

State Market Predicted to Stabilize in '08; 3.6% Decline Predicted

In the previous issue of Auto Outlook, we highlighted the elevated level of uncertainty and volatility that surrounded the economy in general, and the automotive market in particular. This became plainly evident over the past several months as the sub-prime fallout exploded, the credit crunch infected the economy, payroll and employment indicators turned bad (and then good again), the dollar weakened precipitously before strengthening somewhat, the Fed cut interest rates, and the possibility of an imminent recession was a popular media topic.

Earlier in the year, the consensus outlook was for a strengthening economy, healthy employment and income gains, and likely interest rate increases to battle inflation. On the surface, it appeared as though the world had changed overnight, with economic threats and corresponding policy actions abruptly reversing course and playing havoc with the market.

But in reality, the primary factors dictating

the course of new vehicle sales have remained intact for many years, and are highly correlated to the events that have transpired over the past few months. As we have emphasized for quite some time, the number one concern for new vehicle sales is elevated consumer debt levels. And the excesses that abounded in the mortgage market were a direct consequence of households that were stretched too far.

The good news is that the recent tumult can be the needed stimulator to restore health to household balance sheets. The key is for the recovery to take place in an orderly fashion, without a major cutback in retail spending, and we believe this will occur. The Fed rate cuts will be helpful in driving this outcome. Eventually, perhaps as soon as early next year, consumers will be in a much better position to purchase a new vehicle, and pent up demand resulting from softening sales in recent years should give the market a boost.

Executive Summary

- New retail light vehicle registrations in the state are predicted to decline 10.5% for all of this year versus 2006.
- Auto Outlook is projecting a 3.6% decrease in the market during 2008, with subsequent increases likely in 2009 and 2010.
- Traditional domestic brand market share in the state is expected to decline 1.9 share points for all of this year versus 2006.
- Registrations declined 13.9% in the Third Quarter of this year versus a year earlier. A smaller decline is expected in the Fourth Quarter.
- Toyota/Scion market share exceeded 27% in the Third Quarter, 13.2 share points higher than Honda.
- Registrations have declined in each of the four island markets so far this year.

Hawaii New Retail Light Vehicle Market - At a Glance

Top Ten Scoreboard

Leading brands during Second and Third Quarters of '07

SECOND QUARTER, 2007			THIRD QUARTER, 2007			Change in mkt. share
Rank	Make	Market Share	Rank	Make	Market Share	
1	Toyota	25.6%	1	Toyota	27.2%	1.6%
2	Honda	13.0%	2	Honda	14.0%	1.0%
3	Nissan	11.3%	3	Nissan	11.7%	0.4%
4	Ford	8.6%	4	Ford	8.0%	-0.6%
5	Chevrolet	5.3%	5	Chevrolet	4.8%	-0.5%
6	Dodge	4.2%	6	Mazda	3.4%	0.0%
7	Mazda	3.4%	7	Dodge	3.2%	-1.0%
8	Lexus	3.3%	8	Lexus	2.9%	-0.4%
9	Mercedes	2.1%	9	BMW	2.5%	0.5%
10	BMW	2.0%	10	Hyundai	2.3%	0.3%

The table above shows the top ten selling brands in the Hawaii market during the Second and Third Quarters of this year and the change in market share.

Industry Summary

New Retail Light Vehicle Registrations

	Forecast 2007	Forecast 2008	% ch. '07 to '08	Mkt. Share 2008
TOTAL	60,153	57,980	-3.6%	
Car	25,926	25,453	-1.8%	43.9%
Light Truck	34,227	32,527	-5.0%	56.1%
Big Three	14,428	13,336	-7.6%	23.0%
Japanese	38,089	37,107	-2.6%	64.0%
European	5,117	5,102	-0.3%	8.8%
Korean	2,518	2,435	-3.3%	4.2%

Traditional Domestic consists of vehicles sold by General Motors, Ford and Chrysler, and excludes import nameplates.

Source for historical data: AutoCount, an Experian Company

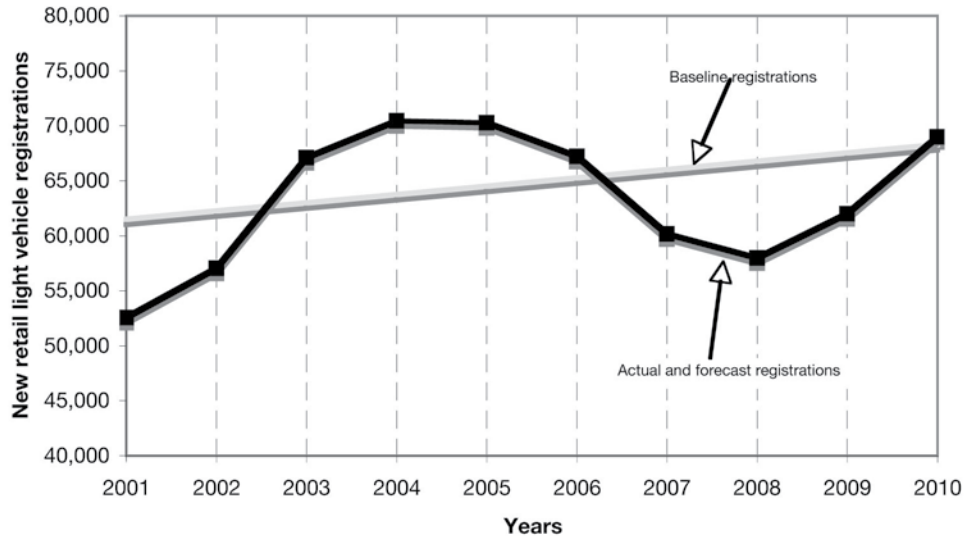
Special Report - Long Term Forecast

Softening Market Should Pave the Way for Improvement by the End of the Decade

As new vehicle retailers in Hawaii are all too aware, new vehicle sales have stumbled a bit over the past couple of years, and declined an uncomfortable 13.9% during the Third Quarter of this year versus a year earlier. Obviously, a declining market is never a good thing, but as we have been emphasizing for quite some time, sales were humming along at an accelerated pace and a slowdown was inevitable. In addition, as discussed on page one, many Hawaii households will be forced to take a retail spending pit stop as they take corrective actions to deal with elevated debt levels.

For the short term, none of this spells good news for Hawaii new vehicle sales. But as shown on the graph, the market has trended lower since reaching its cyclical peak in 2004. Following a likely sluggish start at the beginning of next year, we believe the market should be poised to rebound in 2009 and 2010

**Hawaii New Retail Light Vehicle Registrations
Actual, Forecast, and Baseline**



The two lines on the graph provide a synopsis of the past and anticipated future performance of the Hawaii new automotive market. Actual and projected registrations show actual market results through 2005 and Auto Outlook’s forecast for 2006 through 2009. Baseline represents anticipated registrations that would occur in the absence of economic fluctuations, and is a function of “core” factors, such as the number of households in the state and population over age 20. *Data Sources: AutoCount, an Experian Company and CNW Marketing Research.*

County Close-Up

All Four Island Markets Decline So Far This Year

The table on the right provides a summary of each of Hawaii’s four retail light vehicle markets. The table is divided into four sections. Market Summary shows total new retail light vehicle registrations during the first nine months of 2006 and 2007 and the percent change. The second and third sections show Light Truck and Big Three market share. The fourth section shows market share figures for the top 10 selling light vehicle brands in the state during the first nine months of this year. The top rated county in each category is shaded.

Observations: Registrations declined in each of the four markets, with the smallest decline in Maui (down 6.0%) and the largest in Oahu (down 14.5%). Light Truck market was up in three of the four markets. Toyota/Scion market share was 29.5% in Maui.

Source: AutoCount, an Experian Company.

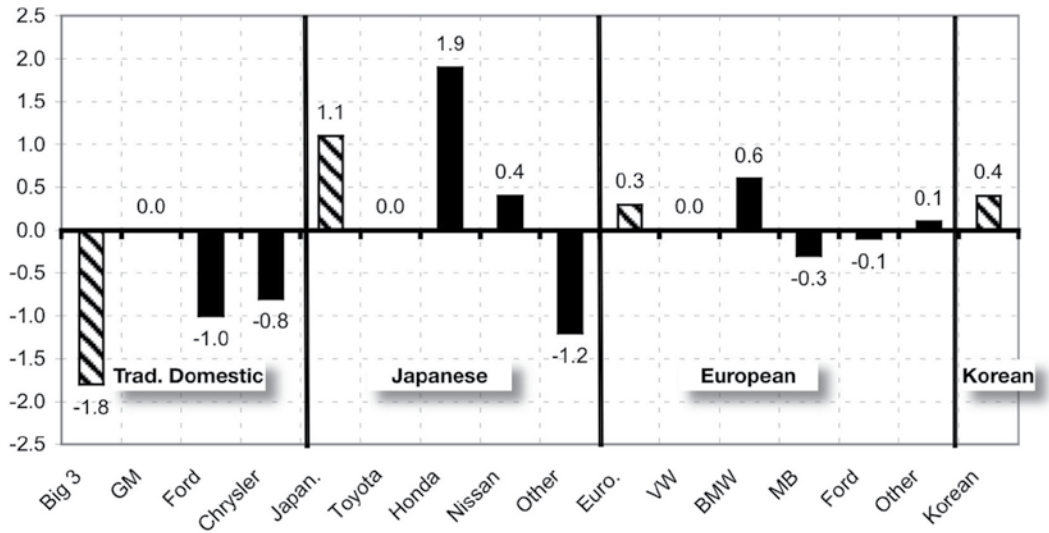
New Vehicle Markets Summary					
	Local Markets				Statewide Total
	Hawaii	Kauai	Maui	Oahu	
Market Summary					
YTD '06 (thru September)	6,858	2,481	6,019	37,181	52,539
YTD '07 (thru September)	6,197	2,315	5,655	31,788	45,955
Percent change	-9.6%	-6.7%	-6.0%	-14.5%	-12.5%
Light Truck Market Share					
YTD '06 (thru September)	64.8%	69.8%	62.8%	52.0%	55.7%
YTD '07 (thru September)	63.8%	70.3%	67.3%	53.1%	57.2%
Change (share points)	-1.0	0.5	4.5	1.1	1.5
Big Three Market Share					
YTD '06 (thru September)	27.8%	35.3%	32.5%	25.8%	27.3%
YTD '07 (thru September)	26.8%	32.2%	31.3%	23.9%	25.6%
Change (share points)	-1.0	-3.1	-1.2	-1.9	-1.7
Market Share for Top 10 Selling Brands in State (YTD '07)					
Toyota/Scion	25.9%	27.0%	29.5%	26.0%	26.4%
Honda	20.6%	14.3%	12.4%	11.5%	13.0%
Nissan	8.2%	14.8%	11.4%	12.3%	11.8%
Ford	8.5%	8.5%	16.6%	6.7%	8.2%
Chevrolet	5.5%	7.3%	3.9%	5.3%	5.3%
Dodge	5.7%	8.7%	3.9%	3.1%	3.8%
Mazda	7.0%	4.0%	1.3%	3.1%	3.4%
Lexus	0.6%	0.6%	3.0%	3.9%	3.2%
BMW	0.5%	0.3%	2.7%	2.8%	2.4%
Kia	5.1%	0.2%	2.6%	1.6%	2.1%

Japanese Brand Market Share Moves Higher During 2007

The established trend of Traditional Domestic brands losing market share to their Japanese brand competitors has continued so far this year. As shown on the graph, collective market share for Traditional Domestic brands in the Hawaii market has declined 1.8 share points so far this year. General Motors market share was unchanged, while Ford and Chrysler were off one point, and 0.8 of a point respectively. (Note: market share figures do not include import brands owned by GM and Ford.) Honda market share increased 1.9 points.

Source: AutoCount

Change in Segment Market Share - YTD '07 thru September vs. YTD '06



Brands included above: Big 3: GM (Buick, Cadillac, Chevrolet, GMC, Hummer, and Pontiac, and Saturn), Ford (Ford, Lincoln, and Mercury), Chrysler (Chrysler, Dodge, and Jeep). Japanese: Toyota (Toyota, Lexus, and Scion), Honda (Honda and Acura), Nissan (Nissan and Infiniti), Other (Isuzu, Mazda, Mitsubishi, Subaru, and Suzuki). European: VW (Audi, Bentley, and Volkswagen), BMW (BMW, Rolls Royce, and Mini), MB (Mercedes Benz), Ford (Aston Martin, Jaguar, Land Rover, and Volvo), Other (Ferrari, Lotus, Maserati, and Saab). Korean: Hyundai and Kia.

Auto Outlook Editorial - Automotive Retailing Trends

Automotive Retailing Will Continue to Evolve to Meet Consumer Demands

Over 10 years ago, we wrote an article focusing on the emerging new electronic marketplace known as the Internet. At the time, many hypothesized that the web would drastically change the landscape of automotive retailing. Consumers would simply order cars over the Internet from the comfort of their family room sofa, eliminating the need for a trip to the showroom, and dooming the traditional automobile dealership.

Obviously, these predictions have not come true. And with a humble pat on the back, we concluded at that time that the business model of the new vehicle dealership would survive and thrive for quite some time. And indeed, that is essentially what has transpired.

The basic theory behind our prediction was that a new vehicle purchase is an extremely important transaction for reasons other than just its cost. A vehicle becomes embedded in our day to day lives, and for most consumers, represents a long term

commitment. Simply put, buying a new car is a big deal that cannot be compared to other transactions ideally suited for the Internet, such as buying an airplane ticket or a custom configured computer. In addition, other important steps in the new vehicle purchase decision (such as taking a test drive, evaluating seat comfort, listening to the stereo, and seeing actual colors) cannot be accomplished on a computer. For these reasons (and a multitude of others), bricks and mortar dealerships will be around for quite some time.

But clearly, the electronic age has had a pronounced impact on automotive retailing, and this impact will only intensify over the next several years. Armed with a broad array of information and a multitude of choices, consumers will increasingly demand that the entire shopping and purchase process emphasize their convenience, not the dealership's. And today's web-savvy consumers can force this outcome. How do dealerships align their operations to emphasize customer convenience? A list

of micro tactics is beyond the scope of this article, but the simple litmus test is to evaluate your processes and personnel to verify that you are showing true respect for your customers. Respect for their knowledge, respect for their potential collective impact on your business, and perhaps most importantly, respect for their time. In summary, the web has put empowered consumers behind the wheel. Successful dealers will be cooperative copilots who don't try to wrest control of the wheel.

WHO ARE MY TOP COMPETITORS?
-BY MARKET AREA?

WHAT NEW AND USED CARS SELL WELL IN MY MARKETS?

ANSWERS DRIVE RESULTS.

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