

First Hawaiian Bank 2014 Economic Forecast: Good News -- Hawaii Has Entered a New Expansion Phase After Leaving the Great Recession Behind

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Hawaii Economic Forecast for 2014	2013 (estimate)	2014 (forecast)
Visitor arrivals by air	+4.8%	+3.0%
Visitor spending growth	+6.0%	+5.3%
Construction completed (tax base)	+10.0%	+15.0%
Total job growth	+2.0%	+2.5%
Unemployment rate	4.7%	4.3%
Real personal income growth	+2.8%	+3.0%
Inflation	+2.2%	+2.8%

(Honolulu, Hawaii, Nov. 7, 2013) – "After four years of steady growth, the Great Recession has been left behind and Hawaii has entered an expansionary phase of our business cycle," economist Dr. Jack Suyderhoud said today at the First Hawaiian Bank Business Outlook Forum held at the Neal Blaisdell Center Concert Hall.

"We forecast 2014 to be a continuation of what we have seen since 2010 — continued overall growth with strength in most sectors," said Suyderhoud, Economic Adviser to First Hawaiian Bank and Professor of Business Economics at the University of Hawaii-Manoa.

However, he predicted a shift in the sources of growth:

- "Tourism's torrid pace will taper, as the sector continues to grow but at a more moderate pace."
- "Construction will pick up, adding jobs."
- "State and local government will contribute to growth while federal spending will not."

Suyderhoud's Forecasts

Tourism: 4.8% growth in visitor arrivals for all of 2013 and 3% for 2014. "At over 8 million annual visitors, we are approaching capacity constraints in hotel rooms and airline seats. In addition, high airfares and room rates plus a continued strong dollar relative to the yen, and Canadian and Australian dollars, all suggest that tourism's growth will moderate," he said. He predicted 6.0% growth in visitor spending this year, tapering to 5.3% in 2014.

Construction: "Double-double" digit growth in completed construction -- 10% this year and 15% in 2014. "As tourism returns to less spectacular growth rates, construction will accelerate into 2014," he said. "Construction permit trends plus continued pent-up demand for housing will show up in robust double-digit percentage increases in construction completed. In addition, healthier fiscal positions for the state and county governments mean that deferred maintenance and infrastructure renewal spending will also contribute to construction's growth. Finally, Honolulu's rail construction will show up in the data. All this will help bring back some of the 6,000 construction jobs that we have yet to recover from the Great Recession."

Labor market: Statewide job growth of 2.5% in 2013 and 2.0% next year, with unemployment dropping to 4.3% in 2014. "The return of more construction jobs will contribute to improvements in the overall Hawaii labor market" which, he said, has seen consistently positive trends since 2010.

Personal income: Expansion of 3.0% in 2014 which, Suyderhoud said, is "good news for retailers and home sellers as Hawaii consumers will continue to spend. Since 2011 we have been reaching new highs in personal income, and we are well above pre-recession levels, even after adjusting for inflation."

Inflation: A slight uptick in inflation from 2.2% in 2013 to 2.8% next year. "Hawaii inflation is most affected by national price patterns, and there seems to be little fear of national inflation through 2014. However, higher housing and rental prices, along with higher wages in tighter labor markets, should be reflected in the Hawaii price data," he said.

Tourism Sector Is Pulling the Economy Along

"In spite of the recent deceleration in visitor arrivals and spending, tourism has been the locomotive pulling along Hawaii's economy," Suyderhoud said. "Arrivals numbers to date in 2013 still put us on a record pace. We will be above 8 million arrivals by the end of this year," Suyderhoud said.

"Meanwhile, visitor spending has been growing at a healthy rate. Since 2011, visitor expenditures have grown at an annual rate of 12%. Even though visitor spending is decelerating as well, through August 2013 visitor expenditures are \$400 million above the same period in 2012. Driving much of this has been hotel room rates that have seen robust increases in the last two years," he said.

"Given all this good news, why are we not feeling better about the economy? One reason may be that the recovery of tourism in the Neighbor Islands has not been as fast as on Oahu. While Maui finally returned to pre-2008 arrival figures in 2012, both Hawaii Island and Kauai are still below their 2008 peaks."

From So-So to Good in Construction Sector

"The construction industry requires a good underlying economy in order for investors, developers and employers to overcome uncertainties and take the plunge. Hence, the sector tends to lag the overall economy," Suyderhoud said. "After the dismal contractions from 2008 until mid-2011, we are seeing consistent and robust growth.

"As a result, construction jobs have returned, partially. Hawaii lost more than 12,000 construction jobs statewide between 2008 and 2011. The good (or bad) news is that nearly half of those have returned."

"Generally positive trends in both private construction permits and government contracts awarded means a good construction year is expected in 2014."

Jobs and Unemployment: Better Rebound on Oahu

Suyderhoud said "improvement in labor conditions usually starts only after the economy is on a firm footing. Total state jobs are up by 28,000 since their low point in 2010, and the unemployment rate has decreased to less than 4.5%, still some distance from the pre-recession levels of less than 3%."

However, as with tourism, the labor market rebound has been slower on Neighbor Islands than on Oahu.

"Oahu was impacted the least by the contractions in the job market and has now returned within 3% of the peak employment last reached at the end of 2007. The Neighbor Islands had more serious fall-offs ranging up to 12% of total jobs. Among the Neighbor Islands, Maui has been the fastest to recover and is now within 6% of the prior peak while Hawaii Island and Kauai are still 7% below their peak jobs."

Thanks to Consumer Spending, Retailing Is Looking Great

"As jobs and incomes rise, consumer spending is sure to follow. Retail sales have experienced a strong rebound from 2009 and the retail tax base is now well above pre-recession highs," Suyderhoud said. "Leading the growth have been hotels and other visitor-related sectors."

He noted that the Hawaii Automobile Dealers Association forecasts car and light truck sales will increase by more than 10% in 2013, the fourth straight year of growth.

Real Estate Industry Also Showing Strength

"Combined with the growth of employment and incomes, the low interest rate environment means that home affordability is up and demand will remain strong. Oahu units sold have seen a nice recovery from the 2009 low," he said. "And the strong demand is also evidenced in the rebound in Oahu resale median prices to levels not seen since 2007.

"The improving real estate trends are also being experienced on the Neighbor Islands. However, they went through more serious market contractions than Oahu. As a result, in spite of improving prices, Neighbor Island markets are still more than 20% below their prior peaks."

In Sum, Happy Prospects (With Caveats)

"There is much to be happy about in tourism, incomes, jobs, retailing and real estate. Yet, not all sectors and islands have benefited equally from the rebound, creating a sense among some that the economy is less robust than it actually is," Suyderhoud concluded.

"Given what we have been through the last few years, these forecasts are happily optimistic," he said, but there are always "things that can go wrong," such as continuing dysfunction in Washington, D.C.; Federal Reserve policy changes going forward; the possibility of more struggles in the rollout for ObamaCare; and Middle East worries.

"We have all heard the anecdotal evidence of how sequestration and the recent shutdown have impacted Hawaii. However, we await the data to see how the overall economy has been impacted," he said. "That said and hoping for the best out of Washington, I believe that 2014 will be a good year for Hawaii's economy."