jobs. Unemployment is at double-digit levels.
- The inflation rate inched up from 2010 but continues to be low.
- The real estate market sent mixed signals, with both strong sales volume and large median price declines.

"2011 started off with a lot of promise," Dr. Ruane said. "Tourism looked like it could repeat its strong performance of 2010 when almost 1.2 million tourists visited Guam. The military build-up was relatively on-track; the Record of Decision, signed in September 2010, signaled for many the start of large-scale construction and creation of thousands of new jobs."

Challenges soon emerged, she said:

- The new Calvo-Tenorio administration soon faced a budget shortfall, a hospital struggling to pay for supplies, and several years and millions of dollars of tax overpayments and interest owed to local residents.
- The 2010 Record of Decision appeared to be more a formality than a "go signal" for the military build-up. Tension continued over use of Pagat, a historical and cultural site, as a firing range and training site until the Programmatic Agreement was signed in March.
- Then came the March 11, 2011, earthquake/tsunami in Japan, the primary source of visitors to Guam.

UNCERTAINTY ABOUT BUILD-UP: "Partly as a result of the quake/tsunami in Japan and developments in the U.S. Congress, the terms, size, and timing of the military build-up on Guam might deviate from those spelled out in the 2006 U.S.-Japan Agreement. Much depends on the fiscal health of both governments, which initially agreed to share the cost of

the military build-up on about a 40-60 basis," Dr. Ruane said.

According to Secretary of the Navy Jackalynne Pfannenstiel "the fight over the level of the U.S. budget and alternative military strategies advanced by some members of Congress will likely produce a final build-up plan much different than that reflected by the 2010 Record of Decision."

"While the voice of activism (made visible by We are Guahan) was heard more loudly, those favoring the military build-up also became more visible, including efforts by Para Hita Todu (Making Guam Better . . . Together)," Dr. Ruane said. "Unfortunately, a lack of clear information on timing and details of the build-up created much uncertainty, fueled by increasing criticism and skepticism by Washington."

She noted concerns that the cost of the military build-up is much higher than original estimates (around \$11 billion) and questions about whether the U.S. should bear the cost of upgrading Guam's infrastructure. "U.S.-Japan relations were strained as information was leaked that the \$1 billion highway proposed to connect Andersen Air Force Base in the north and Navy Base in the south was merely a tactic to artificially increase the U.S. share of the cost," she said. "Some aspects of the military build-up remain uncertain, due largely to the delay in the availability of a Master Plan originally expected in July."

GUAM GROSS ISLAND PRODUCT (GIP): The latest estimate of Guam's Gross Island Product is for 2009; according to the U.S. Department of Commerce-Bureau of Economic Analysis, Guam was approximately a \$4 billion economy in 2009, measured in real terms using 2005 prices, translating to real annual income of \$22,293 per person.

GUAM POPULATION: The 2010 U.S. Census estimates Guam's population at 159,358. This translates to a mere 2.9% growth in population from 2000-10, compared to 16.3% growth between 1990 and 2000. "Lower population could reduce Federal funds allocated to Guam, where local government relies heavily on such grants," Dr. Ruane said.

GUAM JOB COUNT DOWN, UNEMPLOYMENT UP: Employment on Guam decreased 1.35% from June 2010 to June 2011, according to the Bureau of Labor Statistics. Both private sector jobs (down 1.77%) and local government jobs (down 1.33%) contributed to the decline. The latest unemployment data from the Guam Department of Labor show a rate of 13.3% in March 2011. Prior to this, the last unemployment estimate for Guam was 9.3% in September 2009. "To make matters worse, the estimate was based on a survey conducted before the Japan disaster," Dr. Ruane noted.

GUAM INFLATION REMAINS LOW: Guam continues to enjoy relatively low inflation. The consumer price index (CPI)-based annual inflation rate for the third quarter of 2011 shows a 3.6% increase, edging up from the rates of 2.9% in 2010 and 1.7% in 2009.

GUAM TOURISM DOWN, BUT SOME MARKETS GROWING: Guam tourism did well in 2010, growing 13.6% over 2009. "2011 started off promising as well in January and February, but March arrivals were impacted by the Japan disaster. Fortunately, there was some rebound in tourist arrivals from Japan beginning in June," Dr. Ruane said.

"How tourism will fare going into 2012 depends on a combination of factors. The continued weakening of the U.S. dollar encourages tourism. Forecasts of sluggish economic growth in Japan, Guam's main market, can have both favorable and unfavorable effects on travel to Guam. On the one hand, leisure travel is a non-essential expense when times are difficult. On the other hand, a visit to Guam is more affordable for many tourists and requires less travel time.

"Forecasts of 4-5% growth in Korea, Taiwan and Hong Kong and 9% for China, along with stepped-up marketing to these tourist markets, can help make up for any decline or weak recovery of arrivals from Japan and the U.S.," she said.

"The merger of United and Continental Airlines will provide passengers to and from Guam access to a more extensive air route network and introduce new aircraft that will allow for an additional 100,000 customers per year."

GUAM REAL ESTATE STILL SHORT OF 2007 PEAK: The market update from Captain Real Estate Group of Companies for the third quarter of 2011 reports "mixed signals" in Guam real estate -- on the one hand, a 42% increase in

sales volume compared to the previous period; on the other hand, median prices plummeting for both single-family dwellings (-25%) and condominium units (-84%).

Real estate transactions on Guam peaked in 2007, with 774 single-family dwellings and 388 condominiums sold. Since then, the market has slowed, with 586 single-family dwellings and 183 condominium units sold in 2010. The latest market update from Captain Real Estate Group of Companies shows the downward trend continuing, with 575 single-family dwellings expected to be sold in 2011.

CNMI ECONOMY STRUGGLING: "The economy of the Commonwealth of the Northern Marianas Islands (CNMI) continues to lack promise," Dr. Ruane said. "Tourism, which has been on a decline for some time, took a turn for the worse as a result of the earthquake and tsunami in Japan, the main source of CNMI tourists. Local businesses face weak demand, a 66% rise in labor costs since 2007 and increased fuel and shipping costs."

In key measures of the CNMI economy, the report noted:

- CNMI's Gross Island Product declined by almost 20% between 2008 and 2009, and by more than 9% on an annual basis from 2002-09. "This translates to a more than 4% annual decrease in per-person real income between 2002 and 2009," Dr. Ruane said.
- Based on preliminary U.S. Census estimates, CNMI's population in 2010 was 53,883, a loss of 22% since 2000.
- CPI inflation for 2010 was 6.4%. Overall, the rate has been increasing since 2007.

CNMI TOURISM: "Unfortunately, tourism in the CNMI trended down for several years, declining 30% from 2005 to 2009 when 353,956 tourists visited CNMI," Dr. Ruane said. This number increased to 379,091 in 2010. Between January and August of 2011, tourism declined 13.8% compared to the same period in 2010.

"As on Guam, the largest factor affecting tourist arrivals to the CNMI in 2011 was the earthquake and tsunami in Japan in March," Dr. Ruane said.

She said reduced flights from Korea reduced the tourist flow from there, but "additional flights and upsizing of airplanes by Asiana Airlines in coming months are expected to lead to a recovery in the number of Korean tourists during the balance of 2011 and into 2012."

CNMI MINIMUM WAGES: As a precursor to implementation of the Federalization Law in 2009, CNMI minimum wages have increased significantly since 2007, from an hourly rate of \$3.05 to the current \$5.05. The original plan was to increase the minimum by \$0.50 every year until it reaches the prevailing Federal level (currently \$7.25) by 2015.

"Many local businesses have struggled with the 66% wage increase since 2007 while facing weak product demand and low revenues," Dr. Ruane said. The planned September 2011 increase was postponed and "there is support for postponing future increases until the CNMI economy is able to accommodate such changes," she said.

A June 2011 study by the U.S. General Accountability Office found that:

- Employment in all sectors in the CNMI decreased by 13% from 2008-2009, while employment in tourism decreased by 8%.
- Earnings of all employed during 2008-2009 increased by 3% above and beyond the inflation rate for that year, while earnings by minimum-wage earners who kept their employment and work hours in 2008-2009 increased by 9%.
- 73% of those working in tourism had an increase in wages following the September 2010 minimum wage increase.
- By early 2012, tourism employers representing 62% of workers have plans to lay off workers, although none indicated the action to be a result of minimum wage increases.
- CNMI workers surveyed indicated that they would like raises but worry about losing their jobs or reducing their work hours.

First Hawaiian Bank with \$15.4 billion in total assets was founded in Hawaii in 1858 and is the leading bank on Guam

with the largest share of loans and deposits in the region. The bank operates 58 branches in Hawaii, three on Guam and two on Saipan.

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