



UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
ANNUAL HAWAII FORECAST WITH
ASIA-PACIFIC OUTLOOK
PUBLIC EDITION
**HEALTHY ECONOMY FACES
NEW ADMINISTRATION RISKS**
DECEMBER 16, 2016





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ANNUAL HAWAII FORECAST WITH ASIA-PACIFIC OUTLOOK

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EXECUTIVE SUMMARY

This report presents our comprehensive annual forecast for the State of Hawaii, beginning with our outlook for the economies of the Asia-Pacific region.

The Hawaii economy continues to perform well. Visitors are up, unemployment is down, and the pace of building remains healthy. But the expansion, now in its seventh year, has yet to fully restore household incomes. And increments to growth will be smaller going forward, with a topping out of construction in 2018 and slowing of annual job growth to a half-percent by the end of the decade. There are large downside risks to the forecast, including the strong dollar and a weak China. Neither is as large a risk as the possibility of policy errors by the incoming Trump administration.

- This year, the global economy has grown at its slowest pace since the Great Recession. In part this reflects particularly anemic US performance in the first half of the year, soft commodity prices, and further weakening in China. But it also reflects a persistent pattern of subpar growth related to lagging trade, investment, and productivity.
- In 2017, the Asia-Pacific region will recover a bit from the current unusual weakness, but challenges will remain, including China's rebalancing away from manufacturing, high private debt levels in some countries, and rising US interest rates. The largest near-term risk is uncertainty about trade and economic policy under the Trump administration. A messy divorce between Britain and the EU could also damage world growth prospects.
- For Hawaii, modest expansion of airline and room capacity will support more than 2% visitor growth next year, but arrivals will begin to taper off in 2018. Barring larger-than-expected additions to the room stock, growth in visitor days will slow to less than 1% by the end of the decade. The strong US dollar will continue to weigh on international visitor spending, especially for visitors from Japan and Canada. After growing 1.5% this year, real (inflation-adjusted) visitor spending will begin to decline modestly in 2017.
- Residential building on Oahu is in transition from high-rise condo construction to single-family home development. Home prices will grow in the 4-7% range over the next several years. Resort and retail related development remains the biggest driver of nonresidential building statewide. The construction cycle will peak late in the decade, but continuing residential building will prevent a sharp industry downswing.
- Payroll growth in the past two years has been driven primarily by the construction upswing, but further gains in the industry's job count will be marginal. Several new resort openings supported healthy job growth in the accommodation and food services sector. Although the headline unemployment rate is close to the lows of the last cycle, labor force participation remains depressed. As the positive impetus from construction wanes, overall job growth will fall below 1% by 2018.

- Gains in income have been harder to come by. Real hourly wages and labor income per worker are at roughly their 2007 levels, and median family income still lags 4% behind its pre-recession peak. Real personal income will grow 2.4% this year. With slowing job growth and the plateauing of construction, income growth will ease to 2% by 2018.
- In the first half of the year, consumer prices in Honolulu were up 2.4%, the most rapid inflation since 2012. The downward pressure from falling energy prices has largely ended. Rising home prices and the corresponding increase in shelter costs will be the main driver of consumer prices over the next several years. Still, inflation will remain milder than in the 2000s expansion, and it will drop back below 3% late in the decade.
- Hawaii's chief risks are broadly the same as those facing the US and the Asia-Pacific region as a whole. How low will China go? How fast will the Fed hike rates? And, especially, what will President-elect Trump do? While fiscal stimulus could boost growth in the near term, we are more concerned about the potential downside of ill-considered policy choices, which could derail the expansion or lower the longer-run growth potential both for the Asia-Pacific region and for Hawaii.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2014	2015	2016	2017	2018	2019
Visitor Arrivals	2.4	4.5	3.0	2.4	1.4	0.5
U.S. Visitor Arrivals	1.1	6.9	3.9	2.9	1.9	0.8
Japan Visitor Arrivals	-0.4	-1.9	1.1	1.0	-0.2	-1.0
Other Visitor Arrivals	9.2	3.1	2.1	2.1	1.3	1.1
Non-farm Payrolls	1.4	1.7	1.6	1.1	0.9	0.7
Unemployment Rate (%)	4.4	3.6	3.3	3.2	3.2	3.5
Inflation Rate, Honolulu MSA (%)	1.4	1.0	2.4	3.3	3.0	2.8
Real Personal Income	3.6	3.7	2.4	2.2	2.0	1.7
Real GDP	1.1	3.9	2.3	2.1	1.9	1.8

Note: Source is UHERO. Non-farm Payrolls for 2015 are UHERO estimates of the benchmark revision. Figures for 2016 are UHERO estimates. Figures for 2017-2019 are forecasts.

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The UHERO Forecast Project is a community-sponsored research program of the University of Hawaii at Manoa. The Forecast Project provides the Hawaii community with analysis on economic, demographic, and business trends in the State and the Asia-Pacific region.

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