

#### **Economic Outlook**

## <u>Overview</u>

Based on the most recent data available, the Department of Business, Economic Development & Tourism (DBEDT) expects positive growth of Hawaii's most economic variables in 2010, especially visitor related economic indicators. Although total wage and salary jobs are expected to decline slightly in 2010, the decrease is expected to be much less compared with the significant decrease suffered in 2009. Hawaii's economy is expected to see modest growth in 2011 and 2012.

### Labor Force and Jobs

For the first three quarters of 2010, civilian employment averaged 594,183 persons, a decrease of 2,017 persons or 0.3% compared to the same period of 2009. The civilian labor force averaged 636,470, a decrease of 3,450 persons or 0.5%. For the first nine months of 2010, the statewide unemployment rate averaged 6.6%, a decrease of 0.2 of a percentage point from the same period last year.

During the first three quarters of 2010, Hawaii's economy lost 0.6% or 3,900 wage and salary jobs compared to the same period of 2009. Job loss in the first three quarters of 2010 was due to reduced jobs in both the private and government sectors. For the first three quarters of 2010, job loss in the private sector was the largest in Professional and Business Services (lost 3,017 jobs or 4.2%); followed by Natural Resources, Mining and Construction (lost 2,167 jobs or 6.8%), and Information (lost 550 jobs or 6.0%). Job gain in the private sector was the largest in Educational Services (added 1,033 jobs or 7.1%), followed by Health Care and Social Assistance (added 1,000 jobs or 1.7%), Food Services & Drinking Places (added 967 jobs or 1.7%), and Retail Trade (added 933 jobs or

1.4%). For the first three quarters of 2010, the government lost 1,317 jobs or 1.0%. The 1,783 additional jobs added by the Federal Government were more than offset by the losses of 3,000 jobs and 100 jobs by the State Government and Local Government, respectively.

#### Tax Revenues

Through the first three quarters of 2010, State General Fund Tax revenues increased \$203.5 million or 6.7%; General Excise and Use Tax (GET) collections increased \$53.9 million or 3.1%; Individual Income Tax collections increased \$68.6 million or 7.4%; and Transient Accommodations Tax (TAT) collections increased \$29.1 million or 18.7% compared with the same period last year.

## Personal Income

Nominal personal income (not adjusted for inflation) increased \$838 million or 1.5% in the first two quarters of 2010 compared to the same period of 2009. Wage and salary disbursements, which accounting for about 54% of personal income, decreased \$151 million or 0.5% during the first half of 2010.

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 \$193 million or 2.2% in the first half of 2010 compared to the same period of 2009.

Proprietors' Income, the income most closely related to entrepreneurial activity, increased by \$103 million or 3.1% in the first two quarters of 2010 compared to the same period of 2009.

Dividends, Interest, and Rent increased \$91 million or 0.9% in the first half of 2010 from the same period of 2009, while Personal Current Transfer Receipts, consisting largely of retirement and medical payments, grew by \$657 million or 8.1%.

Contributions to Government Social Insurance, payments subtracted from personal income, decreased by \$54 million or 1.3% in the first half of 2010 from the same period of 2009.

Earnings decreased 86.5 million or 0.3% in the private sectors during the first half of 2010 compared to the same period of 2009. In dollar terms, the largest decreases in the private sectors occurred in Construction (lost \$225.0 million or 8.0%), followed by Finance and Insurance (lost \$75.5 million or 5.8%), and Other Services (lost \$51.5 million or 3.2%). The largest earning gains in the private sectors occurred in Health Care and Social Assistance (gained \$116.5 million or 3.1%), followed by Accommodation and Food Service (gained \$68.5 million or 2.2%), and Management of Companies and Enterprises (gained \$46.5 million or 7.5%).

In the first half of 2010, total government earnings decreased only slightly. The \$333.0 million or 3.8% increase in Federal Government earnings was more than offset by the \$344.5 million or 6.1% decrease in State and Local Government earnings.

#### **Prices**

In the first half of 2010, Honolulu's Consumer Price Index- All Urban Consumers (CPI-U) increased 2.5 percent from the same

period last year, higher than the U.S. average CPI-U increase of 2.1 percent for the same period. The Honolulu CPI-U increase in the first half of 2010 was primarily due to relatively large increase in Transportation price (11.5 percent), Other Goods and Services (4.7 percent), and Education and Communication (4.1 percent). The price index for housing increased only 0.9 percent, while prices of Food and Beverages and Medical Care decreased slightly in the first half of 2010 compared to the first half of 2009.

#### **Tourism**

In the first three quarters of 2010, total visitor arrivals by air increased 354,624 or 7.3 percent from that of 2009, while 2010 year-to-date (YTD) average daily census increased 12,686 or 7.6 percent from 2009. Domestic arrivals were up 5.1%, and international arrivals were up 13.4%. Among the major market areas (MMAs), arrivals from U.S. West, U.S. East, Japan, Canada, and All Others were up 6.3%, 2.6%, 5.5%, 12.2%, and 24.6%, respectively. Total visitor expenditures were estimated to have totaled \$8.4 billion through the first three quarters of 2010, up 13.7% over the same period a year ago.

Through the first nine months of 2010, average airline passenger capacity increased 5.2% from 2009, while the statewide average hotel occupancy rate increased to 71.2%, up 6.0 percentage points from the same period last year.

# Construction and Real Estate

The major indicators of Hawaii's construction activity were mixed through the first two to three quarters of 2010. Based on the most recent data available, the contracting tax base decreased \$777.6 million or 22.6% during the first half of 2010 from the same period of 2009. During the first nine months of 2010, the total value of private building authorizations decreased \$26.6 million or 1.7%; however, the government

contracts awarded increased \$191.1 million or 32.0% compared to the same period of 2009. In addition, the State Capital Improvement Project expenditures also increased \$21.1 million or 2.5% in the first three quarters of 2010 compared to the same period last year.

In the first nine months of 2010, the number of existing units sold on Oahu was up 20.5% for single family homes and up 21.2% for condominiums, respectively; the median price for existing single family homes on Oahu was \$599,000, up 4.2% from the same period last year; and the median price for existing condominiums on Oahu was \$305,000, unchanged from the same period last year.

During the first three quarters of 2010, construction jobs decreased 6.8% or 2,150 jobs from the same period of 2009.

## **County Economic Conditions**

Through the first three quarters of 2010, the average unemployment rate decreased in all counties, except the Hawaii County compared to the same period last year. In Honolulu, both labor force and civilian employment increased, but employment increased more than the increase in labor force; therefore unemployment rate decreased from 5.8% to 5.6%. In Maui and Kauai, both labor force and civilian employment decreased, but labor force decreased more than the decrease in employment; therefore, the unemployment rate in Maui decreased from 8.6% to 8.4 percent, and the unemployment rate in Kauai decreased from 9.5% to 8.9%. In Hawaii County, however, since the labor force decreased less than the decrease in employment, the unemployment rate in Hawaii County increased from 9.7% to 9.9 percent.

Visitor arrivals and visitor days by air both increased substantially in the first three quarters of 2010 in all counties compared to the same period of 2009. Visitor arrivals

increased the most in Maui (8.5%), followed by Honolulu (6.5%), Hawaii County (4.6%), and Kauai (2.6%). Total visitor days by air also increased the most in Maui (9.0%), followed by Honolulu (8.3%), Hawaii County (5.8%), and Kauai (4.0%).

All counties showed negative job growth during the first nine months of 2010. Honolulu only lost 50 wage and salary jobs from the same period of 2009. Net job loss in Honolulu was due to job losses in the government sector. In the first three quarters of 2010, the State Government lost 2,650 jobs, more than offset the 1,450 jobs gained in the Federal Government. Total private sector jobs increased in the first three quarters of 2010 compared to the same period last year. The largest job gain in the private sector was in Retail Trade (gained 1,350 jobs), followed by Educational Services (added 1,150 jobs), Food Services & Drinking Places (added 950 jobs), Health Care & Social Assistance (added 850 jobs), and Accommodation (added 800 jobs). The largest private sector job loss was in Professional and Business Services (lost 2,250 jobs), followed by Construction (lost 700 jobs), Information (lost 500 jobs), and Financial Activities (lost 500 jobs).

Hawaii County lost 1,650 jobs or 2.6% in the first three quarters of 2010 over the same period of 2009. Total Job loss was due to job losses in both private and government sector. In the government sector, job gain in the Federal Government was more than offset by the job losses in the State Government and Local Government. In the private sector, Construction lost the most jobs (lost 600 jobs) in the first three quarters of 2010, followed by Retail Trade (lost 200 jobs), Accommodation (lost 150 jobs), and Professional and Business Services (lost 150 jobs). The only private sector which showed positive job growth was Health Care & Social Assistance (added 100 jobs).

In the first nine months of 2010, Maui County lost 1,600 jobs or 2.4% from that of 2009. Jobs in the Government sector

remained about the same, and most of the job losses were from the private sectors. The largest private sector job decrease occurred in Construction (lost 800 jobs), followed by Professional and Business Services (lost 350 jobs), Arts, Entertainment & Recreation (lost 250 jobs), Accommodation (lost 150 jobs), and Retail Trade (lost 150 jobs).

Kauai County lost 600 jobs or 2.1% in the first three quarters of 2010 over the same period of 2009. The largest job loss was in Professional and Business Services (lost 150 jobs), followed by Construction (lost 100 jobs), and Arts, Entertainment & Recreation (lost 150 jobs).

Hotel occupancy rates increased in the first nine months of 2010 in all counties compared to the year-ago levels, with Honolulu increasing 6.2 percentage points to 78.3%, Maui County increasing 9.0 percentage points to 68.9%, Hawaii County increasing 2.0 percentage points to 56.5%, and Kauai County increasing 2.1 percentage points to 61.0%.

Total tax collections increased in Honolulu, but decreased in all neighbor island counties in the first nine months of 2010 compared to the same period of 2009. GET collections increased 4.6% in Honolulu, but decreased 6.4, 3.4%, and 3.1% in Hawaii County, Maui, and Kauai, respectively. Net individual income tax collections increased 8.4% in Honolulu and 1.6% in Hawaii County, but decreased 5.1% and 1.8% in Maui and Kauai, respectively. TAT collections increased 30.4% and 14.1 percent in Honolulu and Kauai, respectively, but decreased 2.7% and 14.1 percent in Maui and Hawaii County, respectively.

During the first three quarters of 2010, the value of private building permits increased in Honolulu and Hawaii County, but decreased in Maui and Kauai, compared to the same period of 2009. In dollar terms, the values of private building permits decreased the most in Kauai County (\$149.3 million or 74.6%),

followed by Maui (\$31.4 million or 17.9%). The value of private building permits increased \$119.4 million Honolulu, and \$34.6 million in Hawaii County.

## Outlook for the Economy

The outlook for Hawaii's economy depends significantly on conditions in the U.S. economy and key international economies, especially Japan. For the U.S. economy, slightly worse-than-expected economic data in recent months have resulted in more conservative expectations being reflected in the consensus forecast used to guide the DBEDT forecast. According to the November 2010 Blue Chip Economic Consensus Forecasts, U.S. real GDP is expected to increase by 2.7% in 2010 as a whole. U.S. real GDP growth is now expected to increase at an annual rate of 2.4% in the fourth quarter of 2010. For 2011 the consensus forecast now expects an overall 2.5% growth in U.S. real GDP. These growth rates are lower than those released in August 2010. Similarly, forecasts for Hawaii's most important foreign market, Japan, were also more conservative in the November 2010 Blue Chip Economic Consensus Forecasts. Real GDP growth for Japan is now expected to increase 2.9% in 2010, followed by a modest 1.2% growth rate in 2011.

Contrary to the expectations on the U.S. economy, the revised forecast for Hawaii shows more encouraging expectations, although the basic projection of a slow and gradual recovery has not changed.

Overall, Hawaii's economy measured by real GDP is projected to show a 1.4% increase in 2010. That growth is expected to increase modestly to 1.8% in 2011.

Visitor arrivals are now expected to increase 7.7% in 2010. Visitor days are now expected to increase 8.2% in 2010. Moreover, the forecast for visitor expenditure growth in 2010

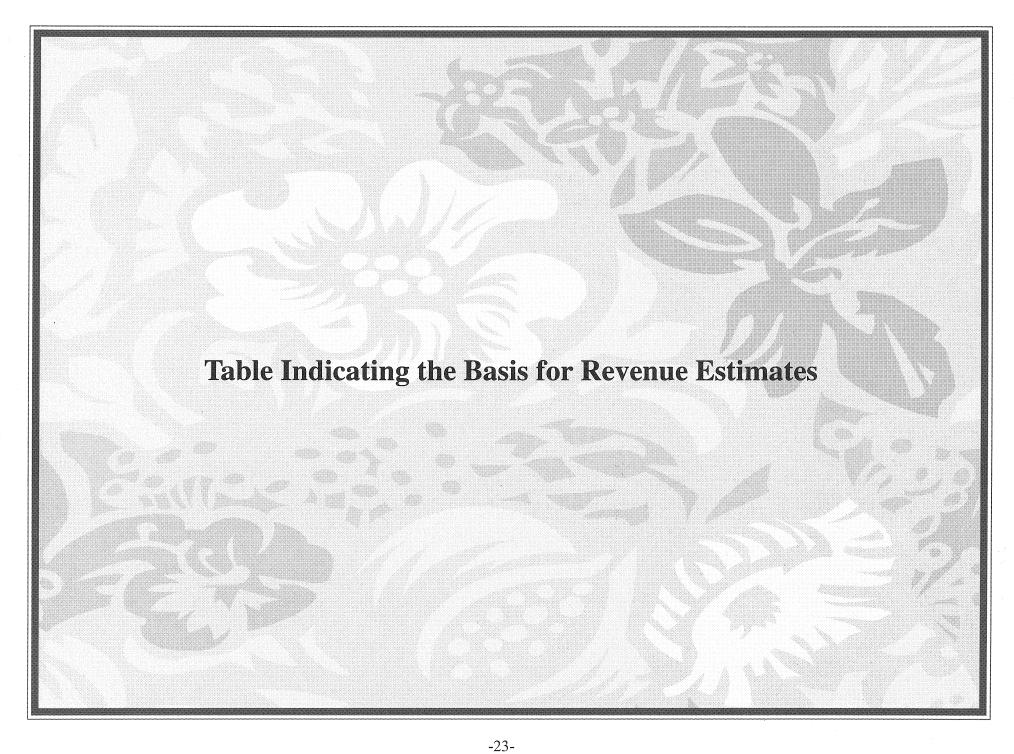
has been revised upward to 14.8%. For 2011, the growth rates of visitor arrivals, visitor days, and visitor expenditures are now expected to be 4.1%, 4.1%, and 8.4%, respectively.

Total wage and salary job in 2010 is expected to decrease 0.4%. Most of this decline has occurred in the first half of the year. In the third quarter of 2010, jobs increased 0.5 percent from the same quarter last year. Job growth is expected to be positive in the fourth quarter of 2010. In 2011, jobs are projected to increase a modest 1.1%.

The Honolulu Consumer Price Index (CPI), which increased 0.5% in 2009, is expected to increase 2.2% in 2010. In 2011, the CPI is also projected to increase 2.2%.

Personal income growth in current dollars is now projected to show an increase of 2.7% in 2010. The current forecast of real personal income growth in 2010 is 0.5%. In 2011, current-dollar personal income is forecast to increase 3.2%, which will be 1.0% in real terms.

Beyond 2011 the gradual recovery is expected to continue with modest job growth of around 1.2% for 2012. Visitor arrivals are expected to increase 3.5% in 2012. Hawaii's real GDP growth in 2012 is expected to reach 1.9%. The gradual recovery should continue into 2013, assuming national and international economic conditions continue to improve.



#### ESTIMATES OF GENERAL FUND TAX REVENUE: FY 2011 to FY 2017

(in thousands of dollars)

-	ACTUAL		ESTIMATED						
TYPE OF TAX	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
General Excise & Use 2/7/	\$2,417,580	\$2,316,434	\$2,521,553	\$2,661,812	\$2,841,085	\$3,036,467	\$3,242,848	\$3,517,033	\$3,771,520
Income - Individual 4/ 6/ 8/ 11/	1,338,451	1,527,619	1,277,706	1,527,651	1,614,251	1,707,591	1,798,172	1,928,504	2,023,305
Income - Corporation 6/ 11/	53,522	59,186	52,176	62,268	70,023	83,729	97,117	111,602	125,954
Public Service Company	126,069	157,661	186,515	210,785	232,148	251,200	268,442	285,348	301,569
Insurance Premiums 6/ 7/	93,720	104,721	130,639	126,222	133,537	140,226	143,957	147,611	150,061
Tobacco & Licenses 5/ 7/	76,955	85,503	103,858	102,618	92,515	68,294	59,462	52,603	46,162
Liquor & Permits 7/	47,242	44,074	42,541	39,543	37,810	36,325	35,118	34,091	33,272
Banks & Other Fin Corps	26,075	18,666	21,611	23,691	26,321	28,220	29,427	32,037	33,849
Inheritance & Estate 10/	274	0	8,200	19,600	19,600	19,600	19,600	19,600	19,600
Conveyance 3/	8,311	18,216	21,833	21,622	15,405	15,155	14,918	14,694	14,484
Miscellaneous 9/	536	781	13,985	13,972	13,959	13,947	13,936	726	717
Transient Accommodation Tax 1/7/	13,566	31,698	71,233	87,251	94,203	101,554	109,449	38,544	32,844
NET TOTAL	\$4,202,301	\$4,364,559	\$4,451,850	\$4,897,035	\$5,190,857	\$5,502,308	\$5,832,446	\$6,182,393	\$6,553,337
GROWTH RATE	-9.5%	3.9%	2.0%	10.0%	6.0%	6.0%	6.0%	6.0%	6.0%

#### Notes:

1/ Deposits of 44.8% of TAT revenues to counties (Act 156, SLH 1998); 32.6% to the tourism special fund and 5.3% to the TAT trust fund (Act 250, SLH 2002); 17.3% to the convention center enterprise fund (Act 253, SLH 2002); all net of general fund deposits of excess of fund ceilings. Act 235, SLH 2005, increases allocation to the tourism special fund to 34.2% and repeals the TAT trust fund. Effective on July 1, 2007. Act 209, SLH 2006, increases ceiling on allocation to the convention center enterprise fund to \$33 million. Effective on July 1, 2006. Act 61, SLH 2009, temporarily imposes an additional 1.0% TAT for the period 7/1/2009 through 6/30/2010, and an additional 2.0% TAT for the period 7/1/2010 through 6/30/15. These additional amounts will be deposited into the general fund. Act 5, Special Session Laws of Hawaii 2009, allocates 12.5% of the revenues derived from Act 61 to the tourism special fund for one fiscal year (FY 2011).

2/ Act 209, SLH 2007, exempts gross income received from the sale of alcohol fuel from the general excise tax. Effective on July 1, 2007, provided that the exemption repeals on June 30, 2009. Act 40, SLH 2009, reduces the interest rate on overpayments due to taxpayers from 2/3 of 1% to 1/3 of 1% per month or fraction thereof.

3/ Due to the expiration of Act 222, SLH 2007, on June 30, 2008, the amount of conveyance tax deposited into the General Fund increased from 15% to 35%. Act 59, SLH 2009, increased the conveyance tax rates for properties valued \$1 million or more.

4/ Act 60, SLH 2009, temporarily increases the standard deduction and personal exemption amounts for taxable years beginning after 12/31/10, and also temporarily creates new 9%, 10%, and 11% tax brackets for certain individuals with high taxable income beginning with taxable years beginning after 12/31/08. Act 60, SLH 2009, will be automatically repealed on December 31, 2015.

5/ Act 58, SLH 2009, taxes "little cigars" in the same manner as cigarettes beginning 9/30/09; imposes a 50% tax on cigars. Act 56, SLH 2009, increases the cigarette tax from 11¢ to 13¢ on 7/1/09, from 12¢ to 14¢ on 7/1/10, and from 13¢ to 15¢ on 7/1/11; and also amends the dates on which changes in the allocation of cigarette tax revenues changes. Act 59, SLH 2010, increases the tax on cigarettes and little cigars by 1¢ for sale after June 30, 2010. The additional collections will be deposited into the general fund. 6/ Act 21, SLH 2010, provides for the statutory ordering of income tax credits, which requires the claiming of refundable credits first, followed by nonrefundable credits. Applies to taxable years beginning after 12/31/09.

7/ Act 22, SLH 2010, provides for me stantiory ordering of income tax credits, which requires the claiming of retundable credits first, followed by nonrefundable credits. Applies to taxable years beginning after 12/31/09.

7/ Act 22, SLH 2010, amends the due dates for miscellaneous tax types from the last day of the calendar month to the 20th day of the calendar month, and amends the due date for filing and payment of periodic insurance premiums taxes from quarterly to monthly. Effective on July 1, 2010.

8/ Act 59. SLH 2010, repeals the deduction from taxable income for amounts given as political contributions. Effective on January 1, 2011.

9/ Act 73, SLH 2010, temporarily increases environmental response tax from \$0.05/barrel to \$1.05/barrel for the period 7/1/2010 through 6/30/2015. Sixty cents of the tax collected per barrel will be deposited into the general fund.

10/ Act 74, SLH 2010, retains the State's ability to "pick-up" the state death tax credit as it existed in the Internal Revenue Code on 12/31/2009. Applies to property interests of persons who die after 4/30/10. 11/ Delay in paying out Tax Year 2009 income tax refunds

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September 8, 2010