

# ECONOMIC UPDATE

Presented  
to the

**Rotary Club of Northern  
Guam**

as a Value Added Service by  
**Bank of Guam**

November 7, 2011

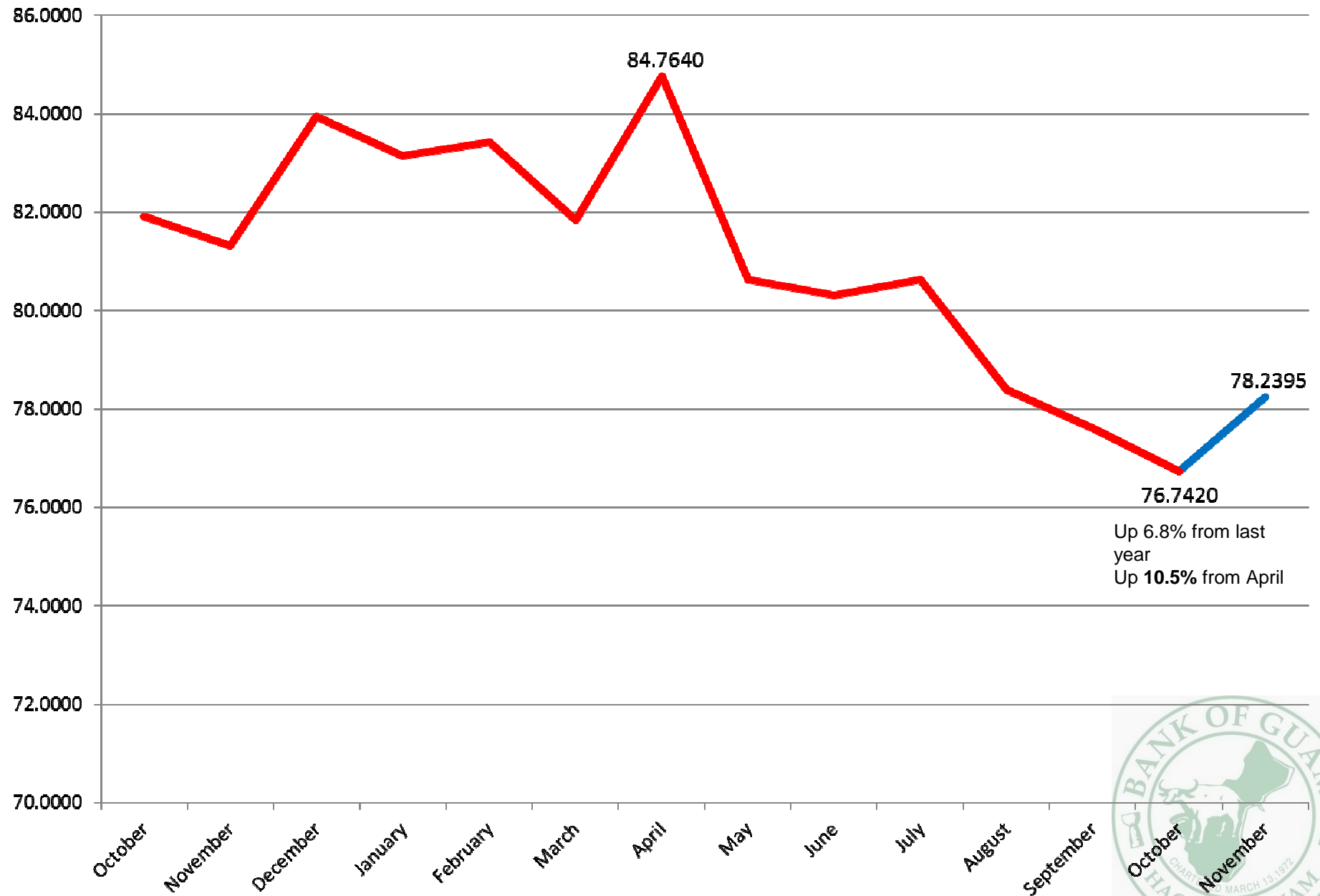


# International

- Japan
  - Exhibiting signs of gradual recovery (again)
    - Industrial production has increased since a severe dropout in March, nearly to last year's level (but still below 2005)
    - But a stronger ¥en is inhibiting export growth

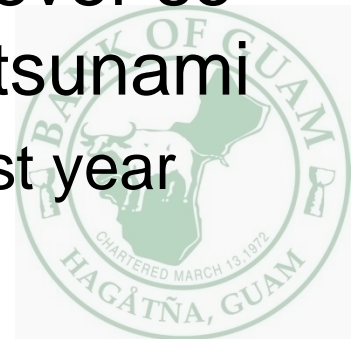


## Yen per Dollar

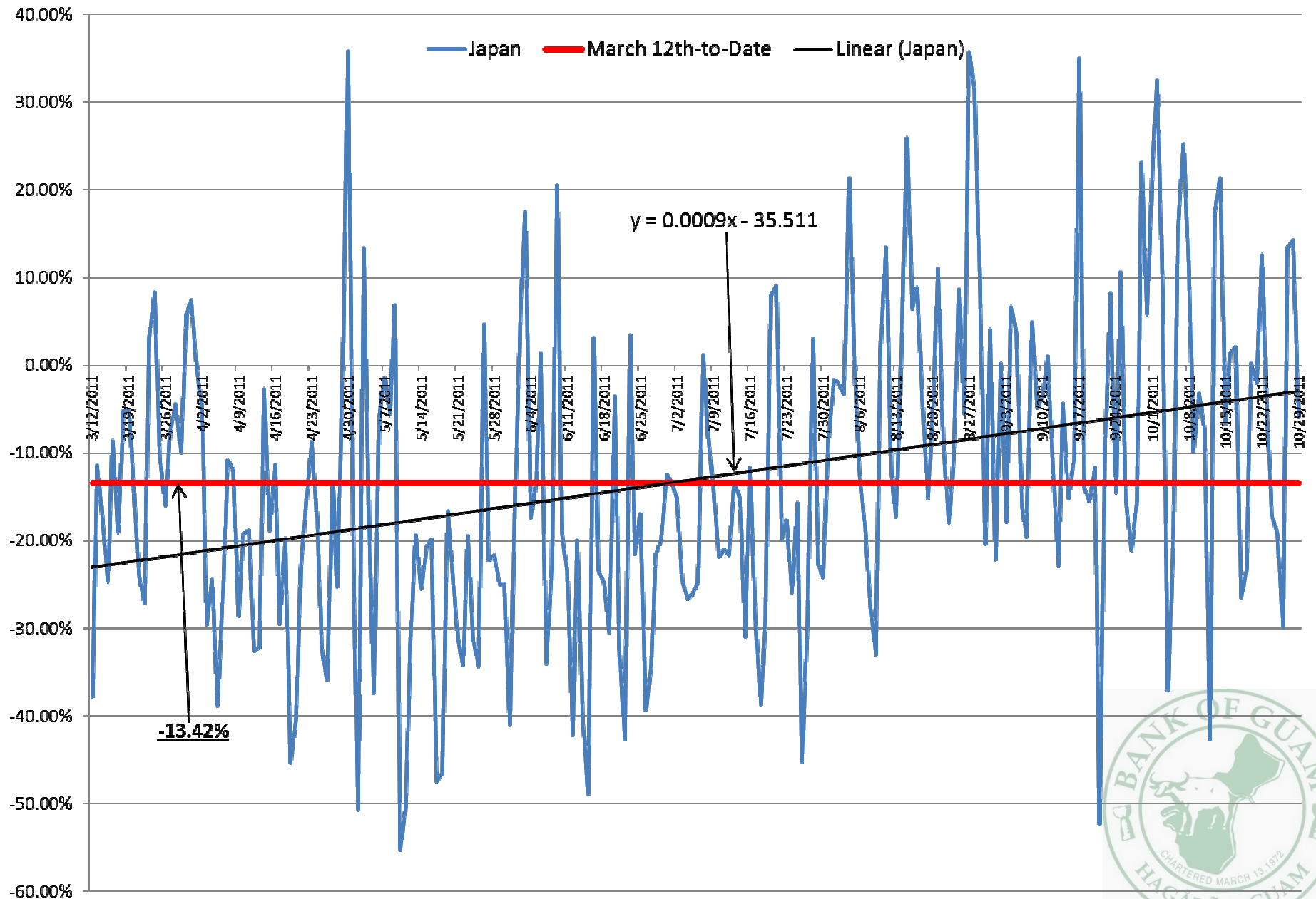


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    - Even though export growth is increasing more than expected due to higher than anticipated production
  - Visitors to Guam have been recovering, ever so slowly, since the March earthquake and tsunami
    - But are still 13.4% below the same period last year

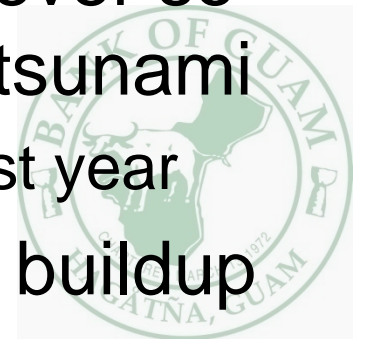


## Post- Crises Japan Trend – Average Change in Civilian Air Arrivals



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  - Visitors to Guam have been recovering, ever so slowly, since the March earthquake and tsunami
    - But are still 13.4% below the same period last year
  - Yet Japan still wants to proceed with our buildup



# International

- South Korea
  - Growth is slowing down, but still strong
    - 13.6% growth in industrial production from January 2010 to January 2011, but only 6.8% September to September
    - Growth in production capacity is slowing, too, as is the capacity utilization rate
  - Unemployment was an enviable 3.0% in September
  - But persistently increasing consumer price inflation is becoming more and more of a concern
  - Overall, though, South Korea has a well-



# International

- Global instability is still with us
  - Industrialized “western” economies continue to struggle while rapidly growing less-developed economies are pulling back, largely due to retreating export and commodity markets
  - European sovereign debt has become a *major* threat
    - Greece is on the verge of default, with rioting in the streets
    - Italy’s internal political struggles are interfering with promised austerity
    - French banks have *huge* exposure to highly risky government bonds
    - Germany has become reluctant to provide any more support
  - Some “Arab Spring” nations are courting Islamic theocracy

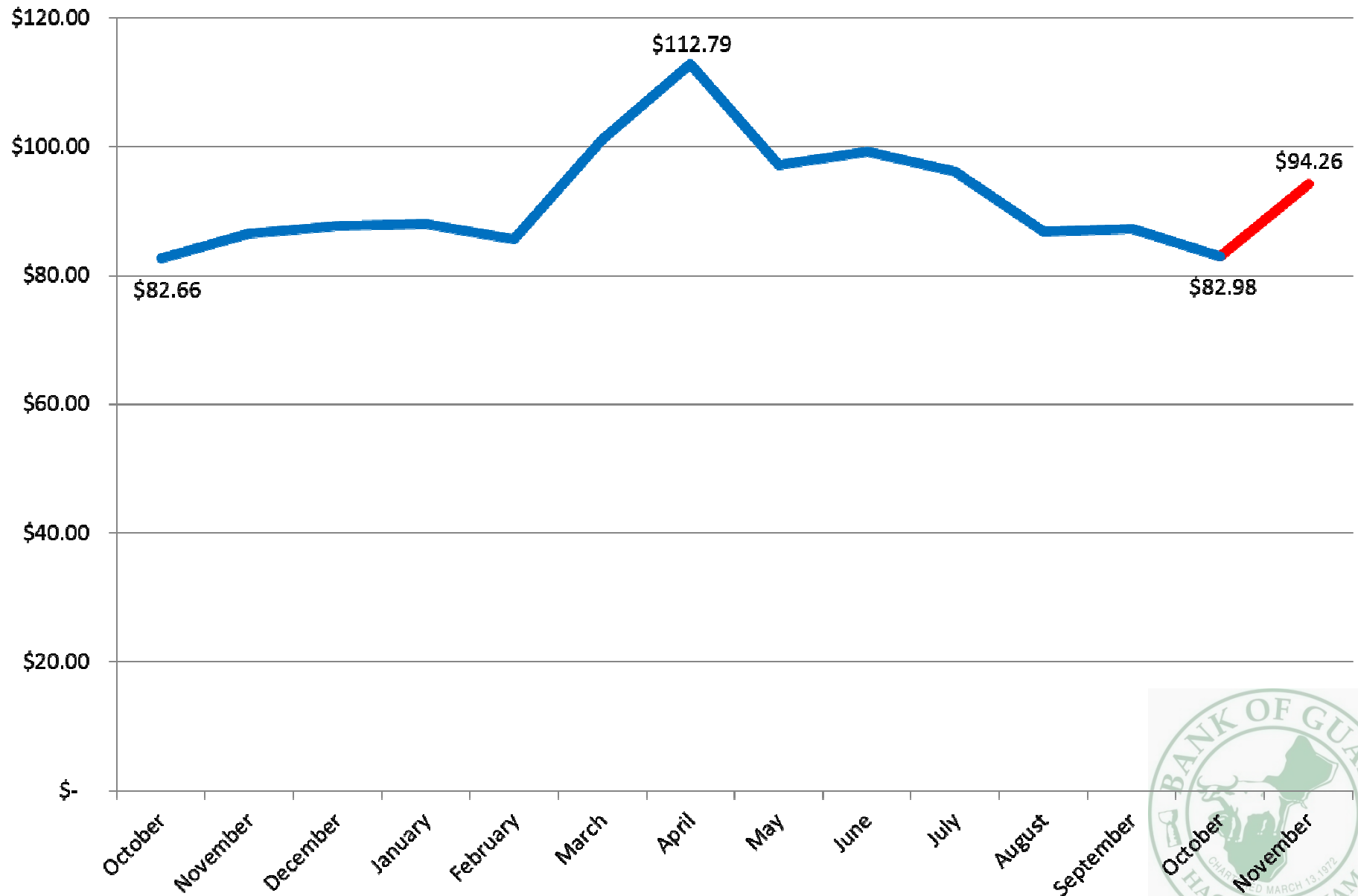
New growth is slowing and prices are rising in China





## West Texas Intermediate Crude - Spot Prices

Close Friday before the Second Monday of the Month

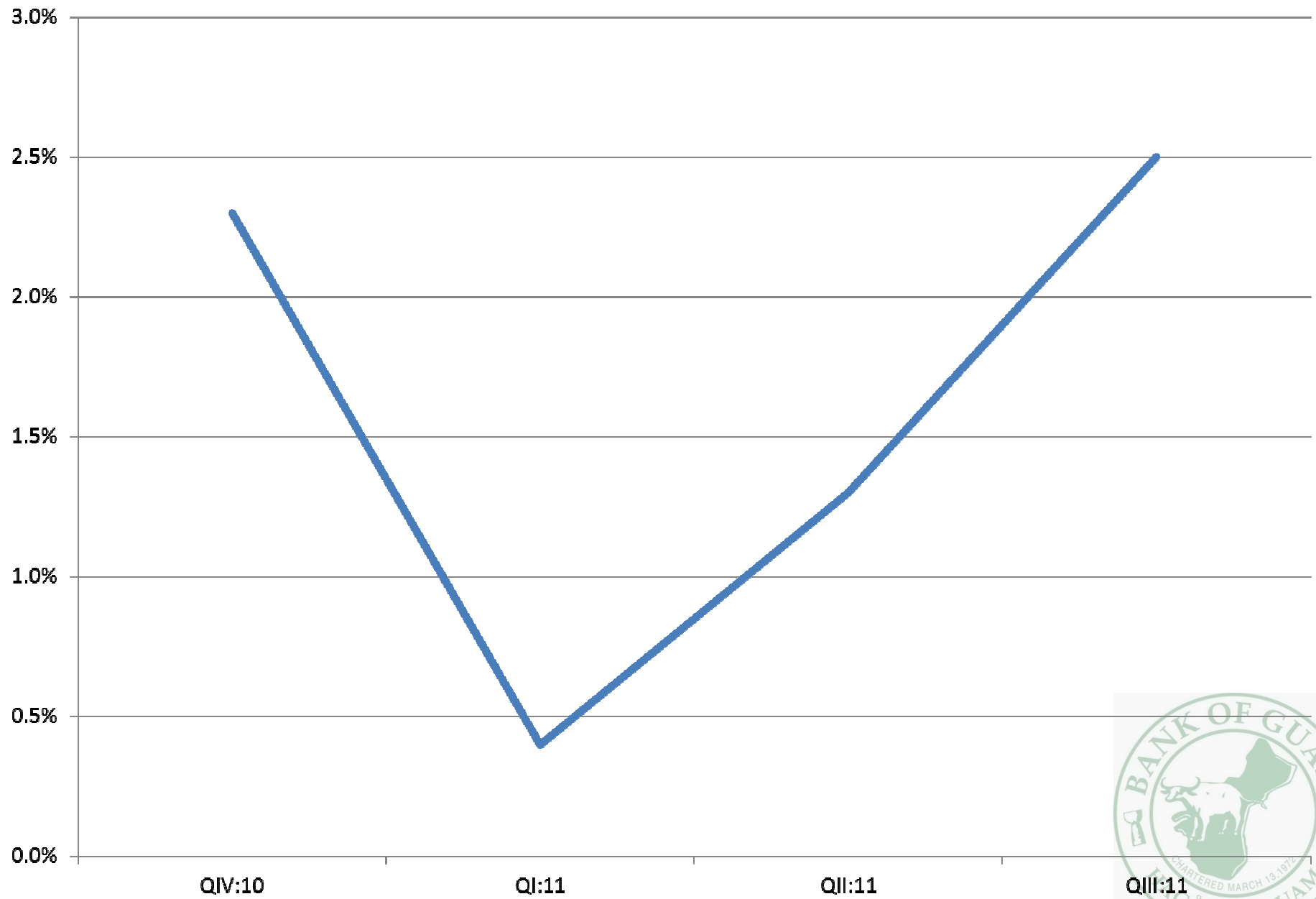


# National

- Recovery is ongoing, but slow . . . too slow
  - GDP grew at a 2.5% annual rate in QIII:11 (prelim.)



## GDP Growth - U.S.

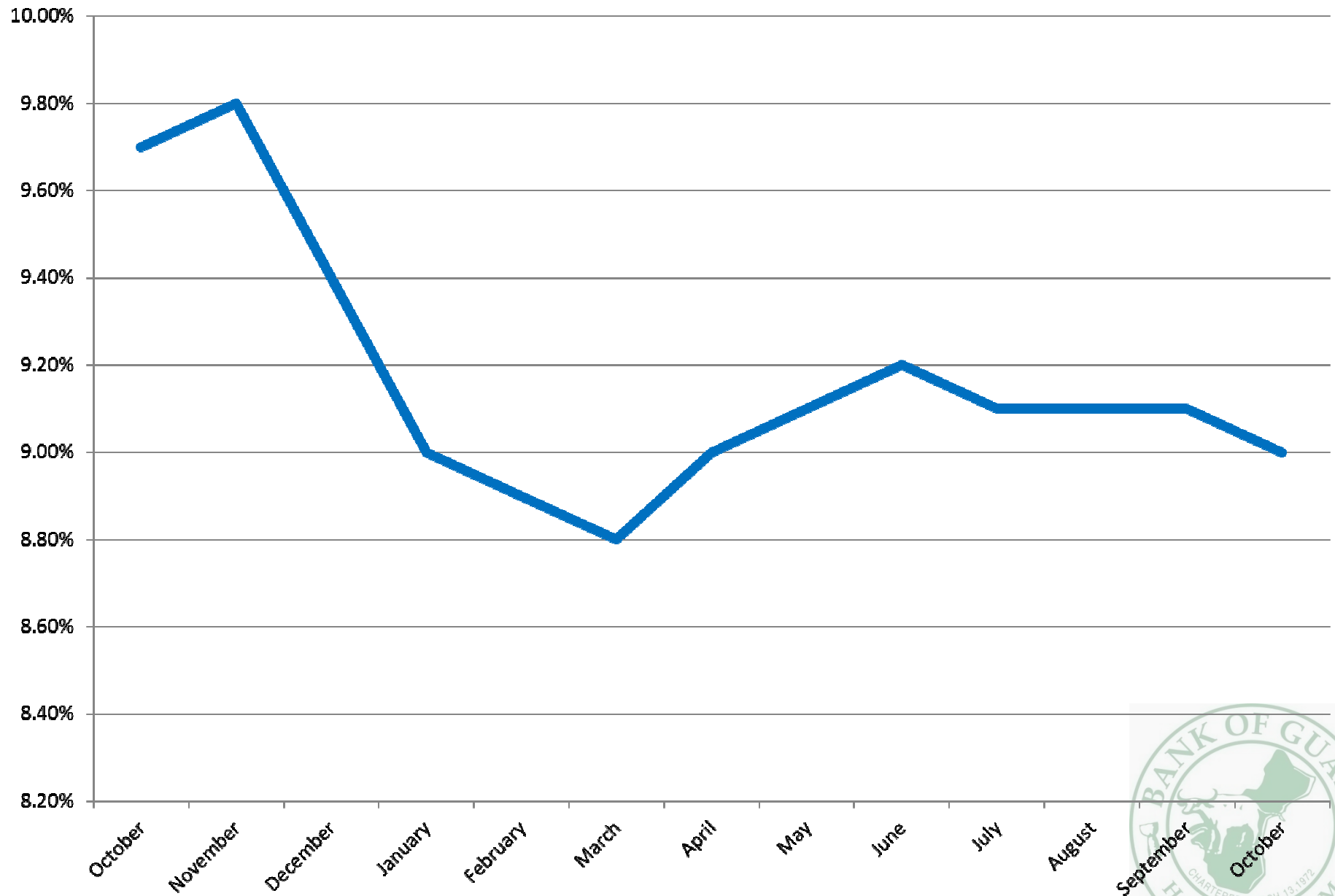


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## U.S. Unemployment Rate

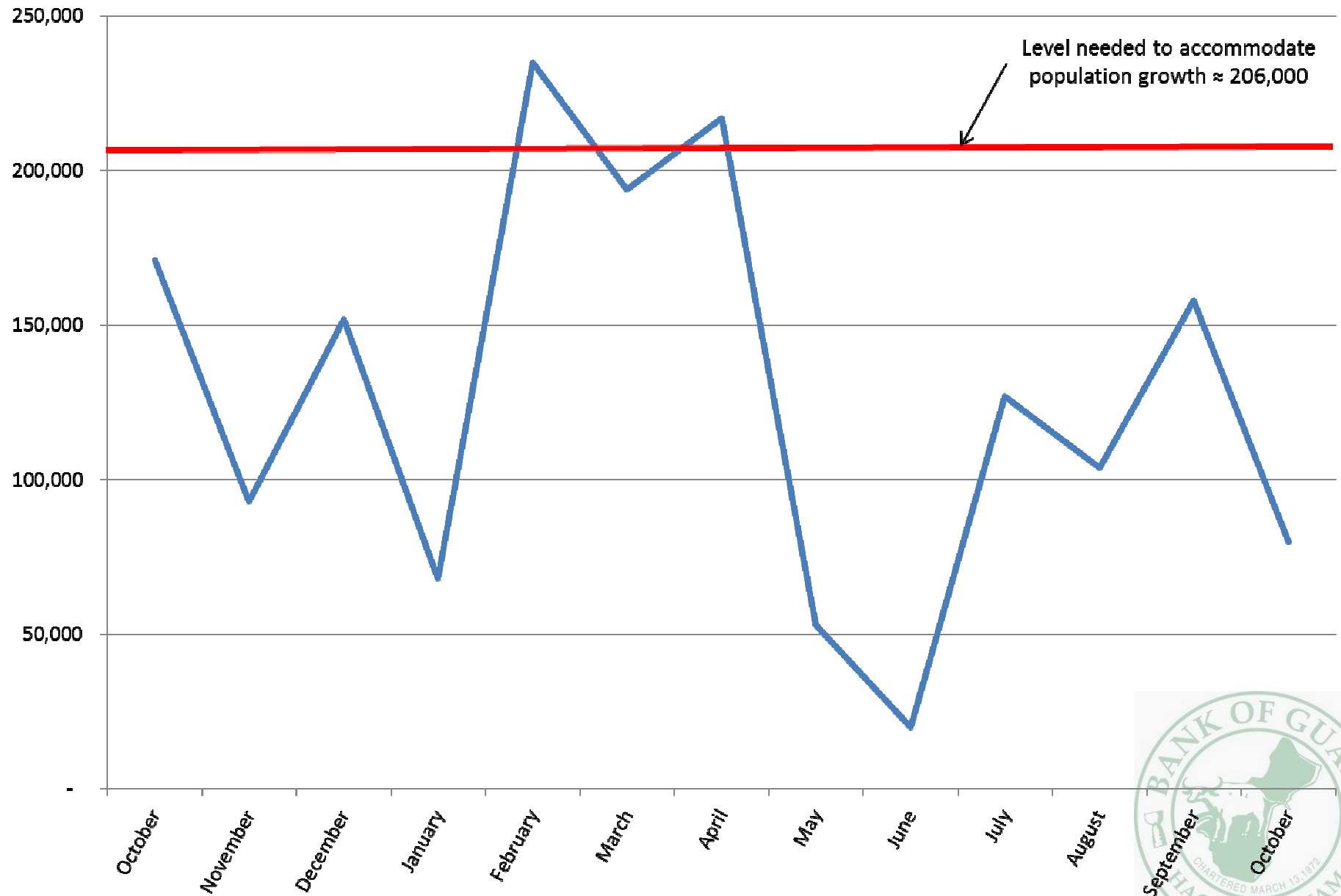


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    - The labor force is shrinking, in part because not enough jobs are being created and many workers are discouraged
    - Many others are losing their employability

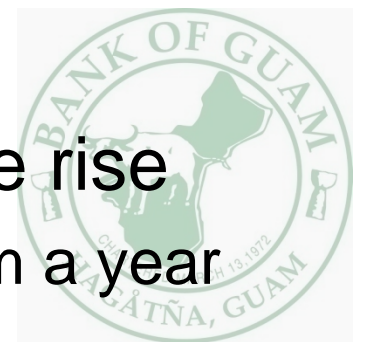


## U.S. Payrolls (monthly changes)



# National

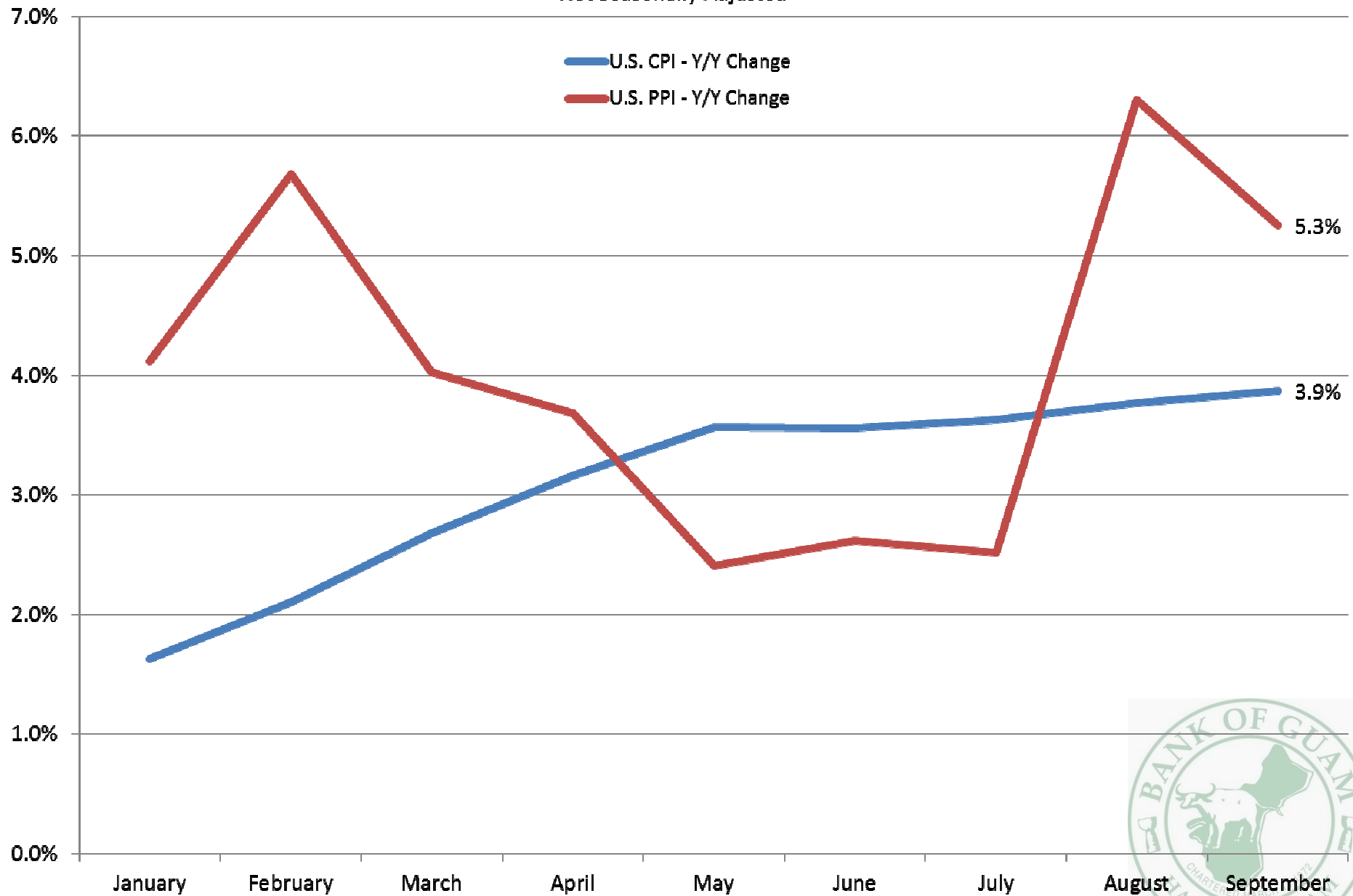
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    - September consumer prices up by 3.9% from a year earlier





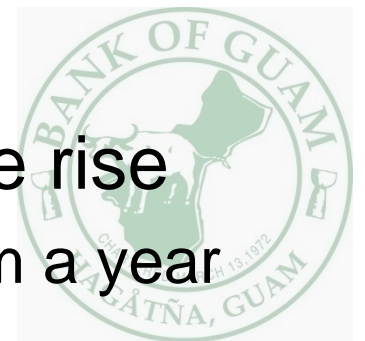
## Year-over-Year Changes in U.S. Consumer and Producer Prices

Not Seasonally Adjusted



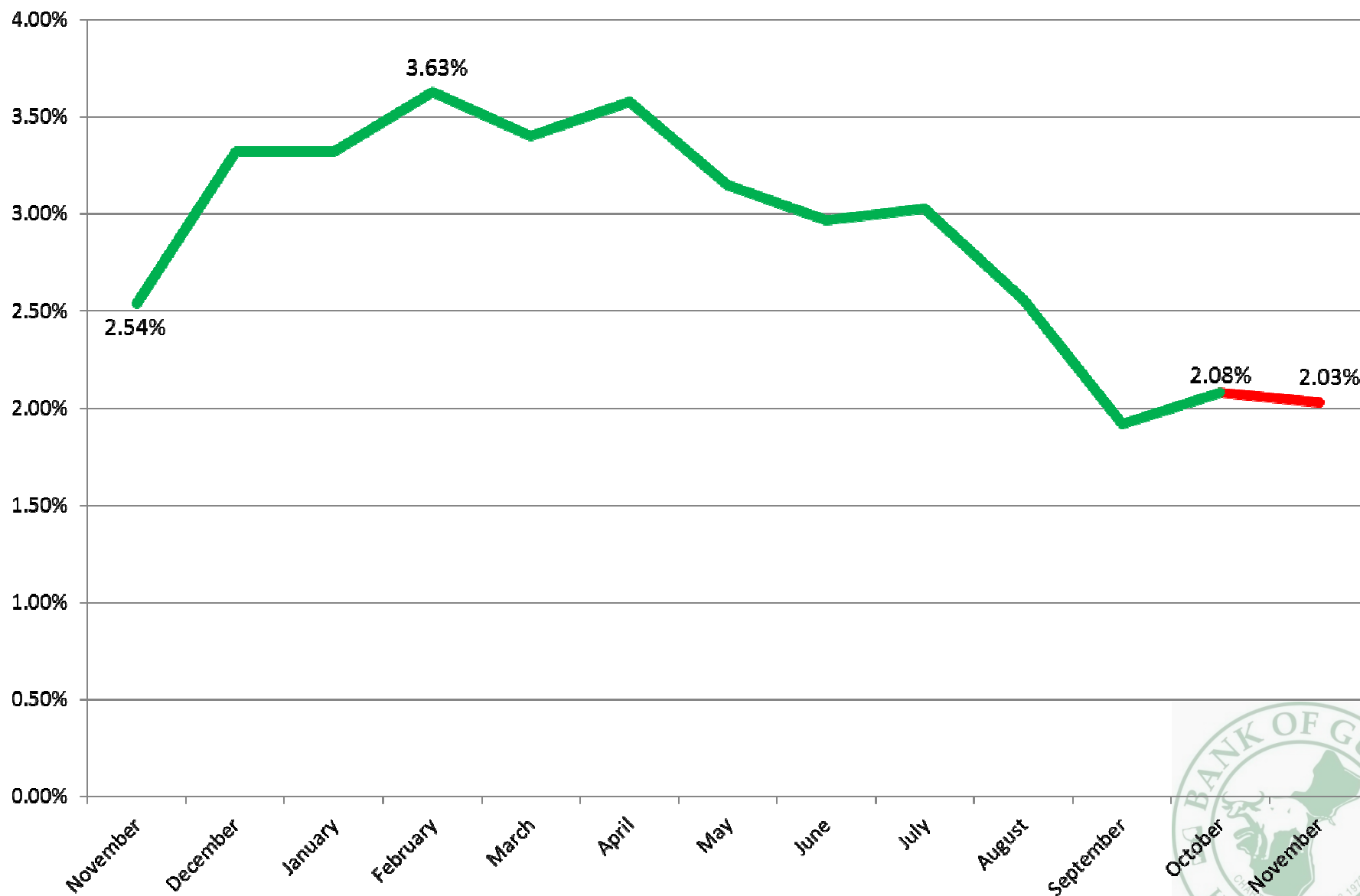
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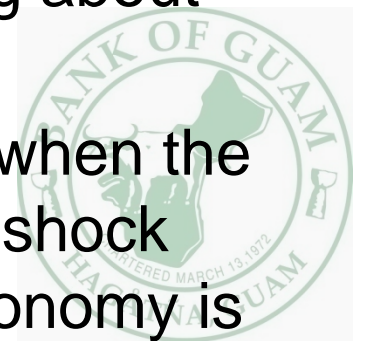
# 10-Year Treasury Yield

Friday Close Before the Second Monday of the Month



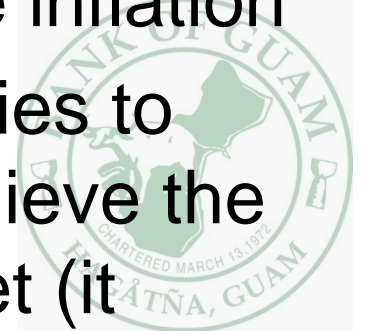
# National

- Fiscal policy has moved in the wrong direction
  - Recessions are *not* the time to try “fighting deficits”
    - Pulling money out of the “circular flow of funds” inhibits economic activity, forcing unemployment higher and output (*income*) lower
    - Deficit spending would have *exactly* the opposite effect
  - Now is the time for investment in education, infrastructure, scientific research and even the environment . . . anything that will create jobs and improve future prospects . . . instead of worrying about borrowing more money at historically low rates
  - The time to apply so-called “fiscal discipline” is when the economy is prosperous and we can absorb the shock (which the U.S. has *not* done), not when the economy is



# National

- Monetary policy has changed course since June
  - The Fed shift from buying short-term to long-term debt is an attempt to flatten the yield curve and make investment in productive capacity more attractive (this won't work; capacity utilization is already low)
  - For now, expanding the money supply is on hold because of the heightened risks of future inflation
  - There is also a shift from buying Treasuries to buying mortgage-backed securities to relieve the continuing collapse of the housing market (it



# Guam

- We have had a severe reversal of fortunes
  - On March 10<sup>th</sup>, tourism was strong, the military buildup was on track, and I was optimistic
  - On March 11<sup>th</sup>, the earthquake hit Japan
  - Two months later, the buildup started falling apart
- I was optimistic on March 10<sup>th</sup>
- I'll never make that mistake again!!!
- The persistent weakness of the past 12 years has returned, with few prospects in sight



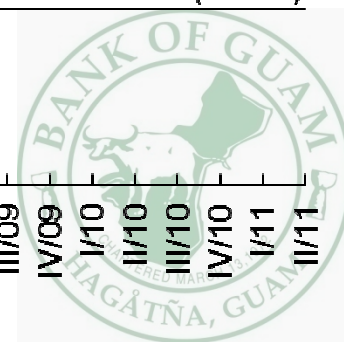
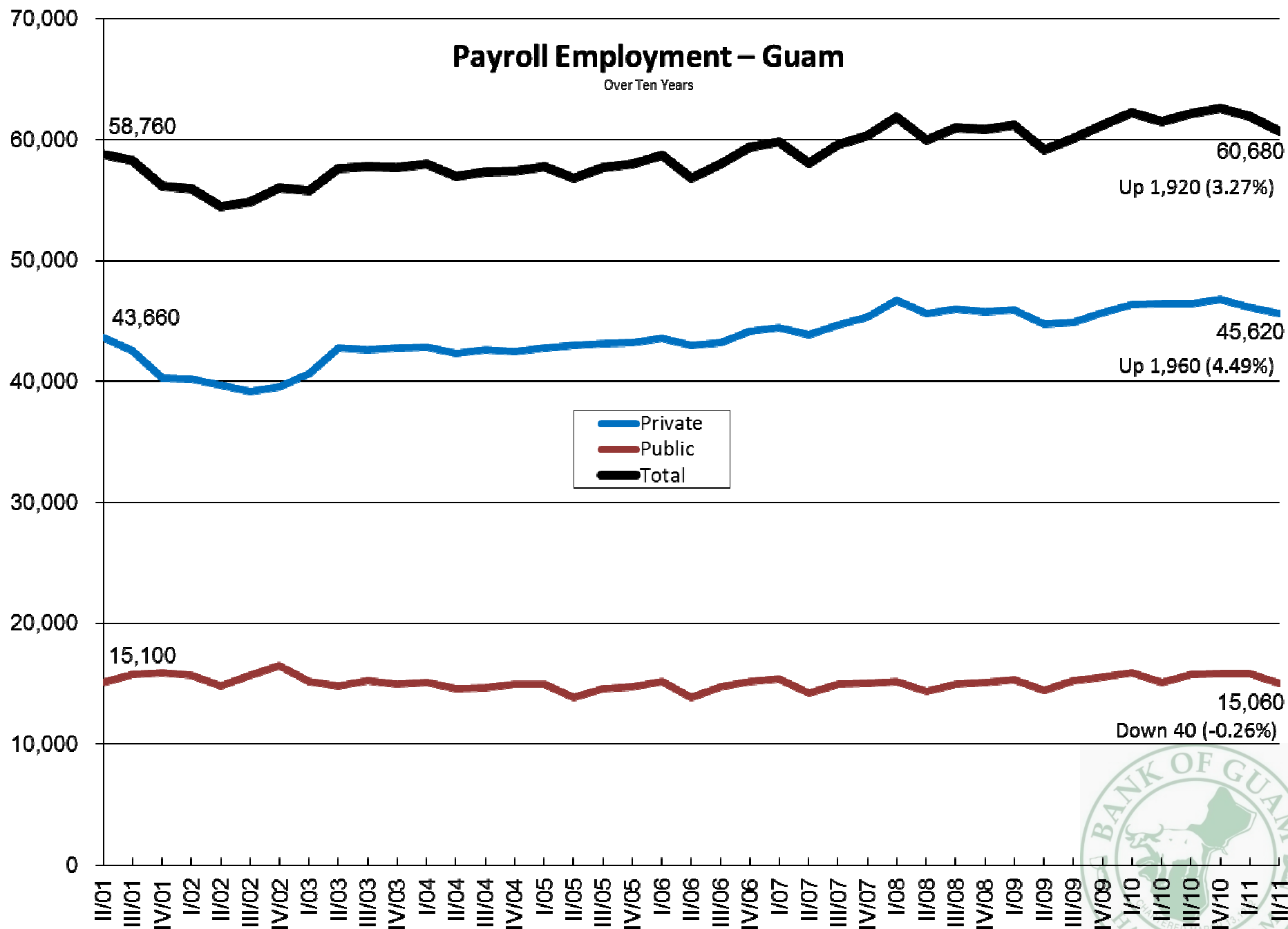
# Guam

- Payroll employment is slowly sliding again
  - We've only added 750 jobs in the last three years
  - *We've only added 1,920 jobs in the last ten years!*



# Payroll Employment – Guam

Over Ten Years



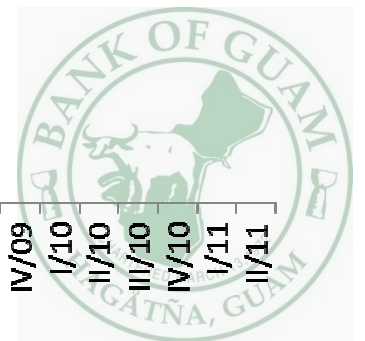
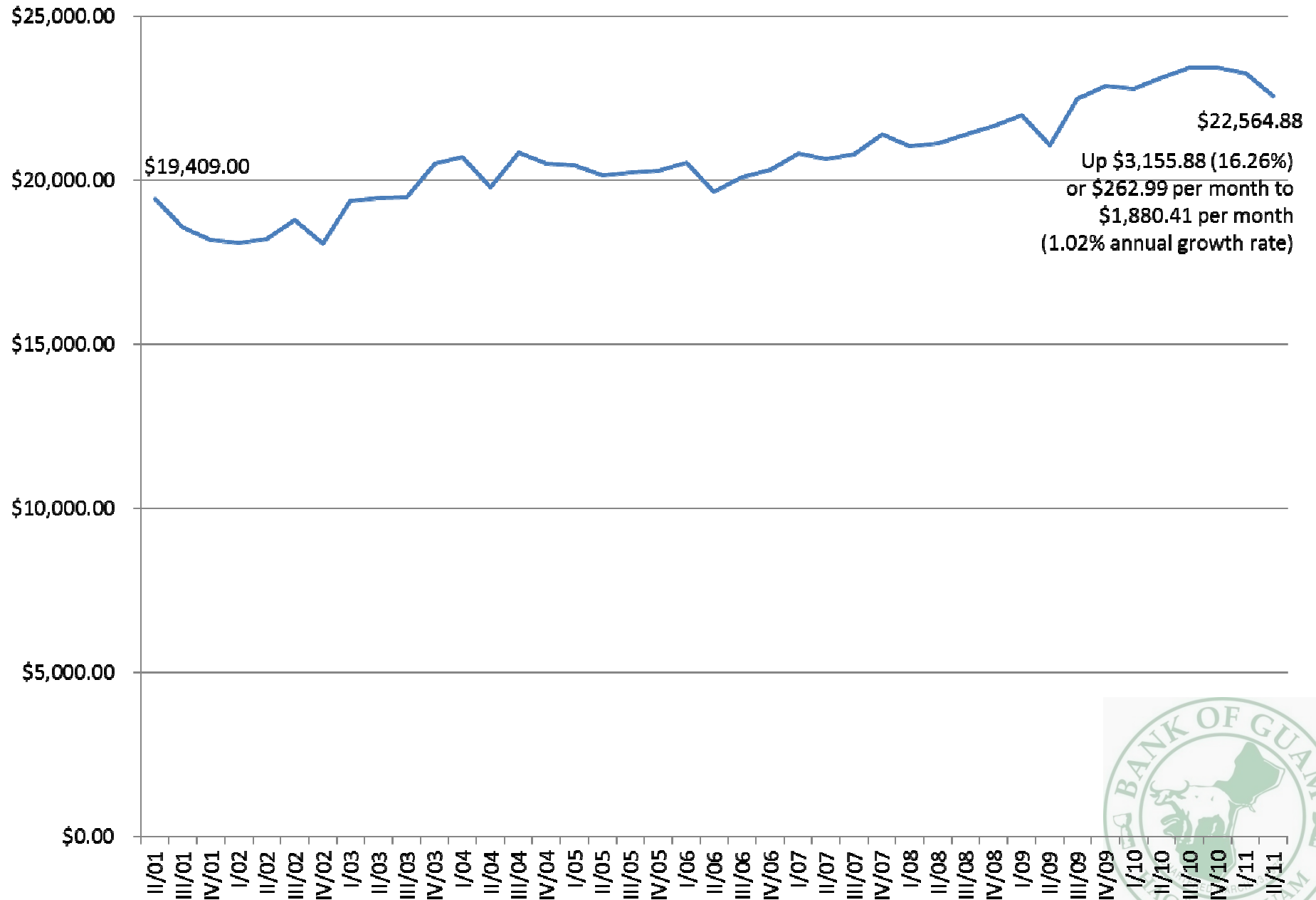


# Guam

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  - We've only added 750 jobs in the last three years
  - *We've only added 1,920 jobs in the last ten years!*
- Average annual private earnings have crept up
  - Rising \$3,155.88 (16.26%) in ten years to just \$22,564.88/year (\$1,880.41/month), or an average annual growth rate of just 1.02%



## Average Annual Labor Income, Private Production Workers



# Guam

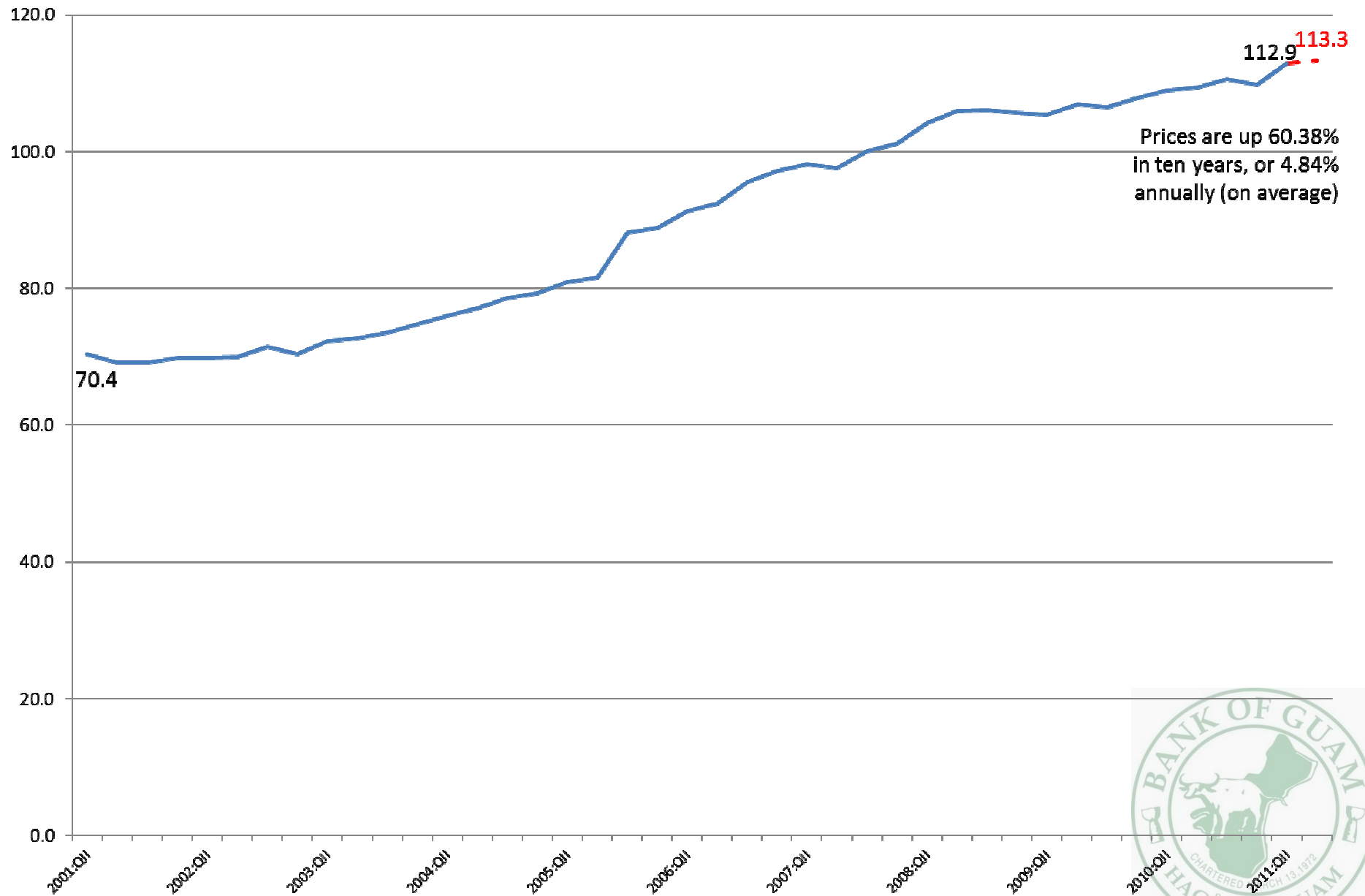
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Private banks have not been as successful in their efforts to

# CPI

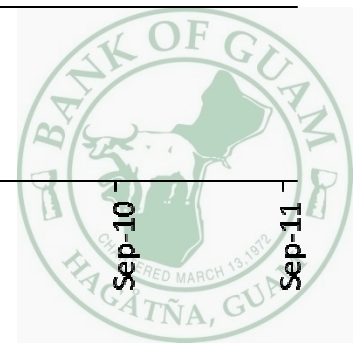
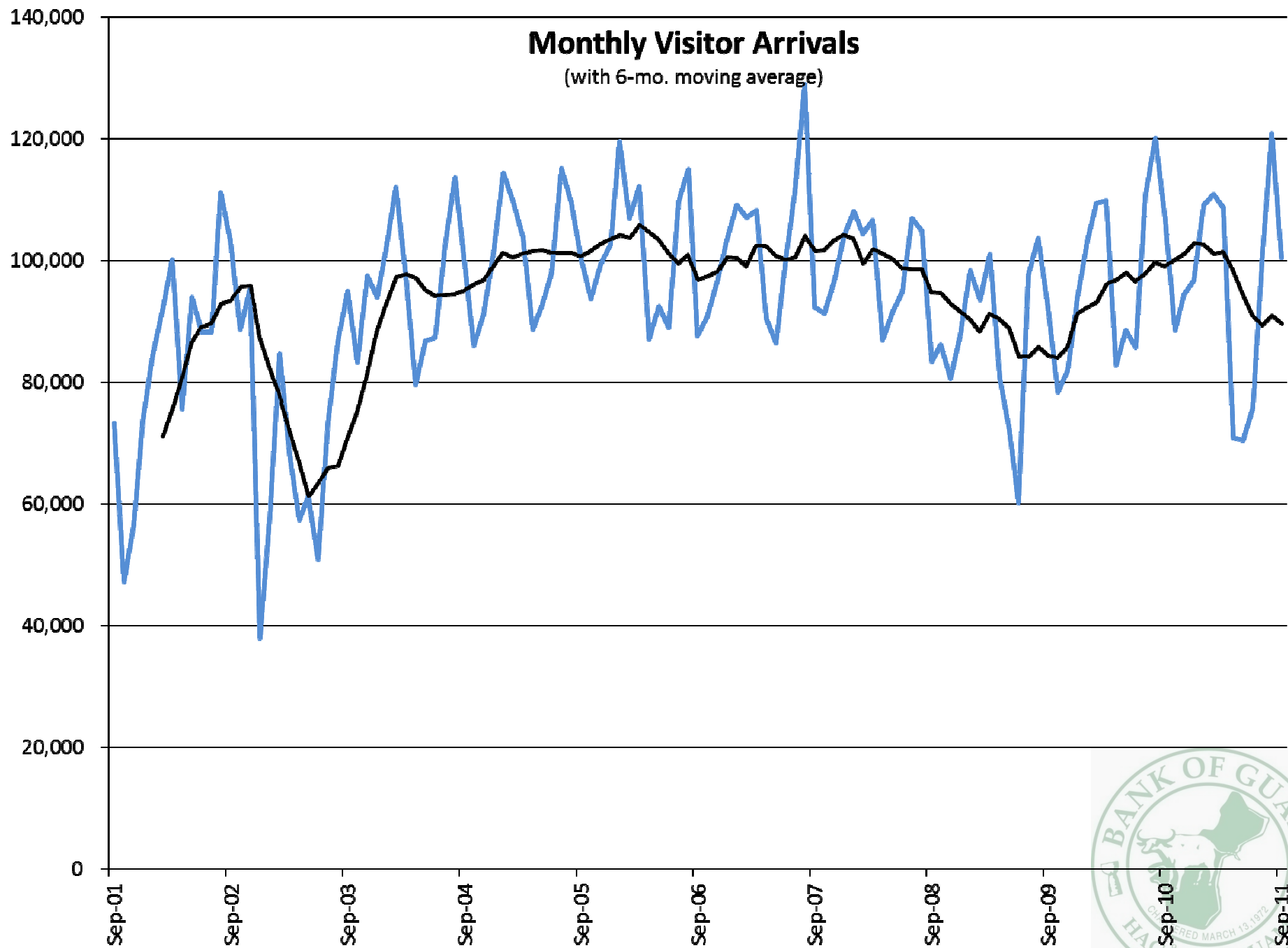
QIV 2007 Base Period



# Guam

- Visitor arrivals did well last year, rising 13.6% from 2009
- This year, though, largely because of the dropout from Japan (but for other reasons, too), arrivals have fallen by 5.50% through September





# Guam

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- This year, though, largely because of the dropout from Japan (but for other reasons, too), arrivals have fallen by 5.50% through September
- My seasonally-adjusted forecast is for a decline of 7.28% for 2011, from 1.20 to 1.11 million
- Taiwan and (especially) Korea have helped to fill the gap in arrivals from Japan



# Guam

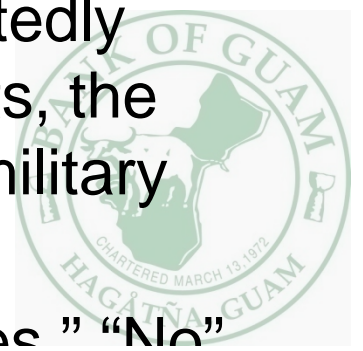
- Financial industry data tell their own tale
  - Deposits in Guam banks have been rising
    - Up 31.76% in five years, to \$2.21 billion
    - Demand deposits have been rising faster than time and savings deposits, but even offshore deposits have started to grow again
  - Loans have been rising, too, but not quite as fast
    - Up 30.10% in five years, to \$2.80 billion
    - Real estate loans have risen most rapidly, but commercial loans have been keeping pace the past few years
    - Note that consumer loans have been receding for the





# Guam

- That brings us to the prospects for the military buildup
  - All was going as expected until May 12<sup>th</sup>, when U.S. Senators Levin, McCain and Webb suggested that the Defense Department should reassess its plans for Guam, saying they were “unrealistic, unworkable and unaffordable,” instead proposing a game of “musical chairs” in which the Marines’ air operations move from Futenma to Kadena, and part of the Air Force’s Kadena operations relocate to Guam
  - Defense Secretary Panetta, though, has repeatedly expressed his position that, despite funding cuts, the U.S. maintains its commitment to continue its military presence in the Pacific
  - So we have three firm answers from D.C. - “Yes” “No”

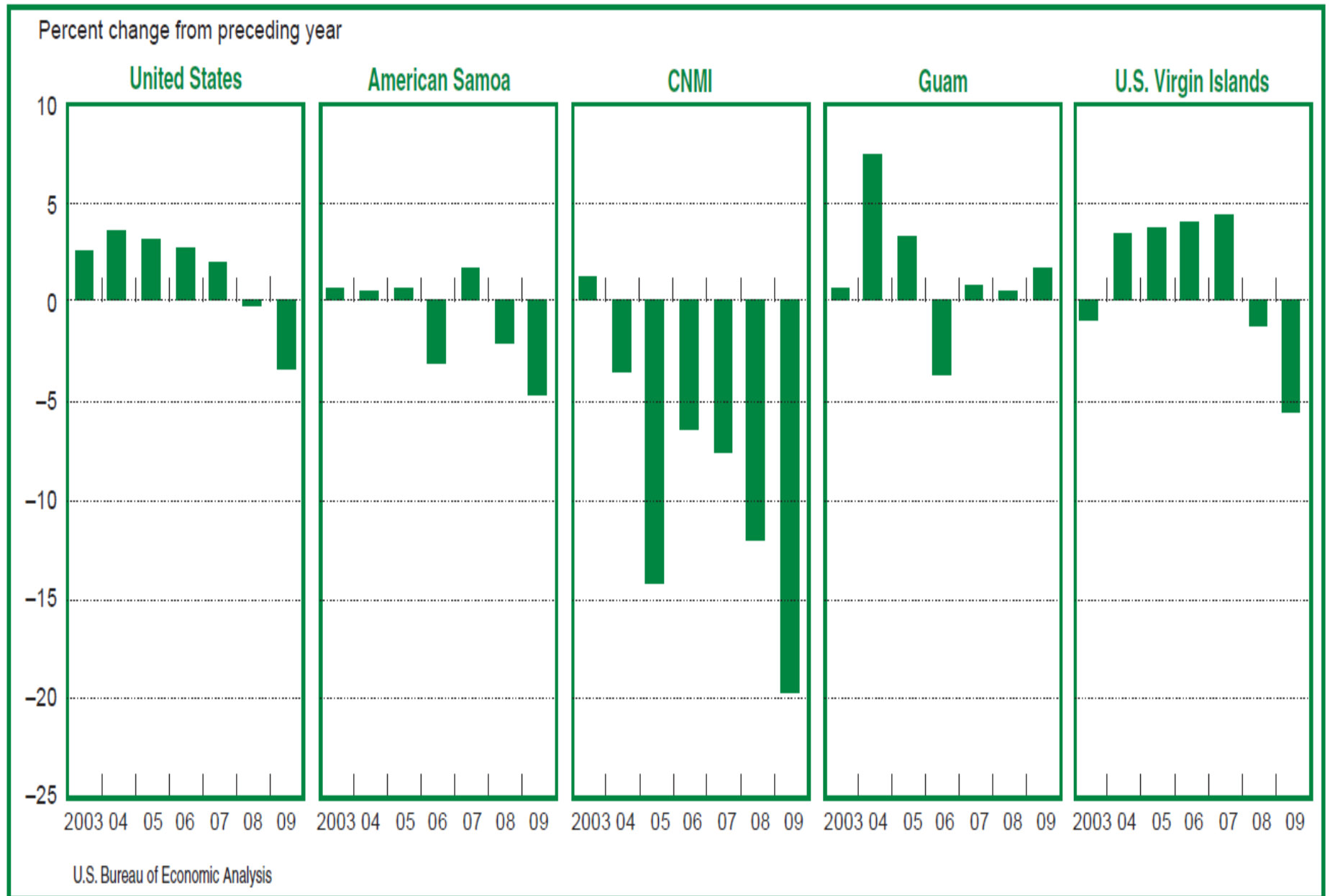


# The CNMI

- They say a picture is worth a thousand words
  - Here's one from a September report from the U.S. Bureau of Economic Analysis



# Chart 1. Real GDP for the United States and Four U.S. Territories in 2003–2009



# The CNMI

- They say a picture is worth a thousand words
  - Here's one from a September report from the U.S. Bureau of Economic Analysis
  - I think that pretty much says it all
- I've heard that several families that moved to the States from the CNMI are now returning
  - The economy in the States isn't very good, either
- I have also heard reports that there is no



# Summary

- Global economic weakness persists
  - Japan is flat, Korea and China are slowing down, even small developing economies are receding
  - Europe now presents the greatest threat to recovery
- There are continuing obstacles to recovery in the U.S., many of which are political
- Guam has returned to the economic limbo that we were in for more than a decade
- The CNMI has severe structural problems



# Conclusion

- Thank you for your time and attention
- I hope that my presentation this afternoon has been both informative and useful
- I will be happy to answer any questions that I can
- Again, thank you

