

First Hawaiian Bank Economic Forecast: Tourism Industry Continues to be Robust; Other Economic Sectors Appear Brighter

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Hawaii Economic Forecast for 2013

	2012 (estimate)	2013 (forecast)
Job Growth	+1.1%	+2.0%
Unemployment Rate	6.2%	5.7%
Inflation	+2.8%	+2.5%
Visitor Arrivals	+9.0%	+3.5%
Real Personal Income Growth	+1.5%	+2.0%
Real Gross Domestic Product	+1.5%	+2.3%

[\(View 2013 Hawaii Economic Forecast, pdf 2.10 MB\)](#)

(Honolulu, Hawaii, October 30, 2012) – Hawaii's tourism industry continues its robust recovery and now, at last, there are other economic bright spots as well, economist Dr. Leroy Laney said today at the First Hawaiian Bank Business Outlook Forum at Blaisdell Concert Hall.

"Those bright spots – in a housing market that shows signs of turning, in retailing, in auto sales, and in some other areas -- are cause for cautious optimism as we head into 2013," said Laney, Economic Adviser to First Hawaiian Bank and Professor of Economics and Finance at Hawaii Pacific University. "Our gradual recovery following the 2008 and 2009 Great Recession has been very slow, like everywhere else, but on a more optimistic note it has been fairly steady."

Laney's forecasts:

- **JOB GROWTH — +2.0% in 2013:** "Job growth could come in at just over 1.0% this year, and -- as the recovery takes hold -- could accelerate to 2.0% in 2013. Other than the visitor industry, the strongest categories will likely be services including health care, wholesale and retail trade. Government job growth is likely to be one of the bigger drags on overall job creation."
- **UNEMPLOYMENT RATE — 5.7% in 2013:** "Hawaii's jobless rate could end up in the mid-5% range for 2013, but it would take some unforeseen positive development to take it below 5%."
- **INFLATION — +2.5% in 2013:** "Fragile global economic conditions help keep a lid on energy prices. That can be especially good for Hawaii because of the impact on airfares. Overall inflation should hover in the 2% range, maybe coming down if we're lucky. Even with a potential rebound in home prices, it will take a while for rises in the shelter component of the CPI to kick in."
- **VISITOR ARRIVALS — +3.5% in 2013:** "Visitor arrivals growth could easily break a strong 9% in 2012. But strong growth this year means it will be hard to sustain it in 2013. The visitor industry should remain strong, and added airlift will help. But hotel occupancies have been running so high this year in many places that there doesn't remain much room for expansion close to what we have seen this year."
- **REAL PERSONAL INCOME — +2.0% in 2013:** "Inflation-adjusted personal income growth has been fluctuating around 1% after dipping into negative territory in 2008 and 2009. In 2013, with any consolidation in the recovery and an end to state pay cuts, it could hit 2%."
- **REAL GDP — 2.3% in 2013:** "Hawaii's economy lives or dies by its main export industry, tourism. But why has visitor industry strength has not yet spread to other sectors of the economy?" Laney asked. He offered two reasons:
 - "First, in Hawaii and practically everywhere else, there have been enormous reductions in personal wealth.

The Federal Reserve found that the median net worth of American households – assets such as homes, cars, and financial assets minus any debt -- fell by almost 40% from 2007 to 2010. Such a reduction put that median household back to 1992 and it takes time to recover from that. That, plus job uncertainties, have taken a toll on consumer and business confidence, especially smaller businesses. Residential building ground to a complete halt, and local government was forced to take draconian measures."

- "Second, it could be a lot worse. If you want to live in North Dakota, the unemployment rate is around 3%. But in California it's close to 11%; in Nevada just under 12%. So maybe 'lucky you live Hawaii' does have some meaning."

Laney offered these views of major economic sectors:

Tourism

"After the dark days of 2009, Hawaii's visitor industry snapped back with an alacrity that surprised some. It had something of a relapse in mid-2011, with Japan's tsunami, but has come back strongly again this year. Added airlift has helped, from Alaska and Allegiant, for example, as well as added routes by Hawaiian Airlines. Smaller cities on the Mainland are now being served with direct flights, and added international flights will bring more visitors from emerging markets. Future growth will depend more on those emerging markets rather than more mature sources of visitors."

Construction

"Construction has been one of the biggest lagging sectors and construction jobs are still nearly 30% below the 2007 peak. Much of that has been due to the dearth of residential construction, but some life is returning. The recent surge in private building permits is mostly due to high-rise condos in Kakaako, shopping center development and resort-related activity. There is not much sign of life yet in residential building; two recently approved housing projects on the leeward side of Oahu will eventually be felt, but that may be slow in coming."

Retailing

"The retailing tax base is strong, in 2011 and early 2012 reaching a rate of growth matching or sometimes exceeding the boom years of the mid-2000s. First Hawaiian Bank data on credit card spending shows growth still concentrated in categories influenced by visitors, but there are signs that spending is spreading to other sectors– such as automotive, home improvement, supermarkets, and home furnishing."

Vehicle Sales

"New vehicle registrations in Hawaii were up an impressive 20% in the first half of 2012, and the Hawaii Automobile Dealers Association projects a 16% increase for the entire year followed by another 9% growth in 2013, bringing the total to 47,000 vehicles. That's well below the peak of over 70,000 in 2005, but the direction is right. In 2009, the low was under 34,000."

Real Estate

"More good news may be in the wings for Honolulu real estate, which has had its ups and downs. Record low mortgage rates have boosted affordability, but 2010's surge in sales after five years of declines wasn't repeated in 2011, which saw a slight decline. This year so far there has been a mild increase. "As for median prices, 2009's drop of almost 8% was followed by rough stability– up 3% in 2010 and down 3% in 2011, a better picture than many Mainland markets. Honolulu median price growth tends to move in steps, a price boom followed by several years of much milder decline, then another boom. We may be on the verge of the next upswing. So far this year, median prices have risen about 9%, the best performance since 2005. By 2013, it's quite possible the old record high for median prices will be broken, thanks to low inventory, the famine of new residential construction, and low interest rates. That's all the better news for the overall economy, because real estate upswings usually coincide with better economic performance generally."

Jobs

"Most people perceive job creation to be a better gauge of their overall welfare than other economic measures, and this presents a more somber picture. Overall, Hawaii jobs still hover about 5% below their peak before the Great Recession."

Until that previous peak is reached, we are technically still in a recovery, not an expansion. Job growth has been spread unevenly across sectors. Job creation in the visitor industry has dwarfed all other sectors, which added together are a mixed bag. "The unevenness also has a geographic dimension, with Neighbor Islands lagging Honolulu's more diversified economy. A little more strength this year can be found in Maui than on either Hawaii Island or Kauai."

First Hawaiian Bank (fhb.com) with some \$16.1 billion in assets, was founded in 1858 and is Hawaii's oldest and largest bank. The bank operates 58 branches in Hawaii, three on Guam and two in the CNMI.