

**UHERO Quarterly Hawai'i Forecast Update**  
**Another Year With No Visitor Growth**

by

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## EXECUTIVE SUMMARY

### **Key Changes in This Forecast.**

Our 2007 forecast for visitor arrivals growth has been reduced from 0.8% growth to -0.2% growth based largely on the weak first quarter.

The Federal government revised downward Hawai'i employment growth estimates for 2006, to 2.3%. We now expect 1.7% growth in employment in 2007, down from 2.1% in our March forecast.

Real personal income for last year came in at 0.4%, slightly higher than our previous estimate. We expect real income growth of 1.4% for 2007, down from 1.8% in the March forecast.

The visitor industry has gotten off to a poor start in 2007. The outlook for the rest of the year is tempered by weak conditions in the U.S. economy. Japanese arrivals will gradually stabilize, declining 3.6% for the year a whole, before strengthening to about 1% growth in 2008 and 2009. U.S. arrivals are expected to grow by less than 1% this year, strengthening a little to 1.4% by 2009.

Overall arrivals will be essentially flat this year, with 1.6% growth expected in 2008–2009. Visitor days, which takes into account length of stay, will decline by 0.5% this year before strengthening to a bit more than 2% growth in 2008–2009.

Construction slowing continues, although momentum in non-residential activity will help to moderate the cycle. The end of the recent expansion will be characterized by a slow decline in total real construction spending, but continued increase in the nominal tax base as construction costs rise. Construction employment and earnings will remain above 2006 levels over the forecast horizon.

Slowing in the broader economy will proceed in the face of still very tight local labor markets. We expect that non-farm payroll job growth will slow from last year's 2.5% pace to 1.9% this year. Further slowing toward 1.2% annual growth will occur by 2009. The annual unemployment rate bottomed out at 2.4% last year and will ease to 3% by 2009.

Inflation will only gradually recede from the near-6% level recorded in 2006. Home price appreciation of the 2000–2006 period continues to feed through into consumer prices, and the recent fuel price spike will also exert some upward pressure. We expect the Honolulu CPI to rise by 4.8% this year, gradually cooling to 3.3% by 2009.

Real income growth last year was only 0.4%, with inflation undermining nominal gains. Real income will begin to recover this year, but still remain sub-par at 1.4% growth. There will be some strengthening to near 2% in 2008–2009.

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## Hawai'i Economic Indicators, Year-Over-Year Percent Change

	2004	2005	2006	2007	2008	2009
Visitor Arrivals	8.3	7.3	0.0	-0.2	1.6	1.6
U.S. Visitor Arrivals	7.3	8.5	2.3	0.9	1.2	1.4
Japan Visitor Arrivals	10.6	2.4	-9.3	-3.6	1.1	1.1
Payroll Jobs	2.8	3.1	2.5	1.9	1.4	1.2
Employment	1.4	2.9	2.3	1.7	1.3	1.1
Unemployment Rate (%)	3.2	2.7	2.4	2.4	2.6	3.0
Inflation Rate, Honolulu MSA (%)	3.3	3.8	5.8	4.8	3.8	3.3
Real Personal Income	5.2	2.9	0.4	1.4	2.0	1.8

Notes: Source is UHERO. Figures for 2007 – 2009 are forecasts. See Tables 1-4 for additional macro and industry detail.

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