

**U H E R O**

Celebrating Ten Years of Service to Hawaii

# Quarterly Forecast Update: No Quick Recovery From Hawai'i Recession

Senate Ways & Means — House Finance  
Joint Economic Briefing  
January 13, 2009



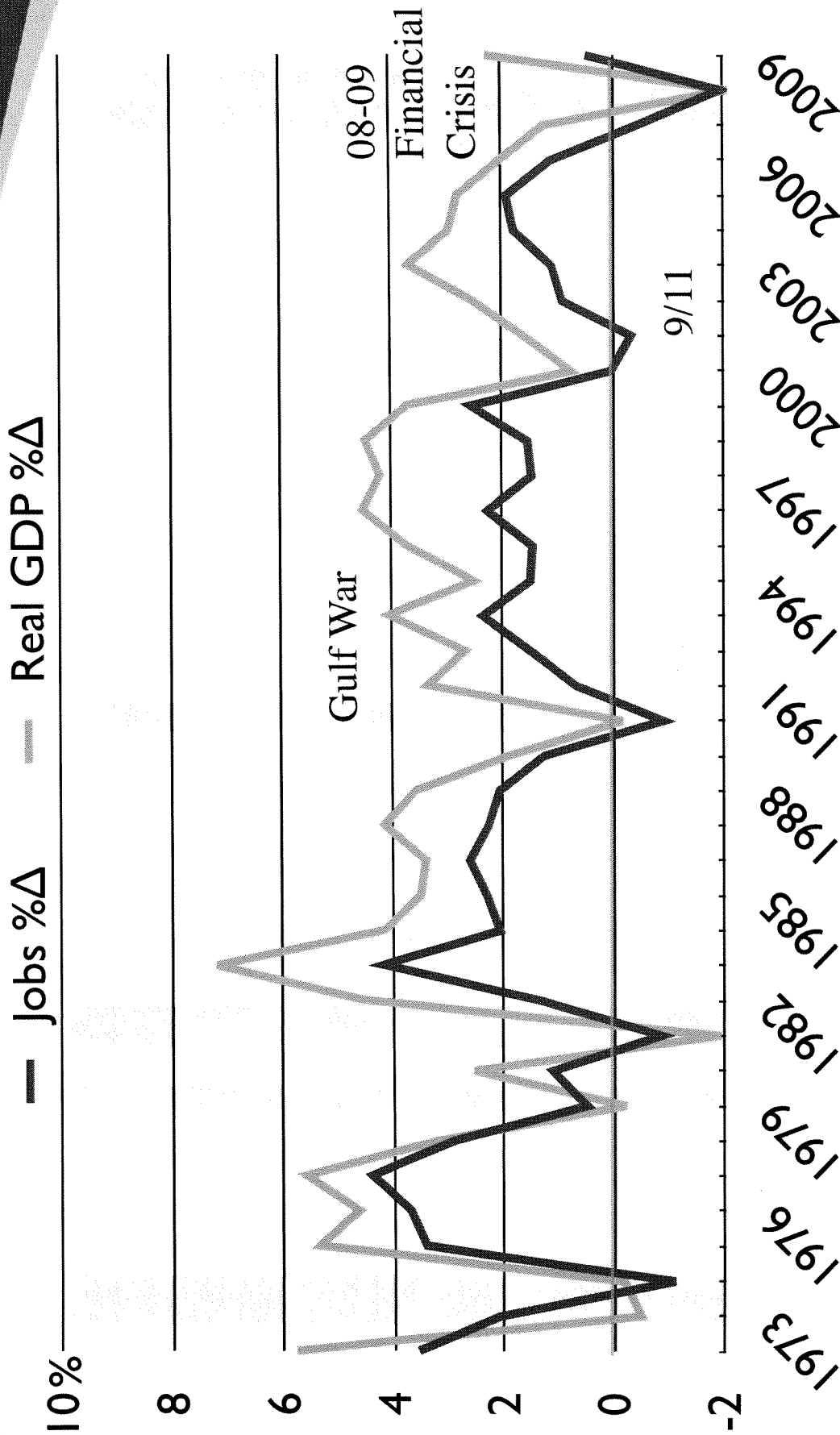
University of  
Hawaii  
Economic  
Research  
Organization

Dr. Carl Bonham  
Executive Director, UHERO

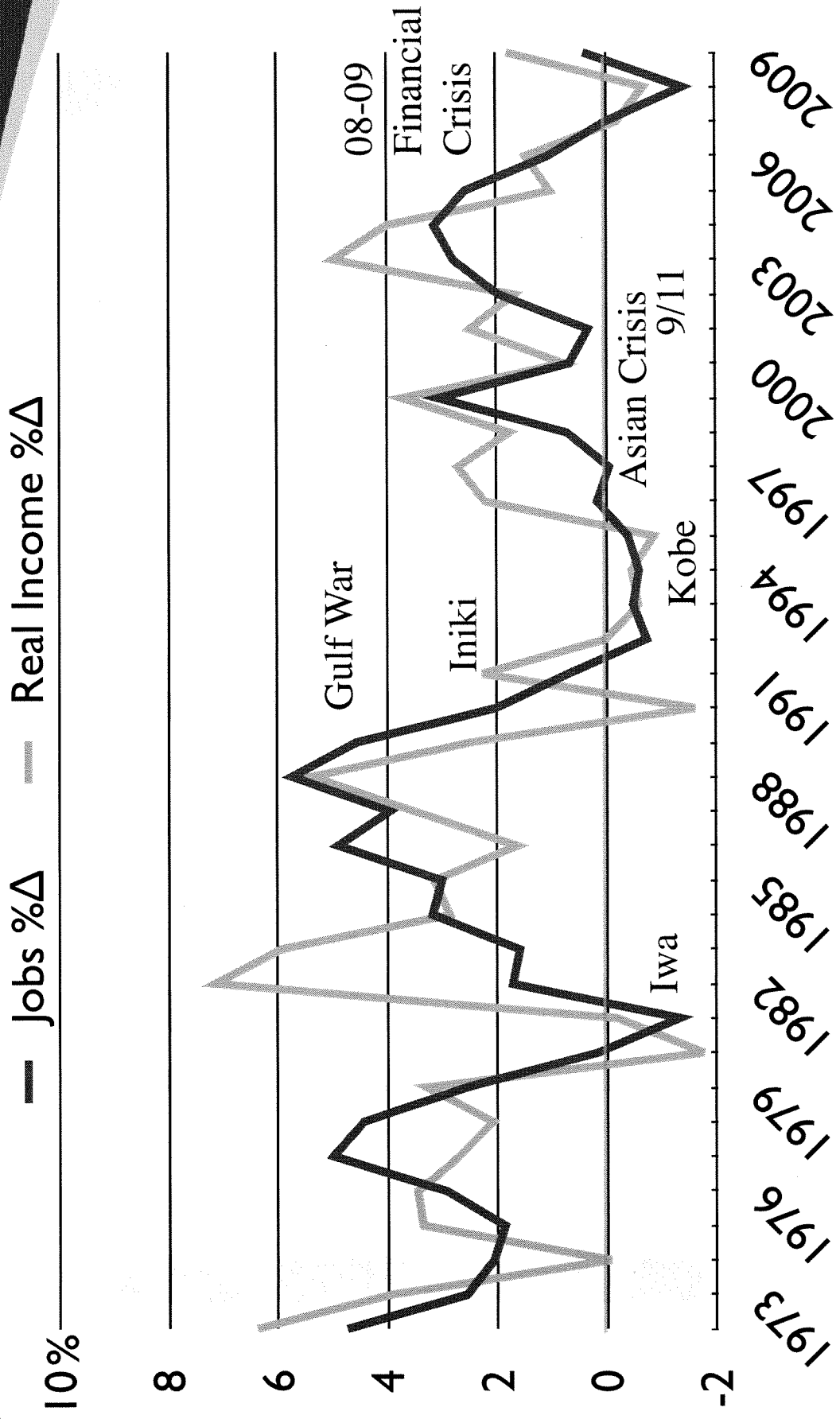
# Overview

- State of the Cycle
  - Hawaii recession likely to linger
  - California our Achilles heel
- State Forecast Update
  - External conditions are dismal
  - Milder than Mainland is good but...
  - When will tourism carnage end

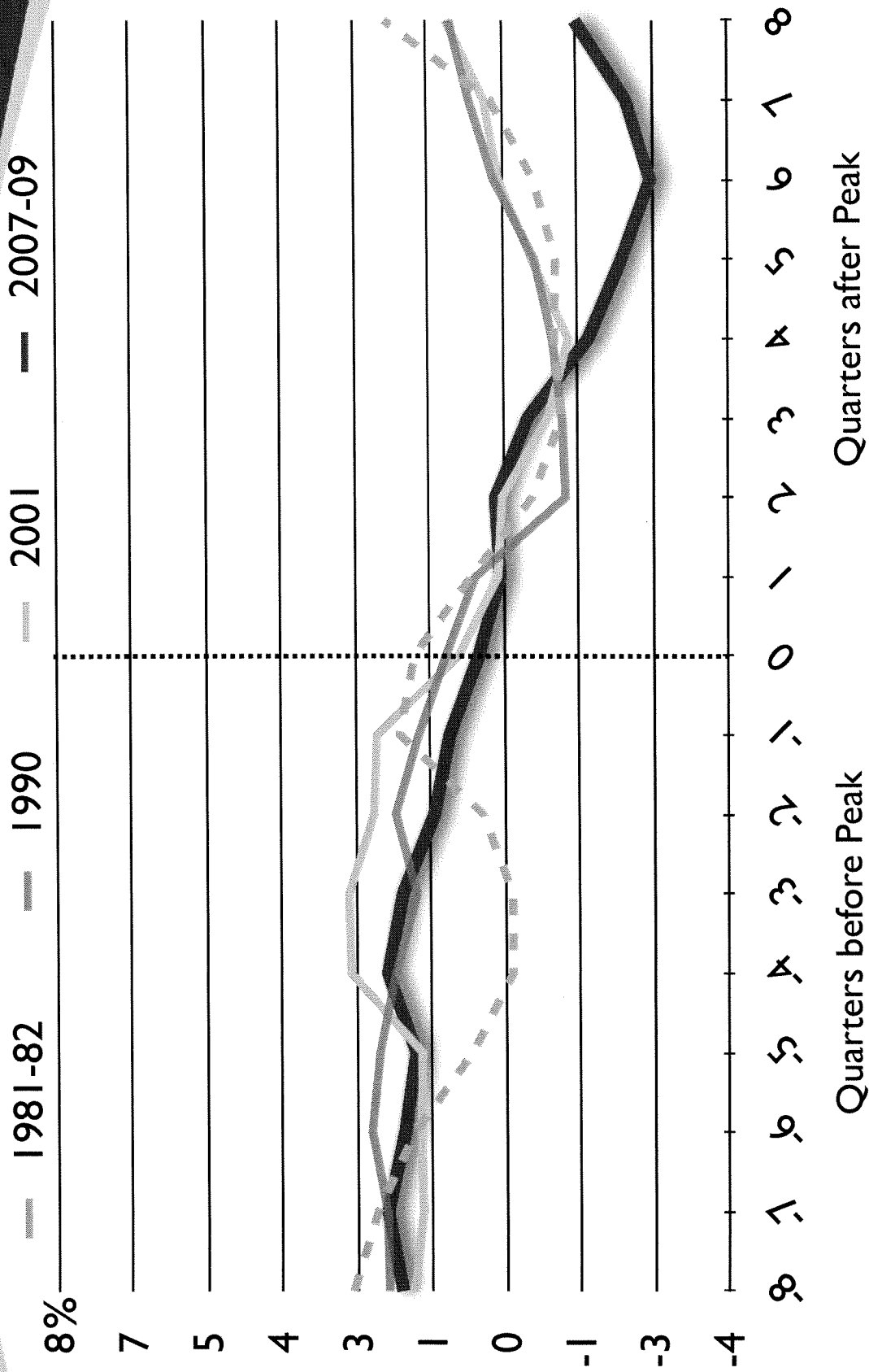
# US business cycle revisited



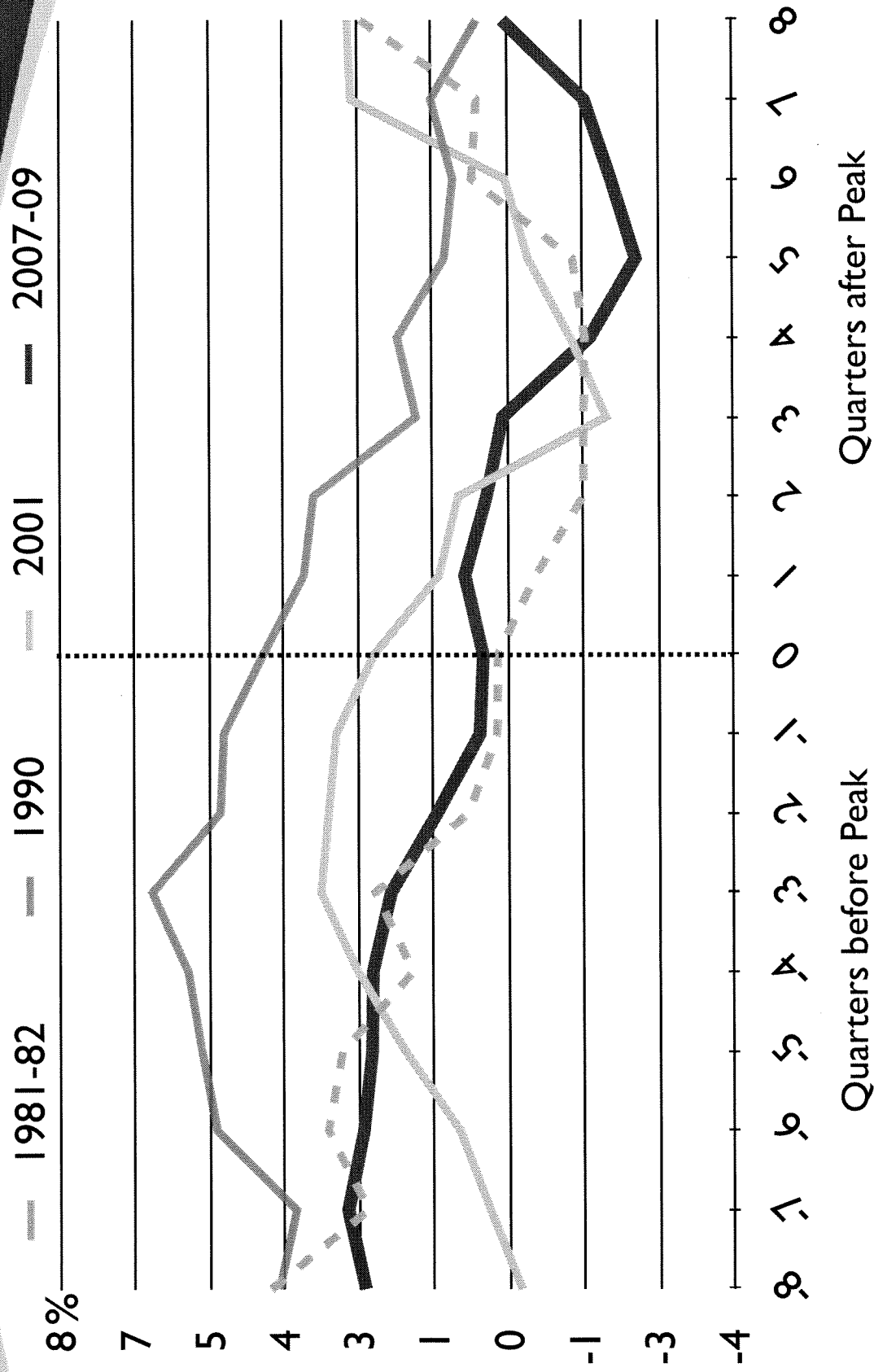
# Hawai'i business cycle revisited



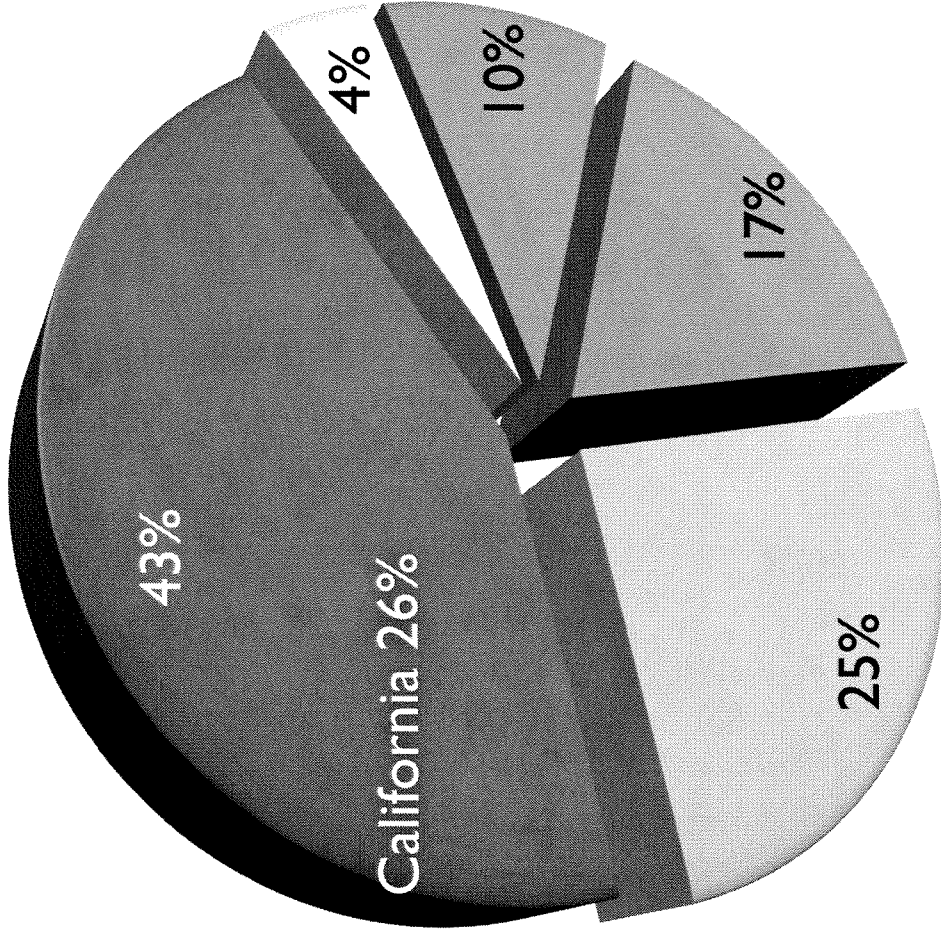
# US employment growth in past cycles



# Hawaii job growth in US recessions

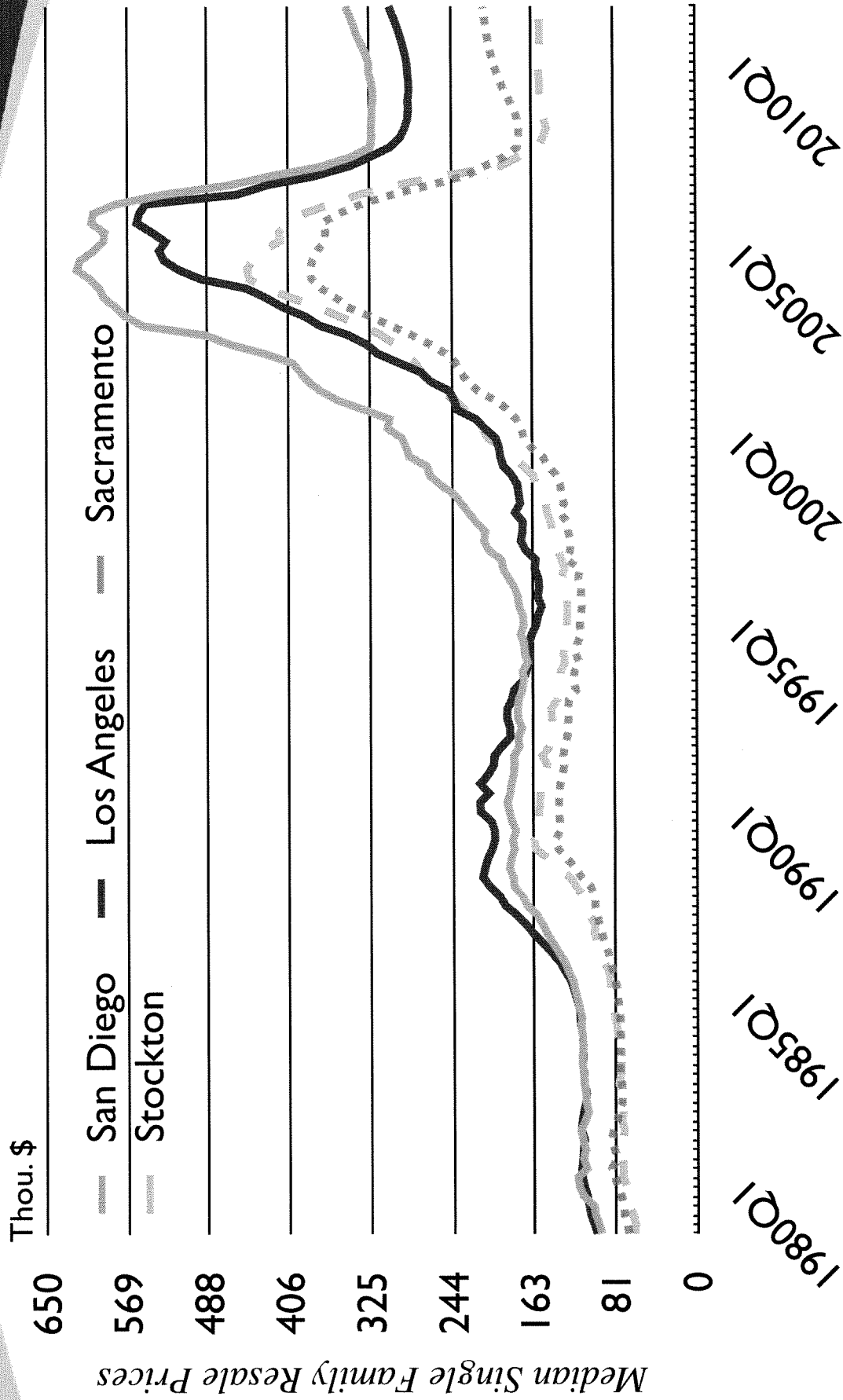


# Overweighted in domestic visitors



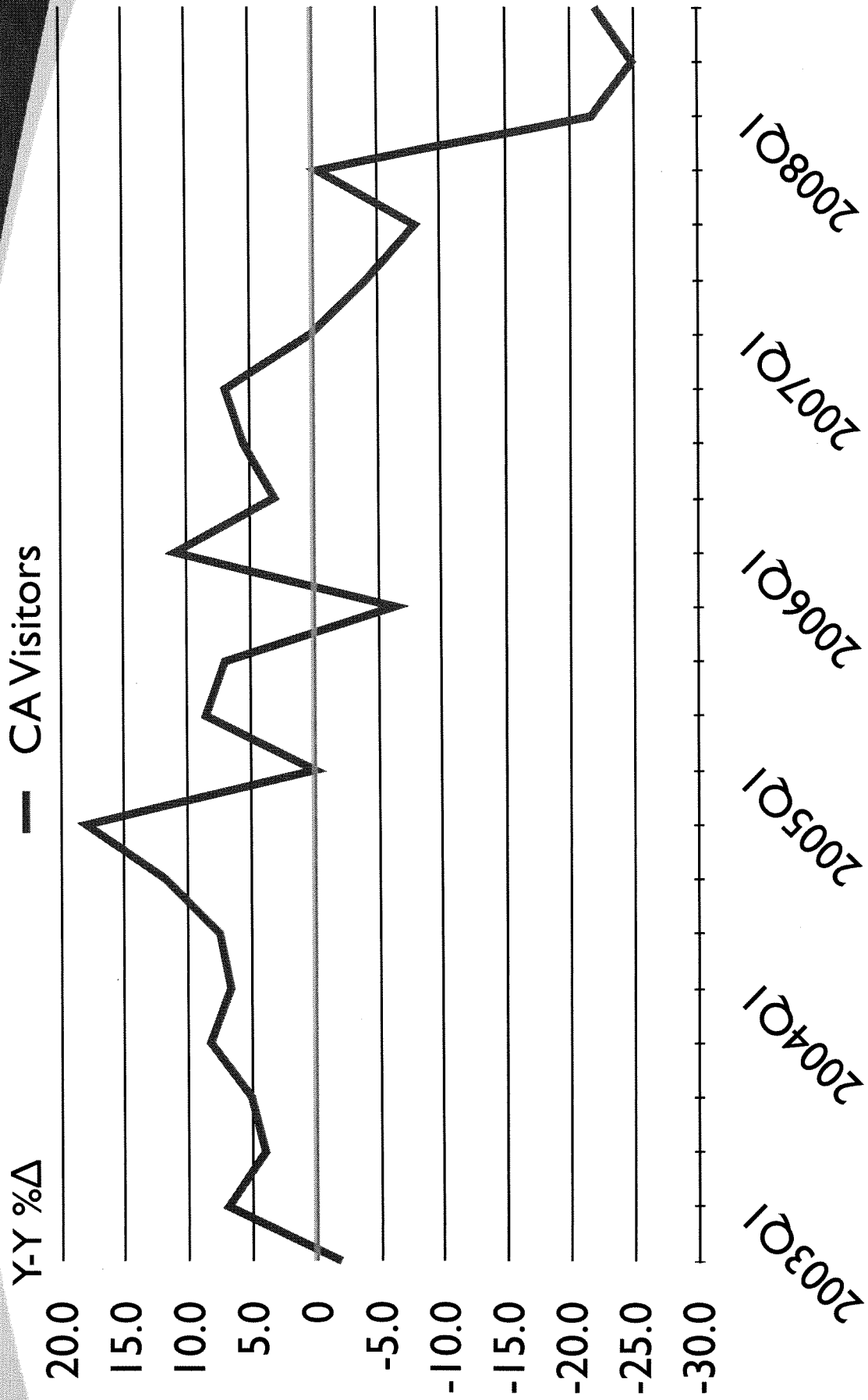
- Canada
- Others
- Japan
- US East
- US West

# California is our Achilles heel

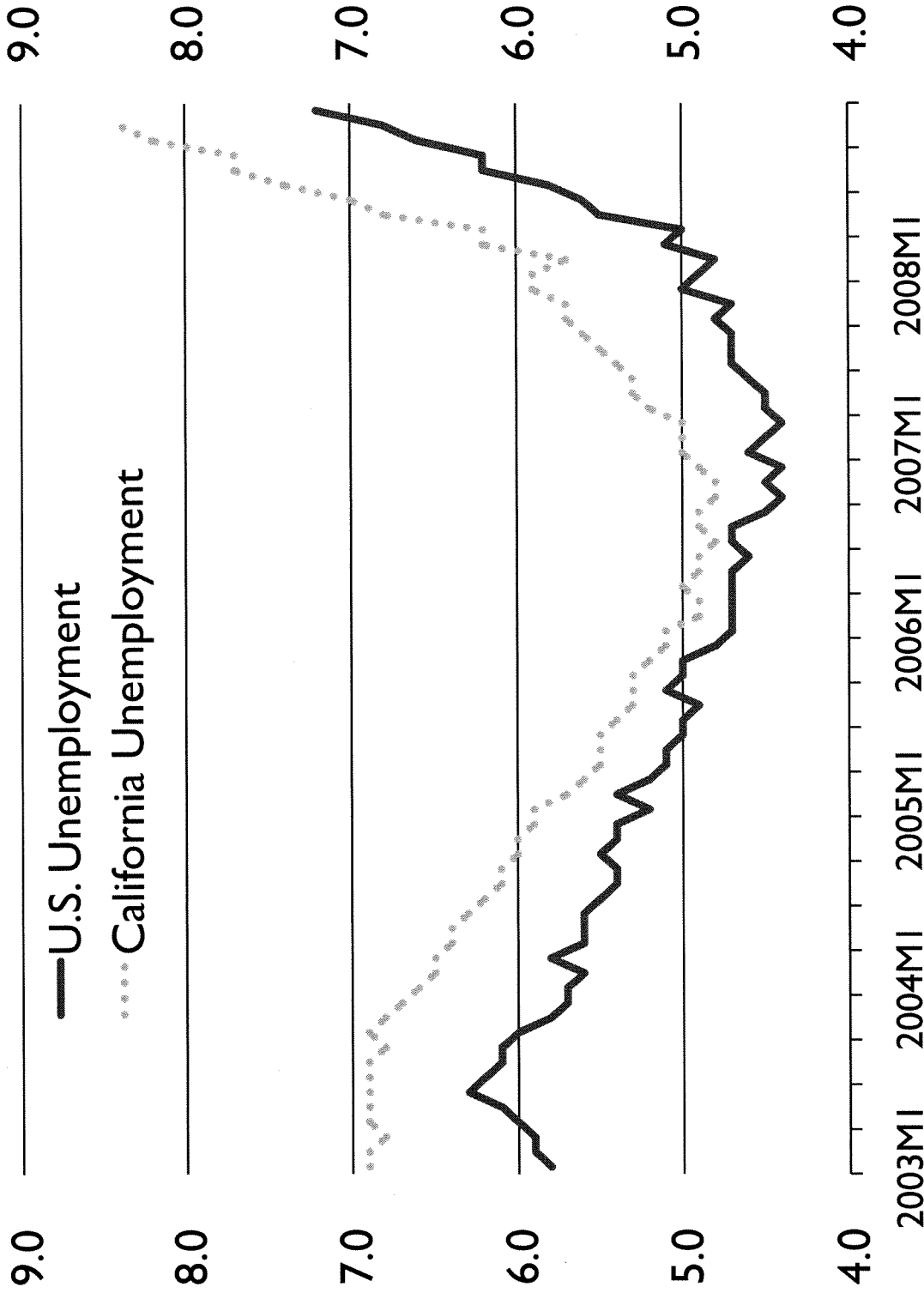




# California is our Achilles heel



# California leading nation in decline



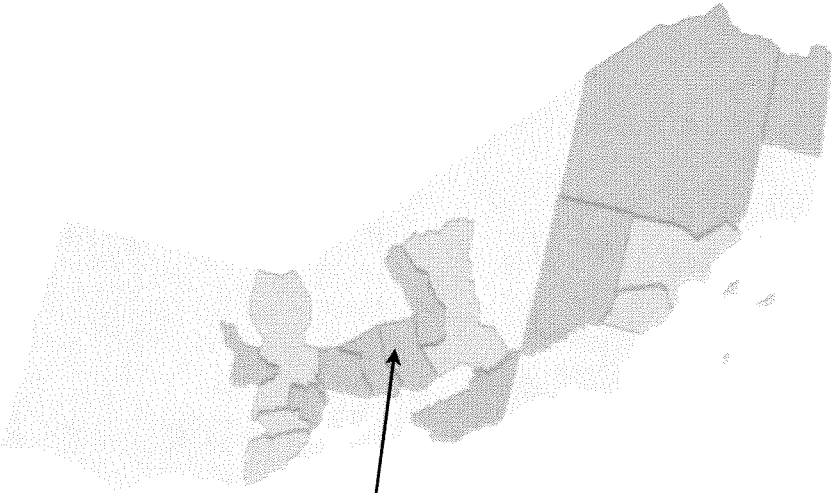
# California leading nation in decline

Negative Equity



Los Angeles-Long Beach-Santa Ana  
 Price Percent Change -21.4%  
 Homes Sold at Loss 38.3%  
 Foreclosure Sales 31.9%  
 Negative Equity 39.9%

Foreclosure Sales



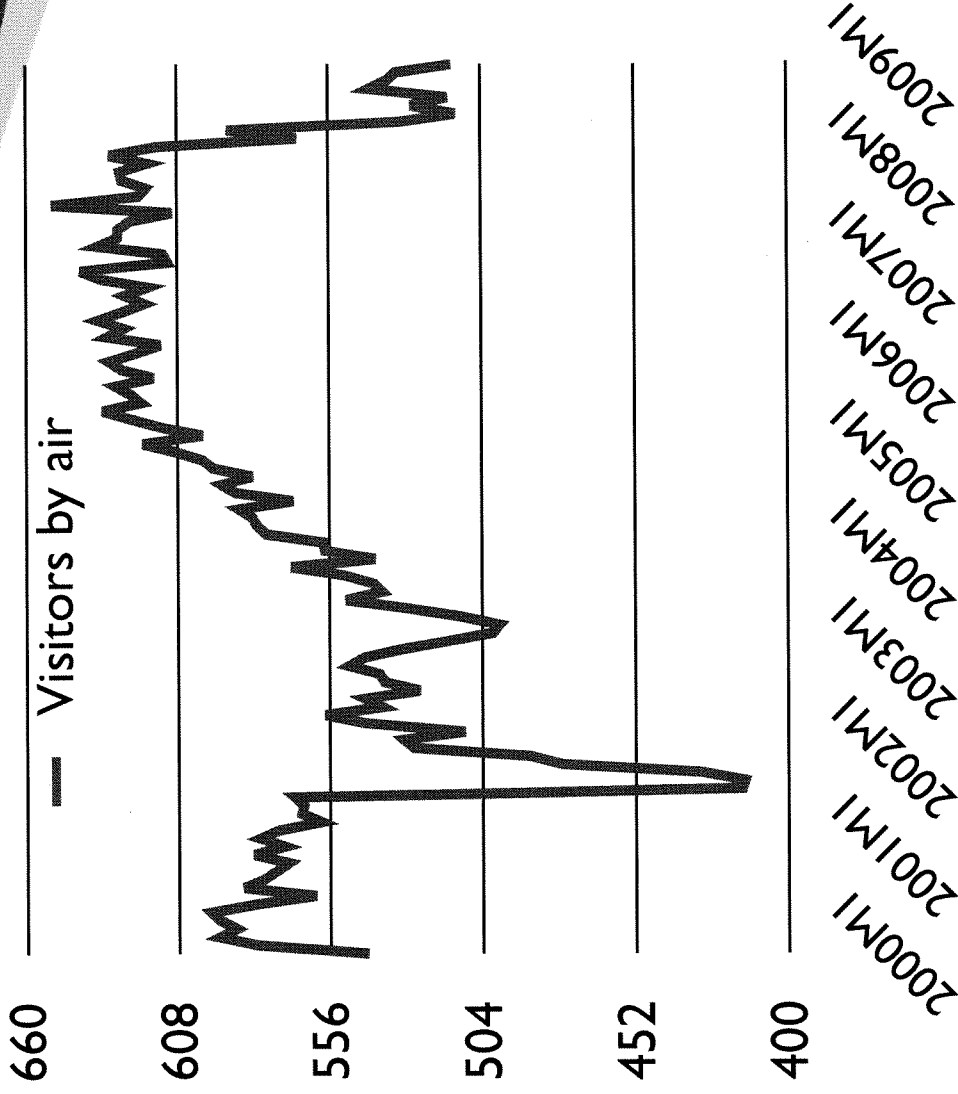
Merced  
 Price Percent Change -40.6%  
 Homes Sold at Loss 63.5%  
 Foreclosure Sales 56.0%  
 Negative Equity 84.6%

Source: Zillow.com.

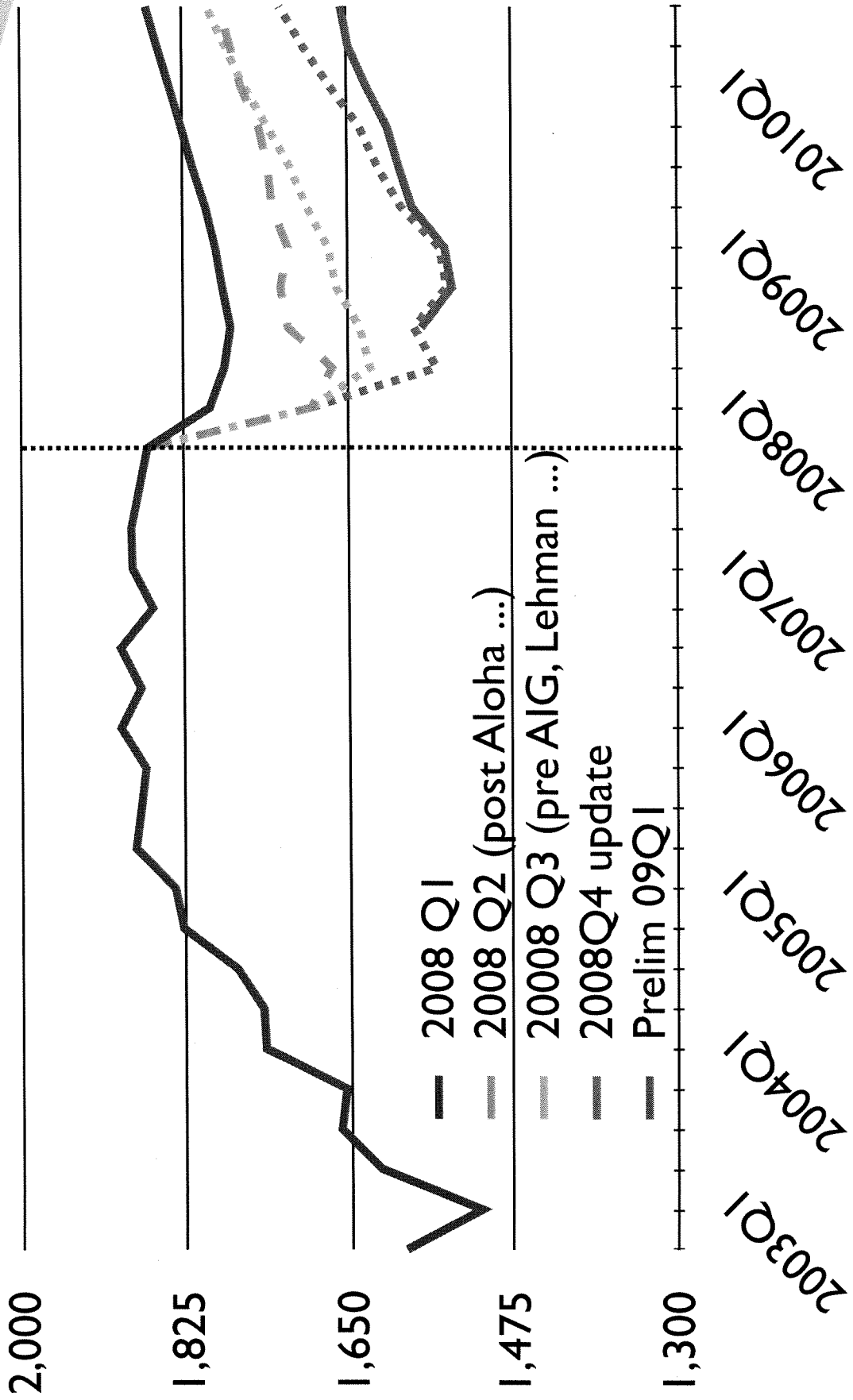
Source: Zillow.com.

# Tourism carnage nearing end?

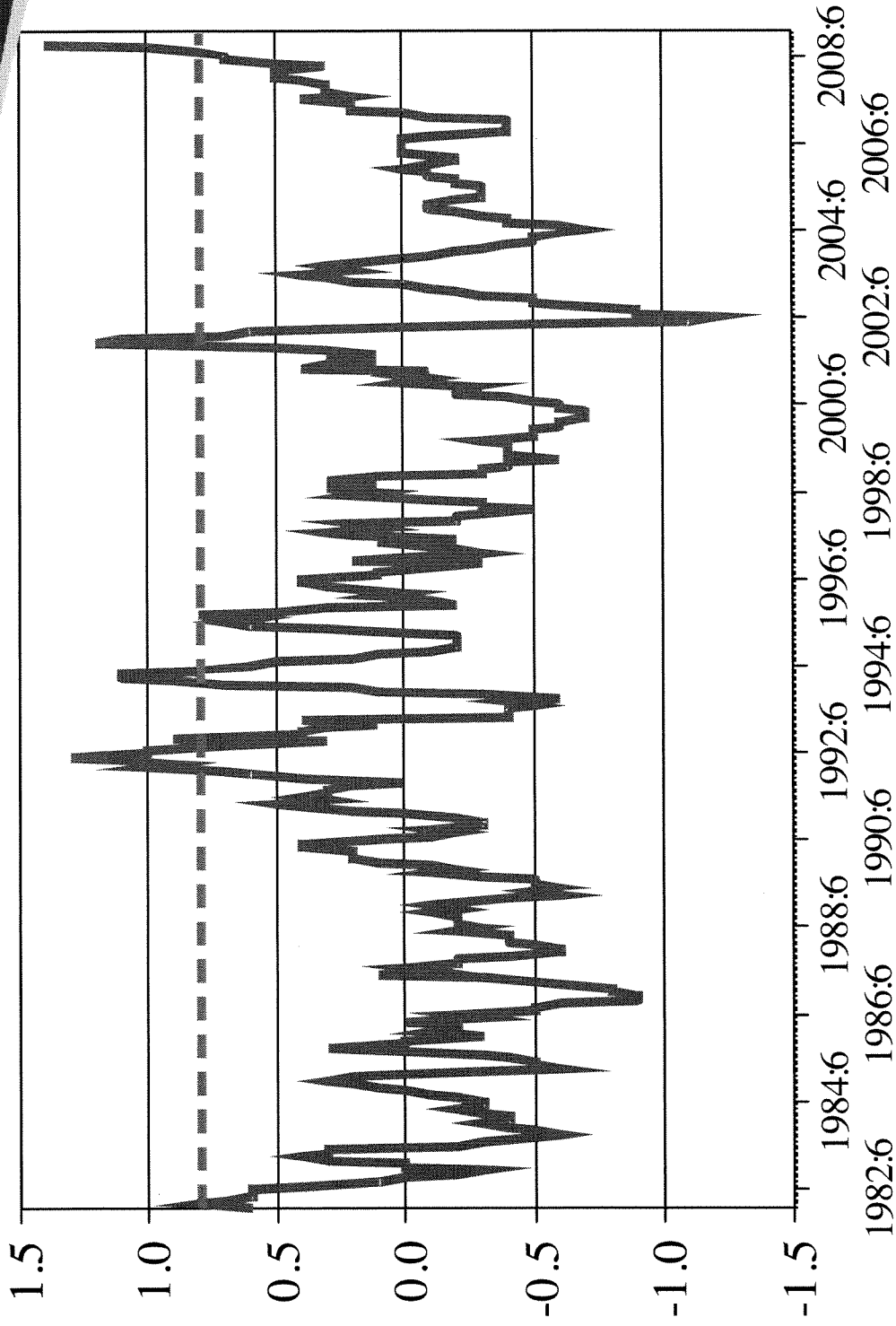
- 2/3 of cruise capacity gone by May
- At least 600,000 “effective” airline seats gone with bankruptcies
- Oil price surge shocked both supply and demand
- Housing/stock market busts —> unprecedented negative wealth effect in Hawaii’s largest market
- 2.6 million jobs lost and counting...



# Uncertainty rules visitor forecast



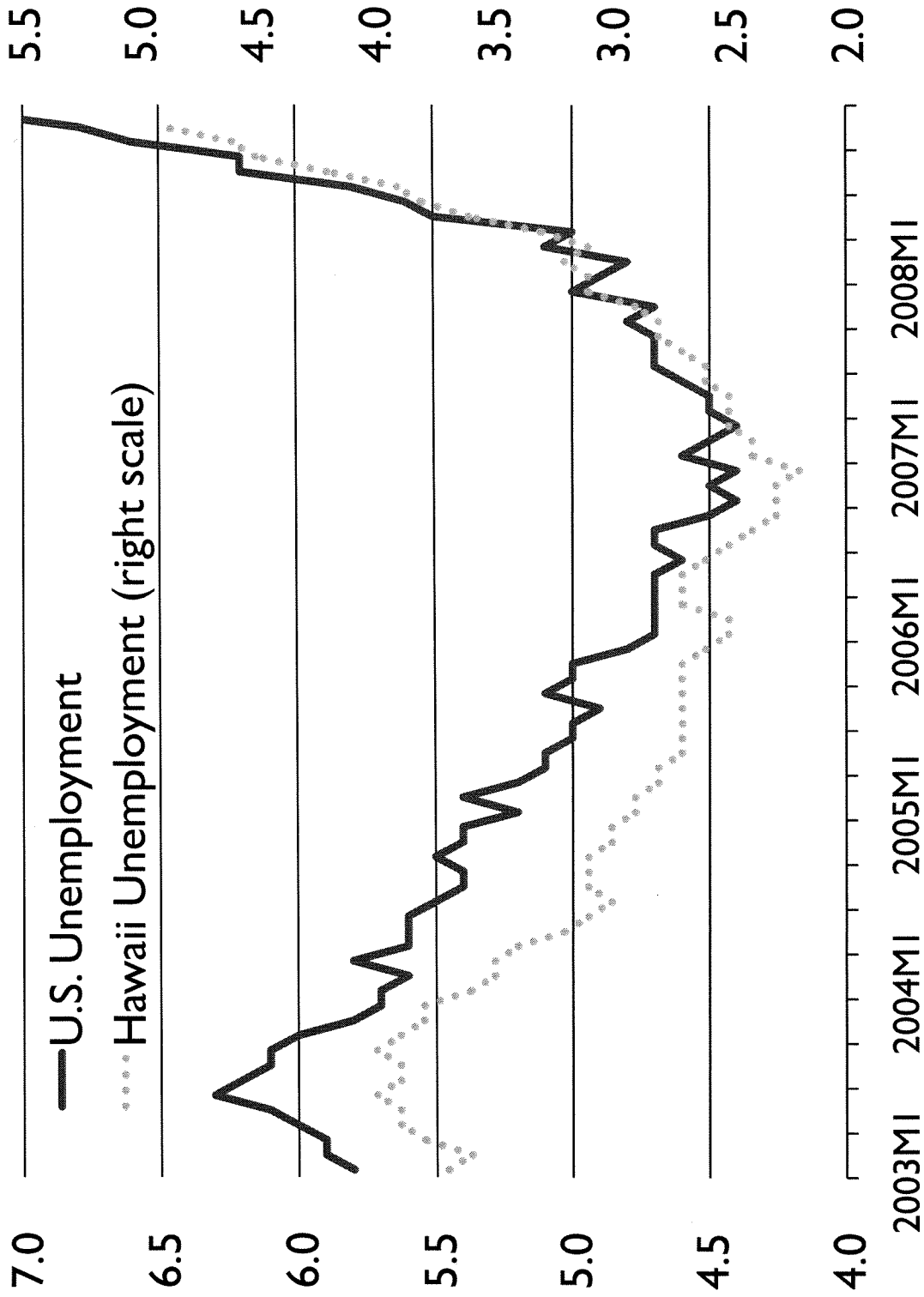
# But Hawai'i recession is certain



— 6-month Chg in Unemployment Rate

- - - Recession Threshold

# Not as bad as mainland?

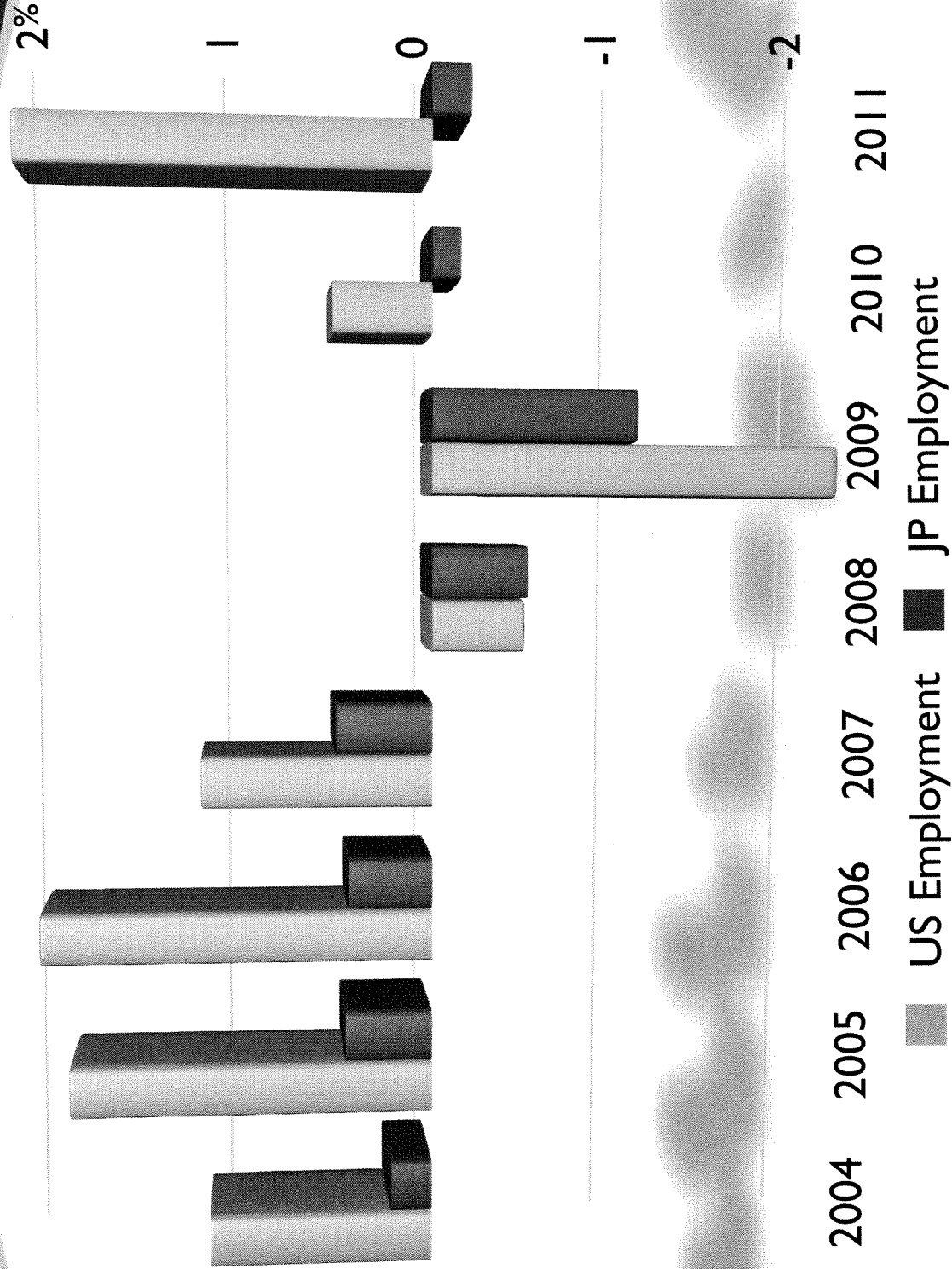


# Global recession implies worst still to come

- U.S. economy in long and deep recession
  - Q3 consumers spending fell by 3.1%, biggest drop in 20 years
  - Retail sales continue to decline.
  - Home price declines, foreclosures, bankruptcies continue.
  - Recession will linger well into 2009.
  - Housing prices continue to fall destroying wealth and families.
  - Consumer sentiment at record lows and spending follows.
  - Job losses continue to mount.
- Rest of world--
  - Japan is in recession
    - » Real GDP fell by 3.7% in 2008Q2 and 0.4% in Q3.



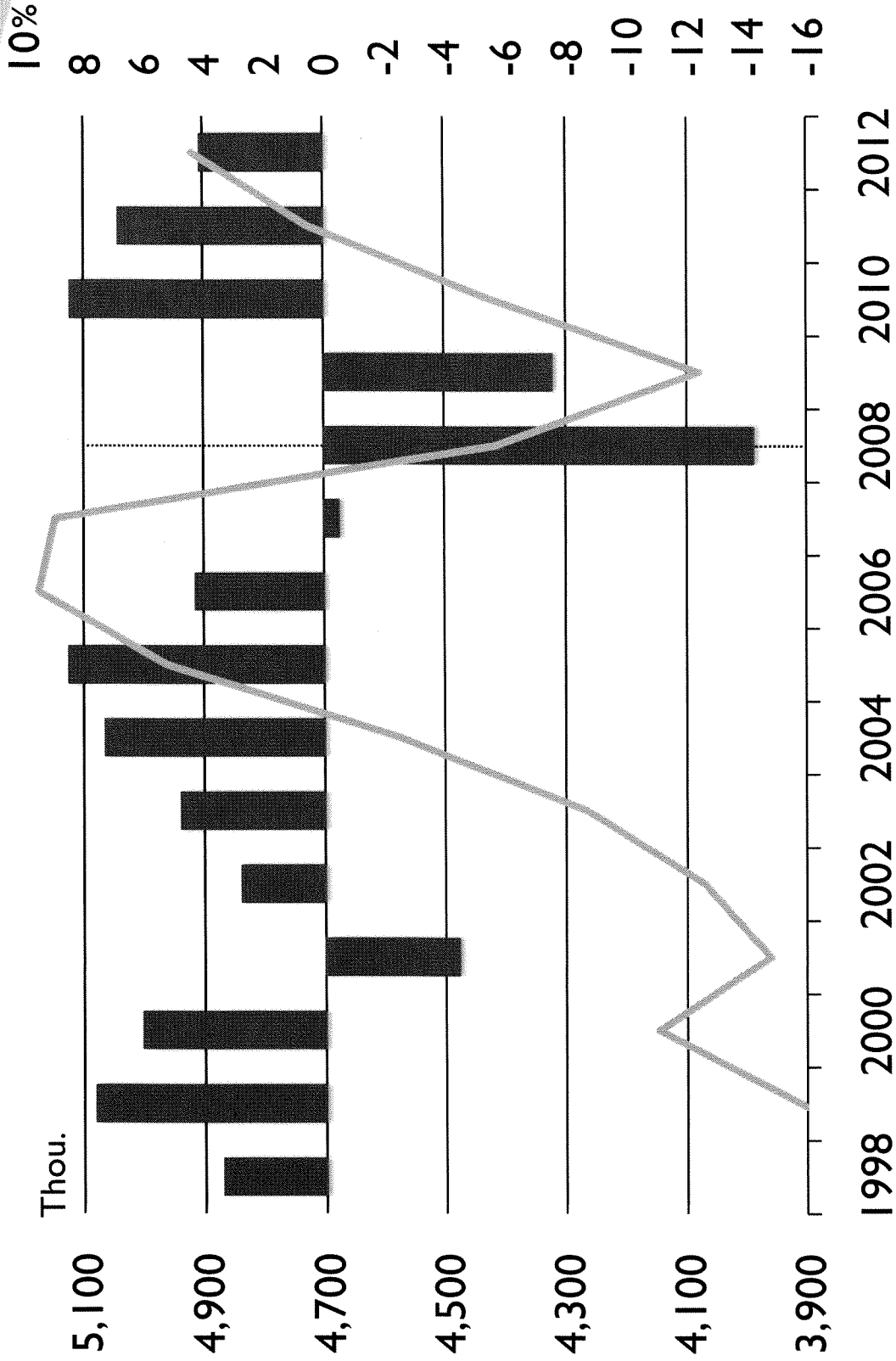
# Job losses continue in major visitor markets



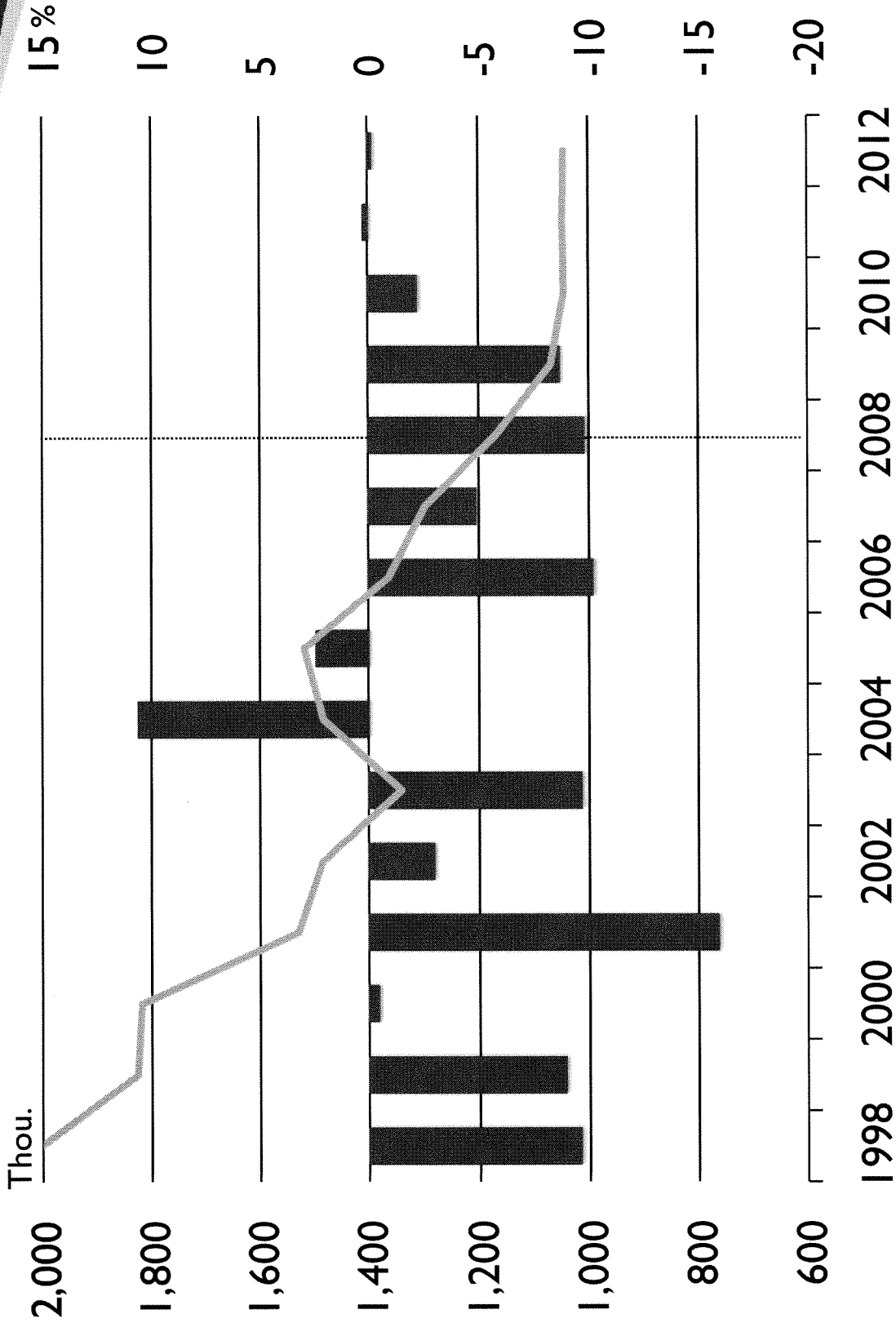
# State Forecast Update

- Hawaii construction sector no longer adding jobs
- Tourism malaise
  - Global recession in 2009
  - Consumer behavior to change long term?
  - But lower prices and visa agreements will help
- Job growth and real income growth will turn sharply negative in 2009.
- Moderate growth not likely until 2010 and beyond.

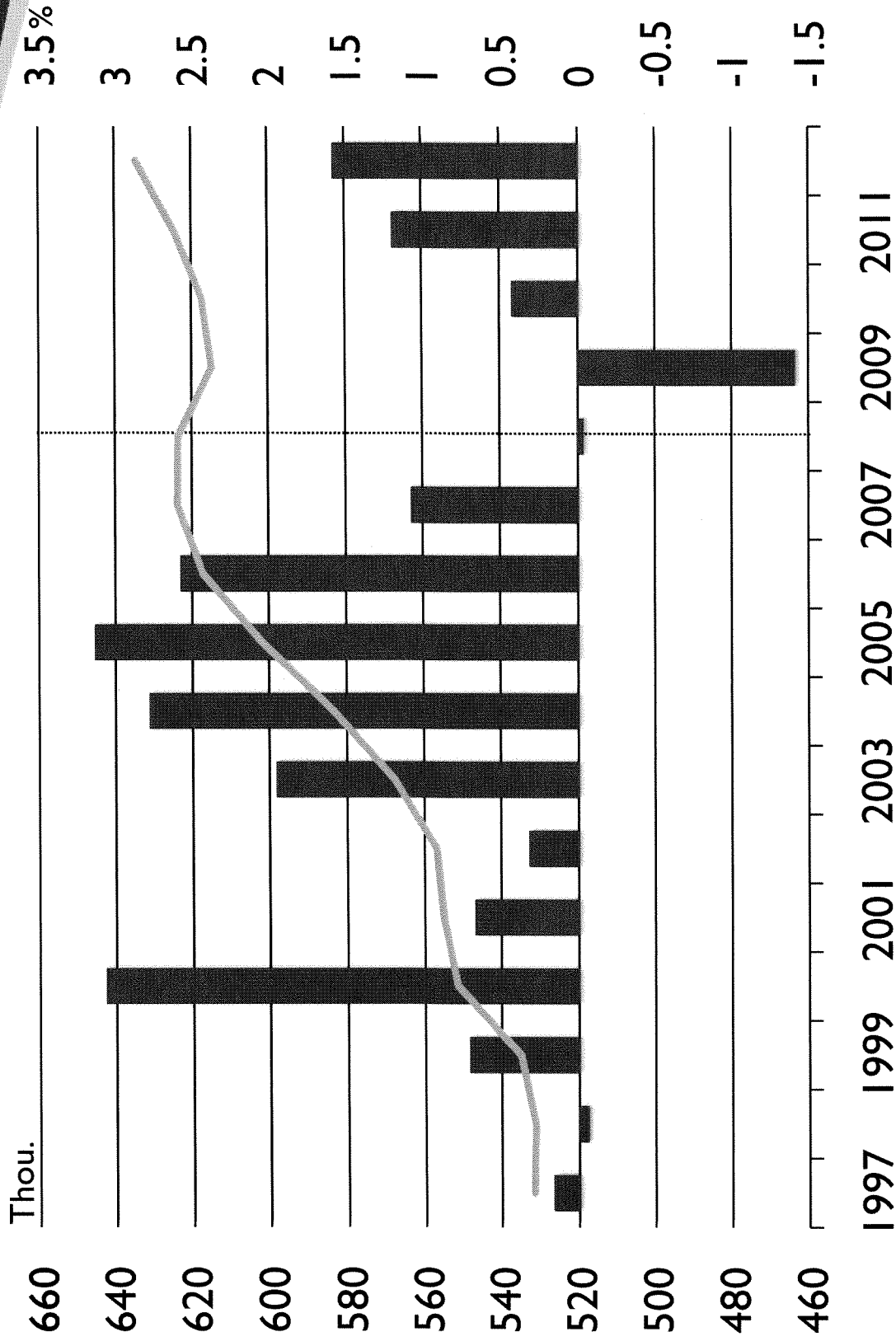
# Visitor forecast: U.S. arrivals collapse



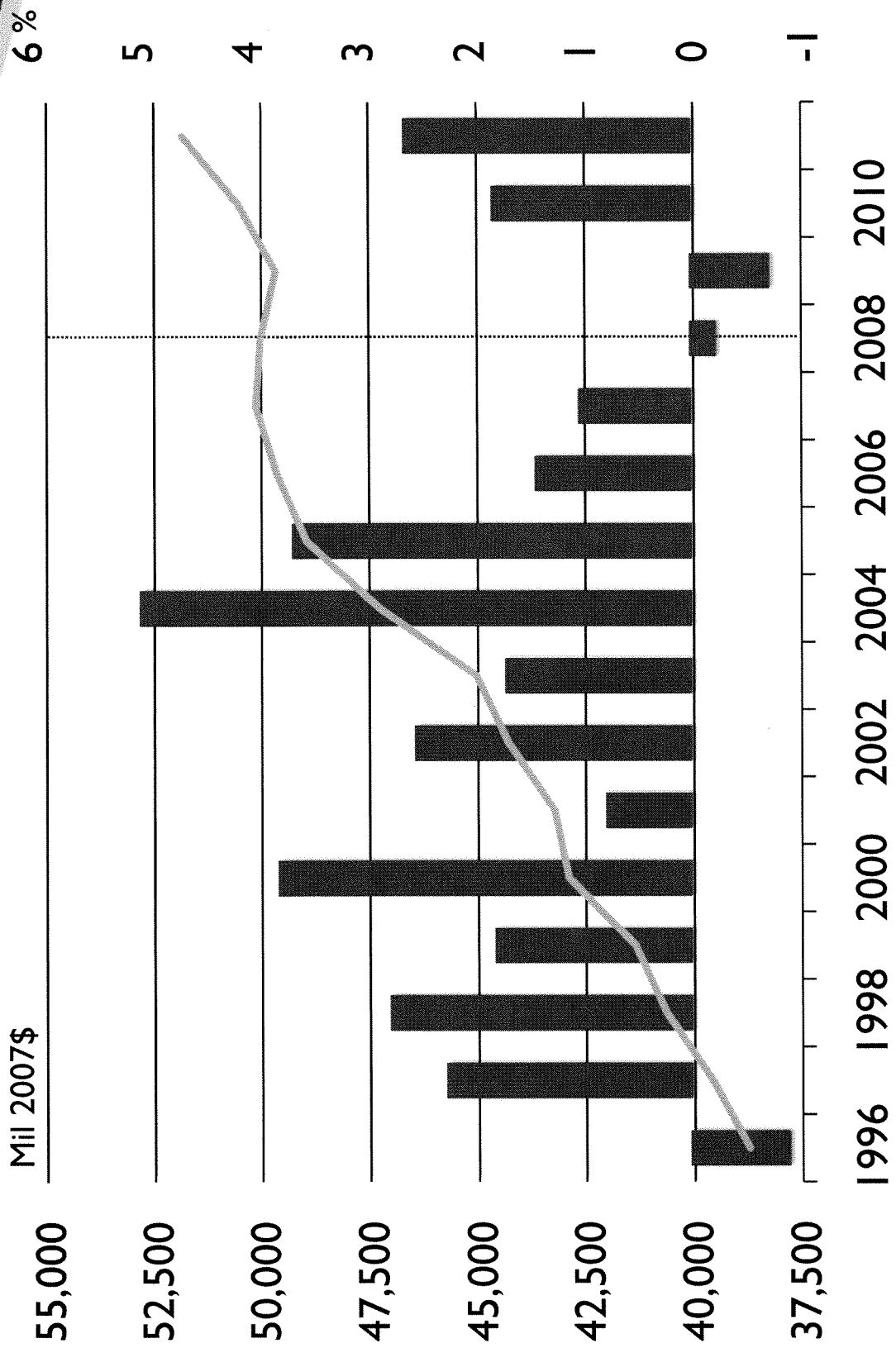
# Japanese arrivals continue their slide



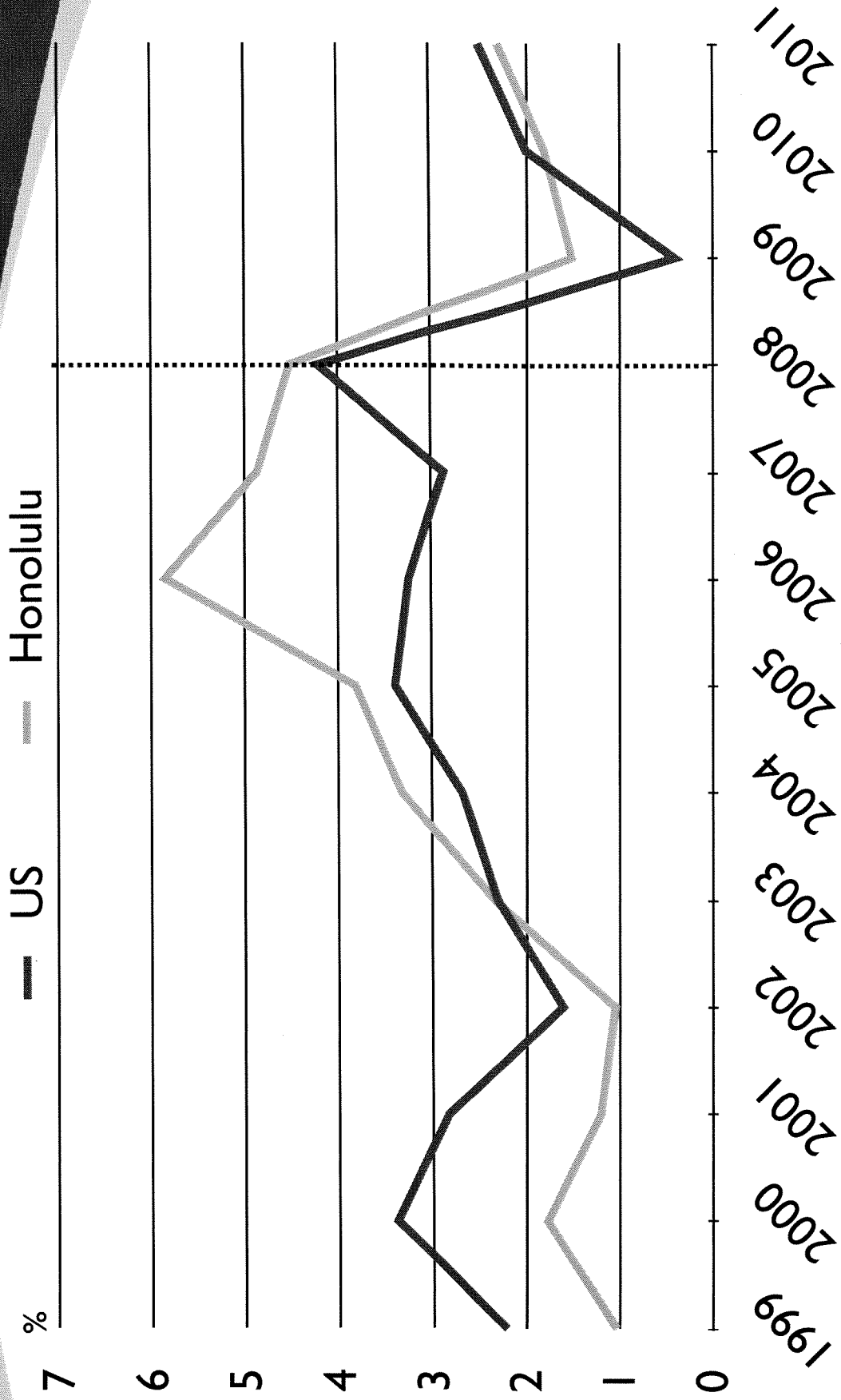
# Job Growth—Recession



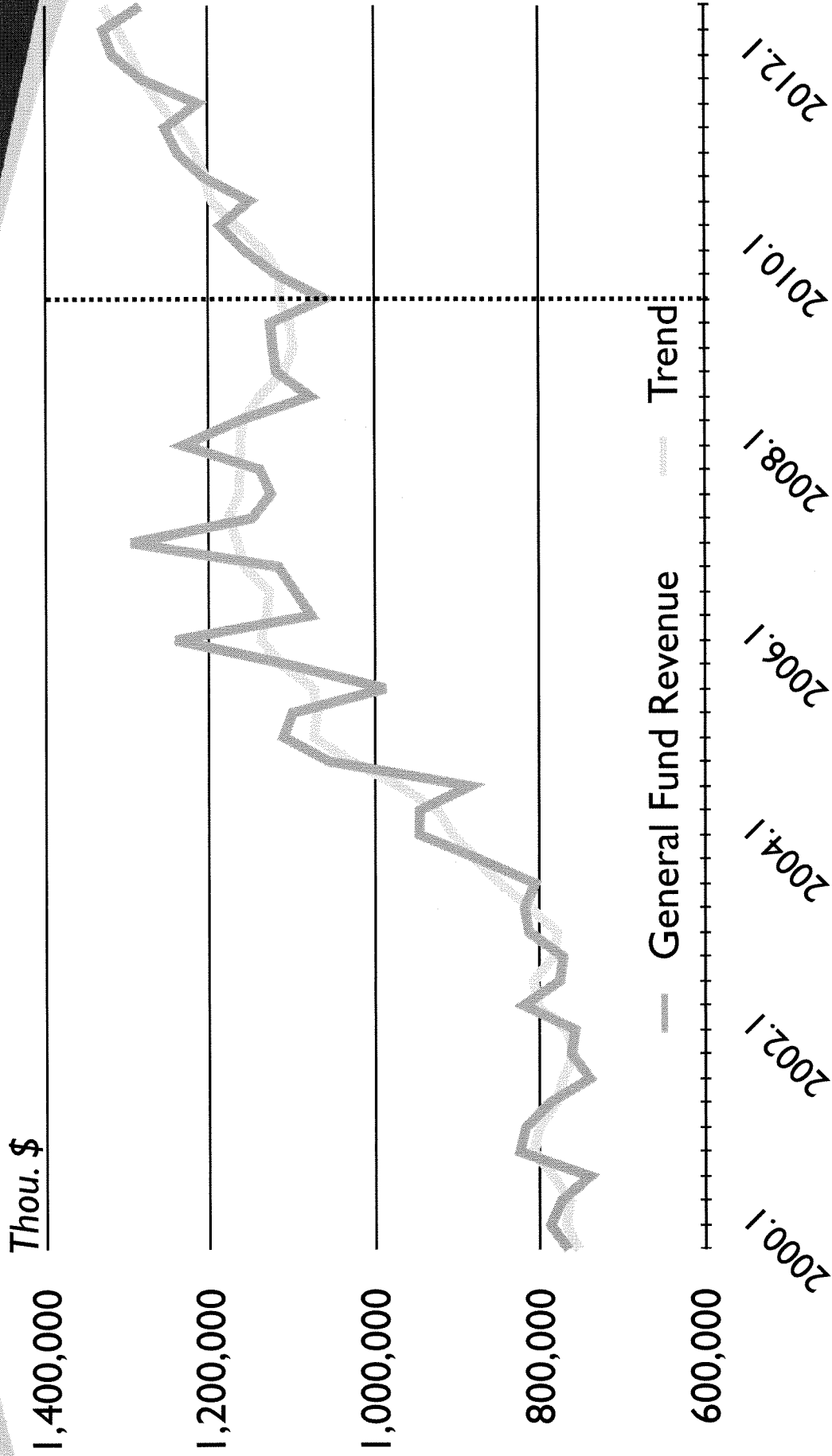
# Real Income—Recession



# With deep recession inflation is gone



# General fund revenue forecast





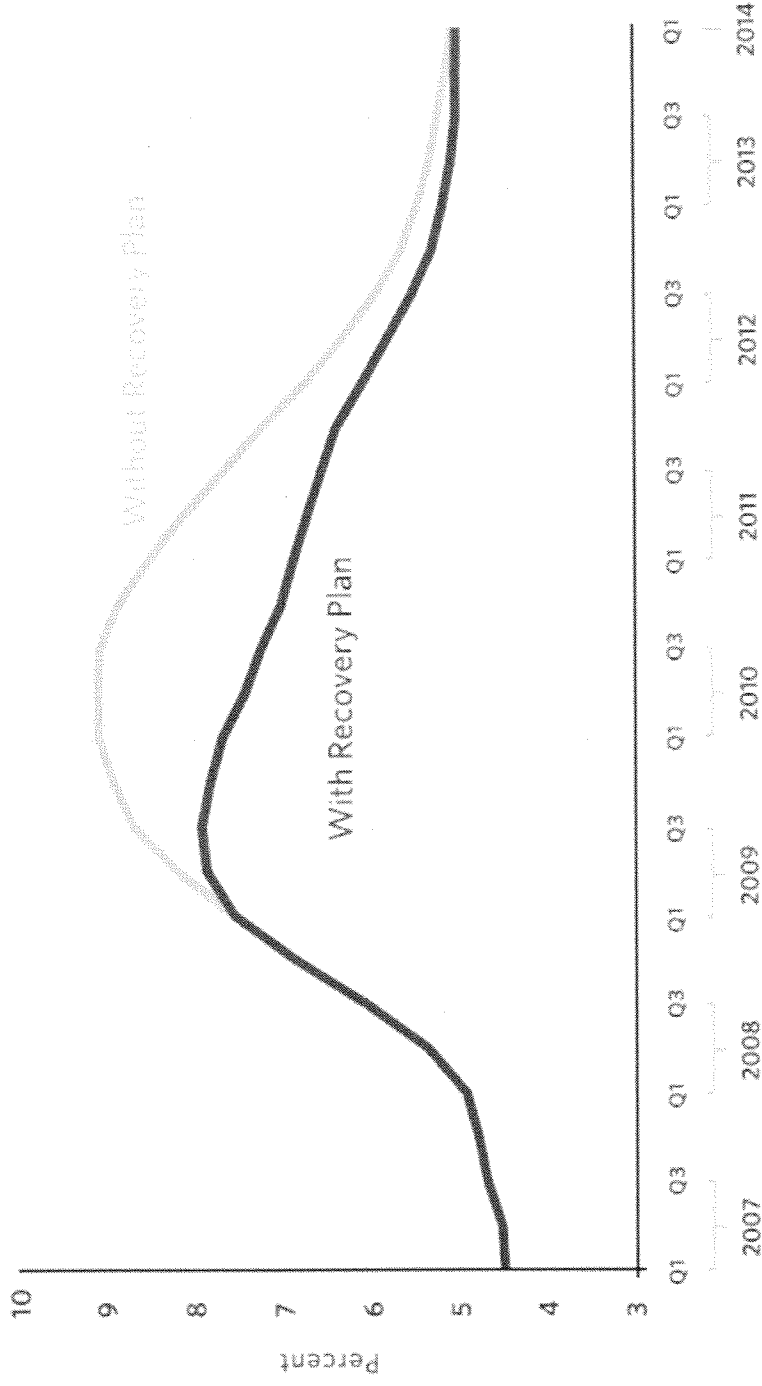
# Risks

- **Vicious Circle as consumers retrench**
  - » the global economy is weakened further,
  - » retailers, auto, travel sector lay off more workers
  - » contributing to ongoing foreclosures and bankruptcies
  - » which lead to continuing decline in home prices ...
  - » and more consumer retrenchment
- **Additional failures in transportation**
  - Falling travel demand and price cuts
- **Upside Risks?**
  - Falling air fare, energy cost, cheaper housing
  - Korean & Chinese Tourism agreements

# Upside Risks

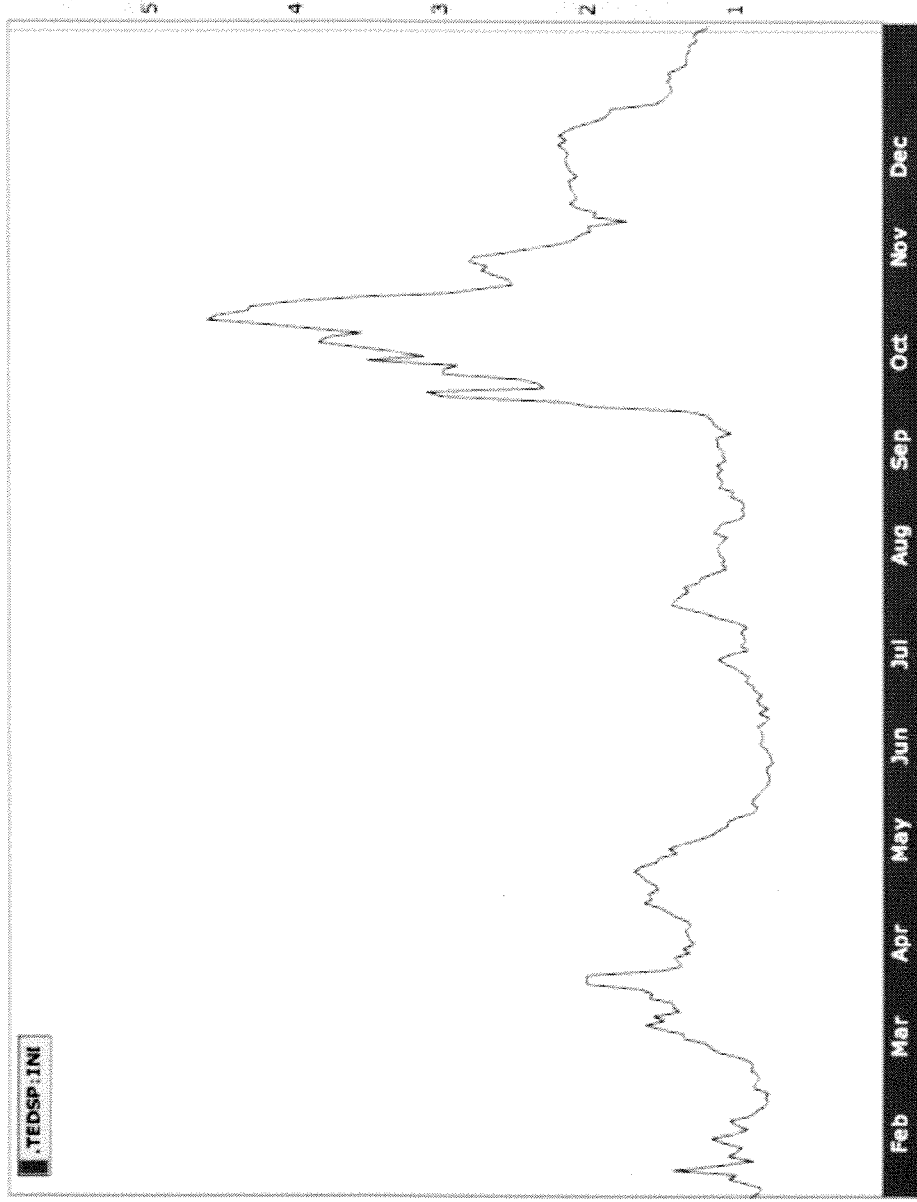
- Fiscal Stimulus and easing credit conditions

Figure 1  
Unemployment Rate With and Without the Recovery Plan



# Upside Risks

- Fiscal Stimulus and easing credit conditions



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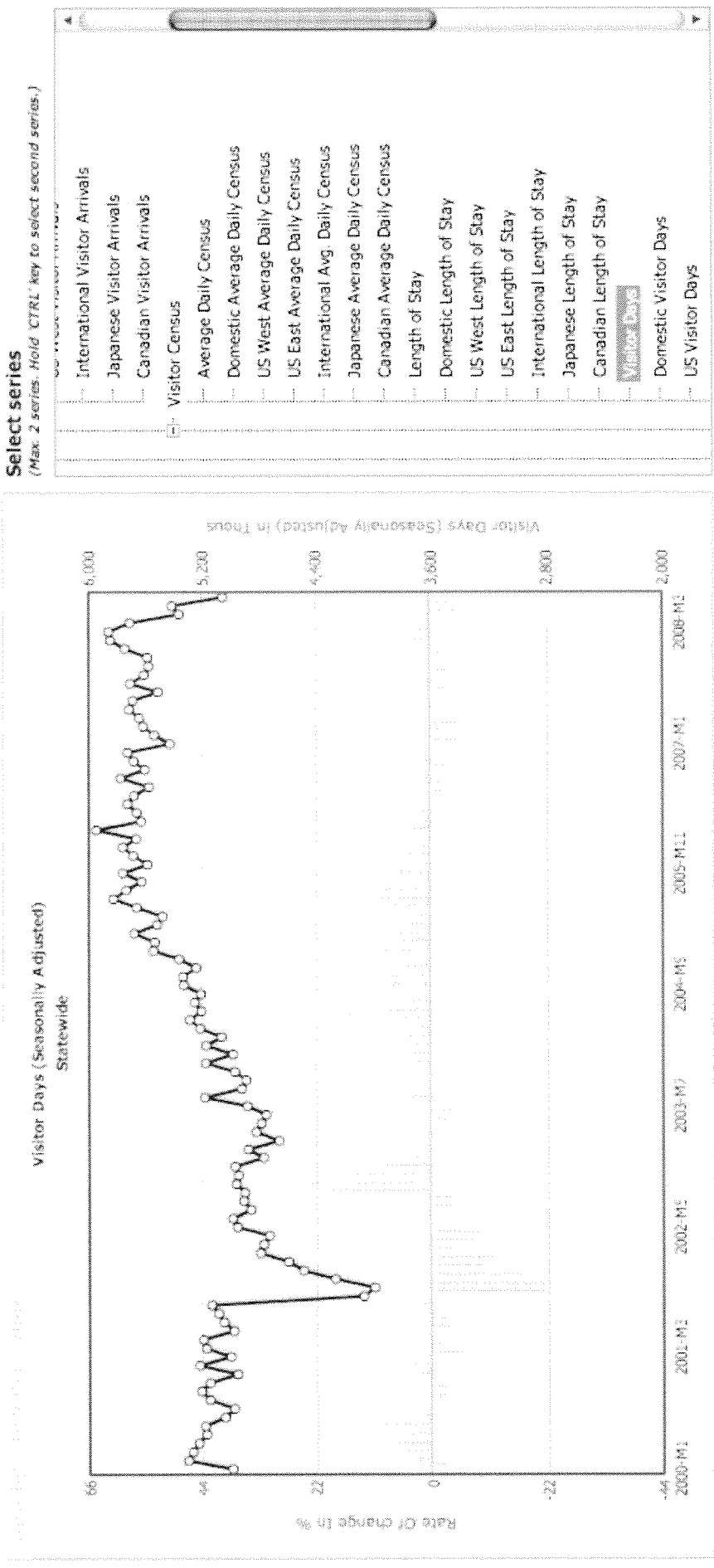
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- Japanese Visitor Arrivals
- Canadian Visitor Arrivals
- Visitor Census
- Average Daily Census
- Domestic Average Daily Census
- US West Average Daily Census
- US East Average Daily Census
- International Avg. Daily Census
- Japanese Average Daily Census
- Canadian Average Daily Census
- Length of Stay
- Domestic Length of Stay
- US West Length of Stay
- US East Length of Stay
- International Length of Stay
- Japanese Length of Stay
- Canadian Length of Stay
- Visitor Days
- Domestic Visitor Days
- US Visitor Days

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## MAJOR ECONOMIC INDICATOR SUMMARY, Statewide

	2006-Q1	2006-Q2	2006-Q3	2006-Q4	2007-Q1	2007-Q2	Year To Date
<u>Non-Farm Jobs (Thou.)</u>	608.8	616.3	613.7	627.4	623.0	629.2	626.1
<u>% Change</u>	2.9	2.4	2.1	2.5	2.3	2.1	2.2
<u>Unemployment Rate (%)</u>	2.3	2.8	2.5	1.9	2.2	2.6	2.4
<u>Personal Income (\$Mil.)</u>	45,614.0	46,132.0	47,059.0	47,528.0	48,393.0		48,393.0
<u>% Change</u>	5.8	5.9	6.7	6.0	6.1		5.5
<u>Inflation Rate, Honolulu MSA (%)</u>	5.9	5.8	6.1	5.6	5.2	4.7	
<u>Real Personal Income (1982-84\$Mil.)</u>	22,258.9	22,192.2	22,279.6	22,273.9	22,452.0		22,452.0
<u>% Change</u>	0.0	0.0	0.6	0.4	0.9		1.0
<u>Visitors (Thou.)</u>	1,802.1	1,835.5	1,973.6	1,803.4	1,782.6	1,833.5	3,616.1
<u>% Change</u>	-1.1	2.7	-1.1	-0.5	-1.1	-0.1	-0.6
<u>Japanese Visitors</u>	349.9	317.2	365.4	341.9	324.4	293.6	618.0
<u>% Change</u>	-9.4	-8.7	-9.4	-10.1	-7.3	-7.5	-7.4
<u>U.S. Visitors</u>	1,190.5	1,306.0	1,374.2	1,285.8	1,207.3	1,328.1	2,535.5
<u>% Change</u>	-0.5	5.8	1.4	2.7	1.4	1.7	1.6
<u>Visitor Days (Thou.)</u>	17,219.8	16,284.8	17,659.4	16,335.5	16,855.4	16,305.0	33,160.4
<u>% Change</u>	-0.4	3.7	-2.3	-1.7	-2.1	0.1	-1.0
<u>Visitor Expenditures (\$Mil.)</u>	2,928.5	2,871.0	3,182.0	3,011.8	2,992.6	2,876.8	5,869.4
<u>% Change</u>	3.9	7.4	0.7	0.5	2.2	0.2	1.2

Source: UHERO Economic Information Service ([www.uhero-prognoz.com](http://www.uhero-prognoz.com)). Table copyright UHERO, 2007.



# Mahalo