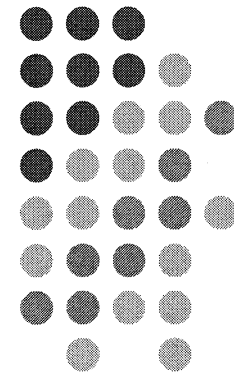


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## **Economic Outlook**



## Economic Outlook

### Overview

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism and construction industries, the labor market conditions in the State, and growth of personal income and tax revenues, the Department of Business, Economic Development and Tourism expects continued positive growth in Hawaii economy in 2014 and 2015.

### Labor Force and Jobs

For the first three quarters of 2013, civilian employment averaged 616,300 persons, an increase of 3,717 persons or 0.6% compared to the same period of 2012. The civilian labor force averaged 647,067, a decrease of 4,983 persons or 0.8%. Since the labor force decreased and the civilian employment increased, for the first three quarters of 2013, the statewide unemployment rate averaged 4.7%, a decrease of 1.3 percentage points from the same period last year.

During the first three quarters of 2013, Hawaii's economy gained 1.4% or 8,133 non-agricultural wage and salary jobs compared to the same period of 2012. Job gain in the first three quarters of 2013 was due to increased jobs in the private sector; the government sector lost 1,500 jobs or 1.2% during this period. Both the Federal Government and the State Government lost jobs in the first three quarters of 2013 compared with the same period last year. Job gain in the private sector was spread into many industries. Leading the job gain were Natural Resources, Mining, and Construction (added

2,833 jobs or 9.8%); followed by Other Services (added 1,583 jobs or 6.1%); Food Services and Drinking Places (added 1,433 jobs or 2.5%); Health Care and Social Assistance (added 1,117 jobs or 1.8%); Professional and Business Services (added 900 jobs or 1.2%); and Transportation, Warehousing, and Utilities (added 900 jobs or 3.2%). Job loss in the private sector occurred in Retail Trade (lost 400 jobs), Educational Services (lost 350 jobs), and Manufacturing (lost 133 jobs).

### Tax Revenues

Through the first three quarters of 2013, State General Fund Tax revenues increased \$174.3 million or 4.4%; General Excise and Use Tax collections increased \$59.7 million or 2.8%; Individual Income Tax collections increased \$103.3 million or 8.5%; and Transient Accommodations Tax collections increased \$32.2 million or 12.1% compared with the same period last year.

### Personal Income

Nominal personal income (not adjusted for inflation) increased \$1,755.2 million or 2.8% in the first two quarters of 2013 compared to the same period of 2012. Wage and salary disbursements (which accounted for about 50% of total personal income) increased \$1,063.4 million or 3.5% during the first half of 2013.

Supplements to Wages and Salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased by \$167.6 million or 1.8% in the first half of 2013 compared to the same period of 2012.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$247.4 million or 6.0% in the first two quarters of 2013 compared to the same period of 2012.

Dividends, Interest, and Rent increased \$590.9 million or 4.9% in the first half of 2013 from the same period of 2012, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$418.7 million or 2.9%.

Contributions to Government Social Insurance, payments subtracted from personal income, increased by \$732.8 million or 16.0% in the first half of 2013 from the same period of 2012.

Earnings increased \$1,431.0 million or 4.9% in the private sectors during the first half of 2013 compared to the same period of 2012. In dollar terms, the largest earnings gain in the private sectors occurred in Construction (gained \$290.0 million or 9.6%), followed by Accommodation and Food Service (gained \$268.5 million or 7.3%), Professional and Technical Services (gained \$142.9 million or 5.6%), Administrative and Waste Services (gained \$86.0 million or 4.5%), and Health Care and Social Assistance (gained \$80.2 million or 1.9%). The only earnings loss in the private sectors occurred in Mining (lost \$1.3 million or 3.3%).

In the first half of 2013, total government earnings increased \$77.8 million or 0.5% compared with the same period of 2012. The earnings of the Federal Government increased \$42.5 million or 0.5%, due to earnings gained by the Military (gained \$138.8 million or 2.8%); while the earnings of the State and Local Government increased \$35.2 million or 0.6%.

### Prices

According to the most recent data available, consumer prices in Honolulu increased 1.8% in the first half of 2013 compared with the same period of 2012, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 1.5% in the first half of 2013. In 2012, the Honolulu CPI-U increased 2.4% from the previous year. In the first half of 2013, the Honolulu CPI-U increased the most in the price index of Food and Beverages (3.9%), followed by Medical Care (2.8%), Recreation (2.6%), Housing (2.0%), Education and Communication (1.8%), and Other Goods and Services (1.4%). The price of Transportation decreased 0.2%, and the price of Apparel decreased 2.3%, compared to the first half of 2012.

### Tourism

In the first three quarters of 2013, total visitor arrivals by air increased 255,171 or 4.3% from that of 2012, while 2013 year-to-date (YTD) average daily visitor census increased 6,078 or 3.0% from 2012. Domestic arrivals were up 2.5%, and international arrivals were up 4.4%. Visitor arrivals in the first three quarters of 2013 increased among all the five major market areas compared with the same period last year. Arrivals from All Others increased the most at 10.7%, followed by U.S. West (4.5%), Japan (3.3%), Canada (2.9%), and U.S.

East (1.6%). Visitor arrivals by cruise ships increased 11.5% in the first three quarters of 2013. Total visitor expenditures were estimated to have totaled \$11,000.9 million through the first three quarters of 2013, up \$430.2 million or 4.1% over the same period a year ago.

Through the first nine months of 2013, average airline passenger capacity increased 6.9% from the same period of 2012, while the statewide hotel occupancy rate averaged 77.7%, same as the average hotel occupancy rate in the same period last year.

### Construction and Real Estate

The major indicators of Hawaii's construction activity were mostly positive through the first two to three quarters of 2013. Based on the most recent data available, the average contracting tax base increased \$540.8 million or 16.7% during the first half of 2013 from the same period of 2012. During the first nine months of 2013, the total value of private building authorizations increased \$140.9 million or 7.5%. In addition, the government contracts awarded increased \$405.8 million or 156.8%; but the State Capital Improvement Project expenditures decreased \$164.6 million or 16.7% in the first three quarters of 2013 compared to the same period last year.

In the first nine months of 2013, the number of existing units sold on Oahu was up 11.0% for single family homes and up 23.2% for condominiums, respectively, compared to the same period last year. According to the most recent data available, in the first three quarters of 2013, the median price for existing single family homes on Oahu was \$640,261, up 3.3% from the same period last year; and the median price for existing condominiums on

Oahu was \$332,000, up 5.4% from the same period last year.

During the first three quarters of 2013, construction jobs increased 9.8% or 2,833 jobs from the same period of 2012.

### County Economic Conditions

Through the first three quarters of 2013, the average unemployment rate decreased in all counties compared to the same period last year. Labor force decreased but civilian employment increased in all the counties. The unemployment rate in Honolulu decreased from 5.4% to 4.3%, the unemployment rate in Hawaii County decreased from 8.8% to 6.8%, the unemployment rate in Maui decreased from 6.6% to 5.1%, and the unemployment rate in Kauai decreased from 7.7% to 5.7%.

Visitor arrivals and visitor days by air both increased in the first three quarters of 2013 in all counties compared to the same period of 2012. Visitor arrivals increased the most in Honolulu (5.8%), followed by Hawaii County (4.4%), Kauai County (4.3%), and Maui County (3.5%). Total visitor days by air increased the most in Kauai (5.0%), followed by Hawaii County (4.1%), Maui (3.6%), and Honolulu (1.1%).

Through the first three quarters of 2013, non-agricultural wage and salary jobs increased in all counties compared with the same period of 2012. Net job increase in all counties was due to job gains in the private sector. In the first three quarters of 2013, the private sector in Honolulu added about 6,050 jobs and the government sector lost 1,550 jobs compared with the same period last year. The largest job gain in the private sector was in Natural

Resources, Mining, and Construction (added 2,450 jobs); followed by Professional and Business Services (added 1,000 jobs); Transportation, Warehousing, and Utility (added 950 jobs); Health Care & Social Assistance (added 750 jobs); and Arts, Entertainment & Recreation (added 400 jobs). The largest private sector job loss was in Retail Trade (lost 300 jobs), followed by Educational Services (lost 100 jobs).

Hawaii County added 1,650 jobs or 2.7% in the first three quarters of 2013 over the same period of 2012. The private sector in Hawaii County added about 1,600 jobs and the government sector added 50 jobs compared with the same period last year. In the first three quarters of 2013, the largest job gain in the private sector of Hawaii County was in Food Services and Drinking Places (added 500 jobs); followed by Other Services (added 450 jobs); Natural Resources, Mining, and Construction (added 400 jobs); and Health Care & Social Assistance (added 300 jobs). The largest private sector job loss was in Manufacturing and Educational Services (both lost 100 jobs).

In the first nine months of 2013, Maui County added 1,450 jobs or 2.1% from that of 2012; additional jobs were all from the private sector. The Government sector lost 50 jobs during this period. The largest private sector job increase occurred in Other Services (added 700 jobs), followed by Food Services and Drinking Places (added 500 jobs), and Accommodation (added 350 jobs). In the first three quarters of 2013, the largest private sector job loss was in Manufacturing (lost 150 jobs), followed by Professional and Business Services (lost 100 jobs).

Kauai County added 350 jobs or 1.2% in the first three quarters of 2013 over the same period of 2012. The

largest job gain in the private sector of Kauai was in Food Services and Drinking Places (added 250 jobs), the Accommodation and Other Services both added 150 jobs. The largest job loss was in Professional and Business Services (lost 150 jobs).

During the first three quarters of 2013, hotel occupancy rates increased in Maui, decreased in Honolulu and Hawaii, and remained the same in Kauai, compared to the levels a year ago. Hotel occupancy rate increased from 73.2% to 73.7%, up 0.5 of a percentage point in Maui; decreased from 85.5% to 85.1%, down 0.4 of a percentage point in Honolulu; decreased from 62.2% to 62.1% in Hawaii; and remained the same at 70.5% in Kauai.

During the first three quarters of 2013, the value of private building permits increased \$198.9 million or 16.5% in Honolulu but decreased in all other counties, compared to the same period of 2012. In dollar term, the value of private building permits decreased the most in Maui (\$53.4 million or 17.3%), followed by Kauai (\$5.3 million or 5.8%), and Hawaii County (\$0.9 million or 0.3%).

### Outlook for the Economy

Hawaii's economy depends on the conditions in the U.S. economy and key international economies. According to the Blue Chip Economic Consensus Forecast, the U.S. economy is expected to grow at 1.7% in 2013 and 2.5% in 2014. Labor market conditions continue to improve with unemployment projected to be 7.5% for 2013 and 6.9% for 2014. The Japanese economy is expected to grow 1.8% in both 2013 and 2014.

For the local economy, the construction industry shows signs of strong growth in the next few years. YTD through September, the value of private residential building permits increased by 35.1% and commercial and industrial permit value increased by 17.2%. The increase in building permit value indicates the construction industry is going to be busier in the next few years.

Overall, Hawaii's economy measured by real GDP is projected to show a 2.4% increase in 2013, and 2.8% growth in 2014.

Visitor arrivals are expected to increase 2.9% in 2013. Visitor expenditures in 2013 are expected to grow by 3.0% to \$14.8 billion. For 2014, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.7%, 2.8%, and 4.2%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2013 is expected to be 1.3%. In 2014, jobs are projected to increase 1.8%.

The Honolulu Consumer Price Index (CPI), which increased 2.4 percent in 2012, is expected to slow down to 1.7% in 2013. The CPI is projected to increase 2.1% in 2014.

Personal income in current dollars is expected to increase 4.0% in 2013. Real personal income is currently projected to grow 2.3% in 2013. In 2014, nominal personal income and real personal income are expected to increase 5.5% and 3.3%, respectively.

Beyond 2014, the economy will continue the expansion with job growth expected to increase 1.7% in 2015 and 1.5% in 2016. Visitor arrivals are expected to increase 2.3% in 2015 and 2.1% in 2016. Visitor expenditures are

expected to increase 5.0% in 2015 and 4.8% in 2016. Real personal income is projected to increase 2.7% in 2015 and 2.4% in 2016. Hawaii's real GDP growth is expected to reach 2.5% in 2015 and 2.3% in 2016.