

Kauai's Economic Recovery Expected to Strengthen in 2014

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(Lihue, Kauai, Sept. 19, 2013) – "Tourism will continue to grow, though the growth rates of arrivals and spending will level off. Overall, Kauai can look forward to continued growth and an improving economy into 2014," economist Dr. Jack Suyderhoud said today at the 39th Annual First Hawaiian Bank Economic Outlook Forum at the Grand Hyatt Kauai Resort & Spa.

Suyderhoud, First Hawaiian Bank economics adviser and professor of business economics at the Shidler School of Business at the University of Hawaii-Manoa, said the Neighbor Islands, and in particular Kauai, which is most dependent on tourism, are "benefiting from a strong recovery of tourism" and added that he sees these other positive signs for Kauai: "Real estate is showing clear positive trends. New retail spaces aimed at tourists and locals are being developed. The Pacific Missile Range Facility and diversified agriculture continue to be important for the economic base. And Kauai County finances seem to be on firmer footing."

However, Suyderhoud noted that strength in tourism is spreading only slowly to some other economic sectors:

- "Construction has bottomed out but has yet to regain strong growth."
- "The 2008-09 recession affected jobs and labor on Kauai more than other counties; less than half of the 3,500 lost jobs have returned. While the unemployment rate is down, it is still above the statewide average."

Tourism

"Compared to Hawaii's other islands, Kauai has a unique visitor market," Suyderhoud said, more highly dependent on tourism as measured by a ratio of visitor arrivals to resident population. "Kauai leads all the islands, with a ratio three times as large as Oahu. This indicates that tourism trends are vitally important to Kauai's economy," he said. "Kauai is also the most reliant on Mainland markets (which provide more than 80% of its visitors) and least dependent on Asian travelers. Canada remains a significant overseas market for Kauai. Even though the Canadian dollar has weakened relative to the U.S. dollar in the last year, it remains relatively strong, and this will keep Kauai attractive."

Also, he said, Kauai "is much more reliant on tourists who stay in time-shares, individual vacation units, or condo hotels. This has its good points, since many of these types of visitors are returnees and tend to stay longer. On the other hand, they also tend to spend less. For example, as of June 2013, the average daily spending by all visitors to Kauai was \$168 compared to \$197 for the state as a whole and \$210 for Oahu.

Suyderhoud said Kauai's visitor arrivals have been growing since 2009 and are on target for over 1.1 million in 2013, though still short of the 2007 peak of 1.3 million. "Meanwhile, visitor expenditures are doing even better, on average, in spite of volatility in the numbers. Spending for the first half of 2013 is now up by \$200 million over the same period in 2008. The Kauai market has benefited from Alaska Airlines' addition of non-stops from Portland and San Diego. Hawaiian Airlines has plans to add seasonal service from Oakland to Lihue in 2014."

He cited these positive signs in the tourism sector:

- "Led by Honolulu-based investors, Coco Palms Hui has hopes to bring back the Coco Palms property with 350-390 rooms and its original ambiance."
- "New inventory is coming on line through the Outrigger Waipouli, St. Regis Princeville and the new Koa Kea Hotel & Resort at the former location of the Poipu Beach Hotel."
- "Visitor retailing is being helped by the expansion of the Princeville shopping center."
- "Cruise ship arrivals continue to help visitor counts. In 2012 there were 224,000 Kauai visitor-days by cruise

passengers, and the first half of 2013 is 8.3% above the comparable period in 2012."

"As tourism recovers, there is concern that the numbers are bumping up against a real or perceived capacity constraint," Suyderhoud said. "Some have told me that when the annual count reaches 1.2 million the community starts feeling overwhelmed. It is obviously in the interest of the tourism industry to work with the community on managing these issues."

Jobs and Unemployment:

"Even though the tourism sector has been robust, Kauai job growth has returned only very slowly. Kauai lost over 3,500 jobs between early 2008 and early 2010. Since then, about 1,600 of those jobs have returned. However, that means that Kauai is still well below the prior peak," he said. "The recession affected the Kauai labor market more so than the rest of the state as the unemployment rate on Kauai soared to over 10% in 2009, well above the statewide peak. The slowly improving jobs picture has brought the Kauai unemployment rate down to less than 6%, but it remains about 1% above the statewide average."

Construction and Development:

"On the other neighbor islands the boom in tourism has clearly spread to other parts of the economy, including construction. This has yet to occur convincingly on Kauai where construction continues to underperform," Suyderhoud said. "Since mid-2011, private building permits have shown only modest improvement on a trend basis. The decline of construction jobs, which began in late 2010, did end about a year later, but construction jobs have still not recovered to prior levels."

"The bottom of the construction cycle is being supported by public infrastructure spending. For example, County capital improvement spending on roads and water system improvements is expected to be \$15-18 million on an annual basis."

"Grove Farm's Hokulei Center construction is getting underway in 2013 with Safeway as an anchor tenant scheduled to open in 2014. Grove Farm is also developing 200 lots at Pupuikē. Kukuīula construction of resort homes has picked up, reportedly with the help of Chinese investors."

Real Estate: Positive Trends

Suyderhoud said the residential real estate market "is showing clear positive trends. The number of single-family and condominium units sold has been consistently improving since 2009. If the patterns in the first part of 2013 continue, sales volumes will exceed 2007 levels. Residential real estate median prices also seem to have bottomed out in 2011."

"However, in both the number of sales and prices, the real estate market is still far off prior peaks," he added.

Diversified Agriculture

Suyderhoud noted that, between 1987 and 2007, Kauai's cropland decreased by more than half from over 50,000 acres to just 22,000. "Hired farm workers dropped from more than 2,000 to fewer than 1,300. These declines would have been even greater without the rise of coffee, seed corn and other diversified ag ventures," he said. He noted these developments in agriculture:

- "Kauai Coffee, the state's largest coffee company, has 3,100 acres planted with 4 million trees, along with a good brand identity."
- "The seed corn industry is enormously important to Kauai's economy, especially on the west side. The four major players provide significant land rents and well-paying jobs. For example, Dow Agrosiences is investing \$50 million over three years in operational infrastructure and employs on average 100 people on a year-round basis with a payroll and other expenses of \$5-10 million. Pioneer has about 160 full-time direct employees with another 100 or so seasonal workers."

- "Shrimp breeding and farming is a growing enterprise by Sunrise Capital, Inc., with 30 workers in three facilities and an annual payroll of \$1.2 million. They have gained a worldwide reputation for their breeding stock that yields them \$4.5 million per year in revenues and are also ramping up meat shrimp sales and are moving into clam production."
- "Hawaii Dairy Farms is planning a \$14-million investment for a 2,000-head operation at Maha'ulepu Valley that will supply 7% of the state's milk supply."

Missile Range Facility

"The Pacific Missile Range Facility at Barking Sands is an integral part of the island's economy," Suyderhoud said. "It employs about 1,000 workers including about 90 active-duty military and 150 civil service employees, plus about 750 contractors. It injects \$135 million per year into the Kauai economy through local payrolls and contracted goods and services, plus another \$8-15 million annually for periodic testing events."

"As in other parts of the Federal government, sequestration is being felt at PMRF as some contract employees are being put on furlough days."

Film Industry: Hope for the Future

"Kauai has leveraged its unique natural beauty as a film location, with productions bringing immediate impacts of outlays, employment and visibility. According to the Kauai Film Commission, the island is attracting a steady flow of TV documentaries and reality-type shows including HGTV's 'Hawai'i Life.'

"Effective July 1, the state increased the refundable tax credit for filming qualified movie, television, commercial, or digital media projects in Hawaii, including internet-only distribution. The credit equals 25% on the neighbor islands. In addition, the cap on the credit has been increased from \$8 million to \$15 million per production and will be administered through the State Film Office. These new incentives could help Kauai attract another blockbuster filming project. However, competition from other locales is fierce."

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