



ECONOMIC OUTLOOK



Economic Outlook

Economic Outlook for Guam Fiscal Year 2020

SUMMARY

Guam's economy is positioned for continued and likely increasing modest growth in FY 2020. There are leading indications that the three primary sources of inflows of funds to Guam from tourism, federal expenditures, and construction capital investment are likely to simultaneously increase up to and during the outlook period. Guam's economy has exhibited remarkable stability and expansion. The Gross Domestic Product (GDP) has increased every year since 2006 but growth had been slowing in recent years. The trend of continuing modest economic growth as measured by GDP in both nominal and real measures is expected to continue and increase from the FY 2017 and FY 2018 years. During these years growth was constrained by limited construction labor supply with declining numbers of temporary foreign workers and a sharp decline in Japanese tourism arrivals due to international tensions between North Korea and the United States. While the momentum for growth is building, it must be recognized that there is a myriad of global economic and political uncertainties including possible natural disasters which could impair the continued growth scenario.

This outlook focuses on identifying and providing measures of the major economic factors which influence revenues in preparation of the Government of Guam's Executive Branch annual budget. Other factors such as changes in tax rates and timing of the receipt of various payments may also have measurable impacts on realized revenue during the fiscal year.

GLOBAL & REGIONAL ECONOMIC OUTLOOK

*The International Monetary Fund World Economic Outlook October 2018
Executive Summary:*

The steady expansion underway since mid-2016 continues, with global growth for 2018–19 projected to remain at its 2017 level. At the same time, however, the expansion has become less balanced and may have peaked in some major economies. Downside risks to global growth have risen in the past six months, and the potential for upside surprises has receded.

Global growth is projected at 3.7 percent for 2018–19, 0.2 percentage point lower for both years than forecast in April. In the United States, momentum is still strong as fiscal stimulus continues to increase, but the forecast for 2019 has been revised down due to recently announced trade measures, including the tariffs imposed on \$200 billion of US imports from China.

The Outlook for Asian economies which affect Guam's economy particularly through tourism and also through secondary effects on intertwined activities among various countries are:

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Japan - Real GDP up 2017 - 1.7%, 2018 - 1.1%, 2019 - 0.9%

Korea - Real GDP up 2017 - 3.1%, 2018 - 2.8%, 2019 - 2.6%

Taiwan Province of China - Real GDP up 2017 - 2.9%, 2018 - 2.7%, 2019 - 2.4%

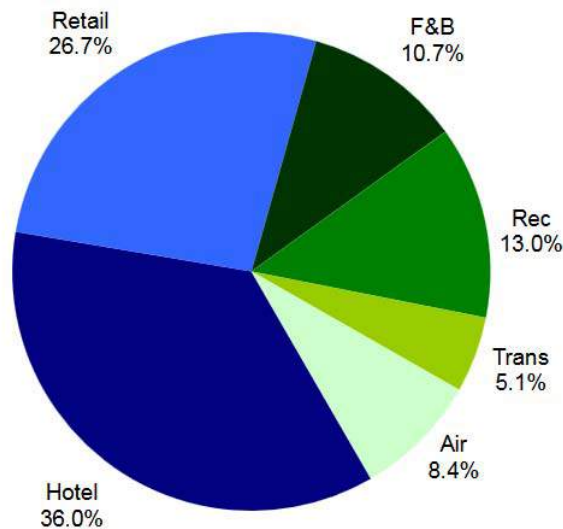
Hong Kong SAR - Real GDP up 2017 - 3.8%, 2018 - 3.8%, 2019 - 2.9%

China - Real GDP up 2017 - 6.9%, 2018 - 6.6%, 2019 - 6.2%

Tourism

Tourism expenditures represent the largest share of the sources of funds flowing into the Guam economy. Tourism sales have been estimated by Tourism Economics to be \$1.8 billion in 2016. The receipt of the funds by sector is shown in the following graphic. Increases in tourism expenditures therefore should positively impact revenue and employment primarily in these sectors as well as indirect effects economy-wide.

Tourism Industry Sales By Sector



The number of tourists and their expenditures are likely to continue to rise. The Guam Visitors Bureau (GVB) has projected an increase in tourist arrivals of 5.3% for FY 2019. The reasons for this expected increase are primarily a rebound in the Japan tour market following the mid-2017 North Korea issue in addition to a dramatically expanded Korean visitor sector in the context of a favorable international travel forecast, particularly Asia. The history of Japanese tourist arrivals shows a pattern of repeated recovery after downturns due to natural or other adverse events. This anticipated increase is supported by the recent upward trend in Japan visitor arrivals as well as capacity increases in both airline and anticipated additional hotel room availability. Fiscal Year-to-date arrival comparisons document a 26 percent increase in Japan arrivals for the first quarter of FY 2019 and a 40.7% increase for the month of January 2019.

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According to a January 7, 2019, Guam Visitors Bureau press release, Guam achieved the best Calendar Year arrivals in the island's history with 1.55 million visitors. It was the third consecutive year of an increase in the annual total. December 2018 finished off the year strong by welcoming 146,104 visitors. This increase represents a 3.7% growth over the previous year, making December 2018 the best month in our islands tourism history by beating the previous record of 145,817 visitors that was achieved in August 2018. Arrivals continued to climb in January 2019 totaling 147,507. February 2019 arrivals at 137,244 were up 7.9% over the prior February 2018 despite 25 flight cancellations due to Typhoon Wutip. March 2019 arrivals were up 9.2% over March 2018 with a 26.9% increase in Japanese arrivals and Korean arrivals holding steady for the calendar year-to-date.

The Japan market's recovery also continues, with Japan arrivals jumping 27.24% in December 2018 when compared to the previous year. Japan arrivals for the first four months of the fiscal year show a 29.6 % increase and total arrivals an 8.5 % increase. Korean arrivals for January decreased by 8.9% due to the reduction in seats with airline carriers such as Korean Air and Jeju Air. However, Year-to-Date arrivals for Korean visitors continue to show strong growth ending the year up nine % compared to 2017. The latest figures show that Korean arrivals increased in the first part of February 2019. According to a GVB release, "Other markets that showed growth in December include Taiwan by 6.8%, the U.S. by 6.8%, Hong Kong by 17.1%, and the Russian Federation by 25.3%."

This growth in arrivals is directly related to the overall increase in available seats to Guam. There were around 982 flights for the month of December 2018 with 197,228 seats available, a 5.68% increase when compared to the 186,634 seats reported in December 2017.

The Guam Visitors Bureau reported that: "The success of the airline incentive program from GVB and the Guam International Airport Authority (GIAA) continues to attract more seats to Guam. Ken Real Estate and Korean Low-Cost Carrier (LCC) Jeju Air started daily charter flights from Narita to Guam on a Boeing 737-800 on October 28, 2018. In December, United added four more flights a week between Guam and Nagoya. T'way also began its Nagoya-Guam service on December 29 and will run through October 2019. More than 130,000 seats on 700 charter flights are scheduled for Calendar Year 2019."

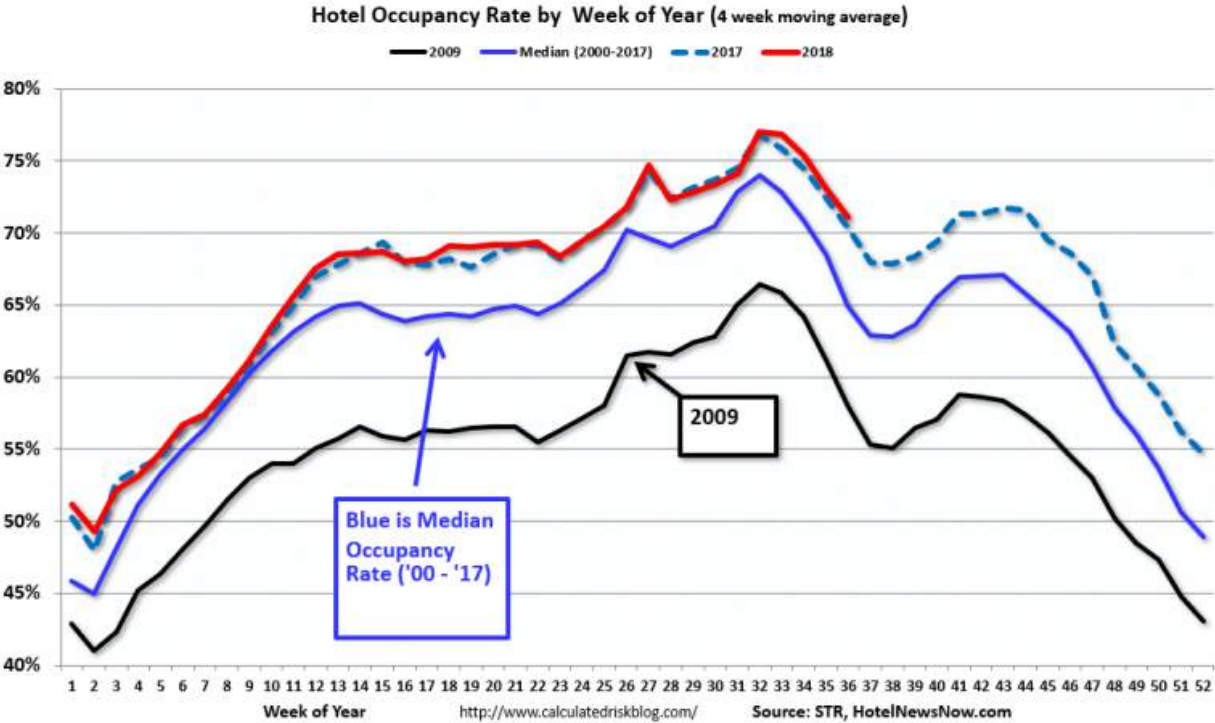
Hotel room capacity expansion is also anticipated to accommodate the strong and increasing demand. Tsubaki Hotel, a 26-story 340 room five-star hotel is under construction adjacent to the Hotel Nikko Guam in Tumon Bay.

Visitor spending as measured by hotel occupancy taxes continued to increase more than arrivals through FY 2018. An increase in the proportion of higher spending tourists from Japan as well as high occupancy and room rates should also continue to boost overall tourist expenditures. GVB FY 2018 figures show that Japan travelers total expenditures per person were \$1,499 vs. Koreans of \$1,088. While per person expenditures are higher for Japanese travelers, Korean visitors to Guam often travel with larger groups. Hotel occupancy rates increased from an annual average of 80.5% in 2013 to 84.2% in 2017 and 86.5 % in 2018. Average Daily Rate (ADR) rose from \$164.29 in 2013 to \$205.40 in 2017 and remained virtually unchanged in 2018 at \$205.25.

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Tourism	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Percent Change from 2017	Percent Change from 2014
Total Visitors	1,341,171	1,372,531	1,511,065	1,559,487	1,528,388	-2.0%	14.0%
Occupancy Tax Collected	\$34,451,301	\$36,568,032	\$40,192,651	\$40,009,909	\$42,838,736	7.1%	24.3%

Guam hotel occupancy rates are high and consistently high throughout the year compared to the U.S. national averages and exhibit much less seasonal variation than the U.S. average due to little seasonal variation in the tropical climate as well as increased diversification in source markets with somewhat different seasonal travel patterns. Guam average monthly occupancy rates for 2018 ranged from a low of 80.5% in April to a high of 92.8% in February. In an over-the-year comparison from December 2017 through December 2018, data from STR (formerly Smith Travel Research) show U.S. average occupancy increased 0.1% to 54.1%, ADR plus 1.8% to the US \$124.28.



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The 2018 Forecast of International Travelers to the United States by the U.S. Department of Commerce, International Trade Administration, National Travel and Tourism Office are as follows:

Japan 2019 - up 1%, 2020 - up 1%; *China* 2019 - up 2%, 2020 - up 3%; *South Korea* 2019 - up 5%, 2020 up 4%; *Taiwan* 2019 - up 2%, 2020 - up 2%

Construction

Construction is expected to increase since there is an increased demand as well as recently substantially expanded capacity to meet more of the demand. The total value of building permits for civilian projects and Department of Defense (DOD) construction contracts has been increasing substantially. The total in 2015 was \$385.6 million, in 2016, \$460.0 million, in 2017, \$591.0 million and in 2018, \$661.3 million. Also, H-2B workers have recently resumed arriving, and more have been approved for entry. The number of H-2 workers in construction has increased monthly from zero in May 2018 to 839 as of March 19, 2019, of just over 1,400 already approved for entry and a strong probability of more in the future. Employment in construction has increased recently, 6,500 employees as of December 2018, up from 5,980 one year ago in December 2017. Construction activity is expected to see additional increases over-the-year in the neighborhood of ten to twenty percent. Since construction accounts for approximately ten percent of total civilian employment, a ten percent increase in construction alone should increase total civilian economic activity and employment by about one percent and a little more if indirect effects are considered.

Chart 1								
BUILDING PERMITS & CONSTRUCTION CONTRACTS (in thousands)								
Calendar Year	2011	2012	2013	2014	2015	2016	2017	2018
Building Permits	211,097	364,504	449,147	308,451	221,285	433,358	423,015	355,045
U.S. Military Construction Contracts	334,597	152,095	88,001	261,234	164,377	26,463	167,932	306,350
Japan Funded Military Contracts	<u>89,720</u>			<u>44,500</u>				
TOTAL	635,414	516,599	537,148	614,185	385,622	459,821	590,947	661,395

In early 2016 DHS began disapproving virtually all H-2B workers petitions. As of December 31, 2015, there were 1,570 H-2 workers on Guam, 1,334 of them in Construction Trades. The number of H-2 workers continued to decline as their work visas expired until May 2018 when there were zero. Since then the numbers have been gradually increasing every month primarily for DoD work.

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Chart 2

APPROPRIATIONS (in thousands)

Fiscal Year (FY):	2011	2012	2013	2014	2015	2016	2017	2018	2019
U.S. DOD Military Construction	176,030	83,600	101,904	494,607	133,680	272,268	248,658	354,654	448,500
DOD Civilian Guam Infrastructure				119,400		20,000			
Japan - Fiscal Year (JFY)	<u>582,000</u>	<u>93,000</u>							
Combined:	758,030	176,600	101,904	614,007	133,680	292,268	248,658	354,654	448,500

Chart 3 – Government of Guam

LIST OF PLANNED MAJOR CONSTRUCTION PROJECTS AND FUNDING SOURCES

Planned Projects – Funds Available	Amount
Port Authority of Guam (PAG)	72,600,000
Subtotal	\$72,600,000
Planned Projects –Bond/Loan Financing Proposed	Amount
Guam Waterworks Authority (GWA) Prior Bonds	120,000,000
Guam Power Authority (GPA) Prior Bonds	108,000,000
Department of Education	100,000,000
Department of Public Works	20,000,000
Subtotal	\$348,000,000
TOTAL:	\$420,600,000

The Guam Contractors Association filed a lawsuit which sought to enjoin the government from administering the program in a way that may substantially deviate from its previous administration in Civil Case No. 16-00075 Guam Contractors Association v. Sessions. The District Court of Guam granted class-action status to the lawsuit and 11 other plaintiffs. The case remains in litigation. The National Defense Authorization Act for FY 2018 provided an exemption to the “temporary need” requirement and authorized up to 4,000 H-2 workers annually for certain health care workers on

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Guam and in the CNMI, as well as for workers directly connected to, or directly associated with, the planned military realignment of U.S. Marines from Okinawa, Japan, to Guam. The FY 2019 National Defense Authorization Act (NDAA) also eliminated the annual cap of 4,000 H-2B workers.

Two significant federal policy actions have recently occurred. This includes the possible use of Guam DoD project funding for border barrier projects and a ban on admission of workers under the H-2B category for Philippine citizens.

On February 15, 2019, President Donald J. Trump declared a national emergency that requires the use of the armed forces and authorized the use of title 10, U.S. Code, section 2808. In identifying the potential pool of sources of military construction funds, according to a DoD fact sheet, DoD will apply the following criteria:

- No military construction projects that already have been awarded and no military construction projects with FY 2019 award dates will be impacted.
- No military housing, barracks, or dormitory projects will be impacted.

As the pool of projects that could possibly be used for section 2808 projects exceeds the needed amount, the appearance of any project in the pool does not mean that the project will be used as a funding source. The fact sheet lists \$348.6 million in Guam projects that could potentially be affected. However, since most of the construction that will occur in FY 2020 has already been contracted in previous years, the possible use of these funds will not have a significant effect in the upcoming fiscal year. The fact sheet notes that decisions have not yet been made concerning which border barrier projects will be funded through section 2808 authority and if the Department's 2020 budget is enacted on time as requested, no military construction project used to source section 2808 projects would be delayed or canceled.

The Department of Homeland Security announced that the Philippines is no longer on the list of countries eligible for entry to the U.S. under H-2A and H-2B categories for one year commencing January 19, 2019. Since the policy does not affect those workers from the Philippines currently holding valid H-2 visas those already on the island and those approved for entry, the change in policy will not reduce the current workforce in the near term, and it is expected to increase as those approved continue to arrive. The policy could present an additional obstacle to overcome for renewals and those petitions up for approval. The policy contains language that allows certain exemptions tied to national defense, however, the notice indicates that USCIS can approve H-2 petitions for beneficiaries from non-designated countries if USCIS determines – "based on the totality of the circumstances" – that it is in the U.S. interest for the individual to be a beneficiary of an H-2B petition. The notice identifies Guam's NDAA provision as an example of such national interest. That specific inclusion suggests that Philippine workers may continue to be approved for NDAA projects. In April 2019, notice was received that four contractors got approval for a total of 97 additional workers and 258 extensions of H-2B visas for workers from the Philippines.

Non-NDAA civilian projects have not been approved by Homeland Security in recent years due to concerns about the temporary nature of the activity. If that issue is resolved in a manner to permit H-2B workers for civilian projects, the ban on workers from the Philippines would continue to be another barrier although workers could potentially be sourced from other permitted countries. The approach of recruiting H-2B workers from countries other than the Philippines is currently being pursued in Saipan, CNMI for work on the Imperial Pacific casino resort.

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A number of major civilian projects are ongoing. These include:

- Tsubaki Hotel is being constructed by P.H.R. Micronesia, Ken Corp. It is to be a 26 story 340 room five-star hotel offering luxury accommodations. The site is adjacent to the Hotel Nikko Guam with a total investment of approximately \$180 million. The groundbreaking was March 2016 and completion was initially scheduled for October 2018. The completion date has been delayed and a 2019 completion was previously provided. It is expected to employ 290 people.
- Guam International Airport Authority (GIAA) commenced construction in July 2017 on a new International Arrivals Corridor. The new Corridor will add a third level to the airport terminal. It is designed to separate arriving from departing passengers. The project was initially contracted at \$97 million but is now projected to cost \$117.8 million. The original completion date of September 2019 has been moved forward to July 2020.
- Low-Income housing tax credit financed housing by Guam Housing and Urban Renewal Authority for Summer Town Estates Phase III with 66 low-income units located at the old Lada Estates. The groundbreaking ceremony was held March 15, 2017, and the units are scheduled for completion in early 2019. Villa Del Mar LLC plans to build 50 units off the Kanada-Toto Loop in Mongmong for low-income families and homeless veterans. A groundbreaking ceremony for the project was held November 21, 2017. The program is under the jurisdiction of the IRS; GHURA awards credits to developers. The estimated cost for both projects is about \$50 million.
- Summer Towers formerly known as Emerald Oceanview Park, a \$100 million four-tower development with plans for 260 luxury condominium units on the cliff line next to Guam Memorial Hospital. The project was previously planned for completion in 2010 but encountered delays. The mortgage was taken over by CoreTech which had recently completed the most Southern tower and held an open house May 18, 2017. In January 2018, The Summer Towers' website indicated that the tower is entirely occupied. Work on the other towers are being performed but constrained by construction workforce availability; plans were for the remaining towers to be completed in late 2018 but work still remains.
- Tumon Bay Mall has 200,000 square feet of floor space on two levels. Phase I work on the mall's exterior structure is completed, and Phase II is for work on interior finishing which is delayed for the availability of construction workers.
- Fishermen's Co-Op project includes a 220-foot sea wall which will be a docking area for larger vessels, to include fishing, charter, and dolphin watch vessels and 6,000 – 7,000 square feet for the operational facility, now at an estimated cost of \$6 million. In 2014 the Fishermen's Co-Op and GEDA signed a memorandum of understanding for the construction, repair, and improvements of the new facility. The project groundbreaking was January 28, 2017.

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New restaurants have recently opened or will open soon add to dining variety as well as employment. These include:

- Olive Garden Guam’s first Olive Garden, a chain Italian restaurant opened in October 2018. Red Lobster plans to open soon, also at the Tumon Sands Plaza.
- Jolibee, a Philippine fast-food restaurant, opened in April 2019 and is located in a two-story building in the Micronesia Mall parking lot.
- McDonald’s Yigo had its grand opening November 17, 2018. It is located at the corner of Marine Corps Drive and Chalan Lujuna.

A new big-box retailer plans opening, a hotel project is in the planning and land use variance phase:

- Japanese retail store Don Quijote is planning to open a large retail discount store as Don Don Donki in two years. The property lease was registered at the Guam Department of Land Management on March 20, 2019 at a lot near the corner of Airport Road and Marine Corps Drive which is currently occupied by the Triple J Auto Group.
- An application for a proposed Guam International Airport Hotel has been submitted to the Guam Hybrid Land Use Commission. The proposal is for an 11-story, 246 room hotel across from the A.B. Won Pat International Airport's main terminal. The project plans include retail facilities and parking. The estimated project cost is \$50 million and would employ an estimated 100 to 125 people.

MARINE CORPS RELOCATION

The effect of the on-going Marine Corps Relocation projects on Guam's economy in FY 2020 will primarily be associated with substantial increases in construction activity. Those increases and impact on the economy are inter-related and discussed in the construction and federal expenditures sections of this report. This section focuses on Realignment issues specifically.

The Record of Decision released in August 2015 substantially downsized and lengthened the time-frame from the initial 2010 plan. The realignment cost is capped at \$8.7 billion of which about three billion will come from the Government of Japan. The plans are to relocate about 5,000 Marines and their dependents from Okinawa to Guam between 2020 and 2025. Delays to the plan continue. They are now expected to begin arriving around 2025 graduated slowly over the following two years. The plan is summarized concisely in an August 18, 2017 Pacific Daily News article. It includes “a Marine base on military property at Naval Computer and Telecommunications Station; housing Marine families in homes to be built within the fence at Andersen; developing a live-fire training range complex on 338 acres of land at Andersen, adjacent to the wildlife refuge at Ritidian; and developing a hand-grenade training facility at Andersen, South.” It also includes a number of off-base infrastructure capital improvements. These include civilian water and wastewater projects, port projects, road improvements for Route 1, 3 and 11 and Agana bridge projects.

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The Interagency Coordination Group of Inspectors General Report for Guam Realignment Annual Report published February 1, 2019 contains five sections that identify the programs and operations funded with appropriated amounts or funds otherwise made available for military construction on Guam in FY 2018. These sections reported that:

- The DoD obligated \$302.9 million and expended \$117.3 million. Other Federal agencies obligated \$2.8 million and expended \$10.5 million. (Section 1)
- The DoD identified 189 military construction projects and programs, totaling \$107.5 million, with estimated completion costs of \$1.1 billion. Other Federal agencies identified 39 projects and programs, totaling \$10.5 million, with estimated completion costs of \$68 million. (Section 2)
- The Government of Japan provided revenues of \$521.4 million and earned \$17.1 million in interest associated with revenues. (Section 3)
- The DoD identified operating expenses of \$56 million. Other Federal agencies identified operating expenses of \$75,438. (Section 4)
- The DoD identified a total of 102 contracts, grants, agreements, or other funding mechanisms, totaling \$2.2 billion. Other Federal agencies identified a total of 28 contracts, grants, agreements, or other funding mechanisms, totaling \$2.8 million. (Section 5)

In FY 2017 DoD obligated \$417.9 million and expended \$152.7 million. For FY 2017 and FY 2018 combined, obligations exceeded expenditures by \$452.1 million indicating that a very substantial amount of work in process has accumulated and will almost certainly expand the level of realignment related construction activity. The amount of work contracted is expected to increase due to the FY 2019 Military Construction Appropriation of \$448.5 million being well above triple the total expenditures in FY 2018 as well as the contracting planned for FY 2019 well over current spending.

The continued development work is not without concerns which could alter the course or timing of the planned projects and activities. A lawsuit was filed in the Northern Mariana Islands District Court July 27, 2016, by Tinian Women's Association; Guardians of Gani; Paganwatch and Center for Biological Diversity, vs. United States Department of the Navy; Ray Maybus, Secretary of the Navy; United States Department of Defense; and Ashton Carter, Secretary of Defense.

The Plaintiffs request that the Court Vacate and set aside the 2010 and 2015 Records of Decision regarding the relocation of Marines from Okinawa to the Mariana Islands, and issue any appropriate injunctive and other relief. If the plaintiffs prevailed, it could have been a significant setback for the Guam realignment projects. CNMI District Court Chief Judge Ramona Manglona dismissed most of the arguments in October, and the case hinges on the issue of whether or not the Navy failed to evaluate in a single Environmental Impact Statement, the impacts of stationing U.S. Marines on Guam and the full range of training in the CNMI required by those Marines. In August 2018, a ruling was issued in favor of the Navy. Judge Manglona disagreed with the plaintiffs ruling that the Navy's relocation efforts and the proposed range and training areas in Tinian and Pagan are not connected. On September 12, 2018, an appeal of the ruling was filed.

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Artifacts discovered January 21, 2019, during grading at the base site of the new Marine Corps base in Dededo including rock tools and pottery fragments caused work to stop in part of the area, but the affected area represents only a small portion of the overall project.

Chart 4					
MLCON Solicitation/Award Forecast (Updated August 2018)					
FY	Project	Location	Programmed Amount	Projected Solicitation Date	Projected Award Date
2014	PRTC SILVER FLAG FIRE RESCUE & EMERGENCY MGMT TRNG	N41557 -- US NAVSUPACT ANDERSEN GUAM	\$4,600,000	N/A	N/A
2017	REPLACE ANDERSEN HOUSING PH I	N41557 -- US NAVSUPACT ANDERSEN GUAM	\$78,815,000	02/21/2019	08/29/2019
2017	MUNITIONS STORAGE IGLOOS, PHASE 2	N41557 -- US NAVSUPACT ANDERSEN GUAM	\$35,300,000	05/13/2019	11/13/2019
2017	APR - SATCOM C4I FACILITY	N41557 -- US NAVSUPACT ANDERSEN GUAM	\$14,200,000	10/09/2019	03/09/2020
2018	APR - BULK FUEL STORAGE TANKS (DARWIN)	N61755 -- NAVBASE GUAM	\$76,000,000	02/20/2019	08/06/2019
2018	REPLACE ANDERSEN HOUSING PH II	N41557 -- US NAVSUPACT ANDERSEN GUAM	\$40,875,000	02/21/2019	08/29/2019
2018	NAVY-COMMERCIAL TIE-IN HARDENING	N61755 -- NAVBASE GUAM	\$37,180,000	08/02/2019	03/16/2020

The total in Chart 4 above scheduled for MilCon solicitation and award is \$287 million so far for 2019 through 2020.

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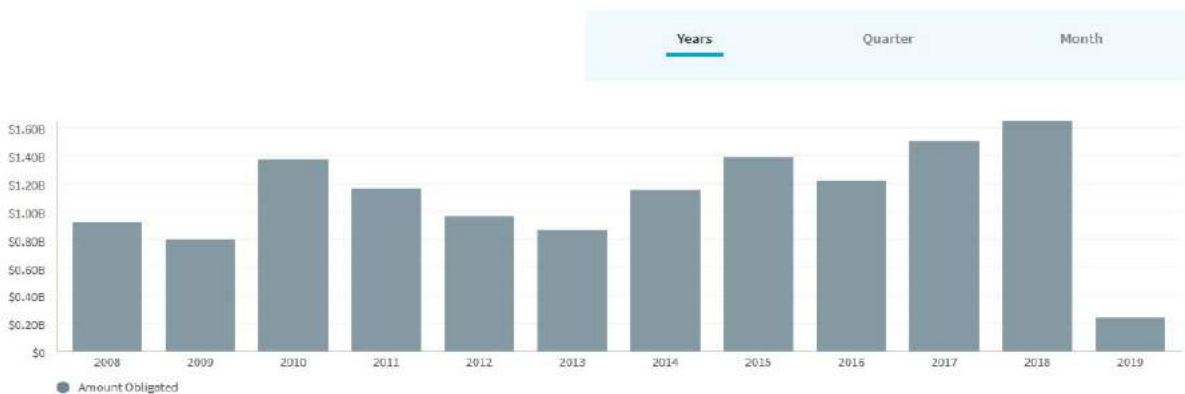
Federal Government Expenditures

Federal Government Expenditures represent the second largest source of funds flowing into the Guam economy. \$1.65 Billion in federal funds were obligated or expended for Guam in 2018 as provided at USASpending.gov.

The federal budget for the Department of Defense is expected to see another increase in FY 2020. "President Trump plans for a dramatic boost in military spending next fiscal year reversing course on previous pledges of a trimmed down defense budget." He previously announced a \$700 billion Defense budget for FY 2020, down from the FY 2019 level of \$733 billion. As of December 2018, the President committed to a defense budget of at least \$750 billion, a nearly 5 % increase instead of a 2 % cut.

Transactions Over Time

The graph below shows trends over time for amounts awarded to this state. Break down the amounts by years, quarters, or months, and hover over the bars for more detailed information.



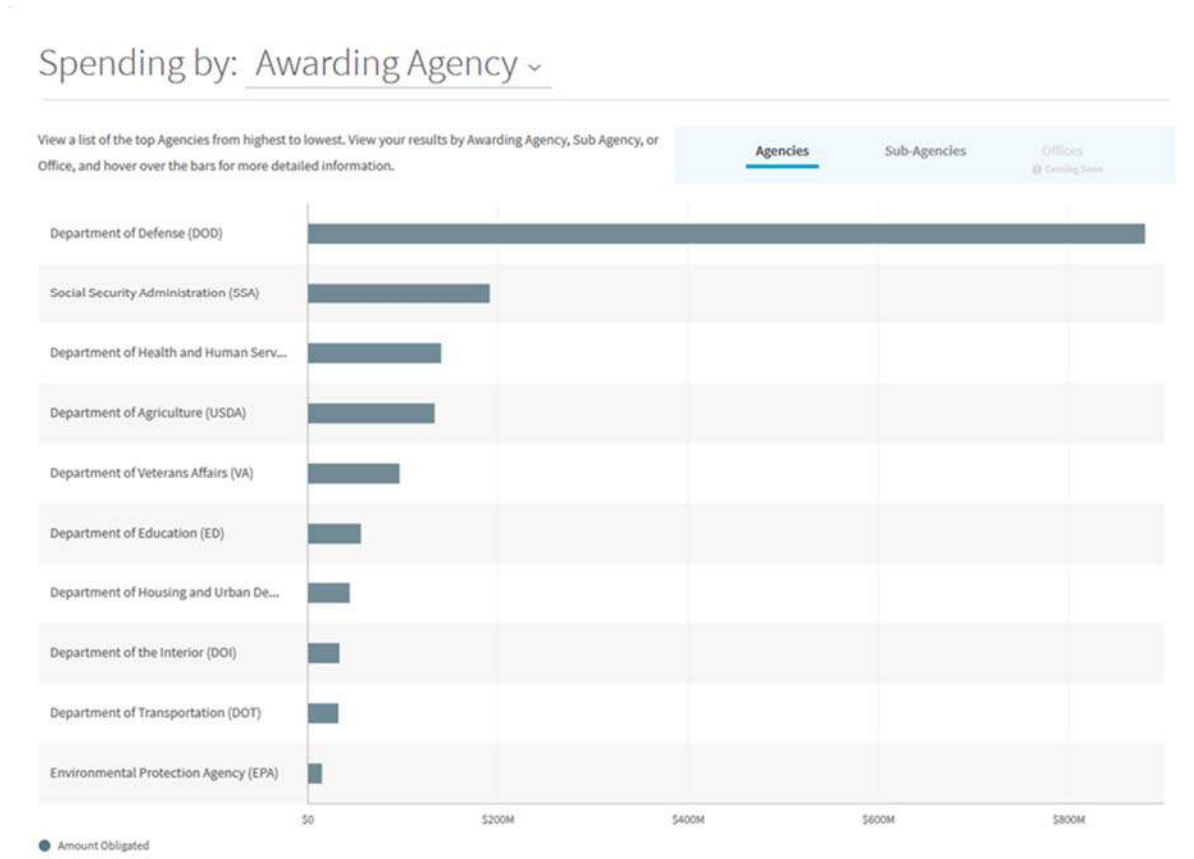
USASpending.gov

The massive federal corporate and personal income tax cuts implemented in 2018 created pressure to cause reductions in federal spending. It did not happen for FY 2020. Reduced tax rates were partially offset by increased economic activity but primarily by increased deficits contributing to substantial increases in the national debt. There continues to be concern that large federal budget deficits will force a reduction in federal spending. It is unlikely that the Democratic-controlled House of Representatives will support substantial funding reductions for discretionary non-defense programs in the FY 2020 budget. A substantial component of federal expenditures on Guam is for non-discretionary payments including Social Security and Federal Pensions. Those programs are committed to have increases in FY 2019 which set the floor of continuing these higher payment amounts in FY 2020 and likely will increase further with next year's adjustments. Most federal retirees will receive a 2.8 percent COLA in January 2019. Most military members will see a 2.6 percent increase in their base pay for 2019. Allowances such as Basic Allowance for Housing (BAH) will also see an increase. Social Security benefits will increase by 2.8 % in 2019.

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The largest categories of federal agency expenditures will increase in FY 2019. These increases will ensure that the benefit levels will be higher in FY 2020 than in FY 2018. December 2017 Congressional Statistics show Guam had a total of 17,724 Social Security Beneficiaries including Retired workers, Disabled Workers, Widow(er)s and parents, Spouses and Children. Cost of Living Adjustments for the Supplemental Nutrition Assistance Program (SNAP), effective for FY 2019, increased maximum benefit levels shelter cap values although the resource limit for households will remain unchanged for Guam. Governor Lou Leon Guerrero said that President Trump promised in December 2018 to reimburse the Government of Guam for the cost of paying the Earned Income Tax Credit which is about \$60 million annually. While there are little expectations that will happen for Guam's FY 2020 fiscal year, it is an example of how changes in federal policy or other items could dramatically impact the local budget positively or negatively independent of the economy if it were to occur.

On January 12, 2019, the Centers for Medicare and Medicaid Services (CMS) approved an increase in the hospital's reimbursement rate. The higher base rate was made effective retroactively to October 1, 2013, and will remain in effect in the years ahead. The increase in the base rate set in 1998 at \$5,154 per patient on discharge was increased to \$9,511 increasing federal revenue to Guam at the Hospital about two million annually. A reauthorization in the Children's Health Insurance Program (CHIP) also increased federal funding. Prior funding was \$6-8 million. Guam recently received \$28 million and can request more according to the Chief Human Services Administrator, Division of Public Welfare of the Department of Public Health and Social Services.



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Resident Expenditures

Resident expenditures are about 27.9 percent of total direct spending in the economy according to the 2012 Guam Economic Census and are heavily dependent on inflows from external sources, so as those flows increase so should their expenditures. They can benefit indirectly by increased employment associated with additional business as well as directly as recipients of increased federal pensions and social security payments COLA adjustments. Wage earnings are the primary income source for most people. Average weekly earnings rose from \$497.95 in December 2017 to \$520.76 in December 2018. The unemployment rate on Guam has continued to fall as it has in the U.S. Guam's unemployment rate fell from 5.8% in September 2017 to 3.6% in September 2018, matching the seasonally unadjusted rate for the United States as a whole. Income is the primary determinant of consumer spending but financial, and real estate asset value appreciation and confidence in the economy may also add a boost to consumer expenditures.

Gary Hiles
Chief Economist
Department of Labor
Government of Guam