



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
ANNUAL HAWAII FORECAST:
PUBLIC SUMMARY

HAWAII GROWTH SLOWS AS GLOBAL RISKS RISE

AUGUST 8, 2014





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ANNUAL HAWAII FORECAST

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EXECUTIVE SUMMARY

The stall in tourism has slowed the Hawaii economy, and no other sector has yet emerged to provide offsetting stimulus. Construction has been slow to take over as a growth driver, but this will change as we move into 2015. Barring adverse economic developments outside Hawaii, this should be sufficient to support restrained growth in employment and some improvement in household income.

- Global economic conditions look to improve on balance over the next year. US demand will strengthen, and, with Europe on at least a modest recovery path, the environment for global trade looks more positive than it has been recently. Asian countries are also expected to strengthen, but Japan remains a chief concern because steep increases in consumption taxes will reduce spending.
- Tourism declined last year and was essentially flat for the first half of 2014. Better economic conditions in the US and abroad will support some improvement, consistent with recent increases in scheduled airline seats. US arrivals will firm, while Japanese visitor numbers will be negative for the year. Visitors from other countries will rise fastest, but down from the heady rates of increase of recent years. Total visitor arrivals growth will move above 2% in 2015 before easing thereafter in the face of capacity constraints. Total visitor spending will rise about 3% per year for the next several years.
- The building upturn has been slow to show up in construction jobs or in the contracting tax base. However, overall permitting has been more positive. Considering the large number of planned condo projects on Oahu, rail construction, and the need for single-family homes, we remain confident that much stronger performance is in the pipeline. After a small net gain this year, construction jobs will expand by about 7-8% in 2015-2016, heading to a 2018 peak near the level of the previous peak in 2007.
- The total number of payroll jobs in the islands will return to pre-recession levels by the third quarter of this year, six years after peaking in early 2008. Job growth will average 1.3% this year, with marginal firming to 1.5% in 2015. There will be significant differences in growth rates across sectors, and aggregate gains will trend down in subsequent years, particularly as the pace of construction job growth fades and eventually turns negative late in the decade. The unemployment rate, which has already receded to 4.4% from 7.1% at the low point of the cycle, will edge down further to 4.1% in 2015 and 3.8% in 2016.
- Inflation remains benign, rising at a projected 1.8% this year. As home prices and rental costs mount, inflation will accelerate to nearly 4% by 2016 and above 4% in 2017. This will limit to some extent gains in the purchasing power of income that are expected as the expansion matures. Inflation-adjusted real income will nevertheless expand by more than 3% in 2015. Real gross domestic product, often used as a summary measure of economic activity, will be rather soft this year, but expand by 3.3% in 2015.
- Hawaii is now in a period of much slower trend growth than we experienced during the tourism-centered recovery, and this makes the state more vulnerable to economic disturbances that might come from the rest of the world. There are

plenty of risks to worry about, including the conflicts in the Middle East and West Asia, uncertainties surrounding Fed monetary unwinding, and a poor environment for federal spending.

**HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE**

	2012	2013	2014	2015	2016	2017
Visitor Arrivals	9.7	1.7	1.0	2.2	1.2	1.0
U.S. Visitor Arrivals	5.2	0.7	0.0	2.1	1.6	1.1
Japan Visitor Arrivals	18.0	3.6	-1.4	0.7	-0.1	0.6
Other Visitor Arrivals	17.6	3.2	6.5	3.9	1.2	1.2
Payroll Jobs	2.2	1.9	1.3	1.5	1.4	1.3
Unemployment Rate (%)	5.7	4.8	4.4	4.1	3.8	3.7
Inflation Rate, Honolulu MSA (%)	2.4	1.8	1.8	2.9	3.9	4.5
Real Personal Income	1.3	1.0	2.8	3.1	2.3	1.8
Real GDP	1.5	1.9	2.5	3.3	2.8	2.3

Note: Source is UHERO. Figures for 2014 are UHERO estimates. Figures for 2015-2017 are forecasts.

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