

First Hawaiian Bank Releases 2011-2012 Economic Outlook for Hawaii County: Visitor Industry Paces Measured Recovery

August 25, 2011 4:29 PM ET

VISITOR INDUSTRY PACES MEASURED RECOVERY

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(Hilo, Hawaii, August 25, 2011) - "Visitor arrivals to Hawaii Island are registering significant percentage gains and visitor spending growth is even stronger. Still, the overall forecast for the county remains similar to a year ago - slow recovery, led by tourism, but held back by a mixed picture in other sectors and a continued downbeat construction industry," economist Dr. Leroy Laney said today.

"The same slow recovery is occurring across all of the Neighbor Island counties. In good times and bad, however, one thing that always distinguishes Hawaii County from the other Neighbor Islands is its greater diversity. Astronomy and UH-Hilo contribute to that, and the Big Island has been able to hang on to a healthier and more diversified agricultural sector than any other county," said Laney.

Laney, First Hawaiian Bank economic advisor and professor of economics and finance at Hawaii Pacific University, spoke at the 37th Annual First Hawaiian Bank Business Outlook Forums held at the Hapuna Beach Prince Hotel and Hilo Hawaiian Hotel.

Jobs

Job growth during our recession and recovery has been distributed across all counties, though job losses were less and jobs created were greater in Oahu's much more diversified and larger economy, Laney said. Hawaii County's jobless rate remains highest in the state, partly because of the separation of jobs in West Hawaii from the higher population in East Hawaii. The rate has been coming down, but very slowly, he said.

Hawaii Island has seen job gains in educational and health services, professional and business services, and information and technology, he said, while other sectors are losing jobs.

Tourism

"Hawaii County visitor industry performance recently has been quite good, with arrivals often growing in the double digits, with visitor spending usually surpassing even those high numbers," Laney said.

"A significant development is a re-branding of the island in terms of marketing. A new identity for Hawaii County is being sought: 'Hawaii Island.'"

He noted the welcome addition of replacement airlift in the wake of the loss of the direct Japan Airlines flight into Kona in October 2010. Continental/United has begun direct daily 737-800 service from Los Angeles into Hilo. A similar weekly flight comes from San Francisco. The last direct flight from the U.S. Mainland to Hilo was in 1983.

"The hope is that visitors will spend more time and money on the East side than just a rushed day trip from West Hawaii to see the volcano," Laney said. "There remains a longstanding need for more updated visitor accommodations in Hilo. Since the state leasehold problems with Banyan Drive hotels make renovations there unprofitable, any addition would likely be located elsewhere."

Laney said the West Hawaii visitor industry "did a remarkable job of getting back into operation" following damage from the tsunami in March. Four Seasons Hualalai now shows no sign of damage, with a price tag of about \$15 million, he said, and management intends to get Kona Village back into operation.

Construction

In 2010, a slight uptick in building permits gave rise to optimism that the island's construction cycle was turning around, Laney said, but that was unsustainable. "Permit values did not show a good beginning for 2011. West Hawaii saw a big drop in the first quarter, breaking a positive trend, and East and North Hawaii continued to gradually decrease," he said.

"Thus, local residential construction trends mirror what is happening elsewhere. Prices of existing homes have fallen so far that one can get a better deal on a resale than a new home, so developers aren't building new product. Foreclosures and short sales continue to put downward pressure on prices."

Real Estate

Hawaii County real estate sales are still rising and prices are falling, according to 2011 data from the Hawaii Information Service, Laney said, but the rate of price decline for single-family units is diminishing this year.

Keahole Natural Energy Lab

"The Natural Energy Lab at Keahole Point survived the recession without losing any of its 41 tenants and its contribution to the economy is important," Laney said. "There are about 400 employees, and combined tenant revenues total about \$50 million. Around half comes from five bottled water operations, and the other half from aquaculture."

Thirty Meter Telescope

Development of the Thirty Meter Telescope (TMT) telescope atop Mauna Kea remains on track, Laney said, thanks to approval of its permit in February by the Board of Land and Natural Resources.

"It is hard to overestimate the importance of this project for jobs, the construction industry, UH-Hilo base facilities and the image of the island generally," he said. "A payroll of 140 permanent employees, not including contractors, and an estimated annual budget of \$26 million are only the beginning. Because TMT is the first of an entirely new generation of telescopes, its Hawaii location ensures the primary role of the state and county in astronomy's future.

"This will be the world's largest and most advanced optical/infrared observatory. The project is a U.S./Canada/Japan/China/India partnership and will enable astronomers to study objects at the very edge of the observable universe. Construction will extend over most of a decade, with the first scientific applications scheduled for 2018."

UH-Hilo

The growing presence of UH Hilo puts Hilo on the road to becoming a "university town," Laney said. It recently graduates the first class at the new Hilo College of Pharmacology and the Western Association of Schools and Colleges recently approved a Doctor of Pharmacy program.

Additions to the campus in the pipeline include a new Office of Student Services Building; Hale Kanilehua Student Housing (\$8 million); and Kawili Street Student Housing Phase I (\$32 million), the initial phase of University Town Center.

"Housing like this is critical for expansion. With an enrollment of 4,000 students, UH Hilo now has only 600 beds on campus and estimates that it loses 350 admitted students each fall for lack of housing. Outside rents are generally higher than most of them can afford, and most such rentals are not near the campus," Laney said.

For the full 2012 First Hawaiian Bank Economic Forecast for Hawaii County, visit fhb.com.

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