Economic Outlook

Maui Chamber of Commerce

April 20, 2007

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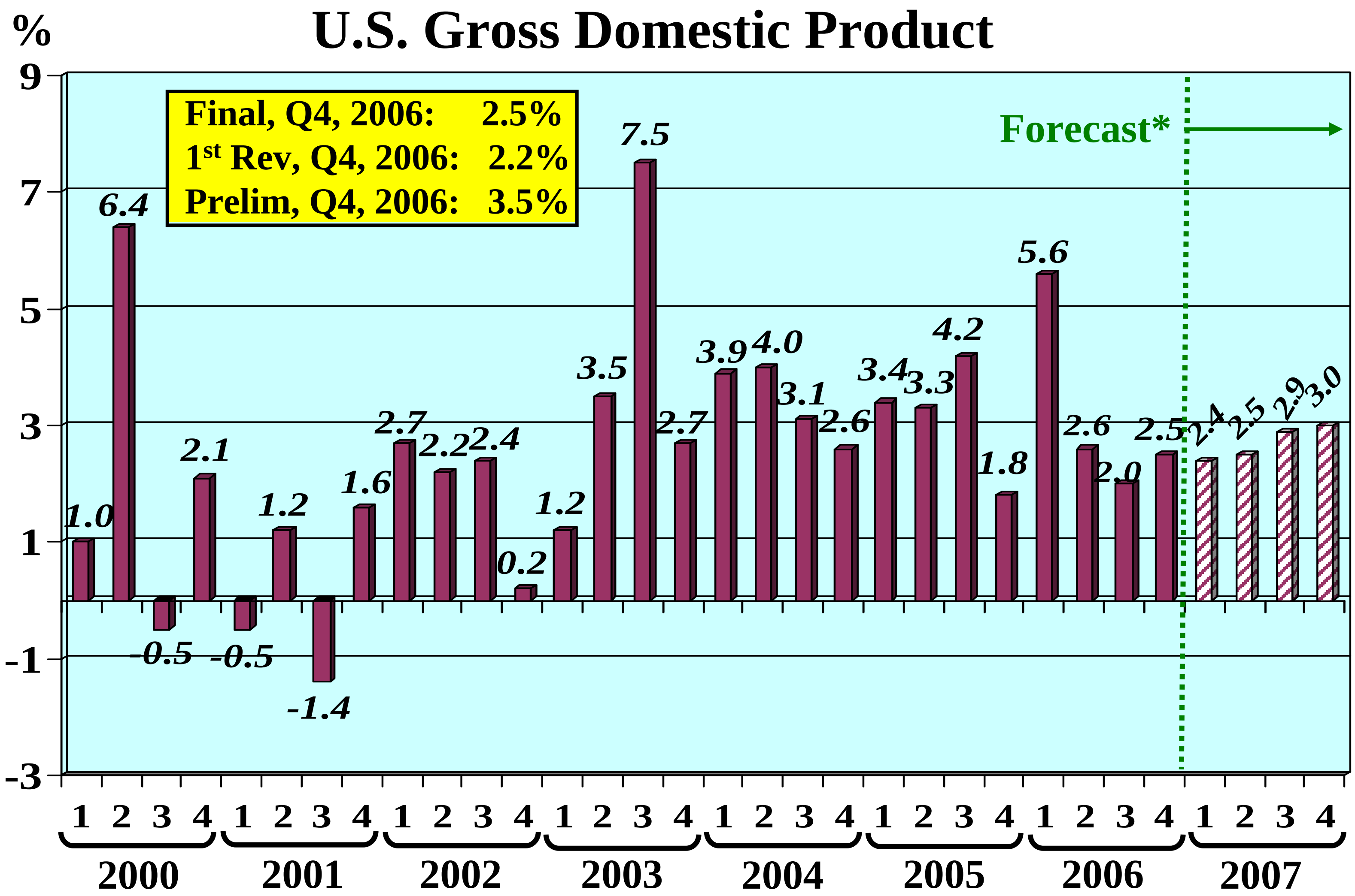
National Economy

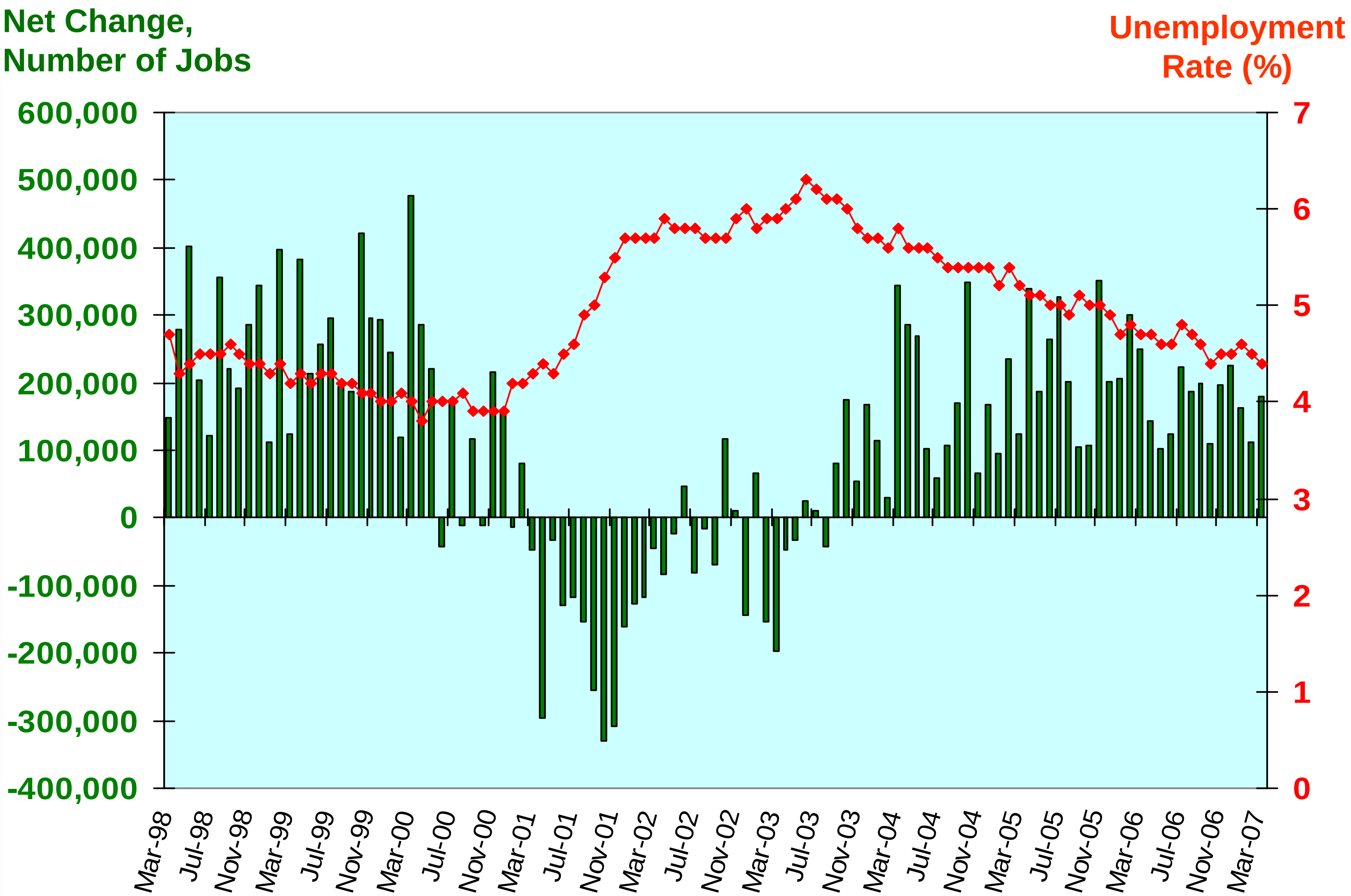
Economic Growth Moderate; No Recession



* Forecast: Bloomberg Median Forecast, Survey period: Mar. 1 – Mar. 7, 2007.

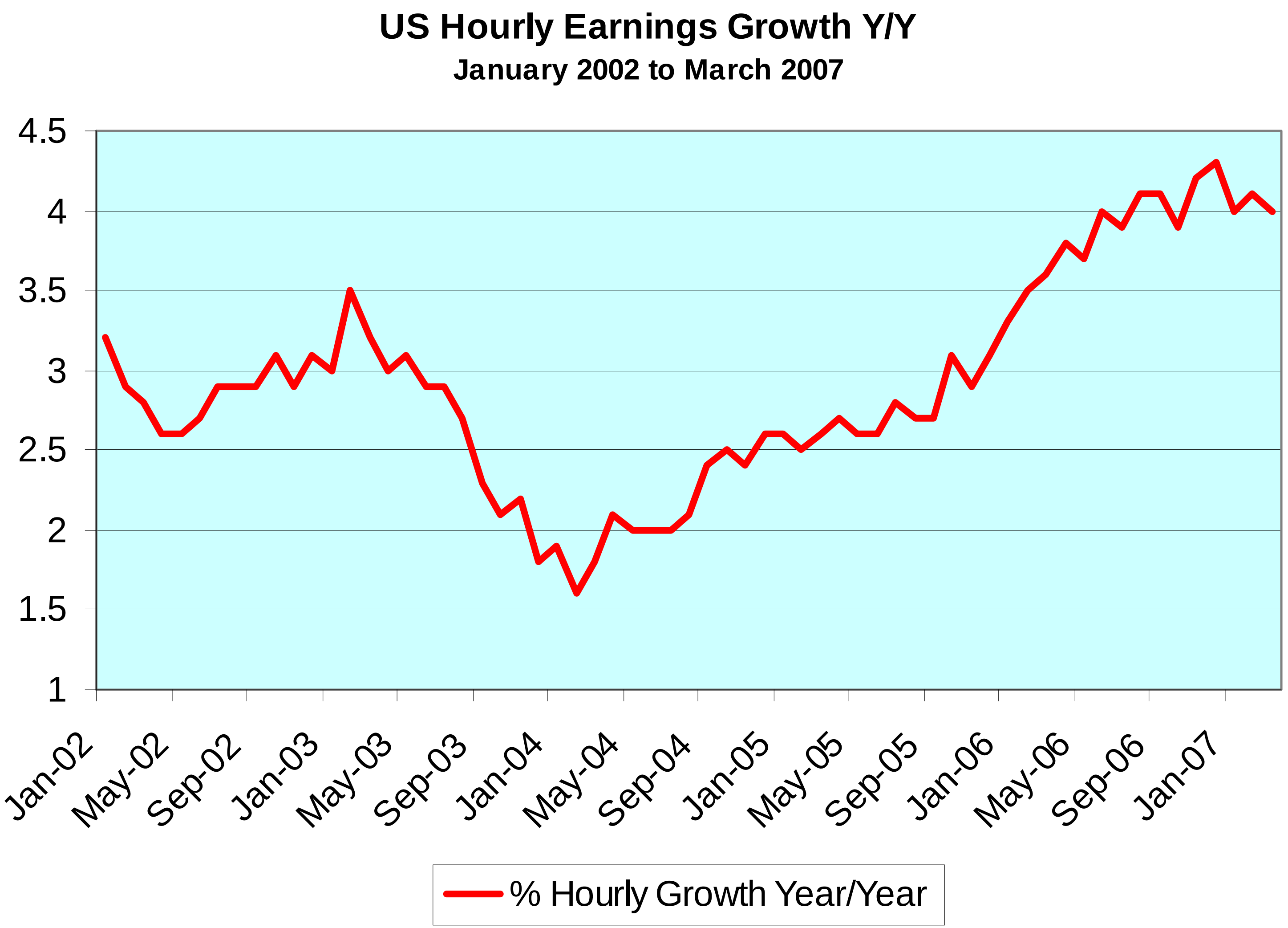
Source: Bloomberg, Mar. 29, 2007 (Includes benchmark revisions, 2003 – 2006)

Jobs Market Remains Strong



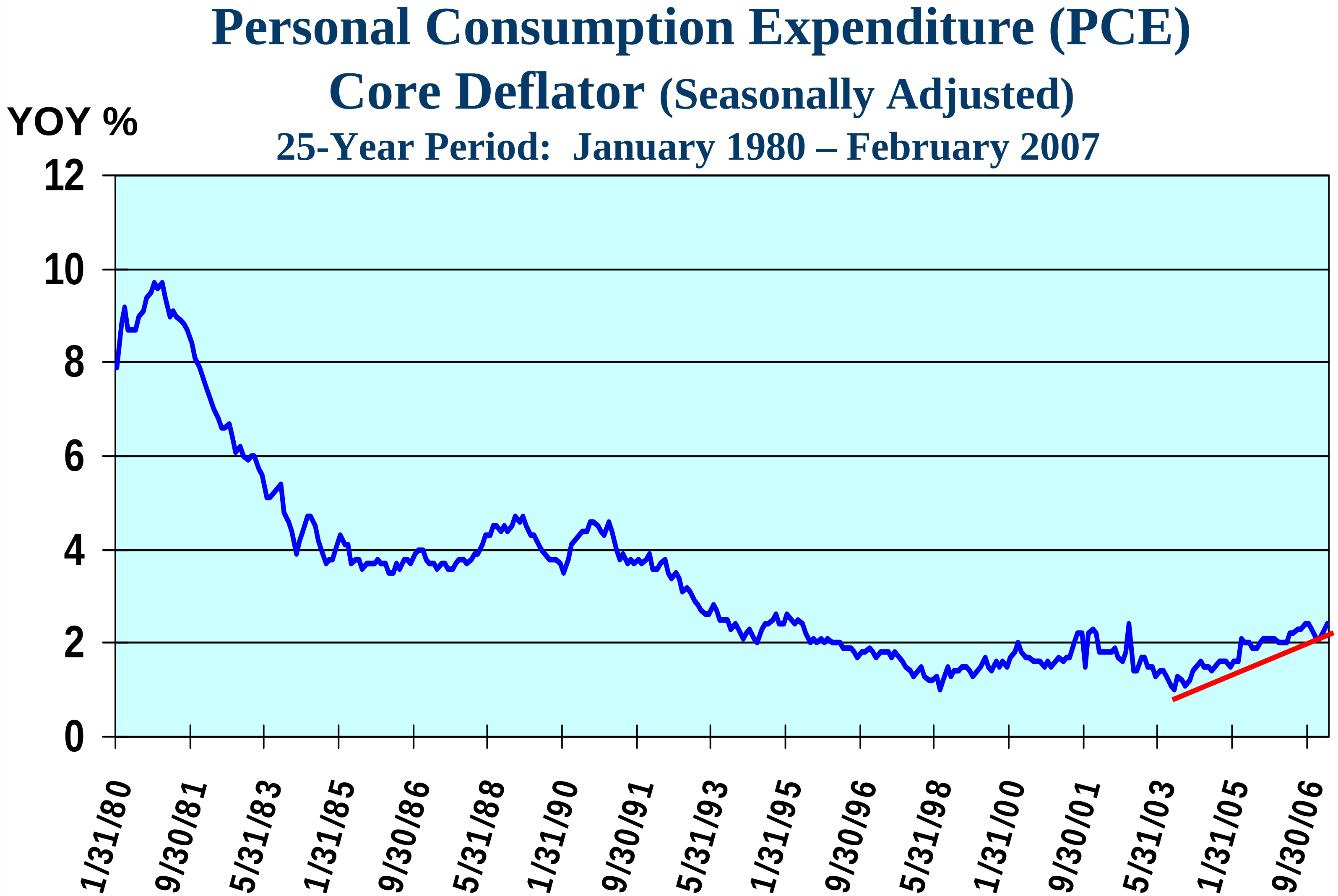
Source: Bloomberg, April 9, 2007 (Includes benchmark revisions, Jan 2002 – Dec 2006)

Growth of Hourly Earnings Still High



Source: Bloomberg, April 9, 2007

Inflation of 2.4% Above Fed's Target Range of 1.0% to 2.0%.

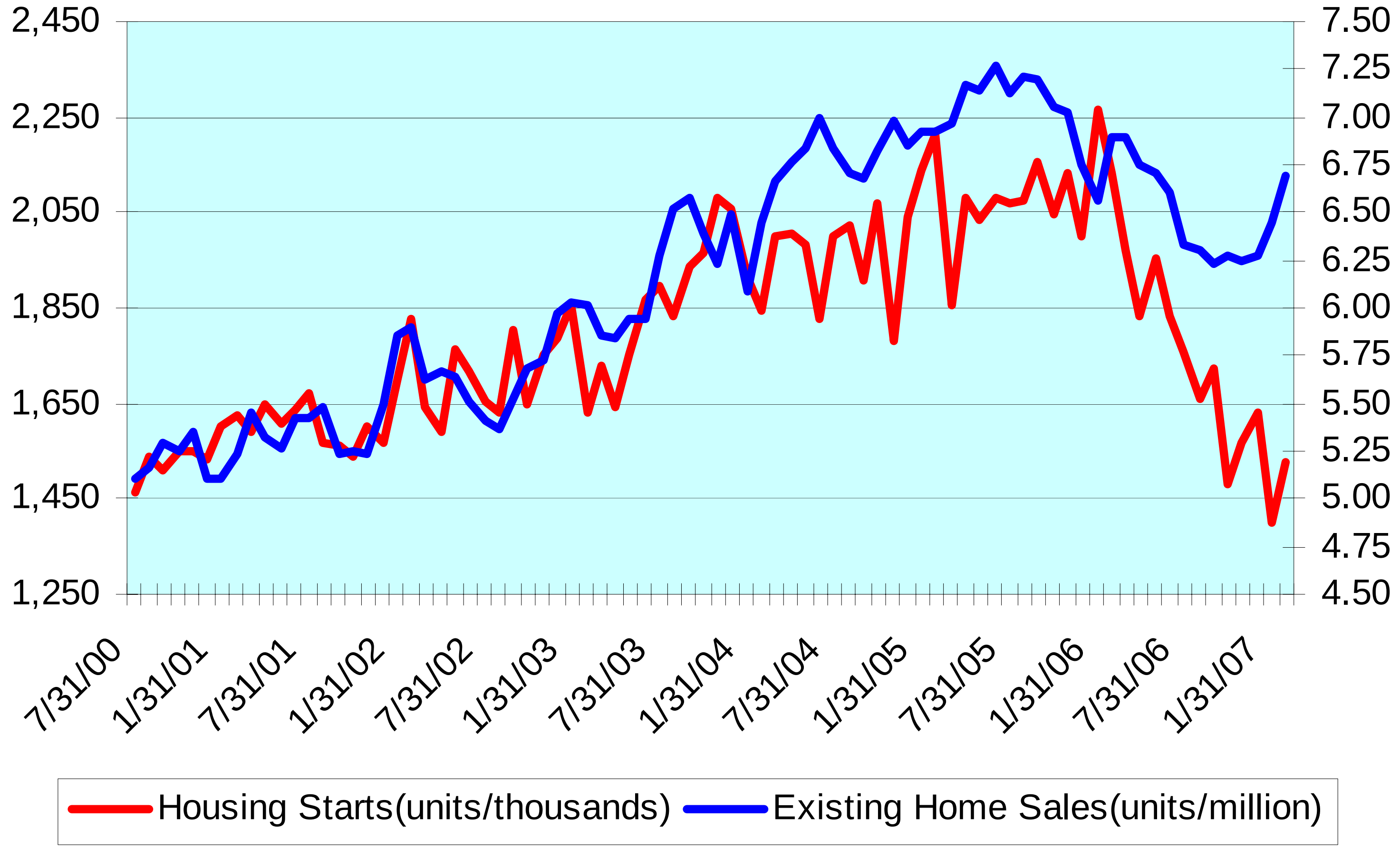


Source: Bloomberg, April 9, 2007

Major Housing Correction

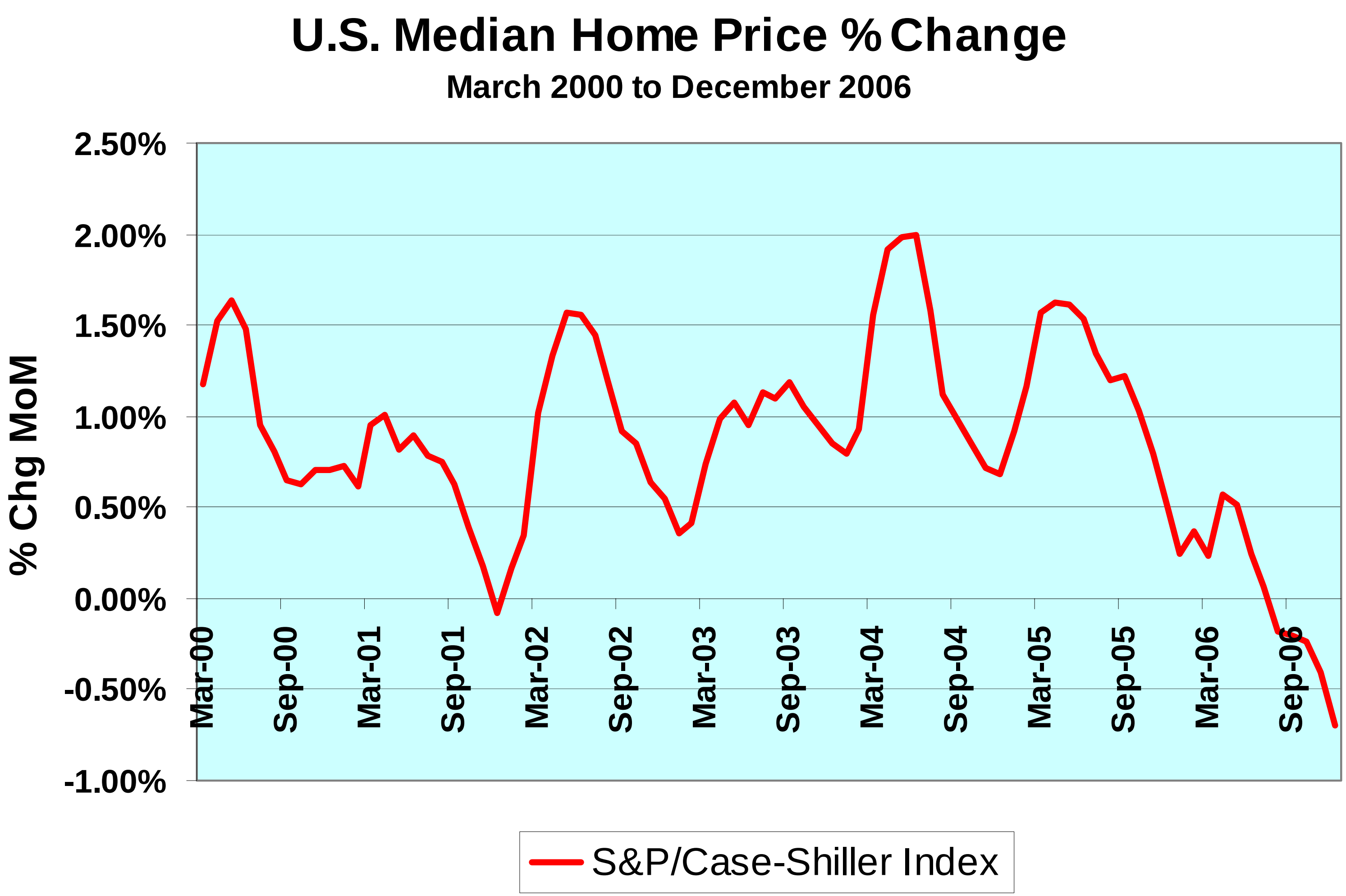
EXISTING HOME SALES/HOUSING STARTS*

OCTOBER 2000 TO FEBRUARY 2007



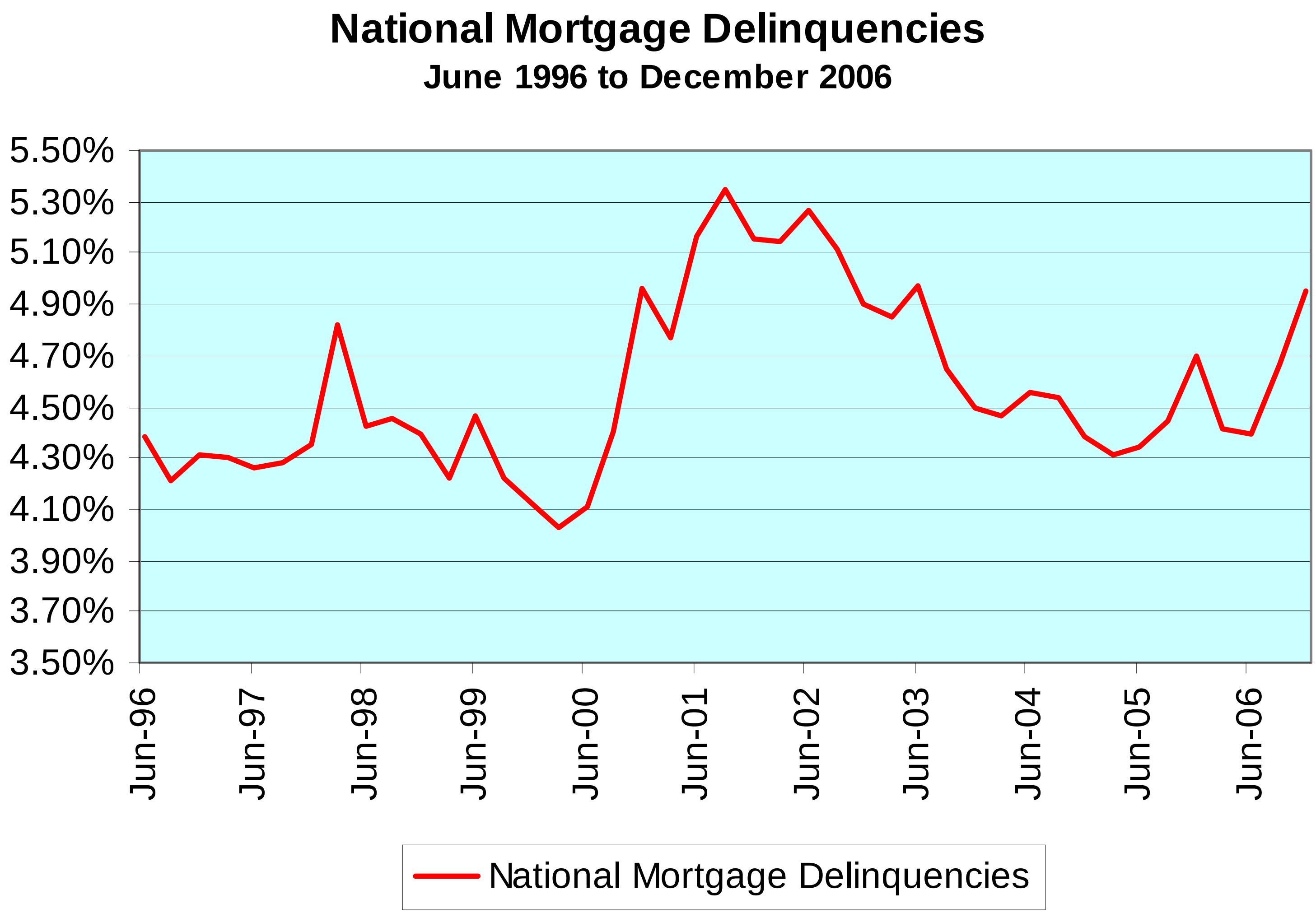
***Source: National Association of Realtors and Dept. of Commerce**

Home Prices Are Falling



Source: Bloomberg Feb. 28, 2007

Residential Mortgage Delinquencies Rising; Sub-Prime Loans Big Problem



Source: Mortgage Bankers Association

Banks Tightening Credit; Economic Growth May Slow

KBW

"Classic" Credit Cycle

Lenders / Market / Regulators React

- Underwriting Tightens
  - 80-20 Subprime
  - First Time Homebuyers
  - 100% Financing
  - Qualify Below Fully Indexed Rate
- Regulatory Oversight Increases
  - FMT Cease and Desist
  - Capital and Reserve Scrutiny

Market Corrects

- Fewer Borrowers Qualify
  - 2005 Vintage Subprime → 2007
  - 2006 Vintage Subprime → 2008

Impacts

- Further Credit Tightening
- Home Prices / Sales Volumes
- Consumer Spending

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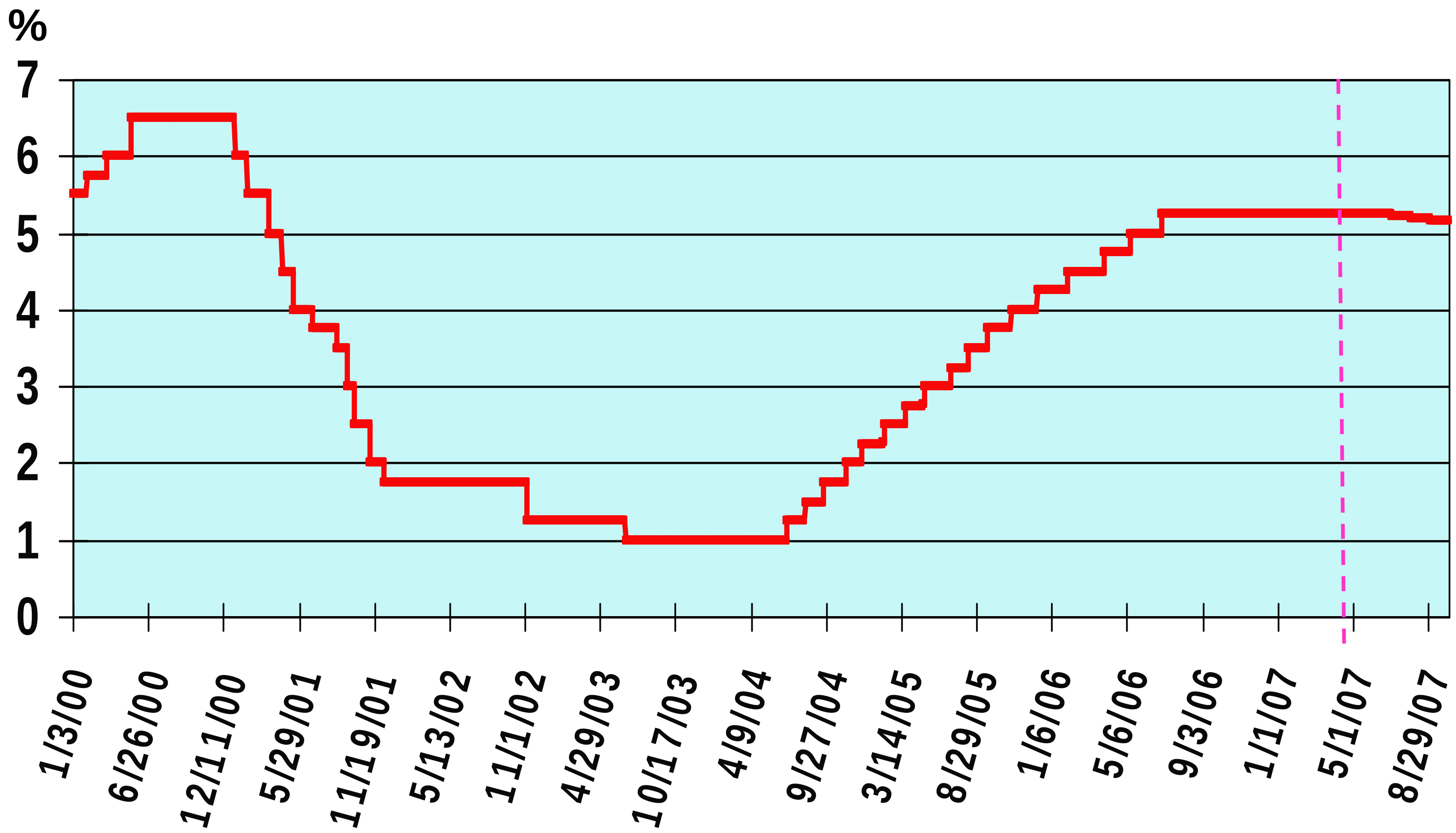
Change in Fed Bias; Next Rate Move Most Likely Easing

Fed Funds Target Rate: Historical and Projected



Source (Historical and Projected): Bloomberg, April 9, 2007

National Outlook:

- Despite weaker housing market, consumer spending remains good
  - No U.S. recession expected
  - Economic growth 2.0% to 2.5%
  - Job growth remains strong
- Inflation a little higher than past few years, but not a problem
  - Wage pressures increase due to low unemployment rate
  - Slowing economy and lower commodity prices may reduce inflationary pressures
- Federal Reserve may ease if the economy falters
  - Fed will favor economic growth over inflation concerns

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State and Maui County

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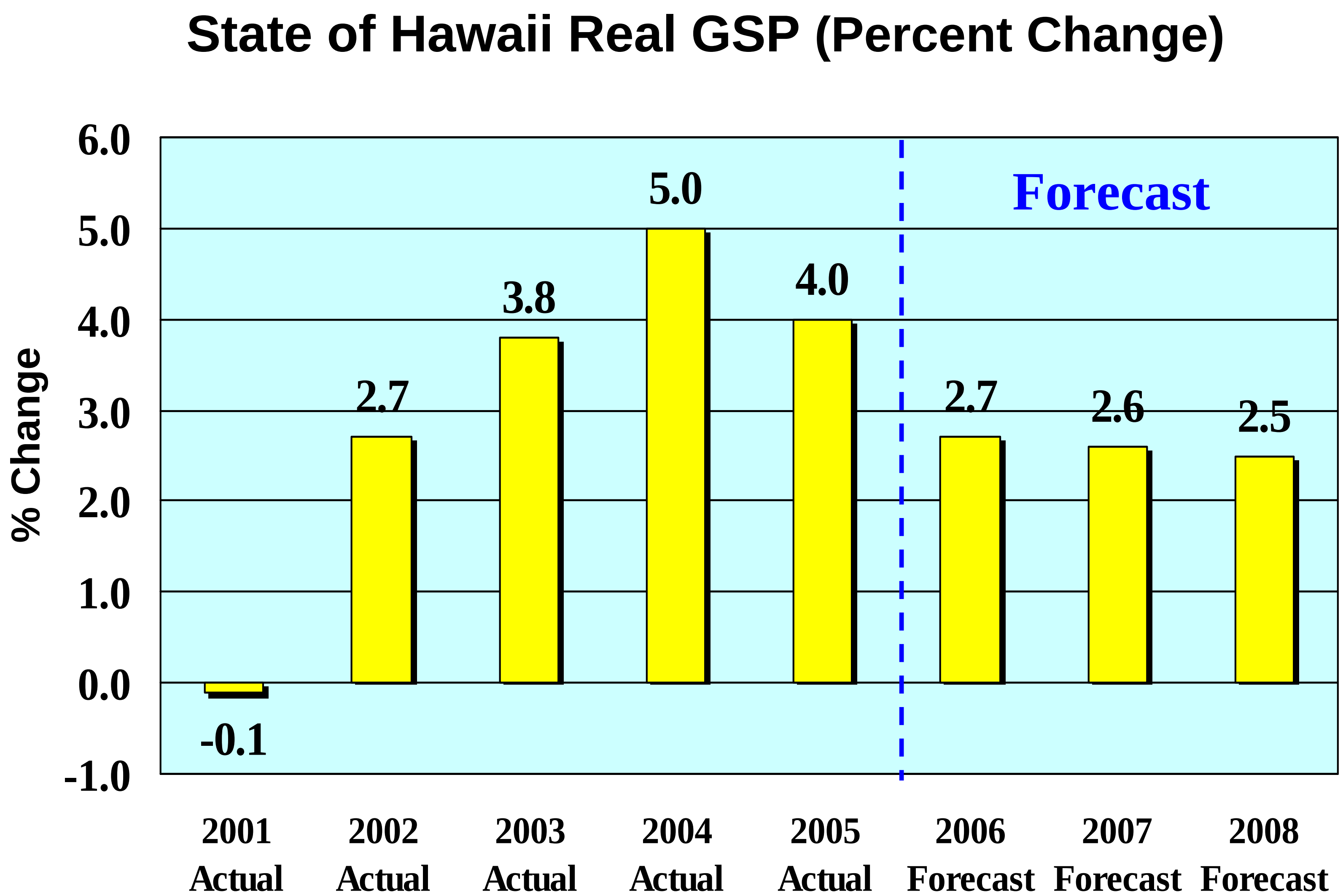
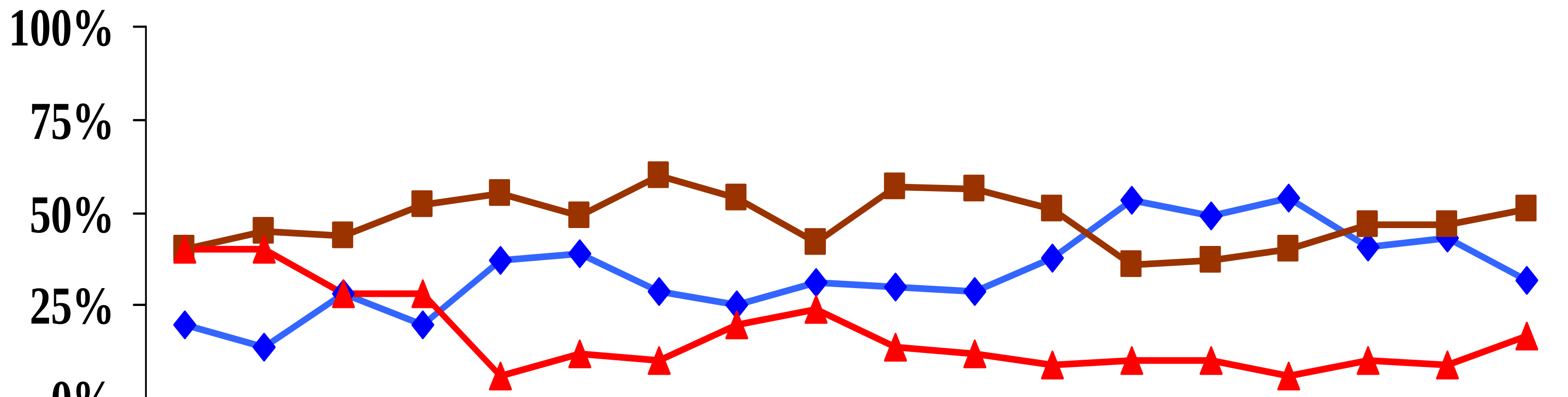
Hawaii's economy continues to grow, but at a slower pace due to capacity constraints.



Source: DBEDT, February 28, 2007

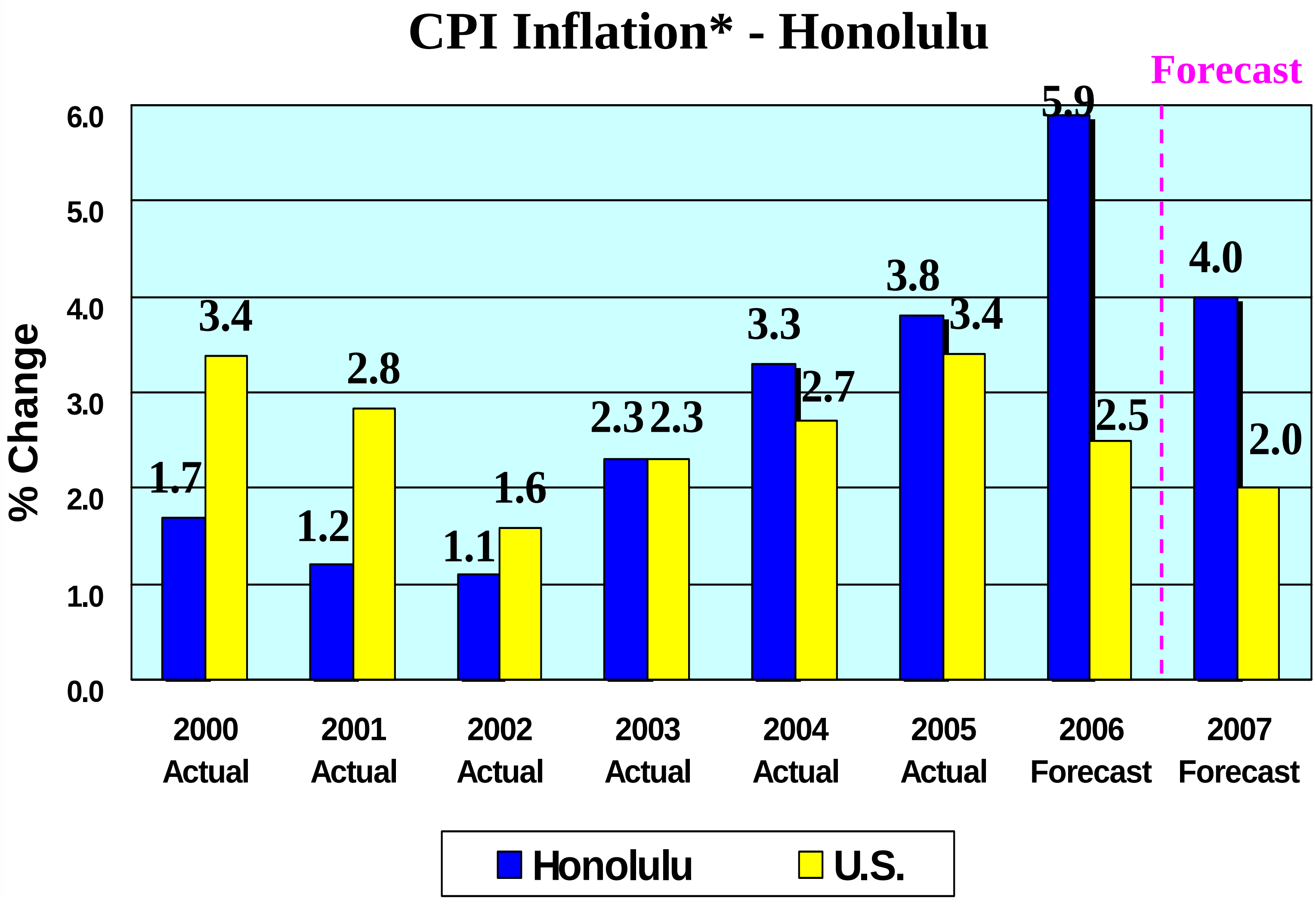
Business Banking Council Economic Outlook Survey



	2nd Qtr 98	3rd Qtr 98	1st Qtr 99	2nd Qtr 99	1st Qtr 00	2nd Qtr 00	1st Qtr 01	2nd Qtr 01	1st Qtr 02	2nd Qtr 02	1st Qtr 03	2nd Qtr 03	1st Qtr 04	2nd Qtr 04	1st Qtr 05	2nd Qtr 05	1st Qtr 06	2nd Qtr 06
Improve	20%	14%	28%	20%	37%	39%	29%	25%	31%	30%	29%	38%	53%	49%	54%	41%	43%	32%
Same	40%	45%	44%	52%	55%	49%	60%	54%	42%	57%	56%	51%	36%	37%	40%	47%	47%	51%
Worse	40%	40%	28%	28%	6%	12%	10%	20%	24%	14%	12%	9%	10%	10%	6%	10%	9%	17%

•Business Banking Council Economic Indicator Survey of Businesses- Aug. 2006

Inflation is projected to be higher than the nation due to higher energy, housing, and labor costs in Hawaii.



* CPI - All items, Not seasonally adjusted

Sources: DBEDT (Jan, 2007), Bloomberg Median Forecast (Feb. 9, 2007)

Hawaii's inflation has accelerated over the past 12 months as Housing and Transportation costs have risen significantly.

Table B-9. HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U) - Con.

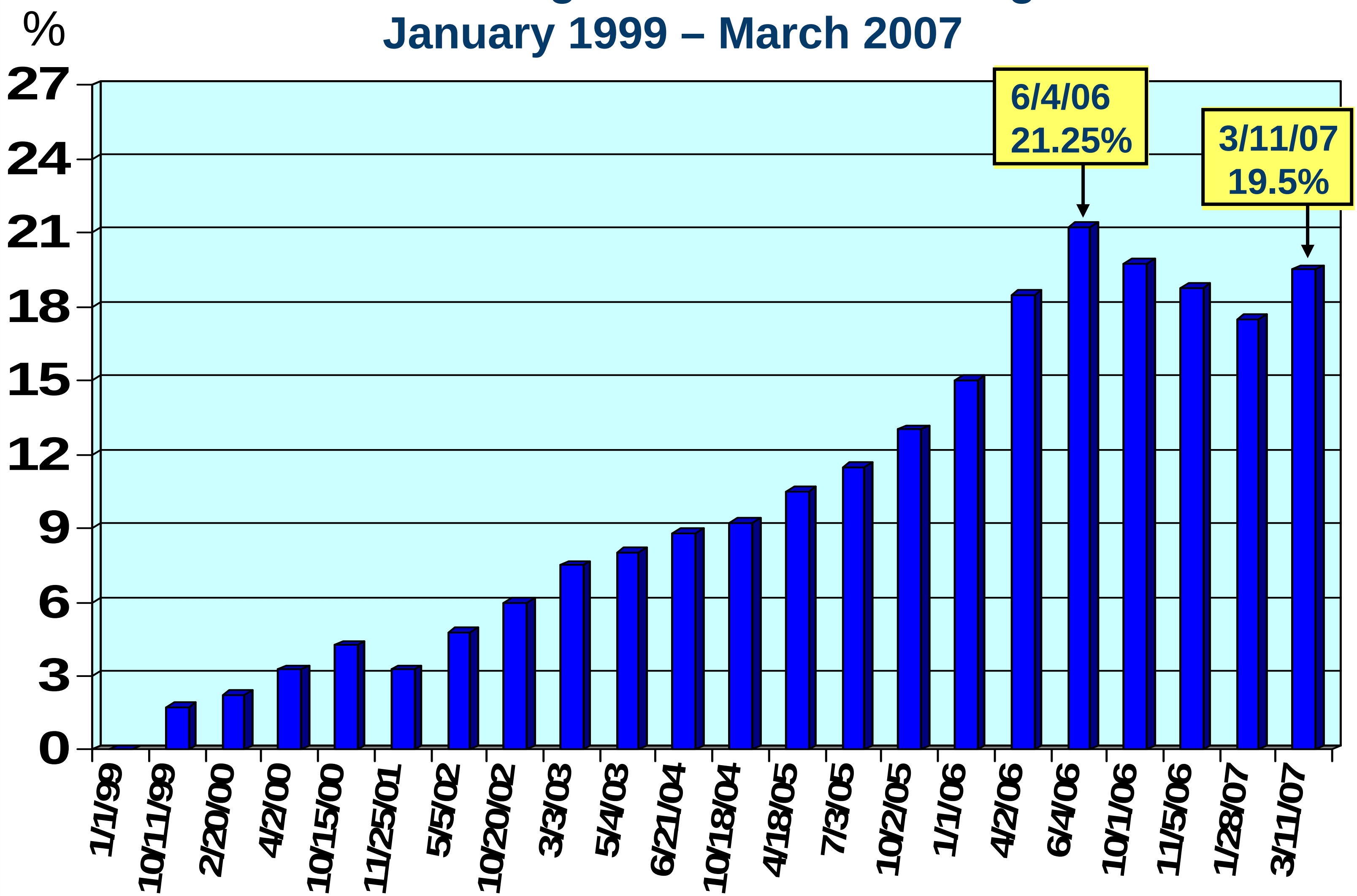
		Honolulu								
Period	***U.S.***	*All Items*	*Food & Beverages*	*Housing*	*Apparel*	*Transpor-tation*	*Medical Care*	*Recre-ation 1/*	*Educ. & Comm. 1/*	*Other Goods & Services*
Percentage Change from the Same Period in Previous Year										
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	(2/)	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	(2/)	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	(2/)	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	(2/)	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	(2/)	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	(2/)	3.4	-0.3	3.5

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.
NA Not available.
1/ New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.
2/ No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.
Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <http://data.bls.gov/cgi-bin/dsrv> and BLS Honolulu CPI News Releases and <http://www.bls.gov/ro9/cpihono.htm> accessed February 21, 2007.

Source: DBEDT, February 28, 2007

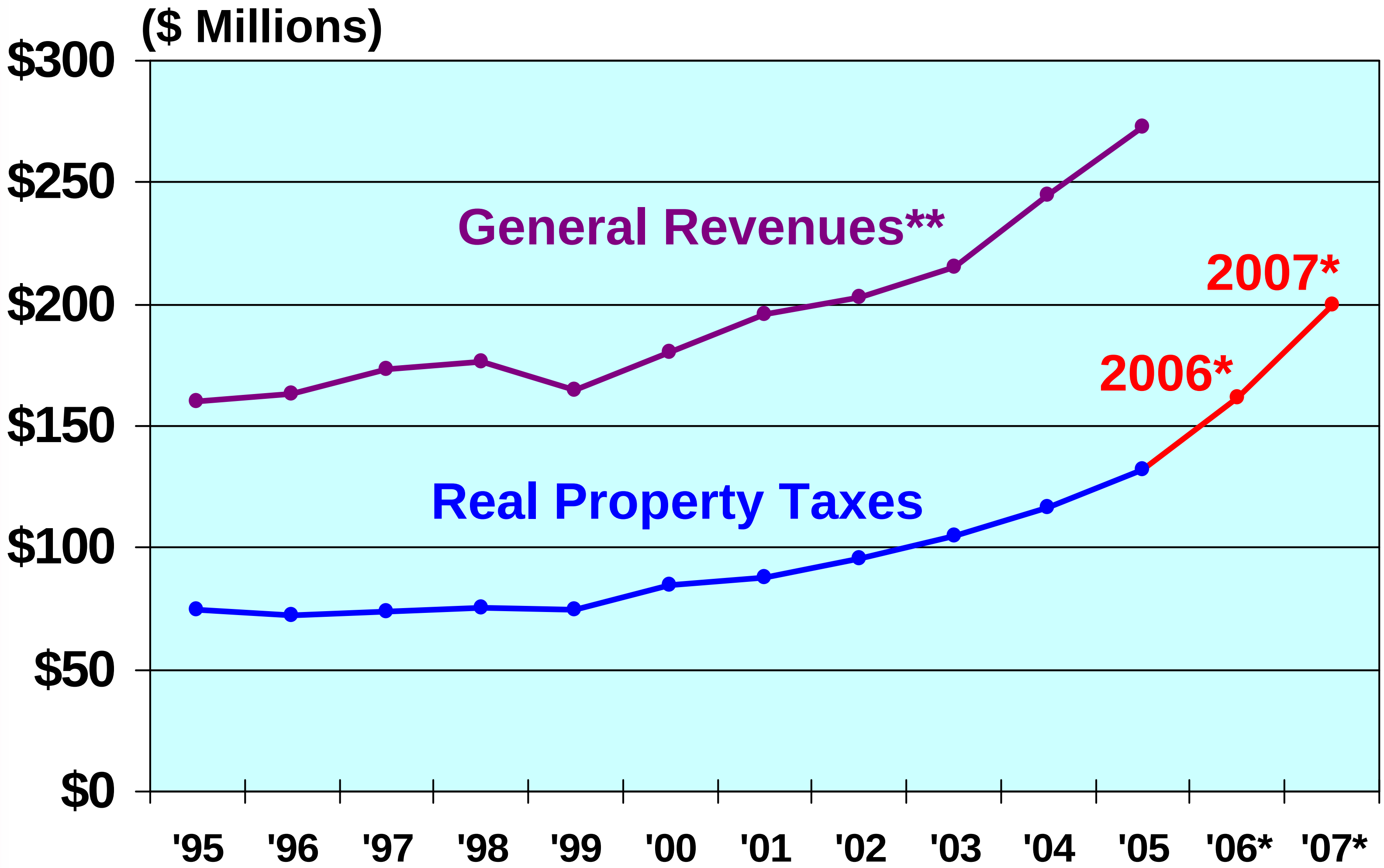
After steady declines in fuel prices in late 2006 and early 2007, current trends have increased fuel costs for Hawaii shippers.

Matson Navigation's Fuel Surcharge
January 1999 – March 2007



Source: Honolulu Advertiser, Oct. 18, 2006, Jan. 23, 2007, Feb. 21, 2007.

Maui County: General Revenues vs. Real Property Taxes
1995 – 2007*



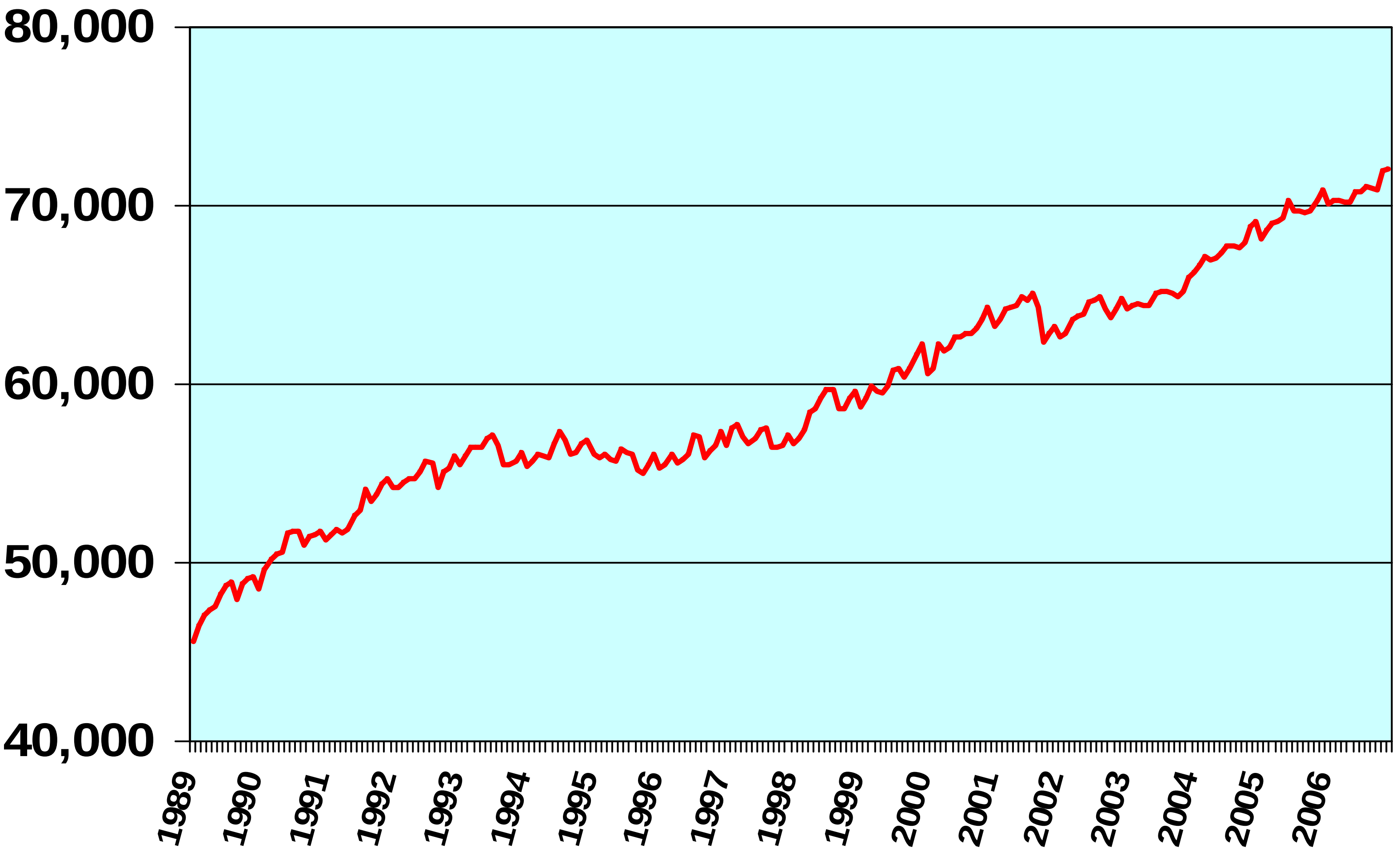
* 2006 & 2007: Proposed Budget - Fiscal Year 2007, County of Maui

** Includes General, Special Revenue, and Debt Service Funds.

Source: County of Maui, Dept. of Finance, Comprehensive Annual Financial Report

Maui County: Total Wage and Salary Jobs

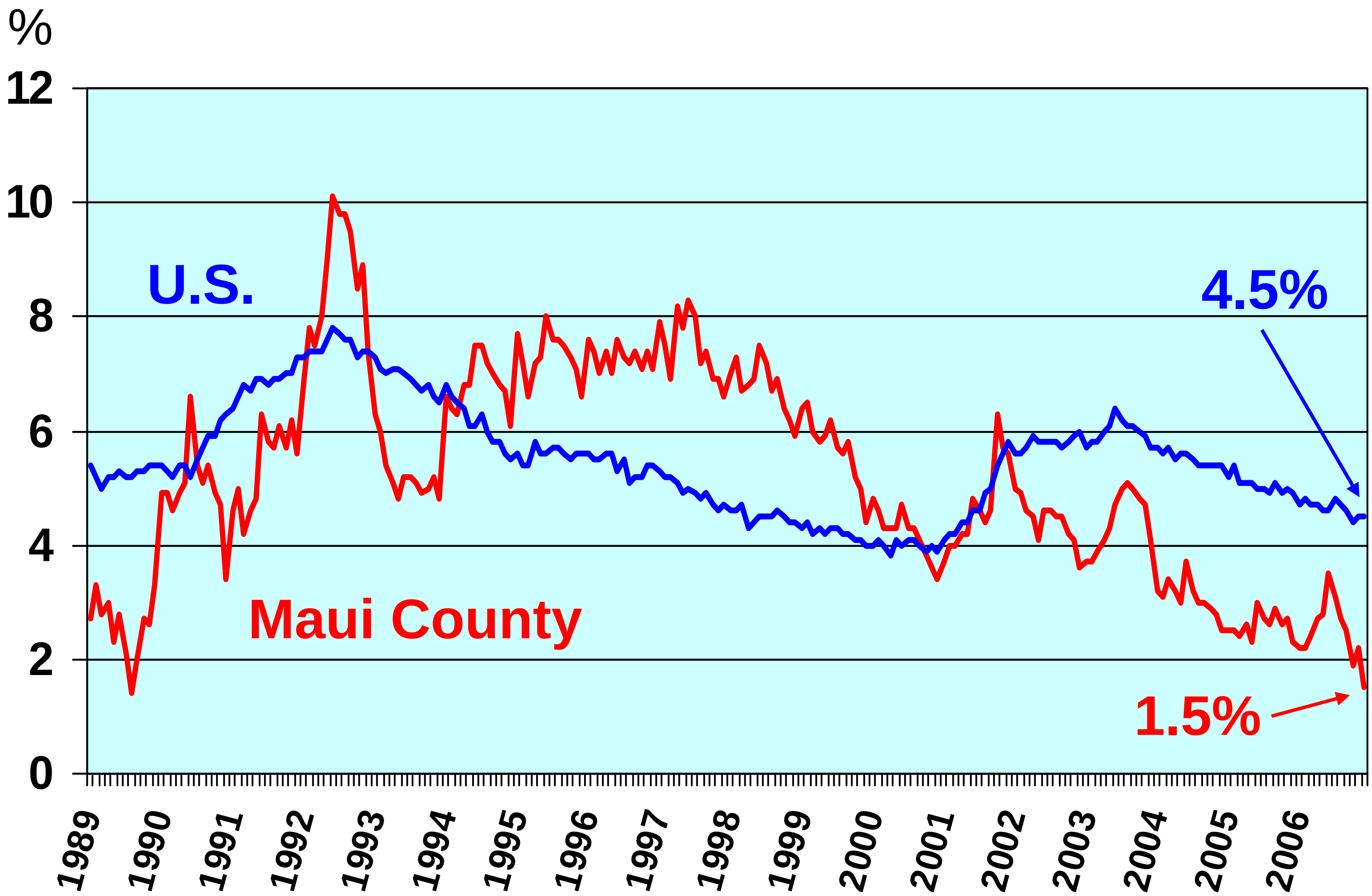
January 1989 – December 2006



Source: DBEDT, February 2007

Maui County: Unemployment Rate

January 1989 –December 2006



Sources: Bloomberg, DBEDT, February 2007

County of Maui
Job Growth by Major Economic Sector

Data Source: DBEDT, February 2007

	% Of Total Employment (Dec. 2006)	Dec. 2005 – Dec. 2006 % Change	5-Year Avg. Annual % Change
Total	100.0%	1.9%	3.0%
Construction	6.1%	7.4%	7.4%
Manufacturing	2.2%	6.9%	-1.1%
Trade, Transp, Utilities	21.1%	1.0%	2.9%
Information	1.1%	-11.1%	-3.1%
Financial Services	4.3%	0.0%	3.7%
Prof & Business Services	8.8%	3.3%	4.8%
Education & Health Services	8.0%	0.0%	4.0%
Leisure & Hospitality	31.8%	2.3%	2.9%
Other Services	3.9%	-3.5%	2.4%
Government	12.7%	2.3%	1.6%

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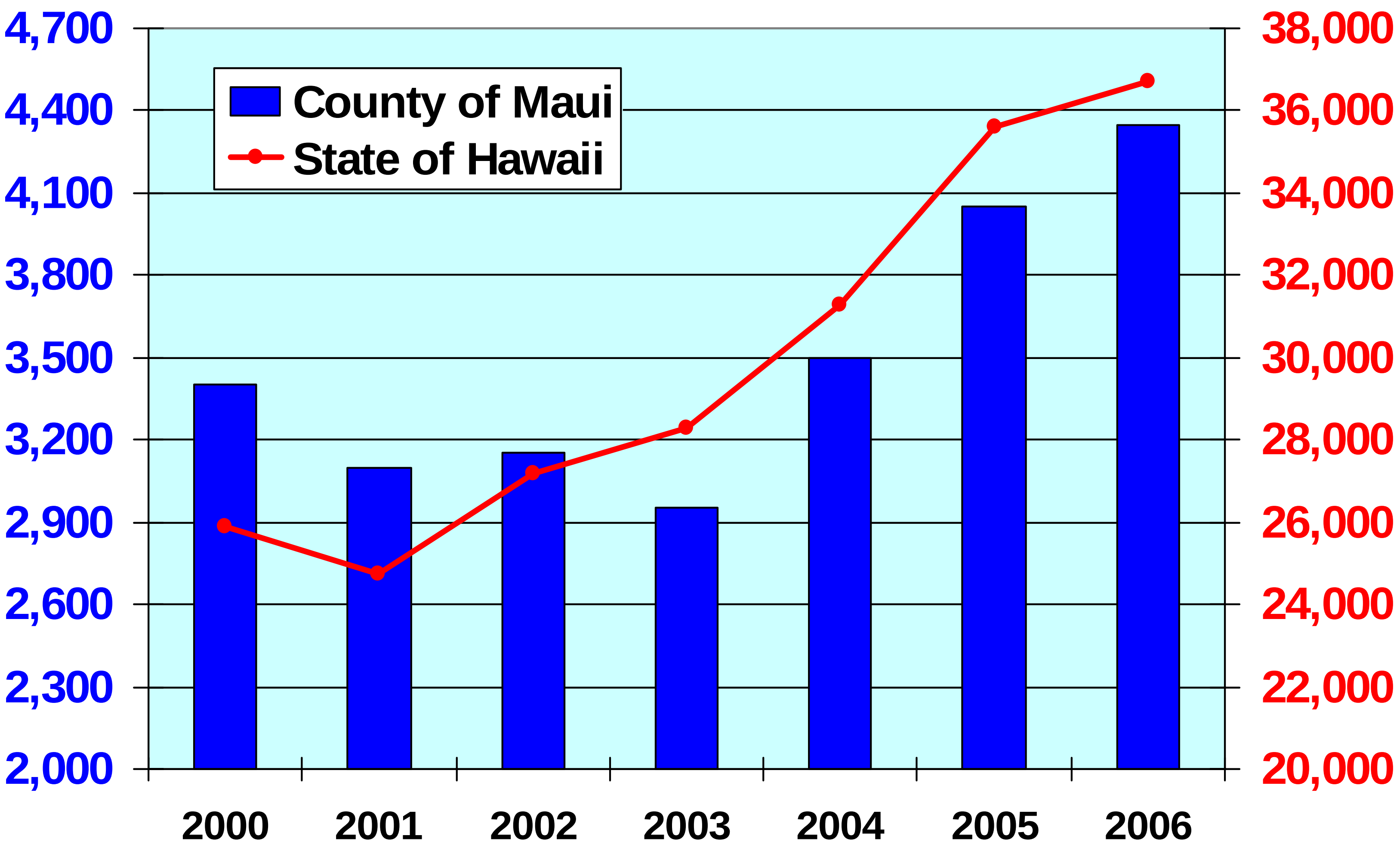
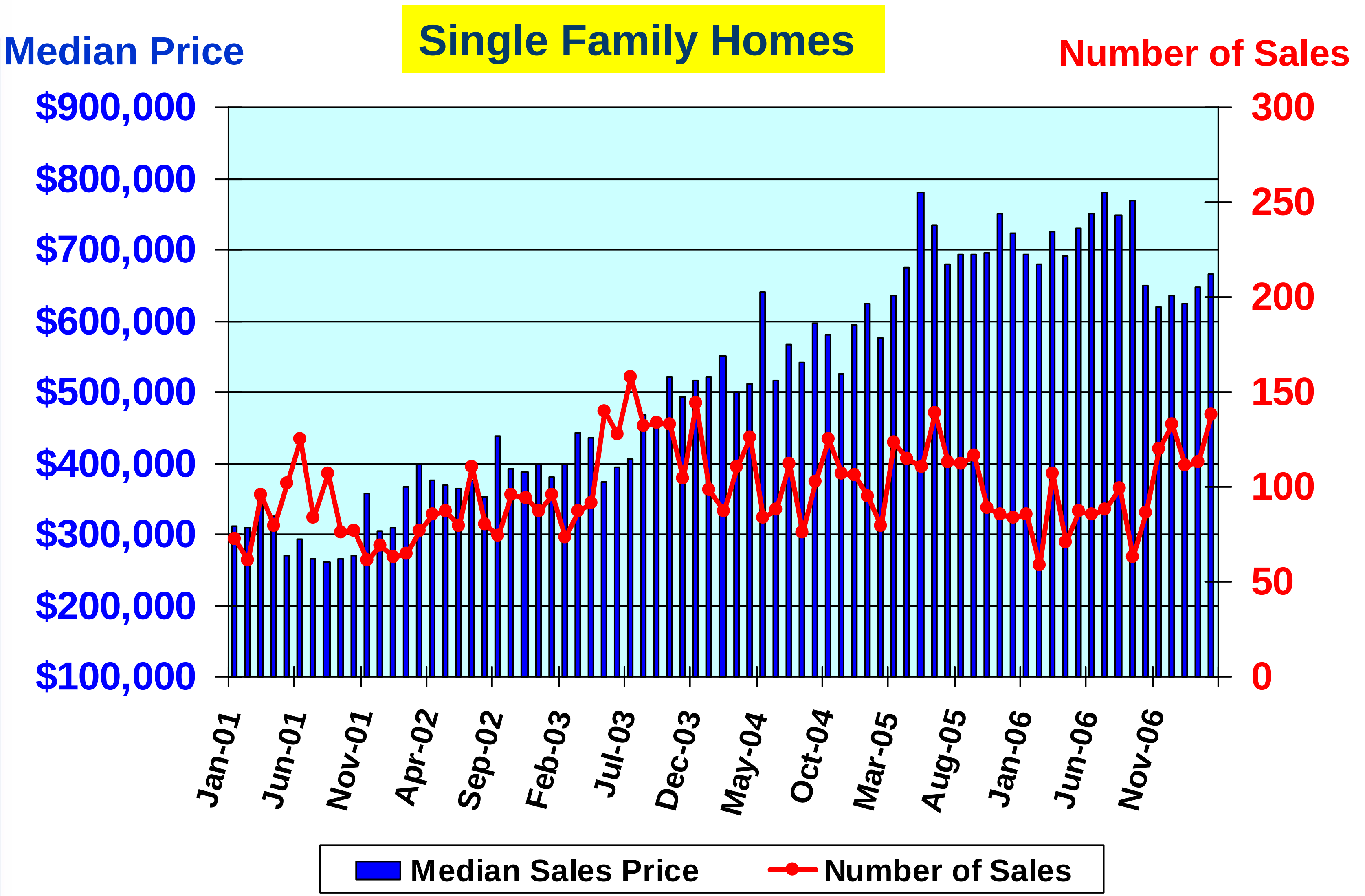
Construction Job Growth



Data Source: DBEDT, February 2007 (Data plotted are months of December)

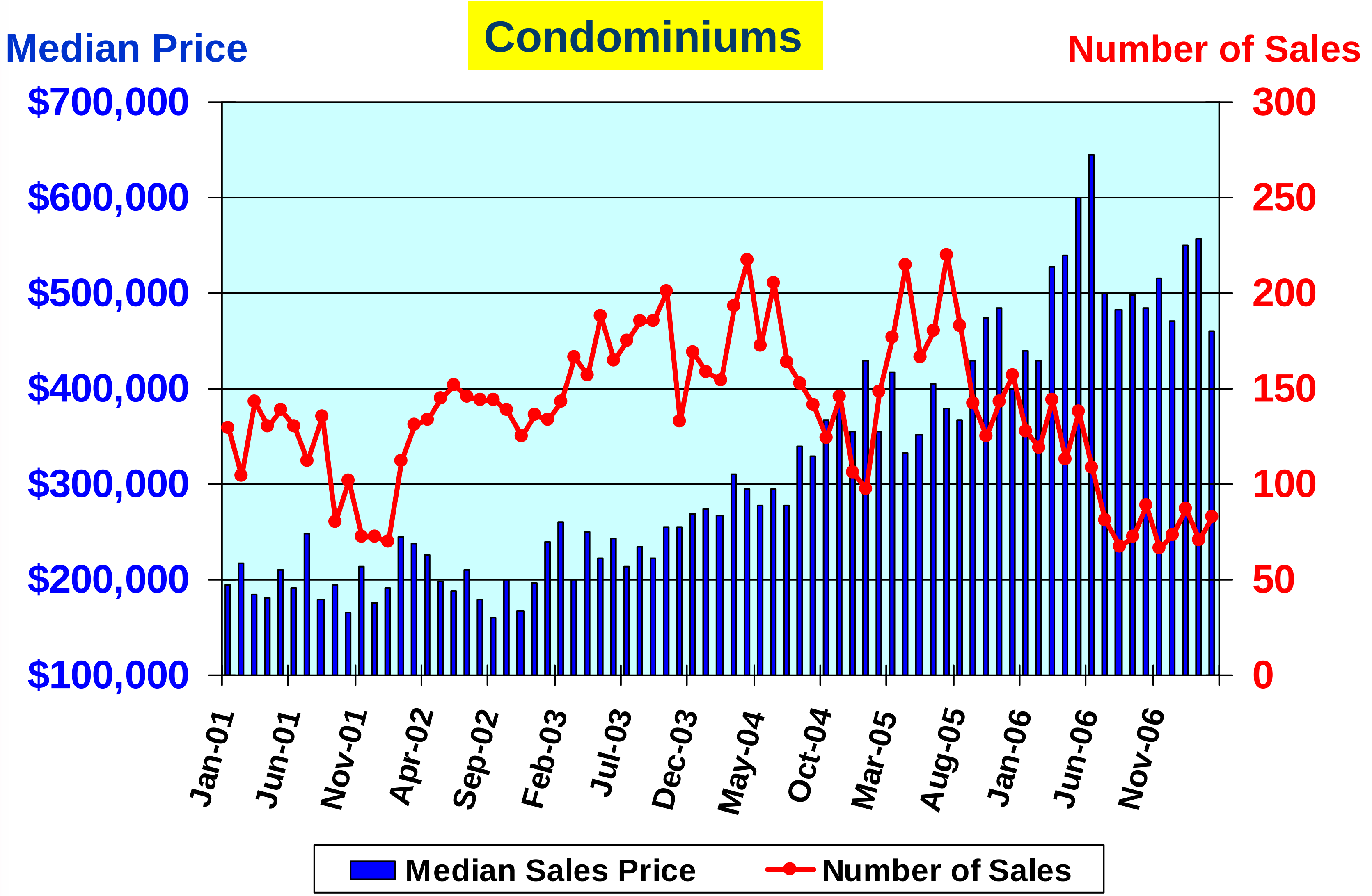
Median Sales Price vs. Number of Sales
Maui County: January 2001 – March 2007



Source: REALTORS Association of Maui

Median Sales Price vs. Number of Sales

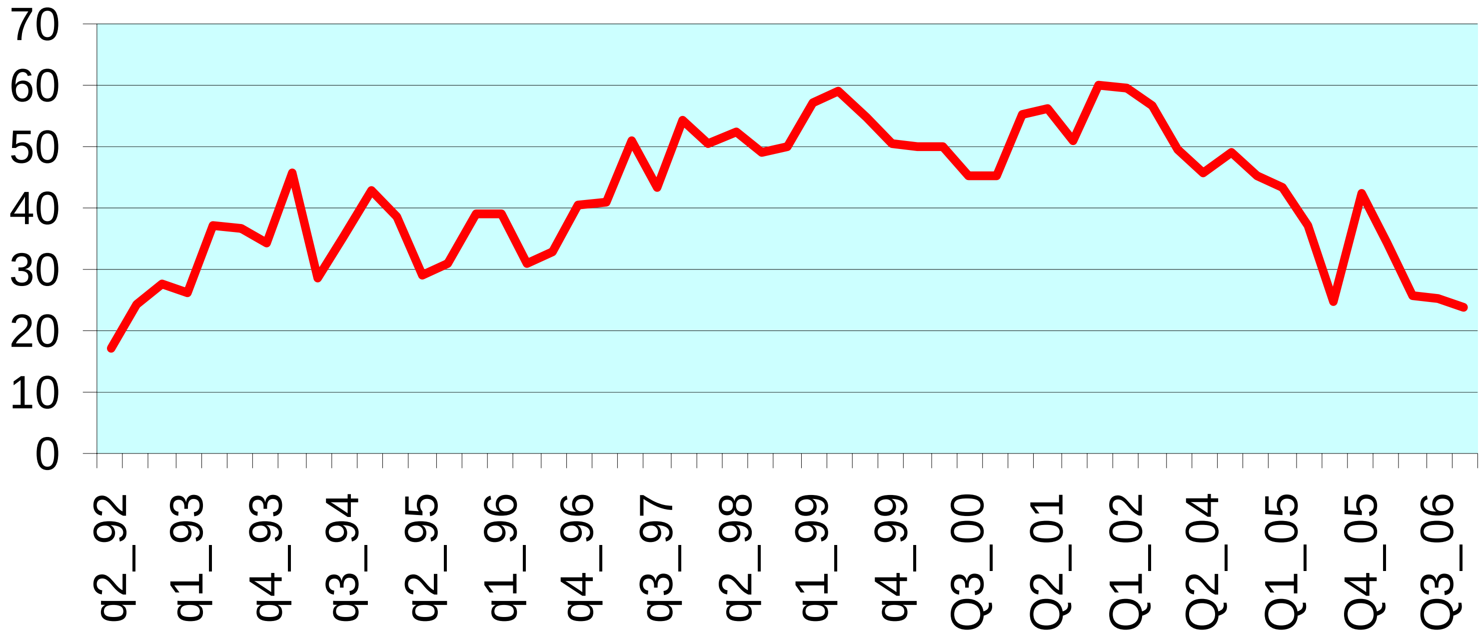
Maui County: January 2001 – March 2007



Source: REALTORS Association of Maui

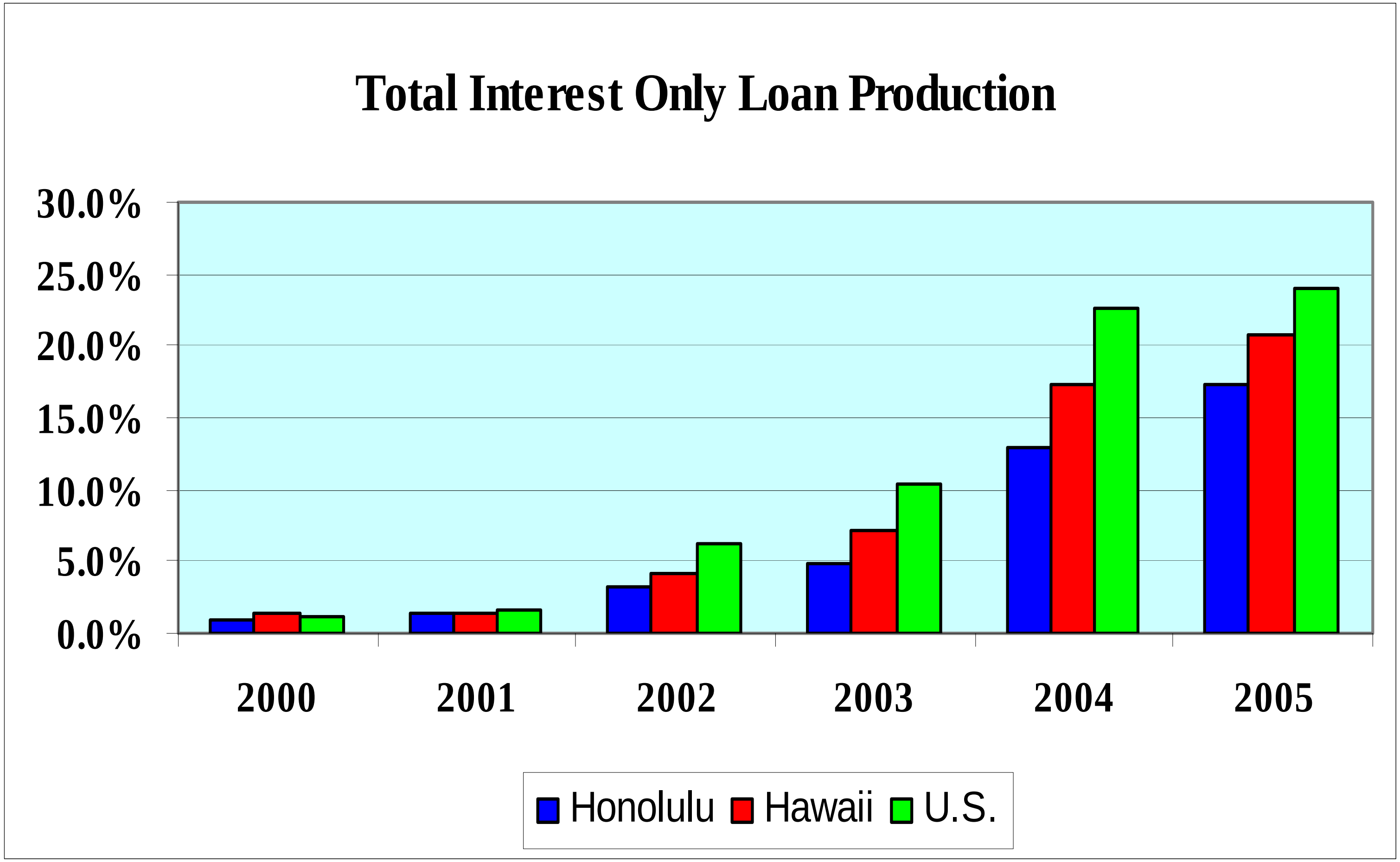
Housing affordability in Hawaii has fallen to the lowest levels in 15 years.

NAHB/Wells Fargo Housing Opportunity Index(1994-2006)
(% Homes Available to Median Income Families)
Honolulu, Hawaii



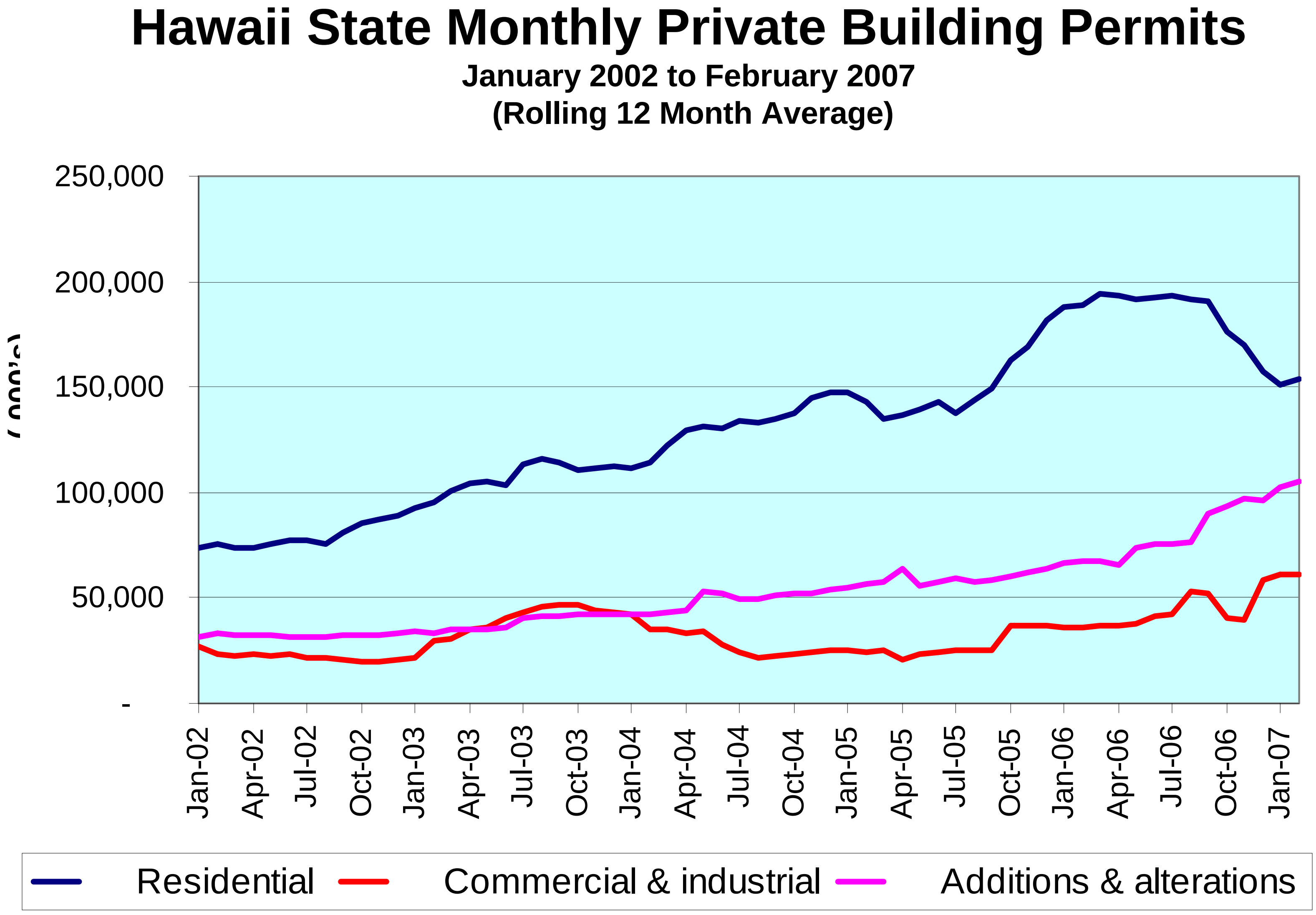
Source: NAHB/Wells Fargo, April 6, 2007

Hawaii consumers took out riskier loans as affordability began to squeeze households looking to buy.



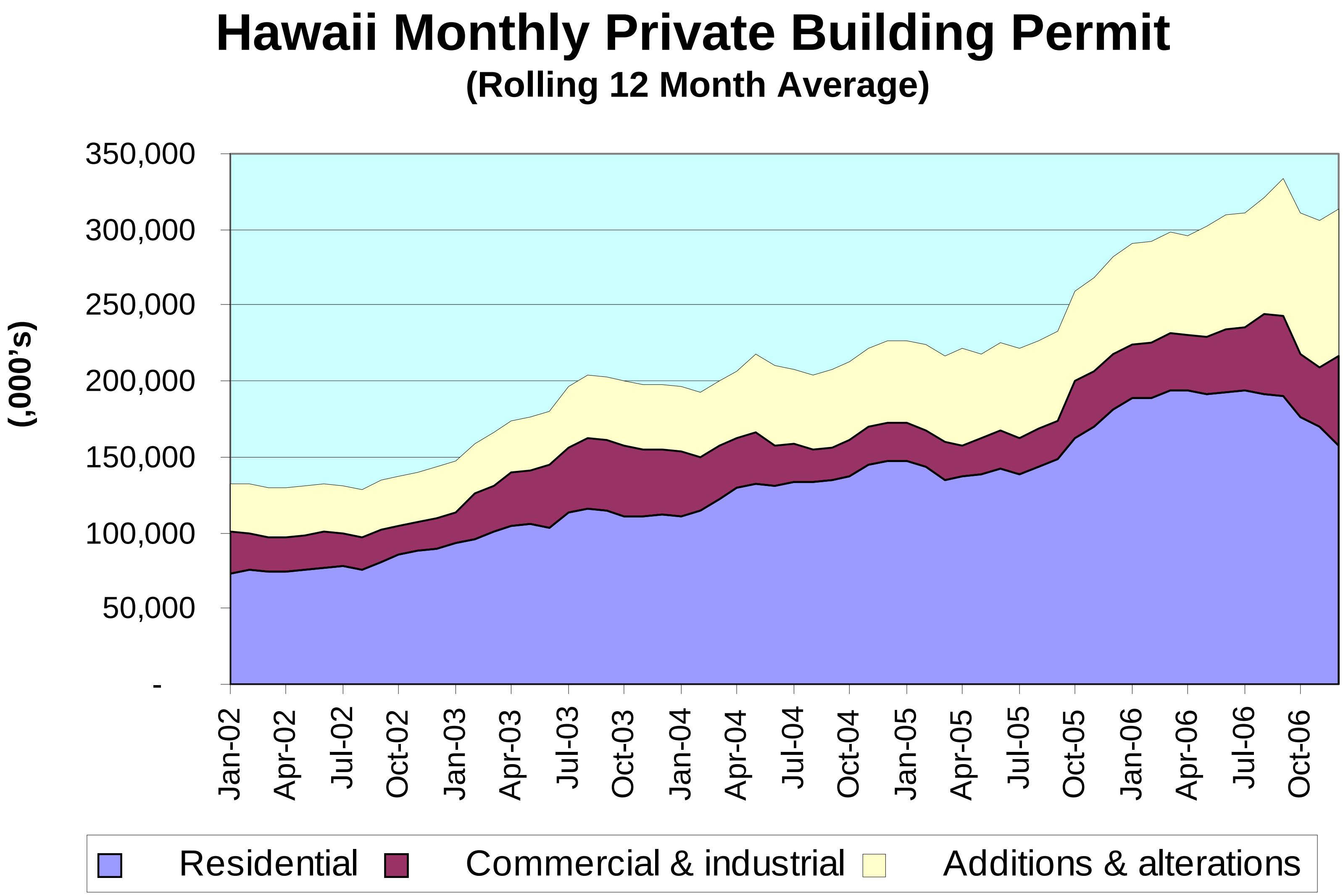
Source: Loan Performance Corp., Sept. 2005

Permits for residential construction peaked in 2006, but have been offset by commercial additions and alterations.



Source: DBEDT & Dodge Reports, April 6, 2007

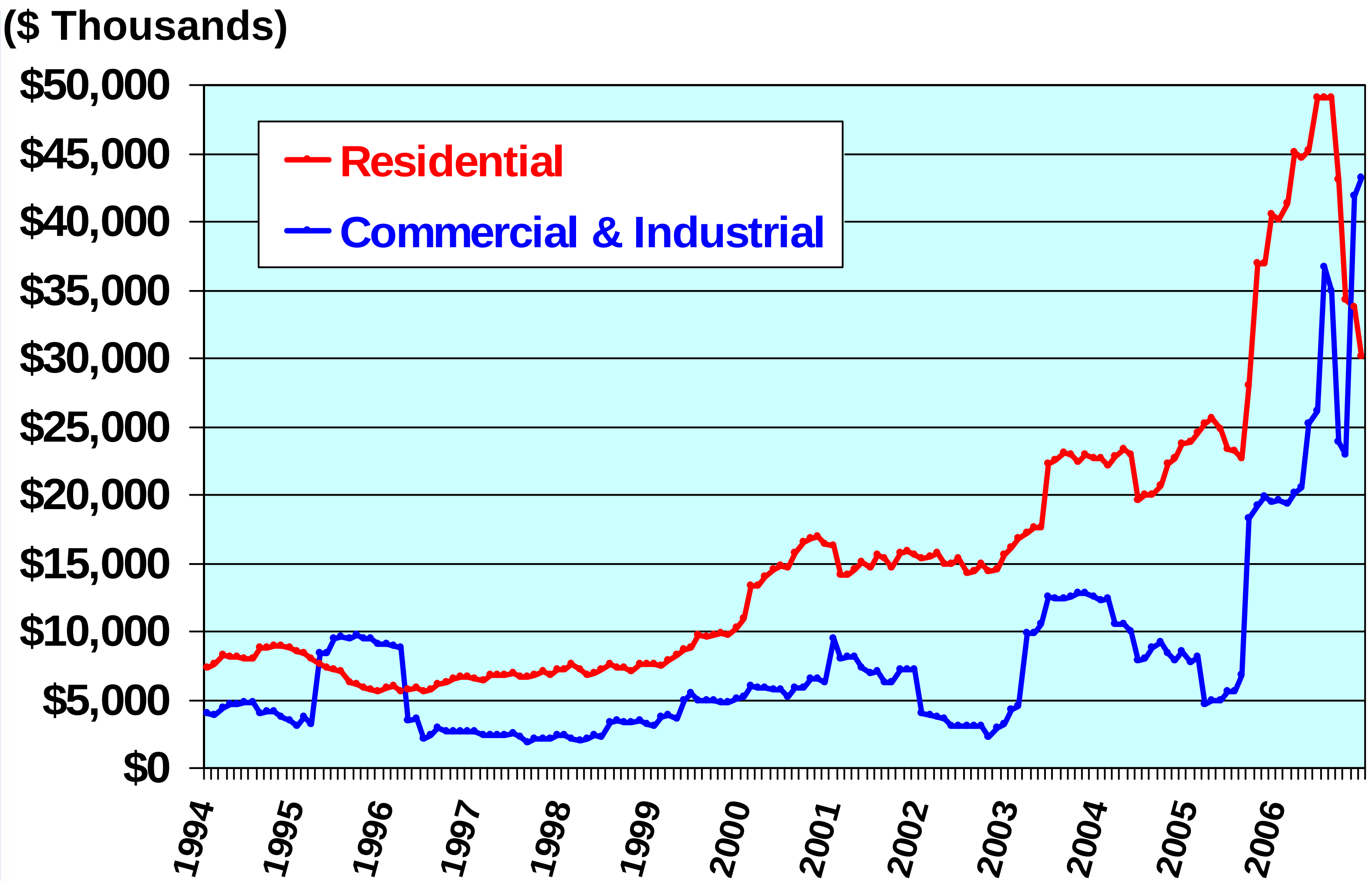
Total volume of permits has remained at record levels despite the decline in residential activity.



Source: DBEDT, April 6, 2007

Maui County: Private Building Permits

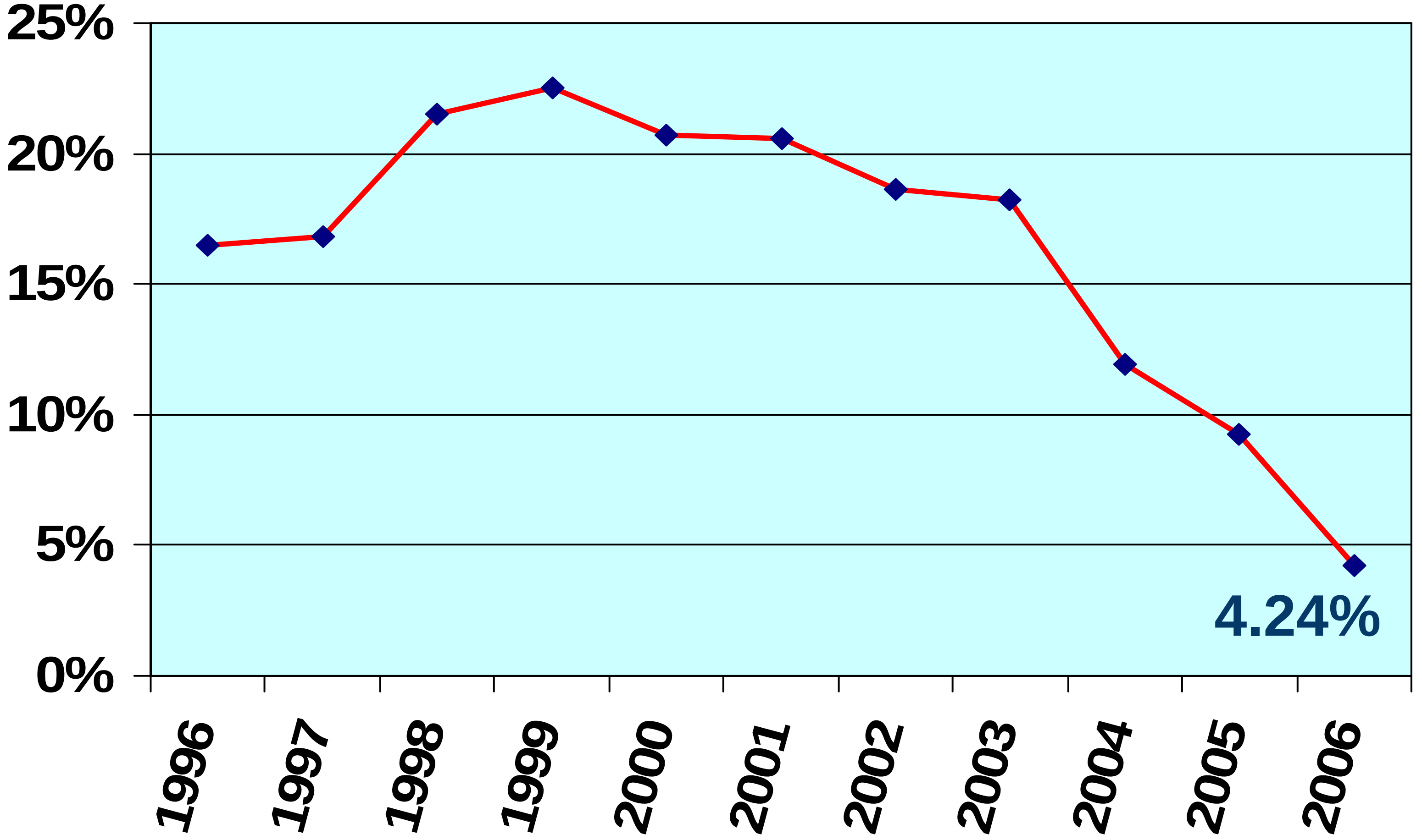
January 1994 – December 2006 (12-month Moving Average)



Source: DBEDT, February 2007

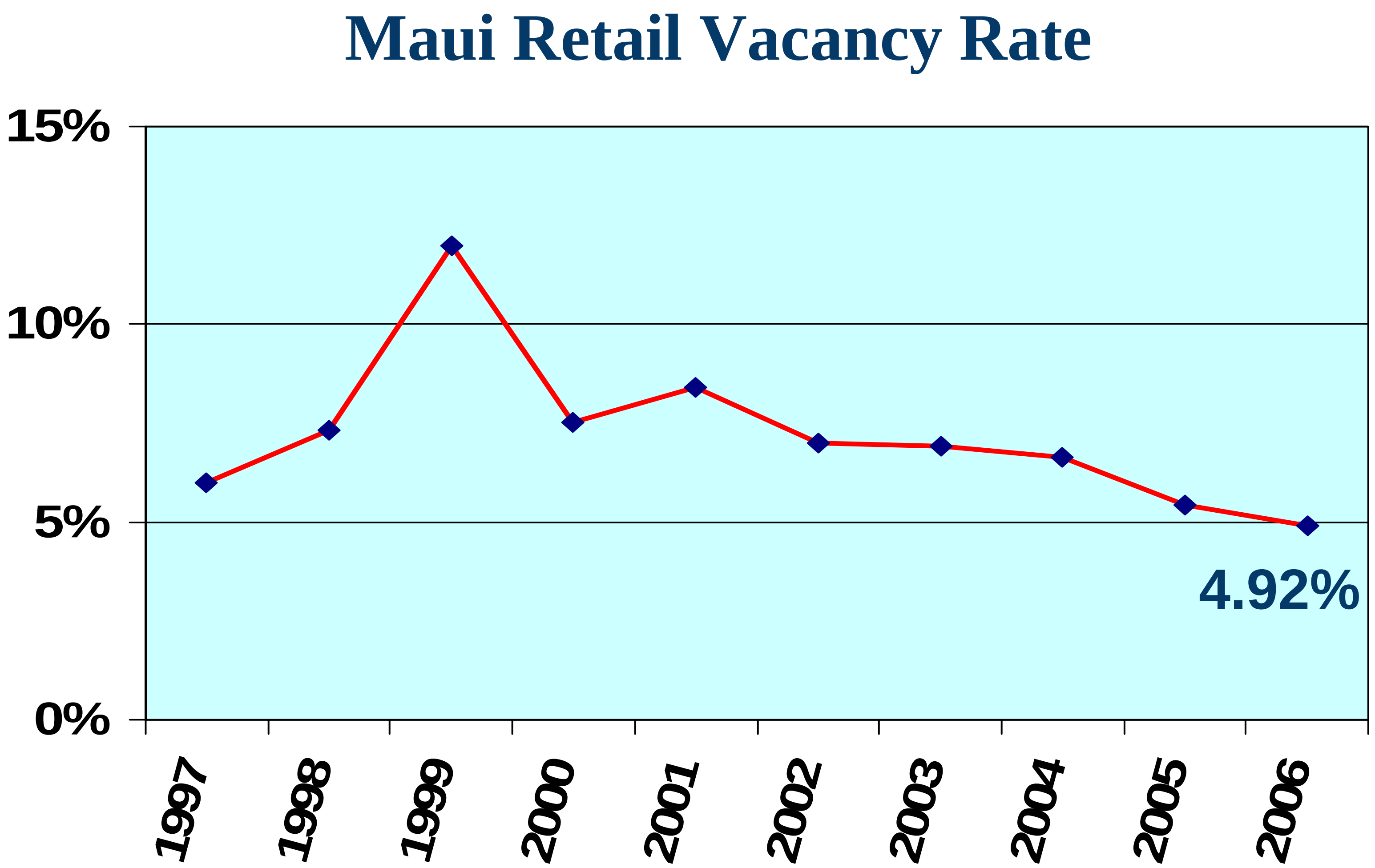
Office vacancy rates have fallen to the low single digits.

Maui Office Vacancy Rate



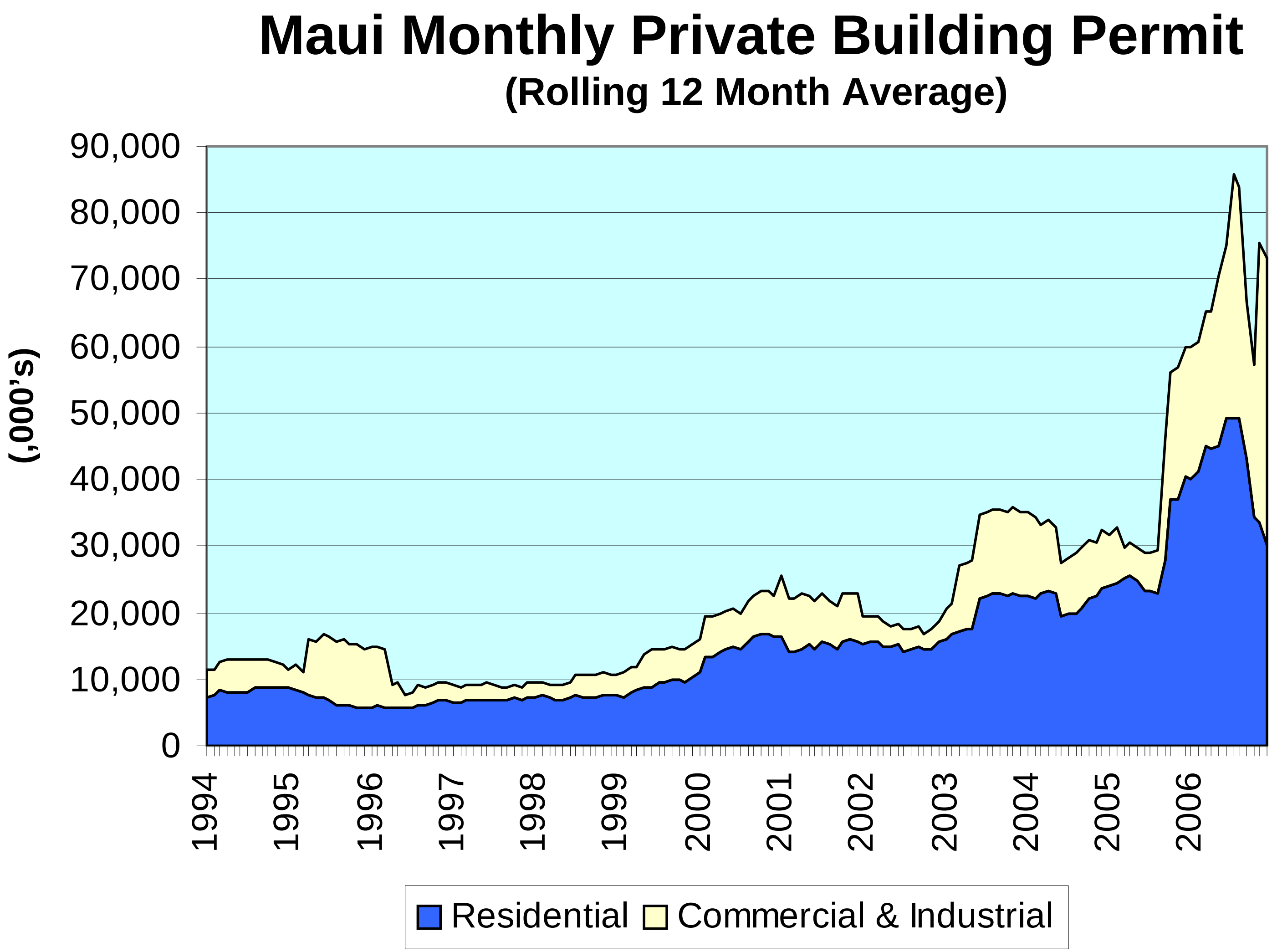
Source: Colliers Monroe Friedlander Consulting

Retail space is also difficult to find.



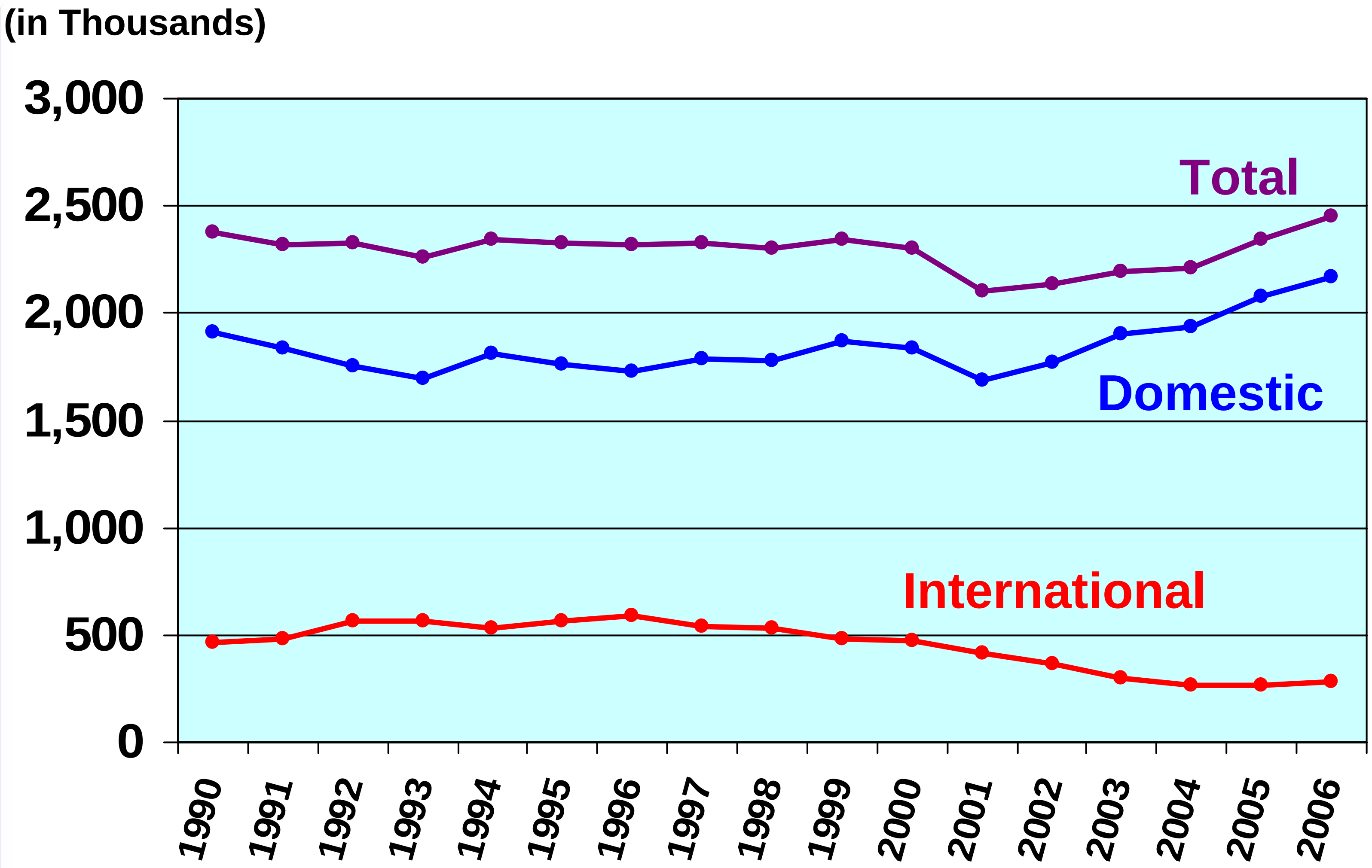
Source: Colliers Monroe Friedlander Consulting

Despite the drop in residential permits at the end of 2006, C&I activity has picked up dramatically.



Maui County: Total Visitor Arrivals

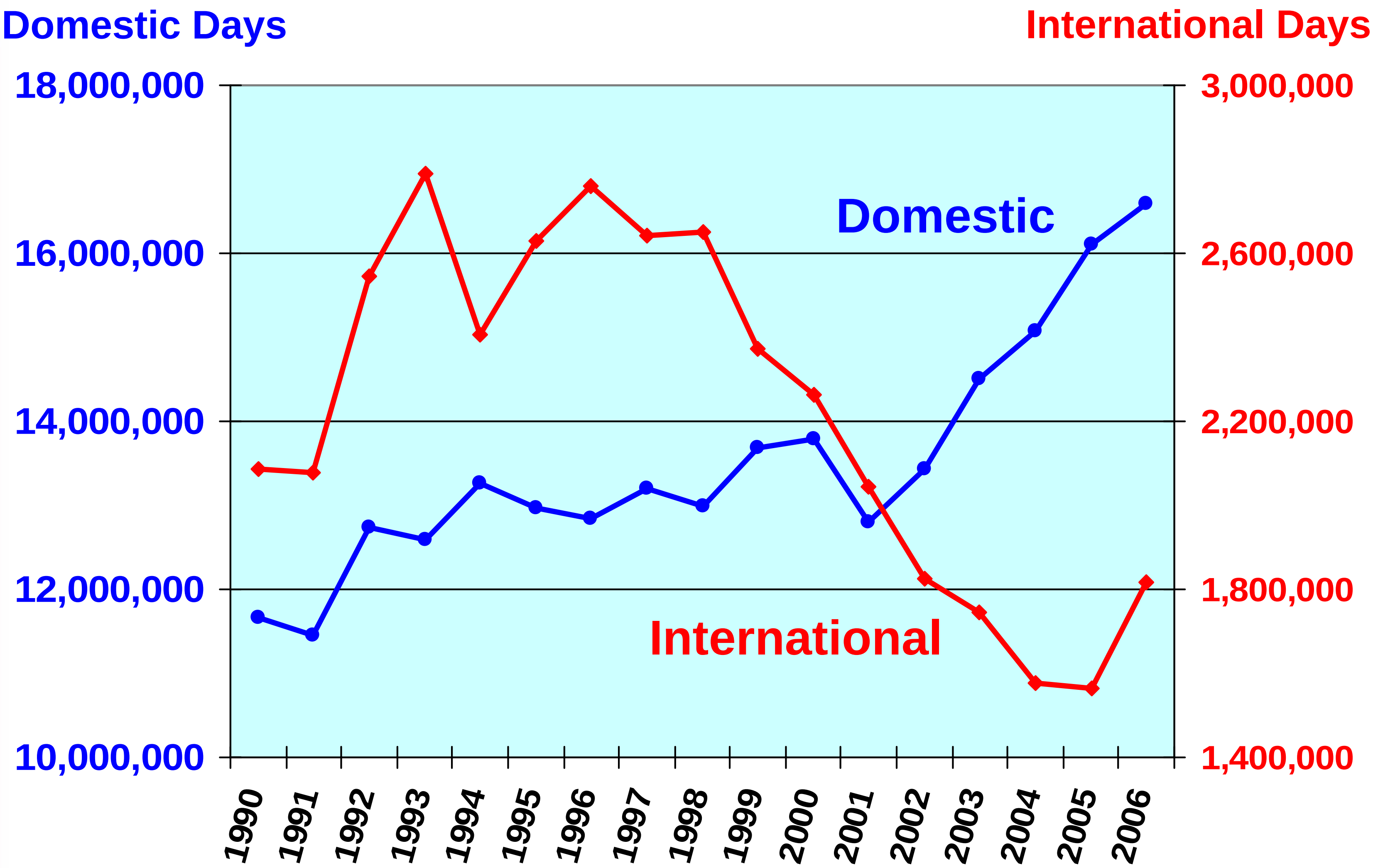
1990 – 2006 (Annual)



Source: DBEDT, February 2007

Maui County: Total Visitor Days

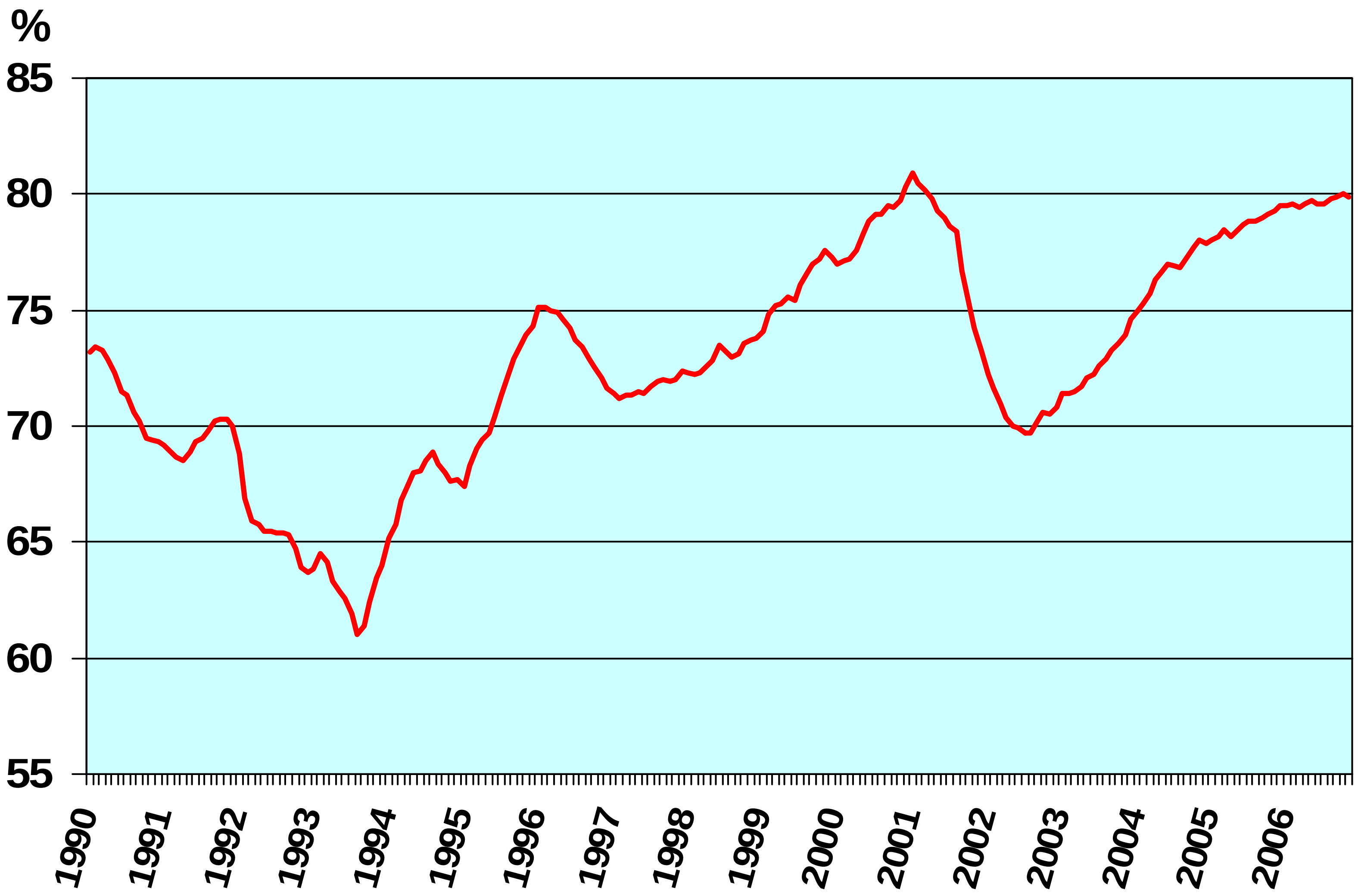
1990 – 2006 (Annual)



Source: DBEDT, February 2007

Maui County: Hotel Occupancy Rate

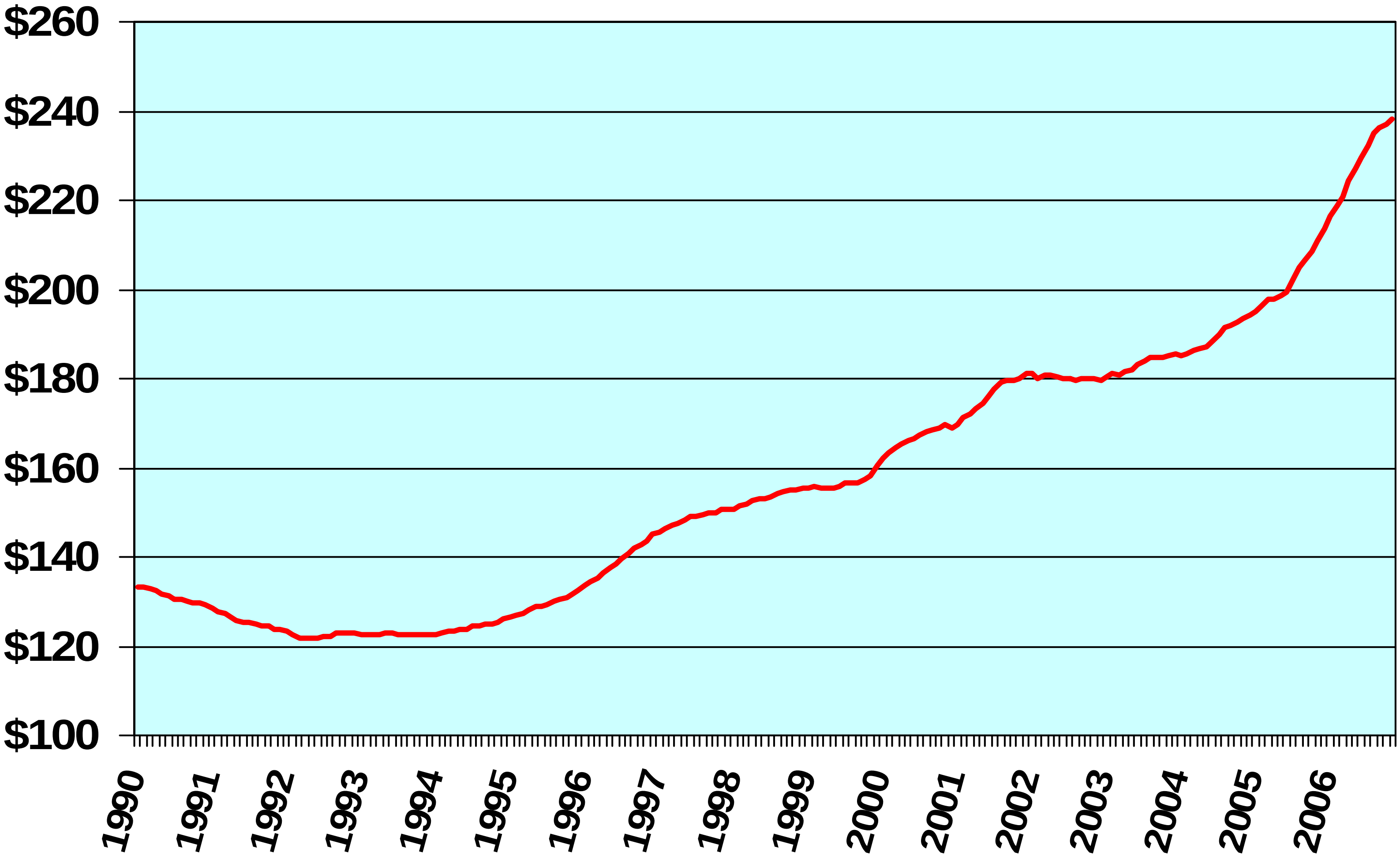
January 1990 – November 2006 (12-month Moving Average)



Source: DBEDT, February 2007

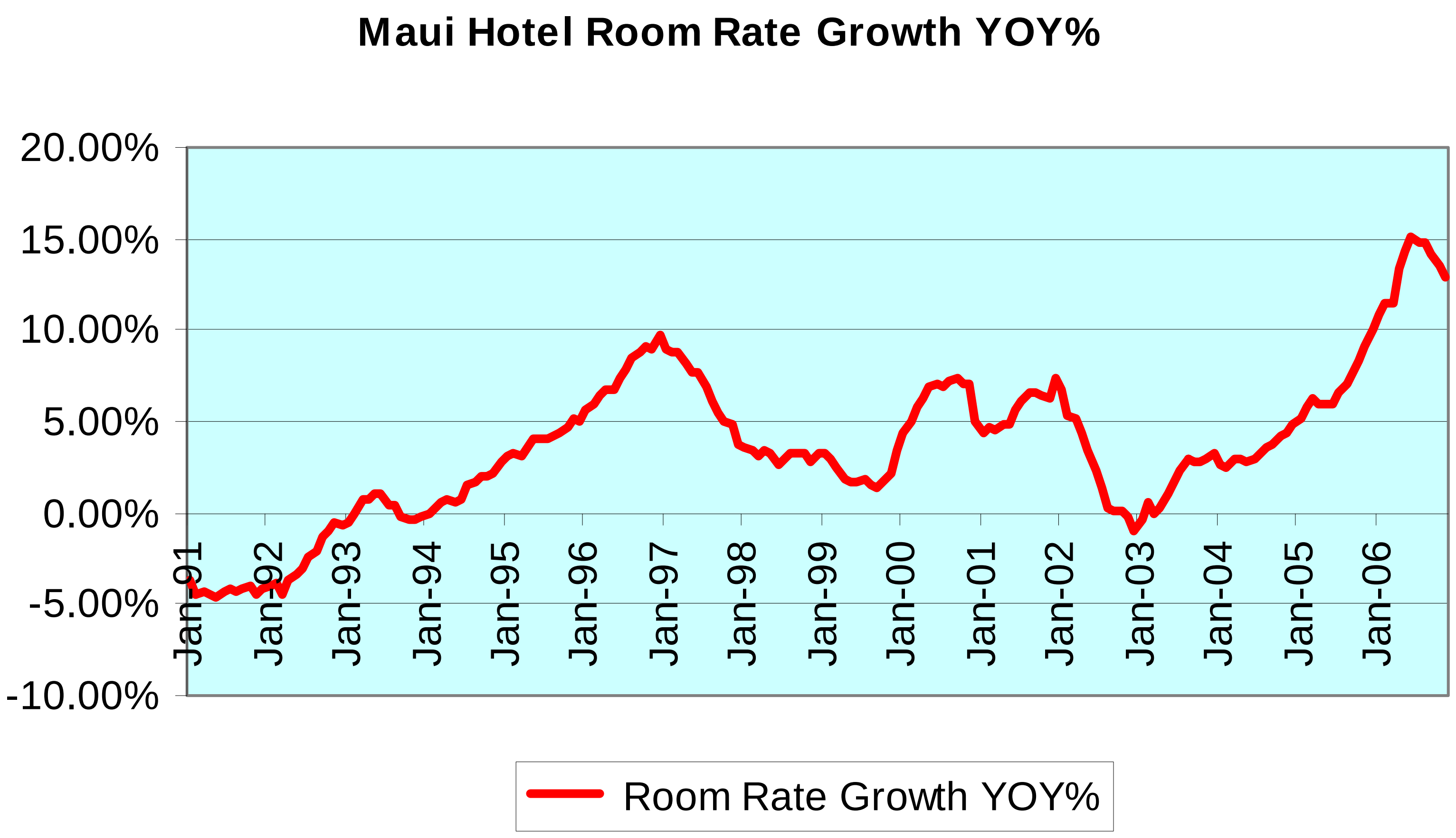
Maui County: Average Daily Hotel Room Rate

January 1990 – November 2006 (12-month Moving Average)



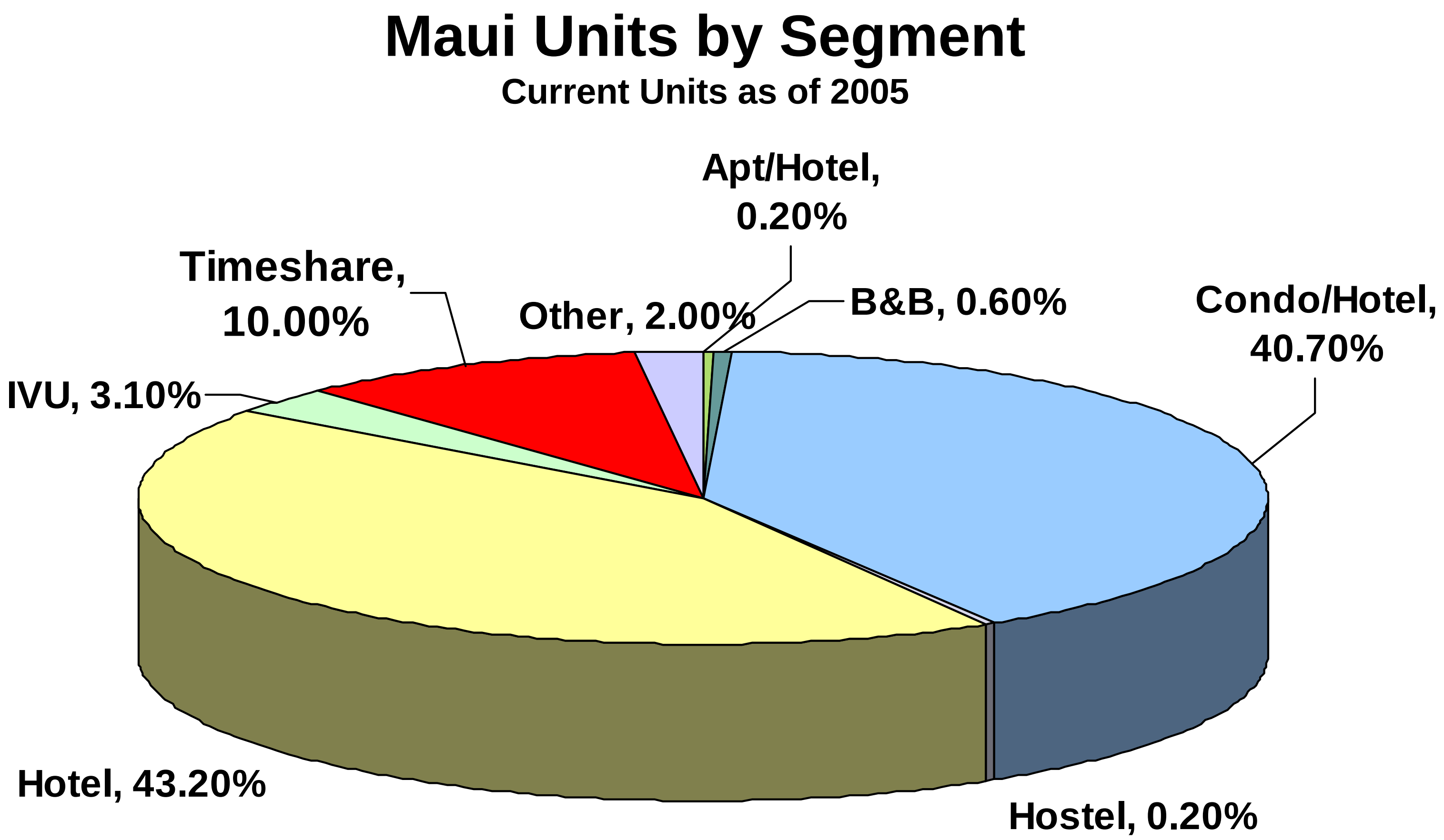
Source: DBEDT, February 2007

Although room rates have climbed to historic highs, price growth has slowed similar to mainland trends.



Source: DBEDT, February 2007

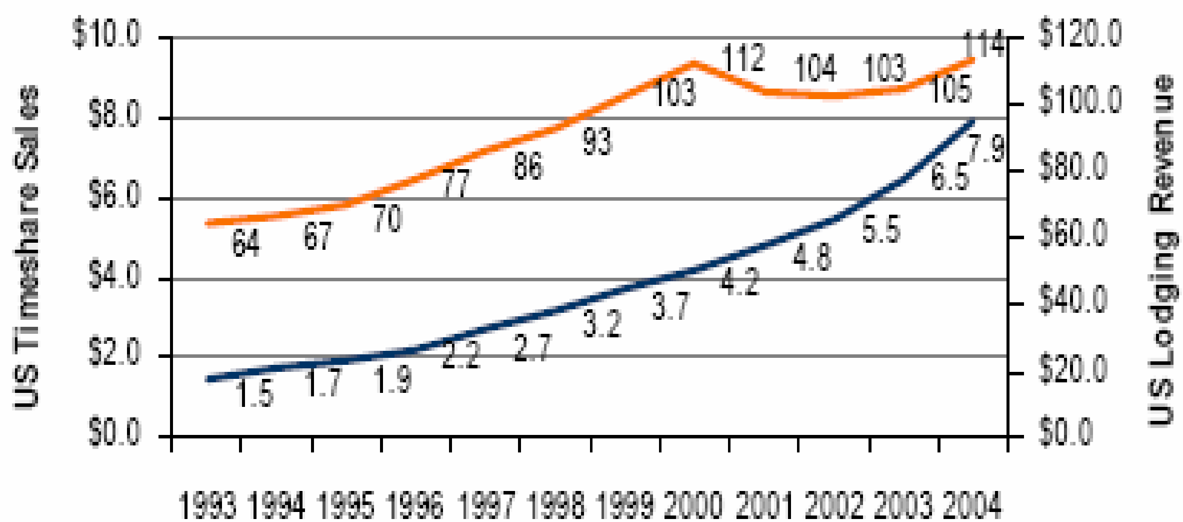
Timeshare is in a secular uptrend and has grown to 10% of the Maui market.



Source: DBEDT, February 2007

Due to demographics and ownership economics, timeshare growth exceeded hotel revenue growth over the past 5 years.

Chart 1: US timeshare sales versus US lodging revenue ($bn)



Source: Merrill & Starwood, September 2006

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Maui County Outlook:

- Growth in visitor arrivals is slowing
  - Lower U.S. discretionary spending
  - Higher airfares, higher room rates, less available rooms
  - Loss of NCL Pride of Hawaii visitors in 2008
- Capacity constraints will impact rate of growth
  - Lack of additional labor force
  - High cost of housing and high cost of living limit labor force growth
  - Infrastructure issues
- Construction will gradually slow
  - Residential – lower sales to investors and second home buyers, affordability issues for local residents
  - Nonresidential – commercial and government infrastructure work offsets slowdown in residential sector

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Mahalo!

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