

Hawaii Auto OutlookTM

Comprehensive Information on the Hawaii Automotive Market

Second Quarter, 2005

Volume 4, Number 2

Another Good Year on Tap for Hawaii New Vehicle Market in 2005

Forecasting the Hawaii new vehicle market is a delicate balancing act. Indicators frequently present mixed signals on where the market is headed. Some point squarely to improvement, while others indicate a decline. Below is a list of key positive and negative forecast determinants for the Hawaii market, and what to watch for during the rest of this year.

Vehicle Affordability

Despite steadily increasing interest rates over the past several months, most new vehicle affordability measures are still at near-record high levels, indicating that a new vehicle purchase is within reach for a significant number of Hawaii consumers. A very competitive market (leading to aggressive discounting) and strong personal income growth should continue to be key plusses for affordability during the rest of this year.

Consumer Debt

This is a key (and mildly controversial) concern for many economists. The National savings rate (percent of income allocated to savings) continues to hover at a very low 1%, and consumer debt remains uncomfortably high; neither are good signs. On the other hand, household net worth is at record highs, leading many economists to postulate that although consumers are indeed borrowing heavily, they are doing so from a position of financial strength. Net worth has been boosted by rising home values, so any sign of softness in the real estate market could be a cause for concern.

Gas Prices

Until now, higher gasoline prices have had a negligible negative impact on new vehicle sales. Many economists (and we agree) peg the "crossover" price at \$2.50 a gallon. If gas prices

move above this level for a sustained period, new vehicle sales would almost certainly be impacted. Recent reports, however, indicate that gas prices may have peaked, although clearly this is a volatile situation.

Sales are due for a decline

New vehicle sales have historically followed cyclical patterns, with periods of increasing sales followed by periods of declines. We believe that elevated sales over the past several years have set the stage for a MILD downturn in sales.

Conclusion

New vehicle sales are likely to decline this year. We are currently forecasting a drop of 1.8%, with another small decline possible in 2006.

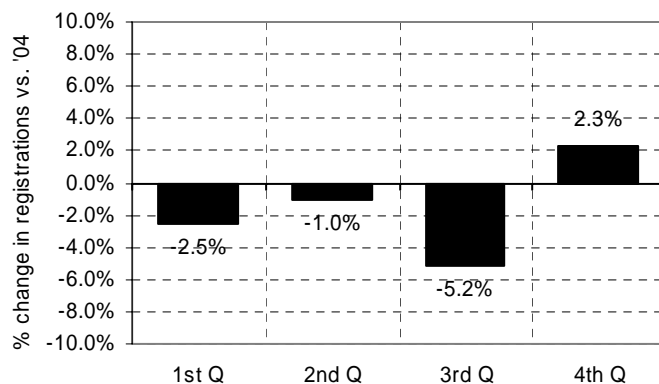
The Hawaii New Retail Light Vehicle Market — At a Glance

Summary 1. Top Ten Scoreboard

FOURTH QUARTER, 2004			FIRST QUARTER, 2005			Change in mkt. share
Rank	Make	Market Share	Rank	Make	Market Share	
1	Toyota	22.3%	1	Toyota	23.5%	1.2%
2	Honda	11.7%	2	Nissan	13.1%	2.1%
3	Nissan	11.0%	3	Honda	10.6%	-1.1%
4	Ford	8.5%	4	Ford	10.2%	1.7%
5	Chevrolet	6.8%	5	Chevrolet	5.9%	-0.9%
6	Dodge	4.8%	6	Mazda	4.0%	0.2%
7	Mazda	3.8%	7	Dodge	3.9%	-0.9%
8	Scion	2.9%	8	Hyundai	2.6%	0.5%
9	Lexus	2.4%	9	BMW	2.3%	0.0%
10	Mercedes	2.4%	10	Lexus	2.2%	-0.2%

The three summaries provide an overview of the Hawaii new retail light vehicle market. The table above shows the **Top Ten** sellers in the state during the Fourth Quarter of 2004 and the First Quarter of this year, and the change in market share. **Quarterly Review** presents the change in registrations during each quarter of this year versus 2004. (Figures for the Second, Third, and Fourth Quarters are projected.) The **Annual Review** table on the right shows our forecast for 2005, and actual figures for 2003 and 2004. Detailed forecasts for all brands are on page 4. Source for historical data: The Polk Company

Summary 2. Quarterly Review



Summary 3. Annual Review and Forecast

	2003		Forecast		% ch. '04 to '05
	2003	2004	2005		
TOTAL	62,712	65,882	64,710	-1.8%	
Car	27,230	26,695	25,625	-4.0%	
Light Truck	35,482	39,187	39,085	-0.3%	
Big Three	19,407	19,249	17,728	-7.9%	
Japanese	35,912	38,783	39,220	1.1%	
European	5,874	5,793	5,462	-5.7%	
Korean	1,519	2,057	2,300	11.8%	