

First Hawaiian Bank 2015 Hawaii Island Economic Forecast

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"Resilience, Growth and Uncertainty Mark Outlook"

(Hilo, Hawaii, September 17, 2015) – “2016 should be another good year for Hawaii Island’s economy. Strength in tourism and rebounding residential construction will lead the way. The labor market is favoring workers, and higher confidence is being translated into strong real estate sales with appreciating values,” economist Dr. Jack Suyderhoud said today.

Suyderhoud, First Hawaiian Bank economic adviser and professor of business economics at the Shidler College of Business at the University of Hawaii-Manoa, spoke at the 41st Annual First Hawaiian Bank Hawaii Island Economic Outlook Forums today. Two forums were held -- at the Hilo Hawaiian Hotel and Waikoloa Beach Marriott Resort.

“Last year, our concern was about how Hawaii Island’s economy would handle storms and lava,” Suyderhoud said. “Nature proved sparing and people came together to deal with and mitigate the adverse effects. Hawaii Island has proved its resilience, and the economy continues to expand. Now the question is how the island will deal with uncertainties of the man-made variety, including:

- “Financial problems at the Hawaii Health Systems and in particular Hilo Medical Center (HMC), and
- “The continuing controversy over astronomy facilities atop Mauna Kea.”

He predicted that “If more draconian cuts occur at Hilo Medical Center or elsewhere on the island, and if the Thirty Meter Telescope (TMT) construction is further delayed or even halted, 2016 could still be positive, but less so.”

Tourism: “Among the neighbor islands, Hawaii is the least dependent on tourism for its economic base, and this dependence has declined in the last 15 years. However, the west side is more tourist-dependent than either Maui or Kauai, while the Hilo side is even less impacted by tourism than Oahu,” Suyderhoud said.

He said tourism dependence “can be a blessing or curse, depending on that sector’s economic cycles. In the last few years for Hawaii Island it has been somewhere in between.” He noted significant visitor growth in 2012 and early 2013, followed by a no-growth period and virtually flat numbers in 2014. Still, he said, 2014 “was the best year since the Great Recession, and visitor days reached a record 10.9 million.” He noted that there was a steep drop in Japanese visitors due to the lack of direct flights and the weak yen, offset to some extent by a 10 percent increase in Canadian visitors.

Looking ahead, he noted that “group incentive bookings are strong for both 2016 and 2017.” But he added that “Through July of this year, average daily spending per person by visitors to Hawaii Island has increases slightly. However, the island still trails other Hawaii markets in this crucial category..”

“In spite of strong visitor numbers, resort shops are experiencing mixed results. Queen’s Market Place seems to be doing well, but the Shops at Mauna Lani are struggling. At Hualalai, the shops are generally doing well,” Suyderhoud said.

He noted “a tale of two cities” in terms of airline capacity this year, with Kona seeing large increases in domestic seats, but Hilo experiencing double-digit declines.

Kona airport “has received most of the state’s attention,” he said with \$60 million in terminal modernization expected to start next summer. Work on a \$61 million firefighting facility is expected to begin in early 2017, while parking lot improvements continue. Hilo is getting a new airport fire station at about \$20 million.

“On the east side, there is optimism for the first time in years now that Hilton, through its DoubleTree brand, will manage

the Naniloa property. DoubleTree should open with 120-150 rooms later this year, bringing added life to the Banyan Drive area,” Suyderhoud said.

Construction: “Construction data for Hawaii Island create a confusing picture. On the one hand, private building permits have about doubled since 2010, but recorded construction jobs have been flat since early 2013, and declined by about 600 after mid-2014,” he said. Multi-family residential construction is moribund, although single-family residential permit growth has been occurring, led by Kona with both Hilo and Waimea showing positive signs.

“In spite of contradictory permits and jobs data, my discussions with those in the Hawaii Island construction industry indicate that times are good,” he said, with backlogs going beyond 2016 and specialty high-end contractors hard to find. “Workers are being hired, and there are shortages in skilled construction fields such as operating engineers.”

He noted single-family residential construction activity on the east side at Hilo Hillside Estates (56 lots), Punahou Mauka Estates (37 lots), Lake View Estates (19 lots) and a 49-lot subdivision being developed below the Hilo Municipal Golf Course.

On the west side there are no new large-scale residential developments, he said. “The Hokulia project, which had much buzz last year, seems now to be mired in disputes between the developers and homeowners. The buzz seems to have shifted to the Kohanaiki Resort development with its multi-million dollar lots and homes,” Suyderhoud said.

“The Shipman Company is following up their commercial development, including the 100-employee HMSA operation, with rezoning of 250 acres of medium-density development at the center of Keaau. “

He noted robust public infrastructure activity at Hilo Harbor, Kumau Street and the container yard, which is approaching 95 percent completion. At that point, Hawaiian Dredging and Healey Tibbitts will begin an 18-month, \$43 million project to build the face of the pier, he said.

He said the county will likely borrow about \$100 million to finance capital projects such as Waimea Park (\$18 million), Hilo golf course clubhouse improvements (\$16 million), Kapiolani Street extension (\$13 million), Komohana Street (\$4 million) and \$9 million to move the fire station to Haihai Street.

Labor Market: “As the economy continues to improve, labor shortages are starting to appear. Employers in all sectors are finding it harder to hire qualified help,” he said, in part due to the local and nationwide graying of the labor force. “Overall, total reported jobs have remained flat since late 2013. However, the unemployment rate has continued to improve, following, but not catching up to, the state trend. Hawaii Island’s unemployment rate stands at 4.2% compared to 5.8% the year before and 3.3% for the state as a whole.”

Real Estate: “The real estate sector continues its slow climb out of the abyss of the Great Recession,” Suyderhoud said, with overall sales volume of both single-family and condominium homes unchanged between 2013 and 2014. “Single-family prices have recovered more from the low points of 2010-11 than have condominium prices. Single-family prices on the west side are, on average, more than twice as high as east-side values. In addition, prices started recovering earlier and more quickly on the west side.” In the rental market, he added, owners are starting to raise rents for the first time in seven years.

“Commercial real estate is a mixed picture. The warehouse market remains soft with vacancies at 15 percent on the west side and 10 percent in Hilo. Rents are not back to pre-recession peaks. Retail vacancies are running at 15 percent on both sides of the island,” he added.

UH Hilo: Suyderhoud noted that “UHH was recognized as having the most diverse student body of any undergraduate program in the U.S. However, consistent with national trends, enrollments are down slightly to about 4,000. The College

of Pharmacy construction should be underway this fall. This is a \$33 million project. The University Village Phase II is going out again for development proposals that are more focused on commercial activity.”

He reported that “The Masters Degree in Heritage Management is underway, and the Aviation Sciences program is looking for a flight-training provider, and will then go to the Board of Regents for approval. An undergraduate program in Energy Sciences is also being proposed. UHH is also partnering with Arizona State’s Wrigley Global Institute of Sustainability for curriculum, research and outreach projects.”

NELHA: “The Natural Energy Laboratory Hawaii Authority continues to be an important part of diversifying the west side economy. NELHA and its tenants in 2013 spent \$69 million locally, creating \$123 million in statewide output, \$29 million in earnings, \$5 million in taxes and 617 jobs. NELHA is renovating its primary building space and will open at the end of 2015 as a tech hub for the west side.”

He noted that two new long-term tenants have signed up: a deep sea salt manufacturer and an ocean fish farming project that is a joint venture by Lockheed Martin and Kona Kampachi. OTEC is making a comeback with a 100-kilowatt turbine installed by Lockheed Martin to demonstrate technical feasibility.

Agriculture: “The island’s agriculture sector has had a good year in spite of nature’s vagaries. The damage to the papaya crop due to the weather was extensive, but production has recovered. Ka’u coffee has also survived the storms, and island-wide prices are up to the \$1.50-\$2.00 range for coffee cherries. However, margins are being squeezed by higher costs, including those associated with fighting the coffee berry borer,” he said.

“Favorable weather and good flowering, especially on the west side, have resulted in bountiful macadamia nut yields. Demand has been strong and farm prices have hit an all-time high, providing incentives for more orchards to be planted.

Medical Sector: “Uncertainty abounds for HMC and other parts of the Hawaii Health System Corporation. It has been clear for years that the business model for state hospital facilities has not been sustainable. Revenues are not keeping up with costs, especially since the hospital system, like other parts of the state government, must increase funding of retirement promises. For HMC alone this is an \$8-9 million hit in fiscal year 2016-17. In addition, 75% of HMC’s patients are on Medicare or Medicaid, and reimbursements are not adequate to cover costs. Lack of access to primary care physicians is driving many urgent cases into the emergency room,” he said. Already the state has cut services and over 100 jobs in Hilo and Kona.

Mauna Kea: “The mountain has an economic impact. UH economists estimated that the \$59 million in annual local spending by the observatories and their operations created \$92 million in local output, \$28 million in local income and 806 local jobs in 2012. Looked at another way, for every \$1 million in local operating costs, the activities on the mountain add \$1.6 million in local output, \$500,000 in local earnings and 14 jobs,” Suyderhoud said.

“These numbers tell us what can happen as observatories are added or decommissioned. For example, the recent announcement that the relatively small Caltech Submillimeter Observatory and the UH Hoku Kea facility will be will shut down will directly take \$2 million per year spending out of the economy and eliminate 11 local staff jobs. Multiplier effects will increase these negative impacts. Offsetting this in the short run is the spending and employment required to decommission the sites and to return the areas to prior condition.

“If not allowed to come to fruition, the absence of TMT would likely mean \$20 million per year less in local spending, \$10 million per year less in local incomes, and the absence of more than 275 jobs that would otherwise be there,” he said.

Read the full First Hawaiian Bank Hawaii County Economic Forecast report [here](#).

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