



UHERO FORECAST PROJECT  
ANNUAL HAWAII FORECAST:  
PUBLIC SUMMARY

# EXPANSION TO STRENGTHEN DESPITE WASHINGTON WORRIES

AUGUST 9, 2013





# UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

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## ANNUAL HAWAII FORECAST

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**CARL S. BONHAM, PH.D.**

Executive Director

**BYRON GANGNES, PH.D.**

Senior Research Fellow

**KIMBERLY BURNETT, PH.D.**

Economist

**INNA CINTINA, PH.D.**

Economist

**PETER FULEKY, PH.D.**

Economist

### RESEARCH ASSISTANCE BY:

Ben Trevino

James Jones

Natalie Schack

Qianxue Zhao

## EXECUTIVE SUMMARY

Hawaii is headed toward a strong expansion path. While federal tax increases and the spending sequester have weighed on growth in the year's first half, construction and service sector progress will maintain forward momentum. Incremental contributions from tourism will be more limited as that industry pushes up against capacity constraints. The Islands are poised for several years of moderately rapid growth that will bring measurable improvements for many local families.

- A moderate pace of tourism expansion will continue for the remainder of the year. Annual growth in arrivals will fall off rapidly next year, from a 5.5% estimated gain in 2013 to 2.3% in 2014. Occupancy will edge up to 78.6% in 2014, along with further appreciation of hotel room rates. Total visitor spending will expand by 7.4% in 2013 and more than 7% in 2015.
- The construction sector is now well into the cyclical expansion we have been writing about for the past several years. We estimate that job growth for the industry will top 9% for 2013 as a whole and more than 11% in 2014. By 2015, the construction job count will rise to 39,200, nearly 10,000 more workers than in 2012.
- Job figures have come in weaker than expected in the first half of this year, although these may well be revised upward in coming months. In any case, prospects are very good for healthy and broad-based employment growth over the next two years, as we move beyond the adverse impacts of this year's payroll tax increase and federal spending sequester. Payroll job growth will reach 2.6% next year, and the unemployment rate will fall below 4% by 2015. Long-term unemployment and low labor force participation will take time to work through. The net drag from public sector contraction will end next year, but government will not be a significant contributor to job growth for the foreseeable future.
- Consumer price inflation remains subdued, averaging an estimated 1.8% this year and firming to 2.2% in 2014. After that time, rising shelter costs in the appreciating housing market will drive an acceleration of Honolulu consumer price inflation to 3% in 2015 and higher in 2016-2017.
- As general economic conditions in the Islands continue to improve, real income growth will move onto a moderately strong growth path. Inflation-adjusted personal income will rise by 3.3% in 2014. Growth in this range will mean appreciable improvement in standards of living as measured by per capita real income. State real gross domestic product (GDP) will expand by a robust 4.4% in 2014, the strongest rate of growth since 2005.
- Among the primary risks to the outlook are conditions beyond our borders. World trade has suffered from generally weak global demand. Of particular concern are recent data that Chinese exports have softened at a time when that country is dealing with its own challenging domestic financial conditions. On the flip side, it is entirely possible that US growth will outstrip the moderate pace of acceleration that we have built into this forecast. Still, one of the greatest risks continues to be the determination by Congress to embark on a dangerous path toward excessive austerity despite the cautionary tale from Europe's failed austerity experiment.

HAWAII ECONOMIC INDICATORS  
YEAR-OVER-YEAR PERCENT CHANGE

	2011	2012	2013	2014	2015	2016
Visitor Arrivals	3.7	9.2	5.5	2.3	1.7	0.9
U.S. Visitor Arrivals	2.3	5.5	4.7	1.9	1.7	0.7
Japan Visitor Arrivals	0.2	17.0	4.7	1.3	0.6	-0.4
Other Visitor Arrivals	13.4	15.2	8.8	4.6	2.7	2.4
Payroll Jobs	1.2	1.9	2.1	2.6	2.1	1.9
Unemployment Rate (%)	6.5	5.8	4.7	4.4	3.9	3.6
Inflation Rate, Honolulu MSA (%)	3.7	2.4	1.8	2.2	3.0	4.0
Real Personal Income	1.9	1.4	2.6	3.3	3.2	2.8
Real GDP	0.3	1.0	3.3	4.4	3.9	3.6

Note: Source is UHERO. Figures for 2013-2016 are forecasts.

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