

First Hawaiian Bank Oahu Economic Forecast: Robust Tourism Drives Hawaii's Growth into 2016

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Hawaii Economic Growth Forecast	2015	2016
	<u>(Estimate)</u>	<u>(Forecast)</u>
Visitor arrivals by air	+4.0%	+2.0%
Nominal visitor spending	+3.0%	+3.0%
Construction completed (tax base)	+10.0%	+12.0%
Total job growth	+1.4%	+1.6%
Unemployment rate	3.8%	3.2%
Real personal income growth	+2.3%	+2.5%
Inflation	+1.0%	+2.0%

(Honolulu, Hawaii, October 20, 2015) – “To date, 2015 has been a very good year. For the rest of 2015 and 2016, expect a familiar story: state economic growth will continue, led by tourism and construction. Next year will be the seventh consecutive year of Gross Domestic Product (GDP) growth for Hawaii,” economist Dr. Jack Suyderhoud said today at the First Hawaiian Bank Business Outlook Forum at the Neal Blaisdell Center.

“Tourism numbers and spending have been stronger than I had forecast last year. However, statewide construction completed, total jobs and personal income have not lived up to expectations, and inflation has been less than I predicted,” said Suyderhoud, Economic Adviser to First Hawaiian Bank and Professor of Business Economics at the University of Hawaii-Manoa Shidler College of Business.

Suyderhoud’s analysis of major economic sectors in Hawaii:

Tourism: “I am forecasting visitor arrivals to grow by 4 percent for all of 2015 and 2 percent for 2016. The reduction in growth next year is a reflection of capacity constraints. In addition, high room rates plus the continued strong dollar relative to the yen, and the Canadian and Aussie dollars, all suggest that tourism will continue to contribute to growth but at an attenuated pace. Visitor expenditures will remain positive, but only modestly above the rate of inflation.”

Construction: “This sector has been accelerating in 2015, reaching double-digit percentage growth in completed activity. State studies show a demand for 65,000 housing units across the islands from 2015-2025. In addition, a healthier fiscal position for state and county 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 6,000 construction jobs that we have yet to recover since the Great Recession.”

Labor Market: “I expect total job growth to pick up for the rest of this year and into 2016 and that the state’s unemployment rate will continue to improve, reaching 3.2 percent next year. Total state jobs have returned to the pre-recession level of 635,000 and the unemployment rate has dropped below 4 percent. Trends are not uniform among counties. Oahu and Maui have both recovered the jobs lost since the Great Recession. However, on Hawaii Island and Kauai, jobs are still about 5 percent below their pre-recession peaks.”

Personal Income: “As the labor market improves, inflation-adjusted personal income will continue to expand at a rate of about 2.5 percent.”

Inflation: “Concern about resurgent inflation is overstated. Hawaii inflation is most affected by national price patterns for such things as energy and foods, and there seems little fear of national inflation through 2016. However, I do expect that higher housing and rental prices, along with higher wages in tighter labor markets, will be reflected in Hawaii price data. I am thus expecting an increase in inflation to 2.0 percent in 2016.”

Tourism Leads the Way

“The health of Hawaii’s economy remains tied to tourism. Starting in September 2014 and through the summer of 2015, visitor arrival growth has been robust. Total visitor days were up by more than 4 percent for the first eight months of 2015,” Suyderhoud said. “The news for total visitor spending has been less upbeat. Total spending remained relatively flat over the last two years and has not kept up with what little inflation we have had. Nevertheless, recent months have seen some up-ticks in spending.”

He said average daily spending per Oahu visitor has increased by nearly \$25 since 2007 to \$210 in 2014, “but how tourists are spending has changed. Lodging and transportation have seen their share of the tourist dollar increase at the expense of shopping.”

“Oahu has led the growth and Maui has not been far behind; both are setting records. Hawaii Island and Kauai are just now returning to their pre-recession peaks,” he said.

“The growth has been so good that the conversation is shifting to the issue of capacity. Future growth rates are expected to be modest because additions to lodging capacity are limited, mostly to some Neighbor Island areas. In addition, the capacity for community acceptance of tourism volumes and the accompanying development is an increasingly visible issue.”

He said airline seat capacity through August was up significantly from domestic origins with Maui and Kona attracting the most. “The outlook for airline seats is also positive into the fall as capacity is expected to expand from both domestic and international (mostly Canadian) origins. If the U.S. government works out a pre-clearance arrangement for visitors traveling from Narita and other Japanese airports, direct service from these markets to some Neighbor Island locations such as Kona will become more likely. In addition, if this reduces the bottlenecks associated with entering through Honolulu, the entire state will benefit,” he added.

Construction Finally Breaks Out

“For five years we have been anticipating that construction would start to contribute to overall growth. Over 12,000 construction jobs were lost statewide after 2007. As of August 2015 only 6,700 of those jobs had been recovered. The construction tax base actually declined for five consecutive quarters starting in July 2013 and only recently returned to positive growth,” Suyderhoud said. “Finally, 2015 shows more promise. Private construction permits and government contracts awarded are accelerating in 2015 to their highest growth since 2012. This leads to optimism for 2016.

He said insiders say it is increasingly difficult to find qualified workers, especially in the skilled trades because many former construction workers found other, more steady, jobs during the downturn.

Real Estate Booms

“More jobs, higher incomes, and favorable interest rates continue to stimulate demand for housing that is unmet by greater supply,” he said. “As a result, single-family and condominium sales and prices are up on all islands. The Oahu single-family residential median price reached \$730,000 last month, 7 percent above the June 2007 peak. Markets on all Neighbor Islands are also expanding, but have yet to achieve their prior peaks.”

Public Finances Prospering

“The rising economic tide has lifted many boats, including the State’s treasury. On average, State General Fund revenues increased by 4.9 percent annually for the last three fiscal years,” he said. “Part of the good news is that the State has reached a legal settlement with on-line hotel and car rental bookings companies for past and future general excise tax liabilities. It is estimated that the settlement will add about \$40 million to the General Fund in Fiscal 2016 for liabilities

between 2000 and 2011, with an additional \$10-15 million per year in regular annual payments. Another case is pending for the 2012-2014 period.”

“Likewise, county property tax collections, the major source of revenues under their control, have snapped back nicely from the consequences of the recession,” he added.

“Pressures to spend money are constant: dealing with homeless, closing schools, Medicaid expansion, etc. In addition, the state (and counties) must increase payments to fund retirement and employee health care cost obligations as well as collective bargaining costs. From a macro-economic perspective, the increased revenues will eventually be spent through worker paychecks and discretionary spending, and this will further boost economic activity.”

Notes of Caution

Snyderhoud said forecasting errors are “inevitable” because external assumptions may not occur as expected. He said his forecast assumes that:

- The Fed will raise the Federal Funds target rate by 0.25 percent before the end of the year, and the global markets will adjust without panic.
- The world will shrug off Chinese equity market gyrations and currency devaluation, but China’s growth will be subdued.
- Appreciation of the yen is finished and Japan will increase its growth.
- The euro zone will survive Greece and refugees.
- Putin will stay put, but who knows where that will be.

“There are also plenty of local issues that could affect this economic forecast,” Snyderhoud concluded, including:

- Oahu rail costs and progress.
- Telescopic ups and downs on Mauna Kea and Haleakala.
- The future of the Hawaiian Electric Industries merger.
- Regulation of seed corn companies and sugar on Maui.

“Depending on how this plays out, some jobs could be lost or not created. However, I look forward to 2016 being another solid year of economic growth for Hawaii’s economy,” Snyderhoud said.

To read the full First Hawaiian Bank Oahu Economic Forecast report, [click here](#).

First Hawaiian Bank (www.FHB.com), with 18.7 billion in total assets, was founded in Hawaii in 1858 and for over 157 years has been helping generations of personal and business banking customers with their financial solutions. The bank operates 57 branches in Hawaii, three on Guam and two in the CNMI.