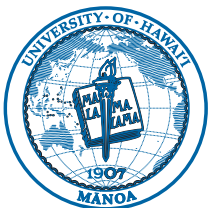


UHERO County Economic Forecast
County Economies Steadily Slowing

by

Carl S. Bonham Ph.D.
Byron Gangnes Ph.D.,
and Leroy Laney, Ph.D.

June 8, 2007



**University of
Hawai'i
Economic
Research
Organization**

UHERO County Economic Forecast

Copyright © 2007 UHERO. All rights reserved.

**University of Hawai‘i
Economic Research Organization**

2424 Maile Way, Room 540

Honolulu, Hawai‘i 96822

uhero@hawaii.edu

Carl S. Bonham Ph.D., Executive Director

(808) 956-7605

Byron Gangnes Ph.D., Director, Hawai‘i Economy Project

(808) 956-7285

Leroy Laney Ph.D., Research Associate

Research assistance by

Somchai Amornthum and

Porntawee Nantamanasikarn

EXECUTIVE SUMMARY

Economic conditions were buoyant in each of Hawai'i's four counties in 2005, but with some evidence that tight labor markets are beginning to act as a brake. The county economies will experience moderate growth in jobs and income this year, followed by further deceleration over the next year.

- Growth was strong in all counties in 2005. Visitor arrivals growth ranged from 4.5% on Maui to a dramatic 16% on the Big Island, which benefitted from high occupancy rates elsewhere. Strong arrivals and tight capacity drove record hotel revenues. Construction and mining, and the accommodation and food service sector led employment growth in all four counties. The strongest job growth last year was on the Big Island, where jobs expanded 4.0%. More moderate growth of 3.0-3.2% was recorded on O'ahu, Maui, and Kaua'i.
- Hawai'i County will once again see the strongest visitor growth this year, with arrivals rising nearly 6%. Kaua'i will see more than 5% visitor growth, and Maui will post 4% growth. O'ahu, which has the highest occupancy rates of any county, will see only modest visitor growth of 0.7%. Each of the Neighbor Island counties will see slower visitor growth in 2007 than this year.
- We have begun to see evidence of labor market cooling on Maui and Kaua'i. We expect further slowing on all islands over the next several years. This year job growth in the 2.5% range will be seen in all counties but Kaua'i, which is expected to add about 2% to its job base. In 2007, O'ahu growth will slow to about 1%, with a bit faster 1.8–2.4% growth on the Neighbor Islands.
- Construction will continue to lead job growth this year and next on the Neighbor Islands, and for this year on O'ahu. Other healthy sectors this year will be transportation and utilities, trade, and other services. Health care will also see above-average growth on the Neighbor Islands. There will be significant declines in agriculture on all islands; the biggest drop will occur on O'ahu, as the Del Monte phase out continues. Government jobs will be about flat on O'ahu and Kaua'i, with modest gains on Maui and the Big Island.
- Honolulu County will see 2.9% growth in real (inflation-adjusted) personal income, just under the statewide average, slowing to 1.9% in 2007. The Neighbor Islands will see somewhat faster growth in real income, ranging from 3–3.8% this year and 2.9–3.2% in 2007.
- The housing market remains strong on all islands, and home price increases accelerated in 2005 on O'ahu, the Big Island, and Kaua'i. The pace of sales backed off somewhat on O'ahu and Kaua'i, but it remains at a historically high levels on all islands. Median prices have more than doubled since 2001, although rates of price appreciation have begun to slow recently.
- Labor shortages are a growing problem for many firms. For consumers, the story of the year has been high gasoline prices. However, the limited expenditure by residents on transportation fuels limits our overall exposure to energy-related inflation. Home prices and electricity costs may continue to feed through. We continue to forecast local inflation of 3.8% this year, and inflation remaining above 3% through 2007.
- The biggest risk to growth in all counties is a possible slowdown of the U.S. economy and in Hawai'i tourism. The Federal Reserve has begun to express rising concern about inflation risks, signalling that further interest rate hikes are likely. Not surprisingly, financial markets have reacted negatively to this, with stock markets recently giving up most of their year-to-date gains. Tighter monetary policy runs the risk of weakening the national economy and precipitating a rapid slowdown of the visitor industry.

**MAJOR ECONOMIC INDICATORS
YEAR-OVER-YEAR % CHANGE**

	2004	2005	2006	2007	2008	2009
Statewide						
Visitor Arrivals	8.3	7.3	0.0	-0.2	1.6	1.6
Japan Visitor Arrivals	10.6	2.4	-9.3	-3.6	1.1	1.1
U.S. Visitor Arrivals	7.3	8.5	2.3	0.9	1.2	1.4
Payroll Jobs	2.8	3.1	2.5	1.9	1.4	1.2
Real Personal Income	5.2	2.9	0.4	1.4	2.0	1.8
Honolulu						
Visitor Arrivals	9.1	6.0	-2.5	-0.7	1.7	1.3
Japan Visitor Arrivals	11.1	2.7	-10.0	-4.4	1.9	1.2
U.S. Visitor Arrivals	7.3	7.2	0.8	2.0	0.6	0.7
Payroll Jobs	2.4	3.0	2.4	1.9	1.2	0.9
Real Personal Income	4.8	2.6	0.1	1.2	1.7	1.5
Hawai'i						
Visitor Arrivals	6.1	18.8	4.8	4.1	2.7	1.4
Japan Visitor Arrivals	11.0	13.7	-6.1	-7.0	-0.4	1.3
U.S. Visitor Arrivals	6.4	18.7	7.5	4.9	3.8	1.4
Payroll Jobs	4.0	4.1	3.6	2.3	1.6	2.0
Real Personal Income	6.7	4.0	2.2	2.8	3.5	2.9
Maui						
Visitor Arrivals	0.5	6.3	4.7	1.3	1.1	2.0
Japan Visitor Arrivals	-11.1	-12.5	-9.4	-12.3	-3.7	1.4
U.S. Visitor Arrivals	1.3	7.3	3.9	1.0	1.2	1.9
Payroll Jobs	3.9	3.2	2.4	1.7	1.5	1.6
Real Personal Income	6.3	3.6	0.7	1.4	2.0	2.2
Kaua'i						
Visitor Arrivals	4.6	6.8	8.4	5.2	2.7	3.0
Japan Visitor Arrivals	6.2	-20.4	-15.0	-8.4	-4.5	0.4
U.S. Visitor Arrivals	4.6	8.5	8.8	5.1	2.6	2.8
Payroll Jobs	3.7	2.6	2.2	2.2	1.7	1.8
Real Personal Income	6.7	3.1	0.5	2.1	2.3	2.5

Notes: Source is UHERO. Figures for 2007 – 2009 are forecasts.
Figures for 2006 county income are UHERO estimates.

Subscribe to the UHERO *EIS*

UHERO's Economic Information Service provides complete analysis and detailed industry-level forecasts for up to five years. The *EIS* is a research program of the University of Hawai'i at Mānoa and depends on financial support from report subscribers and program sponsors. The complete versions of this and other *EIS* reports are also available for individual purchase. For more information, visit our *EIS* information page at <http://uhero.isdi-hi.com/subscribe.jsp>.

UHERO EIS Executive Sponsors

UHERO thanks the following Executive Sponsors of the Economic Information Service:

American Savings Bank

Central Pacific Bank

County of Kaua'i Office of Economic Development

Hawaii Electric Light Company, Ltd.

Hawaiian Electric Company, Inc.

Jupiter Holdings LLC

Kamehameha Schools

Matson Navigation Company

Maui Electric Company, Ltd.

UHERO's Economic Information Service is a community-sponsored research program of the University of Hawaii at Mānoa. The EIS provides the Hawaii community with information on economic, demographic, and business trends in the State and the Asia-Pacific region. Summaries and analyses are disseminated through forecast reports, public fora, and regular forecast updates. UHERO develops and maintains high-frequency industry level statistical models of Hawaii, its four counties and key external economies to support rigorous forecasting exercises.

All sponsors receive the full schedule of UHERO reports, as well as other benefits that vary with the level of financial commitment.

For sponsorship information, browse to <http://www.uhero.hawaii.edu>.

Upcoming UHERO Forecast Reports

3rd Quarter: Hawai'i Construction Forecast Update. Review of construction industry conditions and multi-year forecasts.

3rd Quarter: Hawai'i Quarterly Forecast Update.

4th Quarter: The Global Outlook Report. Review of economic conditions in the world economy with particular focus on Asia.