



UHERO FORECAST PROJECT
ANNUAL HAWAII FORECAST WITH GLOBAL OUTLOOK
PUBLIC EDITION
**MAINLAND COVID-19 SURGE
MEANS A BLEAK WINTER, BUT
VACCINES PROMISE 2021 GROWTH**

DECEMBER 11, 2020





UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

ANNUAL HAWAII FORECAST WITH GLOBAL OUTLOOK

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Executive Summary

The Hawaii economy began to recover from the COVID-19 downturn by the end of the second quarter, but subsequent waves of the pandemic have disrupted economic progress. The State has now reimposed quarantine requirements for travelers who do not receive a negative test result prior to arrival. The welcome news about coming vaccines fundamentally improves growth prospects for the second half of 2021, but making it to the point when the virus is no longer a threat will be painful and costly. As in our third quarter report, our baseline forecast sees meaningful economic recovery delayed until the middle of next year. After that, we anticipate an attenuated recovery process, albeit at a somewhat faster pace than in our previous forecasts.

Given the considerable epidemiological and economic uncertainty, following recent practice we present baseline, optimistic, and pessimistic scenarios.

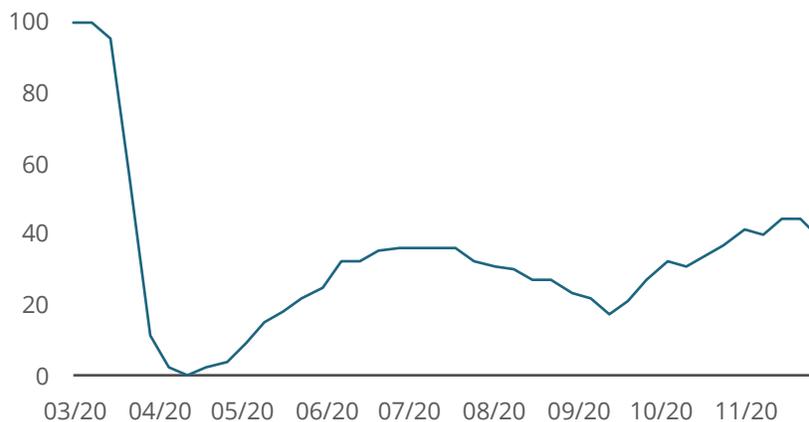
- Shutdowns associated with the first coronavirus outbreak in the US caused the country's sharpest downturn on record. Service industries requiring personal contact were hit the hardest, while construction and real estate, supported by low interest rates, have quickly rebounded. As states try to slow the virus's resurgence by imposing new lockdowns, a drop in activity in coming months is inevitable.
- Canada and Europe have also been hit by a fall surge in COVID-19 cases, but the reimposition of sharp restrictions has slowed the spread of the virus in several countries. Japan, Australia, and New Zealand controlled the virus better than other developed nations early on, but at a large cost in foregone activity. China is furthest along in recovery, which is good news for export-dependent Asian developing economies. Going forward, global growth will be hampered by the lingering effects of bankruptcies and potential loss of human capital.
- Hawaii's summer COVID-19 spike and the resulting second shutdown reversed some of the recovery gains that had begun in late spring. The lifting of local restrictions on Oahu in late September put Hawaii back on the path to recovery, but as of late November, the recovery has made up less than half of pandemic losses, according to our [UHERO Economic Pulse](#).
- After a half-year shutdown, the tourism industry reopened in mid-October. Visitor arrivals in November, the first full month of the *Safe Travels* program, increased to less than one quarter of their level a year earlier. Employment in the leisure and hospitality industry is only about half its pre-pandemic level.
- Overall job recovery has been limited so far. For most non-tourism sectors, employment is running about ten percent lower than last year's level. The statewide unemployment rate has receded nearly ten percentage points from its May high, but it remains more than twice the national average.
- Jobs in the construction industry have held steady throughout the year, although some large public and private sector projects have experienced delays. Home resale prices at the high and low ends of the market have diverged, reflecting the more severe economic impact of the crisis on lower-income households and perhaps a rising preference for larger homes during the pandemic. Rents have also softened at the lower end.
- In our baseline forecast scenario, visitor arrivals will stagnate in the near term due to the mainland surge in COVID-19 cases and the tightening of Hawaii quarantine rules. As the first quarter progresses, pre-travel tests are expected to become more accessible to travelers and the upward trend in arrivals will resume. More significant tourism gains will be seen in the second half of 2021 after vaccines becomes widely available.

- Under an optimistic scenario, earlier widespread availability of vaccines and rapid virus tests would enable an earlier recovery in visitor numbers. Even in this case, we would not approach 2017 levels of activity during our five-year forecast horizon. In a more pessimistic scenario, the surge in COVID-19 cases nationally would lead to test shortages that combine with Hawaii's tightened quarantine rules to cause a several-month setback for tourism and overall economic recovery. After a pause lasting through March, a significant restart of tourism would be delayed until late next year, and the long-term path of recovery would be slower than in the baseline case.
- For the broader economy, in our baseline forecast we see a continuing improvement in activity, but the mainland virus surge and recent tightening of quarantine rules nevertheless results in furloughs and additional permanent layoffs in sensitive industries. The near-term economic weakness will hold the unemployment rate near its current 13-14% range through the first quarter of next year. After that, labor markets will see further gradual improvement.
- In our optimistic scenario, the more rapid tourism rebound and improved environment for local firms would result in a steeper recovery of Hawaii's economy. In our pessimistic scenario, a slower pickup of tourism would be accompanied by weaker spending by the local population as a third COVID-19 wave in the Islands requires renewed physical distancing limits. Facing larger and more prolonged budget deficits, the State Government would resort to partial furloughs of existing employees.
- This year has caused considerable damage to the global and local economies. Some of this damage is obvious, such as the loss of jobs, income, and in some cases housing security, particularly for lower-income families. And there are gaping state and local budget holes that will need to be filled. Damages that are harder to assess include the impact of the downturn on longer-term labor force participation and the potential damage to human capital, both among laid-off workers and displaced students.

UHERO ECONOMIC PULSE (PRE-COVID BASE PERIOD = 100)

Our measure of current economic activity has shown an upward but weakening trend.

SOURCE: UHERO.



Forecast Summary

ECONOMIC INDICATORS, BASELINE FORECAST SCENARIO PUBLIC SUMMARY

	2018	2019	2020	2021	2022	2023
STATE OF HAWAII						
Nonfarm Payrolls (Thou)	658.2	656.1	569.4	574.9	616.4	628.5
% Change	0.5	-0.3	-13.2	1.0	7.2	2.0
Unemployment Rate (%)	2.5	2.7	12.7	10.9	5.6	4.4
Real Personal Income (Mil 2019\$)	79,711.8	80,726.5	84,168.6	77,405.6	78,628.8	80,536.4
% Change	1.2	1.3	4.3	-8.0	1.6	2.4
Real GDP (Mil 2019\$)	94,614.7	95,744.3	85,950.1	86,017.7	90,450.4	92,316.9
% Change	2.0	1.2	-10.2	0.1	5.2	2.1
Total Visitor Arrivals by Air (Thou)	9,888.8	10,385.8	2,666.7	4,409.7	8,151.7	9,080.2
% Change	5.2	5.0	-74.3	65.4	84.9	11.4
Visitor Days (Thou)	87,721.3	89,690.4	26,588.6	40,482.2	71,596.7	78,033.7
% Change	4.9	2.2	-70.4	52.3	76.9	9.0
Real Visitor Expenditures (Mil 2019\$)	17,794.5	17,716.1	4,791.8	6,263.1	12,000.4	14,041.9
% Change	3.1	-0.4	-73.0	30.7	91.6	17.0
HONOLULU COUNTY						
Nonfarm Payrolls (Thou)	473.2	472.0	417.2	419.9	446.5	454.6
% Change	0.3	-0.3	-11.6	0.6	6.4	1.8
Unemployment Rate (%)	2.4	2.6	11.1	9.5	5.0	3.7
Inflation Rate, Honolulu MSA (%)	1.8	1.6	1.5	1.2	1.0	1.8
Real Personal Income (Mil 2019\$)	59,371.2	59,617.7	61,468.8	57,502.9	58,627.9	59,980.5
% Change	1.9	0.4	3.1	-6.5	2.0	2.3
Total Visitor Arrivals by Air (Thou)	5,862.4	6,153.9	1,575.6	2,624.9	4,829.4	5,386.8
% Change	3.2	5.0	-74.4	66.6	84.0	11.5
HAWAII COUNTY						
Nonfarm Payrolls (Thou)	71.2	70.7	62.5	63.1	66.5	67.4
% Change	0.6	-0.7	-11.6	0.9	5.5	1.4
Unemployment Rate (%)	3.0	3.5	12.2	11.3	7.2	6.1
Real Personal Income (Mil 2019\$)	8,670.2	8,781.6	9,443.0	8,342.1	8,360.6	8,587.7
% Change	2.7	1.3	7.5	-11.7	0.2	2.7
Total Visitor Arrivals by Air (Thou)	1,706.2	1,763.9	462.3	766.1	1,437.3	1,612.3
% Change	-3.4	3.4	-73.8	65.7	87.6	12.2
MAUI COUNTY						
Nonfarm Payrolls (Thou)	80.3	80.2	63.0	64.6	73.1	75.4
% Change	1.7	-0.1	-21.4	2.5	13.2	3.1
Unemployment Rate (%)	2.4	2.6	19.3	16.7	6.7	5.2
Real Personal Income (Mil 2019\$)	8,337.5	8,600.9	9,298.5	8,090.5	8,129.9	8,359.3
% Change	2.2	3.2	8.1	-13.0	0.5	2.8
Total Visitor Arrivals by Air (Thou)	2,963.6	3,111.1	784.1	1,385.0	2,610.4	2,911.5
% Change	5.9	5.0	-74.8	76.6	88.5	11.5
KAUAI COUNTY						
Nonfarm Payrolls (Thou)	32.7	33.2	27.0	27.4	30.3	31.1
% Change	-0.3	1.6	-18.7	1.4	10.7	2.6
Unemployment Rate (%)	2.5	2.7	17.5	13.9	7.4	6.5
Real Personal Income (Mil 2019\$)	3,622.5	3,726.3	3,958.4	3,470.1	3,510.4	3,608.9
% Change	3.6	2.9	6.2	-12.3	1.2	2.8
Total Visitor Arrivals by Air (Thou)	1,388.5	1,370.0	326.1	552.9	1,126.5	1,256.2
% Change	8.0	-1.3	-76.2	69.5	103.8	11.5

Note: Source is UHERO. Figures for 2020-2023 are forecasts.

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