

Regional Commentary — February 25, 2021

## COVID Continues to Weigh Heavily on Hawaii's Economy Easing Travel Restrictions Should Eventually Pave the Way for Recovery

### Summary

- The Hawaiian economy continues to reel from the COVID crisis. In December, total nonfarm payrolls were down 13.8% on a year-over-year basis (more than any other state) and the unemployment rate stood at 9.3% (the highest of any state).
- The state economy is heavily reliant on travel and tourism, which collapsed amid the ongoing public health crisis. Since February, payrolls in the leisure & hospitality industry have declined 37%, or by about 48,000 jobs.
- Even industries not directly tied to visitor spending have seen a significant contraction in employment. Payrolls in nearly every major industry remain well below prior-year levels.
- There are some green shoots, suggesting economic conditions should improve in 2021. Passenger arrivals to the state have gradually trended higher over the past few months. Hiring also appears to be picking up, as stringent COVID testing protocols have allowed businesses to partially reopen.
- While 2021 stands to be another challenging year, the Hawaiian economy now appears to be on the road to recovery.

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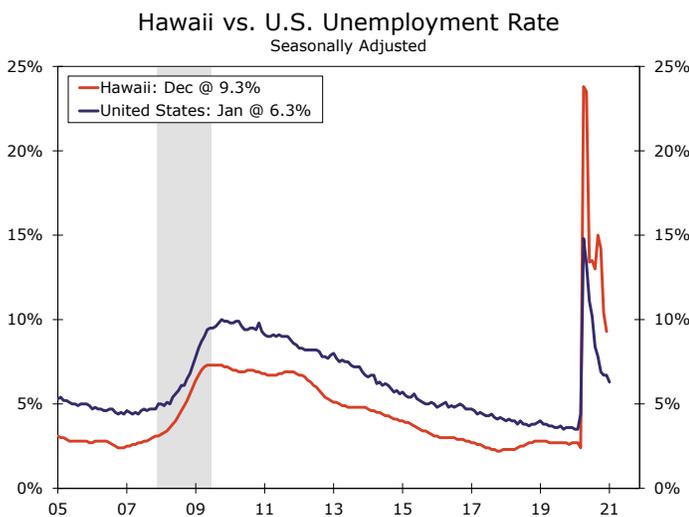
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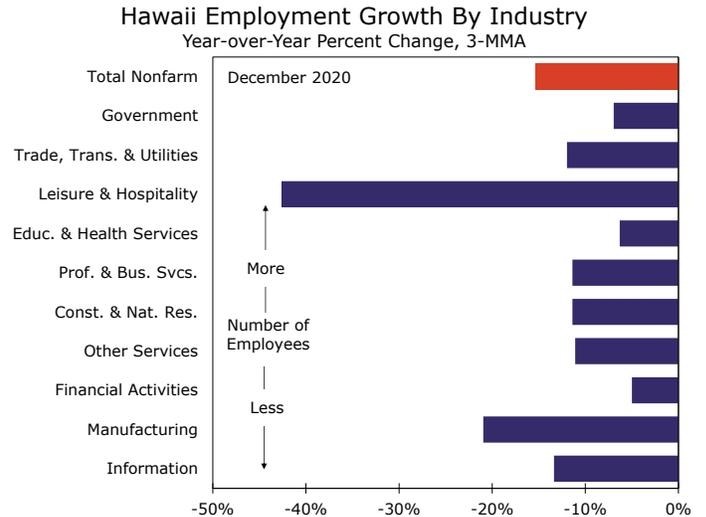
## COVID Upends the Hawaiian Economy

Few areas of the country have felt the negative impacts of the COVID crisis as thoroughly as Hawaii. Like many other states, COVID case growth has waxed and waned for much of the past year, which has led to stay-at-home orders and operating restrictions on many businesses. While clearly necessary from a public health standpoint, there have been severe economic consequences. In December, total nonfarm payrolls were down 13.8% on a year-over-year basis (more than any other state) and the unemployment rate stood at 9.3% (the highest of any state). Hawaii has felt this impact more thoroughly, as it has a large part of its economy tied to tourism and other high-contact activities. The state is also too distant to accommodate large numbers of remote workers that have lifted some other vacation destinations, such as Lake Tahoe, Park City, Scottsdale and Costa Rica. Those adventurous remote workers prefer to work from areas in the same time zone or an hour earlier than their home office.

That said, the state's jobs recovery finally appears to be gathering a bit of momentum. Employers in the state added over 11,000 jobs in December, the third straight monthly gain. Furthermore, the unemployment rate, which spiked to 23.8% last April, has steadily declined since September. Despite recent progress, there is still a long road ahead. While employers nationwide have regained roughly 56% of the jobs lost during last spring's lockdown, Hawaii has only recouped 31% of the 129,300 lost jobs.



Source: U.S. Department of Labor and Wells Fargo Securities



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## Collapse in Tourism Crashes Down on the Leisure & Hospitality Industry

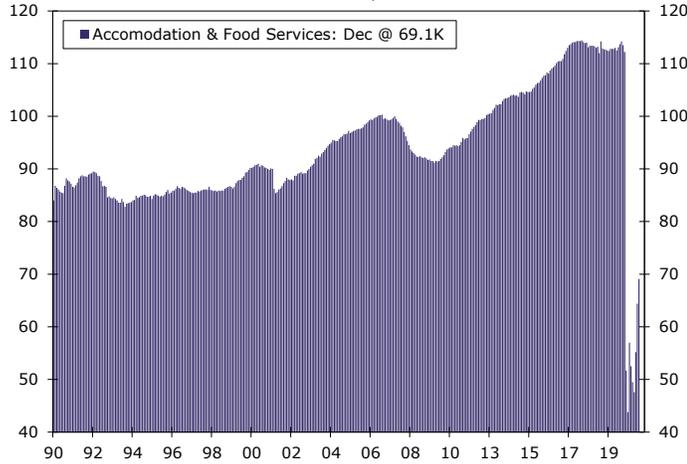
Hawaii's recent struggles are understandable considering the state economy's reliance on travel and tourism, which collapsed amid the ongoing public health crisis. In 2019, visitor spending amounted to \$17.9 billion, which equates to roughly 19% of total economic output in the state. There have been a tsunami of job losses in Hawaii's leisure & hospitality sector. Before the crisis, nearly one in five Hawaiians (19%) were employed in either the accommodation & food services or arts, entertainment & recreation industries. Since February, payrolls in those industries have declined 37%, or by about 48,000 jobs. The negative repercussions of the pandemic are also evident in Hawaii's still-struggling hotel market. According to STR, the average hotel occupancy rate on Oahu Island was 28.8% during the week ending February 20, which is substantially below the 89.1% registered during the same week last year.

The economic impacts of tourism and visitor spending extend well beyond the leisure & hospitality industry. Suppliers and professional services, which support the tourism industry, have felt the ripple effects of the collapse in demand, not to mention the many local retailers which depend on spending by Hawaii's relatively wealthy tourists, as well as the incomes earned by hospitality workers. Of course, even the industries not tied to visitor spending have seen a significant contraction in payrolls. Hiring

in the public sector as well as the trade, transportation & utilities, healthcare, finance and professional service industries have picked up in recent months, but payrolls remain well below prior-year levels.

### Hotels, Bars & Restaurant Employment

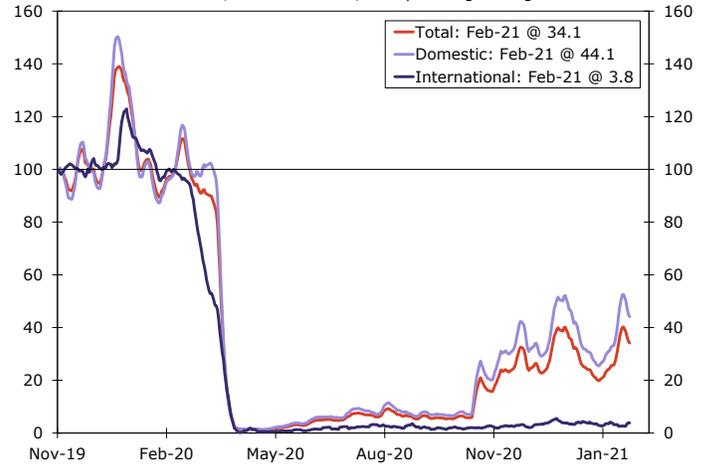
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Source: U.S. Department of Labor and Wells Fargo Securities

### Hawaii Passenger Count

Indexed, Nov. 2019=100, 7-Day Moving Average



Source: State of Hawaii and Wells Fargo Securities

## Economic Conditions Should Improve in 2021

Looking further ahead, economic conditions should continue to gradually improve. The winter wave of COVID infections that hit the state appears to be receding just as the pace of vaccinations nationwide appears to be accelerating. As the nation progresses further toward herd immunity, we expect a surge of pandemic-fatigued travelers to be unleashed as households look to make up for all of this past year's lost vacations and other special events. The rise of remote work may also eventually help support visitation, particularly once California's recovery gains traction. Business and international travel, however, will take longer to come back.

There are some early signs domestic travel to Hawaii is beginning to mend. While the number of travelers coming to the state remains just a fraction of pre-crisis norms, passenger arrivals have gradually trended higher over the past few months. Stringent testing protocols may also help speed up the recovery. The state has imposed a mandatory 10-day quarantine on anyone traveling to the state, but visitors may bypass by participating in a pre-travel testing program where visitors present proof of a negative test result before entering the state and also when traveling between islands. Hiring in the leisure & hospitality industry, which added back close to 25,000 jobs from October to December, has picked up alongside an increase in visitors to the islands. While we expect this improvement to continue this year, Hawaii clearly faces a longer road to recovery than most other states.

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