



UHERO FORECAST PROJECT
COUNTY FORECAST:
PUBLIC SUMMARY

GROWTH ACCELERATES STATEWIDE

MAY 24, 2013





UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

UHERO COUNTY FORECAST

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EXECUTIVE SUMMARY

2012 was another year of strong tourism gains for Hawaii's counties, and a year when significant growth spread to much of the broader economy. Oahu continues to be further along in recovery, but the Neighbor Islands are catching up fast. This year, economic growth will quicken, with an impetus from construction, which has turned the corner and is poised for a strong pickup in activity. The broadening recovery together with modest inflation will drive growth in real incomes across the counties over the next several years.

- Visitor arrivals surged ahead last year, and all four counties matched or set records for number of visitor days. The counties will see high single-digit arrivals growth in 2013, with the largest gains on the Neighbor Islands as Oahu fills up and international arrivals continue to grow. Hotel occupancy rates will climb to historic highs over the next few years, putting pressure on room rates and limiting further arrivals gains.
- Construction activity moved off bottom in 2012. Private permitting grew by 35-50% across the counties, albeit from extremely low levels. Oahu and the Big Island saw modest job gains while industry payrolls on Maui jumped by more than 13%. Kauai was the lone outlier; despite increased permitting activity, industry job counts fell by 5%. Much of last year's growth is attributable to photovoltaic installation. This year work on new residential and commercial projects will drive increased hiring. By 2015 the next construction cycle will be in full swing with industry payrolls growing by more than 10% per year in each county.
- All four counties saw positive job growth last year, but labor market recovery has a way to go, particularly on the Neighbor Islands. This year job growth will firm to more than 3% on each of the Neighbor Islands and to 2% on Oahu. By the end of this year Oahu will have recovered all of the jobs lost during the recession; Maui will return to pre-recession levels the year after, and Kauai and the Big Island by 2015.
- A useful summary measure of economic activity is the real (inflation adjusted) income earned by local residents. While official county-level figures are not yet available for 2012, we estimate that real income growth ranged from 0.9% on Kauai to 3% on Maui last year. In 2013, Oahu real income will grow by a modest 2.4%, while the Neighbor Islands will see growth in the 4.0 to 4.5% range. Moderate real income growth will continue through mid-decade as hiring picks up, business profits improve, and inflation remains moderate.
- The primary forecast risks for all counties are linked to external conditions: fiscal tightening will restrain growth, economic conditions in Europe continue to deteriorate, North Korea has begun another round of saber-rattling, and a new strain of bird flu has popped up in China. Adverse developments in these areas could undermine consumers' confidence and their willingness to travel, weighing on local economic activity.

THIS REPORT INCLUDES THE SECOND QUARTER STATE FORECAST UPDATE.
SEE "STRONGER EXPANSION TAKES ROOT" ON PAGE III.

COUNTY MAJOR ECONOMIC INDICATORS
YEAR-OVER-YEAR % CHANGE

	2010	2011	2012	2013	2014	2015
HONOLULU						
Visitor Arrivals	6.2	3.0	11.1	6.3	1.6	1.2
U.S. Visitor Arrivals	3.1	0.4	5.5	4.6	1.2	1.0
Japan Visitor Arrivals	4.7	0.7	15.5	7.1	0.6	0.4
Other Visitor Arrivals	18.6	13.8	19.5	9.2	3.6	2.5
Payroll Jobs	-0.6	1.3	1.8	2.0	1.9	2.0
Real Personal Income	0.5	2.2	1.3	2.4	2.5	2.7
HAWAII						
Visitor Arrivals	5.4	2.9	8.8	8.2	3.7	2.5
U.S. Visitor Arrivals	2.6	3.8	4.6	6.6	3.6	2.5
Japan Visitor Arrivals	13.7	-11.7	19.8	9.2	1.4	1.0
Other Visitor Arrivals	11.2	12.2	17.1	12.9	5.4	3.7
Payroll Jobs	-1.7	0.1	2.1	3.4	3.2	2.8
Real Personal Income	1.7	0.6	1.4	4.3	4.0	3.6
MAUI						
Visitor Arrivals	9.8	4.2	5.8	7.7	4.2	2.2
U.S. Visitor Arrivals	8.3	1.6	4.8	6.7	4.3	2.2
Japan Visitor Arrivals	8.7	2.6	4.0	5.1	1.3	0.6
Other Visitor Arrivals	17.2	15.2	9.8	11.4	4.2	2.5
Payroll Jobs	-1.4	1.9	2.9	3.6	3.7	2.7
Real Personal Income	2.4	1.6	3.0	4.5	4.5	3.5
KAUAI						
Visitor Arrivals	2.9	5.9	7.3	8.9	5.8	2.8
U.S. Visitor Arrivals	1.2	4.8	6.6	7.4	5.6	2.8
Japan Visitor Arrivals	2.2	10.4	15.5	9.9	4.2	2.6
Other Visitor Arrivals	14.4	11.6	9.5	16.8	7.1	2.8
Payroll Jobs	0.5	0.7	1.0	3.1	3.6	2.3
Real Personal Income	2.7	1.2	0.9	4.0	4.4	3.2

Figures for 2013 - 2015 are forecasts.
Figures for 2012 county income are UHERO estimates.

HAWAII STATE FORECAST UPDATE: STRONGER EXPANSION TAKES ROOT

The same growth trends we have described for the four counties can be seen in data for the overall Hawaii economy. The visitor sector, which has led the expansion to date, will see another strong year, and most sectors will experience more robust growth in 2013 than they did in 2012. Construction has turned up and will play an important role going forward.

Arrivals growth has been driven by demand from most major markets and supported by additional airlift. This year we expect arrivals to expand by 6.6%, with the strongest growth continuing to be in markets other than the US and Japan. Visitor spending will grow more than 10% in real terms. With occupancy rates pushing upward, the pace of visitor growth will slow markedly in 2014.

We described prospects for new building in our first quarter Construction Forecast. Suffice it to say that construction has finally turned the corner, and we are seeing impressive gains in percentage terms for private building permits. The construction job count will expand by more than 7% this year, surging to 10% in 2014 as commercial, residential, and public rail build strength.

Labor market conditions will begin to improve at a more significant rate than we have seen in the recovery to date. The non-farm payroll job count will grow by more than 2% for the next several years. Meaningful gains in employment will bring down the statewide unemployment rate, from an average of 5.8% last year to 4.5% in 2014.

Inflation will remain very mild this year, mirroring national trends. But a pickup in prices is on the way as the housing and construction cycles ramp up. Inflation-adjusted personal income will average about 3% for the next few years, finally in a range that will begin to restore the standard of living of Hawaii residents.

Risks to the state forecast are balanced between the up side and the down side. On the latter, European and US fiscal constraints are lingering problems, as are geopolitical concerns from Syria to Iran to North Korea, and the re-emergence of avian flu in China. And some combination of the weakening yen, rapidly rising room rates, and very tight inventories could slow tourism demand more than we anticipate. But there is also the possibility that we could be surprised on the positive side by accelerating private sector growth as the recovery takes hold, employment security improves, and incomes rise. These will fuel a virtuous cycle of income, spending, and production growth—at least for the next several years.

HAWAII ECONOMIC INDICATORS YEAR-OVER-YEAR PERCENT CHANGE

	2010	2011	2012	2013	2014	2015
Visitor Arrivals	7.7	3.7	9.2	6.6	2.2	1.5
U.S. Visitor Arrivals	5.9	2.3	5.5	5.3	2.2	1.6
Japan Visitor Arrivals	6.1	0.2	17.0	6.5	0.7	0.4
Other Visitor Arrivals	17.6	13.4	15.0	11.0	3.6	2.5
Payroll Jobs	-0.8	1.2	1.9	2.4	2.3	2.2
Unemployment Rate (%)	6.8	6.5	5.8	4.9	4.5	4.2
Inflation Rate, Honolulu MSA (%)	2.1	3.7	2.4	1.8	3.1	3.3
Real Personal Income	0.9	1.9	1.4	2.9	3.0	2.9
Real GDP	0.0	-1.5	1.2	3.3	4.2	3.8

Note: Source is UHERO. Figures for 2013-2015 are forecasts. Figures for 2012 GDP are UHERO estimates.

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