

First Hawaiian Bank 2013 Kauai County Economic Outlook

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TOURISM BOOM LEADING KAUAI BACK FROM RECESSION

(Lihue, Hawaii, August 30, 2012) – "If all parts of the Kauai economy were doing as well as tourism, the entire island would be booming," economist Dr. Leroy Laney said today. He cited these bright spots for the Garden Island despite continuing fallout from the Great Recession:

- Visitor arrivals, spending and direct flights to Kauai are all growing in a booming tourism sector. Hotel occupancies are extremely strong.
- The tourism plant is in solid shape, thanks to recent renovations of several hotel properties.
- Real estate sales are climbing.
- The seed corn industry continues to grow.

"On the down side, Kauai's construction industry continues in the doldrums, residential real estate prices are still dropping and the job count still has a way to go to recoup losses from the recent recession," said Laney, speaking at the 38th Annual First Hawaiian Bank Economic Outlook Forum at the Kauai Marriott Resort.

"This year, the 20th anniversary of Hurricane Iniki and the 30th anniversary of Hurricane Iwa, Kauai is again struggling to recover from a another blow, an economic one," Laney said. "But a lesson to be gleaned from longer-term history is that, as bad as those hurricanes were, the Garden Island did overcome them and return to healthy, balanced growth – even if that process was drawn out." He noted that the island's unemployment rate topped 12 percent in the wake of Iniki, well above today's figure.

Highlights of Laney's remarks:

Tourism: "Both visitor arrivals and spending continue to perform well. Year-over-year growth numbers are erratic from month to month, which is often the case for a small economy like Kauai's, but a smoothed trend would clearly show healthy growth for both arrivals and spending.

"The Kauai visitor industry can look forward to an added Alaska Airlines flight in November, direct from Portland four times a week. Kauai continues to enjoy a reputation as one of the world's top island destinations, a priceless asset.

"Hotel occupancies are very strong. Occupancy rates at the St. Regis Princeville were well into the 90% range over the summer, as they were at major time-share destinations like the Westin and the Wyndham. Kauai's hotels are all in great shape now, having used the down period for renovations, which means more choice for visitors and more competition.

"ABC Stores just bought Coconut Marketplace on the East Shore. This is the first such venture for ABC, and much needed improvements should be in the future there."

Jobs: "Jobs in each of Hawaii's four counties peaked in December 2007, the same month the national economy entered recession. Since then, job creation on all Neighbor Islands has lagged Oahu. Kauai is still 8% below the peak. Like everywhere else, the Kauai jobless rate shot up dramatically with the onset of recession. It has been slowly moving down, but not fast enough for people to notice much difference."

Movie industry: "A hit movie like *The Descendants*, shot on Kauai and also set in part on the island, has also been a big positive. The Kauai Visitors Bureau reports a surge in visitors asking about the locations where the movie was filmed. An

ATV tour now operates to scenes from the movie and the film put a place like *Tahiti Nui* in Hanalei on the map. Movies are a big thing for Kauai, and several others are in the pipeline for the future."

Construction: "The construction sector remains mostly in the doldrums. Island construction jobs are still about 35 percent below the late 2007 peak. But projects that may sooner or later provide an impetus include:

- "Kilauea Lighthouse Village, a 47,000-square-foot shopping mall planned across from Kong Lung Center on the lighthouse road in Kilauea.
- "A couple of sizeable photovoltaic facilities are in the works, one at Port Allen on Alexander & Baldwin land and another in Koloa sponsored by Grove Farm partnering with Solar City.
- "Safeway is still expected to move ahead sometime with its shopping center at Hokulei Village.
- "Though home construction lags, as it does everywhere, Grove Farm reports increased activity in its Pikake subdivision.
- "Grove Farm is still pushing forward on its Lihue-Hanamaulu Master Plan project and would like to start its 50-unit Waihohonu Project in Koloa soon.

"But overall, recent data on Kauai private construction permits (Chart 6) don't show much activity, with declines in the quarterly numbers over 2011."

Real estate: "Residential real estate sales have been picking up in recent years. Record low mortgage rates and falling prices have helped affordability, though some of the sales are still foreclosures. Activity in commercial real estate has been picking up. Median single-family home prices on Kauai continue to fall, though at a somewhat decreasing rate."

Missile Range: "The U.S. Navy's Missile Range at Barking Sands has about 900 employees with a \$50 million annual payroll, and that doesn't include spending by visitors coming for tests. In the past, much of the Missile Range's testing has involved ship-based Aegis missiles and the Terminal High Altitude Air Defense (THAAD) missile system. Those programs have wound down.

"The new program getting the most attention is a land-based component, Aegis Ashore, which will be tested at the Range and then deployed throughout the world. Work on the infrastructure for this system is imminent, with component parts being shipped in for assembly at the Range. This alone will likely be a big boost for construction on Kauai."

Agriculture: Laney cited these developments in Kauai agriculture:

- A Kauai Community College study is investigating the use of the Papaya Disinfestation Facility at the Airport for other crops.
- A 75-acre agricultural park in Kilauea has been accepted by the County, but endangered species of birds at the nearby federal wildlife refuge put the project in doubt.
- The seed corn industry continues to expand. With the exit of Monsanto, there are now four companies on Kauai: BASF, Syngenta, Pioneer, and Dow Agrosiences.
- Much of the taro crop at Hanalei is being damaged by birds preying on the crop, including the nene.

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