

Hawaii Auto Outlook™

Comprehensive information on the Hawaii automotive market

Special Report-New vehicle sales downturn and outlook for recovery

Market Continues Downward Slide in Second Quarter; Milder Decline Predicted for '09

The Hawaii new vehicle market has been bombarded with some formidable obstacles during the first half of 2008. Credit markets remained in turmoil, gas prices moved above \$4 per gallon, the unemployment rate increased, consumer spending eased, and demand shifted dramatically away from full sized trucks and SUVs to small cars. Not surprisingly, the market has succumbed to this near perfect storm, with new retail light vehicle registrations in the state declining 18.5% during the first half of this year versus a year earlier.

The burning question is where does the market go from here? Our short answer: up...eventually. As we have emphasized in past issues, the pieces should be in place for a rebound in new vehicle sales. The tricky part is pinpointing exactly when the recovery will begin. Auto Outlook believes that there are two primary impediments holding the market back. First, is the beleaguered state of household finances. Second, are surging fuel prices that have led to a rapid and revolutionary change in the fundamentals of consumer demand.

Number one roadblock to a rebound in new vehicle sales: Excessive household debt. The savings rate has been negative for several years, credit card delinquency rates are surging, and mortgage foreclosures are on the rise. Households are in for a significant round of financial belt-tightening that will lead to more funds being directed towards debt reduction, and less for spending.

The best hope for a quick turnaround in the current auto sales slump is a rapid restoration of household financial health. Unfortunately, rising inflation (and perhaps interest rates), a softening labor market, and declining net worth are likely to make this a lengthy process. And a likely slump in tourism will not help matters. Still, the resiliency of consumers has regularly caught economists by surprise in recent years. A premature opening of pocketbooks could give a boost to car sales sooner than expected.

Number two roadblock to a rebound in new vehicle sales: Rising fuel prices and shifting consumer demand. Clearly, higher prices at the pump put a damper

on discretionary retail spending, but that's just the start of the negative fallout for the new vehicle market. The recent surge in gas prices, combined with a well-founded belief that higher prices are here to stay, have fostered a revolutionary transition in demand away from larger trucks and towards smaller cars.

Two conditions of this transition have combined to put the brakes on new vehicle sales. First, at present, manufacturers cannot produce enough smaller and more fuel efficient vehicles to meet consumer demand. And second, rapidly declining resale values for large trucks and SUVs have left a significant number of would be new vehicle shoppers with negative equity, and as a result, they are financially unable to purchase a new vehicle. It will take time for these negative forces to ease.

Bottom line: The market will almost certainly reach its cyclical low point in 2009. Although sales are likely to head lower next year, the drop should be smaller than this year. 2010 should mark the beginning of a sustained recovery.

Market Highlights

Outlook for the rest of 2008: New retail light vehicle registrations predicted to decline 14.1% during the second half of this year versus a year earlier. 16.3% drop expected for the entire year.

2009 forecast: Given the unprecedented level of uncertainty in the economy and the auto industry, putting an exact number on Hawaii new vehicle sales in 2009 is very difficult. At this point, it would appear that the market will fall further, but the rate of decline should be smaller than this year. An increase is possible in 2010.

Recent results: Second Quarter 2008 new registrations were 11,918 units, a decline of 19.6% versus a year earlier.

Strong selling brands Subcompact Car market share in the state increased 8.2 points from January to June of this year.

Hybrid vehicle sales in state: Sales of hybrid powered vehicles increased 15% during the first half of 2008.

Market Summary

New Retail Light Vehicle Registrations 2007 History and 2008 Forecast

	2007	Forecast 2008	% ch. '07 to '08	Mkt. Share 2008
TOTAL	57,526	48,139	-16.3%	
Car	24,651	22,481	-8.8%	46.7%
Light Truck	32,875	25,658	-22.0%	53.3%
Big Three	13,416	10,233	-23.7%	21.3%
Japanese	36,602	31,445	-14.1%	65.3%
European	5,166	4,581	-11.3%	9.5%
Korean	2,342	1,880	-19.7%	3.9%

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

Source for historical data: AutoCount, an Experian Company.

Market Fundamentals

Current Market Downturn Paves the Way for Significant Improvement by 2010

As discussed on page one, new vehicle sales in Hawaii have followed a downward trend over the past several years, And it appears as though U.S. new vehicle sales will fall below the 15 million unit level for the first time in over 15 years. An unfortunate combination of negative forces is responsible for the market heading south:

- ▶ Credit crisis
- ▶ Declining real estate market
- ▶ Record high fuel prices
- ▶ Slowing economy
- ▶ Rising unemployment
- ▶ Elevated household debt levels

In addition to these economic forces, an extended period of strong sales in the past decade (largely fueled by unsustainably aggressive manufacturer incentives) made the market vulnerable to a downturn. As reported previously, Auto Outlook had pegged the low point for a cyclical downturn in sales around the 15 million unit level. The near perfect storm

that the industry now faces could push sales below this estimated floor.

On one hand, this pointedly illustrates the severity of the current slump. Combined with excess production capacity, highly strained retail profitability, and dramatic and sudden shift toward smaller, more fuel efficient vehicles, it's easy to see why the market weakness has hit dealers especially hard.

On the other hand, the extent to which sales have fallen below long term trend levels will pave the way for improvement. Succinctly, the market simply cannot get much worse, and it's inevitable that sales will swing back upward. During tough economic times such as these, vehicle purchases are postponed. This phenomena is referred to as pent-up-demand, reflecting the fact that when economic conditions improve, new vehicle sales receive an added boost from these postponed purchases. Recent analysis conducted by CNW Research estimates that

the level of pent up demand reached 400,000 units in early 2008, the highest level in over 18 years! And pent-up-demand will almost certainly head even higher before the end of this year.

As discussed on page one, the primary stumbling blocks for a recovery in sales are the ailing health of household balance sheets and the pronounced shift in demand for smaller vehicles, which on many levels, has turned the market upside down. It will take some time for these negative forces to be alleviated, which will likely prevent a significant rebound in new vehicle sales next year. But the steadily increasing number of more fuel efficient, hybrid and alternative powertrain vehicles will almost certainly stoke consumer demand. And by 2010 and 2011, these product offerings will hit at a time when household finances should be in much better shape. Sales of 17 million units or more is a definite possibility by 2011.

Hybrid Vehicle Spotlight

Hawaii Hybrid Vehicle Sales Increase 15% During First Half of 2008

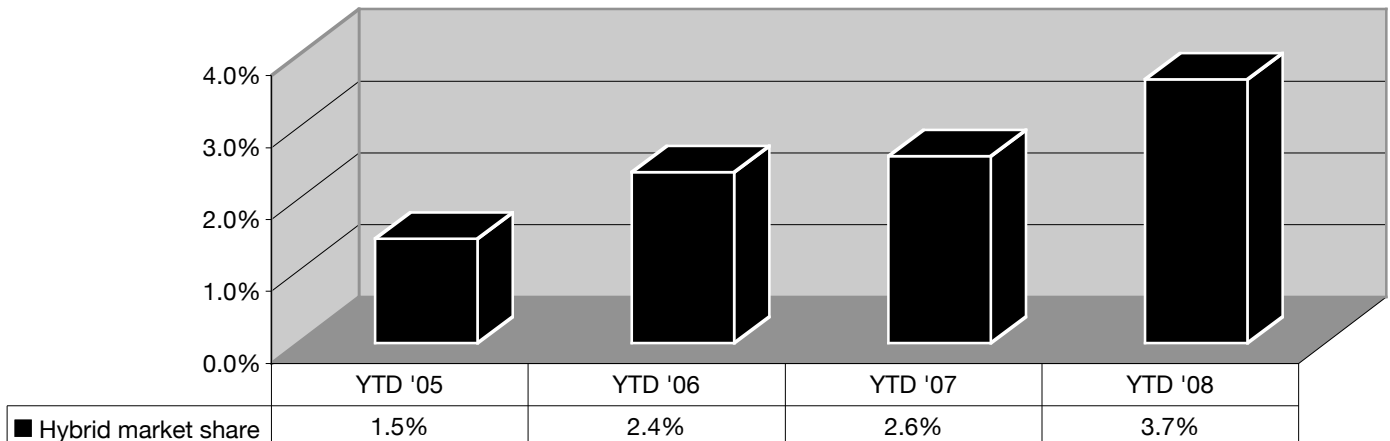
With gasoline prices moving above the \$4 per gallon level, hybrid powertrain vehicles have increasingly found their way on consumer shopping lists. Combined with an increasing number of models hitting the market, hybrid vehicle sales increased 15% during the first six months of this year versus the same period a year earlier, while the overall market declined sharply. Hybrid sales were up over 67% from the

first half of 2005. However, due partly to a battery supply shortage, hybrids still account for a relatively small percentage of the state market, just 3.7% during the first half of this year.

Most analysts believe that hybrid sales are poised to take off. Indeed, the combination of higher gas prices, increasing hybrid offerings, eventual usage of

lithium-ion batteries, enhanced environmental consciousness, and increasingly stringent fuel economy and emissions regulations make an expansion of hybrid sales a near certainty. However, there's a limit to the premium that increasingly cost-conscious consumers will pay. The industry needs to remain mindful of this fact as the hybrid revolution unfolds over the next several years.

Hybrid Vehicle Share of Hawaii New Retail Market - YTD thru June, 2005 thru 2008

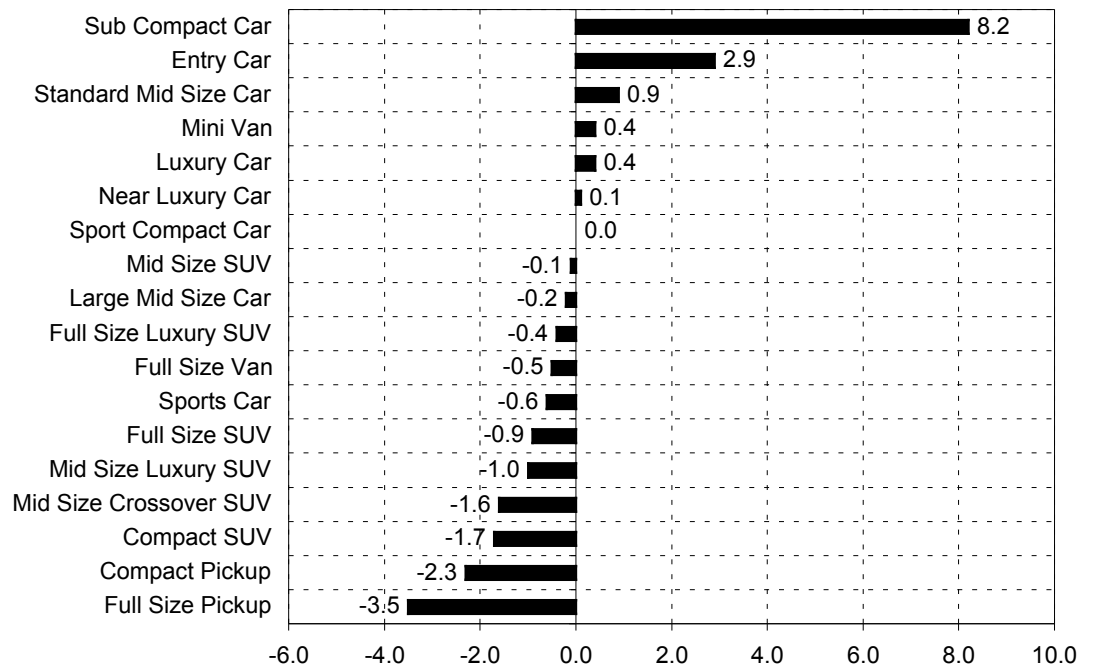


Segment Watch

Sub Compact Car Market Share Surges Ahead During 2008

During the first half of this year, the industry has dealt with the dramatic and abrupt shift in consumer demand away from trucks and SUVs towards smaller, more fuel efficient vehicles. Typically, the graph on the right would present the year-to-date change in market share versus a year earlier, but given the significant changes that have taken place from quarter-to-quarter, and even month-to-month during the first half of this year, we have shortened the comparative time period. The graph shows the change in market share for 18 primary segments from January of this year to June, and the results are definitely eye-opening. Sub Compact Car market share increased a substantial 8.2 share points, while Full Size Pickup share declined 3.5 points.

Change in Segment Market Share - June 2008 vs. January 2008



County Close-Up

Oahu Market Posts Smallest Decline in First Half of 2008

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 six months of 2007 and 2008 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 half of this year. The top rated county in each category is shaded.

	New Vehicle Markets Summary				
	Local Markets				Statewide Total
	Hawaii	Kauai	Maui	Oahu	
Market Summary					
YTD '07 (thru June)	4,039	1,433	3,750	20,027	29,249
YTD '08 (thru June)	3,043	1,111	2,768	16,917	23,839
Percent change	-24.7%	-22.5%	-26.2%	-15.5%	-18.5%
Light Truck Market Share					
YTD '07 (thru June)	63.8%	71.0%	66.7%	53.1%	57.2%
YTD '08 (thru June)	59.1%	67.1%	65.6%	49.1%	53.1%
Change (share points)	-4.7	-3.9	-1.1	-4.0	-4.1
Big Three Market Share					
YTD '07 (thru June)	26.3%	31.2%	30.2%	22.8%	24.6%
YTD '08 (thru June)	22.1%	29.9%	26.8%	21.0%	22.2%
Change (share points)	-4.2	-1.3	-3.4	-1.8	-2.4
Market Share for Top 10 Selling Brands in State - YTD '08 thru June					
Toyota/Scion	30.0%	27.4%	31.2%	26.9%	27.8%
Honda	22.6%	15.5%	13.9%	12.6%	14.2%
Nissan	7.6%	14.5%	11.2%	12.9%	12.1%
Ford	7.4%	8.6%	15.2%	6.3%	7.6%
Chevrolet	4.4%	6.8%	3.6%	4.5%	4.5%
Dodge	4.0%	6.1%	3.1%	2.9%	3.2%
Mazda	5.8%	4.3%	2.3%	2.7%	3.2%
Lexus	0.6%	0.7%	2.8%	3.8%	3.1%
BMW	0.5%	0.3%	3.1%	3.0%	2.6%
Mercedes	0.8%	0.3%	1.4%	2.9%	2.3%

Observations: Registrations declined in each of the four markets, with the smallest decline in Oahu (down 15.5%) and the largest in Maui (down 26.2%). Light Truck market share declined in each of the four markets. Honda market share was 22.6% on the Big Island.

Source: AutoCount data from Experian Automotive.

Hawaii New Retail Car and Light Truck Registrations - History and Forecast						
	Registrations			Market Share (%)		
		Forecast	% change		Forecast	Change
	2007	2008	'07 to '08	2007	2008	'07 to '08
TOTAL	57,526	48,139	-16.3%			
Acura	784	588	-25.0%	1.4	1.2	-0.2
Audi	274	226	-17.5%	0.5	0.5	0.0
BMW	1,364	1,200	-12.0%	2.4	2.5	0.1
Buick	118	73	-38.1%	0.2	0.2	0.0
Cadillac	311	249	-19.9%	0.5	0.5	0.0
Chevrolet	2,802	2,116	-24.5%	4.9	4.4	-0.5
Chrysler	490	370	-24.5%	0.9	0.8	-0.1
Dodge	2,041	1,493	-26.8%	3.5	3.1	-0.4
Ford	4,512	3,595	-20.3%	7.8	7.5	-0.3
GMC	784	576	-26.5%	1.4	1.2	-0.2
Honda	7,688	7,128	-7.3%	13.4	14.8	1.4
Hummer	236	94	-60.2%	0.4	0.2	-0.2
Hyundai	1,155	895	-22.5%	2.0	1.9	-0.1
Infiniti	543	465	-14.4%	0.9	1.0	0.1
Isuzu	126	101	-19.8%	0.2	0.2	0.0
Jaguar	126	142	12.7%	0.2	0.3	0.1
Jeep	845	659	-22.0%	1.5	1.4	-0.1
Kia	1,187	985	-17.0%	2.1	2.0	-0.1
Land Rover	138	102	-26.1%	0.2	0.2	0.0
Lexus	1,768	1,333	-24.6%	3.1	2.8	-0.3
Lincoln	236	208	-11.9%	0.4	0.4	0.0
Mazda	1,922	1,605	-16.5%	3.3	3.3	0.0
Mercedes	1,172	1,042	-11.1%	2.0	2.2	0.2
Mercury	109	84	-22.9%	0.2	0.2	0.0
MINI	393	455	15.8%	0.7	0.9	0.2
Mitsubishi	313	217	-30.7%	0.5	0.5	0.0
Nissan	7,043	5,984	-15.0%	12.2	12.4	0.2
Pontiac	232	190	-18.1%	0.4	0.4	0.0
Porsche	191	131	-31.4%	0.3	0.3	0.0
Saab	130	89	-31.5%	0.2	0.2	0.0
Saturn	700	526	-24.9%	1.2	1.1	-0.1
Subaru	286	285	-0.3%	0.5	0.6	0.1
Suzuki	456	307	-32.7%	0.8	0.6	-0.2
Toyota/Scion	15,673	13,432	-14.3%	27.2	27.9	0.7
Volkswagen	918	792	-13.7%	1.6	1.6	0.0
Volvo	349	306	-12.3%	0.6	0.6	0.0
Others	111	96	-13.5%	0.2	0.2	0.0

Historical Data Source: AutoCount, an Experian Company. Forecast: Auto Outlook.

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Published by:
Auto Outlook, Inc.
5 Great Valley Parkway, Suite 234
Malvern, PA 19355
Phone: 800-206-0102
Email: jfoltz@autooutlook.com

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Hawaii Automobile Dealers Association
1100 Alakea Street
Suite 2601
Honolulu, HI 96813