

Maui economic outlook and issues

Presentation prepared for the

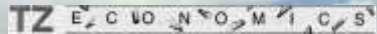
Windermere Economic Summit

Andaz Maui at Wailea Resort

by Paul H. Brewbaker, Ph.D., CBE

TZ Economics, Kailua, Hawaii

April 16, 2019



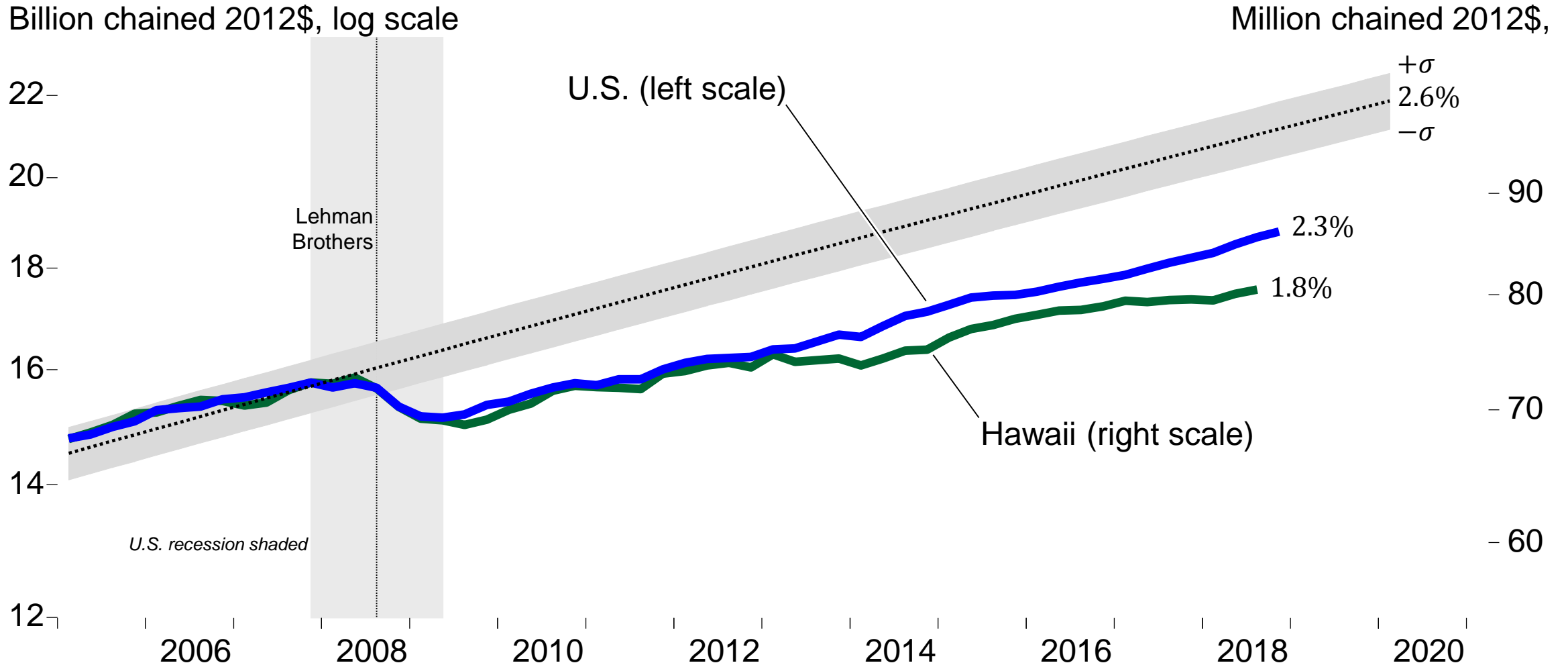
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Maui macroeconomic perspectives

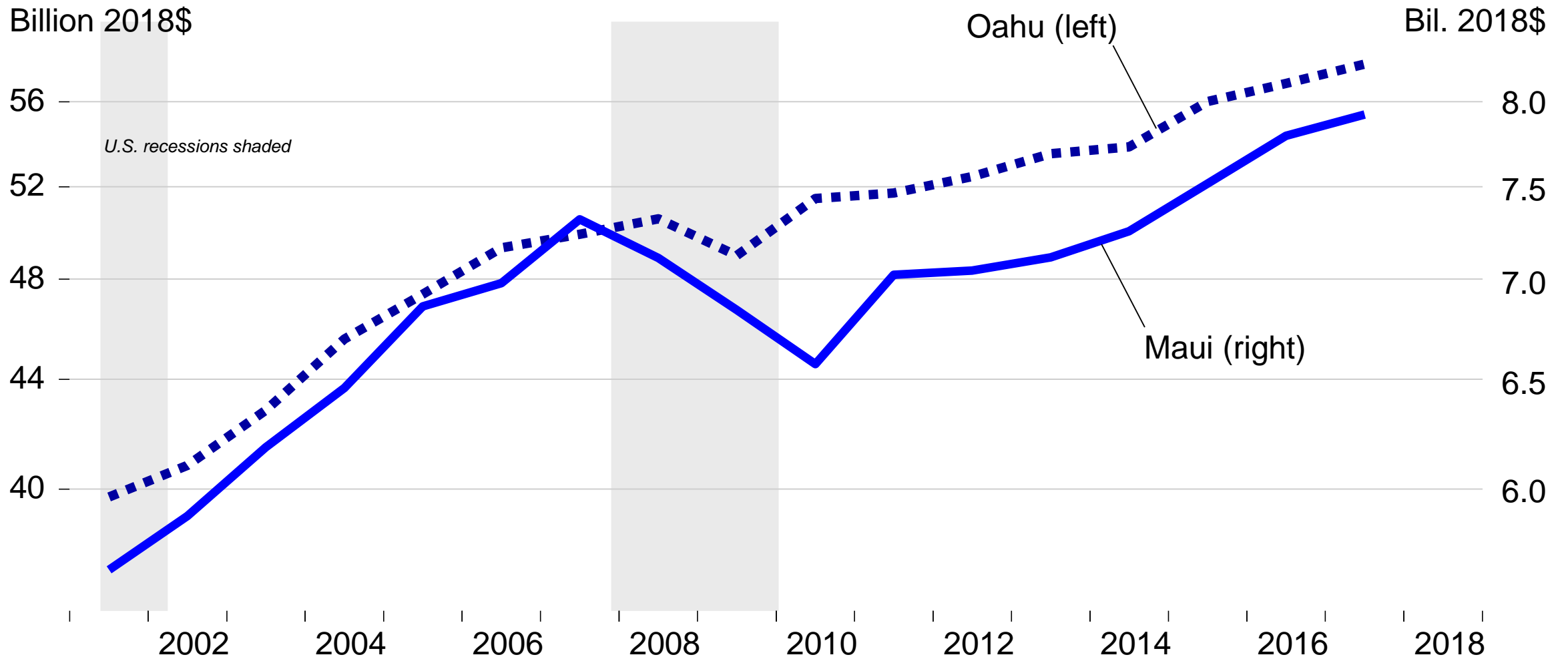
Real GDP experienced structural break during the Great Recession, Hawaii failed to keep pace with U.S. during 2010s economic recovery



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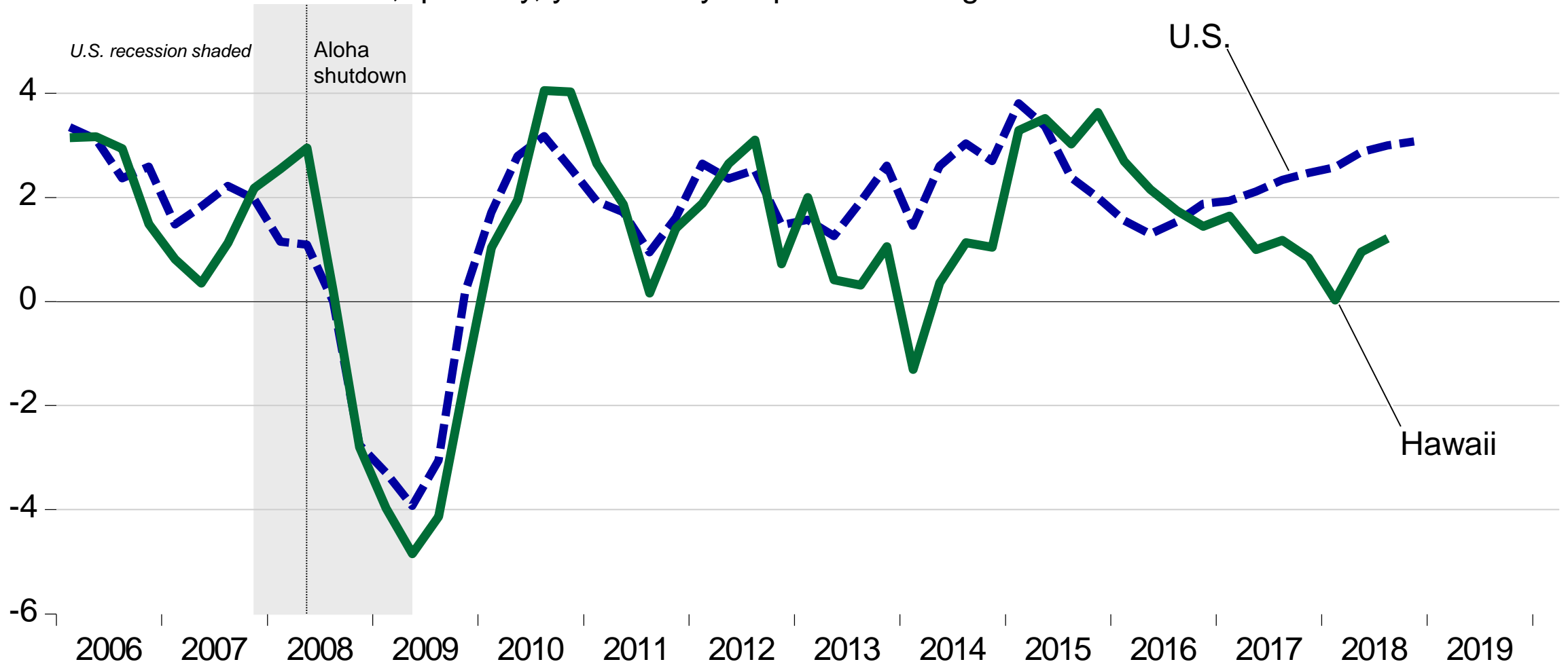
Sources: Bureau of Economic Analysis, U.S. Department of Commerce (<https://www.bea.gov/data/gdp/gross-domestic-product>); U.S. quarterly data through 2018Q4, Hawaii quarterly data through 2018Q3; second-order polynomial regression of log of quarterly U.S. real GDP on time, 1950-2018 by TZE, trend growth rate shown is annualized for 2010s.

Oahu real GDP more resilient than Maui's, which later sped up: data proportionately scaled, aligned to peak years (2006 Maui; 2007 Oahu)



Hawaii's tourism-led 2010 real GDP growth resurgence stagnated at end of Abercrombie term; *again* more recently (not election issue?)

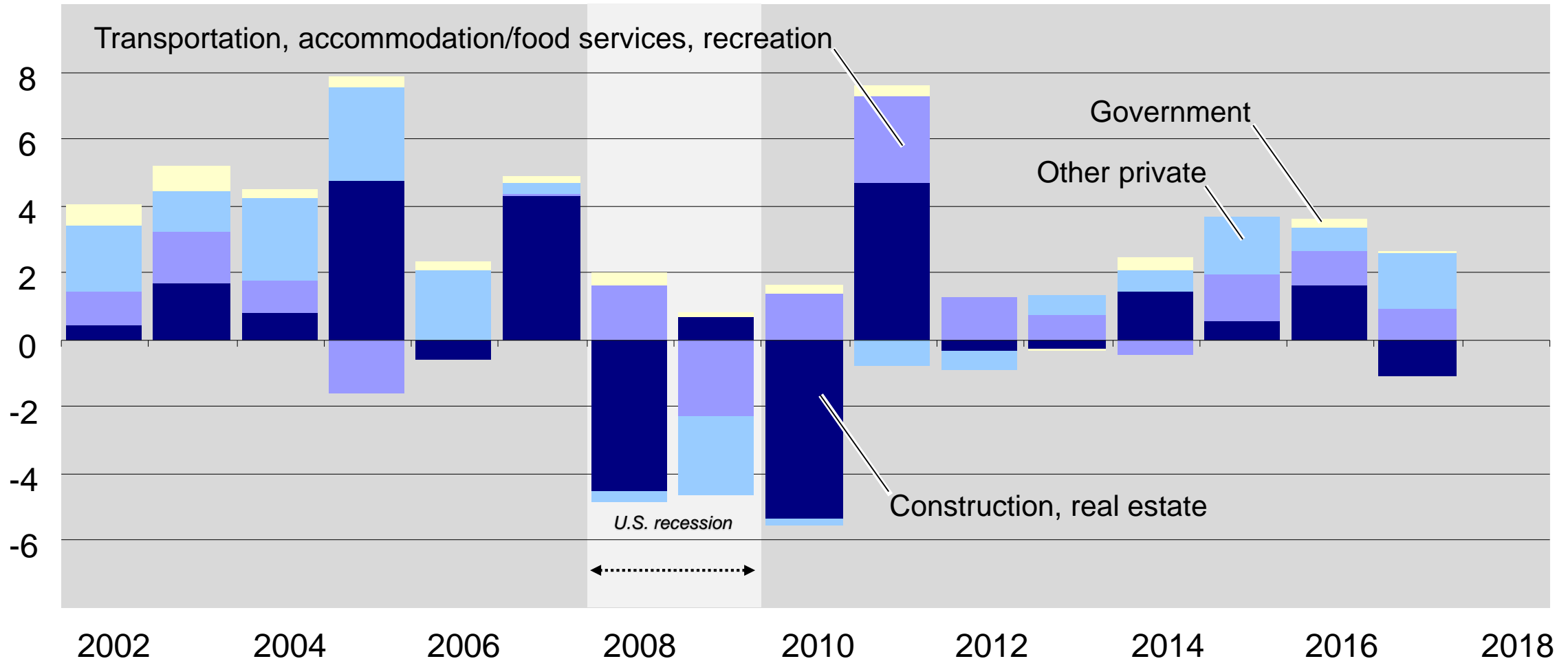
U.S. and Hawaii real GDP, quarterly, year-over-year percent change



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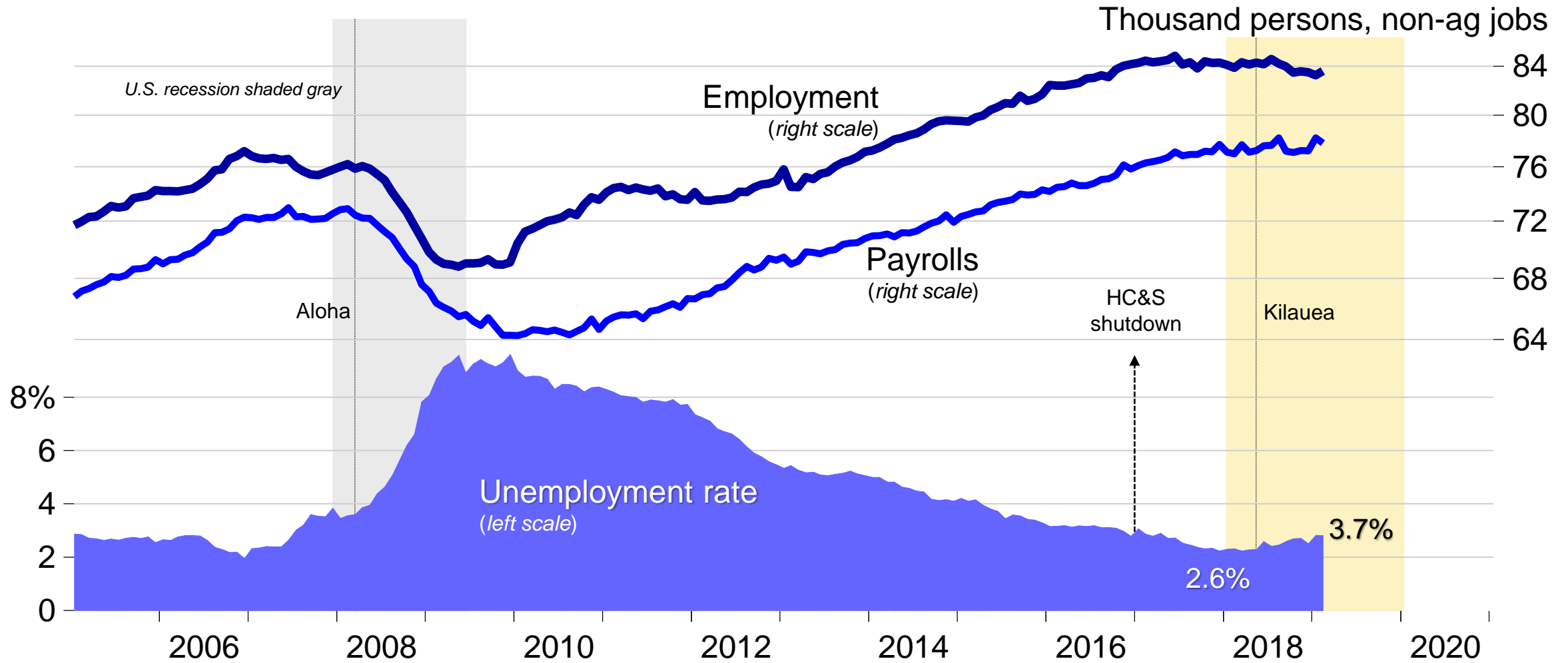
Weighted contributions to annual real GDP growth in Maui County: investment swings 2005-2011 dwarfed subsequent 2010s expansion

Percent

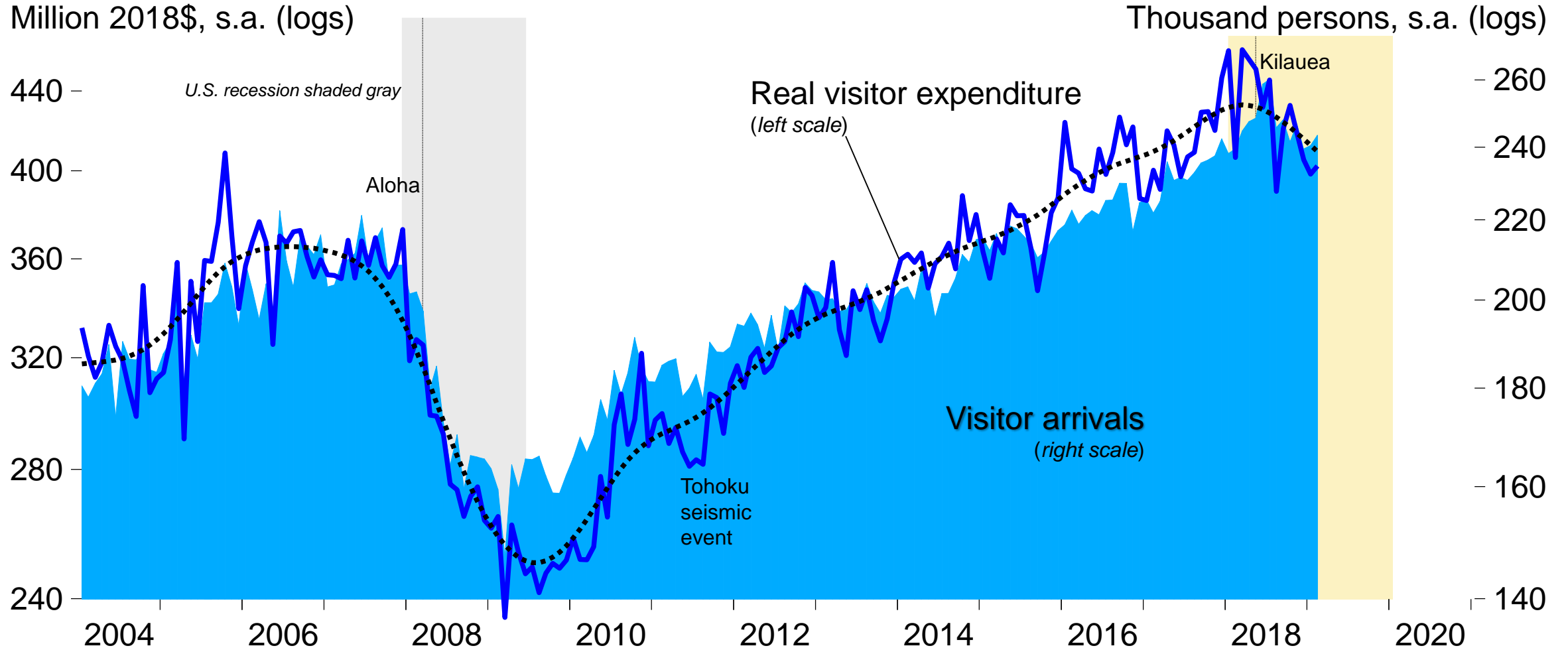


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Maui employment indicators—did our recession start or did growth just fizzle? Employment and jobs flat to down; unemployment rate up

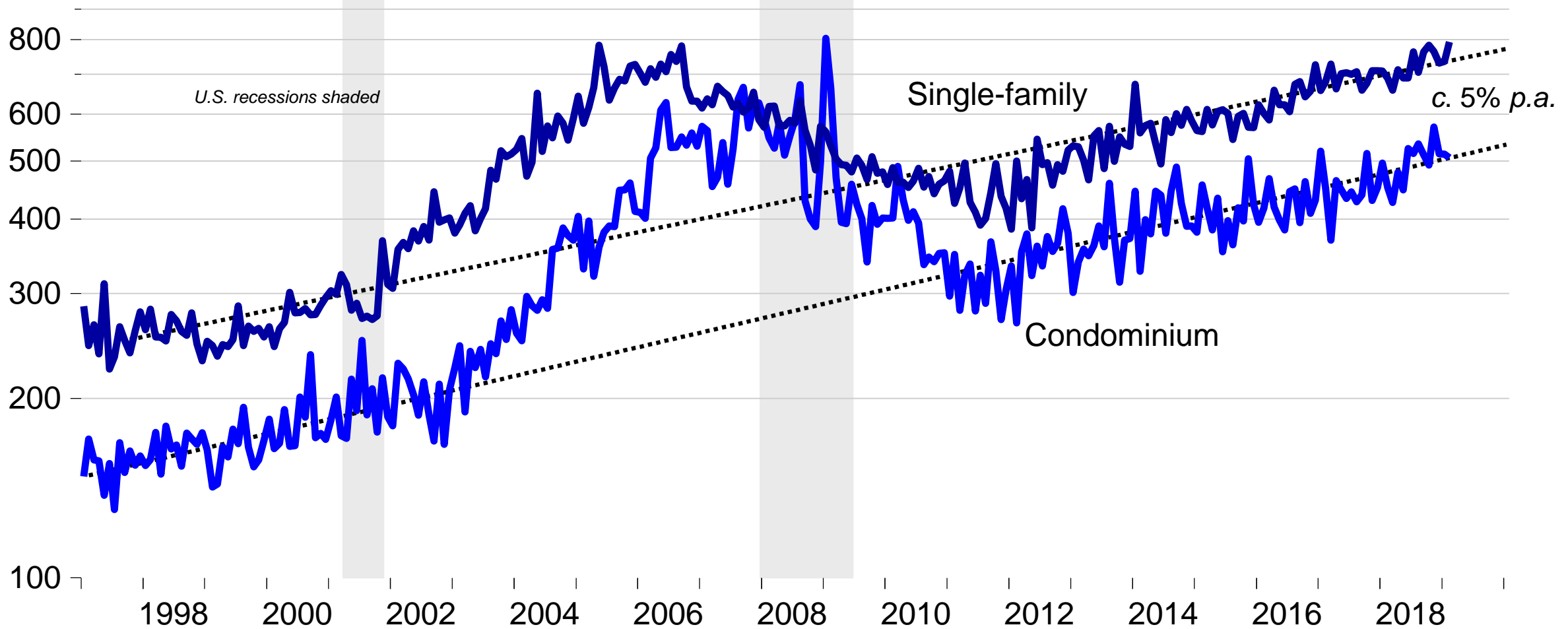


Maui tourism growth had been steady after the recession, but recent fade preceded (and was exacerbated by) Kilauea Volcano (May 2018)



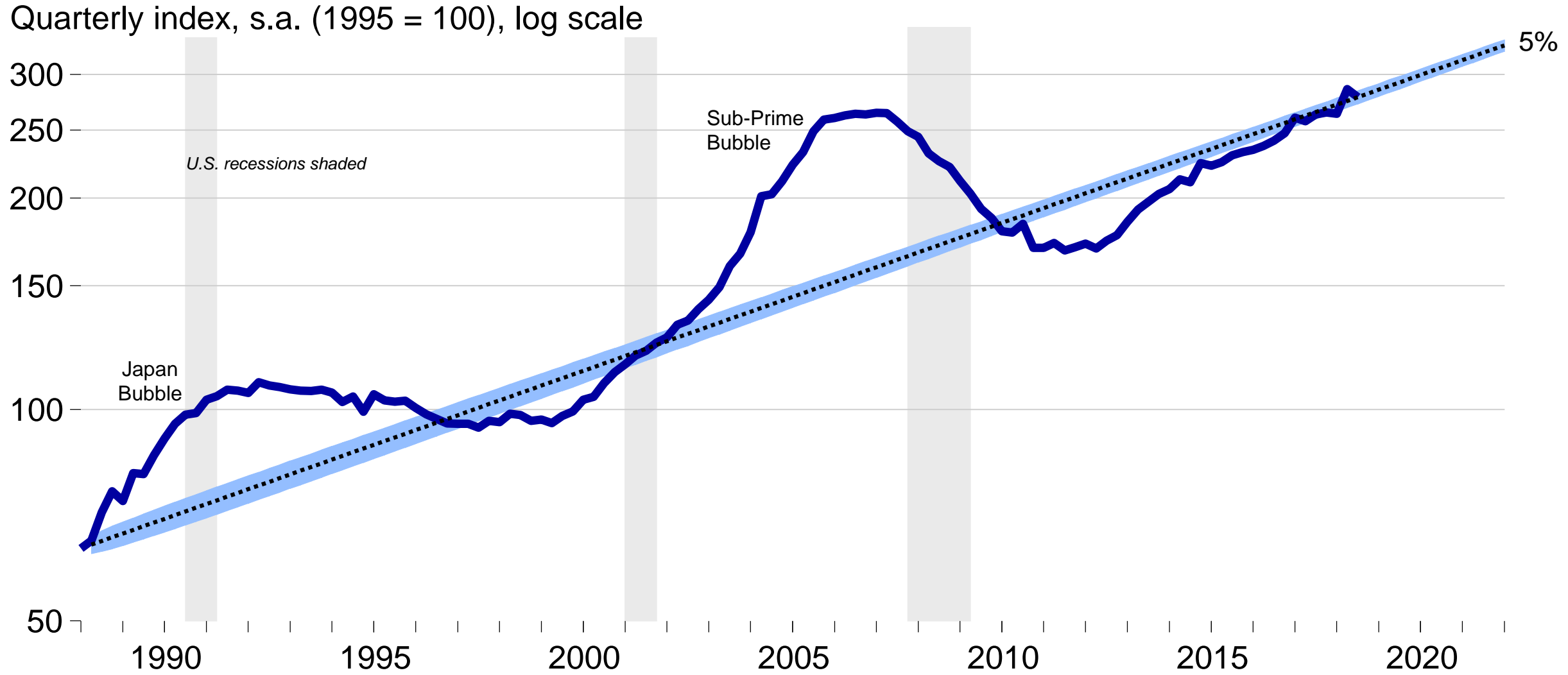
Once bubblicious, Maui median existing home prices converged in 2010s to 20-year trend trajectory, 5 percent annual appreciation

Monthly, thousand dollars, s.a. (log scale)



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Once bubblicious, Maui FHFA All-Transactions House Price Index converged in 2010s to 30-year trend, 5% annualized appreciation rate

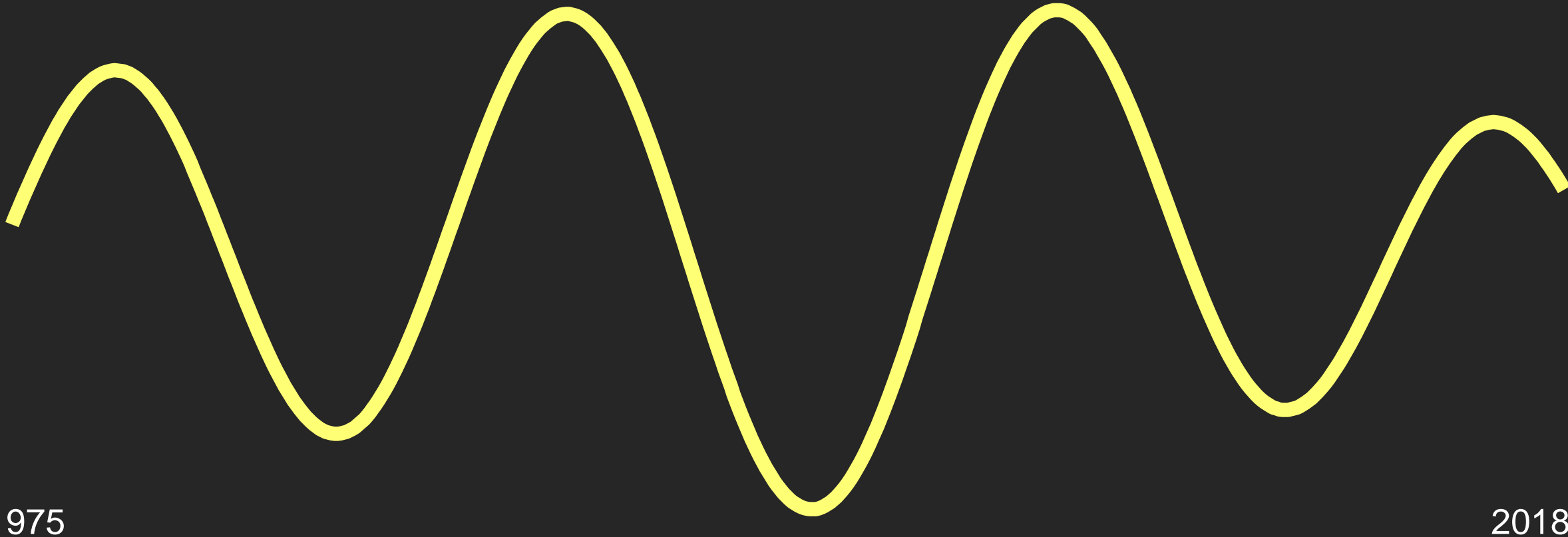


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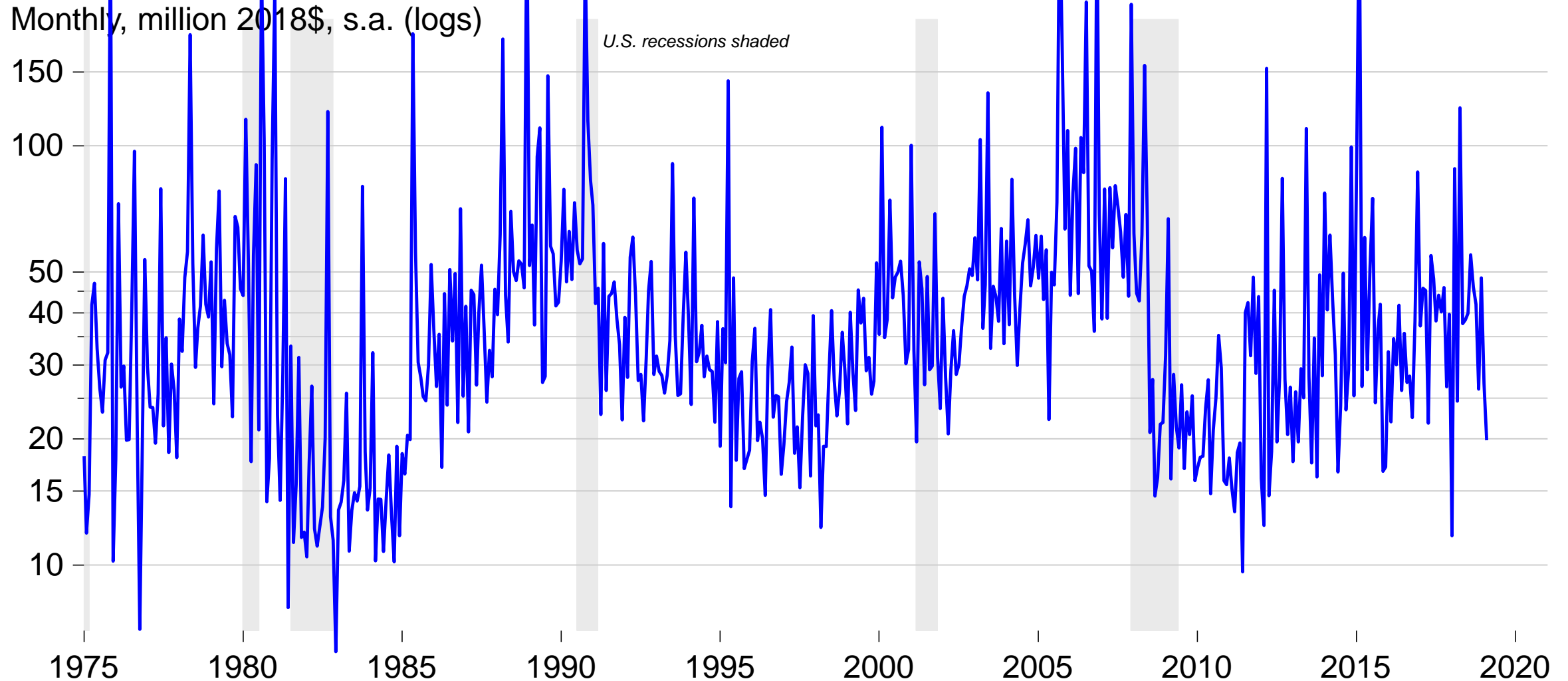
Sources: Federal Housing Finance Administration (<https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index-Datasets.aspx#gat>); seasonal adjustment, regression on stationary component of Kahului-Wailuku-Lahaina MSA home value index (log changes) by TZ Economics, 4.97 percent annualized trend appreciation rate depicted with 99% confidence interval

Digging into our inner nerd: Maui's *real* private investment cycle

No worries we'll go through this really fast so our brains don't hurt

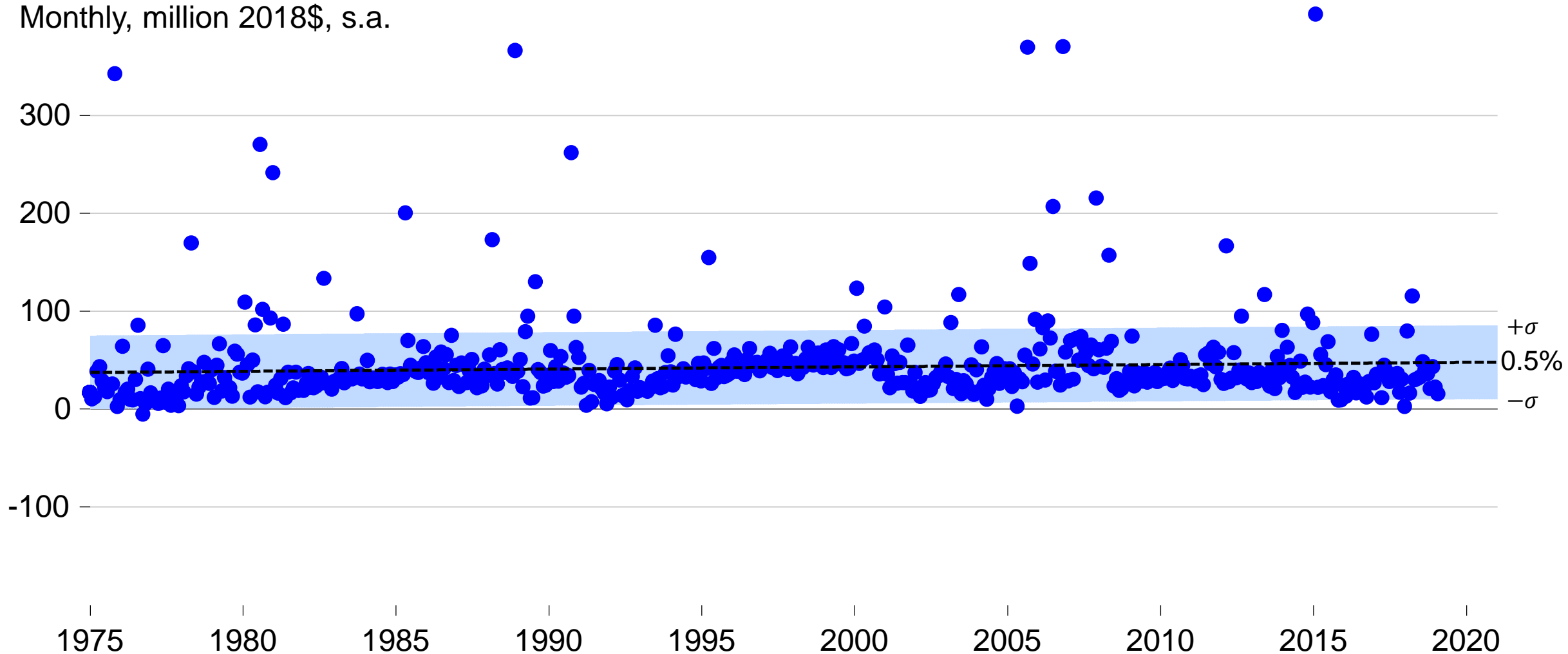


Maui real private construction commitments (building permit values): actual data already may have peaked for current economic expansion



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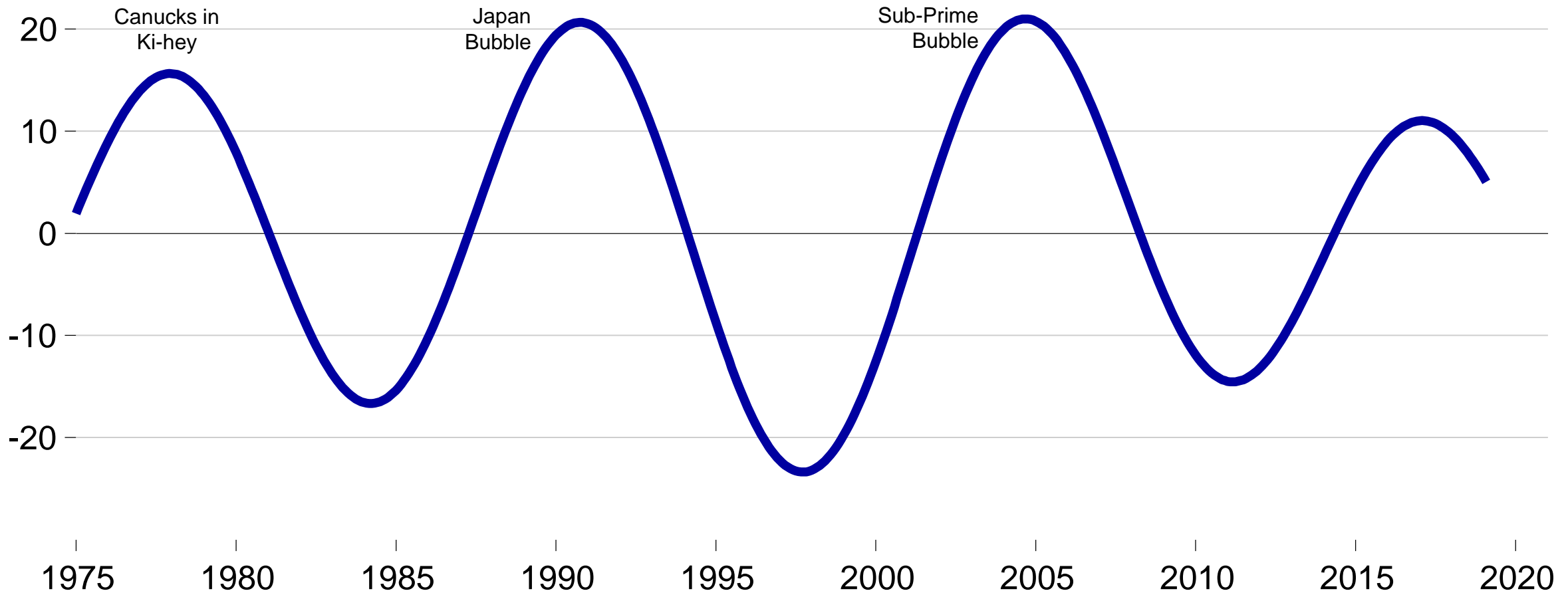
Maui real private construction commitments (building permit values): *trend component* exhibits low growth (0.5% p.a.), slight 2010s fade



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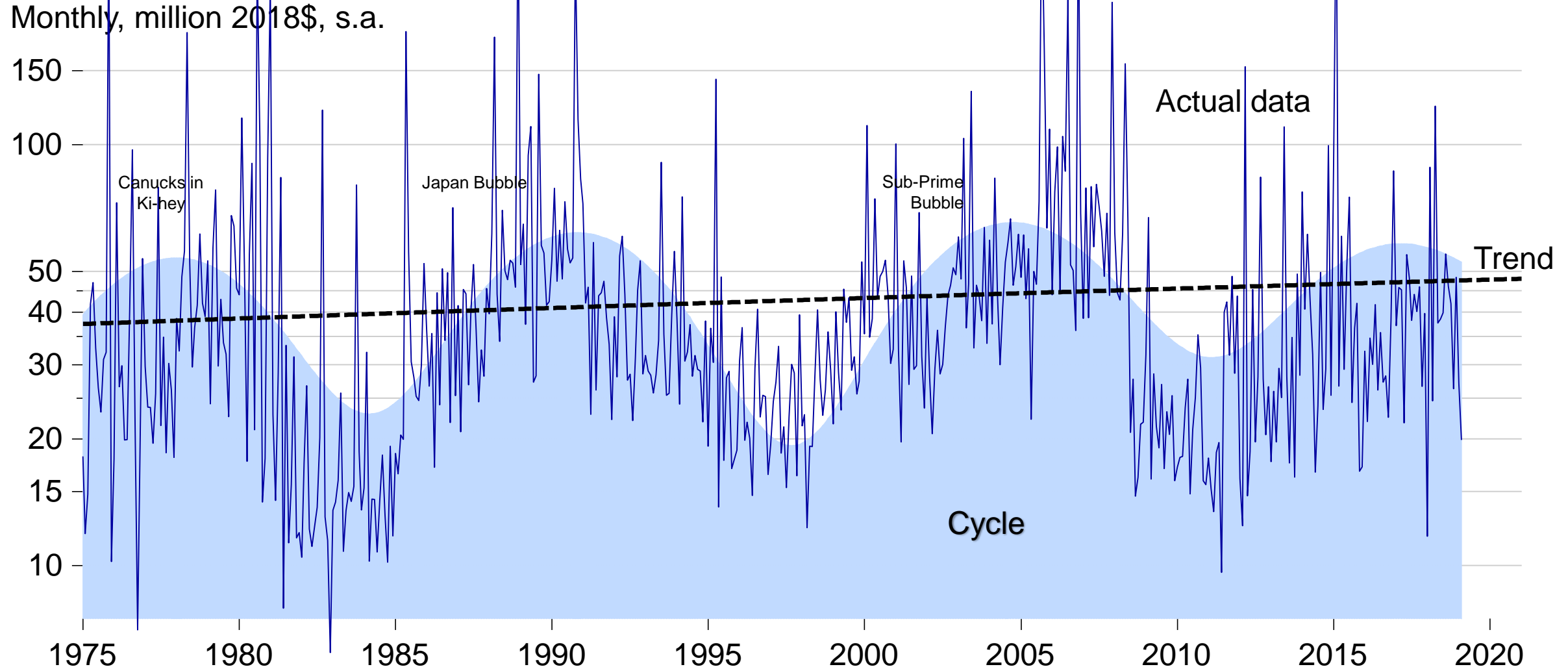
Maui real private construction commitments (building permit values): *cyclical component* is indicating current cycle may be unwinding

Monthly, million 2018\$, s.a.



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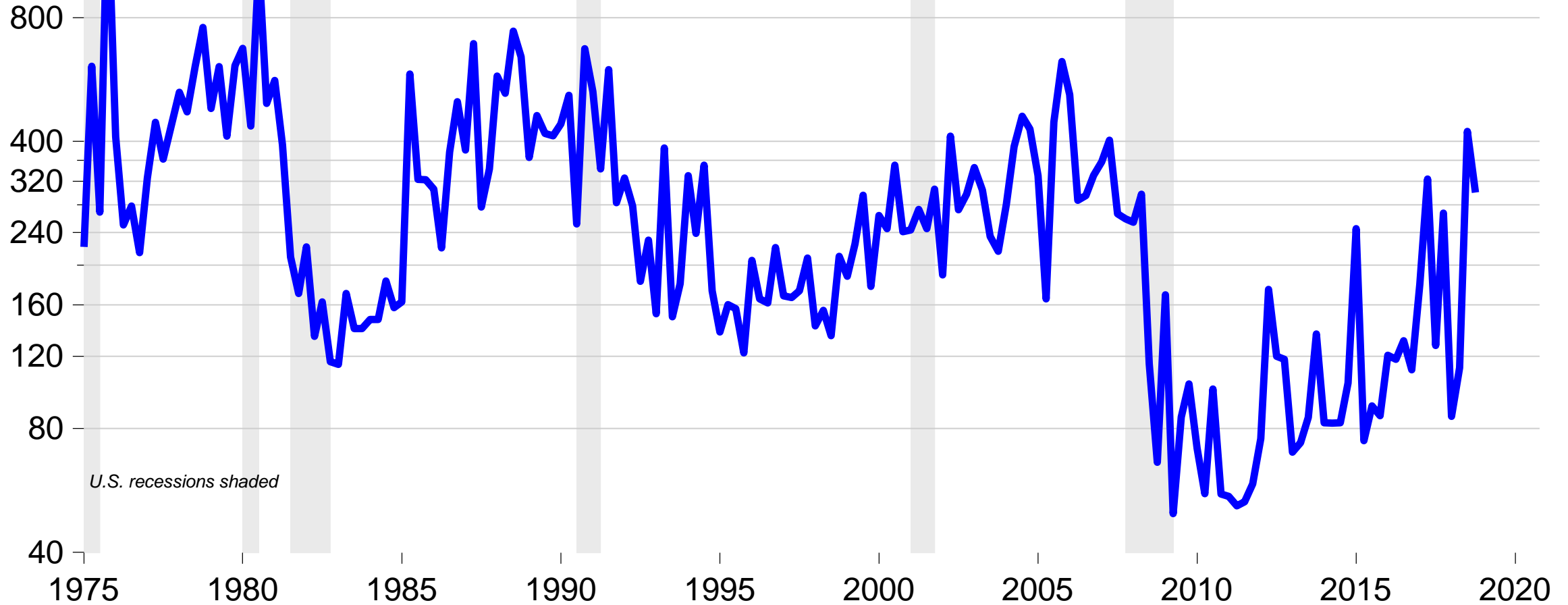
Maui real private construction commitments (building permit values): investing in Maui right now is about *intrinsic attributes*, not “the cycle”



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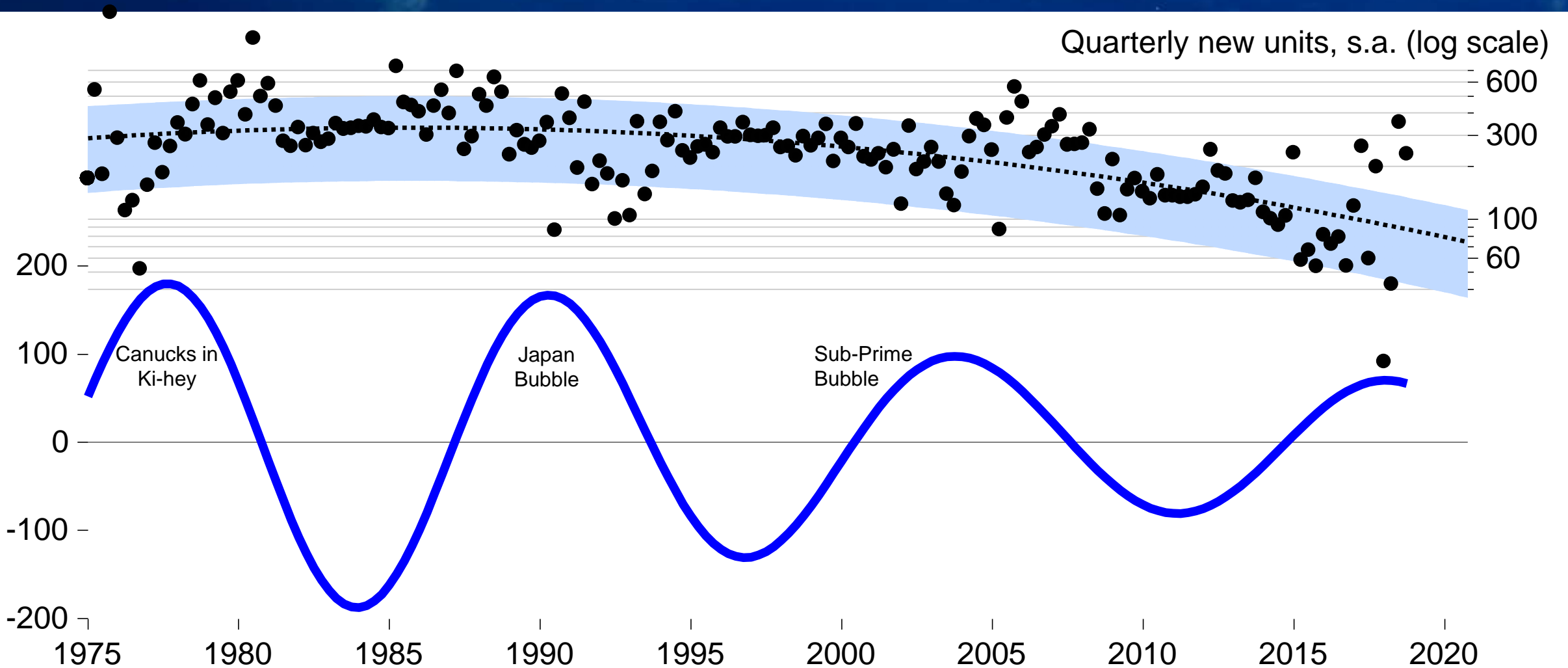
Maui new housing units authorized by building permit: from which we can extract trend from noise, cycle, pointing to less housing formation

Quarterly new units, s.a. (log scale)



U.S. recessions shaded

Maui new housing units authorized by building permit extracting trend from noise, cycle: less capital formation consistent with maturation



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Sources: Maui County, Hawaii DBEDT (http://files.hawaii.gov/dbedt/economic/data_reports/mei/); seasonal adjustment, component extraction using full sample asymmetric Christiano-Fitzgerald band-pass filter, short:long frequencies set at 40:80 quarters, assuming I(0); 2nd-order polynomial regression of log of non-cyclical component on a time trend by TZE.

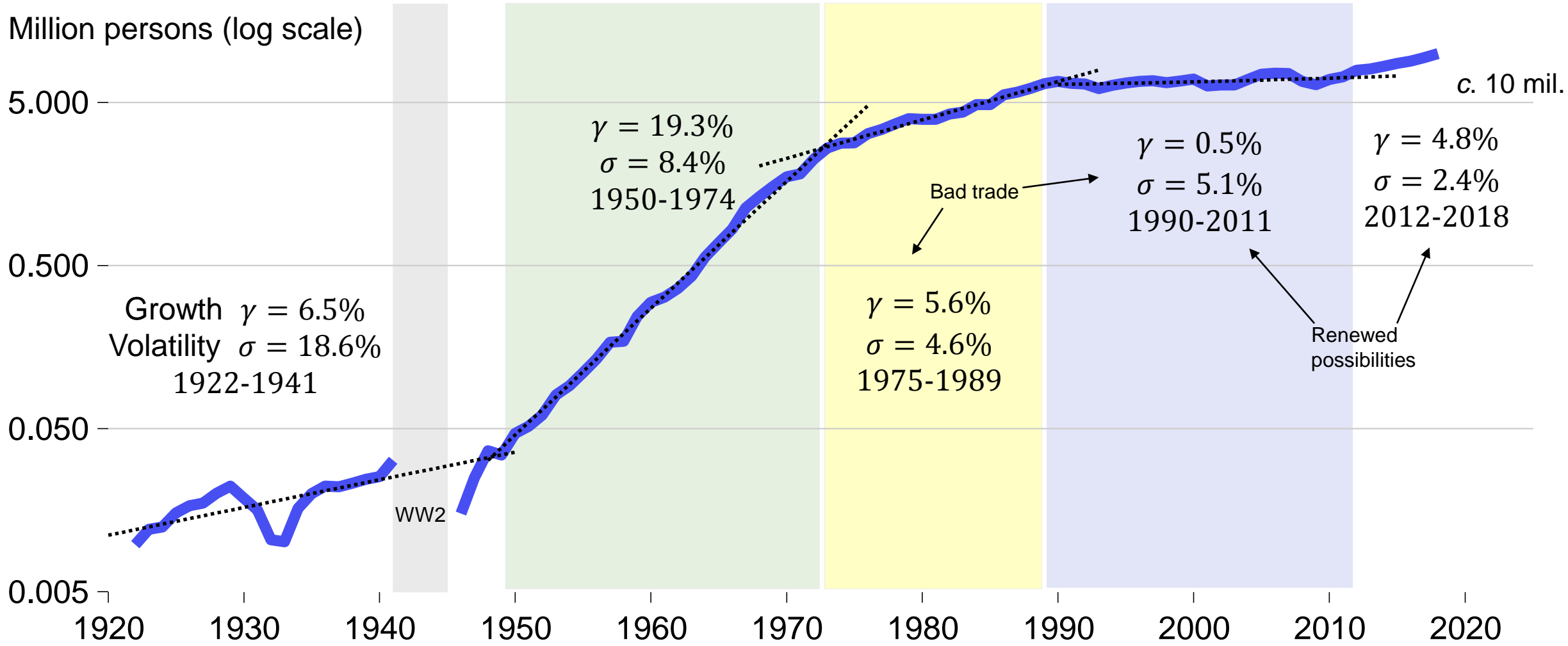
Residential investment takeaway: invest if you *like* Maui but not for extraordinary upside potential, as in late-20th century “discovery”

- Until late-2010s Maui underperformed Oahu, and Hawaii (the state, small s) underperformed U.S. during 2010s expansion; durability of Maui’s recent economic *reacceleration* is unclear
- Dissipation of Maui employment and job growth, rise in Maui unemployment rate, *pre-date* the (May-July 2018) Lower Puna eruption of Kilauea’s East Rift (on a *different* island!)
- Tourism-led Maui economic expansion sputtered after winter 2018 *before* the volcanic eruption (which, to repeat, *was on a different island*); investment’s 2010s growth contribution was weak
- Housing valuations have converged to long-term trend, no bubbliciousness, “Goldilocks” market conditions (not too hot, not too cold, just right)—back to an escalator, not a roller-coaster
- Underlying longer-term *real* investment cycle (capital formation, new home building) shifting to lower amplitude or lower trend or both: Maui no longer an “emerging market” economy (1970s)
- Maui’s NIMBY “prohibition impulses” impair investment host environment (Superferry, genetic modification, mountain telescopes, water for agriculture, housing development, timeshare, undocumented vacation rentals seeking a path to citizenship)—got Krispy Kreme so you’re good

An aerial photograph of a coastal resort complex. The resort features several large, modern buildings with curved facades, situated along a sandy beach that curves into the ocean. To the left of the resort is a large, well-maintained golf course with green fairways and sand traps. The ocean is a vibrant blue, with several sailboats visible in the distance. The overall scene is bright and sunny, suggesting a tropical or subtropical location.

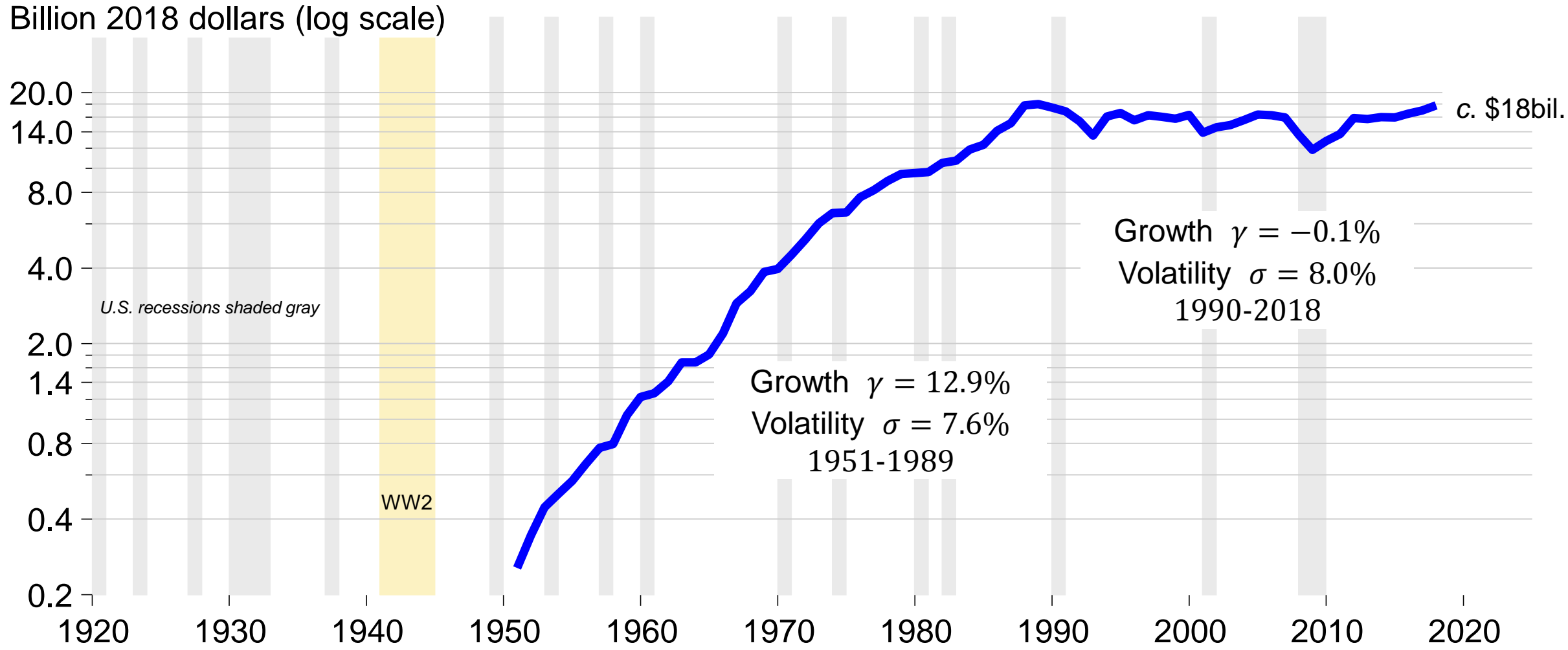
Accounting for risk in long-run tourism performance

Hawaii visitor arrivals, 1922-2018: annualized standard deviations (of log changes) and growth (γ) versus volatility (σ) over five intervals

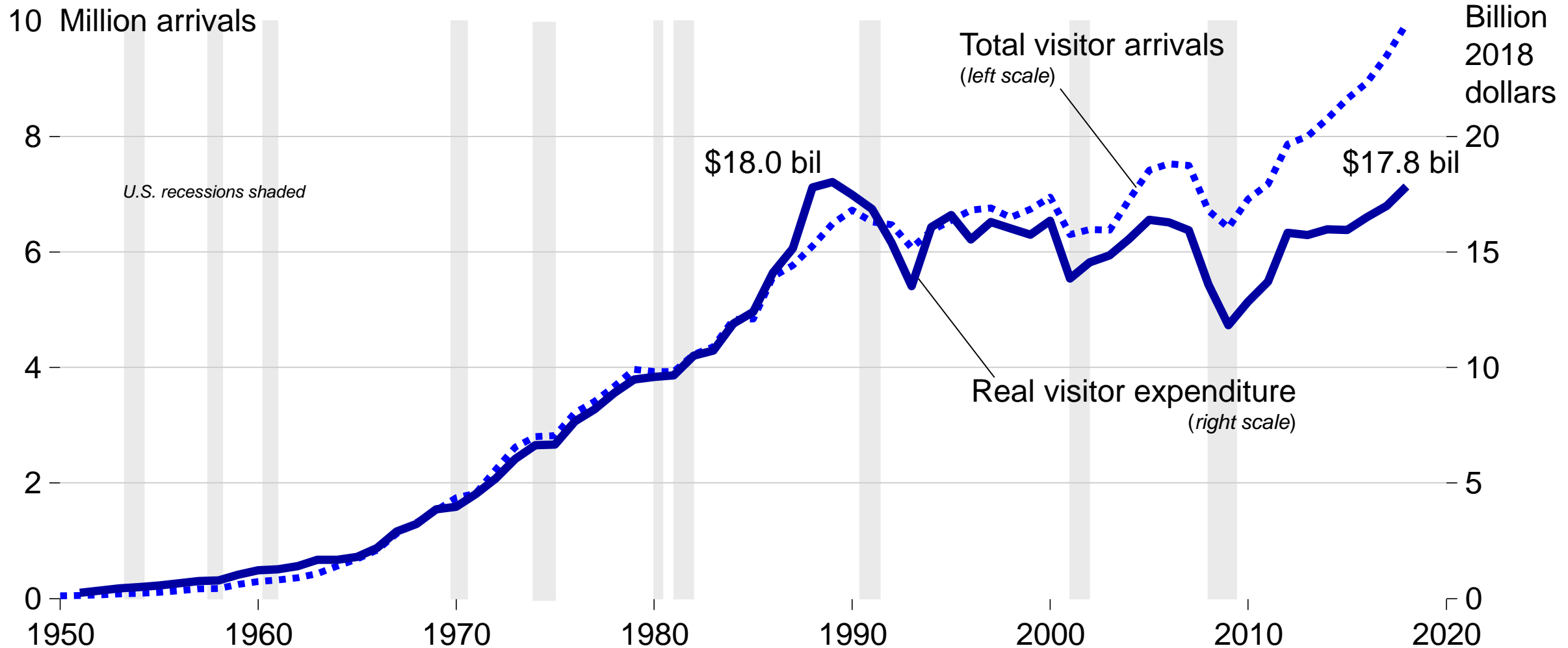


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Real Hawaii visitor expenditure (tourism receipts): “pick your portfolio,” 13% growth, 8% vol. (40 years) versus 0% growth, 8% vol. (30 years)



Especially since 1989, Hawaii statewide visitor arrivals have grown but real tourism receipts have not: “more visitors, *not more dollars*”



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Hawaii Tourism Policy

Fuhgeddaboudit

Eric Adams
Borough President

Bill de Blasio
Mayor

Pau

