

First Hawaiian Bank Releases Economic Forecast for Maui County: A Mixed Bag for Maui's Economy; Tourism Robust, but Construction Lags

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A MIXED BAG FOR MAUI'S ECONOMY TOURISM ROBUST, BUT CONSTRUCTION LAGS

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(Kahului, Hawaii, September 17, 2011) – "Maui's visitor industry is doing extremely well, thanks to its resilient upscale image -- with resulting higher room rates -- and a welcome growth in airlift, including flights from secondary Mainland cities. However, tourism alone cannot be relied upon to bring Maui back to better times. The job total continues to struggle to return to pre-recession levels," economist Dr. Leroy Laney said yesterday.

"Overall, Maui's economy this year is a mixed bag," said Laney, First Hawaiian Bank economic advisor and professor of economics and finance at Hawaii Pacific University. He spoke at the 37th Annual First Hawaiian Bank Economic Outlook Forums held at the Maui Beach Hotel.

"Unfortunately, other sectors of Maui's economy – especially the construction industry – continue to lag significantly. Residential construction is down practically everywhere now, but any progress to resuscitate overall construction – public or private – would result in a more balanced and sustained recovery for Maui."

Jobs

"Maui continues to lose jobs, the only county in the state for which that's consistently the case -- even though the official end to the recession occurred some time ago. Although the visitor industry is doing quite well, weakness in other sectors of Maui's economy simply overwhelms that strength," Laney said.

He said the current slow declines in Maui's unemployment rate "will likely continue in the future. But there remains a stark contrast between the current Maui jobless rate and the 2% number that prevailed in the peak year of 2007."

Tourism

"Part of the reason the visitor industry is doing so well lies in the fact that Maui continues to hang on to its reputation as a very upscale place for a tropical vacation. That's an asset that is extremely valuable, especially as more competition enters among such locales," Laney said. "And on Maui, more than a lot of similar destinations, there seems to be greater recognition on the part of local residents that tourism is critically important to the economy."

Total airline seats for Maui "have increased dramatically so far in 2011, with far stronger growth than elsewhere in the state, a surge of over 11% this year.

"A big reason is the fact that Maui has been picking up direct flights by Hawaiian and Alaska Airlines from secondary cities in the U.S. and Canada. That, combined with aggressive marketing in those cities, has paid off," Laney said.

The strong visitor industry has enabled Maui hotels to raise their room rates, he said, and the island once again has the highest average daily room rate in the state. "So reputation does pay off. Another comparative advantage, even within the state: Maui has most things a larger city has to offer, but continues to retain its rural environment. Add to that the very wide range of activities available to Maui visitors, and you have a combination that's hard to top," Laney said.

Construction

"One major reason that Maui lags in job creation is the weakness of its construction sector, which is showing continued

job losses. Residential construction is weak just about everywhere nowadays," Laney said. "But help may be on the way," he added, citing these signs that Maui construction will turn up in the future:

- Hyatt is planning a time-share tower in West Maui.
- Alexander & Baldwin's Maui Business Park Phase II, 179 acres of light industrial development, is ramping up in Kahului.
- Ground has been broken for a 138-room Courtyard by Marriott hotel in Kahului near the airport.

Real Estate

"In 2011, sales for both single-family and condos have leveled off, after strong increases in 2010. And median prices have continued to fall," Laney said. "Until the downward pressure on prices abates, there cannot be a sustained recovery in the real estate market. And that has to do with the inventory of short sales and foreclosures that constitute an overhang on the market."

In commercial real estate, he said, recent sales are very strong because prices have fallen far enough to bring buyers into the market. Some of this activity reportedly is for investment over the longer term.

UH Maui College

"One growth area in the Maui economy, which also helps to diversify it, is the recently renamed UH Maui College – replacing the old Maui Community College label," Laney said. "That name change reflects the addition of four-year degrees to its curriculum, the first UH community college to grant such degrees." He noted rapid enrollment growth, up 33% in two years to almost 4,400 students.

Sugar

"Things have been looking up in recently at HC&S, Hawaii's sole remaining sugar plantation," Laney said. "Annual production is back in a profitable range after two years of very low total production and yields per acre in 2008 and 2009. Better age on the crop and slightly better rainfall are the main reasons for the recovery. HC&S estimates that 2011 production should be about 185,000 tons."

Laney said HC&S is important to the Maui economy for several reasons: "It's a large employer. It keeps the central valley green. And it provides enough power to Maui's grid that it is actually a net energy producer. Thus, when energy prices rise, HC&S actually benefits."

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