

UHERO Quarterly Hawai'i Forecast Update
Recovery Still Around the Corner

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**University of
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UHERO Quarterly Hawai'i Forecast Update

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EXECUTIVE SUMMARY

Key Changes in This Forecast.

We have revised our forecast for Japanese visitor arrivals due to a sharp recovery in travel after the initial H1N1 scare. Total visitor arrivals are expected to fall by 4.4% compared with our June forecast of a 6.8% drop.

We now expect a nearly half-percent drop in average consumer prices this year, compared with the half-percent increase forecast in June.

Real income this year will fall by just over 1%, compared with a 2.7% drop anticipated back in June, and there will be only a very small net loss in 2010.

Things are looking up for the U.S. and global economies. Japan returned to growth in the second quarter, and it appears likely that the US will post positive growth for the current quarter. It is harder to find evidence of a turnaround in the Hawai'i economy, although we expect recovery to begin by early next year. A technical recovery will not mean a rapid return to economic health. Because of anticipated weak US and Japanese consumer spending and the drag from continuing State fiscal problems, the local economy will take a number of years to fully recover.

- The number of visitors appears to have stabilized near the 2002-2003 level. However, visitor spending continues to decline because of widespread discounting. Visitor expenditures will fall more than 12% this year, climbing close to 2% in 2010.
- Japanese visitor arrivals recovered more quickly than expected from the H1N1 scare. Arrivals for 2009 will be just 4.1% lower than their 2008 level, compared with our June forecast of -13.8%. Similarly, international arrivals from other countries will fall by 9.5%, compared with a forecast of -13.9% back in June. Next year, we expect a very measured recovery to begin in these markets, with Japanese arrivals rising 3.3% and other markets by 5.6%.
- The US market performance is tracking our expectations closely. We expect 2009 US arrivals to be 3.3% lower than last year, nearly identical to our June forecast. We have increased just a bit our forecast for 2010, to nearly 3% growth for the American market.
- Visitor industry recovery will be slow, held back by cautious consumers in the US and Japan. The hotel occupancy rate will average an abysmal 66.1% this year and will remain below 70% until the end of 2011.
- August's 3.6% decline in non-farm payroll jobs shows that the pace of job losses has not abated. Nonfarm employment fell below 600,000 in August for the first time since February 2005. We continue to estimate a 3% payroll job loss this year. Job losses will end by early 2010, but the average job count in 2010 will still be eight-tenths of a percent lower than this year. The unemployment rate stabilized over the summer in the 7.0-7.4% range, but we expect a further rise to an average rate of 8.1% in 2010.
- Honolulu inflation was nearly nonexistent in the year's first half, primarily because of low energy prices and stable rents. We now expect a nearly half-percent drop in average consumer prices for 2009 as a whole, compared with the half-percent rise forecast back in June. We continue to expect very modest inflation for the next several years, as slack demand and lower rents feed through into prices. A further upward spike in oil prices could send inflation higher.
- We have revised upward our estimate for real (inflation-adjusted) income this year and next. Real income this year will fall by just over 1%, compared with a 2.7% drop anticipated back in June, and there will be

only a very small net loss in 2010. This upward revision is due to smaller projected private sector losses, the delay in implementing State worker furloughs, stronger transfer payment income, and the stock market run-up, which has improved prospects for dividend income. The lower inflation forecast also plays a role.

- State fiscal problems will temper income and employment gains as the economy claws its way back to life over the next two years. As a result, unemployment will remain relatively high for a number of years, income gains will be hard to come by, and economic conditions will remain difficult for many families. Recovery means a return to growth, not a return to business as usual.

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

	2007	2008	2009	2010	2011
Visitor Arrivals	-0.4	-10.4	-4.4	3.2	3.1
U.S. Visitor Arrivals	-0.5	-13.5	-3.3	2.7	2.3
Japan Visitor Arrivals	-4.9	-9.0	-4.1	3.3	2.1
Other Visitor Arrivals	6.3	3.0	-9.5	5.6	7.3
Payroll Jobs	1.3	-0.9	-3.0	-0.8	0.9
Employment	0.3	-0.1	-4.5	0.8	1.0
Unemployment Rate	2.6	4.0	7.4	8.1	7.5
Inflation Rate, Honolulu MSA (%)	4.9	4.3	-0.4	0.8	1.4
Real Personal Income	1.0	-0.2	-1.1	-0.2	1.5

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

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