

## First Hawaiian Bank Economic Forecast: Continued Progress for Hawaii for 2015

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Hawaii Economic Forecast for 2015	2014 <u>(Estimate)</u>	2015 <u>(Forecast)</u>
Visitor arrivals by air	+1.0%	+2.0%
Nominal visitor spending	+2.2%	+2.9%
Construction completed (tax base)	+9.0%	+12.0%
Total job growth	+1.4%	+1.6%
Unemployment rate	4.2%	3.9%
Real personal income growth	+2.6%	+2.5%
Inflation	+1.5%	+2.0%

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(Honolulu, Hawaii, October 29, 2014) – "Despite erratic tourism patterns and slow, but promising, construction spending, the Hawaii state economy has built some internal momentum so that output, jobs and incomes are expected to expand overall next year with continued strength in most sectors," economist Dr. Jack Suyderhoud said today at the First Hawaiian Bank Business Outlook Forum held at the Neal Blaisdell Center Concert Hall.

"I am cautiously optimistic about the economic outlook for the rest of 2014 and 2015: Tourism will contribute to growth, but construction will finally fulfill its anticipated role as the leading growth engine in 2015," said Suyderhoud, Economic Adviser to First Hawaiian Bank and Professor of Business Economics at the University of Hawaii-Manoa Shidler College of Business.

Suyderhoud said thanks to the fifth year of Hawaii's economic expansion since the Great Recession, inflation-adjusted State Gross Domestic Product (GDP) is expected to be a record in 2014 with growth continuing into 2015. "This growth has occurred in spite of sputtering tourism patterns and a frustratingly slow pick up in the construction cycle," he said.

### Suyderhoud's Forecasts

**Visitor arrivals, spending:** "I see visitor arrivals growing by 1% for all of 2014 and 2% for 2015. At over 8 million annual visitors, we are approaching capacity constraints. In addition, high airfares and room rates plus a continued strong dollar relative to the yen, and Canadian and Aussie dollars all suggest that tourism will continue to contribute to growth but at a moderated pace. Visitor expenditures will remain positive (up about 3% next year), but not robust."

**Construction completed:** "Construction will accelerate into 2015. Construction permit data plus continued pent-up demand for housing will result in greater completed activity – double-digit (12%) growth in 2015 is my forecast. In addition, healthier fiscal positions for local governments means that deferred maintenance and infrastructure renewal spending will continue to contribute to construction's growth. All of this should help bring back some of the 8,000 construction jobs that we have yet to recover from the Great Recession."

**Job market:** "Hawaii's labor market has steadily improved with the job total up 41,000 since 2010. The return of more construction jobs will help total job growth pick up slightly and the state's unemployment rate will continue to improve, dropping to 3.9% in 2015."

**Personal income:** "As the labor market improves inflation-adjusted personal income will continue to expand at a rate of

about 2.5% next year."

**Inflation:** "Because the recovery has been gradual and there remains excess capacity in the national and Hawaii economies, inflation has not reared its ugly head as might be expected this far into an expansion. Price pressures remain subdued in Hawaii as is the case nationally. However, I expect that higher housing and rental prices, along with higher wages in tighter labor markets, will be reflected in the Hawaii price data, leading to an up-tick in inflation to 2% in 2015."

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## **A Look at Major Economic Sectors**

### **Tourism Sputters**

Tourism remains the prime driver of Hawaii's economy," Suyderhoud said. "Visitor arrivals bottomed out in mid-2009 and experienced a strong comeback until late 2013 when arrivals slowed and turned negative for several months. Nevertheless, 2013 was a record year with over 8 million arrivals. So far, 2014 has struggled to keep up with that pace."

He noted that inflation-adjusted visitor spending "after several very good years started slowing in 2012 and has remained flat since.

"Tourism expansion has not been uniform across the Neighbor Islands. Maui has fully recovered from the 2008-09 slump, but Kauai and Hawaii Island are still 5% below their prior peaks in visitor arrivals."

Suyderhoud noted the critical role air capacity plays in tourism success and said "Hawaii has benefited from carrier commitments of seats. Year-to-date seats are up for all destinations except Hilo. The picture looks good through the fall as well for flights from domestic origins, though the outlook for international capacity is less optimistic."

### **Construction: Waiting to Explode**

"It was hoped that the construction industry would make up for much of the tourism lull, but this has only partially materialized so far this year," Suyderhoud said. "Construction job growth stalled in 2013-14. Of the 12,500 jobs lost in this sector due to the recession, only 3,900 have returned."

The drop in the state construction tax base in the second half of 2013 and into 2014 "is due in part to tax laws changes that exempt certain construction activity as well as the drop-off in photovoltaic installations."

On the positive side, he listed major planned construction: rail on Oahu and infrastructure on all islands, development of Kakaako, new single-family housing projects, and renovations of hotel properties on all islands. "Both private and government permit growth remain positive confirming the greater prospective construction activity in the second half of 2014 and into 2015," Suyderhoud said.

### **Job Growth: Uneven**

"The gains in jobs have been uneven both geographically and by economic sector. Most of the growth has been in the visitor-related sectors," he said.

"Likewise, the growth has not been uniform across the state's counties. Oahu was impacted the least by the contractions in the job market and has now returned within 3% of the peak employment at the end of 2007. The Neighbor Islands had more serious fall-offs in employment ranging up to 12% of total jobs and their recovery has taken longer, with Hawaii Island and Kauai still 5% below their peak."

### **Consumer Spending: Strong**

Merchants' debit and credit card activity is monitored by First Hawaiian Bank's Business Activities Report, which is

published quarterly by the bank. "Card spending has re-accelerated in 2014, after a fall-off in growth in late 2013. Leading the growth has been the hotel sector but many spending categories that are more 'local,' rather than tourist-related, have also done well," Suyderhoud said.

Another positive sign of consumer spending trends is the forecast by the Hawaii Automobile Dealers Association of an increase of nearly 10% growth in retail car and light truck sales in 2014, marking five consecutive years of growth, he said.

### **Real Estate: Recovery Decelerating**

"Hawaii real estate has recovered smartly from the effects of the Great Recession. On Oahu, single-family and condominium units sold climbed through 2013, but have since slowed their ascent. Prices likewise rebounded through 2013, but these increases have also tapered," Suyderhoud said.

The Neighbor Islands, which went through more serious market contractions than Oahu, have also seen good comebacks, but are still more than 20% below their pre-recession price peaks, he said.

### **Government Finances**

"In spite of improving incomes and increased spending, Hawaii state government tax revenues hit the skids after some great years," Suyderhoud said. "Starting in 2013, General Fund revenue growth turned negative due in part to slowing General Excise Tax collections and statutory transfers out of the General Fund. These trends will make financing ever-increasing demand for services more difficult, especially given negotiated public worker wage increases."

### **Some Caveats**

"My forecast could be considered optimistic," Suyderhoud said and is contingent on avoiding outside economic shocks such as:

- Japanese sluggishness and yen depreciation
- A hard landing in China
- Deepening European weakness
- Mideast madness
- Putin on the march in Russia
- Fed stumbles in its "exit"

"Assuming none of these becomes a serious issue, I believe that 2015 will be a good, but not great, year for Hawaii's economy," he said.