



UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
ANNUAL HAWAII FORECAST WITH GLOBAL OUTLOOK
PUBLIC EDITION

AFTER A CLOUDY 2019, NEW YEAR LOOKS A BIT BRIGHTER

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ANNUAL HAWAII FORECAST WITH GLOBAL OUTLOOK

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Executive Summary

This report presents our comprehensive annual forecast for the State of Hawaii, beginning with the outlook for key economies beyond our shores.

Hawaii's economy has entered a soft patch. Falling real visitor spending and a declining population have suppressed demand and halted growth in nonfarm payrolls. But the construction industry is holding up, and the number of visitor arrivals continues to grow. Following this year's weakness, we expect some improvement in the external environment, which will help us edge back onto a positive, if restrained, growth path.

- The global economy has been dragged down by the trade war and softness in a number of large countries, resulting in the weakest growth since the global financial crisis. After a tax-cut-induced pickup last year, US growth has fallen back. Exports and investment have contracted, pushing US manufacturing into recession. Low unemployment rates and interest rates are supporting consumer spending, now the economy's sole support. Slowing in the US has acted as a drag on Canadian growth.
- Japan's economy has taken a hit from global trade and another from the November consumption tax hike. Trade woes are also weighing heavily on Korea and many emerging Asian economies. In China, slowing has been exacerbated by government efforts to halt a buildup of debt. In Australia, the central bank has moved to cut interest rates in response to macroeconomic weakness. Relatively poor prospects for the world's largest economies will mean only a slow global pickup over the next several years.
- Visitor arrivals are heading for another record, set to exceed ten million this year for the first time. All of the strength is on the domestic side, with arrivals from emerging international markets lower than a year ago. Inflation-adjusted visitor spending has fallen off, down more than four percent in daily per-capita terms. While arrivals will continue to grow at a modest pace, real visitor spending will break even at best next year.
- The local hotel industry is performing better than the national average. While regulatory changes implemented in August substantially reduced the supply of transient vacation rentals on Oahu, the statewide supply of TVRs has continued to grow, as other islands (particularly Maui) see an ongoing expansion of listed units. Airline capacity is also rising on both interisland and mainland routes, following the entry of Southwest Airlines. International airlift remains weak.
- The state's population has been declining for the past three years, in part because of outward migration. Payroll job growth has dropped below zero this year, according to UHERO estimates of the government benchmark revision. While the softness in jobs is most pronounced in sectors linked to tourism, the slowdown is widespread, touching a number of key industries. Only very modest growth is expected in 2020 and beyond.
- Despite the decline in payrolls, the unemployment rate remains low by historical standards, and labor income growth remains healthy. Relatively stable oil prices and moderately rising shelter costs will keep overall inflation subdued.
- Risks of a more negative downside have grown, including global weakening, ongoing trade disputes, and political uncertainty. Still, we think the odds favor a return to modest expansion for the next few years.

Forecast Summary

HAWAII ECONOMIC INDICATORS YEAR-OVER-YEAR PERCENT CHANGE

	2017	2018	2019	2020	2021	2022
Nonfarm Payrolls	1.1	0.6	-0.2	0.2	0.4	0.3
Unemployment Rate (%)	2.4	2.5	2.8	3.1	3.4	3.7
Visitor Arrivals	5.2	5.2	5.4	2.6	1.3	0.8
U.S. Visitor Arrivals	6.3	8.1	7.9	3.6	1.8	1.0
Japan Visitor Arrivals	2.5	3.0	-0.5	0.5	0.0	-0.2
Other Visitor Arrivals	3.7	-2.1	1.3	0.5	0.6	0.7
Inflation Rate, Honolulu MSA (%)	2.5	1.9	1.7	1.7	1.8	1.9
Real Personal Income	1.3	2.1	1.4	1.0	1.0	0.8
Real GDP	1.6	3.0	1.7	0.9	1.1	0.7

Note: Source is UHERO. Nonfarm Payrolls for 2018 are UHERO estimates of the benchmark revision. Figures for 2019 are UHERO estimates. Figures for 2020-2022 are forecasts.

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