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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 Hawai'i'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 Hawai'i's economy in 2019 and 2020.

### Labor Force and Jobs

For the first three quarters of 2019, civilian employment averaged 645,250 persons, a decrease of 18,000 persons or 2.7% compared to the same period of 2018. The civilian labor force averaged 663,800, a decrease of 15,900 persons or 2.3%. Since the civilian employment decreased more than the civilian labor force, for the first three quarters of 2019, the statewide unemployment rate averaged 2.8%, an increase of 0.4 of a percentage point from the same period last year.

During the first three quarters of 2019, Hawai'i's economy gained 0.5% or 3,200 non-agricultural wage and salary jobs compared to the same period of 2018. Job gain in the first three quarters of 2019 was due to increased jobs in both the private sector and the government sector. During the first three quarters of 2019, State Government added 1,000 jobs or 1.4%, the Federal Government added 400 jobs or 1.0%, and Local Government added 200 jobs or 1.1% 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 1,600 jobs or 2.3%), followed by Natural Resources, Mining & Construction (added 800 jobs or 2.2%), Health Care and Social Assistance (added 700 jobs or 1.0%), Professional and Business Services (added 700 jobs or 0.9%), and Other Services (added 400 jobs or 1.4%). Job loss in the private sector occurred mainly in Retail Trade (lost 2,000 jobs), Manufacturing (lost 300 jobs), and Arts, Entertainment & Recreation (lost 300 jobs).

### Tax Revenues

Through the first three quarters of 2019, State General Fund Tax revenues increased \$372.3 million or 7.1%; General Excise Use Tax (GET) collections increased \$157.0 million or 6.1%; Net Individual Income Tax collection increased \$112.7 million or 5.8%; Transient Accommodations Tax (TAT) collections increased \$28.0 million or 6.0%; and Net Corporate Income Tax revenues increased \$52.9 million or 75.1% compared to the same period last year.

### Personal Income

Nominal personal income (not adjusted for inflation) increased \$2,883.7 million or 3.7% in the first half of 2019 compared to the same period of 2018. Wages and salaries (which accounted for about 50% of total personal income) increased \$1,442 million or 3.8% during the first half of 2019.

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 \$450.3 million or 4.2% in the first half of 2019 compared to the same period of 2018.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$217.3 million or 3.5% in the first two quarters of 2019 compared to the same period of 2018.

Dividends, Interest, and Rent increased \$552.0 million or 3.2% in the first half of 2019 from the same period of 2018, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$493.5 million or 4.1%.

Contributions to Government Social Insurance, which are payments subtracted from personal income, increased by \$271.4 million or 4.3% in the first half of 2019 from the same period of 2018.

Earnings increased \$1,429.4 million or 3.7% in the private non-farm sector during the first half of 2019 compared to the same period of 2018. In dollar terms, the largest earnings increase in the private sector occurred in Health Care and Social Assistance (increased \$299.5 million or 5.4%), followed by Accommodation and Food Services (increased \$165.9 million or 3.1%), Construction (increased \$127.4 million or 2.9%), Admin. & Waste Management Services (increased \$116.1 million or 4.5%), Management of Companies and Enterprises (increased \$111.2 million or 11.2%), and Professional and Business Services (increased \$102.2 million or 3.3%).

The largest earnings decline in the private sectors occurred in Manufacturing (declined \$28.2 million or 2.8%).

In the first half of 2019, total government earnings increased \$654.7 million compared with the same period of 2018. The earnings of the Federal Government increased \$397.0 million or 4.6%, while the earnings of the State and Local Government increased \$257.7 million or 3.7%.

### Prices

According to the most recent data available, in the first half of 2019, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 2.0% from the same period in 2018. This is 0.3 of a percentage point above the 1.7% increase for the U.S. average CPI-U but is lower than the first half of 2018 Honolulu CPI-U increase of 2.1% from the same period of the previous year. In the first half of 2019, the Honolulu CPI-U increased the most in Recreation (4.2%), followed by Housing (3.0%), Food and Beverages (2.4%), Education and Communication (1.8%), and Other Goods and Services (0.8%). The price of Apparel decreased 2.8% and the price of Transportation decreased 1.3% compared to the first half of 2018.

### Tourism

In the first three quarters of 2019, total visitor arrivals by air increased 394,351 or 5.4% from that of 2018, while 2019 year-to-date (YTD) average daily visitor census increased 6,674 or 2.7% from 2018. Domestic arrivals were up 7.9% and international arrivals were down 0.3%. For arrivals by major market areas (MMA), the U.S. West increased the most at 10.5%, followed by the U.S. East

(4.0%), and visitors from Japan (3.3%). In the first three quarters of 2019, visitor from 'All Others' decreased 3.2%, and visitors from Canada decreased 1.5%. Visitor arrivals by cruise ships increased 23.6% in the first three quarters of 2019. Total visitor expenditures were estimated to have totaled \$13,312.9 million through the first three quarters of 2019, an increase of \$17.0 million or 0.1% over the same period a year ago.

Through the first nine months of 2019, average airline passenger capacity increased 2.3% from the same period of 2018. In the first three quarters of 2019, the statewide hotel occupancy rate averaged 81.3%, 0.3 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 Hawai'i's construction activity were mostly negative through the first two to three quarters of 2019. Based on the most recent data available, the contracting tax base increased \$250.6 million or 5.5% during the first half of 2019 from the same period of 2018. During the first nine months of 2019, the total value of private building authorizations decreased \$182.9 million or 7.2%; government contracts awarded decreased \$1,074.3 million or 70.4% and State Capital Improvement Project expenditures decreased \$128.4 million or 10.0%, compared to the same period last year.

In the first nine months of 2019, the number of existing units sold on O'ahu was up 0.8% for single-family homes and down 6.7% for condominiums, respectively, compared to the same period last year. In the first three quarters of 2019, the median price for existing single-family homes on O'ahu was \$785,000, up 0.5%

from the same period in 2018; and the median price for existing condominiums on O'ahu was \$425,000, down 1.0% from the same period last year.

During the first three quarters of 2019, construction jobs increased 2.2% or 800 jobs from the same period of 2018.

### County Economic Conditions

Through the first three quarters of 2019, the average unemployment rate increased in all counties compared to the same period last year. The unemployment rate in Honolulu increased from 2.3% to 2.6%, the unemployment rate in Hawai'i County increased from 2.9% to 3.7%, the unemployment rate in Maui increased from 2.4% to 2.8%, and the unemployment rate in Kaua'i increased from 2.5% to 2.8%.

Visitor arrivals and visitor days by air increased in Honolulu and Maui, decreased in Kaua'i in the first three quarters of 2019. In Hawai'i County, visitor arrivals by air increased, but visitor days decreased compared to the same period of 2018. Visitor arrivals increased 5.9% in Honolulu, 1.7% in Hawai'i County, 4.8% in Maui County, and decreased 1.7% in Kaua'i County. Total visitor days by air increased 5.3% in Honolulu, increased 2.7% in Maui, decreased 0.5% in Hawai'i County, and decreased 3.0% in Kaua'i County.

Through the first three quarters of 2019, non-agricultural wage and salary jobs increased in Honolulu and Maui, remained the same in Kaua'i, and decreased in Hawai'i County, compared with the same period of 2018. Net job increases in Honolulu were due to job gains in both the private sector and the government sector. In the first three quarters of 2019, the private sector in Honolulu

added about 2,200 jobs and the government sector added about 1,900 jobs compared with the same period last year. The largest job gain in the private sector was in Food Services and Drinking Places (added 1,800 jobs), followed by Natural Resources, Mining, and Construction (added 700 jobs), Health Care and Social Assistance (added 700 jobs), and Professional and Business Services (added 600 jobs). The largest private sector job loss was in Retail Trade (lost 1,500 jobs), followed by Manufacturing (lost 300 jobs).

Hawai'i County lost 1,300 jobs or 1.9% in the first three quarters of 2019 over the same period of 2018. Job losses were from both the private sector and the government sector in Hawai'i County. The government sector lost 400 jobs compared with the same period last year. In the first three quarters of 2019, the largest job loss in the private sector of Hawai'i County was in Accommodation (lost 500 jobs), followed by Food Services and Drinking Places (lost 400 jobs), and Retail Trade (lost 200 jobs).

In the first nine months of 2019, Maui County added 600 jobs or 0.8% from that of 2018; 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 Accommodation (added 400 jobs), followed by Food Services and Drinking Places (added 300 jobs), Other Services (added 200 jobs), and Natural Resources, Mining, and Construction (added 200 jobs).

Jobs in Kaua'i County was unchanged in the first three quarters of 2019 over the same period of 2018. Job gains in the Nature. Resources, Mining, and Construction sector, Accommodation sector, and the Health Care and

Social Assistance were offset by job losses in the Retail Sector, the Financial Activities sector, and the Food Services and Drinking Places sector.

During the first three quarters of 2019, the value of private building permits decreased \$36.6 million or 2.4% in Honolulu; decreased \$17.3 million or 3.9% in Hawai'i County; decreased \$97.4 million or 21.8% in Maui; and decreased \$31.6 million or 25.8% in Kaua'i, compared to the same period of 2018.

### Outlook for the Economy

Hawai'i'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 2019 and 1.8% in 2020. The Japanese economy is expected to grow 0.9% in 2019 and 0.3% in 2020.

For the local economy, DBEDT expects that visitor expenditures will grow at a higher rate than projected in the previous forecast for 2019, and real GDP growth rate will be slightly higher than projected in the previous forecast.

Overall, Hawai'i's economy, as measured by real GDP, is projected to show a 1.2% increase in 2019 and in 2020.

Hawai'i's unemployment rate is projected to be 2.8% in 2019 and 3.2% in 2020.

Visitor arrivals are expected to increase 5.7% in 2019. The 2019 forecast for visitor expenditure growth was revised upward to 0.9%. For 2020, the growth rate of visitor arrivals, visitor days, and visitor expenditures are now expected to be 2.5%, 2.0%, and 2.5%, respectively.

The projection for the non-agricultural wage and salary job growth rate for 2019 is 0.4%. In 2020, jobs are projected to increase 0.3%.

The Honolulu Consumer Price Index (CPI) is expected to increase 2.0% in 2019. In 2020, the CPI is projected to increase 2.3%.

Personal income in current dollars is expected to increase 3.5% in 2019. Real personal income is projected to grow 1.7% in 2019. In 2020, current-dollar personal income and real personal income are expected to increase 3.7% and 1.7%, respectively.

Beyond 2020, the economy is expected to continue its expansion path, with job growth projected to be 0.4% in 2021 and 2022. Visitor arrivals are expected to increase 2.1% in 2021 and 1.5% in 2022. Visitor expenditures are expected to increase 2.1% in 2021 and 1.5% in 2022. Real personal income is projected to increase 1.6% in 2021 and 1.5% in 2022. Hawaii's real GDP growth is expected to increase 1.3% in 2021 and 2022. The unemployment rate is expected to increase to 3.4% in 2021 and 3.6% in 2022.