



Blue Book

MARKET REPORT

FOURTH QUARTER 2017

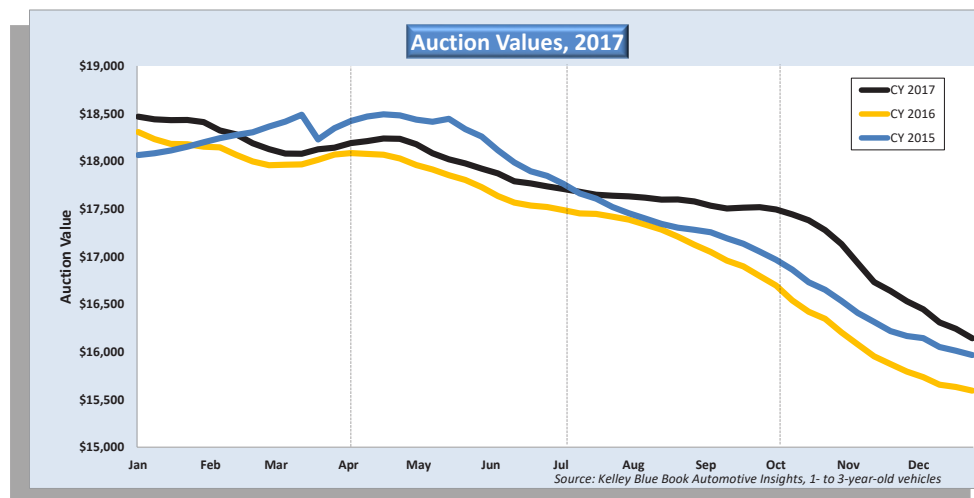
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Auction Values Continued Decline in Fourth Quarter, Down More Than 12 Percent for 2017

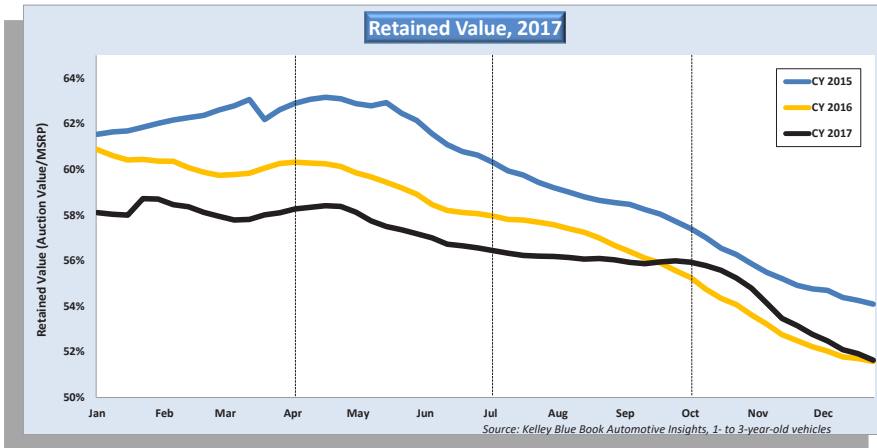


- Kelley Blue Book® Auction Values for 1- to 3-year-old vehicles fell a moderate 7.8 percent, or roughly \$1,376 per unit, in the fourth quarter of 2017.
- The market fell slightly faster in the fourth quarter of 2017 than in 2016, where auction values fell 7.1 percent, or roughly \$1,202 per unit. This is largely due to vehicle values not falling during high demand periods after Hurricane Harvey, and then falling rapidly to catch up to normal market conditions.
- Auction values in 2017 ended 3.5 percent, or \$549, higher than in 2016, and 1.1 percent, or \$176, higher than in 2015.
- Auction values remained strong until the end of the third quarter of 2017 and closed out the year down 12.3 percent year-to-date, or \$2,325 per unit, with almost 60 percent of depreciation happening in Q4 2017.
- The rapid decrease of vehicle demand is seen in the aggressive downward trend in last quarter of the year, after dealers have finished refilling inventory to combat the needs of several natural disasters in mid-2017.

“DESPITE THE STEEP DECLINE IN AUCTION VALUES, 2017 VALUES REMAIN ABOVE 2016 AND THE DOWNWARD TREND IS LOOKING TO STABILIZE UNTIL THE BEGINNING OF THE SECOND QUARTER OF 2018. VALUES TYPICALLY REMAIN STAGNANT IN THE FIRST QUARTER OF 2018, AS CAR SALES DEMAND INCREASES DURING SPRING AND EARLY SUMMER SEASONS.”

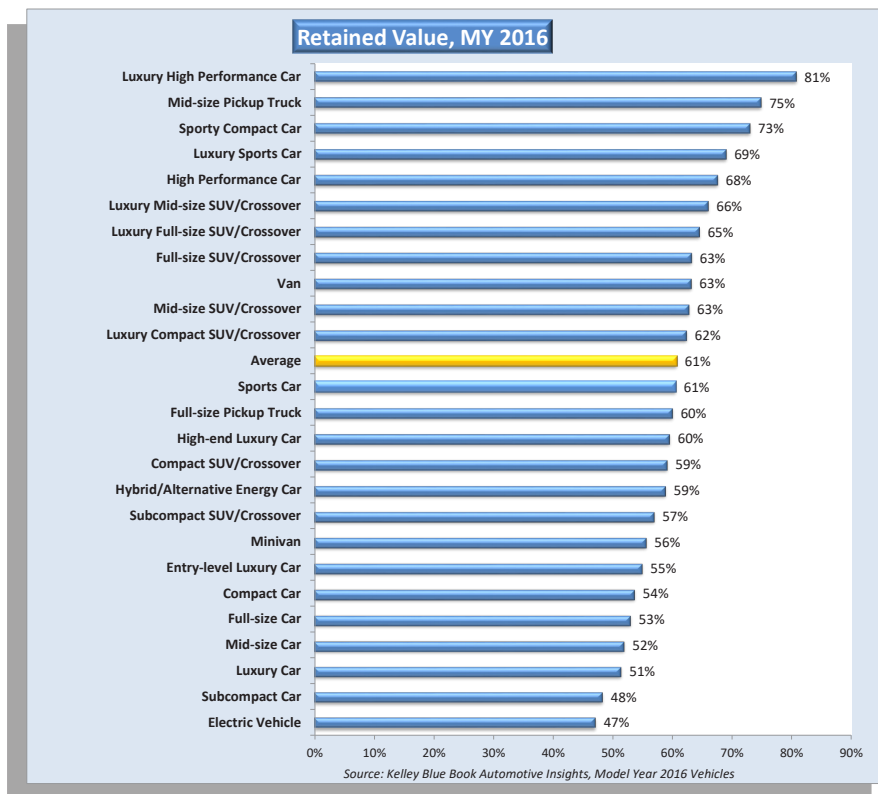
JOSEPH NGUYEN, KELLEY BLUE BOOK ANALYST

Despite Holding Strong Throughout the Year, Retention Values Fell More Than 4 Percent During the 2017 Holiday Season



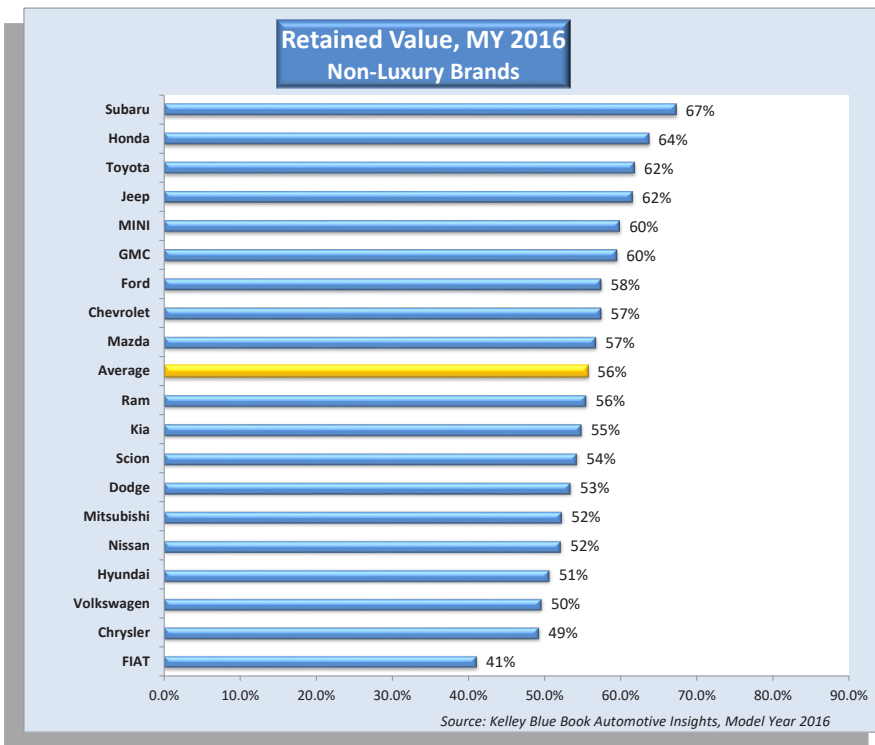
- Retention for 1- to 3-year-old vehicles slid in the fourth quarter of 2017, falling a total 6.5 percent to close the year out at an average of 51.6 percent.
- The 2017 retention values finished the year 3.5 percent lower than 2015, but similar to 2016 despite holding lower retention at the start of the year.
- High off-lease volumes remain the leading factor in influencing the direction of the used-car market. Although new-car sales declined roughly 5 percent year-over-year in 2017, Kelley Blue Book expects used-car retention values to continue holding lower value levels due to oversupply issues caused by off-lease volumes from previous years.

Average Retained Values Remain Similar Year-Over-Year with Some Segments Experiencing Big Changes



- For 2017, mid-size pickup truck fell 7 percent year-over-year, but remains among the top segments. This segment suffers from higher gas prices in 2017 compared to 2016, increasing popularity of smaller fuel-efficient SUVs for everyday utility value compared to trucks, and slow truck segment growth with only the new 2017 Honda Ridgeline being introduced this year.
- The luxury high performance car segment increased 7 percent year-over-year, due to more financially able consumers booming from the overall good U.S. economy in 2017, with a 4.1 percent unemployment rate and 2.5 percent annual GDP growth. Exceptional vehicles such as the Porsche 911 and Mercedes-Benz AMG GT lead the segment desirability among qualified buyers.
- The SUV/crossover segment's retention values remain flat year-over-year despite a few events that might have influenced change, such as high year-round prices and Hurricane Harvey that shifted the demand toward compact and mid-size cars for impacted regions.

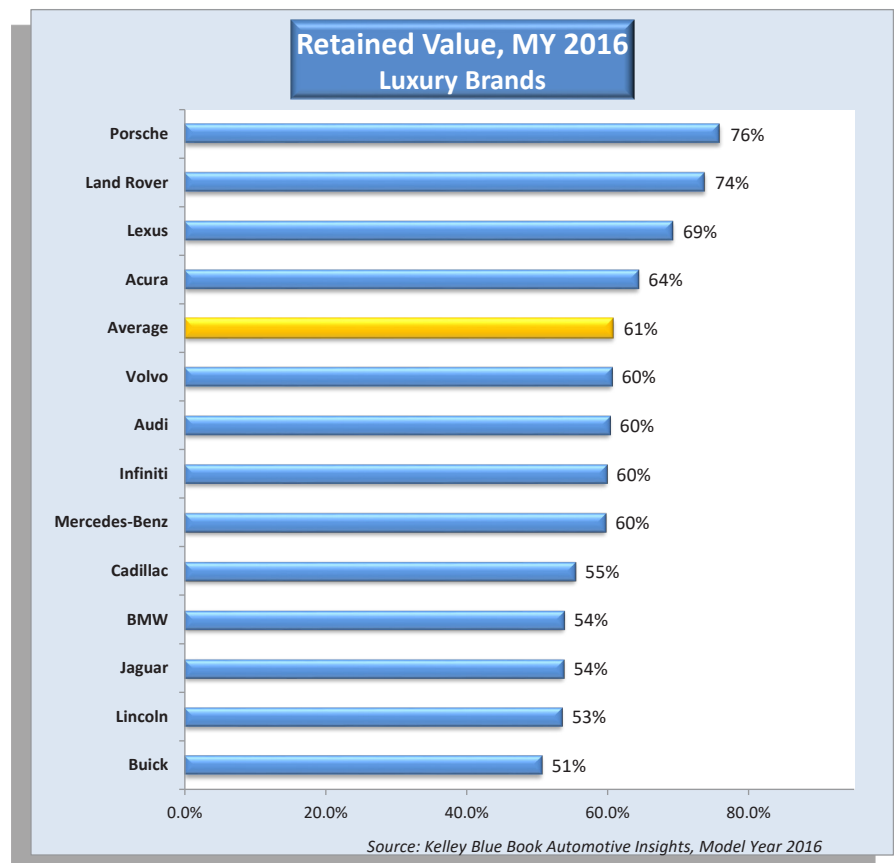
Japanese Imports Lead in Model Year 2016 Retention Values, Followed Closely by Rivalling U.S. Domestic for Non-Luxury Brands



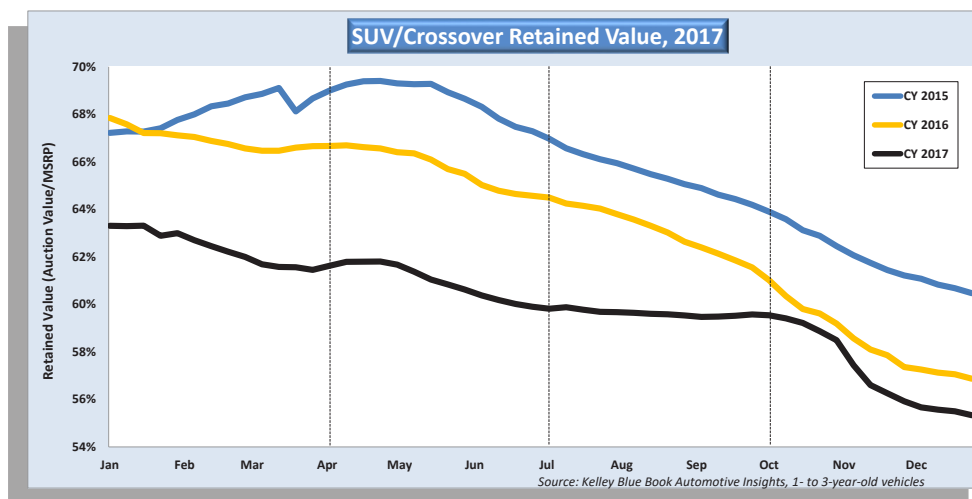
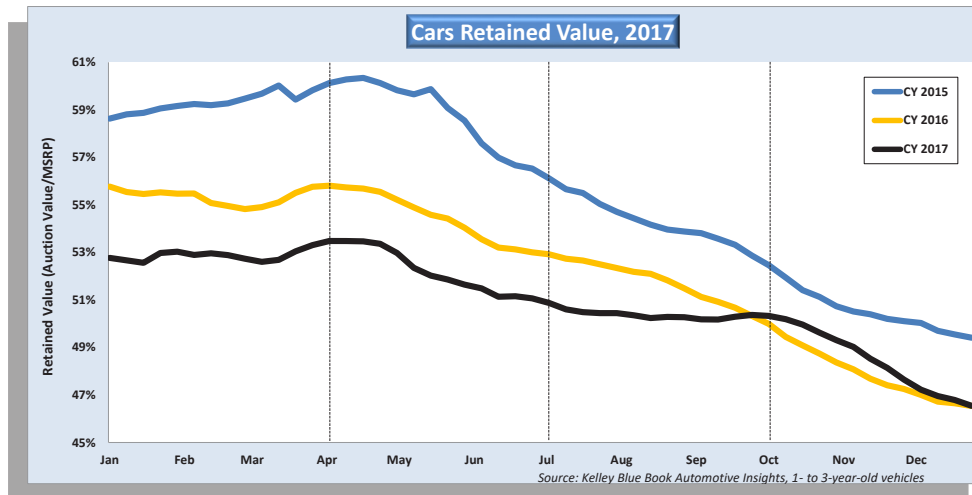
- Subaru, Honda and Toyota retention values remain strong in 2017, beating the average retention among non-luxury brands by roughly 10 percent.
- With the national average retention value at 51.6 percent for the 2016 model year in 2017, non-luxury brands retention average is outperforming by more than 4 percent.
- Challenger brands such as Kia, Mitsubishi, Mazda and Chrysler experienced an impressive 2 to 4 percent increase in retention values year-over-year; however, their rankings are still on the lower spectrum of non-luxury brands.

Retention Values Increased Year-Over-Year for Some Luxury Brands, but Most Remain Similar to Last Year's Performance

- Leading luxury vehicle brands Porsche, Audi, Lexus and Acura model year 2016 retention values increased 3 to 4 percent compared to last year report for model year 2015
- Leading brand BMW and challenger brands INFINITI, Cadillac and Buick model year 2016 retention values increased 1 to 2 percent compared to last year report for model year 2015.
- Volvo experienced an 8 percent increase in retention values with its 2016 model year performance compared to its model year 2015 results last year, most likely due to the success of the company's redesigned XC90, all-new XC60, V90 and S90 in 2016.
- Lincoln retention values fell nearly 4 percent compared to its 2015 model year results last year.



SUV/Crossovers Finished the Fourth Quarter Strong, Holding Roughly 10 Percent More Retention Values Than Passenger Cars During Every Period in 2017

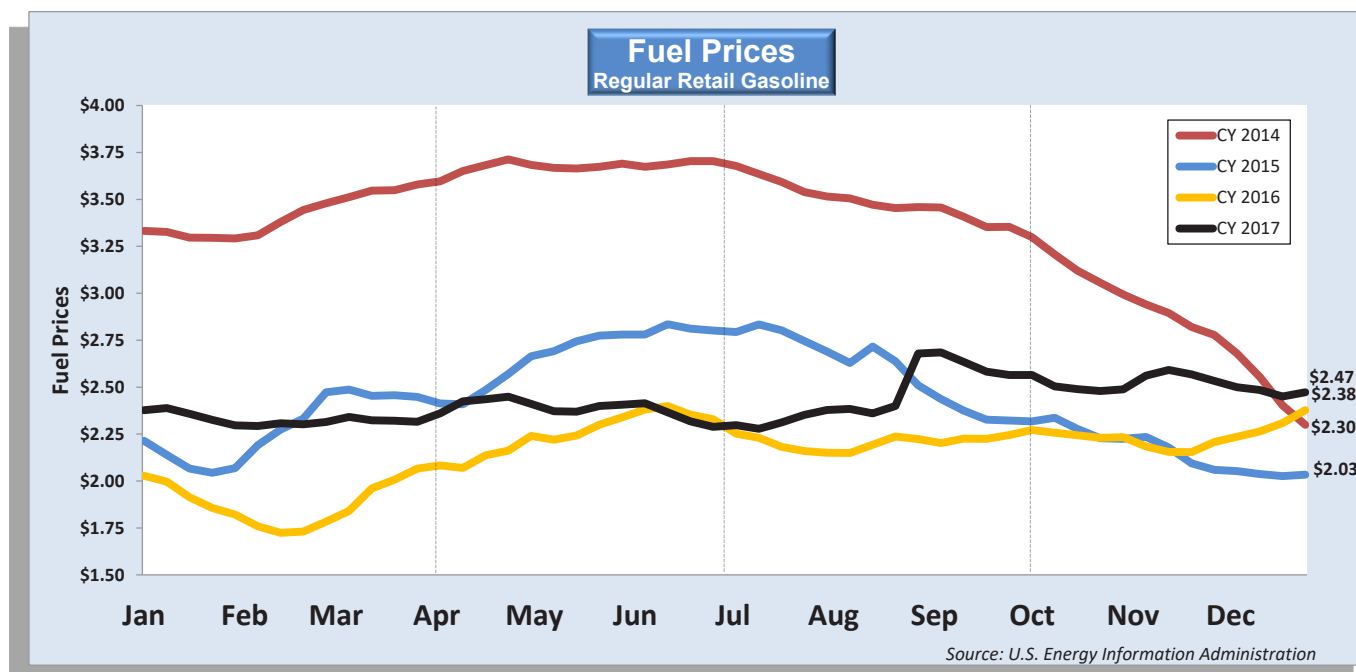


- SUV/crossover retention values continue to outperform passenger cars in their continued popularity among consumers, as gas price remains low and affordable, causing vehicle buying preferences to shift toward utility and high driving positions provided by SUVs.
- Auction buyers can compete at higher bidding prices for SUVs because of the current demands created by low gas price and recovering economy, thus greatly influencing high retention rates for SUVs.
- Although outperforming cars, SUV/crossover retention values fell drastically year-over-year ending 2017 up nearly 2 percent year-over-year, and nearly 5 percent from 2015. This is a sign that many consumers still desire features provided by cars such as good fuel economy, low purchase price and easier to operate in small city roads.

“DESPITE RETAINING LOWER VALUES AT THE START OF THE YEAR COMPARED TO 2016, CARS FINISHED 2017 AT SIMILAR RETENTION VALUES YEAR-OVER-YEAR. THIS IS MOST LIKELY CAUSED BY THE HURRICANE DISASTERS IN LATE-2017 CREATING DEMAND FOR CONSUMERS TO REPLACE THEIR FLOODED VEHICLE WITH CHEAPER ALTERNATIVES THAN EXPENSIVE SUVs. THIS PROMPTED A PERIOD OF INCREASED VALUES FOR CARS AS AUCTION BUYERS COMPETED TO FILL UP THEIR INVENTORIES TO MEET THE DEMANDS OF HURRICANE VICTIMS.”

JOSEPH NGUYEN, KELLEY BLUE BOOK ANALYST

Fuel Prices Spike in Third Quarter 2017 Due to Hurricane Harvey



- U.S. regular retail gas prices averaged \$2.41 per gallon in 2017, 13 percent higher than in 2016, but only two cents per gallon less than in 2015.
- Higher crude oil prices in 2017 influenced the higher gas prices throughout the year.
- Gas prices in the Houston region are among the lowest in the country, but due to Hurricane Harvey creating demand, gas prices rose, hitting an annual high of \$2.43 per gallon in September, with \$1.95 per gallon being the lowest point in July.
- On November 1, California raised taxes on gas by 12 cents per gallon to fund road and bridge repairs and expansion of mass transit, which resulted in higher 2017 gas prices compared to 2016.

Average Fuel Prices By Month (\$)														
Year	Chart (Hi/Lo)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017		\$2.35	\$2.30	\$2.33	\$2.42	\$2.39	\$2.36	\$2.31	\$2.38	\$2.63	\$2.51	\$2.55	\$2.49	\$2.42
2016		\$1.98	\$1.76	\$1.93	\$2.11	\$2.25	\$2.36	\$2.21	\$2.18	\$2.22	\$2.25	\$2.18	\$2.28	\$2.14
2015		\$2.14	\$2.22	\$2.46	\$2.47	\$2.72	\$2.80	\$2.79	\$2.67	\$2.41	\$2.29	\$2.18	\$2.04	\$2.43
2014		\$3.32	\$3.36	\$3.53	\$3.66	\$3.67	\$3.69	\$3.61	\$3.49	\$3.42	\$3.17	\$2.91	\$2.54	\$3.36

Appendix

Top 5 Performing Segments - Auction Value

SEGMENT	Q4 Change (%)
High Performance Car	-5.6%
Sporty Compact Car	-5.9%
Luxury Full-size SUV/Crossover	-6.2%
Full-size Car	-6.4%
Sports Car	-6.6%

MY 2015-2017, Kelley Blue Book® Auction Value

Bottom 5 Performing Segments - Auction Value

SEGMENT	Q4 Change (%)
Minivan	-10.9%
High-end Luxury Car	-10.6%
Luxury Car	-10.2%
Full-size Pickup Truck	-10.2%
Subcompact SUV/Crossover	-9.5%

MY 2015-2017, Kelley Blue Book® Auction Value

Top 5 Performing Brands - Auction Value

MAKE	Q4 Change (%)
smart	-3.1%
Jeep	-4.3%
Land Rover	-4.5%
Porsche	-6.1%
Kia	-6.2%

MY 2014-2016, Kelley Blue Book® Auction Value

Bottom 5 Performing Brands - Auction Value

MAKE	Q4 Change (%)
Mercedes-Benz	-10.8%
Jaguar	-10.7%
Scion	-10.1%
FIAT	-10.0%
Mitsubishi	-9.8%

MY 2014-2016, Kelley Blue Book® Auction Value

Top 10 Performing Models - Auction Value

MAKE	MODEL	Q4 Change (%)
Nissan	LEAF	8.7%
Scion	xD	1.9%
Honda	Insight	0.7%
MINI	Hardtop 2 Door	-0.2%
Dodge	Viper	-0.4%
Hyundai	Genesis	-1.6%
Mazda	CX-9	-2.2%
Nissan	Frontier King Cab	-2.5%
Mercedes-Benz	SLS-Class	-2.8%
Nissan	GT-R	-2.9%

MY 2014-2016, Kelley Blue Book® Auction Value

Bottom 10 Performing Models - Auction Value

MAKE	MODEL	Q4 Change (%)
Mitsubishi	Mirage	-17.4%
Mercedes-Benz	E-Class	-16.8%
Volkswagen	Eos	-16.5%
MINI	Hardtop	-16.5%
Chevrolet	Captiva Sport	-16.3%
Scion	tC	-13.8%
Jaguar	XF	-13.3%
Mercedes-Benz	GLK-Class	-13.2%
Scion	xB	-13.1%
Toyota	Sienna	-13.0%

MY 2014-2016, Kelley Blue Book® Auction Value

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