



COUNTY ECONOMIC FORECAST COUNTIES BEGIN RECOVERY AFTER RECORD DOWNTURN

JUNE 11, 2010



UHERO County Forecast Report

Copyright © 2010 University of Hawai‘i Economic Research Organization.
All rights reserved.

2424 Maile Way, Room 540
Honolulu, Hawai‘i 96822
(808) 956-2325
uhero@hawaii.edu

Carl S. Bonham Ph.D., Executive Director
Byron Gangnes Ph.D., Director Hawai‘i Forecast Project
Kimberly Burnett, Ph.D., Economist
Andrew Kato, M.A., Economist
Peter Fuleky, Ph.D., Post Doctoral Researcher

Research assistance by Sean D’Evelyn and Jonathan Fung.

Subscribe to the UHERO *Forecast Project*

This executive summary is presented as a public service of the *UHERO Forecast Project*. The complete report provides comprehensive analysis of recent economic developments and prospects, including industrially detailed multi-year forecasts. The *UHERO Forecast Project* is a research program of the University of Hawai‘i at Mānoa and depends on financial support from report subscribers and program sponsors. For more information, visit our *UHERO Forecast Project* information page at http://www.uhero.hawaii.edu/eis/eisdetails_sub.html.

EXECUTIVE SUMMARY

Recovery will take hold across Hawai'i's four counties during 2010. Visitor numbers have stabilized and will gradually improve as growth strengthens in major tourism markets. After record-setting job losses, limited net hiring will begin this year, building as we move into 2011 and 2012. Private construction is bottoming out, and the sector will begin to see more benefit from Federal and State spending programs. While growth is resuming, the pace of recovery will be slow, and it will take a number of years to return to relative economic health. The challenge is greatest on the Neighbor Islands, which have suffered a much deeper downturn than O'ahu over the past two years.

- The most extensive visitor industry losses have been on the Neighbor Islands, which were hit hard by departing cruise ships and a dependence on visitors from the Western U.S., ground zero for the financial crisis and recession. Arrivals have now stabilized, led this year by surprisingly consistent monthly growth on Maui. All counties will see net growth for the year as a whole, ranging from 4.7% to 7.4% on the Neighbor Islands to 1.5% on O'ahu, with further strengthening in 2011.
- The return of visitors will be a gradual process. By 2012, the number of visitor days on O'ahu will have risen to within a few percentage points of the 2007 level, but Neighbor Island visitor days will remain roughly 7–8% below their previous peak values. This attenuated pace of recovery will continue to pose challenges for hotels and other visitor-oriented businesses. Hotel occupancy this year will range from a low of 55% on the Big Island to about 73% on O'ahu. Occupancy will regain some ground over the next several years, but it will remain substantially below levels seen prior to the industry downturn.
- The construction downturn has been more severe than we anticipated a year ago. All four counties absorbed double digit construction job losses last year, exceeding 20% in every county except Honolulu. While job losses continue on the Neighbor Islands, the rate of decrease has tapered off considerably since the period of rapid decline in late 2008 and the first half of 2009. On an annual basis, statewide private building permits will turn positive in 2011, although activity in coming years will fall far short of the brisk levels experienced during much of the past decade. A boost to construction this year will come from public sector contracting, as we (finally) feel the effects of Federal and State stimulus plans.
- Since the recession began, jobs losses have been extensive and have touched nearly every sector in each county. Again, this has been most extreme on the Neighbor Islands, where cumulative job losses of roughly 10–11% have occurred since late 2007, compared with a drop a bit more than 5% on O'ahu. The economic stabilization of the past half year sets the stage for a resumption of modest job growth in 2010. Because of the steep drop in jobs during 2009, 2010 job numbers are starting off in a very deep hole; as a result, annual figures for this year will still show a small decline in many industries, even though some hiring will occur as the year progresses. By next year, the payroll job base will be expanding by 0.8–1.4% across counties, with additional firming, particularly on the Neighbor Islands, in 2012. Because of the limited pace of job growth, unemployment will only gradually subside from the current high levels.
- Real personal income measures the income accruing to state residents from all sources, adjusted for inflation. Real income growth will be negative this year in all counties, with strong government transfer payments partly offsetting lingering weakness in labor income. There will be a particularly large drop in labor income for the State & Local Government sector, associated with additional job losses and worker furloughs. Roughly 1–2% real income growth will occur in 2011, strengthening further in 2012.

Summary of Hawai‘i State Forecast Update

This report includes the quarterly update to our forecast for the overall State economy and for the construction industry. Further discussion is included in the report.

The Hawai‘i visitor picture has improved notably in recent months, and planned additions to air lift will facilitate a somewhat stronger recovery than previously anticipated. We expect overall visitor arrivals by air to rise 4% this year, up from 2.9% in our first quarter forecast.

The deep construction downswing is near its trough. We have reduced somewhat our projection for new residential construction permitting this year, which results in lower construction activity in 2011. We now expect the cost-adjusted contracting tax base to be unchanged in 2011, after one more year of sharp decline. Because the sector will remain weak, there will be little net hiring until 2012.

There has been no significant change in our aggregate forecasts for jobs and income since our March report. The statewide aggregate non-farm job count will show a small 0.7% net loss for 2010 as a whole, a nearly 1% gain in 2011, and further strengthening in 2012. Real income will fall by four tenths of a percentage point this year before returning to 1.1% growth by 2011. Real gross domestic product (GDP) will follow a similar path, falling 0.5% this year, then turning to 0.5% growth in 2011.

This pace of recovery will be insufficient to rapidly replace the jobs lost over the past two years. As a result, the unemployment rate will remain high for an extended time period. Statewide unemployment will average 6.8% this year, near its current level, edging down to 6.3% in 2011. Unemployment will continue to be much higher on the Neighbor Islands than on O‘ahu.

We expect inflation to remain subdued in the Islands, with a deceleration from 1.6% this year to 1.1% in 2011, rising somewhat thereafter.

An emerging risk to the forecast is potential fallout from the expanding fiscal crisis in Europe. So far, much of the impact has been contained to Europe, which represents a very small fraction of the Hawai‘i visitor market. The strengthening dollar could hamper tourism, but a bigger concern is the adverse reaction of financial markets and its potentially damaging effect on U.S. consumer confidence.

Hawai‘i Economic Indicators, Year-Over-Year Percent Change

	2007	2008	2009	2010	2011
Visitor Arrivals	-0.4	-10.5	-4.4	4.0	2.2
U.S. Visitor Arrivals	-0.5	-13.5	-3.9	2.1	1.7
Japan Visitor Arrivals	-4.9	-9.4	-4.9	4.9	4.8
Other Visitor Arrivals	6.3	3.0	-5.9	10.5	1.8
Payroll Jobs	1.3	-0.9	-4.4	-0.7	0.9
Employment	0.1	-0.5	-4.1	-0.4	0.9
Unemployment Rate (%)	2.6	4.1	6.8	6.8	6.3
Inflation Rate, Honolulu MSA (%)	4.9	4.3	0.5	1.6	1.1
Real Personal Income	1.5	-0.6	-0.1	-0.4	1.1
Real GDP	0.0	-1.3	-0.5	-0.5	0.5

Notes: Source is UHERO. Figures for 2010 – 2011 are forecasts. Figures for 2009 income are UHERO estimates. See Tables 1-5 for additional macro and industry detail.

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

	2007	2008	2009	2010	2011
Honolulu					
Visitor Arrivals	1.5	-10.7	-3.9	1.5	3.2
U.S. Visitor Arrivals	2.6	-14.6	-3.0	-2.0	2.5
Japan Visitor Arrivals	-4.9	-9.0	-4.1	3.8	4.9
Other Visitor Arrivals	8.8	0.2	-6.0	8.7	2.4
Payroll Jobs	0.8	-0.6	-3.3	-0.7	0.8
Real Personal Income	1.1	-0.3	0.3	-0.3	0.9
Hawai'i					
Visitor Arrivals	1.6	-18.6	-7.4	4.7	4.8
U.S. Visitor Arrivals	1.2	-22.5	-7.6	6.1	4.3
Japan Visitor Arrivals	-5.3	-12.2	-6.1	1.3	6.1
Other Visitor Arrivals	11.0	-3.0	-7.7	1.8	5.5
Payroll Jobs	2.6	-1.8	-6.8	-0.7	1.2
Real Personal Income	2.7	-0.8	-0.6	-0.4	1.8
Maui					
Visitor Arrivals	1.8	-15.6	-9.2	7.4	4.0
U.S. Visitor Arrivals	0.5	-18.5	-8.4	7.0	4.8
Japan Visitor Arrivals	-16.4	-17.8	-18.9	2.2	-1.3
Other Visitor Arrivals	15.0	0.6	-11.0	10.1	1.7
Payroll Jobs	2.6	-1.8	-8.0	-0.7	1.4
Real Personal Income	1.5	-1.9	-1.6	-1.0	1.9
Kaua'i					
Visitor Arrivals	8.0	-20.7	-9.6	6.4	5.8
U.S. Visitor Arrivals	6.9	-21.2	-8.9	5.9	5.1
Japan Visitor Arrivals	2.3	-23.9	-23.6	-4.2	9.6
Other Visitor Arrivals	16.8	-16.6	-11.6	11.7	9.7
Payroll Jobs	2.4	-1.7	-8.1	-0.6	1.1
Real Personal Income	3.8	-1.3	-2.5	-0.8	1.5

Notes: Source is UHERO. Figures for 2010 – 2012 are forecasts.
 Figures for 2009 county income are UHERO estimates.

UHERO thanks the following Sponsors:

Kaweki‘u– the topmost summit

The Bank of Hawaii

Kilohana – a lookout, high point

Hawaii Electric Light Company, Ltd.

Hawaiian Electric Company, Inc.

Maui Electric Company, Ltd.

County of Kaua‘i Office of Economic Development

Dowling Company, Inc.

Kamehameha Schools

Matson Navigation Company

Kuahiwi– a high hill, mountain

American Savings Bank

Central Pacific Bank

Kaiser Permanente Hawaii

Kulia I Ka Nu‘u (literally “Strive for the summit”) is the value of achievement, those who pursue personal excellence. This was the motto of Hawai‘i’s Queen Kapi‘olani. Sponsors help UHERO to continually reach for excellence as the premier organization dedicated to economic research relevant to Hawaii and the Asia Pacific region.

The UHERO Forecast Project is a community-sponsored research program of the University of Hawaii at Mānoa. The Forecast Project provides the Hawaii community with analysis on economic, demographic, and business trends in the State and the Asia-Pacific region.

All sponsors receive the full schedule of UHERO reports, as well as other benefits that vary with the level of financial commitment.

For sponsorship information, browse to <http://www.uhero.hawaii.edu>.