

Hawaii’s economy continues to roll along, but with signs of a slowdown ahead. The environment for tourism remains guarded, and the maturing of the construction cycle will remove what has been a major impetus for growth. Compared with recent experience, average rates of growth for jobs and income will trend lower over the next several years.

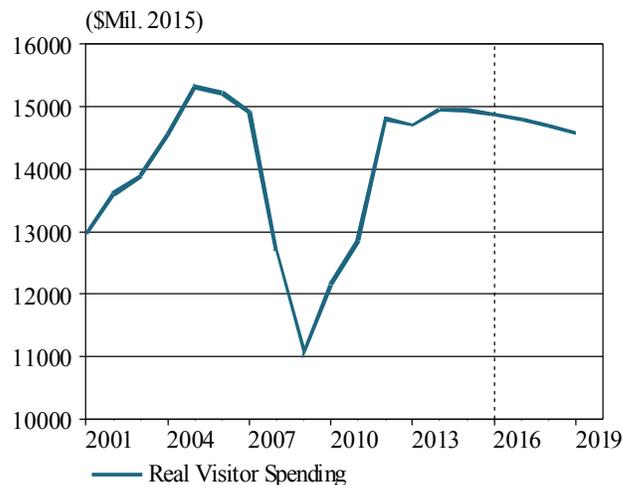
With the statewide occupancy rate above 78%, growth in visitor arrivals and days will average just under 2% for the 2016-2017 period. US visitors continue to provide the greatest momentum to the tourism industry. Their share in the islands has been inching up over the last two years, while international visitors have been feeling the pinch from the strong dollar and global economic weakness. Although the Yen has appreciated about 20% over the past twelve months, continuing softness in the Japanese economy has precluded a rebound in Japanese arrivals. For Canada, the effects of a weak currency are compounded by the economic drag from the oil price slump. As a result, visitor volume from our northern neighbor has declined 10% in the year to date.

Although total arrivals have continued to grow, *real* (inflation-adjusted) visitor spending has remained essentially flat since 2012. Real hotel room prices have also plateaued in recent quarters, despite the high capacity use. Modest additions to the room stock that are expected over the next three years, together with restrained visitor demand, will keep a lid on further room price gains.

The construction upswing generated a 14% surge in employment in the first half of the year. Nevertheless, total non-farm job growth eased to 1.4% during the same period. (Note that UHERO adjusts official job counts based on estimates of forthcoming government benchmark revisions.) Industries that have enjoyed 2-3% job growth in the year to date include healthcare, accommodation and food services,

and transportation and utilities, while state government has suffered modest losses. The number of trade jobs has also slipped, but we expect it to rebound as new retail outlets in the International Marketplace, Ka Makana Alii, and other locations become fully staffed by the start of the holiday shopping season. Nonfarm payroll growth will come in at 1.4% for the year as a whole, before decelerating markedly as construction ebbs.

Last year an improving job market, low inflation, and a bump in the minimum wage lifted real median household income 4.8%, although it remains below pre-recession levels. Labor income gains continue to be widespread across the private sector, led by another double-digit jump in the construction industry this year. Real personal income will grow more than 2% in 2016 and advance at a 1.5% average rate in the following two years as the construction surge wanes, the business cycle matures, and inflation accelerates. Honolulu inflation has surprised to the upside, with a 2.4% reading for the year’s first half. Although low energy prices continue to limit overall price pressures, both the food and



REAL (INFLATION-ADJUSTED) VISITOR SPENDING HAS REMAINED ESSENTIALLY FLAT SINCE 2012.

the shelter components advanced more than 3.5%. With energy prices gradually recovering, inflation will break above 3% by 2017.

The economy is now firing on all cylinders, but how long it can operate at this level depends on a range of factors. Signs of overheating or a bumpy road ahead can derail a smooth ride.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2014	2015	2016	2017	2018	2019
Visitor Arrivals	2.4	4.5	2.3	1.5	0.9	0.3
U.S. Visitor Arrivals	1.1	6.9	2.9	1.3	1.0	0.3
Japan Visitor Arrivals	-0.4	-1.9	-0.4	0.7	0.8	0.2
Other Visitor Arrivals	9.2	3.1	2.8	2.9	0.4	0.2
Non-farm Payrolls	1.4	1.7	1.4	0.8	0.6	0.5
Unemployment Rate (%)	4.4	3.6	3.1	3.0	3.1	3.5
Inflation Rate, Honolulu MSA (%)	1.4	1.0	2.3	3.1	2.9	2.5
Real Personal Income	3.2	3.6	2.2	1.7	1.4	1.3
Real GDP	1.8	3.3	2.0	2.4	1.5	1.4

Note: Source is UHERO. Non-farm Payrolls for 2015 are UHERO estimates of the benchmark revision. Figures for 2016-2019 are forecasts.

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