

## Guam 2013 Economic Forecast Better than Last Year, First Hawaiian Bank Report Concludes

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### CNMI: Strength in Tourism; Federalization Outlook Uncertain

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(Hagåtña, Guam, July 15, 2013) – This year is promising to be at least as favorable for Guam's economy as 2012 – and potentially a better year -- with tourism at levels not seen this century and prospects for the long-planned military build-up more certain, a new First Hawaiian Bank economic analysis of Guam and the 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. Key findings:

**Tourism:** A total of 1.278 million visitors came to Guam in 2012, up 12.81% over 2011 to a level not reached since 1995-1997. "In 2013, visitor arrivals are up more than 5% through April compared to the same period last year, suggesting this year will top 2012's total despite some challenging events," Dr. Ruane said.

**Military Build-Up:** "Despite a six-year delay in the transfer of 5,000 U.S. Marines from Okinawa to Guam (now expected around 2020), many in Guam believe recent developments provide more certainty that the military build-up *will* happen," she said. "Guam policymakers have told both U.S. and Japanese officials that the lack of upgrade to civilian infrastructure will be the primary obstacle to the military build-up in Guam."

**Inflation:** "Guam continues to enjoy another year of low inflation with little threat of increase in the near future," she said. The CPI-based annual inflation rate was 3.2% in 2012 and only 0.7% during the first quarter of 2013 compared to the same quarter a year earlier.

**Real Estate:** "Not counting one-time sales, mostly in commercial property related to tourism, rebound in the real estate market is not likely to happen until the military build-up commences," Dr. Ruane predicted.

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### Jobs Higher; Unemployment Lower

Employment on Guam increased 1.35% from March 2012 to March 2013, according to the Bureau of Labor Statistics. "Better yet, this resulted from increased jobs in the private sector offsetting decreases in public sector jobs, including both federal and local governments," Ruane said, noting that the share of jobs provided by the private sector rose from 68% in 1994, this to almost 75% now, "a welcome development that increases the resilience of the economy."

Estimated unemployment dropped from 12% in June 2012 to 10.7% at year-end. "This decline presented a mixed picture because it combined a decline in the number of individuals unemployed (good news) and an increase in the number choosing not to enter the labor force (potentially bad news)," Ruane commented.

### Tourism Arrivals Continue to Rise

Guam tourism had 1.278 million visitor arrivals in 2012, up 12.81% over 2011. In 2013, arrivals for January to April are up by 5.41% compared to the same period last year, a remarkable rise given:

- The stabbings in Tumon on February 12, which resulted in the deaths of three tourists and injury to nine more, all from Japan.
- Uncertainty caused by nuclear threats from North Korea.
- Weakening of the Japanese yen vs. the U.S. dollar.

Ruane noted that Guam continues to rely on Japan for about 70% of its visitors with the share from Korea rising to nearly 16%. She predicted "strong prospects" for tourism from Russia and also from China if the Visa Waiver for Chinese visitors is approved by Washington.

She credited some of the growth to increased airline capacity by United and Delta Airlines and noted that "more affordable flights between Guam and southern Japan will be available when budget airline StarFlyer begins operating in August and airlift to the Philippines will be increased by Cebu Pacific's entry to serve Guam."

She praised efforts by the Guam Visitors Bureau to use a new slogan for specific markets including Japan, Korea, Taiwan and the Philippines.

Ruane said hotel occupancy is holding strong so far in 2013 with higher room rates. "The weighted average of nightly room rates was \$121 for January-March 2012, increasing to \$134 for January-March 2013. Hotel tax collections between January and March 2013 were estimated at \$11.2 million, up almost 6% from the same period last year," she said.

Looking ahead, economic factors such as tourists' incomes and the U.S. dollar cost of visiting Guam, measured by the exchange rate between their currencies and the U.S. dollar, will affect the performance of Guam's tourism industry.

She expressed concern about the impact of the weaker Japanese yen, noting that "Guam businesses wonder when and by how much the weaker yen would reduce Japanese visitors' spending in the short run and the number of Japanese visitors in the long run."

She said her own new research "suggests that it would take one year before the decline becomes visible, consistent with the fact that most Japanese visitors plan their vacation well in advance." She suggested a possible loss 159 Japanese visitors per month for every 1 yen weakening. "For example, since the dollar has strengthened by 25 yen since last year, Japanese visitors to Guam would decrease, on average, by 3,975 per month or 47,700 for the year -- approximately 5-6% in total Japanese arrivals."

Fortunately, she said, currencies in Guam's other important markets (Korea, China, Russia are strengthening against the U.S. dollar, "keeping their visits to Guam affordable." The Asian Development Bank forecasts are positive in the near term for Guam's tourist markets in Asia.

### **Military Build-Up: Positive Signs**

Military testimony to the U.S. Congress has revised the timeline for the planned military build-up, with anticipated movement of 5,000 U.S. Marines and 1,300 dependents from Okinawa changed from 2014 to 2020, she said."

Details of the realignment plan call for Japan to provide \$3.1 billion while the remaining \$5 billion-plus would require U.S. Congressional approval.

### **Real Estate: Still Well Down from 2007 Peak**

Guam real estate transaction volume peaked at nearly \$700 million in 2007, shortly after the initial military build-up news in 2006, but "declined sharply to the low \$300 million range in 2010 and 2011, she said, quoting industry experts. The residential sector continued to decline last year, but "during the first quarter of 2013, both residential sales volume (\$40.3 million) and the number of residential sales transactions (189 units) were up compared to the first quarter of 2012," Ruane said.

Based on data provided by Siska S. Hutapea, President of Cornerstone Valuation Guam, Inc., the median price for single-family dwellings decreased around 12% from \$245,000 in 2011 to about \$217,000 in 2012. The median price for condominium units increased in 2012 by 6% to about \$141,000 from \$133,000 a year earlier. For the first quarter of 2013, the median prices for single-family dwellings and condominiums were \$185,000 and \$126,000, down 18% and 11% respectively compared to the first quarter of 2012.

Hutapea stated that, in general, Guam real estate is expected to continue its slow pace until the military build-up-related activity starts in 2015.

### **CNMI Economy: Strength in Tourism; Federalization Outlook Uncertain**

"The strong performance of tourism in 2012 creates the expectation of a slowly recovering economy and modest increases in CNMI Gross Island Product," Ruane said. "That positive trend appears to be carrying over to 2013, despite lingering uncertainty related to the effects of the U.S. Federalization Law on the CNMI – including an upcoming scheduled increase in minimum wage and approaching deadlines with regard to the status of foreign labor and investments."

"After a challenging year in 2011 with a 10% decline in visitor arrivals, CNMI tourism made a remarkable turnaround in 2012, posting 17.4% growth," Ruane said. "Estimates of visitor arrivals for January-March 2013 are up 7% from the same period in 2012. The Marianas Visitors Authority forecasts 456,417 visitors will come to CNMI in 2013 the most since 2004-2005 before Japan Airlines ceased serving the market. That would be a 14% increase from 2012."

She noted a hotel occupancy rate above 90% in February 2013 with hotel room rates averaging above \$125 in January. "In addition, there have been shortages in flight seats during peak seasons. But these are the kind of problems that many local businesses, residents and policymakers welcome," she added. "CNMI will become more accessible to its main tourist markets through the additional of regular and charter flights by airlines already serving the market as well as the entry of new airlines."

Minimum wages in the CNMI have increased from \$3.05 per hour in 2007 to the current \$5.55, she said, with another 50-cent increase scheduled on September 30, unless the U.S. Congress intervenes. Recently, she said, CNMI Congressional Delegate Gregorio Kili Sablan and other territorial delegates introduced legislation to delay the upcoming wage increase for a year.

The same bill seeks a five-year extension of the phase out of the "CW" visa category (a CNMI-only transitional worker visa), introduced to transition the CNMI's labor permit system to the U.S. foreign worker visa system, Ruane said.

"For years, the CNMI community has been divided on the merit of the extended transition period," Ruane said. "Some hope that the five-year extension would allow time to train and develop enough local workers to prepare for when the U.S. federal immigration law applies to CNMI in full force, fully eliminating the CW-1 visas and replacing them with H-2 visas. H-2 visas would be subject to federal quotas which may not reflect the foreign labor needs of the CNMI (and, for that matter, Guam when the military build-up commences). Others view the extension as a way to continue reliance on foreign labor and delay preparing the local labor force."

The bill in Congress also seeks continued use of the E2-C visa classification for foreign investors in the CNMI so long as the transition period is extended. This CNMI-only transitional visa for investors was also introduced in 2009 to lessen potential effects of the federalization law on CNMI's economy.

First Hawaiian Bank (fhb.com) with assets of \$16.4 billion was founded in Hawaii in 1858. It opened its first Guam branch in 1970, over 43 years ago, and has become today the region's largest deposit bank and leading lender. As a financial industry leader in profitability, loans and deposits, First Hawaiian Bank has been helping individuals, families and businesses achieve their financial goals for over 154 years. The bank operates 57 branches in Hawaii, three on Guam and two in the CNMI.