

## ***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<sup>1</sup>. 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.<sup>2</sup> 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.<sup>3</sup> 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**.

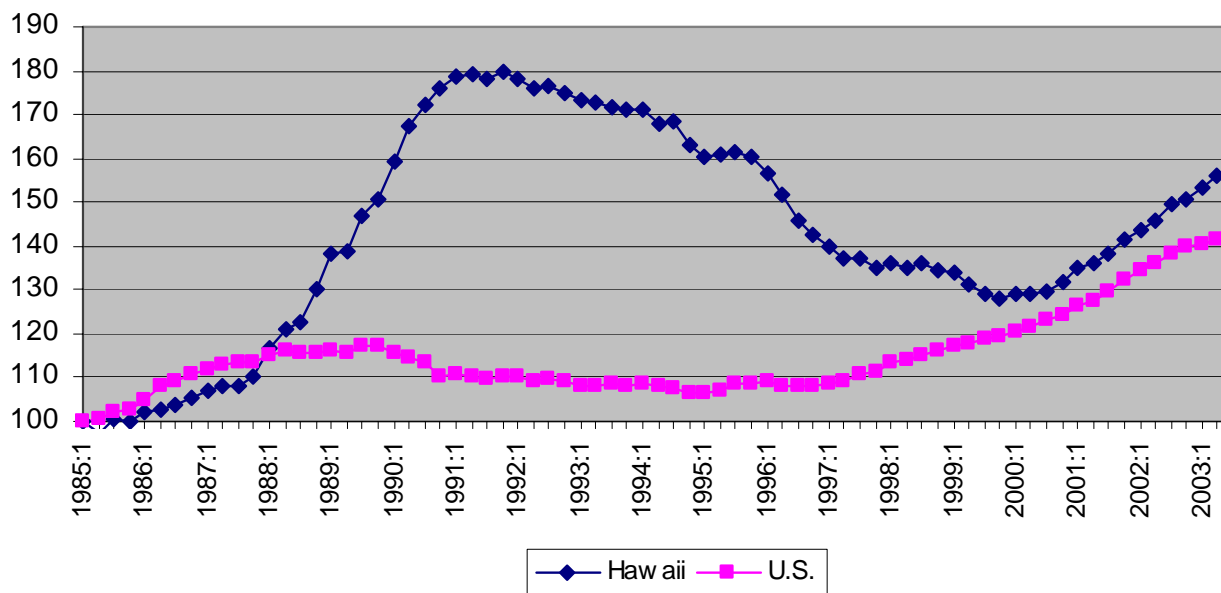
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<sup>1</sup> Due to limited numbers of observations in Hawaii prior to 1985, the analysis is conducted from 1985 forward, with both the U.S. and Hawaii set equal to 100 in the first quarter of 1985.

<sup>2</sup> Numbers are adjusted for inflation using the national CPI less shelter, obtained from [www.bls.gov](http://www.bls.gov).

<sup>3</sup> 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.

## Real House Price Growth in Hawaii and the U.S.



## 2. A Few Mountain States Moving Upward in Rankings.

**Montana** and **Nevada** have slowly been climbing in the rankings. House prices in **Nevada** (ranked 14<sup>th</sup> with 7.0% annual growth) and **Montana** (ranked 16<sup>th</sup> with 6.2% annual growth) are currently appreciating more rapidly than the **U.S.** (5.6%).<sup>4</sup> **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 50<sup>th</sup> among states with 1.9% annual growth) and **Utah** (ranked 51<sup>st</sup> 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<sup>5</sup>. 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.<sup>6</sup> **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**.

<sup>4</sup> Cited statistics in this discussion are not inflation adjusted so that these numbers may be referred to in the HPI tables that follow.

<sup>5</sup> Weakening high tech industry is also likely contributing to slow growth in Colorado.

<sup>6</sup> Migration rates may be obtained from [www.census.gov](http://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.<sup>7</sup>. 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.

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<sup>7</sup> The exception is Vermont which came in right around the U.S. rate of 5.6 percent.