

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
Luis P. Salaveria
Director

Department of Business, Economic Development & Tourism

Before the
SENATE COMMITTEE ON WAYS AND MEANS

Thursday, March 16, 2017
9:30am
State Capitol Conference Room 211

Information Briefing on General Fund Financial Plan, Tax Revenue Collections, and the State's Economic Performance and Outlook.

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee. Thank you for this opportunity to provide you with information on the current condition and our forecast of Hawaii's economy and our views on the general fund tax collections.

Discussion of the economic outlook for Hawaii for the biennium and out-years:

According to the estimate of U.S. Bureau of Economic Analysis, Hawaii's economic growth rate during the first three quarters of 2016 was 2.1 percent, higher than the U.S. growth rate of 1.4 percent. DBEDT expects that the real GDP growth rate in 2017 should be 1.8 percent, and 1.7 percent in 2019 and 1.6 percent for 2019 and 2020. Three economic indicators pointing the economy toward a slower growth path: the slowing down in tourism and in the construction industry, and overall slowing down in job growth. According to airline schedules, the air seats to Hawaii, the supply side of tourism, will experience a 0.5 percent decrease in the calendar year 2017 and, as a result, visitor arrivals will be growing at about 1.5 percent this year-- about half of the growth rate of last year. Building permit issuance continues to decrease, and the initial unemployment claims have been rising since October 2016. For the first two months of 2017, initial unemployment claims have increased by 12.1 percent.

Explanation of the decrease of private building authorizations:

Hawaii's construction industry boomed in the past two years with total construction values of more than \$8 billion. However, as a leading indicator, the value of private building permits issued in 2016 decreased by 18.2 percent as compared with 2015.

Permit values for commercial and industrial projects decreased the most at -70 percent, followed by residential projects at -12.3 percent, and additions and alterations at -1.7 percent. The decrease in permit value is not surprising since Ala Moana Shopping Center has completed its renovation and the Waikiki International Market Place and the Kamakana Alii Shopping Center have been mostly completed. Most of the Kakaako residential buildings have been either completed or have already issued building permits. Building permits issued for Hoopili'i is only worth \$30 million so far and there are no records of building permit applications for the Koa Ridge project. It seems that developers are trying to wait until the construction boom is over.

Explanation of the decrease of the general excise tax base:

General excise tax revenue collection is the most comprehensive indicator for economic activities in Hawaii. Between calendar years 1998 and 2016, the annual average growth rates of GET and nominal GDP are about the same at 4.5 percent per year. For the first eight months of FY 2017, general excise tax revenue is flat (0.1 percent increase). According to the Tax Department (DoTax will explain in detail in their statements), the flatness is mainly due to technical adjustments and last year being a leap year. Without these adjustments, the GET revenue would have grown by 3.8 percent during the first eight months of FY 2017. This growth rate is not too far below the nominal GDP growth rate of 4.1 percent and nominal personal income growth rate of 4.3 percent for the first quarter of FY 2017.

Discussion of the reason general fund tax revenues are flat:

For the first eight months of FY 2017, general fund revenue increased 1.8 percent. This rate seems lower than the economic performance. The reasons for the low revenue growth include the tax category adjustments, the leap year effect, and the accelerated processing of refunds. Also, the fluctuations in tax collections month over month is much higher in this fiscal year than other years.

In general, our economic fundamentals are still good. Our unemployment rate was the lowest in the nation in January, our visitor arrivals are still strong at the beginning of the year. We see that the structure of our GE tax base is still healthy. We believe the tax revenue will be more stable in the near future.

Other issues of importance:

Uncertainties in the Federal government, especially Federal spending in the State, will impact our economic growth and tax collection. The Federal government contributes about 12.4 percent to Hawaii's GDP and is the third largest industry in Hawaii just after real estate and tourism. About 10 percent of Hawaii's population are related to the Federal government including military personnel, their dependents, and civilian Federal workers. For each 1 percent cut in Federal government spending, Hawaii's economic growth will decrease by 0.13 percent.

Hawaii's Economy and Tax Revenue

Luis P. Salaveria

Director

Department of Business, Economic Development & Tourism

to the

Senate Committee on Ways and Means

March 16, 2017

Hawaii's Economy Will Continue to Grow in the Next Few Years

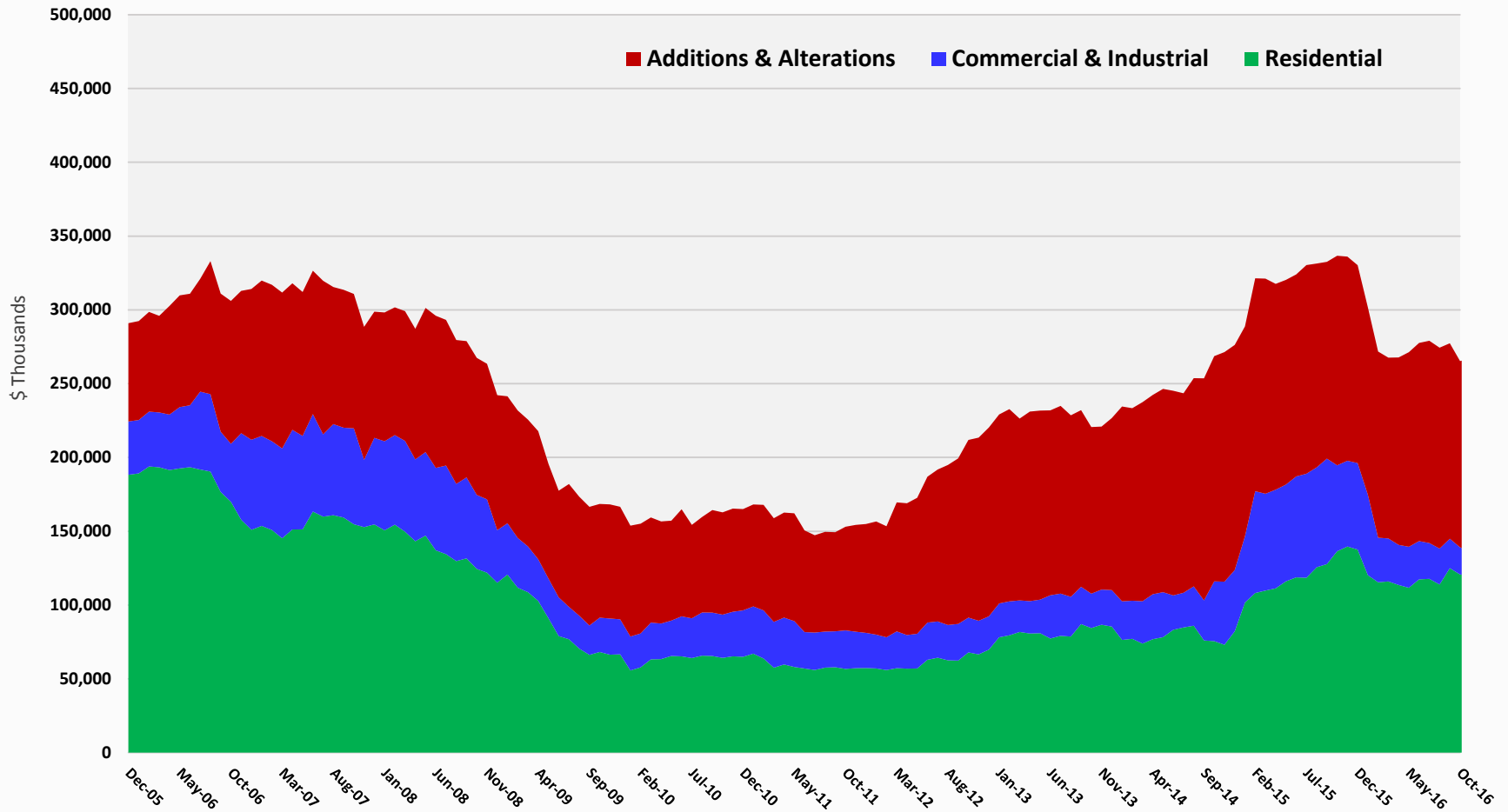
Indicator	Annual average growth, %				
	20 years, 1995 - 2015	2016	2017	2018	2019
Real GDP	1.4	2.0	1.8	1.7	1.6
Real personal income	1.8	2.7	2.4	2.3	2.5
Honolulu inflation rate	2.2	2.0	2.4	2.5	2.4
Non-Ag wage and salary jobs	0.9	1.4	1.2	1.1	1.1
Unemployment rate 1/	5.0	3.0	3.4	3.5	3.6
Visitor arrivals	1.3	3.0	1.5	1.7	1.6

1/ Average of 30 years, 1985 – 2015.

Source: DBEDT

Value of Private Construction Permits Decreased in 2016

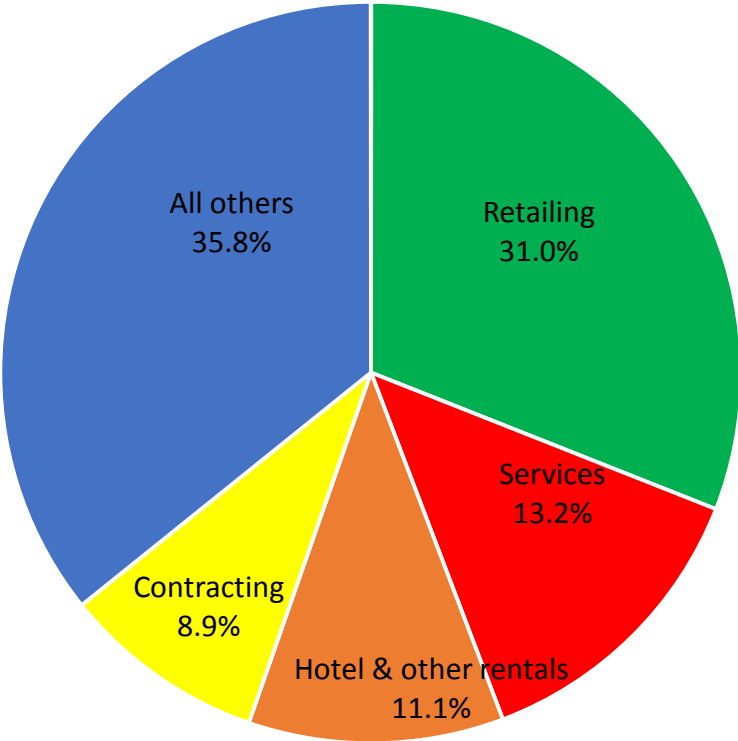
12-Month Moving Average of Building Authorization Components*



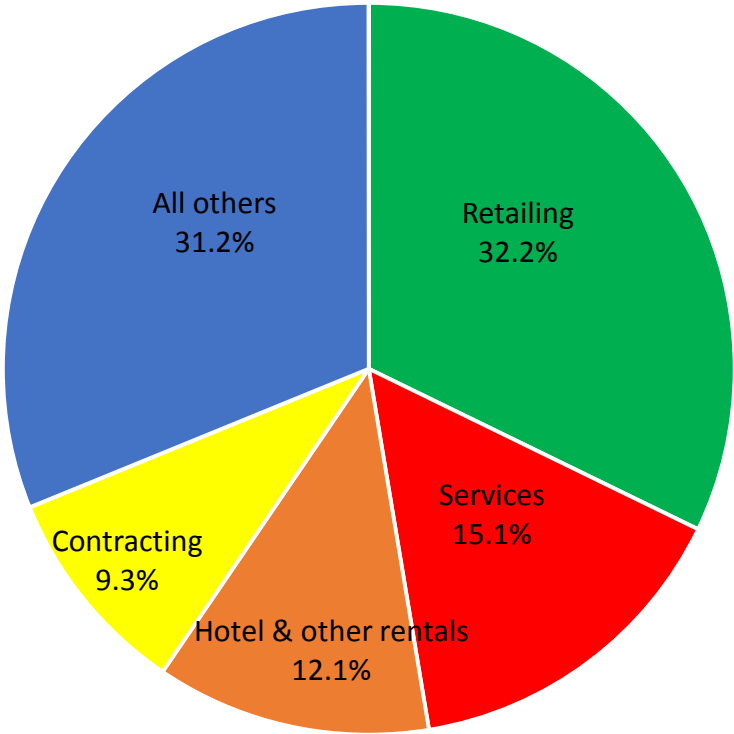
*Additions and Alterations and Commercial & Industrial data do not include Kauai. All data through October 2016
Source: County building departments and U.S. Census Bureau

General Excise and Use Tax Base: 2006 vs. 2016

CY2006



Jan-Nov 2016



Source: State of Hawaii, Department of Taxation.