

Economic Forecast

KAUAI EDITION 2013 - 2014

Kauai's Recovery Will Strengthen in 2014

Among all the islands, Kauai is most dependent on the visitor sector — especially Mainland tourists and time-share properties — for its economic well-being. As is the case with other Neighbor Islands, Kauai's economy is benefiting from a strong recovery of tourism, which will continue to grow, though the growth rates of arrivals and spending will level off as we move into 2014 and 2015.

Yet, although some parts of the Garden Island's economy are doing well, the strength in tourism is spreading only slowly to other sectors:

- Construction has bottomed out but has yet to regain strong growth.
- The 2008-09 recession affected jobs and labor on Kauai more than other counties; less than half of those 3,500 lost jobs have returned. While the unemployment rate is down, it is still above the statewide average.

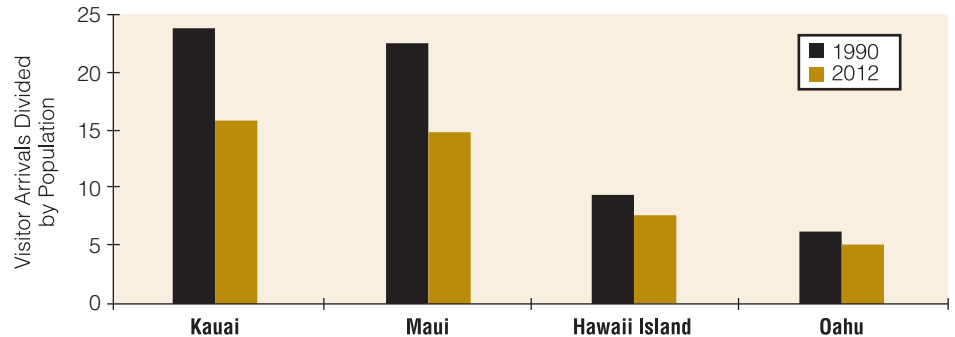
Still, positive signs exist. New retail spaces aimed at tourists and locals are being developed. The Pacific Missile Range Facility and diversified agriculture continue to be important contributors to the economic base. And Kauai County finances seem to be on firmer footing.

Overall, Kauai can look forward to an improving economy into 2014.

Visitor Sector: Driving Growth More than Ever

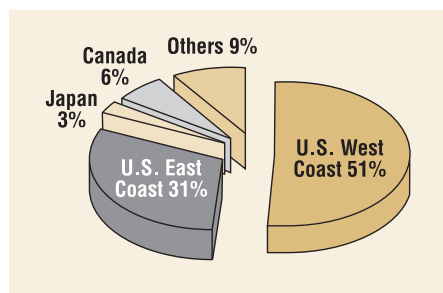
Travel and Leisure magazine recently voted Kauai as the most romantic island in the U.S. Compared to Hawaii's other islands, Kauai has a unique visitor market. Chart 1 shows a simple measure of its high level of tourism dependency compared to other counties: the number of annual visitor arrivals divided by the population. Kauai leads all the islands,

CHART 1 • RELATIVE IMPORTANCE OF TOURISM SECTOR



Source: State of Hawaii, DBEDT

CHART 2 • KAUAI VISITOR ARRIVALS BY MARKET AREA, 2012

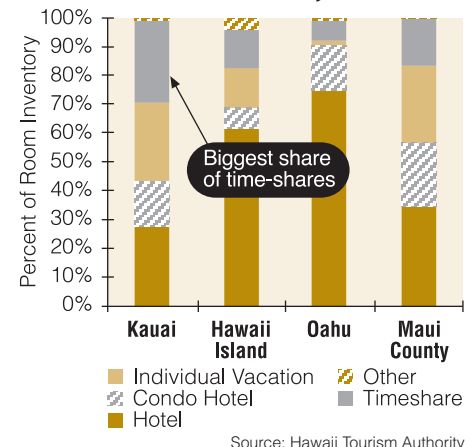


Source: State of Hawaii, DBEDT

with a ratio three times as large as Oahu. This indicates that tourism trends are vitally important to Kauai's economy.

Kauai is also the most reliant on mainland markets and least dependent on Asian travelers. (See Chart 2.) This means that issues related to Asian visas and exchange rates are less crucial for Kauai than elsewhere in the state. However, it does mean that mainland trends need to be watched closely by Kauai. Canada remains a significant overseas market for Kauai. Even though the Canadian dollar has weakened relative to the U.S. dollar in the last year, it remains relatively strong, and this will keep Kauai attractive.

CHART 3 • VISITOR PLANT INVENTORY, 2011



Source: Hawaii Tourism Authority

Finally, Kauai's tourism inventory is also different from the other islands. Kauai is much more reliant on tourists who stay in time-shares, individual vacation units, or condo hotels. (See Chart 3.) This has its good points,

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Kauai County (continued from page 1)

since many of these types of visitors are returnees and they tend to stay somewhat longer. On the other hand, they also tend to spend less. For example, as of June 2013 the average daily spending by all visitors to Kauai was \$168 compared to \$197 for the state as a whole and \$210 for Oahu.

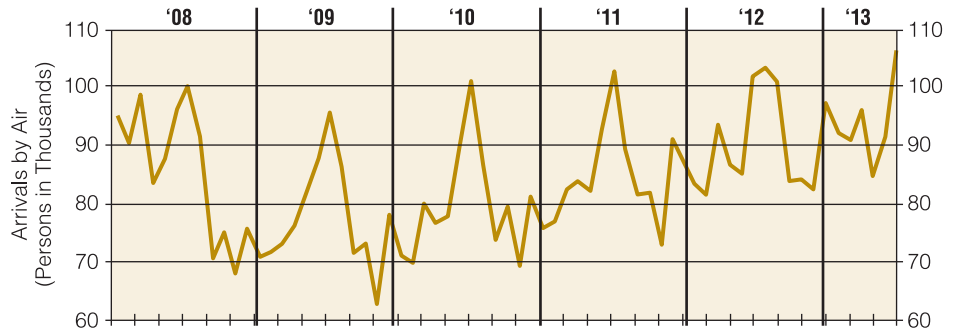
Nevertheless, visitor trend numbers for the island evidence tourism's rebound. Both arrivals and expenditures have been robust over the last two years. As seen in Chart 4, monthly arrivals have been on an upward trend since 2009 and are on target for over 1.1 million in 2013. However, this is still short of the 2007 peak of 1.3 million. These numbers are reflected in the positive growth rates shown in Chart 5 where the impact of the 2008-09 recession is quite clear. Slowly Kauai tourism is digging itself out of that hole.

Meanwhile, visitor expenditures are doing even better, on average, in spite of seasonality and volatility in the numbers. Since late 2009, visitor spending on Kauai has been on an upward trajectory. (See Chart 6.) Spending for the first half of 2013 is now up by \$200 million over the same period in 2008.

Visitor Developments: Statewide, airline seat capacity is up by nearly 10% year-to-date 2013 over the same period of 2012. The Kauai market has benefited from Alaska Airlines' addition of non-stops from Portland and San Diego. Hawaiian Airlines has plans to add seasonal service from Oakland to Lihue in 2014.

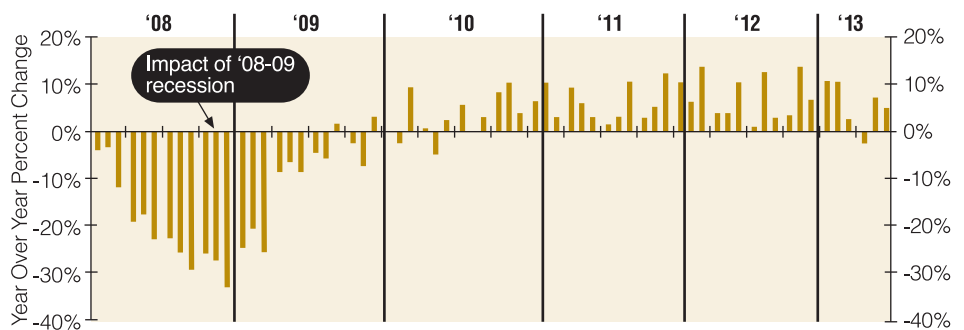
There is industry awareness of the importance of the visitor plant infrastructure and image. Earlier this year I was told that the prior Coco Palms permit had suffered a final and ignominious death. However, like a phoenix rising from the ashes and led by Honolulu-based investors, Coco Palms Hui has hopes to bring back the property with 350-390 rooms and its original ambiance. Elvis sightings may be helping this along. The Kauai Visitors Bureau held two Elvis-focused events this year that attracted great interest.

CHART 4 • KAUAI'S MONTHLY VISITOR ARRIVALS BY AIR, 2008-13



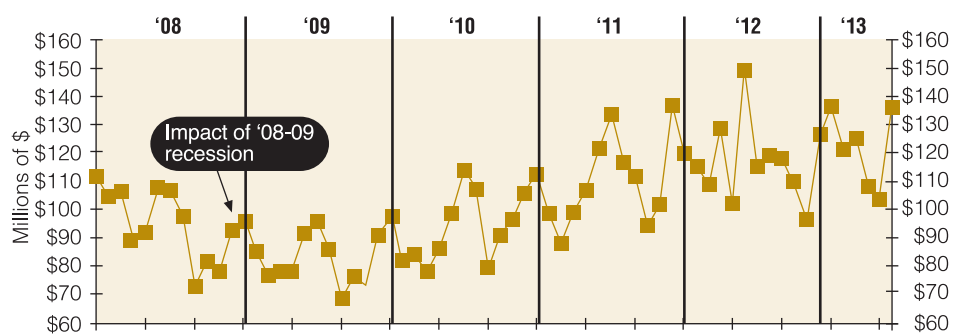
Source: State of Hawaii, DBEDT

CHART 5 • VISITOR ARRIVAL MONTHLY GROWTH RATES, 2008-13



Source: State of Hawaii, DBEDT

CHART 6 • KAUAI MONTHLY VISITOR SPENDING GROWTH, 2008-13



Source: State of Hawaii, DBEDT

Elsewhere on the east side, property managers have formed the Royal Coconut Coast Association to enhance their "brand." New inventory is coming on line through the Outrigger Waipouli, St. Regis Princeville and the new Koa Kea Hotel & Resort at the former location of the Poipu Beach Hotel. Visitor retailing is being helped by the expansion of the Princeville shopping center.

Cruise ship arrivals continue to help the visitor counts. Norwegian Cruise Line's once per week stop benefits the community, as do daytime stopovers by international cruises that

are prevented from staying overnight due to regulatory prohibition. In 2012 there were a total of 224,000 Kauai visitor-days by cruise passengers, and the first half of 2013 is 8.3% above comparable period in 2012.

While Asian tourism is not a large part of the island's market, it does present opportunities for growth. However, this also requires that tourism service providers enhance their offerings to serve these markets with appropriate experiences and language capabilities.

As tourism recovers, there is concern that the numbers are bumping up against a real or perceived capacity constraint.

Some have told me that when the annual count reaches 1.2 million the community starts feeling overwhelmed. It is obviously in the interest of the tourism industry to work with the community on managing these issues.

Jobs and Unemployment: Most Jobs Haven't Returned

Even though the tourism sector has been robust, Kauai job growth has returned only very slowly. As seen in Chart 7, Kauai lost over 3,500 jobs between early 2008 and early 2010. Since then, about 1,600 of those jobs have returned. However, that means that Kauai is still well below the prior peak. The recession affected the Kauai labor market more so than the rest of the state as the unemployment rate on Kauai soared to over 10% in 2009, well above the statewide peak. The slowly improving jobs picture has brought the Kauai unemployment rate down to less than 6%, but it remains about 1% above the statewide average.

The job growth between 2010 and 2013 has been uneven across sectors of Kauai's economy. As seen in Chart 8, tourism-related jobs have grown, but construction jobs are still below their 2010 levels.

Electricity Sales Trends Reflect More PV Use

In the past we have used the electricity sales by the Kauai Island Utility Cooperative (KIUC) as an indicator of current economic activity. When the economy was good, electricity sales were higher, and vice versa. These days this relationship is not as straightforward. The market penetration of distributed generation such as residential and commercial photovoltaic systems combined with demand management by customers and encouraged by the utility are making it more difficult to assess economic activity from utility sales.

Chart 9 shows that KIUC customer counts (the brown line) continue to grow as people hook up to the grid. The rate of increase has accelerated as the economy has recovered. This is

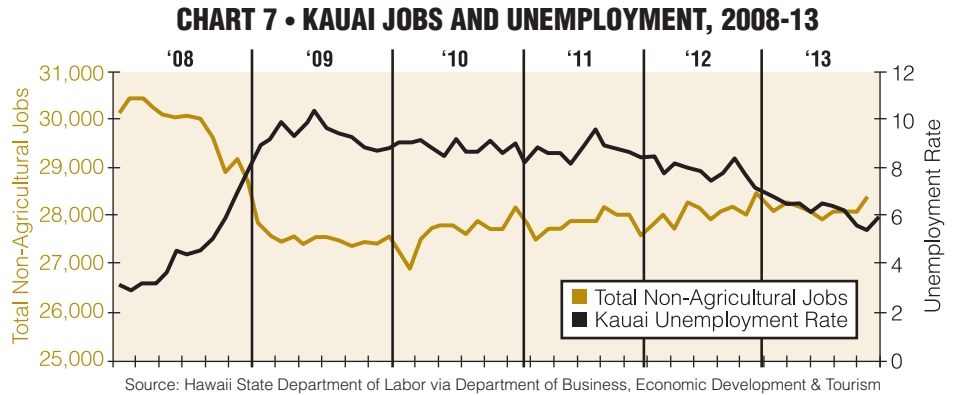


CHART 8 • KAUAI JOB COUNT % CHANGE BY SECTOR, 2008-13

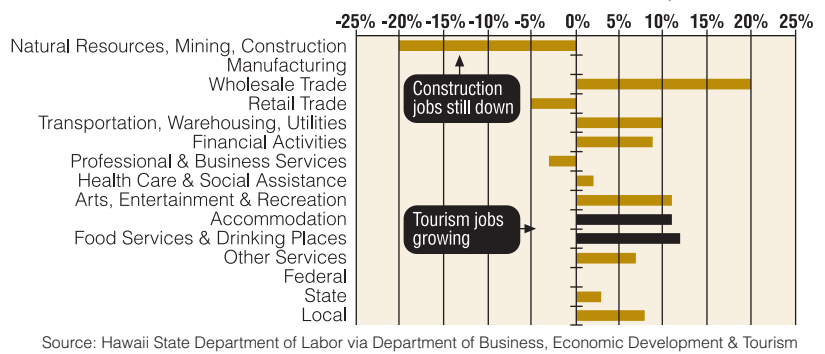
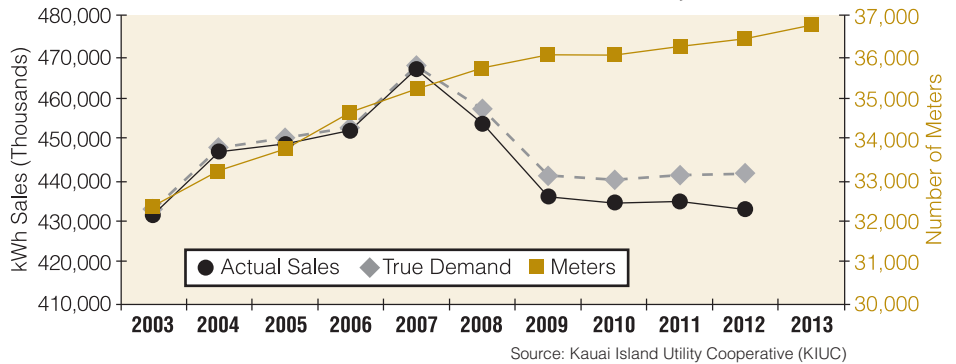


CHART 9 • KAUAI ELECTRICITY GROWTH, 2003-12



important to the utility that is required to provide service to these customers and must have the capacity to do so. When the Kauai economy declined during the Great Recession, electricity sales (the black line) did likewise. However, as the economy has improved, total electricity sales have not done so. KIUC estimates how much of the demand is offset by distributed generation such as photovoltaic and by demand management and estimates "true demand" (the dotted line). This shows that the decline in sales has ended and that slow growth has returned.

Construction and Development: Modest Improvement at Best

The construction sector is important to jobs and incomes but also as an indicator of the underlying strength of an economy. On the other Neighbor Islands the boom in tourism has clearly spread to other parts of the economy, including construction. This has yet to occur convincingly on Kauai where construction continues to underperform. Since mid-2011, private building permits have shown only modest improvement on a trend basis. (See Chart 10 on page 4.)

—continued on page 4

Kauai County (continued from page 3)

The decline of construction jobs, which began in late 2010, did end about a year later, but construction jobs have still not recovered to prior levels.

The bottom of the construction cycle is being supported by public infrastructure spending. For example, County capital improvement (CIP) spending on roads and water system improvements is expected to be \$15-18 million on an annual basis.

Grove Farm's Hokulei Center construction is getting underway in 2013 with Safeway as an anchor tenant scheduled to open in 2014. Grove Farm is also developing 200 lots at Pupuikē. Cook Inlet Region, Inc. is starting to develop 14 acres at Poipu for luxury housing. Kukuiula construction of resort homes has picked up, reportedly with the help of Chinese investors.

**Real Estate:
Clear Positive Trends**

In contrast to the tentative improvement in construction, the residential real estate market is showing clear positive trends. As can be seen in Chart 11, the numbers of single-family and condominium units sold has been consistently improving since 2009. If the pattern in the first part of 2013 continues, sales volumes will exceed 2007 levels. Residential real estate median prices (Chart 12) also seem to have bottomed out in 2011.

However, in both the number of sales and prices, the real estate market is still far off their prior peaks. Given what we know now about the bubble during that time, it may be a long while before we see some of those numbers again.

**County Government:
Property Values Improving**

One of the beneficiaries of improving property values is County government. Property taxes are the major local revenue source for the County. Kauai County saw a considerable fall off in property tax revenues starting in fiscal 2011 as the lagged effect of lower property values showed up in assessments. (See Chart 13, next page.)

CHART 10 • KAUAI CONSTRUCTION, 2009-13

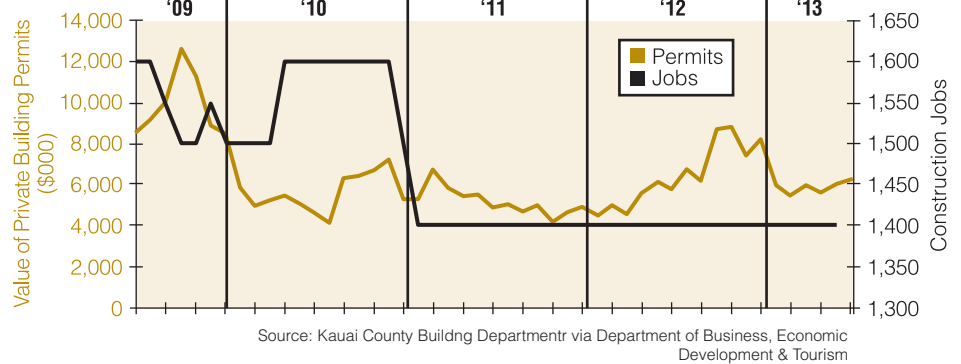


CHART 11 • KAUAI REAL ESTATE SALES, 2004-13

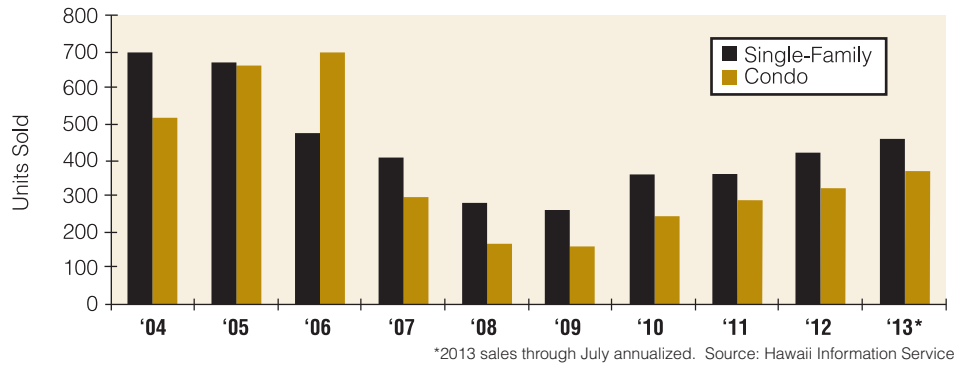
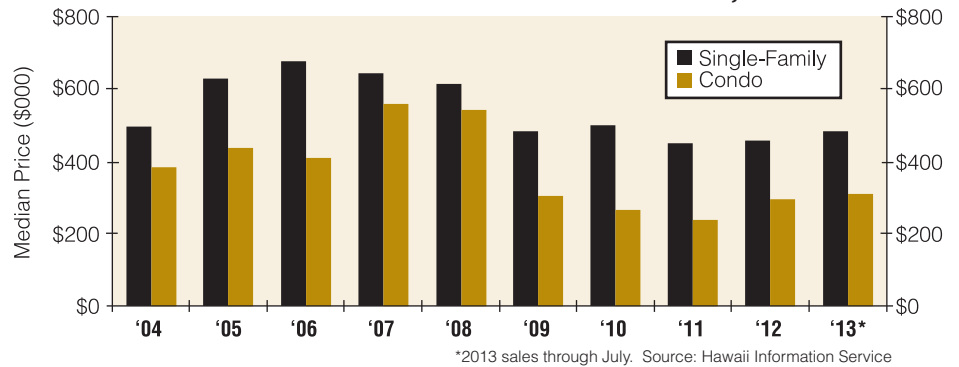


CHART 12 • KAUAI REAL ESTATE MEDIAN PRICES, 2004-13



The real estate market has since leveled off and the County has increased property tax rates. As a result, property tax revenues are expected to grow for fiscal 2013 and 2014.

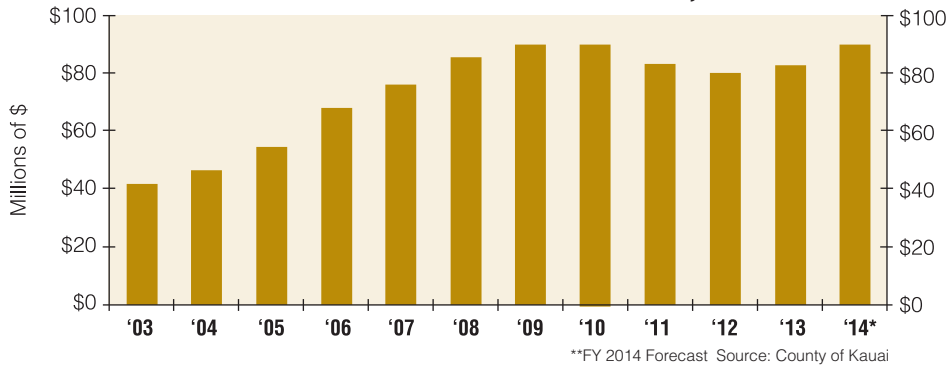
The improving revenue picture for the County enabled it to raise \$60 million in the capital markets for some of the CIP spending noted above. The County is also emphasizing energy efficiency and sustainable energy projects.

**Diversified Agriculture Is
Important to Kauai Economy**

In 1987 Kauai had over 50,000 acres in cropland; as of 2007 (the latest data) this dropped by more than half to 22,000 acres. Hired farm workers dropped from more than 2,000 to fewer than 1,300. These declines would have been even greater without the rise of coffee, seed corn and other diversified ag ventures.

Kauai Coffee, the state's largest coffee company, has 3,100 acres planted with 4 million trees, along with a good brand identity.

CHART 13 • KAUAI REAL PROPERTY TAX LEVY, FY 2003-14



The seed corn industry is enormously important to Kauai's economy, especially on the west side. The four major players provide significant land rents and well-paying jobs. For example, Dow Agrosciences is investing \$50 million over three years in operational infrastructure and employs on average 100 people on a year-round basis with a payroll and other expenses of \$5–10 million. Pioneer has about 160 full-time direct employees with another 100 or so seasonal workers on Kauai.

Land rents paid by the seed companies allow landowners to undertake other economic development initiatives such as small farming on Grove Farm lands and a beef slaughterhouse by Gay and Robinson.

The seed corn industry is on Kauai because growing conditions allow the companies to bring products to market with shorter lags. Yet the industry faces obstacles including fear and resistance from some in the community. The basis for the fears is controversial. What is not controversial is that if Kauai loses this part of its economic base it will be impossible to replace in the near future, with significant adverse economic impacts on the island.

Beyond coffee and seed corn, the agriculture sector on Kauai is in for some interesting developments. Shrimp breeding and farming is a growing enterprise by Sunrise Capital, Inc., with 30 workers in three facilities and an annual payroll of \$1.2 million. They have gained a worldwide reputation for their breeding stock that yields them \$4.5 million per year in revenues and are also ramping up meat shrimp sales and are moving into

clam production. The company is leveraging their production reputation to undertake international consulting in shrimp breeding and farming.

Hawaii Dairy Farms is planning a \$14-million investment for a 2,000-head operation at Maha'ulepu Valley that will supply 7% of the state's milk supply. Grove Farms is making small-farm acreage available at affordable rents. The County government is putting emphasis on "farm to table" via support for farmers' markets and ag parks at Kilauea and Anahola. The conversion of the former Big Save store to support "Kauai Grown" and "Kauai Made" vendors could enhance these initiatives.

Grove Farm is also using farmland to develop complementary eco-tourism activities such as four-wheeler tours, zip lines and tube rides. There are presently six zip line companies on the island demonstrating the synergies among conservation, agriculture and tourism.

Missile Range Facility Employs 1,000 on Kauai

The Pacific Missile Range Facility at Barking Sands is another important and integral part of the island's economy. It employs about 1,000 workers including about 90 active-duty military and 150 civil service employees, plus about 750 contractors. It injects \$135 million per year into the Kauai economy through local payrolls and contracted goods and services, plus another \$8-15 million annually for periodic testing events.

The Terminal High Altitude Area Defense (THAAD) and the sea-based Aegis systems have reached maturity but

will be back for periodic follow-on testing. The new Aegis Ashore Missile Defense Test Complex is being constructed with \$35 million of spending in 2013 alone.

As in other parts of the Federal government, sequestration is being felt at PMRF as some contract employees are being put on furlough days.

Film Industry Credits Bring Hope for the Future

Kauai has leveraged its unique natural beauty as a film location, with productions bringing immediate impacts of outlays, employment and visibility. These have also become the basis for destination marketing and movie-related tours that bring in more tourists. Here is yet another example of synergies across sectors of the economy.

According to the Kauai Film Commission, the island is attracting a steady flow of TV documentaries and reality-type shows including HGTV's "Hawai'i Life." In addition a steady flow of low-budget, but financially successful SyFy movies such as *Piranhaconda* continue to be attracted to Kauai. Art Umezu reports that Kauai is on the radar screen for Japanese filmmakers, and if they come it will be the first Japanese movie to film on Kauai since 1968. Apparently *Jurassic Park 4* also has eyes for Kauai.

Effective July 1, the state increased the refundable tax credit for filming qualified movie, television, commercial, or digital media projects in Hawaii, including internet-only distribution. The credit equals 25% on the neighbor islands. In addition, the cap on the credit has been increased from \$8 million to \$15 million per production and will be administered through the State Film Office.

These new incentives could help Kauai attract another blockbuster filming project. However, competition from other locales is fierce.

Conclusion

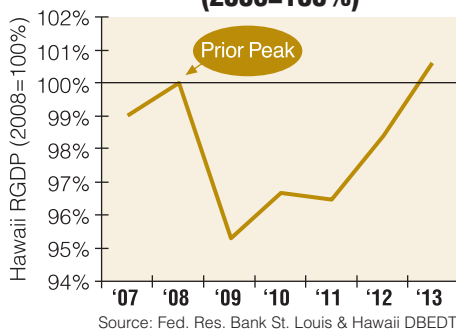
Overall, while the Kauai economy is not recovering as fast as other parts of the state, the island can look forward to continued growth and an improving economy into 2014.

Statewide Economy: Corner Turned, Moving Ahead

By Dr. Jack Snyderhoud, Professor of Business Economics, University of Hawaii at Manoa and Economics Adviser to First Hawaiian Bank

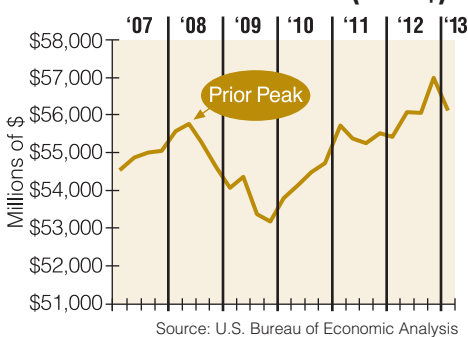
Thanks to a brightening national economic picture, Hawaii's economy is gathering a head of steam as it moves into 2014. The years of bouncing along the bottom appear to be over, at least for awhile. 2013 will mark the year that Hawaii entered a new growth phase of the latest business cycle. Until now, as Chart 1 shows, the prior peak had been 2008 when real GDP for the state reached \$60 billion. We are expected to exceed this in 2013.

CHART 1 • HAWAII REAL GDP (2008=100%)



This pattern is confirmed by inflation-adjusted state personal income data (Chart 2) that also peaked in the first half of 2008. Since the second half of 2012 we have been above that prior maximum.

CHART 2 • HAWAII REAL PERSONAL INCOME (2008 \$)



Not surprisingly, the visitor industry has been the engine of growth for Hawaii's economy. Visitor arrivals bottomed out in mid-2009 and have experienced a strong comeback since then except for a hiccup in 2011. Current arrival numbers put us on a pace to exceed 2012's record. Meanwhile, visitor spending (Chart 3) is also trending upward at even a stronger clip.

Historically, the construction industry has also been an important source of

CHART 3 • STATEWIDE VISITOR SPENDING (MILLIONS OF \$)

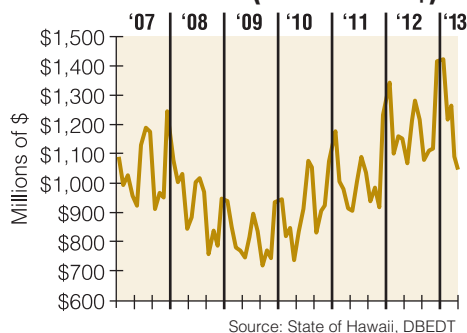
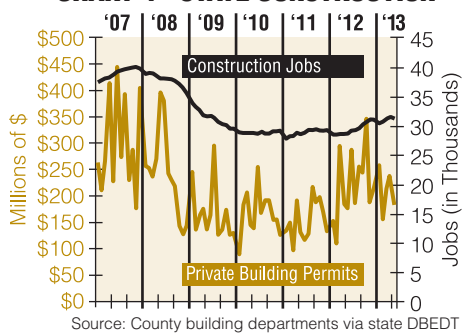
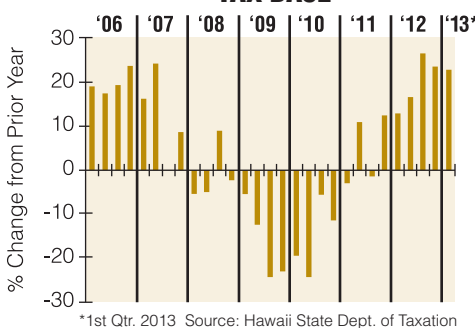


CHART 4 • STATE CONSTRUCTION



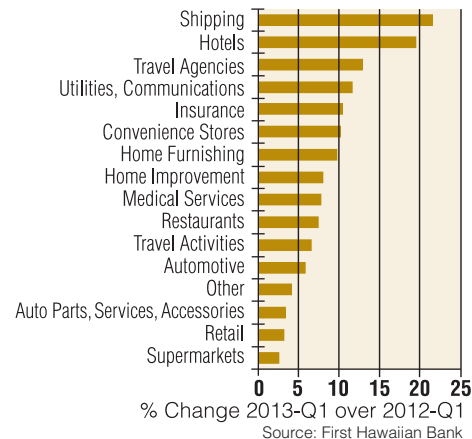
growth. However, in order to prosper, the construction industry requires a good underlying economy. Hence, it tends to lag the overall economy. But even here we see signs of strength. Building permits (Chart 4) are starting to trend upwards and construction jobs are up 4,000 from the trough. As a result, the state construction tax base (Chart 5) is once again showing growth after two years of shrinking.

CHART 5 • STATE CONTRACTING TAX BASE



The improving economy is reflected in merchants' credit card activity as monitored by First Hawaiian Bank's Business Activities Report (Chart 6), published quarterly. Leading the growth in the last year are hotels and shipping. Nearly all sectors are experiencing 5% or more growth.

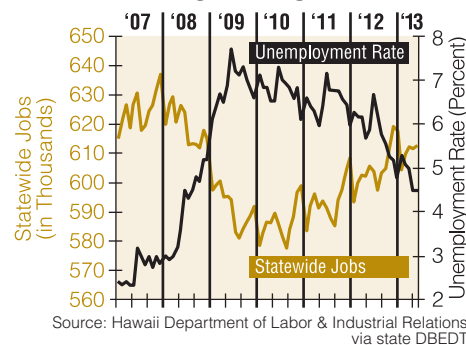
CHART 6 • FIRST HAWAIIAN BANK BUSINESS ACTIVITY INDEX



The labor market (Chart 7) has benefited from the economic strength. Labor is always a lagging statistic and so improvement in labor conditions usually starts only after the economy is on firm footing. Total state jobs are up by 35,000 since their nadir in 2010, and the unemployment rate has decreased to 4.5%, much better than the 7.7% peak but still above the pre-recession levels of less than 3%.

The improvements in the job market have been uneven. Most of the growth has been in the visitor-related sectors. Likewise, growth across the state's counties has not been uniform. Oahu was impacted the least by the contractions in the job market and has now returned within 4% of the peak employment at the end of 2007. All the neighbor islands had more serious fall-offs in employment ranging up to 12% of total jobs. Their recovery has been generally steady but also slower. Maui has done the best and has recovered to 95% of its peak employment. Hawaii Island still has a 7% gap and Kauai 8%.

CHART 7 • STATE JOBS & UNEMPLOYMENT



World Growth Trends Moderating: U.S., Global Outlook for 2013-14

By Dr. Ken Miller, CFA, Chief Investment Strategist & Director of Investment Services, First Hawaiian Bank

Global growth is forecast to be 3.1% in 2013, in line with 2012 but down from 3.9% in 2011 due to slower growth in key emerging market economies and a prolonged recession in the euro area. Emerging markets (Chart 1) are still growing considerably faster than advanced economies, but are experiencing lower domestic demand, capital outflows, and currency depreciation. There is considerable uncertainty about growth in Japan. World output should increase slightly in 2014 as the euro area exits recession, U.S. growth firms, and emerging markets stabilize. In the U.S., tax hikes and the sequester are producing a strong fiscal headwind which should ease in 2014.

Jobs: Slow, Steady Improvement

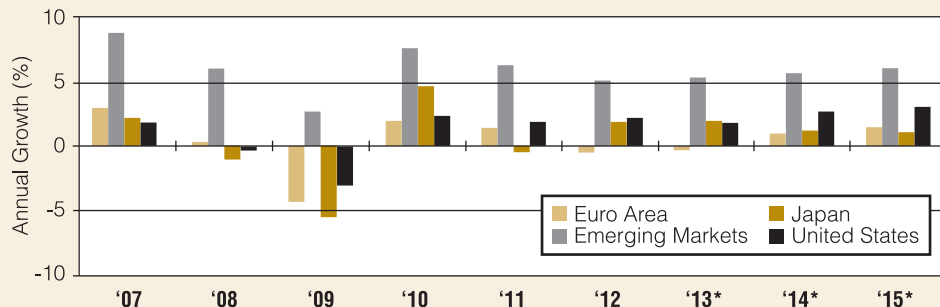
The jobs market (Chart 2) is improving slowly but steadily with about 200,000 jobs being added per month. An estimated 8.7 million jobs were lost as a result of the Great Recession. Over the past three years about 6.6 million jobs have been regained, leaving the U.S. with 2.1 million fewer jobs than at the prior peak despite the growth in population. In addition, a disproportionate share of the growth has been in relatively low-paying and part-time jobs.

The headline unemployment rate (Chart 3) has fallen, but partly due to discouraged job-seekers leaving the labor force. A wider measure of unemployment including discouraged and involuntary part-time workers hovers at 14.3%. With improved labor market conditions, workers should reenter the labor force, which will temper the fall in the unemployment rate.

Inflation: Well Controlled

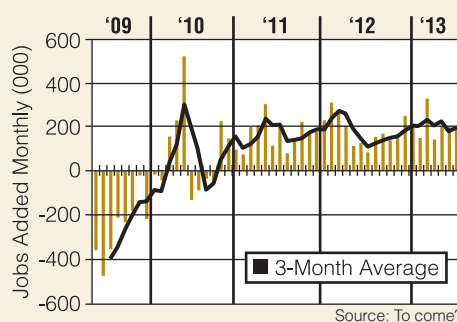
Inflation (also Chart 3) remains well below the Fed's target of 2%. However, there appear to be transient factors pushing down prices, and some mild reacceleration of inflation is expected. Longer term, expansion of the money supply raises the risk of inflation, but even 10-year inflation expectations remain low.

CHART 1 • WORLD ECONOMIC GROWTH FORECAST



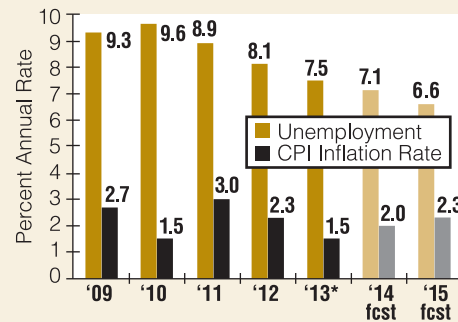
*2013 is an estimate; 2014 and 2015 are forecasts.
Source: International Monetary Fund, Dr. Jack Suyderhoud

CHART 2 • MONTHLY CHANGE IN PAYROLLS, 2009-13



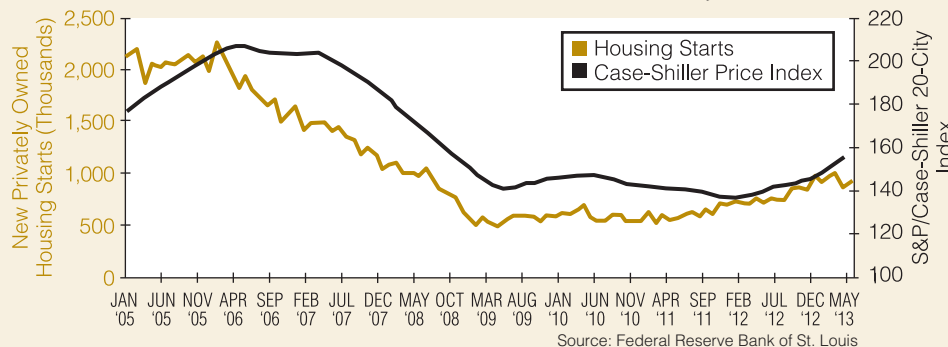
Source: To come?

CHART 3 • FORECAST UNEMPLOYMENT AND INFLATION



Source: Federal Reserve Bank of St. Louis and Dr. Suyderhoud's Forecasts

CHART 4 • U.S. HOUSING STARTS AND PRICES, 2005-11



Source: Federal Reserve Bank of St. Louis

Housing Market Recovering

A key positive going forward is the recovery in the housing market (Chart 4), an important cyclical economic sector and as well as a driver of household net worth and consumer confidence. Nationwide home prices troughed about 18 months ago. Rising home prices are gradually reducing the number of homeowners "underwater" on their mortgages. New construction is also up sharply although still well below peak levels.

The Reliable Consumer

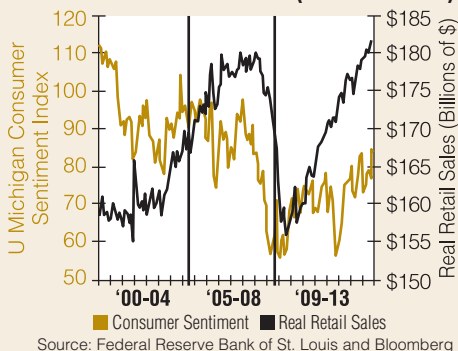
U.S. consumers have for the most part maintained their buying behavior through thick and thin (Chart 5, black line, at the top of page 8). However, part of the growth in consumption has been fueled by a fall in the savings rate from over 6% in early 2009 to under 3% this year. Consumer confidence (Chart 5, brown line) is as high as it has been since the financial crisis, which bodes well for consumption spending going forward.

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U.S., Global Outlook for 2013-14

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CHART 5 • CONSUMER SENTIMENT AND REAL RETAIL SALES (MONTHLY '09-'13)

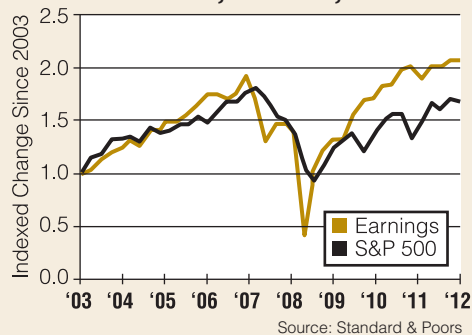


Is the Recovery “Artificial”?

There is widespread agreement that excessive debt, the popping of the housing bubble, and the subsequent financial crisis were the causes of the Great Recession, but there is less agreement on why the recovery has been so painfully slow. Some pin the blame squarely on “supply side” factors such as excessive regulations, Obamacare, and uncertainty about future taxes, which, it is argued, hold back hiring and business investment. This view also argues that any recovery so far has been largely artificial, fueled by government borrowing and ultra-low interest rates. Others say the main problem faced by businesses is a lack of consumer demand. They note that real economic activity usually takes a long time to recover after a financial crisis, due to consumers paying down debt and tighter credit conditions. It certainly appears that the current recovery fits this pattern. The corollary of this more expansive view of the economy is that a real recovery is underway, which should accelerate as economic headwinds begin to fade.

Despite the sluggish recovery, the stock market has reached record highs. To some market observers the cause of this apparent disconnect is, once again, the Fed. In this view, the stock market is being fuelled by low interest rates and an expansion in the money supply. There are, however, other factors. First, some portion of the market recovery must owe to a failure of worst-case scenarios to materialize. Second, stock

CHART 6 • STOCK PRICES VS. EARNINGS, INDEXED, 2003-12



prices are ultimately determined by profits, which grew spectacularly in the early years of the recovery and are still positive (see Chart 6). Third, stock prices also reflect a collective view of future economic growth.

Monetary Policy: While there are other reasons for the recovery beyond government/Fed interventions, it is obvious that the eventual “tapering” of quantitative easing presents considerable risk to the market and the real economy. Stock and especially bond markets swooned in June when Fed Chairman Ben Bernanke laid out a potential time line for winding down Fed bond purchases, showing how sensitive markets are to the future course of monetary policy.

Although he stressed that “the taper” was dependent on continued improvement in the economy, and that higher short-term rates would only follow much later, the market has moved up expectations for a first rate hike to 2014. This may be an over-reaction, as the Fed has clarified that reaching its 6.5% unemployment target will not automatically lead to a rate hike. For monetary policy, however, perception is everything, and the Fed has shown it is not completely in control of the message that investors receive.

The very sharp rise in interest rates in June could not have been the Fed’s intention, and shows how market risks can spill over to impact the real economy. It does not appear that the recent increase in interest rates will be enough to derail the recovery but the jump in mortgage rates, for example, is worrisome (see Chart 7).

Market Outlook: The outlook for financial asset prices is, as always,

CHART 7 • MORTGAGE RATES, JULY 2012-JULY 2013



subject to considerable uncertainty, particularly in the near term. At least we can confidently predict that market volatility will be elevated as investors try to gauge the timing and impact of the wind-down of monetary stimulus. Both the real economy and the stock market owe their resurgence to much more than Fed policy. Therefore both should be able to withstand the withdrawal of monetary accommodation, particularly as such a shift is likely to happen only when economic fundamentals strengthen. The investment implication is that tighter monetary conditions present a risk to the stock market but do not negate the positive long-term outlook.

It is hard to foresee any more than minimal returns for bonds, whose principal value will be eroded sooner or later by higher interest rates. However, notwithstanding the recent sharp rise in rates, bond price rationally reflect continuation of low short-term rates for the next several years, and thus are not, in our view, in a bubble.

Perhaps the surest prediction one can make regarding the markets is that returns generally will be lower than over the past 30 years. Total return from bonds is likely to be in line with current miniscule yields (or lower) — say 3% for the broad bond market. Meanwhile stocks, hit by two historic bear markets in a decade, are unlikely to see prices rise faster than earnings as they did in the 1980s/90s, which experienced a huge expansion in valuation ratios. A reasonable estimate for stocks is that prices will rise in line with earnings growth of approximately 5%, plus a 2% dividend yield for a total return of about 7%.