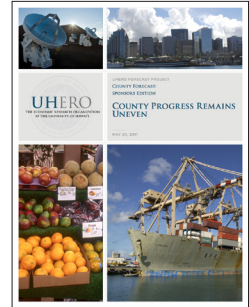


This report summary is presented as a public service of the UHERO Forecast Project. The full report provides comprehensive analysis of recent economic developments and prospects, including industrially detailed multi-year forecasts. For more information, please visit our website.

[HTTP://WWW.UHERO.HAWAII.EDU/19/FORECASTS](http://www.uhero.hawaii.edu/19/forecasts)



Hawaii's county economies turned the corner in 2010, led by rapidly improving visitor sectors. The recovery will broaden and deepen in 2011, but performance will be uneven. Visitor industries on Oahu and the Big Island will suffer a setback from the drop in Japanese visitors in the aftermath of the March 11 earthquake, while Maui and Kauai will benefit from their stronger specialization in US and Canadian markets. In construction, Oahu will begin to feel the positive effects of the beginning of work on rail mass transit, even as the Neighbor Islands continue to look for a clear bottom to the industry downturn. Hiring will return to many areas of the economy this year, but labor market conditions will remain particularly challenging on the Neighbor Islands.

Last year's visitor industry recovery was strongest on Oahu and Maui, but it was shared to varying degrees across all counties. This year, the gains will be largest on Maui and Kauai, both expected to see 6% or better arrivals growth. Oahu and the Big Island are experiencing large Japanese visitor losses following the earthquake and tsunami. Because of the extensive damage to Japanese infrastructure and to public sentiment, we expect recovery in this market to proceed only gradually over the next year. Still, strength in other markets will maintain some recovery momentum. Tourism activity, measured by visitor days, has already broken above its pre-recession level on Oahu, and by 2012 will have climbed to within 2-7% of pre-recession levels on the

Neighbor Islands. This is a more rapid pace of recovery than forecast one year ago.

On Oahu, construction job shedding appears to have ended, and Kauai has actually seen some modest job gains. Maui and Hawaii counties have yet to see clear signs of stabilization. Looking forward, industry fortunes will differ considerably between Honolulu and the other three counties. The beginnings of rail mass transit work will support an acceleration of construction job growth on Oahu over the next few years. While Neighbor Island construction will also begin to turn around, conditions will not warrant a rapid upturn in either residential or commercial construction.

Except for Kauai, which saw a small gain last year, 2011 will mark the first year since 2007 that the counties will see an increase in their payroll job base. Employment has lagged behind the visitor led recovery so far, but modest job growth of between 1.4% and 1.8% will return this year, with more rapid growth above 2% in 2012. Job gains will occur in all major sectors except for Federal and state and local government employment. Because of the large number of job losses that occurred during the recession, Neighbor Island labor markets will still remain very weak for several more years.

Real personal income measures the income accruing to state residents from all sources, adjusted for inflation. While

official estimates are not yet available, we believe that real income growth turned positive in three of the four counties last year. Real income growth of 2.0-2.3% will occur in 2011, with further gains thereafter. Areas of lingering labor income weakness will be the public sector (how much will depend on the outcome of ongoing public sector bargaining) and the neighbor island construction industry. Because income losses have been large, the per capita income of Hawaii residents will only slowly recover over a number of years.

The primary downside risks for all counties are tied to earthquake fallout and oil prices. While reduced Japanese travel primarily affects Oahu and the Big Island, all counties will suffer if earthquake-related disruptions to global supply chains become extensive enough to slow growth in the US and other countries. And while the travel industry appears to have weathered well recent oil price increases, a further rise in prices above current levels could short-circuit the tourism upturn that has been the heart of the ongoing recovery.

COUNTY MAJOR ECONOMIC INDICATORS
YEAR-OVER-YEAR % CHANGE

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------|-------|-------|------|-------|------|------|
| HONOLULU | | | | | | |
| Visitor Arrivals | -10.7 | -4.0 | 7.7 | 1.3 | 3.5 | 1.6 |
| U.S. Visitor Arrivals | -14.6 | -3.0 | 5.2 | 4.2 | 0.9 | 0.3 |
| Japan Visitor Arrivals | -9.0 | 0.4 | 3.9 | -10.5 | 10.3 | 3.2 |
| Other Visitor Arrivals | 0.2 | -13.4 | 22.0 | 9.6 | 2.6 | 3.2 |
| Payroll Jobs | -0.6 | -3.4 | -0.7 | 1.6 | 2.2 | 2.2 |
| Real Personal Income | 0.2 | 0.1 | -0.4 | 2.1 | 2.0 | 2.5 |
| HAWAII | | | | | | |
| Visitor Arrivals | -18.6 | -8.0 | 6.1 | 5.1 | 7.3 | 3.4 |
| U.S. Visitor Arrivals | -22.5 | -7.6 | 3.5 | 7.7 | 7.4 | 3.0 |
| Japan Visitor Arrivals | -12.2 | -5.7 | 12.8 | -14.4 | 10.1 | 3.7 |
| Other Visitor Arrivals | -3.0 | -11.8 | 12.1 | 10.8 | 5.2 | 5.0 |
| Payroll Jobs | -1.8 | -6.4 | -1.5 | 1.4 | 2.4 | 2.8 |
| Real Personal Income | -0.5 | -2.0 | 1.2 | 2.2 | 3.2 | 3.6 |
| MAUI | | | | | | |
| Visitor Arrivals | -15.6 | -9.2 | 10.4 | 6.0 | 2.5 | 1.4 |
| U.S. Visitor Arrivals | -18.5 | -8.4 | 8.9 | 6.4 | 2.8 | 1.1 |
| Japan Visitor Arrivals | -17.8 | -15.1 | 7.7 | -14.6 | 3.0 | -2.5 |
| Other Visitor Arrivals | 0.6 | -12.0 | 17.5 | 7.3 | 1.2 | 3.2 |
| Payroll Jobs | -1.8 | -7.8 | -1.8 | 1.8 | 2.2 | 2.4 |
| Real Personal Income | -2.2 | -4.7 | 1.8 | 2.3 | 3.0 | 3.1 |
| KAUAI | | | | | | |
| Visitor Arrivals | -20.7 | -9.9 | 3.8 | 6.6 | 5.2 | 3.3 |
| U.S. Visitor Arrivals | -21.2 | -8.9 | 2.3 | 6.6 | 5.3 | 3.1 |
| Japan Visitor Arrivals | -23.9 | -20.2 | 1.6 | -9.3 | 11.9 | 5.3 |
| Other Visitor Arrivals | -16.6 | -14.6 | 14.6 | 9.4 | 3.8 | 4.1 |
| Payroll Jobs | -1.7 | -7.8 | 0.2 | 1.5 | 2.1 | 2.3 |
| Real Personal Income | -1.3 | -1.8 | 1.6 | 2.0 | 2.9 | 3.0 |

Figures for 2011 - 2013 are forecasts.
Figures for 2009 - 2010 county income are UHERO estimates.

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