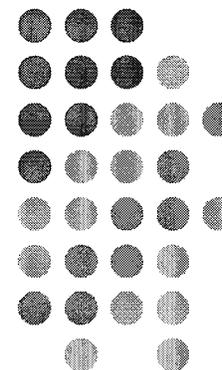

Economic Outlook



Economic Outlook

Overview

Based on the most recent development in the national and global economy, the performance of Hawaii's tourism industry, the labor market conditions in the state, and growth of personal income and tax revenues, the Department of Business, Economic Development and Tourism (DBEDT) expects continued positive growth in Hawaii economy in 2013 and 2014.

Labor Force and Jobs

For the first three quarters of 2012, civilian employment averaged 610,250 persons, a decrease of 6,200 persons or 1.0% compared to the same period of 2011. The civilian labor force averaged 650,867, a decrease of 10,200 persons or 1.5%. Since the labor force decreased more than the decrease in employment, for the first three quarters of 2012, the statewide unemployment rate averaged 6.2%, a decrease of 0.6 of a percentage point from the same period last year.

During the first three quarters of 2012, Hawaii's economy gained 1.3% or 7,800 non-agricultural wage and salary jobs compared to the same period of 2011. Job gain in the first three quarters of 2012 was due to increased jobs in the private sector; the government sector lost 350 jobs or 0.3% during this period. Both the Federal Government and the State and Local government lost jobs in the first three quarters of 2012 compared with the same period last year. Job gain in the private sector was mainly in the tourism-related sectors. Leading the job gain were Food Services and Drinking Places (added 2,850 jobs or

5.0%), followed by Accommodation (added 2,250 jobs or 6.4%), Retail Trade (added 1,200 jobs or 1.8%), and Transportation, Warehousing, and Utilities (added 1,050 jobs or 3.9%). Job loss in the private sector occurred in Information and Other Services (both lost 350 jobs), Natural Resources, Mining, and Construction (lost 200 jobs), and Manufacturing (lost 150 jobs).

Tax Revenues

Through the first three quarters of 2012, State General Fund Tax revenues increased \$411.4 million or 12.5%; General Excise and Use Tax (GET) collections increased \$193.2 million or 9.9%; Individual Income Tax collections increased \$120.5 million or 11.0%; and Transient Accommodations Tax (TAT) collections increased \$31.0 million or 13.1% compared with the same period last year.

Personal Income

Nominal personal income (not adjusted for inflation) increased \$1,875 million or 3.2% in the first two quarters of 2012 compared to the same period of 2011. Wage and salary disbursements (which accounted for about 50% of total personal income) increased \$645.0 million or 2.2% during the first half of 2012.

Supplements to Wages and Salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased by

\$271.0 million or 2.8% in the first half of 2012 compared to the same period of 2011.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$145.0 million or 3.9% in the first two quarters of 2012 compared to the same period of 2011.

Dividends, Interest, and Rent increased \$649.0 million or 6.2% in the first half of 2012 from the same period of 2011, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$273.5 million or 2.9%.

Contributions to Government Social Insurance, payments subtracted from personal income, increased by \$109.0 million or 2.5% in the first half of 2012 from the same period of 2011.

Earnings increased \$799.5 million or 2.9% in the private sectors during the first half of 2012 compared to the same period of 2011. In dollar terms, the largest earnings gain in the private sectors occurred in Accommodation and Food Service (gained \$276.5 million or 8.2%), followed by Retail Trade (gained \$130.0 million or 5.1%), Construction (gained \$109.0 million or 3.7%), Utilities (gained \$65.5 million or 16.0%), and Professional and Technical Services (gained \$54.5 million or 2.2%). The largest earnings losses in the private sectors occurred in Real Estate and Rental and Leasing (lost \$59.0 million or 5.9%), followed by Health Care and Social Assistance (lost \$41.0 million or 1.0%), Information (lost \$16.5 million or 2.5%), and Manufacturing (lost \$15.5 million or 2.0%).

In the first half of 2012, total government earnings increased \$260.0 million or 1.7% compared with the

same period of 2011. The earnings of the Federal Government increased \$263.5 million or 2.7%, mainly due to earnings gained by the Military (gained \$173.0 million or 2.8%); while the earnings of the State and Local Government decreased \$3.5 million or 0.1%.

Prices

According to the most recent data available, consumer prices in Honolulu increased 2.8% in the first half of 2012 compared with the same period of 2011, as measured by the Honolulu Consumer Price Index for Urban Consumers (CPI-U). By contrast, the U.S. CPI-U increased 2.3% in the first half of 2012. In 2011, the Honolulu CPI-U increased 3.7% from the previous year. The consumer inflation in the first half of 2012 was primarily due to relatively large increases in the price index of Food and Beverages (4.5%), Education and Communication (4.1%), and Medical Care (3.7%). The prices for Recreation and Apparel increased 2.6% and 2.4%, respectively; the prices for Housing and Transportation increased 2.3% and 2.1%, respectively; and the prices for Other Goods and Services only increased 1.1%, compared to the first half of 2011.

Tourism

In the first three quarters of 2012, total visitor arrivals by air increased 492,542 or 9.2% from that of 2011, while 2012 year-to-date (YTD) average daily visitor census increased 50,298 or 9.0% from 2011. Domestic arrivals were up 4.7%, and international arrivals were up 20.6%. Visitor arrivals in the first three quarters of 2012 increased among all the five major market areas (MMAs) compared with the same period last year. Arrivals from All Others increased the most at 27.1%, followed by Japan (15.9%), U.S. West (5.4%), Canada (4.9%), and

U.S. East (3.7%). Visitor arrivals by cruise ships increased 42.5% in the first three quarters of 2012. Total visitor expenditures were estimated to have totaled \$11,783.6 million through the first ten months of 2012, up \$1,870.2 million or 18.9% over the same period a year ago.

Through the first nine months of 2012, average airline passenger capacity increased 10.4% from the same period of 2011, while the statewide average hotel occupancy rate increased to 77.8%, up 4.1 percentage points from the same period last year.

Construction and Real Estate

The major indicators of Hawaii's construction activity were mostly positive through the first two to three quarters of 2012. Based on the most recent data available, the average contracting tax base increased \$415.6 million or 14.7% during the first half of 2012 from the same period of 2011. During the first nine months of 2012, the total value of private building authorizations increased \$530.8 million or 39.1%. In addition, the government contracts awarded increased \$412.3 million or 156.8%; and the State Capital Improvement Project expenditures increased \$244.8 million or 32.9% in the first three quarters of 2012 compared to the same period last year.

In the first nine months of 2012, the number of existing units sold on Oahu was up 5.3% for single family homes and up 5.2% for condominiums, respectively, compared to the same period last year. According to the most recent data available, in the first half of 2012, the median price for existing single family homes on Oahu was \$617,500, up 8.4% from the same period last year; and

the median price for existing condominiums on Oahu was \$307,500, up 1.2% from the same period last year.

During the first three quarters of 2012, construction jobs decreased 0.6% or 183 jobs from the same period of 2011.

County Economic Conditions

Through the first three quarters of 2012, the average unemployment rate decreased in all counties compared to the same period last year. In Honolulu and Hawaii County, both labor force and civilian employment decreased, but employment decreased less than the decrease in labor force; therefore, the unemployment rate in Honolulu decreased from 5.7% to 5.5%, and the unemployment rate in Hawaii County decreased from 10.1% to 9.0%. In Maui and Kauai, the labor force decreased but civilian employment increased, therefore, the unemployment rate in Maui decreased from 8.0% to 6.7%, and the unemployment rate in Kauai decreased from 9.0% to 7.8%.

Visitor arrivals and visitor days by air both increased substantially in the first three quarters of 2012 in all counties compared to the same period of 2011. Visitor arrivals increased the most in Honolulu (11.6%), followed by Hawaii County (7.3%), Kauai County (7.2%), and Maui County (5.6%). Total visitor days by air increased the most in Honolulu (12.8%), followed by Kauai County (7.4%), Hawaii County (7.1%), and Maui County (5.5%).

Through the first three quarters of 2012, non-agricultural wage and salary jobs increased in all counties compared with the same period of 2011. Net job increase in all counties was due to job gains in the private sector. In the first three quarters of 2012, the private sector in Honolulu

added about 4,000 jobs and the government sector lost 300 jobs compared with the same period last year. The largest job gain in the private sector was in Food Services and Drinking Places (added 2,000 jobs), followed by Retail Trade (added 1,150 jobs), and Accommodation (added 1,000 jobs). The largest private sector job loss was in Natural Resources, Mining, and Construction (lost 1,000 jobs), followed by Information (lost 650 jobs), and Manufacturing (lost 550 jobs).

Hawaii County added 1,150 jobs or 1.9% in the first three quarters of 2012 over the same period of 2011. The private sector in Hawaii County added about 1,200 jobs and the government sector lost 50 jobs compared with the same period last year. In the first three quarters of 2012, the largest job gain in the private sector of Hawaii County was in Food Services and Drinking Places and Accommodation (both added 300 jobs), followed by Transportation, Warehousing, and Utilities (added 250 jobs), and Manufacturing (added 200 jobs). The largest private sector job loss was in Arts, Entertainment and Recreation (lost 200 jobs), followed by Other Services (lost 150 jobs), and Professional and Business Services (lost 50 jobs).

In the first nine months of 2012, Maui County added 2,250 jobs or 3.4% from that of 2011; additional jobs were mainly from the private sector. The Government sector only added 50 jobs during this period. The largest private sector job increase occurred in Natural Resources, Mining, and Construction (added 650 jobs), followed by Accommodation (lost 550 jobs), and Transportation, Warehousing, and Utilities (added 400 jobs), and Food Services and Drinking Places (added 350 jobs). In the first three quarters of 2012, job losses only occurred in Arts, Entertainment and Recreation (lost 350 jobs) and Other Services (lost 100 jobs) in Maui.

Kauai County added 600 jobs or 2.3% in the first three quarters of 2012 over the same period of 2011. The largest job gain in the private sector of Kauai was in Accommodation (added 400 jobs) and Food Services and Drinking Places (added 250 jobs). The largest job loss was in Retail Trade (lost 150 jobs).

Hotel occupancy rates increased in the first nine months of 2012 in all counties compared to the year-ago levels, with Honolulu increasing 4.7 percentage points to 85.6%, Maui County increasing 2.1 percentage points to 73.3%, Hawaii County increasing 3.7 percentage points to 62.2%, and Kauai County increasing 5.9 percentage points to 70.5%.

During the first three quarters of 2012, the value of private building permits increased in all counties, compared to the same period of 2011. In dollar terms, the values of private building permits increased the most in Honolulu (\$275.1 million or 29.7%), followed by Maui (\$159.8 million or 106.9%), Hawaii County (\$78.2 million or 33.4%), and Kauai (\$17.7 million or 38.9%).

Outlook for the Economy

Hawaii's economy depends on the conditions in the U.S. economy and key international economies. According to the Blue Chip Economic Consensus Forecast, the U.S. economy is expected to grow at the 2.0 percent range in 2012 and 2013. Labor market conditions continue to improve with unemployment projected to be 8.1% for 2012 and 7.8% for 2013. Though the Japanese economy is slightly weaker than expected, the exchange rate is still in favor to Japanese visitors at about 80 yen per dollar.

Federal government visa policies also play an important role in attracting visitors from foreign markets. Since the visa waiver program started in late 2008, Korean visitors have grown threefold from 38,110 in 2008 to 112,567 in 2011. Visa waiver to Taiwanese visitors which started on November 2, 2012 is expected to bring more visitors from Taiwan in the coming year. During the first nine months of 2012, air seats increased 7.4% and the last quarter is expected to grow by 12.7%, ending the year by 8.7% increase. Latest data from Official Airline Guide (OAG) indicates that air seats to Hawaii are scheduled to grow by 4.6% during the first half of 2013.

Construction industry showed the sign of recovery in the third quarter of 2012 with 1.4% increase in construction jobs during the quarter. Year-to-date through September, the value of private building permits increased by 39.1% and the State's capital improvement project spending increased 39.2% as compared with the same period in 2011.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.6% increase in 2012, and 2.4% growth in 2013.

Visitor arrivals are expected to increase 9.4% in 2012, with a new record of visitor arrivals to Hawaii at nearly 8 million visitors. Visitor expenditures in 2012 are expected to grow by 18.8% to \$14.6 billion in 2012. For 2013, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 3.9 percent, 3.7 percent, and 5.2 percent, respectively.

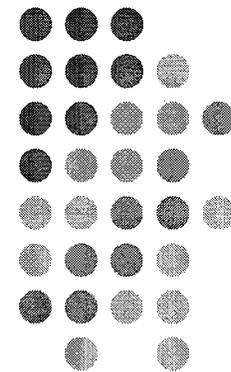
The projection for non-agricultural wage and salary job growth rate in 2012 is expected to be 1.5%. In 2013, jobs are projected to increase 2.0%.

The Honolulu Consumer Price Index (CPI), which increased 3.7 percent in 2011, is expected to slow down to 2.5% in 2012. The CPI is projected to increase 2.4% in 2013.

Personal income in current dollars is expected to increase 4.3% in 2012. Real personal income is currently projected to grow 1.8% in 2012. In 2013, current-dollar personal income and real personal income are expected to increase 4.8% and 2.3%, respectively.

Beyond 2013, the economy will be on the expansion path with job growth expected to increase 1.5% in 2014 and 2015. Visitor arrivals are expected to increase 2.7% in 2014 and 2.6% in 2015. Visitor expenditures are expected to increase 5.3% in 2014 and 5.1% in 2015. Real personal income is projected to increase 2.8% in 2014 and 2.6% in 2015. Hawaii's real GDP growth is expected to reach 2.5% in 2014 and 2015.

**Tables Indicating the Basis for Revenue
Estimates**



ESTIMATES OF GENERAL FUND TAX REVENUE FROM THE MEETING OF SEPTEMBER 6, 2012: FY 2013 TO FY 2019

(Revised 11/14/2012)

Line item projections generated by Tax Research and Planning Office to be consistent with the Council's total growth forecast
(in thousands of dollars)

TYPE OF TAX	BASE		ESTIMATED						
	FY 2011	FY 2012*	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Excise and Use Tax	\$2,495,807	\$2,697,951	\$2,916,219	\$3,044,151	\$3,223,223	\$3,396,983	\$3,578,678	\$3,764,740	\$3,940,021
Individual Income Tax	1,246,672	1,540,588	1,571,441	1,607,785	1,692,270	1,741,871	1,787,768	1,879,624	1,971,631
Corporate Income Tax	34,573	73,027	55,898	58,182	55,442	58,605	58,541	62,828	63,792
Public Service Company Tax	117,940	150,528	155,740	161,133	167,299	173,702	180,349	187,251	194,417
Tax on Insurance Premiums	140,456	116,777	122,777	128,671	134,813	140,634	146,885	153,215	159,707
Cigarette and Tobacco Tax	106,137	102,853	102,810	106,501	90,482	93,931	97,456	101,053	104,776
Liquor Tax	48,054	48,854	50,057	50,867	51,690	52,525	53,359	54,207	55,069
Tax on Banks and Other Financial Corps.	31,677	5,229	27,848	25,963	28,595	28,718	30,004	30,670	31,716
Inheritance and Estate Tax 1/	6,899	14,125	19,972	20,352	20,779	21,216	21,661	22,116	22,580
Conveyance Tax	21,527	18,917	15,492	16,695	13,083	14,031	15,061	16,116	17,211
Miscellaneous Taxes 2/	19,812	82,697	19,147	19,135	14,124	906	889	871	871
Transient Accommodations Tax	59,757	126,302	165,660	187,740	206,429	44,099	39,726	43,183	46,728
GENERAL FUND TOTAL	\$4,329,311	\$4,977,848	\$5,223,061	\$5,427,175	\$5,698,229	\$5,767,221	\$6,010,377	\$6,315,874	\$6,608,519
GROWTH RATE	-0.8%	15.0%	4.9%	3.9%	5.0%	1.2%	4.2%	5.1%	4.6%

Notes:

* Data for fiscal year 2012 were updated after the Council's meeting. At the time of the meeting, only preliminary data were available, which showed a total for the General Fund of \$4,978,045 thousand.

1/ Act 74, SLH 2010, reinstates Hawaii's estate tax for persons who die after April 30, 2010.

2/ The figures on this line include penalty and interest charges, fees and license charges from various taxes, and allocations to the General Fund from the environmental response, energy and food security tax and from the rental motor vehicle surcharge.

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November 14, 2012

ESTIMATES OF COUNTY SURCHARGE REVENUE (REVISED 11/14/2012)

FY 2013 - FY 2019

(Dollar Amounts are in Thousands)

	Actual FY 2012	Estimated GET Collections Based on the Most Recent COR Forecast*						
		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Total GE Tax Collection	\$2,697,951	\$2,916,219	\$3,044,151	\$3,223,223	\$3,396,983	\$3,578,678	\$3,764,740	\$3,940,021
Growth Rate for sales subject to CS		7.5%	7.0%	5.9%	5.4%	5.3%	5.2%	4.7%
Total County Surcharge Collection **	\$211,850	\$227,712	\$243,548	\$257,875	\$271,776	\$286,313	\$301,199	\$315,222
State Share of County Surcharge	10%	10%	10%	10%	10%	10%	10%	10%
Allocation to the State	\$21,185	\$22,771	\$24,355	\$25,787	\$27,178	\$28,631	\$30,120	\$31,522
Net County Surcharge Collection	\$190,665	\$204,941	\$219,193	\$232,087	\$244,599	\$257,682	\$271,079	\$283,700

* Estimates in the table are based on the Council's mean forecasts from the meeting held September 6, 2012.

** Act 105, SLH 2011, temporarily suspended a number of GET exemptions and subjected the sales to tax at the retail rate of GET in fiscal years 2012 and 2013. However, the suspended exempt sales remain exempt from the County Surcharge. The Council adopted estimates for the suspended exemptions of about \$50 million in fiscal year 2012, about \$70 million in fiscal year 2013.

11/14/2012

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