



Economic Outlook

Economic Outlook

Overview

Based on the most recent data available, the Department of Business, Economic Development and Tourism (DBEDT) expects positive growth for most of Hawaii's economic variables in 2011, especially visitor related economic indicators, State General Fund Tax revenues, and personal income. After three years negative growth from 2008 to 2010, total wage and salary jobs are expected to increase in 2011. Hawaii's economy is expected to see continued positive growth in 2012 and 2013.

Labor Force and Jobs

For the first three quarters of 2011, civilian employment averaged 594,050 persons, an increase of 6,967 persons or 1.2% compared to the same period of 2010. The civilian labor force averaged 633,917, an increase of 4,350 persons or 0.7%. For the first nine months of 2011, the statewide unemployment rate averaged 6.3%, a decrease of 0.4 of a percentage point from the same period last year.

During the first three quarters of 2011, Hawaii's economy gained 1.3% or 7,967 wage and salary jobs compared to the same period of 2010. Job gain in the first three quarters of 2011 was due to increased jobs in the private sector; the government sector lost 600 jobs or 0.5% during this period. Both the Federal Government and the State and Local government lost jobs in the first three quarters of 2011 compared with the same period last year. Job gain in the private sector was the largest in

Professional and Business Services (added 3,300 jobs or 4.7%); followed by Educational Services (added 2,200 jobs or 15.1%), Food Services and Drinking Places (added 1,550 jobs or 2.8%), Information (added 1,200 jobs or 12.2%), and Accommodation (added 1,000 jobs or 2.9%). Job loss in the private sector was the largest in Transportation, Warehousing, and Utilities (lost 650 jobs or 2.5%), followed by Wholesale Trade (lost 600 jobs or 3.4%), Financial Activities (lost 350 jobs or 1.3%), and Manufacturing (lost 300 jobs or 2.3%).

Tax Revenues

Through the first three quarters of 2011, State General Fund Tax revenues increased \$311.5 million or 9.7%; General Excise and Use Tax (GET) collections increased \$159.3 million or 8.8%; Individual Income Tax collections increased \$102.2 million or 10.3%; and Transient Accommodations Tax (TAT) collections increased \$50.6 million or 27.4% compared with the same period last year.

Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,706 million or 4.8% in the first two quarters of 2011 compared to the same period of 2010. Wage and salary disbursements, which accounted for about 50% of personal income, increased \$792.0 million or 2.8% during the first half of 2011.

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 \$401.5 million or 4.5% in the first half of 2011 compared to the same period of 2010.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$162.5 million or 4.6% in the first two quarters of 2011 compared to the same period of 2010.

Dividends, Interest, and Rent increased \$557.5 million or 5.2% in the first half of 2011 from the same period of 2010, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$589.0 million or 6.7%.

Contributions to Government Social Insurance, payments subtracted from personal income, decreased by \$202.5 million or 4.6% in the first half of 2011 from the same period of 2010.

Earnings increased \$944.0 million or 3.6% in the private sectors during the first half of 2011 compared to the same period of 2010. In dollar terms, the largest earnings gain in the private sectors occurred in Accommodation and Food Service (gained \$266.0 million or 8.2%), followed by Administrative and Waste Services (gained \$119.0 million or 7.1%), Professional and Technical Services (gained \$114.0 million or 4.7%), Health Care and Social Assistance (gained \$87.0 million or 2.2%), and Retail Trade (gained \$80.0 million or 3.2%). Only two private sectors decreased earnings in the first half of 2011 compared with the same period last year; Construction (lost \$102.5 million or 3.5%) and Educational Service (lost \$4.0 million or 0.6%).

In the first half of 2011, total government earnings increased \$412.5 million or 2.8% compared with the same period of 2010. The earnings of the Federal Government increased \$297.5 million or 3.2%, mainly due to earnings gained by the Military (gained \$229.5 million or 4.0%); while the earnings of the State and Local Government increased \$115.5 million or 2.2%.

Prices

In the first half of 2011, Honolulu's Consumer Price Index - All Urban Consumers (CPI-U) increased 3.5% from the same period last year, higher than the U.S. average CPI-U increase of 2.8% for the same period. The Honolulu CPI-U increase in the first half of 2011 was primarily due to relatively large increase in Other Goods and Services (7.0%), Transportation (6.8%), Recreation (3.7%), and Education and Communication (3.6%). The prices for Housing and Food and Beverages increased 2.9% and 2.6%, respectively, while the price for Medical Care increased only 0.2% compared to the first half of 2010.

Tourism

In the first three quarters of 2011, total visitor arrivals by air increased 134,272 or 2.6% from that of 2010, while 2011 year-to-date (YTD) average daily visitor census increased 22,593 or 4.2% from 2010. Domestic arrivals were up 2.5%, and international arrivals were up 2.7%. Among the five major market areas (MMAs), arrivals from four of the MMAs, except Japan, increased in the first three quarters of 2011. Arrivals from Canada increased the most at 21.1%, followed by All Others (17.2%), U.S. West (1.6%), and U.S. East (0.8%). Arrivals from Japan decreased 7.1% in the first three quarters of 2011. Visitor arrivals by cruise ships increased 10.2% in the

first three quarters of 2011. Total visitor expenditures were estimated to have totaled \$9,259.9 million through the first three quarters of 2011, up \$1,187.1 million or 14.7% over the same period a year ago.

Through the first nine months of 2011, average airline passenger capacity increased 1.1% from the same period of 2010, while the statewide average hotel occupancy rate increased to 73.9%, up 2.8 percentage points from the same period last year.

Construction and Real Estate

The major indicators of Hawaii's construction activity were mixed through the first two to three quarters of 2011. Based on the most recent data available, the average contracting tax base increased \$48.8 million or 3.6% during the first half of 2011 from the same period of 2010. However, during the first nine months of 2011, the total value of private building authorizations decreased \$188.1 million or 12.2%. In addition, the government contracts awarded decreased \$526.4 million or 66.7%; and the State Capital Improvement Project expenditures decreased \$116.5 million or 13.5% in the first three quarters of 2011 compared to the same period last year.

In the first nine months of 2011, the number of existing units sold on Oahu was down 2.3% for single family homes and up 1.4% for condominiums, respectively, compared to the same period last year. According to the most recent data available, in the first half of 2011, the median price for existing single family homes on Oahu was \$570,000, down 4.7% from the same period last year; and the median price for existing condominiums on Oahu was \$302,500, down 0.8% from the same period last year.

During the first three quarters of 2011, construction jobs decreased 0.9% or 267 jobs from the same period of 2010.

County Economic Conditions

Through the first three quarters of 2011, the average unemployment rate decreased in all counties compared to the same period last year. In Honolulu and Kauai, both labor force and civilian employment increased, but employment increased more than the increase in labor force; therefore, the unemployment rate in Honolulu decreased from 5.7% to 5.3%, and the unemployment rate in Kauai decreased from 8.9% to 8.5%. In Maui, the labor force and civilian employment both decreased, but labor force decreased more than the decrease in employment; therefore, the unemployment rate in Maui decreased from 8.5% to 7.7%. In Hawaii County, the labor force decreased while the civilian employment increased, and the unemployment rate in Hawaii County decreased from 10.5% to 9.5%.

Visitor arrivals and visitor days by air both increased substantially in the first three quarters of 2011 in all counties compared to the same period of 2010. Visitor arrivals increased the most in Kauai County (4.9%), followed by Maui County (4.5%), Hawaii County (2.9%), and Honolulu County (1.3%). Total visitor days by air increased the most in Hawaii County (7.3%), followed by Kauai County (5.4%), Maui County (4.2%), and Honolulu County (2.9%).

Through the first three quarters of 2011, wage and salary jobs increased in Honolulu, but changed only slightly in all neighbor island counties compared with the same period of 2010. Net job increase in Honolulu was due to job gains in the private sector. In the first three quarters

of 2011, the private sector in Honolulu added 8,450 jobs and the government sector lost 150 jobs compared with the same period last year. The largest job gain in the private sector was in Professional and Business Services (added 2,850 jobs), followed by Educational Services (added 2,050 jobs), Food Services and Drinking Places (added 1,400 jobs), Information (added 1,150 jobs), and Health Care and Social Assistance (added 1,050 jobs). The largest private sector job loss was in Wholesale Trade (lost 800 jobs), followed by Transportation, Warehousing, and Utilities (lost 450 jobs), and Arts, Entertainment and Recreation (lost 350 jobs).

Hawaii County lost 50 jobs or 0.1% in the first three quarters of 2011 over the same period of 2010. The 200 jobs added in the private were more than offset by the 250 jobs lost in the government sector. In the first three quarters of 2011, the largest job gain in the private sector of Hawaii County was in Professional and Business Services (added 450 jobs), followed by Arts, Entertainment and Recreation (added 200 jobs), Educational Services (added 100 jobs), and Information (added 100 jobs). The largest private sector job loss was in Construction (lost 250 jobs), followed by Financial Activities (lost 250 jobs), Accommodation (lost 150 jobs), and Transportation, Warehousing, and Utilities (lost 100 jobs).

In the first nine months of 2011, Maui County lost 300 jobs or 0.5% from that of 2010; jobs in both the Government sector and the private sector were decreased during this period. Job gains in some private sectors were more than offset by job losses in other private sectors. The largest private sector job decrease occurred in Construction (lost 650 jobs), followed by Health Care and Social Assistance (lost 200 jobs), and Transportation, Warehousing, and Utilities (lost 100 jobs).

In the first three quarters of 2011, the largest job gain in the private sector of Maui was in Accommodation (added 250 jobs), followed by Retail Trade (added 200 jobs), Food Services and Drinking Places (added 150 jobs), Wholesale Trade (added 100 jobs), and Financial Activities (added 100 jobs).

Kauai County added 100 jobs or 0.4% in the first three quarters of 2011 over the same period of 2010. The largest job gain in the private sector of Kauai was in Accommodation and Health Care and Social Assistance (both added 100 jobs). The largest job loss was in Information (lost 100 jobs).

Hotel occupancy rates increased in the first nine months of 2011 in all counties compared to the year-ago levels, with Honolulu increasing 2.7 percentage points to 81.0%, Maui County increasing 2.4 percentage points to 71.2%, Hawaii County increasing 3.4 percentage points to 59.6%, and Kauai County increasing 3.2 percentage points to 64.2%.

During the first three quarters of 2011, the value of private building permits decreased in Honolulu, Hawaii, and Kauai, but increased in Maui County, compared to the same period of 2010. In dollar terms, the values of private building permits decreased the most in Honolulu (\$147.0 million or 13.7%), followed by Hawaii (\$41.5 million or 15.1%), and Kauai (\$5.3 million or 10.5%). The value of private building permits increased \$5.8 million or 4.0% in Maui County.

Outlook for the Economy

The outlook for Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. For the U.S. economy,

slightly worse-than-expected economic data in recent months have resulted in more conservative expectations being reflected in the consensus forecast used to guide the DBEDT forecast. According to the November 2011 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 1.8% in 2011 as a whole. For 2012, the consensus forecast now expects an overall 2.1% growth in U.S. real GDP. This growth rate is lower than that released in August 2011. Similarly, forecasts for Hawaii's most important foreign market, Japan, were also more conservative in the November 2011 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to decrease 0.6% in 2011, followed by a 2.2% growth rate in 2012.

Contrary to the expectations on the U.S. economy, the revised forecast for Hawaii shows more encouraging expectations, although the basic projection of a slow and gradual recovery has not changed.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.4% increase in 2011. That growth is expected to increase modestly to 1.8% in 2012.

Visitor arrivals are now expected to increase 2.5% in 2011. Visitor days are now expected to increase 4.0% in 2011. Moreover, the forecast for visitor expenditure growth in 2011 has been revised upward to 13.1%. For 2012, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 3.4%, 3.0%, and 5.6%, respectively.

Total wage and salary job in 2011 is expected to increase 1.3%. In the third quarter of 2011, jobs increased 1.5% from the same quarter last year. In 2012, jobs are projected to increase 1.6%.

The Honolulu Consumer Price Index (CPI), which increased 3.5% in the first half of 2011, is expected to increase 3.3% in 2011. In 2012, the CPI is projected to increase 2.8%.

Personal income growth in current dollars is now projected to show an increase of 4.6% in 2011. The current forecast of real personal income growth in 2011 is 1.3%. In 2012, current-dollar personal income is forecast to increase 4.0%, which will be 1.2% in real terms.

Beyond 2012, the economy will be on the expansion path with job growth of 1.8% in 2013 and 1.5% in 2014. Visitor arrivals are expected to increase 2.0% in 2013 and 2.2% in 2014. Visitor expenditures are expected to increase 4.5% in 2013 and 4.4% in 2014. Real personal income is projected to increase 2.0% in 2013 and 2.4% in 2014. Hawaii's real GDP growth is expected to reach 2.0% in 2013 and 2.2% in 2014.