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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, growth of personal income and tax revenues, and the estimated impacts of COVID-19, the Department of Business, Economic Development and Tourism (DBEDT) expects negative growth in Hawai'i's economy in 2020 and positive growth in 2021.

### Labor Force and Jobs

For the first three quarters of 2020, civilian employment averaged 566,067 persons, a decrease of 80,017 persons or 12.4% compared to the same period of 2019. The civilian labor force averaged 643,667, a decrease of 20,883 persons or 3.1%. Since the civilian employment decreased more than the civilian labor force, for the first three quarters of 2020, the statewide unemployment rate averaged 12.3%, an increase of 9.5 percentage points from the same period last year.

During the first three quarters of 2020, Hawai'i's economy lost 11.7% or 76,567 non-agricultural wage and salary jobs compared to the same period of 2019. Job loss in the first three quarters of 2020 was due to decreased jobs in both the private sector and the government sector. During the first three quarters of 2020, State Government lost 4,933 jobs or 6.8%, the Federal Government added 467 jobs or 1.4%, and Local Government lost 300 jobs or 1.6% compared with the same period last year. Job loss in the private sector was

spread across many industries. Leading the job loss was Food Services and Drinking Places (lost 21,400 jobs or 30.8%), followed by Accommodation (lost 19,833 jobs or 46.6%), Transportation, Warehousing and Utilities (lost 5,867 jobs or 17.3%), Professional and Business Services (lost 4,800 jobs or 6.5%), and Retail Trade (lost 4,733 jobs or 6.7%). In the first three quarters of 2020, only Natural Resources, Mining and Construction added 433 jobs or 1.2%.

### Tax Revenues

Through the first three quarters of 2020, State General Fund Tax revenues decreased \$680.7 million or 12.1%; General Excise Use Tax collections decreased \$393.2 million or 14.4%; Net Individual Income Tax collection decreased \$67.1 million or 3.2%; Transient Accommodations Tax collections decreased \$236.4 million or 47.8%; and Net Corporate Income Tax revenues decreased \$111.2 million or 89.8% compared to the same period last year.

### Personal Income

Nominal personal income (not adjusted for inflation) increased \$7,269.6 million or 9.1% in the first half of 2020 compared to the same period of 2019. Wages and salaries (which accounted for about 43% of total personal income) decreased \$1,535.7 million or 3.9% during the first half of 2020.

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) decreased by \$348.7 million or 3.1% in the first half of 2020 compared to the same period of 2019.

Proprietors' Income, the income most closely related to entrepreneurial activity, decreased by \$250.8 million or 3.8% in the first two quarters of 2020 compared to the same period of 2019.

Dividends, Interest, and Rent increased \$91.8 million or 0.5% in the first half of 2020 from the same period of 2019, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$9,162.7 million or 73.0%.

Contributions to Government Social Insurance, which are payments subtracted from personal income, decreased by \$150.3 million or 2.3% in the first half of 2020 from the same period of 2019.

Earnings decreased \$2,165.1 million or 5.4% in the private non-farm sector during the first half of 2020 compared to the same period of 2019. In dollar terms, the largest earnings decrease in the private sector occurred in Accommodation and Food Services (decreased \$1,636.8 million or 27.6%); followed by Arts, Entertainment, and Recreation (decreased \$199.3 million or 25.9%), Transportation and Warehousing (decreased \$123.6 million or 4.8%), Wholesale Trade (decreased \$85.8 million or 5.8%), and Other Services (decreased \$78.0 million or 3.3%). In the first half of 2020, earnings increased most in Finance and Insurance (increased

\$114.8 million or 6.5%); followed by Health Care and Social Assistance (increased \$114.1 million or 1.9%), and Construction (increased \$46.7 million or 1.0%).

In the first half of 2020, total government earnings decreased \$5.5 million compared with the same period of 2019. The earnings of the Federal Government increased \$172.1 million or 1.9%, while the earnings of the State and Local Government decreased \$177.6 million or 2.4%.

### Prices

According to the most recent data available, in the first half of 2020, Honolulu's Consumer Price Index for Urban Consumers (CPI-U) increased 1.6% from the same period in 2019. This is 0.4 of a percentage point above the 1.2% increase for the U.S. average CPI-U but is lower than the first half of 2019 Honolulu CPI-U increase of 2.0% from the same period of the previous year. In the first half of 2020, the Honolulu CPI-U increased the most in Apparel (4.9%), followed by Food and Beverages (2.7%), Recreation (2.7%), Housing (2.6%), and Education and Communication (0.9%). The price of Transportation decreased 4.5% and the price of Other Goods and Services decreased 1.4% compared to the first half of 2019.

### Tourism

In the first three quarters of 2020, total visitor arrivals by air decreased 5,543,598 or 71.7% from that of 2019, while 2020 year-to-date average daily visitor census decreased 167,034 or 67.4% from 2019. Domestic arrivals were down 71.3% and international arrivals were down 72.6%. For arrivals by major market areas, the visitors from Japan decreased the most at 74.9%,

followed by the West (72.1%), and the U.S. East (69.1%). In the first three quarters of 2020, visitors from “All Others” decreased 75.9%, and visitors from Canada decreased 60.3%. Visitor arrivals by cruise ships decreased 68.7% in the first three quarters of 2020. According to the most recent data available, total visitor expenditures were estimated to have totaled \$3,879.4 million in the first quarter of 2020, a decrease of \$601.6 million or 13.4% over the same period a year ago.

Through the first nine months of 2020, average airline passenger capacity decreased 60.4% from the same period of 2019. In the first three quarters of 2020, the statewide hotel occupancy rate averaged 34.7%, 46.5 percentage points 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 mixed through the first two to three quarters of 2020. Based on the most recent data available, the contracting tax base decreased \$68.3 million or 1.4% during the first half of 2020 from the same period of 2019. During the first nine months of 2020, the total value of private building authorizations decreased \$47.6 million or 2.0%; government contracts awarded increased \$1,740.6 million or 386.3% and State Capital Improvement Project expenditures decreased \$99.5 million or 8.7%, compared to the same period last year.

In the first nine months of 2020, the number of existing units sold on O‘ahu was down 1.4% for single-family homes and down 18.9% for condominiums, respectively, compared to the same period last year. In the first three quarters of 2020, the median price for existing

single-family homes on O‘ahu was \$803,500, up 3.3% from the same period in 2019; and the median price for existing condominiums on O‘ahu was \$431,667, up 1.2% from the same period last year.

During the first three quarters of 2020, construction jobs increased 1.2% or 433 jobs from the same period of 2019.

### County Economic Conditions

Through the first three quarters of 2020, the average unemployment rate increased in all counties compared to the same period last year. The unemployment rate in Honolulu increased from 2.7% to 10.8%, the unemployment rate in Hawai‘i County increased from 3.5% to 11.9%, the unemployment rate in Maui County increased from 2.7% to 18.3%, and the unemployment rate in Kaua‘i County increased from 2.7% to 16.7%.

Visitor arrivals and visitor days by air decreased in all counties in the first three quarters of 2020. Visitor arrivals decreased 72.3% in Honolulu, 69.4% in Hawai‘i County, 73.4% in Maui County, and 72.3% in Kaua‘i County. Total visitor days by air decreased 67.7% in Honolulu, 60.6% in Hawai‘i County, 69.4% in Maui County, and 68.8% in Kaua‘i County.

Through the first three quarters of 2020, non-agricultural wage and salary jobs decreased in all counties, compared with the same period of 2019. Net job decreases in Honolulu were due to job losses in both the private sector and the government sector. In the first three quarters of 2020, the private sector in Honolulu lost about 45,000 jobs and the government sector lost about 4,000 jobs compared with the same period last year. The largest job loss in the private sector was in Food Services

and Drinking Places (lost 15,500 jobs), followed by Accommodation (lost 8,700 jobs), Transportation, Warehousing and Utilities (lost 3,900 jobs), Professional and Business Services (lost 3,600 jobs), and Retail Trade (lost 2,700 jobs). In the first three quarters of 2020, only Natural Resources, Mining and Construction added 800 jobs.

Hawai'i County lost 7,400 jobs or 10.5% in the first three quarters of 2020 over the same period of 2019. Job losses were from both the private sector and the government sector in Hawai'i County. The government sector lost 500 jobs compared with the same period last year. In the first three quarters of 2020, the largest job loss in the private sector of Hawai'i County was in Accommodation (lost 2,200 jobs), followed by Food Services and Drinking Places (lost 1,200 jobs), Retail Trade (lost 1,000 jobs), and Transportation, Warehousing and Utilities (lost 900 jobs).

In the first nine months of 2020, Maui County lost 15,100 jobs or 18.9% from that of 2019. Job losses were from both the private sector and the government sector in Maui County. The government sector lost 400 jobs during this period. The largest private sector job decrease occurred in Accommodation (lost 6,300 jobs), followed by Food Services and Drinking Places (lost 3,700 jobs), Arts, Entertainment and Recreation (lost 1,300 jobs), Transportation, Warehousing and Utilities (lost 800 jobs), and Professional and Business Services (lost 600 jobs).

In the first nine months of 2020, Kaua'i County lost 5,500 jobs or 16.6% from that of 2019. Job losses were from both the private sector and the government sector in Kaua'i County. The government sector lost 100 jobs during this period. The largest private sector job

decrease occurred in Accommodation (lost 2,500 jobs), followed by Food Services and Drinking Places (lost 1,000 jobs), Retail Trade (lost 500 jobs), and Transportation, Warehousing and Utilities (lost 400 jobs).

During the first three quarters of 2020, the value of private building permits decreased \$134.1 million or 8.9% in Honolulu; increased \$44.0 million or 10.4% in Hawai'i County; increased \$0.3 million or 0.1% in Maui County; and increased \$42.1 million or 46.4% in Kaua'i County, compared to the same period of 2019.

### Outlook for the Economy

Hawai'i's economy has been greatly impacted by the COVID-19 pandemic. During the April-September 2020 period, the average unemployment rate (not seasonally adjusted) was 17.1%. Hawai'i lost 114,750 non-agriculture payroll jobs during the April-September period as compared with the same period a year ago. All industry sectors lost jobs except construction and federal government jobs. The Accommodation and Food Services and Drinking Places accounted for 54.3% of the total job loss at 62,300. Overall, statewide non-agriculture payroll jobs decreased by 17.1% in the third quarter of 2020.

Hawai'i's unemployment rate increased from 2.6% in the first quarter of 2020 to 20.3% in the second quarter of 2020 and then decreased to 13.9% in the third quarter of 2020.

Visitor arrivals to the State during the third quarter of 2020 totaled 63,775, a decrease of 97.6% from the same quarter in 2019. However, due to a longer average length of stay, the average daily visitor census decreased only 91.8% in the third quarter of 2020.

Value of private building permits showed an increase of 5.6% during the third quarter of 2020. The largest increase occurred in the Commercial and Industrial category which was up by 44.4%. Value of residential building permits was up by 11.3% and the value for the Additions and Alterations category was down by 5.8% during the same period. In the third quarter of 2020, State government spending on capital investment projects was down by 39.2% or \$168.1 million, but the government contracts awarded increased 61.0% or \$101.0 million during the same time period.

At the national level, the U.S. economic growth rate was at 0.3% during the first quarter, reduced to negative 9.1% in the second quarter, and improved to negative 2.9% as compared to the same quarter in 2019. The Blue Chip Economic Indicators report from November 10, 2020, which is the consensus of 50 economic forecasting organizations, projected that the U.S. economic growth rate for 2020 will decrease by 3.7%. The report projected a positive 4.0% U.S. economic growth for 2021. The Blue Chip forecasts for foreign countries were all negative in 2020 except China which showed small growth.

Based on the above development, DBEDT projects that Hawai'i's economic growth rate, as measured by the real gross domestic product, will drop by 11.2% in 2020, then will increase at 2.1% in 2021, 2.0% in 2022, and 1.2% in 2023.

Hawai'i will welcome 2.7 million visitors in 2020, a decrease of 73.7% from the 2019 level. Visitor arrivals will increase to 6.2 million in 2021, 7.7 million in 2022, and 8.8 million in 2023. Visitor spending will decrease 71.4% in 2020, then will increase 105.6% in 2021, 27.2% in 2022, and 14.1% in 2023.

Non-agriculture payroll jobs will shrink by 11.9% in 2020, then will increase by 6.1% in 2021, 2.5% in 2022, and 1.9% in 2023.

Overall for 2020, the average annual unemployment rate will be at 11.2%, then decrease to 7.9% in 2021, 7.1% in 2022, and 6.6% in 2023. These rates are much higher than the average Hawai'i unemployment rate of 2.5% in 2017 to 2019.

Nominal personal income is expected to increase by 7.6% in 2020, then will decrease by 7.8% in 2021, increase by 2.0% in 2022, and increase by 2.9% in 2023.

Hawai'i's consumer inflation rate, as measured by the Honolulu Consumer Price Index for All Urban Consumers, will increase at rates between 1.6% to 2.3% for the next few years.

Hawai'i's population is expected to decrease 0.1% in 2020, and increase by 0.1% in 2021 and 0.3% each year thereafter.