



Economic Outlook

Economic Outlook

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 (DBEDT) expects continued positive growth in Hawaii's economy in 2017 and 2018.

Labor Force and Jobs

For the first three quarters of 2016, civilian employment averaged 664,450 persons, an increase of 13,200 persons or 2.0% compared to the same period of 2015. The civilian labor force averaged 686,950, an increase of 10,350 persons or 1.5%. Since the civilian labor force increased less than the civilian employment, for the first three quarters of 2016, the statewide unemployment rate averaged 3.3%, a decrease of 0.5 of a percentage point from the same period last year.

During the first three quarters of 2016, Hawaii's economy gained 2.2% or 14,000 non-agricultural wage and salary jobs compared to the same period of 2015. Job gain in the first three quarters of 2016 was mainly due to increased jobs in the private sector; the State Government lost 800 jobs or 1.1%, the Local Government stayed the same, and the Federal Government gained 300 jobs or 0.9% in the first three quarters of 2016 compared with the same period last year. Job gain in the private sector was spread across many industries. Leading the job gain was Natural

Resources, Mining and Construction (added 5,600 jobs or 16.5%); followed by Food Services and Drinking Places (added 2,700 jobs or 4.3%); Health Care and Social Assistance (added 2,700 jobs or 4.1%); Professional and Business Services (added 800 jobs or 1.0%); and Accommodation (added 900 jobs or 2.3%). Job loss in the private sector occurred in Wholesale Trade (lost 300 jobs) and Retail Trade (lost 100 jobs).

Tax Revenues

Through the first three quarters of 2016, State General Fund Tax revenues increased \$142.7 million or 3.1%; General Excise Use Tax (GET) collections increased \$34.6 million or 1.5%; Net Individual Income Tax collection increased \$44.3 million or 2.9%; Transient Accommodations Tax (TAT) collections increased \$46.1 million or 13.6%; and Net Corporate Income Tax revenues decreased \$15.0 million or 22.2% compared to the same period last year.

Personal Income

Nominal personal income (not adjusted for inflation) increased \$3,084.1 million or 4.5% in the first half of 2016 compared to the same period of 2015. Wages and salaries (which accounted for about 50% of total personal income) increased \$1,696.8 million or 5.0% during the first half of 2016.

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 \$497.1 million or 5.0% in the first half of 2016 compared to the same period of 2015.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$276.1 million or 5.7% in the first two quarters of 2016 compared to the same period of 2015.

Dividends, Interest, and Rent increased \$354.1 million or 2.5% in the first half of 2016 from the same period of 2015, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$513.3 million or 4.7%.

Contributions to Government Social Insurance, which are payments subtracted from personal income, increased by \$253.4 million or 4.5% in the first half of 2016 from the same period of 2015.

Earnings increased \$1,963.9 million or 5.9% in the private sector during the first half of 2016 compared to the same period of 2015. In dollar terms, the largest earnings increase in the private sector occurred in Construction (increased \$532.3 million or 14.7%), followed by Health Care and Social Assistance (increased \$306.3 million or 6.4%), Transportation and Warehousing (increased \$279.2 million or 14.6%), Accommodation and Food Service (increased \$273.2 million or 6.2%), and Real Estate and Rental and Leasing (increased \$91.5 million or 6.0%). The only earnings decline in the private sectors occurred in Utilities (declined \$23.4 million or 4.2%).

In the first half of 2016, total government earnings increased \$504.5 million or 3.3% compared with the same period of 2015. The earnings of the Federal

Government increased \$143.5 million or 1.7%; while the earnings of the State and Local Government increased \$361.1 million or 5.4%.

Prices

According to the most recent data available, consumer prices in Honolulu increased 2.4% in the first half of 2016 compared with the same period of 2015, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 1.1% in the first half of 2016. In 2015, the Honolulu CPI-U increased 1.0% from the previous year. In the first half of 2016, the Honolulu CPI-U increased the most in the price index of Medical Care (9.4%), followed by Recreation (3.4%), Food and Beverages (3.3%), Education and Communication (2.5%), Housing (2.4%), Other Goods and Services (2.1%), and Apparel (0.8%). The price of Transportation decreased 3.0% compared to the first half of 2015.

Tourism

In the first three quarters of 2016, total visitor arrivals by air increased 188,573 or 2.9% from that of 2015, while 2016 year-to-date (YTD) average daily visitor census increased 3,868 or 1.8% from 2015. Domestic arrivals were up 3.1%, and international arrivals were up 2.7%. Alternatively, arrivals by MMA, All Others increased the most at 6.5%, followed by the U.S. West (4.1%), the U.S. East (3.5%), and Japan (0.3%). Arrivals decreased 8.9% for Canada. Visitor arrivals by cruise ships decreased 19.2% in the first three quarters of 2016. Total visitor expenditures were estimated to have totaled \$11,606.9 million through the first three quarters of 2016, up \$409.6 million or 3.7% over the same period a year ago.

Through the first nine months of 2016, average airline passenger capacity increased 0.9% from the same period of 2015. For the first half of 2016, the statewide hotel occupancy rate averaged 79.3%, 0.5 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 mixed through the first two to three quarters of 2016. Based on the most recent data available, the contracting tax base increased \$72.6 million or 1.9% during the first half of 2016 from the same period of 2015. During the first nine months of 2016, the total value of private building authorizations decreased \$635.1 million or 21.0%; government contracts awarded increased \$49.7 million or 3.6% and State Capital Improvement Project expenditures increased \$57.4 million or 6.3%, compared to the same period last year.

In the first nine months of 2016, the number of existing units sold on Oahu was up 4.8% for single family homes and up 9.0% for condominiums, respectively, compared to the same period last year. In the first three quarters of 2016, the median price for existing single family homes on Oahu was \$732,000, up 5.2% from the same period in 2015; and the median price for existing condominiums on Oahu was \$386,000, up 8.7% from the same period last year.

During the first three quarters of 2016, construction jobs increased 16.5% or 5,600 jobs from the same period of 2015.

County Economic Conditions

Through the first three quarters of 2016, the average unemployment rate decreased in all counties compared to the same period last year. The unemployment rate in Honolulu decreased from 3.5% to 3.1%, the unemployment rate in Hawaii County decreased from 4.6% to 4.1%, the unemployment rate in Maui decreased from 3.9% to 3.4%, and the unemployment rate in Kauai decreased from 4.2% to 3.6%.

Visitor arrivals and visitor days by air all increased in the first three quarters of 2016 in all the counties compared to the same period of 2015. Visitor arrivals increased 2.1% in Honolulu, 1.3% in Hawaii County, 3.8% in Maui County, and 0.2% in Kauai County. Total visitor days by air increased 2.2% in Honolulu, 0.8% in Hawaii County, 3.4% in Maui County, and 1.0% in Kauai County.

Through the first three quarters of 2016, non-agricultural wage and salary jobs increased in all counties compared with the same period of 2015. Net job increases were due to job gains in the private sector. In the first three quarters of 2016, the private sector in Honolulu added about 8,800 jobs and the government sector lost 400 jobs compared with the same period last year. The largest job gain in the private sector was in Natural Resources, Mining, and Construction (added 4,300 jobs); followed by Health Care and Social Assistance (added 1,400 jobs), Professional and Business Services (added 1,100 jobs), and Food Services and Drinking Places (added 1,000 jobs). The largest private sector job loss was in Retail Trade (lost 500 jobs), followed by Wholesale Trade (lost 400 jobs).

Hawaii County added 2,300 jobs or 3.5% in the first three quarters of 2016 over the same period of 2015. All the job gains were from the private sector in Hawaii County. The government sector jobs remained the same compared with the same period last year. In the first three quarters of 2016, the largest job gain in the private sector of Hawaii County was in Food Services and Drinking Places (added 900 jobs); followed by Health Care and Social Assistance (added 700 jobs), Natural Resources, Mining, and Construction (added 700 jobs), and Accommodation (added 300 jobs). The largest private sector job loss was in Arts, Entertainment and Recreation (lost 400 jobs); followed by Professional and Business Services (lost 300 jobs).

In the first nine months of 2016, Maui County added 2,300 jobs or 3.2% from that of 2015; those additional jobs were all from the private sector. The Government sector lost 100 jobs during this period. The largest private sector job increase occurred in Arts, Entertainment and Recreation (added 500 jobs); followed by Natural Resources, Mining, and Construction, Health Care and Social Assistance, and Food Services and Drinking Places (each added 300 jobs). No private sector industry lost jobs during this period.

Kauai County added 800 jobs or 2.7% in the first three quarters of 2016 over the same period of 2015. The government sector jobs were unchanged during this period. The largest job gain in the private sector of Kauai was in Food Services and Drinking Places (added 600 jobs); followed by Health Care and Social Assistance (added 400 jobs), and Natural Resources, Mining, and Construction (added 300 jobs). The largest job loss was in Arts, Entertainment and Recreation (lost 300 jobs); followed by Professional and Business Services (lost 200 jobs).

During the first two quarters of 2016, hotel occupancy rates increased in Hawaii and Maui counties but declined in Honolulu and Kauai counties compared to the levels a year ago. Hotel occupancy rate decreased from 83.9% to 83.8%, down 0.1 of a percentage point in Honolulu; increased from 67.3% to 69.3%, up 2.0 percentage points in Hawaii County; increased from 76.2% to 77.1%, up 0.9 of a percentage point in Maui County; and decreased from 73.2% to 72.9%, down 0.3 of a percentage point in Kauai County.

During the first three quarters of 2016, the value of private building permits decreased \$185.9 million or 10.5% in Honolulu; decreased \$70.2 million or 13.5% in Hawaii County; decreased \$401.0 million or 60.5% in Maui; and increased \$21.9 million or 26.6% in Kauai, compared to the same period of 2015.

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 1.5% in 2016 and 2.2% in 2017. Labor market conditions continue to improve with unemployment projected to decrease in 2016 and 2017. The Japanese economy is expected to grow 0.6% in 2016 and 0.8% in 2017.

For the local economy, DBEDT expects that visitor expenditures will grow at a higher rate than projected in the previous forecast for 2016 and 2017. For gross domestic product (GDP) growth, the current forecast was slightly higher than the previous forecast.

Overall, Hawaii's economy measured by real GDP, is projected to show a 2.0% increase in 2016, and 1.9% growth in 2017.

Visitor arrivals are expected to increase 2.3% in 2016. Visitor expenditures in 2016 are expected to grow by 3.9% to \$15.7 billion. For 2017, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.8%, 2.0%, and 4.0%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2016 is expected to be 2.0%. In 2017, jobs are projected to increase 1.2%.

The Honolulu Consumer Price Index (CPI), which increased 1.0% in 2015, is expected to increase to 2.3% in 2016. The CPI is projected to increase 2.6% in 2017.

Personal income in current dollars is expected to increase 4.9% in 2016. Real personal income is currently projected to grow 2.4% in 2016. In 2017, nominal personal income and real personal income are expected to increase 4.7% and 2.6%, respectively.

Beyond 2017, the economy is expected to continue to expand with job growth expected to increase 1.1% in both 2018 and 2019. Visitor arrivals are expected to increase 1.7% in both 2018 and 2019. Visitor expenditures are expected to increase 4.1% in both 2018 and in 2019. Real personal income is projected to increase 2.5% in both 2018 and 2019. Hawaii's real GDP growth is expected to reach 1.7% in 2018 and 1.6% in 2019.