Special Report on the Maui Construction Sector

Maui Construction Jobs Down 12% Since March

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Executive Summary

- In 2005, 2006, and 2007, the construction sector contributed between 23 and 32 percent of all new job growth on Maui.
- Since March, Maui construction jobs have fallen 12%.
- Real building permits have also fallen dramatically, suggesting that construction jobs are to decline further.

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Declining Construction Jobs on Maui

The momentum created in Maui’s construction sector by soaring home and condo prices, inexpensive financing, and multiple luxury resort developments has dissipated over the past two years. With the deepening financial crisis and a substantially weaker housing market, employment in the contracting sector on Maui has taken a tumble this year. Because construction has been a primary driver in Maui’s job market for the past 5 years, this has troubling implications for the overall Maui economy.

Maui’s Softening Housing Market

Maui’s housing market peaked in 2006 after a building boom that began in 2000. Factors that had fueled the boom, including strong offshore demand for second and vacation homes, rising income and jobs on Maui, and inexpensive financing had eroded by late 2006. This year, weaker economic conditions and tighter credit markets have reinforced the housing slowdown on Maui. In the second quarter of this year, the median price of single family homes was $580,000, down 13.5% from the same quarter last year and 23% lower than its third quarter 2006 peak (data from Prudential Locations LLC). Lower prices have not stimulated increased demand. Second quarter resales on Maui were down 24.2% from last year, 47% below their 2003 peak.

More recent data from the Realtors Association of Maui show that the median price of a single family home on Maui fell an additional 9% in September, from $586,000 in 2007 to $535,000 this year. The number of transactions of single family units is down 12% from last year. In terms of value, sales volume has decreased by almost 22%. Condominium prices have plummeted by 35%, and declining unit sales have only made matters worse. The volume and the value of condo resales have decreased a staggering 43 and 56%, respectively.

The total value of real building permits (residential, commercial, and additions and alterations in current dollars) grew steadily beginning in the mid-1990s, but this indicator has become erratic and has fallen dramatically over the last couple of months. Maui county permits were on the order of $380 million in real terms at their peak in the third quarter of 2005, but have since fallen to $50 million in the third quarter of this year. The figure for third quarter real permits is an estimate based on data for July and August. The Honolulu construction cost index for the third quarter is also a UHERO estimate. There is no separate deflator for Maui County.

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While permits are typically a volatile indicator, they are a useful signal of what is in store for the construction sector. Job growth generally follows permit growth through the peaks and troughs of building cycles.

Construction Means Jobs

From the first quarter of 2004 to the second quarter of 2007, Maui experienced sustained year-over-year aggregate job growth between 2% and 5%. Much of this growth was fueled by the construction sector. In 2005 and 2006, construction boasted double-digit job growth for five straight quarters and accounted for 32% and 23% of all new jobs, respectively.

By early 2007 Maui’s construction job count had grown to almost 5,000 from 3,000 prior to 2004. While total jobs dropped briefly in the third quarter of 2007, construction jobs continued to increase modestly. Overall, 31% of all new jobs in 2007 were construction jobs.

This year the picture has changed rapidly. In the first quarter of 2008, jobs increased slightly for Maui, with construction fueling 14% of the growth. In the second quarter, however, Maui lost 640 jobs, 200 of which were in the construction sector. And construction job counts began to decline more rapidly early this summer, falling 1–3% in May and June, 7% in July, and falling 9% by August. July and August combined have seen over 600 seasonally adjusted jobs lost, around 250 of which were construction jobs.

Compared to the other counties in Hawai‘i, construction job losses have been disproportionately heavy for Maui. Since March, construction jobs on O‘ahu shrank by 1% while jobs on Kaua‘i stayed about the same. Construction jobs on the Big Island decreased by 4%, while Maui lost 12% of its construction job base. Since January, construction jobs on Maui have been decreasing at an annualized rate of over 17%.

While some decline in construction jobs is to be expected as the cycle turns, the rapid loss is troubling for the contracting industry and equally troubling for the overall Maui economy. Despite the fact that construction jobs represent only 6% of the total number of jobs in Maui county, swings in contracting play a large role in both job growth and job loss on Maui. The current construction job count is now about 4,500, down over 500 jobs from the peak in March of this year.

Construction has ceased to be a growth engine for Maui’s economy at a time when other sources of job growth have stalled. The tourism sector is turning in its worst performance since early 2002, and this is being felt in the accommodations and food sector, as well as in the transportation sector. Maui employment has flat-
lined and, given the global financial crisis, is unlikely to jump start in the near future.

### Accelerating Job Losses in Contracting

Members of contracting-related labor unions on Maui including the Carpenters, Operating Engineers, Laborers, Masons, and Plumbers and Fitters have been hit hard by the ailing housing sector. Contracting jobs are in lower demand as long-term building projects wind down. Starwood is wrapping up its last timeshare conversion and the Ritz Carlton conversion is now complete. The Mokulele Highway widening project from Kahului to Kihei was completed earlier this summer. With large scale construction projects ending and fewer new developments in the works, Maui has seen large losses in the contracting labor market.

As of September, these five contracting-related labor unions reported increases between 3 and 29 percentage points in unemployment compared to the same month last year. Overall, there were approximately 1,900 members in construction-related labor unions last summer, 300 of which were unemployed. As of last month, membership has remained steady but the number of unemployed members rose to 600. (All data in this section was provided by the labor unions.)

The Operating Engineers have taken a particularly severe hit, with 53% of their members reportedly unemployed in September 2008. This is 29 percentage points higher than September of last year. Because most of their members operate heavy equipment and are largely involved in the early stages of construction projects, the completion of existing projects without replacement by new projects will lead to a large number of layoffs for these workers. Members of the Masons, on the other hand, have held jobs at a steadier rate, with 37% of their members reporting being unemployed, a change of only 3 percentage points compared to this time last year. The nature of the Mason’s work, brick laying, tile setting, cement finishing, and plastering, is often completed towards the end of a project’s life. As projects wind down on the island of Maui, the Masons may face downturns comparable to those of their fellow union members. Renovation projects may help boost employment of these members. Other differences in the various unions’ unemployment data may be a reflection of changing demand for various trades in the contracting sector, as well as differences in the way these unions collect and interpret their membership data.

Data on weekly unemployment claims published by DBEDT confirms mounting trouble for employment on Maui. Two kinds of data are available: “initial claims,” which initiate a determination of eligibility to receive
benefits, and “weeks claimed,” which are requests for weekly payments, whether or not benefits are actually paid. Although the data for 2008 includes only 9 months (through the end of September), initial claims and total weeks claimed in 2008 are already higher than any of the previous four years. There were fewer than 9,000 initial claims for Maui County each year for the period 2004–2007. Nine months into 2008, DBEDT reports over 9,400 initial claims. Total weekly claims are already over 59,000 for 2008, while totals for each of the last four years did not exceed 52,000. While it is not clear how unemployment claims will look at the end of 2008, the number is sure to be higher than that seen in recent years.

### What’s Next for Maui’s Construction Sector?

Aside from the declining housing market and the resulting decline in contracting jobs, the construction industry on Maui faces additional hurdles from the broader international, domestic and state economies. The turmoil in credit markets is wreaking havoc on the ability of lenders to provide funding for current and planned projects. For example, Maui Land and Pineapple Co.’s plan to build high-end homes in Kapalua was financed primarily by Lehman Brothers. Following the recent bankruptcy and sale of Lehman, there are fears this project may be stalled.

A range of uncertainties pose both challenges and risks for job creation and retention on Maui. Investors are operating in an environment where higher credit costs, tighter underwriting, and uncertain macroeconomic prospects have diminished their ability and willingness to undertake new capital formation. The U.S.—and likely global—recessions, together with home and stock price losses, have undercut consumer confidence, leading to a sharp decline in visitors. The future path of prices for oil and other key commodities is more uncertain than in many years. Equally troubling is that much of the data in this report is from August, well before the financial crisis ballooned in September and October. We can expect further deterioration in local economic conditions over the next year, and no significant recovery is expected to begin until 2010 or beyond.

There may be a limited amount of relief in sight. Large short-term building projects may help ease the contracting slump as developers adjust plans to take advantage of the soft labor market. Hotels and resorts that have been considering future renovations may move forward quickly since business is down and the supply of available labor is growing.

Lower mortgage rates may also help. While the nationwide average for a 30-year, fixed-rate mortgage recently dropped to 5.8%, Hawai‘i mortgage rates dropped further to 5.5%. Because lowered interest rates were a major catalyst during Hawai‘i’s last real estate boom, the new lower rates may provide a rare silver lining in what seems to be a deepening economic crisis.

Maui’s construction downturn comes at a particularly vulnerable time for the local economy. Weakness in the sector threatens to further dampen economic prospects over the next several years.
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