UHERO
THE ECONOMIC RESEARCH ORGANIZATION AT THE UNIVERSITY OF HAWAI'I

UHERO STATE FORECAST, PUBLIC SUMMARY EDITION

Tourism Hot, But Broader Growth Still Elusive

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Bank of Hawaii

Hawaii's recovery is proceeding along two very different tracks. The tourism industry is on a tear, posting impressive rates of growth. With a few exceptions, the rest of the local economy is going nowhere. Nevertheless, the best residential building conditions in years and pending public projects set the stage for a construction upturn in 2013. And once the global gloom lifts, consumer confidence will drive some pickup in non-tourism sectors that have lagged in the recovery so far.

Global economic conditions are perhaps the most perilous they have been since 2008-2009. The debt crisis and recession in Europe have spilled over through falling trade and weakening confidence. In the US, consumer spending has held up fairly well, but the lack of labor market improvement and general uncertainty are taking a toll. The manufacturing leg of the expansion is also pretty shaky, while housing has turned the corner and lower oil prices will support demand. Barring a complete failure to address the looming "fiscal cliff," we expect sub-par but continuing growth. Reconstruction spending is offsetting weaker exports in Japan, but the country will slow next year as fiscal consolidation looms. Asian developing economies have healthy labor markets and fiscal conditions that will help temper, but not completely offset, the effects of the deepening global slowdown.

Despite threatening global economic clouds, the Hawaii tourism sector has continued to post impressive growth, driven by robust income gains in commodity exporting countries, pent-up US travel demand, and success in tapping non-traditional markets. Visitors from these markets will continue to be the strongest growth area, expanding by nearly 8% next year. We expect some flattening out of arrivals numbers near term because of worsening global conditions; in the medium run, growth will be constrained below recent buoyant figures now that occupancy rates have risen to high levels.

Overall arrivals will expand by 9.3% this year, backing off to 3% growth in 2013. After another year of near-16% visitor spending growth, we expect a more moderate 8% gain in 2013. At that point, annual spending will be 60% higher than it was in 2009. Given the surprisingly strong increases we have seen in both arrivals and spending, there is clearly significant upside risk of stronger visitor industry growth.

Outside of tourism, most sectors are displaying disappointing performance this year. Overall job growth in the year to May was 1%; it was just 0.2% if the accommodation and food service sector is excluded. We should see some pickup in 2013 in health care, wholesale and retail trade, and the large "other services" category that includes everything from legal services to waste management. At best, government will contribute very little to growth in coming years, and a significant contraction of federal spending is of course possible.

The construction sector continues to bump along the bottom, with construction indicators not yet showing signs of the upturn we have been predicting. The firming of the Oahu home resale market, ever-lower mortgage interest rates, and tight housing availability favor a pickup in residential building next year. Government contracts awarded have languished, but a pickup in recent months, along with military construction and the anticipated ramping up of rail work, augurs better times ahead. We expect Hawaii's construction job count to post moderately strong growth over the next several years, although employment will remain shy of the previous peak.

Energy prices have receded significantly from their highs earlier this year, and relatively weak global demand conditions are likely to keep the lid on prices for the coming year. Honolulu consumer price inflation will ease from an estimated 3% this year to 2.5% in 2013. Moderate inflation is expected over succeeding years.

The federal fiscal situation has the potential to wreak havoc nationally, with spillovers to the local economy. While we are hopeful the worst can be avoided, an end to the payroll tax holiday and extended unemployment benefits will reduce local take-home pay. Despite this drag, the gradually improving business conditions in Hawaii and the end of state pay cuts will support a strengthening of real income growth above 2% in 2013 and to 2.5% in 2014. State real gross domestic product will expand by 2.4% next year and 3.1% in 2014.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2010	2011	2012	2013	2014	2015
Visitor Arrivals	7.7	3.5	9.3	3.0	1.2	0.7
U.S. Visitor Arrivals	5.9	2.3	5.5	1.7	1.1	1.0
Japan Visitor Arrivals	6.1	-5.1	16.2	2.3	-0.2	-0.9
Other Visitor Arrivals	17.6	17.8	16.6	7.9	2.7	1.2
Payroll Jobs	-0.8	0.9	1.3	2.4	2.2	1.8
Employment	1.8	2.0	0.1	1.6	1.7	1.4
Unemployment Rate (%)	6.9	6.7	6.2	5.6	5.0	4.6
Inflation Rate, Honolulu MSA (%)	2.1	3.7	3.0	2.5	2.9	2.5
Real Personal Income	1.5	0.9	1.4	2.1	2.5	2.3
Real GDP	0.0	-1.5	1.1	2.4	3.1	3.2

Note: Source is UHERO. Figures for 2012-2015 are forecasts.

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