

First Hawaiian Bank 2015 Guam Economic Forecast Report: Guam Posting Fourth Straight Year of Stable Growth in 2015; Positive News for Tourism, Military Reblance and Real Estate

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CNMI Sustaining Growth Momentum

(Hagåtña, Guam, June 29, 2015) – “Guam’s economy is in its fourth consecutive year of growth in 2015, thanks to promising developments in its main economic drivers -- tourism, federal spending (including military spending) and real estate,” a new First Hawaiian Bank economic analysis says. The report on the economies of Guam and the Commonwealth of the Northern Mariana Islands (CNMI) was prepared for the bank by Dr. Maria Claret M. Ruane, resident development economist at the University of Guam-Pacific Center for Economic Initiatives.

Ruane said, “Guam’s low inflation, low unemployment, modest job growth and increased spending are expected to continue through 2015.” Her report’s key findings:

- **Tourism:** “Guam's visitor arrivals total in 2014 was the highest since 1997, and 2015 is expected to be even higher. Better yet, gone are the days when arrivals were dominated by Japan. Today’s Guam visitors represent a more diverse market, with especially strong growth from Korea.”
- **Military Realignment:** “After long delays and false starts, U.S. military plans to bring thousands of Marines and their dependents to Guam are coming to fruition, pending release of the Final Supplemental Environmental Impact Statement and Record of Decision, both expected this year. Military spending has increased this fiscal year while proposals for next year’s spending appear to be getting support within Congress.”
- **Real Estate:** “After years of slow growth, the real estate sector began firming up in 2014 and is off to a strong start in 2015, especially in condo sales.”

DETAILS OF THE REPORT

Tourism -- More Visitors, More Diversity: Guam welcomed 1.343 million tourists in 2014, exceeding the previous year by 0.64 percent and the highest total since 1997, before the Asian Crisis years, Ruane noted. She added: “This strong performance is even more impressive in light of the stronger U.S. dollar against visitors’ currencies in 2014.”

She noted that Guam tourism has been shifting away from Japan alone and toward other markets, with Korea (up 25 percent in 2014 to 308,000) and China (45 percent increase) the fastest-growing tourist markets in 2014. Korean visitors represented almost 23 percent of the total (up from 18 percent a year earlier) while Japan’s share decreased to 60 percent from nearly 67 percent, she said.

Access from Korea has been increased by additional seating capacity in the pipeline from United Airlines, Jin Air and Jeju Air. T’way Air, another low-cost airline from Korea, plans to launch daily Seoul-Guam flights in July. “These developments make the Guam Visitor Bureau’s target of 375,000 visitors from Korea fiscal year 2015 achievable,” Ruane said.

She noted that the visitor count from China remains small, but increased from 0.84 percent in 2013 to 1.21 percent in 2014. “The new reciprocal visa arrangement between the U.S. and China extending short-term visas is likely to boost visitor arrivals from China” Ruane said. Also adding to optimism is United Airlines’ launch of Shanghai-Guam flight in October, she said, along with charter flights by Dynamic Airlines during the Chinese Lunar New Year.

Taiwan’s and Hong Kong’s shares of the visitor count held steady last year, but arrivals from Taiwan during Chinese New Year grew, thanks to China Airlines doubling its Taipei-Guam flights (to four weekly) in February. “The number should increase further once Taiwan-based TransAsia Airways pushes launches more Taipei-Guam service in the second half of 2015,” she said.

Ruane said prospects for growth in the Russian market have dimmed due to continued conflict in Ukraine and the steep decline in the value of the ruble.

“For 2015, visitor arrivals between January and April were up 1.9 percent compared to a year ago. The rest of the year is expected to see more visitors to Guam than during 2014, moving closer to the GVB’s *Tourism 2020* vision of 2 million visitors by 2020,” Ruane said.

“Although hotel occupancy stood at 75 percent in 2014, same as 2013, the weighted hotel room rates increased from \$134 to \$149, leading to a 14 percent increase in hotel taxes due to GovGuam from \$38 million to \$43 million. Data for the first quarter of 2015 show hotel occupancy down to 81 percent from 88 percent during the same months in 2014. However, average room rates rose from \$155 to \$164 and hotel tax revenues are up 18 percent,” she said.

Ruane noted the following steps being taken to grow Guam’s tourism infrastructure:

- Lotte Hotel began offering 222 rooms in July 2014.
- Dusit Thani Guam, opening in June, has 419 rooms and the largest meeting space available in Guam.
- Ladera tower, currently a condominium, plans to convert into a hotel.
- Core Tech plans to complete the 280-unit Emerald Ocean View project.
- Ken Corp.’s 348-room hotel expects to begin construction next year.

She said prospects for Japan’s economy continue to be slow, but stronger growth is anticipated in 2015 for other key tourism markets – Korea, Taiwan, Hong Kong and China.

“The U.S. dollar strengthened against currencies of Guam tourists, which might have slightly dampened the 2014 visitor count. The 9 percent decline in Japanese visitors in 2014 was largely due to the weaker yen,” Ruane said. So far this year, however, “currencies of visitor markets have either stabilized or began gaining strength against the U.S. dollar,” a positive trend for Guam tourism.

Military Realignment Falling into Place: The Record of Decision on the plan to relocate 5,000 U.S. Marines and family members from Okinawa to Guam (also referred to as military realignment or rebalance) is expected later this year, Ruane noted, following release of the Final Supplemental Environmental Impact Statement (SEIS). The draft SEIS in April 2014 put the cost of the U.S.-Japan military realignment in Guam at \$8 billion, with about \$3 billion to be shouldered by the Government of Japan.

“Other developments in the past year suggest that the military realignment in Guam is coming to fruition,” Ruane said. Congress authorized \$162.4 million in military construction projects in Guam this fiscal year and, for fiscal year 2016, President Obama requested nearly \$267 million for military construction in Guam to support the Marine realignment and bolster Guam’s strategic importance in the Asia-Pacific region, she said.

‘Positive Hints’ for Real Estate Market: After years of slow real estate activity in Guam, Siska S. Hutapea, President of Cornerstone Valuation Guam, Inc., finally saw “hints of positive years to come... including the return of off-island buyers ... from Taiwan.” Data provided by her company show sales of residential units increased 13 percent between 2013 and 2014, Ruane said, mostly driven by sales of condominiums, up nearly 58 percent. The median sale price was up 4.5 percent in 2014, with the median for condominiums up 18 percent. Increases in sales of single-family dwellings were more modest, Ruane said, with unit sales virtually flat and a 6 percent increase in the median price.

“Real estate activities are off to a strong start in the first quarter of 2015,” Ruane said, with sales of single-family dwellings up 15 percent and condo sales rising 54 percent. Condominiums’ median price rose 14 percent during the quarter from \$156,200 a year earlier to \$178,500. Median price for single-family dwellings increased slightly from \$193,500 to \$195,000.

Modest Jobs Growth, More Hiring Planned: Data from the Guam Department of Labor-Bureau of Labor Statistics

show a 1 percent growth in employment in Guam in 2014 following a flat year in 2013. Contributing most to the growth in 2014 were Federal sector jobs, up 2.7 percent, Ruane said.

“This year is doing well in terms of job growth. The Dusit Thani Guam resort hotel, expected to open in June, has hired about 250 people and expects to fill another 100-150 positions,” Ruane said. “The private Guam Regional Medical City hospital plans to eventually hire up to 700 people, and 75 percent must be U.S. citizens or permanent residents as required by tax abatements given to the hospital over the next 20 years.”

The latest Guam unemployment number, 7.4 percent in March 2014, is the lowest since 2006, Ruane said, though the rate “masks the persistently high number of people who do not participate in Guam’s labor market – 40 percent of the civilian population or 31 percent of Guam’s total population.”

She said data from the Guam Bureau of Labor Statistics for December 2014 show the following average hourly pay rates -- private sector jobs, \$13.20, up 3.37 percent from a year earlier; GovGuam jobs, \$22.07, up 2.65 percent. Federal government data for May 2014 show an overall average rate of \$16 in all occupations, she said. The minimum wage increased from \$7.25 to \$8.25 per hour effective this year, Ruane noted.

Low inflation in 2014: “Inflation stayed low at 0.80 percent in 2014. So far, this year poses no inflation threats, with the latest figure showing overall prices in Guam during the first quarter 0.3 percent lower than the same quarter in 2014.

CNMI Sustaining Growth Momentum

“The economy of the Commonwealth of the Northern Mariana Islands (CNMI) has been sustaining its growth momentum,” Ruane said, citing these key developments:

- Sustained growth in tourism, plus construction of new hotels and a casino in Saipan.
- Lower uncertainty with Federalization: no minimum wage increase this year and visa transition period extended to 2019.
- Job growth. A recent report by the CNMI Department of Labor shows 826 job openings posted during the first quarter of 2015.
- Military plans for Tinian and Pagan have been revealed and are currently under public review.

“These developments, especially in tourism, combined with U.S. Federal spending as well as military activity already in place fuel economic optimism for 2015,” Ruane said.

Tourism: “As expected, strong tourism has been driving economic growth in the CNMI, with three consecutive years of growth in arrivals since 2011, the last down year.” Major sources of visitors last year were China (37 percent), Korea, (31 percent) and Japan (24 percent). The decline in Japanese tourists was made up for by an increase in tourists from China, she noted.

“The first quarter of 2015 brought 6.1 percent more visitors than the same months of 2014,” she said, with major increases from Korea and China compensating for significant drops from Japan and Russia. “The main factor in these trends appears to be airline seat availability combined with promotional efforts by the Marianas Visitors Authority and its partners,” she added.

Consumer spending: “A gauge of the increased spending by tourists and local residents alike can be seen from merchant credit and debit card activity processed by First Hawaiian Bank. Same-store card spending increased nearly 11 percent in the CNMI during 2014. The latest data shows card spending activity to be up 4.3 percent for the first quarter of 2015.”

Federalization process: “This year brings more certainty and, to some extent, stability with regard to CNMI’s Federalization process,” Ruane said. “First, 2015 is the second of the two-year delay in minimum wage increases, leaving the current minimum at \$6.05 per hour.”

She noted that changes to immigration policies have also been delayed. As a result, CNMI-only transition visas for foreign workers (CW-1) are now valid through 2019, allowing local businesses to renew visas for these workers or apply for the first time to hire foreign employees subject to the annual federal limit, which will be 13,999 for fiscal year 2016. “This limit will drop to zero as the CW-1 visa category is phased out after 2019. During that time, local businesses employing foreign workers in the CNMI will have to compete with businesses in the U.S. to apply for H1-B and H2-B visas, subject to annual quotas set by the U.S. Congress.”

The CNMI-only non-immigrant investor visa (E-2C), which reduces the minimum required investment (\$50,000 vs. \$150,000) by foreign investors to reside in the CNMI, is now valid until December 2019, Ruane said.

U.S. military plans: “Some uncertainty exists with regard to U.S. military plans in Tinian and Pagan. As part of the U.S.-Japan military realignment that includes Guam, the U.S. military proposes to locate a live-fire training range in Tinian and Pagan,” Ruane said. “There appears to be strong and vocal opposition to the proposal, with particular concern about use of mortars and grenades. Even the Saipan Chamber of Commerce plans to change its earlier, more supportive position.”

The final Environmental Impact Statement and decision on the proposal is scheduled for 2016.

First Hawaiian Bank (FHB.com) with total assets of \$18.7 billion was founded in 1858 and has been serving the Guam region for over 45 years. The bank operates 57 branches in Hawaii, three in Guam and two in the CNMI.