

First Hawaiian Bank 2013 Hawaii Island County Economic Outlook

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HAWAII ISLAND ECONOMY CONTINUING TO MAKE PROGRESS

(Hilo, Hawaii, August 23, 2012) – "The good news is that the Hawaii Island economy is making progress. The bad news? Improvement is still slow. That's been our main message for three years now, and it will likely continue for a while," economist Dr. Leroy Laney said today.

"We can be thankful in Hawaii that our main industry of tourism recovered as quickly as it did. For some local economies elsewhere, their mainstay of economic growth still hasn't recovered, leaving them in a far worse position than ours.

"In fact, Hawaii Island could lead all of the state's counties in visitor growth in 2012," said Laney.

Laney, First Hawaiian Bank economics advisor and professor of economics and finance at Hawaii Pacific University, spoke at the 38th Annual First Hawaiian Bank Hawaii Island Economic Outlook Forums today at the Waikoloa Beach Marriott Resort and Hilo Hawaiian Hotel.

Highlights of Laney's remarks:

Jobs: "Jobs in each of Hawaii's counties peaked in December 2007, the same month the national economy entered recession. Since then, job creation on all Neighbor Islands has lagged Oahu. Hawaii Island, still 10% below its peak, marginally lags the other three counties and its jobless rate remains the highest in the state. An often cited reason that Hawaii Island unemployment is higher concerns the separation of population on the east side from jobs on the west side, but that should improve as Saddle Road extensions make it easier to commute.

Tourism: "The Hawaii Island visitor industry performance slumped some in 2011 with a post-tsunami blow to Japanese tourism and discontinuation of the direct JAL flight into Kona. But that strengthens 2012's growth. In fact, Hawaii Island could lead all counties in its visitor numbers this year just due to this snapback.

"Hawaii Island's visitor experience differs from other Neighbor Islands in one important regard: you can't just check into your accommodations and comfortably see the entire island on a visit. This is a 'chicken vs. egg' problem. Full flights are needed to make new accommodations pay off, but those flights won't be full unless an upgraded Hilo visitor plant attracts passengers.

"Average occupancy rates at Kohala Coast hotels are running somewhat higher in 2012 than the last two years, hovering just over 60%. Kona Village, wiped out by the Japanese tsunami last year, plans to start redeveloping soon. And Hilo Harbor notes that cruise passengers are up."

Construction: "There's not much good news this year on the Hawaii Island construction front. The level of construction jobs is still about 50% below the 2007 peak. There has been a significant fallout of contractors since the slump began. Nor does County private permit growth hold out much hope for the near future.

"Still, several public sector and commercial projects will be underway soon, including West Hawaii Community Health Center's planned medical center at Kealakehe in North Kona, Kaiser Permanente's proposed health center at Honokohau and the long anticipated Pier 4 at Hilo Harbor, which should significantly expand harbor capacity.

"Also, the University of Hawaii received \$9.7 million from the Palamanui partnership to build the first phase of the planned Hawaii Community College Palamanui campus in West Hawaii."

Real Estate: "Residential sales seem to be leveling off after recovering some in the past few years. Though appraisers are

cautious about saying Hawaii Island housing prices are bottoming out, there are some signs of that now, after a drop of over 40% in single-family median prices from the 2006 peak. Until foreclosures work their way through the system, the added supply will continue to weigh on the market. But at least the significant drops in sales and prices appear to be behind us.

"In the commercial and industrial real estate market, vacancies continue to be high and rising. Appraisers indicate asking rents are too high to stimulate demand."

Natural Energy Lab: "The Natural Energy Lab at Keahole Point continues to play an important role in the economy. A recent study by the University of Hawaii Economic Research Organization concluded that the direct and indirect economic impact of the Natural Energy Lab was \$88 million statewide in 2010, much higher than previously believed. NELHA now has 32 tenants and accounts for almost 600 jobs. Tenants there are the main producer of one of the state's major exports – desalinated bottled water – and it also accounts for 70% of the state's aquaculture production."

Astronomy: "The Thirty Meter Telescope (TMT) project at the Mauna Kea summit is in its final approval stages. TMT has gotten more support from the community than some previous projects proposed for the summit, and a favorable decision is more critical than ever. First, this is the first of a new generation of much larger scopes than would mean a lot to Hawaii's astronomy industry. Losing it to another location like Chile could mean other large scopes would gravitate there. Second, Mauna Kea will likely be losing two existing telescopes at the summit – the UK Infrared Telescope (UKIRT) and James Clerk Maxwell Telescope (JCMT). Both are funded largely by the UK, which is discontinuing its support, leaving the scopes in search other funding. TMT, a privately funded project, would like to start construction in 2014."

UH-Hilo: "The big news at UH-Hilo is the June groundbreaking for Phase I of the University Village Student Housing project on 33 acres fronting the UHH main entrance. The \$32 million project will house just over 300 students."

Agriculture: "The agriculture sector plays a more important role in the Hawaii Island economy than perhaps any other county. The picture this year is mostly upbeat:

- "Forecasted macadamia nut production is expected to be up by about 15% for the coming season in West Hawaii due to favorable weather. In East Hawaii, the crop will remain about the same as last year. Overall, prices are expected to remain strong, at last year's levels or possibly better. Strong tourism numbers definitely contribute to the stronger demand.
- In South Kona, coffee production is expected to increase over last season, also due to good weather. North Kona yields are forecasted to be slightly less because of drier conditions during flowering. But overall, production expected to be up about 10%. The wild card is how much damage the coffee berry borer inflicts on the crop. The market remains strong for quality coffee, and prices should remain relatively stable. In Ka'u, their coffee is garnering honors in mainland competitions. Ka'u also has the coffee berry borer, but to a lesser extent.
- Beef supply remains short, so ranchers in Hawaii are receiving \$1.12 per pound live weight for 400-pound wean-offs to be finished on the mainland -- a good price. Beef prices are expected to remain strong in the near future. Demand for local grass-fed beef is strong, though prices are relatively low at \$1.25 per pound carcass weight. So ranchers are choosing to ship their wean-offs to the mainland.

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