

## **COUNCIL ON REVENUES**

Princess Ruth Keelikolani Building  
DLIR Conference Rooms Third Floor  
Rooms 310-313  
Honolulu, Hawaii 96813

Thursday, July 14, 2016  
2 p.m.

### **PRESENT:**

#### Council Members:

Kurt Kawafuchi (Chair), Marilyn M. Niwao (Vice-Chair), Carl S. Bonham,  
Elizabeth P. Cambra, Jack P. Suyderhoud and, Kristi L. Maynard

#### Staff Members:

Department of Taxation (DOTAX): Yvonne Chow and, Donald Rousslang

Department of Budget and Finance (B&F): Terri Ohta, Gregg Hirohata-Goto  
and, Kenneth Shimokane

#### Others:

Randy Hiyoto, House Finance  
Nandana Kalupahana, House Finance  
Alberto Vargas, House Finance  
Titin Sakata, Department of Taxation  
Maria Zielinski, Director of Taxation  
Damien Elefante, Deputy Director of Taxation

### **EXCUSED:**

Christopher Grandy, Member

### **CALL TO ORDER:**

The Chair called the meeting to order at 2 p.m. A quorum was present.

### **COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:**

Chair Kawafuchi asked if there was any communication to the Council. There was none.

### **MINUTES OF THE MEETING OF MAY 24, 2016:**

Chair Kawafuchi called for a motion to approve the minutes. Dr. Suyderhoud asked if the minutes were the same revised version sent previously. Chair Kawafuchi said yes.

**It was moved by Dr. Suyderhoud and seconded by Ms. Maynard that the minutes of the May 24<sup>th</sup> meeting be accepted (as amended). The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Excused</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**TOTAL PERSONAL INCOME FORECAST FOR CY 2016 AND CY 2017:**

Chair Kawafuchi said that the next item on the agenda was the total personal income (TPI) forecast for CY2016. Dr. Bonham said the average of all the forecasts that they surveyed was 4.5% for calendar years 2016 and 2017 and he moved that the Council adopt 4.5% and 4.5% for their TPI forecasts for 2016 and 2017. Ms. Maynard seconded the motion. Chair Kawafuchi asked if there was any further discussion. Dr. Suyderhoud asked how much of the forecast growth came from inflation. Dr. Bonham said about 1.5%, that the forecast embodied pretty strong real growth. He said it's stronger than they had thought they would get. He said he thought the first quarter growth was closer to 5%. Dr. Suyderhoud said it was 4.7% according to page 4 of the workbook. Dr. Bonham thought the Council's forecast was lower than that because they had expected a big chunk of total income to come in the form of dividends, interests and rent. He said rent payments continue to slow down, but that it was in the range and that they had under-forecast income last year. Dr. Suyderhoud said some of the members had under-forecast. He said 4.5% sounded good to him. Dr. Bonham said there were two other forecasts. Dr. Suyderhoud said DBEDT's forecast was 4.8% to 5% and that UHERO's (UH Economic Research Organization) forecast was 4% to 4.3%, but came earlier in the year. Dr. Bonham said the UHERO forecast would be higher next time. He said they expected to get the figure for inflation in the first half of the year soon. He didn't think they would have a figure for inflation in the second half of the 2016. Ms. Maynard asked Dr. Bonham if he usually forecast a real growth rate and then added inflation. Dr. Bonham said yes.

Chair Kawafuchi asked what inflation was for the last quarter of 2015. Dr. Bonham said it was higher than they thought it was going to be. Dr. Suyderhoud said CPI (Consumer Price Index) increased by 1.3% in the second half of 2015 and that it increased by 0.7% in the first half. He said he thought the whole year would be under 1%. He said the effect of oil prices were starting to kick in. Dr. Bonham said it was mostly housing. Dr. Suyderhoud agreed. Dr. Bonham said energy prices were still declining in the second half of the year. He said he thought that for the first half of this year (on a year-over-year basis) we were probably still down on energy. He said the rental component lags behind the home prices. Dr. Bonham said it was 3% for the whole year. Dr. Suyderhoud asked if it was only rental. Dr. Bonham said it was total shelter, which includes owner's equivalent rent plus some other expenses such as food away from home. He

said it looked like some components might have been affected by minimum wage increases and retail expenses going up, but that was speculation. He said inflation was very modest.

Ms. Niwao asked Dr. Bonham for his opinion on the jobs data. Dr. Bonham said the jobs data were noisy, just like the tax data. Ms. Maynard agreed. Dr. Bonham said the BLS (Bureau of Labor Statistics) was having problems with the seasonal adjustment of the data. He said he was at a conference talking to people from the federal government who said first quarter GDP (Gross Domestic Products) numbers were low and that part of the reason was that BEA (Bureau of Economic Analysis) was also having problems with seasonal adjustments. He said part of the problem was that they weren't getting all of the seasonal factors out, and that if you take out that extra seasonality, the growth numbers were actually more like 2% to 2.5%. He said job growth has slowed and they would not be producing 250,000 jobs every month, but more like 190,000. He said we were close to full employment, so job growth has to slow down at some point. He said only about 90,000 jobs per month were needed to cover new entrants in the labor market. Ms. Maynard said she thought it was more than that. Dr. Bonham said new entrants have slowed and that labor force participation rates have declined.

Dr. Suyderhoud asked about the visitor's sector. Ms. Cambra said the growth has slowed but it remains positive. She said there were a few geographic shifts, but that overall the sector was calm. Ms. Niwao asked what the geographical shifts were. Chair Kawafuchi said Japan's currency had become stronger and was close to 100 yen per dollar now. Ms. Cambra said the visitors from Japan, Australia and Canada were declining, but that there was offsetting growth from the U.S. West. She said there was also some growth from Asia, but nothing significant. She said RIMPAC has been healthy. She said they had not seen any cuts forecast for air seats and that air seats for the neighbor islands remained healthy. Dr. Bonham said he thought that the new flights to Kona would help offset the Japanese losses. Ms. Maynard said there were some big losses in Japanese visitors to the neighbor islands (down 16% to 25%). Dr. Bonham said he had a hard time believing the data, because they were so noisy. Ms. Maynard agreed. Ms. Cambra said the cost of airfare was up this summer as expected, but not above the usual pattern. Chair Kawafuchi asked if it was staying at about \$700 in July. Ms. Cambra asked where he got the number. Chair Kawafuchi said such as California (United Airlines). Ms. Cambra said yes, it's between \$700 and \$900, but she was looking at slightly longer flights. Dr. Bonham said it's been higher but that it was manageable. Ms. Cambra said it was in the new normal range.

Chair Kawafuchi said for many years it was cheaper to fly between L.A. and Hawaii than between San Francisco and Hawaii, but that recently it has been cheaper to go to San Francisco. Ms. Cambra agreed. Chair Kawafuchi asked what was happening in the marketplace that changed the prices. Ms. Cambra said it was airline domination. She said L.A. served different hubs compared to San Francisco. She said some of that was due to the different airlines that are stronger in one hub versus the other. Chair Kawafuchi said Los Angeles was usually a very competitive market for airlines. Dr. Suyderhoud asked if Virgin America went to San Francisco. Chair Kawafuchi said before they went through L.A. Ms. Cambra said the growth in regional airports in Southern California was very healthy.

Dr. Bonham said the decline in Canadian visitors was impressive. Dr. Suyderhoud said he thought a Kauai flight was cut completely. He said he thought he was looking at seat capacity numbers. Dr. Bonham said year-to-April visitors are down 11% from Canada. He said he flew to Vancouver for \$190 one-way. Ms. Niwao said that going to Canada was pretty cheap and that the Canadian dollar was still weak. She said she was following the Euro and Japanese yen to figure out where to go on vacation and it turned out the best deals were Europe and Great Britain.

Chair Kawafuchi asked what the impact of the events in the UK and European Union would be in the short or medium-term. Dr. Bonham said it was an uncertainty story. He said nobody really knows what kind of trade deal the UK would get with the European Union for trade and that the UK might have to allow immigrants into their country in order to get the trade deal it wants. He said they may not get the trade treatment they want if they restrict immigration and this might have a small negative near-term effect. Ms. Niwao said it sounds like a large negative for the UK. Dr. Bonham said he didn't think it would be so large and that people tended to over-react to such things. He said the Bank of England didn't raise rates at their last meeting and that they were taking a "wait and see" approach. He said in the longer run, trade would probably be reduced if the UK were excluded from the European Union free-trade bloc. He said if you took Texas and split it off from the rest of the country and gave it a different set of trade agreements, Texas would grow more slowly. He said that is what is likely to happen to Britain.

Chair Kawafuchi asked Dr. Suyderhoud about events in the South China Sea. Dr. Suyderhoud said he saw a map on the Internet of all the countries that China had lined up on its side versus all the countries that were on the other side of the issue. He said China's side included countries in Africa and South Asia, that China had friends all over the place. He said he thought China would ignore the court ruling and no one knew what would happen.

Dr. Bonham said the strength of the US visitor market has been a little surprising. He said the recent data on the US has been mixed, but the Federal Reserve just released its Beige Book which basically said things were continuing on a steady path; US economy is growing at around 2% and the job market remained fairly robust. He said he didn't think we would see interest rate increases from the fed anytime soon. Dr. Suyderhoud said he thought that was due more to the uncertainties caused by Brexit than because of any changes in the underlying economy. He said if there had been no Brexit, they would be raising rates. Dr. Bonham agreed, because inflation was getting close to their target of 2%.

Dr. Suyderhoud returned to the TPI forecast and suggested 4.5%. Chair Kawafuchi asked if that was 4.5% for each year (CY2016/CY2017). Dr. Suyderhoud said that was the motion. Ms. Cambra asked Ms. Maynard if she had seconded the motion and Ms. Maynard said she had. Chair Kawafuchi asked for a vote. He said he supported the forecast. Ms. Niwao said she also supports it. The vote was unanimous.

**A motion was made by Dr. Bonham and seconded by Ms. Maynard that the Total Personal Income forecast be 4.5% for CYs 2016 and 2017. The Chair called for the vote, and the motion passed with the following votes:**

<b>Kurt Kawafuchi</b>	<b>Yes</b>
<b>Marilyn Niwao</b>	<b>Yes</b>
<b>Carl S. Bonham</b>	<b>Yes</b>
<b>Christopher Grandy</b>	<b>Excused</b>
<b>Elizabeth P. Cambra</b>	<b>Yes</b>
<b>Jack P. Suyderhoud</b>	<b>Yes</b>
<b>Kristi L. Maynard</b>	<b>Yes</b>

**NEXT MEETING:**

The Council tentatively agreed to meet on Friday, September 2, 2016 at 10:30 a.m. However, the date and time will be re-confirmed by email. The Council staff will attempt to secure the DLIR Conference Rooms 310-313.

**ADJOURNMENT:**

The meeting adjourned at 2:26 p.m.