## UHERO Quarterly Hawai‘i Forecast Update

# A Hard Fall for Hawai‘i Tourism

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# EXECUTIVE SUMMARY

**Key Changes in This Forecast:**

Our 2008 forecast for visitor arrivals growth has been reduced from –4.6% to –9%. Additional modest arrivals losses are now expected in 2009, before recovery begins in 2010.

While there have been no significant changes to our estimates for 2008 aggregate economic performance, a weaker tourism picture leads us to reduce our forecasts for 2009. We now expect a 0.8% decline in payroll jobs next year, more than one-half percent weaker than we forecast in June. Real income will be flat through 2009, before returning to growth in 2010.

Over the 2008–2009 period, we now expect larger net job losses in accommodation & food services and wholesale & retail trade. We have also reduced somewhat our forecasts for construction, finance, insurance & real estate, and state & local government. Transportation & utilities and agriculture continue to see the largest percentage losses.

The U.S. downturn and record-high oil prices have taken a big bite out of the Hawai'i tourism industry. Visitor arrivals will tumble 9% this year, the biggest annual decline since 2001. Because of deteriorating conditions for the U.S., Japanese and global economies, we now believe that a visitor industry recovery will not begin until 2010. While economic statistics for the aggregate economy this year are coming in a bit better than expected, this will not last. With the steep tourism downturn, ongoing slowing in construction, and a developing state fiscal crunch, the Hawai'i economy is in for a weak 2009.

- Prospects for growth in key external economies continue to worsen, with the American slowdown deepening and weakness spreading to the global economy. Annual growth of U.S. real GDP will be 1.7% this year and next, before recovering to 3.5% in 2010. U.S. employment will see a small net loss this year and will not begin to recover appreciably until 2010.

- Both Europe and Japan are now showing lower measured activity than we are seeing in the U.S. Japan's real GDP expanded at a 3.2% rate in the first quarter, then dropped at a 3% annual rate in the three months ending in June. As a group, the economies of the Euro Zone contracted in the second quarter for the first time since the currency was first introduced in 1999.

- Summer tourism has suffered a bigger hit than we had expected earlier in the year. We now expect a 1.2% decline in arrivals next year, on top of this year's losses, with recovery delayed until 2010. By the time that recovery begins, arrivals from the U.S. mainland will have dropped 14% from their recent 2006 peak. Japanese arrivals will have fallen more than 25% since 2005.

- Markets other than the U.S. and Japan performed well in the first half of the year, with arrivals rising a bit more than 8% in the second quarter. But these markets have also softened recently, with arrivals for the June–July period up just 3.3%. We now expect the number of visitors from Canada, non-Japan Asia and other markets to expand by 3.8% this year and about 4.9% in 2009.

- In view of the struggling tourism sector, we expect job losses in the transportation & utilities sector to continue into next year, with a decline of nearly 12% from 2007. We expect the number of jobs in the accommodations and food services sector to decline 1.3% this year and another 1.5% in 2009. Losses of more than 2% are anticipated in the wholesale & retail trade sector next year as firms adjust employment in response to the visitor demand shortfall.

 

- Construction sector jobs, which expanded by nearly 7% last year, will post just 0.4% growth this year and shed about 5% of its job base over the next two years. The construction adjustment is still expected to remain mild by national standards.
- Total non-farm jobs in Hawai'i will be about flat for this year as a whole, with a 0.8% decline in 2009. Growth of less than 1% is expected in 2010, before strengthening back toward a steady-state path of 1–1.6% annual growth. Real personal income will be flat through 2009 and will expand by 2% in 2010.
- Oil prices are coming down in line with our expectations, which will begin to take the heat off inflation. We expect 4.8% inflation for 2008 as a whole. With softening oil prices and the end of rent appreciation, inflation will come down markedly to 2.9% in 2009. This is a bit higher than the 2.2% we forecast in our last report, reflecting a more moderate view of the pace of non-energy inflation cooling.
- We continue to see forecast risks in the same set of factors that we have described in past reports, with some subtle changes. On the downside, our concerns about national credit markets have intensified, and there is also a greater potential risk of a deep global downturn. On the upside, the retreat of oil prices to the $90 per barrel range increases the chance of a more substantial oil retreat, which would boost global growth prospects.

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Hawai'i Economic Indicators, Year-Over-Year %Change

| | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|
| Visitor Arrivals | 1.5 | -0.4 | -9.1 | -1.2 | 5.0 |
| U.S. Visitor Arrivals | 4.3 | -0.5 | -12.1 | -1.4 | 5.9 |
| Japan Visitor Arrivals | -10.2 | -4.9 | -7.6 | -5.8 | 0.4 |
| Other Visitor Arrivals | 5.8 | 6.3 | 3.8 | 4.9 | 5.7 |
| Payroll Jobs | 2.6 | 1.1 | -0.1 | -0.8 | 0.8 |
| Employment | 2.2 | 0.0 | -0.5 | -1.1 | 0.5 |
| Unemployment Rate | 2.5 | 2.7 | 3.7 | 4.4 | 4.4 |
| Inflation Rate, Honolulu MSA (%) | 5.8 | 4.9 | 4.8 | 2.9 | 2.2 |
| Real Personal Income | 1.0 | 1.3 | 0.1 | 0.1 | 2.0 |

Notes: Source is UHERO. Figures for 2008 – 2010 are forecasts.

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