

UHERO County Economic Forecast

Neighbor Islands Bear Brunt of Recession

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**University of
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Research
Organization**

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EXECUTIVE SUMMARY

Hawai‘i’s counties face the most challenging economic environment in many years. The severe U.S. and global recessions will last through much of 2009, and when recovery does begin it is likely to be anemic by historical standards. This means a long and deep downturn for the Hawai‘i visitor industry. Construction activity will continue to decline for the next several years, acting as a further drag on the economy. The downturns in tourism and construction are most severe on the Neighbor Islands, and so these counties will suffer a more severe recession than O‘ahu. Government stimulus will help to support growth, but it will not be sufficient to avoid a long and painful contraction. The spread of the A/H1N1 virus poses a risk that is impossible to quantify at this time.

- Statewide tourism will see additional losses in 2009, with a weak recovery beginning in 2010. It will take many years for Hawai‘i visitor numbers to recover to their previous peak because of anemic U.S. consumer spending and the lost inter-island cruise ships, which we do not expect to return any time soon. The local construction industry will continue to contract for several years. The statewide non-farm job count will shrink by 2.5% this year before stabilizing in 2010. We will have more to say about the changing state outlook in our next *Quarterly Hawai‘i Forecast Update*.
- All counties have seen a sharp downturn in tourism over the past year, but the biggest damage is occurring on the Neighbor Islands. Because cruise visitors were a larger share of total arrivals, the departure of two of three NCL cruise ships last spring was felt acutely. And Neighbor Island economies are also more dependent on tourism than O‘ahu. This year, there will be 6% or greater job losses in the accommodation and food service sectors on Maui and Kaua‘i, and the Big Island will see a nearly 9% contraction. By comparison, Honolulu County will see jobs in the sector decline by “only” 2.5%.
- Over the past two years, hotel occupancy has dropped considerably. Hotel occupancy rates will be about 10 percentage points lower this year than in 2007 on Maui and Kaua‘i, and about 15 percentage points lower on the Big Island. O‘ahu hotel occupancy will be less than 4 percentage points below its average level in 2007. Revenues are suffering on all islands because of widespread discounting. Recovery for the visitor industry will come slowly. After stabilizing this year, all counties will see modest growth in arrivals in the 2010–2011 period, but tourism will lag for years.
- Construction is on the decline on all the islands, but the timing and depth of the downturn varies considerably. The most severe construction adjustments are occurring on the Big Island and Maui. Construction jobs will fall about 18% this year on Maui and more than 16% in Hawai‘i County. To some extent, this reflects a pullback from exceptionally strong residential construction booms in recent years, although commercial construction also fell off last year. Permitting for new construction has held up the longest on Kaua‘i. Kaua‘i’s construction job count, which began falling late last year, will be down nearly 11% in 2009. O‘ahu will see construction jobs fall by just over 8%.
- Jobs losses are now widespread in nearly all sectors in all counties. (The lone private sector exception is health care and social assistance, which continues to expand, albeit at a slower pace than in past years.) Job losses will be largest this year on Maui, where the payroll job count will fall 4.4%. Job losses of 3.9% and 3.7% are expected on the Big Island and Kaua‘i, respectively. The O‘ahu job base will contract 2%. Recovery from these substantial job losses will take a number of years, and unemployment rates will remain high for some time.

- Real (inflation-adjusted) personal income is the best summary measure of economic activity for Hawai‘i. We expect 3–4% declines in real income this year on the Neighbor Islands, and a 1.6% drop on O‘ahu.
- In recent weeks, a new threat to Hawai‘i tourism has emerged in the form of the A/H1N1 virus. While recent news has been encouraging, the past experience with the SARS epidemic in Asia demonstrates that disease-related concerns can have a dramatic adverse impact on travel. Depending on the pattern of the outbreak, it is also possible that Hawai‘i could benefit from the redirection of U.S. overseas travel to the islands, although we believe the net effect would still most likely be negative. Because the spread and virulence of the epidemic is not yet clear, we believe it is too soon to make any reasonable assessment of the impact on Hawai‘i. We hope to be in a position to say more about the virus effects in our next *Quarterly Hawai‘i Forecast Update*.

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**MAJOR ECONOMIC INDICATORS
YEAR-OVER-YEAR % CHANGE**

	2006	2007	2008	2009	2010
		Statewide			
Visitor Arrivals	1.5	-0.4	-10.6	-4.4	1.6
U.S. Visitor Arrivals	4.3	-0.5	-13.5	-3.5	1.6
Japan Visitor Arrivals	-10.2	-4.9	-10.2	-1.2	-0.7
Other Visitor Arrivals	5.8	6.3	3.1	-11.4	4.2
Payroll Jobs	2.6	1.3	-0.9	-2.5	-0.2
Real Personal Income	1.4	1.0	-0.2	-2.1	0.2
		Honolulu			
Visitor Arrivals	-2.2	1.5	-10.9	-5.3	1.2
U.S. Visitor Arrivals	1.0	2.6	-14.2	-5.3	0.9
Japan Visitor Arrivals	-10.5	-4.9	-10.2	-0.9	-0.6
Other Visitor Arrivals	3.3	8.8	-0.3	-11.7	4.9
Payroll Jobs	2.1	0.8	-0.6	-2.0	-0.2
Real Personal Income	1.0	0.9	0.3	-1.6	0.2
		Hawai'i			
Visitor Arrivals	5.0	1.6	-18.2	-8.3	3.1
U.S. Visitor Arrivals	8.5	1.2	-22.6	-6.1	2.9
Japan Visitor Arrivals	-13.6	-5.3	-12.1	-5.5	0.1
Other Visitor Arrivals	8.5	11.0	-0.5	-19.5	7.0
Payroll Jobs	4.8	2.6	-1.9	-3.9	-0.1
Real Personal Income	2.5	0.9	-2.1	-3.0	0.0
		Maui			
Visitor Arrivals	5.6	1.8	-14.9	-10.2	2.7
U.S. Visitor Arrivals	4.4	0.5	-18.3	-8.7	2.2
Japan Visitor Arrivals	-11.0	-16.4	-19.2	-13.2	0.6
Other Visitor Arrivals	20.2	15.0	4.0	-16.1	5.2
Payroll Jobs	3.6	2.6	-1.6	-4.4	-0.3
Real Personal Income	3.3	1.3	-1.2	-4.0	-0.4
		Kaua'i			
Visitor Arrivals	10.4	8.0	-20.4	-6.2	5.2
U.S. Visitor Arrivals	10.8	6.9	-21.1	-4.0	4.6
Japan Visitor Arrivals	-23.1	2.3	-22.4	-16.1	-0.7
Other Visitor Arrivals	19.2	16.8	-14.9	-17.4	11.3
Payroll Jobs	2.9	2.4	-1.5	-3.7	0.3
Real Personal Income	1.2	2.4	-2.2	-3.3	0.0

Notes: Source is UHERO. Figures for 2009 – 2011 are forecasts.

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