Hawaii Auto Outlook ™

Comprehensive Information on the Hawaii Automotive Market

Fourth Quarter, 2005 **Volume 4, Number 4**

Special Report: 2006 Outlook

Hawaii New Vehicle Market Predicted to Decline 2.2% in 2006

This summer and fall provided fresh evidence of the plight of the auto industry. With extensive and attention-getting incentives, new vehicle sales hum along. But without big discounts, sales suffer. The employee discount programs offered by the Big Three propelled new vehicle sales in the Third Quarter of this year. But new vehicle sales from January thru May (prior to the introduction of the employee discount programs) were essentially unchanged versus a year earlier, while the market took a step back in October.

There are several tangible reasons why sales head south when the big incentive offers disappear. Following are three prominent reasons why the manufacturers will have to continue to be ultra-aggressive with incentives to keep the market humming over the next 12 months:

1. New vehicle sales in Hawaii have exceeded baseline levels in each of the past three years (see page 2). As we have emphasized in past issues, there's a limit to the number of new vehicles that Hawaii consumers can purchase over a given period of time, and the market has exceeded those limits. A vehicle can only go so far on a tank of gas before stopping to re-fuel, and similarly, we believe that the state new vehicle market is in need of a brief pit stop.
2. Consumer debt levels continue to hover at near-record levels, and the savings rate (percentage of income allocated towards savings) has actually drifted below zero; two very convincing reasons for consumers to not be in a spending mood.
3. Sky-high energy costs, increasing inflation, and plummeting consumer confidence all contribute to a scenario likely leading to softer economic growth in 2006, and declining new vehicle sales.

Despite these three observations, we still believe that 2006 will be a good year for the Hawaii new vehicle market. Relatively low interest rates, strong personal income levels, and aggressive pricing on the part of the manufacturers have helped to keep consumer affordability for new vehicles (perhaps the single most important predictor of the market) at near-record levels. In addition, the steady stream of new products being introduced should draw renewed consumer interest. Sales are likely to decline next year (a 2.2% drop is predicted), but on an historical basis, the market should remain relatively strong.

Weighing Forecast Determinants:

Positives and Negatives for the Hawaii new vehicle market over the next 12 months

Positives (why the market could strengthen):

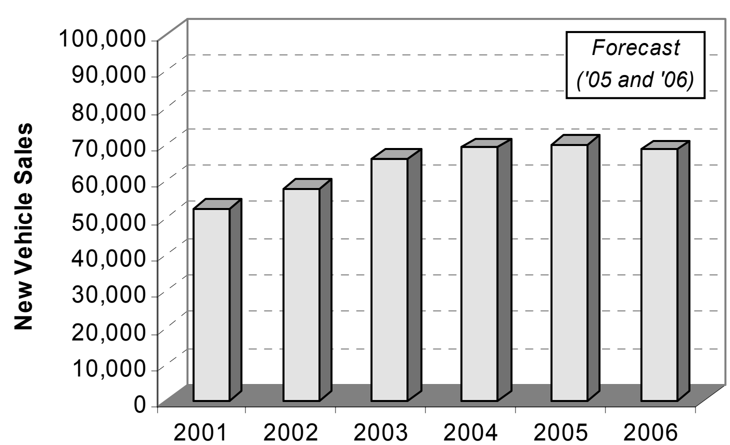
- Consumer affordability for new vehicles remains at near record highs
- Employment growth is accelerating
- Personal income is improving
- Impressive array of new products are scheduled to be introduced

Negatives (why the market could weaken):

- High energy prices
- Strong new vehicle sales over the past several years could lead to a cyclical decline
- High consumer debt levels
- Economic growth could ease

VERDICT: Mild slowdown predicted

Hawaii New Vehicle Sales-2001 thru 2006



Sales estimates based on data obtained from CNW Marketing Research, Inc.

Special Report: Long Term Forecast

Hawaii Market Predicted to Drift Lower Over Next Three Years

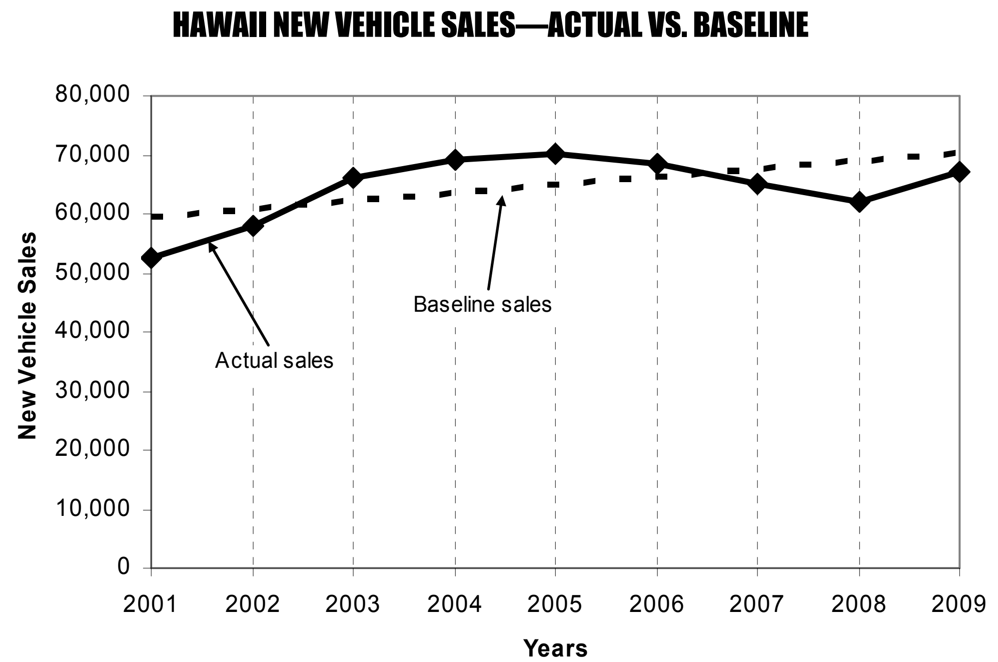
The good news first: the Hawaii new vehicle market is expected to remain in respectable shape for the next several years. Based on Auto Outlook's detailed long term forecast for the state market, new vehicle sales are predicted to remain above 60,000 units during 2006 through 2009, which (based on historical standards) is a respectable figure.

The "not so good" news: the market is likely to fall below its "baseline" level in 2007 and 2008, with sales predicted to decline marginally in both years. The Hawaii market has occasionally caught us by surprise with its strong performance over the past several years, so stay tuned.

The two graphs on this page illustrate the market fundamentals that contribute to our long term forecast. The top graph shows two lines: 1. **Actual** sales from 2001 through 2004, and our forecast from 2005 through 2009. 2. **Baseline** sales (denoted by the dotted line), representing "anticipated" sales in the absence of economic fluctuations.

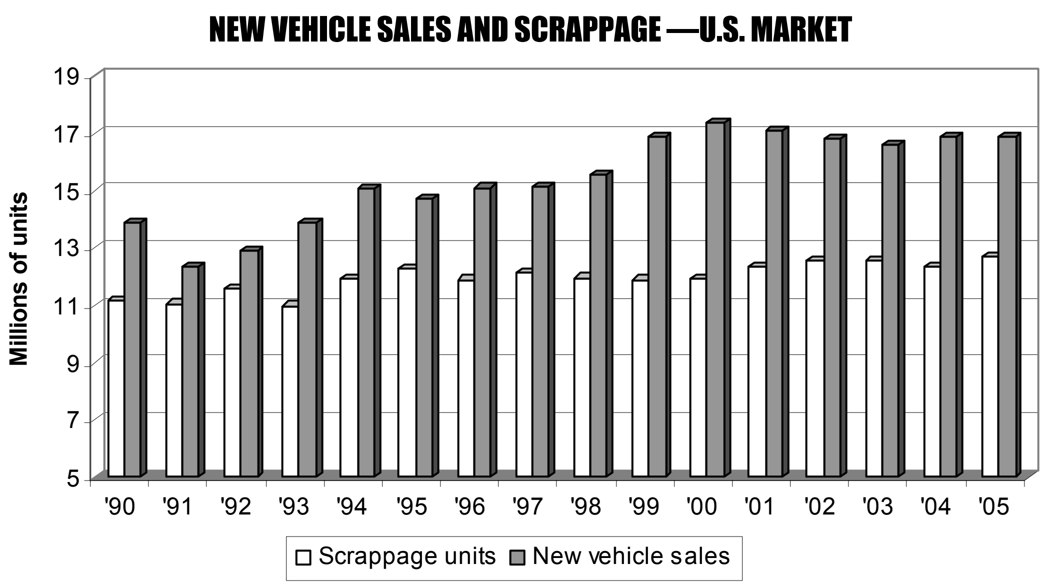
Historically, vehicle sales have followed a cyclical trend, with sales moving up and down in response to economic factors and consumer behavior. When **actual** sales fall below **baseline,** new vehicle purchases are either postponed due to a slowing economy; or, sales slack off following periods of elevated sales. This is likely to occur from 2007 through 2009. When conditions improve, **actual** sales move above **baseline**, the case between 2003 and 2006.

(Continued on page 3)



The two lines on the graph provide a synopsis of the past and anticipated future performance of the Hawaii new automotive market. **Actual sales** shows actual market results through 2004 and Auto Outlook's forecast for 2005 through 2009. **Baseline** represents anticipated sales that would occur in the absence of economic fluctuations, and is a function of "core" factors, such as the number of households in the area and population over age 20.

Sales estimated based on data obtained from CNW Marketing Research, Inc.



The graph above compares National new vehicle sales and scrappage between 1990 and 2005. The relationship between these two measurements can serve as a significant predictor of new vehicle sales. When new vehicle sales exceed scrappage, the size of the "overall vehicle fleet" is growing at an accelerated pace, which could portend a slowdown in new vehicle sales. The gap between the two was relatively large in 1999 and 2000. An increase in scrappage in 2001 and a decline in new vehicle sales in 2001 helped narrow the gap somewhat. In 2004, however, the gap widened as scrappage declined and new vehicle sales increased.

Source: CNW Marketing Research, Inc.

Special Report: Long Term Forecast

Major Decline in Hawaii New Vehicle Sales Highly Unlikely

(Continued from page 2)

The common perception in the industry is that consistently aggressive incentives over the past several years have pushed vehicle sales significantly above trend line levels, resulting in an imminent, prolonged sales slump. We believe that this will not happen. Although the market has been strong for the past several years, sales have not exceeded baseline enough to indicate that a major collapse is in the offing.

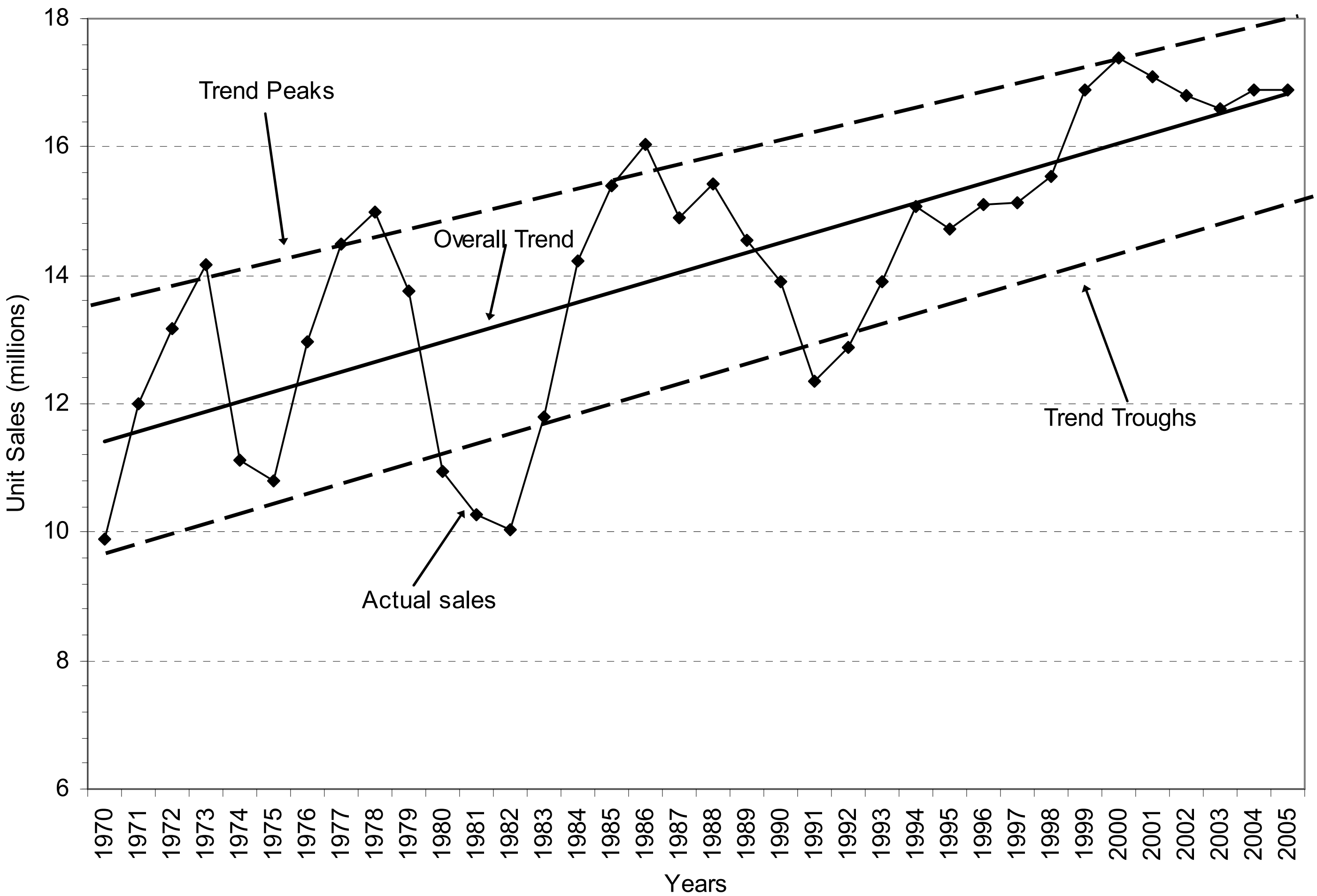
The second graph on page two shows the relationship between new vehicle sales in the U.S. market and scrappage. Bottom line conclusion from this graph: relatively flat scrappage levels and elevated new vehicle sales over the past several years point to a relatively sluggish market for the next year or so.

U.S. Market-Long Term View

Similar to the Hawaii outlook, long term sales trends in the U.S. market do not support the likelihood of a major meltdown in new vehicle sales. The graph clearly shows the up and down cyclical pattern new vehicle sales have followed over the past 35 years. Our conclusion that sales should remain relatively strong (despite the prediction of a mild slowdown) over the next few years is demonstrated by looking at the three "trend lines." The overall trend has moved steadily upward, and importantly, the same is true for trends in the cyclical peaks and troughs. In fact, the trend line for the market troughs portends that, in the worst case scenario, the low point for a downward sales cycle is now higher than 15 million units. A far cry from 17.4 million in 2000, but nowhere near the 12.5 million units in 1991.

Despite the prediction of a mild decline, there is convincing evidence that new vehicle sales will remain strong, and that a sub-15 million unit sales year is not likely any time soon. The impressive array of new vehicles regularly being introduced, and new power train technologies that are being developed should provide further support for the new vehicle market.

U.S. New Light Vehicle Sales—Long Term Perspective



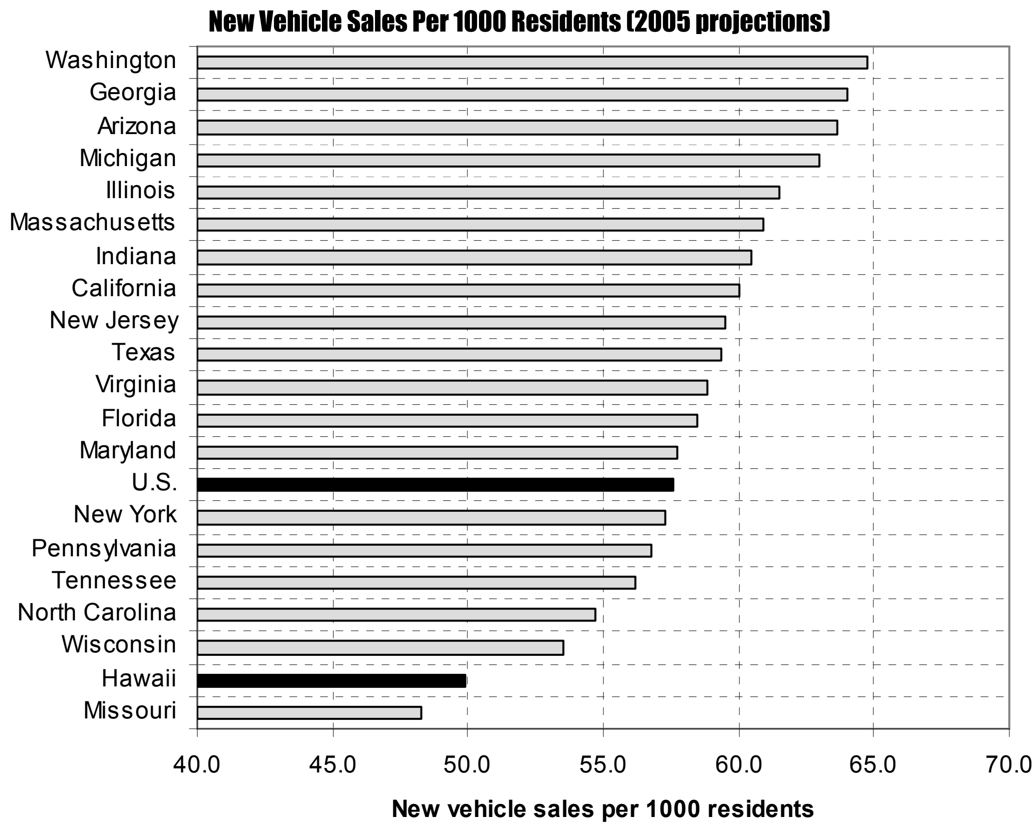
*The graph shows four data series from 1970 to 2005: 1. **Actual** new vehicle sales. 2. The **Overall Sales Trend**. 3. **Trend Peaks**, which is the trend line for the four cyclical sales peaks. 4. **Trend Troughs**, which is the trend line for the cyclical sales troughs.*

Source: CNW Marketing Research, Inc.

Strength of State Markets

Hawaii New Vehicle Market Ranks Relatively Low

The graph below provides an excellent indicator of the comparative strength of new vehicle markets. The graph shows projected new vehicle sales for 2005 per 1000 residents for selected states. Markets at the top of the graph are relatively stronger, while those at the bottom are weaker. Hawaii ranked 19th, with 49.9 new vehicles sold per 1000 residents, below the U.S. average of 57.6. Hawaii's low ranking is partially due to the state's relatively strong used vehicle market. Source for historical data: CNW Marketing Research, Inc.



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