Third Quarter 2003 Highlights

Hawaii Recovering from Downturn
Also a Few Mountain States Moving Upward in Rankings
Northeast Region Continues to Boom

1. Hawaii Recovering from Downturn.

Since first quarter 2000, Hawaii has been recovering from a flattening and downturn in housing prices that started in the fourth quarter of 1991. Between the fourth quarter of 1985 and the fourth quarter of 1991, Hawaii cumulated about 80 percent real house price appreciation, compared to only about 10 percent for the U.S. as a whole over the same period. However, a U.S. recession ensuing in the early 1990s coupled with substantial real estate declines in the Japanese housing market over this time period sent Hawaii into decline. Real home prices in Hawaii declined approximately 29 percent between the fourth quarter of 1991 and the fourth quarter of 1999, a markedly long period of depreciation. However, recent years have seen notable recovery in Hawaii. Real housing prices in Hawaii have risen about 24 percent since the trough in the fourth quarter of 1999. Overall, Hawaii has cumulated about 16 percent more real growth than the U.S. as a whole over the time period extending from the first quarter of 1985 through the current quarter. The most current HPI numbers (unadjusted for inflation) indicate Hawaii is ranked 7th (8.3%) among states for annual appreciation, and recorded over 2.0 percent quarterly appreciation.

The upturn in housing prices appears to be supported by some of the economic indicators. According to the Bureau of Labor Statistics, Hawaii has been experiencing increases in employment and a decreasing unemployment rate over this general time period. The unemployment rate in Hawaii had been above 6 percent since the beginning of 1996 through the first quarter of 1999, higher than the national rate throughout this period. Unemployment in Hawaii has been generally declining since then, and measures 4.2 percent as of September 2003, versus 6.1 percent nationally.

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1 Due to limited numbers of observations in Hawaii prior to 1985, the analysis is conducted from 1985 forward, with both the U.S. and Hawaii set equal to 100 in the first quarter of 1985.
2 Numbers are adjusted for inflation using the national CPI less shelter, obtained from www.bls.gov.
3 Note that historically markets experiencing periods of rapid appreciation are often followed by subsequent busts (see article in Second Quarter 2000 OFHEO HPI Report). Much of the downturn in Hawaii is possibly attributable to a normal market correction, not just Asian market difficulties.
2. A Few Mountain States Moving Upward in Rankings.

Montana and Nevada have slowly been climbing in the rankings. House prices in Nevada (ranked 14th with 7.0% annual growth) and Montana (ranked 16th with 6.2% annual growth) are currently appreciating more rapidly than the U.S. (5.6%). Wyoming (20) follows closely behind Montana with 5.6% annual growth (virtually the same as the U.S. rate). This is in contrast to neighboring Colorado (ranked 50th among states with 1.9% annual growth) and Utah (ranked 51st with 1.8 percent annual growth). Through much of the mid 1990s, Colorado experienced above average growth, and may be leveling off due to high price levels that characterize many of the desirable areas in this state. Industry growth in Utah has likely leveled off due to post Olympic economic contraction, influencing housing price levels. Consumers that enjoy this climate and geography may well have moved into less expensive neighboring Mountain States.

Migration rates produced by the Census as of the end of 2002 do suggest net domestic emigration from Utah, which could support the idea of declining business opportunities post Olympics. Nevada especially experienced a large increase in domestic immigration and a increase in international immigration. Domestic and international immigration are positive in both Montana and Wyoming.

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4 Cited statistics in this discussion are not inflation adjusted so that these numbers may be referred to in the HPI tables that follow.
5 Weakening high tech industry is also likely contributing to slow growth in Colorado.
6 Migration rates may be obtained from www.census.gov.
3. Northeast Region Continues to Boom.

Almost all of the states in the Northeast Census Region, which include New England (ranked 2nd among divisions with 7.5% appreciation) and Middle Atlantic (ranked 3rd with 7.3% annual growth) divisions are growing more rapidly on an annual basis than the U.S.\(^7\). The regionwide boom began early 1997 as New England states started to recover from a large decline in the early 1990s. Massachusetts was the first state to show significant appreciation, but rising price levels eventually encouraged businesses and employees to move into surrounding areas. In fact, states in the South Atlantic Division which are adjacent to the Middle Atlantic States including the District of Columbia (ranked 3rd with 9.1% annual growth), Virginia (ranked 15th with 6.6% annual growth), and Maryland (ranked 4th with 8.7% annual growth), are also enjoying strong appreciation.

The only state in this Census Region that has begun to show signs of decline is New York. While New York grew 7.5 percent for the year, the quarterly growth was only 0.3 percent. On the contrary, New Jersey experienced high annual (8.5%) and quarterly (2.6%) appreciation, largely attributable to immigrating New Yorkers. According to 2002 Census estimates, New York experienced positive international immigration, but larger domestic emigration making for negative net migration. New Jersey experienced domestic emigration as well, but higher international immigration, making for positive net migration.

\(^7\) The exception is Vermont which came in right around the U.S. rate of 5.6 percent.