

UHERO Quarterly Hawai‘i Forecast Update

Another Year With No Visitor Growth

by

Carl S. Bonham Ph.D.

(808) 956-7605

and

Byron Gangnes Ph.D.

(808) 956-7285

Research assistance by
Somchai Amornthum and
Porntawee Nantamanasikarn

June 8, 2007

**University of Hawai‘i
Economic Research Organization**
2424 Maile Way, Room 542
Honolulu, Hawai‘i 96822
uhero@hawaii.edu



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

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.

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>.

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.

UHERO E/S 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.