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BLUE BOOK Market Report

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Analysis from Kelley Blue Book's Analytic Insights Team

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Kelley Blue Book Public Relations Contacts:

Robyn Eagles | Director, Public Relations
949.268.3049 | reagles@kbb.com

Joanna Pinkham | Senior Public Relations Mgr
949.268.3079 | jpinkham@kbb.com

Brenna Robinson | Public Relations Mgr
949.267.4781 | berobinson@kbb.com

Rebekah King | Consumer Communications Mgr
949.267.4982 | rking@kbb.com

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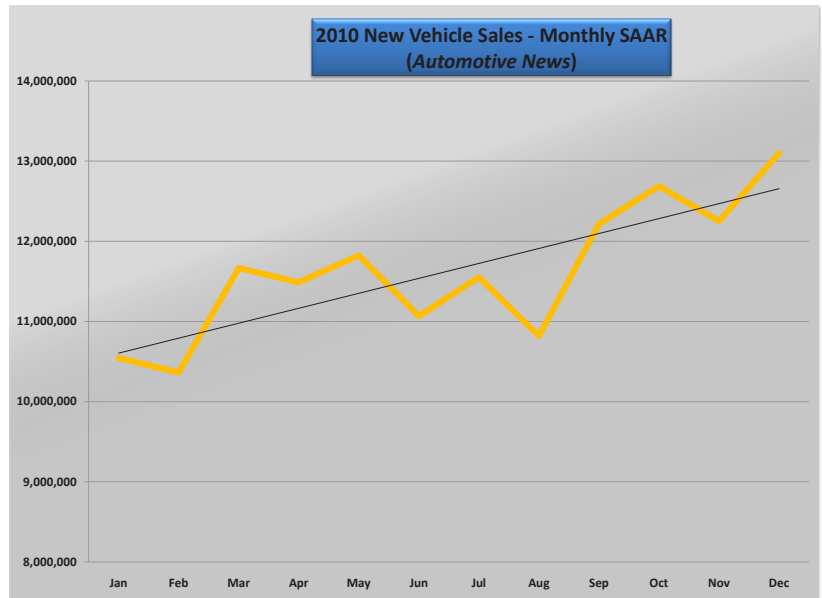
LATEST HOT USED-CAR REPORT

MARKET ANALYSIS:

2011 Used-Car Market Outlook

- Juan Flores, director of vehicle valuation, Kelley Blue Book
- Alec Gutierrez, manager of vehicle valuation, Kelley Blue Book

With the new year, dealers have returned to auction and are back to the business of selling cars. As in previous years, dealers have hit the lanes to replenish inventory in anticipation of a surge in consumer demand. We have found that dealers typically hold off on restocking inventory during December, since most consumers are focused on holiday shopping rather than buying a new or used vehicle. Dealers are hoping for a strong January, since sales of new vehicles in December came in stronger than anticipated. In fact, the December sales rate was the best of the year, ending 2010 at 13 million units per year. The strong finish in December leaves the industry with a sense of optimism that it has not felt for the past several years. Just under 11.6 million new vehicles were sold in 2010, a significant improvement over the 10.4 million new vehicles sold in 2009.



While there certainly is reason for optimism as we head into 2011, it may be a too soon to uncork the champagne just yet. The industry still faces a number of challenges, especially as many Americans continue to struggle to find work. Although the unemployment rate dropped to 9.4 percent in December, the labor force participation rate hit a 25-year low at 64.1 percent. This indicates that many people have simply given up looking for work since the labor force participation rate includes those working-age adults that are either employed or unemployed but looking for work. With the unemployment rate expected to remain above 9 percent in 2011, we expect affordability to continue to be a top priority for car shoppers. So, while we hope that sales continue to improve, we expect affordable, fuel-efficient vehicles to be among the best-selling new and used vehicles.

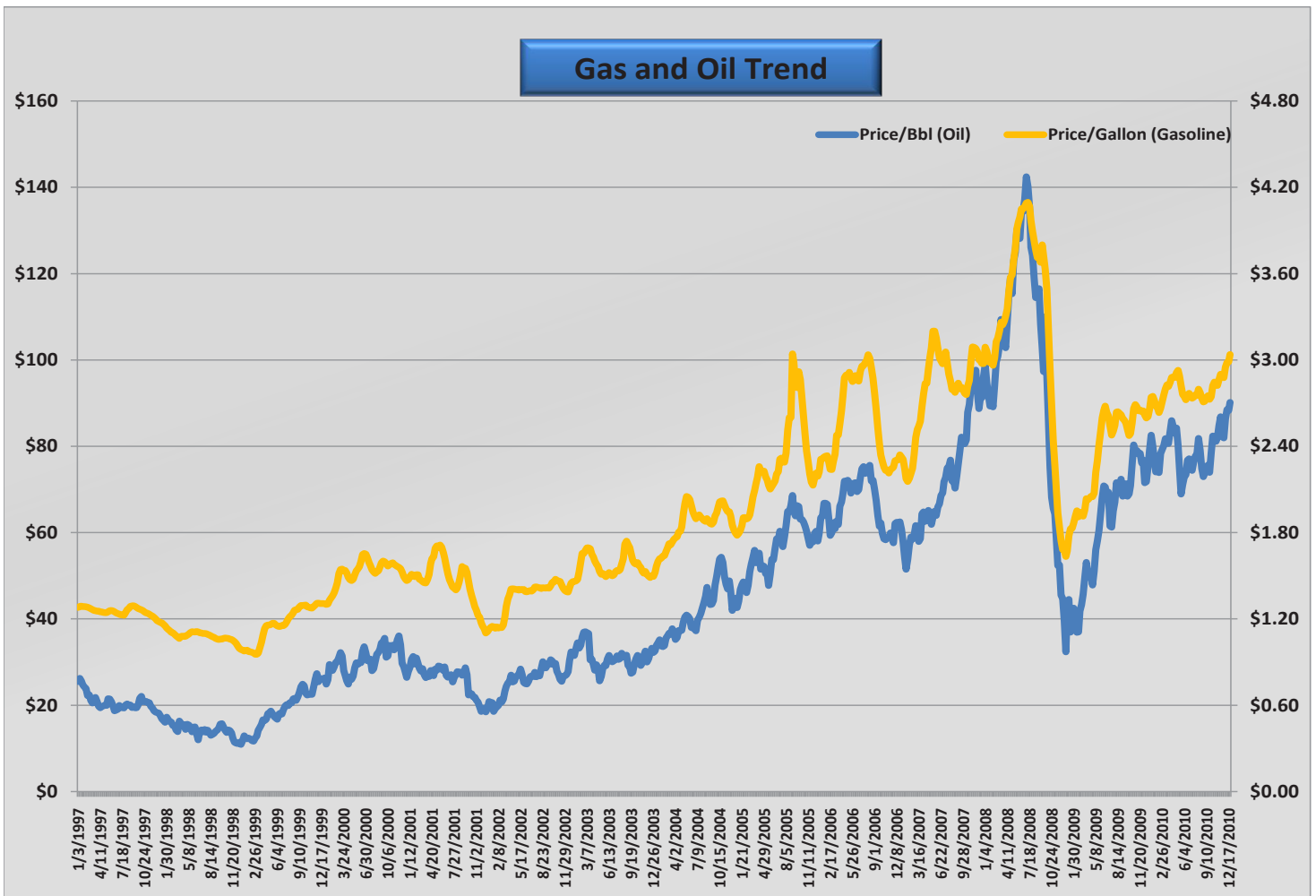
Offering the best bang for the buck (and without the minivan stigma), crossovers offer shoppers excellent fuel economy, all-wheel drive, easy seating for five or more, and plenty of cargo room. As competition increases in this segment, Kelley Blue Book analysts expect crossover values will remain steady as supply keeps pace with demand. However, in the long run, should more crossovers continue to saturate the market, there may not be enough demand to sustain stable values. Rising gas prices should offset this concern as consumers continue to switch out truck-based SUVs in favor of more fuel-efficient crossovers. Compact and mid-size cars continue to improve in fuel economy, making them attractive alternatives to hybrid and electric vehicles. The quality of these vehicles have improved significantly over the years, as evidenced by the significant redesigns and introductions of vehicles such as the Ford Focus, Chevy Cruze, Hyundai Elantra, Ford Fusion, Hyundai Sonata and Kia Optima. Each of these vehicles offers upmarket appointments and technology combined with excellent fuel economy.

Values Remain Uninfluenced by Gas Prices

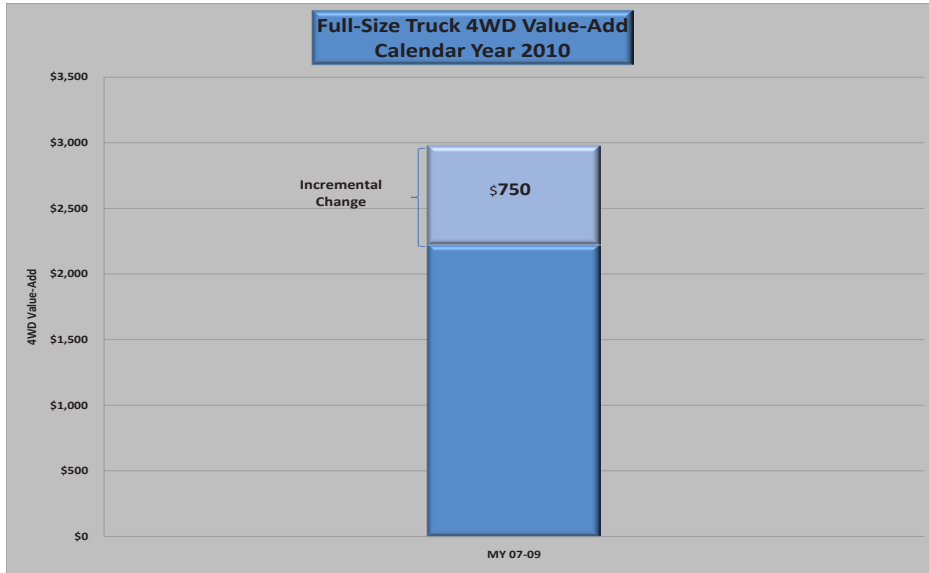
Gas prices increased steadily in 2010 from \$2.65 nationally to \$3 by the end of December. Experts continue to predict that gas prices will incrementally increase moving forward, supported by growth in the Chinese and Indian automotive markets. While Kelley Blue Book analysts agree that global demand will drive moderate increases through the year, they are skeptical of projections that gas prices will reach \$5 a gallon by 2012.

Based on Kelley Blue Book Market Intelligence data, when gas prices fall between \$2.65 and \$3 per gallon, consumers change their buying habits little, if at all. For example, the fuel-efficient segments were among the greatest depreciating segments in 2010. Through 2010, hybrid crossovers, hybrid cars and subcompact cars dropped 14.2 percent, 9 percent and 6.7 percent, respectively. While car shoppers strive to save at the pump, ultimately, they value a good bargain. Kelley Blue Book analysts believe that the premium price required to get into the seat of either a new or used hybrid may be too costly for consumers to overcome. Additionally, since consumers still require creature comforts in their vehicles, subcompacts do not save enough money to forego the spaciousness of a compact vehicle. Until gas prices rise beyond \$3.50 a gallon nationally, Kelley Blue Book does not expect to see any significant changes in consumer preferences.

While gas prices have not yet signaled consumers to panic, OEMs have continued to improve the efficiency of vehicles across their portfolios in anticipation of future fuel price increases and more stringent CAFE standards. Crossovers, compacts and many mid-size cars now offer comparable fuel economy to many of the traditionally fuel-efficient hybrids and subcompacts on the market today, as a result of advancements in engine displacement and new fuel-injection technologies. Additionally, as battery technology improves and becomes more affordable, hybrid and electric vehicles may become more compelling alternatives to traditional gasoline-powered cars; however, gas prices will need to rise pretty significantly for this scenario to take effect.



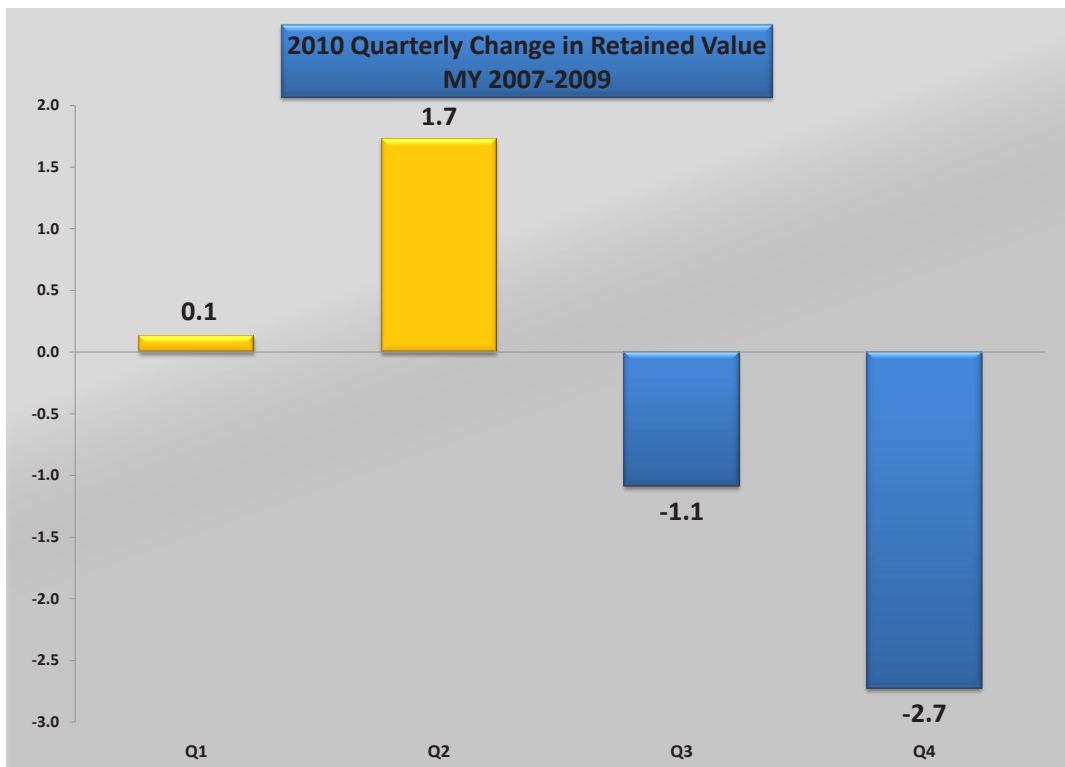
Four-Wheel Drive Vehicles Remain Resilient as Gas Prices Climb



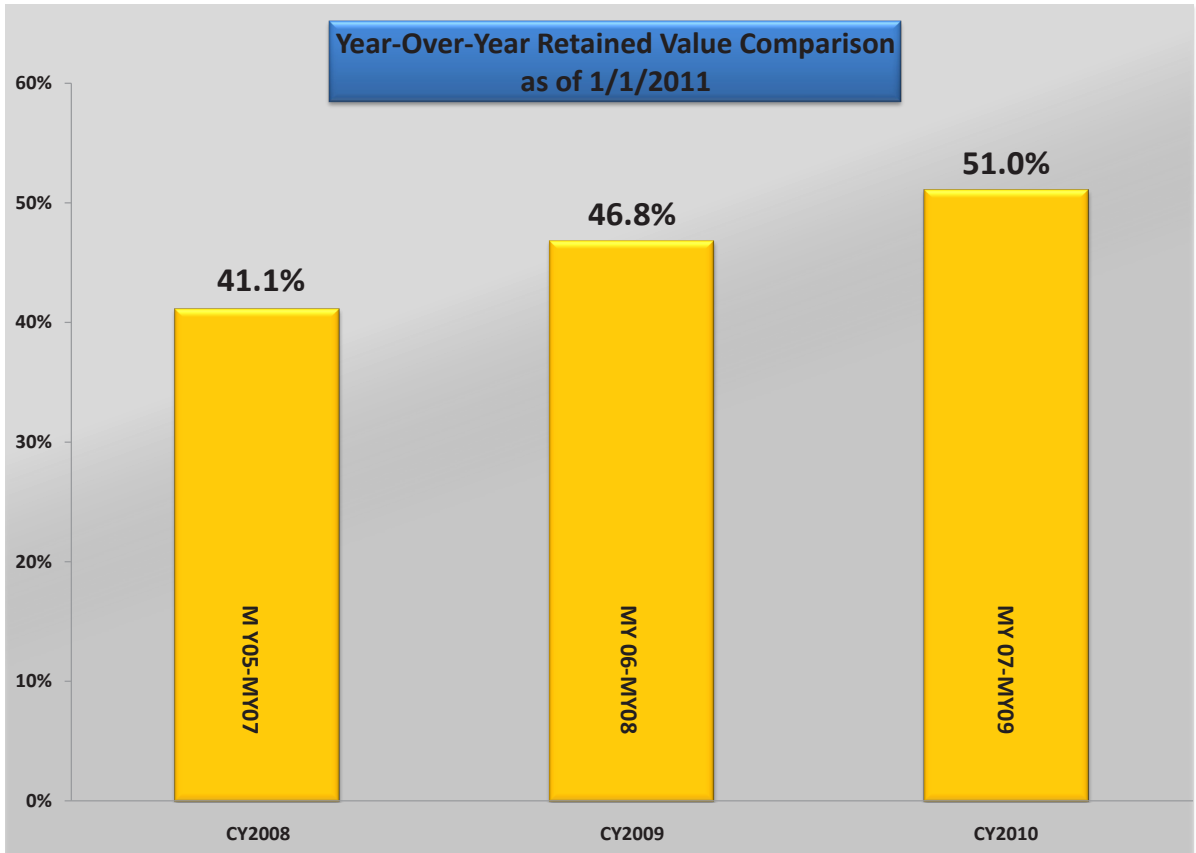
The full-size truck market has had an exciting year, with values remaining relatively stable and some moderate increases, even as gas prices have continued to inch up. Regardless of the overall strength of Kelley Blue Book® Wholesale Values, a divergence between two-wheel drive (2WD) and four-wheel drive (4WD) vehicle values is taking place in this segment, with a strong increase in demand for 4WD vehicles as reflected in their values. Specifically, the 4WD add for full-size trucks, model years 2007-2009, increased \$750 on average. Two-wheel drive vehicles currently do not bring a competitive edge to the market at this time.

Used-Car Market Shows Continued Strength Through Recession

As another tumultuous year for the auto industry recently closed, Kelley Blue Book reports that used-car values dropped only 0.2 percent month-over-month in December 2010. The market appreciation experienced during the first half of 2010 allowed used-car values to experience only a 2.9 percent drop year-over-year, even with the softening of used values that occurred in the latter part of the year.



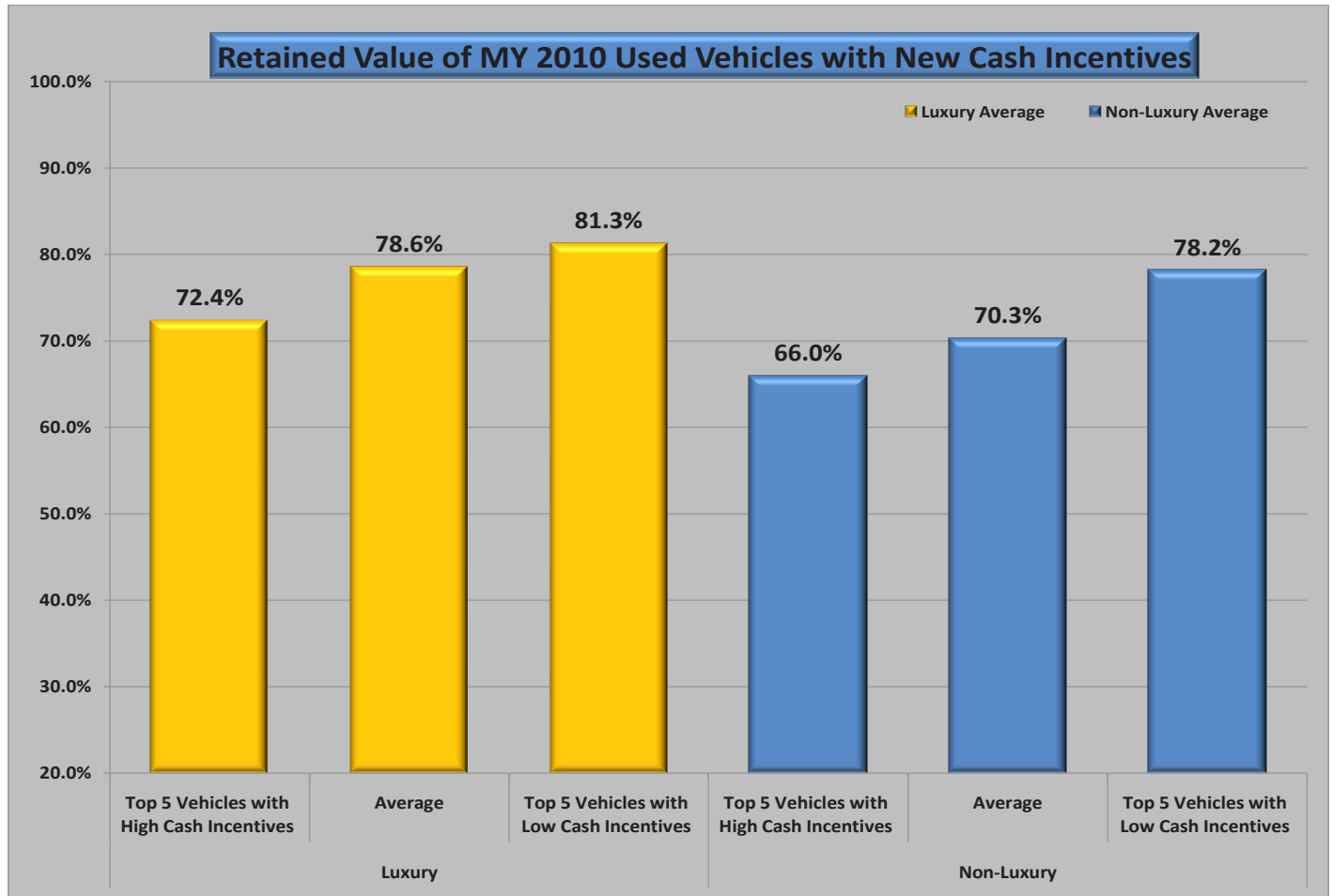
Used-Car Market Shows Continued Strength Through Recession (Continued)



Even with the volatility the automotive industry has experienced throughout the last three years, overall used-car values continue to strengthen when comparing similarly aged vehicles year over year. Retained values (auction value/original MSRP) have increased from 41 percent in 2008 up to 51 percent in 2010. This trend bodes well for the average consumer at trade-in time, since they can expect to receive more for their trade-in than in previous years. In 2008, values were hit hard by soaring gas prices and the popping of the real estate bubble. The following year, values steadily began to improve because of increased consumer demand for used vehicles, rather than new cars, as a result of the recession coupled with a lack of trade-ins and vehicles coming off lease. During 2010, used-car demand remained strong and a lack of used-vehicle supply continued to help the market maintain strong values. As the auto industry emerges from the recession, Kelley Blue Book expects that values will stay relatively steady as the demand for used vehicles continues to remain strong in this uncertain economy.

Low Incentives May Improve Used-Car Retained Value

In terms of retained value (Auction Value/MSRP), those vehicles that averaged the lowest cash incentive during the past 12 months have outperformed those vehicles that were highly incentivized. The top five luxury vehicles with the highest average incentive during the past 12 months retained an average of 72.4 percent of original MSRP, versus 81.3 percent for those with the least incentives offered, and 78.6 percent for all luxury vehicles. The top five non-luxury vehicles retained an average of 66 percent of original MSRP, versus 78.2 percent for those with the least incentives offered, and 70.3 percent for all non-luxury vehicles. Manufacturers offer incentives to increase sales; however, this can negatively impact the resale value of older models if incentives are offered for too long or for too great of an amount.



This commentary focuses on Model Years 2007-2009. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.

Fuel-Efficient Segments Continue Descent; Wagon Segment, Audi Gain Traction

- Eric Ibara, director of residual value consulting, Kelley Blue Book

The outlook for 2011 is bearish for fuel-efficient vehicles, as gas prices currently are projected to rise only moderately this year. Combined with the ongoing proliferation of fuel-efficient vehicles, the year-over-year change in 36-month residual values in the subcompact, hybrid/alternative fuel and compact car segments dropped 2.9 percentage points, 2.7 percentage points and 1.1 percentage points, respectively.

For January through February 2011, the following models dropped in their 36-month, year-over-year residual values: Toyota Yaris (- 6.0 points), Volkswagen Golf (- 4.0 points), Lexus HS 250h (- 12.0 points), Toyota Camry (- 7.0 points), Nissan Altima (- 8.4 points), MINI Cooper (- 9.2 points), Mazda3 (- 6.4 points) and Volkswagen GTI (- 5.0 points). Some of these drops are attributed to gas prices, weak redesigns or heavy incentive spending.

On the other side of the coin, wagons continue to gain traction with a 3.3 percentage point increase year-over-year. Audi wagons lead the resurgence in this segment with the A3 and A4 up 6.0 points and 5.0 points, respectively. Also appreciating among wagons is the Subaru Outback (up 6.5 points), while the Cadillac CTS wagon is down 8.0 points. The aforementioned Audi and Subaru wagon models are keeping this segment up.

While the luxury car segment experienced softness among its used vehicles, there is expected to be some strength among 2011 luxury residuals. Audi is expected to play a key role in this segment with the A8 and A5 increasing 6.5 points and 6.0 points, respectively. Audi's redesigns have thrust the brand into the spotlight, garnering consumer interest in both the new- and used-car markets, and putting their residuals on a steady upward trajectory this year. The Infiniti M37 and M56 are fast followers in the luxury segment, jumping up 5.8 percentage points compared to this time last year.

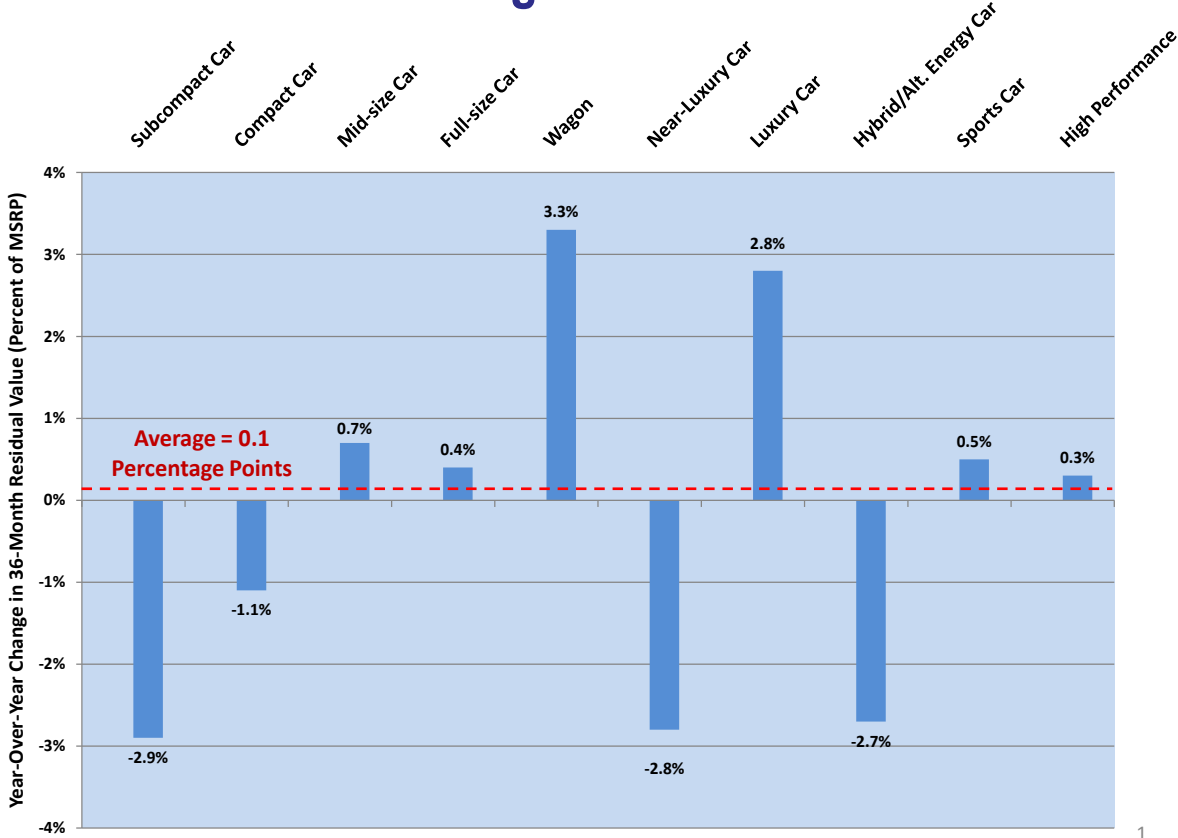
While the luxury segment is seeing strength with leaders like Audi and Infiniti, the near-luxury car segment is down 2.8 percentage points. Aging exterior designs among near-luxury cars are contributing to the segment's overall weakness in 36-month residual values. Cadillac's CTS was last redesigned in 2008, contributing to its 5.5 percentage point drop year-over-year. In addition, both the Lexus ES 350 (redesigned in 2007) and the Volvo C70 (redesigned in 2006) each dropped 4.0 percentage points.

Mid-size trucks continue to perform well in 2011 with a 5.3 percentage point increase year-over-year across the segment. Top performers in this segment are two General Motors pickups; the Chevrolet Colorado, up 7.4 percentage points, and GMC Canyon, with a year-over-year increase of 6.9 points. A high demand for these vehicles is attributing to their strength.

Residual values among mid-size SUVs/CUVs also are trending upward in January with a year-over-year increase of 4.1 percentage points, as most models have been successful redesigns in 2011. Powering the increase in this segment are redesigned or all-new nameplates, including Ford's all-new 2011 Explorer with a huge jump of 15.0 percentage points. The redesigned Kia Sorento also is garnering attention in this segment with a 12.4 percentage point increase. Both the Toyota Venza, up 7.0 percentage points, and the Jeep Liberty, up 6.2 percentage points, also are major contributors to the boost in overall category average.

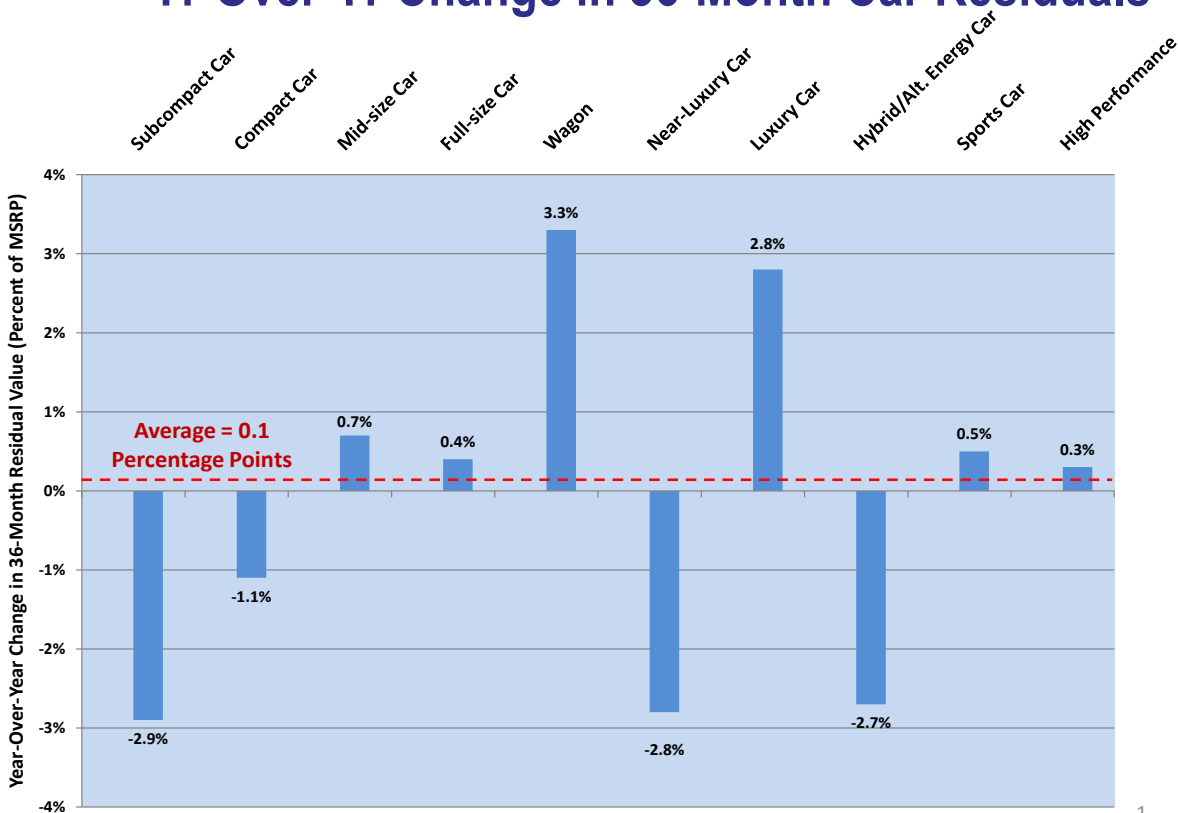


Yr-Over-Yr Change in 36-Month Car Residuals



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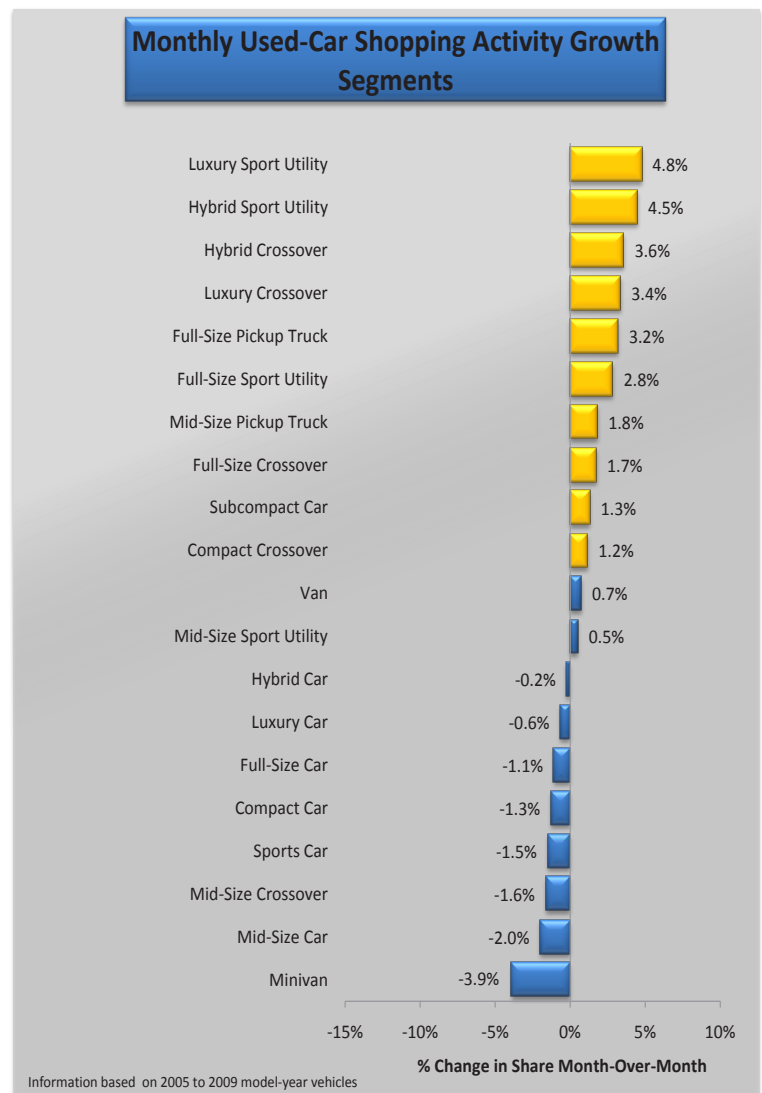
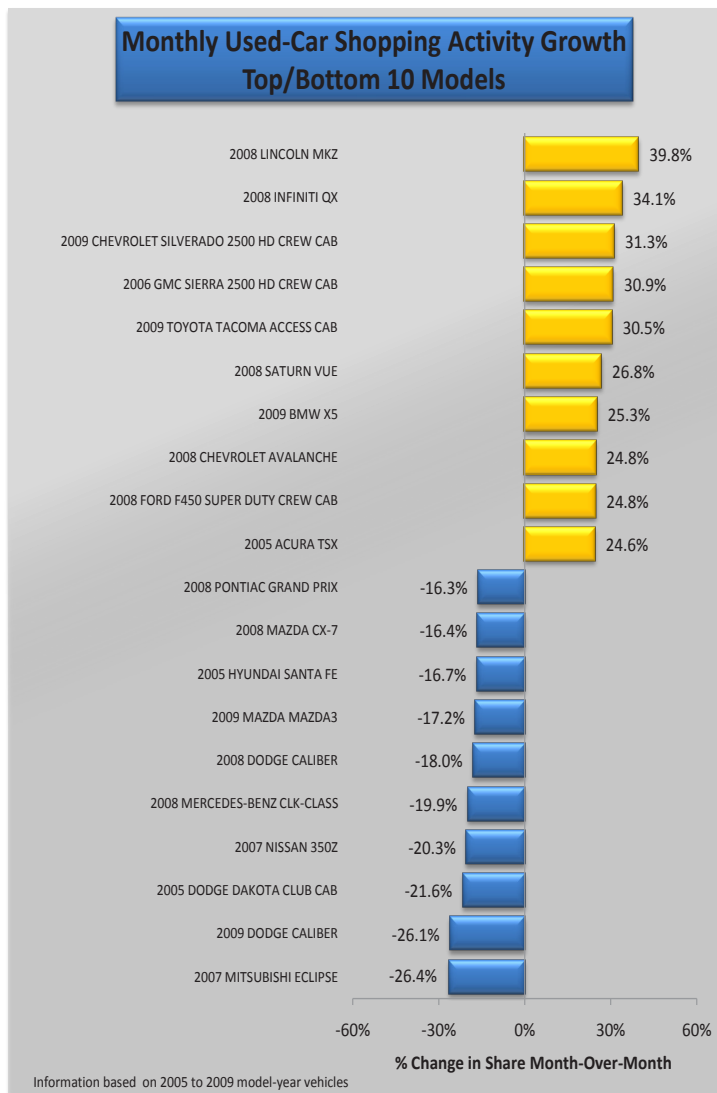


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Heavy-Duty Trucks Lead in Shopper Interest

Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles consumers are looking at most each month.

The segments experiencing the largest gains in kbb.com used-vehicle shopper activity are SUVs and trucks. The vehicle that highlights this spike in SUV activity is the 2008 Infiniti QX, which increased its month-over-month traffic share 34.1 percent. When it comes to trucks, it is all about heavy duty as the most-shopped trucks on kbb.com were the Chevrolet Silverado 2500 HD, GMC Sierra 2500 HD and Ford 450 Super Duty. In the new year, it appears that shoppers are interested in work and service-type vehicles. With limited inventories of heavy-duty trucks around the country, dealers should pick up what they can at auction, as these vehicles likely will be in demand throughout the beginning of the year.



About Kelley Blue Book (www.kbb.com)

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