U H E R O

Hawaii Forecast Update

Tourism Pause
Means Further Slowing Ahead

Hawaii Economic Association

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April 20, 2007

University of Hawai'i Economic Research Organization

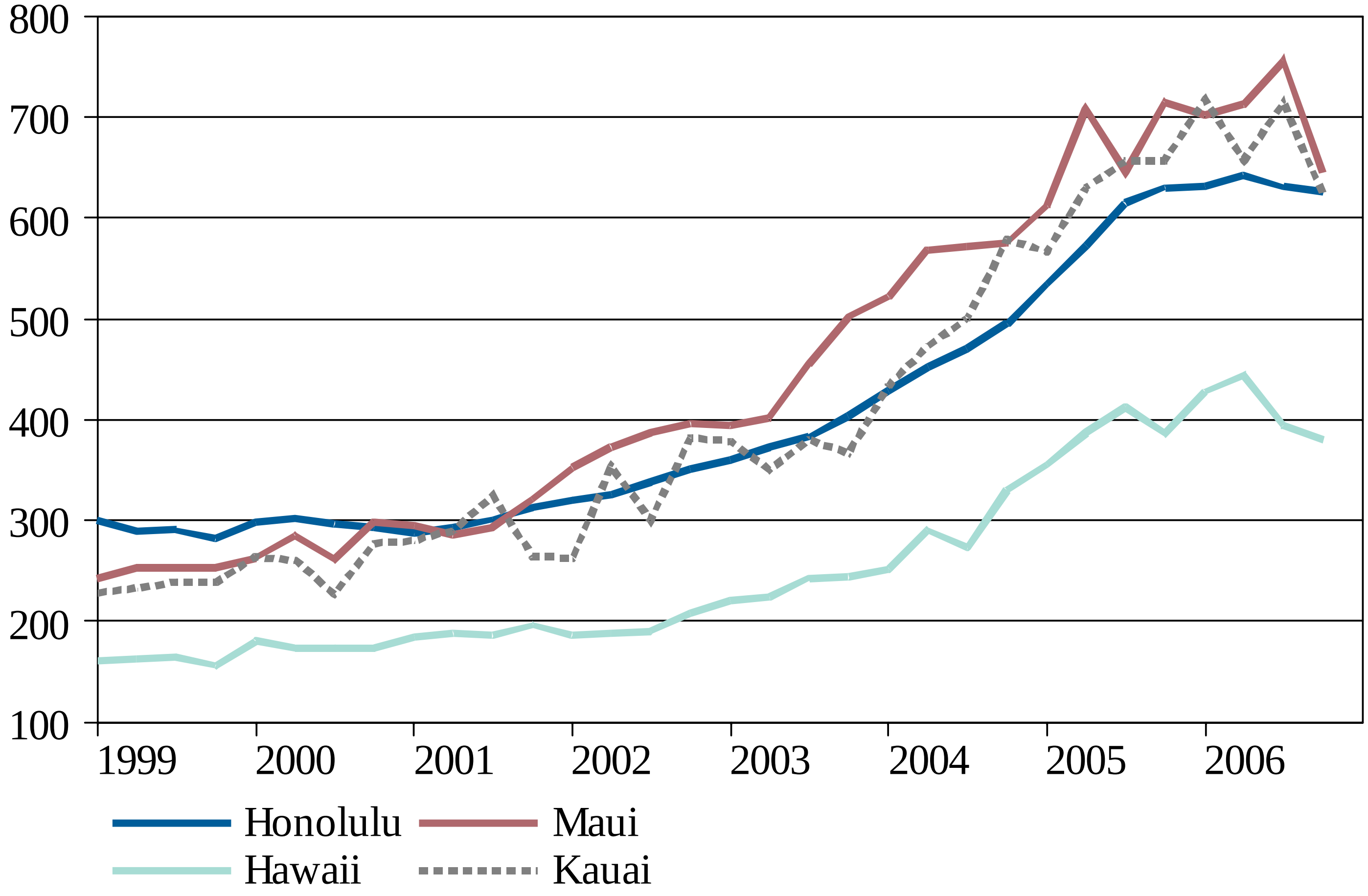
Pillars of expansion have cracks

- Housing market has cooled significantly
- Visitor industry has plateaued
- Inflation shock ended four years of real income growth
- Capacity constraints restrain growth
  - Extremely low unemployment
  - Warehouse, office, rental market tight
  - High hotel occupancy
- Slowdown proceeds,
  but no outright end to expansion in sight

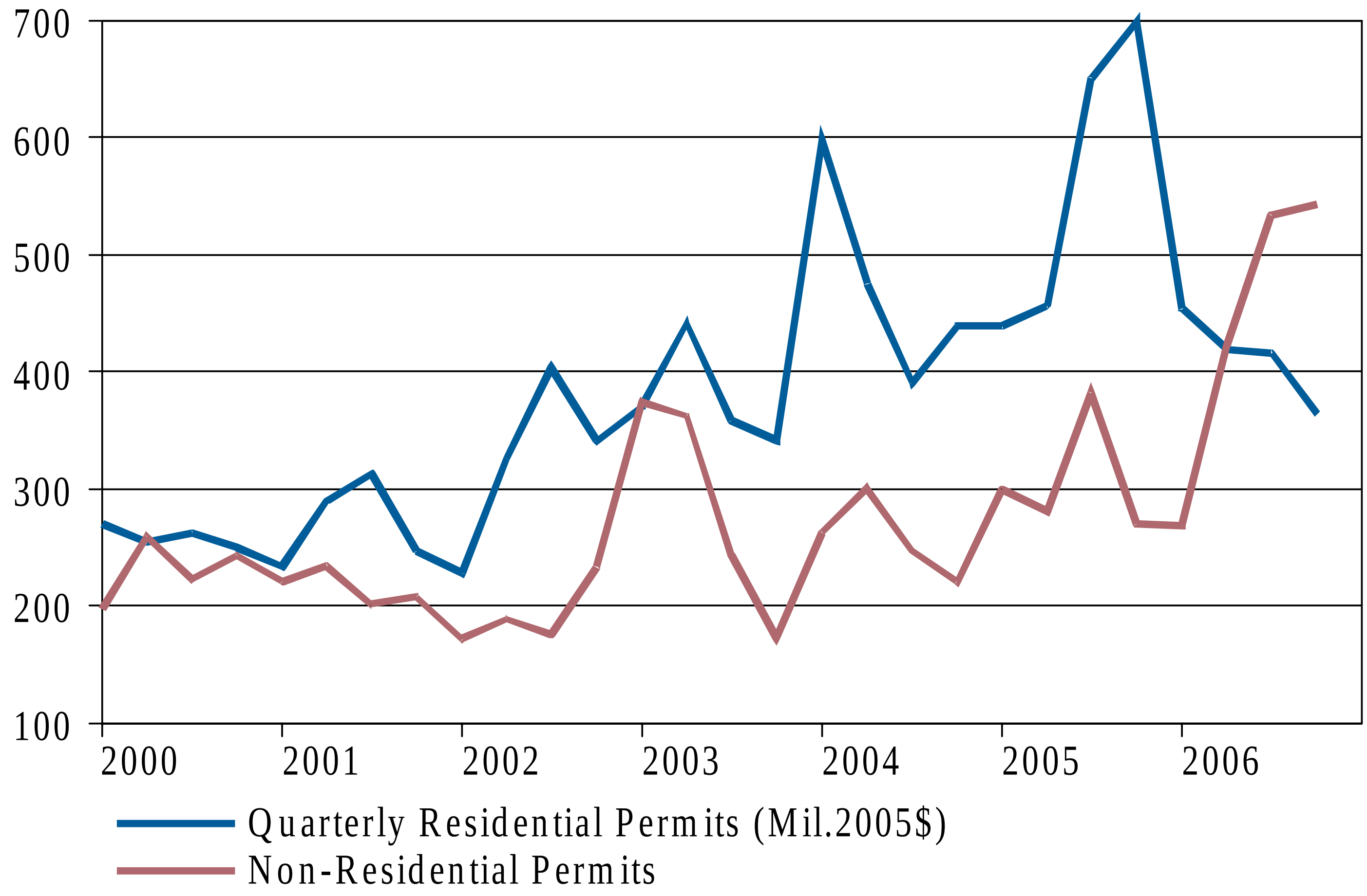
Housing construction is past peak

- Home prices peaked in mid 2006
  - They have doubled or trebled since late 1990s
- Residential construction now cooling
- A surge in non-residential activity is sustaining the construction cycle
- Public infrastructure investment lacking, but transit looms?

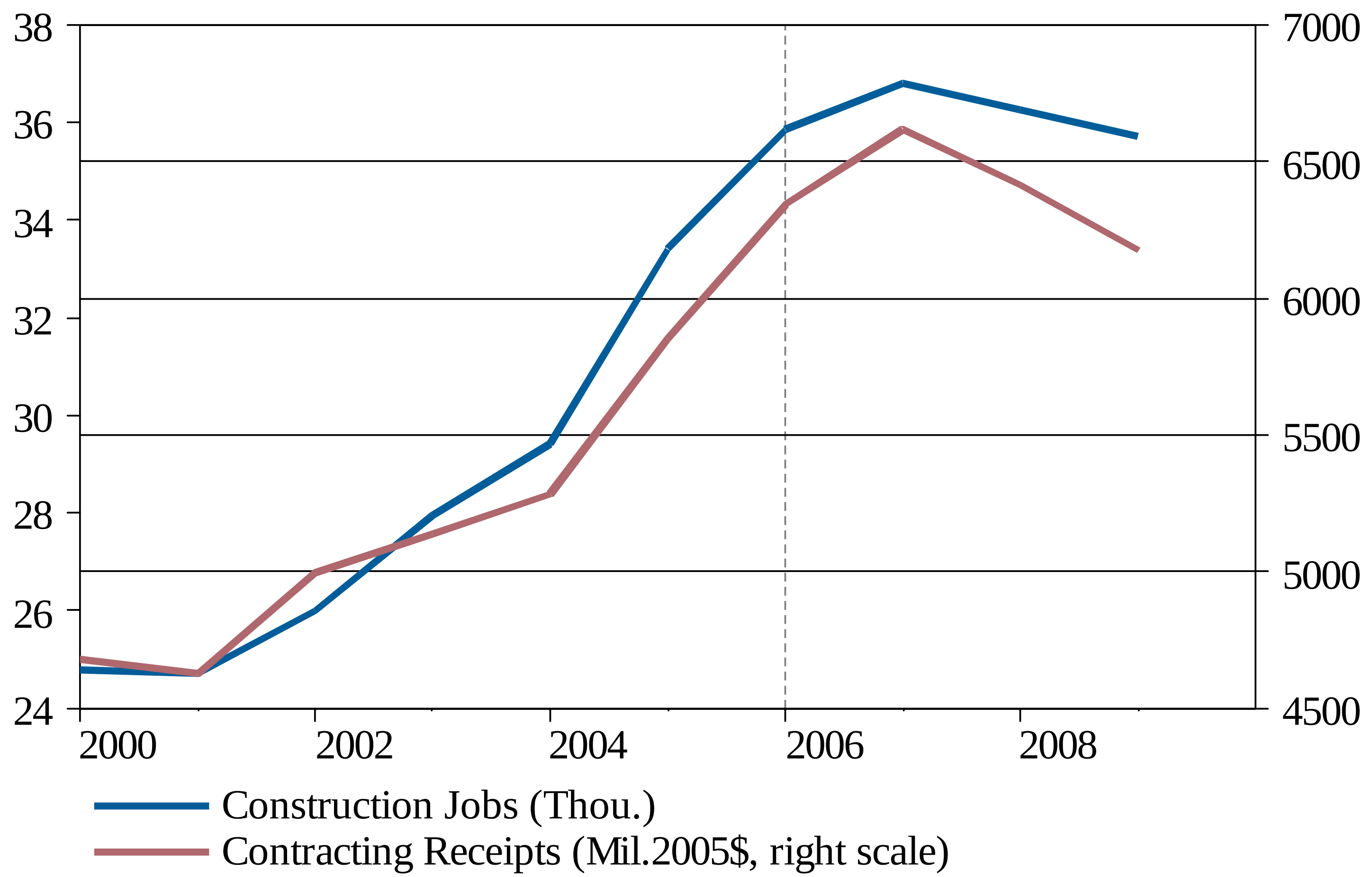
Home prices done rising



Non-residential permits surge



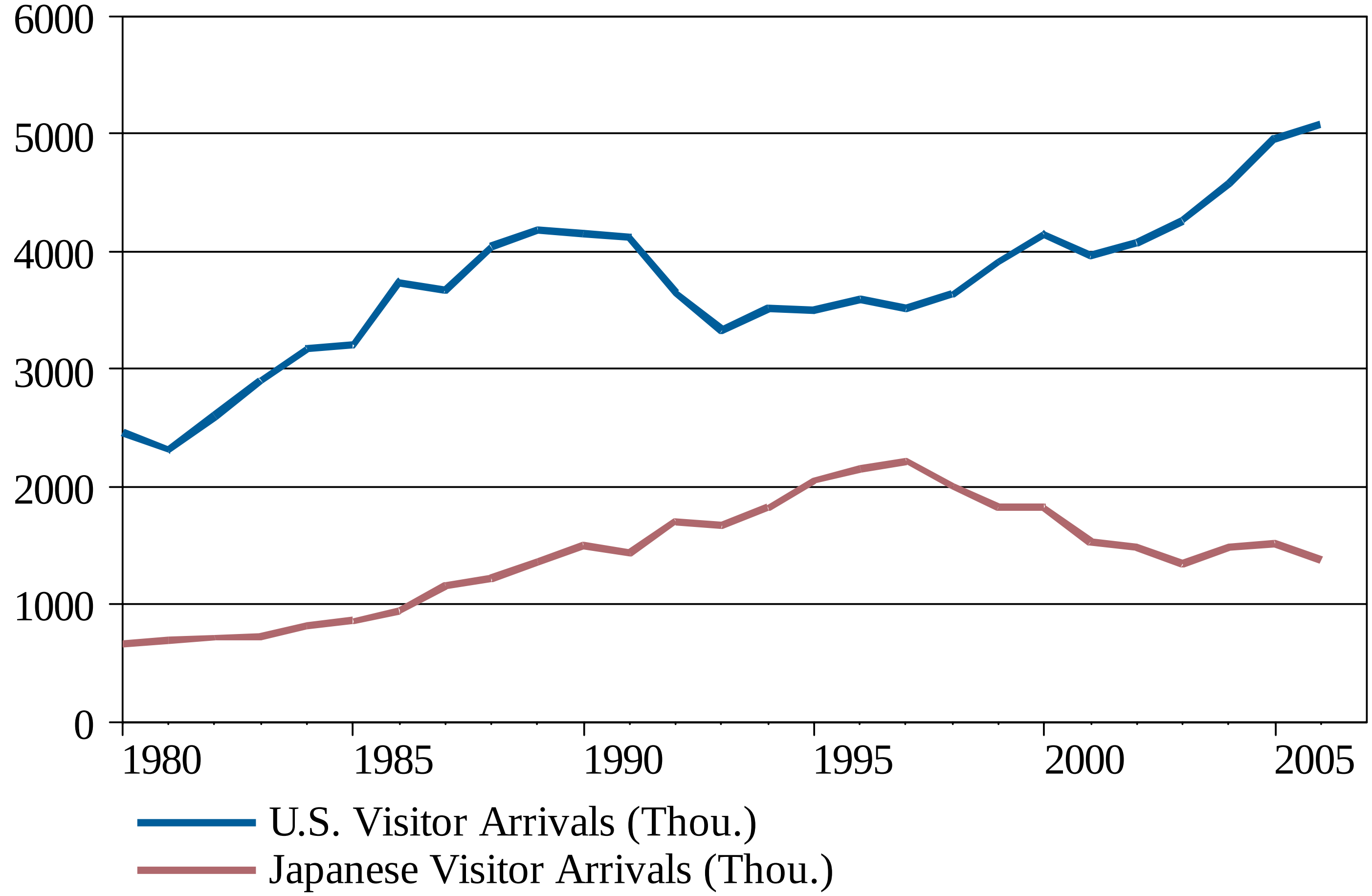
Employment and receipts will remain high



Visitor industry has paused

- Arrivals and census roughly flat for 2006
  - U.S. market slowed in line with expectations
  - Japanese market was a disaster
- Visitor expenditures declined in real terms
- Weaker-than-expected demand so far this year
- Capacity constraints could limit growth for few years
  - A mini-boom in visitor construction will add about 5,000 rooms by 2010

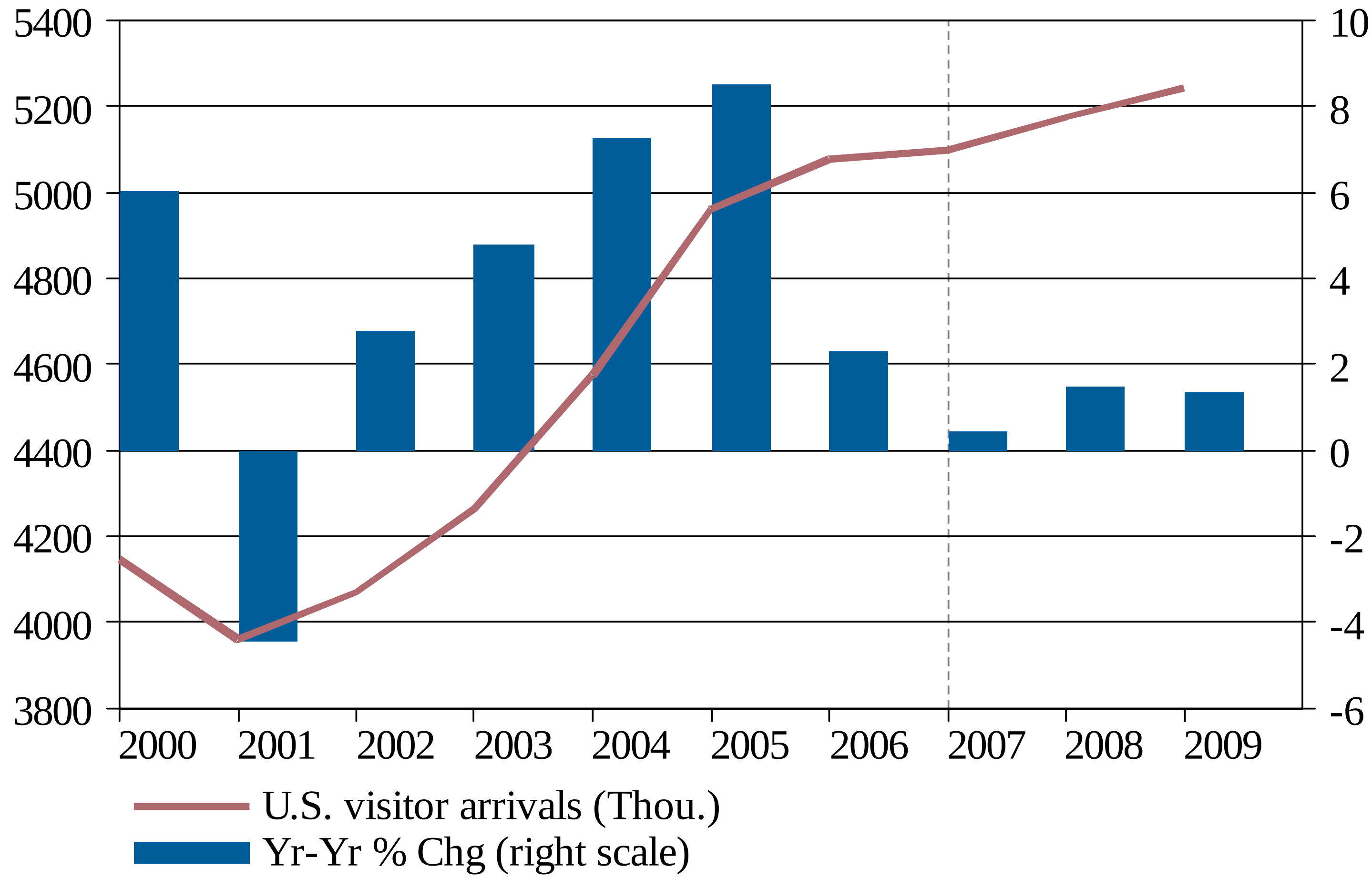
Japan plays a much smaller role



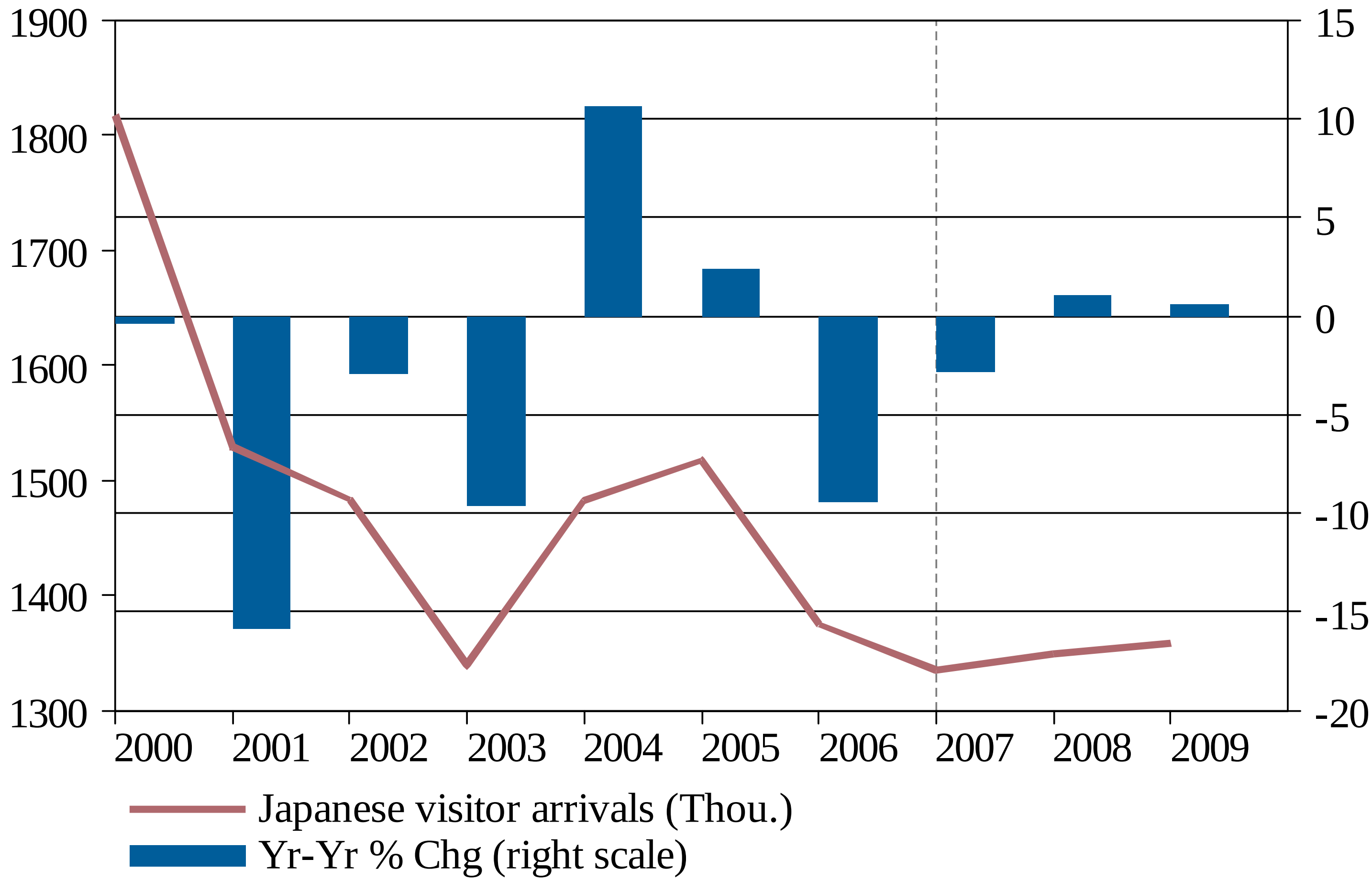
External Economies Leaving Slow Patch?

- Sub-par growth for U.S.
  - End of housing boom will continue to be a drag
  - Some renewed strength in 4th quarter
  - Recent weakness in business investment a concern
- We expect 2.7% growth strengthening to 3%
- Japan's economy rebounded in 4th quarter
  - Stronger consumer sector promising
- We expect growth near 2%, falling thereafter
  - Business optimism near peak; investment will remain robust.
  - Fiscal policy drag will continue
  - Slowing by 2009 as the population and labor force begin to shrink.

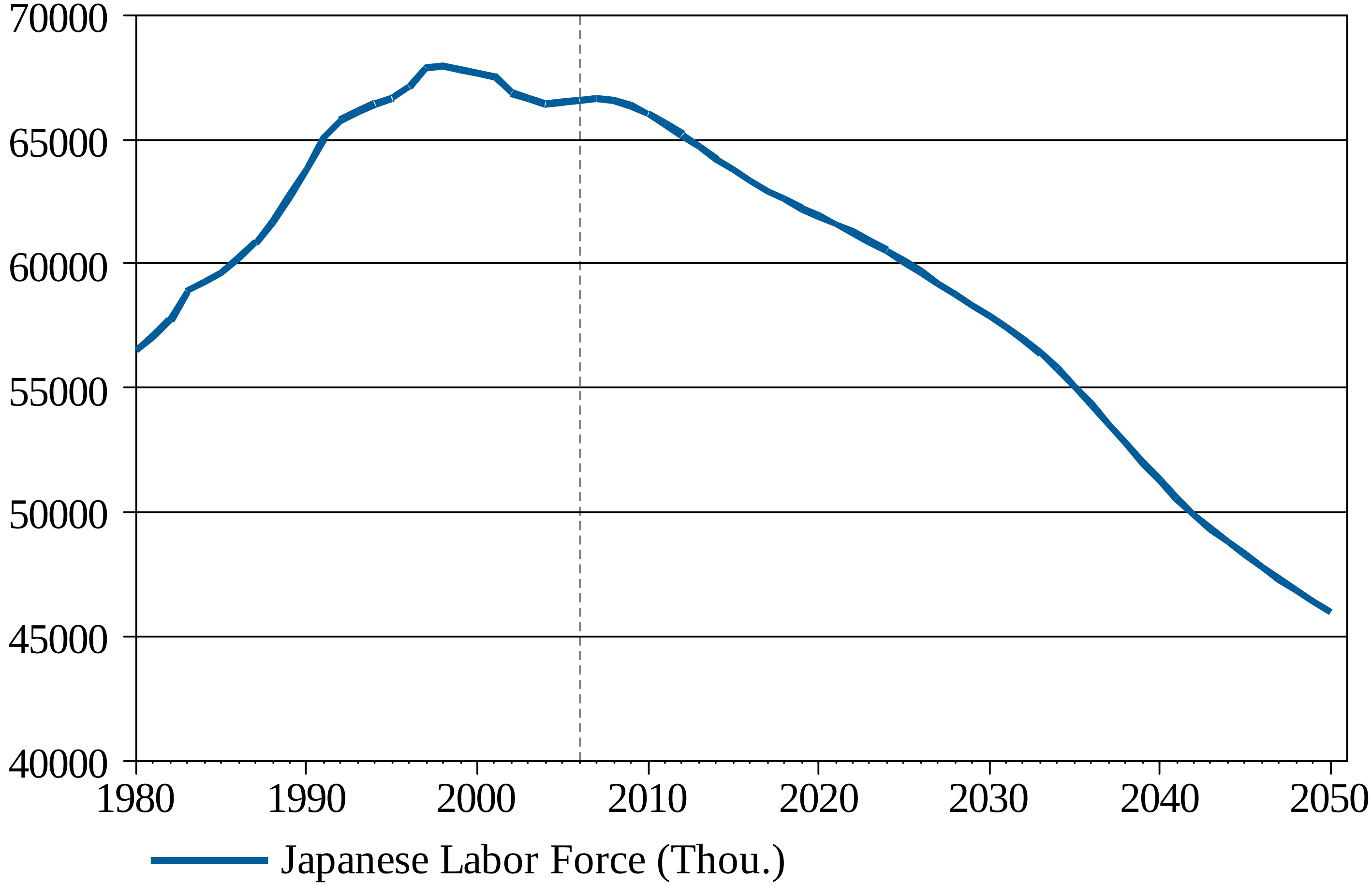
Limited near-term U.S. market growth



Not much expected from Japan



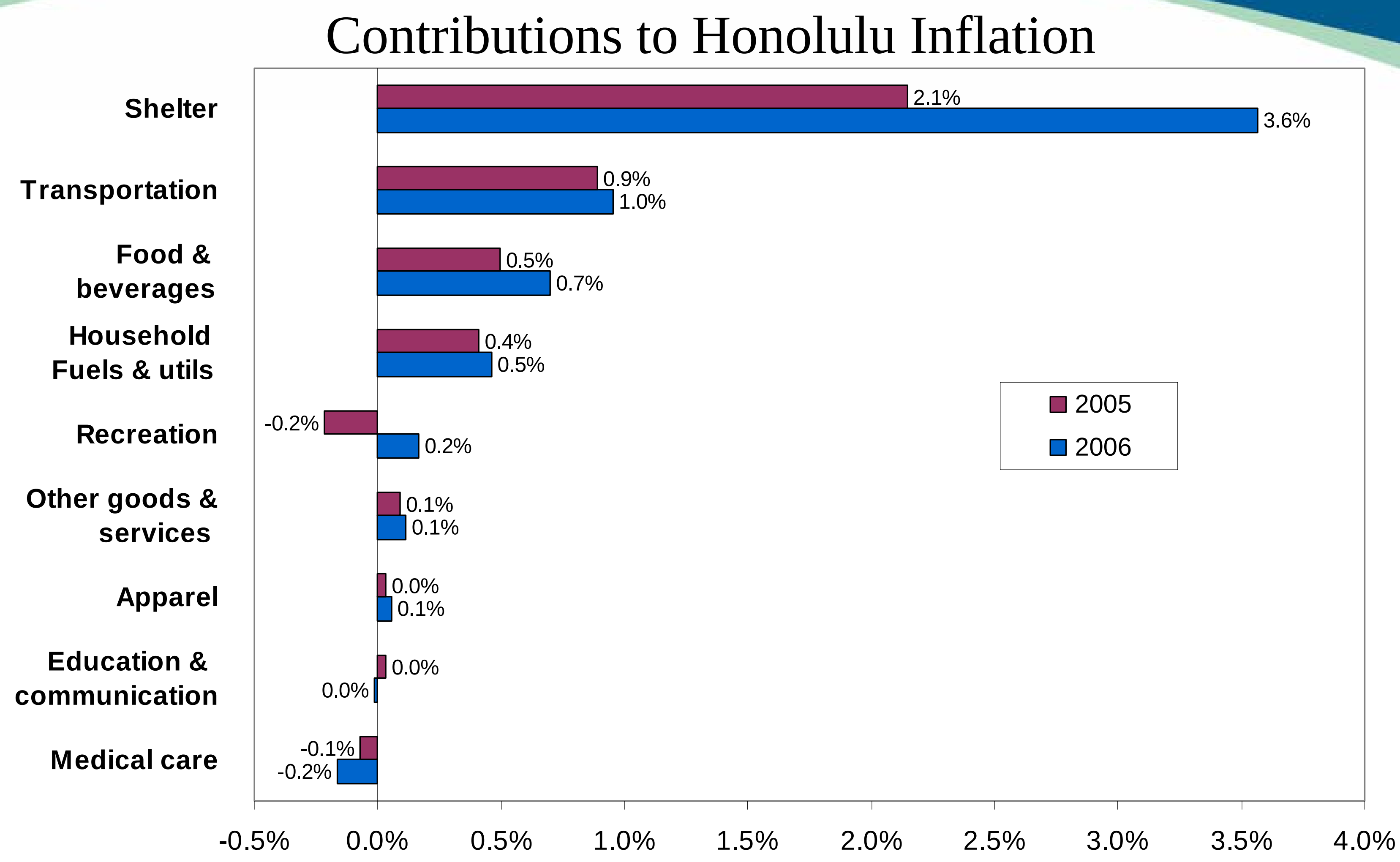
Last hurrah for Japanese ec. growth



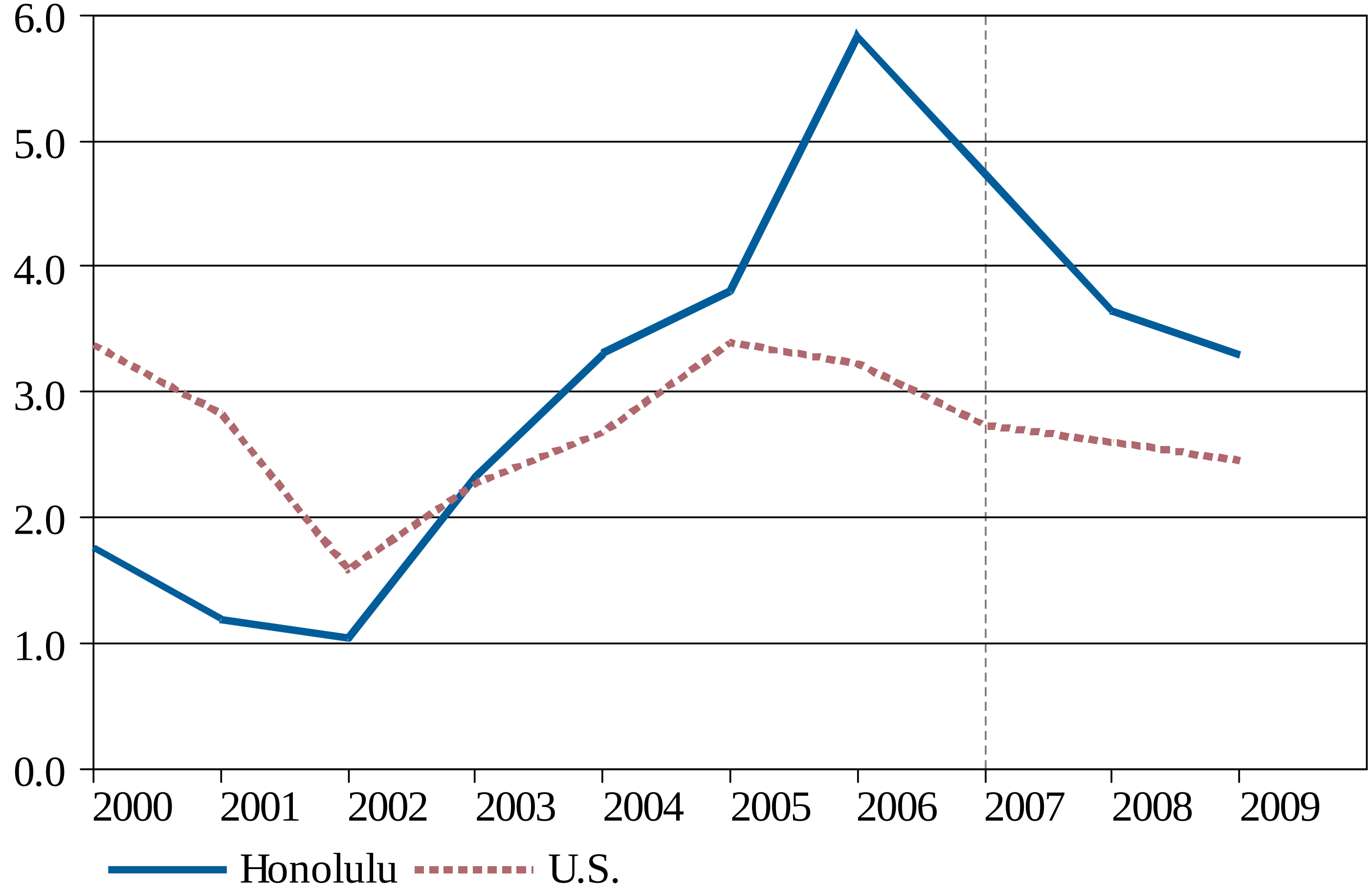
Hawaii inflation will stick around

- Hawaii inflation spiked to 5.8% last year
  - Highest since 1991
  - More than half due to rising CPI shelter component
  - Experience suggests this will be with us for a while
- Inflation surprise undermined real income growth
  - Will gradually abate as inflation gets built into wages

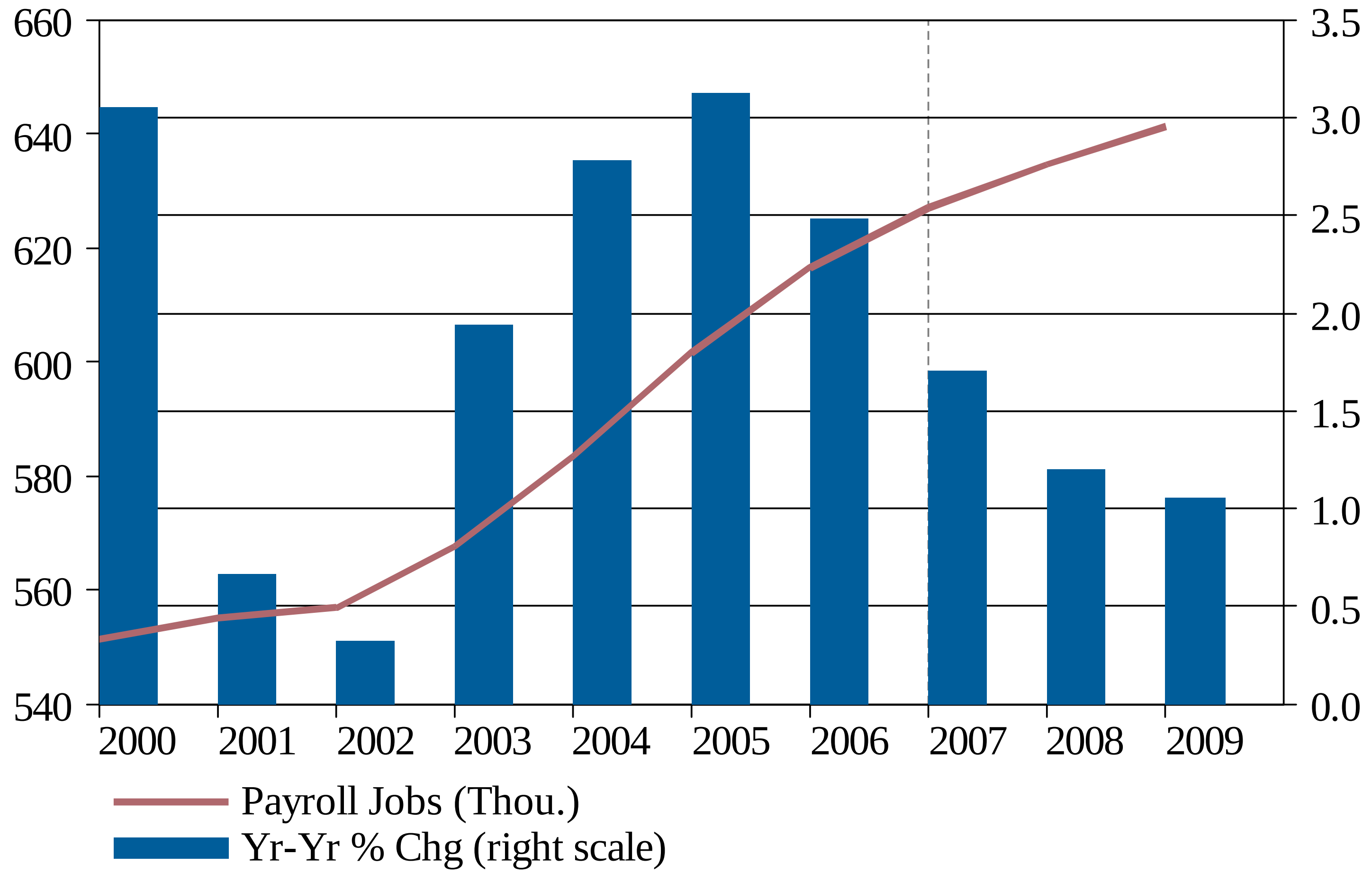
Housing costs dominate inflation



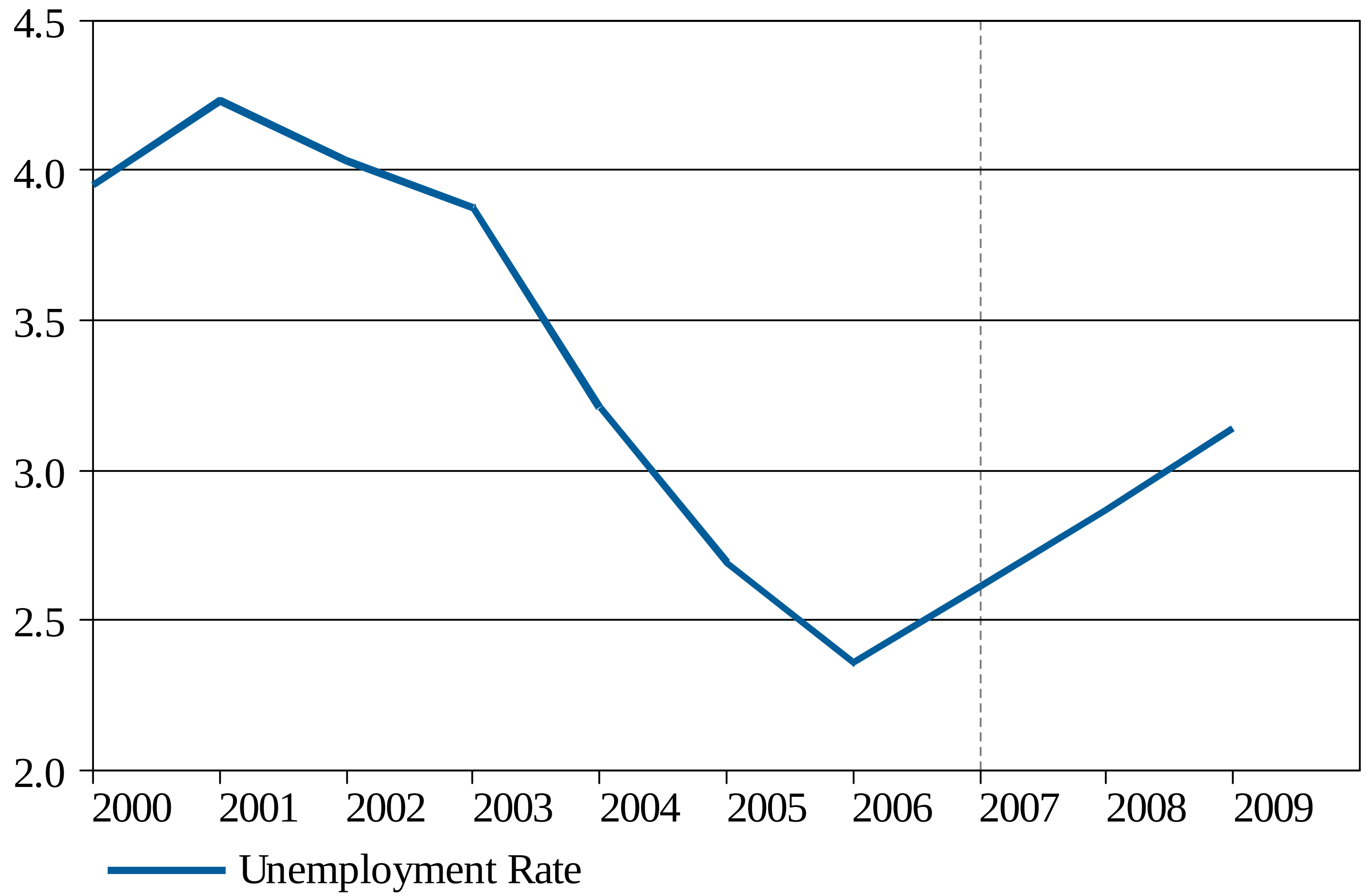
Inflation will stick around



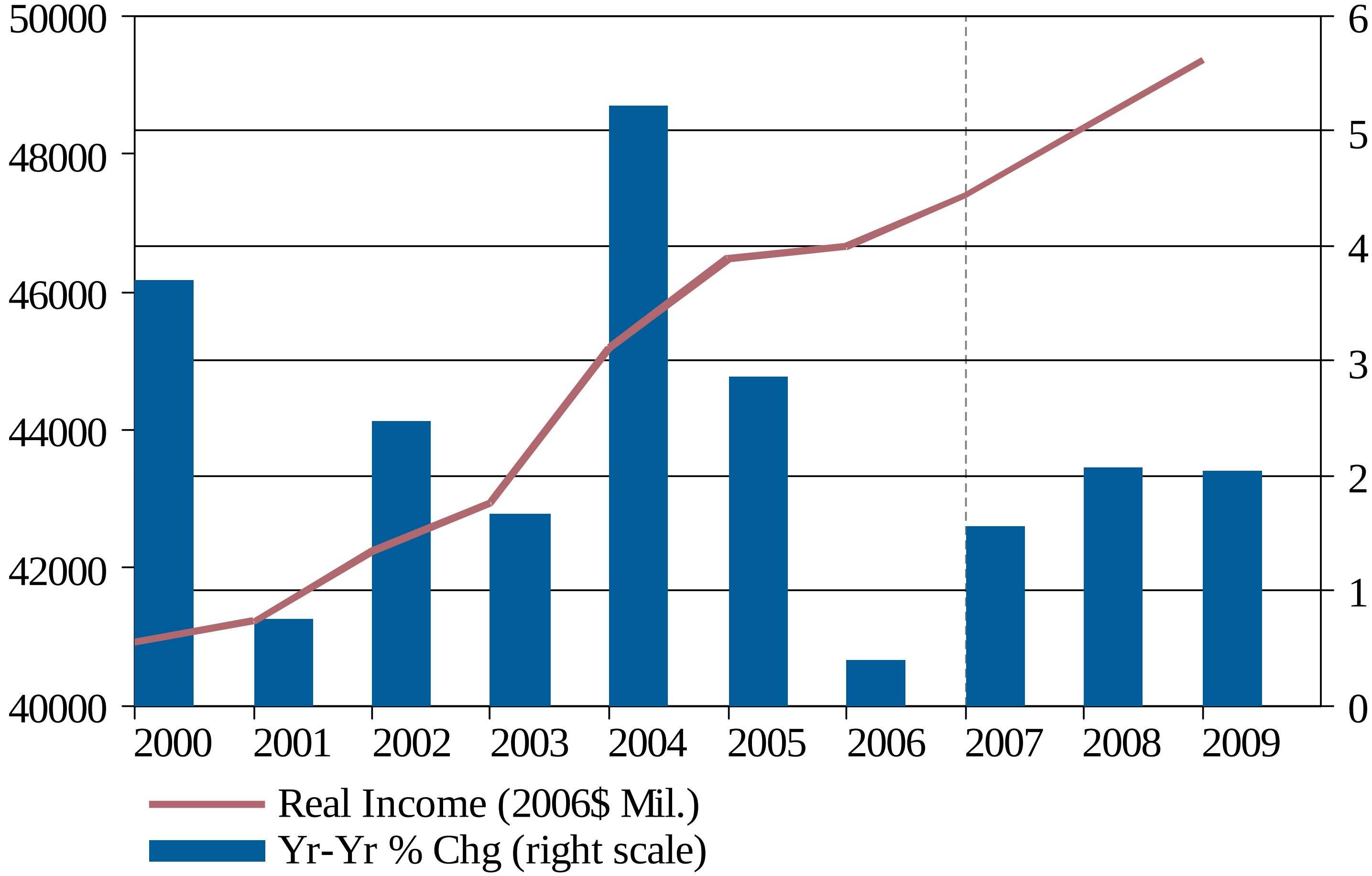
Jobs growth will continue to slow



But labor market will remain tight

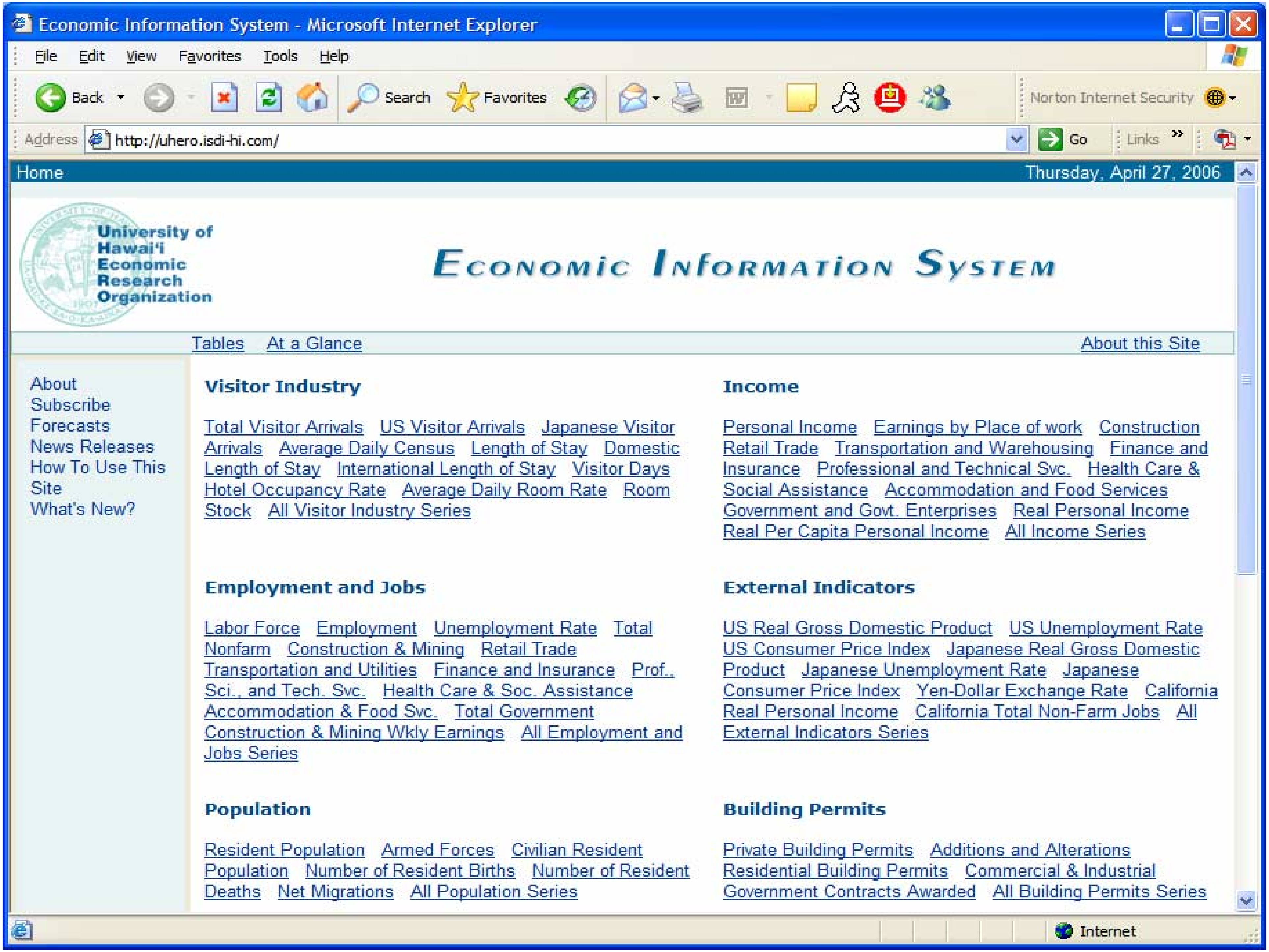


Real income recovers to moderate pace



Summary Indicators

	2005	2006	2007	2008	2009
Total Visitor Arrivals	7.3	0.0	-0.2	1.5	1.5
U.S. Visitor Arrivals	8.5	2.3	0.4	1.5	1.4
Japan Visitor Arrivals	2.4	-9.3	-3.0	1.1	0.6
Payroll Jobs	3.1	2.5	1.7	1.2	1.1
Employment	2.9	2.3	1.9	1.2	1.0
Unemployment Rate	2.7	2.4	2.6	2.9	3.1
Inflation Rate, Honolulu MSA (%)	3.8	5.8	4.7	3.6	3.3
Real Personal Income	2.9	0.4	1.6	2.1	2.0



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Visitor Industry

Total Visitor Arrivals US Visitor Arrivals Japanese Visitor Arrivals Average Daily Census Length of Stay Domestic Length of Stay International Length of Stay Visitor Days Hotel Occupancy Rate Average Daily Room Rate Room Stock All Visitor Industry Series

Income

Personal Income Earnings by Place of work Construction Retail Trade Transportation and Warehousing Finance and Insurance Professional and Technical Svc. Health Care & Social Assistance Accommodation and Food Services Government and Govt. Enterprises Real Personal Income Real Per Capita Personal Income All Income Series

Employment and Jobs

Labor Force Employment Unemployment Rate Total Nonfarm Construction & Mining Retail Trade Transportation and Utilities Finance and Insurance Prof., Sci., and Tech. Svc. Health Care & Soc. Assistance Accommodation & Food Svc. Total Government Construction & Mining Wkly Earnings All Employment and Jobs Series

External Indicators

US Real Gross Domestic Product US Unemployment Rate US Consumer Price Index Japanese Real Gross Domestic Product Japanese Unemployment Rate Japanese Consumer Price Index Yen-Dollar Exchange Rate California Real Personal Income California Total Non-Farm Jobs All External Indicators Series

Population

Resident Population Armed Forces Civilian Resident Population Number of Resident Births Number of Resident Deaths Net Migrations All Population Series

Building Permits

Private Building Permits Additions and Alterations Residential Building Permits Commercial & Industrial Government Contracts Awarded All Building Permits Series

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Major Economic Indicator Summary — Thursday, April 27, 2006

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MAJOR ECONOMIC INDICATOR SUMMARY

	2005/9	2005/10	2005/11	2005/12	2006/1	2006/2	Year To Date
Non-Farm Jobs (Thou.)	603	609.3	615.6	620.4	605.4	614.9	610.2
% Change	3.2	3.3	2.7	3.1	3.5	3.7	3.6
Visitors (Thou.)	559	591.5	562.2	650.5	595.8	573.4	1,169.2
% Change	7.1	5.1	6.5	5.5	-0.7	0.0	-0.3
Japanese Visitors	132.9	129.2	117.6	137.6	122.1	107.1	229.2
% Change	0.4	-4.9	-2.4	1.9	-7.3	-12.6	-9.9
U.S. Visitors	350.1	377.7	368.7	415.7	379.8	389.1	768.9
% Change	8.2	7.0	9.4	4.1	6.4	3.3	4.8
Avg. Daily Visitor Census (Thou.)	158.4	165.5	162.4	207.7	197.1	192.3	194.7
% Change	6.0	6.2	4.9	6.8	-0.4	1.4	0.5
Visitor Days (Thou.)	4,751.8	5,130.7	4,871.2	6,437.7	6,110	5,383.1	11,493.0

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