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## **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 economy in 2015 and 2016.

### Labor Force and Jobs

For the first three quarters of 2014, civilian employment averaged 632,550 persons, an increase of 15,767 persons or 2.6% compared to the same period of 2013. The civilian labor force averaged 661,800, an increase of 13,717 persons or 2.1%. Since the civilian labor force increased less than the civilian employment, for the first three quarters of 2014, the statewide unemployment rate averaged 4.4%, a decrease of 0.4 of a percentage point from the same period last year.

During the first three quarters of 2014, Hawaii's economy gained 1.2% or 7,500 non-agricultural wage and salary jobs compared to the same period of 2013. Job gain in the first three quarters of 2014 was due to increased jobs in both the private sector and the government sector; the State Government gained 2,750 jobs or 3.9%, but the Federal Government lost 750 jobs or 2.2% in the first three quarters of 2014 compared with the same period last year. Job gain in the private sector was spread into many industries. Leading the job gain were Food Services and Drinking Places (added 1,400 jobs or

2.3%); followed by Professional and Business Services (added 1,150 jobs or 1.5%); and Accommodation (added 617 jobs or 1.6%). Job loss in the private sector occurred in Retail Trade (lost 200 jobs), and Natural Resources, Mining, and Construction (lost 50 jobs).

### Tax Revenues

Through the first three quarters of 2014, State General Fund Tax revenues decreased \$44.3 million or 1.1%; General Excise and Use Tax (GET) collections increased \$28.7 million or 1.3%; Individual Income Tax collection remained about the same; and Transient Accommodations Tax (TAT) collections increased \$19.1 million or 6.4% compared with the same period last year.

### Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,299.7 million or 3.7% in the first half of 2014 compared to the same period of 2013. Wage and salary disbursements, which accounted for about 50% of total personal income, increased \$942.6 million or 3.0% during the first half of 2014.

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 \$267.0 million or 2.9% in the first half of 2014 compared to the same period of 2013.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$135.7 million or 2.8% in the first two quarters of 2014 compared to the same period of 2013.

Dividends, Interest, and Rent increased \$496.7 million or 3.8% in the first half of 2014 from the same period of 2013, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$688.2 million or 7.1%.

Contributions to Government Social Insurance, payments subtracted from personal income, increased by \$230.6 million or 4.3% in the first half of 2014 from the same period of 2013.

Earnings increased \$1,090.5 million or 3.5% in the private sectors during the first half of 2014 compared to the same period of 2013. In dollar terms, the largest earnings gain in the private sectors occurred in Accommodation and Food Service (gained \$240.5 million or 6.2%), followed by Health Care and Social Assistance (gained \$169.9 million or 3.9%), Administrative and Waste Services (gained \$140.6 million or 6.9%), Transportation and Warehousing (gained \$111.5 million or 6.6%), and Retail Trade (gained \$101.6 million or 3.7%). The only earnings loss in the private sectors occurred in Finance and Insurance (lost \$48.6 million or 3.5%).

In the first half of 2014, total government earnings increased \$255.1 million or 1.8% compared with the same period of 2013. The earnings of the Federal Government decreased \$107.2 million or 1.3%; while the earnings of the State and Local Government increased \$362.3 million or 6.2%.

## Prices

According to the most recent data available, consumer prices in Honolulu increased 1.1% in the first half of 2014 compared with the same period of 2013, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 1.7% in the first half of 2014. In 2013, the Honolulu CPI-U increased 1.8% from the previous year. In the first half of 2014, the Honolulu CPI-U increased the most in the price index of Education and Communication (2.7%), followed by Recreation (2.5%), Transportation (2.1%), Medical Care (1.4%), Food & Beverages (1.0%), Housing (0.9%), and Other Goods and Services (0.8%). The price of Apparel decreased 5.9%, compared to the first half of 2013.

## Tourism

In the first three quarters of 2014, total visitor arrivals by air increased 55,003 or 0.9% from that of 2013, while 2014 year-to-date (YTD) average daily visitor census decreased 412 or 0.1% from 2013. Domestic arrivals were down 0.3%, and international arrivals were up 3.6%. Visitor arrivals in the first three quarters of 2014 decreased in all domestic market areas, but increased in all international market areas compared with the same period last year. Arrivals from All Others increased the most at 7.9%, followed Canada (1.5%), and Japan (0.4%). Arrivals decreased 0.5% and 0.3% in the U.S. West and U.S. East, respectively. Visitor arrivals by cruise ships decreased 21.3% in the first three quarters of 2014. Total visitor expenditures were estimated to have totaled \$11.1 billion through the first three quarters of 2014, up \$221.3 million or 2.0% over the same period a year ago.

Through the first nine months of 2014, average airline passenger capacity increased 5.6% from the same period of 2013, while the statewide hotel occupancy rate averaged 77.9%, 0.1 of a percentage point lower 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 mixed through the first two to three quarters of 2014. Based on the most recent data available, the average contracting tax base decreased \$142.0 million or 7.5% during the first half of 2014 from the same period of 2013. During the first nine months of 2014, the total value of private building authorizations increased \$322.9 million or 15.9%. However, the government contracts awarded decreased \$239.3 million or 22.1% while the State Capital Improvement Project expenditures increased \$125.9 million or 22.0% in the first half of 2014 compared to the same period last year.

In the first nine months of 2014, the number of existing units sold on Oahu was up 0.2% for single family homes and up 0.7% for condominiums, respectively, compared to the same period last year. According to the most recent data available, in the first three quarters of 2014, the median price for existing single family homes on Oahu was \$669,500, up 4.6% from the same period last year; and the median price for existing condominiums on Oahu was \$350,000, up 5.4% from the same period last year.

During the first three quarters of 2014, construction jobs decreased 0.2% or 50 jobs from the same period of 2013.

### County Economic Conditions

Through the first three quarters of 2014, the average unemployment rate decreased in all counties compared to the same period last year. Labor force increased but civilian employment increased more in all the counties. The unemployment rate in Honolulu decreased from 4.3% to 4.1%, the unemployment rate in Hawaii County decreased from 6.9% to 5.8%, the unemployment rate in Maui decreased from 5.2% to 4.7%, and the unemployment rate in Kauai decreased from 5.7% to 5.1%.

Visitor arrivals and visitor days by air were mixed in the first three quarters of 2014 in the counties compared to the same period of 2013. Visitor arrivals increased in Honolulu (1.6%), but decreased in Hawaii County (1.9%), Kauai County (1.1%), and Maui County (0.05%). Total visitor days by air decreased in Honolulu (1.5%), but increased in Hawaii County (1.5%), Maui (1.5%), and Kauai (0.5%).

Through the first three quarters of 2014, non-agricultural wage and salary jobs increased in all counties compared with the same period of 2013. Net job increase in all counties was due to job gains in both the private sector and the government sector. In the first three quarters of 2014, the private sector in Honolulu added about 2,900 jobs and the government sector added 1,650 jobs compared with the same period last year. The largest job gain in the private sector was in Food Services and Drinking Places (added 1,200 jobs); followed by Health Care & Social Assistance (added 700 jobs); Transportation, Warehousing, and Utility (added 600 jobs); and Financial Activities (added 500 jobs). The largest private sector job loss was in Retail Trade (lost 1,150 jobs); followed by Natural Resources, Mining, and

Construction (lost 300 jobs), and Wholesale Trade (lost 100 jobs).

Hawaii County added 1,450 jobs or 2.3% in the first three quarters of 2014 over the same period of 2013. The private sector in Hawaii County added about 1,250 jobs and the government sector added 200 jobs compared with the same period last year. In the first three quarters of 2014, the largest job gain in the private sector of Hawaii County was in Professional and Business Services (added 600 jobs); followed by Retail Trade (added 350 jobs); and Natural Resources, Mining, and Construction (added 250 jobs). The largest private sector job loss was in the Manufacturing sector (lost 100 jobs).

In the first nine months of 2014, Maui County added 1,100 jobs or 1.6% from that of 2013; additional jobs were mainly from the private sector. The Government sector added 100 jobs during this period. The largest private sector job increase occurred in Retail Trade (added 500 jobs); followed by Accommodation (added 300 jobs); Professional and Business Services (added 250 jobs); and Arts, Entertainment & Recreation (added 150 jobs). In the first three quarters of 2014, the largest private sector job loss was in Manufacturing and Other Services (both lost 150 jobs); followed by Health Care and Social Assistance (lost 100 jobs).

Kauai County added 350 jobs or 1.2% in the first three quarters of 2014 over the same period of 2013. The government sector added 100 jobs in during this period. The largest job gain in the private sector of Kauai was in Retail Trade (added 150 jobs); followed by Food Services and Drinking Places (added 100 jobs).

During the first three quarters of 2014, hotel occupancy rates increased in Honolulu and Kauai, but decreased in Maui and Hawaii, compared to the levels a year ago. Hotel occupancy rate increased from 85.1% to 85.2%, up 0.1 of a percentage point in Honolulu; increased from 70.4% to 71.3%, up 0.9 of a percentage point in Kauai; but decreased from 73.3% to 72.5% in Maui; and decreased from 62.3% to 62.0% in Hawaii County.

During the first three quarters of 2014, the value of private building permits increased \$84.7 million or 6.0% in Honolulu; increased \$157.1 million or 50.0% in Hawaii County; increased \$71.0 million or 27.7% in Maui; and increased \$10.2 million or 17.1% in Kauai, compared to the same period of 2013.

#### 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 2.3% in 2014 and 3.0% in 2015. Labor market conditions continue to improve with unemployment projected to decrease in both 2014 and 2015. The Japanese economy is expected to grow 0.6% in 2014 and 1.1% in 2015.

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 15.9%. 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 2.6% increase in 2014, and 2.8% growth in 2015.

Visitor arrivals are expected to increase 0.8% in 2014. Visitor expenditures in 2014 are expected to grow by 2.7% to \$14.9 billion. For 2015, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.9%, 2.2%, and 3.6%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2014 is expected to be 1.3%. In 2015, jobs are projected to increase 1.8%.

The Honolulu Consumer Price Index (CPI), which increased 1.8 percent in 2013, is expected to slow down to 1.5% in 2014. The CPI is projected to increase 2.2% in 2015.

Personal income in current dollars is expected to increase 4.0% in 2014. Real personal income is currently projected to grow 2.6% in 2014. In 2015, nominal personal income and real personal income are expected to increase 4.5% and 2.5%, respectively.

Beyond 2015, the economy will continue the expansion with job growth expected to increase 1.4% in 2016 and 1.3% in 2017. Visitor arrivals are expected to increase 1.9% in both 2016 and 2017. Visitor expenditures are expected to increase 4.6% in 2016 and 4.2% in 2017. Real personal income is projected to increase 2.3% in 2016 and 2.0% in 2017. Hawaii's real GDP growth is expected to reach 2.5% in 2016 and 2.2% in 2017.