Outlook for the US and Japan

50th Anniversary of Statehood Conference
August 21, 2009

Dr. Byron Gangnes
Overview

- State of the global business cycle
  - Is recovery underway?
- Near and medium-term growth prospects
  - What kind of economic performance should we expect?
- What does this mean for Hawaii?
  - A quick look at UHERO near-term Hawaii forecast
Most severe US recession in decades

- 1973
- 1976
- 1979
- 1982
- 1985
- 1988
- 1991
- 1994
- 1997
- 2000
- 2003
- 2006
- 2009

Percent

Jobs %\(\Delta\)

Real GDP %\(\Delta\)

- Gulf War
- 08-09 Financial Crisis
- 9/11

August 21, 2009

http://www.uhero.hawaii.edu
Japan clobbered by exports

Real Exports

Industrial Production

2000Y Bil

Index

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Evidence of US Recovery

The Good News

• Stock market has rallied
  » S&P 500 up nearly 50% from early March low
• New housing starts are beginning to rise
• Initial claims for unemployment insurance off the April 9 peak
Initial unemployment claims have peaked
Evidence of US Recovery

- The Good News
  - Stock market has rallied
  - New housing starts are beginning to rise
  - Initial claims for unemployment insurance off the April 9 peak

- The Less Bad News
  - Non-farm jobs “only” down by 247K in July
  - Unemployment actually fell from 9.5% to 9.4% in July
    » Over 400K unemployed dropped out of the labor market entirely
Evidence of US Recovery

➢ The Good News
  • Stock market has rallied
  • New housing starts are beginning to rise
  • Initial claims for unemployment insurance off the April 9 peak

➢ The Less Bad News
  • Non-farm jobs “only” down by 247K in July
  • Unemployment actually fell from 9.5% to 9.4% in July

➢ The Still Waiting For News
  • No clear bottom yet for existing home prices
  • Still waiting on the consumer
Consumer spending remains weak

US Retail Sales

$ Bil

Percent


200 225 250 275 300 325 350 375 400

-15 -12 -9 -6 -3 0 3 6 9 12

-15


Annualized Growth

Real GDP

Percent

-15

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Japan’s recovery has begun

- Japan’s economy expanded in the second quarter
  - A strong revival of Asian trade raised exports
  - Large fiscal stimulus offset lingering private sector weakness

- But the recovery is tenuous
  - Domestic demand still shrinking
  - Consumer and business confidence remains low
  - Unemployment has surged from 3.8% last September to 5.4% in June
Japan’s recovery has begun

- Japan’s economy expanded in the second quarter
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- But the recovery is tenuous
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- And Japan has a big hole to crawl out of...
Japanese output has edged up
Global recovery has begun
- Developing Asia is bouncing back
- European economies are on the mend

Strong US rebound unlikely
- Consumer confidence and finances are poor

Japan’s recovery could be hard to sustain
- Slow recoveries in Western markets will hold back exports
- What happens when fiscal stimulus wains?
Recovery will be slow
Challenges to medium-term growth

- Wealth losses will restrain US consumption growth
- Population aging/decline mean slower Japanese growth
- Government finances will be a drag in both countries
US wealth losses will restrain spending
Japan’s shrinking population

The chart illustrates the decline in Japan’s population from 1990 to 2020, with the x-axis representing years and the y-axis showing the number of people in thousands. The bars represent the population in thousands for each year, and the line graph shows the percentage change over time. The population has been decreasing steadily, and the percentage change is shown on the right-hand side of the graph.
Challenges to medium-term growth

- Wealth losses will restrain US consumption growth
- Population aging/decline mean slower Japanese growth
- Government finances will be a drag in both countries

- Unknowns
  - Can developing Asian demand replace US consumer?
  - Whither oil prices?
  - Will environmental promises be kept?
Protracted tourism slump

- As recession ends, travel demand will remain weak
- Lower prices help sales but revenue suffers
- And the rest of world is on sale too!
- We should begin to see positive Y-Y growth from July on

Job and real income growth sharply negative in 2009.

- Visitor Sectors and Contracting will suffer the most

Early 2010 bottom but very weak growth until 2011

Unemployment and fiscal problems will persist
Arrivals recovery will be anemic

State Visitor Arrivals (000s)

2003Q1 2004Q1 2005Q1 2006Q1 2007Q1 2008Q1 2009Q1 2010Q1

1,300 1,450 1,600 1,750 1,900
Construction job losses not over

Thou.

% Chg (right scale)  Construction Jobs

Percent

1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009

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No Job Recovery Until 2011

- Non-farm Jobs
- Real Income

Percent

2004 2005 2006 2007 2008 2009 2010 2011
Non-farm Jobs Real Income

http://www.uhero.hawaii.edu
## State Forecast *Preview*

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<td><strong>Total Visitor Arrivals</strong></td>
<td>-0.4</td>
<td>-10.4</td>
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<td><strong>U.S. Visitor Arrivals</strong></td>
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<td><strong>Real Personal Income</strong></td>
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## MAJOR ECONOMIC INDICATOR SUMMARY, Maui County

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<th>2006-Q2</th>
<th>2006-Q3</th>
<th>2006-Q4</th>
<th>2007-Q1</th>
<th>2007-Q2</th>
<th>2007-Q3</th>
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<td>Non-Farm Jobs (Thou.)</td>
<td>70.1</td>
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<td>Unemployment Rate (%)</td>
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<td>1.3</td>
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<td>Visitors (Thou.)</td>
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<td>Japanese Visitors</td>
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<td>U.S. Visitors</td>
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<td>485.1</td>
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<td>Visitor Expenditures ($Mil.)</td>
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<td>887.2</td>
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<td>% Change</td>
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