



Economic Outlook

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Overview

Based on the most recent developments 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's economy in 2016 and 2017.

Labor Force and Jobs

For the first three quarters of 2015, civilian employment averaged 648,850 persons, an increase of 11,150 persons or 1.7% compared to the same period of 2014. The civilian labor force averaged 674,900, an increase of 7,250 persons or 1.1%. Since the civilian labor force increased less than the civilian employment, for the first three quarters of 2015, the statewide unemployment rate averaged 3.9%, a decrease of 0.6 of a percentage point from the same period last year.

During the first three quarters of 2015, Hawaii's economy gained 1.3% or 8,100 non-agricultural wage and salary jobs compared to the same period of 2014. Job gain in the first three quarters of 2015 was due to increased jobs in the private sector; the State Government lost 800 jobs or 1.1%, and the Federal Government lost 500 jobs or 1.5% in the first three quarters of 2015 compared with the same period last year. Job gain in the private sector was spread across many industries. Leading the job gain was Retail Trade (added 1,700 jobs or 2.5%); followed by Health Care and Social Assistance (added 1,700 jobs or

2.6%); Professional and Business Services (added 1,600 jobs or 2.0%); Food Services and Drinking Places (added 1,500 jobs or 2.4%); and Natural Resources, Mining and Construction (added 1,100 jobs or 3.5%). Job loss in the private sector occurred in Accommodation (lost 300 jobs), Manufacturing (lost 200 jobs), and Information (lost 200 jobs).

Tax Revenues

Through the first three quarters of 2015, State General Fund Tax revenues increased \$444.2 million or 10.8%; General Excise Use Tax (GET) collections increased \$145.1 million or 6.5%; Net Individual Income Tax collection increased \$234.8 million or 17.8%; Transient Accommodations Tax (TAT) collections increased \$21.3 million or 6.7%; and Net Corporate Income Tax revenues increased \$21.1 million or 45.1% compared to the same period last year.

Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,825.6 million or 4.4% in the first half of 2015 compared to the same period of 2014. Wages and salaries (which accounted for about 50% of total personal income) increased \$1,285.0 million or 4.0% during the first half of 2015.

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 \$219.3 million or 2.3% in the first half of 2015 compared to the same period of 2014.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$346.4 million or 8.0% in the first two quarters of 2015 compared to the same period of 2014.

Dividends, Interest, and Rent increased \$488.2 million or 3.6% in the first half of 2015 from the same period of 2014, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$561.6 million or 5.5%.

Contributions to Government Social Insurance, payments subtracted from personal income, increased by \$75.0 million or 1.4% in the first half of 2015 from the same period of 2014.

Earnings increased \$1,414.5 million or 4.5% in the private sector during the first half of 2015 compared to the same period of 2014. In dollar terms, the largest earnings gain in the private sector occurred in Construction (gained \$338.7 million or 10.3%), followed by Health Care and Social Assistance (gained \$205.5 million or 4.6%), Accommodation and Food Service (gained \$159.3 million or 3.9%), Real Estate and Rental and Leasing (gained \$131.2 million or 8.1%), Administrative and Waste Management Services (gained \$113.9 million or 5.3%), and Transportation and Warehousing (gained \$111.5 million or 6.3%). The earnings loss in the private sectors occurred in Arts, Entertainment, and Recreation (lost \$27.0 million or 5.5%) and Management of Companies and Enterprises (lost \$19.0 million or 2.3%).

In the first half of 2015, total government earnings increased \$398.2 million or 2.7% compared with the same period of 2014. The earnings of the Federal Government increased \$149.1 million or 1.8%; while the earnings of the State and Local Government increased \$249.1 million or 4.0%.

Prices

According to the most recent data available, consumer prices in Honolulu increased 0.7% in the first half of 2015 compared with the same period of 2014, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U decreased 0.1% in the first half of 2015. In 2014, the Honolulu CPI-U increased 1.4% from the previous year. In the first half of 2015, the Honolulu CPI-U increased the most in the price index of Other Goods and Services (5.3%), followed by Medical Care (4.8%), Food and Beverages (4.2%), Education and Communication (3.1%), Housing (1.0%), and Recreation (0.9%). The price of Transportation and Apparel decreased 8.6% and 2.1%, respectively, compared to the first half of 2014.

Tourism

In the first three quarters of 2015, total visitor arrivals by air increased 262,277 or 4.3% from that of 2014, while 2015 year-to-date (YTD) average daily visitor census increased 7,924 or 3.8% from 2014. Domestic arrivals were up 5.3%, and international arrivals were up 2.2%. Arrivals from the U.S. West increased the most at 7.5%, followed by All Others (7.1%), the U.S. East (2.0%), and Canada (0.5%). Arrivals decreased 1.0% for Japan. Visitor arrivals by cruise ships decreased 4.9% in the first three quarters of 2015. Total visitor expenditures were

estimated to have totaled \$11,337.6 million through the first three quarters of 2015, up \$292.7 million or 2.6% over the same period a year ago.

Through the first nine months of 2015, average airline passenger capacity increased 6.4% from the same period of 2014. For the first half of 2015, the statewide hotel occupancy rate averaged 79.0%, 1.5 percentage point higher than 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 2015. Based on the most recent data available, the average contracting tax base increased \$297.8 million or 8.5% during the first half of 2015 from the same period of 2014. During the first nine months of 2015, the total value of private building authorizations increased \$675.7 million or 28.7%; government contracts awarded increased \$551.0 million or 65.5% but State Capital Improvement Project expenditures decreased \$121.2 million or 11.8%, compared to the same period last year.

In the first nine months of 2015, the number of existing units sold on Oahu was up 4.9% for single family homes and up 5.1% for condominiums, respectively, compared to the same period last year. According to the most recent data available, in the first three quarters of 2015, the median price for existing single family homes on Oahu was \$696,000, up 4.0% from the same period last year; and the median price for existing condominiums on Oahu was \$355,000, up 1.4% from the same period last year.

During the first three quarters of 2015, construction jobs increased 3.5% or 1,100 jobs from the same period of 2014.

County Economic Conditions

Through the first three quarters of 2015, the average unemployment rate decreased in all counties compared to the same period last year. The unemployment rate in Honolulu decreased from 4.2% to 3.6%, the unemployment rate in Hawaii County decreased from 5.7% to 4.8%, the unemployment rate in Maui decreased from 4.7% to 4.0%, and the unemployment rate in Kauai decreased from 5.0% to 4.4%.

Visitor arrivals and visitor days by air all increased in the first three quarters of 2015 in all the counties compared to the same period of 2014. Visitor arrivals increased 2.4% in Honolulu, 4.6% in Hawaii County, 5.8% in Maui County, and 4.6% in Kauai County. Total visitor days by air increased 3.4% in Honolulu, 4.1% in Hawaii County, 4.9% in Maui, and 3.1% in Kauai.

Through the first three quarters of 2015, non-agricultural wage and salary jobs increased in Honolulu and Maui, but decreased in Hawaii County and Kauai compared with the same period of 2014. Net job increases in Honolulu and Maui were due to job gains in the private sector. In the first three quarters of 2015, the private sector in Honolulu added about 8,000 jobs and the government sector lost 1,000 jobs compared with the same period last year. The largest job gain in the private sector was in Natural Resources, Mining, and Construction (added 1,700 jobs); followed by Health Care and Social Assistance (added 1,400 jobs), Food Services and Drinking Places (added 1,300 jobs), and

Professional and Business Services (added 900 jobs). The largest private sector job loss was in Educational Services (lost 300 jobs).

Hawaii County lost 400 jobs or 0.6% in the first three quarters of 2015 over the same period of 2014. The private sector in Hawaii County lost about 300 jobs and the government sector lost 100 jobs compared with the same period last year. In the first three quarters of 2015, the largest job gain in the private sector of Hawaii County was in Retail Trade (added 400 jobs); followed by Professional and Business Services (added 200 jobs), and Health Care and Social Assistance (added 200 jobs). The largest private sector job loss was in Natural Resources, Mining, and Construction (lost 600 jobs); followed by Manufacturing and Financial Activities (both lost 300 jobs).

In the first nine months of 2015, Maui County added 1,400 jobs or 2.0% from that of 2014; those additional jobs were all from the private sector. The Government sector jobs were unchanged during this period. The largest private sector job increase occurred in Arts, Entertainment and Recreation (added 500 jobs); followed by Retail Trade (added 400 jobs), and Professional and Business Services (added 200 jobs). In the first three quarters of 2015, only Educational Services and Accommodation each lost 100 jobs from the same period of 2014.

Kauai County lost 300 jobs or 1.0% in the first three quarters of 2015 over the same period of 2014. The government sector lost 100 jobs during this period. The largest job gain in the private sector of Kauai was in Retail Trade (added 200 jobs). The largest job loss was in Natural Resources, Mining, and Construction (lost 200 jobs).

During the first two quarters of 2015, hotel occupancy rates increased in all counties compared to the levels a year ago. Hotel occupancy rate increased from 83.6% to 83.9%, up 0.3 of a percentage point in Honolulu; increased from 63.5% to 69.1%, up 5.6 percentage points in Hawaii County; increased from 73.7% to 76.4%, up 2.7 percentage points in Maui; and increased from 71.8% to 72.9%, up 1.1 percentage point Kauai.

During the first three quarters of 2015, the value of private building permits increased \$278.4 million or 18.7% in Honolulu; increased \$49.3 million or 10.5% in Hawaii County; increased \$335.4 million or 102.6% in Maui; and increased \$12.7 million or 18.2% in Kauai, compared to the same period of 2014.

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 2.4% in 2015 and 2.6% in 2016. Labor market conditions continue to improve with unemployment projected to decrease in both 2015 and 2016. The Japanese economy is expected to grow 0.6% in 2015 and 1.1% in 2016.

For the local economy, the construction industry shows signs of positive growth in the next few years. YTD through September, the value of private building permits increased by 28.7%, and the government contracts awarded increased 65.5% compared with the same period of 2014. 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 gross domestic product (GDP), is projected to show a 2.0% increase in 2015, and 2.3% growth in 2016.

Visitor arrivals are expected to increase 4.3% in 2015. Visitor expenditures in 2015 are expected to grow by 3.2% to \$15.4 billion. For 2016, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.7%, 1.8%, and 3.5%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2015 is expected to be 1.3%. In 2016, jobs are projected to increase 1.2%.

The Honolulu Consumer Price Index (CPI), which increased 1.4% in 2014, is expected to slow down to 1.0% in 2015. The CPI is projected to increase 2.3% in 2016.

Personal income in current dollars is expected to increase 4.5% in 2015. Real personal income is currently projected to grow 3.6% in 2015. In 2016, nominal personal income and real personal income are expected to increase 4.8% and 3.0%, respectively.

Beyond 2016, the economy is expected to continue to expand with job growth expected to increase 1.0% in 2017 and 1.1% in 2018. Visitor arrivals are expected to increase 1.8% in both 2017 and 2018. Visitor expenditures are expected to increase 4.1% in 2017 and 4.2% in 2018. Real personal income is projected to increase 2.9% in 2017 and 2.7% in 2018. Hawaii's real GDP growth is expected to reach 2.4% in both 2017 and 2018.