



UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

Celebrating Twenty Years of Service to Hawaii

HAWAII'S LONG EXPANSION GETS GLOBAL LIFT

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EXECUTIVE DIRECTOR, UHERO**

**Senate Ways & Means
House Finance
Pre Session Budget Briefing**

January 2, 2018

National spotlight

- ▶ 8 year expansion continues

Hawaii focus

- ▶ Another record year for arrivals, not quite for ssreal spending.
- ▶ Construction slowing, but
- ▶ “Housing Crisis” is an opportunity.

Risks, risks, risks

- ▶ TMT, state/county tax and housing policy, housing gap, rail,
- ▶ Tax “reform” aka deficit enhancement, FED appointments, NAFTA renegotiation, geopolitical events, climate.

US economic outlook 2018

US and global economies have firmed

- ▶ US output growth uneven, but
- ▶ Nice pickup in Q3

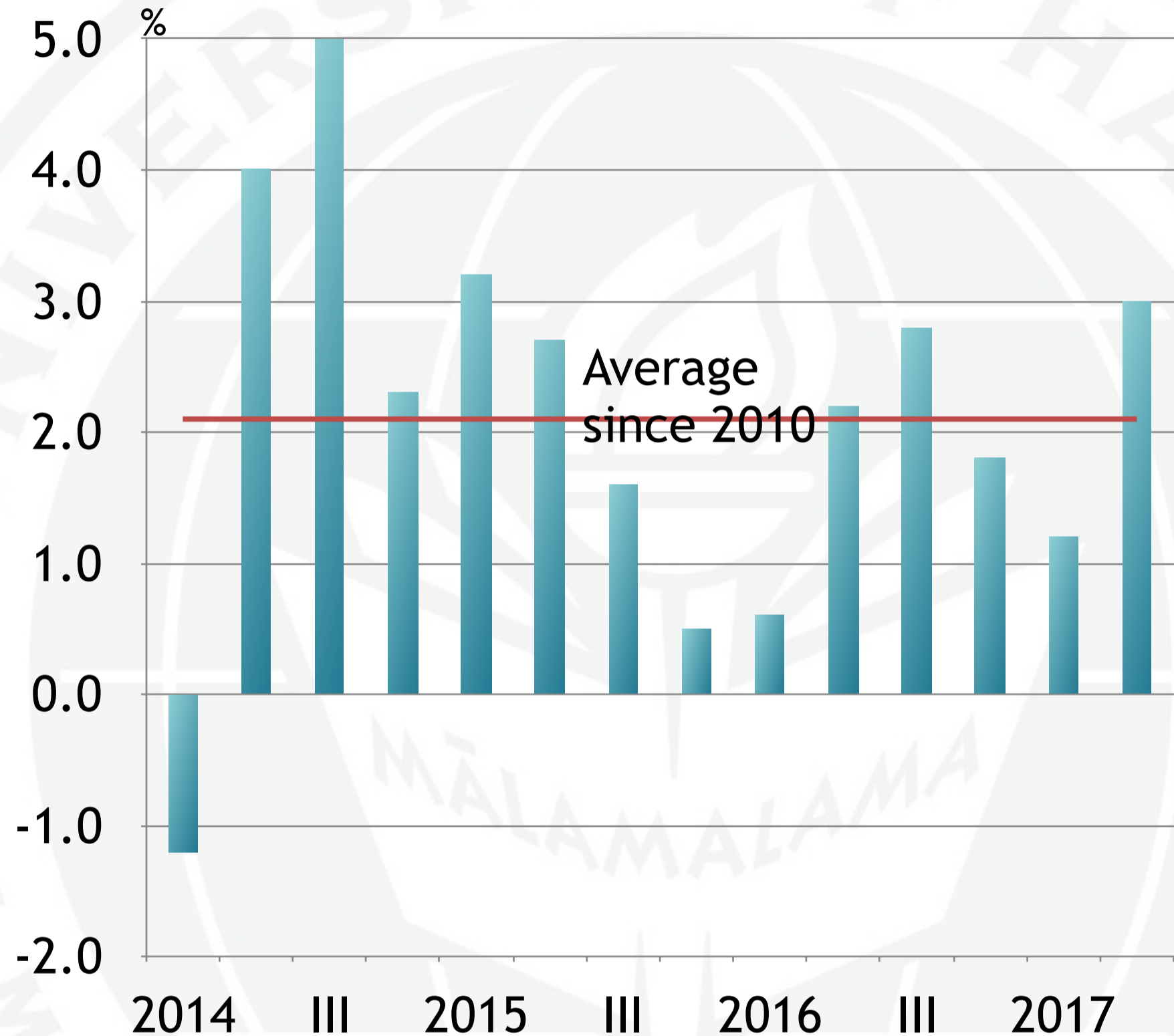
8 year expansion continues

- ▶ First upward revisions to global forecast since 2010

Risks are greater than normal

- ▶ US fiscal policy
- ▶ Reaction of the Fed
- ▶ What's the tweet du jour?

US real GDP growth



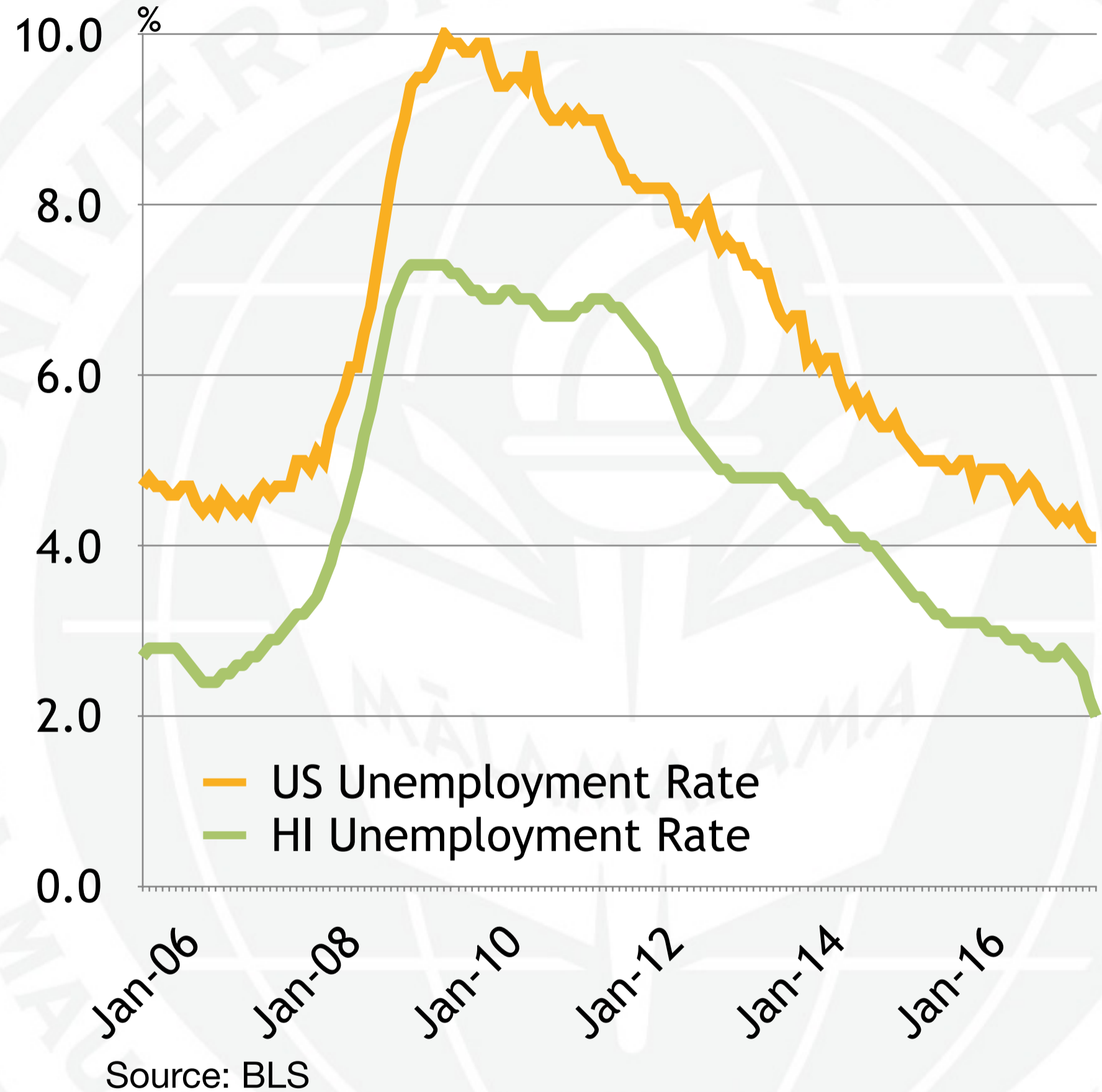
Source: BEA, UHERO

Labor markets mostly healed

Job creation fast enough to reduce unemployment

- ▶ Close to “Full employment” levels.
- ▶ Unemployment spells are shorter
- ▶ Fewer discouraged and involuntary part-time workers

Unemployment Rates: US vs HI

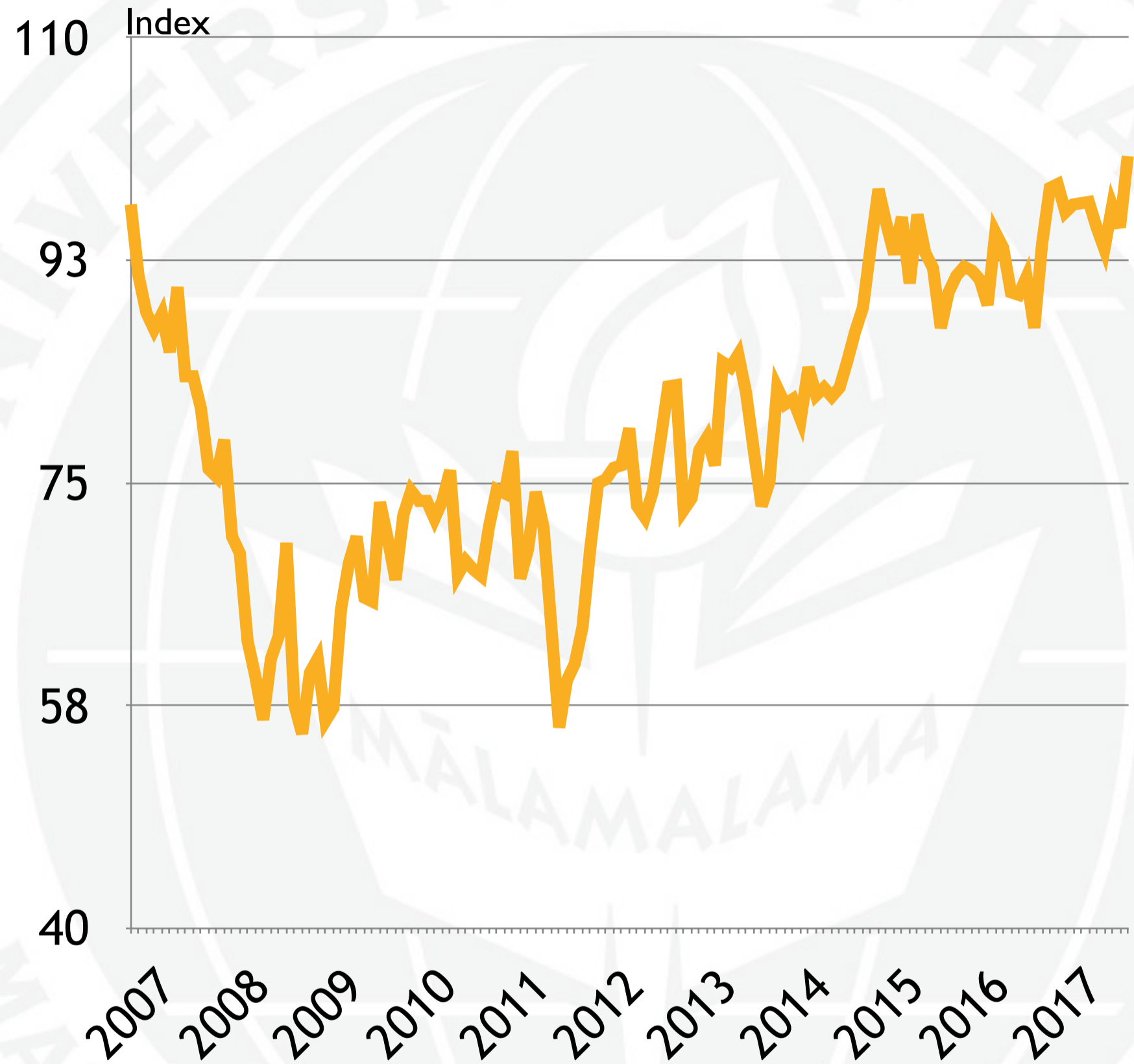


Consumers remain confident

Consumer confidence remains healthy

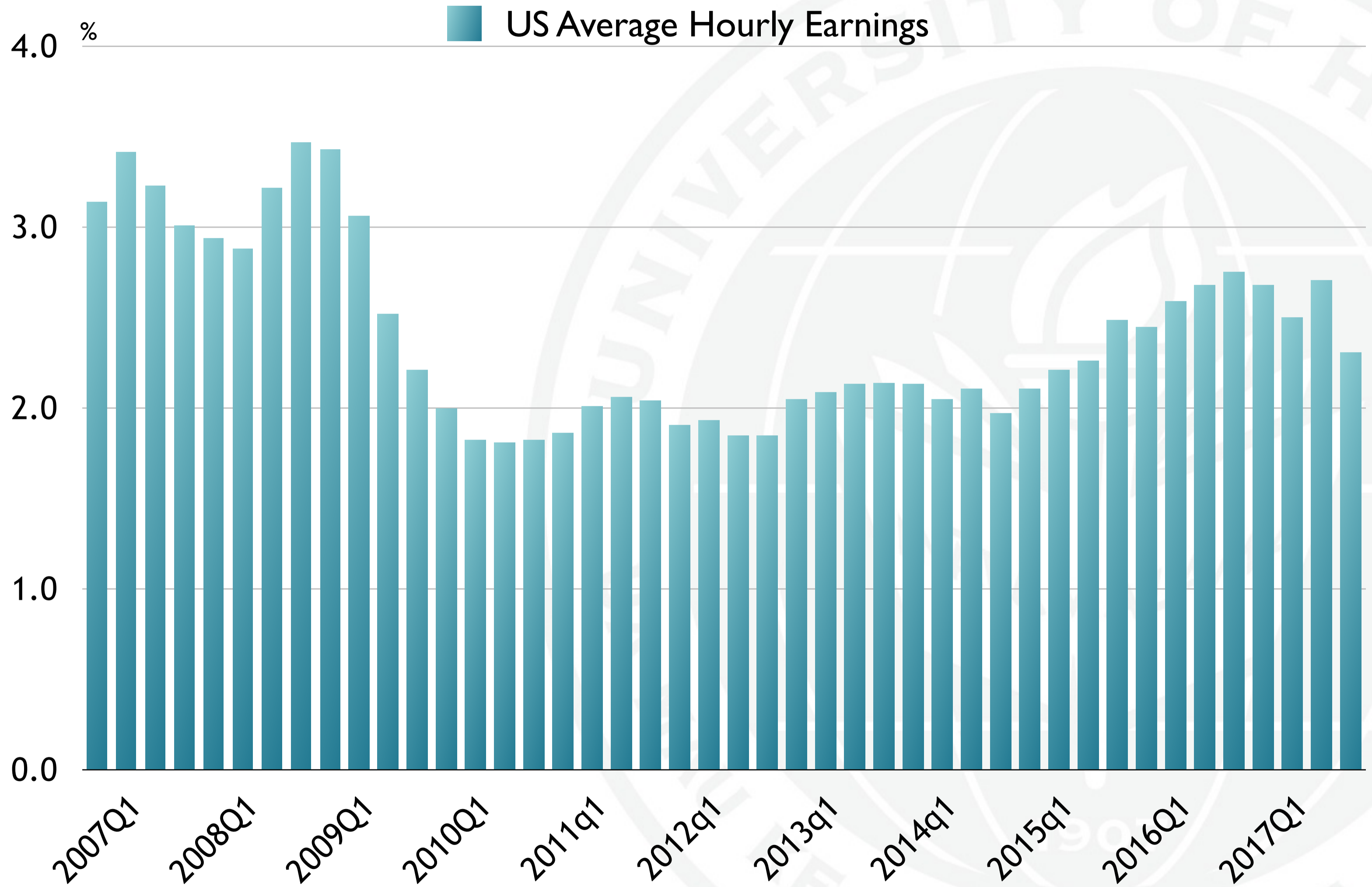
- ▶ Job improvements
- ▶ Asset gains, especially home values
- ▶ Modestly rising wages
- ▶ Relatively flat gasoline prices

Reuters Univ. Michigan Consumer Sentiment



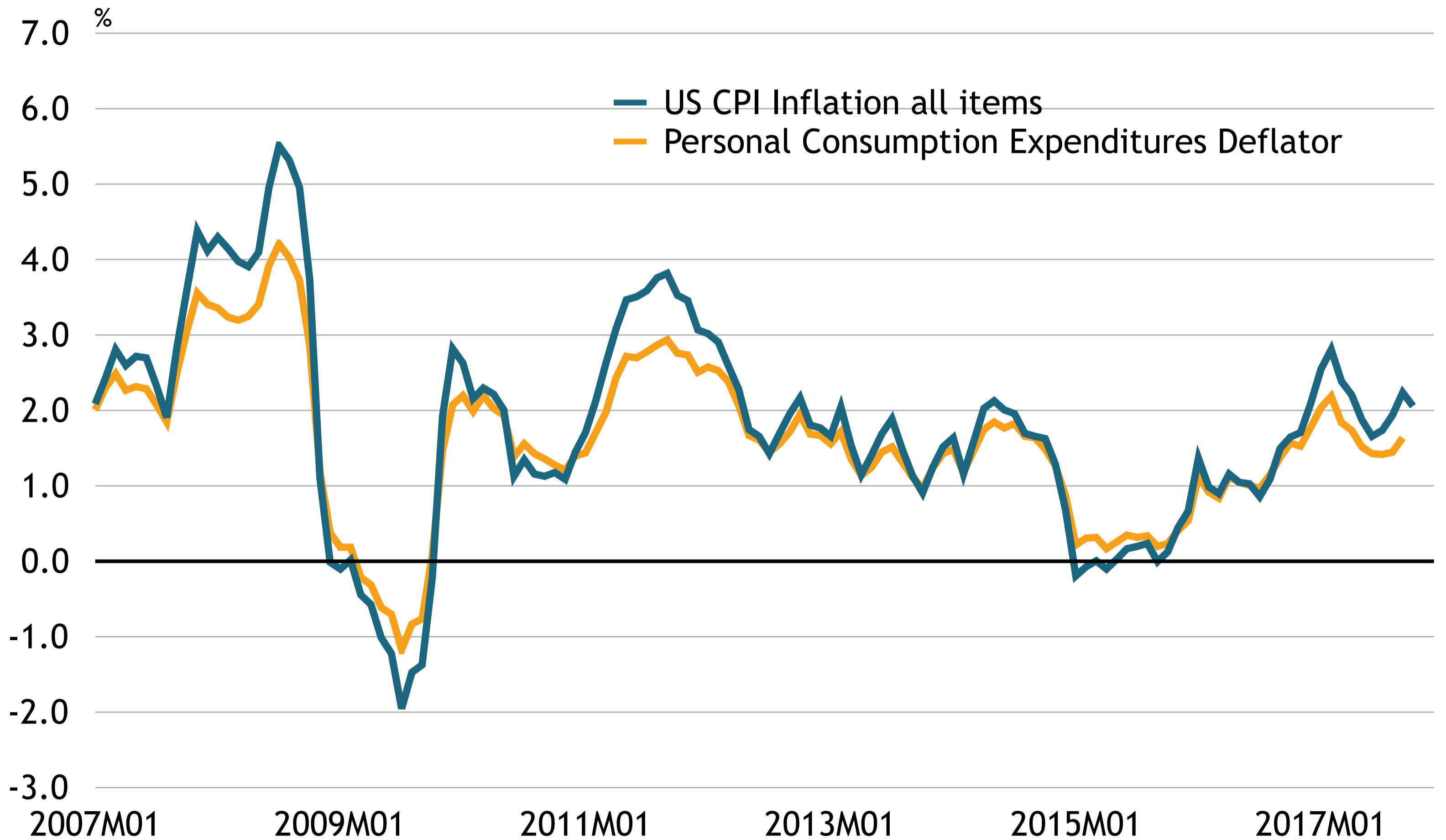
Source: BLS

Finally some wage gains



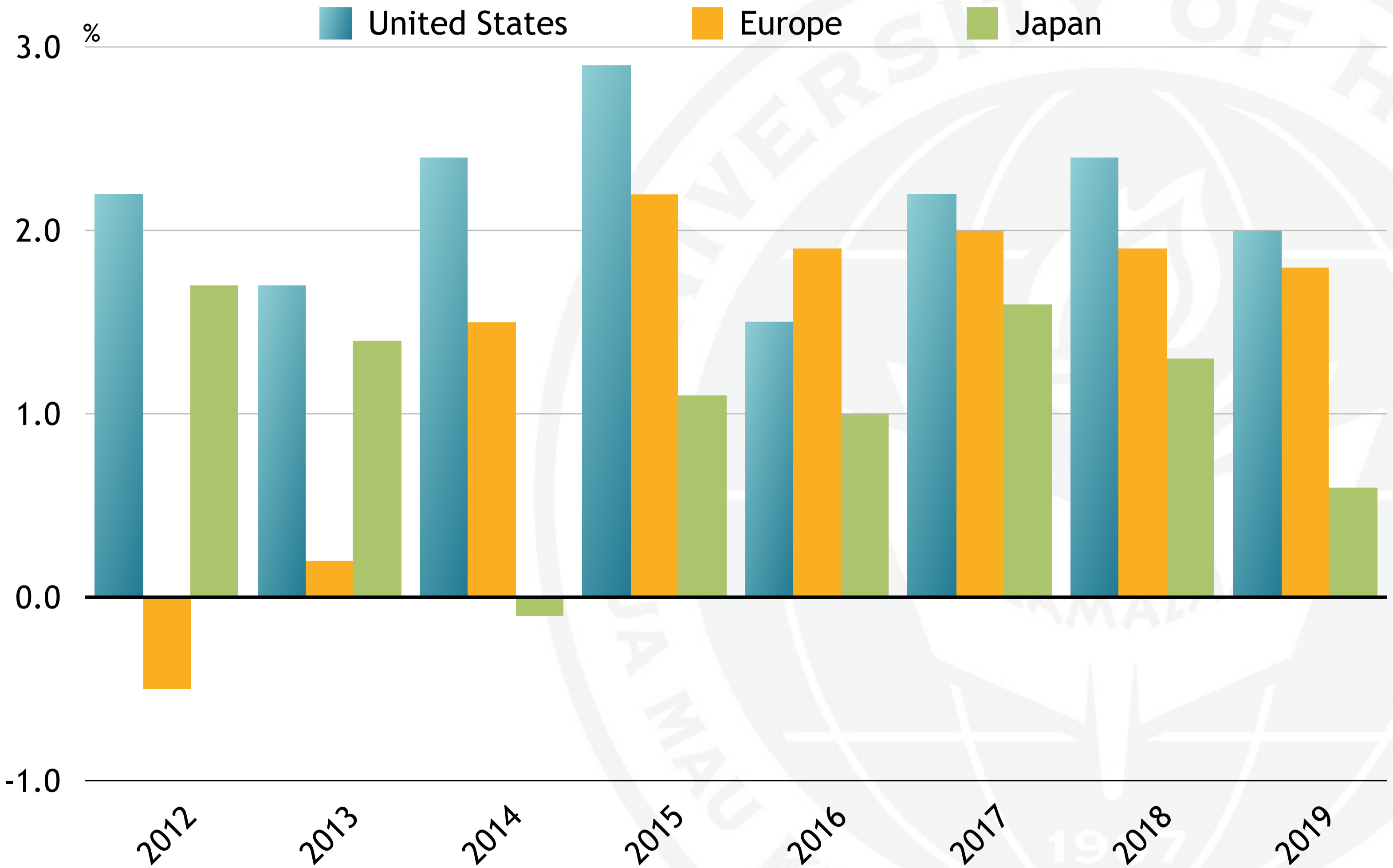
Source: BLS

Low inflation should imply slower FED response



Source: Federal Reserve Bank of St. Louis

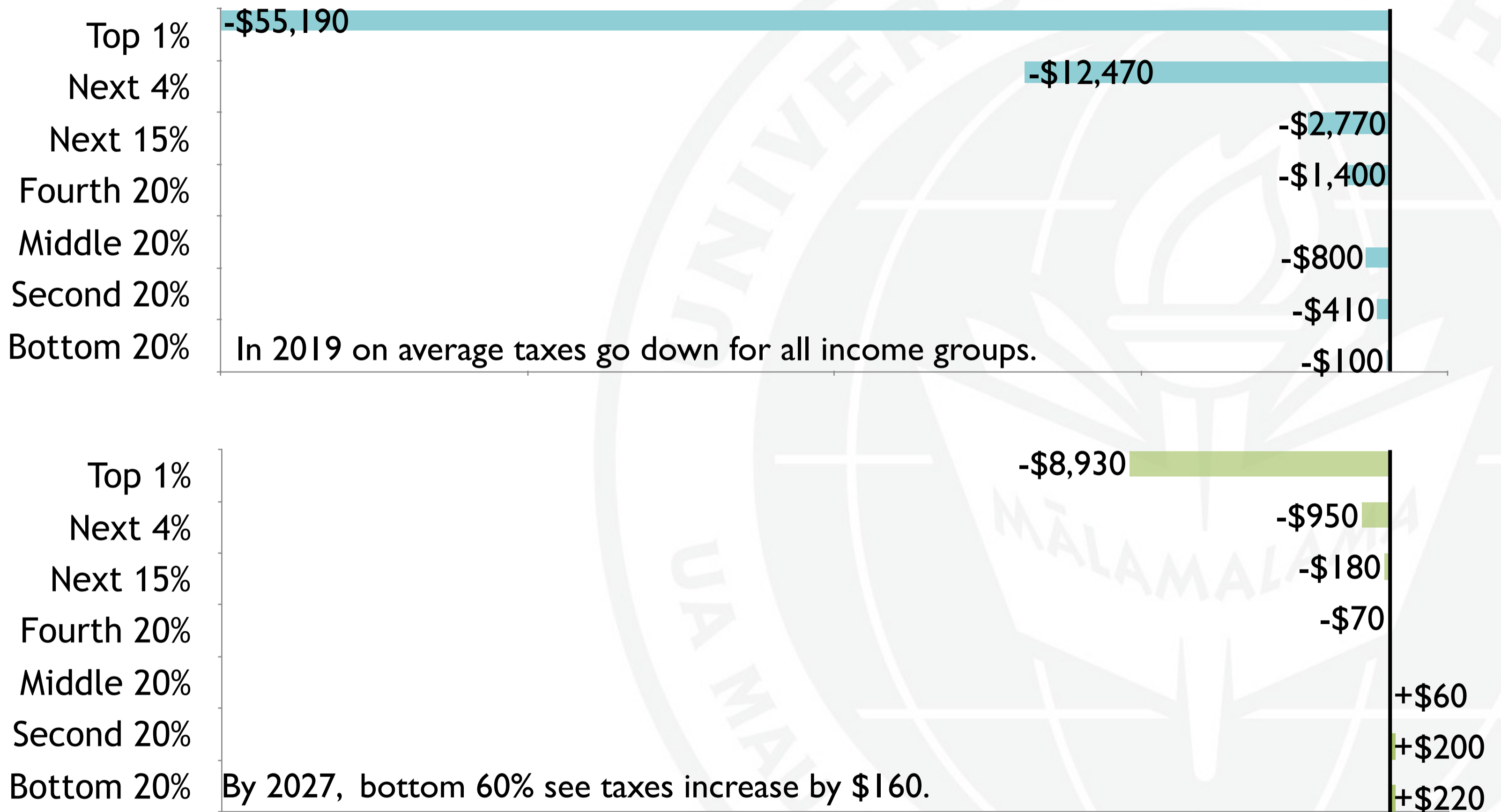
Outlook: US still strongest developed region



Source: UHERO

Risks: deficit enhancement act

average tax change for US tax payers from Trump Tax Bill



Source: Institute on Taxation and Economic Policy www.ITEP.org

Risks: deficit enhancement act

Distributional effects:

- ▶ 2019: 53,310 Hawaii tax payers see a tax increase.
- ▶ 2027: 195,600 see a tax increase.
- ▶ Higher stock prices, maybe lower home prices.

Penn-Wharton Budget Model estimates

- ▶ Debt increase (including debt service cost)
\$1.9T to \$2.2T
- ▶ GDP in 2027 with Tax “Reform” vs Current Policy
+.6% to +1.1%

Goal is to raise corporate investment

- ▶ Where do the investment \$ come from?
- ▶ US net savings rate is just 1.8% of national income.
- ▶ Borrowing from abroad will fund bulk of any increase in investment.
 - Increased interest rates & value of the \$
 - US manufacturing (and Hawaii) become less competitive
 - Trade deficit balloons.

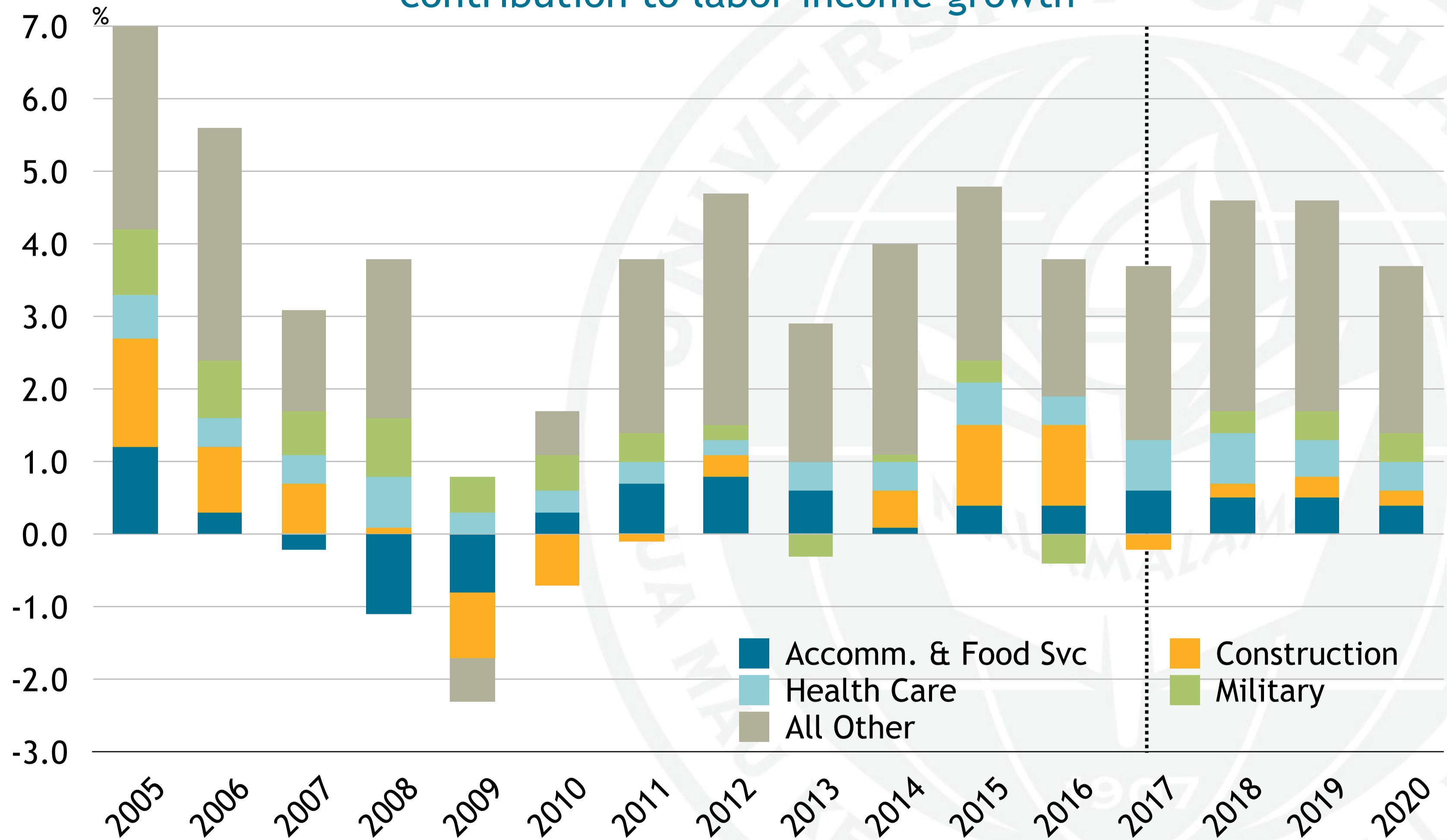
Arrivals continue surprisingly strong growth



Source: HTA, BLS, UHERO. Nominal visitor spending deflated using Honolulu CPI.

Construction now a drag on labor income

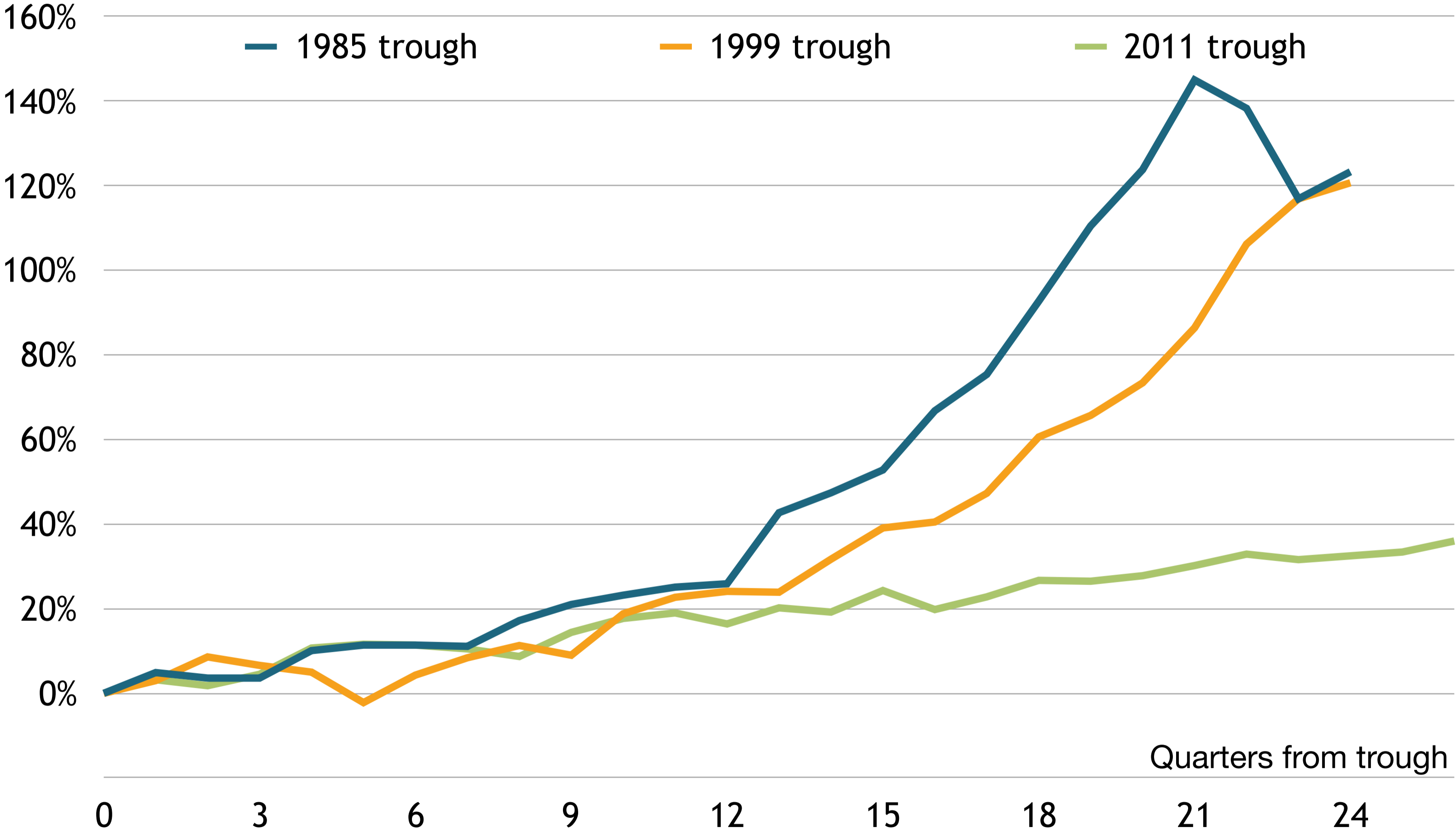
contribution to labor income growth



Source: BEA, UHERO

Home prices continue to rise, but much less than past cycles

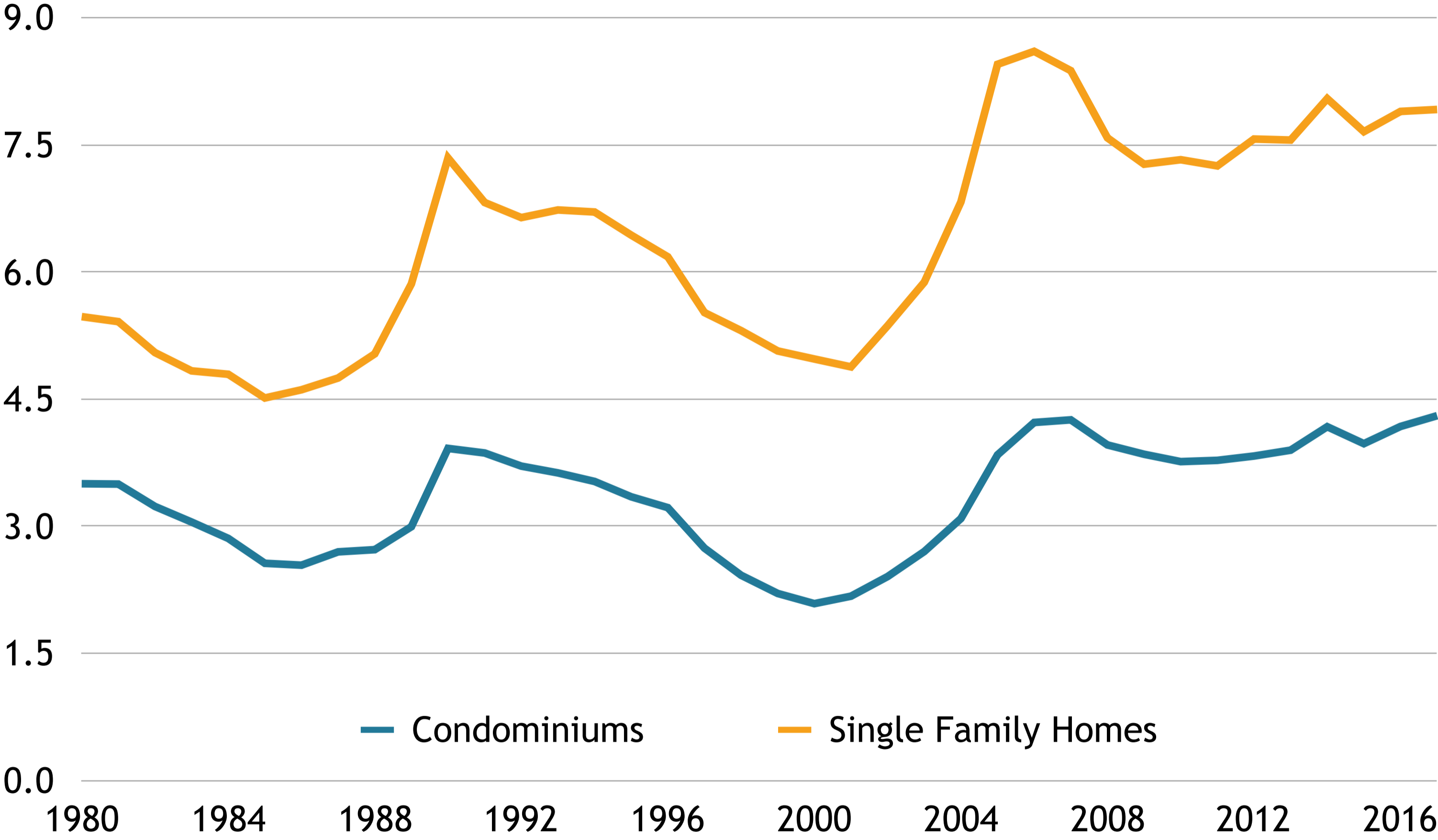
Honolulu median resale price change from trough



Source: Honolulu Board of Realtors, UHERO

Prices below peak

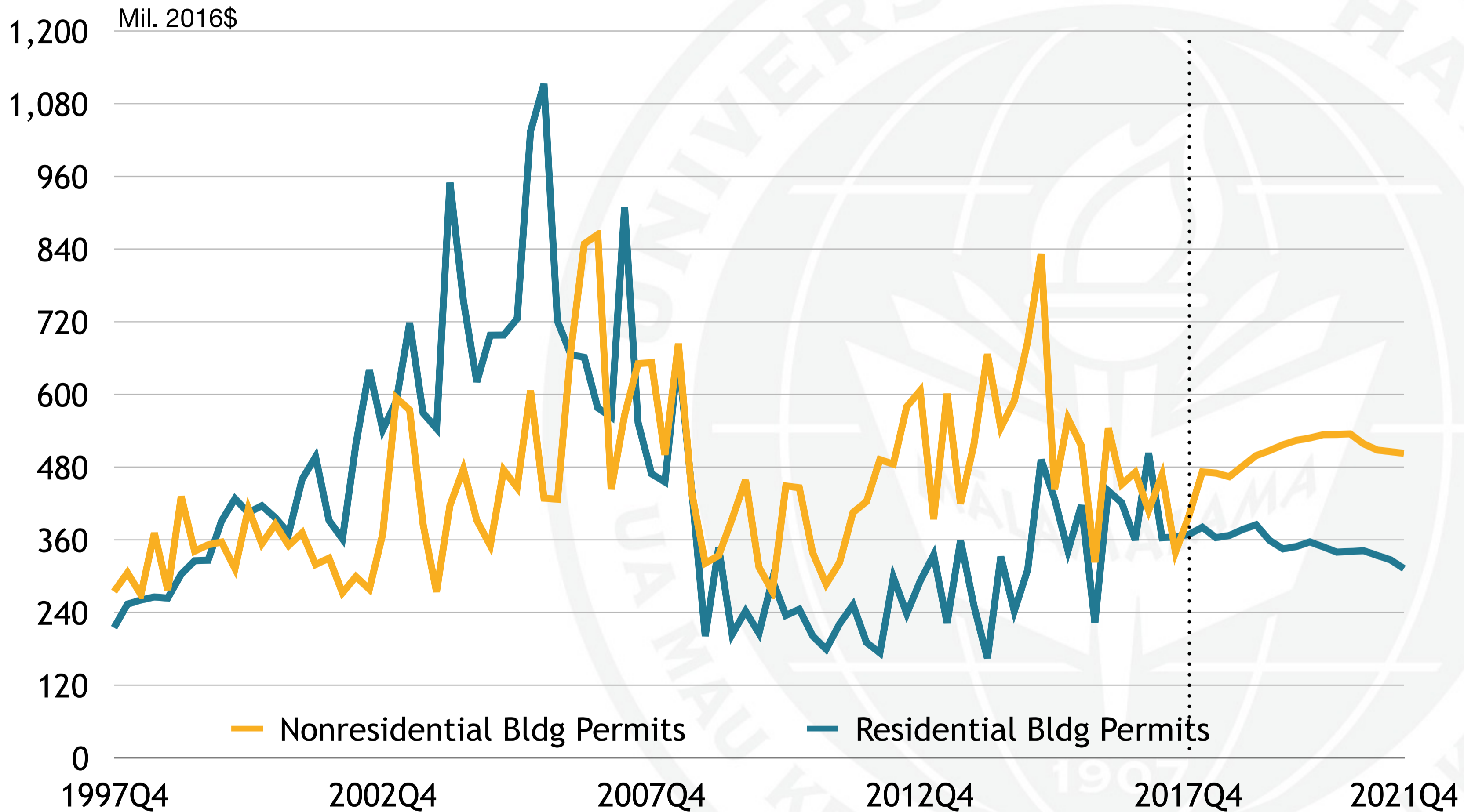
Honolulu median resale price/median household income



Source: Honolulu Board of Realtors, US Census, UHERO

So residential building still lags

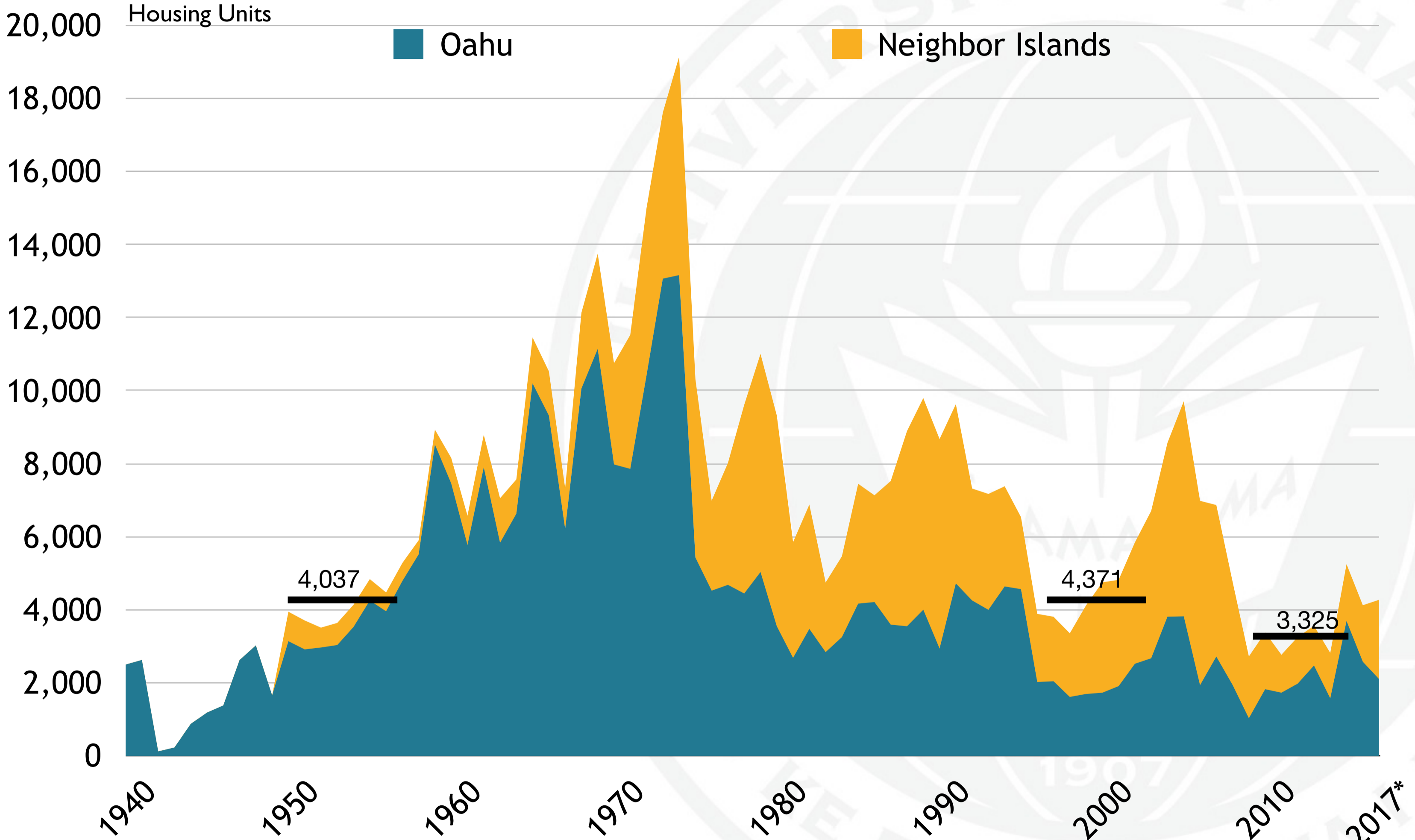
statewide real building permits



Source: DPP, DBEDT, UHERO

Making the housing crisis an opportunity

housing units authorized by permits

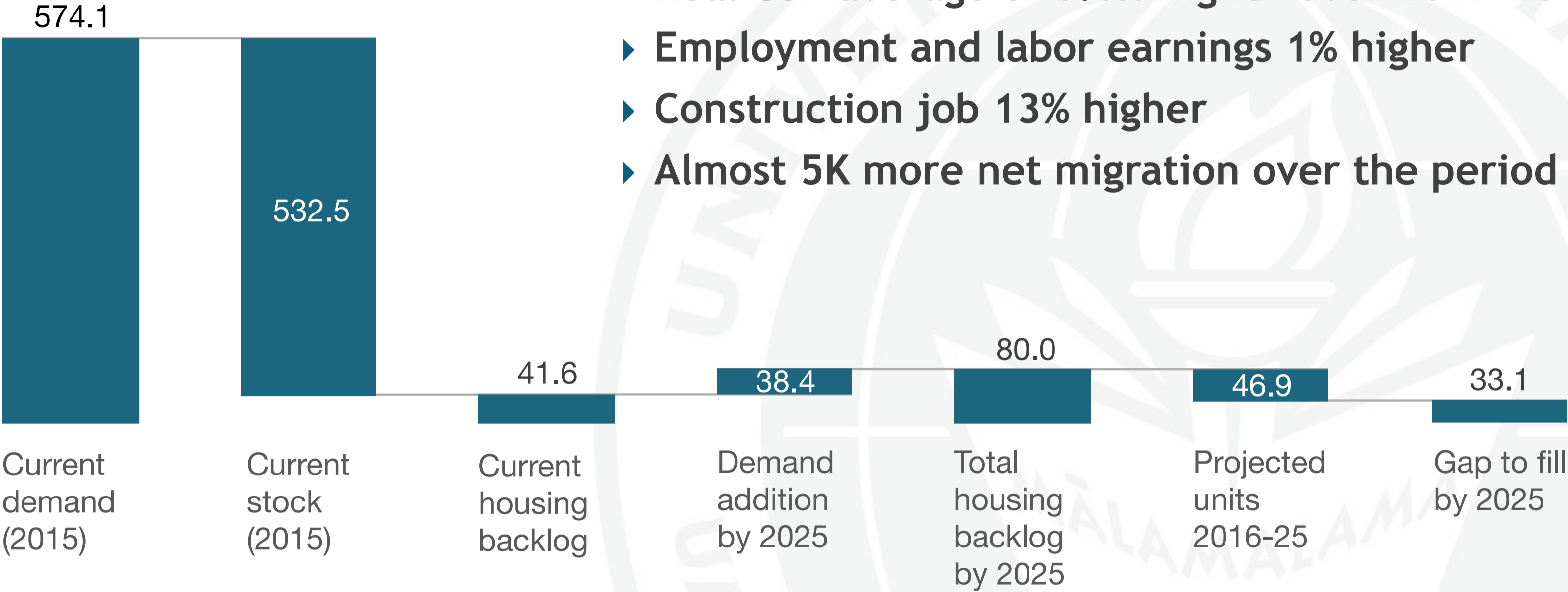


Source: Robert Schmidt, Historical Statistics of Hawaii, DBEDT, UHERO.

Benefits to closing the housing gap

Hawaii's housing supply gap

1,000 housing units



Build an 33K additional housing units by 2025

- ▶ Real GSP average of 0.6% higher over 2017-25
- ▶ Employment and labor earnings 1% higher
- ▶ Construction job 13% higher
- ▶ Almost 5K more net migration over the period

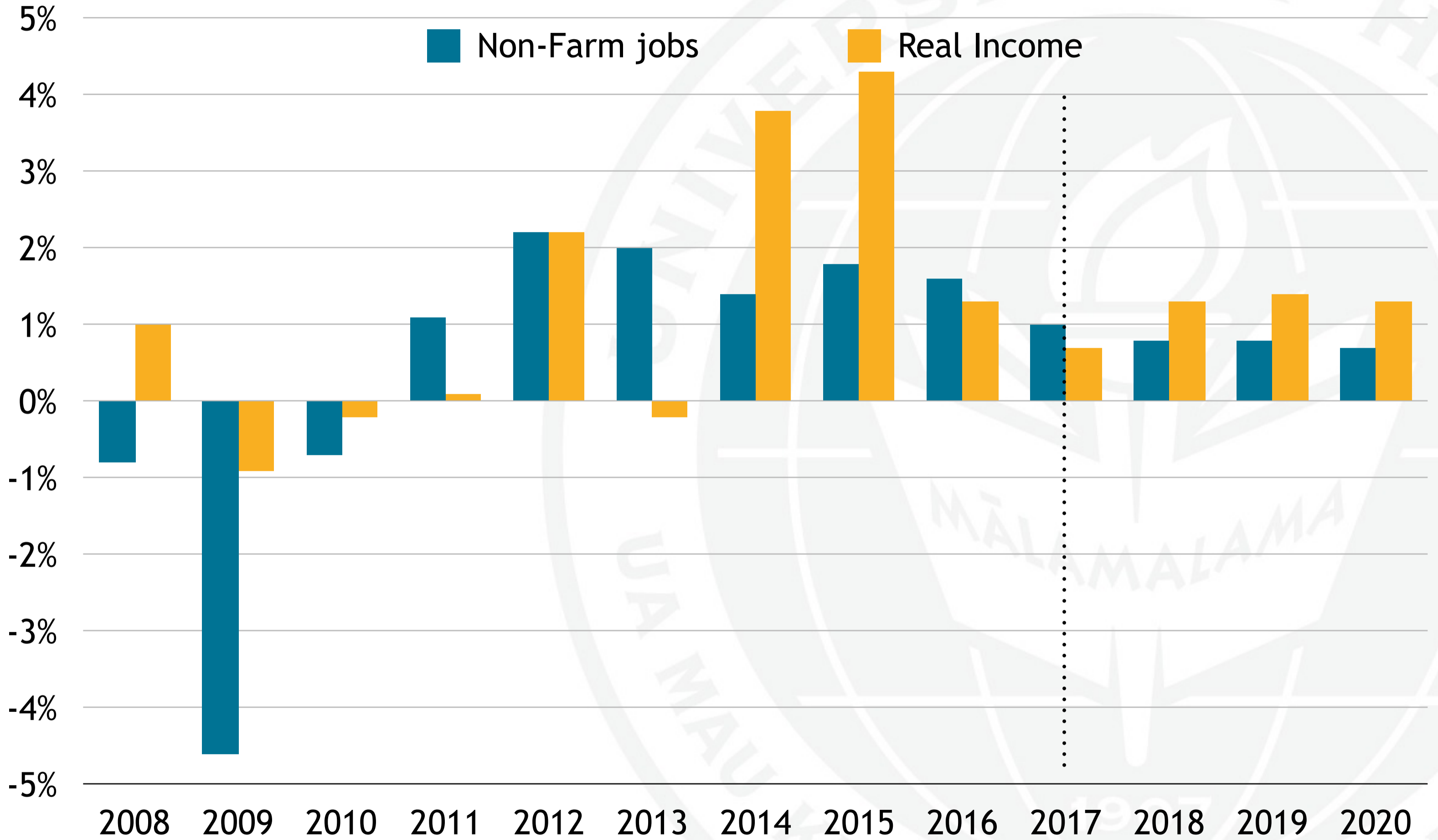
Number of housing units needed in Hawaii to supply the market at the same per capita rate as New Jersey (i.e., 401 units per thousand people)

Additional units needed to supply Hawaii's population growth through 2025 (at the same per capita rate as New Jersey)

Source: US Census Bureau, UHERO, ht McKinsey Global Institute.

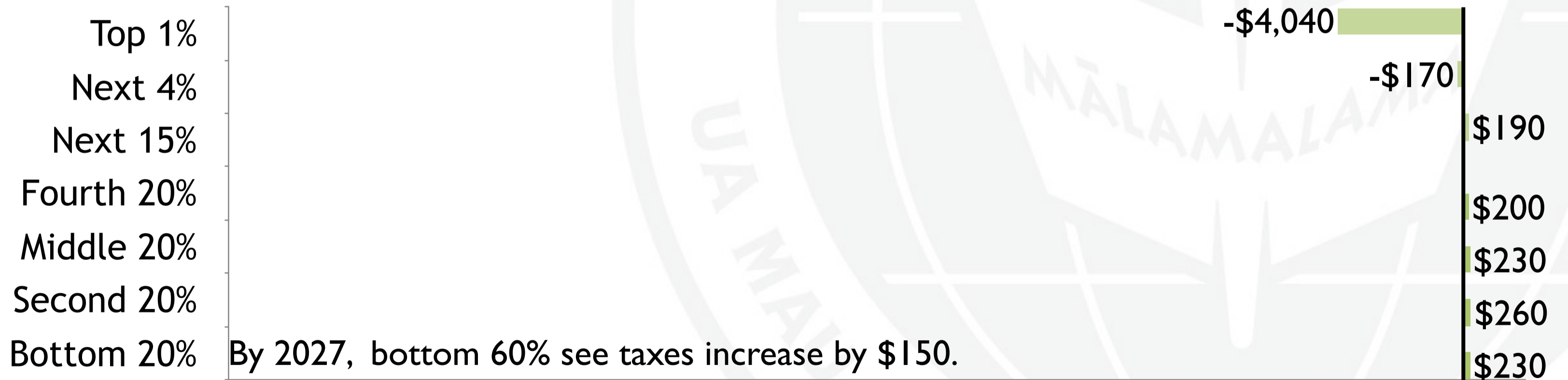
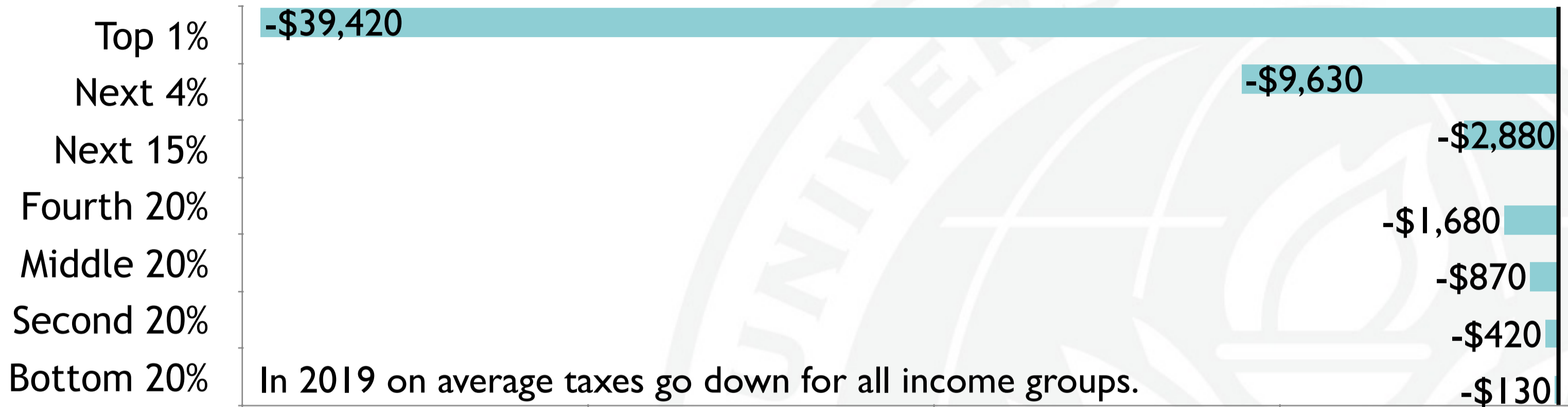
Slow growth is better than the alternative

Hawaii job and income forecasts



Source: BLS, BEA, UHERO

average tax change for HI tax payers Trump Tax Cuts



Source: Institute on Taxation and Economic Policy www.ITEP.org



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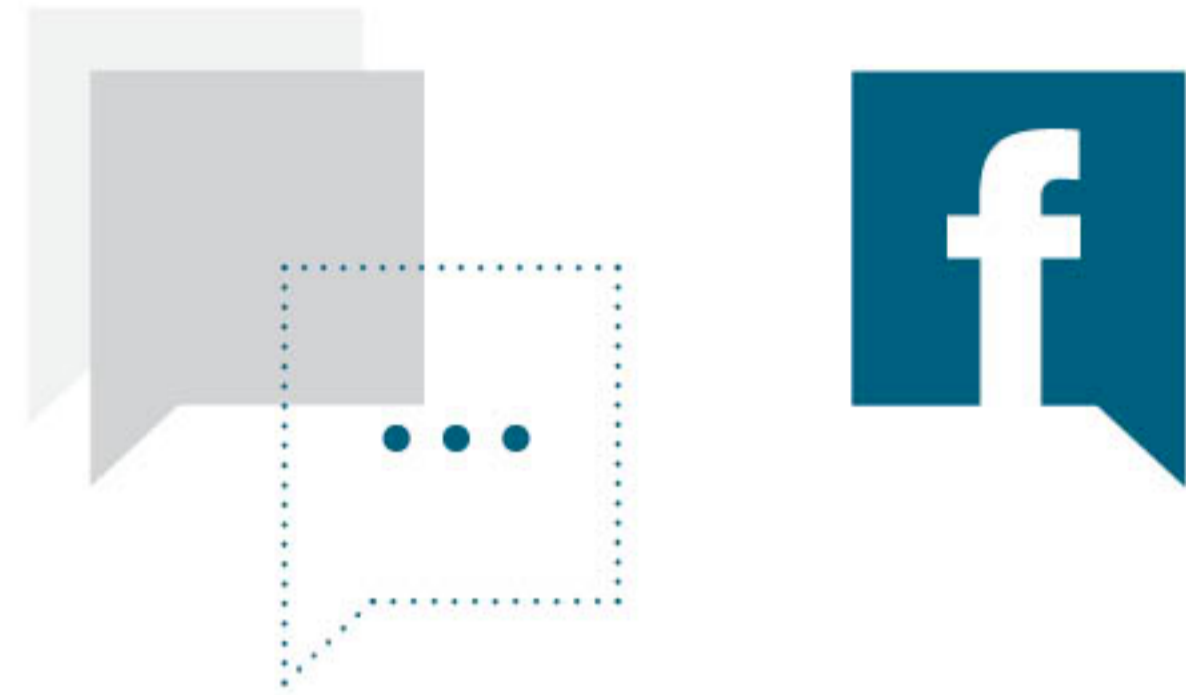
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FEBRUARY 11, 2013

UHERO Study Finds That PV Systems Have a Positive Rate of Return of 14% For Households, But Could Cost the State Up To \$1.4B in Residential Tax Credits

Tax Credit Incentives for Residential Solar Photovoltaic in Hawai'i

FEBRUARY 7, 2013

Q & A Summary: The Impact of Marriage Equality on Hawai'i's Economy and Government

MORE NEWS

MORE PRODUCTS

UHERO FORUM

RESEARCH DRIVEN DIALOGUE

The Inaugural UHERO Forum, held on October 29, was a success with more than 160 people in attendance. Critical issues facing the State of Hawai'i were highlighted, including energy policy, economic development, and sustainability.

VIEW PROGRAM

LATEST FORECAST

Developing Countries Buoy Asian Growth

December 7, 2012

Read the Public Summary

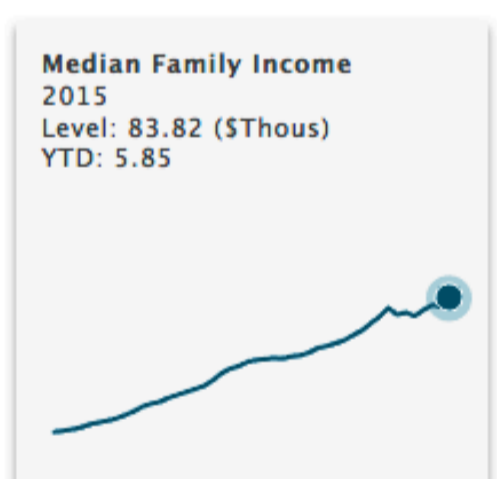
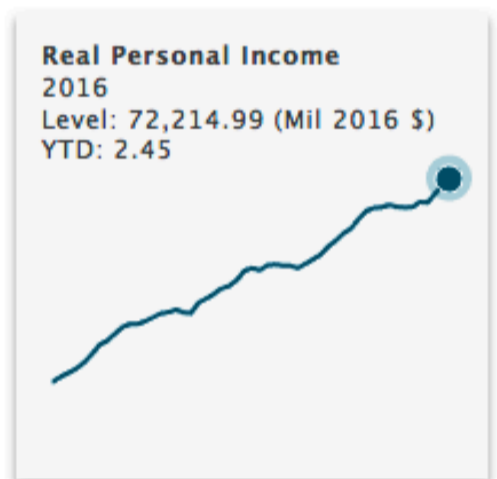
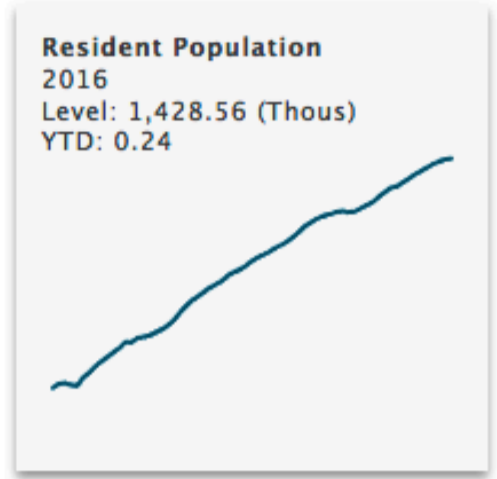
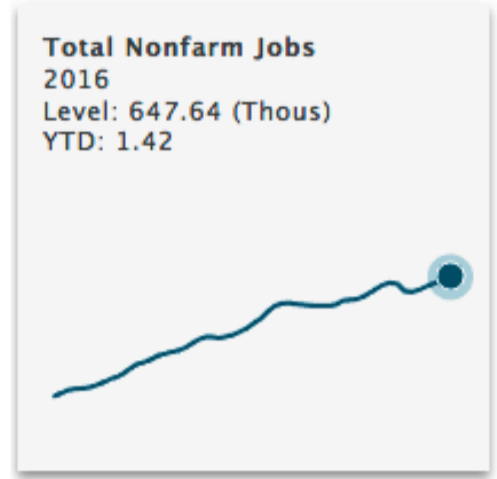


MORE UHERO FORECASTS

At a Glance

State of Hawaii Annual Table View

- Employment
- Visitor Industry
- Income
- Construction & Housing
- External Indicators
- Population
- Prices
- State Revenue & Expenditure
- County Revenue & Expenditures





MAHALO

January 2, 2018

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