After COVID-19 downturn, Kauai has long recovery ahead

PREPARED FOR THE COUNTY OF KAUAI OFFICE OF ECONOMIC DEVELOPMENT

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UHERO
THE ECONOMIC RESEARCH ORGANIZATION AT THE UNIVERSITY OF HAWAIʻI

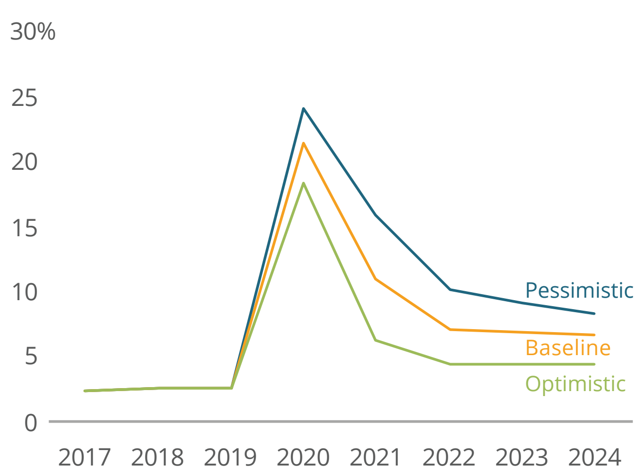
Kauai has begun to reopen from the coronavirus shutdown, but the damage the disease caused will take years to reverse.

The novel coronavirus crisis has hit Hawaii with devastating effect, and Kauai is no exception. While strict preventive measures early on were effective in halting the spread of the disease, they brought economic activity in the county to a standstill. The combination of the stay-home-order for local residents and the statewide mandatory quarantine for visitors has resulted in an unprecedented plunge in employment. Although a gradual re-opening of the local economy is now under way, Kauai tourism will struggle to recover for years to come, and the overall economy will suffer as a result.

The economic costs of the preventive shutdown have been decimating. By May, payrolls had dropped by more than 130,000 statewide; on Kauai they fell by more than 8,000, or roughly a quarter of their pre-crisis level. Based on a UHERO survey and initial unemployment claims, we estimate that more than half of the statewide losses were the direct result of the tourism halt, with the remainder due to stay-at-home orders. Layoffs have been widespread, affecting every industry, but the largest losses have occurred in trade and accommodation and food services. Unfortunately, this means that the crisis has had its most damaging effects on lower-income (and asset) families that are least able to bear it.

Unemployment Rate

Kauai unemployment would average 24% this year in the pessimistic scenario.



An ambitious federal fiscal and monetary policy response has helped to cushion the impact of the coronavirus shock. Payroll support and other loan programs under the CAREs Act have helped many firms to stay afloat, and, despite delays in implementation, direct payments to individuals, enhanced unemployment benefits, and other federal transfer payments are offsetting a significant portion of labor income losses. Low interest rates and expansive lending by the Federal Reserve have also been crucial supports. Recently-announced plans by the Legislature to deploy the State's share of CAREs Act spending in the second half of the year toward enhanced unemployment benefits, rent support, and funding for small business is welcome news.

Kauai was among the first counties to act swiftly to shut down in the early days of the crisis. Perhaps because of stricter rules and greater enforcement, the county was able to go through ten weeks with no new COVID-19 cases. As Governor Ige has begun to lift statewide restrictions, Kauai has moved decisively toward reopening. However, there have been seventeen new cases on the island recently, and there is the possibility of further cases as travel resumes. How this plays out will affect the reopening process going forward.

After many weeks of near-silence on the matter, the State has announced a testing-based plan for reopening the visitor industry on August 1, based in part on an approach in use in Alaska, which will rely on documentation of a negative pre-travel COVID-19 test. There has also been talk about establishing travel "bubbles" with some foreign countries that have the disease well under control, although this might not be much help to Kauai, which depends very heavily on domestic visitor markets.

The worldwide fallout from COVID-19 will contribute to a slow pace of Kauai recovery. Shutdowns have occurred virtually everywhere, and nearly all countries are experiencing a more severe downturn than during the 2008-2009 Great Recession. Local and global supply chains remain impaired, and consumer attitudes cautious. While a rebound from second-quarter lows may be sharp, the recovery to pre-crisis output levels in the US will take at

An Unprecedented—and Uncertain—Kauai Recession

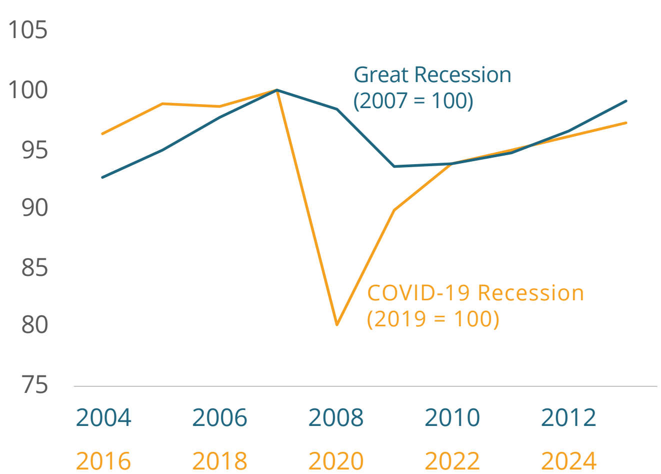
The COVID-19 pandemic, and the complete shutdown of tourism and much of the local economy, has plunged Kauai into a painful economic downturn, and one that we believe will take a number of years to recover from. How does the current situation compare with past experience?

Simply put, today's COVID-19 recession is unprecedented in its severity. The economic damage to date far exceeds that of any previous economic downturns for the state or for Kauai. A comparison to the 2008-2009 downturn is particularly apt, since that "Great Recession" was the most severe downturn since the 1930s Great Depression. In the Great Recession, the nonfarm payroll job count on Kauai fell by about 6.6% between 2007 and 2009; this year, payroll jobs fell by 30% in just a couple of months, and the average job base for all of 2020 will be nearly 20% lower than its 2019 level. In both cases, the dominant cause was a dramatic drop in visitors. During the Great Recession, economic weakness in the US weighed substantially on Kauai tourism, but the (admittedly dramatic) 29% drop in arrivals at that time cannot compare with the rapid and complete tourism shutdown this year. (In case you are curious, this downturn also dwarfs the recession that followed Hurricane Iniki, when the number of payroll jobs dropped about 11% from peak to trough.)

In 2008-2009, tourism was not the only area of weakness. That global recession had been kicked off by the financial crisis that originated in US mortgage-backed assets, leading to a freeze-up of credit affecting activity in many sectors. The housing market's unsustainable boom abruptly ended, sending construction sharply downward. Significant unemployment also occurred in trade, transportation and other services. This time around, so far at least, the effects have been heavily focused on tourism, and on eating and drinking establishments that were shuttered to reduce transmission risk. As a result, the lion's share of losses so far have been in accommodations, food service, and retail. One concern, of course, is that workers in the most affected areas are among the most vulnerable to loss of employment and income.

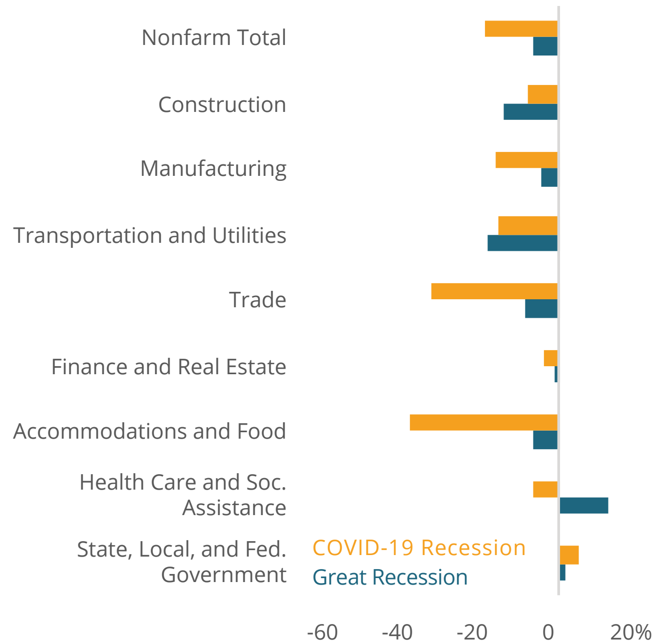
Total Nonfarm Jobs, Indexed to Cycle Peak

Job losses from the COVID-19 downturn far exceed those experienced during the mid-2000s Great Recession.



Percent Change in Jobs

The tourism halt and stay-at-home orders have concentrated losses in a few areas. (Great Recession shows 2007 to 2009 change; COVID-19 Recession shows projected 2019 to 2020 change.)

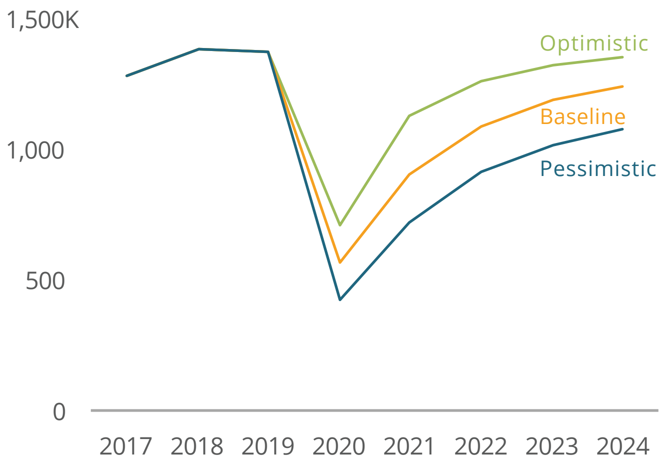


What about the anticipated recovery path? As we have noted in the text, we expect that, following an initial bounce, recovery from this recession will be long and drawn out, owing in part to its reliance on a successful reopening of tourism and a resumption of the general public's willingness to travel. Macroeconomic weakness associated with persistent job losses and bankruptcies will also take time to resolve. Recovery from the Great Recession was also attenuated. In that case, macro damage was exacerbated by the need to work off debt burdens that had built up during the housing bubble, which weighed on lending, investment, and consumption. So long recoveries in both cases, but for somewhat different reasons.

It is important to emphasize again here that, because this downturn is without peer, there is tremendous uncertainty about the recovery path. For this reason, we have provided optimistic and pessimistic alternative scenarios, and we suggest that thinking in terms of a range of possible outcomes will likely be more productive than focusing on a single baseline forecast.

Visitor Arrivals

Kauai visitor numbers will lag for years even in the optimistic scenario.



least two years, with unemployment remaining elevated near 6% in 2022.

Weak economic conditions in visitor markets, practical reopening challenges, and a reluctant traveling public will combine to create a slow and incomplete tourism recovery. The baseline forecast reported here has transpacific tourism resuming in late July, broadly in line with the recently-announced August 1 start date, but the number of visitors picks up very slowly. In the forecast, the number of arrivals for the year averages nearly 60% lower than in 2019. Further recovery thereafter will continue to be gradual, so that by 2022 there will still be fewer than 1.1 million visitors to Kauai, compared with nearly 1.4 million in 2019. The hotel occupancy rate on Kauai will average less than 63% in 2022, compared with about 73% in 2019.

The overall macroeconomic toll of the crisis on Kauai will therefore be extensive and overall recovery will be slow. (The impact on Kauai and the other Neighbor Islands will in fact be somewhat more severe than on Oahu because of their greater reliance on the visitor industry.) In our baseline forecast, nonfarm payrolls will post a 20% decline for this year overall, and they will remain below their 2019 level throughout the forecast period. Kauai's annual unemployment rate will surpass 21% this year, and it will still remain above 7% in 2022. The extensive program of federal transfers will offset a significant portion of lost labor income—at least in the near term—so that the drop in aggregate real personal income will be smaller, falling by 6% this year. Still, income recovery will be attenuated, edging back up toward 2019 levels only by the middle of this decade.

In formulating our baseline scenario, we have made our best judgment about developments that will determine the path ahead, given the information available at this time. Because of the tremendous uncertainty that exists, we have also developed scenarios that we believe encompass a reasonable range of alternative outcomes.

In our pessimistic scenario, we assume no appreciable tourism uptick until autumn. Visitor arrivals would post an annual decline of about 70% this year and remain significantly below the 2019 peak through the end of the forecast horizon. For this year as a whole, real income on Kauai would decline 8%, and non-farm payrolls would be down more than 23%. The nonfarm job count would remain more than 4,000 jobs below its pre-crisis level in 2022, and the unemployment rate would remain above 10%.

In our optimistic scenario, improved control of the virus nationally and abroad allows a somewhat stronger return of visitors in late summer, and, by this fall, businesses catering primarily to the local market would recover about 80-85% of the recent decline. Two-thirds of job losses would be recovered by next year. Even so, persisting social-distancing measures would continue to impose significant ongoing costs for tourism. Despite a relatively steep path of initial gains, visitor numbers would lag 2019 levels for the next five years.

After such a sharp drop, it would be nice to hope for a rapid rebound for Kauai and the rest of Hawaii. Unfortunately, we think this is unlikely, given the state's heavy reliance on tourism. Instead, we are likely to lag behind the national pace of recovery. How that recovery proceeds will depend crucially on government policy responses, in part whether more direct federal support to states and counties is forthcoming. Absent that, it will be important for the State to make good on plans to deploy its share of Federal monies, its own resources, and necessary short-term borrowing to bridge the gap, particularly for lower-income families most affected by what looks to be a drawn-out recovery process.

MAJOR ECONOMIC INDICATOR SUMMARY
KAUAI COUNTY BASELINE FORECAST AND ALTERNATIVE SCENARIOS

	2017	2018	2019	2020	2021	2022
Non-farm Payrolls (Thou)	32.8	32.7	33.2	26.6	29.8	31.1
% Change	2.6	-0.3	1.6	-19.9	12.0	4.3
Unemployment Rate (%)	2.4	2.5	2.7	21.5	11.1	7.2
Population (Thou)	71.8	72.1	72.2	72.3	71.9	71.4
% Change	0.3	0.5	0.1	0.2	-0.6	-0.7
Personal Income (Mil $)	3,379.7	3,564.5	3,738.8	3,513.8	3,500.6	3,633.6
% Change	5.5	5.5	4.9	-6.0	-0.4	3.8
Inflation Rate, Honolulu MSA (%)	2.5	1.9	1.6	0.0	0.1	1.3
Real Personal Income (Mil 2019 $)	3,498.6	3,622.5	3,738.8	3,512.8	3,494.7	3,581.2
% Change	2.9	3.5	3.2	-6.0	-0.5	2.5
Real Per Capita Income (Thou 2019 $)	48.7	50.2	51.8	48.6	48.6	50.1
% Change	2.6	3.0	3.1	-6.2	0.1	3.2
TOURISM SECTOR DETAIL						
Total Visitor Arrivals by Air (Thou)	1,285.4	1,389.3	1,374.9	574.9	909.4	1,092.5
% Change - Total Visitor Arrivals by Air	8.3	8.1	-1.0	-58.2	58.2	20.1
U.S. Visitors	1,050.5	1,134.4	1,136.0	488.2	764.9	923.6
% Change - U.S. Visitors	7.6	8.0	0.1	-57.0	56.7	20.8
Japanese Visitors	25.4	24.8	25.2	8.3	15.6	19.1
% Change - Japanese Visitors	10.7	-2.5	1.7	-67.1	88.2	22.1
Other Visitors	209.6	230.1	213.7	78.4	128.8	149.8
% Change - Other Visitors	11.6	9.8	-7.1	-63.3	64.2	16.3
Visitor Days (Thou)	9,641.7	10,389.0	10,126.5	4,216.1	6,647.7	8,000.0
% Change	6.2	7.8	-2.5	-58.4	57.7	20.3
Occupancy Rate (%)	75.8	77.6	73.3	34.1	54.8	62.6
OPTIMISTIC SCENARIO						
Nonfarm Payrolls (Thou)	32.8	32.7	33.2	27.7	31.4	32.1
% Change	2.6	-0.3	1.6	-16.7	13.5	2.1
Unemployment Rate (%)	2.4	2.5	2.7	18.4	6.3	4.6
Real Personal Income (Mil 2019$)	3,498.6	3,622.5	3,738.8	3,551.7	3,566.2	3,633.6
% Change	2.9	3.5	3.2	-5.0	0.4	1.9
Total Visitor Arrivals by Air (Thou)	1,285.4	1,389.3	1,374.9	716.5	1,131.2	1,266.5
% Change	8.3	8.1	-1.0	-47.9	57.9	12.0
PESSIMISTIC SCENARIO						
Nonfarm Payrolls (Thou)	32.8	32.7	33.2	25.4	27.4	29.0
% Change	2.6	-0.3	1.6	-23.5	7.8	5.9
Unemployment Rate (%)	2.4	2.5	2.7	24.0	15.9	10.2
Real Personal Income (Mil 2019$)	3,498.6	3,622.5	3,738.8	3,444.5	3,364.6	3,472.3
% Change	2.9	3.5	3.2	-7.9	-2.3	3.2
Total Visitor Arrivals by Air (Thou)	1,285.4	1,389.3	1,374.9	424.8	719.8	917.5
% Change	8.3	8.1	-1.0	-69.1	69.4	27.5

Note: Source is UHERO. Income figures for 2019 are UHERO estimates. Figures for 2020-2022 are forecasts.