UHERO County Economic Forecast

Zero Growth Expected Statewide

by

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EXECUTIVE SUMMARY

To varying degrees, each of the four counties has shared in the state's broad pattern of slowing over the past several years, a process that became more pronounced in 2007. This synchronized slowing is no mistake, reflecting broad statewide—and even global—slowing trends in construction, visitor spending and overall economic activity. There are similarly common adverse developments that will influence the county economies over the next several years. These include the failures of Aloha Airlines and ATA, the loss of two NCL cruise ships, a weak external environment for tourism, and the turning of the statewide construction cycle. This year, job and real income growth will fall in a fairly tight range around 0% in each of the four county economies. Our expectation is that it will be several years before the islands return to a moderate pace of economic expansion.

- The bankruptcy of Aloha Airlines and ATA in late March and early April will have a severe near-term impact on Hawai'i's visitor industry. Statewide visitor arrivals were already projected to decline by nearly 2% in 2008, because of the loss of two NCL cruise ships and the struggling American economy. Because of the airline woes, we now expect a nearly 4% drop this year. In addition to the direct loss of transportation jobs, other tourism-related areas will also suffer. Aggregate job growth is now expected to be slightly negative in 2008 and is not expected to begin recovering until 2010. We will have much more to say about the changing state outlook in our next *Quarterly Hawai'i Forecast Update*, to be released in June.

  There will be significant declines in visitor arrivals statewide, ranging from 4% to 11% across the counties. In an important sense the sharp drop in arrivals overstates the impact of the cruise ship departures. Because the length of stay of cruise visitors is far shorter than for a typical non-cruise visitor, particularly on the neighbor islands, the net effect on visitor days is limited. Nevertheless, declines of between 2.6% and 5.6% in visitor days will be seen this year.

- Job growth on O'ahu continued to decelerate last year, averaging just 0.6% growth, the lowest rate of job growth since 2002. Employment—which includes self employed people—turned negative in the year's second half. Because of continuing slowing of construction growth and tourism industry woes, we expect job and employment growth to remain very anemic for the next several years. Non-farm payroll jobs will drop by 0.1% in 2008 and remain at roughly the same level in 2009, before returning to positive growth in 2010. Because of labor market weakness, we expect real income growth of just 0.3% this year and 0.4% in 2009.

  The weakest industry on O'ahu will be tourism, where arrivals from both the U.S. and Japanese markets are expected to decline by more than 6% this year; overall arrivals will decline by 4% because of relative strength in markets other than the U.S. and Japan. Visitor days will decline by 2.6%. Visitor industry weakness will persist on O'ahu for the next several years. Construction in Honolulu County has remained relatively healthy and is likely to experience a fairly soft landing over the next several years.

- After a more than 12% increase in visitor arrivals over the 2005–06 period, Maui arrivals fell 0.6% in 2007. We expect a 6.5% drop in Maui arrivals this year, with U.S. arrivals off nearly 9%. Visitor days are expected to decline 4% in 2008. Visitor industry weakness will continue for the next several years. Arrivals are expected to gain back just 1.6% in 2009, while the number of visitor days will expand by 1.1%.

  Maui payroll jobs for 2007 were 2.4% higher than in 2006, considerably faster growth than the statewide average of 1.1%. But aggregate job growth had essentially ceased by year end. We expect a small net loss of about 370 jobs (0.5%) in 2008. Jobs will remain flat in 2009, before a return to growth in 2010.

In the construction sector, job growth flattened out in the second half of last year, following several years of impressive gains. We expect roughly the same level of construction jobs to continue for the next two years, before small declines as the cycle winds down. Real aggregate personal income is estimated to have risen by 2.4% in 2007. It will drop by 0.3% this year, with the Federal tax rebates insufficient to offset a net decline in real labor income. Real income will continue to be stagnant in 2009, before returning to moderate growth.

- Visitor arrivals to Hawai‘i County flattened out last year after several years of impressive gains. This year we expect a greater than 9% drop in overall Big Isle arrivals and a substantial 5.6% decline in visitor days. Visitor arrivals will begin to rebound by 2010 as external conditions improve and we begin to see entry of new resort properties to the market, but they will remain below 2006 level for several years.

  The number of payroll jobs on the Big Island rose to just under 67,000 in the first quarter of 2007 and has bounced around that level since then. We expect the number of jobs to drop seven-tenths of a percent in 2008 and then remain at this level through 2009. The construction cycle on the Big Island peaked back in 2006, and construction jobs in the first quarter of 2008 were 6% lower than a year earlier. We expect additional moderate declines over the next several years. Aggregate real income growth to slow to a negligible 0.2% in 2008. Income will start a modest recovery next year.

- Kaua‘i has had by far the strongest visitor industry performance over the past two years, powered in part by increased cruise traffic. Arrivals are expected to decline by nearly 11% this year and to remain flat in 2009. Recovery will not begin until 2010. We expect a 3.3% drop in visitor days for Kaua‘i this year, with less than 1% recovery in 2009.

  Moderate rates of job growth have continued on Kaua‘i longer than in the other counties. The number of payroll jobs set a new record at 31,020 on a seasonally-adjusted basis in the first quarter of this year. We expect job growth to slow to 0.7% this year, before falling back by 0.2% in 2009. The construction expansion on Kaua‘i continues. We expect jobs to peak this year and to contract at a moderate pace for several years thereafter. After an estimated 1.2% growth last year, aggregate real income will be flat in 2008–2009, before returning to moderately strong expansion in 2010.

MAJOR ECONOMIC INDICATORS
YEAR-OVER-YEAR % CHANGE

	2005	2006	2007	2008	2009
Statewide					
Visitor Arrivals	7.3	0.6	-1.3	-3.9	1.8
Visitor Days	7.8	1.2	-1.6	-3.4	1.1
Payroll Jobs	3.1	2.6	1.1	-0.2	0.0
Real Personal Income	4.0	1.0	1.5	0.2	0.6
Honolulu					
Visitor Arrivals	6.0	-2.2	-0.7	-4.0	1.1
Visitor Days	4.3	-3.5	-1.0	-2.6	1.1
Payroll Jobs	3.0	2.1	0.6	-0.1	0.0
Real Personal Income	3.9	0.8	1.4	0.3	0.4
Maui					
Visitor Arrivals	6.3	5.6	-0.6	-6.5	1.6
Visitor Days	3.9	5.1	-1.9	-4.0	1.1
Payroll Jobs	3.2	3.6	2.4	-0.5	-0.1
Real Personal Income	3.4	2.2	2.4	-0.3	0.2
Hawai‘i					
Visitor Arrivals	18.8	5.0	0.1	-9.1	0.8
Visitor Days	15.7	2.9	-2.1	-5.6	2.0
Payroll Jobs	4.2	4.8	2.2	-0.7	0.1
Real Personal Income	5.4	1.1	1.3	0.2	1.9
Kaua‘i					
Visitor Arrivals	6.8	10.4	5.7	-10.8	0.4
Visitor Days	2.3	7.3	4.0	-3.3	0.9
Payroll Jobs	2.7	2.9	2.3	0.7	-0.2
Real Personal Income	4.1	1.0	1.2	-0.2	0.6

Notes: Source is UHERO. Figures for 2008 – 2009 are forecasts.
Figures for 2007 county income are UHERO estimates.

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