

First Hawaiian Bank Economic Forecast for Oahu: Slower Recovery than Usual, but no 'Double-Dip' Recession for Hawaii

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HAWAII ECONOMIC FORECAST FOR 2012

	2011 Estimate	2012 Estimate
Jobs	+1.3%	+1.2%
Unemployment Rate	6.2%	5.5%
Inflation	+3.0%	+1.5%
Visitor Arrivals	+3.2%	+2.6%
Real Personal Income	+1.0%	+0.9%

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(Honolulu, Hawaii, November 17, 2011) – Hawaii's outlook for 2012 is for a slower recovery than was envisioned just a few months ago, economist Dr. Leroy Laney said today. "Even under the best of circumstances, the recovery will continue to be much slower than usual. The best scenario is a slight, but only slight, acceleration for 2012," Laney, Economic Adviser to First Hawaiian Bank and Professor of Economics and Finance at Hawaii Pacific University, told the bank's Business Outlook Forum at Blaisdell Concert Hall.

"Despite talk about a 'double-dip' recession, I'm not predicting one for Hawaii. Nonetheless, practically all forecasters – local, national, and global – have been revising down their forecasts recently. The events affecting this include European debt problems and our own debt debate in Washington."

He made these forecasts for the state for 2012:

JOB GROWTH - +1.2% in 2012: "Partly in light of the fragile U.S. national recovery and lower confidence levels, which will undoubtedly have at least some impact on the local economic scene, the outlook is for only muted job growth (1.3%) for 2011 as a whole with only a minor variation in 2012. Most of Hawaii's job growth will occur in the private sector, with the public sector remaining a drag."

UNEMPLOYMENT - 5.5% in 2012: "Hawaii's jobless rate has been hovering around 6% recently, and the average for 2011 may come in about that. If the local economy strengthens some and manages to avoid setbacks from external sources, a marginal improvement (to 5.5%) is possible in 2012."

INFLATION – 1.5% in 2012: "If we manage to avoid things like oil price shocks inflation can be considerably lower in 2012. Inflation is not the primary economic concern nowadays – economic recovery still is. Hawaii might even welcome a higher inflation rate if it would bring with it a stronger economy and a recovery in home prices."

VISITOR ARRIVALS - +2.6% in 2012: "Tourism will likely remain Hawaii's main economic driver in the near future. But we are reminded once again that we do sell a luxury good to the rest of the world; a trip to Hawaii can be cut back in tougher times. Growth in visitor arrivals has been running over 3% so far in 2011, but that could mean slightly slower growth next year."

REAL PERSONAL INCOME GROWTH - +0.9% in 2012: "Avoiding another recession is still quite possible, especially for a tourism-driven service economy that has demonstrated relative resilience so far. But we shouldn't look for much above the 1% range for real personal income growth in the near future."

Job Growth: Continued in 2011

"Hawaii job losses that began in 2008 accelerated in 2009 and continued well into 2010. It was late 2010 before the state started to show positive job growth compared to the previous year, but those gains have continued into 2011," Laney said.

He noted that recent job growth "has been concentrated in the private sector -- with visitor-related jobs, professional and business services, educational and health services, and information and technology leading the way. Leisure and hospitality job gains have slowed after earlier resurgence, however, and actual losses have occurred in trade, transportation, and utilities positions. But by far the biggest job reductions have happened in the public sector, with all three levels of government (federal, state and local) losing jobs."

He noted that job the Neighbor Islands have shown weaker job growth than Oahu. "The state as a whole is now about 5% below the peak year of 2007 in the level of jobs. But while Oahu is only about 3% below its peak that year, all of the three Neighbor Islands are closer to 10% below that level," Laney said.

Unemployment: Lower than the National Rate

Laney said Hawaii's unemployment rate is "running about 3 percentage points below the national rate. But this number doesn't include discouraged workers who have just dropped out of the work force, or some job losses by multiple job holders who are still technically employed but earning significantly less."

Tourism: Leading the Recovery

"The leading edge of our recovery has been in our main industry, tourism," he said. "The visitor industry sprang back quicker than many thought as the recession hit us. But at the current juncture, the main surge of that snapback is waning. Near-term future growth in this industry won't be as spectacular, even if it remains healthy."

"International arrivals were impacted by Japan's tsunami. The U.S. West market continues to be the mainstay of strength, and some increases in airlift have helped."

Construction: Job Growth Edging Back

"Unfortunately, the revival in the visitor industry hasn't spread to other sectors of the economy very well," Laney said. "Construction is always an important component of economic growth, but -- as elsewhere -- it lags considerably in Hawaii. Job growth numbers for this industry have recently edged back into positive territory. All of this is attributable to Oahu; the Neighbor Islands continue to lose construction jobs. But other indicators in this industry don't show cause for great optimism."

Car/Truck Sales: Projecting a Slight Increase

"Big-ticket items like homes and cars tend to be good underlying indicators of any economy. This year's projection by the Hawaii Automobile Dealers Association is for only a slight increase of about 4%," Laney said, after flat figures in recent years.

Oahu Real Estate: Falling Sales and Prices

"In 2010, substantial increases in sales of single-family homes on Oahu and a turnaround in median prices were encouraging. In 2011 so far, both sales and prices have been falling some," he noted. "The downward pressure on prices is

coming at least partly from the continued overhang of short sales and foreclosures."

Credit Card Spending: Rebound in Spending

"Another good indicator of the local economy is First Hawaiian Bank's own internal data on credit card spending at the bank's top merchant customers," Laney said. "After flat growth in 2008 and a contraction in 2009, there was a rebound in 2010 and so far this year. The recovery is attributable to the tourism rebound rather than local spending. Hotels, travel activities, and restaurants have been among the growth leaders. But reflecting the recent tourism slowdown, the rate of card spending increase also slowed as 2011 progressed."

Shape of the Recovery: A Long Recovery

"For the last several years, I've been characterizing the most recent recession as L-shaped – a rapid decline followed by a very slow recovery," Laney said.

Laney noted that job losses during the recent recession were more than twice the level of the shallow but long slump in the Islands in the 1990s.

"To put Hawaii's present downturn in perspective, compare the shallow but long 1990s slump in the Islands to what's been going on over the last three years. In the 1990s, it took over seven and half years for Hawaii employment to return to its peak level, a stretch from mid-1992 to early 2000. But that employment level was never over 3% below the peak," he said. "This time, jobs declined 7% below the peak and the recovery is similarly prolonged. We still have a long way to go – at both the local and the national level – before the previous peak is approached."

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