



UHERO FORECAST PROJECT

ANNUAL HAWAII FORECAST WITH
ASIA-PACIFIC OUTLOOK

PUBLIC EDITION

HAWAII'S LONG EXPANSION GETS GLOBAL ECONOMIC LIFT

DECEMBER 15, 2017





UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

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.

Improving global conditions provide a favorable environment for continued expansion in the Islands. Visitor arrivals are surging to record highs, and unemployment is reaching new lows. While families are benefitting from the improved employment prospects, many have yet to see significant income growth. The expansion is now well into its eighth year, and all indications are that growth will continue, if at a more subdued pace.

- Global economic conditions have improved this year, beating expectations for the first time since 2010. International trade has begun to pick up, and spending by households and businesses is rising in many countries. Still, the pace of trade and economic growth remains subdued compared with past expansions.
- In North America, solid consumer confidence and fiscal lift will drive a modest uptick in growth in 2018. Japan's economy will continue to expand, but at a declining rate in the face of labor shortages and looming tax increases. An investment turnaround is lifting growth prospects for Australia, although overvalued real estate and high debt levels hamper consumption. Tighter lending conditions and cooling real estate will lead to marginally slower Chinese growth. Other Asian economies will benefit from increased demand at home and abroad, as long as there is no further damage to the open international trade order.
- In Hawaii, additions to airline and room capacity—including in non-traditional accommodations—have facilitated a sustained surge in the number of visitors, but spending continues to lag, even as visitor numbers stress infrastructure. In 2018, arrivals from the US and Japan will grow at about half their 2017 pace, while improving economic conditions in the Asia-Pacific region will sustain moderate growth for emerging markets.
- The construction cycle peaked in mid 2016, but the volume of activity has remained nearly as strong since then. In addition to resort and retail oriented developments around the state, two large-scale residential projects in Central Oahu and several high-rises in urban Honolulu will support construction activity at roughly its current level for the next several years.
- The pace of job creation has slowed as the construction cycle has plateaued and activity in other sectors has converged to a moderate trend growth path. With labor market conditions increasingly tight, the scope for further employment gains is limited. The fastest job growth next year will be in tourism-related areas and in health care, while employment in construction and the public sector will remain at roughly its current level. Total non-farm payrolls will increase by nearly 1% in 2018, and the unemployment rate will edge up just a bit from its current record low level.
- Aggregate real income inched up less than a half-percent in the first half of the year, in part reflecting the end of rapid construction expansion. But a broad measure of wages has also declined and remains well below its pre-recession peak. Further tightening of the labor market should deliver some income gains, but the slow pace of productivity growth in our service-oriented economy will act as a medium-term constraint. Real per-capita income will advance 1% in 2018. Inflation, fueled in part by energy and housing costs, will rise above 3% next year.

- The future path for national policy represents both upside potential and downside risk. The pending overhaul of the US tax system will create a near-term boost here, but raises longer-term concerns. Any US restrictions on trade and immigration would adversely affect Hawaii. The pace of Federal Reserve interest rate hikes will help determine whether the long expansion continues, and whether there are disruptions to pricy equity markets in the US and abroad. Population aging will weigh on growth in the Islands in coming decades, as it will throughout the Asia-Pacific region.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2015	2016	2017	2018	2019	2020
Visitor Arrivals	4.5	3.0	4.7	2.8	1.4	0.8
U.S. Visitor Arrivals	6.9	4.6	4.9	2.8	1.5	0.8
Japan Visitor Arrivals	-1.9	0.4	6.0	2.9	2.2	0.8
Other Visitor Arrivals	3.1	0.4	3.0	2.6	0.6	0.9
Non-farm Payrolls	1.8	1.6	1.0	0.9	0.8	0.7
Unemployment Rate (%)	3.6	3.0	2.6	2.4	2.8	3.2
Inflation Rate, Honolulu MSA (%)	1.0	2.0	2.7	3.1	3.2	2.6
Real Personal Income	4.3	1.3	0.7	1.5	1.5	1.4
Real GDP	4.9	1.6	1.1	1.4	1.6	1.4

Note: Source is UHERO. Non-farm Payrolls for 2016 and 2017 are UHERO estimates of the benchmark revision. Figures for 2017 are UHERO estimates. Figures for 2018-2020 are forecasts.

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