



UHERO FORECAST PROJECT  
COUNTY FORECAST:  
PUBLIC SUMMARY

## DESPITE LULL IN TOURISM, COUNTY EXPANSIONS CONTINUE

MAY 23, 2014





# UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

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## UHERO COUNTY FORECAST

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## EXECUTIVE SUMMARY

Moderate economic expansion will continue in each of Hawaii's counties. Last year's tourism weakness continued in the first quarter of this year, and incremental gains for 2014 will be slight. Beyond this year, available capacity will limit further visitor industry growth. The construction expansion has proceeded further on Oahu than elsewhere in the state, but it is also poised to contribute growth momentum to all counties going forward. In the broader economy, job growth will continue to bring down unemployment rates and will set the stage for a return to more satisfactory growth in personal income.

- Visitor days across the Neighbor Islands have now surpassed their pre-recession peak, and the rapid growth in the tourism sector has tapered off. Honolulu's high capacity utilization and steep vacation costs—the latter surging 40% in the last four years—will limit further expansion on Oahu and allow for relatively stronger growth on the Neighbor Islands. For the next two years, arrivals growth rates will be in the low single digits on the Neighbor Islands and below 1% on Oahu.
- The construction industry continues its upturn, fuelled by a surge in government contracts and residential condominium development in Honolulu. While the Neighbor Islands lag behind Oahu, and the waning of the photovoltaic boom weighs on growth, real labor income in the industry still managed to grow by almost 6% statewide last year. As the construction cycle picks up momentum, job growth in the industry will accelerate, reaching double digits by 2015 on Oahu and 2016 on the Neighbor Islands.
- The number of payroll jobs increased in each of the Neighbor Island counties by about 2.5% last year. On Oahu, a nearly 3% drop in federal government employment held total jobs to a more modest 1.6% growth. Nevertheless, the job recovery on Oahu is well ahead of the Neighbor Islands: payrolls have surpassed their previous peak in Honolulu County but remain 3%-5% below their 2007 levels on the Neighbor Islands. Despite some recent slowing, aggregate job growth will continue at roughly last year's pace across the counties.
- 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 0.6% on Oahu to 2.9% on Maui last year. In 2014, Oahu real income will grow by a modest 2.1%, while on the Neighbor Islands income will expand by about 3.5%. Similar real income growth will continue through 2016 as the jobs base expands and inflation remains moderate.
- The primary forecast risks for all counties are linked to external conditions. Although the fiscal drag in the US has diminished and the Yen has stabilized, Japan's consumption tax hikes pose a significant risk to its vulnerable economy. It remains unclear how the global economy will be affected by the unwinding of the Fed's aggressively expansionary monetary policies. Further escalation of political instability in Eastern Europe could have consequences beyond the region. Adverse developments in these areas could weaken the environment for spending by local residents and visitors alike.

COUNTY MAJOR ECONOMIC INDICATORS  
YEAR-OVER-YEAR % CHANGE

	2011	2012	2013	2014	2015
HONOLULU					
Visitor Arrivals	1.7	11.4	4.0	0.3	0.3
U.S. Visitor Arrivals	0.4	5.0	1.6	-0.6	-0.2
Japan Visitor Arrivals	0.7	18.1	3.6	0.6	-1.4
Other Visitor Arrivals	6.5	18.8	9.9	1.9	3.4
Payroll Jobs	1.2	2.0	1.6	1.2	1.6
Real Personal Income	1.8	1.3	0.6	2.1	3.1
HAWAII					
Visitor Arrivals	2.1	8.7	1.2	1.2	3.1
U.S. Visitor Arrivals	3.7	4.7	-0.8	1.7	3.3
Japan Visitor Arrivals	-16.3	26.3	0.2	-2.6	0.6
Other Visitor Arrivals	11.3	12.5	8.7	2.2	4.3
Payroll Jobs	-0.1	2.3	2.6	1.8	2.2
Real Personal Income	1.7	0.9	2.0	3.5	4.1
MAUI					
Visitor Arrivals	4.2	6.4	2.3	2.2	2.9
U.S. Visitor Arrivals	1.6	4.6	0.5	2.4	3.0
Japan Visitor Arrivals	2.6	9.5	14.3	-5.1	0.2
Other Visitor Arrivals	15.2	12.6	6.6	2.7	3.2
Payroll Jobs	1.9	3.4	2.5	2.1	2.2
Real Personal Income	3.2	1.6	2.9	3.6	4.1
KAUAI					
Visitor Arrivals	4.8	7.2	2.7	1.7	3.6
U.S. Visitor Arrivals	4.8	6.4	1.5	1.9	3.5
Japan Visitor Arrivals	10.4	18.4	5.3	-4.6	1.1
Other Visitor Arrivals	4.2	9.9	8.6	2.0	4.4
Payroll Jobs	0.4	1.6	2.5	2.0	1.6
Real Personal Income	2.4	0.6	2.1	3.5	3.6

Figures for 2014 - 2015 are forecasts.  
Figures for 2013 county income are UHERO estimates.

## HAWAII'S MEASURED GROWTH PROSPECTS

Our county forecasts reflect common elements that are playing out at the state level. The visitor industry, while healthy, has pulled back over the past year. Construction still remains at an early stage of recovery. The overall expansion is strong enough to generate some additional improvement in employment and income, but weak enough to be vulnerable to external market shocks.

We cannot expect a significant contribution to growth from the visitor industry going forward. The period of strong post-recession recovery is now well behind us, and additional capacity is not available for substantial medium-term gains, although we will see filling in on the Neighbor Islands. In the near term, last year's cyclical slowing will cast a shadow on annual numbers for 2014. We expect just 1% growth in visitor arrivals this year, and 1-1.6% over the next three years.

We are waiting for the construction industry to move forward decisively. Permitting for new construction has picked up, but this is mostly on Oahu and has been skewed upward by the temporary bulge in photovoltaic (PV) installations. Last year, the real contracting tax base was essentially flat. Still, with stocks of available housing at low levels and borrowing rates still attractive (for now), home

prices are poised to jump upward, providing support for residential building. And rail on Oahu will provide a once-in-a-generation surge in government spending on construction.

Job growth pulled back to a modest level over the course of the past year, but conditions remain favorable for ongoing expansion of employment. And now that the business cycle is maturing, opportunities exist for more significant improvements in incomes for Hawaii residents. We expect job growth in the 1.4-1.7% range over the next several years, and growth of real income of 2.5-3.3%.

Generally, it is conditions outside the state that determine how long a Hawaii expansion lasts. Growth prospects appear better than a year ago for the US, now that we are past last year's fiscal gyrations. While Europe is finally on the mend, there are still risks of deflation, and policy mistakes are always a potential concern. So far, improving conditions in the US and Europe have been insufficient to resuscitate global trade. China's evolution to a slower trend growth path exacerbates the problem. The program of large consumption tax hikes in Japan may pose a more immediate threat to Hawaii tourism. But the key determinant of the world's growth path over the next several years will surely be the evolution of Federal Reserve policy and how a changing credit and interest rate environment is accommodated by the global economy.

### HAWAII ECONOMIC INDICATORS YEAR-OVER-YEAR PERCENT CHANGE

	2011	2012	2013	2014	2015
Visitor Arrivals	3.7	9.7	2.5	1.0	1.6
U.S. Visitor Arrivals	2.3	5.2	0.8	0.6	1.8
Japan Visitor Arrivals	0.2	18.0	3.9	0.3	-1.2
Other Visitor Arrivals	13.4	17.6	6.6	2.7	3.4
Non-farm Payrolls	1.1	2.2	1.9	1.4	1.7
Unemployment Rate (%)	6.5	5.7	4.8	4.5	4.1
Inflation Rate, Honolulu MSA (%)	3.7	2.4	1.8	1.7	3.1
Real Personal Income	2.0	1.3	1.0	2.5	3.3
Real GDP	0.3	1.0	2.7	2.5	3.2

Note: Source is UHERO. Figures for 2014-2015 are forecasts. Real GDP for 2013 is a UHERO estimate.

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