

**UHERO Annual Hawai'i Forecast:**  
**After Sharp Drop, Recovery Will Take Time**

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**University of  
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E conomic  
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# **UHERO Annual Hawai'i Forecast**

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## EXECUTIVE SUMMARY

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

The outlook for the US and Japan has worsened considerably. US real GDP will contract by 2.8% this year; Japan by 4%.

Recovery of the Hawai'i visitor industry will be slower, with positive annual growth delayed through 2010. The construction downturn will also be more severe than previously anticipated.

A much deeper and longer local recession is now expected. The job base will contract by 2.4% this year and 0.3% in 2010.

The next several years will be difficult ones for Hawai'i businesses and households. The visitor industry will languish, as the deepest global recession in decades continues to undermine travel demand. Local construction activity will weaken further, because of the unwinding residential cycle, a poor business outlook and persistent problems in national credit markets. Like their counterparts on the mainland, Hawai'i residents have become more cautious in their spending, which is contributing to local economic weakness. Deteriorating labor market conditions over the next two years will prevent a quick rebound of their purchasing power and confidence. Add in a looming state government fiscal crisis, and the result will be a long and deep Hawai'i recession.

- Last year's credit crisis and the attendant collapse in consumer confidence turned a mild US downturn into a deep contraction. Financial and trade linkages spread the crisis internationally. The U.S. and global economies are now in the most severe recession since the end of World War II. US economic growth will not return until the end of this year, and we expect a rather anemic recovery thereafter. Global exports and production have collapsed, plunging Japan and other trade-dependent Asian economies into a deep downturn. Japan's economy will see a sharp contraction this year before returning to moderate growth.
- Hawai'i tourism was battered in 2008 by cruise ship departures, airline bankruptcies, record-high oil prices, and the global recession. There have been sharp losses in visitor arrivals and spending, and significant job losses have occurred in tourism-related areas. Recent months provide some hope that the US market may have bottomed out. However, prospects for the Japanese and other Asian markets continue to worsen. Because of the severity of the global downturn and constraints to consumer spending, we expect tourism activity to remain at a low level through 2010, with only a gradual recovery thereafter. On an annual basis, arrivals will fall about 5% this year and will be flat in 2010. Visitor spending will decline both this year and next.
- Construction has become a bigger drag on the local economy. There has been a marked falloff in commercial building activity as the business outlook has deteriorated and credit conditions have tightened. The residential market has also weakened further. The number of construction jobs has fallen by 3,400 and we expect a further 16% decline over the next two years. Overall construction spending, measured by the inflation-adjusted contracting excise tax base, will decline roughly 30% over the 2009–2010 period.
- Hawai'i labor market conditions deteriorated broadly in 2008 and further job losses are expected this year and next. Aggregate non-farm payrolls will shrink by 2.4% in 2009 and another 0.3% in 2010. This is a severe and lengthy jobs drought by historical standards. The state's unemployment rate will peak at 7.7% in the third quarter of 2010 and will remain above 6% for several years thereafter.
- Job shedding will be widespread, but the largest losses will be seen in construction and in the accommodation and food services sector. Transportation and utilities jobs will also drop significantly, adding to last

year's losses. Retail trade, which experienced only mild losses in 2008, will see a further decline this year, both from the visitor industry downturn and a weaker local sales environment. The finance, insurance and real estate sector will continue to shrink in size for several years, fallout from stagnant real estate and the financial downsizing taking place nationwide. The State's fiscal crisis is likely to result in government job cuts as well.

- The outlook for inflation has improved markedly since the middle of last year. In 2008, gains from cooling home prices were offset by high food costs and the huge oil price spike, and for the year Honolulu inflation averaged 4.3%, down just a bit from the previous year's 4.9% rate. The collapse of oil prices since mid-year is bringing down U.S. and local inflation fast. Honolulu inflation will average about a half percent this year and next.
- Personal income will decline, drawn downward by job losses, stagnant wages, and investment income losses. Real (inflation-adjusted) income will drop 2.5% this year and another 0.2% in 2010. Personal income growth will not return to a moderate 2% range for several years.
- Federal fiscal stimulus will provide a substantial boost to the national economy, although actions to date are probably not large enough to return the economy rapidly to full employment. The effect of Federal stimulus on the local economy will likely be smaller. In the medium-term the State's Highway Modernization Plan and O'ahu Rail Mass Transit are likely to provide a substantial boost to the construction industry.
- We are now approaching the point where the balance of risks is more evenly weighted between positive and negative. The cycle of job and income destruction is still ongoing, and certainly deeper near-term losses are possible. But recovery will come, and economic forecasters are notorious for their inability to predict when the economy will turn. Considering the size of the economic drop, it is possible that we may see a somewhat bigger bounce during recovery than currently anticipated.

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

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Visitor Arrivals	1.5	-0.4	-10.6	-5.2	0.0
U.S. Visitor Arrivals	4.3	-0.5	-13.5	-3.3	0.9
Japan Visitor Arrivals	-10.2	-4.9	-10.5	-10.2	-7.8
Other Visitor Arrivals	5.8	6.3	3.1	-7.6	4.1
Payroll Jobs	2.6	1.3	-0.9	-2.4	-0.3
Employment	2.2	0.3	-0.1	-2.5	0.4
Unemployment Rate	2.5	2.6	4.0	7.0	7.6
Inflation Rate, Honolulu MSA (%)	5.8	4.9	4.3	0.5	0.7
Real Personal Income	1.4	1.0	-0.6	-2.5	-0.2

Notes: Source is UHERO. Figures for 2009 – 2010 are forecasts. Figures for 2008 income are UHERO estimates.

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2nd Quarter: Next Hawai'i Forecast Update.