

UHERO Quarterly Hawai'i Forecast Update
Weak Growth Expected in New Year

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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.

2009 payroll job losses (−3.6%) will be somewhat larger than expected, yet the unemployment rate will end the year below our previous forecasts.

The drop in real income this year (−0.2%) will be smaller than expected, because of exceptionally strong growth in government (particularly military) income.

We have raised marginally our visitor forecasts for 2010–2011.

Prospects are good for an early-2010 return to growth in Hawai'i. Recent data suggest we are past the trough of the visitor industry downturn, and gradual improvement will occur as the global recovery takes hold. The construction cycle is expected to bottom out late next year. After steep losses, most industries will begin to start adding jobs early in the new year. The pace of recovery will be modest, because of lingering weakness in the U.S. and Japan and the disastrous State budget picture.

- After the deepest recession since the 1930s, the global economy is once again in expansion, led by a rebound in trade and production among dynamic Asian economies. Recovery is also now underway in the U.S. and Japan, but these recoveries are likely to be anemic by historical standards.
- Recent data on arrivals and occupancy rates signal that we are very likely past the bottom of the tourism downturn. Hawai'i visitor arrivals will expand by 3.7% in 2010, slightly faster than projected in our previous forecast. Japanese arrivals, and particularly spending, will benefit from the strong yen. U.S. arrivals will show slightly more than 3% growth in 2010 and 2011. Despite recent improvement, the statewide occupancy rate will not break above 70% until 2011. The average daily room rate will languish through 2010, with only modest improvements thereafter.
- We continue to expect total visitor counts to remain below the 7 million mark until 2012. More rapid recovery, while possible, is unlikely because of the challenges facing American consumers as they deal with lingering high unemployment and damaged household balance sheets.
- Recent labor market data have been a mixed bag, with somewhat larger-than-expected payroll job losses but better unemployment rate performance. We anticipate a return to positive, albeit weak, job growth in the first quarter of 2010, as the Hawai'i recovery gets underway. Job growth will rise above 1% in 2011. We expect the unemployment rate to average 7.3% for 2010, falling to 6.7% in 2011, somewhat lower than in our previous forecast.
- Growth will resume in the first or second quarter of 2010 for all private sector industries except construction, although they will show net losses on an annual basis. Construction job losses will end by late 2010, with the beginnings of recovery taking hold by 2012. Significant state and local government job losses began mid-year and the horrendous budget picture makes moderate losses likely through 2010.
- Real (inflation-adjusted) personal income will show only a small loss this year, compared with our previous forecast of approximately −1%. This reflects recent data showing large gains in public sector earnings, especially large military pay increases. Transfer payments are also strong. Total private sector labor and proprietor income is expected to drop by 5.4% this year.

- While there are now clearer signs of an imminent recovery, risks abound, including possible additional fallout from state and local government fiscal crises and a possible stall in the global upturn. The beginning of local recovery will not quickly yield tangible benefits for many local households. Jobs will still be hard to find for several years, social welfare needs will abate only slowly, and income losses for public and private sector workers will persist for some time.

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

	2007	2008	2009	2010	2011
Visitor Arrivals	-0.4	-10.4	-4.2	3.7	3.7
U.S. Visitor Arrivals	-0.5	-13.5	-3.5	3.2	3.3
Japan Visitor Arrivals	-4.9	-9.0	-4.5	4.9	3.0
Other Visitor Arrivals	6.3	3.0	-6.8	4.8	6.1
Payroll Jobs	1.3	-0.9	-3.6	-1.0	1.3
Employment	0.3	-0.1	-4.4	0.0	1.1
Unemployment Rate	2.6	4.0	7.0	7.3	6.7
Inflation Rate, Honolulu MSA (%)	4.9	4.3	-0.5	1.4	1.5
Real Personal Income	1.5	-0.6	-0.2	-0.3	1.1

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

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