



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT
ANNUAL HAWAII FORECAST:
PUBLIC SUMMARY

EXPANSION WILL CONTINUE, DESPITE GLOBAL CHALLENGES

DECEMBER 11, 2015





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ANNUAL HAWAII FORECAST

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EXECUTIVE SUMMARY

This year has turned out a bit better than anticipated, and prospects remain good for 2016. Next year will see some easing of visitor growth, but no retreat from the high levels of activity that have built up in recent years. The construction expansion will continue, and tightening labor market conditions will support income gains. Arrayed against this positive outlook are important global challenges, ranging from the surging dollar to Chinese slowing and renewed terrorism threats.

- The global conditions facing Hawaii's economy have weakened over the past year. Moderate growth has continued in the US, Hawaii's largest tourism market. But conditions have softened in developing countries, and a new round of dollar appreciation is restraining spending. Chinese slowing is weighing on growth in Japan and other key Asian markets.
- Some relief is expected in 2016, but no sharp global rebound. An end to the commodity price slide will strengthen countries like Canada and Australia, but overall global demand is likely to remain muted, given weakness in both China and Europe. The looming Federal Reserve shift to higher interest rates poses risks of financial market volatility. Other risks include the effects on agriculture of what may be the strongest *el nino* on record, the burden of the refugee crisis, and now, once again, terror attacks in the West.
- Growth in the visitor industry was surprisingly strong this year, with Japanese market weakness offset by healthy demand from other international markets and from the US. The strong dollar is weighing on visitor spending, which has risen just 2.2% in the first ten months of the year. Still, the pace of growth has pushed occupancy rates to record highs on Oahu and above 70% on the Neighbor Islands (data is from Hospitality Advisors LLC). Overall, we expect visitor arrivals to ease to 1.5% growth next year, following this year's greater than 4% rise.
- The labor market is now much healthier than it was a year or two ago, with the unemployment rate receding to 3.3% recently. Pockets of weakness remain, including larger-than-normal numbers of discouraged workers and of long-term unemployed. Job growth will continue at roughly 1.5% over the next two years, dropping below 1% late in the decade, as employment converges to the trend pace of labor force growth.
- The construction cycle is now in full swing. The pace of new permitting and job creation has picked up considerably this year, and we are finally beginning to see increased activity on the Neighbor Islands, which experienced a pronounced boom-bust housing cycle in the 2000s. Construction activity will continue to expand for the next several years, with growth falling off later in the decade.
- Declining oil prices have kept a lid on inflation in Honolulu this year. In the first half of the year, the consumer price index increased only 0.7%, the slowest rate of inflation of the past five years. Going forward, rising housing costs and wages will begin to feed into local prices. We expect Honolulu inflation to rise to 3% by 2017.

- This year will see the biggest gains in real personal income of the current expansion, with 4% growth. Considering healthy demand and likely upward wage pressure, conditions will remain favorable for income gains over the next several years. Aggregate real income will rise by 2.7% in 2016 and 1.9% in 2017.

HAWAII ECONOMIC INDICATORS
YEAR-OVER-YEAR PERCENT CHANGE

	2013	2014	2015	2016	2017	2018
Visitor Arrivals	1.7	2.3	4.2	1.5	0.9	1.1
U.S. Visitor Arrivals	0.7	2.2	5.4	2.0	1.3	1.1
Japan Visitor Arrivals	3.6	-0.4	-0.8	0.1	-0.3	0.8
Other Visitor Arrivals	3.2	5.0	5.1	0.8	0.8	1.5
Non-farm Payrolls	2.0	1.3	1.5	1.5	1.4	1.2
Unemployment Rate (%)	4.9	4.4	3.8	3.1	2.9	2.9
Inflation Rate, Honolulu MSA (%)	1.8	1.4	0.6	2.0	3.0	3.1
Real Personal Income	-1.0	3.2	4.0	2.7	1.9	1.7
Real GDP	1.6	1.6	3.4	3.1	2.1	2.1

Note: Source is UHERO. Figures for 2015 are UHERO estimates; 2016-2018 are forecasts. Non-farm Payrolls for 2014 and 2015 are UHERO estimates of the benchmark revision.

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