

Hawaii Economy Will Run Hot and Cold

Optimistic signs emerge from some sectors while others remain stagnant

Pacific Business News by Linda Chiem, Reporter

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After a marked slowdown in economic momentum this year, Hawaii's recovery outlook for 2012 is tepid as labor markets, income growth, and construction all remain stagnant, local economists say. While the booming clean-energy and dominant tourism and hospitality industries show signs of growth and optimism for the new year, the prospects for many other industries, including construction, real estate and government, are not as bright.

Much of the lingering uncertainty is due to muted consumer confidence, slowing global growth, the European sovereign debt crisis and the U.S. political machine heading into the 2012 election.

Economists with the University of Hawaii Economic Research Organization describe Hawaii's economic recovery as hitting a "pause mode" with modest gains expected next year, while the state Department of Business, Economic Development and Tourism projects a positive outlook for 2012.

While in some respects the local economy remains healthier than the U.S. as a whole, the same general problems are evident here, in particular stagnant labor markets, absent construction, and limited income growth," UHERO economists Carl Bonham and Byron Gangnes said in their report. "Hawaii's recovery process is tenuous and far from complete. Our forecast is for gains as we move into 2012, but not at a pace that will lead to rapid improvement in economic conditions."

Meanwhile, DBEDT Director Richard C. Lim said in a statement last month that Hawaii has the potential to continue on a positive growth trajectory next year.

"We are looking at this glass as half full," Lim said in the statement. "Overall, Hawaii has strong economic indicators and the potential to continue our positive growth."

Hawaii's heavyweight tourism sector, which led a robust economic recovery last year, saw slight slowdowns in arrivals and spending midway through the year but was expected to end 2011 on target with approximately \$12.7 billion in spending by the 7.4 million visitor arrivals.

The 2012 outlook for the visitor industry is positive with UHERO forecasting a 2.7 percent increase in arrivals and 5.6 percent increase in spending and DBEDT forecasting a 3.4 percent increase in arrivals and a 5.6 percent increase in spending.

"Although things are getting better, we have to keep it in the context that the industry went through three years of pain and businesses aren't all recovered — they're just beginning to put their head above water," said Mike McCartney, president and CEO of the Hawaii Tourism Authority. "We can't let up."

Tourism will remain the primary engine for Hawaii's economic growth in 2012, while construction remains in the doldrums and government contracting slows, local economists say.

Potentially throwing off that momentum will be global price pressures on travel, waning demand from key and emerging markets and growing competition from other destinations.

Hawaii will continue to see modest job growth in 2012 with payroll jobs increasing by 1.7 percent and the unemployment rate dipping to 5.5 percent, UHERO said.

DBEDT's forecast for job growth in 2012 is 1.6 percent. However, the recent shutdowns of Hawaii Medical Center's two Oahu hospitals will leave 990 people jobless in the new year — marking it as the biggest mass layoff since Aloha Airlines' shutdown in March 2008 left 1,900 people jobless and set off Hawaii's economic downturn.

"Hawaii is a very small labor market and [this shutdown] is actually pretty large where there will be a noticeable uptick in unemployment, maybe even a 10th of a point," said Lawrence Boyd, a labor economist with the Center for Labor Education & Research at the University of Hawaii West Oahu.

"There's always a ripple effect and we saw it with Aloha Airlines ..." he said. "We were getting a situation where we're generating some jobs, small upticks, but going into the new year there's some storm clouds. Generally, we were having a recovery."

Personal income is forecast to increase, but only incrementally, by 0.9 percent in 2012, before growing by more than 2 percent in 2013 and 2014, UHERO said.

Meanwhile, new construction projects on the drawing board are raising some hope for a pickup in 2012 — such as the Hawaii Community Development Authority's 690 Pohukaina project, which calls for two new residential towers in Kakaako including a 650-foot tower that will be Hawaii's tallest building.

Federal funding for construction of Honolulu's \$5.3 billion rail mass transit project is expected to come through in late 2012, but legal challenges continue to threaten that project's future and the creation of hundreds of construction jobs associated with it.

However, permits for new construction are languishing at low levels. When adjusted for inflation, real building permits for both residential and nonresidential construction are at levels not seen since the early 1980s, UHERO said. And both commercial and residential real estate activity is expected to be relatively flat in 2012.

While so much of Hawaii's economic health will depend on external factors, the trimmed and tightened state budget is on track to end this fiscal year with a surplus if current projections for a 14.5 percent increase in general fund revenues stay the course, Gov. Neil Abercrombie said earlier this month.

Abercrombie is proposing an \$11.1 billion budget for next year that includes \$189 million in new spending but no new tax hikes.