

Quarterly Hawai'i Forecast Update

**Cooling Economy
Faces U.S. Headwinds**

**Senate Ways & Means — House Finance
Joint Economic Briefing**

January 11, 2008



**University of
Hawai'i
Economic
Research
Organization**

**Dr. Carl Bonham
Executive Director, UHERO**

Overview

➤ Review of Recent Conditions

- Construction
- Visitor Industry
- State Economy

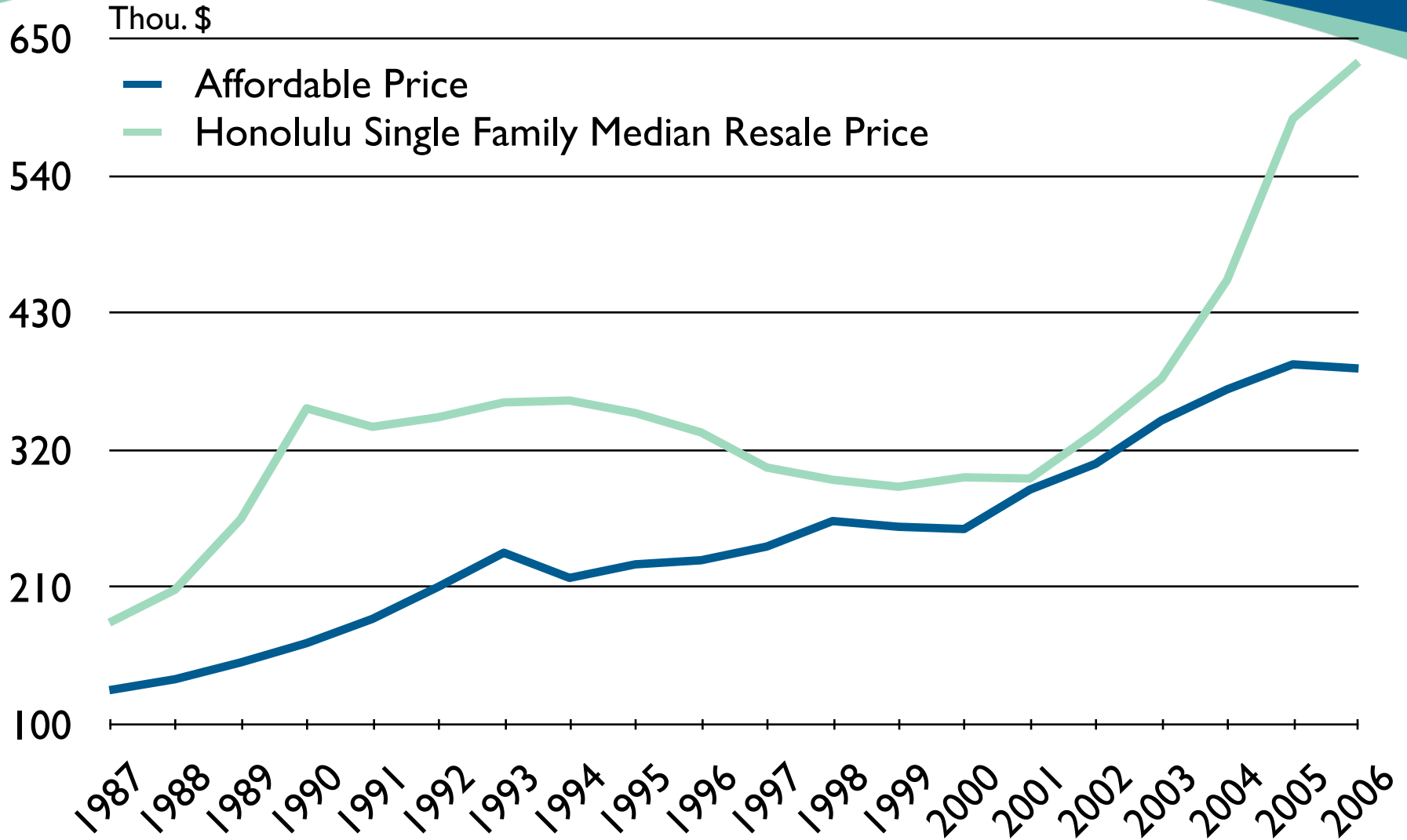
➤ UHERO Q4 Forecast Update

- External conditions—US and Japan forecasts
- Construction forecast—soft landing still expected
- Visitor sector at risk as mainland economy weakens
- Yet continued growth and higher prices on the horizon

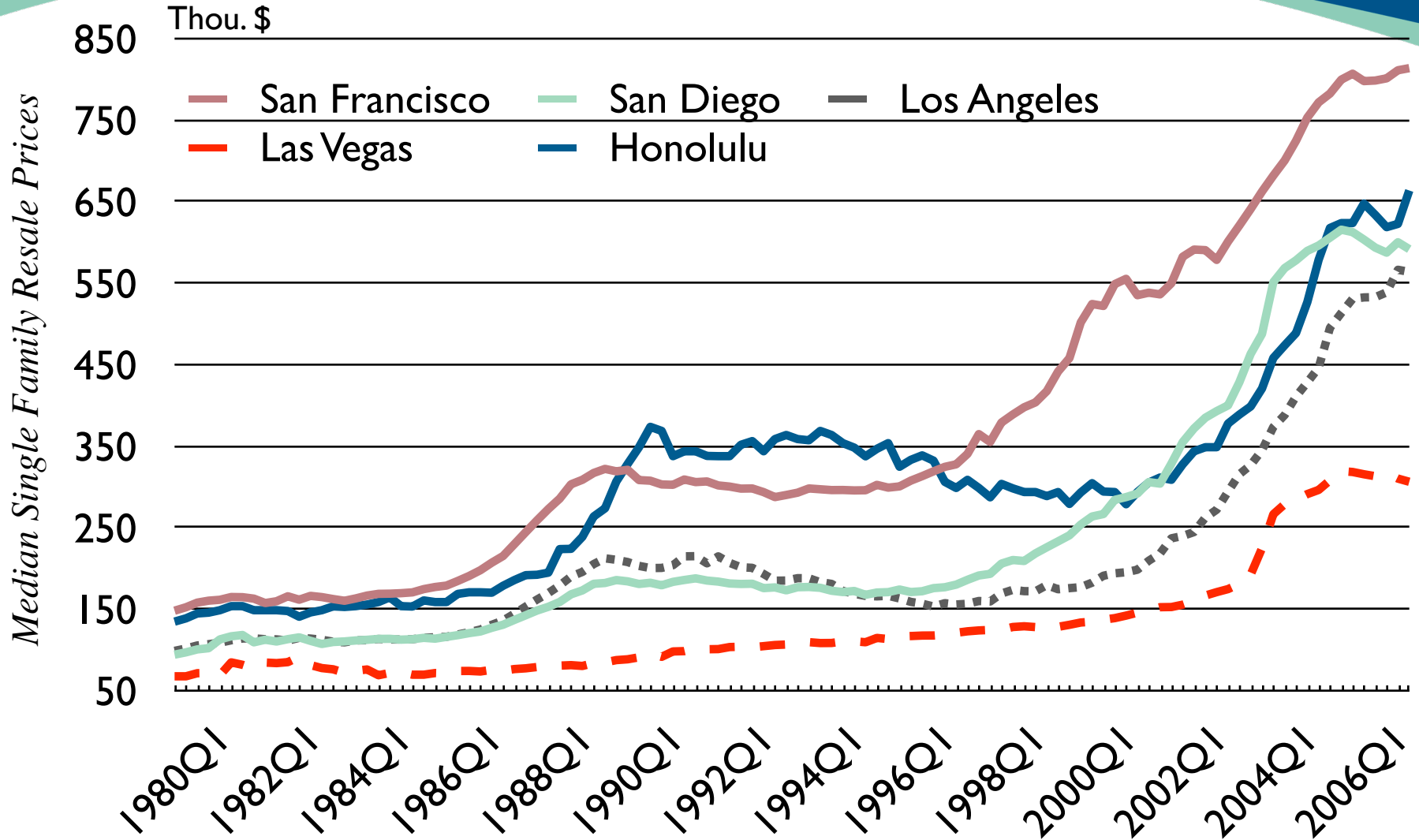
Construction: Soft Landing in Progress

- Price squeeze affecting both developers and resident home buyer
 - Construction cost inflation continues.
 - Unaffordability contributes to flat home prices.
 - Now availability and cost of capital a major issue.
- Permitting continues to slow
- Contracting job growth slowing but stronger than expected
- Growth in contracting tax base slowing steadily

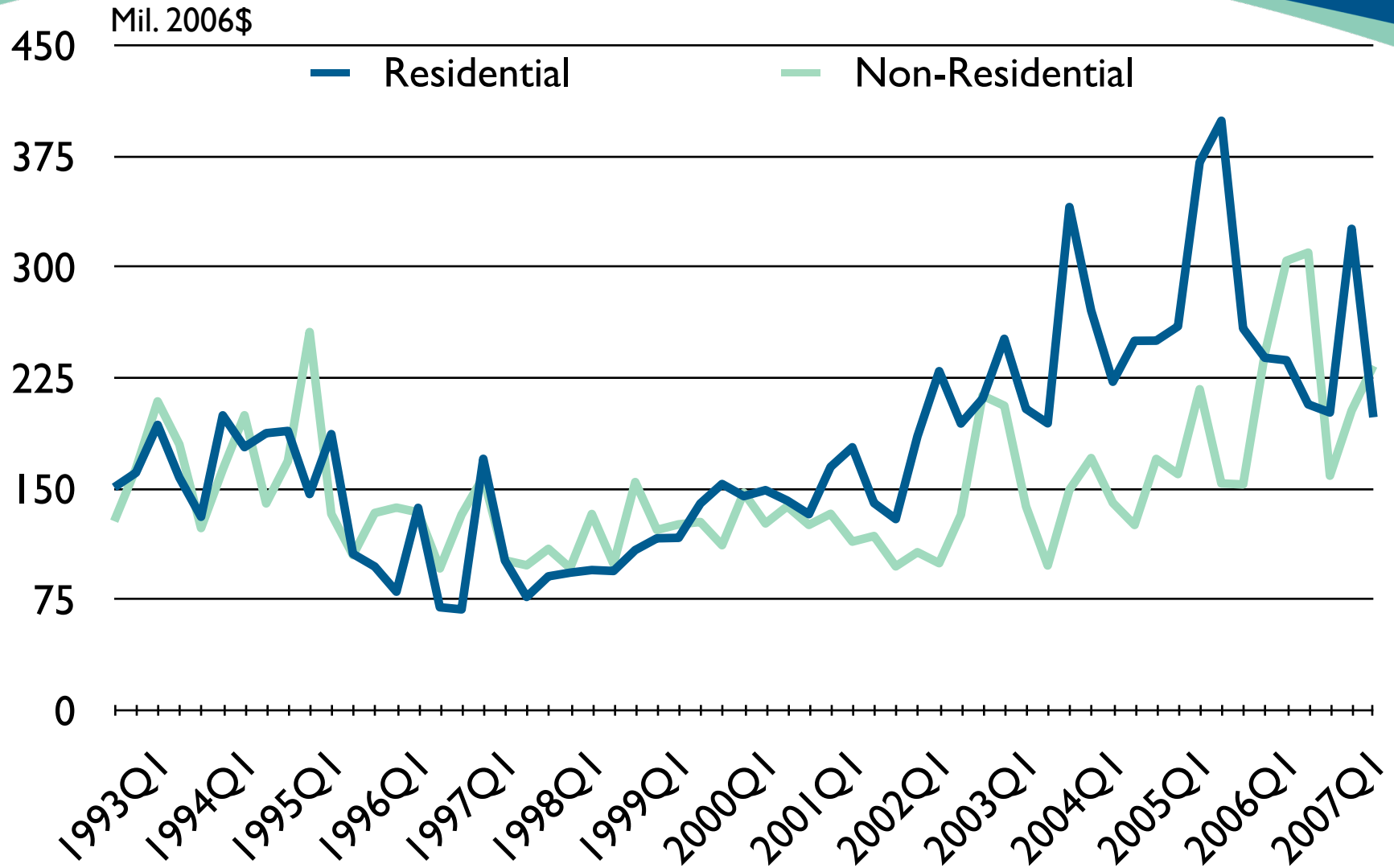
Price Squeeze



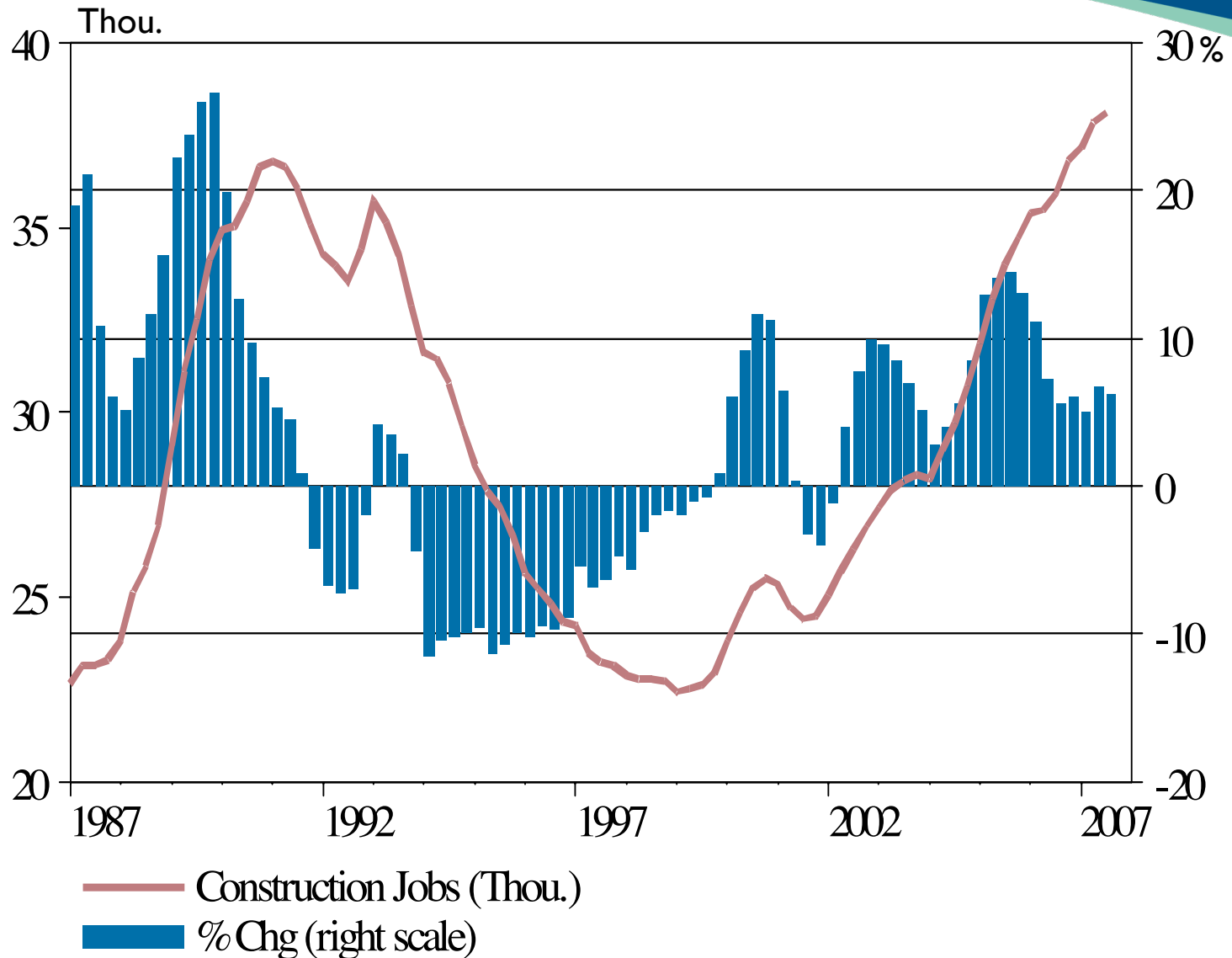
Price Squeeze



Residential Permitting Slowing



Job Growth Holds Up

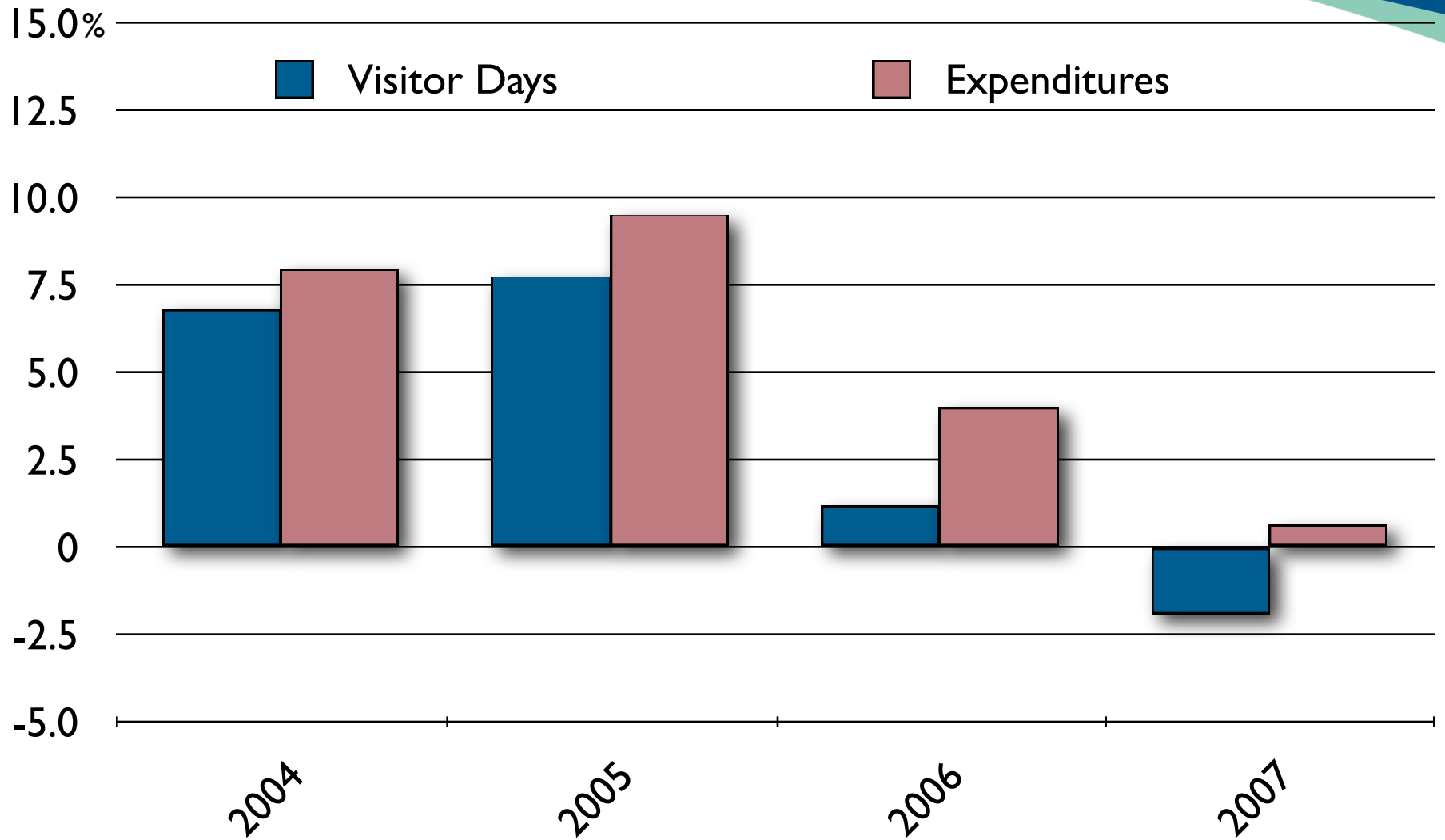


Visitor Industry Peaked in 2005-06

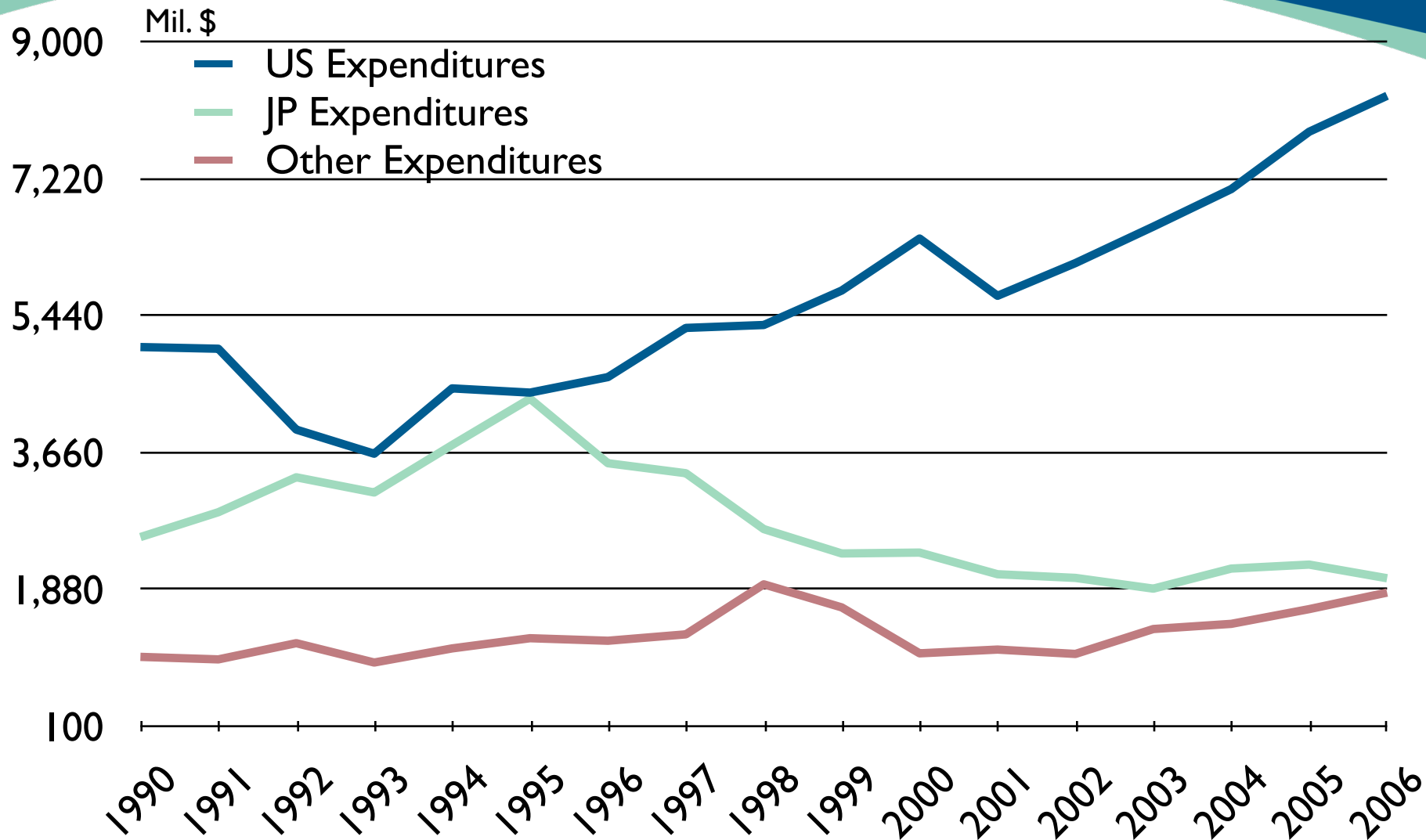
- Revised visitor data for 2006
 - Arrivals & Census up close to 1%
 - Visitor expenditure growth slowed to 4% (nominal).

- Year to November 2007
 - Arrivals down 1.1%, Census down 1.9%, Expenditures up .7%.
 - Both declines larger than expected.
 - Real visitor expenditures are down at least 3-4% in 06 and 07.
 - » Average room rate up almost 6.7% through October.
 - » But non-hotel retailers face rising costs and relatively flat (nominal) sales.

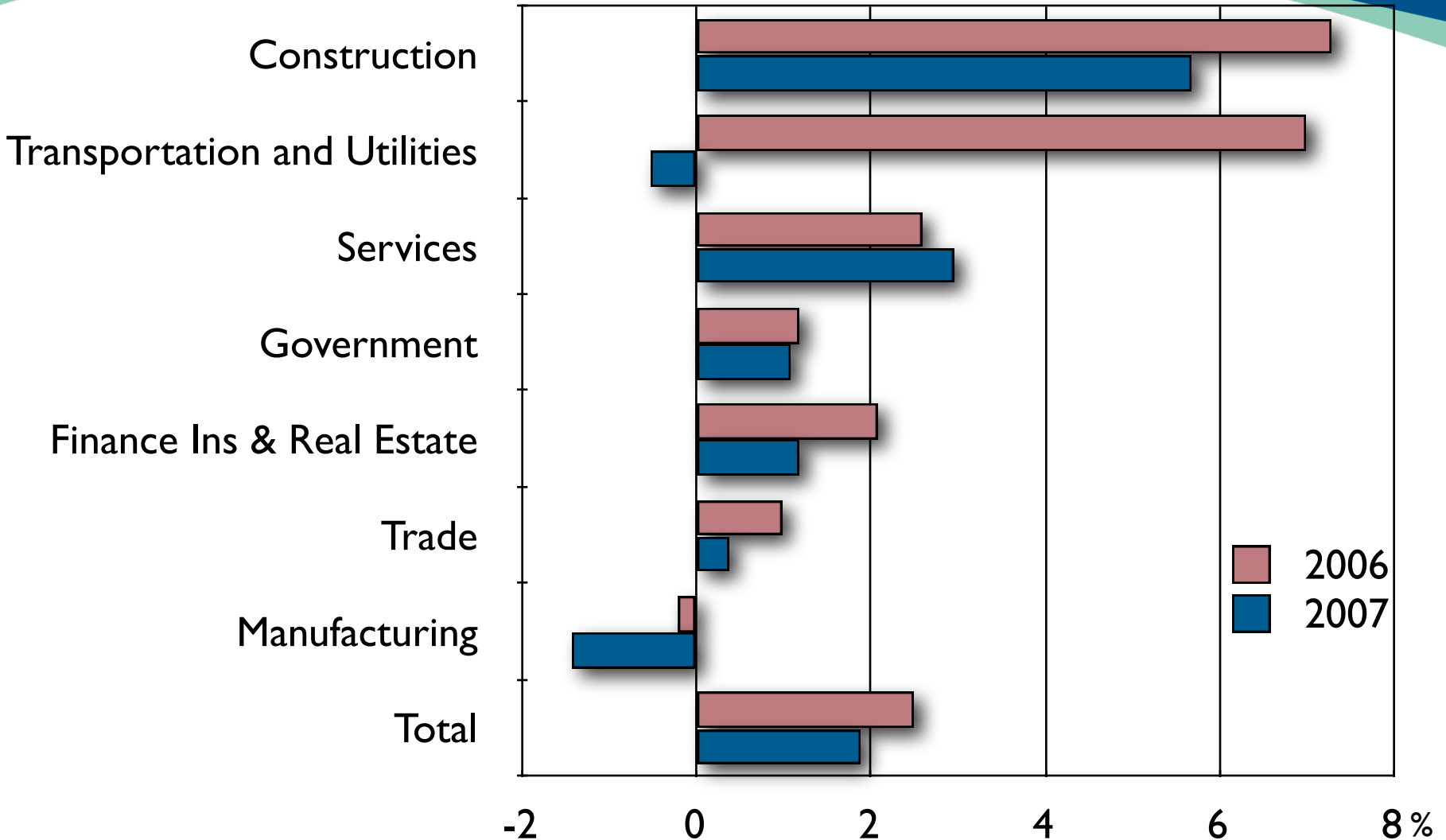
Visitor Days and Expenditures Decline



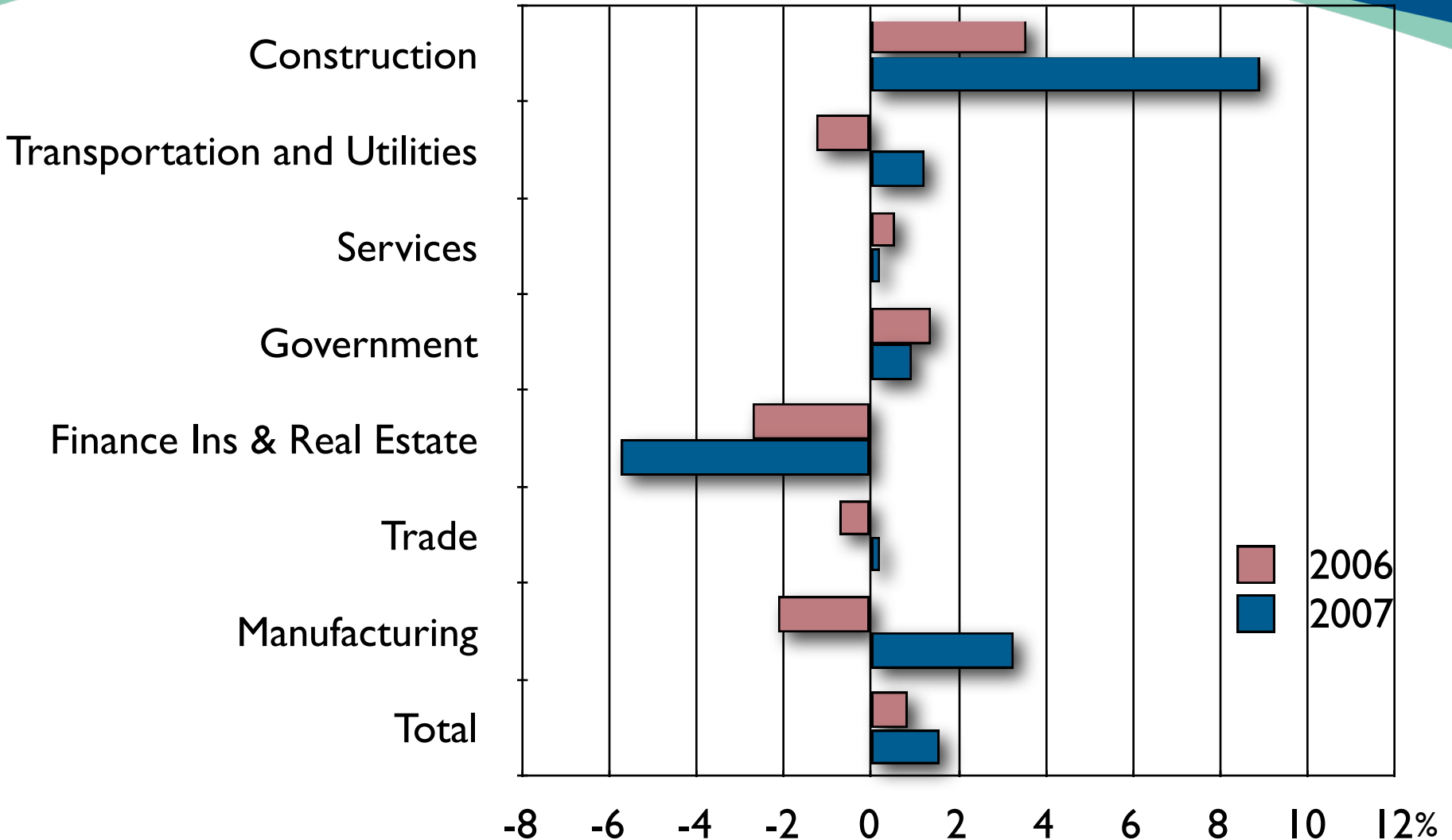
Expenditure Imbalance?



Yet Moderate Job Growth Continues



Contracting Leads in Real Income Growth



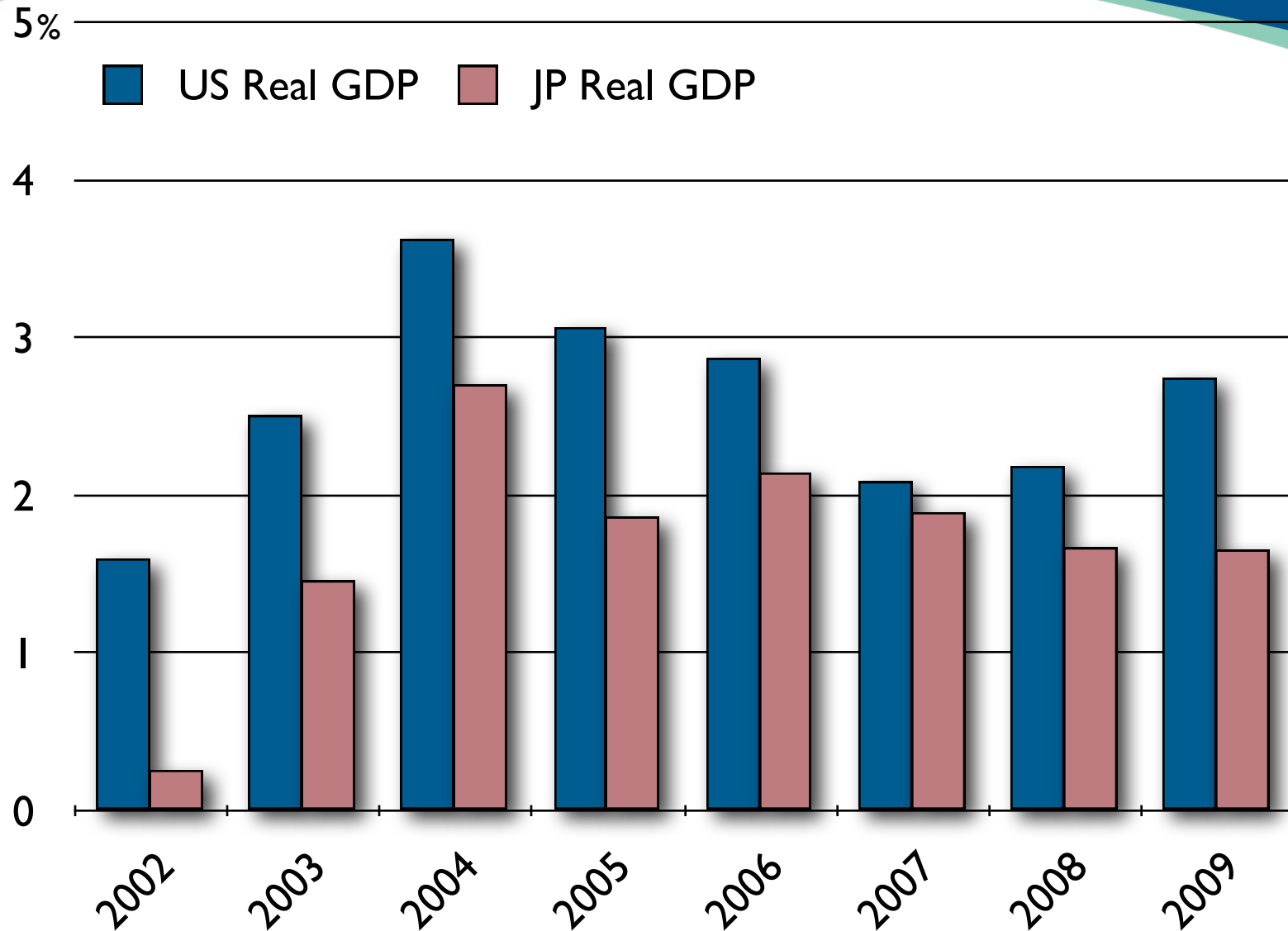
UHERO Quarterly Forecast Update

- UHERO 4th quarter forecasts
 - External conditions—US and Japan forecasts
 - Construction forecast—soft landing expected to continue
 - Visitor sector at greatest risk as mainland economy weakens
 - Yet growth still likely despite continued inflation

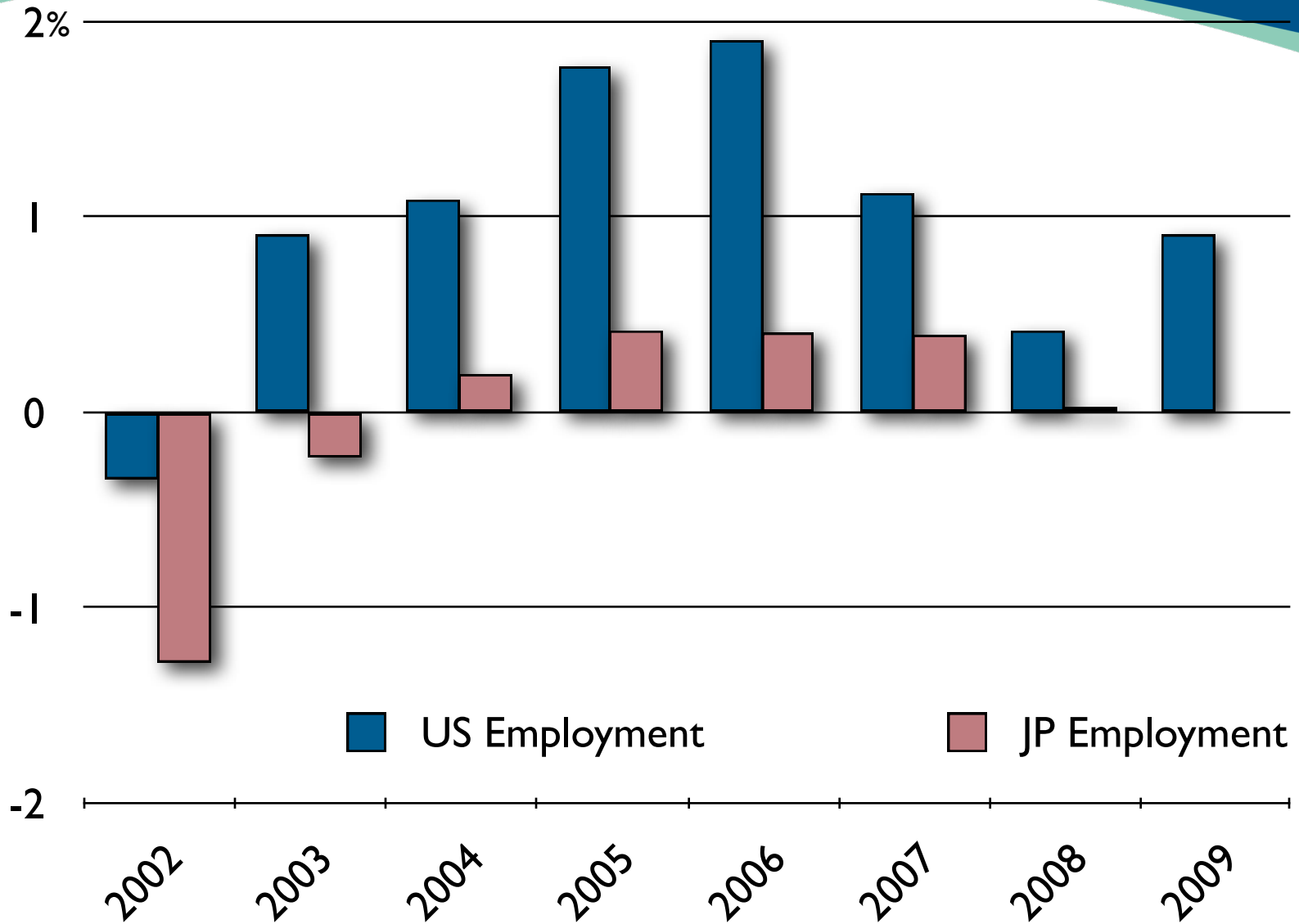
External Economies Pose Threat

- U.S. has been struggling to stay afloat all year
 - Housing market downturn and sub-prime mess
 - Persistent high oil prices
- Recent news is not encouraging
 - Holiday sales were very weak.
 - Only 18,000 jobs added in December, private employment fell.
- Japan's economy also weakened throughout 2007
 - Real GDP declined in Q2 with only modest growth in Q3
 - Price deflation still a problem
 - Business confidence declined significantly in Q4

External GDP Growth Rates



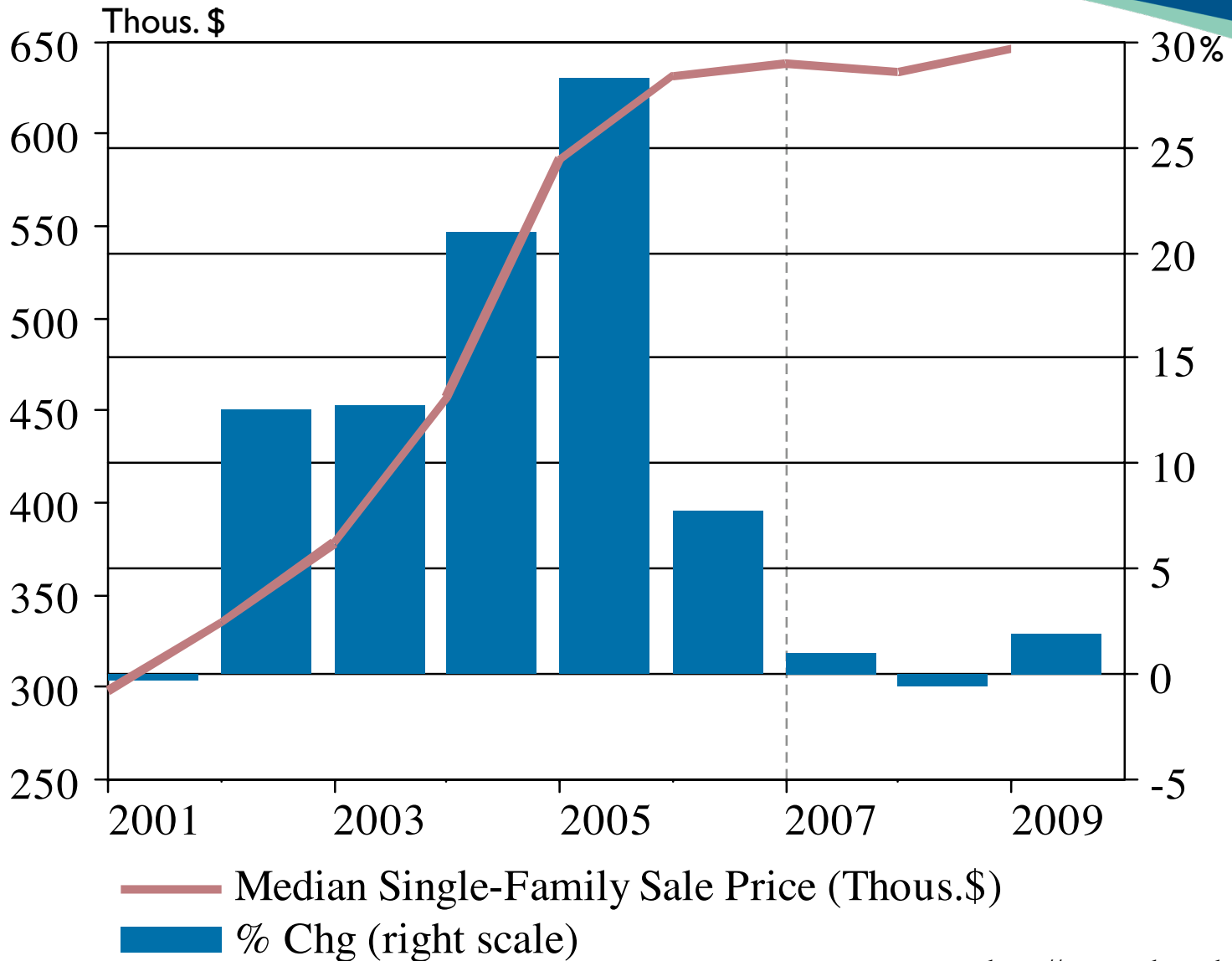
External Employment Growth Rates



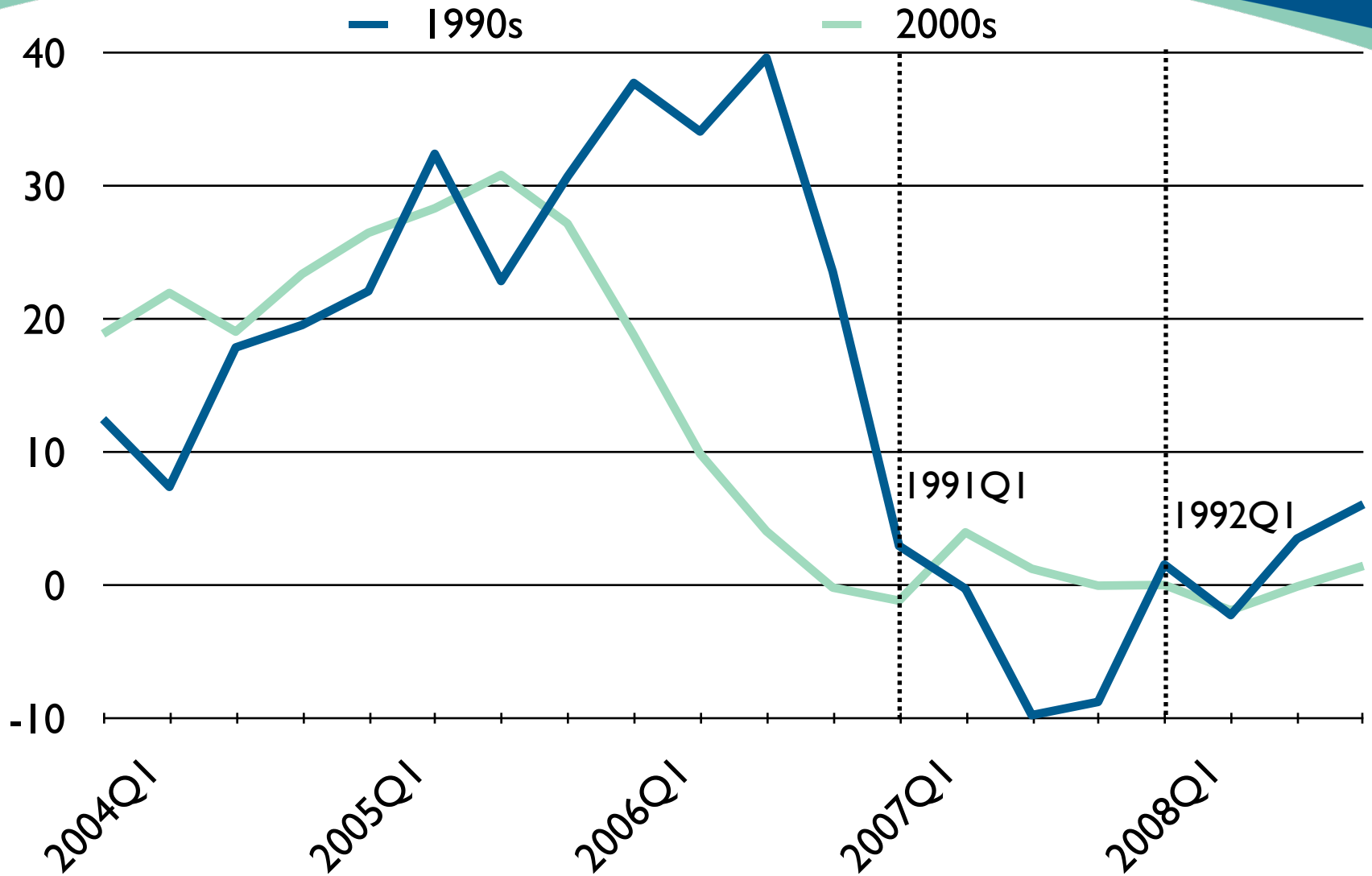
State Forecast Update

- Despite turmoil in US housing market
 - Hawaii construction sector still adding jobs
 - But real estate and rental sector in decline
- Negative wealth effect, high energy costs, and weak US employment growth pose significant risk to tourism.
- Job growth slows to 1.6% in 2008
- Real personal income growth near 2% in 08 as inflation moderates

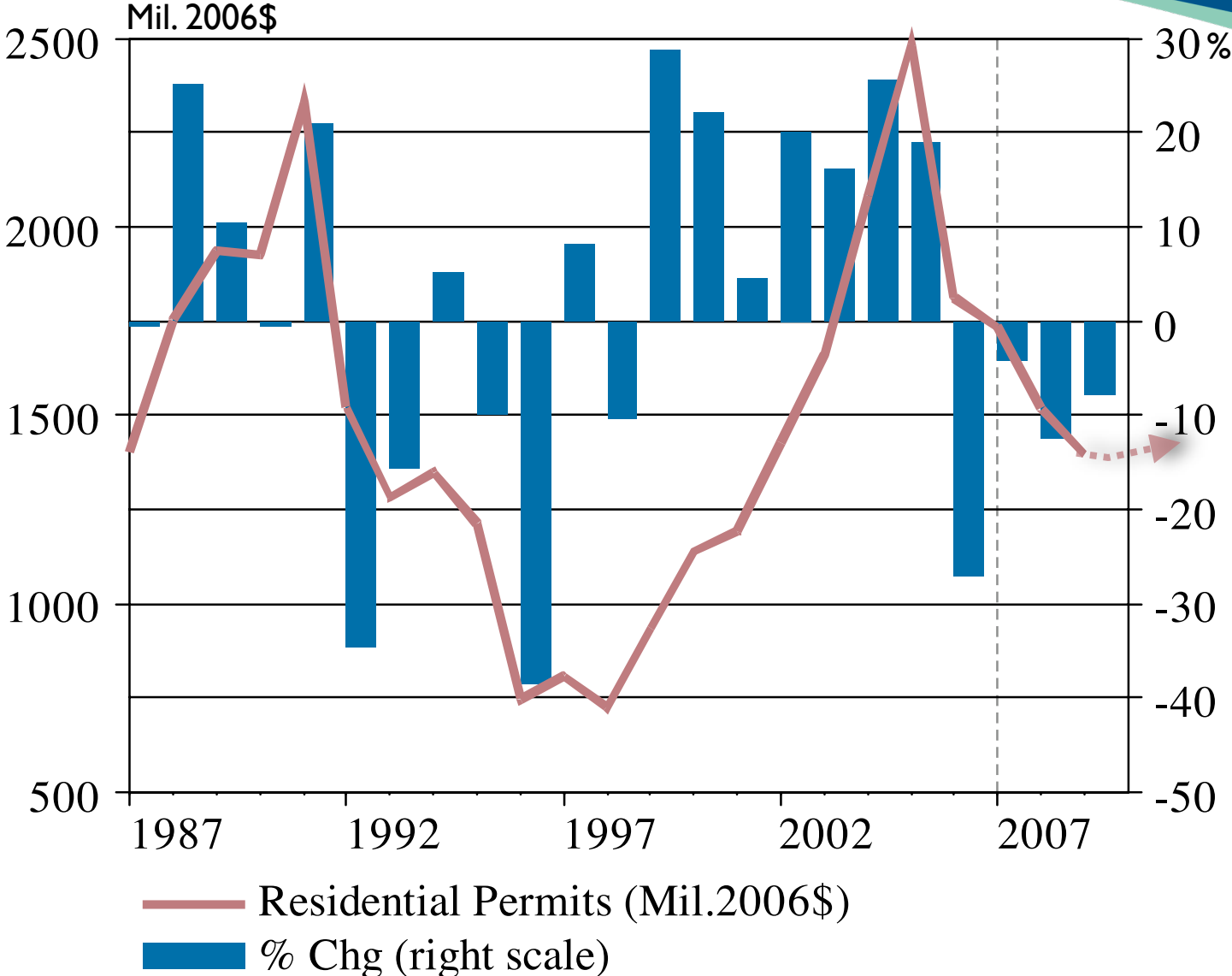
Construction Forecast: Oahu Home Prices



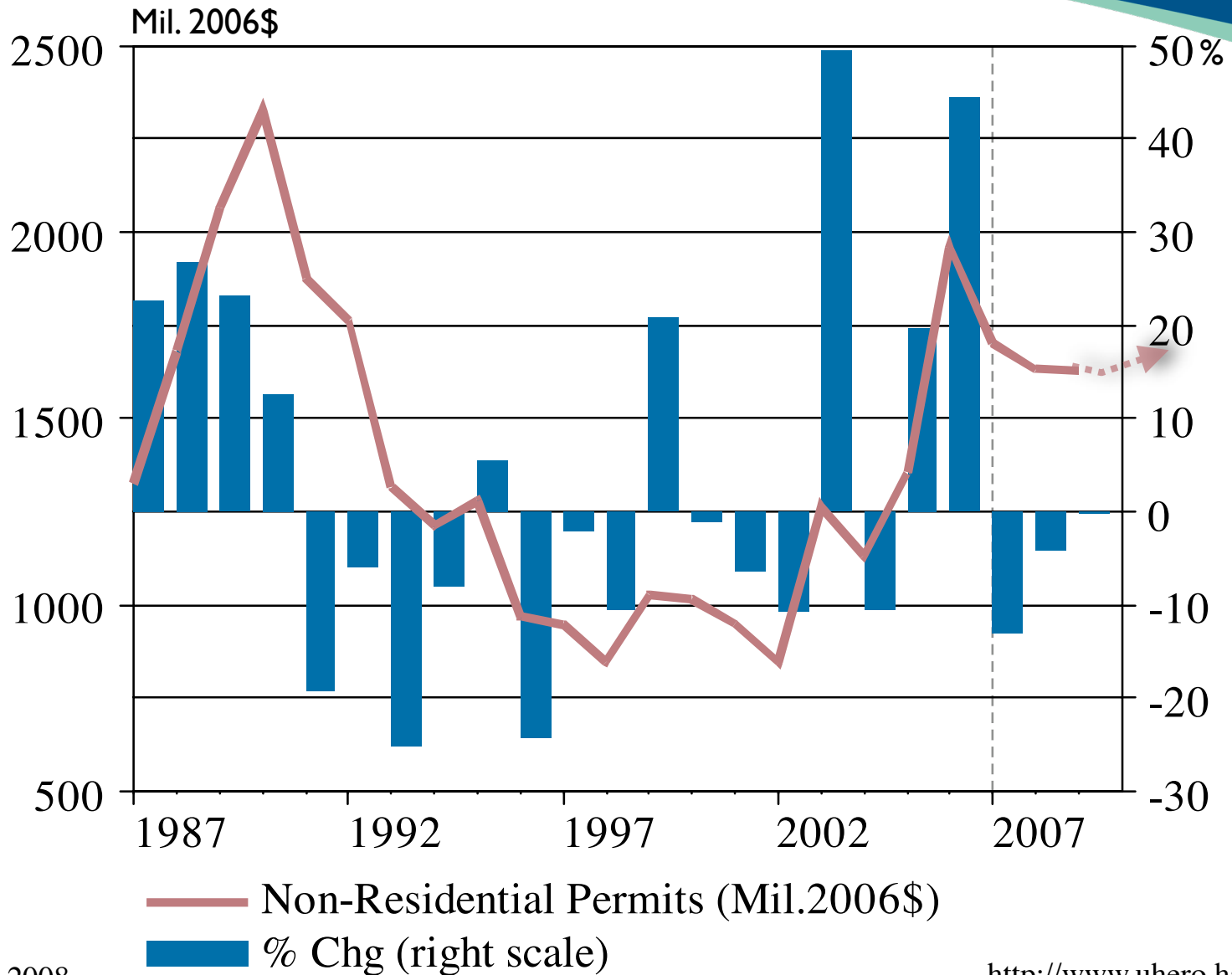
Today vs Past Cycles: Home Price Growth



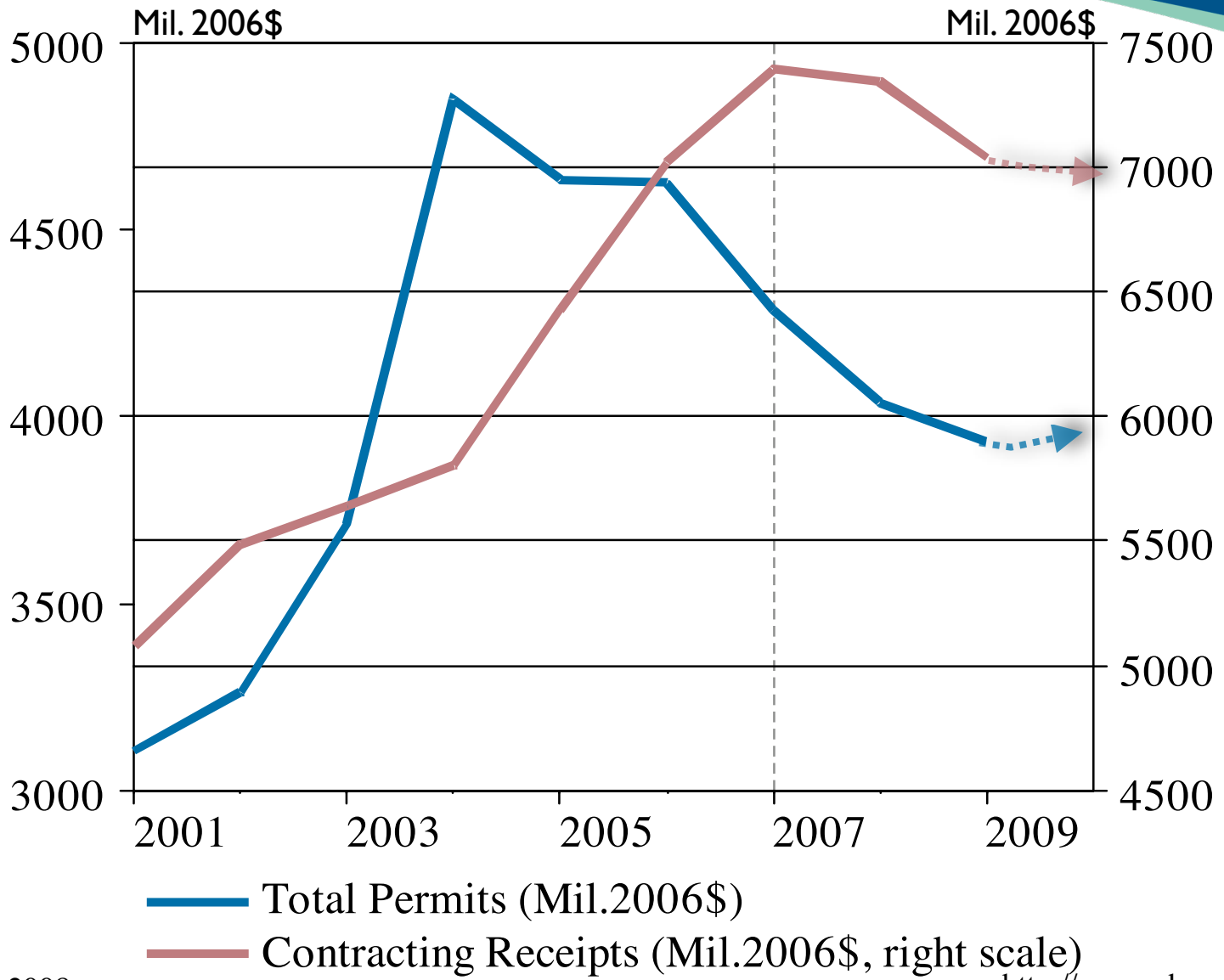
Soft Landing in Residential Building



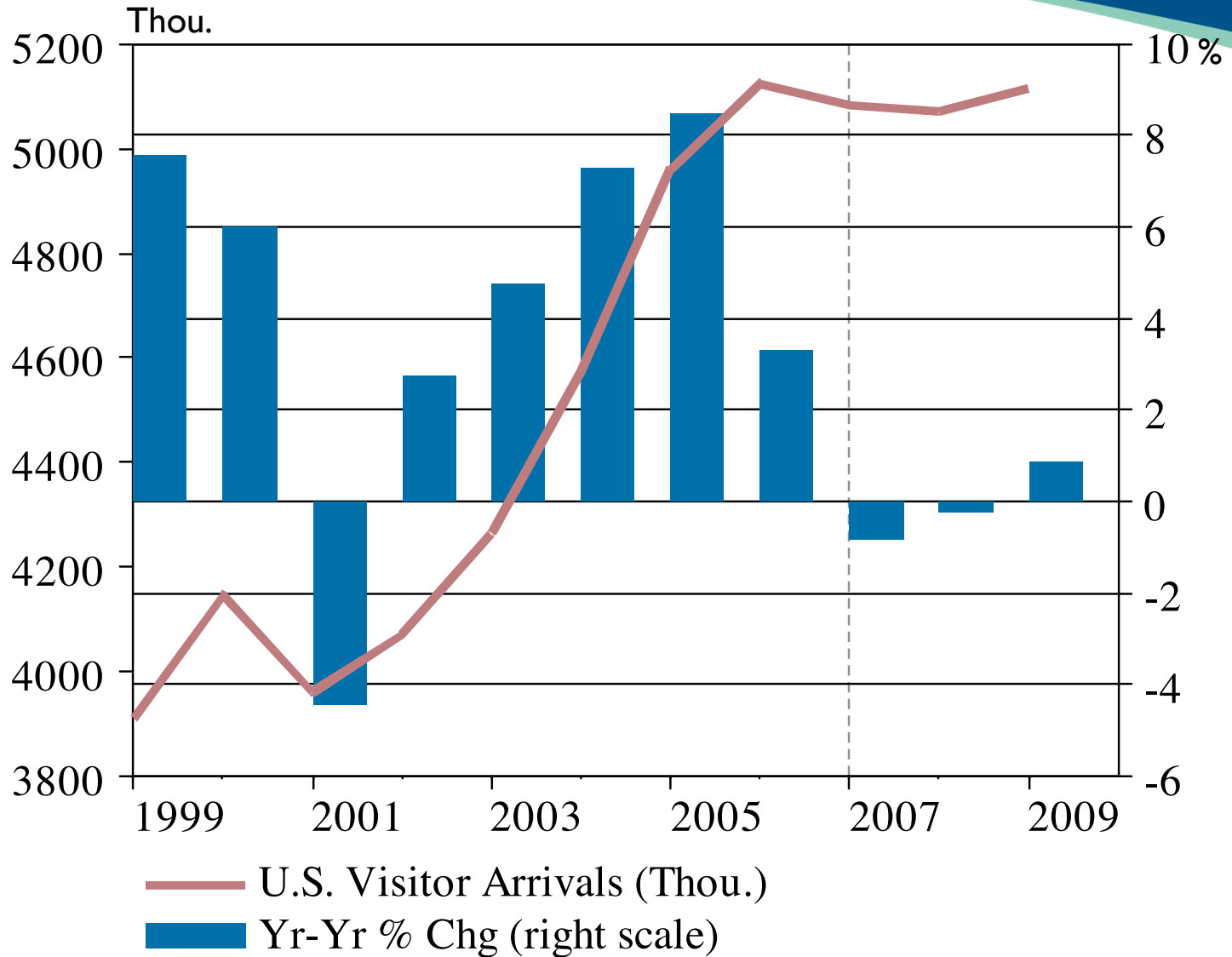
And in Non-Residential Building



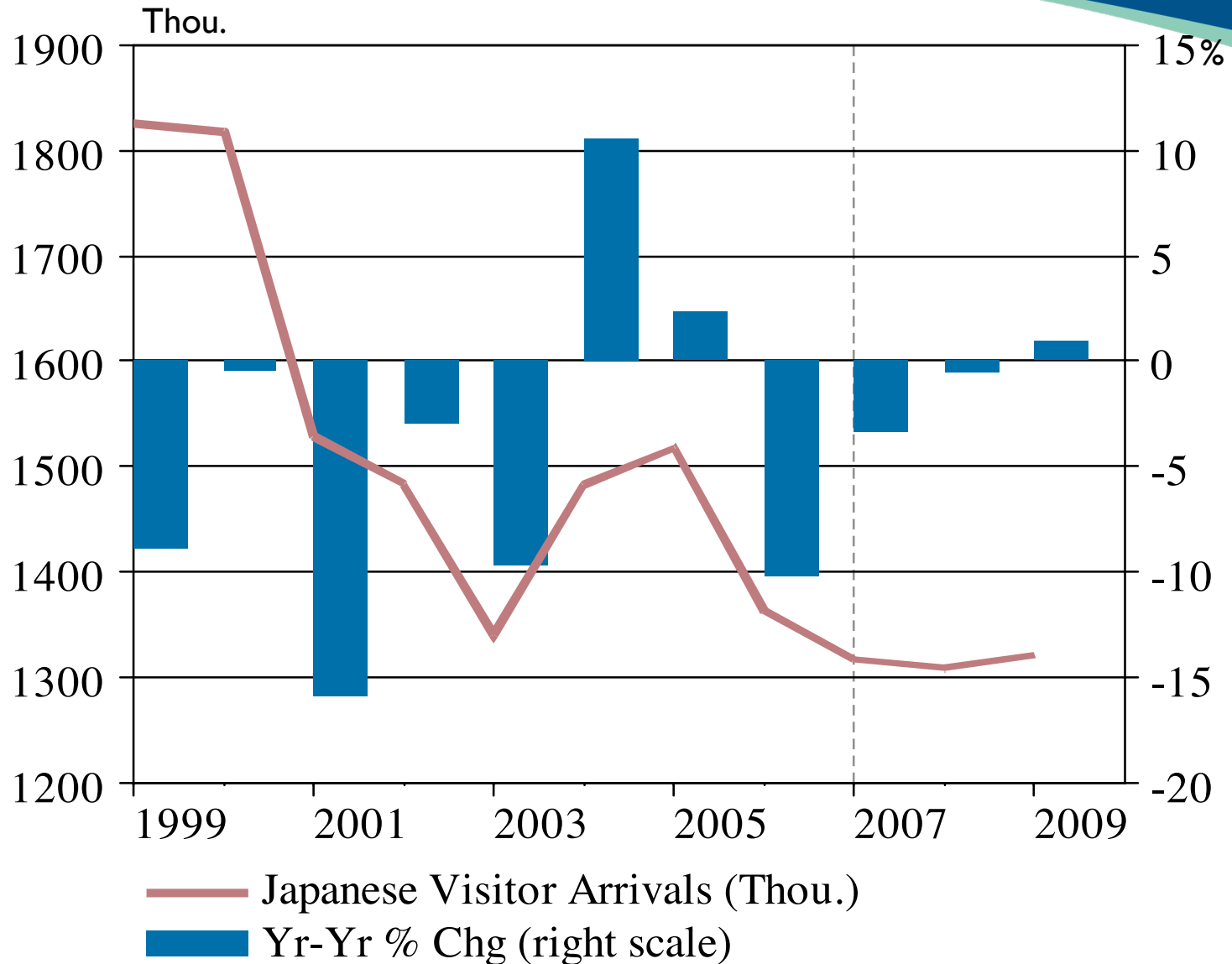
... In Total Permits



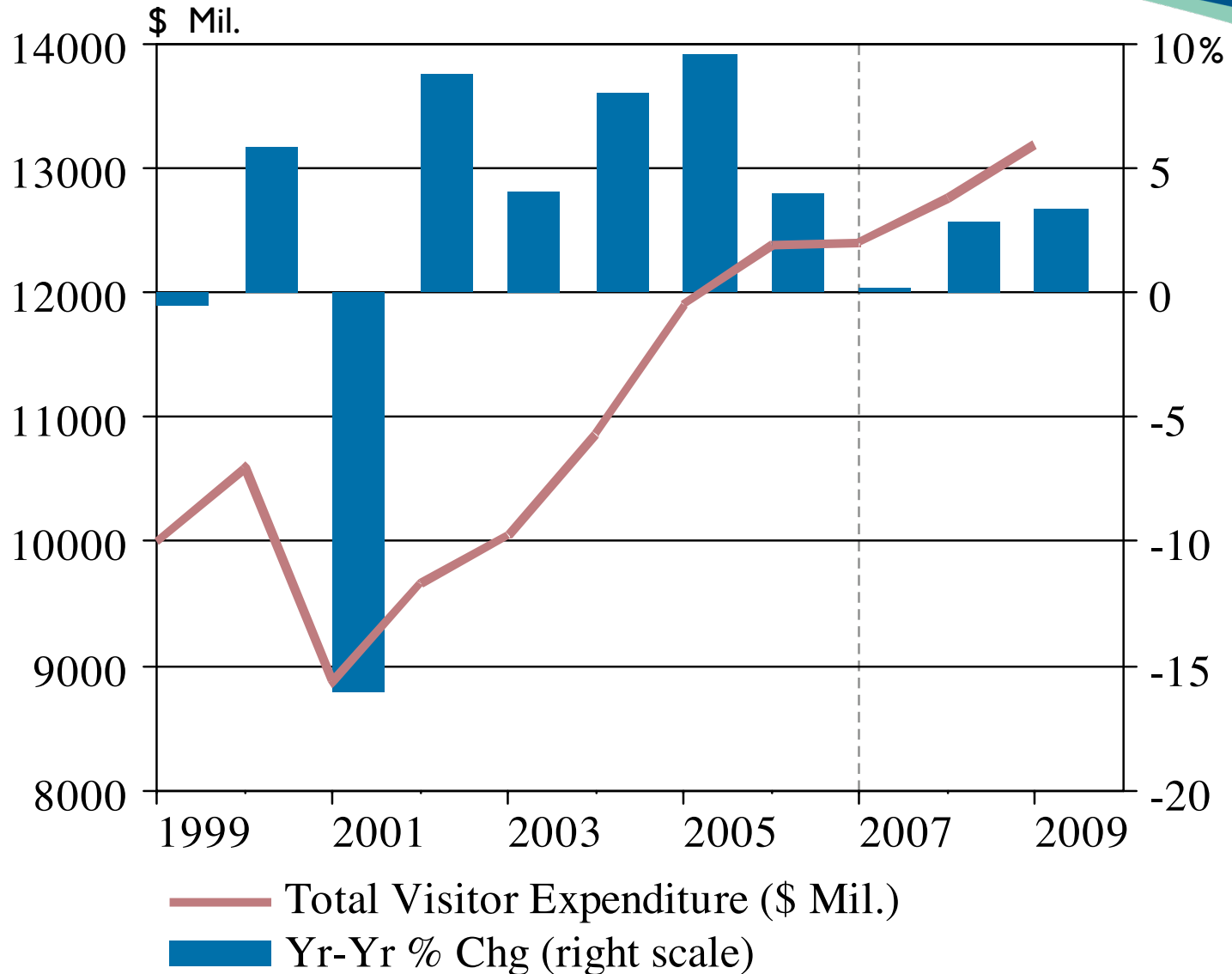
Visitor Forecast: U.S. Arrivals Decline



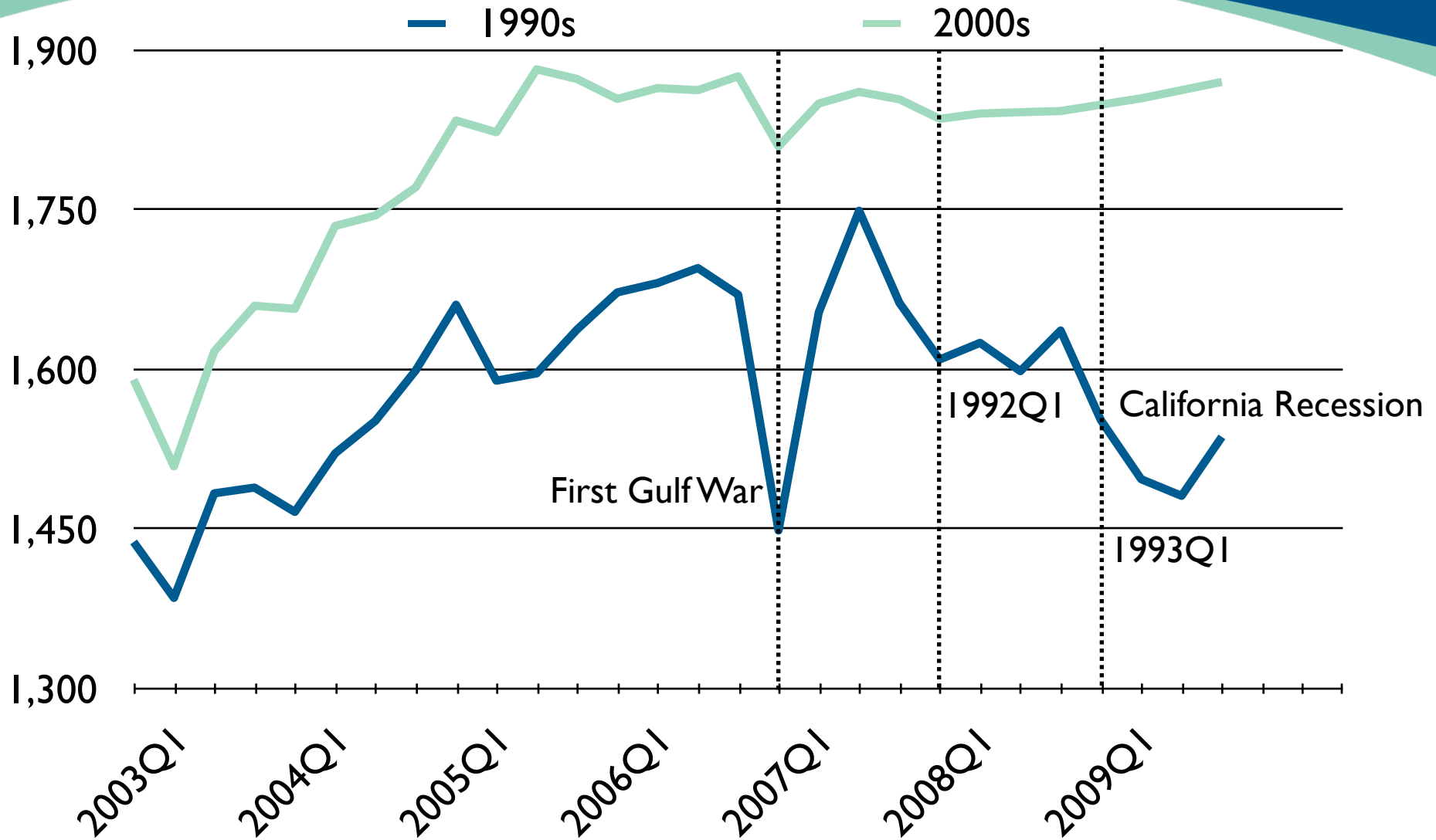
Japanese Arrivals at Recent Lows



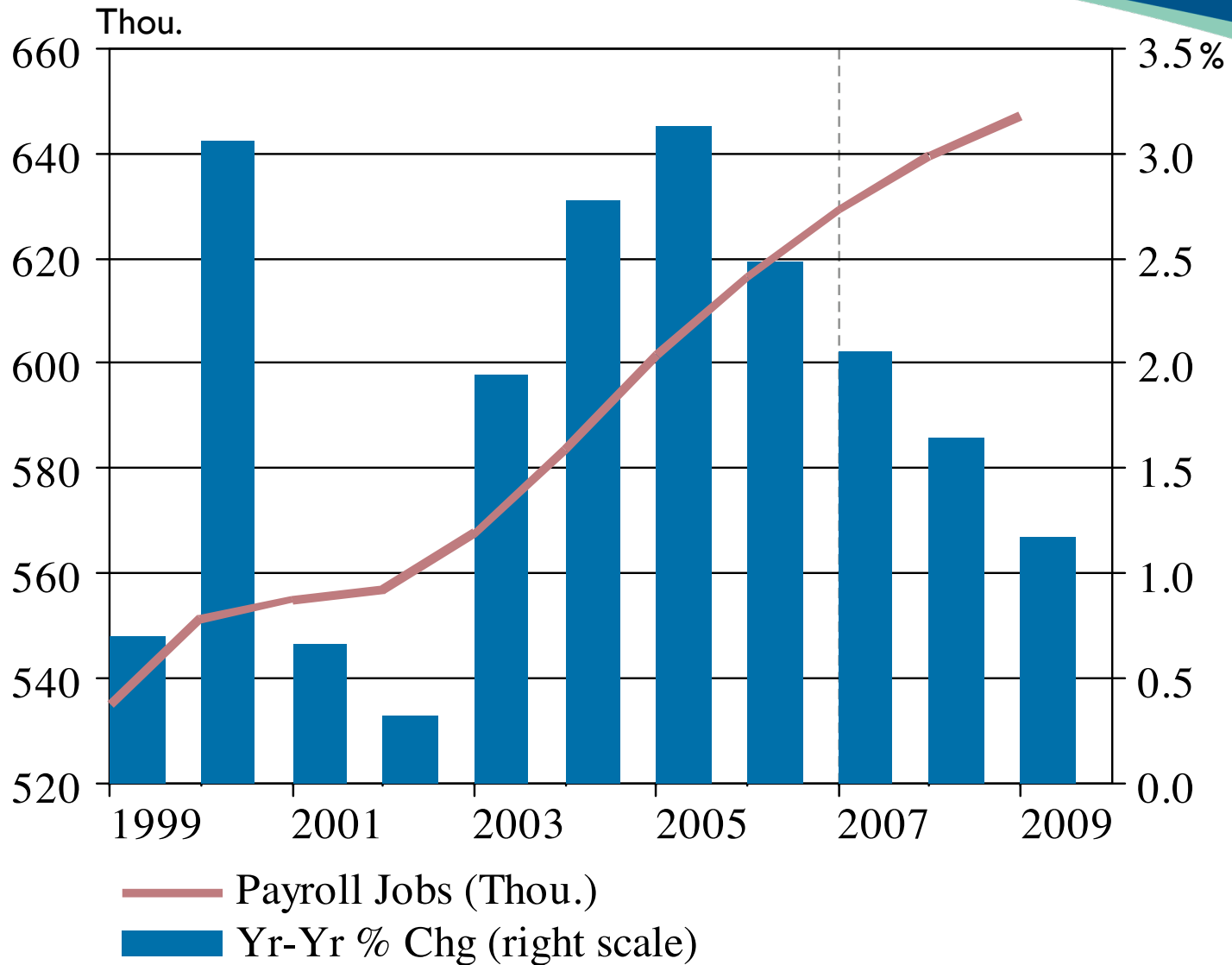
Visitor Expenditure Growth Unimpressive



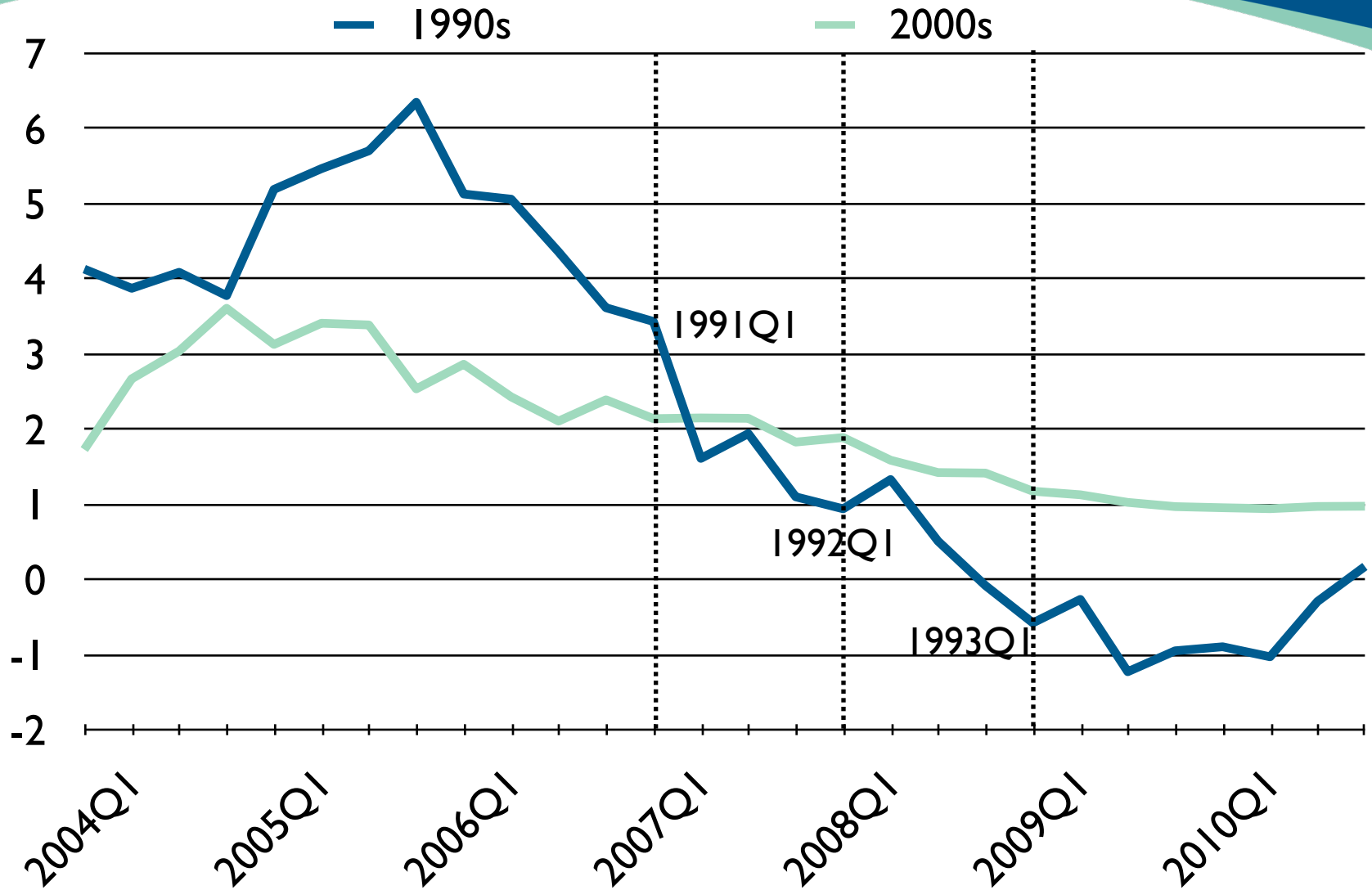
Today vs Past Cycles: Visitors



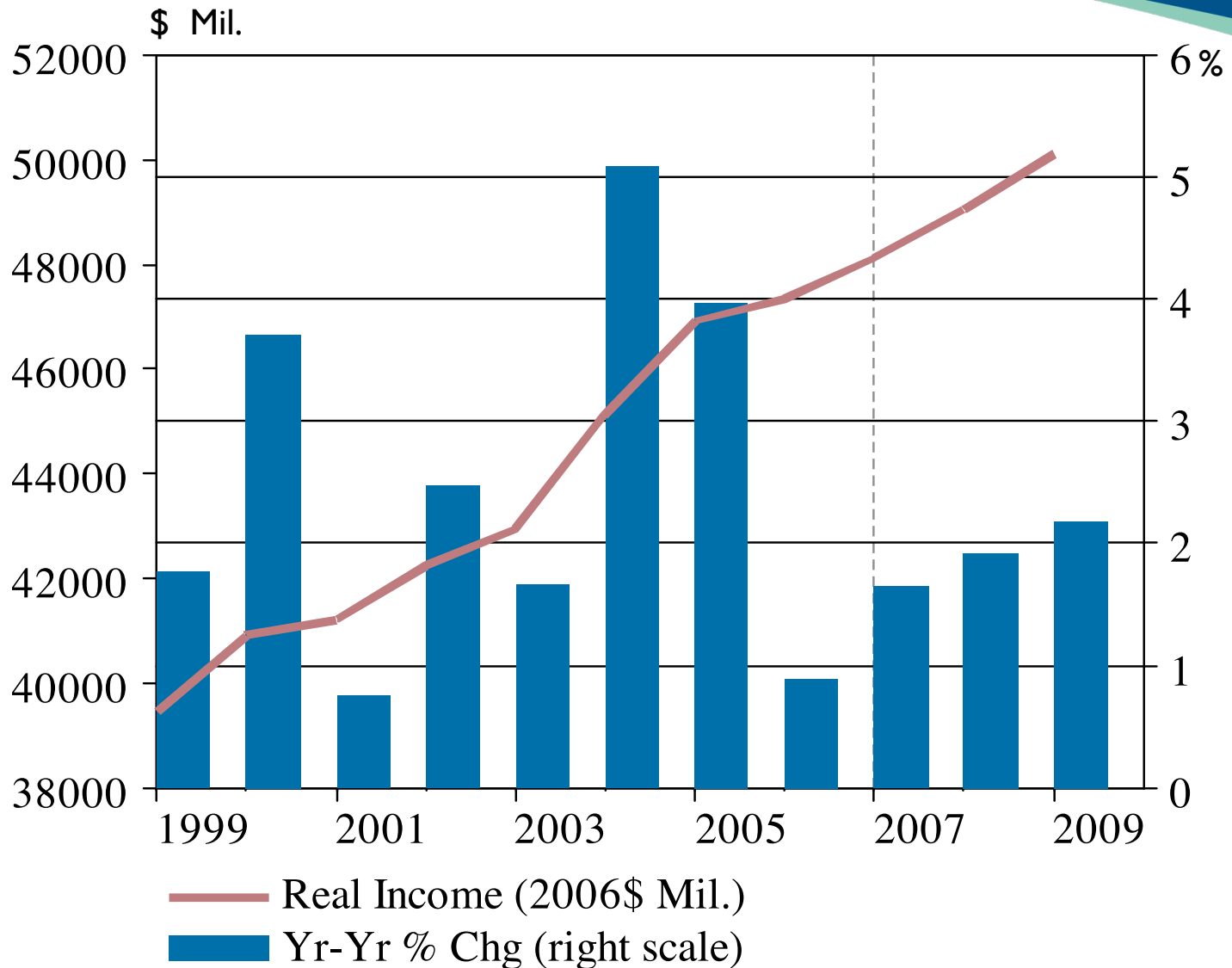
Hawaii Job Growth Continues to Slow



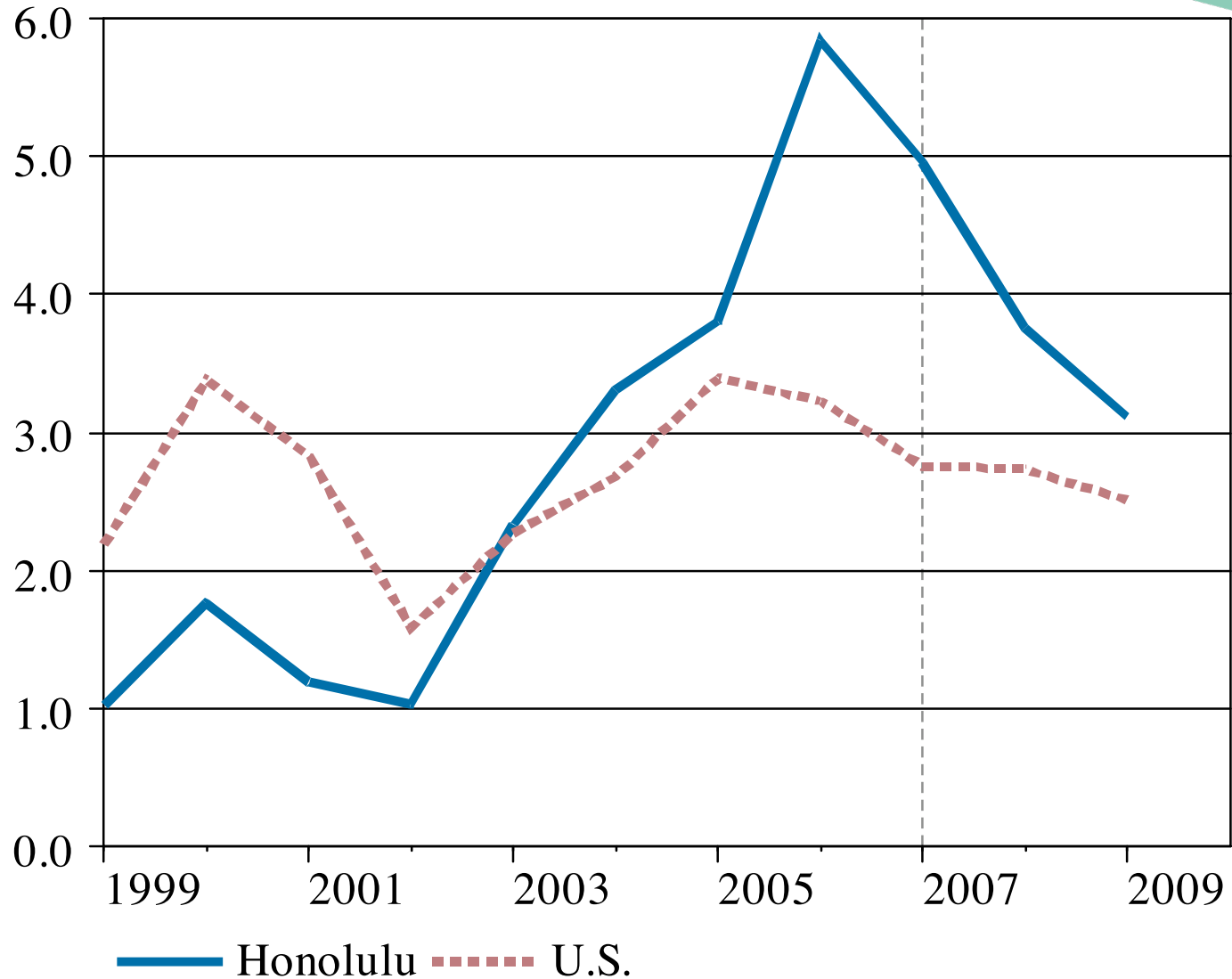
Today vs Past Cycles: Job Growth



Real Income Recovers to Moderate Pace



Inflation will Subside, But Slowly



State Forecast Update

	2005	2006	2007	2008	2009
Total Visitor Arrivals	7.3	0.6	-1.1	0.3	1.1
U.S. Visitor Arrivals	8.5	3.3	-0.8	-0.2	0.8
Japan Visitor Arrivals	2.4	-10.2	-3.4	-0.6	0.9
Construction Jobs	13.6	7.4	5.1	1.1	-0.9
Contracting Tax Base (nominal)	18.9	20.0	13.7	4.5	0.1
Payroll Jobs	3.1	2.5	2.1	1.6	1.2
Real Personal Income	2.9	0.9	1.6	1.9	2.2
Inflation Rate, Honolulu MSA (%)	3.8	5.8	5.0	3.8	3.1

Risks

- Financial and Housing Mkts vs the Fed
 - Next rate cut depends on jobs vs inflation
 - US housing market downturn will continue into 2009-10
- Oil Price Shocks and Geopolitical Instability
- Downside risk to US growth is significant
- Visitor Market currently dominated by US visitor
- Upside risk— weaker dollar, new UH AD

UHERO Economic Information Service

Powered by PROGNOZ

Wednesday, September 12, 2007
[UHERO Home Page](#)

[At a Glance](#) [Tables](#) [Graphs](#) [Current Forecast](#) [Download Data Book](#) [About This Site](#)

Export: [Printer friendly version:](#)

MAJOR ECONOMIC INDICATOR SUMMARY, Statewide

	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	Year To Date
Non-Farm Jobs (Thou.)	608.8	616.3	613.7	627.4	623.0	629.2	626.1
% Change	2.9	2.4	2.1	2.5	2.3	2.1	2.2
Unemployment Rate (%)	2.3	2.8	2.5	1.9	2.2	2.6	2.4
Personal Income (\$Mil.)	45,614.0	46,132.0	47,059.0	47,528.0	48,393.0		48,393.0
% Change	5.8	5.9	6.7	6.0	6.1		5.5
Inflation Rate, Honolulu MSA (%)	5.9	5.8	6.1	5.6	5.2	4.7	
Real Personal Income (1982-84\$Mil.)	22,258.9	22,192.2	22,279.6	22,273.9	22,452.0		22,452.0
% Change	0.0	0.0	0.6	0.4	0.9		1.0
Visitors (Thou.)	1,802.1	1,835.5	1,973.6	1,803.4	1,782.6	1,833.5	3,616.1
% Change	-1.1	2.7	-1.1	-0.5	-1.1	-0.1	-0.6
Japanese Visitors	349.9	317.2	365.4	341.9	324.4	293.6	618.0
% Change	-9.4	-8.7	-9.4	-10.1	-7.3	-7.5	-7.4
U.S. Visitors	1,190.5	1,306.0	1,374.2	1,205.8	1,207.3	1,328.1	2,535.5
% Change	-0.5	5.8	1.4	2.7	1.4	1.7	1.6
Visitor Days (Thou.)	17,219.8	16,284.8	17,659.4	16,335.5	16,855.4	16,305.0	33,160.4
% Change	-0.4	3.7	-2.3	-1.7	-2.1	0.1	-1.0
Visitor Expenditures (\$Mil.)	2,928.5	2,871.0	3,182.0	3,011.8	2,992.6	2,876.8	5,869.4
% Change	3.9	7.4	0.7	0.5	2.2	0.2	1.2

Source: UHERO Economic Information Service (www.uhero.prognoz.com). Table copyright UHERO, 2007.

Frequency: From Year: Quarter: To Year: Quarter: Select Area: Select Different Table:

UHERO Economic Information Service Powered by PROGNOZ

Wednesday, September 12, 2007
[UHERO Home Page](#)

[At a Glance](#) [Tables](#) [Graphs](#) [Current Forecast](#) [Download Data Book](#) [About This Site](#)

Export: [RTF](#) [PNG](#)

Graphs [Data Source](#) [Major Economic Indicators Table](#) [Table for this Category](#)

Copyright UHERO, 2007

**Total Visitor Arrivals
Statewide**



Select series

(Max. 2 series. Hold 'CTRL' key to select second series.)

- Visitor Industry
- Visitor Arrival
 - Total Visitor Arrivals
 - Domestic Visitor Arrivals
 - US Visitor Arrivals
 - US East Visitor Arrivals
 - US West Visitor Arrivals
 - International Visitor Arrivals
 - Japanese Visitor Arrivals
 - Canadian Visitor Arrivals
- Visitor Census
- Visitor Accommodation
- Visitor Expenditures
- Total Air Seats Outlook
- Income
- Employment and Jobs
- External Indicators
- Gross Domestic Product
- Population
- Building Permits
- State Revenue & Expenditure
- County Revenue & Expenditure
- Real Estate

Frequency: From Year: Quarter: To Year: Quarter: Chart Type: Select Area: Compare To:



Mahalo