

UHERO Quarterly Hawai'i Forecast Update
State Budget Crisis Threatens Recovery

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EXECUTIVE SUMMARY

Key Changes in This Forecast.

Job losses over the next two years will be somewhat larger than previously forecast, dropping 2.9% this year and 0.6% in 2010. Construction and tourism-related sectors will see the biggest losses.

Japanese travel will fall further, because of the H1N1 flu epidemic. Total arrivals will decline 6.8% this year.

State worker furloughs will cause labor income to fall by a larger margin. Overall real personal income will decline 2.7% this year and 0.6% in 2010.

Two recent developments have caused us to mark down a bit our already weak outlook for the Hawai'i economy. The H1N1 flu epidemic has worsened prospects for Japanese tourism, which will lead to somewhat larger visitor losses this year. But the bigger concern is fallout from the State fiscal crisis. Government actions to address the growing revenue shortfall will further depress jobs and especially income this year and next, with the risk that recovery could be further delayed.

- The US economy is approaching the business cycle trough, and modest growth will resume in the second half of the year. Japan's downturn is severe, with real GDP contracting at a staggering 15.2% annual rate in the first quarter. We expect Japanese output to stabilize in the current quarter, with a return to modest growth in the year's second half. The drop has been so dramatic that it will take quite a while for production to make a significant recovery.
- The outlook for international visitors has worsened, because of the falloff in Japanese travel since the discovery of H1N1 cases in Hawai'i and Japan. We now expect Japanese visitor arrivals for 2009 to be nearly 14% lower than their 2008 level. Arrivals from markets other than the US and Japan are also expected to fall by about 14%. Prospects for the US market have not changed markedly. We still expect a bit more than 3% decline in 2009 before modest growth recovery begins in 2010.
- The situation for Hawai'i hoteliers is bleak. We expect the occupancy rate to average 66% this year and to remain below 70% until 2012. Aggressive discounting will continue, and the average daily room rate this year will be nearly 12% lower than 2008. Total visitor expenditure will fall by about 10% in 2009 and will not firm until 2011. The industry will see additional job losses.
- Job shedding in the construction industry has continued to accelerate in recent months. We now expect the construction job count to drop by more than 14% in 2009, and an additional 10% over the next two years. Federal and State stimulus programs will provide significant support for the industry, especially as we get into 2010.
- The overall job count will contract by 2.9% this year, about half a percent larger decline than we anticipated in our last forecast. We expect more than half a percent decline in payroll jobs in 2010 before recovery begins. The unemployment situation has deteriorated more rapidly than we had hoped, and the unemployment rate for the state as a whole will average 7.4% this year and 8.1% in 2010. Unemployment will only gradually recede thereafter.
- The recently announced furloughs will slash State worker salaries nearly 14%, and they will lead to some additional private sector job and income losses as State workers cut back on spending. By 2010, statewide real labor income will be 1.6 percentage points lower than in our March forecast. Total real personal income,

which includes non-labor income and government transfer payments, will decline 2.7% this year and 0.6% in 2010, before a moderate recovery begins. Actual cuts to public sector jobs and income could well end up being larger, which would further delay recovery of the overall state economy.

- There are now a few signs that the worst of the US and Japanese downturns may soon be behind us. It is harder to find such “green shoots” here in Hawai‘i. The best news is that US arrivals appear to have stabilized, albeit at a level far below the numbers we saw before the beginning of the current downturn. There has not yet been any decisive bottoming out of local jobs. We continue to expect the Hawai‘i economy to have stabilized by the end of the year. But it remains difficult to see where a robust recovery might come from.

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

	2006	2007	2008	2009	2010
Visitor Arrivals	1.5	-0.4	-10.6	-6.8	3.1
U.S. Visitor Arrivals	4.3	-0.5	-13.5	-3.2	1.7
Japan Visitor Arrivals	-10.2	-4.9	-10.2	-13.8	5.7
Other Visitor Arrivals	5.8	6.3	3.1	-13.9	7.0
Payroll Jobs	2.6	1.3	-0.9	-2.9	-0.6
Employment	2.2	0.3	-0.1	-4.6	0.8
Unemployment Rate	2.5	2.6	4.0	7.4	8.1
Inflation Rate, Honolulu MSA (%)	5.8	4.9	4.3	0.5	0.3
Real Personal Income	1.4	1.0	-0.2	-2.7	-0.6

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

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