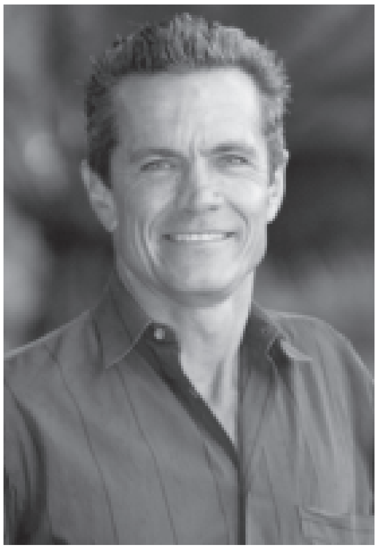
SMALL BUSINESS NEWS

Creating A Better Hawaii Through Private Enterprise

Volume 36, Number 3 • www.smartbusinesshawaii.com March 2011

SBH Sunrise Features Joe Teipel

The monthly Smart Business Hawaii Sunrise Networking Breakfast forum continues **Thursday, March 31**, at the **Pineapple Room, Macys' Ala Moana Center, from 7 – 8:30 am.** The monthly forums are open to the public. Advance paid reservations are required.



The speaker for March is well known commentator and commercial auctioneer, **"Surfer Joe" Teipel**. He will discuss the recent trend of auctioning off business properties and assets. Teipel recently presided over disposition of the Pipeline Café.

You will find this interesting and informative. Bring a guest!

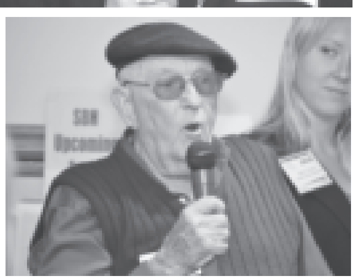
February's Sunrise speaker was **Abbey Mayer**, former State Planner and now VP of Government Operations with Ko Olina Resort.

The SBH Sunrise encourages members to share current business information, product marketing and community involvement. All participants get to talk about their business briefly and exhibit areas are provided.Company sponsorships are also available.

The cost is only $25 for members and their guests, in advance (see reservation form on page 6) and $35 for non-members and at the door if space is available.

The event features a full buffet breakfast, free parking, program and networking.

For more information call Darlyn at SBH, 808-396-1724.



The monthly SBH Sunrise Breakfast Forums allows members to talk about their businesses and listen to speakers from various industries and government talk about their issues and areas of expertise. Last month Ko 'Olina Resort's Abbey Mayer (above) spoke about the property and the resort's future.

More Bad News for State Pension Plans

By **Greg Wiles**
HawaiiReporter.com

Hawaii's credit ratings may take a hit given changes being made by a major ratings agency in the way it looks at public worker pension obligations.

Fitch Ratings, one of three major U.S. ratings agencies, said it's new evaluation of pension funding may hurt the ratings of some cash-strapped states.

"Fitch expects that limited negative rating action is possible as a result of this enhanced framework, but does not expect the action to be widespread," the New York-based agency said in announcing the changes.

Fitch didn't single out any state or local government for a possible ratings down-

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SBH MEMBER
CALENDAR
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Monday, March 14, 2011
SBH Board Meeting
SBH Office - Hawaii Kai
Starting at 12:00 Noon

Thursday, March 31, 2011
SBH Sunrise Breakfast
"Surfer Joe" Teipel
"Recent Trends in
Business Property Auctions"
Macys' Pineapple Room
Ala Moana Center
7:00 am to 8:30 am

SmartBusiness HAWAI'I

The Latest on the Honolulu Fixed Rail Project • Page 5.

Smart Business Views

By Sam Slom, President – Smart Business Hawaii

The Governor released his bloated, taxpayer breaking, small business hostile, **$23 billion** two year budget. More taxes, more spending and more debt, but less jobs, less economic development and less take home pay. Hopefully, the Democrat-dominated State Legislature will balk at his plans to reward and strengthen government unions here. Where is Gov. **Scott Walker** when we need him?

The state also wants to increase auto registration and weight taxes. Mayor Carlisle wants to raise every City tax and fee including golf course rates on seniors.

No General Excise Tax increase this Session? The Governor said so. But don't bet on it. It is a Trojan horse and will resurface later in the Session after the pension tax, soda tax, and other manini taxes are dispensed with.

For a complete listing of all current bills, check out **capitol.hawaii.gov.**

The strike by the International Brotherhood of Electrical Workers (IBEW) union right after a devastating wind and rain storm on O'ahu during early March was pre-meditated. More than 8,000 Oahu households were without power when the union struck. Inexcusable

Former City Bank president, **Richard Lim**, was confirmed as the new head of the state Department of Business & Economic Development (DBED).

And former Pacific Partnership and Communications Pacific executive **Bruce Coppa** was confirmed as new DAGS (Department of Accounting & General Services Director.

The state continues its rosey economic forecast but look around; more businesses are shuttered and many more are still struggling in this difficult business climate. Business here needs real relief and it won't come from the Big Square Building.

The State has reported holding thousands of dollars in unclaimed cash according to a **Greg Wiles**' article in *Hawaii Reporter*. Maybe some of that is yours. Maybe.

Lynn Waters, wife of Senator **Clayton Hee**, who was the former spokeswoman for the City Prosecutor, has been hired by the University of Hawaii at $141,000 as a UH spokeswoman. See, there are good jobs (government) out there.

SBH Tip: Don't forget to praise good employees and assist other employees to do a better job and be more customer oriented. In this age of social media, it is still important to actually talk to people. It is a vanishing art.

An analysis of state worker employment shows Hawaii leads the nation in the ratio of state-to-private sector jobs. Hawaii's average was more than three times the nationwide rate at 15.1, according to a study done by the Maine Heritage Policy Center.

$4 a gallon gas became reality in Hawaii in early March but we were actually beaten by California. The worst is yet to come. This increase impacts food and other costs too.

Big taxpayer boondoggle is the proposed $1 billion-plus undersea power cable to connect Lanai proposed wind power generation with Oahu. Big winner would be HECO.

Don Quijote in Kailua closed last month and **Target** is beginning its construction of a new store and renovations. There is still some local protest against the large retailer.

Congrats to KITV for winning several prestigious national reporting awards. Mahalo for their early morning tv news reports on Saturday and Sunday mornings.

I was checking the U.S. debt clock. Go to **www.usdebtclock.org**, then go to "HI" and the current data show Hawaii with a population of 1,371,705, 41,789 unemployed, 155,171 food stamp recipients, GDP of $69.4 billion, debt of $11.7 billion or 16.9% of GDP. That's $8,559 per capita and that's why your wallet feels lighter.

Junior Achievement of Hawaii will honor four new Hawaii Business Hall of Fame laureates Friday, March 11 at the Hale Koa Hotel. This year's awardees include: **Richard Henderson**, former State Senator, entrepreneur, and head of Realty Investment Company on the Island of Hawaii**; John Morgan** President of Kualoha Ranch, **Robert Taylor** CEO of Maui Divers, and **Shelly Wilson** of Wilson Homecare.

Aloha to **Jamie Story**, who for the past three years has been the president of Grassroot Institute of Hawaii, Hawaii's first free market think tank. Jamie will be returning to her native Texas to head up the prestigious Citizens Leadership Alliance.

SBH member and Realtor® **Elizabeth Moore**, has been selected as one of 8 state reapportionment commission members.

The next monthly **SBH Sunrise Networking Breakfast** features auctioneer **"Surfer Joe" Teipel** Thursday, March 31 at the Pineapple Room, Macy's Ala Moana, 7 – 8:30 am. Call Darlyn at 396-1724. or fill out the form on page 6. Don't let the gavel fall without hearing from Joe about this growing method of business sales.

Actor Dan Ackroyd Lobbies for Tax Credits

By **Malia Zimmerman**
HawaiiReporter.com

Award winning comedian and producer Dan Aykroyd joined the cast of Hollywood producers and celebrities this week who are lobbying for a boost in Hawaii state film subsidies and credits.

Aykroyd, who has his own production company, sent a letter to lawmakers asking them to support HB 1551 and SB 1550, which would increase the film production tax credit on Oahu by 35 percent (from 15 percent) and 40 percent (from 20 percent) on the neighbor islands.

The legislation would cost the state an estimated $46.3 million in lost revenues, according to the state tax department.

Additional tax credits would be driven by new infrastructure and productions utilizing animated special effects, while the companies could benefit from hotel room tax exemptions, otherwise known as the Transit Accommodation Tax, if their productions require more than one month of filming. They

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Small Business Hawaii (SBH), was founded in 1975, by **Lex Brodie**. SBH is a private, independent, non-profit [501 (c) (6)] statewide association of nearly 2,000 business members.

SBH is dedicated to improving Hawaii's business climate, creating a better Hawaii through private, competitive enterprise, and promoting, educating, and effectively representing small business, while advocating tax reduction, lower business costs and job creation incentives to diversify Hawaii's economy.

SBH invites comment small business issues in Hawaii. Send them to Small Business Hawaii by the **10th of the month** for the next issue. SBH accepts advertising only from SBH member firms. Call SBH for details on advertising.

More Bad News for the State as Fitch Changes How it Values Pension Plans

Continued from Page 1.

grade in the report but did provide information showing Hawaii's funding ratio, like many other states, would fare worse under the new system. Ratings downgrades are potentially costly for states when they sell bonds to finance roads, airports and buildings because investors will demand higher interest rates.

"Fitch generally considers a funded ratio of 70% or above to be adequate and less than 60 percent to be weak, while nothing that the funded ratio is one of many factors considered in Fitch's analysis of pension obligations," the report said.

The report lists Hawaii's funded ratio at 64.6 percent on June 30, 2009.

But when applying one of the new formulas that will be used by Fitch, Hawaii's funded ratio drops to 58.2 percent.

When another of the changes is applied the ratio drops to 55.7 percent.

Fitch's report comes as concern looms about billions of dollars of unfunded pension benefits promised by states, counties and cities to their workers. It also comes about three weeks after another major agency, Moody's Investors Service, announced it was giving more consideration to pension debt as it looked at finances and listed Hawaii as having the second-worst debt and pension liability per capita among states.

Hawaii's pension fund, the Employees' Retirement System, serves state and county public workers and has built up a nest egg of about $11.3 billion through a combination of contributions made by the public employers and investment returns.

But a problem exists in the state owing $18.5 billion for pension payments over the next three decades. The ERS's last actuarial report said the state had an unfunded liability of $7.14 billion at the end of the 2010 fiscal year.

The funding problems are the result of a number of factors, including the 2008 stock market meltdown, limited payments made by the state to the fund about a decade ago, and other, less obvious factors, such as school teachers living longer than had generally been anticipated in ERS actuarial calculations.

The changes being made by Fitch are an attempt to improve valuation of pension funding and liabilities and help in comparing one state's pension finances to another's.

The adjustments are being made to just two of the many variables that are used by actuaries to calculate what's owed and what's needed to pay off the pension bill. What the state owes can rise and fall given investment returns, employer contributions, longevity of retirees, pension enhancements and number of employees.

One of the changes by Fitch revolves around the investment assumptions by states. Many states (including Hawaii) assume their pension fund investments will earn 8 percent annually. A bill pending before the Hawaii legislature would adjust the state's assumption down slightly, to 7.75 percent.

But Fitch said a more realistic assumption is 7 percent and has produced an analysis using that. It shows the funding ratios for 68 public pension plans.

Hawaii had the 19th worst funding ratio on this basis.

Another of the changes involves more arcane subject matter involving how pension fund assets are valued. When calculated, the state had the 11th-worst funding ratio of the 68 public pension funds for which Fitch could get data.

Hawaii Gov. Neil Abercrombie called attention to the ERS' funding problems in his state-of-the-state address last month, saying changes needed to be made to avoid more problems.

Bills before the legislature would limit pension benefits for future state and county hires in an effort to lower what will be owed in coming years.

Such action could help Hawaii if Fitch takes a hard look at its funding ratio.

, ÄúGovernments that exhibit a steady history of meeting their pension commitments should not experience rating pressure due to market-driven declines in funded ratios unless it becomes clear that pension costs will be significantly deferred or that increasing pension expenses will contribute to or exacerbate declines in liquidity and financial flexibility" Fitch said.

Behind Oahu Foreclosure Statistics

By **Walt Harvey** (R), East Oahu Realty

The news media has been quiet lately about the number of foreclosures on Oahu. One reason may be that the number of default filings has been lower than in the last quarter of 2010. This may be misleading.

When a lender files a notice of default or a notice of delinquency on a loan, the lender is required to set aside additional reserves, more than is required on a performing loan. The more reserves set aside means less money available to make new loans, so lenders sometimes delay filing the default notices. The homeowner is still in arrears on their mortgage but it,Äôs not public record. (We know of one homeowner who is 16 months in arrears and no notice of default has been filed).

If the homeowner fails to make up the delinquent payments, eventually the lender will schedule a foreclosure auction and if no one bids on the property, it reverts to the mortgage holder and it becomes bank owned (REO).

If you know someone that,Äôs behind on their mortgage, they may be able to avoid foreclosure but they need to get some sound advice, even if an auction is scheduled. Sadly, many homeowners in this situation fail to act until it's too late.

Walt & Arla Harvey are real estate brokers with East Oahu Realty. They specialize in residential, commercial and investment real estate and can be reached on their website: www.coastalhawaii.com. Have a real estate question? E-mail them at walt@coastalhawaii.com or call 375-8959.

Taxing the Sinners and the Virtuous

By **Charles Memminger**, *HawaiiReporter.com*

As state governments struggle to balance their budgets during these hard times, they predictably try to put the hurt to ,"the usual suspects" to generate revenue: The poor souls battling various addictions and poor lifestyle choices, the boozers, the cigarette fiends, the gamblers, the French fry-eaters and the dope smokers.

They call these heartless revenue streams "sin taxes" and think it's a great idea to throw the disheartening weight of the states' financial troubles on the backs of these unfortunates.I have consistently championed the leaving alone of these pitiful specimens of humanity. My god, they are not cash cows, they are confused rodents just trying to get by in a troubled world as best they can. I know, because I've been known to indulge in a few of their proclivities from time to time myself.

My suggestion to state lawmakers looking for a quick buck to feed government coffers is to leave the sinners alone and tax the virtuous. The virtuous are in much better shape physically and psychologically to have their pockets picked for the alleged good of the public. The virtuous will live a lot longer than the decrepit and so they are a better vessel in which to pour the hopes of long-term financial stability in than the leaky cistern of the self-debauched.Some people thought I was just kidding about this crusade, just trying to get a cheap laugh via the literary vehicle of ironic juxtaposition.

I'm here to tell you that I was serious all along and I don't even know what "ironic juxtaposition" means. And now it appears that my pleas to spare the sinners and tax the virtuous are beginning to be heard.

It has suddenly occurred to lawmakers in the state of Washington that the environmental do-gooders who have traded their gas-guzzling Mercedes for electric battery-powered cars are pulling a fast one on the state tax office.

Increasing taxes on gasoline has long been a default method of raising revenue. And while it doesn't specifically target traditional sinners, it targets those politically incorrect and environmentally insensitive jerks who dare to use their beat up, gas-swilling pickup trucks to carry themselves and their children to the fields to pick lettuce every day. Don't they know they are killing the earth?

The well-heeled virtuous (and most virtuous are not only well-heeled, but well-shoed, well-pants-ed and well-shirted) can afford to buy expensive electric cars. And while they are generally credited by doing so with "going green" they are also "saving green" by not having to buy heavily taxed gasoline.

To plug this sanctimonious loophole, the Washington legislature is considering a bill that would charge all electric car owners an annual $100 fee to make up for the taxes they aren't paying on gas. I believe it is the first "virtue tax" to emerge. But it could be just the beginning.

There are lots of other ways to tax the virtuous. Have you seen those organic vegetables sold in the supermarket. Normal people line up just to stare at the price tags. I saw an organic apple encased in a hypobaric plastic cube that cost $10.89. And a single organic potato cost six bucks.

I assume an organic potato is grown in dirt like a regular potato so I'm not sure what the advantage is. Dirt is dirt, right? Anyone willing to buy a six dollar potato or an apple for $10.89 surely wouldn't mind a 25 percent virtue tax being added. I say any expensive organic produce should have such an added levy.

A lot of money via virtue taxes can be raised just in supermarkets. You know those guys in front of you at the checkout counter who bring in their own canvas grocery bags so they don't have to use the plastic bags supplied by the stores? There should be a $1 canvas bag tax added to their bill. And bottled water should be taxed more than whisky. Anyone willing to buy little bottles of designer water should be squeezed tax-wise like a sponge.

And virtue taxes shouldn't stop there. There should be some kind of fee, duty or tariff for anyone who doesn't smoke a pack of cigarettes and drink at least a case of beer a day. You can call it an "Anti-Redneck Tax" If you aren't going to be a redneck, you should pay for the privilege.

At fast food restaurants, tax any meal that isn't deep fried. If the food item is leafy or green, tax the hell out of it. Anyone who eats green food at a fast food restaurant deserves to be hit hard in the wallet. All eyes will be on Washington State to see if its experiment in taxing the virtuous works. If Washington is suddenly running a huge financial surplus, others will follow. And more than a few sinners will be tipping their shot glasses to that.

Cartoon by John Pritchett as published in *HawaiiReporter.com*
See more of Pritchett's cartoons at
www.pritchettcartoons.com

Charles Memminger is a national award-winning columnist, screenwriter and author who writes for a number of publications including Hawaii Reporter. You can get his book, "Hey, Waiter, There's An Umbrella In My Drink! (Tales From The Tropics By Hawaii's Favorite Humorist)" by e-mailing him at cmemminger@hawaii.rr.com

The Latest on the Honolulu Fixed Rail Project

By **Panos Prevedouros**. Ph.D.

There is so much going on about the blasted Rail project that it's worth an email blast.

First of all you may have noticed that the mainland high speed rail projects are being rejected, — New Jersey, Wisconsin, Florida,— and most of them are state projects (bigger coffers) and have a local match amount which is lower than ours. We are getting a bad deal with the feds paying only 25% of the construction cost. Our local costs will be well north of $4 billion.

(1) On Tuesday after Presidents Day, Carlisle will be having a Ceremonial Groundbreaking of the rail project, which means it is a joke. If it was real, it would be the Groundbreaking Ceremony.

Nevertheless, we plan to picket his fake event. We need you at 9:30 AM in Kapolei. Contact me for details at panos.prevedouros@gmail.com or call 63-PANOS, 637-2667 and leave me a message.

There is still no money from the feds and there is a moratorium on Congressional earmarks for two years. So where is Carlisle going with our local money? He ought to be prosecuted.

(2) Many others are shooting the rail.

Here is a sample from Hawaii Free Press.

First, Abercrombie and progressive Democrat Senate President Shan Tsutsui teamed up behind Senate Bill 1426 ,Äì which would raid $200M from the rail fund to patch up Abercrombie's budget. Abercrombie called the proposal a "win-win." Tsutsui, fresh off his big victory over the Christians, told Civil Beat Feb. 4, "We know (former Honolulu Mayor) Mufi Hannemann didn't like the idea, but we thought a different administration may have a different view. From what I've heard, they're not too excited about this."

Then progressive Democrat Ben Cayetano-seen by Mufi supporters as the grey eminence behind Abercrombie's gubernatorial campaign-held a January 31 news conference launching a new anti-rail lawsuit challenging the City's procurement practices.

And finally the Native Hawaiian Legal Corp and progressive Democrat lawyer David Frankel-who as Sierra Club Chair hired Jack Kelly to assault Hokulia-filed a lawsuit challenging the handling of native Hawaiian burials and cultural sites.

This takes us to this conclusion by the Star Advertiser, in their own words: Don't count on riding Honolulu rail any time soon.

Unfortunately we can't expect the City Council to stop the rail although they seem to understand that we are in deep debt with past obligations, the sewer consent decree, water main repairs, etc. Rail is really the only project that is discretionary and unaffordable. Sadly half of them are beholden to unions and special interests, and the other half raise concerns but never step up and vote NO.

Dr. Prevedouros is an engineering professor at the University of Hawaii.

SBH SUNRISE

Thursday, March 31, 2011 • 7:00 – 8:30 a.m.
Pineapple Room, Ala Moana • Breakfast / Free Parking

Speaker: "Surfer Joe" Teipel
"Recent Trends in Business Property Auctions"

Reservations made in order received at SBH. No tickets mailed – pick up at registration desk March 31. Your guests welcomed at member price. Refunds until March 30. **Advanced Paid Reservations Required by March 29.**

Complete Breakfast Buffet and Free Parking (Ala Moana 4th floor) included

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Enclosed is my check for* $__________, for _______ (number) people
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*The charge is $35 for non-members, and at the door, provided space is available.

Film Industry Tax Credits

Continued from page 3.

could also rack up rebates if they offer training programs. The Tax Foundation of Hawaii is opposed to the idea.

At the request of the CEO of Hollywood entertainment company Relativity Media, Actor Cuba Gooding Jr. testified at the Hawaii Capitol on Monday. Gooding has appeared in motion pictures filmed here including Outbreak and Pearl Harbor. Lawmakers were invited to attend a a Valentines Day evening soiree with Hollywood celebrities.

Relativity Media and Shangri-La are the driving force behind the legislation. They've promised the state, in exchange for tax credits, they will construction of two state-of-the-art "green" film studios on Oahu and Maui and film productions here.

They also are using their political ties. Bill Clinton, who has financial ties to both companies and other motion picture industry executives, sent a last week to lawmakers in support.

The legislation is moving forward in the House and Senate with some amendments.

IF YOU MEAN BUSINESS...
PLEASE JOIN SMART BUSINESS HAWAII

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Attached is my check for $________________ **(regular annual membership dues are $200; $350 for 2 years).** Annual membership dues may be tax deductible to your organization under IRS Code Section 501(c) (6). Please check with your tax advisor. Billing is annual on the anniversary of my last payment. Ten dollars of my annual membership is allocated for a subscription to the monthly *Small Business News*.I am applying for membership and understand SBH does not sign up anyone for medical or benefits only; I agree to actively support the goals of SBH and actively participate in SBH activities. I certify that all information on this form is current and accurate.

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Hawaii Lawmakers Should Let Up on Economic Tinkering

By **Lowell Kalapa**
Tax Foundation of Hawaii

Somehow Hawaii lawmakers think that if they tinker long enough with various components of the economy that somehow they can jump start it.

Despite the fact that the state budget continues to grow and lawmakers are scrounging for every last penny to balance the state general fund budget, members of the legislature continue to introduce legislation to provide tax incentives that they hope will stimulate certain parts of the economy.

As if in deja vu, some lawmakers have reintroduced the idea of providing a tax credit for residential renovation and construction as a way to get construction workers back on the job. The first coming of this idea occurred right after 9/11 when construction came to a screeching halt as the world stood still in the aftermath of that tragedy.

Although some may claim that the previous tax credit incentive "jump started" construction activity especially in the wake of 9/11, looking back there is general agreement that the tax credit created artificial dislocations in the economy, creating demand that exceeded the industry's ability to respond, sending labor and material costs beyond reasonable limits. The result is that in the years following the termination of the credit, the cost of construction exceeded reasonable levels.

As a result, when the credit markets froze following the debacle of the sub-prime lending, the cost of construction was so high that there was insufficient latitude in the availability of credit to meet and absorb the demand and higher costs of construction. Thus, construction activity came to a screeching halt again as there was insufficient credit capacity to keep projects going. Instead of the spike in construction activity that the tax credit created, recovery should have been stimulated with public works projects that allowed government to take advantage of a skilled workforce available at reasonable rates.

It would have allowed recovery with moderation. Instead, as many homeowners rushed to take advantage of the last tax credit boom, they found that workers became scarce, and what labor was available came at inflated costs. But the result of this boom time was a lasting hangover of inflated labor and material costs that put the cost of construction out of the reach of many prospective projects while making it more difficult for contractors to bid on projects and bring the cost in at an acceptable level.

The long and short of the economic lesson is that artificially stimulating the construction market after 9/11 set the construction industry on a path of doom when the national recession hit Hawaii. While Hawaii did not experience the decline in the real estate market that many mainland states experienced, the freezing of the credit markets exacerbated an already overpriced construction industry. Now lawmakers are about to adopt another tax credit for residential renovation and construction. What impact that will have on the construction industry somewhere down the road cannot be good given the track record of the last tax credit for residential renovations.

That specific credit aside, readers should be flabbergasted that on one hand lawmakers are being asked to consider tax increases with everything from taxing pensions to taxing sodas and increasing the tax on alcoholic beverages and at the same time they are considering a slew of tax credits that will sap the very funds that the tax increases are supposed to raise.

One of the more spectacular tax credit proposals will be to juice up the film production tax credit and provide tax incentives for building a film studio in Hawaii. Proponents argue that the tax credit proposals aren't really a loss of revenues if they fail to attract these activities to locate in Hawaii, but if someone claims the credit it means that there is economic activity.

What the backers of this credit fail to understand is that there is no discretionary money to be had and that, in fact, the residents of Hawaii are being asked to shell out even more in taxes so that a handful of beneficiaries can laugh all the way to the bank. And in the end, if the investment is made and the tax credits are claimed, but the studios close down because of Hawaii's high cost of living and doing business, guess who will be left holding the bag?

No, Hawaii taxpayers have gone down this road before. While many states are competing for film production companies, lawmakers should understand that every objective review of this tax policy labeled such tax credits as "wasteful, ineffective, and an unfair instrument of economic development."

Visit the Tax Foundation of Hawaii website at www.tfhawaii.org.

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State Forecasts Stronger Economic Growth

In its first quarter 2011 economic report, the Department of Business, Economic Development & Tourism (DBEDT) forecasts a strong recovery in Hawaii's economy in 2011 and economic expansion in 2012. DBEDT expects that continued growth in tourism and the recovery in construction in Hawaii will help the economy to head on to the expansion path.

"We are encouraged by the continued improvement in our economy, especially with respect to our construction industry," said DBEDT Director Richard C. Lim. "We note that the construction industry has started to add more jobs since October 2010 and that the value of commercial and industrial building permits in 2010 increased 32.5 percent."

Recent forecasts for the U.S. economy are showing higher growth in 2011 than previously projected. The consensus forecast for the U.S. projects a 3.2 percent increase in Real Gross Domestic Product (GDP) for 2011. That is up from a 2.5 percent projection last quarter. Similarly, forecasts of key international economies are also better. For the local economy, forecasts for most of the economic indicators are more optimistic compared to the previous forecast.

DBEDT expects total visitor arrivals to increase 4.0 percent and visitor days to increase 4.1 percent in 2011, both about the same as the previous forecast. However, visitor expenditures are now expected to increase 9.2 percent in 2011. This is a 0.8 percentage point higher than DBEDT's previous forecast. This projected increase is primarily based on the growth of the high-spending markets such as China and Korea and the continued recovery in hotel room rates.

The updated forecast for 2011 real gross state domestic product is for a 2.0 percent growth, slightly higher than the 1.8 percent forecast last quarter. The current forecast on personal income is the same as the previous forecast at 3.2 percent in nominal terms and 1.0 percent in real growth for 2011. Total wage and salary jobs in Hawaii are now expected to increase 1.3 percent in 2011, higher than the 1.1 percent increase previously projected.

The Honolulu Consumer Price Index (CPI), a proxy for inflation, is expected to rise 2.2 percent in 2011, the same as previous projections.

Assuming continued improvement in national and international economic conditions, Hawaii will see 7.6 million visitors again in 2012 and the economy will move from recovery to expansion.

The state's visitor count is expected to exceed the 2007 peak level of 7.6 million by 2013, but the wage and salary job count may take longer to recover to its peak of 631,000 jobs in 2007.

The DBEDT Quarterly Statistical and Economic Report contains more than 100 tables of the most recent quarterly data on Hawaii's economy as well as narrative explanations of the trends in these data. The full report is available at: http://www.hawaii.gov/dbedt/info/economic/data_reports/qser