

RECENT DATA CONFIRM WEAKER GROWTH

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Hawaii's slowdown is becoming more entrenched. Better get used to it.

The past few months have brought more evidence of Hawaii slowing. The number of visitor days remains below last year's peak, with more worrying signs from falling visitor spending. Job growth has largely stalled and income gains have receded. At best this represents a new normal for Hawaii.

Tourism is past its peak

The visitor industry had a roller coaster 2018, with robust first-half gains offset by second-half losses. 2019 has started out roughly on par with year-earlier levels, and 2% below last summer's peak, measured by visitor days. International travel has been particularly weak, especially the number of visitors from emerging markets, which has been running about 7% lower than at this time last year. The US market has been a bit stronger: the number of visitor days is up about 2% from last year.

Visitor spending looks considerably worse. Lower hotel occupancy pulled down real revenue per available room by 5% in the first quarter. Overall real visitor spending has been on a downward trajectory since last spring and ended the first quarter about 4% lower than a year ago. On a per-person basis, inflation-adjusted spending has now slipped to levels not seen since 2010. Visitors from Japan and other Asia-Pacific markets have reduced their spending significantly, in part reflecting the moderate dollar appreciation that occurred last year. But even US visitors

are spending less, suggesting that broader concerns about the US and global economies may be having an adverse impact here.

While tourism softness is a real concern, we should note that it follows last year's gangbuster first half, and many of our comparisons are to peak levels of activity at that time. We also expect some recovery from the particularly weak recent figures as this year progresses, a view that is supported by a healthy outlook for airline seats. Fueled by new Southwest flights, airline capacity in the second quarter should be about 3% higher than a year ago. Still, visitor gains will be much harder to come by than in recent years. Arrivals will rise a bit more than 2% this year, decelerating to 1% by 2021. Prospects for visitor spending are more worrisome. We expect a net loss in inflation-adjusted terms this year, with no recovery over our forecast horizon.

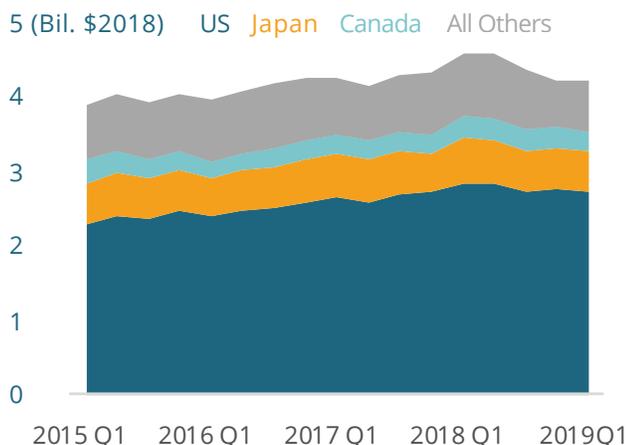
Revisions reveal weak employment

As we anticipated, in March the US Bureau of Labor Statistics revised last year's payroll job gains downward substantially. The revision—from 1.6% growth to just 0.5%—confirms that net job creation in 2018 was only half as strong as in 2017. (Our [own internal benchmark](#) estimate missed the official revised figure by just two-tenths of a percentage point.) The slower growth trajectory has continued into this year, with less than a half-percent job growth in the first quarter. A modest pickup in hiring is anticipated this year as the tourism industry partially regains its footing.

The accommodation and food service industry, which represents the largest share of private nonfarm jobs in Hawaii, has seen a slight uptick following a flat second half of 2018. Recent swings in tourism have not translated into large fluctuations in the workforce, suggesting that there is now somewhat more slack in labor utilization than at last year's visitor peak. Consequently, the firming of industry activity will generate relatively little new hiring. Job growth will come in below 1% this year and next. Earnings by industry workers will also grow at a muted pace, increasing at approximately a 1.5% annual rate for the next few years. Hiring in other industries that depend on tourism will be similarly subdued. This year, jobs in the transportation and utilities sector will grow at about half of last year's 1.8%

Visitor Expenditures

Visitor spending has been trending down for the past year.



pace, and trade jobs will be flat. The following two years will be only a little stronger, as conditions in the tourism industry remain on a slow-growth path.

Construction hangs in there

As we have observed in past reports, the construction industry has now settled on a plateau, with the number of jobs hovering near 36,000, about 2,400 jobs below the mid-2016 peak. Last year's 21% expansion of total permits, as well as anticipated gains for the next two years, will support a continuing high level of industry activity. Support will come from resort, residential, and public-sector projects. We will take our annual in-depth look at industry prospects in our third quarter UHERO Construction Forecast.

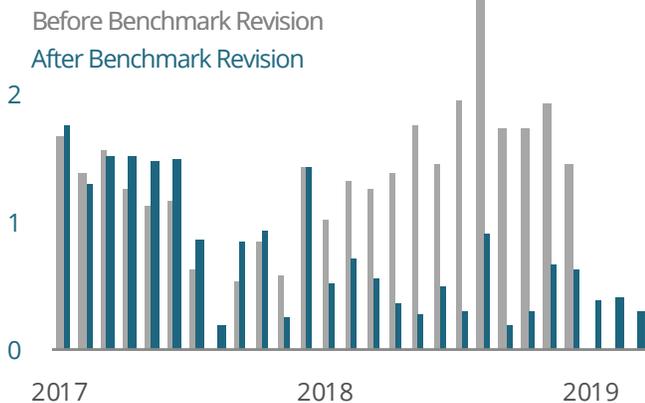
The large healthcare sector has been a steady performer during this expansion, averaging 2.6% annual growth since 2015. The industry slowed along with the overall economy last year, and it has expanded at only a half-percent pace in recent months. The state will see rising demand for healthcare services in coming years, but physician shortages will likely continue to be a problem. In response to these concerns, the State Senate has passed a bill making it easier for physician assistants to take on additional responsibilities. Growth of medical personnel and industry income will trend up at a little over 1% pace for the next few years.

Last year, federal government payrolls rose by less than 1%, while state and local jobs declined slightly. Aside from a temporary bump associated with the 2020 Census, the size of the federal workforce in Hawaii will remain near

Nonfarm Payrolls

Growth in nonfarm jobs was revised down substantially.

3 Yr-Yr % Change



current levels. State and local government employment will be similarly muted, rising less than a half-percent this year and flattening out thereafter. Budget constraints will be an impediment to further growth. Nine months into this fiscal year, State General Fund revenues have grown only slightly faster than the rate of inflation.

Hawaii no longer a growth leader

Last year's broad slowing of job growth took some pressure off super-tight labor markets, leading to a retreat of the unemployment rate from the record lows set at the end of 2017. Still, we continue to hear from many businesses about labor shortages across the full range of occupations and skill sets. On a statewide basis, the labor force actually peaked in early 2017 and has trended downward since then. The number of people who report having at least one job has declined as well.

According to recent figures from the US Bureau of Economic Analysis, Hawaii had the slowest income growth in the nation in 2018. Personal income from all sources grew by slightly less than one percent in inflation-adjusted terms, and labor income grew at an even slower half-percent pace. The weakest sectors included government, construction, trade, and the finance and real estate industry. The tourism slowdown has weighed on income gains in the accommodation and food service sector, as well. Now that the pace of economic growth has slackened, further income gains will remain modest, in the roughly one-percent-per-year range.

How much more slowing?

Recent data confirm the significant broad-based slowing that we noted in last quarter's report. While tourism can expect a partial recovery from particularly weak recent conditions, the industry's long period of robust expansion is over, and further gains will be incremental at best. The recent pullback of visitor spending signals substantial risks to the downside, depending on things largely outside our control: the external environment, currency movements, and changes in visitor sentiment.

Slowing is not just a visitor industry story, but extends across much of the economy. Local demand has eased off the healthy pace we saw during the recovery phase, and a dearth of population growth will impose structural limits going forward. Even if the unemployment rate has eased from record lows, the workforce is simply not there to drive strong ongoing expansion. Hawaii needs to get used to a modest pace of job and income growth.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2016	2017	2018	2019	2020	2021
Nonfarm Payrolls	1.3	1.1	0.5	0.7	0.7	0.5
Unemployment Rate (%)	2.9	2.4	2.5	2.7	2.9	3.3
Visitor Arrivals	3.0	5.2	5.9	2.3	1.2	1.0
U.S. Visitor Arrivals	4.6	5.1	9.0	3.1	1.2	0.7
Japan Visitor Arrivals	0.4	6.7	-1.0	1.4	0.4	0.2
Other Visitor Arrivals	0.4	4.0	2.2	0.1	1.8	2.5
Inflation Rate, Honolulu MSA (%)	2.0	2.5	1.9	1.7	1.9	2.0
Real Personal Income	1.3	1.2	0.9	0.8	1.1	1.0
Real GDP	1.5	0.7	1.3	1.1	1.0	1.2

Note: Source is UHERO. Figures for GDP for 2018 are UHERO estimates. Figures for 2019-2021 are forecasts.

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