

Hawaii Island Economic Outlook is Better Than in Last Five Years

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First Hawaiian Bank Releases 2013-2014 Hawaii County Economic Forecast Report

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(Hilo, Hawaii, August 22, 2013) – "Thanks to the statewide tourism boom, Hawaii island's economic outlook is better than it has been in the last five years," economist Dr. Jack Suyderhoud said today at the 39th Annual First Hawaiian Bank Business Outlook Forum. "Both sides of Hawaii Island are experiencing economic expansion, though not all sectors are benefiting uniformly. Suyderhoud is a First Hawaiian Bank economics adviser and professor of business economics at the Shidler College of Business at the University of Hawaii-Manoa.

"The tourism boom will slow down, but its continued strength will spread through the rest of the economy. As economic activity increases there will be more self-sustaining growth and more opportunities for all of Hawaii Island's businesses and residents," he said.

Tourism

"Overall, Hawaii Island is not as dependent on tourism as Maui or Kauai. Yet, this masks the distinct nature of the two sides of the island," Suyderhoud said. "The Kona side is more reliant on tourism – especially Mainland U.S. visitors -- than other Neighbor Islands, while Hilo is not at all so."

Consistent with other Hawaii markets, he said, Hawaii Island monthly visitor arrivals are trending upward and consistently above 120,000. Monthly visitor expenditures "have increased even faster," he noted, sometimes more than 20% growth on a year-over-year basis

He noted these developments in the visitor sector:

- Air seat capacity continues to be a concern for the industry, especially flights from Japan.
- Group and incentive travel bookings to Kona are being made through 2014.
- New hotel capacity is being added through the Holiday Inn Express in Kailua-Kona, eventual re-opening of the Kona Village (engineering work is underway), and completion of refurbishment of the Four Seasons Hualalai.
- The Hilo tourism story "is dominated by the uncertainties associated with Banyan Drive where state lease extension rules requiring extensive renovations equal to at least 50% of the value of the improvements on the land," Suyderhoud said. But he added that the Hilo Hawaiian Hotel seems to be doing well, catering mostly to a local market and Japanese group travel to visit the volcano.

Jobs and Unemployment

"Between the 2008 pre-recession peak and the 2010-11 trough, Hawaii Island lost nearly 8,000 jobs," Suyderhoud said. "About 3,000 have returned and unemployment has followed the statewide unemployment rate downward since mid-2011. However, the island's rate is still 2% above the statewide average.

"It appears that the job growth has been mostly in tourism and other service-related fields. Construction jobs are up smartly, but from a very low base."

Electricity Sales

"Traditionally, one way to gauge the strength of the economy has been the consumption of electricity. When the economy is strong, electricity usage is up. However, due to the market penetration of residential and commercial photovoltaic (PV) systems as well as demand-side management, electricity sales have dropped since 2008," Suyderhoud said.

"Most of the decline can be attributed to the market penetration of PV. Evening peak demand (when solar is not available) has recently reached a three-year high. Hence, Hawaii Electric Light Co. (HELCO) still needs capacity to service the growing peak demand.

"Renewable sources currently supply 40-45% of sales, much of it geothermal. With the addition of more geothermal as well as the Hu Honua Biomass facility and Kona biodiesel, HELCO's renewable sources will account for more than 60% of sales in three years."

Construction

Construction as measured by building permits has bottomed out and is trending up and contractors "seem more upbeat," he said. Private building permits are up 25% in the first part of 2013 compared to the same period last year. "Construction jobs are up by 1,000, making a good dent in the 3,000-job decline created by the Great Recession," Suyderhoud said.

According to industry insiders, single-family residential construction is leading the way, he said. Other projects helping buoy the sector on the west side are:

- Infrastructure projects, including Hawaii Community College's \$20-million Palamanui campus build-out, widening of Queen Kaahumanu Highway (a \$75 million increment) and Phase III of Saddle Road improvements (\$32 million).
- Kaiser Permanente's \$22-million building.

"In the last several years Hilo-side construction has been dominated by UH Hilo projects, but these are now winding down. The failure to approve the new pharmacy building has been a setback, but there is hope that this decision will be reversed," Suyderhoud said.

In the meantime, there are projects focusing on elderly and low-income housing: Mohouli Senior Housing (a \$30-million investment), Lanakila low-income housing (\$7 million) and Kaloko transitional housing (\$2 million).

"Kea'au and Puna areas are experiencing significant activity. The Route 130 widening is expected to be a \$150-million project. HMSA is building a 20,000-square-foot facility at the Kea'au Town Center. The Bryson Community Center at Pahoia is another \$20-million project," he said.

He said pending infrastructure projects at Hilo harbor have "the potential for transforming the Hilo waterfront from the harbor to Banyan Drive and would be a great boost to tourism."

Real Estate

Real estate is also benefiting from good economic news elsewhere, Suyderhoud said, and the Hawaii Island residential real estate market "is in recovery mode" with sales totals rising for three consecutive years and prices rebounding as well, though nowhere need prior price peaks. As foreclosure sales decline, he said "the market will strengthen."

"However, good news in the residential market has not spread widely to commercial, light industrial, and office property," Suyderhoud said, and vacancy rates there are still high.

Agriculture

The agriculture sector accounts for at least 3,000-4,000 jobs on Hawaii Island.

In the Ka'u area alone there are 5,000 acres in papaya employing about 900 people. According to industry data gathered by Robert Ikeno of the State Agriculture Department, production has been stable while prices have risen slightly over the last year. Marketing efforts in Canada have been successful in increasing shipments from 4 million pounds in 2011 to 8 million in 2012. There is also hope that, with Japan's approval of GMO papaya, sales there will also grow.

Coffee production is up slightly and prices paid to farmers are \$1.50 to \$1.60 per pound. Macadamia nut production is

down and prices are up; processors are looking beyond Hawaii to source. Cattle ranchers are doing better as prices remain strong, though herd sizes are down due to drought.

Finally, floral products have yet to recover from the 2008 recession. Lease costs as well as competition and changing market demand for specific products pose challenges.

Specific Economic Drivers

Snyderhoud said "Hawaii Island is fortunate to have some unique economic drivers that contribute significantly to its economy." Included are

Mauna Kea: 11 Mauna Kea observatory facilities with an annual budget of \$75 million, supporting 527 county-based staff. Due to austerity measures and changing priorities, European countries are pulling out of Mauna Kea and consolidating activities in Chile. However, participation on the mountain by Asian countries, including China and India, is increasing.

Permits have been issued for the Thirty Meter Telescope (TMT), funded by a consortium of countries, universities, and organizations, but a final appeal has been lodged in the courts. Once underway construction and equipment cost will be \$1.2 billion and, once operational in 2021, the TMT will have a budget of \$27 million per year in today's dollars. The consortium will provide \$1 million per year for local community organizations via the Hawaii Community Foundation.

UH Hilo: The college's economic impact is measured at about \$300 million per year, attracting \$17 million in research funding annually; the college supports 500 employees beyond teaching and research faculty. Plans are to grow enrollment from 4,100 now to 5,000 by 2020. New programs are envisioned in applied engineering and aviation sciences at the undergraduate level and a master's degree in heritage management.

Natural Energy Lab: The Natural Energy Laboratory of Hawaii Authority (NELHA) is an important non-tourism driver of the west Hawaii economy with a \$100 million direct economic impact and 600 statewide jobs. At present it has 45 tenants including two water bottlers, six aquaculture ventures, Cyanotech food supplements, and Sopygy solar thermal. Cyanotech is doing so well that the company is seeking an additional 14 acres.

New clients include the marine mammal center (monk seal hospital) and the West Hawaii Exploration Academy, a charter school that has \$8 million funding for construction. The Abell Foundation is funding a 1-megawatt OTEC demonstration facility to the tune of \$35 million.

Infrastructure improvements planned include a 28-inch warm water connector pipeline (\$2 million) and repairs to an existing 40-inch pipeline (\$5 million). A \$4-million alternate energy and biotech incubator project is planned.

First Hawaiian Bank (www.FHB.com) with some \$16.4 billion in assets was founded in 1858 and is Hawaii's largest and oldest financial institution. The bank operates 57 branches in Hawaii, three on Guam and two on the CNMI.