

## First Hawaiian Bank 2015 Kauai Economic Forecast

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### Garden Island Outlook Buoyed by Strong Tourism

(Lihue, Kauai, October 1, 2015) – “Following the statewide pattern, Kauai’s economy is benefiting from strong visitor numbers that will set records in 2015. Construction is gaining momentum and will add to economic vitality in 2016,” economist Dr. Jack Suyderhoud said today.

“Confidence is reflected in airline seat commitments and, more firmly, by investments in resort, commercial, and residential real estate. Diversifying the economic base should continue to be a priority for Kauai,” said Suyderhoud, First Hawaiian Bank economics adviser and professor of business economics at the Shidler College of Business at the University of Hawaii. He spoke at the 41st Annual First Hawaiian Bank Economic Outlook Forum at the Kauai Beach Resort. His other observations on the Garden Island economy:

“More than any other island, Kauai’s economic health depends on tourism. Even some diversified agriculture businesses such as Kauai Coffee and Koloa Rum owe their success to tourism sales,” he said. “A simple way to measure tourism dependence is to divide annual visitor arrivals by resident population. Kauai continues to have the highest ratio, three times that of Oahu and twice that of Hawaii Island.

“A year ago, we were concerned about surprising bumpiness in visitor arrivals, which had seen declines starting in late 2013 and into 2014. In all, 2014 ended about level with the 2013 total of 1.1 million. However, starting in December and going into 2015, strong growth returned. For the first eight months of 2015, growth averaged 4.5 percent over 2014. If this pace continues, total 2015 arrivals will approach 1.2 million.”

He noted that half of Kauai’s visitors come from the western U.S. and another 31 percent from eastern states. However, Suyderhoud said, “much of the recent growth has come from Canada, Australia and Korea) markets. This diversification of the visitor base will help maintain Kauai’s tourism viability.”

He also noted visitor spending growth of 8 percent in 2013 and another 5 percent the following year to \$1.5 billion. “If the current pace for 2015 continues for the full year, total spending will reach \$1.6 billion in spite of relatively low per-person daily spending by Kauai visitors,” he said. Suyderhoud said average per-capita spending by Kauai visitors “is consistently below the statewide average.” -- \$181 per day in the first half of 2015 compared to \$193 statewide, in part because of the greater prevalence of timeshares on Kauai. “This suggests that Kauai can do more to improve the value of tourism stays and improve the economic benefits from tourism without increasing visitor counts,” he said.

“Airlines continue to expand seat capacity to Lihue for both domestic and Canadian flights,” he said.

“It is possible for an industry to have too much success. Kauai tourism may be in such a situation as the annual arrival count approaches 1.2 million. Traffic is an ongoing concern as are potential frictions between tourists and residents at venues with limited space. Likewise, residents are increasingly frustrated with having to expend resources and risk lives rescuing visitors from places where they should not go,” Suyderhoud said.

He noted more tourism inventory is being added including two additional condo/timeshare facilities bookending the Courtyard by Marriott, and work beginning next year at the planned Coco Palms Resort by Hyatt. Sheraton Kauai plans to convert its space on the mauka side of the road to timeshares, he said.

**Construction & Development:** “Construction on Kauai, as elsewhere in the state, has been perplexing to watch. On the one hand, industry insiders report robust activity with rising employment. For example, Shioi Construction has more

than doubled its workforce in the last year and is trying to find more workers. Likewise, those wanting to have construction done are having a hard time finding willing contractors. Driving around the island confirms activity in all areas,” Suyderhoud said.

“In spite of all this activity, officially reported construction job numbers continue to lag. They are now reported to be about half of the 2,000 peak in 2007. It is hard to reconcile these job numbers with what we see and hear about the industry. Perhaps this is due to the classification of workers hired by employment agencies rather than directly by construction companies. Some workers employed on Kauai may be listed as being employed on Oahu due to company addresses. Whatever the reason, it is likely that the job numbers are understating true employment. We just can’t say by how much.”

The value of private residential permits has shown a good trend increase, now running over \$10 million per month compared to less than half that in 2011, he said.

**Labor Market:** “Thanks to strength in tourism, Kauai’s labor market continues to improve. Job growth stalled in 2014, but this year shows a bounce back in employment. The total job count is still 1,200 below the prior peak, but recent trends are good. Kauai’s unemployment rate continues to decline and is now at 3.6%, only marginally higher than the statewide average of 3.3%,” Suyderhoud said.

Real Estate: “Slowly and surely, Kauai real estate continues to bounce back from the effects of the Great Recession. Single-family median prices increased and are nearly at the pre-recession peak. Condo prices, on the other hand, are still well below their prior high point,” he said. “This likely reflects weak demand from Canadian buyers whose dollars have depreciated.”

He said Hanalei median sales prices are now above \$1 million and Koloa is above \$650,000.

**Electricity Trends:** “The Kauai Island Utility Cooperative (KIUC) is receiving attention from the rest of the state as an alternative business model to investor-owned utilities,” Suyderhoud said.

“KIUC continues to shift generation away from fossil fuels. At the start of 2015, 16 percent of its electricity was generated by non-fossil fuels. By the end of the year this will be 38 percent as the 12 megawatt solar farm at Anahola and a 7 MW wood-fueled facility come on line. Ratepayers are hopeful that renewable sources will allow the co-op to reduce rates, but that has yet to materialize in a significant way.”

**Pacific Missile Range Facility:** “PMRF continues to be the dominant economic entity on the west side of Kauai,” Suyderhoud said, with an annual operating budget of \$130 million plus millions more in additional spending for testing events. “Overall, slow, steady growth seems to be the posture at PMRF.”

**Diversified Agriculture:** “With the virtual disappearance of sugar and pineapple on Kauai, there is a lot of agricultural land that is not being fully utilized. Thus, any use of such land is good news for the island,” Suyderhoud said.

He noted that seed corn uses less than 5,000 acres of land, but has significant employment and sales. “Pioneer Hi-Bred employs 114 full-time workers plus over 100 seasonal hires. Globally, corn prices are down and farmers are not planting as much. Seed companies such as Pioneer and Dow AgroSciences have reduced output and employment. However, their economic impact on Kauai remains significant. For example, Pioneer spends \$15-\$20 million per year in local payrolls and purchasing.

“Regulatory uncertainty remains a problem as the issue of GMO’s has morphed into one on pesticides. Resolving these issues would allow this industry and other agriculture ventures to move ahead with more stability.”

Kauai Coffee, which farms 2,500 acres, “is the state’s largest by a factor of 10 and can use mechanical harvesting and other

techniques to create economies of scale. Recently the company has cut back on output and taken some acreage out of production due to drought. However, it employs 120 workers as a base and an additional 60 during harvesting. A big concern for the company is the spread of the coffee berry borer, which has added 20 percent to growing costs in Kona.”

Snyderhoud said Kauai Shrimp is now the third largest brood stock supplier in the world with customers in China, Vietnam and India. It has 43 full-time employees plus additional part-timers and revenues have nearly doubled since 2013 to \$9 million. Kauai Shrimp also grows its own product for retail consumption in restaurants in the U.S. and Japan and sales by Sam’s Club, with Costco on the horizon, he said.

“Kauai agriculture may become more diversified if Ulupono Initiative’s Hawaii Dairy Farm at Mahalepu goes forward. At present there are plans for a 699-cow herd to eventually produce 1.2 million gallons of milk per year with 10-15 employees. Ulupono is conducting a voluntary environmental impact study and building permits have been obtained, but legal challenges are coming from the owners of the Grand Hyatt and some Poipu residents. If these are overcome, the 580-acre area could be in operation in 2017,” he said.

**Tourism & Entertainment:** “The recent premier of ‘Jurassic World’ should bring more publicity to Kauai as a destination, and tour and attraction operators will leverage the film’s success. Likewise for the 2015 Sports Illustrated swim suit edition,” he said.

“The Kauai Film Board estimates that in 2014 the film and entertainment industry contributed over \$4.8 million in local spending, directly employing about 130 local workers. Considering multiplier effects, this supports another 80 or so local jobs.”

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

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