



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 2018, civilian employment averaged 671,767 persons, an increase of 2,133 persons or 0.3% compared to the same period of 2017. The civilian labor force averaged 686,633, a decrease of 83 persons or 0.01%. Since the civilian labor force decreased and the civilian employment increased, for the first three quarters of 2018, the statewide unemployment rate averaged 2.2%, a decrease of 0.3 of a percentage point from the same period last year.

During the first three quarters of 2018, Hawaii's economy gained 1.7% or 10,900 non-agricultural wage and salary jobs compared to the same period of 2017. Job gain in the first three quarters of 2018 was mainly due to increased jobs in the private sector; the State Government lost 700 jobs or 1.0%, the Local Government added 333 jobs or 1.8%, and the Federal Government gained 67 jobs or 0.2% in the first three quarters of 2018 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 4,400 jobs or 6.4%), followed by Health Care and Social Assistance (added 2,467 jobs or 3.5%), Professional and Business Services (added 2,133 jobs or 2.6%), Accommodation (added 867 jobs or 2.1%), and Transportation, Warehousing and Utilities (added 767 jobs or 2.4%). Job loss in the private sector occurred in Retail Trade (lost 467 jobs), Information (lost 300 jobs), and Manufacturing (lost 300 jobs).

Tax Revenues

Through the first three quarters of 2018, State General Fund Tax revenues increased \$317.3 million or 6.4%; General Excise Use Tax (GET) collections increased \$25.1 million or 1.0%; Net Individual Income Tax collection increased \$274.1 million or 16.0%; Transient Accommodations Tax (TAT) collections increased \$72.2 million or 18.3%; and Net Corporate Income Tax revenues decreased \$14.3 million or 26.8% compared to the same period last year.

Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,242.0 million or 3.0% in the first half of 2018 compared to the same period of 2017. Wages and salaries (which accounted for about 50% of total personal income) increased \$955.1 million or 2.6% during the first half of 2018.

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 \$156.4 million or 1.5% in the first half of 2018 compared to the same period of 2017.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$255.5 million or 4.5% in the first two quarters of 2018 compared to the same period of 2017.

Dividends, Interest, and Rent increased \$650.4 million or 4.0% in the first half of 2018 from the same period of 2017, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$411.8 million or 3.5%.

Contributions to Government Social Insurance, which are payments subtracted from personal income, increased by \$187.2 million or 3.1% in the first half of 2018 from the same period of 2017.

Earnings increased \$1,373.0 million or 3.7% in the private non-farm sector during the first half of 2018 compared to the same period of 2017. In dollar terms, the largest earnings increase in the private sector occurred in Health Care and Social Assistance (increased \$373.6 million or 7.1%), followed by Accommodation and Food Services (increased \$277.4 million or 5.7%), Retail Trade (increased \$144.3 million or 4.6%), Professional and Business Services (increased \$136.0 million or 4.6%), and Admin. & Waste Management Services (increased \$105.6 million or 4.2%).

The largest earnings decline in the private sectors occurred in Information (declined \$54.0 million or 6.6%).

In the first half of 2018, total government earnings decreased \$4.3 million compared with the same period of 2017. The earnings of the Federal Government increased \$63.1 million or 0.7%, while the earnings of the State and Local Government decreased \$67.4 million or 1.0%.

Prices

According to the most recent data available, in the first half of 2018, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.6% from the same period in 2017. This is 0.9 of a percentage point below the 2.5% increase for the U.S. average CPI-U and is lower than the first half of 2017 Honolulu CPI-U increase of 2.5% from the same period of the previous year. In the first half of 2018, the Honolulu CPI-U increased the most in Transportation Housing (4.3%), followed by Food and Beverages (2.1%), Housing (1.8%), Other Goods and Services (1.7%), and Recreation (0.9%). The price of Education and Communication decreased 2.5% and the price of Apparel decreased 2.8% compared to the first half of 2017.

Tourism

In the first three quarters of 2018, total visitor arrivals by air increased 464,832 or 6.7% from that of 2017, while 2018 year-to-date (YTD) average daily visitor census increased 14,990 or 6.5% from 2017. Domestic arrivals were up 9.0% and international arrivals were up 1.9%. Alternatively, arrivals by major market areas (MMA), the U.S. West increased the most at 9.6%, followed by the U.S. East (8.4%), Visitor from All Others (6.8%), and

Canada (4.0%). Visitors from Japan decreased 1.9%, and Visitor arrivals by cruise ships decreased 11.8% in the first three quarters of 2018. Total visitor expenditures were estimated to have totaled \$13,620.6 million through the first three quarters of 2018, up \$1,210.6 million or 9.8% over the same period a year ago.

Through the first nine months of 2018, average airline passenger capacity increased 9.2% from the same period of 2017. In the first three quarters of 2018, the statewide hotel occupancy rate averaged 81.0%, 0.3 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 mostly positive through the first two to three quarters of 2018. Based on the most recent data available, the contracting tax base increased \$530.0 million or 13.3% during the first half of 2018 from the same period of 2017. During the first nine months of 2018, the total value of private building authorizations increased \$88.7 million or 3.6%; government contracts awarded increased \$430.6 million or 39.3% and State Capital Improvement Project expenditures increased \$337.5 million or 35.9%, compared to the same period last year.

In the first nine months of 2018, the number of existing units sold on Oahu was down 3.7% for single-family homes and down 0.1% for condominiums, respectively, compared to the same period last year. In the first half of 2018, the average median price for existing single-family homes on Oahu was \$773,097, up 2.8% from the same period in 2017; and the average median price for existing

condominiums on Oahu was \$423,000, up 6.7% from the same period last year.

During the first three quarters of 2018, construction jobs increased 0.2% or 67 jobs from the same period of 2017.

County Economic Conditions

Through the first three quarters of 2018, the average unemployment rate decreased in all counties compared to the same period last year. The unemployment rate in Honolulu decreased from 2.4% to 2.1%, the unemployment rate in Hawaii County decreased from 3.0% to 2.6%, the unemployment rate in Maui decreased from 2.7% to 2.2%, and the unemployment rate in Kauai decreased from 2.5% to 2.2%.

Visitor arrivals and visitor days by air all increased in the first three quarters of 2018 in all the counties compared to the same period of 2017. Visitor arrivals increased 4.6% in Honolulu, 0.6% in Hawaii County, 8.0% in Maui County, and 9.0% in Kauai County. Total visitor days by air increased 6.5% in Honolulu, 2.7% in Hawaii County, 8.2% in Maui County, and 8.0% in Kauai County.

Through the first three quarters of 2018, non-agricultural wage and salary jobs increased in all counties, compared with the same period of 2017. Net job increases were mainly due to job gains in the private sector. In the first three quarters of 2018, the private sector in Honolulu added about 7,600 jobs and the government sector added only 400 jobs compared with the same period last year. The largest job gain in the private sector was in Food Services and Drinking Places (added 3,300 jobs), followed by Professional and Business Services (added 1,900 jobs), Health Care and Social Assistance (added 900 jobs), and Transportation, Warehousing, and Utilities

(added 700 jobs). The largest private sector job loss was in Retail Trade (lost 600 jobs), followed by Manufacturing (lost 300 jobs), and Information (lost 300 jobs).

Hawaii County added 900 jobs or 1.3% in the first three quarters of 2018 over the same period of 2017. Most of the job gains were from the private sector in Hawaii County. The government sector added 200 jobs compared with the same period last year. In the first three quarters of 2018, the largest job gain in the private sector of Hawaii County was in Retail Trade and Health Care and Social Assistance (both added 200 jobs). Followed by Food Services and Drinking Places, Accommodation, Wholesale Trade, Information, and Professional and Business Services (each added 100 jobs). The Manufacturing and Educational Services sector both lost 100 jobs.

In the first nine months of 2018, Maui County added 1,600 jobs or 2.1% from that of 2017; those additional jobs were all from the private sector. The government sector lost 800 jobs during this period. The largest private sector job increase occurred in Health Care and Social Assistance (added 1,300 jobs), followed by Food Services and Drinking Places (added 800 jobs), and Arts, Entertainment and Recreation (added 200 jobs). Only the Other Services sector lost 100 jobs during this period.

Kauai County added 600 jobs or 1.9% in the first three quarters of 2018 over the same period of 2017. All additional jobs were from the private sector. Government jobs were unchanged during this period. The largest job gain in the private sector of Kauai was in Accommodation (added 200 jobs). The largest job loss was in Retail Trade and Transportation, Warehousing, and Utilities (each lost 100 jobs).

During the first three quarters of 2018, the value of private building permits decreased \$105.9 million or 6.4% in Honolulu; increased \$111.0 million or 33.8% in Hawaii County; increased \$71.8 million or 19.1% in Maui; and increased \$11.9 million or 10.8% in Kauai, compared to the same period of 2017.

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 2.9% in 2018 and 2.6% in 2019. Labor market conditions continue to improve with unemployment projected to decrease in 2018. The Japanese economy is expected to grow 1.1% in 2018 and 2019.

For the local economy, DBEDT expects that visitor expenditures will grow at a lower rate than projected in the previous forecast for 2018, and real gross domestic product (GDP) growth rate will be lower than projected in the previous forecast.

Overall, Hawaii's economy, as measured by real GDP, is projected to show a 1.0% increase in 2018 and 1.2% growth in 2019.

Hawaii's unemployment rate is projected to be 2.3% in 2018 and 2.5% in 2019.

Visitor arrivals are expected to increase 5.8% in 2018. Visitor expenditure in 2018 are expected to grow by 8.9%. For 2019, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 1.8%, 2.1%, and 4.2%, respectively.

The projection for the non-agricultural wage and salary job growth rate for 2018 is 1.2%. In 2019, jobs are projected to increase 0.9%.

The Honolulu Consumer Price Index (CPI) is expected to increase 2.0% in 2018. In 2019, the CPI is projected to increase 2.3%.

Personal income in current dollars is expected to increase 3.3% in 2018. Real personal income is projected to grow 1.6% in 2018. In 2019, current-dollar personal income and real personal income are expected to increase 3.5% and 1.7%, respectively.

Beyond 2019, the economy is expected to continue its expansion path, with job growth projected to be 0.9% in 2020 and 0.8% in 2021. Visitor arrivals are expected to increase 1.5% in 2020 and 2021. Visitor expenditures are expected to increase 3.6% in 2020 and 2021. Real personal income is projected to increase 1.7% in 2020 and 1.6% in 2021. Hawaii's real GDP growth is expected to increase 1.4% in both 2020 and 2021. The unemployment rate is expected to increase to 3.0% in 2020 and 3.4% in 2021.