

Hawaii Island Growth Continuing Despite Tourism's Deceleration

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(Hilo, Hawaii, September 25, 2014) – "Overall, Hawaii Island's economy continues its expansion, coming back from the downturn of the Great Recession. The rest of 2014 and 2015 are expected to be good for most of the island's businesses and workers, in spite of Tropical Storm Iselle," economist Dr. Jack Suyderhoud said today at the 40th Annual First Hawaiian Bank Hawaii Business Outlook Forum in Hilo and Kona.

Suyderhoud is a First Hawaiian Bank economic adviser and a professor of business economics at the Shidler College of Business at the University of Hawaii-Manoa. Among key conclusions of his report:

- "Even though tourism overall has been sputtering, some parts of the island such as the Kohala coast are doing record business."
- "Real estate has benefited from the island's economic strength and from interest from outside buyers."
- "Construction is continuing to come back on the strength of residential and infrastructure projects."
- "We are awaiting data to see how Tropical Storm Iselle will ultimately affect the island's economy. Although there was serious damage to Puna's homes, utilities, small businesses and papaya farms, the good news is that the damage was geographically limited and Hawaii Island's tourism infrastructure was not badly affected. Rebuilding will add to construction activity."

Jobs Picture is Bright

"Job growth returned to Hawaii Island in late 2011 and job counts are now 4,300 above the low in 2010. The county unemployment rate has steadily improved to around 6%, yet Hawaii Island's labor market is not as robust as the state as a whole where unemployment is now approaching less than 5%," he said. "Much of the growth has come in tourism related jobs, such as retail trade and food service. Construction has also seen increases."

Tourism: Unsteady in 2014

"Visitor arrivals to Hawaii Island were 1.45 million in 2013, up slightly from the prior year, but not yet back to the pre-recession peak of 1.62 million in 2007. We had hoped 2013 would be better than it was, but starting in the last quarter of the year arrival numbers turned negative, catching many by surprise. Also troubling is that the downturn has persisted into the first few months of 2014," Suyderhoud said.

"Fortunately for Hawaii Island the decline in visitor expenditures has not been as drastic. In fact, there have been recent months when spending has been up, if only slightly, even as arrivals declined."

He noted that Hawaii Island has the largest proportion of foreign visitors among the Neighbor Islands with Japan leading the way. "Increasingly, more Chinese visitors come for day trips. This growth is important, but given the small base, even large growth of Chinese visitors will not add huge numbers to the counts," he said.

"The business strategies of airlines matter a great deal. The slowdown in arrivals is perhaps caused by, and certainly associated with, declining seats. Hilo experienced declines in airline seat capacities in the first part of 2014, but Kona did well. For Kona, both domestic and international seats are expected to increase in late summer of 2014. Alas, Hilo is not destined for the same."

He said marketers continue to focus on the Island's "bread and butter" markets -- California and the Pacific Northwest -- while still trying to attract more international travelers. "The lack of an acceptable customs facility and determining how to pay for immigration and customs enforcement personnel remain significant obstacles," Suyderhoud said.

"Kohala coast resorts are doing great with high occupancy and bookings solid for 2015 and even into 2016. Vacation rentals also continue to do well and are expanding," he said. "Hotel numbers are also translating into strong retail sales. For example, the Queens' MarketPlace at Waikoloa is reportedly doing well with rents increasing, more space being leased and new up-market restaurants opening."

Snyderhoud said Hilo tourism continues to be dominated by the uncertainties associated with Banyan Drive where the state's lease extension rules are proving difficult for many leaseholders and shoreline management permit rules add obstacles.

Construction Boom Coming

"Even before Iselle, it was hoped that construction would make up for slowing tourism, and to an extent it has done so. The number of construction jobs continues its slow climb out of the hole created by the 2008 downturn when over 3,000 jobs were lost. Gradually, about 800 have been recovered," Snyderhoud said.

"There are several reasons to be optimistic about construction's near-term outlook. Since 2011, private building permits have made a slow, if unsteady, improvement to about \$90 million per month. Single-family building permits have been growing since 2011 and are doing well in both Hilo and Kona. This recent upswing in permits suggests the rest of 2014 and 2015 would have been good periods, even before Iselle's effects."

He said Hilo construction is benefitting from several major infrastructure projects at Hilo harbor "On the private side, Punahou Mauka residential development continues, and the Regency assisted living project proceeds with its build-out," he said, adding: "The Kea'au and Puna areas are experiencing significant activity. The Route 130 widening is a \$150-million project. HMSA's 20,000 square foot facility has begun at the Kea'au Town Center and Shipman has started construction on the other part of that space. The Bryson Community Center at Pahoa is another \$20-million project. Finally, the much anticipated UHH College of Pharmacy is expected to get underway later this year."

On the west side, Snyderhoud said, residential construction features prominently. "Uncertainties at Hokulia have been resolved thanks in part to the \$20-million infrastructure payment made by developers to the County. At Mauna Lani the KaMilo and Kulalani properties are building out and selling. Likewise, Kohanaiki is selling custom home sites and La'i Opuia is selling lots and residences".

He said key west side infrastructure projects "are continuing to buoy the sector including HCC's \$20 million Palama Nui campus build-out. Widening of Queen Kaahumanu Highway is expected to get underway with a \$75-million increment. Improvements at Kawaihae harbor should be wrapped up. The Kona Airport terminal modernization budgeted at \$60-70 million will likely start late 2015. Completion of the \$32-million Phase III of Saddle Road improvements has made the cross-island journey shorter and safer and will change how business is done in ways not now imagined."

Real Good in Real Estate

"The improving strength of the economy is also being felt in the real estate market where sales of both single-family homes and condos continue to recover and median prices continue a gradual rebound off the 2011 lows," he said. Also helping the market is a sharp decline in bank-owned and short sales.

"However, good news in the residential market has not spread widely to commercial, light industrial, and office property," he said, with high vacancy rates in the Kona market. "Hilo vacancy rates are better since there has been less new construction there."

Snyderhoud said Hawaii Island "is fortunate to have significant economic drivers that contribute to economic diversification," including:

Agriculture, which employs at least 6,000 hired agricultural workers with a payroll of \$68 million, according to 2012 Census data

"One of the most important crops is papaya," he said. "There are about 160 farms on the island farming 1,700 acres, much of it located in the Puna area, hard-hit by Iselle. Wind felled the fragile trees and much of the crop has been lost according to Robert Ikeno of the state Agriculture Department. Fortunately other crops and nurseries were not heavily damaged and should recover well."

In other agricultural sectors, he said coffee production is up despite the coffee berry borer, macadamia nut prices have continued a three-year upward trend and cattle ranchers have benefited from higher mainland prices.

"The big story in agriculture is the GMO debate, which has split the community and created uncertainty in an important segment of the economy," Suyderhoud said. "Bill 113 passed by the County Council and signed by the Mayor is facing a legal challenge, but has sent a chilling message through the ag sector. While the scientific basis for the anti-GMO movement is controversial, there can be no controversy that agriculture sales and jobs are important to a diversified island economy. Bill 113 could reduce investment, production, sales, and employment in this sector."

Natural Energy Laboratory of Hawaii, which has an estimated \$100-million direct economic impact supporting 600 statewide jobs. "It has 44 tenants including two water bottlers, six aquaculture ventures, and Cyanotech food supplements. The marine mammal center (monk seal hospital) is scheduled to open in September and Cyanotech expects to add 14 acres to its facilities," Suyderhoud said. "In all, NELHA as \$57 million of construction projects in 2013 and 2014. They are positioning themselves in the forefront of research on energy storage for renewable power."

Mauna Kea Observatories involve 11 facilities with an annual budget of \$83 million supporting 497 county-based staff. He said: "The big story is the Thirty Meter Telescope (TMT); permits have been issued with final lease approval by the Land Board. 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 dollar values. The consortium will provide \$1 million per year for local community organizations via the Hawaii Community Foundation plus \$1 million per year in ground rents."