

First Hawaiian Bank Report: Guam's Economy is Stable, Resilient, Promising

June 30, 2014 3:12 PM ET

CNMI: Tourism Strong, Saipan Casino Planned

[View 2014 Guam-CNMI Economic Forecast \(pdf, 537.0 kb\)](#)

(Hagåtña, Guam, June 30, 2014) – "Guam's tourism industry last year welcomed visitors in numbers not seen since the mid-1990s, and from an increasingly diverse list of markets. The long-awaited military realignment, which would transfer thousands of troops and dependents from Okinawa, is coming into clearer focus.

"These and other factors, including low or nonexistent inflation, make 2014 a promising year for Guam, whose economy has been stable and resilient since 2002."

These are among major conclusions of a new First Hawaiian Bank economic analysis of Guam and the Commonwealth of the Northern Marianas Islands (CNMI) prepared for the bank by Dr. Maria Claret M. Ruane, resident development economist at the University of Guam-Pacific Center for Economic Initiatives.

The report's key findings:

Tourism: "2013 was another solid growth year for tourism in Guam, with 1.334 million visitors, a level not seen since 1995-97. This demonstrates the resilience of tourism, thanks in part to increased diversification; the lower Japanese visitor count was more than made up for by more visitors from other markets. For 2014, early data show arrivals virtually flat (down 0.6 percent) from January to April compared to 2013."

Military Realignment: "Release in April of the draft Supplemental Environmental Impact Statement indicates progress on the military realignment in Guam, though it would be at a reduced size and pace and pending resolution of the issue on how protect wildlife near the Department of Defense's preferred location for building a firing range complex."

Inflation: "Guam enjoyed zero inflation in 2013, continuing very low into early 2014. Barring drastic hikes in global fuel prices, inflation is not likely to be a concern in the near future."

Real Estate: Except for a few "hot spots" in commercial sales, many driven by strong tourism, Dr. Ruane said, 2013 was not the best year for the Guam real estate market. "Residential median prices were lower than in the last three years. In light of new information showing the reduced size of military relocations from Okinawa, it is not clear how much boost the real estate market will get from the realignment," she said.

DETAILS OF THE REPORT

Gross Island Product: "This year is an opportunity to showcase Guam's economy as stable and resilient," Dr. Ruane said. "Estimates show Guam's Gross Island Product (GIP) holding steady at around \$4 billion every year from 2002-2012 (the last figure available). Some local leaders see an economy that is lukewarm; others see it as evidence that the economy is stable despite recurring challenges, many caused by outside factors. That Guam holds its ground shows it to be resilient, indeed!"

Credit Card Spending: First Hawaiian Bank, largest local processor of credit and debit card transactions in Hawaii, provides merchant services to nearly 7,000 customers throughout Hawaii, Guam, and CNMI. The bank's Business Activity Report, which tracks card spending for 11 economic sectors, shows card spending on Guam up 5 percent for the first quarter of 2014, compared to the first quarter of 2013.

Jobs, Unemployment: "Employment on Guam was flat in 2013, with a small growth of private sector jobs almost balanced by a decrease in the Federal and Local (GovGuam) government sectors," Dr. Ruane said. "In 2013, the private

sector made up nearly 75 percent of all jobs, with the Federal Government (6.47 percent) and GovGuam (18.71 percent) the remainder. The most recent (September 2013) unemployment rate of 10.0 percent was the lowest since 2011.

Tourism: "For 2014, although visitor arrivals between January and April were flat compared to the same period last year, it is too early to predict the overall figure for the entire year," Dr. Ruane said.

She noted that the visitor industry has done well to weather the effect of the weakened Japanese yen. "The weaker yen since September 2012 reduced Japanese visitors to Guam by 3.89 percent in 2013, but the industry held strong by welcoming more visitors from other markets, especially Korea. Indeed, Guam tourism is more diversified and less dependent on Japanese visitors than it has been in decades," she said.

"With stepped-up efforts by the Guam Visitors Bureau (GVB), plus support from the government, business sector and island community, 2014 is likely to see another increase in visitor arrivals -- from a larger number of countries, further diversifying the market," Dr. Ruane predicted.

She noted that the GVB projects another 20 percent increase in Korean visitors this year, on top of striking 34 percent growth in 2013.

Another growing market is China, which posted 25 percent growth in 2013. "GVB leaders consider the increase in Chinese visitors to be a game-changer, possibly attracting five-star hotels to Guam. While the Four Seasons and Shangri-la hotels are currently not interested in Guam, GVB Board Chairperson Mark Baldyga stated that these chains would reconsider once the Chinese visitor count increases," Dr. Ruane said. "These fast-growing markets combined to more than make up for the lower number of Japanese visitors."

Federal/Military Sector: "One of the most important developments with regard to the military realignment was the release of the draft Supplemental Environmental Impact Statement (SEIS) on April 18. Following a public comment period, the Navy anticipates issuing a Record of Decision in 2015," Dr. Ruane said. "The SEIS draft reflects favorable resolutions to many concerns expressed by Guam residents when an earlier Environmental Impact Statement was released in 2010." She noted that the new analysis shows:

- "A smaller surge in military population, dependents, and foreign construction workers;
- "A reduction in demand on Guam's civilian infrastructure;
- "Acquisition of more lands in Guam is projected to no longer be required; and
- "Pagat, a cultural site of large significance to Guam, is no longer among alternatives considered for the live-fire training range complex (LFTRC).

"However, the draft SEIS revealed the Department of Defense's preferred location for the training range to be within the Andersen Air Force Base in the Northwest Field, an area that sits above the Ritidian Wildlife Refuge. Discussions are ongoing on options to protect this refuge, and the issue is currently the main obstacle to proceeding with the Record of Decision in March 2015, which would affect future funding for the military realignment in Guam," she added.

Real Estate: The report quotes Siska S. Hutapea, president of Cornerstone Valuation Guam, Inc., describing the island's 2013 real estate sales picture as "flat lining with few hot spots...the residential market experienced another quiet year, with pressure on prices that reduced the median price."

Data provided by Cornerstone Valuation Guam show the median price on all residential units sold in 2013 was \$191,350, down 4.8 percent from \$201,000 in 2012, with reductions in the median prices of both single-family dwellings and condominiums.

For 2014, data for the first quarter show median prices for single-family dwellings at \$193,500, up from \$185,000 for the same quarter of 2013. Similarly, median prices for condominiums rose to \$156,200 for the first quarter 2014 compared to \$125,750 during the same period last year.

CNMI: Strong Tourism, Saipan Casino Plans, 'Federalization' Worries

Dr. Ruane's analysis of the economy of the Commonwealth of the Northern Mariana Islands said key developments affecting the CNMI in 2014 include:

- "Continuing solid growth in tourism;
- "Settlement of a lawsuit concerning the under-funded CNMI Retirement Fund;
- "A new law authorizing a casino on Saipan, and
- "A pending minimum wage increase and changes to U.S. visa requirements for foreign workers and foreign investors.

CNMI Tourism: The Commonwealth of the Northern Mariana Islands (CNMI) continues to attract an increasing number of visitors, she said, with 17 percent growth in visitor arrivals in 2012, and another strong year in 2013, with 438,775 visitors and 9.6 percent growth. "Data for 2014 show promise, with 82,992 visitors arriving in January and February, up 6.75 percent from a year earlier," she noted.

More than 90 percent of CNMI visitors last year came from Japan (32 percent), Korea (32 percent) or China/Hong Kong (27 percent). "Compared to 2012, the share of visitors from Japan decreased from almost 38 percent while the share from China and Hong Kong increased from 21.5 percent. The share from Korea held steady around 32 percent of the total in both years," Dr. Ruane said.

The increase pushed up both hotel room rates and occupancy and "has generated a strong demand for accommodations. President Nick Nishikawa of the Hotel Association of the Northern Mariana Islands said the CNMI needs 1,000 more rooms," Dr. Ruane said.

CNMI Retirement Fund: "For years, solvency issues faced by the CNMI Retirement Fund have added uncertainty to the island economy. If nothing changed, the fund would have become insolvent this year," Dr. Ruane observed.

The issue came to a head with filing of a class action lawsuit against the government and fund which was settled last year, paving the way for retirees to receive 75 percent of their pensions. "The amount required to pay for the settlement required revision of the CNMI government budget, created pressure to legalize casino gambling in Saipan, and authorized the Commonwealth Development Authority to float a pension obligations bond," Dr. Ruane said.

The new law legalizing casino gambling in Saipan (it is already legal in the islands of Rota and Tinian) passed despite opposition from the Saipan Chamber of Commerce. The law would award to investors an exclusive license to operate a casino hotel in Saipan in exchange for a \$1-million application fee which was due by April 21 and a \$30-million payment for license fee which was due in escrow by May 5. CNMI Governor Eloy S. Inos vowed to use this \$30 million to restore the 25% cut in retirement benefits called for by the lawsuit settlement. The law requires a \$2 billion total investment to pay for construction of 2,000 hotel rooms and related facilities.

"By this spring's deadline, two applications (from Best Sunshine International, Ltd. and from Marianas Stars Entertainment Inc.) were received, along with a \$1 million fee from each applicant, Dr. Ruane said. "However, to date, only Best Sunshine remains in consideration since Marianas Stars did not pay the required \$30 million in escrow. Recently, Best Sunshine revealed its four-phase business plan for its casino hotel, with a grand opening in 2020. The first phase includes a 401-room hotel and casino to be built in 2017-2018."

'Federalization' Deadlines: The CNMI has been transitioning since 2007 toward a tighter relationship with the United States, a process referred to as "Federalization." This year marks another round of increase in CNMI's minimum wage effective September 30. More important is the approaching deadline for the use of CNMI-specific foreign labor and investor visa categories, which will be aligned with U.S. immigration laws after December 31. Minimum wages in the CNMI have increased from \$3.05 per hour in 2007 to the current \$5.55. The next \$.50 increase is expected in September 2014. "The CNMI economy continues to hang on a balance, with the pending minimum wage increase and the deadline with regard to CNMI-specific visa categories for hiring foreign workers (CW-1) and attracting foreign investors (E2-C),"

Dr. Ruane said. "This deadline can be extended by the Labor Secretary (for CW-1 visas), a decision that was already made but not yet announced, or by Congress (for both CW-1 and E2-C visas)."

Inflation Decreases: "Inflation continues to decline in the CNMI and was almost non-existent in 2013," Dr. Ruane said. "Overall CPI prices in Saipan rose a mere 0.1% during the Fourth Quarter of 2013 compared to the Fourth Quarter of 2012."