

Guam Economic Outlook is Favorable and Improving, First Hawaiian Bank Report Concludes

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CNMI: Positive Signs, Though Uncertainty Remains

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(Hagåtña, Guam, November 19, 2012) – "In many ways, 2012 has proved to be better than 2011 for Guam's economy. Some optimism has returned and, although it is not at the same level as it was in 2010, it probably is more in tune with reality," a new First Hawaiian Bank economic analysis of the Territory and the CNMI has found.

"Although not everything is rosy about Guam's economy, the overall picture is favorable and promising," said the report, 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 of the report:

- **Tourism:** "Tourism has rebounded remarkably, with Guam welcoming 13.6% more visitors between January and August 2012 than it did during the same period last year when the fallout from Japan's tsunami depressed visitor totals."
- **Military build-up:** "Welcome developments include availability of new information on the military build-up plan for Guam and positive indications, including recent statements from Defense Secretary Leon Panetta that the build-up is back on track. The level of uncertainty surrounding the military build-up in Guam is not nearly as high and uncomfortable as it was a year ago."
- **On the other hand:** "Not-so-rosy developments in the Guam economy include local government's continued fiscal challenges, a mixed employment picture and a sluggish real estate market."

TOURISM SECTOR: Up, Strongly in Some Markets

Guam tourism did well in 2010, with arrivals growing 13.6% over 2009, Dr. Ruane said, adding: "Tourism started strong in early 2011 but slowed significantly following the March earthquake and tsunami in Japan, Guam's largest tourist market. Overall, however, the year ended down in overall visitor arrivals by only 3% over 2010, thanks to the recovery of the Japanese tourist market by mid-year and fast-growing markets in China, Russia, Taiwan and Hong Kong.

"So far, 2012 is promising to be a strong year. Through August, Guam welcomed 866,861 visitors, 13.16% more visitors than the same period last year and only 5.5% below the same period during the last peak year in 2010, when almost 1.2 million visitors came to Guam."

Ruane noted that Guam continues to rely heavily on the Japanese market (71.7% of total visitor arrivals this year). Korea, Taiwan, China, and especially Russia continue to gain market share. Thanks to the Visa Waiver to Russian visitors, their share, although still small, increased significantly from 0.05% in 2011 to 0.27% in 2012. Visitors from China posted the second biggest gain in market share, from 0.59% in 2011 to 0.73% in 2012, thanks to an increase in charter flights. Many hold out hope for the approval of a Visa Waiver for Chinese visitors by the U.S. Department of Homeland Security, which just recently added Taiwan to the U.S. list of countries/territories eligible for a 90-day Visa Waiver.

"Increased flights and an additional budget airline have increased accessibility and affordability of visits to Guam, increasing market shares of Taiwan, Korea and Japan," Ruane said. Hotel occupancy was 78% for January-July 2012, compared to 69% for the same period in 2011, with average room rates up to \$119 from \$112 during the same period in 2011.

MILITARY BUILD-UP: Moving Back on Track

The Guam military build-up plan was first outlined in a 2006 U.S.-Japan Agreement which envisioned relocating 8,000 U.S. Marines plus their families from Okinawa to Guam from 2010-2014. "Many in Guam viewed the planned build-up as an opportunity to increase economic activity, local jobs, incomes and tax revenues. The optimism turned into a guessing game, owing to the lack of clear information on details," Dr. Ruane said, as well as budgetary concerns in both Washington and Tokyo.

Finally, a new U.S.-Japan Agreement was released in April, she said, depicting "a smaller, perhaps more manageable plan" with a lower cost of \$8.6 billion, with \$3.1 billion to be funded by Japan, and relocation of approximately 4,700 U.S. Marines from Okinawa to Guam. Unfortunately, she added, the military build-up could see reduced funding from the U.S. Congress through budget cuts to lower the federal deficit.

GUAM GOVERNMENT: Fiscal Challenges

"Like many governments around the world, the Government of Guam has had its own share of fiscal challenges," Dr. Ruane said. "The Calvo-Tenorio administration has been very clear in its message to give back money the government owes to its people. It had opportunities to pay overdue tax refunds through the issuance of two bonds, \$240 million issued in November 2011 and \$110 million in April 2012. On the positive note, both bonds were issued at relatively low interest rates, thanks to overall market conditions and the bonds' favorable credit ratings (A-/A) from S&P and Fitch."

Dr. Ruane said refund checks in December and June "put purchasing power in the hands of local consumers who spent most of their tax refunds, providing a boost to the economy, even if for only a short time. The downside is that the bonds put the island's debt to its legal debt ceiling . . . and increasing the pressure to reduce budget deficits. "Unfortunately, there remain overdue tax refunds from 2011 and earlier years, compounded by insufficient funding to pay 2012 tax refunds.

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REAL ESTATE: 2011 Flat, 2012 Sales Down

The report quoted Siska S. Hutapea, President of Cornerstone Valuation Guam, Inc., as saying the Guam real estate market peaked at nearly \$700 million in 2007 after the initial military build-up news in 2006, but transaction volumes declined sharply to the low \$300 million range in 2010 and 2011. "Although military build-up plans continue to be on hold, various local market participants continue to take advantage of lower interest rates and availability of large construction companies and develop owner-occupant facilities," the report said. Various commercial acquisitions in early 2012 also involved local buyers taking advantage of reasonable prices and low interest rates.

Based on data provided by Hutapea, she said sales volume in 2011 was comparable to 2010 for the overall real estate market as well as for the residential market, with a 7.42% decline in the number of units sold offset by a 7.54% increase in median prices between 2010 and 2011. Hutapea stated that, based on the overall number of transactions in the second quarter 2012 and not counting the sale of Ladera Tower, it is clear that market activity continues to slow. "Sales volume of residential units reflected substantial decline, although it is expected to improve for the third quarter once summer sales activities are accounted for, the report said.

GUAM JOBS: Job Count Lower, Unemployment Lower

Employment on Guam decreased 2.37% from June 2011 to June 2012, according to the Bureau of Labor Statistics, Dr. Ruane said. "Despite a 2.12% growth in government jobs, this was not enough to offset the 3.86% decline in private sector jobs, which account for approximately 75% of employment in Guam," she said.

The situation will not be helped by the recent announcement by United Airlines, one of Guam's largest employers, that 90

employees on Guam will be affected by the closure of its contact center and cargo department, she noted.

The latest unemployment rate estimate from the Guam Department of Labor was 11.8% in March 2012, down from 13.3% a year earlier. However, the number of people not in the labor force increased from 44,770 in March 2011 to 52,410 in March 2012 because of people no longer looking for jobs.

CNMI ECONOMY: POSITIVE SIGNS, THOUGH UNCERTAINTY REMAINS

"After several years of a slow economy and tough business environment, the Commonwealth of the Northern Marianas Islands (CNMI) is beginning to see positive developments. Some in the business community are of the opinion that the economy might have bottomed out," Dr. Ruane reported. "However, uncertainty remains, especially with regard to the effects of the Federalization Law on the CNMI.

Economic Growth, At Last

The CNMI economy (Gross Island Product) had been declining nearly every year since 2003, but the U.S. Department of Commerce recently reported growth of 2.3% in 2010. "This is cause for optimism and possibly marks a turnaround," Dr. Ruane said.

There has been a corresponding decline in population, from a peak of 78,900 in 2004 to 53,900 in 2010, she said, and speculation that subsequent out-migration by foreign workers may have caused the level to drop to around 45,000 today.

"Combining the 2010 increase in GIP and the decline in population, CNMI's per-capita income stood at \$11,484 in 2010, a 5.35% increase from the previous year – but well below the 2002 figure of \$15,968," Dr. Ruane said.

She said the CNMI inflation rate has been steadily decreasing since 2007, when it was 14.8%, with recent estimates from the CNMI Department of Commerce showing CPI inflation for 2012 at 2.7%.

Visitor Arrivals Growing

"Tourism has been a strong contributor to this year's CNMI economy," she said, with visitor arrivals between January and June up 18.8% compared to the same period in 2011.

Currently, CNMI is served by regular flights on Asiana Airlines (from Seoul and Busan); Sichuan Airlines (from Shanghai); Delta Airlines (Tokyo); United Airlines (from many tourist markets to Guam and via United Connection to Saipan); and Freedom Air, (Guam, Saipan, Tinian and Rota routes).

The Russian tourist market continues to be lucrative because Russian tourists stay longer and spend more, Dr. Ruane said.

Minimum Wage Increased

Under U.S. federal legislation, the report noted, CNMI minimum wages have increased since 2007, when the hourly rate was \$3.05. The last increase, in September 2012, brought the minimum to \$5.55. Dr. Ruane noted a 2011 study by the U.S. General Accountability Office found the minimum wage increases had adverse effects on local employers, as expected, but also on employees, who indicated that they worry about losing their jobs or reducing their work hours.

One source of uncertainty caused by the Federalization Law was the status of the "CW" visa category, used by many local businesses to recruit foreign workers. The law envisions no foreign workers in the CNMI by the end of 2014, although an extension is possible if recommended by the U.S. Department of Homeland Security and approved by the U.S. Department of Labor.