

COUNCIL ON REVENUES

Total Personal Income Meeting Minutes **Tuesday, August 2, 2022**

Virtual Meeting
Meeting was held virtually and video [recorded](#).

Tuesday, August 2, 2022
2:00 p.m.

PRESENT:

Council Members:

Kurt Kawafuchi, (Chair), Marilyn Niwao (Vice-Chair), Carl Bonham,
Jack Suyderhoud, Kristi Maynard, Scott Hayashi, and Wendell Lee

Staff Members:

Department of Taxation: Director Isaac Choy, Seth Colby, Yvonne Chow,
Baybars Karacaovali, Dongliang Wu, and Roderick Tuliao
Department of Budget and Finance (B&F): Terri Ohta

CALL TO ORDER:

The Chair called the meeting to order at 2:00 p.m. A quorum was present.

COMMUNICATIONS TO THE COUNCIL AND PUBLIC COMMENT:

Chair Kawafuchi asked if there was any communication to the Council on Revenues (the Council). There were no communications to the Council and no public comment.

APPROVED MINUTES OF THE MEETING OF MAY 23, 2022:

Chair Kawafuchi called for a motion to approve the minutes. Vice-Chair Niwao moved to approve the minutes. Mr. Lee seconded.

It was moved by Vice-Chair Niwao and seconded by Mr. Lee that the minutes of the May 23rd meeting be accepted. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	No
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

Wendell K. Lee

Yes

**DISCUSSION AND VOTE ON TOTAL PERSONAL INCOME FORECAST FOR
CY2022:**

Dr. Colby opened the discussion by going on record and providing the Council's Total Personal Income (TPI) forecast of -1.5% for CY2022.

Mr. Kawafuchi asked Dr. Bonham for his opinion regarding the TPI forecast for CY2022.

Dr. Bonham responded that the Council's forecast is not unreasonable due to the all the data being revised since the Council's last TPI meeting.

Dr. Bonham also stated that he's been working on updating their models and that currently he was getting 0% nominal Total Personal Income for CY2022.

Ms. Maynard asked Dr. Bonham if his models account for the State's loss in population.

Dr. Bonham said yes it does take population loss into account and noted that population has been decreasing since 2018 statewide.

Dr. Suyderhoud asked Dr. Bonham what the level of his forecast was in terms of aggregate amount.

Dr. Bonham said that the aggregate amount for TPI is roughly \$87 billion for CY2022.

Dr. Suyderhoud stated that the \$87 billion is quite the increase from quarter one which comes in a bit below \$85 billion.

Dr. Bonham stated that the nominal wage growth has stalled and when building his model, he factored in both Federal and State pay increases to his forecast which shows 0%.

Dr. Bonham agrees that -1.5% is reasonable in his opinion.

Dr. Suyderhoud asked Dr. Bonham if he was concerned about the reduction in transfer payments.

Dr. Bonham said yes, he is concerned about the reduction in transfer of payments which was a primary reason for the Council's forecast going down.

Dr. Bonham continued by stating that the transfer of payment effect will continue to affect year over year growth rates but on a levels basis it's basically over which all had happened at the end of 2021 and the first quarter of 2022.

Mr. Kawafuchi asked Dr. Bonham if there was a big infusion of federal stimulus payments from 2021 and the first quarter of 2022.

Dr. Bonham responded that federal stimulus started to go away in the third quarter of 2021 and basically gone in the fourth quarter of 2021 with probably still some PPP loans trickling into the quarter one numbers in his opinion.

Dr. Suyderhoud shared data from the quarterly transfers and said that in 2019 it was about \$12.5 billion average for the year and that in the second quarter of 2020 it rockets up to \$27.2 billion then it stays very high through the first quarter of 2021 and starts to decrease in 2022 to about \$16 billion.

Dr. Suyderhoud then asked to what extent will it have to drop off again to come back down to a normal state of \$13 billion or is this the new normal.

Dr. Bonham responded yes, the view is that's the new normal and although he can't give the exact math, he certainly thinks TPI is at a higher new normal.

Dr. Bonham also reminded the Council that sometime this year there's going to be a pretty sizable increase in the social security payouts and likely again next year due to inflation.

Ms. Maynard stated that she thinks the expectation that Japan will come back may be a bit misplaced because the exchange rate has changed so much that it is about 20%-30% more expensive for them to travel here and in her opinion, she does not think they will be big spenders as they once were pre pandemic.

Dr. Bonham said that the extent at which Japan travelers will be back by the end of the year compared to 2019 would be in his opinion less than 50% but he thinks that the bigger problem is not the higher cost but whether or not the government relaxes the travel restrictions due to the government still having a cap of 20,000 daily inbound passengers.

Ms. Niwao asked Dr. Bonham if any type of risk factor has been considered with respect to geopolitical events that are currently occurring.

Dr. Bonham said no with regards to the war with China or Ukraine but responded that their forecast is more subjective to the rest of the world externally. For example, when they update their next forecast, he is certain that their European forecast will be recession and he would not be surprised if their forecasting U.S. recession in early 2023.

Ms. Niwao expressed that she thinks the probabilities have gotten a lot higher for those kinds of events occurring and thinks that any one of those threats would really affect the economy.

Ms. Niwao asked Dr. Bonham if he felt the Feds will keep raising the interest rate and even more throughout this year and maybe throughout next year also.

Dr. Bonham said yes, but he does not know where it will end up but is coming around to the view that it will take more than a 3.5% Fed funds rate to bring the high inflation rate down.

Dr. Suyderhoud responded to Ms. Niwao's earlier points about external events that usually it is noted in the Council letter due to it being hard to quantify in a forecast that requires quantification.

Mr. Kawafuchi asked Dr. Bonham where they are in terms of the forecast.

Dr. Bonham responded that he does not see any reason to change its current forecast of -1.5%.

Mr. Kawafuchi confirmed with Dr. Bonham that he was ok with keeping the current forecast of -1.5%.

Dr. Suyderhoud and Ms. Maynard both felt comfortable with keeping the current forecast of -1.5%.

Ms. Maynard made the motion for -1.5% Total Personal Income growth rate for CY2022.

Dr. Suyderhoud seconded the motion of -1.5% for Total Personal Income growth rate for CY2022.

It was moved by Ms. Maynard and seconded by Dr. Suyderhoud that the Total Personal Income forecast be -1.5% growth rate for CY2022. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes

Wendell K. Lee

Yes

DISCUSSION AND VOTE FOR ON TOTAL PERSONAL INCOME FORECAST FOR CY2023:

Dr. Suyderhoud opened the discussion by stating if there is a recession in 2023 or a significant U.S. slowdown in 2023 it will hurt the domestic tourism sector, or it may be offset by international travel along with inflation.

Dr. Suyderhoud suggested 3.0% or 4.0% growth rate for CY2023.

Dr. Bonham also suggested around 3.5% or 4.0% growth rate for CY2023.

Dr. Suyderhoud noted that according to table of their models the average is 3.56% and at the Council's last meeting they averaged 4.87% for CY2023.

Mr. Kawafuchi asked both Dr. Bonham and Dr. Suyderhoud their thoughts on negative Gross Domestic Product (GDP).

Dr. Bonham said that he is not worried about the previous two quarters of negative GDP due to the Gross Domestic Income (GDI) being positive cause usually GDP numbers get revised towards the GDI numbers.

Ms. Maynard said that the State is facing some headwinds with the potential slowdown in the domestic economy and certainly the foreign visitor due to the fact the dollar is strong.

Ms. Maynard also thinks that higher interest rates really impact the affordability for first time home buyers and basically that with the increase in prices makes it difficult to purchase a house which will affect the housing market.

Ms. Maynard concluded that given inflation is high she thinks that 3.5% seems like a reasonable number.

Ms. Niwao asked Ms. Maynard if she thinks that the Feds will be successful in lowering inflation to a reasonable point without going overboard with the interest rates.

Ms. Maynard said that the markets right now are odd and that inflation being as high as it is seems incompatible with 10-year treasuries at 2.75%. She thinks it's also hard to believe that the Fed Funds target rate will turn lower in 6 months as is projected by the futures market.

Dr. Bonham added that the market is betting that this jump in inflation is still transitory meaning that there will not be core inflation that is persistent above 3.0% for the next two or three years.

Mr. Kawafuchi asked Dr. Suyderhoud what his estimated Total Personal Income for CY2023 is.

Dr. Suyderhoud said that was in the 3.0% or 4.0% growth range but is comfortable with 4.0% Total Personal Income growth for CY2023.

Dr. Suyderhoud moved for 4.0% Total Personal Income growth rate for CY2023.

Mr. Lee seconded the 4.0% Total Personal Income growth rate for CY2023.

It was moved by Dr. Suyderhoud and seconded by Mr. Lee that the Total Personal Income forecast be 4.0% growth rate for CY2023. The Chair called for the vote, and the motion passed with the following votes:

Kurt Kawafuchi	Yes
Marilyn Niwao	Yes
Carl S. Bonham	Yes
Jack P. Suyderhoud	Yes
Kristi L. Maynard	Yes
Scott W. Hayashi	Yes
Wendell K. Lee	Yes

NEXT MEETING:

The Council tentatively agreed to meet on Tuesday, September 6, 2022, at 2 p.m.

ADJOURNMENT:

The meeting adjourned at 2:59 p.m.