

Economic Situation Update

(Update: December 19, 2001)

This e-report will be updated periodically to reflect changing conditions and more recent data. DBEDT wishes to acknowledge the University of Hawaii Economic Research Organization (UHERO) for preparing an initial report assessing the potential impact of the September 11th and related events on Hawaii's economy, part of which has been incorporated into this economic update. The complete UHERO report including a series of recovery scenarios may be found at <http://www.hawaii.gov/dbedt/uhero>. However, it should be noted that the base forecast presented below represents DBEDT's independent outlook for the next two years.

Hawaii's recovery from the events of September 11, 2001 has been a gradual process. Some areas of the economy are improving better than others, but may be months before all areas of the economy are experiencing a clear recovery. The evidence currently available suggests that in the absence of any more major security incidents that undercut the confidence of air travelers, most sectors of Hawaii's economy should be showing consistent improvement by the second quarter of 2002. However, the period of recovery to reach pre-September 11th levels of activity will be long and may not be reached by all sectors of the economy until the last half of 2003.

Visitors

The visitor industry is Hawaii's most important source of economic activity, accounting for more than a quarter of Gross State Product (GSP). The events of September 11, 2001 hit the industry hard. The estimate of **Overnight and longer visitors** to the State showed an overall 34.0% decline for the month of September compared to a year before. This was followed by a slightly lower, 30.3% decline in October. The effect of the losses in September and October dragged the year-to-date count of visitor arrivals down 6.8% below the first 10 months of 2000. Another measure, the average daily census of visitors present in the state, declined a more moderate 4.2% for the first 10 months. A higher proportion of domestic visitors who tend to stay longer has helped limit the loss in the daily visitor census.

The greatest loss of visitor business has been in the international market. The **international** visitor count was down 44% in September from a year before and down 50% in October. Visitors arriving on **domestic** flights declined a smaller 28% in September and 19% in October compared with the year before.

The daily count of **air passengers** to Hawaii suggests that in November the overall visitor count averaged 20% below the same month in 2000. However, the air passenger count jumped dramatically in early December thanks to several high-profile events including the Honolulu Marathon, the 60th anniversary of the Pearl Harbor attack and the more than 600 New York rescue workers and their families brought to the Islands as guests of the state. Over 19,000 runners competed in the Marathon and thousands more came for the other events. The *domestic* air passenger count actually exceeded 2000 levels for several days in early December. *International* air passenger arrivals "improved" to 32% below 2000 levels by the day of the Marathon, December 9th. International arrivals had been averaging about 55% below 2000 levels during November.

The surge was only temporary, however. After the events, passenger arrivals began slipping back towards late November levels. As of mid-December, domestic passenger arrivals were roughly 25% below the comparable 2000 levels while international passengers were about a 50% below 2000.

Labor Force

The State's **unemployment rate** jumped to 5.2% in October from 4.5% in September. This represented a one-month increase of 4,500 people to the unemployment roles. **Initial claims** for unemployment insurance benefits had been averaging about 1,350 per week in the month preceding September 11th. Initial claims jumped to more than 5,300 in the third week after the September 11th attacks before trending downwards to about 1,800 in the third full week of November. Initial claims have since increased to about 2,700 per week.

More than 60 percent of the additional layoffs since September 11th have come from the tourism-dependent industries of hotels, retailing and transportation. The rest of the economy has not been as hard hit as tourism, partly because the Hawaii economy was performing relatively well before the attacks, and partly because lower interest rates, and U.S. fiscal policy are helping to support consumer expenditures and business investment.

Underlying Strength and Momentum before September 11th

Prior to the September 11th attacks, DBEDT was expecting a strong second half to produce a modest gain in overall visitor arrivals for 2001 as a whole. While the U.S. and International economic environment deteriorated during the first half of the year, continued strength in local economic activity resulted in only modest slowing in Hawaii's economic indicators. Visitor arrivals declined 1.0% for the first eight months of the year. But an increase in length of stay had pushed the daily visitor census to nearly 1.0% above the same period of 2000.

Other indicators posted moderate growth before September 11th. Personal income rose 4.7% in the first half of 2001 from a year before. General Fund Tax revenues were up 5.2%, for the first eight months of the year and the total job count grew 1.7 for the first eight months. Through August 2001, there were 9,400 more jobs than in the same 2000 period and the unemployment rate was down 0.1 of a percentage point to 4.5% for the period. Thus, by late summer Hawaii's economy was showing some renewed strength. An optimistic assessment of the global economy, based on expectations of a late year rebound in the US economy, could have led to a respectable, if not a good year for Hawaii businesses and consumers.

Current Outlook

How deep and how long will Hawaii's economic crisis be? Even three full months after "9-11," economic forecasts remain tenuous. At best, forecasts must assume that military and domestic security issues will continue to be addressed effectively and will not impact in a major new way on the economic recovery. Even then, there is uncertainty about how fast consumers and businesses will reinstitute pre-September 11th spending plans and consumption patterns, including air travel.

Of course, Hawaii's recovery prospects are closely tied with its visitor markets and the economic performance at the national and international levels -- particularly in Japan. The events of September 11th have increased the seriousness of the otherwise shallow recession that has stalled the national economy since the spring of 2001. **U.S. Gross Domestic Product (GDP)** declined at a sharp 1.1% annual rate in the third quarter of 2001. The fourth quarter is also expected to show a decline in GDP. However, despite some weakness in early Christmas sales, consumer spending has generally shown remarkable strength since September 11th. Stability in consumer spending coupled with aggressive moves by the Federal government to lower interest rates and efforts pump up government spending,

may limit the length and depth of the economic decline. In fact, the Blue Chip Economic Forecast, which is based on an average of about 40 major U.S. forecasts, anticipates an overall growth in GDP of 1.1% in 2002.

Japan, on the other hand -- our major Asian market -- appears to be facing a sharper and longer decline that may last until the middle of 2002. **Japan's GDP** declined at a 2.2% annual rate in the third quarter of 2001 following a 4.8% annual rate of decline in the second quarter. For 2002, the Blue Chip international forecast expects Japan's economy to show an overall, 0.7% decline in GDP.

Hawaii Forecast

Though they differ on detail, the major economic forecasts in Hawaii since September 11th have shown a similar recovery pattern¹. They all project depressed visitor arrival numbers well into 2002. In the absence of any new shocks to the confidence of travelers, visitor counts should improve considerably in 2003. However, it could be mid 2003 before visitor arrivals are back to pre-September 11th levels.

As Table 1 shows, the DBEDT forecast expects the events of September 11th to reduce Hawaii's 2001 visitor count by 9.0 percent below the year 2000 count. This amounts to 627,000 fewer visitors than in 2000. Previously, DBEDT had projected a slight gain in visitors for 2001.

Economic Indicators	2000 (Actual)	2001 (Forecast)	2002 (Forecast)	2003 (Forecast)	2004 (Forecast)
Total population (thousands)	1,216.4	1,226.1	1,235.9	1,244.6	1,253.3
Visitor arrivals (thousands)	6,948.6	6,321.4	6,510.9	6,949.1	7,120.4
Visitor expenditures (million dollars)	10,918.1	10,022.8	10,313.5	11,200.4	11,693.3
Honolulu CPI-U (1982-84=100)	176.3	178.6	180.9	184.0	187.5
Personal income (million dollars)	33,776.0	34,789.3	35,485.1	36,798.0	38,233.1
Personal income (\$1992 million)	29,745.0	30,251.8	30,463.6	31,072.9	31,684.4
Total wage & salary jobs (in thousands)	559.4	561.9	557.9	569.1	580.4
Gross state product (million dollars)	39,394.3	40,376.6	41,130.0	42,564.4	44,217.7
Real gross state product (\$1992 million)	35,142.1	35,556.2	35,754.8	36,383.2	37,091.7
Gross state product deflator (1992=100)	112.1	113.6	115.0	117.0	119.2
<i>Annual Percentage Change</i>					
Total population (thousands)	(NA)	0.8	0.8	0.7	0.7
Visitor arrivals (thousands)	3.1	-9.0	3.0	6.7	2.5
Visitor expenditures (million dollars)	6.2	-8.2	2.9	8.6	4.4
Honolulu CPI-U (1982-84=100)	1.7	1.3	1.3	1.7	1.9
Personal income (million dollars)	4.1	3.3	2.0	3.7	3.9
Personal income (\$1992 million)	2.4	2.0	0.7	2.0	2.0
Total wage & salary jobs (thousands)	3.1	0.4	-0.7	2.0	2.0
Gross state product (million dollars)	5.3	2.5	1.9	3.5	3.9
Real gross state product (\$1992 million)	3.7	1.2	0.6	1.8	1.9
Gross state product deflator (1992=100)	1.5	1.3	1.2	1.7	1.9

Source: Department of Business, Economic Development and Tourism, December 2001.

¹ In addition to DBEDT these include the forecasts of the University of Hawaii Economic Research Organization (UHRO), Bank of Hawaii Economic Research Center, and the First Hawaiian Bank.

The count of total wage and salary jobs in the state had been expected to increase nearly 2% in 2001. There will still be an increase for the year, but layoffs in the last 3 ½ months of the year will reduce the gain to just 0.4%. After inflation, the real gain in State Personal Income and Gross State Product (GSP) will also be positive for 2001, despite the fourth quarter declines. Real Personal Income will probably show a 2.0% increase for the year, while real GSP is expected to increase by 1.2%. For GSP this is less than half the percentage gain forecasted earlier in the year.

If the impact of international events and domestic security concerns remains relatively neutral, DBEDT expects Hawaii to show a 3.0% gain in visitor arrivals for 2002. But the gain will not be enough to make up for visitor arrivals lost in 2001. With the economy not able to make up all the losses experienced in 2001 the overall job count will likely experience a modest decline of about 0.7% in 2002.

The forecast expects all sectors of the state's economy to attain pre-September 11th levels or better by the second half of 2003. Increasing strength in the state's visitor markets is expected to boost arrivals by about 6.7% in 2003 and bring the total visitor count for the year back up to the year 2000 level. This will help the overall job count manage a 2.0 % increase for 2003. The economy should then be poised for better than average growth in 2004.

Of course, events may cause the economy to recover more rapidly or more slowly than forecast. The UHERO report, referred to earlier, provides alternative scenarios for a faster and a slower recovery of Hawaii's economy. UH economists estimate that under the most favorable conditions, Hawaii's economy will rebound somewhat faster in 2002 and show strong growth in 2003. The key to this scenario is a rebound of the international market in 2002 from its dismal levels of late 2001. On the other hand, a more sluggish recovery in the domestic visitor market coupled with only modest improvement in the international market in 2002 leads to a more pessimistic forecast scenario. Under the more pessimistic scenario, 2003 would be a solid growth year, but it would be 2004 or later before Hawaii reached pre-September 11th levels in all sectors of the economy. The most recent UHERO forecast and analysis of economic conditions may be found at <http://www2.hawaii.edu/~uhero/>.