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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 (DBEDT) expects continued positive growth in Hawaii's economy in 2018 and 2019.

### Labor Force and Jobs

For the first three quarters of 2017, civilian employment averaged 674,250 persons, an increase of 11,700 persons or 1.8% compared to the same period of 2016. The civilian labor force averaged 692,950, an increase of 9,250 persons or 1.4%. Since the civilian labor force increased less than the civilian employment, for the first three quarters of 2017, the statewide unemployment rate averaged 2.7%, a decrease of 0.4 of a percentage point from the same period last year.

During the first three quarters of 2017, Hawaii's economy gained 1.1% or 7,000 non-agricultural wage and salary jobs compared to the same period of 2016. Job gain in the first three quarters of 2017 was mainly due to increased jobs in the private sector; the State Government lost 600 jobs or 0.8%, the Local Government stayed the same, and the Federal Government gained 200 jobs or 0.6% in the first three quarters of 2017 compared with the same period last year. Job gain in the private sector was spread across many industries. Leading the job gain was Food

Services and Drinking Places (added 2,500 jobs or 3.8%), followed by Retail Trade (added 2,300 jobs or 3.3%), Professional and Business Services (added 1,400 jobs or 1.7%), Accommodation (added 900 jobs or 2.2%), and Transportation, Warehousing and Utilities (added 600 jobs or 1.9%). Job loss in the private sector occurred in Natural Resources, Mining and Construction (lost 500 jobs), Wholesale Trade (lost 500 jobs), Financial Activities (lost 300 jobs), and Manufacturing (lost 400 jobs).

### Tax Revenues

Through the first three quarters of 2017, State General Fund Tax revenues increased \$243.0 million or 5.2%; General Excise Use Tax (GET) collections increased \$133.4 million or 5.5%; Net Individual Income Tax collection increased \$113.2 million or 7.0%; Transient Accommodations Tax (TAT) collections increased \$9.4 million or 2.5%; and Net Corporate Income Tax revenues decreased \$4.4 million or 8.3% compared to the same period last year.

### Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,102.3 million or 2.9% in the first half of 2017 compared to the same period of 2016. Wages and salaries (which accounted for about 50% of total personal income) increased \$976.8 million or 2.7% during the first half of 2017.

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 \$211.1 million or 2.1% in the first half of 2017 compared to the same period of 2016.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$244.3 million or 4.8% in the first two quarters of 2017 compared to the same period of 2016.

Dividends, Interest, and Rent increased \$459.0 million or 3.0% in the first half of 2017 from the same period of 2016, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$419.5 million or 3.7%.

Contributions to Government Social Insurance, which are payments subtracted from personal income, increased by \$208.4 million or 3.6% in the first half of 2017 from the same period of 2016.

Earnings increased \$1,282.2 million or 3.6% in the private non-farm sector during the first half of 2017 compared to the same period of 2016. In dollar terms, the largest earnings increase in the private sector occurred in Accommodation and Food Services (increased \$290.1 million or 6.4%), followed by Health Care and Social Assistance (increased \$286.1 million or 5.7%), Transportation and Warehousing (increased \$178.5 million or 8.7%), Retail Trade (increased \$141.5 million or 4.6%), Real Estate and Rental and Leasing (increased \$115.8 million or 7.2%), and Wholesale Trade (increased \$101.0 million or 7.4%).

The largest earnings decline in the private sectors occurred in Construction (declined \$110.2 million or 2.5%).

In the first half of 2017, total government earnings increased \$121.0 million or 0.8% compared with the same period of 2016. The earnings of the Federal Government increased \$24.4 million or 0.3%, while the earnings of the State and Local Government increased \$121.5 million or 3.3%.

### Prices

According to the most recent data available, in the first half of 2017, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 2.5% from the same period in 2016. This is 0.3 of a percentage point above 2.2% increase for the U.S. average CPI-U and is higher than the 2016 Honolulu CPI-U increase of 2.0% from the previous year. In the first half of 2017, the Honolulu CPI-U increased the most in Apparel (5.8%), followed by Housing (4.1%), Transportation (2.9%), Medical Care (1.5%), Other Goods and Services (1.3%), Food and Beverages (1.0%), and Recreation (1.0%). The price of Education and Communication decreased 3.6% compared to the first half of 2016.

### Tourism

In the first three quarters of 2017, total visitor arrivals by air increased 309,104 or 4.7% from that of 2016, while 2017 year-to-date (YTD) average daily visitor census increased 10,667 or 4.9% from 2016. Domestic arrivals were up 4.2% and international arrivals were up 5.7%. Alternatively, arrivals by major market areas (MMA), Canada increased the most at 9.6%, followed by Japan (6.7%), the U.S. East (5.7%), and the U.S. West (4.4%).

Visitors from All Others remained about the same. Visitor arrivals by cruise ships increased 23.2% in the first three quarters of 2017. Total visitor expenditures were estimated to have totaled \$12,588.3 million through the first three quarters of 2017, up \$827.2 million or 7.1% over the same period a year ago.

Through the first nine months of 2017, average airline passenger capacity increased 0.8% from the same period of 2016. In the first quarter of 2017, the statewide hotel occupancy rate averaged 81.2%, 0.4 of a 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 2017. Based on the most recent data available, the contracting tax base increased \$129.7 million or 3.4% during the first half of 2017 from the same period of 2016. During the first nine months of 2017, the total value of private building authorizations increased \$67.8 million or 2.8%; government contracts awarded decreased \$322.7 million or 22.8% and State Capital Improvement Project expenditures decreased \$24.7 million or 2.6%, compared to the same period last year.

In the first nine months of 2017, the number of existing units sold on Oahu was up 5.6% for single-family homes and up 7.3% for condominiums, respectively, compared to the same period last year. In the first three quarters of 2017, the median price for existing single-family homes on Oahu was \$757,000, up 3.4% from the same period in 2016; and the median price for existing condominiums on Oahu was \$407,000, up 5.4% from the same period last year.

During the first three quarters of 2017, construction jobs decreased 1.3% or 500 jobs from the same period of 2016.

### County Economic Conditions

Through the first three quarters of 2017, the average unemployment rate decreased in all counties compared to the same period last year. The unemployment rate in Honolulu decreased from 2.9% to 2.5%, the unemployment rate in Hawaii County decreased from 3.9% to 3.2%, the unemployment rate in Maui decreased from 3.3% to 2.9%, and the unemployment rate in Kauai decreased from 3.4% to 2.8%.

Visitor arrivals and visitor days by air all increased in the first three quarters of 2017 in all the counties compared to the same period of 2016. Visitor arrivals increased 4.2% in Honolulu, 13.5% in Hawaii County, 3.1% in Maui County, and 7.3% in Kauai County. Total visitor days by air increased 3.8% in Honolulu, 11.1% in Hawaii County, 2.1% in Maui County, and 5.1% in Kauai County.

Through the first three quarters of 2017, non-agricultural wage and salary jobs increased in all counties, except Kauai, compared with the same period of 2016. Net job increases were mainly due to job gains in the private sector. In the first three quarters of 2017, the private sector in Honolulu added about 4,600 jobs and the government sector added only 100 jobs compared with the same period last year. The largest job gain in the private sector was in Retail Trade (added 2,000 jobs), followed by Food Services and Drinking Places (added 1,600 jobs), Professional and Business Services (added 1,300 jobs), and Accommodation (added 800 jobs). The largest private sector job loss was in Natural Resources, Mining, and Construction (lost 700 jobs), followed by

Wholesale Trade (lost 600 jobs), Financial Activities (lost 400 jobs), and Health Care and Social Assistance (lost 400 jobs).

Hawaii County added 500 jobs or 0.8% in the first three quarters of 2017 over the same period of 2016. All the job gains were from the private sector in Hawaii County. The government sector lost 100 jobs compared with the same period last year. In the first three quarters of 2017, the largest job gain in the private sector of Hawaii County was in Food Services and Drinking Places (added 600 jobs), followed by Retail Trade (added 300 jobs). The Natural Resources, Mining, and Construction sector and the Arts, Entertainment and Recreation sector both lost 200 jobs.

In the first nine months of 2017, Maui County added 1,700 jobs or 2.3% from that of 2016; those additional jobs were all from the private sector. The government sector lost 500 jobs during this period. The largest private sector job increase occurred in Arts, Entertainment and Recreation and Health Care and Social Assistance (both added 700 jobs), followed by Natural Resources, Mining, and Construction (added 300 jobs). Only the Manufacturing industry lost 100 jobs during this period.

Total jobs in Kauai County was unchanged in the first three quarters of 2017 over the same period of 2016. Both the government sector jobs and the total private 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 300 jobs). The largest job loss was in Arts, Entertainment and Recreation (lost 300 jobs).

During the first three quarters of 2017, the value of private building permits increased \$69.9 million or 4.4% in Honolulu; decreased \$122.6 million or 27.2% in Hawaii County; increased \$114.2 million or 43.7% in Maui; and increased \$6.2 million or 6.0% in Kauai, compared to the same period of 2016.

### 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 2.2% in 2017 and 2.5% in 2018. Labor market conditions continue to improve with unemployment projected to decrease in 2017. The Japanese economy is expected to grow 1.7% in 2017 and 1.2% in 2018.

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

Overall, Hawaii's economy, as measured by real GDP, is projected to show a 1.7% increase in 2017 and 1.5% growth in 2018.

Hawaii's unemployment rate is projected to be 2.6% in 2017 and 2.9% in 2018.

Visitor arrivals are expected to increase 4.6% in 2017. Visitor expenditures in 2017 are expected to grow by 6.7% to \$17.0 billion. For 2018, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.3%, 2.4%, and 3.9%, respectively.

The projection for non-agricultural wage and salary job growth rate in 2017 is expected to be 1.0%. In 2018, jobs are projected to increase 0.9%.

The Honolulu Consumer Price Index (CPI), which increased 2.0% in 2016, is expected to increase to 2.5% in 2017. The CPI is projected to increase 2.3% in 2018.

Personal income in current dollars is expected to increase 3.5% in 2017. Real personal income is currently projected to grow 1.7% in 2017. In 2018, nominal personal income and real personal income are expected to increase 3.4% and 1.5%, respectively.

Beyond 2018, the economy is expected to continue to expand with job growth expected to increase 1.0% in 2019 and 0.8% in 2020. Visitor arrivals are expected to increase 1.5% in both 2019 and 2020. Visitor expenditures are expected to increase 3.6% in both 2019 and in 2020. Real personal income is projected to increase 1.4% in both 2019 and 2020. Hawaii's real GDP growth is expected to reach 1.5% in 2019 and 1.4% in 2020.